ALDIC — Lebanese Association for Taxpayers' Rights

Short & Medium Term Interim Measures

Proposed by ALDIC

Budget 2027 · Tax policy proposals · Interactive reading version

Immediate / Short Term Medium Term

Considering the several gaps and deficiencies in the current Lebanese Tax system as well as insufficient tax collection due to tax fraud and evasion, and given the need to provide prompt and necessary solutions in the mid-short terms, intermediate and corrective measures may be considered to pave the way for a more extensive and general tax reform that should be built on reconciling taxation objectives with economical and societal developmental goals and ensuring that the tax burden is fairly distributed across the various categories in society.

This scenario favors quick easy to apply corrective measures to stabilize the system, improve revenue collection and strengthen citizens’ engagement.

With this in view, several interim measures could help increasing revenues and strengthening tax fairness and compliance; some of them on the short and immediate term and others on the medium-term.

Immediate / Short Term

1. Broadening the tax base by a gradual orientation and incorporation of the informal sectors/economy into the formal economy striving to ensure horizontal equity by virtue of which Taxpayers in similar conditions should bear similar tax burdens → improving and strengthening awareness (financial literacy) + promote tax ethics and communication + adopt simplified legal device. Several measures should be adopted therefore to that end among which:

- Require municipalities to identify unregistered businesses (kindly refer to the provisions of the Budget Law No 144/2019 in this regard), such as private generator operators and illegal internet providers and other ‘hidden” businesses, in order to combat tax evasion → amendment of the said law should proposed with a view to provide municipalities with incentives similar to those established under the "Whistleblowers" Law (Law No. 83/2018).

- Activate international information exchange (Common Reporting Standard) → enforce Law No. 55 of 2016 to obtain financial data on Lebanese residents earning capital income derived and/or transferred from abroad (either EOIR and AEOI).

- Amend the notification procedures and applying the tax identification number (TIN) for each resident, whether national or foreigner → to be linked to their ID, passport, or residency permit (kindly refer in this regard to the proposed Draft Bill hereto enclosed- Document No.1).

- Tax Procedures Law No. 44 dated 11/11/2008, as amended, provides a direct legal basis for combating tax evasion and expanding the base of taxpayers. Article 24 (section 2) thereof stipulates that "... syndicates and private bodies responsible for registering persons who practice non-commercial professions must inform the tax administration of every registration, cancellation of registration, or transfer of registration, on a monthly basis." The implementing decision for this article (Articles 13 to 17) detailed this obligation precisely, such that: the concerned syndicates and private bodies must submit to the Revenue Directorate, on a monthly basis, complete data on every registration, amendment, deregistration, or referral to retirement (including full name, date and number of memberships, specialization, personal address and work address). Indeed, Article 17 of the implementing decision No 453/1 dated 22/04/2009 goes even further, granting the Revenue Directorate "the right to access the information database belonging to public administrations, syndicates, and private bodies in order to directly extract the required information on the natural and legal persons concerned." Furthermore, under Section (1) of Article 23 of the same law, every person ,including government administrations and legal persons of public status, public institutions, municipalities, and federations of municipalities, in addition to various private-sector bodies and syndicates ,must provide the tax administration with any information it requests, including information protected by banking secrecy, in order for it to carry out its duties, including tax audits or measures aimed at strengthening tax compliance and detecting tax evasion.

> Accordingly, it is both permissible and incumbent upon the Directorate General of Finance Revenue Directorate to request or directly extract, from the following bodies, complete lists of the names of their active members: the Beirut and Tripoli Bar Associations (lawyers actually registered and practicing), the Order of Physicians of Lebanon (Medical Association), the Order of Dentists (dentists), the Lebanese Association of Certified Public Accountants (licensed accountants), and the Beirut and Tripoli Orders of Engineers (engineers), and then to automatically match these lists against the taxpayer register held by the Revenue Directorate. It may also obtain lists of the names of clients and customers, the number of transactions, and the pattern of work; and, with respect to engineers, the number and details of the plans, designs, and permits signed by each engineer, in order to analyze and compare them and derive estimated figures through desk audits, comparing them against the results declared annually by these taxpayers or by those who have failed to declare.

2. Amend some articles of the Income Tax Law (Legislative-Decree No 144 dated 12/06/1959 with its amendments) such as article 53 in order to pave the way for the implementation of the intended reform and the entering into force of the forthcoming new General Income Tax Law.

Medium Term

1. Resort to the new technology → implementation of algorithms and computer interface links (Data mining) as well as implementing e-government and AI and linking the public institutions through centralized systems or decentralized networks like the blockchain technology and with free access to the public beneficial ownership registers; the whole in order to highlight the flaws and to pursue the recalcitrant.

2. Introduce and extend the use of earmarked taxes which increases the tax payers' knowledge of how taxes are channeled, which in-turn could increase taxpayers' vigilance over the efficiency of the service provided and influence for its improvement. For instance: (i) increase taxation for specific sectors that invest in natural resources or benefit from monopolies; or (ii) on activities that are harmful to health (Sin tax) and prejudicial to the environment (careers and cement factories) + **(iii)** on profits generated during the crisis by early repayment of foreign-currency loans at heavily discounted exchange rates + Sayrafa & Subsidies.

3. Pursue the recalcitrant through severe sanctions, such as large fines (substantial enough to change the incentives), and Name & Shame → the Code of Tax Procedures (Law No. 44/2008) should be amended in this regard.

4. Amend the Law on inheritance and gift taxes → address loopholes and vulnerabilities and close gasps facilitating tax abuse and fictive transactions.

5. Extend the scope of the VAT (Law No 379 dated 14/12/2001 with its amendments) to all the economic activities + lower thresholds + reorganize its rates fairly (three rates).

6. Reform and amend the Law on property tax (Law dated 17/09/1962 with its amendments) and apply a distinction between rented and non-rented residences → channel revenues derived from rents to the income tax and allocates the tax applicable to the owners residing in their homes to the local authorities as a property usage tax.

7. Abolish the property tax exemption for vacant units which represents both a missed revenue opportunity (for both state and municipal revenues) and a distortion in housing policy → would support the right to adequate housing by encouraging owners to put empty units on the rental market.

8. Broaden and extend the network of Double Taxation Treaties (DTT) to accompany the reform toward the general income tax regime. In the meantime, and in the assumption where Lebanon does not have a DTT with the country where the revenues are generated, tax authorities will allow deductions or foreign tax credits for taxes that Lebanese residents already paid to the aforesaid other jurisdictions.

9. Shifting from counterproductive and unfair tax incentives to efficient and useful tax incentives to revamp the economy and attract domestic and foreign investments (consolidate the disparate measures and amend article 5 of the current Income Tax Law).

> Incentives must necessarily be coupled with other key factors: (i) political stability; (ii) transparent and accountable public administration; (iii) flexible labor code; (iv) quality of the infrastructure; (v) and adequate dispute resolution mechanism.

ELIMINATING CURRENT COUNTERPRODUCTIVE TAX INCENTIVES AND EXEMPTIONS AS WELL AS PREFERENTIAL TAX TREATMENTS

- Permanent exemption of educational institutions (article 5 of the Income Tax Law) → resulted in a departure from its original aim (combat illiteracy) and led to multiplications of fake institutions and decrease of education’s level.

- Permanent exemption of maritime and aerial transportation companies (MEA) → created a monopolistic situation and unlawful competition → unjustified increase of travel and transport rates.

- Exemption of Investment banks and medium and long-term credit banks (Decree-Law No.50/1983) → exemption from corporate tax (17%) during the seven first financial years and thereafter up to a ceiling of 4% of the paid-up capital.

- Exemption of shares’ transfer in Lebanese joint stock companies (SAL) → led to tax avoidance and abuse notably in the real estate sector.

- “Package Deal” of the Law No. 360/2001 promoting investments (IDAL) → has been taken out of context and unfairly infringed and misused to lower tax burden.

ADOPTING WELL-TARGETED TAX INCENTIVES AS REGULATORY AND STIMULATION TOOL

- Several promising activities may be supported in line with the recommendations of the McKenzie report and the outgoing government’s recovery plan → renewable energy, recycling, cosmetics and perfumes, Green Buildings, prefab structures, ecotourism and Medical Tourism, environment or innovation, technology and telecommunication, etc.

- The Lebanese resident incomes derived from foreign movable capital (foreign shares and debentures as well as interests) and that are currently liable to a schedule tax of 10% (Chapter 3 of the Income Tax Law) may be exempted from the tax for a determined period if reinvested in specific economic activities (industrial/agriculture/technology) and/or to promote underdeveloped geographical areas → it will contribute notably to develop the territory, the agriculture and the efficient industries with the view to create jobs, to bring in foreign exchange and ensure balance of payments' equilibrium, to stimulate growth and finally to increase budgetary revenues.

- Moreover, special Incentives to attract investments must also be considered. It may be addressed in the current Income Tax Law (article 5) or through the establishment of Investments Code which includes tax provisions promoting the investment as well as benefits that may be contractually agreed upon or on an administrative license. These exemptions and benefits will vary depending on the nature and amount of the investment contemplated.

> The overall is to reassure the investor with long-term commitments, including the stabilization of tax burdens for a fixed period (tax ruling).
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> Incentives must be however conditional on implementation of prior economic impact study and establishment of yearly reports tracing the evolution and results of tax expenditures as regards to the initial projections → encrypt the direct shortfall derived from measures and the discounted counterpart to term (growth, employment, balance of payments, etc.).
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> Tax reduction or exemption from a sector or category of taxpayers can be offset by the increased business performance and increased revenues and consumption capacity that will re-establish definitely and by the imposition itself the basic equilibrium.