**Libya Tax 2022**

**Libya Direct Tax Compliance**

**INITIAL TAX REGISTRATION**

Libyan law requires that companies formed in Libya must be Libyan controlled.  
Foreign companies operating in Libya tend to operate through a branch or a branch of a subsidiary.  
However, it should be noted that certain business activities are restricted from operating in Libya unless they have a Libyan partner.

Where this is the case, the type of company to be established between the foreign entity and the local partner should take the form of a stock company.

**New Libya Corporate Income Tax - Law No 7 of 2010**

**Return of Income**

**General**

* Tax shall be imposed on the income arising in Libya and abroad for companies and foreign company affiliates, whatever the type of their activity or purpose might be and the income is generated from Libya.  
  Companies mean in this Article the companies governed by the provision of the Libyan Commercial Code.
* Foreign companies affiliates means the aspects of activity and capitals invested by foreign companies in Libya, irrespective of their organisation or legal status.
* Any company securing work in Libya should pay tax in Libya on its income generated from Libya and whether the company is registered or not.

**Tax Compliance Procedures**

* The Libyan Tax Law states that tax declaration must be submitted to the Tax Department within a month after the approval of the balance sheet and in period not exceeding four months of the year following the accounting year.
* The income statement for the Tax Year and the balance sheet as at the end of Tax Year should accompany the Return of Income.
* Tax Law states that the tax year is the 12 months period starting from January to December of each year, but the Tax Director has the right to permit the tax client to change his fiscal year.  
  The Accounting year is required to be same as the Tax Year for Tax declaration purposes.
* Any authorized person may sign the Return.
* The consequence of non-filing of Return is imposition of penalty, which is 1% per month from the tax amount.

**Corporate Tax Assessment**

Companies are assessed to tax in two stages, a preliminary assessment according to the AUDITED accounts submitted by the company and a final assessment according to the opinion of the tax authorities when it examines/ checks the accounts submitted. The company can object against the final assessment to tax committees and courts; there is no right of appeal against the preliminary assessment.

**Preliminary assessment**

The assessment is made in accordance with the Tax Executive Regulations.

**Corporate Tax rate**

Tax is levied on corporate profits at a flat rate of (20%).  
No tax is payable if the company's profit and loss account shows loss.

**Final assessments**

The tax department will raise a final assessment on the profit of the company after adding back disallowed expenditure or, where applicable, on the basis of a deemed level of the profit that will vary according to the company's activities.  
The final assessment is the decision of the Tax Department, by either accepting the declaration of the company or by assessing the profit by applying a certain percentage of the profit.

In practice, Branches of foreign companies (where applicable), which by necessity often incur costs outside Libya, are usually assessed on the basis of their deemed profit.  
The tax department will assess the tax on deemed profit at the following rates:

|  |  |
| --- | --- |
| **Deemed profit as % of Income** | **Business activity** |
| 5%-8% | Importation |
| 15%-20% | Construction |
| 18%-25% | Services |
| 25%-40% | Design- Engineering |

Tax due, whether on a preliminary assessment or final assessment is payable in four equal installments on 10th March, 10th June, 10th September, 10th December of the year following the Tax Year.  
If the taxpayer does not pay one installment in time, the whole tax become due and it has to be paid in total.  
Suppose you submit your declaration on April 20, 2011, then the first installment is due on 10th July 2011, the second installment on 10th September 2012, the third installment on 10th December 2012 and the fourth installment is due on 10th April 2012.

- Losses may be carried forward for relief against future profits up to a maximum of five years subject to Compliance with rules as set out in the tax law.

**Penalties for late payment**

Tax not paid by due date becomes immediately due for payment and is subject to a penalty of 1% per month on the amount due plus collection charges with a maximum of 12%.

**Tax Credit / Refund Procedures**

The company can't claim refund of any excess tax that has been paid after three years from the payment date, however if the company has a right to reclaim the excess, this can be done after some procedures have been performed by the tax authority.  
There is no provision for claiming interest on such refunds.

**Objection - Appeal**

The taxpayer can accept the tax department's assessment or can object. The objection can be made to:

* An arbitration committee
* Court

The taxpayer can straight away approach the court without going first to Arbitration Committee, where the aim of Arbitration Committee is to attempt to reach a settlement between the taxpayer and the tax department.  
In case of objection to the court the taxpayer must pay 20% of the tax in dispute to the Tax Department in advance and this amount is reimbursed if the taxpayer wins the case.

**Jehad Tax on Corporate Profits**

Jehad tax on corporate profit is 4% levied under Jehad Tax Law.  
It is levied in addition to Corporate Income Tax.

**WITHHOLDING TAX COMPLIANCE**

There is no withholding tax other than on wages and salaries in Libya

**Libya Transfer Pricing**

Not applicable in Libya.

**DISTRIBUTION/ REPATRIATION/ EXCHANGE CONTROL COMPLIANCE**

**Libya Repatriation of salaries by foreign nationals**

**Labour Relations**  
**Availability of Labour**  
Libya has a work force of approximately one million, of which 31% work in industry, 27% are involved in services, 24% in government and 18% in agriculture. **Employer/Employee Relations/Unions**  
The employer/employee relationship is defined in the Libyan Labour Law No. 12 of 2010.  
The provisions of the Libyan Labour Law 12 of 2010 deal with all employer/employee relations such as minimum wage, daily and weekly working hours, night shift regulations, dismissals and training schemes.  
Labour law in Libya is fairly comprehensive and specific advice should be sought on the subject.  
All employees are members of their own employee unions, however the relations between the employers and employees generally tend to be trouble free.

**Working Conditions**

Working conditions are defined in the Labour Law 12 / 2010 and the Social Securities Act 1980.

**INAS (SOCIAL INSURANCE or Retirement Fund):**

INAS Social insurance is payable by all employees working in Libya and for employees is a highly ranked priority in the Great Jamahiriya; there are well-functioning state-owned social insurance systems that enjoy a good reputation.  
The legal basis for social insurance is Law No. 13 of 1980, complemented by Law No. 1 of 1991, according to which local and international ventures in Libya are subject to social insurance.  
INAS It is payable on gross income, either weekly or monthly. Gross income in the case of foreign national is expected to include an amount for housing and subsistence.  
INAS contributions must be forwarded to the Social Security Fund by the tenth day of the following month.

Any late payment carries a fine of 5% after 10th day of the subsequent month.  
  
The rates of contribution are:

|  |  |  |
| --- | --- | --- |
|  | **Foreign companies** | **Companies with Libyan participation** |
| Employee | 3.75% | 3.75% |
| Employer | 11.25% | 10.50% |
| Government | - | 0.75% |
| **Total** | **15.00%** | **15.00%** |

**New Libya Salaries and Wages Tax  
Law No 7 of 2010:**

Libyan salaries and wages tax applies to all salaries, wages, bonuses and benefits that arise from employment in Libya.

**Rates of Tax**

The rates of the Salaries and Wages Tax after the personal allowance deductions.  
The rates of the salaries and wages tax after the per personal allowance deductions are: first LD12000 per annum ($9450) - 5%; and over LD12000 ($9450) - 10%.

|  |  |
| --- | --- |
| First L.D. 1,000 / Month | 5% |
| Over L.D. 2,000 / Month | 10% |

The salaries and wages tax is calculated on the base salary plus any allowances.  
Salaries and wages declarations are filed monthly and the tax deducted must be paid to the tax department by the following month.  
The tax department will reconcile the monthly statements to the company's year-end income statement.  
  
According to the new Tax law, personnel allowances have been changed as below

|  |  |
| --- | --- |
| **Annual Allowances Amount** | **Category status** |
| 1,800 | Single person |
| 2,400 | Married couples |
| Plus 300 | For every dependent Child |

**Libya Other Tax Notes:**

There are no local government taxes.  
A company in receipt of an invoice from a contractor should ensure that the invoice has been registered with the Tax Department.  
The company could become liable to the registration tax if this is not paid.  
The company should further ensure the contractor is registered with the Tax Department and should sign the tax certificate periodically.  
The export of goods to Libya is not subject to tax if the supplier's commitments end before Customs clearance and the supplier is not registered in Libya.

**Jehad Tax**

This tax is payable under Law 44 of 1970 and is levied on personal incomes at 3% and corporation profits at 4%.

**Solidarity Fund**

In addition to the above, Solidarity Fund Contributions are payable by deduction from the employees salary at the rate of 1% of gross.

**Double Tax treaties.**

Libya has signed double tax agreements and social security reciprocal agreements with UK, India, Italy, Malta, Pakistan and Tunisia, and added new agreements in 2009 with France, Russia, Belarus and Ukraine.

**GENERAL STATUTORY BUSINESS FRAME WORK**

**6. Audit Requirements and Practices**

**Accounting Records**

All business entities in Libya are required by Libyan the Commercial aw No 23 of 2010 and Tax Law No 7 of 2010 to Audit financial statements and maintain in Arabic a ledger and journal.  
These must bear revenue stamps on each page before use and must be registered at the commercial court.  
If there are any entries on this book they will not be registered.  
It follows that existing books of accounts cannot be registered and transactions prior to registration of the books are disallowed.  
  
Under the letter of the law the books are required to be written up daily, however in reality most companies tend to write up their books on monthly basis from daily transactions' summaries.  
In practice it is found that this is acceptable to the inspector.  
  
The books of account must have entries in Arabic only on pages which have been stamped by the Revenue Department.

The books can be written in other languages, if so desired, on the left-hand pages.  
  
The book has to be kept meticulously, once a page is started no lines should be left out, every entry must be cross-reference and a double entry system must be maintained.  
  
If the book is being written in another language as well as Arabic, it would be advisable that entries should first be made in the foreign language and then translated and transcribed on the right hand pages in Arabic.  
Inconsistencies between the right hand and left hand pages of the book often results in disputes with the Tax Department.  
The tax inspector always requests sight of the statutory books of account.

**Auditors and Audit Requirements**

Financial statements of all Local and foreign companies are required by Law to be audited by qualified auditors annually.

**Accounting Profession**

A number of international auditing and accounting firms operate in Libya through their appointed representatives together with a number of local firms.

**Accounting Principles**

Libyan company law requires that a company maintain proper books of accounts that explain its transactions.  
Financial statements are required to follow the provisions of the Libyan commercial code.  
In practice this means that financial statements are prepared to international norms with some specific variants.  
Thus financial statements would include:

* Directors' report
* Profit and loss account (Income Statement)
* Balance Sheet
* Cash flow statement
* Control committee report
* Notes to the above.

**New Libyan Commercial LAW 23 of 2010**

Libyan Commercial Code shall govern the company if it is registered in Libya.  
The commercial code is group of laws related to the commercial activity in the country and to transportation, contracting, bank accounts, trade marks, etc.  
The commercial code states that foreign companies who establish branches in Libya shall be considered as Libyan companies and subject to Libyan Laws and must be Audited by a Libyan registered certified Auditor and Accountant.

**Foreign Investment & Trade Opportunities**

**Investment Incentives**

Libya is encouraging investment opportunities to foreign firms and making reforms reforms to make the business environment more attractive for foreign investors.  
The government passed the Law No 9 of 2010 on promotion of investment and the Free Trade Act in 1999.  
The Free Trade Act in 1999 includes tax incentives and allows for the transfer of project ownership, the re-export of employed capital, and the hiring of foreign workers, while also creating a specialized agency to promote and supervise the law.  
As for the Free Trade Act, it enables the establishment of offshore free-trade zones in order to enhance exports, revenue, training, and technology in land, water, energy, telecommunications, and manufacturing facilities

* The Government has promulgated Law No. 9 of (2010) to encourage the investment of foreign capital.  
  This Law aims at attracting foreign capital within the country's framework of the general policy and the objectives of economic and social development, particularly to:-
* assist the transfer of modern technology
* build up Libyan technical cadres
* accelerate the diversification of income sources
* encourage the development of national products to infuse these into the internal markets, and
* achieve regional development.

The law is applicable to the investment of foreign capital emanating from foreign sources and from foreign capital owned by Libyan Arab citizens.  
Investment is being targeted in the following areas:-

* Industry
* Health
* Tourism
* Services
* Agriculture
* Any other field specified by a decision of the General People's Committee upon recommendation of the Secretary.

The taxation policy in respect of the projects undertaken within the scope of the Law 9 of 2010 is as follows:

1. The project shall be exempted from income tax for a period of five years from the date of commencement.  
   This period may be extended for an additional period of three years.  
   Losses incurred during the exemption years can be carried forward to the subsequent years.
2. The project shall be exempted from stamp duty specified on commercial writs and documents.

Exemptions mentioned above shall not include the fees relating to services such as port, storage and handling fees.

**Trade Policy**

Libya seeks to strike a balance between the increased pressures for liberalisation of the economy and attracting foreign capital on the one hand and protecting local industry and manufacturing and other national interests on the other.

**Advantages of investment in Libya include:**

1. **A unified system.**
2. **An excellent and substantial network of many commercial seaports & international airports as well as of good roads covering all of the Jamahiriya.**
3. **Regional agreements concluded with African & Arab countries, especially the Arab tariff agreements.**
4. **Extensive supply of competitive workforce and skilled young people.**
5. **Supply of raw material and energy sources, traditional and alternative, such as natural gas.**
6. **Strategic placement of external markets, particularly in the African regions.**

**Repatriation of Capital and Profits**

The investor has the right to re-export his invested capital in the following cases:

* Expiry of the project period
* Liquidation of the project.
* Sale of the project.

Net profits and benefits accrued by the project shall be allowed for transfer annually.

**The Privatization and Investment Board (P.I.B.)**

It processes applications under the incentives package scheme and acts as a liaison between investors and the government.  
The P.I.B. provides full information to promoters that wish to consider investment in Libya.  
Both the Initial inquiries and subsequent applications for the setting up of these projects are processed by the L.F.I.B.