

LEGAL 101 FOR STARTUPS



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ABOUSLEIMAN & PARTNERS

SETTING UP A BUSINESS IN LEBANON



- Commercial activities may be exercised in Lebanon:
 1. At an individual level
 2. At a shared level

SARL – LIMITED LIABILITY COMPANY



- Minimum Capital: LBP 5,000,000
- Partners: Minimum of 3 and maximum of 20
All the partners may be foreigners and their names must be mentioned in the Bylaws
- Management: manager(s) designated in the By-Laws or at Partners' Meeting

SARL – TRANSFER OF PARTS



- Free between Partners
- Transfer to Third Parties is subject to the Company's preemptive right, failing which that of the Partners. In any event, approved by the Partners representing at least three-quarters of the capital
- Notarized and subject to a Stamp Duty of 3 per mil
- Social Security Discharge

SARL – AUDITORS /LEGAL COUNSEL



- Auditor: mandatory when (i) the number of partners exceeds 20 (ii) the capital exceeds LBP 30,000,000 or (iii) partners representing 1/5 of the capital require his appointment
- Legal Counsel: Mandatory

SAL – JOINT STOCK COMPANY



- Minimum Capital: LBP 30,000,000
- Shareholders: Minimum 3
- Management: Board of Directors appointed by the Ordinary General Assembly for 3 years maximum
- BOD composition: Minimum 3 and Maximum 12 Majority Lebanese. Must hold at a minimum 1 share
- Chairman-General Manager: appointed by BOD

SAL – TRANSFER OF SHARES



- Transfer of Bearer Shares is free
- By-Laws specify whether the transfer of Registered Shares is free or subject to preemption rights
- Transfer is not subject to notary public or stamp duty

SAL – AUDITOR/LEGAL COUNSEL



- Auditors: mandatory
 - Principal Auditor to be appointed by the Company
 - Additional Auditor appointed by the Court
- Legal Counsel: Mandatory

HOLDING COMPANY (SAL)



- Restricted in object
 - Own shares or parts in Lebanese or foreign companies
 - Lend to companies subject to a minimum share-capital of 20% and guarantee them
 - Manage companies in which it owns shares or parts
 - Own and license industrial property rights
- No nationality requirement for Board Members

OFFSHORE COMPANY (SAL)



- Object limited to transactions outside Lebanon
Examples:
 - Executing contracts related to operations/products concluded/located abroad or within LFZ;
 - Acquiring shares and participations in and granting loans to foreign companies subject to holding a minimum share-capital of 20%;
 - Opening branches and representative offices abroad;
- No nationality requirement for Board Members
- Exempt from retaining a lawyer unless capital > 50 M
- One auditor appointed for 3 years

REGISTRATION OF A MERCHANT



- Request (name, nationality, commercial name, object)
- ID
- Address
- Commercial Circular
- Fees: approx LBP 2,250,000

REGISTRATION OF A BUSINESS CONCERN



- Registration as a merchant is a prerequisite
- Request (name, registration number of the merchant)
- Address
- Social Security Discharge
- Fees: approx LBP 2,350,000

REGISTRATION OF A COMPANY



- Bylaws executed by the Founders
- Certificate of Incorporation
- Request for the opening of a Bank Account
- Bank certificate confirming subscription of founders
- Constitutive General Assembly acknowledging the incorporation and appointing BOD and Auditors
- First BOD electing the CGM and legal counsel.
- Commercial Circular
- Evidence of Address
- Fees: approximately US\$ 2,200

REGISTRATION OF AN SARL



- Similar to SAL.

However:

- No Board of Directors
- Incorporation Costs: Approximately US\$ 1,800

POST-REGISTRATION



- Bank: Transformation of the Founders' account into a Corporate account
- Ministry of Finance: Start of Business (Moubasharat Aamal) must be submitted to the Income Tax Unit within 2 months from the date of registration with the Commercial Registry

CLOSING DOWN A BUSINESS



- Request if merchant or business concern/
Extraordinary General Assembly resolution if
company resolving to liquidate the company and
appointing a liquidator
- Ministry of Finance Discharge
- General Social Security Discharge
- Publication in Official Gazette
- Radiation from Commercial Registry

INCOME TAX



- Territoriality Principle

All persons, companies and establishments which generate amounts of money, revenues or profits as a result of the exercise of a partial or total activity in Lebanon or as a result of the exploitation of rights in Lebanon are subject to Income Tax

CATEGORIES OF INCOME TAX



- Profits of individual enterprises and companies;
- Salaries and wages;
- Income from movable capital (interest, dividends)

INDIVIDUAL ENTERPRISES



- 4% on profit \geq LBP 9 M
- 7% on profit between LBP 9 M and LBP 24 M
- 12% on profit between LBP 24 M and LBP 54 M
- 16% on profit between LBP 54 M and LBP 104 M
- 21% on fraction of profit exceeding LBP 104 M

COMPANIES



- 15% on profits
- 10% on distribution of dividends

N.B: Disposal of shares in SARL are subject to capital gains tax at 10% while sale of shares in SAL companies are exempt

HOLDING



- 6% for capital \leq 50,000,000 LBP
 - 4% for capital \leq 80,000,000 LBP
 - 2% for capital $>$ 80,000,000 LBP
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- 10% on interests generated by loans granted for less than 3 years
 - 5% on Management Fees
 - 10% on gains from transfer of shares and parts made within 2 years
 - 10% on revenues from the license of IP

OFFSHORE



- 1 M LBP per year
- In addition, exempt from other taxes including:
 - Capital gain tax on distribution of dividends
 - Stamp Duty on contracts and documents signed in Lebanon and relating to activities abroad

TAX ON WAGES AND SALARIES



- 2% on net income \leq LBP 6M
- 4% on net income: LBP 6M and LBP 15M
- 7% on net income: LBP 15M and LBP 30M
- 11% on net income: LBP 30M and LBP 60M
- 15% on net income: LBP 60M and LBP 120M
- 20% on net income $>$ LBP 120M

NON RESIDENT TAX



- ✓ Withholding tax of 7.5% for services
- ✓ Withholding tax of 2.25% for commercial and manufacturing activities

VAT



Any person (individual, company, partnership) who makes taxable suppliers (goods and services) inside Lebanon as long as his turnover over 4 consecutive quarters exceeds: 150 M

VAT is at the rate of 10%

LABOR MATTERS



- Definition of an Employee:

Article 624 of the COC defines the employment agreement as an agreement pursuant to which one of the contracting parties undertakes to provide his/her work at the service and under the supervision of the other party in consideration for a remuneration to be paid to him/her by such other party.

LABOR MATTERS *(Continued)*

EMPLOYEE

- Subordination link
- Follow the employer's methodologies and work schedule
- Typically works exclusively for employer

CONSULTANT

- Independent
- Follows his own methodologies and working schedule
- May have various clients

LABOR MATTERS *(Continued)*

EMPLOYEE

- Vicariously binds employer
- Entitled to minimum statutory protections
- Hired for an indefinite period of time, paid at regular intervals
- Work product owned by the employer

CONSULTANT

- Have no authority to bind clients
- Protects interests by contract
- Retained for a project and/or a period of time. Payment linked to deliverables
- Owns work product

FOREIGN WORKER



- Work permit
- Categories of work permit
- Employer work permit v/s employee work permit
- Negative list of Ministry of Labor
- General Police Formalities

SOCIAL SECURITY MATTERS



- Employment triggers NSSF registration
- Registration of employer with the NSSF should be made within 15 days from the date of employment
- Employer must declare to the NSSF any termination of employment within 15 days from the date of termination

SOCIAL SECURITY MATTERS



➤ *Sickness and maternity branch*

- 7% of salary ceiling of **LBP 2,5 M** - employer
- 2% of salary ceiling of **LBP 2,5 M** – employee

➤ *Family Allocation Branch*

6% of salary ceiling of **LBP 1,5 M** – employer

➤ *End of Service Indemnity Branch*

8.5% of salary and other benefits - employer

NSSF BENEFICIARIES



1. Lebanese Citizens

2. Expatriates: work permit is a prerequisite

- If French, Belgian, Italian or British contributions for all the branches must be paid and employees benefit from all these 3 branches
- Citizens of other foreign countries: the employer pays family and medical contributions but no ESI contribution and the employees do not benefit from any of the 3 branches

INTELLECTUAL PROPERTY MATTERS



- Law Governing Commercial and Industrial Property dated January 17, 1924.
- Protection of Literary and Artistic property (Copyrights Law). Law No. 75/99 issued on April 13, 1999
- Patent Law No.240 issued on August 7, 2000
- www.economy.gov.lb

BDL CIRCULAR 331



- Purpose: Incentivize Lebanese commercial banks to invest equity in:
 - startups;
 - incubators or accelerators the object of which is limited to supporting the development, success and growth of startups in Lebanon; and
 - companies whose object is limited to investing venture capital in startups

BDL CIRCULAR 331



- Banks may benefit from interest-free facilities granted for a maximum period of 7 years
- The bank should transfer its shares in the capital of the company within a period not exceeding 7 years
- Beneficiary Company: SAL with registered shares (not a financial company or offshore company)
- The Bank shall invest part of the money obtained from the BDL in the Beneficiary Company and the largest part in Treasury Bills

THANK YOU



Disclaimer:

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