



PrimeGlobal

*An Association of
Independent Accounting Firms*

DOING BUSINESS IN LEBANON





COMPANY FORMATION IN LEBANON

MAIN FORMS OF COMPANY/BUSINESS IN LEBANON

- Joint Stock Company
- Limited Liability Company
- General Partnership
- Simple Limited Partnership
- Limited Partnership by Shares
- Holding Company
- Off-Shore Company
- Branch Office
- Representative Office

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

A) Taxation: Joint Stock Company & Limited Liability Company

The joint stock and limited liability companies are subject to tax in Lebanon on income generated from activities in or through Lebanon.

Income tax is levied on taxable income at a rate of 15 percent, unless exempted by law. Dividends declared are taxable at a rate of 10 percent and deducted at source. Capital gains derived from the disposal of investments, tangible, intangible and financial assets are taxed at a rate of 10 percent. Tax losses may be carried forward for 3 years.

B) Taxation: Partnership

In a partnership, each partner is taxed for its share of the profit and is personally responsible for submitting his income tax return.

Income tax is levied on taxable income net of family allowance, at a rate of 4 percent for the lowest bracket of LBP 9,000,000 (c/v USD 5,970) and 21 percent for the highest bracket of LBP 104,000,000 (c/v USD 68,988) and over.

C) Taxation: Real Estate

The real estate company is subject to tax on real profit. Income tax is levied on taxable income at a rate of 15 percent, unless exempted by law. Dividends declared are taxable at a rate of 10 percent and deducted at source. Capital gains derived from the disposal of investments, tangible, intangible and financial assets are taxed at a rate of 10 percent. Tax losses may be carried forward for 3 years.

The income (from rent) generated from built property is not subject to income tax in real profit, but on built property tax. The result from income and charges (comprising depreciation and deductible charges specified by law) is subject to the tax on built property for each lot of property at a rate of 4 percent for the lowest bracket of LBP 20,000,000 (c/v USD 13,267) and 14 percent for the highest bracket of LBP 100,000,000 (c/v USD 66,335) and over.



D) Taxation: Holding

The holding company is exempted from income taxes on profits and dividends. The holding company remains subject to the following taxes:

1. Interest: The interest collected against loans given by the holding companies to companies operating in Lebanon is subject to income tax at the rate of 10 percent, if the maturity of the extended loans is less than three years.
2. Capital Gains: The capital gains resulting from the sale of the holding company's participations and shares in Lebanese companies are taxed at a rate of 10 percent, if these participations and shares were owned by the company for less than two years.
3. Management Proceeds: The amounts collected by a holding company from subsidiaries in Lebanon as management, and other services are taxed at a rate of 5 percent, on condition that these fees do not exceed the limits set by a decree issued upon proposal of the Minister of Finance.
4. Renting Patents: The revenues collected by a holding company as a result of renting patents and all the reserved rights it possesses, to enterprises located in Lebanon are taxed at a rate of 10 percent, with no additional surtax.
5. Capital and Reserves: The holding company is subject to an annual fixed tax according to the rates shown below:
 - 6% less than LBP 50,000,000 (c/v USD 33,168)
 - 4% between LBP 50,000,000 (c/v USD 33,168) and LBP 80,000,000 (c/v USD 53,068)
 - 2% exceeding LBP 80,000,000 (c/v USD 53,068)
 - The amount of the annual tax should not exceed LBP 5,000,000 (c/v USD 3,317)

E) Taxation: Offshore

The offshore company annual lump sum tax is LBP 1,000,000 (c/v USD 664). The activity of an offshore company is executed outside Lebanon or in the free zone.

F) Value Added Tax

Subject to certain exceptions, VAT applies on imports and to each taxable natural person or legal entity who provides goods or services in the course of an independent economic activity in Lebanon and whose turnover exceeds LBP 150 million (c/v USD 100,000) during 4 consecutive quarters. The VAT rate is set at 10%.

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

The incorporation of a company in Lebanon should be handled by a Lawyer. After incorporation, the company should be registered at the income tax department of the Ministry of Finance.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

The founders of a company of foreign nationalities are subject to due diligence by the Bank for opening bank accounts.



PERMANENT ESTABLISHMENT IN LEBANON: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

Most businesses are governed by the Code of Commerce and by a set of rules of the Code of Obligations and Contracts. Businesses are organized either as companies or as partnerships.

Companies may be either civil or commercial. Commercial companies are companies with a commercial purpose. They are registered at the Commercial Registry; civil companies are registered at the Civil Registry of the Court of First Instance of the place of their business.

If a company with a civil purpose chooses to have the form of a joint stock company or a partnership limited by shares, it will have the same obligations as those of a merchant and will be subject to the provisions of arrangement with creditors and bankruptcy provided for under the Code of Commerce.

Foreign companies may choose to form a local company or to establish a branch office. They may also set up a representative office if their sole purpose is to promote their products and services and to render technical assistance in relation to those products and services.

However, certain rules impose on Lebanese, as well as foreigners, specific structures in regulated sectors, such as banking, financial services, media, insurance and air transport.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

The branch office may carry out all activities that are included in the parent company's object, with the exception of certain activities that require specific authorizations by the regulator (such as banking and insurance activities). It is subject to corporate income tax in Lebanon and its profits are considered distributed as dividends in fact and subject to a 10% tax. The branch office must be registered at the Commercial Registry.

A subsidiary company is one in which another, generally larger, corporation, owns all or at least a majority of the shares. As the owner of the subsidiary, the parent corporation may control the activities of the subsidiary.

For the formation of a Joint Stock Company (Societe Anonyme Libanaise S.A.L.) in Lebanon, the number of Shareholders may not be less than three.

TAX AND ACCOUNTING OBLIGATIONS

Income tax on profit is levied on the territoriality principle: Lebanese companies and branches of foreign companies are taxable on income or profits generated in Lebanon or derived from Lebanese sources. In case of an existing tax treaty, the dispositions of that treaty will prevail.

Generally, companies as well as branches of foreign companies are subject to a flat income tax of 15% on profits.

Contractors with the government for civil works, oil refineries, insurance companies and transport companies if subject to taxation are taxed on lump sum profits. A decree fixes the applicable percentage to the annual turnover in order to determinate a net lump sum profit.



Holding companies are exempt from income tax on profit and are subject to an annual lump sum tax on capital and reserves; such tax is not to exceed LBP 5 million per year (details are mentioned in section 1).

Off-shore companies are exempt from income tax on profits and are subject to an annual lump sum tax of LBP 1 million (details are mentioned in section 1).

The tax year runs from 1st January to 31st December. However a company may use a financial year which is different from the calendar year with the authorization of the tax administration.

Companies are required to submit their tax returns for the year ending 31st December by May of the following year, together with payment of tax due. For those who chose another fiscal year they must submit their tax return within a period of five months from the close of their financial year.

The Company must have at the end of the year, a stock-taking, a financial position and a statement of income which must be clear and methodical. Financial statements must be audited.

REGISTRATION FORMALITIES

The procedure for the registration of a company in Lebanon is easy and fast.

The shareholders/partners need to:

1. Sign the articles of association of the company before a Public Notary and pay stamps and other registration dues.
2. Deposit the capital at the bank which will provide them with a certificate that the capital has been paid (when a minimum capital is required).
3. For SAL companies and partnerships limited by shares (SARL), the constitutive general assembly holds a meeting to appoint the members of the Board of Directors for SAL, and a managing partner(s) for SARL, and the auditor.
4. For SAL companies the first Board of Directors shall be held to elect its Chairman.
5. The company issues a commercial circular with the authorized signatories.
6. The certificate of incorporation will be completed.
7. The applicant will file the registration request at the Commerce Registry with the necessary documentation.
8. Once the company is registered, the authorized signatory may liberate the capital from the bank.
9. The company shall have a Lawyer and an Auditor appointed by the General Assembly.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

Same as a joint stock company with the legal documents of the mother company.



HOW TO HIRE MY FIRST EMPLOYEE IN LEBANON

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

- Registration at the salary's income tax department at the Ministry of Finance
- Registration at the National Social Security Fund

Employees of off-shore companies working abroad are exempted from tax.

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

- Nature of work
- Duration of the contract
- Working hours (8 hours per day is the norm)
- Where will be the work
- Salary and how the employer will pay (by check, bank transfer, cash, place/date of payment)
- Annual leave (15 day minimum)
- Non competition and confidentiality
- Length of the probationary period (usually 3 months)
- There should be at least two signed copies of the contract and the employee should keep an original copy

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

Board members of SAL companies or a local or foreign subcontractor can do it.

For off-shore companies, it should be accomplished from Lebanon through its shareholders and employees and services offered abroad could be rendered by any juridical or natural persons established outside Lebanon.



HOW TO READ FINANCIAL STATEMENTS IN LEBANON

The financial statements are prepared in accordance with the IFRS for SMEs or with full IFRS depending on the company and comprise:

- The statement of income
- The statement of financial position
- The statement of cash flows
- Accounting policies and explanatory notes to the financial statements

You will find hereafter a translation of the statement of income and statement of financial position for SMEs (specimen in English and French).



Statement of income (English version)

Company

Statement of income
Year ended December 31, 20..
(In Lebanese Pounds)

Note	Year N	Year N-1
Revenue		
Cost of sales		
Gross profit		
Other income/ (loss) – net		
Operating and administrative expenses		
Employee salaries and benefits		
Government fees and taxes		
Depreciation and amortization		
Provisions		
Non-operating revenues/ (expenses) – net		
Finance income/ (costs) – net		
Result before tax		
Income tax expense		
Profit (loss) for the year		
Retained earnings (acc. losses) at start of year		
Legal reserve		
Revaluation variances		
Dividends		
Retained earnings (acc. losses) at end of year		



Statement of income (French version)

Société

Etat du résultat global
Exercice clos le 31 Décembre 20...
(En Livres Libanaises)

Notes	Année N	Année N-1
Produit des activités ordinaires		
Coût des ventes		
Marge brute		
Autres revenus/ (pertes) – net		
Charges opérationnelles et administratives		
Salaires et avantages du personnel		
Impôts et taxes		
Dotations aux amortissements		
Dotations aux provisions		
Revenus/ (charges) hors exploitation – net		
Revenus/ (coût) financiers – net		
Résultat avant impôt		
Charge d'impôt sur le résultat		
Profit (perte) de l'exercice		
Résultats non distribués (pertes accumulées) à l'ouverture de l'exercice		
Réserve légale		
Ecart de réévaluation		
Dividendes		
Résultats non distribués (pertes accumulées) à la clôture de l'exercice		



Statement of financial position (English version)

Company

Statement of financial position
As at December 31, 20..
(In Lebanese Pounds)

Note	Year N	Year N-1
Assets		
Current assets		
Cash and cash equivalents		
Trade and other receivables		
Due from shareholders		
Due from related companies		
Inventories		
Non-current assets		
Investments		
Due from investments		
Property and equipment		
Intangible assets		
Financial assets		
Total assets		
Liabilities		
Current liabilities		
Trade and other payables		
Due to banks and financial institutions		
Non-current liabilities		
Due to shareholders		
Due to related companies		
Provisions for contingent liabilities and charges		
Due to banks and financial institutions		
Total liabilities		
Equity		
Share capital		
Additional paid in capital		
Legal reserve		
Revaluation variances		
Affiliated companies		
Other reserves		
Retained earnings (acc. losses)		
Total liabilities and equity		



Statement of financial position (French version)

Société

Etat de la situation financière
Au 31 Décembre 20...
(En Livres Libanaises)

	Notes	Année N	Année N-1
Actifs			
Actifs courants			
Trésorerie			
Créances clients et autres débiteurs			
Dû par les actionnaires			
Dû par les sociétés liées			
Stocks			
Actifs non courants			
Participations			
Créances rattachées à des participations			
Immobilisations corporelles			
Immobilisations incorporelles			
Immobilisations financières			
Total des actifs			
Passifs			
Passifs courants			
Fournisseurs et autres créditeurs			
Découverts et prêts bancaires			
Passifs non courants			
Dû aux actionnaires			
Dû aux sociétés liées			
Provisions pour risques et charges			
Découverts et prêts bancaires			
Total des passifs			

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Capitaux propres

Capital social

Prime d'émission

Réserve légale

Ecart de réévaluation

Comptes de liaison

Autres réserves

Résultats non distribués (pertes accumulées)

Total des passifs et des capitaux propres
