EP7ALEX
AZIZ TORBEY LAW FIRM

DID YOU KNOW?
CORPORATIONS GAIN GROUND OVER STOCK-IN-TRADE AMIDST THE LEBANESE FINANCIAL CRISIS

The advantages of choosing a corporate structure for business activities in Lebanon are firmly established, encompassing a crucial factor: the creation of a distinct legal entity, independent of its owners. This separation translates into several benefits for corporations, including enduring existence beyond the lifespan of any individual owner, enhanced credibility, and more importantly, a limitation of liability granting the owners the ability to allocate a portion of their capital to specific business ventures and safeguarding their other assets from potential liabilities and risks associated with the business.

Yet, individuals lean towards establishing a stock-in-trade (مؤسسة تجارية) for essentially two reasons: the reduced tax liabilities and the ability to engage in commercial activities solely, without the need for a business partner.

However, in a more recent development, the enactment of Lebanese Commercial Law N. 126/2019 has bestowed an additional advantage for corporations compared to stock-in-trade entities. While the prospect for an individual to independently partake in commercial ventures in Lebanon was predominantly linked with sole proprietorships or establishments, Commercial Law N. 126/2019 allowed the establishment of a limited liability company with a sole partner, following a precedent set for Lebanese joint-stock companies conducting operations beyond Lebanon as offshore entities.

Furthermore, in terms of tax liabilities, the ongoing economic crisis has nullified the once compelling reasons for favoring a stock-in-trade. Previously, the flexibility provided by the progressive tax brackets for stock-in-trade structures, allowing them to adjust their tax payments based on their income levels, was a decisive advantage over corporations, the latter being subject to a fixed 17% corporate income tax, and 10% withholding tax on dividend distribution. However, the substantial depreciation of the Lebanese Lira resulting from inflation (current exchange rate: 90,000 LBP for 1 USD), coupled with a lack of efficient and pragmatic legislative reforms to accommodate the current financial challenges, has completely altered the underlying rationale of this system.

In fact, the aforementioned tax brackets for stock-in-trade are currently in Lebanese Lira and do not take into account the value of those brackets in foreign currencies on the parallel market rate applicable when exchanging the national currency.

Consequently, by way of example, under the existing circumstances, when a stock-in-trade generates a net profit over the cap of 675,000,000 LBP annually (i.e., approximately 625 USD per month based on the current black market exchange rate of 90,000 LBP), it should pay taxes at 25%, a level very close to the tax of a limited liability company (17% as corporate tax + 10% on dividends' distribution). This marks the elimination of a fundamental advantage enjoyed by a stock-in-trade.
Hence, the single-partner limited liability company now stands as the optimal legal structure for small businesses in Lebanon, as it ensures the protection of the partner's personal assets, all the while upholding comparable tax obligations to a stock-in-trade.