Lebanese Association aiming to promote tax ethics & compliance
by informing citizens about their rights & obligations.

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Conference Brief

Enlarging the Tax Base and Tackling Informality in Lebanon – An Inevitable Path to Sustainable Recovery

ORGANIZED BY ALDIC
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Achrafieh, Beirut - E: aldicorg@gmail.com - www.aldic.net

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Foreword

It is with both urgency and hope that I welcome you to the conference brief of “Enlarging the Tax Base and Tackling Informality in Lebanon – An Inevitable Path to Sustainable Recovery.”

At ALDIC, we hold a firm conviction: taxation is far more than a fiscal obligation; it is the very bedrock of the social contract. For nearly a decade, we have championed the notion of fiscal citizenship, rooted in the belief that informed, engaged citizens are not only entitled to transparency but are also duty-bound to hold the state accountable for its choices and performance. While access to public information must be guaranteed as a right, the active monitoring of state action must be reclaimed as a civic responsibility, not an optional privilege.

This conference emerges at a critical juncture. Lebanon today forfeits an estimated 60% of its potential economic activity to informality, while tax revenues have dwindled to below 5% of GDP in 2022 before the implementation of tax revaluation measures, and the public sector, expected to aggressively lead the long-awaited reforms, is struggling with eroded capacity. The formal private sector, long the engine of our economy, now contends with corrosive, unfair competition driven by systemic tax evasion and avoidance. This is no longer merely a matter of equity; it is an existential threat that risks pushing even law-abiding businesses to the limit and consequently into the shadows.

Let us be unequivocal: this is not just a technical failure; it is a moral one. Decades of exclusion, opacity, and impunity have eroded trust and deepened divides. Yet informality, for many, is not a choice but a consequence of burdensome bureaucracy, regressive payroll taxes, and the absence of legal safeguards. Meanwhile, structural loopholes continue to enable the powerful to opt out entirely.

ALDIC’s mission remains clear: to restore fairness, transparency, and shared responsibility to Lebanon’s fiscal system. This cannot be achieved through blame or populism, but rather through constructive, inclusive dialogue, motivated by perseverance and a deep understanding of the state's modus operandi and the society dynamics.

Attorney Carine Tohme, President at ALDIC.

About the Conference

On the 23rd of October 2025, ALDIC convened a high-level conference in Beirut titled "Enlarging the Tax Base and Tackling Informality in Lebanon – An Inevitable Path to Sustainable Recovery." The event brought together government officials, international institutions, civil society representatives, private sector leaders, and technical experts to address Lebanon's persistent challenges in revenue mobilization, tax compliance, informality, innovative tools and methods, and fiscal sustainability.

The conference was attended by 60 participants, with articulated representation from the private sector and self-employed professionals (industry owners, banking sector representatives, lawyers, auditors, etc.).

The conference was structured into two roundtables, each exploring distinct yet interconnected dimensions of tax reform.

Roundtable 1: A deep dive inside the tax administration: challenges, plugs, loopholes, and avenues for maneuver.

EXPERT	INTERVENTION
Minister of State for Administrative Reform, Mr. Fadi Makki	Lessons learnt, using insights from behavioral science to overcome compliance and behavioral bottlenecks
International Monetary Fund (IMF) Resident Representative, Mr. Frederico Lima	Tax Policy Reforms in Times of Post-Crisis
Ministry of Finance - Tax Administration representative Mr. Louay El Hajj Chehade	Foundational Governance & Institutional Reforms – critical challenges and enablers inside the Tax Administration
ALDIC co-founder and taxation expert Attorney Karim Daher	Targeted interventions - Technical solutions and feasible options in the immediate term
ALDIC member, PricewaterhouseCoopers (PwC) Mr. Marc El Hachem	Potential successful solutions in challenging contexts (VAT management, e-Invoicing, Tax technology transformation)

The first roundtable was moderated by Ms. Sabine Hatem.

Roundtable 2: A broader view of tax base reform and cross-cutting socio-economic aspects

EXPERT	INTERVENTION
Institut français du Proche-Orient (Ifpo), Dr. Nizar Hariri	The parallel and connected paths of labor market reforms, reducing informality, and increasing tax compliance
UNICEF - Mrs. Yasmine Ibrahim	From Tax Reform to Social Protection: Building a Fiscal–Social Compact
Private sector representative - Mrs. Rima Freiji	The risks of non-compliance on competition and growth
Expert on Anti-Corruption Regulation and Transparency, Mr. Mohammad Almoghabat	Derisking Lebanon: The intertwined paths of Tax Compliance and financial integrity (anti-money laundering mechanisms, cash economy & beneficial ownership)

The second round table was moderated by Dr. Sami Atallah.

About the Rationale Behind this Conference

Lebanon is still suffering from the dire repercussions of a profound economic and financial crisis, characterized by hyperinflation, currency devaluation, historically excessive public debt, and severely depleted state finances.

The inadequate and delayed policy response amplified the consequences of the crisis, leading at first to a further decrease in tax collection, an excessive reliance on the cash economy, creating a critical distortion in terms of market competition, and pushing orderly enterprises into informality. Despite tax revaluation and improvement in collection during the last couple of years, the tax burden is still way beyond the pre-crisis ratio, indicating an under-collection. Rough estimates suggest the informal sector constitutes 40-60% of GDP, while tax revenue as a percentage of GDP plummeted from around 16% pre-crisis to potentially below 5% during the first years of crisis before a major upward correction operated lately.

The IMF has explicitly emphasized "the urgent need to reform customs and tax services in Lebanon following years of mismanagement. Recent developments show cautious progress, but stronger efforts are needed to strengthen public finances and to reinstate formality as the norm, while the country is struggling to get out of the grey and blacklists.

Further degeneration stems from:

- **Systemic Tax Evasion & Avoidance**: Weak enforcement, complex regulations, several loopholes and vulnerabilities in the tax legislation, political interference, and pervasive corruption enable evasion, particularly among high-income earners and large businesses.
- **Massive Informal Economy:** Driven by decades of weak state capacity, distrust in government, complex registration procedures, high perceived tax burden (especially payroll taxes), and the recent crisis, pushing survivalist activities underground.
- **Inefficient Tax System**: Over-reliance on regressive indirect taxes (like VAT, though under-collected), high social security contribution rates discouraging formal employment, a fragmented income tax base, and ineffective property taxation.
- **Weakened Institutions**: The tax administration suffers from outdated systems, insufficiently skilled staff, a lack of data integration, and low morale.
- **Collapse of Trust:** Citizens and businesses see little return on tax payments (deteriorating public services, perceived elite impunity), creating a vicious cycle of non-compliance.

In such a complex context, the Tax administration appears to be at a critical juncture, facing tough problems: how to improve revenue mobilization without further burdening the formal sector and pushing it into informality? How to strengthen its institutional capacity and deploy much-needed reform while retaining the little human resources that are left?

The dialogue initiated during the conference aimed at exploring the room for maneuver and potentially innovative approaches to enlarge the tax base without compromising on equity and fair competition, and to ultimately provide solutions on how to mobilize domestic revenues critical to stabilize public finances and to fund structural reforms needed to re-engineer the social contract, revive the state apparatus, and reshape the economy.

KEY TAKEAWAYS

Key takeaways revolved around different axes discussed across both roundtables:

Immediate Revenue-Generating Measures

- **Recover outstanding public dues:**
  - Enforce legal tools (general pledge, tax evasion, anti–money laundering provisions) to collect USD 2.4–3.7 billion in arrears from quarry operators.
  - Enforce existing laws to recover dues from 'hidden" businesses such as illegal telecom operators and private generator operators.

- Recover unpaid dues from occupiers of maritime public property under Law 64/2017, which offers a regularization path but has not been implemented.

- **Mobilize local governance:**
  - Require municipalities (per Budget Law 144/2019) to identify unregistered businesses (e.g., private generators, illegal ISPs).
  - Incentivize municipalities with a 5–15% revenue share from recovered amounts—mirroring whistleblower incentives under Law 83/2018.
- **Activate international transparency tools:** Fully implement Law 55/2016 to access financial data via the Common Reporting Standard (CRS) on Lebanese residents' foreign income.
- **Issue the pending decree (since 2022) to lift bank secrecy vis-à-vis the tax administration for anti-evasion purposes.**
- **Reinstate the suspended fuel excise tax** (≈$400M/year revenue potential) in a legally compliant manner.

Institutional & Digital Modernization

- **Integrate VAT and Income Tax directorates**, especially large taxpayers, to improve coordination.
- **Modernize outdated IT infrastructure** (last updated in 2012) through World Bank and IMF-supported loans.
- **Launch mandatory electronic invoicing (e-invoicing)** starting with B2G (business-to-government) transactions, leveraging the 2022 Public Procurement Law. This could reduce Lebanon's $3 billion VAT gap, similar to Mexico's success (VAT gap fell from 20% to 5% in 5 years).
- **Enable cross-verification (across various databases)** to reduce leakage in social spending, detect duplicate or fraudulent claims, and identify undeclared income or assets.
- **Leverage data and AI**, using algorithms to flag inconsistencies in taxpayer declarations.

Behavioral & Compliance Innovations

- **Apply behavioral "nudges"** (e.g., social norms messaging like "9 out of 10 neighbors paid") to boost voluntary tax compliance, building on Lebanon's successful utility bill collection trials.
- **Redesign taxpayer communication** (e.g., pre-declaration honesty pledges, civic appeals using national symbols) to increase truthful reporting.

Tax Policy & Structural Reforms

- **Consolidate Lebanon's fragmented income tax laws** (dozens of separate regimes) into a single, modern code to eliminate arbitrage and ensure fairer taxation of capital vs. labor income.
- **Allow foreign tax credits** to avoid double taxation.
- **Broaden the VAT base** by removing unjustified exemptions (e.g., diesel, certain sectors) rather than raising rates and lowering thresholds.
- **Introduce or increase "sin taxes" (Excise Txaes)** on tobacco, alcohol, and sugary products, both for revenue and public health.
- **Reform property taxation**, including ending exemptions for vacant properties and harmonizing second-home taxation.
- **Target profits made during the crisis** via early loan repayment at preferential rates, Sayrafa arbitrage, and subsidy exploitation.

Formalization is Fiscal Consolidation

- **Link tax compliance to social protection**: Create a national social registry to transparently show citizens how taxes fund services, rebuilding trust.
- **Formalize informal labor** through inclusive labor market reforms (e.g., extending protections to agriculture, domestic work, gig economy), and link formalization to social protection. Yet prior economic and fiscal impact assessments should be systematized to weigh the cost-benefit ratios.
- **Create a single, interoperable digital identity system** that integrates data across tax, social security, health, property, and business registries. (Lebanon should capitalize on previous efforts to deploy the national unique identification number.
- **Offer targeted tax incentives for productive investments** (e.g., AI, green energy, recycling) rather than blanket or outdated exemptions that fuel inequity.
- **Introduce flexible contribution mechanisms** (e.g., annual, seasonal, or income-aggregated payments) to accommodate irregular earners like freelancers, smallholders, and seasonal workers.

Rethinking Tax Incentives

- **Phase out obsolete exemptions** (e.g., real estate, education, MEA, investment banks) that distort markets and fuel inequality.
- **Replace with targeted incentives** for:
  - Renewable energy, recycling, green buildings
  - Medical/ecotourism, AI, digital innovation

- R&D and export-oriented sectors

- **Ensure incentives are time-bound, performance-based, and tied to job creation** and foreign exchange generation, and ultimately seeking sustainable development.

Addressing the Digital Economy

- **Tax digital firms** (Uber, Airbnb, GAFAM) where value is created (user location).
- **Consider profit allocation rules** (such as fractional apportionment) to counter base erosion and profit shifting (BEPS) to establish clear transfer pricing rules in compliance with the OECD requirements.

Anti-Corruption & Enforcement

- **Adopt a risk-based audit approach**, focusing resources on high-value evasion (e.g., large firms, holding companies used for aggressive tax planning).
- **Clarify valuation rules** (e.g., for real estate and companies) to reduce arbitrary assessments and bribery opportunities.
- **Strengthen the Financial Intelligence Unit (FIU)** to trace illicit flows and enforce beneficial ownership transparency.
- **Publicly "name and shame"** major tax evaders to deter non-compliance.
- **Strengthening sanctions:** large fines, license revocation for enablers (lawyers, auditors), and criminal prosecution for fictitious transactions.

Achrafieh, Beirut - **E:** aldicorg@gmail.com - www.aldic.net

INTERVENTIONS

1) Behavioral Insights for Voluntary Compliance

H.E. Dr. Fadi Makki, Minister of State for Administrative Reform, discussed the application of behavioral economics, specifically "nudges, to improve tax and utility bill compliance, drawing on experiences from the UK and Lebanon. He explained that behavioral science combines psychology and economics to understand why people (individuals or businesses) often fail to comply with rules, not out of malice, but due to cognitive biases like present bias, loss aversion, or overconfidence. He underscored the role of behavioral economics in fostering tax compliance. Drawing on successful UK experiments, he explained how "nudges", such as informing taxpayers that "9 out of 10 neighbors have paid", can significantly improve payment rates. He mentioned that in Lebanon, similar trials using the national flag to invoke civic duty proved effective in utility bill collection. Mr. Makki argued that such low-cost, evidence-based interventions could unlock substantial compliance gains without new legislation. He finally argued that even in a context of eroded public trust, behavioral interventions can increase voluntary compliance without new laws or heavy enforcement.

Macroeconomic Context and Revenue Outlook

Mr. Frederico Lima, IMF Resident Representative for Lebanon, opened the discussion by highlighting the significant shift in Lebanon's fiscal landscape. Government revenues, which stood at approximately $1.5 billion in 2021, are now projected to reach $6 billion in the 2026 budget. This partial recovery, he noted, stems from measures such as the customs dollar and nominal adjustments. However, he cautioned that spending pressures, ranging from public sector wages, interest dues, to reconstruction, threaten fiscal stability. Mr. Lima emphasized the urgency of reinstating the suspended fuel excise tax, which could generate nearly $400 million annually, and advocated for comprehensive tax policy reforms, including modernizing the fragmented income tax law, broadening the VAT base, and introducing property and "sin" taxes.

Institutional and Operational Challenges

Mr. Louay Chehade, Director of the Revenue Department of the Ministry of Finance, detailed the structural hurdles facing revenue collection. He highlighted the lack of integration between the VAT and Income Tax directorates, outdated IT systems (last updated in 2012), and severe staffing shortages (only 40% of authorized positions filled). A critical gap, he noted, is the absence of a unified national identification number, which impedes coordination across agencies like the Commercial Register and Social Security Fund. Mr. Chehade also stressed the need to redefine tax evasion legally to target sophisticated schemes by large taxpayers, rather than penalizing small non-compliance.

Immediate Technical Interventions

Attorney Karim Daher (ALDIC Founder) proposed immediate, actionable reforms to broaden the tax base and boost revenues fairly—such as recovering unpaid dues from illegal telecom and private generators operators, enforcing property legalization laws (Law 64/2017), incentivizing municipalities to register informal taxpayers, and leveraging international tax transparency tools like Law 55/2016 to access offshore income data. He also advocated for medium-term structural changes, including replacing the current schedular income tax with a comprehensive general personal income tax aligned with international standards, adopting e-governance and blockchain to enhance inter-agency data sharing, and imposing targeted taxes on crisis-era windfall profits. He also called for reform of both the Property Tax Law and the Inheritance and gift taxes' law in order to address loopholes and vulnerabilities and close gasps facilitating tax abuse and fictive transactions. His overall message aligns with broader critiques that the draft budget lacks sufficient ambition in structural reform, a concern echoed by the IMF, which has urged Lebanon to implement deeper tax policy changes and ensure transparent expenditure reporting to meet fiscal sustainability goals He also addressed the shortfalls of the 2026 budget's proposal, including the 3% "advance tax," warning it could be unconstitutional and disproportionately burden compliant taxpayers.

The Role of Technology

Mr. Marc El Hachem (PwC) presented electronic invoicing as a transformative solution. By mandating real-time, authenticated B2B and B2G invoices, Lebanon could close its estimated $3 billion VAT gap—the difference between theoretical and actual collections. He cited Mexico's success, which reduced its VAT gap from 20% to 5% within five years of implementation. Mr. El Hachem recommended a phased rollout, starting with public procurement, to build a collaborative, data-driven relationship between taxpayers and the state.

Labor Market Informality

Dr. Nizar Hariri (Ifpo) linked tax base expansion to labor market reform. He noted that over 60% of Lebanon's 1.2 million workers are informal, with entire sectors like agriculture and domestic work excluded from labor protections. This structural informality not only shrinks the tax base but also entrenches inequality. He advocated for a holistic approach that integrates formalization with social protection, citing Italy's regularization of over one million informal workers as a model that simultaneously boosted revenues and social cohesion. He proposes a National Unified Registry (NUR) as a foundational tool to enhance administrative visibility, improve tax compliance, reduce leakage in social spending, and enable progressive taxation. By aligning social rights with fiscal incentives, the state can rebuild a fiscal–social contract based on inclusion and reciprocity rather than coercion.

Building a Fiscal-Social Compact

Mrs. Yasmine Ibrahim (UNICEF) emphasized the critical link between public finance and social protection in Lebanon, particularly in fulfilling the state's obligations under the UN Convention on the Rights of the Child, which requires using the "maximum available resources" to realize children's rights. In practice, this involves monitoring the national budget to assess whether children's needs are prioritized and whether public resource allocation promotes equity. Despite Lebanon's severe fiscal constraints, the core issue isn't a lack of funds but how revenues are collected and distributed. The 2026 budget relies heavily on regressive indirect taxes—86% of total tax revenue—such as VAT and fuel levies, which disproportionately burden low-income households while leaving the wealthy undertaxed. Historically, social spending has been minimal (5–6% of GDP pre-crisis) and skewed toward public-sector pensions, leaving most citizens without safety nets. Even post-crisis, budget allocations remain dominated by debt servicing, salaries, and inefficient subsidies, effectively entrenching inequality and eroding public trust. While the recent adoption of Lebanon's first National Social Protection Strategy marks progress, its success hinges on sustainable, fair financing. Ms Ibrahim advocated for progressive tax reforms, improved revenue collection, and non-fiscal tools like a national social registry (a centralized database to enhance targeting, reduce duplication, and increase transparency in benefit deliver)y. Ultimately, rebuilding the social contract requires a mindset shift: taxation should be seen not as a burden but as a contribution to the common good, with citizens more willing to comply when they see tangible, equitable returns in public services and social protection. This, she asserted, is essential for creating a social contract where citizens see taxation as an investment in collective well-being.

Private Sector Perspectives

Mrs. Rima Freiji, representing the formal private sector, argued that Lebanon's economic recovery must prioritize growth over mere fiscal austerity, likening the country's situation to a bankrupt company that needs both cost management and revenue generation to survive. Criticizing the state's current focus on extracting revenues from the already-compliant formal private sector, while neglecting the vast informal economy. She warned that this approach disincentivizes formality, exacerbates unfair competition, and accelerates business closures (38,000 registered businesses lost since 2019). The formal sector, they stressed, is unfairly bearing the tax and compliance burden for the entire economy, while informal actors operate unchecked, undermining job creation, public revenues, institutional strength, and trust in governance. Key recommendations included creating a joint public-private task force to design realistic formalization incentives, digitizing compliance, cracking down on the cash economy, and linking formalization to tangible benefits. Ultimately, the state must shift from an extractive mindset to an inclusive, growth-oriented one that protects and empowers the formal private sector as Lebanon's most vital asset for sustainable recovery.

Anti-Corruption and Financial Integrity

Mr. Mohammad Al Moghabat emphasized that tackling informality is inseparable from fighting corruption and money laundering. He advocated for a risk-based approach to tax audits, focusing resources on high-value evasion cases, and strengthening the Financial Intelligence Unit to trace illicit flows. He stressed that without a credible anti-corruption framework, any tax reform will fail to gain public legitimacy.