Libya

Tax Guide

2016/17

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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MEMBER FIRM

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BASIC FACTS

Full name:	State of Libya
Capital:	Tripoli
Main languages:	Arabic
Population:	6.2 million (2014 estimate)
Major religion:	Islam
Monetary units:	Libyan Dinar (LYD)
Internet domain:	.ly
Int. dialling code:	+ 218

KEY TAX POINTS

- Companies are subject to corporate tax at a rate of 20% applied to their taxable income and Jehad tax at 4% of taxable income.
- Employment (salaries and wages) tax is calculated on an employee's base salary plus any allowances at a maximum rate of 10%. Other taxes levied on personal income include a Jehad tax at 3% of taxable salary income and Solidarity Fund contribution at 1% of taxable salary income.
- Social security contributions (INAS) are payable by all employees working in Libya whether local or foreign, based on gross income with a total of 15% (3.75% employee contribution, 11.25% employer contribution).
- Capital gains are treated as ordinary business income and taxed at the general corporate income tax rate of 20%.
- Libya does not impose any Value Added Tax (VAT).

A. TAXES PAYABLE

In Libya, there shall be subjected to tax any income resulting in Libya from any assets existing therein, whether material or immaterial or from any activity or work therein. The latest income tax law has been issued on 28th of January, 2010 listed under number (7) of the year 2010. The new laws has come into force as from 28/04/2010, replacing the old Income Tax Law no (11) of 2004.

COMPANY TAX

Incomes resulting in Libya and abroad for the national companies and branches of foreign companies in Libya, whatever the type of their activity or purpose might be, are subjected to corporate tax. The companies shall mean the general companies and the private joint-stock companies. The branches of foreign companies shall mean the aspects of activity and capitals, as performed by the foreign companies in Libya, whatever their organization or legal status may be. Companies are liable to corporate income tax on their profits stemming from any business they carry on in Libya. They are subjected to company tax at rate of corporate tax of 20% of taxable income and Jehad tax at 4% of taxable income.

In some cases where foreign company is not registered in Libya, deemed profit tax based on guessed profit (mostly 20% - 60% of total income) may apply and taxed at the general corporate income tax rate. Likely, deemed profit tax may apply on companies that are not records their books and accounts in accordance with the local regulations.

CAPITAL GAINS TAX

Capital gains are treated as ordinary business income and taxed at the general corporate income tax rate of 20%. Proceeds of sale of any business asset and liquidation proceeds received during the tax period are included in business profit.

BRANCH PROFITS TAX

Branch's income of foreign companies registered in Libya are calculated and taxed on the same basis of corporate income tax.

VALUE ADDED TAX (VAT)

Libya does not impose any VAT.

FRINGE BENEFITS TAX

In general, cash benefits paid to employees are added to their salary and taxed accordingly. There are, however, some exceptions (such as, travel allowances, telephone allowance, fuel allowance and the use of a company car.

LOCAL TAXES

Special tax (Jehad tax) is imposed on wages, companies, duties on certain business activities, and some customs duties. This tax is payable under Law no: 44/1970 and is levied on personal incomes at 3% and corporate profits at 4%.

OTHER TAXES

Certain legal transactions are subject to registration duties. These include:

STAMP DUTY

Stamp duty is due on certain transactions at varying rates as well fixed duties under the Libyan Stamp Duty Law no: (12) of (2004) and its amendment no (8) of (2010). A contract negotiated in Libya must be registered with the Tax Department within 60 days of signing the contract. Contracts are subjected to a 1% Stamp Tax on the value of the contract plus 0.05% on the 1% Stamp Tax.

CUSTOMS AND EXCISE DUTY

Customs, excise and other taxes charged by the Customs and Excise Department.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Generally, expenses incurred wholly and exclusively for the purpose of the business are deductible. However, specific rules apply in respect of certain categories. For example, the general expenses or fees for services or interests or commissions charged by the foreign company to its branch in Libya shall be only considered in the amount deemed necessary for achieving the purposes of the branch, at maximum of (5%) of the administrative expenses approved by the Tax department, provisions and reserves are not permissible deductions for tax purposes.

DEPRECIATION AND AMORTISATION

Depreciation of assets used in business activities must be computed at a maximum annual percentage. For tax purposes, the straight-line method is normally adopted, and depreciation rates shall not exceed the following:

Description	Annual Rate of Depreciation (%)
Buildings with machineries installed on it	3
Other Buildings	2
Passenger Vehicles	20
Trucks	10
Vessels	4
Ferries and fishing boats	4
Aircrafts	8
Furniture for offices, houses, stores	10
Furniture for hotels cafes, restaurants and hospitals	20
Furniture for camps outside cities	20
Office machineries	10
Electric generators	15
Computers and related equipment	20
Computer programs	10
Other machineries	15
Start-up fees (at establishing the company) is normally amortized within the next five years	20

STOCK / INVENTORY

Inventories are mostly valued at cost and calculated on a FIFO basis. However, the method chosen must be applied consistently. Inventory reserves are not permissible deductions for tax purposes.

CAPITAL GAINS AND LOSSES

As mentioned above, capital gains and losses are usually taxable as ordinary income

DIVIDENDS

Dividends received from other companies will be subjected to tax at the tax rate applicable to business income and is considered as "other income in P&L statement".

INTEREST DEDUCTIONS

Interest payable is generally tax deductible on an accruals basis.
However, interest payable on taxes, fines and penalties are not deductible. Also, interest derived from loan finance received from shareholders is not deductible.

LOSSES

Losses of fiscal year may be carried forward up to five years if the Tax Department certify the loss. Losses may not be carried backward.

FOREIGN SOURCE INCOME

Tax authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from local sources. Except, income raised for person as salaries.

TAX INCENTIVES

In 2010, Libyan authority promote Libyan and foreign companies to invest in Libya. The Law no 9/2010 aims at the promotion of national and foreign capital investment, with the purpose of setting up investment projects, within the scope of the state's general policy and the objectives of economic and social development, in order to particularly ensure achievement of the following goals:

- Technically upgrade and qualify Libyan cadres and elevate their efficiency, in order to acquire advanced skills in addition to opening employment opportunities.
- Endeavour to introduce know-how and technology and thereof inserted into the Libyan economy.
- Contribution towards setting up, developing or rehabilitating economic, service and production units, in a manner that assists such units to compete and be introduced into the world markets.
- Achievement of development in the relevant area.
- Increase and diversify income sources.
- Control energy consumption.
- Utilize locally available raw material

The investment project, subject to the provisions of this Law, shall enjoy the main following privileges:

- Exemption of the machinery, equipment and apparatuses necessary for the execution of the project, from all taxes, customs duties, import fees, service charges and other fees and taxes of a similar nature.
- Exemption of the investment project from income tax for any activity, for the first 5 years.
- Exemption of commodities produced for export, from production tax, customs duties and such charges imposed on exports.
- Exemption of stamp duty payable in accordance with the effective legislation.
- Other exemptions are available for certain projects and some nationalities companies.

However, the Executive Regulation of this Law shall decide the conditions and rules necessary for the execution of invested companies.

C. CORPORATE GROUPS

There is no group basis tax option in Libya. Each company has to fill-in its tax returns separately including the holding company.

D. RELATED PARTY TRANSACTIONS

Related party transactions negotiated at arm's length are treated the same as non-related party transactions.

E. EXCHANGE CONTROL

Foreign companies are able to transfer distributable annual net interests and revenues achieved by the foreign capital invested in the project. However, abroad transfer is regulated by the Central Bank of Libya and such an authorisation from the bank is necessary.

F. PERSONAL TAX

Resident and non-resident individuals are subject to tax only on their Libyan salaries (income). Other sourced income (other than registered as a company) is taxed according to its source. Tax on income (personal or partnership) from agriculture is levied at a flat rate 0%; income on commercial activities is 15%; Tax on income from industry and crafts is levied at 10%; tax on income from profession activities is levied at 15%; and income derived from partners share entity is levied at 10%.

SALARIES AND WAGES TAX

The salaries and wages tax is calculated on the base salary plus any allowances and taxed as follows:

1. Allowance: 1,800 L.D for single person, 2,400 L.D for married person, plus, 300 L.D for every child (per annum);
2. Tax rate is calculated after the personal allowance deductions and employee contribution of INAS deductions. The rates are 5% for the first 12,000 L.D per annum, and 10% for the above amount;
3. Other taxes levied on personal incomes are include, Jehad tax at 3% of taxable salary income, and **Solidarity Fund at 1% of** taxable salary income.

SOCIAL SECURITY CONTRIBUTIONS (INAS)

The contributions are payable by all employees working in Libya whether local or foreign, based on gross income with a total of 15% (3.75% employee contribution, 11.25% employer contribution).

G. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Libya has entered into a Double Taxation Agreement with several countries such as: Algeria, Egypt, India, Italy, Kuwait, Malta, Pakistan, Sudan, Saudi Arabia, and Tunisia. Completed but not ratified, or in force, agreements are with Belarus, France, Russia, Syria, Ukraine and the United Kingdom.

Additional agreements are in progress with Austria, Bosnia, Jordan, Germany, Iran, Portugal, Serbia, Slovakia, Spain, and Switzerland.

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