

## International Tax Lebanon Highlights 2017



### Investment basics:

**Currency** – Lebanese Pound (LBP)

**Foreign exchange control** – No

**Accounting principles/financial statements** – IFRS.  
Financial statements must be prepared and filed annually.

**Principal business entities** – These are the limited liability company, joint stock company, partnership, branch and representative office of a foreign company.

### Corporate taxation:

**Residence** – An entity is considered resident if it is established or registered in accordance with Lebanese law, or if it conducts business from a fixed place in Lebanon for a period exceeding 6 months in any 12 consecutive months for public contracting work (or for a period exceeding 3 months in any 12 consecutive months for other activities).

**Basis** – Resident companies are taxed on their worldwide income, unless earned through foreign branches or subsidiaries.

**Taxable income** – Income tax is levied on taxable income related to all business activities, unless exempt by law. Taxable income is calculated as revenue less eligible expenses, except for insurance companies, public contractors, oil refineries and international transport businesses, where taxable income is calculated as a percentage of total revenue.

**Taxation of dividends** – Dividends received from a foreign entity are taxable at a rate of 10%. Dividends received from a Lebanese company are deducted from taxable income for purposes of the corporate income tax calculation.

**Capital gains** – Capital gains derived from the disposal of tangible and intangible assets and financial assets are taxed at a rate of 10%.

**Losses** – Taxable losses may be carried forward for three years. The carryback of losses is not permitted.

**Rate** – 15%

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No

**Holding company regime** – Holding companies are exempt from tax on profits and dividend distributions, but are subject to a tax on capital and reserves, capped at LBP 5 million a year. Gain derived from the sale of an investment in a Lebanese entity is exempt if the investment is held for more than two years. No tax applies on gains derived from the disposal of an investment in a foreign subsidiary.

**Incentives** – Various incentives are granted for eligible industrial or touristic investments.

Under certain conditions, industrial taxpayers may benefit from an exemption on 50% of their profits generated from exports. Exports of natural resources do not benefit from the exemption.

An offshore company regime is available, under which an offshore company is exempt from tax on profits and dividend distributions (it is subject only to an annual lump sum tax of LBP 1 million). An offshore company may carry on activities only outside Lebanon or through the free zone. It may own shares in foreign companies and

invest in Lebanese treasury bills, but it may not carry on banking or insurance activities.

#### Withholding tax:

**Dividends** – Dividends paid are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty or certain conditions related to the listing of the company's shares or its parent's shares are satisfied, in which case the dividends benefit from a 50% reduction in tax.

**Interest** – Interest on bank deposits or bonds is subject to a 5% withholding tax; other interest is subject to a 10% withholding tax. Interest paid to a nonresident is subject to 7.5% withholding tax. The rate on interest may be reduced under a tax treaty.

**Royalties** – Royalties paid to a nonresident are subject to a 7.5% withholding tax, unless the rate is reduced under a tax treaty.

**Technical service fees** – Technical service fees (including management fees) paid to a nonresident are subject to a 7.5% withholding tax, unless the rate is reduced under a tax treaty.

**Branch remittance tax** – In addition to being subject to the normal corporate income tax rate, profits generated by a branch of a foreign entity are automatically subject to an additional 10% tax.

**Other** – Payments to nonresidents for services are subject to a 7.5% withholding tax; certain payments to nonresidents, such as those made in consideration of projects performed in Lebanon or equipment installed in Lebanon, are subject to a 2.25% withholding tax.

#### Other taxes on corporations:

**Capital duty** – A one-time stamp duty is levied on a company's initial capital, and upon an increase of capital, at an average rate of LBP 6,000 per million.

**Payroll tax** – Payroll tax is withheld from salary by the employer, at rates ranging between 2% (for the lowest bracket) and 20% (for the bracket in excess of USD 80,000 a year), and remitted to the authorities on a quarterly basis.

**Real property tax** – A built property tax is levied on rental income from Lebanese real property, at rates ranging between 4% and 14%. See also "Transfer tax," below.

**Social security** – There are three mandatory social security schemes: (1) a family scheme contribution of 6% of earnings up to USD 12,000 per year; (2) a medical scheme contribution of 9% of earnings up to USD 20,000 per year (of which 2% is the employee's share); and (3) an end-of-service indemnity scheme contribution of 8.5%

of total earnings. Contributions are made by the employer.

**Stamp duty** – A stamp duty is levied on most contracts, at a rate of 0.3%. See also "Capital duty," above.

**Transfer tax** – A 6% tax is levied on the transfer of real property.

#### Anti-avoidance rules:

**Transfer pricing** – The arm's length principle applies to determine the taxable base of related party transactions (both resident and nonresident).

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – No

**Other** – The ownership of more than 3,000 square meters of land by a foreigner, or by a company that has foreign shareholders, requires approval via a ministerial decree.

#### Compliance for corporations:

**Tax year** – The tax year is the calendar year, although exceptions are allowed such as when a parent company has a special fiscal year.

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – The tax return must be submitted by 31 May of the year following the fiscal calendar year, unless the company has a different fiscal year. In that case, the return must be filed within five months after the end of the company's fiscal year.

**Penalties** – Non submission of a return is subject to a penalty of 5% per month, capped at 100%, and a delay in payment is subject to a penalty accruing at a rate of 1% (1.5% for withholding tax and VAT) per month. In the case of an adjustment of the tax return a 20% penalty applies on the unsettled tax.

**Rulings** – No

#### Personal taxation:

**Basis** – Employees are taxed on income generated from services provided in Lebanon or for an entity resident in Lebanon. Self-employed individuals are taxed on income generated from services provided in Lebanon or pertaining to their profession in Lebanon, unless earned through a permanent establishment outside Lebanon. Nonresidents are taxed only on Lebanese-source income.

**Residence** – A physical person is considered resident if he/she meets one of the following conditions: has a fixed place of doing business in Lebanon; maintains a

permanent home in Lebanon used for his/her usual residence or for usual residence of his family; or stays in Lebanon for more than 183 days continuously or intermittently in a period of 12 consecutive months. The transit stay and the stay for medical treatment are not counted in the computation of the stay period.

Registration as a licensed professional triggers residency.

**Filing status** – Married persons are taxed separately; joint assessment is not permitted.

**Taxable income** – Taxable income comprises income from employment, income from a profession, personal establishment or income from a partnership.

**Capital gains** – 10%

**Deductions and allowances** – Family deductions are granted in computing taxable income.

**Rates** – A taxable individual is taxed at progressive rates that range from 4% up to 21%.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – See “Other taxes on corporations.”

**Capital acquisitions tax** – No

**Real property tax** – An annual real property tax is levied on rental income derived from real property.

**Inheritance/estate tax** – Inheritance tax is levied at rates ranging from 12% to 45%, depending on the level of family relationship.

**Net wealth/net worth tax** – No

**Social security** – See “Other taxes on corporations.”

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – Tax is assessed on a preceding-year basis. An individual is required to submit a return

and pay the tax due before 1 April of the following year, and before 1 March of the following year for revenues derived from foreign investments.

Expatriates of non-resident foreign entities are required to file individual payroll tax returns.

**Penalties** – See “Compliance for corporations.”

#### Value added tax:

**Taxable transactions** – VAT applies to most transactions involving goods and services.

**Rate** – The standard rate is 10%. Basic foods; health, real estate, educational, financial, insurance and banking services; and leasing of residential property are exempt.

**Registration** – Taxpayers whose turnover exceeds USD 100,000 for four consecutive quarters must register for VAT purposes; otherwise, registration is voluntary from the starting date of the activity.

**Filing and payment** – VAT returns must be filed and the tax paid on a quarterly basis. Non submission of a return is subject to a penalty of 5% per month, capped at 100%, and a delay in payment is subject to a penalty accruing at a rate of 1.5% per month. In the case of an adjustment of the tax return a 20% penalty applies on the unsettled tax.

**Source of tax law:** Income Tax Law, tax procedures law, and VAT law

**Tax treaties:** Lebanon has concluded 34 tax treaties.

**Tax authorities:** Ministry of Finance

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