

International Tax Lebanon Highlights 2018



Investment basics:

Currency – Lebanese Pound (LBP)

Foreign exchange control – No

Accounting principles/financial statements – IFRS. Audited 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. An entity also is considered resident business is carried out from a fixed place in Lebanon for a period exceeding six months in any 12 consecutive months for contracting work and for a period exceeding three months for other activities.

Basis – Resident companies are taxed on their worldwide income, unless the income is 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 Lebanese company are deducted from taxable income for purposes of the corporate income tax calculation. Dividends received from a foreign entity are taxable at a rate of 10%.

Capital gains – Capital gains derived from the disposal of tangible and intangible assets and financial assets are taxed at a rate of 15% (20% for oil and gas companies).

Losses – Taxable losses may be carried forward for three years. The carryback of losses is not permitted, except for oil and gas companies, which may carryforward losses indefinitely.

Rate – 17%. Oil and gas companies are subject to a 20% rate. See also “Taxation of dividends” and “Capital gains,” above.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Holding company regime – Holding companies are exempt from tax on profits and tax on dividend distributions. They are subject to a tax on capital and reserves, capped at LBP 5 million per year. Gain derived from the sale of an investment in a Lebanese subsidiary or associate 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.

In certain cases, industrial taxpayers may benefit from a 50% exemption on their profits generated from exports (except for exports of natural resources).

Other – An offshore company regime is available, under which an offshore company is exempt from tax on profits and dividend distributions; it is subject to an annual lump sum tax amount of LBP 1 million. An offshore company may carry on activities and have investments only outside Lebanon or through the free zones; it may invest in

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

Withholding tax:

Dividends – Dividends paid to a resident or nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest on bank deposits or bonds is subject to a 7% 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 or management fees paid to a nonresident are subject to a 7.5% withholding tax (10% for oil and gas companies), 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 subject to an additional 10% remittance tax.

Other taxes on corporations:

Capital duty – A one-time stamp duty of 0.4% is levied on the subscription of capital of a company or its increase.

Payroll tax – Payroll tax is withheld from salary, at rates ranging between 2% (for the lowest bracket) and 20% (for the amount of salary in excess of USD 80,000 a year). The employer withholds these amounts from the salary and remits the tax 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.

Constructions, installations and vehicles used for petroleum-related operations within Lebanese territorial waters are exempt from built property tax.

Social security – There are three mandatory social security schemes: (1) a family scheme contribution of 6% of employee earnings up to USD 12,000 per year; (2) a medical scheme contribution of 11% of earnings up to USD 20,000 per year (of which 3% is the employee's share); and (3) an end-of-service indemnity scheme contribution of 8.5% of total earnings. Contributions are borne by the employer.

Stamp duty – A stamp duty is levied on most contracts, at a rate of 0.4%. 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, but certain rules apply for oil and gas companies.

Controlled foreign companies – No

Disclosure requirements – No

Other – Owning more than 3,000 square meters of land by a foreigner or by a company partially owned by foreigners requires approval via a ministerial decree.

Compliance for corporations:

Tax year – The calendar year is the tax year, although exceptions are granted 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 within five months after the tax period.

Penalties – Failure to submit a tax return is subject to a penalty of 5% per month, capped at 100%, and a delay in payment is subject to a penalty 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 difference between the net tax owed and the net tax due (a 300% penalty in the case of oil and gas companies).

Rulings – No, however taxpayers may obtain explanations for the tax treatment of new transactions.

Personal taxation:

Basis – Employees are taxed on income generated from services provided in Lebanon or for an entity 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 – An individual is considered resident if he/she fulfills 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 the usual residence of his/her family; or stays in Lebanon for more than 183 days continuously or intermittently in a consecutive 12-month period.

Transient stays and stays for medical treatments are not counted in the computation of this 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 or personal establishment or income from a partnership.

Capital gains – Capital gains are taxed at 15%.

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

Rates – Progressive rates range from 4% up to 21%. Capital gains are taxed at 15%. Income derived from foreign shares and bonds is taxed at a rate of 10%.

Other taxes on individuals:

Capital duty – No

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

Capital acquisitions tax – Capital gains tax on the sale of real estate owned by nontaxable individuals is phased out at a rate of 8% annually as from the date of acquisition. Gain from the sale of a primary residence is tax exempt on up to two residences.

Real property tax – An annual real property tax is levied based on the annual rental value.

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 under “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 tax due before 31 March of the following year.

Lebanon-resident employees of nonresident foreign entities are required to pay tax and file payroll tax returns.

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

Value added tax:

Taxable transactions – VAT applies to most transactions involving goods and services. Basic foods, health, real estate, educational, financial, insurance and banking services and the leasing of residential property are exempt. Certain goods imported for use in petroleum activities are exempt from VAT.

Rates – The standard VAT rate is 11%. Exports, including authorized oil exports, are exempt from VAT.

Registration – Taxpayers whose turnover exceeds LBP 100 million for four consecutive quarters must register for VAT.

Filing and payment – VAT returns must be filed and tax paid on a quarterly basis.

Source of tax law: Income Tax Law, Tax procedures, VAT law, and Oil and Gas Taxation Law

Tax treaties: Lebanon has concluded 34 tax treaties.

Tax authorities: Ministry of Finance

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