03

# LEBANON

# The Quest for Social Justice in Lebanon: The need for fair taxation

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## 1. Introduction

Lebanese citizens often complain about the heavy tax burden they face, and they often joke that consuming air will soon be taxed. This popular satire is a very accurate depiction of the tax system in the country. In fact, Lebanon's tax burden is low compared with similar income level and high income level countries, nevertheless its toll is heavy on most citizens. This joke illustrates the favoritism of public policies in imposing taxes on consumption (indirect taxation) rather than incomes. Citizens also criticize the heavy inequality and hardship they feel they endure in the country especially with escalating internal and external economic, social and political crisis. The high incidence of distributive and functional income inequality is often symptomatic of the absence or weakness of redistribution mechanisms in the economy as well as the quality of public service provision. A principle tool for these mechanisms is taxation systems and their contribution to social justice, whether negative or positive. Why do most citizens feel they carry a heavy tax burden? Does the tax regime in Lebanon contribute to social justice? Which economic patterns does the Lebanese tax system serve? Who are the beneficiaries and injured parties of the current tax system?

This paper aims to answer these questions by examining the Lebanese taxation system from the lens of its economic and political functions. In this regard, the mainstream in the analysis of taxation in Lebanon has focused on examining it from a technical perspective while leaving out its structural aspects, in terms of the parties and objectives it serves. This paper adopts a political economy approach analyzing taxation in Lebanon as part of the whole political and economic system governing the country. Therefore, it does not limit itself to examining the shortfalls of the system in terms of efficiency, tax collection, evasion and avoidance but exceeds them to try to understand the rationale behind the current taxation system. To this end, the paper is divided into four sections. It starts with an overview of the political economy in Lebanon in relation to shaping the post-war system. It examines the post-war economic policies and the context in which tax reforms were undertaken. Then, the paper takes a closer look at the different types of taxes in Lebanon and their revenues and tax administration. It presents, in detail, the taxes enforced and their different weights in terms of total tax revenues and their share of GDP in comparison to other contexts. The third section analyses thoroughly the political economy of taxation attempting to depict the raison d'être of the Lebanese taxation system. It attempts to unfold the function of taxes in consolidating relations of power within the Lebanese system. It also shows the toll taxes take on different stakeholders while pinpointing beneficiaries and injured parties. Finally, the paper concludes with ideas on the path towards establishing tax justice in Lebanon placing it in a context of fair, equitable, inclusive and sustainable economic patterns.

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49 I would like to thank Mohammad Zbib, editor of the socio-economic page in Al-Akhbar newspaper for the consultation and valuable thoughts he provided when I discussed the subject with him. I would also like to especially thank my former colleague, dear friend, and fellow researcher Rabih Fakhri for the provoking discussions that stimulated my thoughts throughout the process of writing this paper. Finally, I thank Dr. Roland Riachi for his valuable comments.

## 2. Overview of the Lebanese political economy

**Post-war power-sharing formula: Alliance between warlords and businessmen**

In order to understand the taxation system in Lebanon, a brief account of the main features of the Lebanese political economy in general is necessary. In fact, taxation cannot be fully understood if the power relations in the Lebanese system are left aside, and more specifically, the relations between labor and capital, consumers and suppliers, and particularly how and where wealth is generated in the Lebanese economy. When analyzing the Lebanese political economy, several historical phases can be distinguished, with the Lebanese civil war (1975-1990) marking the most important milestone. Therefore, our analysis throughout the paper will focus on the post-war period, or what is deemed as the reconstruction period in order to narrow the analysis as the scope of the paper doesn't permit to delve into other periods. Nevertheless, it is worth mentioning that the core features of the Lebanese political economy have not radically changed since Lebanon gained its independence in 1943.

The post-war economic landscape was facilitated by two major events. First, the hyperinflation in the 1980s that continued until 1992 as a result of the collapse of the Lebanese pound. In this regard, the economist Ghassan Dibeh asserts that this prolonged hyperinflation was a deliberate policy to massively transfer wealth from workers to the business elite (Dibeh 2015). According to Gaspard (2004), the hyperinflation and currency instability wave that started in 1984 was caused by Lebanese banks speculating against the Lebanese pounds while stacking currencies in American dollars, as well as providing credit for its favored customers in Lebanese Pounds so they can buy US dollars. In sum, from 1984 to 1992, the Lebanese Pound was dramatically devaluated: from 4.5 LBP to one US dollar to reach 1800 LBP to one US dollar in 1992 (Gaspard 2004). Dibeh argues that these speculations led to the evaporation of the middle classes' savings and ushered the way for the control of financial capital over the Lebanese economy. Second, and in the same regard, Fawaz Traboulsi describes the devaluation of the currency in 1992 as a financial coup d'état that paved the way for Rafiq el Hariri to ascend to power as Prime Minister (Traboulsi 2016) . These two developments ushered the beginning of post-war economic system based on reconstruction.

The political agreement that ended the prolonged civil war established a new power sharing formula in the Lebanese republic. Leenders (2004) distinguishes three main factions: traditional leaders (zu'ama), ex-militia men, and the business elite (Leenders 2004). The latter represented a significant change in the Lebanese system as it incorporated a rising business elite spearheaded by the late Prime Minister Rafiq EL-Hariri who had the most significant impact on the Lebanese political economy and economic and fiscal policies. In fact, from 1989 to 2003, the business elite occupied 20 percent of the total core posts in the subsequent ministerial cabinets (Leenders 2004). This period ushered the process of what Traboulsi (2016) calls the "rentier-ing" economy. In this regard, economic and financial elites have forged an alliance with the post-war ruling alliance to reinvent the Lebanese liberal economy, albeit through renewing and innovating wealth accumulation methods.

This has been witnessed in the relation between the political authorities and the "economic committees."[50] This strong relation has manifested itself recurrently where the executive and legislative branches of power are intertwined and blurred with the power of the economic and financial elites. This has taken its most blatant form during the latest waves of public sector servants' strikes (2012-2014) demanding wage adjustment and increase. The latter groups demanded that profit from rents (such as real-estate, bank deposits, etc.) be taxed in order to fund wage increase. The "economic committees" spearheaded the attacks on public servants and school teachers when they deemed the government unable to handle the issue. The increasing power of this elite was clearly expressed by its head who publically stated that "we don't obey, but we are obeyed."[51]

Fawaz Traboulsi (2016) described the above-mentioned alliance as "the oligarchy", i.e. the rule of the minority. This strong alliance has manifested in numerous studies, the latest of which was Dr. Jad Chaaban's mapping of the links between banks and politicians in Lebanon. It revealed that 18 out of the top 20 banks (that control 99 percent of the sector's assets) have major shareholders linked to political elites, and that there is substantial control over the Board of Directors where 15 out of the 20 banks have the chair of the board linked to politicians (Chaaban 2015). This is an indication that bankers are no longer simply allies with the political elite, on the contrary they are now part of it, as they directly take part in the political establishment. It means that many bankers have now assumed the role of ruling politicians and not the other way around. This detail is very crucial for our following analysis as the post-war Lebanese economy revolved around the banking sector, which is heavily under-taxed or quasi-exempted from taxation. In the following passages, we will give a brief outline of the reconstruction economic policies.

**The shaping of a new economic system based on reconstruction**

The post-war period did not present an opportunity to rethink the Lebanese laissez-faire system; on the contrary, its fundamentals remained unchanged. The collapse of the Soviet Union has rendered the Lebanese economic system the actual mainstream (Gaspard 2004, 20). The government's reconstruction plan introduced by PM Rafiq Hariri was outlined in the ambitious "Horizon 2000" program which was based on an expansionary expenditure program and a set of macroeconomic targets, in addition to the commitment to currency stabilization. Gaspard (2004) stated that it was more of a wish list than a solid economic program based on the capacities of the country and taking into account the context in which it was going to operate. The above-mentioned plan was not implemented mainly because it was economically unrealistic, as well as due to the impact of Syrian occupation and rivalries and frictions within the ruling elite. Nevertheless, major reforms and policies were underway and accentuated the rentier character of the Lebanese economy.

50 It regroups the Bank Association, Chamber of Commerce and Industry, business men, association of Beirut traders, syndicate of contractors, and the syndicate of hotel owners.

51 This statement was uttered by the president of the Association of Beirut Traders, Nicolas Chammas, in the context of the strikes of the Trade Union Coordination Committee (TUCC) demanding wage adjustment for public sector workers. The TUCC demanded that the wage adjustment to be financed by taxes on rentier profits, while the government was discussing such proposals, Nicolas Chammas made the mentioned-statement during a TV interview.

The reconstruction economic policies had an initial objective to crowd in private investments through rebuilding and rehabilitating infrastructure. Nevertheless, it resulted in high public debt, as well as crowding out private investments through inflating the banking sector and placing rentier activities at the center of economic growth. This is crucial for our subject and analysis, as the post-war policies doubly penalized productive activities in favor of the untaxable sectors and put in place a regressive redistribution of income and wealth.

In line with its reconstruction efforts, the government necessitated huge expenditures on building infrastructure that were mainly financed through external debt. Nevertheless, debt service was financed by issuing treasury bills, which mainly benefitted Lebanese commercial banks. Treasury bonds with very high interest rates that averaged 18 percent between 1993 and 2002, and reached sometimes the threshold of 40 percent. According the Gaspard (2004, p. 218), these interest rates were excessively above market rates considering the monetary situation in the country. Moreover, the "TB market has in fact been more regulated through an unofficial understanding between the central bank and the major commercial banks than by independent supply and demand forces" (Gaspard 2004). Thus, as Dibeh puts it, the TB auction shielded the market from competition by foreign investors, rendering it a closed club for Lebanese banks (Dibeh 2005). This has resulted in at least USD 8.5 Billion of excess paid by the Government in terms of interest rates on TB. Gaspard asserts that the "government has embarked on a so-called reconstruction program that effectively involved massive financial transfers to the political elite and the banks" (Gaspard, 2004, p.229). On the other hand, the objective of currency stabilization and pegging it to the US dollar was to attract large capital inflows. As a result, bank capital accounts grew from 123 US million in 1990 to more than 7 billion USD in 2008 (Traboulsi 2016). It is worth mentioning that prior to 2003, no taxes were imposed on treasury bills or bank deposits interests.

The reconstruction period also ushered real estate development that culminated in the reconstruction of the Beirut Central District via a publically created private company, Solidere. Two other similar projects were supposed to be implemented in the Northern and Southern suburbs of Beirut, but they never saw the light (Dibeh 2005). The marked growth in the real estate sector was manifested in the increase of built areas between 1993 and 1995 by approximately 129 percent. Nevertheless, its supply was more directed to external demand, including Lebanese living abroad and investors from the Arab Gulf as opposed to internal demand (Abdo, Fakhri and Kobaissy 2017). Moreover, the Central Bank intervened in 1996 by issuing the law 543/1996 that provided banks with tax exemptions on housing loans (Association of Banks in Lebanon 2016). The real-estate and residential sector attracted nearly 70 percent of total foreign direct investments and constituted the major form of investment flowing into the country (Investment Development Authority of Lebanon 2010). This was coupled with monetary flows originating from remittances that also fueled the real-estate market (Abdo, Fakhri and Kobaissy Forthcoming). It is also worth mentioning that profits from real-estate speculations are not taxed. In fact, taxation on this sector is limited to property registration.

**Dismantling productive sectors**

The abovementioned policies led to deepening the historical and structural disadvantage of productive sectors in Lebanon, and more specifically the industrial sector. Gates describes Lebanon as “the merchant republic” (Gates 1998), a term that depicts accurately the balance of power in the Lebanese political economy in favor of the merchant class at the expense of industrialists. This merchant class is further dissected by Fawaz Traboulsi who deemed it as a “merchant financial oligarchy that took over economic power in the independence era” (Traboulsi 1998 ,196) constituted by a consortium of 30 families. They possessed banks, insurance companies, contracting companies, and they monopolized the exclusive agencies that controlled imports. Immediately after the independence, the Lebanese government took measures that favored this merchant who opposed the enactment of any kind of industrial policy. The Lebanese government went forward to liberalize the financial market as well as trade in coherence with its official national ideology of laissez-faire system that was championed at the wake of independence. As a matter of fact, on several instances, merchants went on strikes and forced the government to retract protectionist measures that were intended to support industrialists. Gaspard (2004) contends that this ideology and the power of the merchant class was one of the main reasons that hindered the development of a competitive and productive sectors in Lebanon. Capital inflow was more directed towards financial transactions and commercial activities based on import and intermediation that benefited from monopolistic rents rather than risky, innovative and long-term investments in productive sectors. “The problem in Lebanon’s laissez-faire system is [...] with the low investment rate out of profits or in relation to capital, which reflects the absence of the incentives or appropriate signals that the market is supposed to generate in the first place. For industrialists, there was no compelling reason to invest substantially more risk capital. Using profits more for consumption than investment was the preferred option”. (Gaspard 2004, 131)

This feature of the Lebanese economy was reinvented during the post-civil war period, albeit through increased rents that are not limited to merchant activities, but deepened and extended through real-estate and banking. In this regard, a World Bank study showed that rents generated from monopolies exceed 16 percent of GDP (Dessus and Ghaleb 2006), as well as real-estate transactions nearly doubled between the years 2000 (USD 3 billion) and 2009 (USD 5.3 billion) amounting to nearly 16 percent of the GDP as well (World Bank Group 2012). Moreover, commercial banks are investing around USD 39.8 billion in treasury bonds issued by the Ministry of Finance, as well as investing USD 54400 million as deposits in the central bank. As a result, banks have a yearly profit of USD 6 billion financed by public funds (Zbeeb 2014) . In parallel, the manufacturing sector’s contribution to GDP witnessed a decreasing trend where it contributed to 12.5 percent in 1997 and 8.9 percent in 2010. Overall, the growth rate of the manufacturing sector between 1997 and 2010 has been 1.5 percent whereas average GDP growth was 4 percent. Moreover, between 2004 and 2009, industry was responsible for the loss of 12664 jobs, and its share of job creation was -8 percent (Robalino and Sayed 2012). Indeed, the encouragement and proliferation of rentier untaxed activities such the above generating super-profits have caused the dismantling of the taxed productive sectors and shifted capital from the second to the first.

**Post-war tax reforms**

The post-war political economy of debt and reconstruction was accompanied by a series of tax reforms to secure proper revenues for the government to implement its various plans and policies. The official objectives of the post-war tax reforms were the following: first, simplify tax laws in accordance with the situation of the tax administration in terms of its modest human and technical capacities; second, decrease the tax burden on low-income categories; third, increase tax revenues through reducing the benefits of tax evasion; and finally provide incentives for local and foreign capital to invest in the Lebanese economy (Issa 1998) . Nevertheless, Issa (1998) argues that tax reforms were intended to support the reconstruction plans and their function was to secure public revenues in view of reducing budget deficit as well as contributing in financing reconstruction. The reforms were also meant to attract private sector investments. He goes on arguing that the reforms did not alter the fundamentals of the Lebanese system, but maintained its pre-war characteristics (Issa 1998).

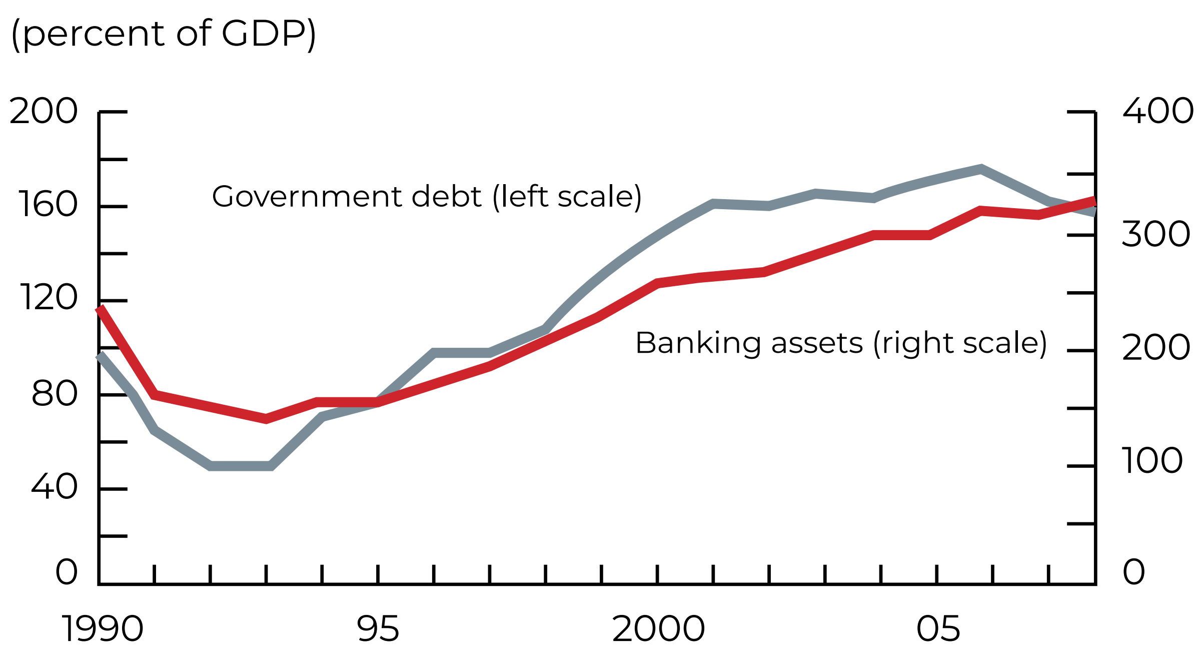
Thus, in line with the abovementioned objectives, several supply side tax reforms were conducted in 1994 mainly targeting direct taxes. The income tax on corporations' profits which reached 50 percent top marginal rate was reduced to a 10 percent flat tax. The profit taxes of individual enterprises ranged between 6 to 50 percent spread over 13 brackets was reduced to 3-10% divided over 4 brackets. Moreover, taxes on movable capital were reduced from 15 percent to 5 percent. Also, built property taxes were reduced from 15 percent top rate to 10 percent. Finally, taxes on wages were also reduced. In fact, prior to 1994, the tax ranged between 2 to 32 percent spread over 13 income brackets was reduced to a range between 2 percent and 10 percent divided over 5 brackets.

Regarding indirect taxation, different budget laws introduced changes that mainly targeted the increase of indirect taxes and custom duties. These included raising tax rates on several items including fuel, government services, and custom duties on the import of cars and several luxury items, as well as public service provision such as electricity, telecommunication and water. Nevertheless, the major reform only came later in 2002 with the introduction of a uniform value added tax (VAT) of 10 percent.

**Table 1. Selected taxes and evolution of rates**

| Type of tax | rate prior to 1994 | Tax reform in 1994 | Tax reform in 1999 |
|---|---|---|---|
| **Corporate profit tax** | 12 brackets from 6 percent to 50 percent | 10 percent flat rate | 15 percent flat rate |
| **Individual enterprises and professionals** | 12 brackets from 6 percent to 50 percent | 4 brackets, between 3 percent to 10 percent | 5 brackets, from 4 percent to 21 percent |
| **Built property tax** | Different types of taxes that amounted to 15 percent | 4 percent to 10 percent. | Minimum tax rate of 0 percent and a maximum rate of 13 percent. It was amended again in 2004, from 4 percent as a minimum tax rate to a maximum rate of 14 percent according to 5 brackets |
| **Movable capital** | From 6 percent to 15 percent | 5 percent on dividends and on income derived from movable capital (excluding interest rates on deposits and treasury bonds) | 10 percent on dividends and on income derived from movable capital (excluding interest rates on deposits and treasury bonds that were introduced in 2003) |
| **Income taxes on wages and salaries** | From 2 percent to 32 percent according to 13 income brackets | From 2 percent to 10 percent according to 5 income brackets | From 2 percent to 20 percent according to 6 income brackets. |

These reforms, specifically those targeting the alleviation of direct tax burdens, aimed at attracting private sector investments. Nevertheless, they fell short of expectations as the different tax exemptions on rentier economic activities and the inflated role of the banking sector only led to capital inflows being concentrated in the forms of bank deposits as well as fueling the real estate sectors. As a result, investment in productive sectors was limited and tax burden reduction failed to foster the increase of tax revenues expected as a result of the increase of the size in taxable economic activities (Issa 1998). On the contrary, the public debt burden significantly increased and pushed the Lebanese government to increase direct taxes again in the 1999 draft budget law and introduce the VAT tax. In fact, studying debt service to tax revenues ratio in 1994 reveals that debt service use 90 percent of tax revenues in 1994 and increased to 126 percent in 1997 (the author's calculation based on the data of the Ministry of Finance between 1992 and 2011). This leads to the conclusion that Lebanese taxpayers financed debt service, and subsequently the creditors, including banks. This can be clearly observed in the chart below where the banking assets strikingly follow the increase in Government debt. Therefore, the present tax system, as well as the incentive systems in the Lebanese economy have been causing a massive transfer of wealth deliberately and unintentionally from productive activities to rent-based activities, and from labor to capital, poor households to well-off households.




Source (Finger and Sdralevich 2009)

## 3. Overview of the Lebanese taxation system

### Typology of taxes [52]

In the first section of this paper, we laid out the political economy context in which taxes in Lebanon have been introduced and reformed. In the following section, a typology of the different taxes in Lebanon will be presented, following the categorization of direct and indirect taxes. Direct taxes which target the direct income of individuals and corporations, are classified under two broad categories: income tax and built property tax. The first is laid out in the legislative decree number 144 issued on 12 June 1959, and the second is detailed in the built property tax issued on 17 September 1962. Both laws were modified on several occasions especially in the post-war period as mentioned above.

<u>Income tax:</u>
a) Tax on income of industrial, commercial and non-commercial professions: applicable to all firms and individuals within this category, i.e. professionals exercising liberal professions such as lawyers and physicians to freelancers. It includes all individuals and legal entities whose profits are realized in Lebanon regardless of their country of residence. It targets the net profits recorded at the end of the financial year for individual professionals, self-employed persons and partners in partnerships. As mentioned before, the tax is progressive and calculated according to 5 income brackets ranging from 4 percent to 21 percent. In sum, this tax targets the profit of individuals rather than corporations as a legal entity who are subject to a flat rate of 15 percent. Corporations include share companies which are joint stock companies, limited liabilities companies and mixed liabilities companies. Moreover, the tax on income for individual professionals, partners and self-employed is deducted after they benefit from family abatements according to the number of dependents in the household. There are several exemptions in this tax that we will address in later sections. Moreover, there exists a re-evaluation tax where the law allows firms to re-evaluate their fixed assets every five years, and in case these assets are re-evaluated at a higher price than their original book values, the re-evaluation surplus is taxed at a flat rate of 10 percent.

b) Tax on wages and salaries: applicable to wages, salaries and compensations. Unlike other income taxes, it does not require that the taxed individual declares his/her earnings as it is paid by the employer and automatically deducted from the individual's wage, it is thus called "the inevasible tax" (Awwad 2002). Moreover, similarly to the tax on income of industrial, commercial and non-commercial professions, the tax is deducted after applying family abatements. Moreover, the employee contributes 2 percent of his/her salary to the health-maternity branch of the national social security fund. The rest (21.5 percent) are paid by the employer divided according to the following: 7 percent to the health-maternity branch, 6 percent to family allowances, and 8.5 percent to end-of-service indemnity. Furthermore, some labor incomes are also exonerated from the tax on wages and salary which we will also examine at a later section.

52 This section is based on the information, laws and decrees retrieved from the website of the Ministry of Finance: http://www.finance.gov.lb/

c) Tax on movable capital: it targets financial instruments issued by public or private entities, specifically capital products such as dividends, interests and arrears. The burden of the tax falls on individuals (associate, employee, and partner) and is paid through the company. The tax is collected from the source and is impersonal, i.e. no information about the taxpayer is required. As specified above, incorporated companies pay a flat rate of 15 percent tax in profit; however if the profit is not invested and is distributed as dividends on partners, these dividends are then subject to the tax on movable capital. It is a flat rate of 10 percent, however interest on bank deposits and treasury bills are taxed at only 5 percent, whereas bank deposits are not taxed. It is worth noting that the 5 percent tax on interest income are deducted from the 15 percent tax on profit of banks as well as Eurobonds and treasury bills in foreign currency are exempted from tax on interest income.

Property tax:
a) Built property tax: it is charged on the stock of the owned property and on the income it generates. The first consists of a flat rate of 4 percent on the value of the property, and the second is progressive ranging from 4 percent to 14 percent according to 5 income brackets. The second type of tax is charged when the property is rented or invested, and the property includes the main building and all its supplements as detailed in the law issued in 1962. The tax is not applied when the property is vacant either by its owner or by absence of a tenant.

b) Taxes on the transfer of property: It is applied on the net value of the share of heirs when the movable or immovable property is transferred through inheritance, testacy, gifts, or other methods. The tax is progressive according to 6 brackets and there are varying rates according the degree of relationship between the inheritor and the legator.

Other direct taxes:
a) Reevaluation fee on the appreciation of the value of property as a result of public works. It is applied in case public works lead to the increase in the property value. Nevertheless it does not apply if public works consist of drainage systems and sidewalks. The fee is levied only if the size of the appreciation of the property is at least five times the monthly minimum wage, and it ranges between 10 percent and 40 percent on a proportional basis and not a progressive one.

b) Tax on lottery prizes: a tax of 10 percent is levied on gains in wealth as a result of winning lottery when the prize exceeds five times the lottery price.

Indirect taxes: they are generally taxes that target consumption and they do not differentiate between the tax payers, i.e. all consumers pay the tax regardless of their income or social situation. Indirect taxes in Lebanon have constituted the biggest share of tax revenues since independence. Nevertheless, their share has increased in the post-war period, especially since the adoption of VAT in 2002. Indirect taxes are easy to collect and harder to evade.

a) Value Added Tax (VAT): It is a general consumption tax levied on the value added on imported or local goods and services with some exemptions that include among other things basic food items, education, as well as some luxury items that we will address in a later section. The VAT in Lebanon, unlike many other countries, is a unified flat rate of 10 percent that is transferred to the consumer. It is applied on all levels of the product value chain, therefore it is easily collected regardless of whether the product was consumed or not. It was introduced in parallel with the reduction of custom duties and the increased liberalization of trade as Lebanon was negotiating the accession to the World Trade Organization. This tax is viewed as regressive as it does not differentiate between consumers income levels which has been attenuated with the exemption of items that constitute a significant chunk of the consumption of low-income households such as basic food items as specified above. Since its introduction in 2002, the VAT has been the most significant contributor to government revenues.

b) Custom duties: they are taxes imposed on imports and they can take different forms. There is a proportional taxation applied on the percentage value of imported goods. More than 84 percent of custom tariff lines have duties equal to 0 or 5 percent which is one of the lowest in the region (Dessus and Ghaleb 2006). Also, there is a qualitative tax imposed on the number of units imported, their weight or volume and not on their prices or values. Finally, there is the hybrid taxation which is a mix of the proportional tax and the qualitative tax (Awwad 2002). Moreover, Lebanon is engaged in several trade agreements whether bilateral or multilateral giving special treatments and exemptions on certain imported goods or in order to avoid double taxation of goods.

c) Stamp fees: There are two types, fixed or proportional. The first one is imposed on accords, conventions, certificates, permits, etc. The second one is applied on dealings with specific amount of money with different rates according to their nature. This range between 3 percent to receipts that proves the payment of insurance from the transportation department to 10 percent on the value of each lottery ticket.

d) Registration fees: are applied on all methods of transfer of ownership and are either fixed or proportional.

e) Tax on alcoholic and non-alcoholic drinks: it is levied on all beverages whether imported or locally produced. It is a flat rate according to the kind of beverage and per liter. Nevertheless, taxes on alcoholic beverages are higher than others.

f) Amusement tax: There are two kind of taxes, the first one is a 5 percent of the cost incurred by the consumer buying a ticket for cinema, theater, cirque, clubs, etc, and 40 percent of revenues of gambling in Casino du Liban. It is usually transferred to the consumer. The second one is a fee imposed on the possession of an amusement machine such as billiard table, video games, etc.

g) Fees on revenues of food, drinks and residence: a 5 percent flat tax on restaurants, hotels and furnished apartments. They are also transferred to the consumers.

h) Fee on fuel: it is a flat fee imposed on the importers of fuel and other oil products. It varies according to the decision of the Ministry of Energy and Water and it is immediately transferred to the consumer.

i) Fees on tobacco: imposed on imported tobacco.

j) Fees on mobile phones: fees on mobile network operators imposed by the Lebanese government. These fees are ultimately transferred to the consumers. It is estimated that nearly 65 percent of the revenues of this sector constitute tax or quasi-tax components (أبــو زكي 2010).

k) Landline fees: landline subscribers in Lebanon pay a monthly fee that does not include any service and it amounts to nearly 10 USD per month.

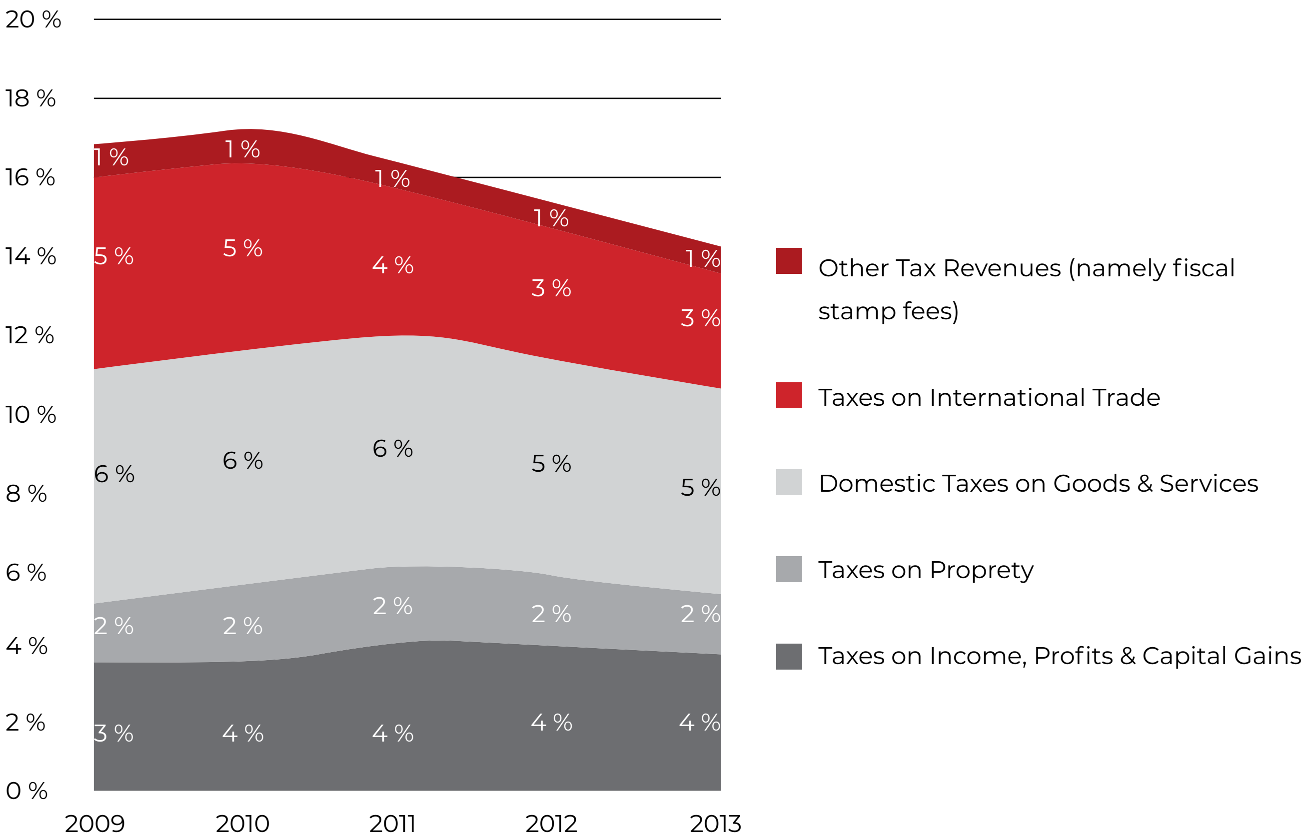
l) Dues on vehicles: yearly paid by the vehicle owner depending on the specifications and characteristics of the vehicles.

**Tax structure to GDP**[53]

The Lebanese tax revenues represented 14 percent of GDP in 2013, with an average of 16 percent between 2009 and 2013. The tax revenues and tax structure are relatively stable, nevertheless their share of GDP has declined from 17 percent in 2009 to 14 percent in 2013. As it can be observed in the chart below, this decrease is mainly due to the decline in the share of taxes on international trade since 2009. This can be attributed to the regional political situation, mainly the Syrian conflict and its spillover to Lebanon and its probable effect on international trade.

53 Unless stated otherwise, the numbers presented are based on the author's calculations based on national accounts data and the tax revenues data from the Ministry of Finance.

Chart 1. Share of taxes to GDP




Compared with the Middle-East and North Africa region, Lebanon is above the average, which is 9.4 percent and its tax revenues as share of GDP are considerably higher than most countries in the region. Nevertheless, if we compare according to economic similarities, we can conclude that Lebanon's performance falls short. In fact, Lebanon is faring above most countries in the region due to the fact that most countries presented are resource-rich countries and revenues are in majority derived from the extraction of resources. In this regard, a comparison with Tunisia, Morocco and Palestine, we observe that Lebanon falls below the average of these countries. Nevertheless, while Lebanon falls within the average tax share to GDP for low income countries (13 percent), it falls short in terms of the averages of upper middle-income countries (20 percent).

Tax revenues as a share of GDP in Arab countries (Büsser 2014)

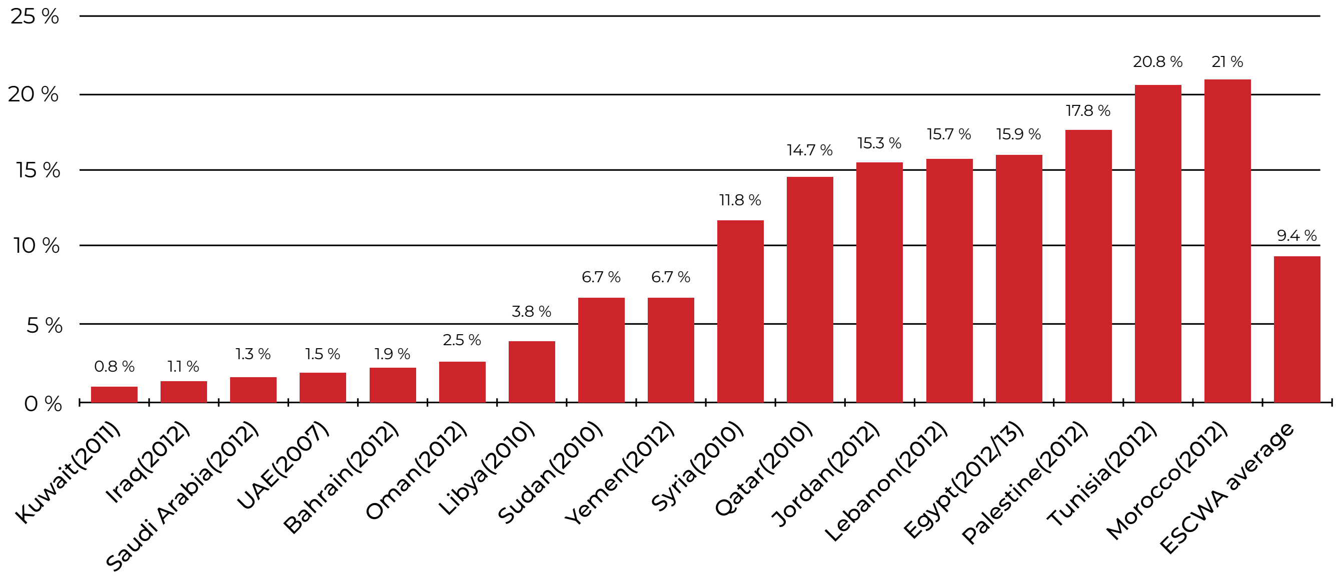
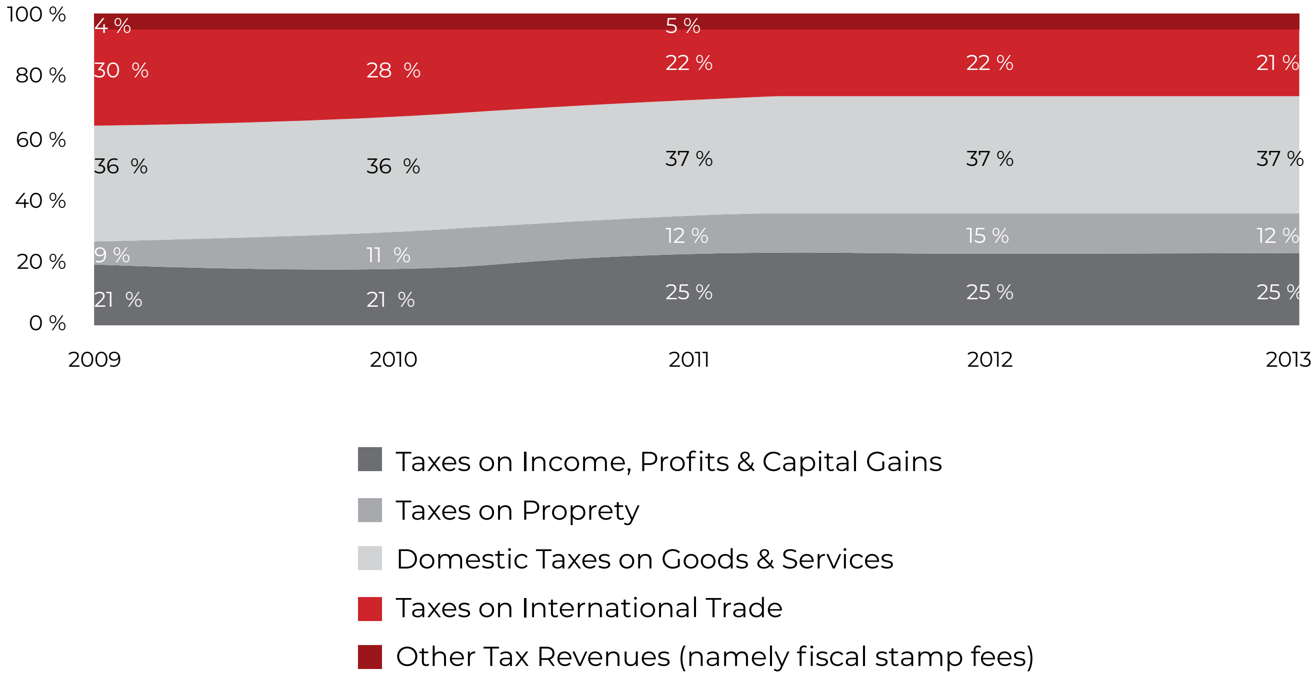


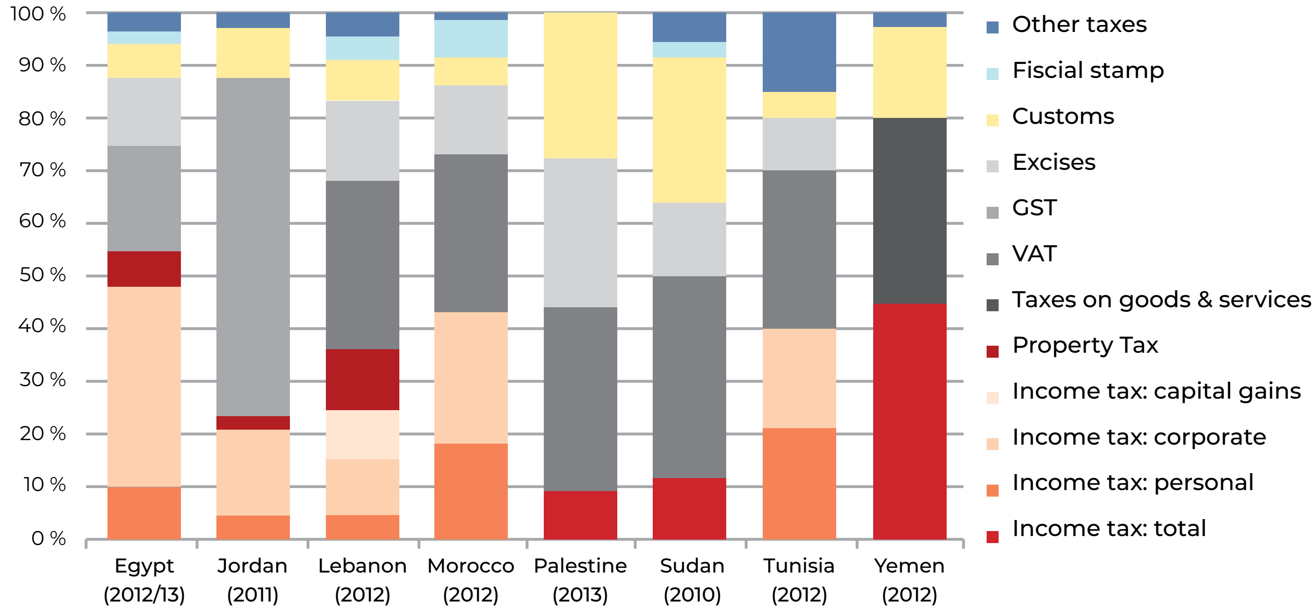

Chart 3. Share of different taxes to total tax revenue



As shown in Chart 3, the Lebanese tax revenues are highly dependent on indirect taxes which constituted 70 percent of total revenues in 2009, and they averaged 65 percent between 2009 and 2013. Once again, a simple comparison between Lebanon and other Arab countries shows that it has one of the lowest share of income tax relative to total tax revenues. As previously mentioned, the tax structure in Lebanon has not significantly changed since its independence, particularly in its reliance on indirect taxation. In the 1960s, the share of indirect taxes from the total tax revenues were 62.2 percent and increased to 77.4 percent in 1974. Moreover, a closer look at the composition of the tax on income, profits and capital gains, reveals that taxes on wages and salaries constitute on average 20 percent of the revenues of the income tax, whereas income taxes on profit constitute on average 40 percent and taxes on interest income and dividends represent nearly 38 percent on average.

A first look might give the impression that capital is heavily taxed relatively to labor that is least contributing to tax revenues. Nevertheless, a thorough analysis will reveal the contrary where taxes on wages and salaries mainly target middle income and lower income populations who have less possibilities to evade taxes than higher-income earners. Therefore, the bulk of the taxes on wages is finance by middle and lower income wage earners (Assouad 2015). In fact, in developed countries, revenues from personal income tax can reach four times the revenues from corporate income tax, while this relation is reversed in developing countries. In Lebanon, corporate income tax revenues are 2.3 times the personal income tax (Büsser 2014), which can be traced to several factors, such as the high prevalence of informality, ineffective tax administration, as well as the political economy of taxation that we will tackle later. This is not to say taxes on businesses are high, on the contrary, as Gaspard asserts, “the low tax burden on businesses is largely due to the standard and tolerated practice of parallel bookkeeping and systematic tax evasion” (Gaspard 2004). Furthermore, taxes on corporate profit “can be more easily transferred down the ladder to consumers and workers” (A. Bogliaccini and Luna 2016).

Composition of tax revenues in selected ESCWA member states (Büsser 2014)




**Tax administration**[54]

Since 2000, many reforms have been introduced by the Ministry of Finance to enhance tax coverage, collection and administration. The only official document pertaining to these reforms was published in 2008 by the Ministry of Finance, one year after being awarded the United Nations Award for Public Service; no other official document was published since then. These reforms can be divided into two categories: legislative and procedural/administrative. On the legislative front, the major reform seen was the introduction of the value added tax in 2002 that significantly enhanced tax collection and revenues due to its simplicity as mentioned above. The government also planned to increase VAT to 12 percent however this reform never saw light due to popular contestation as well as intra-government and political disputes. Moreover, the tax procedure code was issued in 2008 addressing tax evasion, general administrative principles, unification of tax procedure implementation, definition of taxpayers' rights and obligations as well as tax administration's rights and obligations. The Ministry of Finance also drafted a Global Income Tax Law that was adopted by the Council of Ministers in 2007. This law is supposed to rectify many income tax deficiencies in Lebanon, mainly unifying income tax. This tax is levied on all incomes generated by individuals from business profits, wages, salaries, commissions, pension, and revenues from built property. In sum, it includes all incomes, except those resulting from movable capital. Nevertheless, the draft law is still in the parliament and was never voted on.

54 The first two paragraphs of this section are based on the report of the Ministry of Finance entitled "reforms at the Ministry of Finance" (Ministry of Finance 2008).

On the administrative front, several reforms were undertaken the most important of which pertained to electronic taxation and the creation of new units within the Ministry of Finance. A system has been put in place to enable tax payers to file and process their tax transactions online, in parallel with updating and renovating the ministry's web portal. Moreover, tax declaration forms became available for online download. On the other hand, several units within the Ministry were created to constantly update the taxpayers' database and to increase revenues from domestic taxes. These units include the Large Taxpayer Office dealing with taxpayers whose turnover exceeds LBP 10 billion as well as finance and insurance companies; they also include the tax roll unit to manage and update taxpayers' database.

Despite these measures, tax administration and collection in Lebanon still lag behind in terms of coverage and transparency. In fact, there are no official estimates on the incidence of evasion or non-collection of taxes. However, unofficial estimates suggest that only 30 percent of taxpayers by law are paying taxes (Fadlallah 2008). This is due to three main causes: the high incidence of informality in terms of employee registration or business registration (see the following section), tax evasion and avoidance due to legal loopholes or political connection, and corruption. The Lebanese income tax law, due to the absence of the global income tax law, presents loopholes in order to avoid the payment of taxes or to decrease the incidence of tax. For example, "under the Lebanese profit tax, taxpayers have the possibility to avoid paying by choosing the regime by which they will be taxed, or by manipulating the legal forms of their company. Consequently, some taxpayers may shift their income from the personal to the corporate tax base, or create "fictitious" uni-personal firms to decrease their tax liabilities, thus reducing the reported income for a given actual personal income" (Assouad 2015). Moreover, several reports indicated the high incidence of corruption in tax collection, mainly the collusion between the tax inspectors and taxpayers. The Lebanese Transparency Association asserts that "all [tax] reforms remain without result if the state did not activate supervisory authorities on its employees who benefit from this weakness and use their administrative experience to manipulate the law and exempt taxpayers from paying what is due by law in return of personal favors. Some public sector employees look away from some companies' tax evasion practices" (Lebanese Translarency Association 2014). Finally, bank secrecy laws play a crucial role in tax evasion practices in Lebanon, through offshore companies and holdings who are exempted from income taxes. These companies make profits abroad in tax havens and transfer them to bank accounts in Lebanon that are also exempted from taxes. In this regard, Lebanon had an index secrecy score of 81 in the year 2011, knowing that the maximum score is 100 which makes it one of the most secretive countries in terms of jurisdictions (Tax Justice Network 2012). In sum, "Lebanon combines its secrecy offering with significant tax exemptions for nonresidents, including on profits, on stamp duties on contracts, inheritance taxes, corporate income taxes, dividend distributions, capital gains, interest, and more. The combination of tax exemptions and secrecy offerings make Lebanon a 'classic' tax haven or secrecy jurisdiction, rather narrowly focused, with relatively few financial sector alternatives to fall back on if it were to row back on secrecy. This relative lack of alternatives will make reform of the sector quite hard, not least because of path dependence issues; offshore bankers do not have many skills that can be readily transferred to other, more productive, occupations." (Tax Justice Network 2015)

## 4. Political economy of taxation in Lebanon

The prevalent analysis that is widely adopted when examining the Lebanese taxation system and structure has excessively focused on two approaches: the economic approach and the administrative approach, which have significantly influenced tax policy and reform in the post-war period. According to Di John (2006), the economic approach revolved around ways to design tax systems that enable "financing the 'necessary' level of public spending in the most efficient and equitable way" ( Di John 2006). This approach focuses on how to balance between equity and efficiency, and more specifically worry about the perceived tension between the two. It analyzes the effect of profit taxation on investment, the effect of taxes on evasion and how to design systems that reduce the costs of compliance, and how different groups are affected. Moreover, it views the differences of tax structures between developed and developing economies based on the difference of economic structures. In this regard, for instance, the prevalence of indirect taxation in developing countries can be deemed more efficient due to the spread of the informal economy as opposed to developed economies where formality is the norm and thus the possibility of imposing a higher direct tax burden. Thus, we can deduce that this approach has contributed to taxation policies and reforms in Lebanon. More specifically, the decrease in top marginal income tax rates was meant to attract capital, also it was meant to increase compliance and as a result increasing tax revenues through lesser rates. Moreover, the introduction of VAT was meant to overcome the issue of taxing unregistered businesses and informal employment, as well as increase revenue for public spending and debt service.

On the other hand, "the administrative approach focuses on the role institutional design and policy plays in enhancing the prospects of efficiency and effectiveness of the tax system. Efficiency refers to administrative costs in collecting different types of taxes, enforcing tax laws, and the costs of tax payers in complying with those laws. Effectiveness refers to the extent to which taxes are predictable, transparent, and enforced by a fair judicial system" ( Di John 2006). This approach suggests that the main constraints to tax collection are institutional in the administrative meaning of the term. Thus, the poor tax collection performance in developing countries is traced back to inefficient administration, corruption, lack of skills and knowledge of public sector workers, lack of capacities and necessary technology, and poor tax and penalty enforcement on tax payers. From this point, enhancing tax performance lies in circumventing these administrative difficulties through the simplification of tax rates and tax reporting. This attenuates the effect of corruption through creating independent tax collection administrations, and providing technical support among other means. This approach has also influenced tax policy in Lebanon and the interventions and cooperation of international governmental agencies, such as UNDP, the IMF and the World Bank, with the Lebanese government. The introduction of VAT as well as the other administrative reforms cited in the previous section, is a striking translation of the administrative rationale. The main cited advantage of the value added tax is its simplicity in terms of reporting and collection and it has been praised for the increased tax revenues since its introduction as well as its coverage.

Moreover, the reforms and policies that introduced electronic taxation and facilitating tax reporting as well as the introduction of information systems to update and maintain tax database are all manifestations of this approach. Another policy implication resides in the creation of independent and parallel institutions that are claimed to be technocratic and insulated from public sector corruption. As noted by the report of the Ministry of Finance, “the VAT organizational structure was ratified by law # 691 on August 27, 2005, establishing an independent directorate in charge of managing VAT, and thus enabling this directorate to appoint the needed heads of departments” (Ministry of Finance 2008). Furthermore, the ongoing United Nations Program for Development (UNDP) support for the Ministry of Finance has raised concerns of some critics deeming it a parallel unaccountable institution dealing with sovereign issues, notably taxes and public finance in general. Indeed, UNDP officials working at the Ministry of Finance are not appointed through the regular official means and channels, notably the civil service council, which public servants go through and is not under the jurisdiction of public supervisory bodies (Al-Akhbar Newspaper 2010) .

The above-mentioned approaches rendered issues of the taxation system and structure in Lebanon technical matters and decontextualized from its wider structural environment. As noted in the previous section, there are efforts to enhance taxation in Lebanon, but the issue of taxation in Lebanon cannot be dealt with in isolation from the prevailing political economy and structures of power in Lebanon. This approach, as stated by Di John, views “the diversity of patterns of taxation and resource mobilization among states is clearly a product of history. A brief look at the history of today’s developed countries demonstrates why an assessment of taxation, good governance and institutional formation needs to incorporate an understanding of processes of conflict and bargaining” (Di John 2006). Thus, without neglecting the importance economic and administrative approaches, the political economy perspective offers insights that can significantly contribute to the understanding of taxation in Lebanon. From this standpoint, we contend that fundamental questions in this matter do not reside in asking how we can reach a more efficient and equitable taxation systems in Lebanon, but instead we ought to ask: what are the power dynamics that are producing and reproducing the current taxation system? Who are the beneficiaries and who are the losers? These questions will be tackled by conducting a more thorough analysis of the different taxation schemes and their progressiveness or regressiveness, as well as the sectors affected. In this regard, we believe that the tax exonerations can be equally revealing, if not more, as the imposed taxes themselves.

**Regressive income taxation**

In order to try to answer the abovementioned questions, we will start by assessing the personal income tax, which is the direct tax paid by individual tax payers on their different sources of income and more specifically those on wages and taxes on profit for individuals and partners. As stated earlier, Lebanon does not have a global income tax regime, i.e. there exists different regimes for the different incomes earned by individuals. This leaves room for manipulation of the tax law in order to either find loopholes to legally avoid tax through the use of exemptions, or juggle between different regimes to pay the lesser amount of tax. For example, the establishment of a joint-liability company where the partners are stock-holders in a joint-stock company. Thus, the relationship between the two would be as follows: the first company distributes the products of the second. In this way it transfers the gains from the joint-stock company (taxed 15 percent on profit and 10 percent on distribution of dividends) to the partners of the joint liability company (taxed according to income brackets starting at 4 percent) on the account that its profits are considered to belong to each partner according to their share who is responsible for declaration (National Network to Combat Bribery - Lebanon 2010) . These kind of practices are more common within high income earners as they have the capacities and possibilities exercise such manipulations and exploit these loopholes. In fact, high income earners possess two advantages over other groups. First, their income is more diversified between wages, rents, self-employment and business income. Assouad (2015) conducted a thorough analysis of personal income tax based on official data released by the Ministry of Finance and the World Bank covering the period 2005-2012. The data comprises 502,000 tax files in 2005 and increases to 686,000 tax files in 2015, and reveals information on the total annual income before tax, and income after tax on wage, business and self-employment (it excludes taxes on movable income and rents). Assouad found that as income increases, its sources are more diversified and more specifically it depends less on wages and more on rents. Thus, in 2012, wages constituted 70.4 percent of income of those who earned USD 13,532 a year, rents constituted 16.3 percent, self-employment constituted 8.7 percent, partnership constituted 2.4 percent, whereas wage, rents, partnership and self-employment constituted 41.2 percent, 40.4 percent, 5 percent and 10.3 percent of those who have an income above USD 144, 610. Those are the reported shares which might be under-estimated especially for categories other than wage due to non-reporting (Assouad 2015). These numbers indicate the diversification of sources of income as we move up income groups which might give them more leeway to pay lesser taxes according to different regimes. Moreover, these different categories of income, except for wage, are based on filing tax returns, meaning that the concerned individual is supposed to declare, where there is room for evasion and corruption. On the other, hand wage earners tax is deducted from the source where the employer declares the salary of his employees. “As wages received are reported by employers, who generally do not have interest in underestimating the amounts, it is more difficult for workers to avoid paying taxes. Besides, the fiscal reforms undertaken in the 2000s (creation of a service of online declaration, creation of a separate unit within the revenue administration for the Deduction at Source of the Income Tax on Salaries in 2003, with the goal of automating operations of deduction at source), which aimed at increasing the number of taxpayers and at facilitating the management of tax illegalities, may have mainly affected low or middle-income taxpayers, and workers in particular” (Assouad 2015).

Decomposition of Top Income Shares by Source of Income, Lebanon, 2012 (Assouad 2015).

| Income group | Wages | Rents | Self-employment | Corporations | Partners |
|---|---|---|---|---|---|
| **Above USD 13,532** | 70.4 | 16.3 | 8.7 | 2.1 | 2.4 |
| **Above USD 41,194** | 60.3 | 23.8 | 9.8 | 2.7 | 3.4 |
| **Above USD 61,426** | 54.5 | 28.5 | 10.2 | 2.9 | 3.9 |
| **Above USD 144,610** | 41.2 | 40.4 | 10.3 | 3.1 | 5 |
| **Above USD 209,619** | 37.4 | 45.5 | 9 | 3 | 5.1 |
| **Above USD 567,828** | 32.5 | 55.6 | 4.4 | 2.3 | 5.3 |

On the other hand, and stemming from the first factor, high income earners have the capacities to evade due to their economic, social and political status. They have the means to hire accountants and lawyers, also they are more likely to be connected to circles of power. This once again refers us back to the Lebanese political economy, where, as mentioned above, economic and business elites are intertwined and often confused with political elites in what was deemed as an oligarchy where relations of favoritism are prevalent. This translates into looking away from under-reporting and protection of tax evaders. It was manifested in several occasions particularly through the legalization of tax irregularities. In 2006, the Government exempted employers who were not paying their National Social Security Funds contributions from penalty fees on their delays, also the Ministry of Finance and the Council of Ministers regularly make decisions to exempt companies from paying their due fees on violations of tax reporting and delay in tax payments. This results in exempting large tax payers from significant funds that should be paid to the treasury (Annahar Newspaper 2015) . In 2016, the Minister of Finance sent a request to the Council of Ministers to exempt 14 companies (including banks and real-estate companies) from penalties on their late tax payments and violations that amounted USD 105 Million (Al-Akhbar Newspaper 2016) .

These are few examples that demonstrate the disadvantaged position of low income earners relatively to high-income earners with regards to the tax burden. Furthermore, the various sources of income for top groups are either not subject to tax or its burden is very low compared with the income generated. This is further aggravated due to bank secrecy laws that prevent access to information of well-off tax payers. Indeed, from 2005 to 2012 there has been an increase in tax revenues mainly as a result of an increase in taxing wages: wage earners represented 53 percent of tax payers in 2005 and 61 percent in 2012, at a time where the share of other tax payers have decreased, such as rents that decreased from 34 percent to 29 percent, and from 2005 to 2013 the tax revenues from wages and salaries increased by 216 percent whereas taxes on profit for the same period increased by 138 percent (Assouad 2015). Finally, the increased burden on wage earners is manifested through the increased inflation coupled with wage freezing as it is estimated that between 1996 and 2012 inflation reached 100 percent in the absence of wage increase and adjustment (Ariss 2012).

As previously mentioned, the Lebanese personal income tax on wages and salaries and on individual businesses, professionals and partners is structured progressively into different brackets. In this regard, Pickettey and Saez (2007) define a progressive tax system according to the following “a tax system can be defined as progressive if after-tax income is more equally distributed than before-tax income, and regressive if after-tax income is less equally distributed than before-tax income” (Piketty and Saez 2006). Assouad tested the progressivity of the Lebanese personal income tax according to the aforementioned definition through computing before and after tax incomes for the income groups defined above. The results show that the more we move up in income groups the less we see a difference in pre and post income tax, and for the top income groups the difference is almost non-existent. In this regard, the top groups have only seen their income decrease by 0.1 percent after the deduction of the personal income tax. This insignificance of the effect personal income tax reveals that the intended progressivity of the tax is not effective, on the contrary it can be deduced that the personal income tax is borderline regressive as it does not reduce the income of top groups while it reduces it for other groups, thus its re-distributional objective is not actualized. This is due to several reasons some of which has been outlined above, notably evasion and the diversity of the sources of income, however, others relate to the taxation scheme itself.

Difference between Pre and Post-Tax Top Income Shares in Lebanon (2010-2012) (Assouad 2015)

| Income group | 2010 | 2011 | 2012 |
|---|---|---|---|
| **Above USD 13,532** | 1.2 | 1.2 | 1.3 |
| **Above USD 41,194** | 0.9 | 0.9 | 1.0 |
| **Above USD 61,426** | 0.8 | 0.7 | 0.8 |
| **Above USD 144,610** | 0.4 | 0.4 | 0.4 |
| **Above USD 209,619** | 0.3 | 0.3 | 0.3 |
| **Above USD 567,828** | 0.1 | 0.1 | 0.1 |

First, the more we move up in the income brackets, the lesser the percentage increase in the tax rate, i.e. when the income bracket doubles at the lower ends, such as from the second to the third income bracket the income is doubled, and the tax rate increases by 1.75 (from 4 percent to 7 percent), whereas the move from the second to the third bracket results in a doubling of income but a tax increase of only 1.7. Finally, in the increase from the 5th to the last bracket (from income ranging between 60 million to 120 million, to an income above 120 million) the rate increases by only 1.42. As Assouad puts it, "the increase in the size of brackets in the lower brackets moves slower than the increase in the corresponding tax rates whereas in the higher brackets it moves faster than the increase in tax rates" (Assouad 2015). Second, the top marginal rate of taxes on wages and salaries (20 percent) is very close to the top marginal rate of taxes on profits from industrial, commercial and non-commercial activities. This shows that wage income and capital income are treated equally in terms of tax rates, keeping in mind that capital can evade taxes more effectively than labor as mentioned above. Third, Lebanese taxation treats all individuals equally with regards to family abatements. This means that it is blind, or ignores differences and inequalities in income, statuses and power of all individuals. Thus, all income earners, regardless of their income or wealth, are granted family abatements (USD 5000 yearly for all individuals and additional abatements varying according to the number of dependents in the household). This striking feature also contributes to offsetting redistributive functions of the personal income tax. Finally, Assouad's study observes that as we move up along income groups, the share of non-taxable income increases and reaches 80 percent for the highest income group. In this regard, non-taxable income excludes rents and includes allowances, grants, benefits for employees/income from movable capital for profit taxpayers (which is taxed at 10 percent and can be reduced to 5 percent but it is not included in the personal income tax database). Also, this untaxable income is probably underestimated due to reasons mentioned above, and to in-kind or cash gifts and bonuses that might not be reported or untaxed.

**Indirect taxes and informality**

As mentioned earlier in the paper, more than two-thirds of the Lebanese tax revenues are generated through indirect taxes. In this regard, the value added tax (VAT) represented nearly 32 percent of total tax revenues whereas revenues from taxes on income represented only 27 percent in 2013 (author's calculations). Moreover, VAT revenues constituted 52 percent of total revenues from indirect taxes in 2014 and excise taxes on gasoline, tobacco, cars and others represented 20 percent of those revenues in the same year (author's calculations). Those taxes are transferred to consumers who pay them at the point of spending. Empirical findings show that the high ratio of consumption tax to income tax correlates with the high incidence of informality (Oliva, et al. 2007). Indeed, as mentioned above, consumption taxes and particularly the VAT are simple to collect and have a wide coverage and contributed to the increase in tax revenues, which was otherwise difficult due to the high levels of evasion particularly for income taxpayers. For the case of Lebanon, it is believed that the high incidence of indirect taxes, especially excise and VAT, contributed to increasing the tax burden on individuals, albeit not equitably, as its incidence is mostly felt among low and middle income groups, and more specifically amongst workers in the informal economy. The introduction of the VAT has contributed to taxing informal workers who are not taxed under the wage and salaries taxes as they engage in casual and irregular (i.e. informal) work arrangements and thus are not declared or registered.

In fact, formal wage employees constitute only 29 percent of the labor force, while informal wage employees constitute 19 percent and 5 percent of the labor force are contributing family workers and are also informal (Robalino and Sayed 2012). Furthermore, over 90 percent of enterprises employ less than 5 workers (Hamdan 2004), and are also likely to be informal, adding to that only 30 percent of Lebanese are covered by the National Social Security Fund (BLOMINVEST Bank 2015), i.e. there is a high incidence of non-declaration of workers. Adding to that, a joint study by the Central Administration for Statistics and the World Bank that the rate of poverty for monthly wage workers reaches 19 percent, and it increases to 28 percent for own-account workers, and 46 percent for casual workers (Central Administration for Statistics and World Bank Group 2015). On the other hand, migrant workers, who are not accounted for in official statistics, nearly equate in number the size of the Lebanese labor force in the private sector. It is estimated that there are around 220 thousand migrant domestic worker in Lebanon (Tayah 2012), and around 300 thousand Syrian workers (pre-2011) and estimated to constitute between 27 and 35 percent of the Lebanese labor force (World Bank Group 2013); and other nationalities as well, most of whom are engaged in informal employment arrangements. In sum, the share of informal employment in Lebanese is very significant, despite the fact that there are no official statistics on the matter, the IMF has estimated that over half of the labor force is employed in the informal sector (International Monetary Fund 2014). It is worth mentioning that an informal worker is not necessarily employed in unregistered businesses or firms, informal working arrangements can occur in formal and registered firms. This involves subcontracting through different forms, non-declaration of workers, and the manipulation of contracts through treating workers as contractors (Slavnic 2010). Thus, the surge of informal employment is a practice of firms to shifts costs and risks to the workers themselves, while increasing profit margin through saving labor costs, hence shifting the tax burden as well.

The Value Added Tax law has exempted many products considered to be mostly consumed by the poor in order to attenuate its impact, especially with the absence of other re-distributional policies and measures that are usually implemented in parallel with VAT to offset its regressive impact. These exemptions include basic food items, butane, collective transport, education, health and other products. Nevertheless, these exemptions on the bottom that were meant to have a progressive component of the tax were accompanied by two other measures. First, regressive exemptions were put in place, such as yachts, air transport, precious and semi-precious stones, negotiable money, sale of built property, banking and financial services and others that are mostly consumed by high income groups. Second, the VAT registration annual threshold was lowered from LBP 225 million to LBP 150 million beginning 2005, meaning more products and smaller businesses are therefore taxed. In this regard, Salti and Chaaban (2009) computed the share of exempted products and services from VAT as a percentage of household total expenditures according to 5 quintiles, from the poorest to the richest. It shows that food items that represent 17.9 percent of household budget expenditure for the poorest compared to 9.2 percent for the richest showing the effectiveness of this type of exemption (Salti and Chaaban 2009). However, when we compute the total share of exemptions as percent of household expenditures we find that the as we move up along the quintiles, the share of exemptions slightly increase. Thus, the richer the household, the more is its share of exemptions, where the poorest household benefit from 32.8 percent of total exemptions compared to 33.6 percent for the richest.

Share of exempted goods and services consumption as percent of household total expenditure, by quintile (Salti and Chaaban 2009)

| Exempted category | poorest | 2 | 3 | 4 | Richest | Overall |
|---|---|---|---|---|---|---|
| Food items | 17.9 | 15.7 | 14.1 | 12 | 9.2 | 13.8 |
| Butane | 2.7 | 1.9 | 1.4 | 1.1 | 0.7 | 1.6 |
| Collective transport | 1.4 | 1.5 | 1.3 | 1.1 | 0.8 | 1.2 |
| Education and books | 4.5 | 7.6 | 8.7 | 11.2 | 13.2 | 9 |
| Luxury and air transport | 0 | 0.1 | 0.1 | 0.1 | 0.5 | 0.2 |
| Financial and insurance | 0.1 | 0.1 | 0.2 | 0.4 | 1 | 0.4 |
| Health | 6.2 | 6.3 | 6.8 | 7.1 | 8.2 | 6.9 |
| Total exemption | 32.8 | 33.2 | 32.6 | 33 | 33.6 | 33.1 |

The abovementioned reconfirms the unjust taxation system in Lebanon where the tax burden is mostly felt on middle and low income groups, and specifically on workers. The personal income tax targets mostly formal wage workers where VAT is regressive and taps on the income of informal workers. Moreover, indirect taxation, be it VAT, excise, custom tax or other, is not felt on businesses and on capital as it is transferred to consumers through increased prices. Thus, the regimes of direct and indirect taxation are unfavorable to labor, and consumers in general. On the other hand, this taxation regime not only lightens the burden borne by capital, and specifically by the business and economic elite that we mentioned throughout the paper, but also shifts the burden from capital to labor enabling to accrue further un-taxed profit. This is even more striking when examining tax exemptions and quasi-exemptions.

**Tax (quasi) exemptions as a structural input of the Lebanese political economy**

In order to better understand the weight of taxes in Lebanon on different income categories, the inequitable burden sharing between labor and capital, and between different sectors, examining exemptions and quasi-exemptions is key. There are numerous exemptions in Lebanese taxation schemes, but we are going to concentrate on specific ones that mostly express relations of power within the Lebanese political and economic system, i.e. those that express the political economy of taxation. First, a simple look at the GDP figures and composition by sector gives us a striking picture on favoring economic sectors over others, and more specifically rentier over productive activities. The table below shows the blatant inequality in taxes applied between productive sectors (industry and agriculture) and rentier sector (banks and real estate). The sectors with super profits are taxed the least which clearly shows the imbalance of power in the Lebanese economy where financial and real-estate elite who are connected and intertwined with the legislative and executive bodies are exempted or quasi-exempted from taxes, contrary to industrialists.

Economic activity, share of GDP in 2013 and tax applied (author's computation) [55]

| Activity | Share of GDP in 2013 | Tax applied in 2013 |
|---|---|---|
| **Agriculture, livestock and quarrying** | 4% | Corporate income tax of 15 percent and or personal income tax from 4 to 21 percent |
| **Manufacture and Industry** | 8% | Corporate income tax of 15 percent and or personal income tax from 4 to 21 percent |
| **Property sales transactions** | 21.5% | No real estate profit tax only registration fee. Revenues from registrations fees amounted to approximately 6% of sales value |
| **Interests paid to bank depositors** | 13% | percent tax on interests paid 5 by depositors and then deduced from the corporate income tax paid by banks |
| **Interests received by banks** | 20.5% | percent tax under the pretext 0 that bank profits are taxed according to the corporate income tax |
| **The banks' portfolio in Eurobonds** | USD 17,608 million | No tax on interest income from Eurobonds as per the decision 1/403 concerning the application of the article 51 of the law number 497/2003 |

Indeed, the myriad of tax incentives and exemptions illustrate the power dynamics in the Lebanese system where sectors with the least employment generation, or at least skilled employment, are encouraged. As illustrated above, the real estate sector constituting nearly 20 percent of GDP (BankMed 2015) is exempt from profit tax that are generated through price speculations. The same goes for the banking sector and the absence of any tax on deposits which reached LBP 209,793 billion (Association of Banks in Lebanon 2014), nearly 360 percent of GDP in 2013. These deposits are highly concentrated in the hands of a few clients, this can be seen through the concentration of credit (as a proxy measure since banks do not publish data about their depositors), where 1.5 percent of clients are responsible for 70 percent of disbursed loans in 2014 (Association of Banks in Lebanon 2014). This also reflects the inequitable meager tax on interest where small individual accounts (for instance savings accounts held by low or middle income wage earners) and large accounts pay the same rate of tax on interests. The absence of a tax on deposits or a progressive tax on income from interest is justified by the bank secrecy laws that hinder the access to information of bank clients. Thus the 5 percent tax is levied on the bulk of interests paid and not disaggregated according to accounts. The quasi-absence of taxes on interests, deposits and real-estate is not a coincidence, but conceals the marriage of these two sectors, the beneficiaries and those who bear the cost.

55 Note that property sales transactions, interest paid and received, Eurobonds do not constitute a component of the GDP, their size is measured to GDP for the sake of comparison.

First, taking a look at the distribution of commercial bank credits in 2014 reveals that nearly 34 percent of credit (the biggest share aggregated and disaggregated relative to credit for other activities) was equally disbursed to construction and building (16.7 percent) and housing loans (17.2 percent) (Association of Banks in Lebanon 2016). Thus, commercial banks fund real-estate activities, and at the same time finances household purchase of property in the absence of real-estate price regulations and control leaving consumers vulnerable to the winds of speculation. It is worth mentioning that these loans are subsidized by the Central Bank in order to provide incentives for households to purchase houses, keeping in mind the absence of social housing in Lebanon. In parallel, commercial banks continue to purchase government treasury bills in order to finance the public debt and its service where banks' claims on the public sector reached LBP 56,308 billion, i.e. 21.3 percent of banks assets compared to 25.8 percent for the claims on the resident private sector. In general, the share of bank loans to the public sector and deposits at BDL reached 57.4 percent of bank assets in 2014 (Association of Banks in Lebanon 2016).

The abovementioned reveals that there is a clear process of extraction from tax payers to the bank and real estate sectors that goes as follows: individuals pay taxes to the government, which are in return used to finance public debt through the issuance of treasury bonds purchased by banks. The latter use the profit from financing public debt to fund construction and real-estate that are purchased by households through bank credit. Thus, citizens finance banks twice, first through taxes, second through housing loans that are subsidized by the Central Bank. This is compounded by the process of systemic emigration where between 15 and 30 thousand Lebanese emigrate yearly, who in return send remittances that constituted around 16 percent of GDP in 2015, and an average of 20 percent from 2004 to 2015 (World Bank data). These remittances compensate the stagnant income of residents and are absorbed by real-estate speculations and increase in prices as a result of monopolies as explained in the beginning of this paper. The described process of extraction was also witnessed in 2016 when the Central Bank did a swap operation under the pretext of enhancing its foreign exchange reserves. The BdL (Banque du Liban) has repurchased T-Bills in Lebanese pounds by paying a price for each bill of 139 percent of the original price (the original price plus half of the interests profit that would be been realized at maturity). The operation resulted in an excess of profit, originating from public tax payers money, amounting to an equivalent of nearly USD 5 billion (Zbib 2017) that are to be absorbed through issuing more treasury bills to be purchased by banks, thus resulting in more profit.

As mentioned above, there is a high presence of bankers within the political establishment. Moreover, "several real estate developers and contractors held, and still hold, prominent governmental positions, and several politicians have investments in the construction sector. One family alone is alleged to own, directly or indirectly, 59 real estate companies in Lebanon. Looking into publicly available information, it is immediately apparent that other prominent Lebanese politicians from across sectarian divides are also involved in real estate, together representing the main force driving the sector. The state's lower-level bureaucrats also have their share in the real estate sector, apparent for instance when municipality members are directly involved in issuing and reviewing permits for demolition and construction" (Saksouk-Saso and Bekdache 2015).Thus, it is not surprising that these sectors are quasi-exempted from taxes as they imply a direct process of extraction and regressive redistribution from productive capital and wage earners to rentier sectors and their representatives in government and parliament.

The design of tax structure in Lebanon to encourage rentier activities are further noticed through other exemptions and quasi-exemptions that clearly indicate the aim of public policy in engineering the Lebanese economy. The other components of the financial sector are off-shore companies and holding companies which are exempted from corporate tax on profit. However, holding companies are subject to a proportional tax on their capital and ranges from 2 to 6 percent, and other types of taxes related renting patterns and sale of share as per the legislative decree number 45. However, the offshore company pays an annual flat rate of LBP 1 million and its foreign employees benefit from a 30 percent reduction on their salary tax. The Lebanese law prohibits offshore companies to perform its activities in Lebanon, thus its profits are made outside, usually in tax havens and are thus untaxed. Nevertheless, the profits of these companies can be easily transferred to Lebanon through banking sector and its secrecy law that prohibits access to depositors' information. A look at the ownership of holding companies in Lebanon reveals once again that they are owned by members of the political elites, board members and shareholders of banks and real-estate companies and by sole import agents (Traboulsi 2016) whom Traboulsi calls the families consortium (the financial-commercial oligarchy that controls economic power).

Tax exemptions also reflect the sectarian aspect of the Lebanese system, more specifically the institutions through which the ruling sectarian political factions consolidate their base of loyalty, i.e. clientelism. Orphanages, retirement houses, dispensaries, and health institutions owned by charitable organizations are exempted from taxes on profit. Moreover, buildings owned by political parties and religious authorities are exempted from the property tax. Adding to that, remuneration of religious men for performing religious rituals are exempted from income tax on wages and salaries.

In addition to the abovementioned legal exemptions, there exists de-facto exemptions notably regarding private water and electricity supply. In fact, in 2008 households spent a total of USD 330 million on privately generated electricity and nearly USD 230 million on privately provided water (delivery trucks and gallons) (World Bank Group 2009). These activities by private parties providing water and electricity are illegal, thus untaxed, as the Lebanese state is by law the exclusive generator of electricity and provider of water. Nevertheless, these services are de-facto recognized by the authorities that even issued maximum price rates that private electricity providers should abide by.

Finally, and to conclude this section, in the last years there were two attempts to modify this tax structure and both failed. In 2012, amidst the debate on minimum wage adjustment in Lebanon, the former Minister of Labor Charbel Nahas proposed a "social wage scheme" where a universal health care coverage would be provided to all Lebanese citizens, a significant increase of the minimum wage along a set of incentives to boost the industrial sector. He proposed that this scheme would be funded by taxes on rentier activities, notable putting in place a 25 percent capital gains tax on real-estate (Zbib 2011). The second attempt came in the context of another labor conflict where the Union Coordination Committee (public sector workers, private and public schools teachers) demanded a wage adjustment as well.

In order to finance it, the government proposed a set of new tax measures, amongst which a 15 percent capital gain tax on real-estate and an increase of the tax on income from interests to 7 percent. Both proposals were fiercely opposed by the "economic committees", i.e. the business elites through what Fairfield calls economic power and political power (Fairfield 2013). The first consists of creating economic obstacles to reform through the claim that the reform will reduce investment and cause capital flights. Thus, the business elite relentlessly propagated the idea that wage adjustment and imposing new taxes will cause economic collapse and bankrupt the country. The second "involves deliberate actions, like lobbying and various forms of collective action. Favorable relationships with policymakers are sources of political power that make such actions more likely to succeed" (Fairfield 2013). Indeed, the business elites in Lebanon resorted to such tactics where they exercised their influence on the political patrons of labor organizations in order to cut a backdoor deal in 2012 that would abort the reform proposition of the Minister of Labor.

## 5. Taxation and redistribution towards social justice

The tax justice network defines tax justice through a broad range of criteria that involve mutual obligations from taxpayers to the state, the state to taxpayers and states to states. For taxpayers, it means that they never evade their taxes, they do not seek to avoid them. As for the state, amongst many other criteria, it means that it requires each person (real or corporate entity or equity) pays taxes according to their means; limits the opportunity for tax avoidance; provides a system of access to information; administration of tax has to be and be seen to be free of corruption; tax received are openly and transparently accounted for. Moreover, the state has to avoid regressive taxation and incomplete tax systems that are not comprehensive in their scope or allow income to fall through loopholes. As for the obligations from states to states, they have to refrain from offering their sovereign space as tax havens that are ensured through secrecy jurisdictions. In sum, "taxes have to be planned as part of a system which includes welfare benefits and not in isolation, and they have to cover the broad scope of economic activity. In tax terms this means a just tax system has to have what is called a broad tax base" (Tax Justice Network 2012).

Based on the above definition and the characteristics of the Lebanese taxation system examined in this study, we can clearly conclude that it lacks the basic foundation of tax justice. It is felt in the common practice of evasion, regressive taxation (both consumption and income taxation), as well as the lack of transparency in terms of data availability and revenue allocation, as well as the presence of secrecy jurisdictions rendering Lebanon a tax heaven. Most importantly, the absence of tax justice is mainly felt through the function of taxes in Lebanon with regards to the overall economic system. Indeed, the redistributive function of taxation is quasi-absent as taxes are mainly levied in view to raise revenues for public debt and its service. We can even go as far as describing taxation in Lebanon as process of extraction where shares of income are extracted from low and middle-income categories, wage earners to channel them to politico-business elite. In addition to what was portrayed above, this can be mainly witnessed through three different indicators:

• The average indirect tax rate paid by low-income categories amounts to 13.5 percent, whereas it decreases to 6.6 percent for high income categories (Issa 2010).
• The significant imbalance in the functional distribution of income where the wage share of GDP has declined from 55 percent in 1975 to 16 to 22 percent in 2012 (Dibeh 2015) . This is an indicator of the transfer of wealth from labor to capital during this period.
• There is striking concentration of wealth in the hands of a few, where 1 percent of all deposit accounts hold about half of total deposits in the system (International Monetary Fund 2017). Adding to that, 1 percent of the population control 23.4 percent of the income, and 10 percent of the population control 57.1 percent of total income (Assouad 2017).

The present Lebanese tax system renders inequalities more acute and unjust as there is an absence of public policies that eschew and attenuate the inequitable burden of tax. For instance, in 2012 private spending on education reached 4.4 percent of GDP, while public spending reached only 1.6 percent of GDP (compared to 6.5 percent in Tunisia, 5.6 percent in Saudi Arabia and 5.4 percent in Morocco). The low public expenditure on education translated into a heavy burden on household expenditures where 10 percent of which goes to education (BankMed 2014). The share of public expenditure on education has been decreasing with time as it accounted for 2.6 percent in 2005. A similar outlook characterizes the health care sector where the public sector was only responsible for 30.7 percent of total health spending compared to 37.6 percent for households out of pocket spending. Moreover, only 28 percent of Lebanese are covered by the National Social Security Fund, 40 percent are covered by schemes for the army and public servants, and 44 percent neither have public nor private health coverage. This situation has also imposed a heavy toll on households where low income households spend 13 percent of their budget on health compared to 8 percent for higher income households (BLOMINVEST Bank 2015).

In parallel, there are nearly 800 health clinics operated by NGOs, sectarian parties, religious charities, community groups and local dominant families. Cammett asserts that "a combination of weak state capacity and resistance to reform by multiple stakeholders, including sectarian organizations, which hold great sway in public institutions, has curtailed efforts to build effective public regulation of the health sector. As a result, state agencies and social programs have evolved into lucrative sources of patronage for non-state providers, creating entrenched interests in the status quo. The relationship between the state and sectarian organizations in the health sector is almost parasitic. This state of affairs results from the power balance between the state and non-state actors, in which sectarian organizations, local feudal leaders, and religious charities with independent social bases face minimal restrictions on their activities and penetrate state institutions at all levels" (Cammett 2014)

Based on our findings and analysis, we can describe the Lebanese taxation system as a tool of fiscal violence. The term was coined by Elizondo and Santiso, where they "mean the entire lattice of the tax system, with its rules, processes and institutions, which can be distorted and altered to favor a particular social sector, the business world or a political group. We are speaking of the legal appropriation of tax resources through wages, pensions, subsidies and redemptions. This is similar to what the economic literature has called "rents", but "fiscal violence" appears to describe the process better and is more specific.

As long as there is fiscal violence, delivering public goods for the benefit of the large majority becomes problematic" (Elizondo and Santiso 2009). As such, the processes expressed above: tax regimes and tax exemptions combined with the absence of public provision of welfare services, are tools to consolidate a system defining and preserving dynamics of powers that we tried to depict throughout the paper.

In this sense, redistribution and welfare in Lebanon does not occur through taxation regimes but through clientelism and patronage, i.e. through non-state actors who are part of the state apparatus. It is the shift from social protection to social safety nets where the social provision of services are not rights but rather entitlements granted on the basis of clientelism and sectarian loyalty. This is not channeled exclusively outside the frame of state institutions but also through them. In fact, the absence of universal health coverage, where only a third of the Lebanese is covered by the NSSF, is replaced by the coverage of the Ministry of Health that covers a certain percentage of hospital fees for the uninsured. Nevertheless the provision of the Ministry of Health are channeled through sectarian political parties. Also, recently a Member of Parliament proposed a draft law aiming at eradicating extreme poverty through conditional cash transfer to the poorest families (The Daily Star 2014). These are few examples demonstrating how social welfare and protection are deemed conditional, whereas the right to social protection is waning.

**Towards tax justice**

Throughout the paper we tried to show the characteristics of the taxation system in relation to social justice from a political economy perspective. It faces numerous technical problems related to corruption and enforcement of taxes, among others. Moreover, taxation seems to be more regressive rather than progressive even when it comes to progressive tax rates, that, however, have regressive outcomes. Nevertheless, the core challenge in reforming taxation and in introducing tax justice resides in the dynamics of power that prevail in the Lebanese political economy. More specifically the function and design of taxes which benefits the business-political elite, where taxes are a means of channeling wealth and resources from the bottom up. The paper argued that taxes (and exemptions) favor rentier activities while penalizing productive ones, they also favor informal labor relations rather than formal ones, and finally favor capital over labor. Therefore, reforming taxation in Lebanon is more of a structural and political issue at core rather than an economic or technical one. It ought to aim to redress these imbalances in order to deeply alter these relations of power and lay the foundations for social justice. Based on this, the paper proposes few measures. In this regard, it is important to mention that further studies need to be done in order to assess the impact and implications of the below measures on tax revenues and economic activities.

<u>Social wage:</u> In 2012, the former Minister of Labor proposed the "social wage" scheme in order to address stagnant wages in Lebanon. This scheme does not only involve raising the minimum wage, but most importantly it consists of unpaid social services, ranging from education and health to social protection. These services would be directly financed by taxes rather than by deductions from wages.

This scheme thus includes a universal health care protection covering all citizens whether formal workers, informal workers, unemployed or inactive. This universal health care scheme would neither be financed through deductions from wages nor through deductions from the profit of firms or its savings. Instead it would be solely funded through taxing rentier income (2011 زبيب). The social wage would entail a series of tax measures as follows.

Taxing rents: Imposing a progressive rate on rentier income, including profits from sale of capital assets (such as real estate) as well as progressive tax on interest income and bank deposits. The rates of these taxes would be high where top marginal rates exceeding the existing ones on profit. This measure can be constraint by the bank secrecy law which does not disclose the size of bank deposits and thus the interest income earned by each depositor cannot be known. Therefore it would require either lifting bank secrecy laws or leaving a choice to depositors to disclose their accounts and those who do would benefit from a lower tax rate which would favor small depositors. As mentioned above, taxing rents would finance the social wage and at the same time impose a heavy cost on those activities where investors would have more incentive to channel their investments to productive activities.

Encouraging productive sectors and formal employment: As social service provisions, including universal health care, would be financed by taxes on rents, the contributions for health and maternity indemnities to the NSSF would be removed which will reduce labor costs for firms and encourage them to formalize the workers they employ. At the same time firms would be given certain conditional tax incentives to encourage their activities, such as tax cuts and exemptions for certain sectors. This would be in the frame of a general economic policies aimed at identifying productive sectors with growth and comparative advantage potential that would be encouraged to grow through low-cost credit and tax cuts (such as technology, green industries, agriculture, etc.).

Introducing the global income tax: on all income (except rents as specified above since a special tax would be levied) including income from profit of holding companies that would be taxed like other profits from income. Moreover, a restructuring of the different income brackets ought to be done while increasing top marginal rates in line with standards of middle and high income countries. This would also entail removing of a wide range of exemptions especially relating to the sectarian system that we mentioned throughout the paper.

Reforming tax on consumption: this would require two kind of measures. First, replacing the uniform VAT tax rate with different scales according to products where basic food products would be taxed less than others. At the same time removing the exemption on luxury items and taxing them with higher rates. Second, there should be efforts to relief consumers from additional expenses that they incur on their consumption especially those related to electricity, water and transportation. This would imply significant public investment to reform these three sectors without privatizing them to ensure their full and sustainable coverage. Its benefits would not only benefit individual consumers but would also reduce costs on productive sectors (such as industry and agriculture) as they will have the necessary infrastructure to conduct their operations without inducing additional costs.

Transparency: Measures to enhance tax transparency that would include periodical issuing of detailed tax returns according to their category and information about tax payers in terms of their income range and the share of taxes they pay. Moreover, in order to deter evasion, the names of high earning individuals and entities avoiding tax or not paying it should be made public. Also, amongst other measures, tax payers ought to be insulated from corruption through increasing their salaries, implementing more severe disciplinary measures on those who collude with tax payers, and assuring constant rotation and mobility of tax inspectors to minimize the risk of building compromising relations with taxpayers.

The above-mentioned measures would significantly restructure the existing imbalances in the Lebanese political economy and would redefine taxation as a measure for redistribution and as an essential public tool for an inclusive economic growth and development. Nevertheless, the main issue remains a political one as the question of who will implement these measures is unclear under the current structure. This is particularly striking with the intertwinement between the business and political elite coupled with the absence of powerful social actors (such as unions or other social movements) capable of imposing reform.

## 6. Concluding Remarks

Throughout the paper we tried to establish the dynamics and imbalance of power in the Lebanese system that the tax structure expresses. Twenty-six years after the end of the Lebanese civil war, the new political system and its socio-economic vision still fails to deliver basic services, social and physical infrastructure for its citizens. This is manifested through the recurrent water and energy provision crisis, especially for electricity sector draining public funds; the failure to collect garbage from streets for two years; the increasing health and education bills and burdens on households; and the increasing informality in the labor market.

Recently, in the end of 2017, the Government has passed modest taxation reforms and passed a budget for the first time in 12 years. The most prominent reforms in terms of taxation included, increasing VAT to 11 percent, increasing taxes on interest on income of moveable capital from 5 to 7 percent, increasing taxes on corporate profit from 15 to 17 percent, introduction of a capital gains tax of 15 percent, as well as increasing excise and stamp fees on a wide array of goods and services. Although these reforms seem to have a balanced effect on capital and labour, consumers and suppliers, they remain extremely short of achieving a sense of tax justice. Furthermore, they were introduced in order to counter-balance the cost of the new salary scale for public sector workers. Thus, these reforms were not introduced within an overall economic or social vision of the country, but as a mere revenue extraction measure. Thus, the government remains far from serious to meaningfully reform the tax system and to place it in a wider perspective of social justice, fairer economic system and inclusive, sustainable and equitable growth. On the contrary, the Lebanese economic system has been increasingly exclusionary and accentuating distributive and functional inequalities. The tax system has been merely a tool for revenues channeled into feeding the economic patterns that we attempted to depict in this paper.

This being said, having a technically sound taxation regime is of utmost importance and necessary, however it is not enough. The technical efforts ought to be accounted with the realization that the issue is more of a structural and politico-economic nature. The post-war period has shown that the ongoing economic policies and taxation are the backbones of the post-war power sharing formula and not merely a consequence of it. Thus, reforming taxation in a system resilient to reforms can be described as wishful thinking and further squandering of efforts as well as public and donors' funds. As mentioned above, one cannot expect reforms to be pushed for by the same elites who are benefiting from the current taxation regime. Therefore efforts are better allocated in the endeavors to create a counter social coalition composed of those who are harmed by the current state of affairs of tax regimes. Those are formal and informal workers, the unemployed, the self-employed, industrialists and those working in agriculture. Thus, efforts would be concentrated on raising awareness on the unequal and inequitable taxation, its purpose and consequences, as well as mobilizations to push for a tax system expressing social justice and an alternative economic pattern that benefits everyone.

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