

Doing Business in Lebanon

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Lebanon has been provided by the office of UHY representatives:

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UHY Andy Bryan has been established since 2004, and specialises in business consulting, business valuations, and tax advisory services.

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at June 2009.

We look forward to helping you do business in Lebanon.

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2. Business environment

Lebanon, itself, is situated in the Levant on the eastern coast of the Mediterranean Sea. The total area of the country is 10,452 square kilometres, with a population of around 4 million people. It is a mountainous country, with half of its area lying above 10,000 metres.

The principal cities, except for Zahleh in the Beqa'a valley, are on the Mediterranean coast. They are Beirut, Tripoli near the northern border, Sidon and Tyre to the South.

Climate

The climate is alpine in the mountainous areas and Mediterranean along the coast. Winters are rainy, sometimes torrential, and snow falls on the mountains, which peak above 1,000 metres. In contrast, summers are hot and humid in the coastal regions and temperate in the mountains.

History

Throughout history, as today, Lebanon has been a contact centre between various cultures and civilisations, rendering it a highly cosmopolitan country.

After several centuries of Ottoman ruling, followed by the French mandate in 1920, Lebanon obtained its independence in 1943.

Between 1975 and 1990, Lebanon underwent a period of internal conflict and fighting amongst various factions and political groups within the country. This period witnessed large losses of human life, substantial physical and infrastructural damage and considerable emigration of skilled labour.

In 1990, however, all of the hostilities came to an end as a result of the Taiff Reconciliation Accord, which was signed between each of the factions involved.

Government

Lebanon is a parliamentary republic, with an entrenched tradition of freedom of speech and expression. Its constitution is based on the classical separation of powers with a president (elected for a single six-year term), a premier, a 128 member house of parliament elected by universal adult suffrage, and an independent judiciary.

Reflecting the sectarian composition of Lebanon, major offices are allotted in approximate proportion to the various religious factions according to

the Taif Accord. Political and party life tends to focus around strong personalities rather than fixed political platforms or ideologies.

Lebanon is divided into five muhafazat (provinces): Beirut, North Lebanon, South Lebanon, the Beqa'a and Mount Lebanon; each with an administration district located in the respective muhafazat centres of Beirut, Tripoli, Sidon, Zahlé and Ba'abda.

Legal Environment

A chief justice, appointed by the president on the recommendation of the Judicial Service Commission, oversees the judiciary.

Lebanon's court system consists of the High Court, the court of Appeal and magistrate courts. The decision of a lower court may be appealed to a higher one, up to as far as the Court of Appeal. The courts' decisions, unless appealed, are considered binding precedents for subsequent rulings.

Population and Language

The major resource of Lebanon is its people. Lebanon has a high literacy rate (of over 90%, which is both the highest in the region and one of the highest worldwide), and a high percentage of university graduates to population.

Lebanon has thus been able to "export" professionals in many fields to mainly Africa, the Americas and the Arab countries, whose remittances have helped, sustain Lebanon through the years.

The official language of Lebanon is Arabic, but both English and French are very widely spoken by the Lebanese.

Education

Pioneers in education are the Francophone University of St. Joseph and the American University of Beirut, both with more than a hundred years of tradition. Other prominent universities include the Lebanese American University, with most courses given in English; the Haigazian College, teaching in English and Armenian; the Kaslik University, with French as the main language of instruction; the Arab University and the Lebanese University, both with Arabic as the principal language; and the Academie Libanaise des Beaux Arts, teaching in Arabic and French.

In more recent years, the University of Notre Dame and the University of Belamand have also both emerged, teaching primarily in English.

Additionally, new higher education establishments keep opening up in order to cater for both local and regional needs.

On a similar note, elementary education is also well developed. A nationwide network of free public schools is supplemented by many private schools with standards considered more rigorous than in most countries of the west, since instruction - heavy with sciences and mathematics - is customarily given in at least two languages. American, British, German, Italian, Japanese and French community schools were also available to the foreign communities in Beirut before the war. In spite of the sharp decline in the number of the foreign communities, some of these schools are still functioning.

Medical

The standard of medical care in Lebanon is one of the highest in the area. Hospitals are to be found in all parts of the country. The larger hospitals in and around Beirut are equipped with modern technology and have doctors and technicians in virtually all fields of specialisation.

Economy

The Lebanese economy is a free market economy with no restrictions on the movement of capital and goods by residents and non-residents of the Republic.

Currency and Exchange Rates

The unit of currency used in Lebanon is the Lebanese Pound (LL), which depreciated very sharply during the years of conflict. Since 1998, however, it has remained at a stable rate of LL 1,507.5 to the US Dollar.

Below are the exchange rates prevailing at 31 December for the last 11 years against the US Dollar:

Year	Lebanese Pound (LL)
1997	1508
1998	1507.5
1999 - 2008	1507.5

Essential Industries

The most important sector in Lebanon is the service sector, which accounts for approximately 60 percent of GDP. Major sub-sectors are commerce, tourism, financial services, health care and higher education.

Lebanon has a long experience in the banking, insurance, and shipping industries also.

Except for the war years, the tourist industry has always been very prosperous. Lebanon's Beka'a valley is the breadbasket of the region and supplies the basic needs for the fresh and canned agricultural industries.

In addition, Lebanon has a strong light industry of leather, plastic and light metal products.

Energy Mineral and other Natural Resources

Lebanon has no oil reserves and relies heavily on imported oil.

Electricity output in Lebanon is approximately 1,526 Megawatts of which 1,262 Megawatts are fuel produced. There are three thermal stations and five hydraulic plants.

Banking System

Traditionally, the city of Beirut was the region's financial services centre. The years of conflict helped other centres within the region to make a big leap, with Beirut falling behind, but since 1992, the Lebanese banking sector witnessed an unprecedented growth. Unlike some other emerging market countries, the banking sector in Lebanon is generally acknowledged to be stable and financially strong. Foreign banks are well represented in Lebanon and maintain branches in the Republic or equity stakes in several local banks.

The banking system is seen as having a key role by being the entry point for capital inflows for the region's development. The authorities are aiming at widening and deepening the financial sector by facilitating the establishment and evolution of, and providing a regulatory framework to, more diversified private financial institutions. Several investment banks, with capital raised offshore, have been established in Beirut and offer a variety of traditional investment banking services, including debt and equity raising and corporate finance advisory services. Several commercial banks have established investment banking subsidiaries offering similar services too.

Banks in Lebanon are governed by the Central Bank and the Banking Control Commission, which survey and regulate the activities of banks.

Beirut Stock Exchange

The Beirut Stock Exchange was created in 1920 by the French mandate authorities in order to privatise public utilities, railways, telecommunications and the post office. Companies from the industrial, banking and tourism sectors were gradually added. The Beirut Stock Exchange flourished from 1954 to 1975, but, ultimately, ceased trading in 1983.

In August 1994, the Government set up the Beirut Stock Exchange Committee to supervise and manage the re-opening of the Beirut Stock Exchange. Trading on the Stock Exchange re-opened on January 22, 1996, when the shares of three previously listed Lebanese companies were re-admitted to trading. On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary market, were listed and began trading on the Beirut Stock Exchange.

Market capitalisation, which is computed by including the value of all listed and unlisted shares of the companies members of the Beirut Stock Exchange, rose from approximately US\$ 386 million in January 1996 to approximately US\$ 2,942 million by July 31, 2003, due in large part to the listing of SOLIDERE shares.

BSE capitalisation, including only the value of shares listed on the Beirut Stock Exchange, increased to U.S. \$ 1,411 billion at the end of October 2003.

The number of authorised brokers rose from five to fourteen and the number of listed companies rose from three to fourteen (including three mutual funds) by the end of October 2003.

International Relations

Lebanon maintains embassies in most countries around the world and is a member of various international and regional organisations, such as the Arab League, the United Nations and the World Trade Organisation.

Entry Visas and Work Permits

Entry visas and work permits cost relatively little and are not very difficult to obtain.

3. Foreign investment

The Lebanese government welcomes and encourages foreign investment into the economy and continues to favour a strong role for the private sector in a liberal policy environment, whilst carrying a reputation of minimal intervention in economic activity.

The major attractions of Lebanon to foreign investors are as follows:

- A strategic geographical location as a transshipment point between a variety of Arab countries and overseas;
- Free market economy with liberal investment policies;
- Free foreign exchange market with no restrictions on the transfer of capital and earnings. The traditional banking secrecy law in Lebanon has, in 2002, been amended to empower the Special Investigation Committee (SIC) to lift bank secrecy and investigate suspicious transactions to ensure compliance with anti money laundering law;
- Protection of private property and right and equality between the Lebanese and Non-Lebanese;
- Variety of investment opportunities in all sectors of the economy;
- Fairly low tax rates with room for tax structuring and planning;
- High skilled, educated and multilingual (Arabic, English and French) workforce.

Currency Exchange Controls

There are no restrictions concerning the repatriation of profits, income and capital. Nor are there any restrictions on the convertibility of currency.

Residents can freely import and export national banknotes. They may own, deal in, export and import gold. Residents may own foreign currencies and foreign securities, and may maintain bank balances abroad.

Non-residents can freely import and export national banknotes. They may also maintain foreign currency accounts with banks throughout Lebanon.

Investment Incentives

General Incentives

The Lebanese government recognises the importance of investment and is actively working to provide an environment that enables investors to bring or establish their operations in Lebanon. Within this framework, the Investment Development Law 360 empowered the Investment Development Authority in Lebanon to offer a wide range of generous and competitive investment incentives depending upon the qualifications and criteria for each project. Some of these incentives are:

- Exemptions from income tax and tax on distribution of dividends;
- Work permits for various categories exclusively needed for the project
- Fee reduction on work permits and residency
- Fee reduction on construction permits – if required for the project
- Exemption on land registration at the Land Registry, annexation, subdivisions, mortgage and registration of lease contracts.

Tax Incentives

There is a ten year tax exemption on profits generated by industrial entities that are established after 1980 in areas that the government wants to develop and which produce new products not produced in Lebanon before 1 January 1980 and which own more than U.S. \$ 300,000 in production assets.

Duty Exemption Scheme

Offshore companies can utilise facilities at the customs free zone for warehousing of imported merchandise destined for re-exportation.

Contractors of public works may import machinery and equipment for their projects without payment of customs duties, provided such machinery and equipment are re-exported after the termination of the project. However, in such instances, a bank guarantee for an amount fixed by the customs authorities must be produced.

Sources of Finance for Foreign Investors

The many commercial banks provide the main supply of short, medium and long-term credit. There are currently 65 banks with 780 branches and 28 financial institutions, which provide the major sources of finance for foreign investors.

Commercial banks are free to set their own interest rates, and there are no government controls over lending to foreign investors.

Lending institutions exercise their normal credit policy in assessing the viability of potential loan proposals. Loans are usually granted against collateral, or guarantees from the bankers of the foreign investors.

Import and Export Restrictions

Some exports and imports are subject to licensing, value added tax is applicable and a municipal tax of 3.5% is levied on the value of all goods arriving by sea or air, except those of Arab origin. Almost all imports are also subject to stamps tax.

Patents and Trademarks

All patents and trademarks have to be registered at the Ministry of Economy and Trade and the registration has to be published in the Official Gazette.

The procedures to be followed in registering a patent, etc., are best handled by attorneys specialising in this field.

Licensing Arrangements

A number of Lebanese manufacturing companies produce products under license from foreign manufacturers such as cosmetics, pharmaceuticals, soaps, detergents, food and household items. Such licence is given against royalties, which vary in rates.

4. Setting up a Business

The Lebanese Commercial Law provides for five forms of business entities, which fall into the two categories of partnerships and joint stock or limited liability companies.

Types of Companies

Joint Stock Companies

A Joint stock or a limited liability shareholding company (société Anonyme Libanaise - SAL) is a legal entity whose shareholders have no liability for the company debt beyond their capital subscriptions. The minimum share capital is LL 30 million and the minimum number of shareholders is three. The statutes of the company should be registered with the notary public and the commercial Registry.

This type of company is legally required for certain business organisations such as insurance companies, banks and other financial institutions.

When the object of the company is a public service, at least one-third of its share capital should comprise nominal shares held by Lebanese nationals. The same applies to real estate companies.

There is another form of limited liability Company, called Société à Responsabilité Limitée - SARL, whose members are called partners. Its capital is divided into parts rather than shares and, hence, it is not allowed to issue share certificates. The minimum capital of this type of company is LL 5 million. The ownership of the partners in the capital of the company is fixed in the “partnership deed”, which should be registered at the Commercial Court.

Partnership and Sole Traders

Business can be carried out in the form of a sole trader or a partnership. All sole traders and partnerships should be registered at the Commercial Registry.

In the case of an ordinary partnership, all partners are personally and jointly liable for the debts and obligations of the partnership. A limited partnership is one in which one or more partners may enjoy limited liability to the extent of their capital contributions. The basis of all partnerships is an agreement entered into between the partners.

Offshore Companies

A Lebanese offshore company is governed by Legislative Decree number 46, which defines the offshore company as a Lebanese shareholding company that engages exclusively in the following activities:

1. Negotiations and signing of contracts and agreements in respect of operations and deals, to be executed outside Lebanese territory, relating to merchandise and materials located abroad or in the duty free zone;
2. Preparation of studies and consultations, which will be used outside Lebanon, upon requests from enterprises resident abroad.

An Offshore Company should be registered with the special register for Offshore Companies with the Court of First Instance in Beirut.

Whilst Offshore Companies are subject to certain restrictions and prohibitions, they do also enjoy important tax advantages; the major one being the limitation of income tax on profits to an annual lump sum of LL 1 million.

Holding Companies

1. A Lebanese holding company is governed by Legislative Decree number 45.

This decree defines the holding company as a Lebanese shareholding company with the following privileges:

- a) Capital can be denominated in a foreign currency;
 - b) Books of account can be kept in a foreign currency;
 - c) The number of Lebanese directors needs not exceed 2;
 - d) The registered office must be in Lebanon. Meetings of directors and shareholders can be held outside Lebanon;
 - e) The annual general meeting of shareholders must be held within 5 months of the financial year-end;
 - f) The company must appoint at least one auditor of Lebanese nationality and residing in Lebanon. His appointment can be for 3 years. The company is under no obligation to appoint a court auditor.
2. The purpose of a Holding Company is limited to the following:

- a) Owning of shares or parts in SAL and SARL companies, Lebanese or foreign;
- b) Management of companies in which it holds shares or parts;
- c) Lending to companies in which it holds 20% or more of the shares or parts. The holding company can issue debentures to the extent of 5 times its capital and reserves;
- d) Licensing or owning patents and trademarks;
- e) Owning properties or movable assets for its own use within limits set up by law regarding real estate that can be owned by foreigners in Lebanon.

Branches of Foreign Companies

According to article 29 of the Code of Commerce, any foreign commercial company operating a branch office or an agency in Lebanon is required to register in the trade register.

The establishment of a branch or agency in Lebanon should be subject to a resolution of the Board of Directors, taken in accordance with the Articles of association of the company. The said resolution should indicate clearly the nature of transactions, which will be dealt with by the branch or agency in the Lebanon. The board of directors should also nominate an authorised representative.

The powers given to the representative should be drawn up in clear and precise terms, authorising him to represent the company vis-à-vis the official, public and private administrations and bodies; to sign on its behalf all documents and petitions; to represent the company in all courts of law as plaintiff or defendant or in any other capacity, with power of substitution; to operate any bank account, etc.

Formalities

Foreign companies wishing to operate in the Lebanon have to comply with the following two requirements:

- (a) Registration at the Ministry of National Economy (registrar of companies)

This formality is only required of foreign companies whose liability is limited by shares. Generally, it is only applicable to foreign companies, which establish a branch or agency in the Lebanon.

The documents to be filed with the Ministry of National Economy are:

1. The articles of association of the company
2. A certified translation in Arabic of the articles of association
3. The resolution of the board of directors as stated above.
4. The power of attorney of the representative of the branch or agency in the Lebanon;
5. A copy of the Lebanese Police record of the representative in the Lebanon.

Three copies of the documents under (1), (3) and (4) as above, should be legalised by the Lebanese consul in the foreign country.

The Ministry of National Economy will deliver a registration receipt, the text of which must be published in the Official Gazette.

(b) Registration at the commercial registry

In accordance with the terms of Article 28 of the Lebanese Commercial Code, the company must complete within one month following the opening of its branch or agency, the formalities of registration at the commercial courts in Beirut.

The representative must provide to the commercial courts a declaration in two copies, duly signed by him, indicating:

- i. The name of the company
- ii. The nature of the company
- iii. The address of its head office
- iv. The object of the company
- v. The nationality of the company
- vi. The address of the company's branch or agency in the Lebanon
- vii. The name and surname of its representative in the Lebanon, his nationality, date of birth and home address
- viii. The nature of business, which will be transacted by the branch or agency in the Lebanon.

Structures Used by Foreign Investors

A branch rather than a limited liability company is the more common form for foreign investors establishing business in the Lebanon. (Registration formalities and tax rates are the same under both forms).

It is to be noted that as per article 72 of the Lebanese Income Tax law, the profits of a branch of a foreign company are deemed to be distributed, whether in fact distributed or not, and, therefore, automatically subject to dividend distribution tax.

Establishing a Business

Registration

All Lebanese companies, including branches of foreign companies operating in Lebanon, have to register with the Registry of Commerce within one month from the date of their incorporation or the establishment of a branch in Lebanon. The information required to be filed upon registration is listed in Article 26 of the Code of Commerce. Any subsequent amendment to the information filed has also to be registered. Branches of foreign companies and representative offices must also be registered at the Ministry of Economy.

Registration with the Ministry of finance has to be made within 2 months from incorporation.

Shareholders and Directors

The number of founders of a joint stock company or its shareholders at any one time may not be less than three.

The board of directors must consist of a minimum of three and a maximum of twelve directors. The majority of the members of the board should be of Lebanese nationality.

The board must appoint one of its members as chairman.

Annual Requirements for Companies

Annual Return

There are no filing requirements with the Commercial Court - Registrar of Companies. Banks and financial institutions must file their annual accounts also with the Central Bank.

5. Labour

Aside from the favourable geographic and climatic conditions, one of the major factors, which has always attracted overseas investors to Lebanon, has been its supply of a labour force that consists of not only a wide range of skills and technical know-how, but also an ability to communicate in Arabic, French or English and, in some cases, other languages too.

Business Hours

Government offices are usually open from 8.00 a.m. to 2.00 p.m.

In the winter, businesses open from Monday to Friday from 8.00 a.m. to 2.30-5.00 p.m. and on Saturday from 8.00 a.m. to 1.00 p.m.

In the summer, working hours are somewhat curtailed to allow people to go to the summer resorts.

Summer hours, extending from 1 May to 1 October, are GMT + 3. For the rest of the year the time in Beirut is GMT + 2.

Overtime

Overtime is payable at one-and-a-half times the normal hourly wage, except for Sundays and public holidays, when the rate is twice that of the normal hourly wage.

Vacations and statutory holidays

Employees are entitled to a minimum of 15 days annual paid vacation after 1 year of continuous employment.

Holidays and occasions on which the private and the public sectors close are:

<u>Occasion</u>	<u>Date or approximate date</u>
Saint Mary's	15 th August 2009
Eid El Feter	21 st September 2009
Independence Day	22 nd November 2009
Eid Al Adha	28 th November 2009
Christmas	25 th December 2009
New Year - Christian	1 st January 2010
Christmas - Armenian	6 th January 2010

Orthodox

Saint Maroun's day	9 th February 2010
Mawloud al- Nabawy	26 th February 2010
Good Friday	2 nd April 2010
Easter Sunday	4 th April 2010
Orthodox Easter	2 nd -5 th April 2010
Labour Day	1 st May 2010
Martyr's Day	6 th May 2010

Note: Some of the holidays do not have a fixed date in the Gregorian calendar, as they vary according to the Muslim (Lunar) calendar.

Social Security

There are social security schemes in Lebanon covering the three areas of sickness and maternity, family allowance and end of service indemnity.

Contributions to the social security schemes are payable by both the employer and employee and are calculated as percentages of monthly salaries and wages including overtime, gratuities and fringe benefits. The maximum amount on which contributions are calculated is L.L. 1,500,000 for the sickness and maternity scheme, as well as for the family allowance scheme.

The contributions payable to the Social Security National Fund are as follows:

Scheme	Payable by the employer	Payable by the employee
Sickness and maternity	7%	2%
Family allowances	6%	nil
End of service indemnity	8.5%	nil

Social security contributions by employers are payable on a quarterly basis for companies with nine and less employees and on a monthly basis for larger firms. Employee contributions are withheld from the employee's monthly remunerations by the employer and paid to the social security authorities together with the employer's contribution.

Foreign nationals are subject to all of the contributions, except those for end of service indemnity. They are completely exempt from social security if they are working in Lebanon, pursuant to a contract concluded abroad with foreign enterprises, and their employer produces evidence that they are entitled to social security benefits in their home countries.

To prevent double payment of social security contributions and assure benefit coverage, Lebanon has concluded social security totalisation agreements with several countries including France, the United Kingdom, Belgium and Italy.

Other Employee Benefits

Employers must provide end of service indemnity for their employees. In addition to the contributions under the government social security, the employer provides end of service indemnities representing the difference between the contribution paid and the provision for indemnity, based upon the last salary of the employee multiplied by the number of years of service completed by the employee.

Additional benefits normally provided to employees include medical insurance and job training.

Senior employees and expatriate staff are often furnished with a car, housing domestic services, utilities and passage to and from Lebanon.

Special Requirements for Foreign Nationals

A foreign national intending to work in Lebanon must have a work permit, which is obtained by the employer on the expatriate's behalf. Before a permit is issued, the employer is required to justify the employment of a foreign national instead of a Lebanese. Work permits are issued for an initial period of one year and may be renewed, provided that the permit holder can prove that the conditions of employment are unchanged.

There are no official percentage limits on the employment of foreign nationals, but the number of expatriate employees is closely monitored by the Ministry of Social Affairs, which issues the work permits.

6. Taxation

Income Tax

All legal entities whether individuals, partnerships or companies are liable to income tax on their income or profits derived in Lebanon. The computation of taxable income or profit, the various exemptions and the rates of tax are all governed by the income tax law, which is periodically amended by government legislation.

Business income tax is imposed on the net business profit earned in the preceding year. The fiscal year is the Gregorian calendar year, though companies may, with the approval of the Income Tax Department, use their own accounting year.

Tax returns of capital companies must be filed by 31 May in the year following the year of income. Other taxpayers must file their returns by 31 March in the year following the year of income.

All taxpayers, who are taxed on the basis of actual or lump-sum profits, must pay the business income tax together with other income taxes on submission of their tax returns, which should be filed by 31 January in the year following the year of income.

Companies

Capital companies (joint stock companies, limited liability companies and partnerships limited by shares - so far as the silent partners are concerned,) are subject to business income tax at a flat rate of 15% on their business profits.

Tax rates are summarised as follows:

Corporate Income Tax (including branches):	15%
Capital Gains Tax:	10%
Tax on Dividends:	10% (A)
Royalties from Patents, Know How, etc:	7.5 %
Payments to Non-Residents:	7.5 (B)
Branch Remittance Tax (deemed dividends):	10%
Value Added Tax:	10%
Interest income on bank deposit accounts:	5%

Note: (A) All profits of branches of foreign companies are considered distributed profits and are, therefore, in addition to the profits tax, subject

to the distribution tax. Branches of foreign banks deduct the transfer to legal reserve from profits (net profits after charging corporate income tax) before computing the distribution tax. Local companies should withhold tax on dividends upon payment.

Note: (B) A 15% tax is imposed on 50% of gross royalty or service fees. Thus, the effective tax rate becomes 7.5% of the gross amounts paid.

Losses incurred in any one year can be carried forward to be offset against future profits for a period of three years only. There is no carry-back of losses.

The profits of sole traders and partnerships not limited by shares are subject to the following rates of business income tax:

TAXABLE INCOME	RATE
0 - 9,000,000	4%
9,000,000 - 24,000,000	7%
24,000,000 - 54,000,000	12%
54,000,000 - 104,000,000	16%
104,000,000 - and above	21%

Holding Companies

The profits of Lebanese Holding Companies are exempt from corporate income tax, and dividends distributed by these companies are exempt from dividend withholding tax. However, an annual tax is imposed on the total sum of the company's own funds (capital and reserve) at the following rates subject to a maximum tax payable of LL 5,000,000 per annum.

TOTAL SUM OF CAPITAL AND RESERVES	RATE
On the amounts not exceeding LL 50 million:	6%
On the amounts between LL 50 and 80 million:	4%
On the amounts exceeding LL 80 million:	2%

Offshore companies

The profits of Lebanese offshore companies are exempt from corporate income tax. However, a lump-sum annual tax of LL 1,000,000 is payable. The dividends distributed by the company are exempt from withholding tax, and contracts related to foreign transactions are exempt from the fiscal stamp duty. Furthermore, 30% of the basic salary of all foreign personnel working for a Lebanese offshore company is exempt from personal income tax.

Partnerships and Joint Ventures

Partnerships

Partnerships must file annual returns. The taxable income of a partnership is allocated amongst its partners. The partners then aggregate their own shares of the partnership taxable income with any taxable income they receive from other sources before being subject to taxation.

Joint Ventures

A joint venture distinguishes itself from other forms of doing business in that it has existence only amongst the parties concerned and is not intended to be known by third parties. Accordingly, it does not constitute a separate legal entity.

The joint venture agreements freely set down the partners' reciprocal rights and obligations and their participation in profit and loss, provided that the general principles of the company's contract are applied.

The existence of these agreements may be established according to the modes of proof accepted in commercial matters.

Joint ventures are not submitted to the filing requirements prescribed for all other trading companies.

Trusts

A unit trust is any scheme, or arrangement, in the nature of a trust in which members of the public, as beneficiaries under the trust, are permitted to own an interest or an undivided share in one or more groups, or blocks, of specified securities and to participate proportionately in the income there from.

Unit trusts pay withholding tax on interest and dividend income as resident persons.

Individuals

Salaries, wages and benefits, paid to local and expatriate employees, are taxed at the following escalating rates:

Taxable Income (LL)	Rate (%)
1–6,000,000	2%
6,000,001–15,000,000	4%
15,000,001–30,000,000	7%
30,000,001–60,000,000	11%
60,000,001–120,000,000	15%
Above 120,000,000	20%

The employer is under legal obligation to deduct the taxes due on the employees' remuneration and pay them over to the State Treasury together with the taxes due by the employer.

Withholding Taxes

Payments to Non-residents

Certain payments to non-resident companies and individuals without a permanent establishment in Lebanon are subject to final withholding tax, which fully covers the recipient's tax liability with respect to the relevant income. The withholding taxes are assessed on gross payments. The following are the rates of the final withholding taxes:

Payment	Tax Rate (%)
Dividends	10%
Interest	10%
Royalties from patents, know-how, etc	7.5%
Management and professional fees	7.5%

Inheritance and Gift Taxes

Local authorities have the power to levy taxes known as "Inheritance and Gift tax" on persons who are entitled to receive money, real estates, shares, and bonds etc at no cost.

Indirect Taxes

The main indirect taxes are as follows:

Municipal Tax

A municipal tax is levied on rents of offices at the rate of 7%, and on residences at the rate of 6% of the rent payable as specified in the rent contracts.

Customs and Excise Duties

Lebanon levies customs and excise duties on imported goods. The Customs and Excise Act contains the rates applicable to various categories of goods. The rates of duties are applied to the cost, insurance and freight (CIF) value of the goods.

Customs duty rates are 2%, 5%, 10%, 15%, 20% and 50%. The high rate of 50% is imposed to discourage the importation of non-essential goods.

Other Taxes

Stamp Duty

Lebanon charges stamp duties on many legal documents and agreements. Details of such duties are given in Appendix 1.

Real Estate Tax

Local authorities have the power to levy taxes known as "rates" on real estate.

Motor Vehicle Taxes

Annual fees are paid on all motor vehicles, which vary according to the cubic capacity of the engine.

Embarkation (Departure) Tax

According to local regulation the embarkation taxes at Beirut International Airport are as follows:

- LL 50,000 on Economy Class Travel (c/v US\$ 31)
- LL 70,000 on Business Class Travel (c/v US\$ 44)
- LL 100,000 on First Class Travel (c/v US\$ 62).

National Social Security Fund

Employers must make contributions to the National Social Security Fund (NSSF), which provides retirement benefits.

Tax Treaties

Lebanon has signed treaties for the avoidance of double taxation with Canada, Czech Republic, Egypt, France, Iran, Poland, Romania, Russia, Syria, Tunis, Turkey, the UAE and Ukraine.

7. Accounting & reporting

Most accounting matters were codified by the General Accounting Plan published through decree No. 4665 dated 26 December 1981.

Required Books and Records

The following accounting records should be kept:

- a. "General Journal" where daily entries are to be recorded. The recording could be done on a monthly aggregate basis provided that permission is obtained from the Finance Department concerned and that all supporting documents and vouchers relating to the monthly transactions are kept for audit purposes;
- b. "General Ledger";
- c. "Commitments Book" in which the obligations received, given or exchanged, are to be recorded;
- d. "Inventory Book" where inventory items, balance sheet and profit and loss captions are to be recorded.

The books mentioned in (a), (c) and (d) above are statutory books. All pages of these books should bear the seal of the Commercial Court or a Notary Public as the case may be.

Sources of Accounting Principles

Except where excluded by law, the principle of prudence should be observed.

In accordance with Decree No. 1/6258, dated 21 August 1996, International Accounting Standards were introduced over a three year period, applying first to companies quoted on the stock exchange, then to banks and insurance companies and finally by large companies followed by all others.

Accounting Principles and Practices

Fundamental concepts

Accounting records should be kept on the historical cost convention basis, except in the case of revaluation in accordance with the local requirements.

The accounting records should be kept on the accrual basis. Revenue and expenditure relating to a specific financial year should be recognised in that year.

Consistency in accounting principles, presentations and classifications should be observed. Any changes thereto should be for a better presentation of the financial position and should be noted in the financial statements along with the related effect on the financial and tax positions.

Financial Reporting

Financial statements should be disclosed on an on-going concern basis. If another basis has been used, the methods and the effect thereof on the financial position should be clarified in the notes to the financial statements.

The financial statements should reflect the comparative figures of the preceding year.

Accounting records should be kept on the double entry book keeping system. They should be supported by documentary evidence, be recorded in chronological order and be drawn up in a manner to allow quick extraction of financial information required by General Accounting Principles.

Banks must have an internal audit department.

Annual Audit and Filing Requirements

Audited financial statements together with the auditor's report, the directors or managers' report, and the directors' special reports commenting on existing or planned agreements between the company and its directors, must be submitted annually to the annual general assembly of the shareholders or partners.

The audited balance sheet, names of the members of the board of directors, managers, statutory auditors and court auditor are required by law to be published in the Official Gazette, a business publication and a daily local newspaper, within two months after the date of the annual general assembly.

Audited financial statements must also be submitted annually to the Income Tax Department together with the various tax declarations within five months after the end of the fiscal year. (Three months in the case of sole proprietors or partnerships).

Banks are closely monitored by the Central Bank of Lebanon and the Banking Control Commission; as such, both institutions must receive a copy of all audited financial statements, including the short form report (opinion), a special report concerning advances to directors and major shareholders and a special report commenting on existing or planned agreements between the bank and its directors. All of the aforementioned reports are submitted annually by the auditors of the bank to the shareholders.

The Central Bank of Lebanon also receives annually from the auditors a copy of the detailed audit report (long form report), a letter regarding the various observations and recommendations in respect of the audit (management letter).

The financial statements should comprise the following:

- (a) Balance Sheet
- (b) Profit and Loss account (statements of income and retained earnings)
- (c) Statement of changes in financial position
- (d) Notes to the financial statements.

Any changes in accounting policies from one year to the next should be disclosed in the notes to the financial statements.

Accounting Profession

Law No. 364 of 1 August 1994 governs the accounting profession in Lebanon. The Syndicate of Licensed Accountants (Lebanese Association of Certified Public Accountants - LACPA) is responsible for registering accountants and issuing practicing certificates. To qualify as a certified public accountant, a person must hold a final Accountancy Certificate awarded by the above mentioned Syndicate.

8. UHY firms in Lebanon

As a very growing and reputable CPA and consulting firm, UHY Andy Bryan, provides a wide range of assurance and consulting services for a wide scale of international and local companies operating in Lebanon and the Middle East.

Our practice is driven by delivering insightful advice and exceptional service to our clients, add real value to their business and contribute to their competitive advantage.

Our commitment to superior client service is demonstrated every day by our experienced partners and staff. That means greater partner involvement throughout the engagement because of our belief that clients deserve the most experience possible.

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9. UHY offices worldwide

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Appendix I – Stamp Duty

Fixed Stamp Duty

Documents and deeds issued by or submitted to the State, municipalities and public institutions are subject to a FIXED stamp duty, as follows:

	Amount LBP
Constitution permit for a joint-stock company	1,000,000
Constitution permit for a factory or any industry or a commercial business	750,000
All statements relating to purchase or sale of foreign currency	1,000
All bank guarantees or letter of guarantee for subscription in any deal	10,000
Undertaking letter given by the guaranteed to the bank	10,000
Personal guarantees, regardless of the number of guarantors, or any real guarantee except land	10,000
Bills of lading or any receipt order from customs	5,000
All approved copies of the manifest presented to customs	5,000
Certificates of origin of goods	20,000
All copies of agreements for cashing an amount of money (specific)	5,000
All copies of agreements for cashing an amount of money (general)	10,000
All registration or title deeds on real property	10,000
All receipts for money cashed	100
All bank statements	100

All receipts pertaining to goods on arrival or deposit	100
All receipts for cash deposits or bills or shares	100
All invoices including unpaid invoices	100
All quittus or releases, even if they include amounts of money	10,000
General powers of attorney, including those stating monetary values	10,000
Specific powers of attorney	5,000
All certificates of true copy signature	100

Proportional Stamp Duty

All deeds and written materials, which mention a specific sum of money, are subject to proportional stamp duty of 0.3 %.

Appendix II – Annual Depreciation Rates

Minimum and maximum depreciation rates are as follows:

<u>Nature</u>	Minimum %	Maximum %
Buildings (commercial, touristic and services)	2	5
Buildings (industrial and artisanal)	3	10
Buildings and constructions (commercial or industrial)	6	20
Freehold improvements and decorations	15	25
Technical installations and industrial equipments	15	25
Computer hardware and software	20	50
Vehicles (cars)	10	25
Vehicles (transport of goods / buses)	6	20
Sea transport	5	10
Air transport	20	25
Office equipment and furniture	8	25
Gas cylinders	8	20
Glasswares and silverwares (hotels, restaurants,.....)	Inventory @ Y/E	Inventory @ Y/E