



K&K
Auditors & Consultants (Civil Co.)

DOING BUSINESS IN LEBANON





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- @- Audit and Assurance
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Table of Contents

Country Introduction	04
Legal Environment	04
Economy	04-05
Foreign ownership of real estate restrictions	05
Setting up Business in Lebanon	05-09
Introduction	05
Sole proprietorships	05
Partnerships	06
1 General Partnerships	06
2 Limited Partnerships	06
Joint-stock companies (SAL)	06
Limited liability companies (SARL or LLC)	06
Holding companies	07
Offshore companies	07
Branches of foreign companies	08
Representative offices	09
Joint Ventures	09
Establishment process of a Business	09-10
Sole proprietorships and partnerships	10
Joint-stock companies (SAL)	10
Branch offices	10
Representative offices	10
Other entities	10
Taxation	10
Taxpayers	11
Residency rules	11
Taxes	11-15
Corporate Income Tax	11
1 Real profit method	11
2 Deemed profit method	11
Companies or institutions permanently exempted from Income tax	12
Non-resident tax (withholding tax)	12
Capital gains tax	12
Withholding tax on Interest	12
Withholding tax on dividends	12
Moveable capital withholding tax	13
Payroll taxes	13
Social security contributions	13
Value-added tax (VAT)	13
Built property tax (BPT)	13
Stamp duty	14
Custom duties	14
Excise taxes	14
License fee	15
Corporate - Other issues	15
Accounting requirements	15
Electronic filing	15
Lebanon Key Tax Indicators	16



COUNTRY INTRODUCTION

Lebanon is situated in the Levant on the eastern coast of the Mediterranean Sea with a total area of 10,452 square kilometers and the population is around 4 million people. Lebanon is divided into six governorates, with Beirut as the capital. The currency is the Lebanese pound (LBP). Lebanon is a parliamentary democratic republic.

Throughout history, as today, Lebanon has been a center of contact between various cultures and civilisations, creating a highly cosmopolitan country.

The Lebanese economy is service-oriented, and its main growth sectors include banking and tourism. GDP reached 2.5% in 2014, compared to 1.5% in 2013, according to the Central Administration for Statistics.

The government continues to favor a strong role for the private sector in a liberal policy environment.

Arabic is the official language, with French and English widely spoken and used in business.

LEGAL ENVIRONMENT

The President is elected by the parliament for a six-year term. The President and Parliament choose the Prime Minister. Executive power is exercised through a Council Of Ministers appointed by the Prime Minister and approved by the Parliament. The Government determines overall policy, appoints senior administrators and submits proposed legislation to Parliament.

The Legislative Branch consists of a single-chamber Parliament of 128 members.

ECONOMY

Lebanon has a free market pricing for most goods and services, with no restrictions on the movement of capital and goods by residents and non-residents of the republic.

The Lebanese economy, characterized by freedom of exchange and transfers, is based on private initiative.

The Government has maintained a generally non-interventionist position toward private investment in order to encourage foreign investment. The freedom of exchange in Lebanon allows foreign investors to import and export capital freely in any form they wish.

The most important sector in Lebanon is the service sector, which accounts for approximately 60% of GDP. Major sub-sectors are commerce, tourism, financial services, health care and education.

The banking sector is stable and financially strong, has a key role in the economy by providing the entry point for capital inflows for the region's development.



Foreign Banks are well represented in Lebanon and Lebanese banks have branches in the Middle East as well as in the Europe.

Banks in Lebanon are governed by the Central Bank and the Banking Control Commission, which survey and regulate the activities of banks.

GDP reached USD 47.49 billion in 2014, making a growth of 1.75% in that year. GDP per Capita amounted to USD 15,875 in 2014.

In 2014:

Inflation rate was 4.50%

Investment % of GDP was 24.47%

Public debt % of GDP was 140.10%

FOREIGN OWNERSHIP OF REAL ESTATE RESTRICTIONS

The following restrictions apply to foreign ownership of real estate:

- Up to 3,000 square meters does not require Council of Ministers approval.
- Exploitation and normal lease right extending for a period of more than ten years cannot be attained without obtaining approval.
- Real estate owned by foreigners, for which approval has been obtained, cannot exceed, over all of the Lebanese territory, 3% of the total area of Lebanon. In each province, the total area owned should not exceed 3% of its area. With respect to Beirut, the total area owned should not exceed 10% of its area.
The approval is nullified if not acted upon during a period of one year.
- When approval is granted, the building on the real estate should be constructed within a period of five years (renewable once by the Council of Ministers).

SETTING UP A BUSINESS IN LEBANON

Introduction

Although local commercial law is based on the French model, no mechanism exists for an individual or legal entity to incorporate himself or itself and one-shareholder companies are not allowed. Lebanon's commercial law provides for a range of business entities available to both local and foreign investors.

Investors can choose from a range of companies that are detailed as follows:

Sole proprietorships

An individual of Lebanese or foreign nationality may engage in a business activity as a sole proprietor. Sole proprietors must abide by the general regulations of the Code of Commerce.



Partnerships

An individual can be a partner in an existing or newly formed partnership. Such partnerships take the form of a separate legal entity and may transact business in its own name.

UNDER LEBANESE LAWS THERE ARE TWO DISTINCT TYPES OF PARTNERSHIPS:

1 General partnerships

General partnerships are formed by two or more persons who are personally and jointly liable for the debts and obligations of the partnership. The insolvency of the partnership automatically results in the insolvency of the partners. The transfer of parts in the partnership is subject to the unanimous agreement of all partners. Parts are not negotiable. General partnerships may be managed by one or more partners or any person designated in the articles of association or in any subsequent agreement.

2 Limited partnerships

Limited partnerships are formed by two types of partners:

- General partners with unlimited liability, who are in charge of management.
- Limited partners with limited liability capped to the amount of their capital contribution with no rights to interfere in the management of the partnership.

Joint-stock companies (SAL)

Lebanese joint-stock companies are permitted to engage in all kinds of business activity. Shareholders of a SAL have no liability beyond their actual capital subscriptions.

The minimum capital requirement is LBP 30 million. With a small number of exceptions (such as real estate companies and exclusive commercial representation), there are no limits on the amount of capital that can be held by foreign investors.

The management of a SAL is entrusted to a board of directors with a minimum of three and a maximum of twelve members. The majority of the board members must be Lebanese, but the chairman may be a foreign national, subject to adequate residency and work permits.

This type of Company is legally required for certain business organisations such as insurance companies, banks and other financial institutions.

When the object of the company is a public service, at least one-third of its share capital should comprise nominal shares held by Lebanese nationals. The same applies to real estate companies.

The financial statements of a SAL must be audited on an annual basis by a principal auditor appointed by the shareholders. The commercial court of the district in which the SAL's head office is located, appoints a supplementary auditor.

Limited liability companies (SARL or LLC)

Members of an LLC are partners; the company's capital is divided into parts rather than shares.

Minimum capital is LBP 5 Million. Partners are liable only to the extent of their parts.



A limited liability company is managed by one or several directors (managers) who may be selected from among the partners. The general assembly of partners must meet at least once a year.

Limited liability companies offer the same liability protection as the SAL (joint stock companies), but are subject to smaller capital requirements and only require one auditor.

The transfer of parts in a limited liability company is subject to the consent of partners representing at least three-quarters of the capital. Existing partners enjoy priority in the purchase of parts offered for transfer.

It is worth mentioning that insurance, banking, fund management, or air transportation entities may not incorporate as Limited liability companies.

Holding companies

Holding companies must be registered as a SAL and, with a few exceptions, are subject to the same regulations as a joint-stock company. The business objectives of a holding company are restricted to the following:

- To own shares or parts in Lebanese or foreign joint stock corporations and limited liability companies, whether they already exist or are in the process of being formed;
- To manage companies in which the holding company owns shares or parts;
- To lend to companies of which the holding company owns at least 20%, or to guarantee such companies towards third parties. For that purpose, a holding company may borrow from banks or issue debenture bonds, provided that the total value of the bonds issued at any given time does not exceed five times the amount of the holding company's capital and its reserves, as indicated in the last audited balance sheet;
- To own patents, licenses, trademarks and other reserved rights, and to lease them to companies active in Lebanon or abroad;
- To own moveable or immovable properties, provided that their use is confined to the requirements of the holding company's activities and with consideration to existing limits on the foreign ownership of real estate.
- Holding companies require only one auditor.
- Capital can be denominated in a foreign currency with a minimum of LBP 30 million
- Books of accounts can be kept in a foreign currency.
- Lebanese holding companies are exempt from corporate income tax and from tax on dividends. However, they are subject to a tax on their paid-up capital and reserves. In any given tax year, total tax payments on paid-up capital and reserves are capped at LBP 5 million.

Offshore companies

A Lebanese offshore company is governed by the Legislative Decree number 46, which defines the offshore company as a Lebanese shareholding company which engages exclusively in the following activities:

- Negotiation and signing of contracts and agreements in respect of operations and deals to be



executed outside the Lebanese territory, relating to merchandise and materials located abroad or in duty free zone

- Preparation of studies and consultations that will be used outside Lebanon, upon requests from enterprises resident abroad.

Offshore companies require only one auditor.

They are registered as SAL companies and are exempt from Company income Tax and from Tax on dividends, and are instead subject to a lump-sum annual tax of LBP 1 million. Contracts related to offshore activities outside Lebanon are exempt from Lebanese stamp duty.

Branches of foreign companies

According to article 29 of the code of commerce, any foreign commercial company operating a branch office or an agency in Lebanon is required to register in the trade register.

The registration of a branch or agency in Lebanon should be subject to a resolution of the board of directors, taken in accordance with the article of association of the company; the said resolution should indicate clearly the nature of transactions which will be dealt with by the branch or agency in Lebanon.

The board of directors should also nominate an authorized representative.

The powers given to the representative should be drawn up in clear and precise terms, authorizing him or her to:

- a. Representing the company with the public and private administrations and bodies.
- b. Sign on its behalf all documents and petitions.
- c. Represent the company in all courts of law as plaintiff or defendant or in any other capacity, with power of substitution
- d. Operate any bank account, etc..

In addition to dealing through wholly or partially owned local companies, foreign companies can also choose to establish a branch in Lebanon.

Brief facts of a branch office:

- Foreign companies can open branch offices that can undertake any business activity not illegal under Lebanese law.
- Registration procedures are simple and there are no performance requirements or other conditions.
- Profits of branches are taxed at a rate of 17% and are deemed to be distributed as dividends subject to a dividend distribution tax rate of 10%.
- They are not subject to capital requirements.
- Branch offices require only one auditor.



Representative offices

Foreign companies may open representative offices in Lebanon. Representative offices are not allowed to engage in activities that would generate profits in Lebanon. Even though they are required to maintain financial records, they are not subject to income tax since they do not generate income in Lebanon.

Joint Ventures

Under Lebanese law, joint ventures are commonly used for specific projects in the construction industry and other sectors, but are not recognized as separate corporate entities under local laws and are established through a contract between two or more local and/or foreign parties.



ESTABLISHMENT PROCESS OF A BUSINESS

All Lebanese and foreign individuals and companies intending to undertake business in Lebanon must register at a commercial court within two months of the date of commencement of business or acquisition of an official business address.

The information required to be filed upon registration is listed in the article # 26 of the code of commerce

Any subsequent changes or modifications relating to the nature or ownership of the business must also be registered in the commercial register within two months of the date of their occurrence.

Upon initial registration, a written summary of the memorandum of association should be submitted in two copies containing the stamps and signatures and containing a list of information.

The estimated time to complete the registration is between 10 and 15 days after receipt of the documents.



Sole proprietorships and partnerships

Foreigners wishing to operate sole proprietorships or Partnerships must first obtain a work and residence permit.

Joint-stock companies (SAL)

It takes up to a week to register a company once all the required documents are available.

Branch offices

Branch offices are not subject to minimum capital regulations.

If the head of the branch office is a foreigner, he must obtain a residence and work permit.

Applications for the establishment of a branch office should be addressed to the Ministry of Economy. They must include the name of the parent company, the address of its registered head office and details of its capital structure.

Representative offices

Registration requirements for representative offices are the same as for branch offices.

Other entities

Registration costs of a SARL (LLC), holding and offshore entities are approximately the same as for a SAL.

TAXATION

Under the income tax law in Lebanon, tax is levied based on income type. Accordingly, the income tax law divides income into the following three categories:

Chapter I - profits from industrial, commercial, and non-commercial professions.

Chapter II - salaries and wages and pension salaries.

Chapter III - revenues from moveable capital.

This chapter mainly covers all types of dividend income, board member appropriations from profits and interest income, including interest on bonds and treasury bill.

The income tax law does not provide for a single tax on income treatment. Accordingly, where a taxpayer has income from different sources, each type of income is taxed according to the tax chapter it falls under.



TAXPAYERS

Residency rules

In Lebanon there is no clear definition of residency however an individual, establishment or company is considered resident for tax purposes, even if not physically resident in Lebanon, when any of the following two conditions are satisfied:

- Having an office or a fixed place of business in their name in Lebanon, even when they are not undertaking their business in a normal and repetitive manner.
- Practicing a profession or business activity in a normal or repetitive manner in Lebanon, even if they do not have a known registered place of business in Lebanon.

This is because they are considered to have practiced their profession from the place in which they contact their customers, even if such place is a hotel.

Non-resident taxpayers can consist of persons residing in Lebanon and outside Lebanon. Any person residing in Lebanon is subject to the non-resident tax (Withholding tax) if neither of the above conditions are satisfied.

A person residing outside Lebanon is subject to the non-resident tax on the amounts, revenues, profits, or proceeds obtained from Lebanon as a result of undertaking an activity in whole or in part on Lebanese territory or as a result of exploiting rights in Lebanon.

TAXES

Corporate Income Tax

Not all businesses are taxed in the same manner. Depending on the relative size and structure of a business, the tax method applied is assessed depending on real (or actual) profits or deemed profits.

1 Real profit method

Tax is computed based on the real profit method on the taxpayer's net profits. The tax rate is fixed at 17% of the taxable result.

2 Deemed profit method

A deemed profit method is imposed on insurance and savings institutions, taxable transport companies, oil refineries, and public work contractors. For insurance companies, the deemed profit rate ranges from 5 to 10% depending on the type of insurance activities.

For income derived from personal business, tax is levied on deemed profits at progressive rates of 4%-21% for sole proprietorships and partnerships.



Companies or institutions permanently exempted from Income Tax

Companies and organisations that are granted an indefinite exemption from Corporate income tax include the following:

- Educational institutions.
- Hospitals, orphanages, asylums, and other shelters that admit patients free of charge.
- Shipping, sea, and air transport associations (subject to certain restrictions).
- Farmers, provided they do not display farm produce and cattle outlets or sell products and meat after conversion tax.
- Syndicates and other types of professional associations.
- Miscellaneous non-profit organisations and co-operatives.
- Holding companies and offshore companies.
- Public sector bodies that do not compete with private institutions.

Non-resident Tax (Withholding Tax)

Revenues earned by non-residents in Lebanon are subject to an effective Withholding tax of 2,25% on revenue from the sale of materials and equipment, and 7,5% on the revenue in the case of sale of services.

Capital gains tax

Under local legislation, companies are permitted to revalue their fixed assets every five years. Capital gains recognised from such a revaluation, as well as any profits that may be realised from the disposal of fixed assets, are subject to a capital gains tax of 15%.

Income from disposal of shares realised by a company is subject to 15% capital gains tax when the shares are classified as financial assets on the company's balance sheet.

Income from disposal of shares realised by a company whose main activity is the acquisition of investments is subject to 17% Corporate Income Tax.

Withholding Tax on Interest

The income, revenues, and interest earned from accounts opened at Lebanese banks and from treasury bonds are subject to a 7% Withholding Tax on Interest that is non-refundable and cannot be carried forward.

Withholding Tax on dividends

Tax is withheld from dividends paid to resident and non-resident shareholders/partners at a rate of 10%. The dividend distribution tax rate may be reduced to 5% under specific conditions.



Moveable capital Withholding Tax

A 10% Withholding tax is levied on income derived from movable capital generated in Lebanon. Taxable income is comprised of the following:

- Distributed dividends, interest, and income from shares.
- Directors' and shareholders' fees.
- Distribution of reserves or profits.
- Interest from loans to corporations.

Payroll taxes

Employers are responsible for withholding and declaring payroll taxes on behalf of their employees. Payroll tax is levied at progressive rates of 2% to 20%.

Payroll tax is subject to the territoriality principle. Salaries and wages are subject to tax in Lebanon when the beneficiary from the salary is resident in Lebanon, when the service against which the salary is paid is performed in Lebanon or when the salary is charged to an entity in Lebanon.

Social security contributions

Social security contributions are the following:

- Borne by the employer: 8% for the maternity and sickness benefit schemes, on a maximum of LBP 2.5 million per month, and 6% for the family benefit schemes, on a maximum of LBP 1.5 million per month, in addition to 8.5% of total annual earnings for the end of service indemnity, with no ceiling.
- Borne by the employee: 3% for the maternity and sickness benefit scheme, on a maximum of LBP 2.5 million per month.

Value-added tax (VAT)

The standard VAT rate in Lebanon is 11%. Unless specifically exempt, VAT is levied on all commercial transactions undertaken by business entities. Export of goods and services and export-related services, international transport, and some of the intermediate operations are zero-rated. Banking, financial services, and insurance operations are exempt from VAT. Note that since 17 May 2013, the recharge of expenses from an entity in Lebanon to another entity abroad is not considered an export activity and therefore is subject to VAT at 11%.

Built property tax (BPT)

The BPT is an annual progressive tax, ranging between 4% and 14% of net rental proceeds.

Net rental proceeds are defined as gross rental proceeds less allowable deductible expenses, such as depreciation and management costs.



Stamp duty

Two kinds of stamp duties are levied on contracts and agreements. A proportionate stamp duty of 0.4% is levied on all deeds and contracts (written or implied) that mention specific payments or other sums of money. A fixed stamp duty ranging between a minimum of LBP 250 and a maximum of LBP 2 million is applicable on documents in accordance with schedules appended to the stamp duty law.

Custom duties

Customs rates are imposed and modified according to decisions from the Lebanese customs authorities. These decisions are adopted based on the need of the Lebanese markets for some goods and the will to protect national production sectors.

Safeguard measures are provided for in relation to imported goods. The purpose behind such measures is to protect the domestic production sectors when an increase of imports is witnessed when compared to the same period during the previous year.

Customs rates in Lebanon are either determined in percentage or paid as a lump sum per unit of imported products.

The rates are determined based on a specific schedule created in conformity with the Harmonised System of Nomenclature. This conformity with the unified system allows Lebanon to represent an 'importer friendly' environment for importers.

The normal rates are applied where there is no preferential agreement. When the origin of the good or part of the good is from a country with which Lebanon has a preferential customs treatment, preferential rates apply.

Excise taxes

Excise taxes are mainly applicable in Lebanon on certain beverages and spirits, tobacco products, gasoline, and vehicles.





License fee

A new Decision no. 142/1, dated 23 February 2015, relating to imposing an annual lump sum license fee was introduced.

This Decision will become effective in 2022. With some exception for certain types of companies (holdings and offshore companies, institutions exempt from tax as per Article 5 of the income tax law), the annual lump sum license fee for companies is as follows:

- LBP 2 million for joint stock companies.
- LBP 750,000 for limited liability companies.
- LBP 550,000 for establishments assessed based on real profit.
- LBP 50,000 for taxpayers assessed on assumed profits.
- LBP 250,000 for taxpayers assessed on lump sum profits

The above mentioned license fees apply to local head offices, branches, outlets, and to any place in which the taxpayer carries on its activity or receives customers. For income tax purposes, the lump sum license fee is considered as a non-deductible expense.

CORPORATE - OTHER ISSUES

Accounting requirements

All business enterprises are required to maintain adequate financial records which should be maintained in Arabic or French or English.

Companies are required to adopt an accrual basis of accounting for financial accounting purposes and following the International Financial Reporting Standards ('IFRS').

Electronic filing

Taxpayers are required to submit their payroll tax, VAT, corporate income tax and Built Property Tax declarations electronically.

Taxpayers need to fill an electronic registration by visiting the M.O.F. website www.finance.gov.lb

The M.O.F. provides the taxpayer with an envelope including the e-Pin needed to access his account on the M.O.F. website.



LEBANON KEY TAX INDICATORS

Tax indicators	Resident	Non-resident
Fiscal year end	Calendar year. However, another year end can be used provided permission is granted in advance by the Lebanese Tax Authorities	Not Applicable
Companies		
Income tax	For limited liabilities and joint stock companies (SARL, SAL) and branches: 17%; For offshore and holding companies: Exempt (Lump Sum annual Tax); and For sole proprietorship/partnership: from 4% to 21%.	Incomes subject to a withholding tax of: (i) 2.25% for revenues from the sale of materials and equipment and (ii) 7.5% for services.
Tax on capital gains	15% (17% on gains realised from disposal of shares by a company whose main activity is acquisition of investments)	Not Applicable
Value added tax	There is a flat VAT-rate of 11%. Generally, an exemption may apply to certain financial operations and a nil-rate may apply to exports of goods and services.	Not Applicable
Individuals		
Individual marginal tax rate (max)	Progressive rates up to: (i) 20% for wages and salaries and (ii) 21% for business income.	No non-resident individual income tax, but Lebanon sourced income may attract a withholding tax (see above).
Basis of taxation	Salary paid from Lebanon or abroad or other Lebanese source income	Lebanese source income.
Withholding tax		
Dividends	10% (5% in certain conditions)	10% (5% in certain conditions).
Interest	7% on bank deposits and bonds	7% on bank deposits and bonds.
Royalties	Not Applicable	7.5% as withholding Tax on non-resident.
Management service fees	Not Applicable	7.5% as withholding Tax on non-resident.
Customs	Goods: 0% to 39%, Alcoholic beverages: 55% to 100% and 100% on certain luxury goods.	
Municipal Tax	A Municipal Tax is levied on rents of offices at the rate of 7%, and on residences at the rate of 6% of the rent payable.	
Transfer pricing	There are no specific transfer pricing documentation requirements, but transactions should be at arm's length.	
Double tax treaties	Algeria, Armenia, Bahrain, Belarus, Bulgaria, Cyprus, Czech Republic, Egypt, France, Iran, Italy, Jordan, Kuwait, Malaysia, Malta, Morocco, Pakistan, Poland, Qatar, Romania, Russia, Senegal, Oman, Syria, Tunisia, Turkey, UAE, Ukraine, Yemen.	
Treaties awaiting conclusion or ratification	Canada, Cuba, Gabon, Sudan.	