

**THE FISCAL SYSTEM  
OF LEBANON**

by

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## PREFACE

The purpose of this study of the fiscal system of Lebanon is threefold: first, and chiefly, to give a description of public revenue and public expenditure; secondly, to appraise the main taxes and the direction of outlays; and thirdly, to evaluate the taxation system and public expenditures from the standpoint of their effects on distribution and production.

As a background, it has been found appropriate to give a brief history of the development in taxation since the First World War and a survey of the growth of public revenue and public expenditure since the independence of the country.

The writer is especially indebted to Dr. Albert Badre under whose guidance and supervision this study was made. Dr. Badre read very carefully the first draft of this paper and made many valuable remarks and suggestions. The writer is also indebted to his colleagues in the Ministry of Finance for providing him with much of needed information; to his father for advice and encouragement; to his sister, Samia for her painstaking in typing the handwritten draft; and to Miss Hilda Shiber for her neat and accurate typing of the final draft.

Raja S. Hinadeh

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AN ABSTRACT OF  
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Since the independence of Lebanon in 1943 both public revenue and public expenditures have increased rapidly. Actual receipts (excluding withdrawal from the reserve account) have increased from about 38 million Lebanese pounds in 1944 to 83 million in 1950. Public expenditures have risen even more rapidly. During the same period, they have increased from about 28 million pounds to 85 million.

The increase in receipts has been due chiefly to the institution and development of the income tax, increase in the yield of the customs duties arising from larger imports of consumption and capital goods and rise in the yield of excise taxes on benzine and tobacco resulting from increased consumption. The growth of public expenditures has been due mainly to the increasing Government functions following the independence (e.g. defence and foreign service); to increase in public works and social services; to waste due to poor administration; and to extravagance encouraged by budget surpluses.

Budget surpluses during the period 1944 to 1950 amounted to about 169 million pounds of which about 81 million have been used for appropriations to the budget. Most of the remaining amount has been placed in a special fund called the Developmental

Works Fund and used for undertaking developmental projects.

The public revenue rests to a great extent on indirect taxes imposed mainly on necessities and other articles of general consumption. Indirect taxes account for more than three quarters of tax revenue and for more than two thirds of total revenue. The most important of these taxes are customs duties, the tax on tobacco through the tobacco monopoly, and the tax on benzine and kerosene. These alone accounted in 1950 for about 65 per cent of tax revenue and for about 57 per cent of total revenue.

Direct taxes include the income tax, the buildings tax, the land tax, the succession tax, the private vehicles tax, the forest tax, and the radio receivers tax. These account for less than one fifth of total revenue. Their fiscal importance, is, however, expected to increase when the new land tax already enacted is put into operation and when the administration of the new succession tax is adequately organized. The most important direct tax is the income tax which accounts for about two thirds of direct taxes. It is levied on all incomes except those from buildings and land which are subject to the buildings tax and to the land tax respectively. The incomes subject to the income tax are divided into three categories: income from industrial, commercial and non-commercial enterprises; income from salaries, wages and pensions; and income from movable capital (i.e. debts and equities).

Each of these categories is taxed separately. To the first two categories progressive rates are applied; to the third a uniform proportional rate of 10 per cent is applied.

Other important direct taxes are the buildings tax, the land tax, and the succession tax. The buildings tax is levied on the gross rental value of buildings at a uniform rate of 8.33 per cent (excluding the tax for the benefit of municipalities). The land tax consisted until last year (1952), of the 'unified' werko ( a tax on capital value) and tithe taxes, based on old assessments. This unified tax has been replaced, beginning 1953, by a new progressive land tax based on income (actual or assessed) from land ownership and land cultivation. The succession tax is a new progressive tax levied on all rights and property existing in Lebanon, that pass to other by will, gift, waqf or any other way that does not involve compensation. The first two of these taxes as well as the income tax, have serious defects.

Taken as a whole, the tax system in Lebanon is very regressive, for the great regression of indirect taxes is far from being compensated by the progression in the direct taxes. Consequently, the tax system accentuates the inequality in the distribution of income and more so the inequality in economic welfare derived from income.

The regressiveness of the tax system also affects

adversely production by reducing the efficiency of the working class both in the present and the future, and by reducing the purchasing power of the masses who have a high propensity to consume and whose consumption consists mainly of locally produced goods.

Economic stability is also adversely affected by the regressive character of the tax system, for the regressiveness makes the burden of taxes vary relatively less than variation in the national income.

About 45 per cent of public expenditures in the ordinary budget go to general administration, security and justice; and only about 40 per cent go to economic and social activities. Actual expenditure on security alone accounted in 1950 for about 30 per cent of total expenditure.

Actual expenditure on economic and developmental activities amounted in 1950 to 24 million Lebanese pounds (including gross expenditures on posts and telegraphs of about 2 1/2 million pounds), or 28 1/2 per cent of total expenditures. Estimated expenditure on these activities for 1952 amounted to about 22 1/4 million pounds, or 23 1/2 per cent of total estimated expenditures. These expenditures are, however, supplemented by expenditures from the Development Works Fund. Appropriation to this fund averaged since its institution in 1944, to 12 million Lebanese pounds a year. Expenditures out of this fund went mainly to the construction of the International

Airport of Khalde, to roads, and to irrigation and water supply.

Actual expenditure on social services accounted in 1950 for 16 per cent of total actual expenditures. Estimates for 1952 formed 19 1/3 per cent of total estimated expenditures. About two thirds of social expenditures go to education, mainly elementary, and one third to health services. The standard of both services is however very low.

Until recently no adequate control has been exercised over public expenditures. Consequently, many leakages have taken place. However, the recently established Accounting Council is expected to control effectively the preparation of the budget, its execution and the internal audit of Government accounts.

Expenditures on social services and on economic and developmental activities compensate only to some extent the adverse effect of the tax system on income distribution and production. The compensation could, however, be enhanced if the standard of social services is raised and the leakages in the developmental projects are checked. Economic fluctuations could also be mitigated if public expenditures are managed in a way to compensate them, and if some expenditures with built-in-flexibility are introduced.

In general much improvement is needed in the fiscal

system and fiscal policy of Lebanon, not only for removing the bad effects on distribution and production, but also for a rapid economic development designed to overcome the problem of over-population.

Rapid economic development demands capital formation on a large scale; an adequate supply of skilled labor, and introduction of modern technological and managerial skills. These require that a substantial part of the national income be saved, and that saving and hoarding be mobilized and channeled into economic developmental activities of greatest urgency and productivity. Fiscal policy could play an important role in attaining these requirements.

## Chapter I

### BRIEF HISTORY OF LEBANESE PUBLIC FINANCE SINCE FIRST WORLD WAR

#### A. Developments in Taxation

Before the First World War, Lebanon, which covered only the autonomous Mount Lebanon, had a simple tax system. The chief taxes, aside from customs and excise duties - which were collected outside its territory and went to the Ottoman Government - were the miri land tax and the poll tax, or mal al a'nak. The miri tax was based on the productivity of land assessed by an old system of measurement. In the rest of the Ottoman Empire, the chief taxes, besides customs duties were the tithe, the land werko (a tax based on capital value of land) the buildings tax (a tax on gross rental value), the tanattu' tax (a semi income tax), the animal tax, the road tax, and the monopoly taxes on tobacco and salts. The Ottoman monopolies of tobacco and salt did not apply to Mount Lebanon. It had an independent salt, but no tobacco, monopoly.

In September 1920 the districts of Beirut, Sidon, Tripoli and the Biqa' were combined with Mount Lebanon to form the State of Greater Lebanon. The Lebanese constitution was declared in 1926 and the State of Greater Lebanon became the Lebanese Republic.

In March 1921, the French High Commissioner issued an arrêté which provided for the unification of all taxes and

duties over the whole territory of the Greater Lebanon on the basis of the legislation in force in the Wilayet of Beirut. The process of unification was, however, very slow. The buildings tax was the first to be unified, unification taking place in 1922.

In 1923 the tamattu' tax and the road tax were extended to the old Mount Lebanon, and the mal al a'nak tax of Mount Lebanon was abolished.<sup>(1)</sup> In 1926 duties on alcohols and liquors were also extended to Mount Lebanon. In 1930 the monopoly of tobacco, which was until that time in force in parts of the Lebanese Republic with the exception of Mount Lebanon, was abolished and replaced by the tobacco excise tax, called the banderole, which was made to apply to all the Lebanese Republic. In 1933 a uniform land tax was instituted; while before that date the land tax used in Mount Lebanon differed completely from those used elsewhere. Again it was not until March 1938 that the salt monopoly was extended to Mount Lebanon; and until December 1940 that fiscal stamps duties were uniform in all the Lebanese territories.<sup>(2)</sup>

### 1. Land Taxes

a. The tithe. This was a tax on the gross produce of

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1. George Hakim, "Fiscal System" in Economic Organization of Syria, ed., Said B. Hammad (American Press, Beirut, 1936), p. 341.

2. Andre Tueni, "The Budget and the Fiscal System of Lebanon" (in Arabic), Les Conference du Canacle, Vol. IV, Nos. 5-6, May 25, 1950, pp. 96, 97.



miri lands.<sup>(1)</sup> Originally the rate of this tax, as its name implies, was 10 per cent, but during the latter part of the nineteenth century it was increased to 12 1/2 per cent.<sup>(2)</sup>

The gross produce of land was determined each year by the administrative council of the district with the help of technical assessors. The collection of the tithe was usually carried out by the 'farming' method. By this method the right of collection in each village was auctioned separately and the highest bidder was given the right to collect the tax from the peasants. However, when the highest bid fell short of a minimum amount fixed by the administrative council for the village as a unit, the tithe was collected by the agents of the Government.

In 1925 the tithe was commuted; the new tithe abolished the farming system and imposed a fixed tax on every village determined by the average of the tithe returns during the previous four years. Later in 1929 an amendment was made to the effect that villages can ask for a new assessment of its crops.

b. The Land 'Werko'. This tax was a property tax assessed on the capital value of land. The value of lands subject to this tax was determined by a general valuation made in 1903.<sup>(3)</sup> Though provision was made for the revision

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1. Miri land is land in which the right of use is in the hands of individuals, but the title is vested in the State. Practically all agricultural land outside Mount Lebanon is miri.
  2. George Hakim, loc. cit., p. 346.
  3. Amin Mouchawar, Notice sur les impôts et les taxes au Liban (Imprimerie de St. Paul, Harissa, Liban, 1934), p. 23.

of the valuation every five years, no revision has been made since the original valuation.<sup>(1)</sup> The rates of the land 'werko' including surtaxes were as follows:<sup>(2)</sup>

5.68 per thousand on the value of lands that paid the tithe or that were uncultivable.

5.83 per thousand on lands within the boundaries of the city of Beirut.

14.75 per thousand on lands in the vicinity of Beirut, that paid no tithe.

14.20 per thousand on land in the vicinity of Tripoli and Sidon, that paid no tithe.

Both the tithe and the land 'werko' were not applied to the land of Mount Lebanon. There, a special land tax, popularly called the 'miri' tax, was used. This tax was based on the productivity of land as assessed in 1861. The productivity was measured in terms of 'dirhams', and its subdivisions, kirats and habbas. For example, a piece of land that produced one qintar of olive oil was measured as one dirham. The tax was an apportioned one. It was determined for each year by dividing the total amount of the tax which the Government wished to collect by the number of dirhams assessed.<sup>(3)</sup> The assessment of the 'miri' tax has never been revised.

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1. Hakim, loc. cit., p. 355.

2. Majmu'at al Qawanine (Collection of Laws), p. 359.

3. Hakim, loc. cit., p. 357.

In 1933 all taxes on land were abolished and replaced by a "unified land tax" applicable to the entire Lebanese territory. This tax was in the form of a tax contingent on every village, the amount of which was fixed by executive decrees. The contingent was fixed in Mount Lebanon at 85 per cent of its 'miri' returns in 1932, while in the rest of the Lebanese Republic it was fixed at 75 per cent of the tithe contingent (50 per cent of the silk tithe contingent) plus 75 per cent of the land 'werko' returns in 1932. <sup>(1)</sup>

In 1939 the unified land tax was abolished and in 1940 a new tax was established. However, due to the insurmountable difficulty that was encountered in its application, the "unified land tax" was reinstated in 1942 with an increase in the rates. <sup>(2)</sup>

By the end of 1951 a modern land tax which had been lying in the drawers of the Parliament for several years, was ratified, and is to take effect beginning with 1953. This new tax is discussed in Chapter IV.

## 2. Buildings Tax

When the buildings tax was unified in 1922, it was made 12 per cent of the gross rental value of all buildings, and all lands used for commercial or industrial purposes. <sup>(3)</sup>

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1. Journal Officiel, July 8, 1933, Legislative Decree No. 108L, August 12, 1933.
  2. Tuani, op. cit., p. 91.
  3. Majma'at al Cawanine, Legislative Decree No. 1481, August 13, 1922.

Deduction of 1000 Lebanese piasters of the rental value of property belonging to the same owner or owners in the same district was allowed before the application of the tax. The rental value was fixed on the basis of a declaration made by the proprietor. New buildings were exempted for a period of three years.

The above building tax was replaced in 1935 by another buildings tax based upon the rental value as assessed by tax commissions.<sup>(1)</sup> In 1945 the tax was revised and its basis became the actual instead of the assessed rent, and the rate was made 8 1/3 per cent of the actual rent. This tax is discussed later.<sup>(2)</sup>

### 3. The Tamattu' Tax

The tamattu' tax<sup>(3)</sup> was a non-inclusive, semi-personal, and rough income tax. It was levied only on commercial and industrial enterprises and professional and salaried people. Incomes from movable property - like stocks, bonds, and mortgages - and income from agriculture were not taxed. Incomes from immovable property, subject to other taxes, like land and buildings were also not made subject to the tax. Besides, the tamattu' tax was levied on separate incomes, so that a person who had two occupations paid a tax on each occupation apart.

Furthermore, the tax was levied in most cases on rough

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1. Journal Officiel, December 31, 1930, Law of December 15, 1930.

2. See Chapter IV.

3. Description of this tax is taken from Hakim, loc. cit., p. 367.

but convenient, indices of income; only in the case of salaries and wages and income of public utilities, actual income was taxed. Fixed taxes were levied on professionals with no place of business, such as doctors working at home. The indices of income and the rate of the tax differed with the kind of business. The main indices used were the rent of the place of the business, the number of people employed and the means of transportation used. The rate of tamattu' based on actual income was 5 per cent for public utilities and 4 per cent for salary and pension receivers. For the latter the first L.L.S. 600 were exempted. Government employees, teachers, day laborers, artists and authors etc. were, however, totally exempted from the tamattu'. In 1944 the tamattu' was abolished and replaced by a new income tax. This tax is discussed in Chapter III.

#### 4. Excise Duties

The main excise duties applied in Lebanon are the tobacco excise (or returns of tobacco monopoly), the returns of salt monopoly, the tax on inflammables, and the tax on alcohols and liquors.

a. The Tobacco Monopoly. The tobacco industry was originally made a monopoly by the Turkish Government in 1374.<sup>(1)</sup> The revenues from this monopoly together with several others were conceded to the Ottoman Debt administration in 1381; and in 1384 this concession was leased out to

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1. Tuenl, op. cit., p. 96.

a company, The Régie Co-intéressée des Tobacs.<sup>(1)</sup> It was not until 1926 - when the agreement in regard to the distribution of the Ottoman Public Debt was concluded - that the rent was paid over to the different States (including Lebanon) which formed the Ottoman Empire, in accordance with their assessed shares. In 1930, after the expiration of the Régie convention, the banderole excise duty was instituted in Lebanon and Syria.<sup>(2)</sup> The rate of this duty was 25 per cent. Later the duty on cigarettes was graduated according to the retail price of the standard package. This graduation amounted to an advalorem duty of 25 to 40 per cent. The rate of the duty on cigars and 'tambak' was made 40 and 25 per cent advalorem respectively.<sup>(3)</sup>

In 1935 the banderole system was abolished and the tobacco monopoly reinstated. This monopoly is discussed later.

b. The Salt Monopoly. As in the case of the tobacco monopoly, the administration of the salt monopoly was turned over to the Lebanese Government in 1926.<sup>(4)</sup> Mount Lebanon remained, however, outside the scope of this monopoly until

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1. Hakim, loc. cit., p. 376. The revenues conceded to the Ottoman Public Debt Administration were: Tobacco monopoly, salt monopoly, stamp duties, duties on fishing, duties on liquors, the silk tithe and a custom surtax. Tueni, op. cit., pp. 94-95.

2. Hakim, loc. cit., p. 376.

3. Ibid., p. 377.

4. Tueni, op. cit., p. 96.

1936.<sup>(1)</sup> In 1929 the selling price of salt was fixed at 5.675 piasters per kilogram;<sup>(2)</sup> in 1943 the price became 20 piasters per kilogram and in 1944 30 piasters per kilogram.<sup>(3)</sup> These selling prices were few times as much as the cost price.

In 1952 the salt monopoly was abolished and a tax on the import and extraction of salt was imposed.<sup>(4)</sup>

c. Tax on Inflammables. The excise tax on benzine was instituted to replace the *tanattu'* on automobiles.<sup>(5)</sup> Originally, the rate of the tax was 2.50 piasters per liter, but was increased later. In 1941 an excise tax on kerosene, gas oil and fuel oil was instituted. The rates of this tax were 2.50, 1, and .50 piasters per kilo respectively. In 1947 the tax on gas oil and fuel oil was abolished and the Government empowered with the right to revise the tax rates on inflammables.<sup>(6)</sup>

d. Duties on Alcohols and Liquors. These duties which were applied in all parts of Lebanon except Mount Lebanon were extended to Mount Lebanon in 1926.<sup>(7)</sup> These

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1. Tueni, op. cit., p. 96.

2. Hakim, loc. cit., p. 379.

3. Amin Mouchawar, Precis de Legislation Fiscale Libanaise (Imprimerie St. Paul, Harissa, Liban, 1945) p. 107.

4. The Lebanese Budget Law of 1952, articles 13 and 13.

5. Hakim, loc. cit., p. 373.

6. Majmu'at al Qawanine, Laws of January 30, 1947.

7. Tueni, op. cit., p. 97.

taxes are levied on production and sale.<sup>(1)</sup> The rate for production of alcohol was first 14.0625 piasters per kilo, while the rate for liquors other than wine was a proportional tax of 30 per cent of the market value; for wine it was 15 per cent. Shops that sell liquors have been subject to a tax levied as a percentage of the rent of the shop, varying according to the category of the shop. In 1933 imported liquors and alcohol were also made subject to the tax. Since that date the rates of the tax were subject to several changes. The present situation is discussed in Chapter VII.

#### 5. Customs Duties.

During the Turkish Regime the capitulations prevented the Turkish Government from adopting a tariff policy favorable to the economic development of the Turkish Empire. Customs duties were allowed only for fiscal purposes. The rate allowed in 1908, which continued until the settlements following the First World War, was 3 per cent advalorem on all imported goods. The post-war settlements abolished the capitulations, but article 18 of the Mandate imposed on the Mandatory Powers over the states detached from the Turkish Empire the obligation that there should be no discrimination against goods originating in or destined to any of the members of the League of Nations. But subject to this limitation each mandated territory could on the advice of the Mandatory impose customs duties as they saw fit. Accordingly, tariff rates were increased, though the aim of the increase was

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1. Hakim, loc. cit., p. 330.



until 1926 fiscal with little or no protection to industry or agriculture.

The tariff was divided into three sets of rates: the normal schedules, the maximum schedule and the conventional rates. The normal schedule was applied to the members of the League of Nations. The maximum schedule, the rates of which were in general twice the normal rates, was applied to non-members. The conventional rates which differed with the country concerned were applied to adjoining states. The great majority of the items of the normal schedule paid an advalorem duty of 25 per cent, while the remaining items with few exceptions paid a duty of 11 per cent.

The eleven per cent duty was applied in general to necessities such as cereals, foods, fruits, animal products; rates higher than 25 per cent were applied to certain agricultural and industrial products that were locally produced in adequate quantities. Raw materials necessary for local industries and capital goods were exempted. Since the last war tariff rates for protection have been increased considerably and the scope of exemption has been widened.

During the Mandate regime, there was a customs union between Lebanon and Syria. Customs receipts were paid to the "Administration of Common Interests" run by the French High Commission, and were used in payment for numerous services of common interests to Lebanon and Syria. Since independence, 1943, the administration of common interests was turned over to the national Governments of Lebanon and Syria. The dif-

ferent common services were shortly after 1943 divided, leaving in common administration, the customs, control of the railroads and control of the tobacco monopoly. The Customs Union was abolished in March 1950. The present condition of the Customs Duties is discussed in Chapter VI.

#### B. Growth of Public Revenue and Public Expenditure

Comparison between public budgets before the independence of Lebanon in 1943 is made difficult by two main factors. First the fact that Lebanon was united with Syria in several services of common interest,<sup>(1)</sup> which had a separate budget, known as the 'Compte de Gestion des Services d'Interêt Commun'. Into this Budget of Common Interests went the revenue from customs duties, powder monopoly, dues from concessions and miscellaneous receipts. From these revenues were paid expenses on common economic and social services and maintenance of the Special Troops of the Levant. Surpluses of the Budget of Common Interests were partly used to assist the separate budgets of the states. The second difficulty of comparison is the large fluctuation in the value of the local currency which followed the fluctuation of the French franc, and which makes the growth of revenue and expenditure largely nominal.

Because of these difficulties, it has been found more appropriate to limit comparison to the period since independence. Table I shows the growth in totals of classes, and grand totals, of public receipts and expenditures in the ordinary Budget since 1944.

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I.

These common interests were administered by the French High Commission.

Table I

Receipts and Expenditures of Lebanese Government  
1944 - 1952 (1)  
(In thousand Lebanese pounds)

	RECEIPTS		1946	1947	1948	1949	1950	1951	1952
	1944	1945						Estimates	
Direct Taxes & Similar Duties	5,842	7,467	10,196	12,485	11,695	14,985	15,056	16,125	17,990
Indirect Taxes and Fees	20,713	32,838	50,918	68,854	57,924	62,422	58,380	60,025	61,500
Revenue from Public Domain	382	1,083	259	150	746	491	888	1,420	1,800
" " Enterprises	1,870	2,350	2,701	2,690	3,058	3,129	2,719	3,140	3,305
Miscellaneous Receipts	4,780	7,210	9,586	6,746	5,282	6,100	6,159	6,820	9,560
Receipts in attenuation of expenditures	160	160	255	466	88	240	106	220	95
Withdrawal from Reserve	148	3,983	6,240	16,852	14,758	21,828	18,432		
Receipts from Administration of Common Interests	1,364								
Special Revenue to cover Army Expenditures	3,000	3,424							
Receipts from War-Profits Tax		1,000							
<b>TOTAL</b>	<b>37,863</b>	<b>69,196</b>	<b>79,156</b>	<b>102,840</b>	<b>93,432</b>	<b>108,983</b>	<b>101,809</b>	<b>89,450</b>	<b>94,250</b>

Table I (Continued)

	1944	1945	1946	1947	1948	1949	1950	1951	1952
<b>EXPANDED EXPENDITURES</b>									
Presidency of Republic	179	444	257	428	450	464	498	486	480
Chamber of Deputies	449	456	421	484	639	681	574	604	1,106
Prime Ministry	310	232	360	239	240	210	267	267	243
Foreign Affairs	185	696	764	1,646	2,084	2,302	2,747	3,633	3,680
Finance	2,972	2,435	2,843	3,194	3,596	3,596	3,408	3,601	4,336
Interior	6,196	6,975	10,477	10,785	11,557	11,863	11,370	11,950	11,902
Justice	2,050	2,370	2,802	2,907	2,780	2,928	3,125	3,845	3,454
Public Works	4,678	6,370	10,251	15,380	16,781	16,328	18,013	17,880	16,552
Public Instruction	2,615	3,095	4,189	4,985	5,693	6,774	7,857	10,490	11,022
Supply	353	372							
Agriculture	342	910	1,130	1,344	1,526	2,100	3,520	3,710	3,344
Post and Telegraph	1,374	1,504	1,788	1,996	2,239	2,136	2,476	2,432	2,729
National Defense	11	3,236	11,273	9,949	13,313	17,318	14,581	17,491	16,487
Public Health	1,689	2,003	2,469	3,452	3,730	4,617	4,819	4,628	5,114
National Economy	211	294	612	395	545	413	508	560	484
Information							872	532	616
Social Affairs									684
Debt (Dus (Fensilms, cebidies, etc))	1,792	1,829	2,042	2,913	3,158	7,581	7,442	6,536	10,510
Expenditures of past years	79	278	240	267	1,765	4,140	2,775		
Reserve								916	1,598
<b>TOTAL</b>	<b>27,666</b>	<b>35,921</b>	<b>51,934</b>	<b>60,722</b>	<b>70,008</b>	<b>83,402</b>	<b>84,522</b>	<b>89,480</b>	<b>94,280</b>
Surplus Eco. over Exp.	10,217	23,274	27,162	42,116	23,424	25,591	17,287	-	-
Less Withdrawals from Reserve	142	3,963	5,240	16,852	14,738	21,626	18,432		
<b>Net Surplus or Deficit</b>	<b>10,075</b>	<b>19,311</b>	<b>21,922</b>	<b>25,264</b>	<b>8,686</b>	<b>3,965</b>	<b>-1,205</b>		

1. Actual figures from files of Ministry of Finance; Estimates from Lebanese Republic, Budgets.

Actual receipts, excluding withdrawals from the Reserve Account, have increased from about 33 million Lebanese pounds in 1944 to about 33 million pounds in 1950, while actual expenditures have increased from 27.7 millions to 34.5 millions. The large increase in total receipts have been due chiefly to increase in direct taxes resulting mainly from the institution and development of the income tax and the great increase in revenue from customs and excise duties on combustibles resulting, mainly from the increase in imports since the war and rise in the consumption of benzine.

The growth in public expenditure has been due to many factors. Chief among them were: increase in public works; increase in public instruction, agricultural and health services; the creation and development of the Ministries of Foreign Affairs and of Defence; increase in pensions, and since 1949 payment of instalments of debt to France resulting from purchase of French property; and the extravagance and waste due to poor administration and the temptation of budget surpluses.

During the period 1944 to 1950, such surpluses amounted to about 169 million Lebanese pounds, of which about 81 millions have been used for additional appropriations to the Budget. Most of the remaining amount together with some withdrawals from other sources have been placed in a special fund called the Developmental Works Fund,<sup>(1)</sup> and

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1. Sums placed in the Developmental Works Fund since its institution (1944) amounted, at the end of 1952 to about 108.2 million Lebanese pounds, of which 85.5 millions were taken from the Reserve Account. The remaining 22.7 millions were taken from the following sources: 8.5

used in undertaking developmental projects<sup>(1)</sup>. Movement in the Reserve Account during the years 1943-1951 are shown in Table II.

In addition to the Ordinary Budget, there are special budgets for the Directorate of Supply,<sup>(2)</sup> the Telephone Service, the National Lottery, the Commissariat of Tourism, and the Customs Administration. The budgets for these services are not available for most of the years under consideration. Their estimated receipts and expenditures for the year 1952 are shown in Chapter II Table VI and Chapter VII Table VI respectively.

Besides, a special account was opened for expenditures in connection with the UNESCO conference in 1943<sup>(3)</sup> and another for expenditures in connection with the war in Palestine.<sup>(4)</sup> For expenditures in respect to the UNESCO conference 3.5 million Lebanese pounds were appropriated from the receipt of the Customs Administration.<sup>(5)</sup> However,

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millions from receipts from the "Interêts Commun", 4.2 millions from receipts from the War Profits Tax - levied during the War, 1.5 million from the revenue of the National Lottery, and 3.5 millions from the Treasury, as a loan to be repaid from the proceeds of sale of the old Airport of Beirut. (See Laws of April 5, 1944, of October 5, 1944, of June 27, 1949, and of March 27, 1950).

1. See Chapter VII, Table VII.
2. The Department of Supply was until 1945 an independent Ministry; in 1946 it was combined with the Ministry of National Economy; since then it became financially autonomous.
3. Law of March 10, 1943.
4. Law of May 11, 1948.
5. Law of March 10, and Law of December 21, 1948.

the expenditures on this conference including the cost of the hall built for the purpose amounted to about 4 million pounds. The deficit amounting to half a million was temporarily covered by treasury loans.

Table II  
Movements in the Reserve Account  
1943 - 1951

Year plus period allow- ed for Clos- ing account	Receipts (Budgetary Surpluses)	Withdrawals for Addition- al appropria- tions to Budget	Withdrawals of appropria- tions to the Developmental Works Fund	Balance at the time of closing accounts
1943	7,507,642	2,413,036	5,572,480	8,632,366
1944	10,216,957	142,342	950,000	17,816,981
1945	23,273,998	3,962,941	10,030,630	27,097,408
1946	27,162,019	5,240,107	20,369,542	28,649,778
1947	42,117,543	16,851,532	-	53,915,789
1948	23,425,326	14,738,231	18,500,000	44,102,884
1949	25,590,774	21,625,652	9,000,000	39,068,006
1950	17,287,296	18,491,882	19,590,000	18,273,420
1951	32,997,853	17,741,958	-	33,529,320
<b>Totals</b>	<b>209,579,413</b>	<b>101,207,681</b>	<b>84,012,652</b>	

For the purpose of meeting the extraordinary expenditure of the Palestine war the Government imposed temporary surtaxes on private cars, on cement consumption, and on incomes belonging to the first and third category of the income tax. New taxes were also temporarily imposed on communications and on products distributed by the Directorate of Supply.<sup>(1)</sup> Receipts from all these taxes amounted to about 6.5 million Lebanese pounds. The expenditures incurred on the Palestine War and its consequences amounted, however, to about twice this amount. Half a million of the deficit was covered by assistance contributions. The remaining deficit amounting to about 6 million pounds, covered temporarily by Treasury loans, is expected to be paid from withdrawals from the Reserve Account.

Receipts and expenditures of municipalities of important towns since 1947 are shown in Table III.

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1. Law of May 11, 1948.



Table III

Municipal Budgets of Towns, Seats of "Casas"<sup>(1)</sup>  
(In thousand Lebanese pounds)

Town	R e c e i p t s				Estimates	
	1947	1948	1949	1950	1951	1952
Beirut	8,909	10,044	14,431	8,801	9,693	9,992
Tripoli	1,463	1,620	1,687	1,846	-	1,543
Amioun	12	13	10	11	18	20
Halba	13	15	14	19	21	25
Batroun	15	14	15	11	16	18
Zghorta	27	69	324	195	77	76
Baabda	24	25	-	-	55	55
Bourge Hamoud	298	375	435	364	527	587
Beit-d-Dine	8	7	7	3	6	5
Djounieh	111	59	54	16	44	47
Aley	202	287	263	205	275	304
Saida	244	200	195	802	-	400
Sour	71	89	84	93	87	92
Marjayoun	45	56	50	44	93	93
Djessine	17	19	19	14	29	33
Zahle	201	273	197	224	279	317
Baalbeck	100	106	95	93	171	191
Rachaya	34	26	25	19	31	26
Hermel	6	7	5	5	19	17

1. Figures for 1947 and 1948 are taken from the Recueil des Statistiques Générales, 1947-1948 (Ministère de l'Économie Nationale), p. 189. Figures for 1949-1952 are taken from the Bulletin Statistique Trimestriel, first quarter 1952, (Ministère de l'Économie Nationale), p. 39.

Table III (Continued)

Town	E x p e n d i t u r e s					Estimates	
	1947	1948	1949	1950	1951	1952	
Beirut	7,783	9,090	15,063	8,966	9,693	9,992	
Tripoli	1,344	1,396	1,709	1,676	-	1,543	
Amioun	11	11	10	10	18	20	
Halba	8	8	6	9	21	25	
Batroun	14	10	15	9	16	18	
Zghorta	22	48	324	183	77	76	
Baabda	17	19	-	-	55	55	
Bourge Hamoud	187	139	320	172	527	587	
Beit-d-Dine	6	6	7	3	6	5	
Djounieh	85	32	53	16	44	47	
Aley	176	220	250	200	275	309	
Saida	217	189	167	795	-	400	
Sour	36	40	36	48	87	92	
Marjayoun	19	38	44	29	93	93	
Djessine	12	13	19	13	29	33	
Zahle	169	237	170	202	279	317	
Baalbeck	96	101	95	81	171	191	
Rachaya	19	7	17	10	31	26	
Hermel	4	5	5	5	19	17	

## Chapter II

### ACTUAL PUBLIC REVENUE IN 1950 AND BUDGETARY ESTIMATES FOR 1951 AND 1952

Government classification of public revenue is not very sound (See Table I). No distinction is made between public revenue and public receipts. Sales proceeds of immovable and movable property are grouped together with the revenues from public domain. Similarly, no accurate distinction is made between tax and non-tax revenues. Two kinds of fees for services rendered, namely notary public fees and court fees are grouped together with excise and customs duties under the heading Indirect Taxes and Duties, while the duties on amusements and gambling are grouped together with licence fees, fees for services rendered, and other receipts such as royalties, fines, interest on funds, etc., under the heading of Miscellaneous Receipts. It has been found, therefore, necessary, in discussing the public revenue of the country, to use a different classification than that used in the Lebanese Budget.

Broadly speaking the public revenue in Lebanon may be divided into two main categories: tax revenues and non-tax revenues. Tax revenues are by far the more significant. In 1950 they amounted to 88 per cent of total revenue; and their budgetary estimates in 1951 and 1952 amounted to 86 per cent of total revenue.

Table I

Public Receipts in the Lebanese Budget for 1952  
(in Lebanese pounds)

Part I

Direct Taxes and Similar Duties

<u>Kinds of Revenue</u>	<u>Estimates</u>
Buildings tax .....	3,000,000
Land tax .....	650,000
Income tax .....	11,000,000
Animal tax .....	-
Radio receivers tax .....	350,000
Private vehicles tax .....	350,000
Forest tax .....	40,000
Succession and Gift tax .....	2,000,000
<hr/>	
Total of Part I .....	17,990,000

Part II

Indirect Taxes and Duties

<u>Kinds of Revenue</u>	<u>Estimates</u>
Duties on inflammables .....	13,500,000
Court fees .....	325,000
Notarial fees .....	175,000
Duties on land registration .....	3,000,000
Stamp duties .....	3,000,000
Duties on liquors .....	600,000
Duty on salt .....	500,000
Duty on tobacco and tamber .....	15,500,000
Duty on cement .....	1,400,000
Customs duties .....	23,000,000
<hr/>	
Total of Part II .....	61,500,000

Part III

Receipts from Public Domains

<u>Kinds of Revenue</u>	<u>Estimates</u>
Sales of movable property .....	100,000
Revenue from public domain (excluding forests) .....	400,000
Revenue from forests .....	50,000
Sales of lands .....	1,250,000
<hr/>	
Total of Part III ...	1,300,000

Part IV

Receipts from Public Enterprises

<u>Kinds of Revenue</u>	<u>Estimates</u>
Revenue from posts .....	1,825,000
Revenue from telegraphs .....	1,400,000
Revenue from official publications .....	30,000
Revenue from explosives monopoly .....	50,000
<b>Total of Part IV .....</b>	<b>3,305,000</b>

Part V

Miscellaneous Revenues

<u>Kinds of Revenue</u>	<u>Estimates</u>
Discount for pensions .....	325,000
Receipt from hospitals .....	50,000
Port dues .....	30,000
Import licence fees .....	-
Fines and forfeitures .....	600,000
Royalties from the bank of Syria and Lebanon .....	50,000
Interest on funds .....	300,000
Duties on gambling and amusements .....	1,000,000
Road circulation fees .....	1,000,000
Public security fees .....	400,000
Consular fees .....	1,000,000
Receipts from the Office of Exchange .....	25,000
Receipts from quarantines .....	130,000
Receipts from concessionary companies .....	600,000
Royalties from petroleum companies .....	2,000,000
Airports fees .....	900,000
Sundry receipts .....	500,000
<b>Total of Part V .....</b>	<b>9,560,000</b>

Part VI

Receipts in Attenuation of Expenditures

<u>Kinds of Revenue</u>	<u>Estimates</u>
Receipts from municipalities .....	20,000
Other receipts in attenuation of expenditures .....	75,000
<b>Total of Part VI .....</b>	<b>95,000</b>

Summary

	<u>Total</u>
Direct Taxes and Similar Duties .....	17,990,000
Indirect Taxes and Duties .....	61,500,000
Receipts from Public Domains .....	1,800,000
Receipts from Public Enterprises .....	3,305,000
Miscellaneous Revenues.....	9,560,000
Receipts in Attenuation of Expenditures ...	95,000
	<hr/>
Grand Total	94,250,000

Tax revenues have been divided, as in the budget, into two heads - direct taxes and indirect taxes. Non-tax revenues have been divided into three heads: fees, public enterprises and domain, and other receipts.

A. Tax Revenue

1. Direct Taxes

Direct taxes include the buildings tax, the land tax, the income tax, the radio receivers' tax, the private vehicles tax, the forests tax, and the succession and gifts tax. <sup>(1)</sup> The fiscal importance of these taxes put

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1. The succession and gift tax has been applied only since the beginning of 1952. Before this year there was among direct taxes an animal tax, called the Agnam tax, which has been abolished.

together is very small as compared with indirect taxes. This may be attributed to four main causes. First, the land tax is insignificant, due partly to the fact that no assessment has been made since 1903, and partly to the exceedingly poor collection. Secondly, the income tax is a tax on separate incomes, which decreases considerably the benefit of progressive income taxation. Thirdly, the rates of the income tax are not progressive enough at the higher brackets. Fourthly, evasion of the income tax is very considerable, due mainly to incompetency of tax assessors. In 1950 actual receipts from direct taxes amounted to 20.5 per cent of tax revenue and 18.1 per cent of total revenue. Their budgetary estimates amounted in 1951 and 1952 to 21.3 and 22.6 per cent of tax revenue and to 18.2 and 19.4 per cent of total revenue respectively.

The fiscal importance of direct taxes is expected to increase somewhat when the new land tax already enacted is put into operation and when the collection of the new inheritance and gift tax becomes well organized. Actual receipts from each one of the direct taxes during 1950 and estimates for 1951 and 1952, and their fiscal importance - expressed as a percentage of tax revenue and of total revenue - are shown in Table II.

Table II

Fiscal Importance of Direct Taxes  
1950 - 1952

Tax	1950 Actual Revenues		1951 Budgetary Estimates		1952 Budgetary Estimates	
	Amount in Leb.L.	% of total re- ve- nue	Amount in Leb.L.	% of total re- ve- nue	Amount in Leb.L.	% of total re- ve- nue
Buildings tax	2,778,301	3.78	2,600,000	3.43	3,000,000	3.77
Land tax	666,806	0.91	625,000	0.82	650,000	0.82
Income tax	10,106,521	13.76	11,500,000	15.17	11,000,000	13.84
Animal tax	376,881	0.51	425,000	0.56	-	-
Radio re- ceivers tax	324,546	0.44	300,000	0.40	350,000	0.44
Private ve- hicles tax	760,040	1.04	625,000	0.82	950,000	1.20
Forest tax	42,375	0.06	50,000	0.07	40,000	0.05
Succession and gift tax	-	-	-	-	2,000,000	2.52
<b>Total</b>	<b>15,055,470</b>	<b>20.50</b>	<b>16,125,000</b>	<b>21.27</b>	<b>17,990,000</b>	<b>22.64</b>
		<b>18.07</b>		<b>18.24</b>		<b>19.36</b>



## 2. Indirect Taxes.

Indirect taxes play the most important part in the public finance of Lebanon. And The commodities taxed are largely necessities, which reflects the emphasis laid on tax yield with little or no regard to the unfavorable effect on cost of living and distribution of income. The very high taxes on inflammables (kerosene, benzine, etc.) salt and tobacco provide a good illustration of this policy. In 1950 indirect taxes accounted for 79.5 per cent of the tax revenue and 70.1 per cent of total revenue; and according to the budgetary estimates of 1951 and 1952 they account for nearly the same percentages. These percentages would have been a little higher had the customs duties receipts figured in the ordinary budget at their gross value i.e. without deducting administration expenses of the Customs Administration.

Actual receipts from the different indirect taxes and their importance expressed as percentage of tax revenue and of total revenue for the year 1950 and estimates for 1951 and 1952 are shown in Table III. Customs duties rank first, followed by tobacco duty and tax on inflammables. The three together form about 56 per cent of total revenue.

Table III

Piscal Importance of Indirect Taxes  
1950 - 1952

	1950			1951			1952		
	Actual Revenue			Budgetary Estimates			Budgetary Estimates		
	Amount in Leb. L.	% of tax revenue	% of total revenue	Amount in Leb. L.	% of tax revenue	% of total revenue	Amount in Leb. L.	% of tax revenue	% of total revenue
Duties on in- flammables	11,396,476	15.51	13.63	12,500,000	16.46	14.13	13,500,000	16.95	14.53
Duty on land registration	3,629,378	5.04	4.44	3,500,000	4.62	3.96	3,500,000	5.77	5.25
Stamp duties	2,937,134	4.00	3.53	2,500,000	3.30	2.83	2,500,000	3.77	3.23
Duty on liquors	602,008	0.82	0.72	550,000	1.12	0.96	600,000	0.76	0.65
Duty on salt	1,667,045	1.45	1.23	1,300,000	1.71	1.47	500,000	0.63	0.54
Duty on tobac- co & tobacco	15,802,722	21.51	19.97	14,500,000	19.12	16.39	15,500,000	19.50	16.63
Duty on cement	1,349,389	1.84	1.62	1,950,000	2.57	2.20	1,400,000	1.76	1.51
Customs duties	20,505,600	27.91	24.62	21,500,000	28.55	24.31	23,000,000	28.93	24.76
Duty on amuse- ments and gambling	1,044,415	1.43	1.25	1,100,000	1.45	1.24	1,000,000	1.25	1.00
TOTAL	54,444,217	73.57	73.11	53,700,000	72.73	67.49	51,000,000	71.50	66.21

3. Non-Tax Revenues

1. Fees. The total collection of revenue from service and licence fees amounted in 1950 to 23.3 per cent of non-tax revenue and to 3.3 per cent of total revenue. The various items under this heading are shown in Table IV.

2. Public Enterprises and Domain. Revenues from public enterprises as given in the budgets, are gross. Expenditure on post and telegraph appear together under expenditures of the Ministry of Post and Telegraph; expenditure on official publications are included with those of the Ministry of Justice; expenditure on explosives are included with those of the Ministry of the Interior. The most important public enterprises are those of the post and telegraph. Net income from these amounted in 1950 to 211,436 Lebanese pounds. Revenue from forests and other public domain, though are probably not much reduced by expenditures, are small since the Lebanon is very poor in public domain. Table V shows the revenues of the different items included in the ordinary Budget under Public Enterprises and Domain.

Table IV

Fiscal Importance of Fees

1950 - 1952

Fees	1950		1951		1952	
	Actual Revenue		Budgetary Estimates		Budgetary Estimates	
	Amount in Leb. L.	% of non-tax total reve- nue	Amount in Leb. L.	% of non-tax total reve- nue	Amount in Leb. L.	% of non-tax total reve- nue
Court fees	934,757	3.43	1,250,000	9.31	325,000	6.10
Notarial fees	195,201	1.32	175,000	1.30	175,000	1.31
Road circulation fees	1,035,492	10.53	900,000	7.14	1,000,000	7.45
Public security fees	424,094	4.31	250,000	1.93	400,000	2.93
Consular fees	131,220	1.33	1,000,000	7.93	1,000,000	7.46
Airports fees	172,353	1.75	350,000	2.74	300,000	2.71
<b>TOTAL</b>	<b>2,793,117</b>	<b>29.29</b>	<b>4,425,000</b>	<b>35.09</b>	<b>4,300,000</b>	<b>32.07</b>

Table V

## Fiscal Importance of Public Enterprises and Domain

1950 - 1952

Item	1950		1951		1952	
	Actual Receipts	Budgetary Estimates	Budgetary Estimates	Budgetary Estimates	Budgetary Estimates	Budgetary Estimates
	Amount in Leb. L.	% of non-tax revenue total	Amount in Leb. L.	% of non-tax revenue total	Amount in Leb. L.	% of non-tax revenue total
Revenue from post	1,319,423	13.42	1,750,000	13.37	1,325,000	13.61
Revenue from telegraphs	1,369,328	13.91	1,300,000	10.31	1,400,000	10.44
Revenue from off. public.	31,594	0.32	40,000	0.32	30,000	0.22
Revenue from explosives	50,000(1)	0.51	50,000	0.40	50,000	0.37
Revenue from forests	54,103	0.55	60,000	0.48	60,000	0.37
Revenue from other public domain	761,995	7.75	355,000	2.77	400,000	2.93
TOTAL	3,595,343	36.46	3,550,000	23.15	3,755,000	27.93

1. Budgetary Estimates

As has already been stated the Telephone Service, the National Lottery and the Directorate of Supply have separate budgets. The estimated receipts of these enterprises for 1952 are shown, together with the receipts side of the other special budgets, in Table VI.

Table VI

Receipt Estimates in the Special Budgets  
1952  
(In thousand Lebanese pounds)

Supply .....	16,645
Sales .....	(1) 12,000
Sugar and confectionary tax <sup>1</sup> ..	3,425
Receipts from inflammable tax <sup>2</sup> ..	1,000
Miscellaneous .....	220
Telephone Service .....	7,050
Establishment section .....	3,500
Withdrawals from exploitation receipts .....	300
Withdrawals from reserve for depreciation .....	100
Withdrawals from reserve a/c .	100
Contribution of others .....	450
Miscellaneous .....	50
Loans .....	2,500
Exploitation Section .....	3,550
Ordinary receipts .....	3,500
Other receipts .....	50

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1. The rate of this tax is 10 piasters per kilo of brown sugar; 20 piasters per kilo of white sugar; 50 piasters per kilo of confectionaries.
  2. The inflammables tax collected for the Supply department over and above the Fiscal and municipal tax is 1,60 piasters per liter of kerosene and 0.50 per liter of benzine.

Table VI (Continued)

Commissariat of Tourism .....		2,675
Receipts from Customs		
Administration .....	2,650	
Receipts from Ski lifts ....	25	
National Lottery .....		4,010
Sales of Lottery tickets ...	4,000	
Other receipts .....	10	
Customs Administration .....		5,300
Ordinary Customs receipts ..	30,850	
Miscellaneous .....	150	
Less appropriation		
to the ordinary budget .....	23,000	
to the budget of Commissariat		
of Tourism .....	2,650	
Other appropriations .....	50	
	25,700	
TOTAL		35,680

31,000

3. Other Revenues. Under this heading are grouped all revenues which do not fall under any of the foregoing headings. Table VII shows the fiscal importance of each of these revenues in 1950-1952.

Besides the different sources of public revenues shown in this chapter there are some other receipts from the sales of public domains and from withdrawals from reserves. The amount of these receipts in the last three years are shown in Table VIII.

Table VII

Fiscal Importance of "Other Receipts"  
1950 - 1952

Item	1950		1951		1952	
	Actual Revenue		Budgetary Estimates		Budgetary Estimates	
	Amount in Leb. L.	% of non-tax revenue total	Amount in Leb. L.	% of non-tax revenue total	Amount in Leb. L.	% of non-tax revenue total
Discounts for pensions	929,340	9.45	1,000,000	7.93	925,000	6.90
Receipts from hospitals	55,236	0.56	45,000	0.36	50,000	0.37
Port dues	82,282	0.84	80,000	0.63	90,000	0.69
Fines and forfeitures	630,667	6.41	650,000	5.16	600,000	4.47
Royalties from Bank of Syria & Leb.	14,225	0.14	200,000	1.58	50,000	0.37
Interest on funds	563,766	5.73	400,000	3.17	600,000	2.24
Receipt from Office of Exchange	-	-	25,000	0.20	25,000	0.19
Receipt from quarantines	137,131	1.39	200,000	1.58	130,000	0.97
Receipts from concessionary co.	117,819	1.20	400,000	3.17	600,000	4.47
Royalties from Petroleum co.	317,625	3.23	800,000	6.34	3,000,000	14.92
Receipts in attention of exp.	105,407	1.07	220,000	1.74	95,000	0.71
Miscellaneous revenues	514,259	5.23	620,000	4.91	500,000	3.73
<b>TOTAL</b>	<b>3,467,297</b>	<b>35.25</b>	<b>4,640,000</b>	<b>36.76</b>	<b>5,355,000</b>	<b>39.94</b>
		<b>4.18</b>		<b>5.24</b>		<b>5.76</b>



Table VIII

Receipts from Sales of Public Property  
and from Withdrawals from Reserves  
1950 - 1952

Item	1950 Actual Receipts	1951 Budgetary Esti- mates	1952 Budgetary Esti- mates
Receipts from sales of lands	4,840	L.L.1,000,000	L.L.1,250,000
Receipts from sales of movable property	67,057	10,000	100,000
Withdrawals from reserves	18,491,882	-	-
<b>TOTAL</b>	<b>18,563,779</b>	<b>1,010,000</b>	<b>1,350,000</b>

No internal or external public debts have been contracted by the Lebanese Government except the debt resulting from the purchase of some immovable property from the French authorities in 1948, amounting to Leb.L.20,000,000, the debt resulting from the purchase of the Nakoura-Tripoli Railroad, amounting to Leb.L.5,000,000 and that resulting from replenishing the Lebanese paper money cover following the devaluation of the French franc. This last debt amounted to Leb.L.58,732,000 to be redeemed by yearly installments for a period of 33 years. <sup>(1)</sup>

1. See p. 108.

## Chapter III

### THE INCOME TAX

#### A. General Features

The income tax was established in December 1944 to replace the old Tamattu' tax. It is levied on all incomes except those from buildings and land which are subject to the Buildings Tax and the Land Tax respectively. The incomes subject to the Income Tax are divided into three categories: incomes from industrial, commercial and non-commercial enterprises; incomes from salaries, wages and pensions; and incomes from movable capital including interest and dividends of all sorts.

Each of these categories is taxed separately. Receivers of income of the first two categories are allowed an exemption considered as a minimum subsistence. Two sets of progressive rates are applied to the first category, one on incomes derived from commercial and industrial enterprises and one on incomes derived from professions, handicrafts and other enterprises; and one set of progressive rates is applied to the second category. To the third category a uniform proportional rate is applied. Receipts from the Income tax amounted in 1950 to Leb.L.10,106,521. This amount represents 13.8% of tax revenue and 12.1% of total revenue.

#### B. Tax on the Profits of Industrial, Commercial and Non-

Commercial Enterprises.

This tax is levied on all incomes derived in Lebanon from commercial, industrial, handicrafts, professional, or any other enterprise that is not subject to another category of the income tax. <sup>(1)</sup> The following income recipients are exempted: <sup>(2)</sup>

- a. Educational institutions;
- b. Hospitals and relief institutions supported or aided by the State or public institutions, or philanthropic societies, provided they receive patients free of charge;
- c. Private sanatoria and mental disease hospitals;
- d. Consumers cooperatives, agricultural syndicates and cooperatives, that do not have a commercial purpose;
- e. Agriculturists who sell their own land or cattle produce, provided such produce is not exposed in sale stores.

1. Basis

The taxable income of all enterprises subject to the tax is either the actual net profit or the estimated net profit. The following categories of enterprises are compulsorily taxed on the basis of their actual net profits as shown in their balance sheet and income statements: <sup>(3)</sup>

- a. Corporations, partnerships whether 'collective' or 'commandite', and cooperatives subject to the tax.

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1. Ministry of Finance, Majmu'at Nusouce ad Dara'ib al Mubasharat, The Income Tax Law, articles 2 and 3.

2. Ibid., article 5.

3. Ibid., article 11.

- b. Branches of foreign companies in Lebanon.
- c. Industrial firms with the exception of handicrafts.
- d. Banks, bankers and persons undertaking discount operations.
- e. Importers, exporters, wholesale or semi-wholesale merchants, commission merchants, agents of manufacturers or commercial houses, transport companies and agents of such companies.
- f. Retailers that employ more than four persons.
- g. Drugs and chemicals ware-houses.
- h. Exploiters of gambling clubs and houses.
- i. Exploiters of first and second class hotels.
- j. Exploiters of theaters and cinemas in the cities of Beirut, Tripoli, Zahleh, and Aley.
- k. Printing presses and publishers.
- l. Grinding mills, not run by water or wind, in Beirut and Tripoli.

Other categories of enterprises, except insurance concerns, <sup>(1)</sup> may also, upon their request, be taxed on the basis of actual net profit.

By actual net profit is meant the total returns subject to the category of the income tax minus all charges and expenses necessary for the running of the business. <sup>(2)</sup> The following expenses are not deductible; <sup>(3)</sup>

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- 1. The Income Tax Law, loc. cit., article 40.
  - 2. Ibid., article 7.
  - 3. Ibid.

- a. Expenses that lead to an increase in net worth of the business.
- b. Taxes paid or accrued to a foreign country on income made in Lebanon.
- c. Losses sustained by the taxpayer in enterprises run outside the Lebanese territories.
- d. Personal expenses including amounts drawn by the enterpriser or the partner from the business as a salary.

If a loss is incurred in a given year its amount is deductible from the net profit of the succeeding year, and in case the net profit of the second year falls short of this loss, the balance is deducted from the net profit of the third year. If the balance of the original loss is not wiped out by the net profits of the third year, it cannot be deducted from the profits of the following years.<sup>(1)</sup>

To determine the taxable income of persons who are taxed on the basis of their assessed profits, the total receipt is taken as a base and multiplied by the coefficient appropriate to the category of the enterprise as it is fixed in an arrêté issued by the Minister of Finance and based on the report of a commission of five experts appointed by him.<sup>(2)</sup>

Total receipts are defined as the total returns resulting from all the operations that the taxpayer has actually

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1. The Income Tax Law, loc. cit., article 16.
  2. Ibid., articles 17, 21, 22 and 23.

undertaken during the preceding year. Such returns include specially proceeds of sale of merchandise, rent of implements, commission, interest, and brokerage. <sup>(1)</sup>

**2. Rates**

The tax is levied on the net yearly profit, actual or assessed, after allowing an exemption of Leb.L.1500 for each real person if he is a bachelor, of Leb.L.2400 if he is married, or of Leb.L.3000 if he has children. <sup>(2)</sup> Profits of corporations and the shares of 'commanditaire' partners are not exempted.

After the deduction of the appropriate exemption the following rates <sup>(3)</sup> are applied:

	Commercial and industrial enterprises	Other enterprises
On the taxable income not exceeding Leb.L.5000..	5%	4%
On the portion of taxable income comprised between Leb.L.5001 and 15000 .....	7%	5%
On the portion of taxable income comprised between Leb.L.15001 and 25000 .....	9%	7%
On the portion of taxable income comprised between Leb.L.25001 and 35000 .....	13%	10%
On the portion of taxable income comprised between Leb.L.35001 and 50000 .....	17%	13%
On the portion of taxable income comprised between Leb.L.50001 and 75000 .....	22%	17%
On the portion of taxable income comprised between Leb.L.75,001 and 100,000 .....	27%	22%
On the portion of taxable income comprised between Leb.L.100,001 and 250,000 .....	32%	27%
On the portion of taxable income comprised between Leb.L.250,001 and 500,000 .....	37%	32%
On the portion of taxable income exceeding Leb.L.500,000 .....	42%	37%

→ The Income Tax Law does not determine how the tax should

1. The Income Tax Law, loc.cit., article 18.
2. These exemptions were established by article 11 of the Budget Law of 1949.
3. These rates were established by article 12 of the Budget Law of 1949.

be computed for persons deriving part of their income from commercial or industrial enterprises and part from other sources belonging to the first category. In practice, however, such persons are taxed first on the income derived from commercial or industrial enterprises. Then the tax on the income from the other sources is computed, starting by the bracket or fraction of the bracket following that which the income from the first source has reached. <sup>(1)</sup>

A surtax of 10% on the amount of this tax is added for the benefit of municipalities. <sup>(2)</sup>

### 3. Collection

In the case of 'Collective' partnerships, the tax is levied on the income of each partner separately and collected from them as real persons. The partnership, however, is responsible for the payment of the tax due from each partner. <sup>(3)</sup>

In the case of corporations the tax is levied on the income of the corporation and collected from it as a legal person.

In the case of 'Commandite' partnerships, the tax is levied on the personal income of each responsible partner separately, and collected from them personally. The profits of the 'commanditaires', however, are taxed as a unit, and the tax is collected from the company.

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1. ~~See the example given on pages 42-49.~~

2. Originally this surtax was 5%; it was raised to 10% by the Law of January 22, 1951, article 1.

3. The Income Tax Law, loc. cit., article 31.

C. Tax on Wages, Salaries, Pensions, etc.

This tax is levied on all salaries, indemnities, allowances, wages, pensions, and life allowances paid in the Lebanese territories from a public fund to residents and non-residents and from private funds to residents or else to non-residents for services rendered in Lebanon.<sup>(1)</sup>

The following incomes are however exempted:<sup>(2)</sup>

- a. Allowances received by the clergymen for religious services.
- b. Salaries and allowances received by the members of foreign diplomatic or consular services and their foreign personnel when such an exemption is reciprocated.
- c. Salaries of military people of allied countries.
- d. Pensions of disabled persons retired from the Lebanese Government service.
- e. Life allowances and temporary allowances paid to persons disabled from work accidents.
- f. Wages of agricultural labor.
- g. Wages of servants in private houses.
- h. Salaries and wages of nurses and maids in hospitals, health centers, and similar institutions.
- i. Indemnities paid for dismissal from work.

1. Basis

The tax is based on the net returns of the taxpayer.<sup>(3)</sup>

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1. The Income Tax Law, loc. cit., article 41.
  2. Ibid., article 42.
  3. Ibid., article 43.



These are determined by subtracting from the taxpayer's gross receipts, in money or in kind, any deduction made on account of pension funds, and any allowance given to the taxpayer to cover expenses that are incurred in fulfilling the service for which the salary, wage, etc. is paid.<sup>(1)</sup>

2. Rates

Each person is allowed an exemption of Leb.L.1500 of his yearly net income if he is a bachelor, of Leb.L.2400 if he is married and of Leb.L.3000 if he has children.<sup>(2)</sup> Day laborers are allowed an exemption of Leb.L.6 per day of actual work with no regard to their personal status.

Taxpayers who have at the same time an income subject to the tax on the profits of industrial, commercial and non-commercial enterprises are not entitled to this exemption.<sup>(3)</sup> After deduction of the proper exemption, the following tax rates are applied:<sup>(4)</sup>

On portion of taxable income not exceeding Leb.L.4800 ...	2%
On portion of taxable income ranging between Leb.L.4800 and 8400 inclusive .....	3%
On portion of taxable income ranging between Leb.L.8400 and 12000 inclusive .....	4%
On portion of taxable income ranging between Leb.L.12000 and 24000 inclusive .....	5%
On portion of taxable income ranging between Leb.L.24000 and 36000 inclusive .....	6%
On portion of taxable income ranging between Leb.L.36000 and 48000 inclusive .....	8%
On portion of taxable income exceeding Leb.L.48000 .....	10%

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1. The Income Tax Law, loc. cit., article 45.

2. Ibid., article 51.

3. Ibid., article 52. It should be noted that while in most cases this text was applied literally, some officials in the Income Tax Division have interpreted it to mean that a taxpayer deriving part of his income from sources belong- to the first category are not entitled to more than one full exemption, and have in fact computed the tax accordingly.

4. Ibid., article 53.

### 3. Collection

The tax is collected from the employer or payer, who is allowed to deduct the tax from the salaries, wages, allowances, etc., which they pay to the real taxpayers. Employers and payers are personally responsible for payment of the tax to the Treasury.

### D. Tax on Income from Movable Capital

The tax on income derived from movable capital, i.e. debts and equities, is levied on interest on bonds; interest on mortgages; ordinary debts, deposits and current accounts; dividends; and all similar returns including lottery prizes to securities and bonus shares.<sup>(1)</sup> The following returns are, however, exempted:<sup>(2)</sup>

- a. Dividends distributed by Lebanese Corporations from profits subject to the tax on incomes from enterprises, provided the dividends were distributed in the year succeeding that in which profits were made.<sup>(3)</sup>
- b. Repayments to stockholders resulting from sale of assets of corporations.
- c. Repayments and amortizations paid to stockholders by a concessionary company, provided it proves that the reason for such payments is its obligation to deliver at the end of its concession all its equip-

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1. The Income Tax Law, loc. cit., article 61.

2. Ibid., article 63.

3. These dividends were exempted by article 12 of the Budget Law of 1950. Income derived outside Lebanon is<sup>78</sup> exempted because it is not subject to the tax on income from enterprises.

ment to the Government.

- d. Interest on savings deposits.
- e. Interest and returns accruing to the Lebanese Government, Lebanese municipalities, foreign diplomatic and consular bodies in Lebanon (provided it is reciprocated), philanthropic institutions, and cooperative societies with no profit motive.
- f. Interest on Lebanese Government bonds.
- g. Share profits of 'commanditaires'.

For the purpose of assessment and collection of the tax, the income from movable capital is divided into five groups:

1. Income from Lebanese stocks and bonds;
2. income from foreign securities;
3. income from mortgages;
4. income from debts and deposits;
5. income from forfeitures resulting from lapse of time.

The rate of tax on the first four groups is 10 per cent <sup>(1)</sup> of the gross returns <sup>(4)</sup>, while on the fifth group it is 50 per cent. <sup>(2)</sup>

#### 1. Income from Lebanese Stocks and Bonds

The tax on stock dividends and other returns, including payments from reserves, is assessed on the basis of auditors' reports, decisions of assembly of stockholders, decision of board of directors, and other evidences. In the case of interest on bonds the tax is based on the annual interest

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1. The Income Tax Law, loc. cit., article 64.

2. Ibid., article 85.

paid out to bondholders. (1) In the case of lottery prizes to securities the tax is based on the amount of the prize.

Collection is made at the source. Corporations and other institutions paying dividends and interest are required to pay the tax to the Treasury; and they are, in turn, empowered to deduct it from such payments. (2)

## 2. Income from Foreign Stocks and Bonds

All foreign stocks and bonds owned by residents in Lebanon, whether Lebanese or foreigners are subject to the tax. The basis of the tax is the returns of such securities as shown in a declaration that every banker, money changer, or any other person who undertakes the payment of such returns is required to make. These persons are required to deduct the tax from the returns of securities and pay it to the Treasury every six months. (3) In the case where the owner of securities deposits the returns outside Lebanese territory, or cashes himself the returns, the tax is based upon his declaration, and is collected from him. (4)

## 3. Income from Mortgages

The tax on income from mortgages is based on the interest due whether paid or not, as can be computed from the contract of mortgages. (5) The tax is paid by the creditor if he is in

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1. The Income Tax Law, loc. cit., article 65.
  2. Ibid., article 67.
  3. Ibid., articles 69 and 73.
  4. Ibid., article 74.
  5. Ibid., article 76. In case the interest rate is not mentioned in the contract, the interest is calculated on the basis of the maximum interest rate allowed by law. Actually the maximum interest rate allowed on such debts is 12 %.

possession of the mortgaged property or if he undertakes a banking or a brokerage business.<sup>(1)</sup> In any other case the tax is collected from the debtor who is entitled to deduct it from the interest or the principal.

#### 4. Income from Debts and Deposits

The tax is based upon the interest of all debts,<sup>(2)</sup> and on all deposits.<sup>(3)</sup>

The tax is collected by the affixing of stamps on the receipts or other similar documents proving the payment of interest.<sup>(4)</sup> The tax is due from the creditor, but both the creditor and the debtor are jointly and severally responsible for its payment.

#### 5. Income from Forfeitures

The tax is levied on stocks, founders shares, bonds, deposits, dividends, or interests, that have been forfeited because of lapse of time.<sup>(5)</sup> The rate of the tax is 50 per cent of the forfeited amounts, as shown in the declaration that every person profiting from such forfeitures is required to make to the Financial Authorities.<sup>(6)</sup>

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1. The Income Tax Law, loc. cit., article 79.
  2. With the exception of commercial credit resulting from term sales.
  3. The Income Tax Law, loc. cit., article 83.
  4. Ibid., article 33.
  5. Ibid., article 35.
  6. Ibid., article 36.

### B. Evaluation

The income tax applied in Lebanon seems to be the result of an arbitrary attempt to make a simplified version of an income tax of the type applied in France. There, the incomes from different sources are taxed separately at proportional rates varying inversely with the personal efforts needed in each source of income and directly with the certainty of the income derived from each of these sources. An additional progressive tax is then applied on the aggregate income of each real person after allowing an exemption varying with the personal status of the taxpayer. In an effort to have a similar tax with the features of the income tax in France, the Lebanese Financial Authorities drafted an income tax that taxes incomes from different sources separately with progressive rates on some sources of income and uniform rates on others. Recently a separate progressive tax on incomes from land has been established,<sup>(1)</sup> and a project amendment to the Buildings Tax providing a progressive tax is now before Parliament.

The Financial Authorities in Lebanon seem to be unaware yet of the fact that the application of progressive taxation to separate incomes from different sources results in lack of uniformity and is therefore unjust. It discriminates especially against persons who draw all or most of their income from one source, and in favor of persons drawing income from several sources. An example will make this clear: Suppose

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1. See Chapter IV.

that X and Z have an income of Leb.L.27,000 each. Suppose that X derives all his income from salary while Z (a physician) derives Leb.L.12,000 from salary and Leb.L.25,000 from private medical practice. Neglecting exemption, X will pay as a tax on his income Leb.L.1,128, ( $\frac{4000 \times 2}{100} + \frac{3600 \times 3}{100} + \frac{3600 \times 4}{100} + \frac{12000 \times 5}{100} + \frac{3000 \times 6}{100}$ ), while Z will pay only Leb.L.1,048, ( $\frac{4000 \times 2}{100} + \frac{3600 \times 3}{100} + \frac{3600 \times 4}{100} = 348$  and  $\frac{5000 \times 4}{100} + \frac{10000 \times 5}{100} = 700$ ). Thus, though X and Z have equal incomes, and though the rates applied on income from profession are made higher than the rates applied on salaries, X who derives all his income from salary pays Leb.L.30 more than Z who derives more than two thirds of his income from his profession. This injustice would not occur if the tax is applied on the total income of each person. Besides, the separate progressive taxation of income from different sources has the disadvantage of making a person venture in more than one kind of occupation (trade and agriculture for example), in some of which he may have little competence, in order to evade a part of the tax.

According to the preamble of the first project of the Lebanese income tax, the main reason that leads the Government to divide the income tax into three separate categories, is that such division permits the Financial Authorities to apply to incomes from different sources rates that differ with the amount of personal effort needed in each of these sources. But these ends could have been attained without sacrificing justice in taxation if like in France different proportional

rates are applied to different incomes, and one set of progressive rates is applied to the aggregate income of each real person.<sup>(1)</sup> If for some reason or another the Government prefers to tax the same income only once it can attain the above mentioned ends without sacrificing justice by applying on income from different sources coefficients varying inversely with the personal effort needed in each source, before adding these incomes and applying the progressive tax.

A second defect of the Lebanese income tax is that, though one of the main reasons that led the Lebanese Government to apply separate taxes on incomes from different sources is to tax more heavily incomes that need less effort than those that need more effort, The rates applied on different sources of income vitiate the purpose of this differentiation. For though the income derived from debts and equities needs the least amount of effort, and though it is the most certain kind of income - since it does not depend on the health, employment or life of the taxpayer - yet the rate applied on this kind of income is a simple proportional rate of 10%, while the rate on income from commercial and industrial enterprises progresses from 5 to 42 per cent and that on income from professions, handicrafts and other enterprises progresses from 4 to 37 per cent.

A third defect in the Lebanese income tax is that for income from industrial, commercial and non-commercial enterprises, the increase in size of brackets in the lower brackets

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1. See page 48.



moves slower than the increase in tax rate, and in the higher brackets moves faster than the increase in tax rates. This reduces the effect of progressive rates in providing taxation according to ability.

A fourth defect is that the rates seem too high on the lower brackets and too low on the higher brackets. These features also impair the equity of the tax and decrease considerably its expected redistributive effect.

A fifth defect is that corporations are made subject to the progressive tax like real persons. Such a practice makes the progression lose its purpose as a means to achieve equity in the distribution of the tax burden. For the real burden of the tax on the shareholder becomes the more heavy the bigger is the corporation and the smaller is the number of shares held per individual. Besides, the application of progressive taxation on corporations discourages their formation, and therefore the pooling of savings for investment in productive undertakings.

## Chapter IV

### THE NEW LAND TAX AND THE BUILDINGS TAX

#### A. The New Land Tax

As has already been mentioned a new land tax was established in December 1951, and will be applied beginning with 1953.<sup>(1)</sup> It will replace the Unified Land Tax which combines the old Land Werko, based upon the capital value of land as assessed in 1903, and the commuted tithe, based upon the average tithe for the years 1921 to 1924 inclusive. It will replace also the old miri tax in Mount Lebanon, based upon productivity. Because of no new reassessment, the Land Werko has in practically all cases no relation to capital value; and the miri tax in Mount Lebanon has lost its relation to productive capacity. Land values and productivity have changed; and many lands, which at the time of assessment were cereal lands have since been planted with trees.

On the other hand the commuted tithe lost its relationship with gross produce, because of the change in quantity and kind of produce. Besides, the tithe was never a just tax because by its nature it took no consideration of the cost of production and, therefore, it discouraged investment of capital on the land. Instead of continuing these taxes

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1. Supra., p. 5.

and making new assessments for them, the Government preferred to establish a new tax with a different base to be applied in the whole of Lebanon. The new land tax is levied on the owner of land. However, in case of long-term lease or exploitation right,<sup>(1)</sup> the tax is levied on the lease holder or exploiter.

1. Basis and Assessment

The tax is based on either the estimate of the average net returns of land or on the actual net return as declared to the Finance Authorities concerned.<sup>(2)</sup> Unused agricultural land is taxed on the basis of area,<sup>(3)</sup> while building lots are taxed on the basis of assessed selling value.<sup>(4)</sup>

For the purpose of taxation on the basis of estimated net return, the tax law establishes seventeen categories of land as shown in Table I.<sup>(5)</sup> The average net return of each of these categories is assessed by a central committee of five experts,<sup>(6)</sup> while a local committee determines the categories of lands in each town or village.<sup>(7)</sup> The assess-

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1. According to juridical interpretation, long term lease means a lease for a period exceeding 30 years. Exploitation right is considered usually as a life-long right acquired by inheritance.

2. Appendix to Official Gazette No. 52, December 26, 1951, Land Tax Law, article 4.

3. Ibid., article 38.

4. Ibid., article 22.

5. Ibid., article 5 and Table I appended to the Law.

6. Ibid., article 6.

7. Ibid., article 28.

ment of the net returns of each category serves as the tax base for a period of five years, after which period a new assessment is undertaken.<sup>(1)</sup> However, revision can be made whenever there is a change exceeding 20 per cent in the estimated average return of a given category.<sup>(2)</sup> Also the category determined for a given piece of land can be changed if there is a change in the character of land or in the kind of plants cultivated.<sup>(3)</sup> And a general revision of category determination is made every fifteen years.<sup>(4)</sup>

Table I

Categories of Lands Established by the Land Tax Law<sup>(5)</sup>

<u>A. Irrigated 'Salikh' (not planted with trees)</u>	<u>Category number</u>
Lands planted with vegetables, flower and nursery lands .....	1
Cereal lands .....	2

Each of these categories to be subdivided into three classes in accordance with its situation, fertility, and the availability of labor and exploitation facilities in the district.

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1. Land Tax Law, loc. cit., article 9.
  2. Ibid.
  3. Ibid., article 31.
  4. Ibid., article 36.
  5. Table I appended to Land Tax Law, loc. cit.

Table I (Continued)

<b>B. <u>Irrigated orchards or groves</u></b>		
Banana orchards .....		3
Citrus and Ikkidinia (Loquat) trees .....		4
Apple and pear trees .....		5
Other trees (including walnuts) .....		6
<b>C. <u>Unirrigated salikh</u></b>		
All lands that can produce	120 kgrs. or above ..	7
per 1000 sq. meters when	between 90 (incl.) and	
cultivated with wheat	120 kgrs. (excl.)..	8
	Between 60 and 90	
	kgrs. (excl.) .....	9
	up to 60 kgrs. (excl.)	
	(exempted) .....	
Land planted tobacco that can	50 kgrs. and above	10
produce per 1000 sq. meters	less than 50 kgrs.	11
<b>D. <u>Unirrigated groves or orchards</u></b>		
Olive trees .....		12
Almonds, kharroub and fig trees .....		13
Vineyards that can produce	500 kgrs. or above ..	14
per 1000 sq. meters	between 300 and 500 kgrs	15
	up to 300 kgrs. (excl)	16
Lands left as pastures .....		17

Actual net returns are determined by deducting from the gross returns all expenditure incurred in the exploitation of the land, including: cost of seeds, plants, fertilizers and insecticides; depreciation of buildings and machinery

used; interest on borrowed capital; expenses of ploughing, sowing, planting, supervision, control of pests and diseases, harvesting and picking, etc.<sup>(1)</sup> Personal expenditures or remuneration for services rendered by the proprietor must not be deducted.

The actual net return is compulsorily taken as a base when the lands of a single taxpayer are, according to the assessment, considered to yield more than Leb.L. 25,000 yearly.<sup>(2)</sup> Taxpayers whose lands are considered to yield less than this amount would be taxed on the basis of the actual yield if they ask for it and are prepared to keep the necessary accounts. Otherwise the tax will be based on estimated returns.

Lands that are considered building lots are taxed on the basis of their capital value.<sup>(3)</sup> In Beirut the capital value per square meter of each subdivision of a district is determined in the appendix to the Land Tax Law.<sup>(4)</sup> Outside Beirut eight categories are established as shown in Table II, and the category of building lots in each village or city is determined by the same local committee that determines the category of agricultural lands. The capital value is assessed on the basis of the minimum square meter value

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1. Land Tax Law, loc. cit., article 11.
  2. Ibid., article 12.
  3. All lands within the perimeter of the city of Beirut are considered building lots; outside Beirut only lands that are not cultivated or used as pastures and that can be used as building lots are considered as such.
  4. Table III appended to the Land Tax Law, loc. cit.

of the category<sup>(1)</sup> so determined for the lot. The assessed capital value of building lots serves as the basis of the tax for a period of 5 years.<sup>(2)</sup> Agricultural lands that are not exploited are taxed on the basis of their area.

Table II

Categories of Building Lots Outside Beirut  
Established by the Land Tax<sup>(3)</sup>

Range of Assessed Square Meter Value	Category Number
1 - 250 Leb. Piasters .....	1
251 - 500 .....	2
501 - 1000 .....	3
1001 - 1500 .....	4
1501 - 2000 .....	5
2001 - 3000 .....	6
3001 - 5000 .....	7
Above 5000 .....	8

2. Rates

For the purpose of taxation of cultivated agricultural lands, the net yearly income of a taxpayer from such lands is determined and a progressive tax is applied after certain deductions are made. A bachelor is allowed a deduction of Leb.L.1800; a married person Leb.L.2400, and a person having children Leb.L.3000.<sup>(4)</sup> Tax payers who profit from similar

1. See Table II.

2. Land Tax Law, loc. cit., article 23.

3. Table III appended to the Land Tax Law, loc. cit.

4. Ibid., article 37.

deductions in the computation of any other direct tax are not entitled to these deductions.

The following rates are applied to total taxable income from cultivated agricultural land:<sup>(1)</sup>

2%	on the part which does not exceed Leb.L.	5000		
3%	on the part between .....	5001 and	15000	
6%	" " " "	15001 "	25000	
8%	" " " "	25001 "	35000	
10%	" " " "	35001 "	50000	
15%	" " " "	50001 "	75000	
20%	" " " "	75001 "	100000	
25%	" " " "	100001 "	200000	
35%	" " " that exceeds .....	200000		

The tax on agricultural lands which are not exploited and the tax on building lots are not progressive. The rate on the former is 25 piasters per 1000 sq. meters, and on the latter 2 per thousand of the assessed selling value.<sup>(2)</sup>

### 3. Exemptions.

The new Land Law exempts from taxation: public property; non-agricultural land not belonging to the class of building sites; forest lands; gardens adjacent to buildings not exceeding 1000 sq. meters; land belonging to schools, free clinics, hospitals for mental disease and tuberculosis,

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1. Land Tax Law, loc. cit., article 38.

2. Ibid.



orphanages, provided such lands are not rented; land belonging to hospitals depending for support upon philanthropy and receive free patients, provided the land is not rented; and pasture lands.<sup>(1)</sup>

In order to encourage improvements on the land, the new tax law provides also for substantial temporary exemptions.<sup>(2)</sup> Swamps that are dried by their owners and uncultivable lands that are made cultivable by improvements are exempted for the first five years following the improvement. New orchards are exempted for a period varying between 2 and 15 years depending upon the kind of trees planted.<sup>(3)</sup>

Unirrigated land changed into irrigated land by its owner or exploiter is taxed for the first five years after completion of improvement on the basis of the assessed return of its previous category.<sup>(4)</sup> Unirrigated 'salikh' land converted by improvement into a higher category is similarly treated, unless it is exempted as mentioned above.

#### 4. Collection

The tax is levied on the owner who is under the obligation of paying it to the Public Treasury.<sup>(5)</sup> However, the

- 
1. Land Tax Law, loc. cit., article 38.
  2. Ibid., article 18.
  3. Table II appended to the Land Tax Law, loc. cit.
  4. Land Tax Law, loc. cit., article 19.
  5. Ibid., article 40. If the land is held on a long lease effective in January 1st 1952, and no provision exists in the lease contract for the distribution of land taxes, the tax shall be tentatively distributed equally between the owner and the leaseholder. (Article 54).

tax can be collected from lessee-holders, share-tenants and every other person possessing products belonging to the owner. Such person will nevertheless have prior right on the land itself, its rent and produce, for recovering what they have paid on account of the owner.<sup>(1)</sup>

#### 5. Evaluation

The Lebanese land tax is rather unique in its kind. It is neither a tax on the ownership of land nor a tax on income derived from agriculture, but it seems to be a tax on both income from land ownership and income from cultivation. Being based on the net income from land ~~cultivation~~ (actual or assessed), this tax cannot be considered a tax on land ownership as its name implies. On the other hand it cannot be considered as a tax on income from land cultivation, because it is levied on the owner,<sup>(2)</sup> who may not be the cultivator.

Two facts, however, show that the Lebanese land tax is intended to tax at the same time both land ownership and income from agriculture. First, in the preamble of the tax project law there is the following statement: "The Government did not want to divide the land tax into two taxes, one on property, based on rental value, and the other on agricultural profits.... but tried its best to find a tax that falls on the average income from land..." Secondly, the land tax does not

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1. Land Tax Law, loc. cit., articles 40 and 43.

2. Except in the case of a long term lease or exploitation right.

allow the deduction of the rent of land from taxable income in calculating the net actual return.

This attempt to tax income from landownership and income from land cultivation together is open to serious criticism. To apply one single tax on both land ownership and on income from agriculture, and collect it from the landowner, can only be justified when the owner of the land is himself undertaking its cultivation.

In the case where the land is leased, it is not only unjust but it is absurd to tax the landowner on income from cultivation as well as income from landownership. It is true that in article 41 of the land tax, provision is made to the effect that the landowner may collect a part of the tax from the lease holder or share tenant in accordance with the contract between them. But this does not prevent the leaseholder or share-tenant from taking <sup>this</sup> into consideration when deciding upon the amount of the rent he is willing to pay.

Even if the landowner is able to make the tenant or the shareholder pay part of the tax without reducing the rent, severe injustice can still result from the application of one single tax on both land ownership and agriculture. This can be made clear by the following example. Suppose that A has leased his estate to B for a period of 20 years for a yearly rent of Leb.L.5,000 and that it was agreed that the tax would be born equally by them. Now if B plants the land with apple trees A would profit from the exemption provision of the tax law and thus receive the yearly rent



of his land without having to pay any tax for a period of 9 years (the period of temporary exemption). Let us suppose further that after several years A receives a net yearly income of Leb.L.92,000. Now if A is a bachelor the tax would amount to Leb.L.10,090, which when divided between them would result in having A pay to the Treasury all the rent collected from B plus 45 pounds. Again, suppose in a certain year an insect destroys the crop of B, A would benefit from the tax remission provided by the Law and yet receives from B the full amount of the rent.

Another defect in the Land Tax Law is that the classification of agricultural land into categories for the purpose of assessing the revenue from land, does not take into consideration the fertility of land except in the case of 'salikh' lands and vineyards. It is obvious that the same kind of trees may yield in a certain place twice or three times as much as it yields in others, for no other reason than difference in fertility. To neglect such considerations will result in a discrimination against the landowner or exploiter of less fertile lands and in favor of the owner or exploiter of more fertile estates.

Injustice may also result from limiting the classification of building lots to eight categories, and specially from including in one category lands whose capital value per square meter varies between 1 and 250 Lebanese piasters.

Still another defect is the fact that the tax is made progressive. The injustice that results from the separate application of progressive taxes on income from different

sources has already been shown.<sup>(1)</sup>

### B. The Buildings Tax<sup>(2)</sup>

The Buildings tax is levied on all buildings including the gardens or orchards adjoining them not exceeding 1000 sq. meters. The part of these lands that exceeds the 1000 sq. meters is subject to the land tax. The Buildings tax is also levied on non-agricultural lands that are used for commercial or industrial activities. Receipts from this tax amounted in 1950 to Leb.L.2,778.301 and accounted for 3.8 per cent of tax revenue.

#### 1. Basis and Rate

This <sup>Buildings</sup> tax is imposed upon the rental value of the property as shown in the contract of rent. If there is no duly registered contract or if the amount of the rent shown therein is not considered to represent the real rental value, or else in case the owner himself occupies the property, a committee of three experts assesses the rental value.

The rate of tax is 1/12 of the rental value. A surtax *usually* not exceeding 3 per cent of the rental value is collected for the benefit of the municipalities.<sup>(3)</sup>

#### 2. Exemptions

The following property is permanently exempted from

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1. Supra, pp. 48 and 49.
  2. Hajmu'at al Qawanine, Legislative Decree No. 55 ET of June 24, 1943.
  3. In Beirut the rate of this surtax is 3 per cent.

the tax: buildings used for agricultural activities such as farm houses, grain stores, stables, etc.; residence buildings the rental value of which do not exceed 50 pounds per annum, provided the proprietor does not own other buildings that bring the aggregate gross rental <sup>value</sup> to more than 60 Lebanese pounds; property owned by the government or by municipalities used solely for public interest; property used for religious or philanthropic purposes, provided it is not rented; property owned by foreign States if used by their delegates and staff; property owned by concessionary companies undertaking a public utility service if their concessions provide for such an exemption.

### 3. Collection

The tax is collected every year from the property owner or the trustee. In case of default, the tenant - or any person in possession of returns from the property - is under the obligation to pay the tax. However such person will have prior right to reimburse himself from the owner. Partners are jointly and severally responsible for the payment of the tax. The partner who pays more than his share of the tax has the prior right of collecting from the other partner or partners the amount paid over and above his share.

### 4. Evaluation

The main defect of the Lebanese Buildings tax is that it is based on gross rental value, with no regard to depreciation, repairs and other maintenance expenses. Since old

buildings need more maintenance and upkeeping than newer buildings, the use of gross rental value as the basis of the tax, results in discrimination against the owner of old buildings.

Another defect is that the same rate is applied on both old rents which are controlled and new rents which are not. This is unjust because the controlled pre-war rents are so low that they do not cover even the depreciation of buildings. The government is probably aware of the extreme inadequacy of pre-war rents, but seems to be reluctant to redress this situation so as not to increase the discrepancy between salaries and the cost of living. But the Government should at least support part of the burden of old rent receivers by exempting them from the buildings tax or at least by reducing the tax rates applying to them.



Chapter V

THE SUCCESSION DUTY  
AND OTHER DIRECT TAXES

A. The Succession Duty

The succession duty was established by a law issued December 21, 1951. It is levied on all rights and all movable and immovable property existing in Lebanon that pass to others by inheritance, will, gift, waqf, or by any other way that does not involve compensation. Movable property existing abroad that is transferred from a Lebanese residing in Lebanon is also subject to the tax unless it is proved that a similar tax has been levied on it outside. (1)

In order to prevent evasion, property transferred by a person during the two years preceding his death to a person believed to be at the time of the transfer a legal heir of his, is considered for the purpose of computing the tax as an integral part of the inheritance. (2) Deduction is made, however, of transfer or registration taxes that have been paid with respect to this transfer. If the transferor can prove before the court that compensation was paid, he will be entitled to a refund of the amount paid in excess of the tax due.

1. Basis

a. Basis of the tax on inheritance. The inheritance

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1. Appendix to Official Gazette No. 52, December 26, 1951, Succession Duty Law, article 3.

2. Ibid., article 4.

tax is levied on the total value of all imovable property and movable property, including cash, accounts and bills receivable, stocks, bonds, and all rights, after deduction of proved debts on the estate.<sup>(1)</sup> The following elements in the estate are, however, exempted: Life insurance made by the deceased in favor of specified persons; securities exempted from taxes by law; pensions; all furniture and collections found in the house of the deceased up to an assessed value of Leb.L.15,000;<sup>(2)</sup> all claims that cannot for any reason be collected.

An heir is entitled to a deduction from the value of his share before the tax is levied to the extent of Leb.L. 10,000 if he belongs to the category of descendants, Leb.L. 7,500 if he belongs to the category of husband or wife and parents, and Leb.L.5,000 if he belongs to other categories. A descendant heir below 18 years of age, or a disabled heir, is entitled to a deduction of Leb.L.20,000.

b. Basis of the tax on bequests. The tax on bequests is levied on all rights and property passing to specified persons by a will fixing the amount or specifying the property or the right after the deduction of any obligations thereon.<sup>(3)</sup> The bequeathed is entitled to a deduction from

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1. Succession Duty Law, loc. cit., article 8.
  2. Pictures and statues of the deceased and of members of his family are excluded when calculating the value of these articles.
  3. Succession Duty Law, loc. cit., articles 17, 14 and 15.

the value of his bequest before the tax is levied to the extent of Leb.L.1,000, unless it is a philanthropic institution or an educational, technical or sport society in which case the deduction is Leb.L.10,000. If the bequest covers all the estate of the deceased or a fraction of it, the tax is levied on property and rights mentioned under the tax on inheritance, and likewise exemptions and deductions are those relating to inheritance tax.<sup>(1)</sup>

c. Basis of the tax on gifts. The tax on gifts is levied on all rights and property that are legally donated to a specified person, after the deduction of any obligations thereon.<sup>(2)</sup> Benefits from insurance are treated as gifts. A deduction is made from the value of the gift before the tax is levied to the extent of Leb.L.1,000, unless the beneficiary is a philanthropic institution or an educational, technical, or sport society, in which case the deduction is Leb.L.10,000.

d. Basis of the tax on "Awqaf". Waqf property is mortmain property dedicated to a family trust or to some religious or charitable body. In the first case it serves "as a means of securing the use of land to the founder and his heirs along an explicitly stipulated line of inheritance".<sup>(3)</sup> The tax on waqf property is due from the beneficiaries of the waqf with the exception of the founder. It is levied

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1. Succession Duty Law, loc. cit., article 17.

2. Ibid., article 14.

3. S. B. Himadeh, Economic Organization of Syria (American University, Beirut), p. 55.

upon the death of the founder on the share assigned to each beneficiary after deducting from the value of the share<sup>(1)</sup> Leb.L.1,000, or Leb.L.10,000 if the beneficiary is a philanthropic institution or an educational, technical or sport society.

## 2. Assessment<sup>(2)</sup>

Property and rights subject to the tax are assessed by the Financial Authorities. The value of buildings is determined by capitalizing the rental value at 5 per cent. In case of lands, movable property and rights, the value is determined by the financial authorities on the basis of declaration and documents submitted by the tax payers and other information available, and if necessary on the basis of experts' report. Securities are assessed on the basis of their average value during the month preceding the death or gift. The benefit from waqf, or the right of exploiting an immovable property for a life time, is assessed as one third of the capital value of the share of the beneficiary.

## 3. Rates

The rates of the tax are given in Table I. They are applied on the net share of the beneficiary after making the deductions already mentioned.<sup>(3)</sup> The rate on inheritance

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1. See determination of the share under Assessment below.

2. Succession Duty Law, loc. cit., article 36.

3. Ibid., articles 38 and 39.

is reduced by two-thirds when the inherited property has come to the deceased by inheritance during the five years before his death, and on which he paid the tax created by the Succession Duty Law. (1)

The rates vary according to the degree of relationship of the beneficiary to the deceased or donor. (2) Institutions and societies which become beneficiaries by inheritance, will, gift, or waqf are charged at the rates for the third category.

#### 4. Collection

The whole amount of the tax is collected from the beneficiaries during the six months following the notification sent to them by the Financial Authorities, provided there is among the taxable property cash and, or securities equal at least to three times the amount of the tax. (3) If the value of these liquid assets, however, falls short of this minimum, half of the tax is collected during the six months following the notification, and the remainder is paid in three equal yearly installments. If the inheritance does not include any liquid assets, one quarter of the tax is collected as a first payment, and the remaining three quarters are paid in five equal yearly installments. In the case of waqf the trustee has to pay the tax due from the beneficiaries from

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1. Succession Duty Law, loc. cit., article 40.

2. See Table I.

3. Succession Duty Law, loc. cit., article 43.

Table I

Succession Duty Tax Rates (1)

Category of Tax-Payers	Up to Leb.L. 5.000	From Leb.L. 5001 to Leb.L. 15.000	From Leb.L. 15001 to Leb.L. 30.000	From Leb.L. 30.001 to Leb.L. 75.000	From Leb.L. 75001 to Leb.L. 125.000	From Leb.L. 125001 to Leb.L. 200.000	From Leb.L. 200.001 to Leb.L. 400.000	Above Leb.L. 400.000
Cat. 1 Descendants	1%	2%	4%	6%	9%	12%	15%	20%
Cat. 2 Husband, Wife, Parents	1.5%	3%	6%	10%	14%	19%	22%	27%
Cat. 3 Ancestors (other than Parents) Brothers, Sisters	4%	6%	8%	13%	18%	23%	28%	34%
Cat. 4 Uncles, Aunts, Nephews, Nieces	5%	7%	10%	16%	22%	23%	34%	41%
Cat. 5 Other Tax-Payers	6%	7%	12%	19%	26%	33%	40%	48%

1. Schedule attached to the Succession Duty Law, loc. cit.  
 The progression is on brackets of income.

the revenue of their shares during the six months following notification, but when the beneficiaries are of the first and second category, the installment payment should not exceed one-fourth the revenue accruing to them.

### 5. Evaluation

Two important criticisms may be made against the succession tax. First, the fact that immovable property abroad transferred from a Lebanese residing in Lebanon is not taxed tends to make Lebanese residing in Lebanon invest in immovable property in countries where no such tax is levied or where the tax rate in the foreign country is considerably lower than in Lebanon.

Secondly, the progression of this tax does not insure justice in the distribution of the tax burden nor does it help to reduce appreciably the inequalities of wealth. Progressive rate stops at the bracket of 400,000 Lebanese pounds, above which the rates become proportional. Thus beneficiaries getting large inheritance or gifts reaching millions are much favored by this progression. The Draft Estate duty in Palestine of 1943 provided for a progression reaching a bracket of two million Palestinian pounds, equivalent to about 13 million Lebanese pounds.<sup>(1)</sup>

### B. Other Direct Taxes

1. Tax on private vehicles. This tax is levied on all

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1. 'Estate Duty Bill', Palestine Gazette, February 15, 1943.

private cars and motorcycles on the basis of their horsepower. Its rate is Leb.L.4 per horsepower.<sup>(1)</sup> The tax is collected every year from the owner. Cars belonging to members of the diplomatic or consular corps are exempted provided this treatment is reciprocated by the countries concerned. Cars belonging to Government and municipalities are also exempted.<sup>(2)</sup>

2. Tax on Radio Receivers. This tax is levied on radio receiver sets at yearly rates varying with the use to which the receiver is put. Sets used by public institutions for public hearing without charge are exempted. Sets used by public institutions for public hearing with a charge are taxed at the rate of Leb.L.15. Receiver sets used for private hearing are taxed at the rate of Leb.L.3.50. "Galene" (tubeless) sets that are not used for public hearing are taxed at the rate of Leb.L.2. <sup>(3)</sup>

3. Forest Tax.

The forest tax is levied on the exploitation of forests.<sup>(4)</sup> The following are the rates of this tax: 100 piasters on each person applying for a permit to cut wood

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1. The Budget Law of 1946, article 10.
  2. Ministry of Public Works, Circulation Law, of June 25, 1949, p. 66.
  3. The Budget Law of 1951, article 25.
  4. Majmu'at al Qawanine, Legislative Decree No. 145 of February 26, 1942. The forest tax, though levied on exploitation, is left among the direct taxes on the ground that it does not affect the supply of wood, since forests grow without personal effort.



or exploit a forest; 400 piasters per ton of charcoal made; 600 piasters per ton of industrial wood cut, and 100 piasters per ton of fuel wood.<sup>(1)</sup> This tax is collected by affixing fiscal stamps on applications and on the transport permit of the forest products.

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1. The Budget Law of 1944, article 12.

Chapter VI

INDIRECT TAXES

As it was already mentioned, indirect taxes, levied mainly on necessities and other articles of general consumption play the most important role in the fiscal system of Lebanon.<sup>(1)</sup> The Financial Authorities, though fully aware of the high proportion of indirect taxes, do not seem to be alarmed. In a speech delivered in the "Cenacle Libanais",<sup>(2)</sup> the Director General of Finance commented on the criticisms raised against the excessive amount of indirect taxes by the following statement. "If we examine the tax laws applied in Lebanon and those under study in the House of Deputies (meaning the new Land Tax and Succession Tax) we find that they fall on all kinds of incomes, unlike what used to be the case before the year 1944. Thus, where can the Government come with a new levy so as to increase direct taxes and reduce indirect taxes? The only way to realise the desired increase (increase in direct taxes) is to raise the rates of the Buildings Tax and of the Income Tax, and this the Government will not undertake, for it refuses to overtax the proprietor and to increase the burden on people engaged in commerce which is the pillar of the economy of Lebanon". The high proportion of indirect taxes was also defended by the Minister of Finance who claimed,

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1. In 1950 indirect taxes accounted for 79.5 per cent of tax revenue and 70.1 per cent of total revenue.
  2. Published in Les Conférences du Cenacle, Vol.IV, No. 5-6 May 25, 1950.

on the occasion of presenting the budget for 1952,<sup>(1)</sup> that some modern theories seem to prefer indirect to direct taxes on the ground that they enable greater justice in the distribution of the tax burden.

Indirect taxes levied in Lebanon include tax on tobacco through the Tobacco monopoly, tax on inflammables, excise duty on cement, excise duty on alcohol and alcoholic liquors, tax on salt, stamp duties, and customs duties. The separate and total fiscal importance of indirect taxes is shown in Table IV, Chapter III. Actual revenues from these taxes in 1950 formed 79.5 per cent of tax revenue and 70.1 per cent of total revenues. As it was already mentioned these percentages would have been higher had the customs duties receipts figured in the ordinary budget at their gross value.<sup>(2)</sup>

#### A. Tobacco Monopoly

The tobacco monopoly is conceded to a private corporation, the "Régie Co-Intéressée des Tabacs et Pombacs", which exploits it on behalf of the Government in consideration of a percentage of the net profit. The company monopolizes the purchases of tobacco, its processing, and sales,<sup>(3)</sup> under the constant control of a commissioner representing the Government.

Tobacco growing, whether for export or for sale, to the Régie is subject to a licence in which the area to be

- 
1. Report of Minister of Finance on the occasion of presenting the Budget for 1952.
  2. See Chapter II, p. 27 and Table VI.
  3. Arrêté No. 16 LR of January 30, 1935, with its Modifications (Itany Press, Beirut), article 1.

cultivated is fixed. (1) The total area to be cultivated every year is determined by a committee composed of high officials of the Ministry of Finance, called the Permanent Committee for Tobacco and Tambac. The part of cultivation destined to be sold to the Régie is determined by the Committee upon the suggestion of the Régie. (2)

After the harvest the crop of each cultivator is weighed in the presence of a Régie official and the notary public of the district. (3) Then the tobacco is delivered to the warehouses of the Régie where its kinds and categories are determined and registered by the warehousekeeper. (4) The price that the Régie pays for each kind and category of tobacco is fixed every year by the Permanent Committee for Tobacco and Tambac upon the suggestion of the Régie, and is subject to approval by the Minister of Finance. (5)

Tobacco destined for export is kept in the Régie warehouse until it is purchased by authorized exporters who are under the obligation of keeping records supported by official documents showing the amounts of tobacco purchased and the amounts actually exported. (6) The price at which authorized

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1. Arrêté No. 16 LR of January 30, 1935, with its Modifications, article 10.
  2. Ibid., article 5.
  3. Ibid., article 21.
  4. Any objection on the part of the cultivator as to the kind and category determination is referred for final decision to a committee composed of 3 persons representing the Régie, the Government and the cultivator.
  5. Arrêté No. 16 LR of January 30, 1935, with its Modifications, article 29. The previous authority of the High Commissioner has been invested since independence in the Minister of Finance.
  6. Ibid., article 36.

exporters buy the tobacco is the same as that which the Régie pays to the producer plus the storage and insurance charges accruing to the Régie.<sup>(1)</sup>

The Régie sells the processed and manufactured tobacco to the consumers at prices fixed by the Permanent Committee - upon the suggestion of the Régie - and approved by the Minister of Finance.<sup>(2)</sup> The sales are affected through licenced retailers who are allowed discounts fixed by the Régie in consultation with the Permanent Committee.<sup>(3)</sup>

The Régie concession ends at the end of 1960<sup>(4)</sup> after which date all the assets of the Régie become the property of the Government. Against this condition the Régie is allowed to deduct from the profits a fixed yearly sum to amortize part of its shares and pay interest at 5 per cent on the outstanding shares. The shares to be amortized are determined by lottery. The proprietor of the amortized shares will, however, continue to receive dividends.<sup>(5)</sup> After deduction of the fixed yearly sum, the net profit is divided between the Régie and the Government on the basis of 95 per cent to the Government and 5 per cent to the company.<sup>(6)</sup> Actual revenue to the Government from the

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1. Arrêté No. 16 LR of January 30, 1935, with its Modifications, article 38.

2. Ibid., article 50.

3. Ibid., article 49.

4. The Tobacco Monopoly Agreement (Azar Press, Beirut, 1944), article 1.

5. Ibid., article 14.

6. These proportions were instituted after nationalization by Syria of the Syrian branches of the Régie by an agreement which is not yet ratified by Parliament.

Tobacco Monopoly amounted in 1950 to 15,303,000 Lebanese pounds, which constituted about 21.50 of the tax revenue of that year. The very high tax on tobacco has contributed to the high cost of living in Lebanon.

### 3. Tax on Inflammables

The tax on inflammables is now<sup>(1)</sup> levied on benzine and kerosene that are consumed in the Lebanese territories. The rate of the fiscal tax is 13.25 piasters per liter of benzine and 4 piasters per liter of kerosene. Besides, 4 and 2 piasters per liter are levied on these two commodities respectively for the benefit of municipalities.<sup>(2)</sup> Fiscal and municipal rates may be changed by the Government without legislative action provided their total does not exceed 20 piasters per liter on benzine and 8 piasters per liter on kerosene.<sup>(3)</sup>

The tax is payable by the importer at the time of the arrival of the inflammable materials to their warehouses.<sup>(4)</sup>

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1. Between October 1941 and February 1947 gas oil and fuel oil were also subject to the tax. See Legislative decree No. 112 of October 9, 1941 and decree No. K7963 of January 31, 1947, Majmu'at al Qawanine.
  2. Decree No. 1843 of May 12, 1950.
  3. Majmu'at al Qawanine, Law of January 30, 1947.
  4. Ibid., Law of May 12, 1928.

Oil companies refining benzine and kerosene in the Lebanese territories are supposed to pay the tax on the amount produced within the 20 days following the receipt of the payment request sent by the Financial Authorities.<sup>(1)</sup> However, the benzine used for cars and trucks passing in transit to Iraq or Iran,<sup>(2)</sup> and that used by the Air Union Company,<sup>(3)</sup> Misr Air Lines,<sup>(4)</sup> desert transport companies,<sup>(5)</sup> and Lebanese airways companies<sup>(6)</sup> is completely exempted from any tax.

Receipts from the tax on inflammables amounted in 1950 to 11,396,000 Lebanese pounds, which formed about 15.5 per cent of total tax revenue for that year. The high tax on inflammables, particularly the tax on kerosene has contributed to the high cost of living for the masses.

#### C. Tax on Cement

The cement tax is levied on the consumption of cement,

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1. The Budget Law of 1951, article 21.
  2. Majma'at al Qawanine, Law of July 2, 1935.
  3. Ibid., Law of November 26, 1931.
  4. Ibid., Legislative decree No. 244 NI of November 6, 1942.
  5. Ibid., Arrete No. 260 LR of November 13, 1935.
  6. Ibid., Law of April 24, 1947.

whether this material is imported or locally produced.<sup>(1)</sup>  
The rate of the tax is 5 Lebanese pounds per ton.<sup>(2)</sup> This rate may be changed by the Executive Body at any time without legislative action, provided it does not exceed that amount.<sup>(3)</sup> For the purpose of avoiding evasion, Finance officials supervise constantly the production and especially the weighing of the cement. The tax on locally produced cement is collected every fifteen days,<sup>(4)</sup> and that on the imported cement, at the time it enters Lebanese territory.<sup>(5)</sup> The tax on amounts exported is refunded if the exporter is the factory owner or the wholesaler representing the trade mark.<sup>(6)</sup>

#### D. Duty on Alcohol and Liquors

The duty on alcohol and liquors is levied on the consumption of alcohol and all alcoholic drinks whether these products are imported or locally produced.<sup>(7)</sup> The

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1. The Budget of 1938, article 12.
  2. Majmu'at al Qawanine, Decree No. K 7962 of January 31, 1947, article 1.
  3. Ibid., Law of January 30, 1947.
  4. Ibid., Decree No. 2152 of April 1st 1938, article 6.
  5. Ibid., article 17.
  6. Ibid., article 18.
  7. Ibid., Decree No. 133 LR of December 20, 1933, articles 5 and 3.



rates are as follows: beer 7 piasters per liter;<sup>(1)</sup> wine 8 piasters per liter; arak 0.30 piasters per degree of alcohol in each liter; alcohol and all other alcoholic drinks one piaster per degree in each liter; denatured alcohol 0.30 piasters per degree in each liter.<sup>(2)</sup> The duty on alcohol is made high for the purpose of preventing its use in the manufacture of arak. For such a use, besides degrading the quality of arak, is injurious to the vine growers. Denatured alcohol pays a much lower duty because it is used as fuel. The duty on the imported products is collected with the customs duties,<sup>(3)</sup> at the time the goods are cleared from the custom-house. The duty on local products is collected when they are produced.<sup>(4)</sup>

In order to avoid evasion every factory producing alcohol or alcoholic drinks is constantly under the close supervision of a Government official, who, besides verifying the registration of the amounts produced, makes sure that the production process and the raw material used are in conformity with the laws in force.<sup>(5)</sup> The quantity of

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1. Budget Law of 1950, article 38.
  2. The Budget of 1945, article 12.
  3. Majmu'at al Qawanine, Legislative Decree No. 133 LR of December 20, 1933, article 3. Imported alcoholic drinks pay also high municipal duties. Beer pays 25 piasters per liter if it is in bottles and 15 piasters if it is in barrels. Wine pays 50 piasters per liter if it is in bottles and 25 piasters if in barrels. Other drinks pay a duty varying between 100 and 200 piasters per liter depending upon the percentage of alcohol they contain.
  4. Ibid., article 5.
  5. Ibid., Law of June 7, 1937, article 27.

alcohol drinks made of grapes by small producers are assessed by Government officials who visit them early after harvest.<sup>(1)</sup> Evasion is made more difficult by subjecting the transport of alcoholic drinks to a licence that is given only after the collection of the tax.<sup>(2)</sup>

Besides the duties levied on the import and the manufacturing of alcoholic drinks, a tax is levied on their sales in bars, night clubs, cafés, restaurants, etc.<sup>(3)</sup> This tax is levied in the form of licence and based on the rental value of the place in which they are sold. Establishments serving alcoholic drinks are divided into three classes. The first class establishments pay 35 per cent of their rental value; the second class establishments pay 18 per cent; and the third 12 per cent.<sup>(4)</sup> The rental value is determined in the same way as it is determined for the purpose of assessing the buildings tax.<sup>(5)</sup>

#### E. The Tax on Salt

The salt monopoly was abolished early in 1952.<sup>(6)</sup> At

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1. Majmu'at al Qawanine, Law of July 22, 1297 (Hajira), article 2.
  2. Ibid., article 17.
  3. Ibid., Legislative decree No. 132 of May 30, 1942, article 27.
  4. Ibid. When only a part of the establishment is assigned for serving alcoholic drinks, the tax is based on the assessed rental value of this specific part.
  5. The Budget of 1939, article 37.
  6. The Budget of 1952, article 18.

the same time a tax on imports of salt and on its extraction was imposed. The rate of the tax is 5 piasters on each kilo of imported salt and 10 piasters a year on each square meter or fraction of a meter of salt pools.<sup>(1)</sup> The extraction of salt is made subject to a yearly licence that is given only after the collection of the tax.<sup>(2)</sup>

#### F. Stamp Duties

All securities, contracts, receipts and documents of various kinds are subject to stamp duties. The duty is either fixed, or proportional to the sum of money mentioned in the document.<sup>(3)</sup> The fixed stamp duties is applied in general on documents in which no sum of money is mentioned, and varies between 1 piaster and 50 pounds depending usually upon the importance of the document. The normal proportional duty is as follows:<sup>(4)</sup> 2 per thousand on the amount mentioned in the document up to 25,000 pounds; 1.5 per thousand on the part of the amount ranging between 25,001 and 50,000 pounds; 1 per thousand on the part of the amount ranging between 50,001 and 100,000 pounds; 0.5 per thousand on the part of the amount ranging between 100,001 and 200,000 pounds; 0.25 per thousand on the part exceeding 200,000 pounds.

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1. The Budget of 1952, article 19.

2. Ibid., article 20.

3. Legislative decree No. 130 L of December 20, 1933, with its Modifications, article 3.

4. Ibid., article 9.

To these normal rates there are several exceptions. The stamp duty on shares for instance is 1 per cent; the duty on drafts is 0.5 per cent; that on letter of credit is 1 per thousand.<sup>(1)</sup>

#### G. Customs Duties<sup>(2)</sup>

Customs tariff consists of five categories of duties; maximum duties, ordinary duties, duties on imports from Palestine, duties on imports from Syria, and duties on imports from Iraq. The maximum duties are generally twice the ordinary duties. These have been scarcely applied.<sup>(3)</sup> The duties on imports from the Arab countries mentioned are based on agreements allowing exemptions and reductions on many articles of local production, mostly agricultural.<sup>(4)</sup> The agreement with Iraq is the least liberal. There is no special tariff category

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1. Majmu'at al Qawanine, Legislative decree No. 130 L of December 20, 1933, article 3.
  2. The duties given under this heading are those that were in effect in 1952. See Direction General des Douanes, Tableau des Droits Inscrits au Tarif des Douanes (Beirut, 1952).
  3. Imports from Japan are subject to maximum duties. Ibid., p. 11.
  4. For agreement with Palestine, see Arrete No. 334 LR of November 30, 1939, and Arrete No. 91 LR of April 22, 1940.  
  
For agreement with Syria, see Decree No. 220 of March 7, 1952.  
  
For agreement with Iraq, see Decree No. 231 of April 30, 1952.

for Trans-Jordan, but the trade agreement with it is the most liberal. (1)

The tariff system in Lebanon seems to be intended primarily for revenue. Protection to industry appears to be the next important goal of tariff policy. Protection to agriculture is given only when it does not affect the cost of necessities, or when it is not incompatible with encouragement to industry.

The importance of the revenue aspect of the tariff appears clear from the fact that, apart from strict necessities, raw materials and industrial and agricultural machinery, practically all commodities - though of types not produced locally - are subject to substantial duties, usually of 25 per cent. Electric house appliances, transport vehicle engines, watches, hunting arms, music instruments, etc., are subject to a duty of 25 per cent. Cars and trucks are subject to a duty of 140 and 100 piasters per kilogram respectively, which rates come ordinarily to around 25 per cent advalorem. Prepared drugs, with the exception of antibiotics, pay a duty of 11 per cent.

The importance of the revenue aspect of the tariff system can also be felt from the fact that no rate is high enough to be prohibitive or to lead to diminishing returns. (2) Even luxuries do not pay high duties. Diamond,

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1. Agreement of May 23, 1923 and Annex of February 27, 1924.

2. This fact may, however, be attributed in part to the influence of the merchant class, especially importers, as a pressure group.

gold and silver, jewelry, for instance, pay only 25 per cent. Natural silk velvet pays only 30 per cent; feathers for ornament, only 25 per cent.

For the encouragement of local industries, the tariff system provides for the exemption of industrial machinery. Raw materials for industry are either exempted or else pay a low duty. The reason for discrimination in raw materials duties is difficult to explain. While some raw materials of types locally produced are exempted, we see that some others that are not produced locally are subject to tax usually of 11 per cent and in some cases higher. Vegetable oils (excluding olive oil) for soap industry; and powdered milk for any industrial purpose, and sugar<sup>(1)</sup> and cacao are exempted; while iron sheets, tubes, pipes, bars, raw steel and iron, though not produced locally pay a duty of 11 per cent, and iron wire 25 per cent.

For the purpose of protecting local industries, goods of types manufactured locally are subject to a duty usually of 40 or 50 per cent. Tanned leather, most silk and rayon cloth, wool and cotton clothing, processed fruits and vegetables pay 40 per cent. Shoes, rayon stockings, rayon or silk clothing, wood furniture, cologne and cosmetics pay 50 per cent. Some goods, also of types manufactured locally,

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1. Sugar is subject, however, to a tax of 20 piasters per kilo (white) and 10 piasters per kilo (brown), which is credited to the independent budget of the Directorate of Supply.

pay, however, lower duties. Confectionaries, woolen cloth, and cotton stockings, for instance, pay 30 per cent; ordinary soap, umbrellas, threads and matches pay 25 per cent.

The protection to industry is not as high as it appears from the rates. The duty is calculated on the basis of official rates of exchange, which are roughly two thirds of the market rates.

Protection to agriculture seems to be the least important goal of the tariff policy. In order to keep the cost of living low or to encourage industry, necessary agricultural products such as wheat, rice, barley and corn are exempted. Other necessities pay low duties. Cows and milk, for instance, pay a duty of 11 per cent; sheep pay 150 piasters per head. Vegetable oils used in the soap industry are totally exempted, though they constitute a substitute to olive oil which is one of the most important crops in Lebanon. Oil yielding seeds and fruits pay 11 per cent; olive oil pays 25 per cent. High rates are applied only on fruits and most vegetables. These pay a duty of 50 per cent.

Customs duties are mostly advalorem; and where specific duties are applied, in most cases, a minimum advalorem duty is provided.

Chapter VII

PUBLIC EXPENDITURES

Public expenditures included in the ordinary budget of the Lebanese Government have more than tripled since 1944.<sup>(1)</sup> They rose from 27,666,000 in 1944 to 84,522,000 Lebanese pounds in 1950, and estimates for 1952 put total expenditures at 94,250,000 Lebanese pounds. This rise has been due partly to the increasing Government functions following the independence of the country (e.g. foreign service and defence), partly to increase in social services and public works, partly to waste and corruption in administration, and partly to extravagance encouraged by budget surpluses. These increases in expenditure were made possible by the establishment of the income tax, the raising of excise duties, and the increased consumption of taxed goods such as benzine, tobacco and imported goods.

For the purpose of analysis we have divided public expenditures on a functional basis into six classes: expenditure on security; expenditure on administration and finance; expenditure on justice; expenditure on economic and developmental activities; expenditure on social services; and expenditure on public debt service, and similar payments. (See Table I)

The frequent changes in classification of expenditures in

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1. See Table I, Chapter II.



Table I

Public Expenditures of the Ordinary Budget Classified  
on Functional Basis

1948 - 1952

(In million Lebanese pounds)

Class	1948		1949		1950		1951		1952							
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%						
Security	11.4	31.7	20.6	39.7	19.5	32.1	23.6	35.8	27.9	33.4	25.1	29.7	28.3	31.7	27.6	29.1
Justice	2.4	6.6	2.8	5.4	2.9	4.9	2.7	3.9	2.9	3.5	3.1	3.7	3.5	3.7	3.5	3.7
Adm. & Fin.	4.9	13.6	5.6	10.7	6.9	11.4	7.9	11.2	7.8	9.4	8.3	9.8	10.0	11.3	10.6	11.3
Ed. & Dev.	10.0	28.0	13.8	26.5	19.0	31.5	21.1	30.1	20.8	24.9	24.1	28.6	23.8	26.6	22.3	23.0
Sec. Serv.	5.1	14.2	6.9	13.3	8.6	14.1	9.8	14.0	12.3	14.7	13.7	16.1	16.5	18.5	18.3	19.4
Debt Serv., etc.	2.1	5.9	2.3	4.4	3.8	6.3	4.9	7.0	11.7	14.1	10.3	12.1	6.6	7.3	10.5	11.2
Contingency Reserve											.9	1.0	1.6	1.7		
TOTAL	36.9	100.0	52.0	100.0	60.7	100.0	70.0	100.0	83.4	100.0	84.5	100.0	89.4	100.0	94.3	100.0

the Ordinary Budget prevent an easy comparison between one year and another. Thus it was found necessary here to adjust the classification in order to make the annual figures comparable.

A. Expenditure on Security

Expenditure on security during the last eight years are shown in Table II. Total expenditures on security amounted in 1950 to Leb.L.25,092,210 and accounted for 29.7 per cent of total expenditures. While expenditure on internal security has increased only slightly since 1945, expenditure on the army has increased about five fold. This sharp increase in expenditure on external security is due to the fact that, before the independence of Lebanon, external security was provided mainly by the Armée du Levant which was maintained by the French budget. After independence and the evacuation of the Allied troops, the Lebanese Government had to maintain the part of the Armée du Levant consisting of Lebanese subjects and to increase its members and equipment, especially after the war in Palestine. Special taxes, such as Army tobacco tax, and increases in certain other taxes - such as the increases in entertainment taxes - were made with a view to developing the Army.<sup>(1)</sup> In spite of the large increase in expenditure on defence, the proportion of security expenditure to total expenditure has remained about the same. This is

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1. Majma'at al Qawanine, Law of May 30, 1945.

Table II

Expenditure on Security  
1945 - 1952  
(In thousand Lebanese pounds)

Item	1945	1946	1947	1948	1949	1950	Estimates	
							1951	1952
Gendarmerie	5,645	6,037	6,166	6,732	6,943	6,999	6,976	7,033
Prisons	376	562	569	655	629	505	544	547
Police	1,962	2,035	2,013	2,191	2,280	2,255	2,763	2,510
Passive Defence	29	-	-	-	-	-	-	-
General Security	143	732	783	753	716	772	557	928
Army	3,238	11,273	9,949	13,313	17,318	14,561	17,491	16,437
<b>TOTAL</b>	<b>11,393</b>	<b>20,639</b>	<b>19,480</b>	<b>23,644</b>	<b>27,886</b>	<b>25,092</b>	<b>28,331</b>	<b>27,455</b>
Percentage of total expen- ditures	31.7%	39.7%	32.1%	33.8%	33.4%	29.7%	31.7%	29.1%

because of the decline in the proportion of other security expenditures.

#### B. Expenditure on Justice

Expenditure on justice, since 1945, is shown in Table III. Total expenditures on justice amounted in 1950 to Leb. L.3,125,312, or 3.7 per cent of total expenditures, as compared with 2,370,280 in 1945 which formed then 6.6 per cent. The proportion of Government expenditure on justice has thus declined.

It should be noted here that part of the expenditure on justice is covered by receipts from court fees and from official publications (Al Jarida al Rasmyyah and Al Nashrah al Qada'iyah), expenditure on which is included in the expenditures of the Ministry of Justice. Receipts from these two sources amounted in 1950 to Leb.L.834,757 and Leb.L.31,594 respectively.

#### C. Expenditure on Administration and Finance

Expenditure in the Ordinary Budget on the different services under this class, since 1945, is shown in Table IV. In 1950 expenditure on these services amounted to Leb.L.8,298,828, or 9.8 per cent of total expenditures. The items on which expenditures have substantially increased since 1945 are: Parliament, Land survey and Registration, Finance and Foreign Affairs.

The increase in expenditure (estimate) on the legislative

Table III

Expenditure on Justice  
1945 - 1952  
(In thousand Lebanese pounds)

Item	Estimates										
	1945	1946	1947	1948	1949	1950	1951	1952			
Legal Adminis- tration	117	148	125	155	233	220	227	235			
Civil Courts	1,939	2,302	2,402	2,196	2,263	2,469	2,667	2,736			
Probation Courts	232	259	287	302	331	334	344	375			
<u>Ifta'</u>	82	93	93	97	101	102	107	108			
TOTAL	2,370	2,802	2,907	2,750	2,928	3,125	3,345	3,454			
Percentage of total expen- ditures	6.6%	5.4%	4.8%	3.9%	3.5%	3.7%	3.7%	3.7%			

body since 1950 is due mainly to the increase in the number of deputies from 55 to 77 in 1951, and to the increase in the salaries of the deputies from Leb.L.6,000 to Leb.L.12,000 per person per year in 1952.

The increase in the expenditure on land survey and registration since 1946 is due to return to pre-war level of activity. Expenditure on financial administration increased between 1945 and 1947 mainly because of the development of the income tax administration, and since 1950, the estimated increase has been due to the establishment of the Court des Comptes (Accounting Council) and the succession tax.

Expenditure figures on foreign affairs for the years 1945-1950 are far from being real, because the closed accounts for these years do not include all the expenditure of the service. This is due to the fact that many legations have neglected to send to the Ministry of Foreign Affairs all the necessary statements about the actual disbursements out of the advances extended to them. Budgetary estimates are, therefore, closer to reality. These estimates for the years 1945 to 1950 were as follows:

<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
1,795,000	3,165,000	3,257,000	4,026,000	3,971,000	4,113,000

Table IV

Expenditure on Administration and Finance  
1945 - 1952  
(In thousand Lebanese pounds)

Item	1945	1946	1947	1948	1949	1950	Estimates	
							1951	1952
Presidency of the Republic	444	257	428	450	464	489	435	439
Parliament	486	491	484	638	631	574	804	1,106
Presidency (of the Cabinet)	212	337	220	220	210	267	267	243
Interior Administration (2)	720	888	940	872	871	839	1,090	883
Foreign Affairs	586	744	1,646	2,084	2,302	2,746	3,833	3,630
Finance (3)	1,660	1,931	2,242	2,195	2,238	2,236	2,244	2,893
Land Survey and Registration	775	912	952	1,401	1,133	1,146	1,319	1,402
TOTAL	4,883	5,560	6,912	7,860	7,849	8,299	9,992	10,646
Percentage of total expenditures	13.6%	10.7%	11.4%	11.2%	9.4%	9.8%	11.2%	11.3%

1. The expenditure on agricultural and industrial credit which, in the budgets, is included with the expenses of the Presidency of the Cabinet during the years 1945-1948 and in the expenditure of the Ministry of Finance since 1949, was omitted to be shown later among the developmental expenditures.

2. Expenditure on the National Broadcasting Station included in the budgets with the expenditure on interior administration between 1946 and 1949 was omitted to be shown among social expenditures.

3. See f.n. (1).

D. Expenditure on Economic and Developmental Activities

Expenditure on developmental works are partly included in the ordinary budget and partly in the Accounts of the Developmental Works Fund. Expenditure on the different economic and developmental activities in the ordinary budget are shown in Table V. In preparing this table an attempt was made to distinguish, as far as possible, between purely administrative and developmental expenditures.

Expenditure on economic and developmental services in the ordinary budget has increased more than twofold since 1945, but its proportion to total expenditures has changed little. In 1950 this expenditure amounted to Leb.L.24,141,517, or 28.6 per cent of total expenditures (as compared with Leb. L.10,070,442 and 28 per cent in 1945). If we add the average yearly sums appropriated to the Developmental Works Fund, the total economic and developmental expenditures for the year 1950 would rise to about 36 million Lebanese pounds, or 37 per cent of the total expenditures of the ordinary budget plus the average appropriation to the Developmental Works Fund.

Expenditure on administration of public works in the ordinary budget doubled between 1945 and 1949, and more than redoubled between 1950 and 1952. During the former period the increase was mainly due to the expansion of the administration which was necessary for the execution of the developmental works, especially those financed by the Developmental Works Fund. Between 1950 and 1952 most of the increase came as a



Table V

Expenditure on Economic and Developmental Activities  
1945 - 1952  
(In thousand Lebanese pounds)

Item	Estimates									
	1945	1946	1947	1948	1949	1950	1951	1952		
Administration of Public Works	898	1,168	1,469	1,763	1,782	2,104	2,954	4,591		
Water Supply, Irrigation & Drainage	315	505	779	872	1,203	1,415	1,184	2,206		
Roads, Ports, Buildings and other Works	5,757	8,578	13,082	14,145	13,343	14,494	13,742	9,755		
Administration of Agriculture	315	568	564	603	623	803	948	1,079		
Agricultural Activities (1)	595	562	680	923	1,230	2,317	1,975	1,404		
Agricultural and Industrial Credit	20	23	19	20	25	24	38	42		
Posts and Telegraphs	1,504	1,788	1,996	2,239	2,136	2,476	2,432	2,729		
National Economy	294	319	393	548	413	508	560	483		
Supply (2)	372	292	-	-	-	-	-	-		
TOTAL	10,070	13,803	18,982	21,113	20,755	24,141	23,833	22,289		
Percentage of total expenditures	28.0%	26.5%	31.3%	30.1%	24.9%	28.6%	26.6%	23.6%		

1. Expenditure on agricultural education are shown together with other vocational education under social activities.

2. After 1946 the Supply became an independent service having its own budget.

result of the institution and development of the International Airport of Khalde. In 1950 expenditures on civil aviation administration amounted to Leb.L.592,137, while provision for this administration in 1952 amounted to Leb.L.2,319,000.

Expenditure on water supply, irrigation and drainage, has increased almost five folds between 1945 and 1950. This sharp increase reflects the attention that the Government is giving to irrigation and to water supply.

Expenditure on roads, ports and buildings since 1948 has changed little. The sharp rise in expenditure on these works between 1945 and 1947 can be explained partly by the fact that imported equipments necessary for road building and maintenance was not available directly after the war, and partly by purchase from the British Authorities of the Nakoura-Tripoli Railroad, installment payment on which account started in 1947. The purchase of this railroad also necessitated the expropriation of the lands in which the railroad passes. Expropriation compensations paid in 1947 amounted to Leb. L. 1,425,326.

Administrative expenditure on agriculture has more than tripled since 1945. The increase is said to be largely due to the general tendency to find posts and jobs for favorites rather than to provide the needed services.<sup>(1)</sup> Expenditure on agricultural activities increased between 1945 and 1950

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1. The Financial Committee of the Parliament declared, in its report on the Budget Project for 1952, that "there are a few thousands of civil servants who are not needed and who do not come to their offices."

by about 300 per cent, but since 1950 budgetary estimates have shown a sharp decline. Agricultural activities include mainly afforestation and safeguarding of forests, nurseries, lease of heavy agricultural machinery, veterinary services, and quarantine services. Agricultural research, experimentation, and extension works have so far been scarcely attempted. A central experimental station has been recently established near Riq with the cooperation of T.C.A.

Expenditure on agricultural and industrial credit represents the expenditure on the administration of the agency for such credit.<sup>(1)</sup> This administration is restricted to the value determination of the borrower's property for the purpose of mortgage loans.<sup>(2)</sup> The productivity of the project to be financed by loan is not given any consideration, and no supervision of the expenditure of the loan is undertaken.

Expenditure on Posts and Telegraphs has shown a steady increase since 1945. In 1950 it amounted to Leb.L.2,476,315. However, receipts from these services have always more than covered the expenditures. Total receipts in 1950 amounted to Leb.L.2,637,751 which after meeting the expenditure of that year left a balance of Leb.L.211,436 as a net revenue.

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1. Funds amounting to Leb.L.15,000,000 were set aside by the Société de Crédit Agricole et Industriel du Liban for loans through the Government and by its guarantee. In consideration for this guarantee the Government receives 1/5 of the interest which is now 4.85 per cent.
  2. For assessing the value of property to be mortgaged, the Government charged 1 per cent of the amount of the loan.

The expenditure on national economy has increased from Leb. L. 293,993 in 1945 to 559,900 in 1951. The budgetary estimates for 1952 show a decrease, which is mainly due to the separation in this year of the Social Affairs Department<sup>(1)</sup> from the Ministry of National Economy, and to the transfer of the Directorate of Concessionary Companies' Control to the Ministry of Public Works.

The activity of the Ministry of National Economy has almost been confined to the issue of import and export licences - which are in most cases unrestrictedly given - to the preparation of the general statistics bulletins, to registration and protection of patents, and to control of measures and weights.

Expenditure on Supply is shown only for the years 1945 and 1946. Since then the Directorate of Supply became an independent service having its own budget.<sup>(2)</sup>

Other economic services are the Telephone service and the Commissariat of Tourism which have special budgets. The expenditure sides of all the special budgets for 1952 are shown in Table VI.

Major developmental works are financed by the Develop-

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1. The Social Affairs Department. became a separate Ministry.
  2. See budget estimates of expenditures of the Supply Directorate for 1952, in Table VI.

Table VI

Expenditure Estimates in the Special  
Budgets for 1962  
(In thousand Lebanese pounds)

<u>Supply</u>		16,645
Administration .....	780	
Purchases .....	12,445	
Dues .....	2,375	
Reserve .....	1,045	
<u>Telephone</u>		7,050
Establishment section .....	3,500	
Equipments and tools .....	2,150	
Salaries and wages .....	1,350	
Exploitation section .....	3,550	
Salaries, & wages & other administrative & maintenance expenditures .....	2,650	
Reserve for depreciation and development .....	500	
Amortization of loans ....	300	
Reserve for contingencies.	100	
<u>Commissariat of Tourism</u>		8,675
Salaries .....	241	
Other administrative expend.	67	
Tourist transport subsidies	2,000	
Advertisement .....	80	
Miscellaneous .....	231	
Reserve .....	56	
<u>National Lottery</u>		4,010
Salaries and administrative expenditures .....	169	
Exploitation expenditures.	123	
Prizes and commissions ...	2,900	
Social assistance .....	500	
Reserves .....	318	
<u>Customs Administration<sup>(1)</sup></u>		5,300
Customs Board .....	227	
Administrative expenditures	4,823	
Reserve .....	245	
<b>Total Expenditures .....</b>		<b>35,680</b>

1. The Budget of the Customs administration includes among expenditures the surpluses that are allocated to the Treasury. These surpluses amounting to Leb.L.25,700,000 have been excluded from the table.

mental Works Fund already referred to.<sup>(1)</sup> Table VII shows the direction of appropriations of this Fund, since its institution.<sup>(2)</sup> As can be seen from this Table, most appropriations to this Fund have been assigned to transport. About 42.5 million Lebanese pounds were assigned to the construction of the International Airport of Khalde and about 31 million pounds to the construction and improvement of automobile roads. Water projects, mostly for irrigation, are the next important item of expenditures out of this Fund. To these projects about 21 million pounds were appropriated. Appropriations to all other development projects - mostly hospital and other public buildings - amounted to about eight and a half million pounds. The remaining appropriations amounting to 5 million pounds were assigned to the purchase of some army equipment and cannot, therefore, be counted among developmental expenditures.

#### E. Expenditure on Social Services

Expenditure on different social services are shown in Table VIII. Total expenditures on these services have increased from Leb.L.5,099,649 in 1945 to 18,296,800 in 1952. The proportion of these expenditures to total expenditures has increased from 14.2 per cent in 1945 to 19.4 per cent in 1952; thus showing a greater relative emphasis on

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1. See P. 15.

2. The Developmental Works Fund was instituted by the Law of April 5, 1944. Actual figures of expenditures out of this Fund are not available.

Table VII  
 Distribution of the Appropriations of the  
 Developmental Works Fund  
 1944 - 1952  
 (In thousand Lebanese pounds)

Year during which appro- riations were made	A P P R O P R I A T I O N S							Total
	Roads	Irrigation Water Supply & Drainage	Airport	Schools	Hospitals	Other Public Buildings	Misce.	
1944	9,000	3,630	-	515	-	500	100	13,745 (1)
1945	-	950 (2)	-	-	-	-	-	950
1946	14,298	5,023	-	80	-	-	-	19,401 (3)
1947	7,712	10,395	5,550	155	1,650	2,523	513	28,500 (4)
1948	-	-	-	-	-	-	-	-
1949	-	-	8,500 (5)	-	-	-	-	8,500
1950	-	-	10,000 (6)	-	-	-	5,000 (7)	15,000
1951	-	1,260	16,500	-	980	850	-	19,590 (8)
1952	-	-	2,000	-	-	-	503	2,503 (9)
TOTAL	21,010	21,258	42,550	750	2,630	3,873	6,118	108,189

1. These appropriations were made by the laws of April 5, 1944 and of October 5, 1944.
2. This sum was appropriated by the law of June 30, 1945.
3. These appropriations were made by the laws of March 11, March 14 and September 16, 1946.
4. These appropriations were made by the laws of May 10, June 4 and November 12, 1947.
5. This sum appropriated by the law of June 27, 1949 is a treasury loan to be repaid from the sale proceeds of the old airport of Beirut.
6. This sum was appropriated by the law of March 27, 1949.
7. This sum was appropriated for army equipments by the law of June 10, 1950.
8. These appropriations were made by the laws of February 10, August 4, September 6, and September 17, 1951.
9. These appropriations were made by the laws of February 7, November 29, and December 9, 1952.

social services. When compared with proportion of the budget going to social services in advanced countries, the proportion in Lebanon is found to be a great deal less. But when compared with other Arab countries, this proportion appears to be quite close to what it is there.

Expenditure on social services in Lebanon constituted in 1950 16.1 per cent of total expenditures. In the same year the proportion was 46.2 per cent in Sweden; 53.3 per cent in Norway; 55.5 per cent in New Zealand; and 22.6 per cent in Egypt.<sup>(1)</sup> Budgetary estimates of social expenditures in Iraq accounted for 12.3 per cent of total expenditures in 1950;<sup>(2)</sup> and that of Syria for 20.5 per cent in 1949.<sup>(3)</sup>

The relatively small expenditure on social services in Lebanon, as compared with more advanced countries, may be attributed mainly to the fact that Lebanon has no social security scheme, and no cost of living subsidy. In many advanced countries these two items account for most of the social services expenditures. In Sweden they formed in 1950 71 per cent of social expenditure. In New Zealand and Norway they formed in the fiscal year 1949/1950 68 and 72 per cent respectively.

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1. Computed from the United Nations Statistical Yearbook 1951 (New York, 1951). Figures for Norway and New Zealand are those of the fiscal year 1949-1950.

2. Ibid.,

3. Syrian Ministry of National Economy, Department of Statistics, Statistical Abstract, 1951, p. 151.



Table VIII

Expenditures on Social Services  
1945 - 1952  
(In thousand Lebanese pounds)

Item	1945	1946	1947	1948	1949	1950	Estimates	
							1951	1952
Central Administration of Education	105	157	159	171	226	249	396	382
Colleges	-	-	-	-	-	9	300	300
High Schools	-	-	-	4	-	66	148	156
Elementary Schools Vocational and Agri- cultural Education News and National Broadcasting Other Educational Activities	2,042	2,880	3,185	3,519	4,320	5,382	6,583	7,271
General Administration of Health & Hygiene Disease preventing activi- ties (including quaran- tines)	339	417	541	733	960	1,049	1,603	1,919
Relief and Curative Activities	-	223	264	354	423	572	593	616
Services of the Ministry of Social Affairs	610	734	981	1,266	1,515	1,502	2,246	1,854
					194	224	213	255
	2,003	2,489	3,452	3,730	833	920	941	1,039
	-	-	-	-	3,790	3,675	3,474	3,820
	-	-	-	-	-	-	-	684
TOTAL	5,099	6,900	8,582	9,777	12,261	13,648	16,497	18,296
Percentage of total expenditures	14.2%	13.3%	14.1%	14.0%	14.7%	16.1%	18.5%	19.4%

Not only is the relative expenditure on social services low in Lebanon but also the standard of service is very poor. This is due to the fact that civil servants in this field, like all other fields, are in general incompetent and inefficient. That is why public schools and hospitals are almost only used by the poor classes.

The most important social service run by the Government is education. Expenditure on this service amounted in 1950 to Leb.L.3,823,771, and to 64.7 per cent of total social expenditure. Most of the expenditure on education goes to elementary schools. Public secondary and college education was instituted only recently and is still in the first stage of development. Other educational services are agricultural and vocational education, news and broadcasting, antiquities, archeology and the Public Library.

Health services were, until 1951, the only other social services undertaken by the Government. Expenditure on these services amounted in 1950 to Leb.L.4,818,887, and to 35.3 per cent of social expenditures.

Expenditure on curative activities account for about three quarters of health services, and comprises disbursements on hospitals, clinics, laboratories and first aid. Disease preventing activities include combatting malaria, control of epidemics, control of unhealthy trades, quarantine service, and hygiene in general.

Other social services are those of the Ministry of Social Affairs which was instituted in 1952. The activities

of this Ministry have so far been of little significance.

F. Expenditure on Debt Servicing, and Similar Payments

Expenditures on debt servicing, pensions, indemnities, and other dues are shown in Table IX.

As it was mentioned before, the only important public debt that Lebanon owes is that resulting from the replenishment of the currency cover after the devaluation of the French franc in January 1948 and in September 1949. The amount of the debt was originally Leb.L.58,732,000 to be redeemed in 33 yearly installments. Provision for amortization and interest payment for 1952 amounted to Leb.L.2,592,000.<sup>(1)</sup> At the end of 1952 Leb.L.52,360,000 were still outstanding.

Another debt amounting to 20 million Lebanese pounds resulted from purchase from the French Authorities in 1948 of property owned in Lebanon.<sup>(2)</sup> From this amount 3 million pounds were deducted and earmarked for payment of complimentary indemnities to the Lebanese citizens that were employed by French Authorities. The remaining 17 million pounds with interest at 1 per cent per annum were to be paid in five yearly installments. At the end of 1952 only one installment of about three and a half million pounds was still

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1. Previous to 1952 payments were made from profits of the Exchange Office.
  2. This property is composed mainly of real estate including the airport of Rfaq. These alone were valued at 18 million pounds. The remaining property includes mainly some army equipment, the broadcasting station and some radio communication and meteorological equipment. See the Franco-Lebanese Monetary agreement of January 24, 1943.

Table IX

Payments of Debts, Pensions, Indemnities and other Dues  
1945 - 1952  
(In thousand Lebanese pounds)

Item	1945	1946	1947	1948	1949	1950	Estimates	
							1951	1952
Pensions and Indemnities	1,740	1,949	2,708	2,887	3,066	3,263	3,000	4,650
Accrued Dues	276	240	947	1,765	4,140	2,775	(1)	-
Payment on account of property purchased from the French Government	-	-	-	-	3,567	3,454	3,536	3,468
Amortization and interest on Treasury Bonds	-	-	-	-	-	-	-	2,392
Other Dues	89	100	205	271	948	725	(1)	-
<b>TOTAL</b>	<b>2,105</b>	<b>2,289</b>	<b>3,860</b>	<b>4,923</b>	<b>11,721</b>	<b>10,217</b>	<b>6,536</b>	<b>10,510</b>
					Reserve for contingencies		916	1,598
							7,452	12,108
Percentage of total expenditures	5.9%	4.4%	6.3%	7.0%	14.1%	12.1%	8.3%	12.9%

L. Accrued Dues and Other Dues for 1951 were paid from the Reserve Account.

outstanding.

Besides, there is another debt that resulted from the purchase of the Nakoura-Tripoli railroad from the British Authorities in 1946. This debt amounting to five million pounds was to be paid in seven equal yearly installments. At the end of 1952 only one installment was still outstanding. (1)

### G. Control of Public Expenditures

Until recently no adequate control has been exercised over public expenditures. Several Government agencies were not operating under a budget voted by Parliament. These were the Telephone Service, National Lottery, the Supply Department and Commissariat of Tourism.

The central departments of the Government have always operated under the ordinary budget, prepared by the Executive Body and voted by the Parliament, but its execution has not been subject to pre-examination and verification by an outside auditor or an accounting council nor even an adequate *internal* financial control. Consequently, many leakages are known to have taken place in some of the Ministries. (2)

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1. Payments on account of this debt are included - as in the Budget - among public works.
  2. Such leakages have been officially reported by the Financial Committee of the Parliament which made the following declaration in its report on the Budget Project for 1952: "Our committee has reduced considerably many of these expenditures (expenditure on furniture, rent, upkeep, protocols, etc.). But the essence of the subject does not lie here. The essential thing is to avoid crooked

In the case of recruitment for Government office, selection has been subject to considerable favoritism and partisanship. Thus many unqualified employees are now occupying important positions.

Recently, however, all Government Agencies have been required to operate under budgets voted by Parliament. Control of these and the ordinary budget is now intrusted to the Court des Comptes (Accounting Council) created for this purpose.<sup>(1)</sup> The control of the Court des Comptes extends over the preparation of the budget (as regards definitions and clarity), its execution, Government accounts and their settlement, custody and safekeeping of public funds, collection of taxes, giving and execution of building and work contracts, recruitment of personnel, auditing of accounts, etc.

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deals at the expense of the Government. For a reception given by the Government that costs 3000 pounds the Treasury pays 7000, and for a car reparation that costs 75 pounds, an appropriation not less than 300 pounds is made. The misuse and bad administration involve millions of pounds every year in the purchase of equipments, furniture, uniforms, in public works, in public buildings, in expropriations, etc. These illegal practices have been taking place since a long time and the present Government has not given serious attention to discover them and punish those responsible!

1. See Legislative Decree No. 55 of March 19, 1953.

Personnel selection has been made subject to educational certificates and degrees depending upon the nature of the office; and promotion from one category of offices to another has been made subject to an examination.

Control of public expenditures on the basis of standard of service and cost has not yet been established; and there seems to be no thought on the part of the Government for filling this gap.

Besides there is no agency for formulating comprehensive financial planning. This may, however, be part of the work of Economic Development Board instituted recently.

## Chapter VIII

### EVALUATION OF THE FISCAL SYSTEM

For evaluating any fiscal system, it is appropriate to look at it as a whole rather than analyse every tax and every kind of expenditure separately. For the effect of one tax or one kind of expenditure may compensate and balance the effect of another. In the present evaluation of the fiscal system the general characteristics will thus be taken as a basis.

#### A. Evaluation of the Tax System

The Lebanese tax system will be evaluated here from the standpoint of its effects on income distribution and production.

##### 1. Effects of the Tax System on Distribution

The use of taxation for the purpose of reducing the inequality of income was considered by the classical economists to sacrifice progress to social considerations.<sup>(1)</sup> Though redistributive taxation has in general always been praised on the grounds of social justice, and though - ever since the discovery of the law of diminishing marginal utility -

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1. E.P. Schumacher, "Public Finance - Its Relation to Full Employment", Economics of Full Employment, Oxford Institute of Statistics (Basil Blackwell, Oxford, 1944), p. 91.



it has been admitted that taxing the rich more than the poor reduces the total real burden on tax payers, such taxation was condemned by the classical economists who considered it as a hindrance to the accumulation of capital.

Contemporary economists, however, contest classical thought on this question. "Inasmuch as depression and unemployment and indeed long term stagnation can now be traced to inequality of income distribution, redistributive measures commend themselves not merely on the grounds of social justice but pre-eminently on the grounds of economic reason."<sup>(1)</sup>

In order to judge the effect of the tax system on the redistribution of income it is necessary to determine whether it is progressive or regressive and the degree of the progression or regression. A progressive tax system reduces the inequality of income; a regressive one accentuates it. However, since the marginal utility of income diminishes rapidly as income increases and, since the inequality in economic welfare derived from income, rather than income itself, that is desirable to reduce, only a substantially progressive tax system can be considered really redistributive and desirable; a mildly progressive tax system may accentuate inequality in economic welfare rather than decrease it.

The Lebanese tax system rests mainly on indirect

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1. E.F. Schumacher, loc.cit., p. 91.

taxes, which account for more than two thirds of total revenue and more than three quarters of tax revenue. This high proportion of indirect taxes is due partly to wide taxation of articles of general consumption, and partly to very high taxation of some necessities, such as kerosene and benzine, and of customary necessities, such as tobacco and liquors; only essential physical necessities are exempted from taxation or pay low taxes, such as wheat, flour, meat and cheese. Emphasis seems to be placed, therefore, on deriving as large a revenue as possible, with little consideration to the effect of such policy on income distribution.

Direct taxes are either proportional or mildly progressive. Income from rent of buildings and income from intangible properties, such as stocks, bonds, and mortgages are taxed proportionately. Progression of the tax on income from enterprises, professions, and salaries and pensions is more or less mild. Progression of the new succession tax is also mild, although it should be so at the start to accustom the people and discourage evasion.

Moreover, it is to be noted that direct taxes are more strictly applied on the poor than on the influential rich. Also due to the incompetence of the administration much more evasion of the income tax is made possible for big enterprises with complicated accounts than for small enterprisers

and professionals who are usually taxed on the basis of assessed profits. Wage earners and salaried people who belong to the poor and middle classes are the least liable to evasion since the tax on their incomes is deducted at the source by the employer. Thus it appears that the relatively mild progression provided in the law of some of the direct taxes is for many people further mitigated in practice.

The extremely regressive tendency of the indirect taxes in Lebanon is thus not compensated by any substantial progressive tendency in the direct taxes. Considering the above features of direct and indirect taxes, it must be concluded that the tax system in Lebanon is greatly regressive, thus accentuating considerably the inequality in the distribution of income and, more so, the inequality in economic welfare derived from income.

## 2. Effects of the Tax System on Production

The effects of the taxation system on production can be considered under three headings: effect on efficiency, effect on economic activity and effect on economic stability.

a. Effect on efficiency. The regressiveness of the Lebanese taxation system tends to reduce the efficiency of the labor class both in the present and in the future. Although the indirect taxes are imposed in general on commodi-

ties which do not contribute to health and efficiency, and in some cases on commodities that are considered harmful to the health such as tobacco and alcoholic drinks, they still have an adverse effect on efficiency. For a tax on a commodity that is considered by the worker as a conventional necessity (as many taxed commodities are) increases the expenditure upon them and reduces the amount of income that can be spent on necessities such as food, shelter, medicine, and education.

It is often argued that taxing the poor who are anxious to consume rather than the rich who are willing to save increases the rate of capital formation necessary for efficient production. This is a double fallacy, because "capital on a broad view includes ... human beings as well as material equipment. Much spending especially by and on behalf of the poor makes an addition, through the increase of efficiency, to human capital... Much consumption in short is really investment. And on the other hand much saving particularly in times of trade depression makes no addition to material capital because it fails to find its way to investment." (1)

Another factor in the Lebanese tax system that reduces

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1. Hugh Dalton, Principles of Public Finance (Routledge and Kegan Paul Ltd., London, 1949), p. 106.

efficiency is the progressive taxation of corporation profit and of total profit of shareholders of commandite companies. This tends to discourage the formation of such forms of business organization,<sup>(1)</sup> and should be considered as a hindrance to the adoption of efficient machinery and technique,<sup>(2)</sup> which are usually too costly for sole-proprietorship and partnership concerns to adopt. Besides, the discouragement of such expansible form of business organization hinders the realization of a high degree of efficiency by checking the attainment of sufficiently large scale production.

b. Effect on economic activity. Leaving out public expenditure, any tax system cannot but reduce economic activity; the degree of reduction depending, among other things, upon the nature of the constituent taxes. In Lebanon the fiscal importance of indirect taxes, mainly on articles of general consumption, has also a powerful adverse effect on economic activity. The regressiveness of the tax system for which these taxes are mainly responsible reduces the income left in the hands of the masses, for consumption, thus reducing the inducement to invest, employment and activity in general. Besides, the higher cost of living

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1. The formation of corporations is further discouraged by the stamp duty tax (see Chapter VI, pp. 95 ), and by a capital levy of 1 per cent of authorized capital.
  2. Henry C. Wallick and John H. Adler, Public Finance in a Developing Country (Harvard University Press, Cambridge, Massachusetts, 1951), p. 7.

resulting from these taxes discourages tourism and summer resort, which are so important for Lebanon, thereby depriving the country from a substantial increment in effective demand that would have contributed materially directly or indirectly to economic activity in many fields.

Economic activity would be better off if excise taxes, specially those on necessities are decreased and the tax system is made to rest mainly on more progressive inheritance and income taxes and on high customs duties on luxuries and other articles of type and quality produced locally.

A highly progressive income tax may be said to weaken the inducement to invest by reducing the net rate of profit,<sup>(1)</sup> but such a reduction is expected to be far inferior to that which results from the decrease in demand produced by the regressive indirect taxes. Besides the income tax in Lebanon can be made more progressive without adverse effects on the incentive to invest, if investments, whether for replacement or expansion, are made deductible from taxable income. This measure should in fact encourage investment, and the loss of revenue from such exemption would be regained from greater tax yield in the future.

c. Effect on economic stability. Although under-

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1. M. Kalecki, "Three Ways to Full Employment", The Economics of Full Employment, Oxford Institute of Statistics (Basil Blackwell, Oxford, 1944), pp. 45 and 46.

developed countries in general do not experience severe cyclical fluctuations in their economies like those experienced by capitalist countries, yet some fluctuations more or less mild do sometimes take place in underdeveloped areas. In Lebanon, however, such fluctuations can be quite severe, because the economy of Lebanon is greatly connected with those of Western countries.<sup>(1)</sup> Large ups or downs in economic activity in these countries cannot but bring about corresponding fluctuation in the Lebanese economy. Thus some built-in flexibility in the fiscal system is necessary to mitigate such fluctuation.

As it is, the fiscal system in Lebanon should be considered inflexible for three reasons: First, indirect taxes, largely on necessities, form the main source of public revenue. The inelasticity in the demand for necessities makes the money burden of indirect taxes vary substantially less than variation in national income.

Secondly, since direct taxes are, on-the-average, only mildly progressive, variation in the money burden of these taxes are only slightly more pronounced than variation

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1. Lebanon is one of very few countries whose imports, (mainly from U.S.A., U.K., France and Italy) amount to as much as one third or so of their national income. It is one of a few countries that rely to such a great extent on sale of services to foreigners, arbitrage of money and merchandise, transit, services related to tourism and services rendered abroad by emigrants.

in national income. Consequently direct taxes fail to compensate for the adverse effects of indirect taxes on economic stability.

Thirdly, no legislation provides for changing any tax rate when unemployment, or economic activity in general, reaches a certain minimum level or attains a certain maximum one. And though the rate of some taxes (namely the taxes on inflammables and cement and army stamp duty on tobacco) can be changed, up to a certain limit, by executive action alone, this power does not seem to have been used by the executive body as a means to affect stabilization in the activity of the private economy.

## B. Evaluation of Public Expenditures

Public expenditures, like the tax system, may be evaluated under two headings: effects on distribution and effects on production.

### 1. Effects of Public Expenditure on Distribution

The effect on income distribution of some kinds of expenditure such as security and justice is difficult to determine. The benefit derived from such expenditure is common to all citizens. But this benefit cannot be allocated accurately as between different income groups. Regarding expenditure on security, Hugh Dalton makes the following



statement:<sup>(1)</sup> "It is indeed clear that the greater a man's wealth, the greater the benefit which he derives from security of possession. But the relative advantage, which accrues to people of different degrees of wealth, from the protection of life and property and the prevention of military invasions, cannot, in fact, be estimated".

The benefit derived by different classes from expenditures on Public works and agricultural activities is also difficult to determine. However, in Lebanon many of these expenditures - specially those on irrigation, drainage, and lease of heavy agricultural machinery - could be considered to benefit mainly big landlords and influential people.

Expenditures on social services which usually contribute most to income redistribution are small. They account only for about one sixth of total expenditures. These expenditures are confined almost entirely to education and health. Both these services are strong income equalizing factors. Though offered free to all classes they represent an addition to the income of the poor greater in proportion to his income than an equal addition to the income of the rich.

Public expenditure on education in Lebanon has been increasing at a rapid pace, which should be welcomed.

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1. Dalton, op. cit., p. 233.

Public education is particularly necessary in young and backward democratic states like Lebanon where intelligent citizenship is most required. Educational opportunities to the masses can help a great deal to make these people understand the causes of their misery and overcome the fear of making use of their political rights against these causes. Besides, education can help in equalizing income distribution most effectively by providing more equal opportunities for work.

The two other important services which contribute to income equalization are social insurance and cost of living subsidies. These services have not been attempted in Lebanon.

## 2. Effects of Public Expenditures on Production

The effects of public expenditures on production may be considered under the same headings as those for the effects of the tax system on production, i.e. effect on efficiency, effect on economic activity, and effect on economic stability.

a. Effect on efficiency. The mere fact that the public expenditures on education and health in Lebanon are progressive tends to improve the efficiency of the poor class by increasing their income, and thus enabling them to spend more on things that contribute to efficiency such as food and shelter. However, the very low standard of

those services decreases considerably the contribution to efficiency resulting from these expenditures. Although in general grants in kind can increase efficiency more than equivalent money grants which are likely to be used for less good ends, in Lebanon the opposite seems more true. For the standard of social service is so low that money grants equivalent to what is spent on these services can, probably, increase efficiency more than the health and education services offered by the Government can do.

b. Effect on economic activity. Every kind of public expenditure increases economic activity, but just as a given amount of taxation should reduce economic activity as little as possible, so a given amount of public expenditure should increase it as much as possible. Public expenditures in Lebanon do not seem to have been carefully scrutinized with a view to achieving maximum economic activity. On the one hand most of public expenditures go to maintenance of the ordinary services of Government, and only a small portion goes to economic developmental works and economic services. On the other hand great waste occurs in the performance of the latter. An increase in such works and services does not only increase economic activity directly by providing more work and more income especially for the masses, but it also increases economic activity indirectly by reducing the cost of production and therefore the inducement to invest and produce in the private sector. Major economic

developmental projects are also essential for an over-populated country like Lebanon. This is discussed below.

Increase in economic activity in Lebanon is not only retarded by the relatively small expenditure on economic works and services and the waste accompanying it, but also by inefficient administration of other services. For example, the poor administration of justice is partly responsible for the high interest rates, which reduce the inducement to invest by reducing the profitability of investment.

c. Effect on economic stability. Management of public expenditures in a way to compensate the fluctuations of economic activity in the private sector is not used by the Lebanese Financial Authorities. On the other hand public expenditures do not include any outlays with a built-in-flexibility (such as unemployment benefit) to mitigate automatically economic fluctuations. Thus public expenditures in Lebanon do not contribute to economic stability. On the contrary they may be considered to accentuate fluctuations. For in a period of prosperity, when public revenue is abundant, the Government is likely to become extravagant, and, conversely, in time of depression.

### C. Economic Development and Fiscal Policy

The per capita national income of Lebanon in 1950 was estimated by Dr. Albert Sadre at 220 dollars<sup>(1)</sup> which is quite a low

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1. Albert Sadre, "Industrial Development in Lebanon" (in Arabic), Les Conférences du Cénacle, N. 7-8, April 16, 1953, p. 94.

income when compared with per capita incomes in Western countries. Taking into consideration the inequality in income that exists, specially in Southern and Northern Lebanon, this low average income per capita suggests that a large portion of the population live in a state of poverty.

To combat poverty it is necessary to increase the productivity of the nation in all fields. This requires capital formation on a large scale, and adequate supply of skilled labor, and the introduction of modern technological and managerial skills.

Many of the projects here involved require the intervention of the Government. For aside from projects that cannot be carried out except by Government, there are projects that are not remunerative enough to induce private investment. There are also projects that although adequately remunerative do not pay profit except after too long a time to attract private investment. If Lebanon is to develop at a rapid pace and overcome the problem of over-population, economic development should become a major element of government policy.

Government intervention is needed in irrigation, drainage, forestation, hydro-electric power generation, geological surveys, experimentation in new crops, extension services, search for and participation in new industries, creation of industrial banks, etc.

Developmental activities require that a substantial part of the national income be saved. However, savings could be increased only if the national income increases and/ or consumption decreases. Here a dilemma emerges. The national income cannot increase before some development is achieved. On the other hand consumption could not be appreciably decreased because its volume is already small and any substantial decrease would involve a reduction in efficiency.

This dilemma could be resolved with the help of the outside world. In fact some foreign capital is necessary specially in the early stages of development so that it will proceed without such strain on domestic resources. However, the main part of financial resources required has to come from the country itself.

Domestic financing requires that voluntary and forced savings be increased, hoarding mobilized, and speculations in gold and foreign exchange be discouraged. Fiscal policy can play an important role in this respect. For increasing voluntary savings and mobilizing them and hoardings, with least adverse effects on efficiency and investments in the private sector, several measures may be used by the Government.

First, it could float a public debt by offering attractive rates of interest. The future cost of servicing such a debt should not make the government reluctant to

offer high rates of interest. For if the public debt is invested in remunerative government undertakings or in developmental projects conducive to a rapid increase in real income, the public revenue will become adequate to finance the debt.

Secondly, it could participate in establishing savings and investments banks or encourage them by subsidies. Funds needed for government participation may be secured from the International Bank and from the proceeds of public debt. Funds needed for subsidies could be secured from the latter source. The pooling of savings in such banks will help tremendously the private sector in playing its role in economic development.

Thirdly, it could exempt profits reinvested in fixed capital from the income tax. Such a measure, besides encouraging saving will direct them into productive channels.

Fourthly, it could encourage the corporate form of business organization by abolishing the progressive taxation of corporation profit, and by exempting corporations from the capital levy on authorized capital and from the stamp duty on issue of shares. By helping to pool individual savings of varying amounts and from all sources into productive undertakings, corporate form of organization enables private enterprise to play <sup>a greater</sup> its role in economic development. Besides,

corporations can help directly to increase productivity. For such organization can adopt efficient machinery and technological and managerial skills that are too costly for other forms of business organization to adopt.

Fifthly, it could restrict the imports of foreign luxuries. This measure is particularly important in Lebanon because the high income groups in this country are usually extravagant and have a special desire to imitate the mode of living in the Western countries. Besides, such a restriction leaves the country with more foreign exchange with which to pay for foreign capital equipment, raw materials, and technical skill.

Induced savings may be inadequate to finance economic development if not helped by forced saving, that is by imposing new taxes and increasing the rates of those existing.<sup>(1)</sup> However, such measures should be applied most carefully.

What should be taken into consideration when financing development by compulsory ways is the strong adverse effect

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1. In this connection it is worth mentioning that in 1950 the proportion of national income paid in taxes in Lebanon was only about 8%. In Syria it was 9%; in Egypt 13%; in Holland 22%; and in New Zealand 24%. (Figures for Syria are taken from Al Iqtisad al Soury (The Economy of Syria), 1953; those for Egypt from U.S. Monthly Bulletin of Statistics, May, 1953; and from U.N. Public Finance Information Papers (Egypt), 1950; and those for Holland and New Zealand from U.N. Statistical Yearbook 1951.)



that some taxes have on efficiency and on investments in the private sector. Forced saving could be achieved with least adverse effect on efficiency and on the inducement to invest by three ways. First, the Government could unify the income tax and raise the progression of its rate. Secondly, it could increase the progression in the succession tax rates. Thirdly, it could raise customs duties on luxury goods and articles of type and quality produced locally. Other taxes on consumption should be avoided specially during the early stage of development. For such taxes besides reducing efficiency among the masses weaken the inducement to invest by reducing consumption.

However, such taxes may become advantageous in order to avoid inflation, which is expected to take place during economic development. For in such circumstances the purchasing power will be increasing without a corresponding increase in the supply of consumption goods and services.

Besides endeavoring to increase and mobilize financial resources, the Government should see to it that these resources are channeled into economic development projects of greatest urgency and productivity. In order to intensify the cumulative and self generating nature of economic development it should give particular attention to activities which are conducive to a more rapid increase in real income. Here again fiscal policy can play its role through differential

tax rates, exemption and subsidies, designed to encourage investments in the most desirable projects and discourage undesirable utilization of financial resources.

It should be emphasized that, though considerable improvement has taken place in the fiscal system of Lebanon, there is still a wide field for further improvement in the taxation system, in tax administration, <sup>and</sup> in economy in public expenditure. There is also a great need for a fiscal policy designed to mitigate business fluctuations and to bring about a more rapid economic development.

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