

Doing business in Lebanon 2014



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Introduction

This publication serves to provide a general overview on setting up a business in Lebanon. It discusses the main points in regard to the Lebanese business environment, forms of business entities, the tax system, and the social security contributions. It is important to note that these topics cannot be covered completely in depth since there are a lot of specific details that fall under them.



1. Business environment:

- Geography & Population:

Lebanon is located in Western Asia, stretching along the eastern coast of the Mediterranean Sea. It has an area of about 10,452 km² and a population of about 4.4 million.

- History & Government:

The Lebanese republic was declared in 1926, and gained its independence in 22nd of November 1943. Its regime is parliamentary and based on separation of power between the President, the council of ministers, the Parliament, and an independent judiciary authority. Lebanon is divided into six provinces:

Beirut (the capital), North Lebanon, South Lebanon, Mount Lebanon, the Bekaa and Nabatieh.

- Language & Currency:

Arabic is the official language of Lebanon, with English & French as second languages. As for the currency, it is the Lebanese pound LBP. It is quoted against US dollar and the euro as follows: LBP 1512.50 = USD 1 and LBP 2,027.61 = EUR 1.

- Economy:

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. The Lebanese economy is service-oriented with its main growth sectors being banking and tourism. As per the IMF, it has a GDP of USD 55.5 billion with 75.8% coming from the services sector. Lebanon's major industrial sectors include metal products, banking, agriculture, chemicals, and transport equipment.

A- Business Entities:

Companies follow commercial laws including the Lebanese Commercial Code.

Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law.

Foreign Ownership

Most Lebanese business entities are available to foreign investors. However, some types of companies require local majority control of both share capital and directorships.

Foreign investors are allowed to own 100% of a Lebanese company's shares, with few exceptions in certain areas. Investors may also acquire shares of existing local companies or set up their own companies in Lebanon.

Forms of Businesses

The main forms of businesses in Lebanon are:

- Joint-stock companies
- Partnership Companies (General or limited)
- Limited Liability companies
- Holding Companies
- Offshore companies
- Other forms of doing business

The most common among these are the limited liability company and the joint-stock company.

☒ Joint-stock companies:

Joint-stock companies require a minimum capital of 30,000,000 L.L and 3 founding members. The Board of directors consists of 3-12 members with majority of them being Lebanese. The head office must be in Lebanon.

A Foreign national chairman can only hold the offices if he has a work permit. There are no minimum requirements on percentage of Lebanese ownership. However, if company trades real estate in Lebanon, 50% of company's capital must be owned by Lebanese nationals.

A joint-stock company can issue shares. It can also issue bonds as well as bonds convertible to shares. The company's by-laws and any further modifications must be registered in the Trade Register maintained by the Commercial Court within whose jurisdiction the company's head office is located.

☒ Partnership companies:

General Partnership:

The main characteristic of this entity is the personal involvement of each associate. There is no required initial minimum capital but all partners are personally liable for the company's obligations. As for profits or losses, they are distributed according to each partner's contribution. A general partnership must be registered with the commercial register.

Limited partnership

Limited partnerships are commercial entities with one or more limited partners who have liabilities restricted to their capital contribution and at least one unlimited partner. The limited-liability partners are not allowed to participate in management.

☒ Limited Liability Companies:

A limited liability company requires a minimum capital of LBP 5,000,000 and 3 partners of any nationality and a manager who can be a non-partner.

If number of partners exceeds 30, the company must register as a joint-stock company (SAL) within two years or dissolve its operation.

Because no shares are issued, the partners own a fixed percentage of the company and their personal liability for the company debt is strictly limited.

The company may not engage in any activities involving insurance, savings, banking, capital investment, and air transport.

The company must retain a lawyer and appoint an auditor regardless of the capital investment. The Company results must be approved at an annual meeting of the partners.

It must also register with Commercial Register in its district and the patent office in Ministry of National Economy and Commerce.

☒ Holding companies:

It is founded as joint-stock company and subject to rules governing Lebanese joint-stock companies, requiring a minimum capital of LBP 30,000,000.

The object of the holding company:

- Owning shares or interest in existing Lebanese or foreign joint stock companies or limited liability companies, or participating in the formation of same.
- Managing companies in which it holds shares or interest.
- Lending to companies in which it holds shares, and guaranteeing such companies toward third parties.
- Owning or renting abroad and locally the following: patents, discoveries, concessions, registered trademarks.
- Owning assets in Lebanon on condition that they are used for operations and in compliance with the provisions of the law governing the acquisition by non-Lebanese nationals of real estate rights in Lebanon.

Exceptions to the legal system governing joint-stock companies:

- The company's capital may be set in a denominated currency.
- The holding should publish its balance sheet in the clerk office of the special Trade register, but does not have to publish it in the Official Gazette or economic daily and local newspaper.
- The holding company is also exempted from the obligation of appointing an additional auditor. It may appoint the principal auditor(s) and renew its appointment, for a three-year period.
- Holding companies are exempted from the obligation to have two Lebanese board members in their board of directors.

- If the chairman of the board of directors is a foreigner residing outside Lebanon, he is not required to hold a work permit.
- The shareholders' general meetings and board of directors meetings may be held outside Lebanon. However, the annual general meeting in charge of examining and approving accounts must be necessarily held in Lebanon. This meeting must be held within five months following the end of the financial year.
- The holding company must be registered with the General Trade Register

☒ Offshore Companies

Object:

- Acquiring shares, securities and participations in foreign non-resident institutions and companies.
- Negotiating and signing contracts concerning operations, deals, and merchandise which are outside Lebanon.
- Using free trade zone to stock imported goods and re-export them.
- Preparing studies to be used outside Lebanon upon request.
- Carrying out banking services, activities, intermediation outside Lebanon.
- Renting offices in Lebanon and owning real estate
- Granting loans to non-resident institutions in which the company owns more than 20% of the share capital
- Acquiring rights related to agencies of products and goods, and representing foreign companies in foreign markets
- Opening branches and representative offices outside Lebanon

However, it is prohibited from engaging in any commercial activity beyond above objective on Lebanese grounds or from earning profits or revenues through assets in Lebanon or through providing services to companies in Lebanon.

An offshore company's share capital may be denominated in foreign currency provided that the accounts of the company are drawn up in the same currency.

The members of the board may be of non-Lebanese nationality. The chairman or the company's authorized signatory is exempt from the requirement to obtain a work permit if he or she is a foreigner non-resident in Lebanon.

Foreign employees working in Lebanon for an offshore company are exempt from the requirement to obtain a work permit provided that the company's annual turnover is not less than LBP 1000 million.

An offshore company must appoint at least one main auditor resident in Lebanon and holding Lebanese nationality for a period of three years. The company is not required to appoint an additional auditor.

The offshore company must be registered with the General Trade Register.

☒ Other forms:

- Partnership in participation

A 'partnership in participation' is formed through written agreement with no requirement of official registration. It exists only among its members and is not disclosed to third parties.

Joint ventures vary from 'partnerships in participation' in that they are disclosed to third parties and are often governed by contract law rather than company law.

- Company with variable capital

To allow an ease of modification in the amount of capital, some companies include a provision in their by-laws whereby they may have a variable capital.

- Branch of a foreign company and representative office

Some foreign companies prefer to open an operational branch or representative office in Lebanon instead of opening a separate subsidiary.

However, the foreign company, during the month following the opening of the branch or representative office, must register at the Commercial Court and the Ministry of Economy.

B- Labor relations and working conditions:

The employment market & employment legislation

The employed labor force represents 34% of total population, with the majority working in the service industries (58.3%). The rest of the labor force is involved 27.4% in the industrial sector and 14.33% in the agricultural sector.

The regulating contract that applies to employment relationships is the employment contract. This contract may be written or verbal. This contract is fixed by both parties under the provision of the Lebanese Labor Law (LLL). The Lebanese Labor Law includes conditions of employment, working hours, dismissal, annual leave, sick leave, and safety conditions.

As for the work contract, it can be written or oral and must be submitted to the authority of Common Law in Arabic.

Employment of women & children:

Women may not be employed in an industrial job or any other specific job in the LLL.

Women are entitled to a seven-week maternity leave during which they are paid full wages and salaries. They may not be dismissed during that period.

As for children, it is illegal to hire children who have not yet reached their 13th birthday. In addition, they may begin work only after a medical examination assures that they can carry out the intended work. If the young person is no longer capable of performing the job, they may be withdrawn.

It is illegal to hire a child under the age of 18 in industrial sector or in jobs that may have serious effects on their health.

Minimum wage & Transport Allowance:

As of 2008, the minimum monthly wage is LBP 675,000 (EUR 333; USD450) and the legal daily transport allowance is LBP 8,000 (EUR 3.87; USD 5.30)

Working hours:

The legal working week is 48 hours, but employees may work additional hours and receive overtime pay which must be at least 1.5 times the normal rate.

Workers are entitled to a lunch break of no less than one hour in the middle of the day after working 6 unbroken hours (or 5 for women). They are also entitled to a weekly rest break of minimum 36 hours, which can be received as salary if they were unable to benefit from it.

Holidays & leave:

Employees are entitled to a 15-day paid vacation after having served the company for at least 1 year. The worker may not be dismissed or given notice of termination while on holiday.

The employee is entitled to a 2-day full paid leave in the event of the death of a close relative. As for ill employees, their sick leave period and amount of payment is dependent on the time spent on the service.

Termination of employment:

As per the investment development authority of Lebanon, the employer and the employee can mutually agree to break a written work contract at any time, in which case there is no payment for damages or entitlements. However, in situations where one party breaks the contract, the injured party is entitled to seek compensation. If the employee was dismissed without any notification period, he should be compensated for the notification he's entitled to.

In situations where either party breaks the work contract for reasons of misconduct, the party seeking compensation must file a lawsuit no later than one month after the violation. Firing an employee is considered misconduct or abuse of power if the action is based on an unjust or personal reason.

Foreign employees:

Any foreigner seeking work in Lebanon must obtain a work permit and a residence permit. Before entering Lebanese territories, foreign workers should ask for Advance Approval of work from the Ministry of Labor. Within 10 days of their arrival, foreign workers must submit an application for a work permit to the Ministry of Labor. The permit is normally granted for one year but may be extended by application.

As for the residence permit, it is issued by the General Security Agency and usually granted for one year eligible for renewability.

Trade Unions:

Trade unions or trade associations perform tasks limited to protection of the profession they represent. Under the General Confederation of Lebanese Labor, there are twenty-two unions recognized as nationwide representatives. These unions cover restaurants, hotels, bakeries, railways, banks, ports, and the Lebanese national tobacco company.

C-Social Security:

General:

All Lebanese employees working in professional, commercial or industrial activities and receiving a salary must join the social security system. Individuals aged above 64 are not required to join social security system and can voluntarily register.

The social security consists of the following funds:

- Medical and maternity benefits
- Industrial injury and occupational sickness benefits
- Family allowances
- End-of-service payment



2- Finance & Investment

A-Banking & local finance:

Banks and other financial institutions in Lebanon fall under the jurisdiction of the Bank of Lebanon (BDL), the country's central bank, which is the bank regulatory authority. The Bank of Lebanon controls entry into the banking industry, defines the scope of banking activities and sets prudential regulations and codes of practice for banks.

The Banking Control Commission and the Higher Banking Commission are the banking supervision agencies. They are responsible for supervising banking activities and ensuring compliance with the various financial and banking rules and regulations.

Security of Investments

Lebanon offers incentives to national and foreigner investors by providing exemptions and tax breaks to support companies in their start-up.

Guarantee of Bank Deposits:

The National Institute for the Guarantee of Bank Deposits guarantees bank deposits up to LBP 5 million (EUR 2375; USD 3325). In addition, the Central Bank of Lebanon buys the assets of the bank in difficulty and pays the depositors.

Bilateral & Multilateral investment agreements:

Lebanon has entered into several bilateral investment treaties with about 50 countries which aim to establish a legal framework whereby the host contracting state grants investors and investments from the other contracting state the Most Favored National Treatment or the National Treatment, whichever is more favorable for the investor and its investment. The payments related to the investor should be freely transferable in and out of the host country. Also, the aim of such treaties is to forbid any kind of discrimination and guarantee fair treatment with full security of foreign investments.

As for multilateral agreements, several have been entered into force in Lebanon including agreements with organizations such as the Organization of the Islamic Conference, Multinational Investment Guarantee Agency – The World Bank Group, International Centre for Settlement of Investment Disputes – The World Bank Group, and the United Nations. (As per the website of Ministry of Finance)

Measures against money laundering:

Undertaking laundering operations or intervening in such operations is punished in the court of law by 3 to 7 years of imprisonment and a fine of LBP 20 million (EUR 9450; USD 13 000) or more.

A central system named the Financial Investigation Administration unit and an independent legal entity with judicial status aim to investigate and monitor issues related to money laundering.

B- Accounting & audit requirements:

Accounting requirements:

The Chart of Accounts and the Commercial Code constitute the provisions related to all accounting and auditing requirements.

It is a requirement for all businesses to keep books and records in accordance with the accounting principles. It is also a requirement to draw up a balance sheet and an income statement in Lebanese Pounds. All of the records should be kept in Arabic, French, or English. The accounting period is normally 12 months which may be extended or shortened.

Accounting records and documents:

In order to be assessed to income tax, persons must provide certain accounting books like a journal, ledger, inventory book, salaries and wages register, and commitments and contingencies book.

Legally required documents must be kept in the Arabic language. The non-maintenance of accounting books and records makes the taxpayer subject 50% penalty of unpaid tax.

Accounting documents should be kept for 10 years by computer or through another modern technological method.

Contents and form of financial statements:

Companies are required to prepare an annual balance sheet and income statement. All financial statements must be prepared as per International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC).

These financial statements must be prepared by the company and include: balance sheet, income statement, cash-flow statement, and notes that provide supplementary information, with the auditor's opinion.

Consolidated financial statements:

Consolidated financial statements consist of a consolidated balance sheet, consolidated income statement, and supplementary notes. They must be made available to the shareholders of the parent company according to the same standards that apply to its own records.

Audit requirements:

A company must appoint a statutory auditor at the general meeting of shareholders for a period of one-year (with exceptions to banks, holdings, and offshore companies) and may be reappointed at the end of this period.

A complementary auditor must be appointed by the Commercial court for joint-stock companies.

The auditor's report must be submitted 15 days prior to the meeting at which the annual statements are presented.

If the company does not submit the audit report by August 31st, the company will pay penalties.

Lawyers:

All companies are required to retain a yearly lawyer.

Acquisition of property by foreigners:

Foreigners may acquire up to 3000 m² of property without any special formality. As for rental contracts, relief can be offered from long-standing restrictions with a view to liberalizing new contracts. In addition, rental contracts can be freely negotiated after 3 years of rental.

3- The tax system

A- Corporate Taxation

A corporation is considered a resident if it is registered in accordance with the law applied to companies in Lebanon. The company pays Lebanese taxes based on the income it has generated from activities in Lebanon.

A tax rate of 10% is applied to dividends that are received from either Lebanese or foreign entities and on capital gains that result from disposal of investments.

Taxable losses may be carried forward for three years.

Exceptions fall on holding and offshore companies. Holding companies are exempted from tax on profits and tax on dividend distribution. However, they are subject to tax on capital topped at LBP 5,000,000 a year. As for Offshore companies, they are not allowed to carry on banking or insurance operations in Lebanon. They may only carry on activities outside Lebanon or in free trade zone and may own Lebanese treasury bills. Similar to Holding companies, offshore companies are exempted from tax on profits and tax on dividend distribution. However, they are subject to an annual lump sum LBP 1,000,000.

B- Withholding Taxes

- Dividends:

Unless there's an applicable tax treaty, dividends paid to a non-resident are normally subject to a 10% withholding tax.

- Interest:

Unless there's an applicable tax treaty, interest paid to a non-resident is subject to 5% withholding tax if paid by banks and 10% if paid by corporate.

- Royalties:

Unless there's an applicable tax treaty, royalties paid to a non-resident are subject to 7.5% withholding tax.

- Branch Remittance tax:

Profits generated by a branch of a foreign company are subject to 10% tax besides the usual corporate income tax rate.

C- Other Tax on corporations:

- Payroll tax:

Payroll tax is applied on tax range from 4% for the lowest bracket to 20% for the bracket in excess of USD 80,000 a year. This amount is withheld from the salary by the employer who pays the tax to the authorities on quarterly basis.

- Real property tax:

A tax rate ranging between 4% and 14% is applied on rental income derived from Lebanese real property tax

- Stamp Duty:

A 0.3% stamp duty is applicable to most contracts.

- Transfer Tax:

A 6% tax is applied to the transfer of real estate.

D- Administration and compliance:

The tax year is the regular calendar year, but some exceptions are made when a parent company has a specific fiscal year. Each company must submit a separate return since consolidated tax returns are not permitted. In addition, the tax return must be submitted by 31st of March or 31st of May of the year following the fiscal year. Otherwise, a penalty ranging from 1% to 100% per month is applied.

E- Personal Taxation:

An individual is considered a resident if he/she resides in Lebanon for more than 183 days a year. Resident and non-resident individuals are taxed only on their Lebanese-source income. Married individuals are taxed separately. The taxable income includes income from employment, from a profession, from business, or from investment.

A 10% capital gain tax is applied to personal income.

In computing taxable income, certain deductions are granted.

Tax rates differ depending on the type of income. A progressive rate of up to 20% is applied to wages and salaries. A progressive rate of up to 21% is applied to business income.

Dividends income and income from other movable capital is taxed at 10%.

F- Other taxes on individuals:

Inheritance tax is levied up to 45% depending on the level of connection.

G- Value Added Tax:

VAT applied to the transactions that involve goods and services. The standard VAT rate is 10% with exemptions for basic foods, finance and banking services, and renting of residential property. A company whose turnover exceeds USD 100,000 is required to register for VAT purposes. In addition, the VAT returns must be filed and paid on quarterly basis.



4- Social Security Contributions:

The basis for calculating social security contributions is the amount of the employee's earnings:

There are three mandatory social security schemes:

- Family scheme equal to 6% of earnings up to a maximum of LBP 1.5 million
- Medical scheme equal to 9% of monthly earnings with a ceiling of LBP 1.5 million (EUR 700; USD 1000).
- Termination indemnity scheme equal to 8.5% applicable on total earnings

These contributions are paid by the employer, except 2% for medical scheme paid by the employee.

In case of having less than 10 employees, the employer accounts for social security contributions quarterly. In case of 10 or more employees, contributions must be accounted monthly.

After the employee reaches 60 years of age (or 55 for women), the employer no longer becomes obliged to contribute to the end-of-service fund. However, in case the employee continues to work after drawing his/her end-of-service benefit, the employer has to keep paying contributions until the worker has reached 55 or 60. The amount at that age is equal to one month's basic earning per service year.

As for self-employed persons, their contribution amounts to LBP 250,000 (EUR 120; USD 165) per year.