

Libya Corporate Tax Guide 2021

FOREWORD

For any business moving into new markets, a key deciding factor will be the target Country's tax regime.

- What is the corporate tax rate?
- Are there any incentives for Foreword overseas businesses?
- Are there double tax treaties in place?
- How will foreign source income be taxed?

For more than 30 years we have been providing international businesses coming to the Libyan market with the best answers to all these tax questions .by understanding what makes each business succeed, we can provide advice that is not just innovative but practical too.

We believe that the best advice comes about through a close relationship with the people and the business concerned. Our personal, hands-on approach keeps us attuned to the dynamics of our clients' businesses, and to the challenges that they face.

I hope this guide will give you a good idea of the tax in Libya, as we are confident of providing you with the best advice you need to make the right decisions for your business.

Atef Ali Kashada

Managing Partner

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About Atef Kashada & Co

Atef Kashada & Co, formerly known as Ali Kashada & Co, Certified Accountants and Auditors was founded in the 1986, the firm specializes in a wide range of services to international companies wishing to do business in Libya. Since that time, the firm has been providing accounting, auditing, taxation, business consultancy and financial services to meet the needs of foreign branches, joint venture companies, local private and public companies and not- for- profit groups. Having confirmed its reputation for more than 30 years of existence, our firm has distinguished itself for its wide range of services offered with a highest quality Experience and reputation on the national scale have allowed it to gain the confidence of the authorities as well as the foreign investors who continue to entrust us important dossiers. Confidence that every customer gives us is the result of stable relationships developed in the long term and involves an obligation of continuous improvement of our services.

Services provided by our firm include:

- Audit & assurance
- Accountancy and Outsourcing service
- Taxation
- Management Consultancy
- IT Consultancy
- Other Consultancy and corporate service

Our team

Our experience teaches us that the key factor to any project success is the quality of the team, their collective skills, experience and ability to cooperate in effective delivery of results. This results from individual professional qualities of each team member and from the organizational and managerial efficacy.

Our firm located in Tripoli, having a wide experience acquired within Libyan and International entities .Our teams are highly qualified and experienced. They are efficient, friendly and dependable. They understand the needs of our clients and deliver consistently high quality services.

A. Corporate taxation

Corporate income tax:

Libyan companies and foreign branches are subject to tax on their worldwide income. A national company or foreign branch is considered to be resident in Libya if it is registered with the Ministry of Economy. A foreign company that does not register but engages in activities in Libya is deemed to immediately have de facto permanent establishment status in Libya and is subject to tax on its income.

Tax rates:

Corporate income tax is imposed at a flat rate of 20% of profits.

In addition, Jihad Tax is payable at a rate of 4% of profits. Oil companies are subject to a composite rate of 65%, which includes income tax, Jihad Tax and surtax.

Companies established under Law 9/2010 (Investment Law) or Law 7/2003 (Tourism Law) are exempt from corporate taxes for up to 5 years and a possible additional 3 years or 10 years, respectively, as well as from stamp duty and import duties.

Capital gains:

Capital gains are included in ordinary income and are taxed at the regular corporate income tax rate.

Administration:

The financial year is the calendar year, but, on application, the Tax Department may allow a different financial year.

An annual tax return must be filed within one month after approval of the company or branch accounts or four months after the year-end, whichever is earlier.

Consequently, for companies using the calendar year as their financial year, tax returns must be filed by 30 April. Tax is payable in four quarterly installments beginning with the first quarterly due date after the issuance of an assessment. The quarterly due dates are 10 March, 10 June, 10 September and 10 December.

Dividends:

Tax on dividends has been reinstated, but regulations relating to rates and rules of collection have not yet been issued.

Royalties:

Subject to the provisions of double tax treaties, royalties are treated as trading income.

Foreign tax relief:

Libya does not grant any relief for foreign taxes unless a double tax treaty applies.

B. Determination of trading income

Taxable income is based on financial statements prepared in accordance with generally accepted accounting principles (GAAP), subject to certain adjustments. A detailed body of Libyan GAAP has no existence. Business expenses are generally deductible if incurred for business purposes unless specifically disallowed by the tax law.

Basis of assessment:

The Commercial Code (Law 23/2010) requires that a report be issued on the accounts. Tax Law 2010 states that this will be relied on and tax will be assessed on declared profits. Tax audits of accounts will be discretionary.

Notwithstanding the Commercial Code and Tax Law, in practice, tax continues to be assessed on Libyan (Private) and foreign companies (joint stock companies and branches) based on a percentage of turnover.

This is known as the “deemed profit” basis of assessment.

Consequently, tax is payable even if losses are declared. The percentage of deemed profit based on turnover varies according to the type of business activity. These percentages include the following:

Activity	Rate%
Civil works and contracting	10 to 15
Oil service	15 to 25
Design and consulting engineers	25 to 40

Each case is reviewed individually and a percentage is determined within the above broad ranges. After the preliminary final assessments are issued, taxpayers have a period of 45 days in which to negotiate an agreed settlement or to appeal. Thereafter, appeals may be made to the First and Second Appeal Committees, the Court of Appeal and finally the Supreme Court.

The deemed profit percentage applied to any year is higher than the profit percentage declared in the annual tax return, unless the actual profit declared is significantly higher than the deemed rate usually applied.

The deemed profit basis of assessment does not apply to Libyan public companies, which are assessed on an actual basis.

Inventories:

Inventories are valued at cost.

Provisions:

General provisions are not allowed.

Tax depreciation:

Depreciation must be computed using the straight-line method. The following are some of the standard depreciation rates allowed in Libya.

Asset	Rate%
Furniture and tools	15 to 25
Buildings	4 to 10
Passenger cars	20
Computer hardware	25
Computer software	50

Relief for losses:

Generally Losses can be carried forward for five years. However, oil companies can carry forward losses for ten years.

Head office charges:

Head office overhead charges are limited to 5% of allowable general and administrative expenses.

C. Personal taxation

Basis and taxable income:

Libyan Nationals or expatriates working in Libya are taxed on Libya- source income, Withheld from employment or professional income that is including allowances.

Rates and exemptions:

	Rate%
Taxable annual income	
Up to 12,000 LYD	5
Over 12,000 LYD	10
Tax free annual income	
1,800 LYD (for a single person)	
2,400 LYD (for a married person with no children)	
300 LYD (for each child)	
*example:	
Married with 2 children, the exemption is 3,000 LYD.	

Capital gains tax treated as ordinary income and taxed at the standard rate applicable to the taxpayer.

Other special rates apply to certain types of professional income, such as commercial activities 15% and handicrafts 10%.

Administration:

Tax on employment income is withheld and remitted by the employer at the personal tax applicable rate. The due date is 60 days following the end of the month, the failure to comply, is a subject of applying penalty. The penalty starts at 1% for the first month of delay and increases 1% per month thereafter.

D. Other significant taxes

Social Security Contributions:

These contributions are payable by both the employer and the employee.

Contributions	Rate%
Employer	
Foreign company	11.25
Or	
A company with a Libyan participation	10.5
Employee	3.75

***example:**
Social security contributions for a foreign company:
Employer 11.25%
Employee 3.75%

Stamp Duty:

The Stamp Duty Law contains 45 schedules, the most relevant items for companies and branches are the duties to register contracts and subcontracts, customers do not pay invoices unless contracts are registered and duty paid, duty for registration is based on the contract value.

Nature of tax	Rate%
Contracts	1
Subcontract	0.1
Import duties	
Basic rate	5
Vehicles and plant	10
Luxury items	15

E. Foreign-exchange controls

The Libyan currency is the dinar (LYD).

By concession Libyan branches of foreign companies may be paid directly offshore (up to 100%).

Libyan joint stock companies with a foreign shareholding (which may be up to 49%, effective from 2012, previously, up to 65%) may be paid in foreign currency, but the payments must be made into accounts held at Libyan banks.

As a result, no issue exists with respect to the remittance of profits.

F. Tax treaties

Libya has entered into a multilateral tax treaty with the other Maghreb Union countries (Algeria, Mauritania, Morocco and Tunisia). It has also entered into double tax treaties with Egypt, France, India, Malta, Pakistan, Singapore, the Slovak Republic and the United Kingdom.

Libya has signed double tax treaties with many other Asian and European countries, but these treaties have not yet been ratified.

Libya has entered into a treaty of “Friendship and Co-Operation” with Italy.



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