Regular Corporate Tax

SCOPE OF COVERAGE

All legal entities, regardless of type, purpose, nationality or place of business, are subject to the income tax provisions of Decree-Law 144 dated June 12, 1959 ("DL 144"). The scope of coverage includes all Lebanese and foreign companies as well as their subsidiaries and branch offices, regardless of whether or not they are based in Lebanon. Article 4 of DL 144 provides a partial listing of the entities covered, as follows:

•entities acting as agents for the purchase or sale of real estate or business concerns,
•entities renting furnished or equipped business or industrial concerns,
•entities benefiting from the revenues of mining products, and
•entities engaging in all types of brokerage or agency activities,

Article 4 also includes a "catch all" provision that subjects all entities generating income from activities not covered by any income tax legislation to the provisions of Part One of DL 144 (the income tax provisions).

EXEMPTIONS

The general applicability of these provisions is limited by exemptions provided in DL 144 itself and in DL 45 and DL 46.

DL 144 provides for two types of exemptions: an indefinite exemption and a ten- year exemption.

Indefinite Exemption-The indefinite exemption applies to the following companies and institutions:

•educational institutions;
•hospitals, orphanages and shelters that admit patients without charge;
•mental institutions;
•agricultural ventures; and
•agricultural consumer cooperatives.

Ten-Year Exemption-The ten-year exemption applies to the profits generated by industrial entities that:

•are established in Lebanon after 1980;
•are established in areas that the government wants to develop;
•produce new products not produced in Lebanon before January 1, 1980; and
•own more than LP 2,000,000 ($1,350) in production assets.

The ten-year exemption commences when the production starts and is limited to the amount of profits equal to the value, before devaluation, of the assets invested in the industrial venture. This exemption is granted on the basis of a government decree issued following recommendations by the Minister of Finance and the Minister of Industry and Oil.

As for DL 45 and DL 46, they exempt holding and offshore companies, respectively, from most of the tax provisions of DL 144.

TAXABLE BASE

In determining the taxable base, the Lebanese law uses a territorial, rather than a worldwide approach. Article 5 of DL 144 subjects all net profits derived in Lebanon to the tax provisions of Part One.

Net profits consist of a company's total taxable income reduced by all expenses and charges that are customary in the industry, trade or profession. These expenses and charges, which are expressly stated in article 7 of DL 144, include:

•purchase price of all products and merchandise sold;
•cost of services;
•rent paid for the use of premises in which the activity is performed, or the equivalent of that rent if the premises are owned by the company;
•interest on loans obtained for conducting the company's activities;
•salaries, stipends and severance pay;
•other customary expenses such as employees' insurance;
•taxes and duties, except those of DL 144;
•value of all amortizations;
•mandatory reserves;
•contribution to charities within the limits of the law;
•bad debts;
•cost of advertising for the business or trade, within the limits specified by law; and
•municipal tax on revenues derived from developed real estate property.
Article 7 also provides that the following expenses and charges cannot be deducted:
•interest incurred on the company's capital;
•expenses for capital improvement;
•taxes and duties paid or due to foreign countries on income derived in Lebanon (except as provided for double taxation treaties between Lebanon and foreign countries);
•losses suffered because of the activities of institutions, branches, agencies, or offices located outside of Lebanon;
•personal expenses such as the amounts deducted by the employer or partner for the management of the entity or to cover his/her own expenses; and
•taxes and personal fines of exceptional nature-such as penalties and interest on back taxes.

INCOME TAX RATES

The tax rate that applies to joint stock companies, limited companies and the partner en commandite in the commandite companies is a flat rate of 15% of net taxable income regardless of the amount of that income. All other companies and businesses are taxed as follows:

◦4% on the first LP 9,00,000 ($6,000) of taxable income;

◦7% on taxable income exceeding LP 9,000,000 ($6,000) up to and including LP 24,000,000 ($16,000);

◦12% on taxable income exceeding LP 12,000,000 ($16,000) up to and including LP 54,000,000 ($36,000);

◦16% on taxable income exceeding LP 54,000,000 ($36,000) up to and including LP 104,000,000 ($69,334)

◦21% on the taxable income exceeding LP 104,000,000 ($69,334);

Companies deriving income in Lebanon without having a place of business therein are subject to a 15% tax on their net taxable income. Their net taxable income is equal either to 15% of the original revenues or 50% of those revenues when they represent compensation for services rendered. The amount of the tax is withheld by the payor of the taxable amount who then pays it to the Lebanese tax authorities.

<u>OTHER TAX RATES</u>

Other tax rates include:

◦capital gains are taxed at the rate of 10%;

◦income generated from movable capital is taxed at the rate of 10%;

◦dividends distributed by companies are taxed at the rate of 10%;

◦profits made by foreign companies are deemed distributed in full and are subject to a 10% tax after deducting the 15% income tax and the 10% mandatory reserve required by the law on Money and Credits;

◦a stamp duty of 0.3% of any amount mentioned in various documents must be paid within five days from the execution date or the date of first use of the document if the document was executed abroad.