

How can a new tax system restore growth and bring equity

A forum organized by:
Financially Wise and
Institut des Finances Basil Fuleihan

26 September 2023
Mövenpick Hotel

I. Context

Lebanon's tax system has been repeatedly assessed as “*unfair, inefficient, and un-equalizing*”¹. Subject to many distortions, it has neither raised enough revenues to support economic growth nor ensured the proper redistribution of wealth. Yet, over the last decade, tax revenues have constituted the largest share of state revenues ranging between 69% and 83% of total revenues.

The fragmentation of the regulatory and legal framework, progressivity or the lack of it, systematic tax evasion, preferential treatments benefiting specific categories of taxpayers and businesses, are all factors that have heightened inequalities. Even before the crisis, the richest 10% received five times more income than the bottom 50% (Assouad, 2021).

As the State grapples with unprecedented challenges resulting from the prolonged crisis, the need to raise more revenues has prompted the adoption of ad-hoc measures that further exacerbated existing distortions.

In its latest Article IV, the IMF highlighted the need for comprehensive revenue mobilization measures and efforts to improve spending efficiency. The call to put the tax system at the service of the economy commends a more in-depth dialogue around the various options/scenarios to re-design the current scheme. It certainly points to the necessity to reconcile taxation with both social and economic outcomes and the attainment of fiscal justice. Efforts to achieve more effectiveness and fairness through taxation need to be aligned with a clearer vision of both the fiscal and welfare role of the State including allocation, redistribution, economic growth, and stabilization.

Against this backdrop, “Financially Wise”, a specialized civil society organization and the Institut des Finance Basil Fuleihan are calling for a forum to discuss “**How can a new tax system restore growth and bring equity to Lebanon**”.

This forum is hoped to set the ground for an informed nationwide dialogue that would shape a new narrative about tax performance and fairness among the various actors. It is hoped to spur the formation of a coalition of actors interested in influencing policies and nudging the authorities to embark into this fundamental reform on the basis of efficiency, justice and equity.

¹ L. Assouad, A. Bifani, K. Daher, I. Diwan (2021), Arab Reform Initiative, *Which Tax Policies for Lebanon? Lessons from the Past for a Challenging Future*, URL: <https://www.arab-reform.net/publication/which-tax-policies-for-lebanon-lessons-from-the-past-for-a-challenging-future/>

II. Objectives

- Objective 1: Unveil the hidden sides of the Lebanese tax system.
- Objective 2: Discuss the way forward towards a new system that caters for both efficiency and equity.
- Objective 3: Contribute to advancing a more inclusive approach to tax reform.

III. Audience

- Policymakers and senior public officials, notably those involved in the design of tax policy;
- Economist and tax experts;
- Representatives of the private sector;
- Researchers and think tanks;
- Civil society organizations;
- The media.

IV. Languages

The Forum's working languages are Arabic and English.

AGENDA

9:30

Opening panel

Welcome note by :

- **Iskandar Boustany**, Representative of Financially Wise
- **Lamia Moubayed Bissat**, President of the Institut des Finances Basil Fuleihan

OPENING PANEL

The economic and financial crisis has had severe repercussions on Lebanon's economic and social stability. GDP contracted by more than 40% over three years, revenues dropped to unprecedented levels and inequalities increased sizably.

Pre-crisis structural deficiencies, including a regressive and largely skewed² taxation scheme, were exacerbated by the intensity of the crisis. In the absence of rapid and efficient long-due reforms, Lebanon may never find its ways to recovery.

Tax reform is among the core set of policy changes that are awaited by the private sector, the international community, and citizens to address the shortcomings of a system that has been repeatedly assessed as skewed, inefficient and un-equalizing, with systemic adverse effects on fiscal sustainability, income redistribution and poverty alleviation.

Revenue increase is fundamental to the Lebanese Government to meet its financing needs. Already prior to the crisis, in 2019, the cost of uncollected taxes was evaluated between USD 70 and 83 million (Ministry of Finance, Lebanon, 2022).

Therefore, the ultimate objective of tax policy reform would be to raise enough revenues to keep on financing public services and in particular social spending while ensuring fiscal sustainability, but also to revamp the economy based on considerations of progressivity and equity, and restore a minimum level of trust between citizens and the state.

This panel will discuss high level policy objectives and tax reform sequencing to be considered by the Ministry of Finance meet the dual objectives of efficiency and fairness.

Discussion-Panel:

- **Youssef El Khalil**, Minister of Finance of Lebanon
- **Frederico Lima**, Resident Representative for Lebanon, IMF
- **Alessia Squarcella**, Deputy Head of Cooperation at the EU Delegation to Lebanon
- **Karim Daher**, Lawyer and Tax expert

Moderator: **Ramzi El Hafez**, Founder of InfoPro and Lebanon Opportunities

11:00

Break

11:20

Plenary Session 1:

What does Lebanon need to comply with international practice?

There is noticeable government, societal and donor interest in developing countries' capacities for domestic revenue mobilization, and in particular through taxation. This is coupled to a renewed focus on aid effectiveness and on ensuring that developing countries' efforts to own revenue-raising efforts are supported adequately. There is also growing recognition of the role of taxation in state-building, in terms of enhancing state capacity and state-citizens relations.

² More than 135 categories of individuals and industries and 27 categories of individuals are benefiting from tax exemptions and special deductions under the income taxes, inheritance tax, built property tax, and the VAT.

For Lebanon, tax reform has the potential to reduce tax evasion and avoidance, and to pave the way for the correction of existing structural deficiencies towards a more efficient and fair tax collection that can finance public goods and services and help exit the crisis. The long-term objective would be to make revenue collection more sustainable.

This panel will discuss new tax instruments that are being tested at the global level and look into the lessons learned from other countries. It will reflect on how Lebanon can learn from these experiences to raise revenues as it seeks to finance the provision of public services and improve fiscal sustainability, while promoting equity and restoring growth.

Discussion - Panel

- **Georges Maarawi**, Director General by interim of the General Directorate of Public Finance, Ministry of Finance of Lebanon
- **Rachel Beach**, UNDP Regional Tax Advisor
- **Nicolas Bou Khater**, President of the Lebanese Business Leaders Association (RDCL)
- **Nadim Daher**, Board Member, Lebanese Association for Taxpayers' Rights (ALDIC)
- **Iskandar Boustany**, Consultant in PFM, Financially Wise

Moderator: Sabine Hatem, Senior Economist, Director of Cooperation and Partnerships at the Institut des Finances Basil Fuleihan

Discussion

12:40

Break

13:00

Plenary Session 2:

The road ahead - A tax system that caters for all

Inequality is a major contemporary challenge, driven by the ability of people and companies to move their wealth and profits across national borders and often exacerbated by recurrent external and domestic shocks. Fiscal policy can reduce within-country income inequality by a minimum of 3% in low-income countries and up to 40% in developed countries but variation in income inequality within country income groups suggests policy choices matter, beyond the level of development (Granger, Abramovsky, & Pudussery, 2022). In Lebanon, income inequality was striking as, in 2015, top 10% individuals earned 54% of national income (World Inequality Database, 2021), while the social protection system was skewed towards formal and public sector workers and high-income households, and did not provide any kind of protection to about a quarter of Lebanese citizens (ILO, 2021). With the crisis, the system almost collapsed, putting more vulnerable groups at high risk.

Civil society organizations are advocating for a tax reform that would address existing deficiencies and restore equity within the system. Policy measures to enhance social spending usually include increasing the progressivity of income tax, improving efficiency of consumption taxes, removing inefficient subsidies and tax exemptions to help finance enhanced social insurance while not jeopardizing private sector activity.

This panel will look into the role of fiscal policy in reducing inequality. It will discuss the private sector's expectations in terms of tax adjustments, and its views on collaborating with the Government and Parliament to devise a new tax policy, as well as the engagement of civil society towards restoring tax justice.

Discussion-Panel:

1. **Louay El Hajj Chehade**, Director of Revenues, Ministry of Finance of Lebanon
2. **Iman Tabbara**, Attorney at Law and Board member of the Private Sector Network

3. **Nabil Fahed**, Vice Chairman of the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon
4. **Marie-Noelle Abi Yaghi**, Co-director of the Center for Social Sciences Research and Action (CeSSRA)

Moderator: **Sami Atallah**, Founding director and head of research at The Policy Initiative

Discussion

14:30

Concluding remarks