

Lebanese Association aiming to promote tax ethics & compliance
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MOF # 2989418

SUMMARY OF THE BUDGET LAW 2022

The **Budget Law 2022** (Law #10) was published in the Official Gazette appendix #49 dated 15 November 2022 and included **some major tax amendments and discounts on penalties** as well as a tax amnesty (article 21) as it was the case in the previous Budget Laws. It is worth noting that the article 24 of this Law enables to carry forward the taxable losses of the fiscal year 2020 for an additional year.

We hereby give you a summary of the main articles of Chapters 3 and 4 of this Budget Law 2022 (the “Law”) related to discounts on penalties and various tax amendments, measures and incentives that will be clarified by application decision that will be issued by the Ministry of Finance.

DISCOUNT ON PENALTIES & INSTALLMENT OF LATE PAYMENTS

Articles 22 (amendment to the articles 1 & 3 of the Law #662 dated 4/2/2005): Late payment penalties and late or false declaration penalties are discounted by **100%** for any infringement that occurred between the 18 October 2019 and the publication date of the Law and by **90%** for any infringement that occurred before the 18 October 2019 provided that the taxes and discounted penalties are **settled within 6 months from the publication date** of this Law (i.e. **before the 15 May 2023**) otherwise the taxpayer will have to settle these taxes without any discount. Discounted penalties should not be less than LBP 200,000 and any discount on penalties exceeding LBP 5 billion requires the approval of the Council of Ministers.

EXTENSION OF THE PERIOD TO OBJECT ON THE TAXES AND FEES

Article 105 of the Budget Law of 2022: Taxpayers that were subject to tax inspection and did not yet fully settle the assessed penalties and taxes as at 15 November 2022 (publication date of the Law) or objected in front of the tax authorities and the objection was rejected in form (e.g. out of the official deadlines), can benefit from an additional 6 months period to object in front of the respective departments provided that they settle 30% of the taxes and penalties.

EXCEPTIONAL REVALUATION OF FIXED ASSETS

Article 30: An **Exceptional Revaluation of Fixed Assets** is allowed for one time only to any taxpayer (companies and establishments) except the real estate companies (i.e. companies holding properties available for sale in their current assets) before the 31st of December 2022. The purpose of this exceptional revaluation that covers any kind of fixed asset (lands, buildings, machineries, shares in other companies, etc.) is to adjust their book values to their fair market values. These fixed assets should be recorded in the books of the taxpayer before the 1st of January 2022 at the condition that its revaluated value should not exceed its market value at the revaluation date. This revaluation can be done by any real estate sworn expert (for the properties) and by a certified public accountant affiliated to the LACPA (for the other assets) of the taxpayer’s choice. The revaluation variance resulting from this exceptional revaluation is **subject to 5% tax** and should be paid together with a request for approval from the Ministry of Finance who has the right to refuse this revaluation. If the taxpayer disposes part or all the revaluated fixed assets within a period of 3 years from the revaluation date, this disposal is subject to the 15% capital gain tax on the difference between the selling price and the net book value of the fixed asset before revaluation.

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The taxpayers who fulfilled the conditions set in the paragraph 3 of the article 13 of the Law #64 dated 20 October 2017 (individuals and entities exempted from the income tax or individuals subject to income tax but selling real estate properties that are not part of their professional business), can reevaluate their assets for one time only before the 31st of December 2022. This exceptional revaluation is **subject to 3% tax**, knowing that the capital gain realized by this category of taxpayers on disposal of real estate properties are subject to 15% capital gain tax since the publication of the Law #64, with the exception of their primary and secondary residence and real estate properties held for more than 12 years (8% deduction per year held).

AMNESTY ON TAX ADJUSTMENTS HELD AT THE OBJECTION COMMITTEES

Article 21: An **amnesty equal to 50% of the amounts of the objected tax adjustments** (excluding late declaration and payment penalties) related to income tax and VAT for years up till 2020 held at the objection committee but not yet concluded by the latter as at 31 March 2022. To benefit from such amnesty, the taxpayers should submit a written request to the tax authorities and **pay the discounted amount due** as per this amnesty **within 3 months from the publication date** of this Law (i.e. **before the 15th of February 2023**). The taxpayer is not allowed to benefit from such amnesty on part of the objected tax adjustment. This amnesty covers all points of the objected tax adjustment. The objection committee will stop deliberating on any tax objection covered by this amnesty. The taxpayers who are currently settling their taxes by installments based on the prior similar articles of the previous Budget laws (e.g. article 28 of the 2020 Budget law), can benefit from this article by applying a 50% amnesty on the objected taxes after deducting the settled taxes.

MISCELLANEOUS TAX EXEMPTIONS

Article 26: Industrial and commercial companies incorporated after the publication date of this Law and up to 31 December 2024 and operating in regions the government wishes to develop should benefit from a **total income tax exemption for a period of 7 years** (in addition to a total exemption of construction fees and 50% discount on the registration and annual traffic fees on their vehicles) provided that their invested capital should be at least one million [Fresh] US Dollars and they employ at least 50 Lebanese representing 60% of their total employees.

Article 23 (amendment of the § 1 of section 3 of article 5-bis of the Income Tax Law): **Profit generated from the export of Lebanese manufactured products** by industrial companies will benefit from a **50% discount on the related income tax** if the proceeds of such export are transferred back to bank operating in Lebanon and reinvested in Lebanon or used in total for the purpose of its industrial activity in Lebanon. The tax discount will be raised to 75% for the five years starting from the year of the publication of this Law.

Article 25: Startup companies established within 5 years from the publication date of this Law shall benefit from a **total income tax exemption for a period of 5 years** provided that at least 80% of their employees are Lebanese citizens.

Article 36: Termination compensations paid to dismissed or resigned employees during the period from 1st July 2019 to 30 September 2022 are **exempted from tax on salaries** and are considered as tax deductible expenses to the employer subject to income tax on the basis of actual profits, even if they exceed the ceiling defined by the applicable laws.

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Article 37: Social assistance paid in cash or granted in kind to employees **during the year 2022 are exempted from social security contributions** and are considered as tax deductible expenses to the employer subject to income tax on the basis of actual profits.

Article 38: Salaries of employees who have been permanently disabled as a result of the Beirut port explosion are exempted from tax on salaries.

Article 50: Newly incorporated companies or for which their lifetime has been extended in the commercial or civil register after the publication date of the Law for a period of 3 years are exempted from the fixed stamp duty and from the proportionate stamp duty on the capital and issued shares.

Article 51: Companies and entities are exempted from delay stamp duty penalties due to the non-renewal of their lifetime provided that they settle the stamp duty before 31 December 2022.

Article 72: Solar power equipment or any other clean energy are exempted from VAT, custom duties and the 3% additional duty from the publishing date of this Law till the 31 December 2023.

Article 74: A **customs fee of 10% is imposed for 5 years on imported goods with similar substitutes manufactured in Lebanon** in sufficient quantities for local consumption **and on luxury imported goods**. A joint decision from the Ministries of Finance and Industry and Agriculture shall defines the goods subject to this customs fee.

Article 84: Merging companies can benefit from a full income tax exemption for 3 years starting from the date of the merger assuming that:

- The tax exemption does exceed the aggregate of the merged and merging companies' capital.
- The merging company maintains the employees of both companies for a minimum period of 3 years.
- Both companies have a minimum of 5 employees at the date of the merger.
- Both companies have a minimum of LBP 10 billion in fixed assets at the date of the merger.

The merged company shall be exempted from income tax on the profits generated during the year of the merger. Gains realized as a result of the merger will remain subject to the dividend distribution tax. Banks and financial institutions are excluded from this article.

MODIFICATION OF THE AMOUNTS OF TAX DEDUCTIONS AND PROGRESSIVE TAX BRACKETS

Article 27: Starting from the 1st January 2022, the **family deductions** for tax purposes applied on the deemed or actual profits of taxpayers will be as follows:

- LBP 37,500,000 for any individual taxpayer
- + LBP 12,500,000 for non-working spouse
- + LBP 2,500,000 for each legitimate dependent child (up to 5 children maximum).

Article 28: Taxable income generated by industrial, commercial and non-commercial entities and individuals are subject to the following **amended progressive tax brackets** (tax rates unchanged) starting from the 1st of January 2022 (Amendment of article 32 of the income tax law, amended by the 2019 Budget law #144/2019):

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Annual net taxable income (in LBP)	Tax %
From 0 to 27,000,000	4%
From 27,000,000 to 72,000,000	7%
From 72,000,000 to 162,000,000	12%
From 162,000,000 to 312,000,000	16%
From 312,000,000 to 675,000,000	21%
Above 675,000,000	25%

Article 29 (Amendment of article 43 of the income tax law and its amendments): The non-resident tax, calculated and withheld according to the articles 41 & 42 of the income tax law, should be declared and paid quarterly within 15 days from the end of the quarter.

Article 31 (Amendment of article 49 of the income tax law and its amendments): The gross income should include the total of salaries, wages, allowances, compensations, awards, gratuities, cash and in-kind benefits. In case of reduction of salaries and benefits due to legal justified reason or due to a reduction in the working hours, taxes should be computed and paid on the reduced amount.

Article 33: Salaries, wages and pensions are subject to the following **amended progressive tax brackets** (tax rates unchanged) starting from the 1st of January 2022 (Amendment of article 58 of the income tax law):

Annual net taxable income (in LBP)	Tax %
From 0 to 18,000,000	2%
From 18,000,000 to 45,000,000	4%
From 45,000,000 to 90,000,000	7%
From 90,000,000 to 180,000,000	11%
From 180,000,000 to 360,000,000	15%
From 360,000,000 to 675,000,000	20%
Above 675,000,000	25%

(*) Retirement pension payments are exempted from tax on salaries (Art. 32 of the Law).

Article 34 (Amendment of § 2 of article 59 of the income tax law and its amendments): The **family deduction** out of the basic pay of **daily workers** has been set at **LBP 125,000 per day** irrespective of their family status.

Article 35 (Amendment of section 1 of article 63 of the income tax law and its amendments): The **tax on salaries** that is withheld by the employer and paid in LBP on a quarterly basis to the tax authorities within 15 days from the end of the quarter **should be computed on the basis of the effective value** in which these salaries were paid. The effective value [exchange rate of the foreign currency in which the salaries were paid] shall be **determined by a decision to be issued by the Ministry of Finance** and the Central Bank.

The **MOF decision #687/1** dated 23/11/2022 has defined the effective value of foreign currencies as follows:

- Salaries paid in cash US Dollars are converted to LBP at the Sayrafa exchange rate.
- Salaries paid in USD by check or local transfer are converted to LBP at the BDL Circular 151 rate.
- Salaries paid in other foreign currencies are first converted to USD and then to LBP based on the above

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Article 63 (amendment of article 54 of the Built Property Tax Law): The **brackets of the built property tax** on the annual net income per property have been **amended** as follows starting from the year 2022:

Annual net taxable income (in LBP)	Tax %
From 0 to 120,000,000	4%
From 120,000,000 to 240,000,000	6%
From 240,000,000 to 360,000,000	8%
From 360,000,000 to 600,000,000	11%
Above 600,000,000	14%

Article 62 (amendment of article 52 of the Built Property Tax Law): The amount of the **residency annual exemption** has been increased to **LBP 40 million** starting from the beginning of the year 2022. Each owner or partner can benefit from this annual residency exemption according to his share in two residences only.

Article 59: Inheritance tax brackets have been increased to amounts ranging between LBP 90 million and a maximum of LBP 1,050 million subject to the same inheritance tax rates detailed as follows:

Tax brackets (in LBP)	<u>First category</u> Descendant + spouse	<u>2nd category</u> Father & Mother	<u>3rd category</u> Ascendants other than parents, brothers & sisters	<u>4th category</u> Uncles & aunts + nephews and nieces	Other taxpayers
Up to 90 million	3%	6%	9%	12%	16%
From 90 to 180 million	5%	9%	12%	16%	21%
From 180 to 300 million	7%	12%	16%	21%	27%
From 300 to 600 million	10%	16%	20%	26%	33%
From 600 to 1,050 million	12%	18%	24%	31%	39%
Above 1,050 million	12%	18%	24%	36%	45%

Article 56 (amendment of the § 5 of the article 9 of the Inheritance Tax Law #146/59): The net estate received by the heirs is **exempted from inheritance tax** when it does not exceed:

- LBP 600 million for children, spouse and partner.
- LBP 240 million for grandparents and siblings.
- LBP 120 million for the rest of the heirs.

The following additional exemptions are added to the exemptions of the children:

- LBP 360 million when the child has a permanent disability that prevents him from working.

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- LBP 24 million for each year the child is under 18 years.
- LBP 240 million for each child who has a dependent spouse and LBP 120 million for each child under 18 years provided that the total exemptions doesn't exceed LBP 600 million.

HOLDING & OFFSHORE COMPANIES

Article 41 (Amendment of § e & f of article 6 of the Decree #45/83): The **Holding companies** will be subject to a **lump sum annual tax of LBP 50 million** starting from the 1st of January 2022. In case the Holding company doesn't pay its tax within the deadline for the corporate income tax return, it will be subject to penalties according to the tax procedure law #44/2008 and its amendments.

Article 42 (Amendment of article 7 of the Decree #45/83): In case the Holding company violates its restrictive object according to the article 3 of the Decree #45/83, it will be subject to the income tax applied to corporate companies [17%] on its annual profit generated during the year of infringement in addition to a penalty equal to 50% of the tax due for each year of infringement.

Article 43 & 44 (Amendment of articles 4 & 9 of the Decree #46/83): The **Offshore companies** will be subject to a **lump sum annual tax of LBP 50 million** starting from the 1st of January 2022. In case the Offshore company doesn't pay its tax within the deadline for the corporate income tax return, it will be subject to penalties according to the tax procedure law #44/2008 and its amendments.

Article 45 (Amendment of article 10 of the Decree #46/83): In case the Offshore company violates its restrictive object according to the article 2 of the Decree #46/83, it will be subject to the income tax applied to corporate companies [17%] on its annual profit generated during the year of infringement in addition to a penalty equal to 50% of the tax due for each year of infringement.

OTHER PROVISIONS, TAXES & FEES

Article 39: Capital gain (i.e. difference between the acquisition cost and the selling price) generated by individuals from the **transfer of their shares** in the following joint-stock companies (SAL) are **subject to a tax equal to the transfer and registration fees on real estate properties**:

- 1) Companies whose sole or main object is to own lands or built properties.
- 2) Companies whose main activity is trading real estate properties or real estate development.
- 3) Companies with real estate properties exceeding 50% of their total fixed assets.

A 50% discount on the tax due is applied if the transfer shares is concluded between shareholders or with their direct relatives (lineal ancestors or descendants).

The capital gain generated by individuals in other joint-stock companies (SAL) is exempted from this tax.

Shareholders are allowed to perform an exceptional revaluation of their shares for one time only before the 30 June 2023 to be performed by a certified public accountant affiliated to the LACPA. The revaluation variance is subject to 1% tax.

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The seller has the obligation to declare the transfer of shares transaction and pay the related taxes within a period of two months from the transfer date according to declaration forms to be prepared by the MOF, knowing that both the seller and the buyer are jointly liable to pay the taxes resulting from this transaction.

Article 46 (amendment of the article 20 of the Decree #67/67): The payment of the stamp duty can be made either by affixing the stamp on the contract if the stamp value does not exceed LBP 500,000 (i.e. for contract values of less than LBP 125 million), by stamp printing machines for authorized taxpayers if the value of the stamp does not exceed LBP 500,000 by cash or banker's check at the notary public or the MOF if the amount of the stamp exceeds LBP 500,000 or by other payment forms (including e-stamp) to be defined by the MOF.

Article 49 (amendment of §6 of the article 43 of the Decree #67/67): Taxpayers who have the obligation to issue invoices, receipts, debit and credit notes should settle the related fixed stamp duty on a monthly basis and submit electronically a declaration within 15 days from the end of the month on a format to be defined by the MOF. This article is applicable from the first quarter following the publication date of this Law (i.e. starting from the 1st of January 2023).

Article 52: Some **fixed stamp duty** on invoices and receipts has been increased to **LBP 5,000** for official documents or to **LBP 1,000** on receipts and invoices.

Article 60 (amendment of article 36 of the Built Property Tax Law dated 17/9/1962): The **estimated rental income is estimated as follows:**

- 1) Based on the rental fees defined in the rent agreement provided that it not less than 70% of the amount estimated according to point 3.
- 2) If there is no rental agreement, the estimated rental income is determined based on similar properties with the same rent conditions.
- 3) If it is not comparable, the rental income is estimated according to certain property fundamental criteria (surface, region, quality of the building, etc.) provided that the minimum rental income should not be less than 2.5% of the property value.

Article 61 (amendment of article 47 of the Built Property Tax Law): The built property tax is divided among the property sections starting from the beginning of the year in which the parcellation took place.

Article 71 (amendment of article 59 of the Law #144 - Budget Law 2019): A **fixed 3% duty** is imposed on all **imported goods subject to VAT until 31 December 2023** with the exception of gasoline, raw materials and industrial equipment used in the industrial & agricultural activities, and goods imported for the security forces.

Article 83: Commercial entities and individuals who ceased their activity following the Beirut port explosion can benefit from a full exemption on their income tax for the years 2021, 2022 and 2023 in case they resumed their activity.

Article 87 (cancellation of article 35 of the Law #16 - Budget Law 2020 and replaced by the following): The following should be collected in Lebanese pounds:

- Shares reverting to the Lebanese state.
- Tax and fees.

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- Fees for all type of services provided by the Lebanese state through various type of institutions (owned, managed, financed, partially or fully owned) are collected in Lebanese pounds at a rate determined by the Central Bank.

The following **are excluded** from the provisions of this paragraph:

- Shares and profits reverting to the Lebanese state denominated in foreign currencies (e.g. oil & gas extraction and sale).
- Withholding tax on bank interest as per the account's currency.
- Taxes and fees due on the revenues, interest, proceeds due to the beneficiary in foreign currencies (e.g. income subject to movable capital tax as per Chapter 3 of the Income Tax Law).
- Taxes and fees due on the petroleum right-holders and operators.
- Departure fees for passengers in USD, Consular fees, Airport and port fees.

It is worth noting that the article 19 of the Law (first article of the Chapter 3 on taxes) specifies that wherever it is mentioned "duties and taxes should be collected in US Dollars or in any other foreign currency" in the Law, it shall be cash deposited in a special account that will be opened at the Central Bank of Lebanon (BDL).

Article 92 (amendment of table 2, section 1 - proportional inheritance and registration fees - appendix of the Decree #20/1939 and Decree #148/1959 and their amendments): Disposals of real estate rights via sale are subject to **3% fee for Lebanese citizens** and **5% fees for foreigners** of the right or real estate value.

Article 102 (amendment of article 30 of the Law #44/2008 - Tax Procedure Law): All taxpayers liable to issue invoices or similar documents **must submit electronically the following** to the Ministry of Finance within 15 days from the end of each quarter:

- A statement that includes the invoices. Numbers or similar documents' numbers, their issuance dates and values, and the tax value (if any), in addition to the customer's name and its MOF tax number, excluding individual end consumers with respect to their names and tax numbers.
- A statement of the invoices and similar documents obtained from the suppliers, including the date of its issuance, their values and the tax value (if any), in addition to the supplier's name and tax number.

Moreover, the Ministry of Finance may require from certain categories of taxpayers to issue invoices or similar documents electronically.

Article 107: Penalties related to the State, Municipalities, Municipal Unions, Public Institutions or other public entities (other than penalties governed by special laws, penalties related to public marine properties, construction violation and penalties due to the National Social Security Fund) **are discounted by 85%** provided that the discounted penalties are fully settled before the 30 March 2023 at the latest.

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