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MOF # 2989418

Preliminary Notes

On the Legal Tax Provisions in the 2026 Draft Budget Law

First: General Assessment:

This draft law has, to date, complied with the constitutional and legal deadlines, particularly those stipulated in Articles 13 and 17 of the Public Accounting Law (implemented by Decree No. 14969 issued on December 30, 1963). The Minister of Finance is required to submit the draft budget to the Council of Ministers before September 1, accompanied by a report analyzing the requested appropriations and any significant discrepancies between the draft budget figures and the current year's budget figures. The Council of Ministers is still required to approve the draft budget in its final form and submit it to the legislative authority within the deadline specified in the constitution, i.e., at least fifteen days before the start of the regular session in October. The Minister of Finance is also required to submit to the legislative authority, before November 1, a detailed report on the country's economic and financial situation and the principles adopted by the government in the draft budget.

However, despite the appreciated efforts to abide by the constitutional deadlines, completing the budget on time is neither an achievement per se, nor could it be considered as a reform measure, but rather a constitutional and legal obligation stipulated in both Article 83 of the Constitution and the Public Accounting Law. It was overlooked for years without accountability or questioning, until the national currency and the rentier economy collapsed, and the prevailing practice became to rely on the provisional twelfth rule extended beyond January, as stipulated in Article 86 of the Constitution, even for years.

The most important question that ought to be answered is whether the 2024 closing accounts will be submitted this year, under the new government, in accordance with Article 87 of the Constitution, or will they be overlooked, as has been the practice for two decades? While the closing accounts document is more than a constitutional obligation, it enables parliamentarians to review, examine, and monitor the actual execution of the budget and accurately evaluate the forecasts projected in the 2026 Budget Law. Therefore, an analysis of how taxes are collected and the adoption of tax policy is needed and should be based on revenues effectively collected. This requires a scientific, technical, objective, honest, and documented analysis of the figures, feasibility, and potential economic impact of these taxes. All of these factors are factored in the decision-making process in most countries around the world to make the most informed and sound decisions and adoption of appropriate options.

Practically, reform begins with developing a clear vision and a comprehensive plan or reform program that secures the foundations for sustainable economic and social development and effective and efficient solutions to the shortcomings of the institutional system. This is done within a clear strategy to place public finances on a sustainable path to restore

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debt sustainability. This strategy, in turn, signals and prepares for a package of upcoming laws that will translate this vision and strategy.

Thus, it is clear that the upcoming draft Budget has not proposed or even prepared any reforms to address the key issues restraining the fiscal space, including the urgent need to restructure debt, restructure the public sector, reform state-owned enterprises, or establish a fair and efficient tax system. Rather, it replicates what was stated in previous years' budgets, under the pretext of scarce resources and difficult circumstances; controversially, it relies on quick, fragmented, and ineffective solutions to increase state revenues, with the sole aim of covering operational expenditures, while once again marginalizing the much-needed capital expenditures.

In the medium term, the most important reform of public finances, budget transparency, and proper implementation lies in transitioning from the current item-based budgeting system to a "results-based budget," i.e., an organic law (loi organique), which seeks to maintain a balance between the principles of policy freedom of maneuver and the need for parliamentary oversight. Therefore, given the freedom granted to the government, program managers from ministries and agencies are clearly appointed to hold them accountable based on the desired outcome and performance. Furthermore, relying on the principle of "balancing results" ensures greater transparency, enabling the public to monitor the use of revenues and assess the effectiveness and fairness of each policy measure. The budget is the primary tool of public finance and an effective way to intervene in economic and social life with the aim of achieving the programs and promises made by political authorities, which, as in every participatory democracy, must be held accountable.

In blunt words, anyone who reviews and assesses the 2026 budget draft and examines its content will undoubtedly discover that the 2026 version is a microcosm of an unhealthy complete synchronization between the executive and legislative branches that could compromise the democratic process.

Any failure, confusion, wishes, and reform measures are theoretical or, at best, timid, insufficient, and disconnected from reality, far removed from any comprehensive solution or clear, integrated program to emerge from the deepening crisis, restore the lost balance, and provide the treasury with sustainable and smart revenues. This is far from the current situation, characterized by confusion and the inevitable resort to regressive indirect taxes, which undermine tax justice and equity and compromise the social contract.

Indeed, the 2026 draft budget is similar to previous budgets as it reflects the government's main desire to secure revenues to cover operating expenses, particularly salaries of the public sector, which exceed half of the budget expenditures. However, this approach is completely disconnected from any clear vision, comprehensive plan, or reform program that secures the minimal foundations for sustainable economic recovery, fair social development, and effective and efficient solutions to persisting institutional challenges.

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This draft Budget Law, similarly to previous budgets, has perpetuated the absence of tax justice by relying mostly on regressive indirect taxes, which affect all Lebanese across the board and often amount to two-thirds of total tax revenues, exceeding 80 percent this year. This disparity deepens social injustice and widens the gap between social classes, placing the burden mainly on two categories of taxpayers: those who are less favored and those who are committed to their tax obligations... Therefore, in order to change this bitter reality without negatively impacting the economy or increasing the direct tax burden in such difficult circumstances and the prevailing recession, a calculated increase in revenues is possible by activating tax compliance and combating tax evasion and smuggling. This can also include implementing a unified income tax applying its progressive brackets on all income sources, whether from a local or foreign source, along with other available accompanying measures that do not burden taxpayers or harm the national economy. The 2026 draft budget law actually included some reform measures that aim to reduce tax evasion and expand the taxpayer base. However, as we will explain in detail in the sections below, they were based on a mechanism plagued by ambiguity, uncertainty, lack of clarity, and unfairness. On the one hand, tax justice remains absent or obscured due to the weaknesses and flaws that plague tax justice in both its vertical and horizontal aspects. Regarding vertical justice, the injustice of our current tax system is manifested in the existence of an outdated, specific tax system that conceals multiple sources of income ("Scheduled taxes") and differentiates tax burdens according to the rates adopted for each specific tax. Accordingly, it is necessary to transition from scheduled taxes to a unified general income tax system that places all revenues, regardless of their types and sources, derived domestically and abroad, within a single tax base subject to a progressive tax according to the brackets and rates specified by the legislator, instead of each type of revenue having its own system, rate, and mechanisms. This simultaneously increases the state's tax revenue and achieves a degree of tax justice among taxpayers, in line with the provisions of Article 7 of the Constitution and Paragraph (c) of the Preamble.

As for horizontal tax justice, it is currently absent or virtually eliminated due to a number of reasons, most notably rampant tax evasion and the tendency of legislators to grant recurring reductions, rebates, and exemptions every year and in every budget (and this has also been repeated this year, with expanded powers granted to the executive power). Such practices are usually justified (by their "promoters") by the circumstances, rather than addressing the root causes of the problem and implementing the necessary reforms and amendments. This encourages tax evasion and undermines the principles of equality, compliance, and the spirit of tax citizenship. What is striking this year is that both the Minister of Finance's report on the 2026 draft budget, as well as the draft itself, lack any reference, mention, or allusion to the new draft income tax law, which was prepared and completed by a special committee appointed by the previous government of Prime Minister Mikati in cooperation and coordination with the International Monetary Fund. The current government, unfortunately, seems unwilling to pursue any structural reforms or to put to discussion critical issues that could embarrass it and place it in confrontation with influential lobbies, especially before the upcoming elections. Given the above, it goes without saying that this year's draft budget is devoid of any economic vision or a realistic and well-thought-out reform program that would restore confidence to citizens and investors and heal the wounds of a bleeding and bewildered people emerging from a deepening economic crisis and the throes of a devastating war. Accordingly, the draft includes a set of fragmented and timid measures that are insufficient and

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isolated from any comprehensive solution or clear, integrated program that would help the country to emerge from the escalating crisis.

The content of the 2026 draft budget, for example, involves completing the review of the remaining rates on fees and fines to bring them in line with the new reality and the newly introduced fixed exchange rate.

While the aforementioned draft attempted to some extent to take into account the prevailing difficult circumstances and avoid increasing direct taxes, given the prevailing recession and hyperinflation, this was implemented in isolation from a fair, objective, and agreed-upon recovery plan. All of this occurred without finding a definitive solution to the issue of seized deposits, outstanding debts, and the existing gap in the accounts of commercial banks and the Central Bank of Lebanon.

Frankly, our hope for a qualitative shift and effective reform in public finances through a transparent, comprehensive, and modern budget went in vain. It is unfortunate, especially that the current exceptional circumstances necessitated a bold and creative exceptional budget, rather than a replicate of budget patterns that paved the way and accelerated the great collapse for years.

This, in turn, requires prioritizing the budget and, consequently, public finance reform, specifically the state's core functions. The state is responsible for protecting the national economy, ensuring social protection, spreading knowledge and science, and increasing wealth and distributing it fairly. It must also restore its credibility and the trust of citizens and foreigners alike. This is lacking in the proposed project, despite the government's promises and despite us being aware that resources are limited.

Second: Detailed analysis of some of the basic tax provisions of the 2026 draft budget law:

A- Amending and raising the value, percentages, and limits of fixed fines, certain fees, levies, discounts, advances, and tranches stipulated in the relevant laws, in line with emerging circumstances, the deterioration of the national currency's value, purchasing power, and inflation (Articles 15, 16, 17, 18, 21, 22, 28, 37, 43, 46, and 47).

The draft budget law for the year 2026 includes an increase in the value of brackets, discounts, and certain fees, levies, and fines. This is a continuation of the process initiated with the last two budget laws, and in line with emerging circumstances, the deterioration of the currency's value, purchasing power, and inflation. In most cases, these increases are equivalent to their original value.

However, it would have been preferable to provide a full explanation, detailed justification, and greater transparency regarding how the multipliers and percentages are used to calculate and/or certain fees and fines.

B- A set of procedural measures aimed at expanding the taxpayer base, combating tax evasion and the illicit economy, and increasing tax revenues (Articles 18, 29, 30, 31, 33, 34, 35, and 36).

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The draft budget law includes several procedural measures aimed at expanding the taxpayer base, combating tax evasion and the illicit economy, and increasing tax revenues. The most important of these are:

1) Increasing the fines imposed (to act as a deterrent) on any person who fails to disclose information related to the Beneficial Owner when completing the declarations and statements required in accordance with the provisions of Tax Procedures Law No. 44 of November 11, 2008, as amended, and the relevant tax laws, or who fails to inform the tax administration of the failure of a partner or shareholder to provide information about the Beneficial Owner. This is to act as a deterrent and meet the requirements of both the Financial Action Task Force (FATF) and the International Transparency Forum (ITF) (Article 18).

2) To avoid exploiting the consumption of passenger cars that are included in the taxpayer's assets and to deduct some other burdens, charges and costs for the purposes of tax evasion, specific taxpayers are allowed to consume and deduct charges on cars whose cost does not exceed twenty-five US dollars (25,000 US dollars) only (with the exception of institutions that deals in the business of car rental or taxi services), and to deduct an amount not exceeding this limit for the value-added tax that affects expenses and fixed assets, in addition to excluding VAT deduction of the consumption of water, electricity, communications, the Internet, and gasoline (Articles 33 and 36). Despite the justifications for this measure, which are understandable and aimed at reducing tax evasion and manipulation of accounts and results, it is criticized for generalizing cases without mentioning legitimate exceptions and focusing on justified special cases, such as small and medium-sized vehicles and buses that transport employees and workers of industrial and commercial establishments to facilitate their transportation and reduce costs and burdens, which sometimes exceed this upper limit. This is not to mention the term "cars." To avoid any ambiguity, it would have been more appropriate to use the term "buses" and medium and/or large vehicles designated for the aforementioned purpose. Furthermore, it is difficult to understand the reason for not allowing the deduction of water, electricity, communications, internet, and gasoline consumption from value-added tax, as these are part of the core cost upon which final prices are calculated, and consequently, the tax due. Accordingly, it would have been useful and beneficial to detail the reasons and justifications for such a measure and procedure.

3) The draft budget, in some of its articles (Articles 29, 30 and 31), stipulates the imposition of a 3% withholding tax added or deducted (as applicable) by certain official bodies and taxpayers engaged in a specific activity, as well as by the Customs Administration, from certain taxpayers on behalf and/or for the treasury account and through its advance payment to the latter. This withheld amount shall be included in the taxpayer's account and deducted from the annual tax due on his profits, according to the declaration submitted by him. Accordingly, here too, despite the legitimacy and validity of the justifications for this measure, which are understandable and aim to expand the taxpayer base, stimulate tax compliance, secure the treasury's rights at a minimum, finance the state in advance, and provide it with the necessary revenues to cover its spending, ensure the fulfillment of its urgent dues, or increase its appropriations, it is plagued by several flaws, including the following:

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- This measure neglected to mention any clear mechanism for its implementation, leaving broad discretion to the Minister of Finance and the Council of Ministers to determine the specific entities and the practical mechanism. Furthermore, introducing such a measure requires a clearly defined, comprehensive, and independent tax bill that amends specific provisions in relevant laws, such as the Income Tax Law and the Tax Procedures Law, for example. This should not be implemented through the budget law, which is limited to examining the matters specifically designated for it constitutionally and legally.
- The draft bill overlooked the fact that the new measure would create confusion, ambiguity, and conflict between the texts and similar taxes in force. This is evidenced by the current existence of similar measures in Lebanese law that address the issue of withholding at source, namely the tax on non-residents, in accordance with the provisions of Articles 41, 42, and 43 of Legislative Decree No. 144 of June 12, 1959, and its amendments (the Income Tax Law), the implementation details of which were defined by Legislative Decree No. 3692 of 2016.
- These articles did not specify the cases in which a taxpayer's declaration includes losses and a deficit that can be carried over, which means that the lack of profit cannot justify such practice. Therefore, a tax cannot be imposed in advance in the absence of a net profit; otherwise, it becomes a flat tax or an unjustified fee.
- They also do not specify whether this tax can be recovered, within what timeframe, or what fines and late payment interest the state is liable for in the event of failure or refusal to pay.
- In the same context, there is concern that this issue could be used to eventually blackmail taxpayers, forcing them to choose between relinquishing their right for refund, or having their case examined, charged, and burdened by objection, imposing seizures and notices, obstructing their work, and missing opportunities until the matter is resolved by the State (Shura) Council after years of lengthy and costly procedures.

In conclusion, it was hoped that the draft would have initiated more effective and equitable measures to expand the tax base, increase compliance rates, and structurally reform the tax system to make it more equitable, instead of merely relying on superficial measures and procedures without proposing effective and beneficial measures, such as the generalization of the tax identification number, the development of reporting and transaction tracking mechanisms, the automation of administration, and the development of algorithms and remote computing mechanisms for processing taxpayers' accounting data through electronic interfaces that allow for the detection of loopholes and the prosecution of evaders (artificial intelligence).

Or even the transition from the system of scheduled taxes—which allows many individuals to avoid declaring hidden, concealed, and unnoticeable income in the system—to a general unified income tax system. This would be achieved through the draft law developed and completed by a committee formed by the previous government in coordination with the specialized team at the International Monetary Fund, as well as through a series of measures that will be proposed and adopted under subsequent special laws.

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Based on the above, and in order to demonstrate and confirm the government's available means to secure a rapid and effective increase in its tax revenues and expand its taxpayer base fairly and effectively, thus improving its performance and increasing its profitable contributions and investments, we propose a set of measures, summarized as follows:

Initially and practically, and before any increase or introduction of any new taxes, the state is required to undertake and achieve as soon as possible the following:

- Collecting its rights and dues before they lapse by the statute of limitations stipulated in the Tax Procedures Law. Consequently, collecting what is owed, for instance, by delinquent and concealed taxpayers, as well as by owners of crushers, quarries, and sand pits, whose dues and fines are estimated at more than three billion US dollars, according to circulating figures. Most of these quarries are unlicensed and illegal. Therefore, the Ministries of Finance and Environment must use the means provided by applicable laws, particularly the Tax Procedures Law, asset seizure, compulsory collection, and, where necessary, criminal prosecution, pursuant to Legislative Decree No. 156/83 (tax evasion) and Law No. 44/2015 (money laundering). This must be done in cooperation and coordination with municipalities and security forces. Perhaps including an item on the agenda of the forthcoming Cabinet meeting requesting the Ministry of Environment's approval of measures to oblige quarry and crusher owners to pay their outstanding dues to the treasury would send a positive signal of the government's commitment to proceeding with this process and the government's seriousness in addressing all forgotten issues. However, the key is always implementation and the results achieved.
- It also requires initiating the collection of dues and liabilities from occupiers of maritime and riverine public domains and all other encroachers. It is no secret that there are enormous financial arrears due to old fees imposed according to standards that no longer apply. These beneficiaries have expanded their businesses and multiplied their profits. Dues must also be audited and re-evaluated according to the new standards, collected, and transferred to the state treasury. Perhaps the recent disclosure by the Minister of Finance in a press interview, and subsequent confirmation by the Council of Ministers—that the failure to include figures in the draft budget law was due to the Ministry of Public Works' delay in calculating arrears and obligations, rather than a disregard for the issue it is seriously working on—constitutes a ray of hope.
- Implementing the provisions of Budget Law No. 144/2019, which requires municipalities to conduct a comprehensive survey within their geographical area to identify businesses registered and unregistered with the Tax Administration. This will allow for the census and tracking of businesses that fail to comply with their tax obligations, ranging from illegal generator operators to random and unlicensed internet and cable providers. Legislation should, however, provide incentives to municipalities similar to those in the "Whistleblowers" Law (Law No. 83/2018), which allows a percentage of tax collection to be granted to those who expose corruption. The state grants municipalities a specific percentage of the amounts collected by the tax administration based on the information and reports they provide and the results achieved for the collection authority.

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• In accordance with the provisions of Law No. 306/2022, which amended the Banking Secrecy Law and the specific article of the Tax Procedures Law, and in implementation of its provisions, expedite the issuance of the required implementation decree specifying the mechanism by which the Ministry of Finance may request information from banks and lift banking secrecy. This will enable the Ministry of Finance to verify the accuracy of data and statements and, consequently, the compliance of taxpayers.

Second, in order to change the current situation without negatively impacting the economy or increasing the direct tax burden in these difficult circumstances, a deliberate increase in revenues is possible by activating tax compliance and combating tax evasion and smuggling. This can be achieved through the following measures, including, but not limited to:

- Systemizing a unified identification tax number (TIN) to all citizens and foreign residents in Lebanon and linking it to their ID, passport, or residency permit (for resident foreigners).
- Implementing digital government (e-government) rules to expedite and simplify transactions and prevent bribery and corruption.
- Developing algorithms and remote computing mechanisms to process taxpayers' accounting data through electronic interfaces that allow for the detection of loopholes and the prosecution of tax evaders (artificial intelligence).
- Using the "Name and Shame" mechanism, which has proven its effectiveness in many countries.
- Adopting a blockchain database system and technology to reduce the possibility of concealment and evasion and enhance transparency, by linking computers together through a consolidated statistical database.
- Establishing an electronic link between the Ministry of Finance and other public departments.
- Implementing procedures for the implementation of Law No. 55 of October 27, 2016, on the Exchange of Financial Information for Tax Purposes, which allows Lebanese tax authorities to obtain financial and tax information related to tax residents in Lebanon who receive capital income derived and /or transferred from abroad (stocks, bonds, interest on loans or financial accounts, capital gains, etc.).

The current tax exemption and incentive system may also be updated, making it fairer and more effective. From this perspective, it is necessary to abolish ineffective and unfair exemptions and tax incentives, such as those granted to maritime and aerial transportation companies, business banks, and medium- and long-term credit banks. It is also necessary to exempt vacant apartments from property taxes and municipal fees, which hinders the construction trade and increases the cost of housing due to weak supply. Conversely, it is necessary to create temporary and special exemptions to encourage natural and legal persons to proceed with certain promising and vital projects that facilitate growth and/or employment, within the context of an integrated and advanced tax/economic/social policy implemented in phases, such as manufacturing or assembly industries, technology industries, information programming, and environmentally friendly projects. It is also beneficial to adopt financial and tax incentives under Chapter III for certain financial investments in productive and/or promising sectors to stimulate growth and improve

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the balance of payments and hard currency liquidity with the influx of capital. This should be achieved after the banks' situation is fully normalized and confidence is fully restored.

In the same context, it is also possible to increase taxes on specific sectors that invest in public facilities, property, or natural resources, or enjoy monopolies or preferential conditions and/or position, or that are harmful to the environment and health, as well as those that have benefited from the collapse, its consequences, and the financial crisis. These sectors should be carefully examined, and a special tax range should be determined, with the economic impact for each sector carefully considered.

4) The 2026 draft budget also includes another measure described as an anti-tax evasion measure. This requires that event organizers not registered with the Value Added Tax Administration be subject to value-added tax when their activities and operations are subject to the entertainment tax, which has since been replaced and dispensed with. Indeed, Article 34 of the draft budget stipulates that natural or legal persons not registered for value-added tax are subject to this tax when their activities and operations are subject to the entertainment tax, which has since been replaced. Therefore, they must collect the tax due on the amounts generated from that activity and declare it using a tax form deployed for this purpose. They must also pay it within seven days of the end of the month in which it was generated, after deducting the tax incurred on costs and expenses in accordance with applicable procedures. Although this measure is justified and appropriate, particularly in terms of curbing the phenomenon of transient event organizers (establishing a company or organization for a short period and dissolving it immediately after the event to avoid registration and declaration), this measure conflicts with the provisions of Clause 5 of Article 45 of Law No. 379 issued on December 14, 2001. Accordingly, instead of introducing new, complex provisions that conflict with existing ones, creating confusion at times and increasing procedural complications, it would have been more effective to require this category of individuals to be subject to the VAT and connected mandatory registration in accordance with the provisions of Law No. 379/2001, with its amendments, decrees, and implementing decisions (as is currently the case for importers and some other professions). Consequently, it would have required them to apply for registration with the Value Added Tax Administration within two months from the last day of the quarter in which the conditions for taxability were met, i.e., the date of organizing the party or event or carrying out the activity. It would also require them to comply with all obligations imposed on persons subject to this obligation.

The Lebanese Association for Taxpayers' Rights (ALDIC)