

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

The Fiscal System of Lebanon

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2x 2
120 p.

THE FISCAL SYSTEM OF LEBANON

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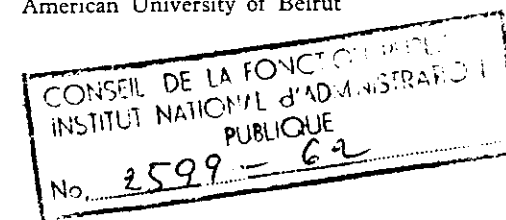
Lebanon

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Khayat's Beirut

1961

PREFACE

The purpose of this study of the fiscal system of Lebanon is three fold: first, and chiefly, to give a description of public receipts and public expenditures of the Central Government in its ordinary and special budgets; secondly, to appraise the main taxes and the direction of outlays; and thirdly, to evaluate the fiscal system from the standpoint of fiscal adequacy and effects on income 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. In discussing this growth, the actual receipts and expenditures in the Ordinary Budget for 1958 and the estimates for 1959 and 1960 were excluded, because they were much affected by the political events of 1958 and their repercussions. However, a summary of the Closed Accounts of the Ordinary Budget for 1958 and the Estimates for 1959 and 1960 are given in the Appendix.

This monograph draws a good deal of information from the author's unpublished M.A. thesis, (by the same title) dated June, 1953.

The writer is indebted to his colleagues in the Ministry of Finance for providing him with much needed material and to his father and to Professor Ralph Crow, Chairman of the Department of Political Studies and Public Administration, for advice and encouragement.

June 1961

Raja S. Himadeh

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Chapter I

BRIEF HISTORY OF LEBANESE PUBLIC FINANCE
SINCE FIRST WORLD WAR

A. Development 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 *māl al a’nāk*. 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 and excise duties on alcohol and alcoholic liquors, were: the tithe, the land *werko* (a tax based on capital value of land), the buildings tax (a tax on gross rental value), the *tamattu’* tax (a semi income tax), the animal tax, the road tax, and the monopoly taxes on tobacco and salt. 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 Biqâ’ 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 *wilâyet* 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 *māl al a’nāk* tax of Mount

Lebanon was abolished. (1) In 1926 duties on alcohol and alcoholic 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. In March 1938 the salt monopoly was extended to Mount Lebanon. In December 1940 fiscal stamps duties were made uniform in all the Lebanese territories. (2)

1. Land Taxes

a. *The Tithe*. The tithe was a tax on the gross produce of *miri* lands. (3) Originally the rate of this tax was 10 per cent, but during the latter part of the 19th century it was increased to 12½ per cent. (4)

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 could ask for a new assessment of their crops.

(1) George Hakim, "Fiscal System of Syria" in *Economic Organization of Syria*, Ed. Sa'îd B. Himadeh (American Press, Beirut, 1936), p. 341.

(2) André Tuéni, "The Budget and the Fiscal System of Lebanon" (in Arabic), *Les Conférences du Cénacle*, Vol. IV, Nos. 5-6, May 25, 1950, pp. 96 to 97.

(3) *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*.

(4) George Hakim, *loc. cit.*, p. 346.

b. *The Land Werko*. The land werko 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. (1) Though provision was made for the revision of the valuation every five years, no revision was made after the original valuation. (2) The rates of the land werko including surtaxes were as follows: (3)

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, *kirâts* and *habbas*. For example a piece of land that produced one *qintâr* (roughly 250 kilograms) 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. (4) The original assessment of the '*miri*' tax was never revised.

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 contingents (50 per cent of the silk tithe contingent) plus 75 per cent of the land *werko* returns in 1932. (1)

(1) Mouchawar, Amin, *Notice sur les impôts et les taxes au Liban*. (Imprimerie St. Paul, Harissa, Liban, 1934), p. 23.

(2) Hakim, *loc. cit.*, p. 355.

(3) *Majmu'at al-Qawânine* (Collection of Laws), p. 359.

(4) Hakim, *loc. cit.*, p. 357.

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 reinstituted in 1942 with an increase in the rates. (2)

By the end of 1951 the 'unified land tax' was replaced by a modern land tax based upon actual, or assessed, net annual yield, but was not applied until 1955.

Replacement of the 'unified land tax' was very necessary. Because of no reassessments, the land *werko* (one of the components of the 'unified land tax' had, in practically all cases, lost its relation to capital value; and the 'miri' tax in Mount Lebanon had lost its relation to productive capacity. Land values and productivity have changed considerably. Many lands, which at the time of assessment were cereal lands, have since been planted with trees. The commuted tithe (the other component of the 'unified land tax' outside Mount Lebanon) lost its relationship to 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 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.

In June 1959, however, this tax was suspended for a period of five years as an encouragement to landowners. The 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 that of all lands used for commercial or industrial purposes. (3) A deduction of 1000 Lebanese piasters of the rental value of buildings 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

(1) *Official Gazette*, July 8, 1933, Legislative Decree No. 1084, Aug. 12, 1933.

(2) Tuéni, *op. cit.*, p. 91.

(3) *Majmu'at al-Qawānīn*, Legislative Decree No. 1481, Aug. 13, 1922.

proprietor. New buildings were exempted for a period of three years.

The above buildings tax was replaced in 1935 by another buildings tax based upon the rental value as assessed by tax commissions. (1) 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. In June 1959 it was revised again. The basis and the rate were however kept as they were. This tax is discussed in Chapter IV.

3. The *Tamattu'* Tax

The *tamattu'* tax (2) 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, 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 3 per cent for salary and pension receivers. For the latter, the first Leb. L. 600 were exempted. Government employees, teachers, day laborers, artists, authors, etc., were, however, totally exempted from the *tamattu'*.

In 1944 the *tamattu'* was abolished and replaced by a new income tax. This tax was subject to several amendments, and in June 1959 it was completely revised, but without any major change. The revised tax is discussed in Chapter III.

(1) *Official Gazette*, Dec. 31, 1930, Law of December 15, 1930.

(2) Description of this tax is taken from Hakim, *loc. cit.*, p. 367.

4. Excise Duties

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

a. *The Tobacco Monopoly.* The tobacco industry was originally made a monopoly by the Turkish Government in 1874.(1) The revenues from this monopoly, together with several others, were conceded to the Ottoman Debt Administration in 1881. In 1884 this concession was leased out to a company, The *Régie Co-Intéressée des Tabacs*.(2) 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.(3) 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. (4)

In 1935 the *banderole* system was abolished and the tobacco monopoly re-instituted. This monopoly is discussed in Chapter VI.

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.(5) Mount Lebanon remained, however, outside the scope of this monopoly until 1938.(6) In 1929 the selling price of salt was fixed at 3.675

(1) Tuéni, *op. cit.*, p. 96.

(2) Hakim, *loc. cit.*, p. 376. The revenues conceded to the Ottoman Public Debt Administration were those from tobacco monopoly, salt monopoly, stamps duties, duties on fishing, duties on alcoholic liquors, the silk tithe and a customs surtax. Tuéni, *op. cit.*, pp. 94-95.

(3) Hakim, *loc. cit.*, p. 377.

(4) Hakim, *loc. cit.*, p. 377.

(5) Tuéni, *op. cit.*, p. 96.

(6) *Ibid.*

piasters per kilogram;(1) in 1943 the price became 20 piasters per kilogram and in 1944 30 piasters per kilogram.(2) These selling prices were a 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.(3)

c. *Tax on Inflammables.* The excise tax on benzine was instituted to replace the *tamattu'* tax on automobiles. (4) 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 established. The rates of this tax were 2.50, 1, and .50 piasters per kilogram respectively. In 1947 the tax on gas oil and fuel oil was abolished and the Government was empowered to revise the tax rates on other inflammables. (5)

d. *Duties on Alcohol and Alcoholic Liquors.* Duties on alcohol and alcoholic liquors, which were applied in all parts of Lebanon except Mount Lebanon, were extended to Mount Lebanon in 1926.(6) These taxes are levied on production and sale.(7) The rate on the production of alcohol was first 14.0625 piaster per kilogram 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 sold liquors were made subject to a tax levied as a percentage of the rent of the shop, varying according to the category of the shop. In 1933 the tax was also applied to imported liquors and alcohol. Since that date the rates of the tax were subject to several changes. The present situation is discussed in Chapter VI.

5. Customs Duties

During the Turkish Regime, the Capitulations prevented the Turkish Government from adopting a tariff policy favorable to

(1) Hakim, *loc. cit.*, p. 379.

(2) Amin Mouchawar, *Précis de Législation Fiscale Libanaise*, (Imprimerie Saint Paul, Harissa, Liban, 1945), p. 107.

(3) *The Lebanese Budget Law of 1952*, articles 18 and 19.

(4) Hakim, *loc. cit.*, p. 378.

(5) *Ibid.*

(6) Tuéni, *op. cit.*, p. 97.

(7) Hakim, *loc. cit.*, p. 380.

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 8 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 with the advice of the Mandatory Power impose customs duties as they saw fit. Accordingly tariff rates were increased. The aim of the increase was until 1926 fiscal, with little or no protection to industry or agriculture.

The new tariff was divided into three sets of rates: the normal schedule, 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

different common services were then gradually divided and in March 1950 the customs union was abolished.

In 1952 the customs tariff was divided into five categories of duties: ordinary duties, maximum duties, duties on imports from Palestine, duties on imports from Syria, and duties on imports from Iraq. The maximum duties were generally twice the ordinary duties. These were scarcely applied.⁽¹⁾ The duties on imports from the Arab countries mentioned were based on agreements allowing exemptions and reductions on many articles of local production, mostly agricultural.⁽²⁾ The agreement with Iraq was the least liberal. There was no special tariff category for Trans-Jordan, but the trade agreement with it was the most liberal.⁽³⁾

Since 1952, several developments in trade agreements with Arab countries, involving reductions and exemptions of customs duties, have taken place, but the most important development was the multilateral agreement between countries of the Arab League, including, so far, Lebanon, Egypt, Syria, Iraq, and Jordan. A trade agreement was made with Egypt on June 27, 1956 and implemented by Decree No. 648 of June 14, 1957. The agreement with Syria was replaced by another agreement dated March 5, 1953 and implemented by Decree No. 314 of March 27, 1953. The agreement with Trans-Jordan was replaced by an agreement with Jordan dated August 27, 1952 and implemented by Decree No. 313, of March 25, 1953.

The multilateral agreement was concluded on September 7, 1953 and was amended on December 15, 1954.⁽⁴⁾ Its object

(1) All imports from Japan were, until January 10, 1957, subject to maximum duties.

(2) For implementation of agreement with Palestine, see *Majmu'at al-Qawanine*, Arrêté No. 334 LR of November 30, 1939 and Arrêté No. 81 LR of April 22, 1940.

For agreement with Syria, see *loc. cit.*, Decree No. 220 of March 7, 1952.

For agreement with Iraq, see *loc. cit.*, Decree No. 231 of April 30, 1952.

(3) Agreement of May 23, 1923, and Annex of February 27, 1924.

(4) The agreement and its amendment were implemented by: Decree No. 555 of March 31, 1956 with Egypt and Syria; Decree No. 570 of June 5, 1956 with Iraq; and Decree No. 576 of July 24, 1956 with Jordan.

was to facilitate exchange of goods of local production and to regulate transit trade. The agreement provides for free trade in agricultural products, animals and animal products, and natural resources products, of local production; and, in general a 25 per cent reduction in duties on industrial products of local production, on condition that the proportion of the value of the Arab raw materials and the local labor is not less than 50 per cent of the total cost of production.

The provisions of the multilateral agreement have been applied in a modified form to imports from Saudi Arabia.⁽¹⁾

The concluding with a number of Arab countries of several trade agreements resulting in duty reductions and exemptions made it necessary to discontinue giving special tariff categories involving special columns in the general tariff schedule, and to give to each of these countries a special tariff schedule in an appendix.

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, which had a separate budget. Into this budget—known as the Budget of Common Interests—went the revenue from customs duties, gun 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 state.

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 made the growth of revenue and expenditure largely nominal.

Because of these difficulties, it has been found more appro-

(1) See Decree No. 399 of March 25, 1954.

TABLE I
Receipts and Expenditures in the Ordinary Budget
1944 and 1951 - 1958 (1)
(In thousand Lebanese Pounds)

Receipts	1944	1951	1952	1953	1954	1955	1956	1957	1958 Budget Estimates
Direct Taxes and Duties of Similar Nature	5,542	17,088	19,690	36,183	43,071	47,784	56,377	63,007	54,865
Indirect Taxes and Fees	20,713	75,465	84,408	83,062	93,043	102,391	108,032	118,622	106,460
Revenue from Public Property (a)	382	577	599	494	784	619	681	697	650
Revenue from Public Enterprises	1,870	3,646	4,404	4,975	4,020	6,298	6,488	6,979	6,230
Miscellaneous Receipts	4,720	8,320	15,667	16,188	13,951	18,906	16,432	18,567	25,200
Receipts in Attenuation of Expenditures	160	211	159	330	2,575	2,865	3,970	2,068	760
Withdrawals from Reserve	142	17,742	22,487	21,286	35,533	44,410	69,142	81,980	—
Receipts from Administration of Common Interests	1,354	—	—	—	—	—	—	—	—
Receipts from War Profits Tax	3,000	—	—	—	—	—	—	—	—
TOTAL	37,883	123,049	147,414	162,518	192,977	223,273	261,122	291,922	194,165

(a) Includes proceeds of sales of public property.

TABLE I (Continued)

Expenditures	1944	1951	1952	1953	1954	1955	1956	1957	1958
Pres. of Republic									Budget
Chamber of Deputies	179	435	459	552	499	522	488	590	Estimates
Prime Ministry	448	962	1,166	871	806	791	823	1,071	425
Ministry of Foreign Affairs	310	279	250	363	390	351	399	632	1,312
Ministry of Finance	155	3,710	2,485	2,422	3,244	4,293	8,453	7,866	540
Ministry of Interior	2,972	3,649	4,026	7,897	8,547	8,813	9,915	11,894	7,122
Ministry of Justice	8,198	11,951	11,257	13,009	14,487	16,070	18,323	21,025	12,938
Ministry of Public Works	2,050	3,255	3,297	3,827	4,052	4,110	4,713	5,644	21,919
Ministry of National Education	4,678	15,485	15,600	9,653	13,798	23,272	29,830	31,735	6,109
Ministry of Supply	2,615	9,763	9,995	11,688	13,052	16,275	17,356	21,220	29,080
Ministry of Agriculture	353	—	—	—	—	—	—	—	27,485
Ministry of Post and Telegraph	552	4,860	2,974	2,366	3,033	3,937	5,201	8,040	6,892
Ministry of National Defense	1,374	2,703	2,644	2,712	3,116	3,191	3,584	4,560	5,307
Ministry of Public Health	11	17,986	17,611	21,177	21,710	26,734	38,006	39,065	42,807
	1,689	4,582	4,666	4,352	4,491	5,324	6,124	7,680	8,926

Ministry of National Economy	211	519	447	1,690	2,172	2,087	2,491	2,815	2,882
Ministry of Information	—	624	595	543	594	787	863	944	2,901
Ministry of Social Affairs	—	—	361	438	1,329	1,737	3,224	2,676	2,989
Ministry of Planning	—	—	—	—	—	236	259	356	367
Debts Due	1,792	8,118	10,675	12,750	15,861	13,846	11,296	24,651	13,443
Expenditures of Past Years	79	1,172	—	—	—	—	—	—	—
Reserve	—	—	—	—	—	—	—	—	721
TOTAL	27,666	90,053	88,508	96,310	111,181	132,376	161,348	192,466	194,165
Surplus Rec. over Exp.	10,217	32,998	58,905	66,209	81,795	90,896	99,774	99,456	
Less Withdrawals from Reserve	142	17,742	22,488	21,286	35,533	44,410	69,142	81,980	
Net Surplus	10,075	15,256	36,417	44,923	46,262	46,486	30,632	17,476	

(1) Actual figures are taken from the files of the Ministry of Finance; estimates from the Lebanese Republic Budget of 1958. Discrepancies are due to rounding.

In 1953 classification of receipts in the Budget was revised. The most important change made was the transfer of duties of registration and stamp duties from the chapter of Indirect Taxes and Fees to that of Direct Taxes and Duties of Similar Nature. Accordingly comparison of receipts from direct taxes and receipts from indirect taxes for the years 1953-1958 could not be made with those of previous years without adjustment.

priate to limit comparison to the period since independence. Table I shows public receipts and expenditures in the ordinary budget in totals of classes, and grand totals, for the year 1944 and the years 1951 to 1957 and the budget estimates for 1958.

Actual receipts, excluding withdrawals from the Reserve Account, rose from about 38 million Lebanese pounds in 1944 to about 210 million pounds in 1957, while actual expenditures rose from about 28 millions to 192 millions. The large increase in total receipts were due in general to the increasing prosperity of the country and in particular to the increase in the receipts from direct taxes and the great increase in the revenue from customs duties and from excise duties on combustibles and tobacco. The former increase was mainly due to the institution and development of the income tax. The latter increase resulted mainly from the rise in imports since the war and the rise in the consumption of benzine and tobacco.

The growth in public expenditure resulted chiefly from: increases in public works, public instruction, and agricultural and health services; the creation and development of the Ministries of Foreign Affairs and Defence; the inclusion of some services, previously independent financially, in the ordinary budget; increase in salaries and pensions; and payment of instalments of debts resulting from purchase of the Nakoura-Tripoli railroad, purchase of French property in Lebanon and the replenishment of the currency cover following the devaluation of the French franc. Waste due to poor administration and temptation of of budget surpluses contributed also to this growth.

Budgetary surpluses are placed in the Reserve Account. During the period 1943 to 1957 such surpluses amounted to about 707 million Lebanese pounds, of which about 408 million were used for meeting additional appropriations to the Budget. Most of the remaining amount, together with some receipts from other sources, (1) were placed in a special fund called the Development Works Fund.

Movement in the Reserve Account during the years 1943—1957 are shown in Table II.

(1) Leb. L. 1,500,000 from National Lottery, Leb. L. 4,215,000 from the War Profits Tax, Leb. L. 8,457,540 from the receipts of Common Interests and Leb.L. 2,940,000 from the Wheat Office.

TABLE II
Movements in the Reserve Account
1942 - 1957

Year plus Period Allowed for Clo- sing Accounts	Receipts (Gross Budgetary Sur- pluses)	Transfers from Reserve Account to Ord. Budget	Transfers from Reserve Account to Develop- mental Works Fund	Other Transfers from Reserve Account	Balance at the Time of Closing Accounts
1942					9,170,240
1943	7,507,642	2,413,036	5,572,480	—	8,692,366
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	32,997,858	17,741,958	—	—	33,529,320
1952	58,904,616	22,488,021	2,502,825	1,961,000(a)	65,482,090
1953	66,208,758	42,145,222(b)	12,680,000	—	76,865,626
1954	81,795,108	47,078,684(c)	21,261,400	1,652,502(d)	88,668,148
1955	90,896,266	48,629,061(e)	18,285,000	1,558,985(f)	111,091,368
1956	99,773,802	80,790,678(g)	58,865,000	1,643,565(h)	69,565,927
1957	99,455,857	66,068,577(i)	22,187,500	1,011,970(j)	79,753,737
Totals	706,613,820	408,407,924	219,794,377	7,828,022	

(See page 16 for footnotes a-j)

- (a) This sum was withdrawn to cover the deficit incurred in the Telephone Service at the end of 1951.
- (b) Of which the sum of Leb. L. 20,859,464 was transferred to the 1954 budget.
- (c) Of which the sum of Leb. L. 32,405,557 was transferred to the 1955 budget.
- (d) This sum was withdrawn to cover the deficits incurred in the Telephone Service during the years 1952 and 1953.
- (e) Of which the sum of Leb. L. 36,624,561 was transferred to the 1956 budget.
- (f) This sum was withdrawn to cover the deficit incurred in the Telephone Service during the year 1954.
- (g) Of which the sum of Leb. L. 48,273,326 was transferred to the 1957 budget.
- (h) This sum was withdrawn to cover the deficit incurred in the Telephone Service during the year 1955.
- (i) Of Which the sum of Leb. L. 32,361,553 was transferred to the 1958 budget.
- (j) This sum was withdrawn to cover the deficit incurred in the Telephone Service during the year 1956.

The Development Works Fund was created in April 5, 1944 to finance developmental projects. Allocations are made to the Fund by acts of Parliament for designated projects. Expenditures from this Fund are given in Table IX, Chapter VII.

On June 1, 1957, the Development Works Fund was reconstituted, and the responsibility of executing the developmental works was divided between two new services: the Developmental Projects Service of Buildings and Communications and the Developmental Projects Service of Water and Electricity. Expenditures of these services amounted in 1957 to Leb. L. 38,980,000.

Besides the Ordinary Budget and the Development Works Fund, a number of financially independent budgets were created for certain services and agencies. By 1952 the following had independent budgets: the Office of Food Supplies (called later the Wheat Office), the Telephone Service, the Directorate of National Lottery, the Commissariat of Tourism, the Customs Administration, and a few water projects. These budgets were not subject to the annual scrutiny of the Parliament, and only a few were published. Since 1953 the budget of the Commissariat of Tourism and that of the Customs Administration were incorporated in the Ordinary Budget and the budgets that remained independent were made subject to post-audit control of the Audit Court established by the Public Accounting Law of March 19, 1953.

The Office of Food Supplies (Wheat Office) was created during World War II to ensure the supply of essential food stuffs and their distribution at moderate prices. It was retained since the war because of the uncertainties of getting adequate supplies by normal methods, particularly of wheat, and its objects were extended to develop local production of wheat mainly by importation and sale of better wheat seeds. Revenues of the Office came first from allocations from the Ordinary Budget and from proceeds of sale of food supplies, and, later, revenues came mainly from surtaxes on imported sugar and confectionary and sales of wheat and flour.(1)

The Telephone Service was owned and run before the last

(1) See Law of Jan. 31, 1950 and the amending laws of January 10 1952 and October 27, 1952.

war by the French Army. The network was bought by the Lebanese Government in 1946. It was first established as a semi-autonomous public enterprise, but since 1953 it has operated under the supervision of the Ministry of Posts and Telegraphs. Considerable expansion and modernization have been carried out since the war. Capital expenditures have been financed mainly by loans from the Bank of Syria and Lebanon and loans from the Treasury. Deficits were covered by withdrawals from the Reserve Fund.

The Directorate of National Lottery was created in the middle of 1943. (1) Profits realized from this undertaking were to be used solely for welfare purposes.

The Government water projects with independent budgets in 1952 were the Beirut Water Service, Nahr al-Jauz project and the Al-Kâsimiyah and Râs al-'Ayn projects.

The Beirut water supply was before 1951 a private undertaking, but it was nationalized in January 1951, and an independent government board was created to operate it. Loans were made by the Treasury to compensate the previous owners and to improve equipment. The other water projects are relatively insignificant.

Since 1952 many additional financially independent budgets have been created, mostly for drinking water supply, irrigation, and electricity projects. The most important of these were the Common Electricity and Transport Service, the National Litani Service, the Reconstruction Service, and the Liquid Inflammables Fund.

The Common Electricity and Transport Service was established on July 7, 1954, after the nationalization of the Beirut Electricity and Tramway Company, when its concession was terminated. Money was advanced by the Treasury to compensate the former owners and to expand the installations.

The National Litani Service was established on August 14, 1954 to implement the Litani river hydro-electric project and operate the undertaking when completed. The first stage of the work is expected to cost about 125 million Lebanese pounds. A

(1) See Decree Law No. 53 of June 22, 1943.

special fund was created to finance the project; the fund to be fed by loans from the Treasury (to be taken from the Reserve Fund), loans from private sources and proceeds of sale of public property. The International Bank for Reconstruction and Development has agreed to loan the Litani Service, with the guarantee of the Lebanese Government, 27,000,000 U.S. dollars at 4.75 per cent interest, redeemable in 25 years.

The Reconstruction Service was created on April 9, 1956 to help reconstruct the areas damaged by the earthquake of March 1956 and the areas of Tripoli and the North devastated by the flood of January 17, 1955. A special fund was created for financing the Service, to be fed from contributions and aid, sur-taxes and duties assigned, loans by the Treasury, and internal loans subject to special laws. Surtaxes were levied as follows :

- a) Three per cent on income tax due from a person if the amount exceeds Leb. L. 1000.
- b) Leb. L. 2 on each horse power of private cars.
- c) 1 1/4 piasters on each liter of benzine, 1 1/2 piasters on each liter of gas oil, and one piaster on each liter of fuel oil.
- d) A special postage stamp of 2 1/2 piasters on each envelop, excluding printed matter.
- e) Various taxes on admission tickets.
- f) Additional duties on certain imported articles.
- g) Five per cent of value of land sold to non-Lebanese.

The Liquid Inflammables Fund was established on January 12, 1955 to ensure supply and stability of prices of liquid inflammables. The Fund is fed from the following sources:-(1)

- a) 2 1/2 per cent of the profits of the distribution companies, its equivalent being assessed as follows:-
 - (a) Leb. L. 6.86 on each 1000 liters of benzine, excluding benzine for aircraft.
 - (b) Leb. L. 17.69 on each 1000 liters of kerozene, excluding kerosene for aircraft.
 - (c) Leb. L. 1.49 on each 1000 liters of gaz oil.
 - (d) Leb. L. 1.02 on each 1000 liters of fuel oil.
- b) Difference between the cost of benzine of 84 octane and its price to the consumer.

(1) See Decree of August 13, 1957.

c) Surplus derived from purchase and sale of benzine and other liquid inflammables.

The actual receipts and expenditures of the financially independent services and agencies during the year 1957 and the dates of establishment are given in Table III.

TABLE III
Actual Receipts and Expenditures
of Financially Independent Services and Agencies, 1957. (1)
(In thousand Lebanese pounds)

	Date of Establishment	Receipts	Expend- itures
Directorate of National Lottery	Dec. 24, 1942	5,338	4,991
Directorate General of Telephone	Mar. 4, 1947	11,873	12,150
Municipal and Town Planning	Feb. 28, 1940	314	288
Wheat Office	Feb. 28, 1953	4,011	1,567
Beirut Water Supply Service(a)	Jan. 11, 1951	2,838	3,251
Common Electricity and Transport Service(a)	July 7, 1954	21,335	19,610
Electricity of Tyre, Nabatiyah and Jezzeen(a)	Dec. 20, 1955	87	77
Water Supply of Kisrwân and Electricity of al-Fitooh	Feb. 2, 1957	89	66
Water of Nab' al Tâsah	Aug. 14, 1954	17	11
Water of Nab' al-Ghâr	Feb. 2, 1956	22	8
Water of Nab' al-Bârook	July 20, 1956	304	123
Water of Tripoli	Sept. 13, 1955	485	384
Water of al-Kâsimiyah and Râs al-'Ayn	Dec. 16, 1950	88	41
Water of Nahr al-Jauz	Aug. 19, 1943	8	5
Water of Adonis	Mar. 10, 1953	32	25
National Litani Service	Aug. 14, 1954	10,538	3,978
Liquid Inflammables Fund	Jan. 12, 1955	5,489	4,650
Reconstruction Service(b)	April 9, 1956	19,231	18,687

(a) Previously a private enterprise.

(b) Privately secured from Reconstruction Service. Receipts (with the exception of surtaxes) and expenditures are not given for each year separately. Since total receipts and total expenditures for the three years 1956-1958 are available, receipts and expenditures for 1957 have been considered as representing one third of the respective total.

(1) Privately secured from the Ministry of Finance.

Chapter II

ACTUAL PUBLIC RECEIPTS IN 1956 AND 1957
AND BUDGETARY ESTIMATES FOR 1958

Public receipts of Central Government come from three types of budgets: the Ordinary Budget, the Financially Independent Budgets and the Development Works Fund extraordinary budget.

I. PUBLIC RECEIPTS IN ORDINARY BUDGET

Government classification of public receipts in the Ordinary Budget is not very sound. No distinction is made between revenue receipts and non-revenue receipts. Sales proceeds of movable property are shown under revenues from public domain. Moreover, no accurate distinction is made between tax and non-tax revenues. Some fees for services rendered (like notary public fees and court fees) are grouped together with 'land registration duties' (consisting mostly of taxes on land transfers) and stamp duties, under one heading, Direct Taxes and Duties of Similar Nature; while the duty on gambling is shown together with fees for certain services rendered (such as airport and hospital fees) and some receipts (such as royalties, fines, and interest on funds) under the heading of Miscellaneous Receipts. Furthermore, stamp duties, which are mostly indirect taxes, are listed under direct taxes.

Since, however, the amounts of most misclassified revenues are relatively not so significant, no attempt was made to correct their classification in the following tables, which show the relative importance of the different categories of revenue and their subdivisions. The only correction made is the exclusion of proceeds of sale of public property from revenue of Public Enterprises and Domain. These are shown with withdrawals from reserve in Table V.

A. Tax Revenue

1. Direct Taxes

Direct taxes, as grouped in the Budget, include the Buildings Tax, Land Tax, Income Tax, Succession and Gift Tax, Radio Receivers Tax, Private Vehicles Tax, Forests Tax, Court Fees, Notarial Fees, Land Registration Fees, Stamp Duties, Road Circulation Fees, Public Security Fees, and Consular Fees.

The fiscal importance of these taxes put together is much less than that of indirect taxes. This may be attributed to six main causes. First, the yield of the Land Tax is actually insignificant, due, partly, to the fact that the assessment of net yield was far lower than the actual, and, partly, to the low rates of this tax. Secondly, the income tax is a tax on separate incomes, which decreases considerably the yield 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 incompetence of tax assessors. Fifthly, the yield of the inheritance and gift tax is very low, partly, because of the very low rates of the tax, and, partly, because of the law allowing secrecy of bank deposits, which helps tremendously the concealment of liquid assets. Sixthly, imposition and collection of most direct taxes are much neglected in rural areas.

In 1957 actual receipts from direct taxes amounted to 34.69 per cent of tax revenue and 30.02 per cent of total revenue. Their budgetary estimates for 1958 amounted to 34.01 per cent of tax revenue and to 28.27 per cent of total revenue.⁽¹⁾

Table I shows the actual receipts from each one of the direct taxes during 1956 and 1957 and the estimates for 1958, and their fiscal importance, expressed as a percentage of tax revenue and of total revenue.

(1) These proportions would have been even smaller if the stamp duties and some fees for services rendered were not included among direct taxes.

TABLE I
Fiscal Importance of Direct Taxes and Duties of Similar Nature
1956 — 1958 (1)
(In thousand Lebanese Pounds)

Kind of Tax or Fee	1956			1957			1958		
	Actual Revenue		% of total revenue	Actual Revenue		% of total revenue	Budgetary Estimates		% of total revenue
	Amount in Leb.L.	% of tax revenue		Amount in Leb.L.	% of tax revenue		Amount in Leb.L.	% of tax revenue	
Buildings Tax	7,556	4.60	3.94	9,754	5.37	4.65	9,000	5.58	4.64
Land Tax	579	.35	.30	582	.32	.28	650	.40	.33
Income Tax	20,066	12.20	10.46	22,212	12.23	10.58	19,000	11.78	9.79
Succession & Gift Tax	1,079	.65	.56	682	.38	.32	1,000	.62	.52
Radio Receivers Tax	608	.37	.32	646	.36	.31	600	.37	.31
Private Vehicles Tax	3,216	1.96	1.68	3,473	1.91	1.66	3,200	1.98	1.65
Forest Tax	250	.15	.13	244	.13	.12	250	.15	.13
Court Fees	1,509	.92	.79	1,755	.97	.83	1,460	.91	.75
Notarial Fees	372	.23	.19	376	.21	.18	370	.23	.19
Land Registration Fees	8,666	5.27	4.52	8,978	4.94	4.28	7,000	4.34	3.61
Stamp Duties	7,071	4.30	3.69	7,510	4.13	3.58	7,000	4.34	3.61
Road Circulation Fees	4,205	2.56	2.19	3,991	2.19	1.90	4,200	2.60	2.16
Public Security Fees	444	.27	.23	475	.26	.23	435	.27	.22
Consular Fees	756	.46	.39	2,328	1.28	1.11	700	.43	.36
TOTAL	56,377	34.29	29.38	63,007	34.69	30.02	54,865	34.01	28.27

(1) Source: Closed accounts, 1956 and 1957, and Budget 1958.

2. Indirect Taxes

Indirect taxes play the most important part in the public finance of Lebanon. The commodities taxed are largely necessities. This reflects the emphasis laid on tax yield with little regard to the unfavorable effect on cost of living and distribution of income. The very high taxes on inflammables (kerosene and benzine) and tobacco provide a good illustration of this policy. In 1957 indirect taxes accounted for 65.31 per cent of tax revenue and 56.53 per cent of total revenue; and according to the budgetary estimates of 1958 they accounted for nearly the same percentages.

Actual receipts from the different indirect taxes and their importance — expressed as percentage of tax revenue and of total revenue—for the year 1956 and 1957, and estimates for 1958, are shown in Table II. Customs duties rank first, followed by the tobacco duty and tax on inflammables. The three together accounted in 1957 for about 54 per cent of total revenue.

TABLE II
Fiscal Importance of Indirect Taxes and Duties
1956 — 1958(1)
(In thousand Lebanese Pounds)

	1956			1957			1958		
	Actual Revenue			Actual Revenue			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 Inflammables	16,305	9.92	8.50	17,128	9.43	8.16	16,300	10.10	8.40
Duties on Liquors	1,364	.83	.71	1,511	.83	.72	1,300	.81	.67
Duties on Salt	180	.11	.09	181	.10	.09	200	.12	.10
Duties on Tobacco and Tobacco	15,637	9.51	8.15	17,947	9.88	8.55	16,500	10.23	8.50
Duty on Cement	2,686	1.63	1.40	2,905	1.60	1.38	2,500	1.55	1.29
Customs Duties	71,522	43.50	37.27	78,584	43.27	37.45	69,300	42.96	35.71
Customs Receipts to cover expenditures	64	.04	.03	77	.04	.04	60	.04	.03
Other Customs Receipts	273	.17	.14	290	.16	.14	300	.19	.15
TOTAL	108,931	65.71	56.30	118,622	65.31	56.53	106,460	65.99	54.86

(1) Source: Closed Accounts, 1956 and 1957, and Budget 1958.

B. Non-Tax Revenues

1. Revenues from Public Enterprises and Domain

Public enterprises accounted for in the Ordinary Budget are relatively few; most public enterprises have independent budgets. The most important public enterprises accounted for in the Ordinary Budget are those of the Post and Telegraph. Revenues from these, as given in the Budget, are gross. Their net income in 1957 amounted to 1,520,000. Revenue from public domain is insignificant, because public domain in Lebanon is small, and it is not efficiently administered. In many cases public land is exploited by the owners of neighboring lands, or previous owners (i.e. persons from whom it was acquired) without the consent of the Government.

Table III shows the revenues of the different items included in the Ordinary Budget under Public Enterprises and Domain during the year 1956 to 1958.

TABLE III
Fiscal Importance of Public Enterprises and Domains
1957 — 1958(1)
(In thousand Lebanese Pounds)

Kind of Revenue	1956			1957			1958		
	Actual Revenue		Amount in Leb.L.	Actual Revenue		Amount in Leb.L.	Budgetary Estimates		% of total revenue
	Amount in Leb.L.	% of non-tax revenue		Amount in Leb.L.	% of non-tax revenue		Amount in Leb.L.	% of non-tax revenue	
Revenue from Post	3,164	11.51		3,053	10.82		3,060	9.35	1.58
Revenue from Telegraph	2,394	8.71		3,027	10.72		2,165	6.61	1.12
Revenue from Official Publications	53	.19		52	.19		55	.17	.03
Revenue from Explosives Service	365	1.33		437	1.55		350	1.07	.18
Revenue from Light House Department	512	1.86		410	1.45		600	1.83	.31
Revenue from Forests	44	.16		41	.15		40	.12	.02
Revenue from Other Domains	545	1.99		569	2.02		500	1.53	.26
TOTAL	7,077	25.76		7,590	26.89		6,770	20.68	3.49

(1) Source: Closed Accounts 1956 and 1957, and Budget 1958.

2. Other Revenues

Under this heading are grouped all revenues which are not classified under any of the foregoing headings. Table IV shows the fiscal importance of each of these revenues during the years 1956 to 1958.

TABLE IV
Fiscal Importance of Other Revenues
1956 — 1958(1)
(In thousand Lebanese Pounds)

Kind of Revenue	1956		1957		1958	
	Actual	% of non-tax revenue	Actual	% of non-tax revenue	Budgetary Estimates	% of total revenue
	Amount in Leb.L.		Amount in Leb.L.		Amount in Leb.L.	
Discounts for Pensions	2,858	10.40	3,749	13.28	3,500	10.69
Receipts from Hospitals	10	.04	4	.02	15	.05
Port Dues	129	.47	202	.71	110	.34
Fines and Forfeitures	1,535	5.59	2,033	7.20	1,400	4.28
Interests on Funds	795	2.89	235	.83	500	1.53
Gambling Duties	1,020	3.71	952	3.37	1,000	3.06
Revenue from the Office of Exchange	146	.53	77	.27	100	.31
Receipts from Quarantines	279	1.02	340	1.20	275	.84
Receipts from Concessionary Companies	393	1.43	992	3.52	900	2.75
Royalties from Petroleum Companies	4,618	16.80	3,928	13.92	13,500	41.25
Airport Dues	2,924	10.64	2,770	9.81	2,700	8.25
Miscellaneous Revenues	1,725	6.28	3,285	11.64	1,200	3.67
Receipts in Attenuation of Exp. (a)	3,970	14.45	2,068	7.33	760	2.32
	20,402	74.24	20,635	73.11	25,960	79.32
				9.83		13.37

(a) In most part receipts from the Wheat Office to cover administrative expenditures.

(1) Source: Closed Accounts 1956 and 1957 and Budget 1958.

C. Non-Revenue Receipts

In addition to the Tax Revenue and the Non-Tax Revenue, there are what may be called non-revenue receipts, the most important of which are withdrawals from the Reserve Fund. The amount of these receipts in the years 1956 to 1958 are shown in Table V.

TABLE V
Non-Revenue Receipts
(Receipts from Sales of Public Property
and from Withdrawals from Reserve(a)
1956-1958(1)
(In Thousand Lebanese Pounds)

Item	Actual Receipts 1956	Actual Receipts 1957	Estimated Receipts 1958
Receipts from Sales of Property	92	87	110
Withdrawal from Reserve to Supplement the Budget	53,348	59,762	—
Withdrawal from Reserve to Cover Expenditures of Previous Years	9,832	17,216	—
Withdrawal from Reserve to Cover Reimbursements	1,932	1,638	—
Withdrawal from Reserve to Cover Cash Sentences —	4,030	3,364	—
TOTALS	69,234	82,067	110

(a) Withdrawals from reserve are not provided for in the Budget.

The very large amount withdrawn from the Reserve Fund (69 million Lebanese pounds in 1956 and 82 million in 1957), to supplement the budgetary receipts, calls for comment. The practice of the Lebanese Government is to underestimate revenues from the various sources, with a view to having a surplus to be transferred to the Reserve Fund and used partly for paying expenditures under special appropriations and expenditures of budgetary appropriations transferred from previous years, and

(1) Source: Closed Accounts 1956 and 1957 and Budget 1958.

partly for financing developmental projects. For example the budgetary appropriations for 1957 amounted to 170 million Lebanese pounds, while special appropriations during that year amounted to 83 million and annulled appropriations to 1 million. Hence 82 million came from the Reserve Fund. The actual surplus in 1957, which was transferred to the Reserve Fund amounted to 99 million pounds. Thus the difference between what was withdrawn from the Reserve Fund during the year (82 million) and what was added to it at the end of the year (99 million) was a net actual surplus of 17 million pounds. This amount was available for financing developmental projects.

Now the reason why the Government resorts so much to special appropriations is partly because of a weakness in ability of most of the departments to foresee all necessary expenditures, and partly because some of the foreseen expenditures are thought more likely to be voted by Parliament under special appropriations than under budgetary appropriations.

Consequently neither the budgetary receipts nor the budgetary expenditures can be considered to be reliable, and the financial situation can, therefore, only be judged by the closed accounts. In contrast, the actual receipts in Great Britain, for example, differ from the budgeted receipts within a range of 5 per cent above or below.

I. PUBLIC RECEIPTS IN FINANCIALLY INDEPENDENT BUDGETS

As was stated in Chapter I, there are, in addition to the Ordinary Budget, many financially independent budgets for various public enterprises and other services. The more important ones, however, are eight. Their actual receipts in totals for the years 1956 to 1958 are given in Table VI.

It should be noted that the receipts of some of these services were not from operations. Receipts of the Wheat Office and the Construction Service came mostly from assigned sur-taxes; while receipts from the Litani River National Service were advances by the Treasury and receipts from an IBRD loan.

The fall in receipts of most services in 1958 was due to the political events of that year.

TABLE VI
Actual Receipts of the More Important
Financially Independent Budgets
1956 - 1958
(In thousand Lebanese Pounds)

Enterprise or Agency	1956	1957	1958
Directorate of National Lottery	4,711 (a)	5,338 (a)	3,665 (b)
Directorate General of Telephone(c)			
(1) From Operation	10,325	11,873	11,312
(2) From advances by Treasury for capital works	2,421	—	5,105
Wheat Office	4,065 (a)	4,011 (a)	4,231 (b)
Beirut Water Service(d)			
(1) From operation	3,100	2,838	3,491
(2) From advances of Treasury for capital works	—	—	2,000
Electricity and Common Transport Service(d)			
(1) From operation	18,843	21,335	20,457
(2) From advances by Treasury for capital works	23,500 (h)	12,000	—
Litani River National Service(e) - from advances by Treasury and loan from I.B.R.D.	11,290	10,538	11,560
Reconstruction Service(f)	19,251	19,251	19,251
Liquid Inflammables Fund(g)	3,480	5,489	7,021
Total Receipts	100,986	90,673	88,093

(a) From a statement privately secured from the Ministry of Finance.

(b) From Closed Accounts presented to Parliament.

(c) From Financial Reports on Telephone 1956, 1957 and 1958.

(d) From Reports of Auditor.

(e) From Report of a Committee for study of Position of Litani River National Service, Nov. 20, 1959, except receipts of 1957 which were secured from the Ministry of Finance.

(f) From a statement secured from the Reconstruction Service. Receipts for each year have been considered as representing 1/3 of total receipts for the three years 1956-1958. For explanation see p. 21, f.n. b. Receipts from surtaxes in 1956, 1957 and 1958 amounted to Leb. L. 6,333,000, 12,889,000 and 10,734,000 respectively.

(g) From a statement secured from Liquid Inflamm. Fund Service.

(h) From advance by Treasury for purchase of old Company.

III. PUBLIC RECEIPTS IN DEVELOPMENT WORKS FUND EXTRAORDINARY BUDGET

As was mentioned in Chapter I, the receipts of the Development Works Fund represent transfers, mainly from the Reserve Fund, by appropriations made by specific acts of Parliament. Total actual receipts during the period 1945 to 1955 and the years 1956, 1957 and 1958 were as follows: (1)

1944 to 1955	Leb. L. 114,352,000
1956	20,806,000
1957	38,980,000 (2)
1958	26,508,000

A consolidated statement of Receipts, including loans and advances, transfers from Reserve Fund, other transfers, and foreign aid, is given in Chapter VIII, Table I.

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- (1) From Closed Accounts. Actual receipts for a specific year represent the amount used during that year of the cumulative balance of appropriations, which relate to no definite year in which they may be used. Consequently actual receipts are considered equal to actual expenditures.
- (2) Of this amount, Leb. L. 12,800,000 came from aid of Government of U.S.A.

Chapter III

THE INCOME TAX

A. General Features

The income tax is levied on all incomes except those from buildings and land which are subject to the Buildings Tax and the Land Tax respectively and those exempted by law. The incomes subject to the Income Tax are divided into three categories: profits from industrial, commercial and non-commercial enterprises; salaries, wages and pensions; and income 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 profits 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 1957 to Leb. L. 22,212,333. This amount represented 12.23 per cent of tax revenue and 10.58 per cent of total revenue of that year.

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

The tax on the profits of industrial, commercial and non-commercial enterprises is levied on the profits of these enterprises, including handicrafts and professions, and on the profits of any other activity not subject to another tax on income.

All persons real or legal are subject to this tax on the basis of their profits realized in Lebanon.(1)

The following income recipients are exempted:(2)

- a) Educational institutions;
- b) Hospitals, orphanages, asylums, and relief institutions, provided they receive patients free of charge;
- c) Sanatoriums and mental disease hospitals;
- d) Consumers cooperatives, syndicates and agricultural 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, or processed;
- f) Airways and sea transport concerns, provided in the case of foreign enterprises reciprocal treatment is given by their countries to Lebanese concerns if such concerns exist.
- g) Public enterprises that do not compete with private enterprises.

1. Basis

The taxable income of all enterprises subject to the tax is either the actual net profit, the assessed 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 sheets and income statements:(3)

- a) Corporations, partnerships whether 'collective' or 'commandite', consumers cooperatives, syndicates, and agricultural cooperatives subject to the tax;
- b) Branches of the above mentioned establishments when their head office is outside Lebanon;
- c) Industrial firms with the exception of handicrafts;
- d) Banks, bankers and persons undertaking discount operations;
- e) Importers, exporters, wholesale or semi-wholesale

(1) *Official Gazette* No. 35, July 4, 1951, Legislative Decree No. 144, articles 1 and 2.

(2) *Ibid.*, article 5.

(3) *Ibid.*, article 11.

dealers, commission merchants, agents of manufacturers or business firms;

- f) Retail dealers 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 first and second class theaters and cinemas;
- k) Printing presses and publishers;
- l) Grinding mills, not run by water or wind;
- m) Lessors of equipped establishments.

Other categories of enterprises, except insurance and savings concerns, transport enterprises, petroleum refineries, and public works contractors, may also, upon their request, be taxed on the basis of actual net profit.(1)

By actual net profit is meant the total returns subject to this category of the income tax minus all charges and expenses necessary for the running of the business, and, within limits set by decree, all contributions to philanthropic, social, educational or sport institutions officially recognized.(2)

The following expenses are not deductible:(3)

- a) Interest on capital and expenses that lead to an increase in net worth of the business;
- b) Taxes paid or due to a foreign country;
- c) Losses sustained by the taxpayer in enterprises run outside the Lebanese territories;
- d) Expenses that the taxpayer cannot prove that he has sustained in respect of business outside Lebanon;
- e) Personal expenses including amounts drawn by the enterpriser or the partner from the business as a salary;
- f) Representation allowances that do not exceed 30 per cent of the salary of an employee;
- g) Extraordinary taxes and personal fines.

If a loss is incurred in a given year its amount is deductible

(1) Legislative Decree No. 144, *loc.cit.*, article 44.

(2) *Ibid.*, article 7.

(3) *Ibid.*

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.(1)

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

Total receipts are defined as the total returns resulting from all the operations that the taxpayer has actually undertaken during the preceeding year. Such returns include, specially, proceeds of sale of goods of any kind, rent of such goods, commission, interest, and brokerage. (3)

People who are exempted by the Commercial Code from keeping books are taxed on the basis of estimated net profit as fixed by a special commission appointed by the Minister of Finance. (4)

2. Rates

The tax is levied on the net yearly profit, actual or assessed, after allowing a deduction of Leb. L. 1,500 for each real person if he is a bachelor; of Leb. L. 2,400 if he is married and has no children; Leb. L. 3,000 if he is married and has children.(5) Deduction from estimated profits is Leb. L. 2,400 whatever may be the family status of the taxpayer.

After allowing the appropriate deduction the following rates are applied:(6)

(1) Legislative Decree No. 144, *loc. cit.*, article 16.

(2) *Ibid.*, articles 21, 22 and 23.

(3) *Ibid.*, article 18.

(4) *Ibid.*, articles 10, 24 and 25.

(5) *Ibid.*, article 31.

(6) *Ibid.*, article 32.

	Commercial & Industrial Enterprises	Other Enterprises
On the taxable income not exceeding Leb. L. 5,000	5%	4%
On the portion of taxable income comprised between:		
Leb. L. 5001 and 15,000	7%	5%
Leb. L. 15,001 and 25,000	9%	7%
Leb. L. 25,001 and 35,000.	13%	10%
Leb. L. 35,001 and 50,000	17%	13%
Leb. L. 50,001 and 75,000	22%	17%
Leb. L. 75,001 and 100,000	27%	22%
Leb. L. 100,001 and 250,000	32%	27%
Leb. L. 250,001 and 750,000	37%	32%
On the portion of taxable income exceeding Leb. L. 750,000	42%	37%

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

A surtax of 10 per cent on the amount of this tax is added for the benefit of municipalities,(1) and a temporary surtax of

(1) Originally this surtax was 5 per cent; it was raised to 10 per cent by the Law of January 22, 1951, article 1.

3 per cent on the part of the tax that exceeds Leb. L. 1,000, for the benefit of the Reconstruction Fund. (1)

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.

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. (2)

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

C. Tax on Salaries, Wages, and Pensions

The tax on salaries, wages, and pensions is levied on these incomes—which include also compensations, indemnities and 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. (3)

The following incomes are however exempted: (4)

- 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 and allowances of military people of allied countries;

(1) *Official Gazette* No. 15, April 11, 1956, Law of April 9, article 11.

(2) *Legislative Decree* No. 144, *loc. cit.*, article 35.

(3) *Ibid.*, article 46.

(4) *Ibid.*, article 47.

- d) Pensions of disabled persons retired from Government service, public services, or private institutions in accordance with pension laws;
- e) Life allowances and temporary compensations granted to victims of labor accidents;
- f) Wages of agricultural labor;
- g) Wages of servants in private houses;
- h) Salaries and wages of nurses and maids in hospitals, orphanages, asylums, and similar institutions;
- i) Indemnities paid for dismissal from work in accordance with the law.

1. Basis

The tax is based on the net yearly returns of the taxpayer. (1) 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. (2)

2. Rates

Each person is allowed a deduction of Leb. L. 1,500 of his yearly net income if he is a bachelor, Leb. L. 2,400 if he is married and has no children; Leb. L. 3,000 if he is married and has children. (3) Day laborers are allowed an exemption of Leb. L. 8 per day 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 deduction. (4) After allowing the appropriate deduction, the following tax rates are applied: (5)

(1) *Ibid.*, article 48.

(2) *Ibid.*, article 50.

(3) *Legislative Decree* No. 144, *loc. cit.*, article 56.

(4) *Ibid.*, article 57.

(5) *Ibid.*, article 58.

On portion of taxable income not exceeding Leb. L. 4,800	2%
On portion of taxable income ranging between:	
Leb. L. 4,801 and 8,400	3%
Leb. L. 8,401 and 12,000	4%
Leb. L. 12,001 and 24,000	5%
Leb. L. 24,001 and 36,000	6%
Leb. L. 36,001 and 48,000	8%
On portion of taxable income exceeding Leb. L. 48,000	10%

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. In case the employer or payer is a non-resident the tax is collected directly from the employee or payee.(1)

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, interest on ordinary debts, interest on deposits and current accounts, dividends and all similar returns, including lottery prizes to securities and bonus shares when such incomes are derived in Lebanon or received by a resident in Lebanon.(2) The following returns are, however, exempted:(3)

- a) Dividends distributed by Lebanese corporations from profits that were subject to the tax on incomes from enterprises;(4)

(1) *Ibid.*, article 63 and 67.

(2) *Ibid.*, article 69. Incomes from these sources, arising from the practice of an enterprise or profession, are subject to the progressive tax of their respective categories.

(3) *Ibid.*, article 71.

(4) Income derived outside Lebanon is not exempted because it is not subject to progressive tax on income from enterprises.

- b) Repayments to stockholders and creditors if such amounts are not taken from the profit and loss or reserve account;
- c) Repayments to stockholders and creditors by a concessionary company when the reason for such payments is its obligation to deliver free of charge at the end of its concession all its equipment to the Government;
- d) Interest on savings deposits, if it does not exceed one thousand pounds per year;
- e) Interest and returns from current accounts accruing to the Government, municipalities, and public institutions, and to foreign diplomatic and consular bodies in Lebanon provided such exemption is reciprocated;
- f) Interest on Lebanese Government bonds;

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 stocks and bonds; 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 of the gross returns(1), while on the fifth group it is 50 per cent(2).

1. INCOME FROM LEBANESE STOCKS AND BONDS

The tax on Lebanese stock dividends and other returns, including payments from reserves, is assessed on the basis of auditor's 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 paid out to bondholders.(3)

Collection is made at the source. Corporations and other

(1) Legislative Decree No. 144, *loc. cit.*, article 72.

(2) *Ibid.*, article 90.

(3) *Ibid.*, article 73.

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.(1)

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 any 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.(2) 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.(3)

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 extract of mortgages, and is collected from the creditor.(4) In case the debtor pays it he is entitled to deduct it from the interest or the principal.(5)

4. *Income from Debts and Deposits*

The tax is based upon the amount of interest on debts or deposits as declared by the debtor. And though it is due from the creditor, it is the debtor who is required to deduct it and pay it to the Treasury.(6)

(1) *Ibid.*, article 75.

(2) *Ibid.*, articles 77, 78, 82.

(3) *Ibid.*, article 82.

(4) *Ibid.*, article 84. In case the interest rate mentioned in the contract is less than the usual rate, the interest is calculated on the basis of the official interest rate fixed by law. Actually the official interest rate on such debts is 12 %.

(5) *Ibid.*, article 86.

(6) *Ibid.*, article 89.

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.(1) It is based on the forfeited amounts, as shown in the declaration that every person profiting from such forfeitures is required to present to the Financial Authorities with the amount of the tax due.(2)

E. 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.

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 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. 15,000 from private medical

(1) *Legislative Decree No. 144*, article 90.

(2) *Ibid.*, article 91.

practice. Neglecting exemption, X will pay as a tax on his income Leb. L. 1,128, $\frac{(4800 \times 2)}{100} + \frac{3600 \times 3}{100} + \frac{3600 \times 4}{100} + \frac{12000 \times 5}{600} + \frac{3000 \times 6}{100}$); while Z will pay only Leb. L. 1,048, $(\frac{4800 \times 2}{100} + \frac{3600 \times 3}{100} + \frac{3600 \times 4}{100} = 348 \text{ and } \frac{5000 \times 4}{100} + \frac{10000 \times 5}{100} = 700)$.

Thus, though X and Z have equal incomes, and though the rates applied on income from professions are made higher than the rates applied on salaries, X who derives all his income from salary pays Leb. L. 80 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. 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 the 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 tax payer — yet the rate applied on this kind of income is a simple proportional rate of 10 per cent, 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 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 high 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 larger 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 LAND TAX AND THE BUILDINGS TAX

A. The Land Tax

As has already been stated in Chapter I, the land tax which in 1955 replaced the old land taxes was suspended in 1959 for a period of five years, mainly for the purpose of encouraging cultivation.(1) This tax is levied on the owner of land. However in case of long-term lease or exploitation right(2) the tax is levied on the lease holder or exploiter.

Receipts from this tax amounted in 1957 to Leb. L. 582,567, accounting only for 0.32 per cent of tax revenue.

1. Basis and Assessment

The tax is based on either the assessed average net return of the property or on the actual net return as declared to the Finance Authorities concerned.(3) Unused agricultural land is taxed on the basis of area,(4) while building lots are taxed on the basis of assessed selling value.(5)

For the purpose of taxation on the basis of assessed net return, the tax law established seventeen categories of land as shown in Table I.(6) The average net return per one thousand square meters of each of these categories is assessed by a central

(1) *Supra*, p. 4.

(2) 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

(3) Appendix to *Official Gazette* No. 52, Dec. 26, 1951, Land Tax Law, *loc. cit.*, article 4.

(4) *Ibid.*, article 38.

(5) *Ibid.*, article 22.

(6) *Ibid.*, article 5 and Table I appended to the Law.

committee of five experts,(1) while a local committee determines the categories of land in each town or village.(2) The assessment 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.(3) However, revision can be made whenever there is a change exceeding 20 per cent in the estimated average return of a given category.(4) 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 plantation.(5) A general revision of category determination is made every fifteen years.(6)

TABLE I

Categories of Land Established by the Land Tax Law(7)

a. Irrigated 'Salikh' (not planted with trees)	Category Number
Land planted with vegetables, flower and nursery lands.	1
Cereal land.	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.

b. Irrigated Orchards or Groves	Category Number
Banana orchards.	3
Citrus and ikkidinia (loquat) trees.	4
Apple and pear trees.	5
Other trees (including walnuts).	6

(1) *Ibid.*, article 6.

(2) *Ibid.*, article 28.

(3) *Ibid.*, article 9.

(4) *Ibid.*

(5) *Ibid.*, article 31.

(6) *Ibid.*, article 36.

(7) Table I appended to Land Tax Law, *loc. cit.*

c. *Unirrigated Salikh*

	Category Number
All lands that can produce 120 kgs or above per 1000 square meters when cultivated with wheat	7
	8
	9
	10
	11
Land planted with tobacco that can produce per 1000 sq. meters	

d. *Unirrigated Groves or Orchards*

Olive trees	12
Almonds, kharroub and fig trees	13
Vineyards that can produce per 1000 sq. meters	14
	15
	16
Land 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. (1) Personal expenditures or remuneration for services rendered by the proprietor are not deductible.

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. 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

(1) Land Tax Law, *loc. cit.*, article 11.

prepared to keep the necessary accounts. (1) Otherwise the tax will be based on estimated returns.

Lands that are considered building lots are taxed on the basis of their capital value. (2) In Beirut the capital value per square meter of each subdivision of a district is determined in an appendix to the Land Tax Law. (3) 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 of the land of the category concerned. (4) The assessed capital value of building lots serves as the basis of the tax for a period of five years. (5) However a revision can be made if there is a change of more than 20 per cent in the value. 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 Law. (6)

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

(1) Land Tax Law, *loc. cit.*, article 12.

(2) 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.

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

(4) See Table II.

(5) Land Tax Law, *loc. cit.*, article 23.

(6) Table III appended to the Land Tax Law, *loc. cit.*

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. 1,800; a married person who has no children Leb. L. 2,400, and a married person having children Leb. L. 3,000.⁽¹⁾ Taxpayers who profit from similar 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 lands:⁽²⁾

2%	on the part which does not exceed Leb. L.	5,000
3%	on the part between.....	5,001 and 15,000
6%	on the part between.....	15,001 and 25,000
8%	on the part between.....	25,001 and 35,000
10%	on the part between.....	35,001 and 50,000
15%	on the part between.....	50,001 and 75,000
20%	on the part between.....	75,001 and 100,000
25%	on the part between.....	100,001 and 200,000
35%	on the part that exceeds.....	Leb. L. 200,000

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 square meters, and on the latter 2 per thousand of the assessed selling value.⁽³⁾

3. Exemptions

The Land Tax 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, orphanages and asylums, provided such lands are not rented; land belonging to hospitals which depend for support upon philanthropy and receive free patients, provided the land is not rented; and pasture lands.⁽⁴⁾

(1) Land Tax Law, *loc. cit.*, article 37.

(2) *Ibid.*, article 38.

(3) *Ibid.*

(4) *Ibid.*, article 2.

In order to encourage improvements on the land, the Land Tax Law provides also for substantial temporary exemptions.⁽³⁾ 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 completion of the works. New orchards are exempted for a period varying between two and fifteen years depending upon the kind of trees planted.⁽¹⁾

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.⁽²⁾ 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. (3) However the tax can be collected from lease-holders, share-tenants and every other person possessing products belonging to the owner. Such persons will nevertheless have prior right on the land itself, its rent and produce, for recovering what they have paid on account of the owner.⁽⁴⁾

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 (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 cul-

(3) Land Tax Law, *loc. cit.*, article 18.

(1) Table II appended to the Land Tax Law, *loc. cit.*

(2) Land Tax Law, *loc. cit.*, article 19.

(3) *Ibid.*, article 40.

(4) Land Tax Law, *loc. cit.*, articles 40 and 43.

tivation, because it is levied on the owner, (1) 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 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. 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. (2) 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 6 years (the period of temporary exemption). Let us suppose further that after several years B 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 him and B 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 receive from B the full amount of the rent.

(1) Except in the case of a long term lease or exploitation right.

(2) Article 41 of the Land Tax Law allows the landowner to collect a part of the tax from the lease holder in accordance with the contract between them.

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 some other places, for no other reason than difference in fertility. To neglect such considerations will result in a discrimination against the land owner 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 incomes from different sources has already been shown.(1)

B. The Buildings Tax

The Buildings Tax, which was established by Legislative Decree No. 55/ET of June 24, 1943, was replaced by a new one by Legislative Decree No. 145 of June 12, 1959.

The new tax has the same basis and the same rate as the old one. It is levied on returns from each built property, including gardens or orchards adjoining them not exceeding 1000 square meters. The part of these lands that exceeds that area is subject to the land tax. The Buildings Tax is also levied on returns from non-cultivated lands that are used for commercial or industrial purposes. (2)

Receipts from this tax amounted in 1957 to Leb. L. 9,753,884 and accounted for 5.37 per cent of tax revenue and for 4.65 per cent of total revenue.

(1) *Supra.*, pp. 47-48.

(2) Official Gazette No. 35, July 4, 1959, Legislative Decree No. 145, articles 1 and 2.

1. Basis and rate

The tax is based on the gross returns of the property as shown in the contract of rent that must be registered in the municipality concerned. 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 or uses it, the financial department concerned assesses the rental value.⁽¹⁾ A committee of three experts verifies such assessments and its recommendations are binding to the administration.⁽²⁾

In case of buildings having central heating or air conditioning system, an elevator and a residing janitor, ten per cent of rent is deducted before the tax is applied.⁽³⁾

The rate of the tax is 1/12 of the rental value, or 8 1/3 per cent. A surtax not exceeding 3 per cent of the rental value is collected for the benefit of the municipality concerned. Such surtax is fixed by the municipal council.⁽⁴⁾

2. Exemptions

The following property is exempted from the tax:

1. Buildings used for agricultural activities provided they are not rented.
2. Government property.
3. Property owned by municipalities or public institutions when it is used for public interest and does not yield any income.
4. Property used for religious purposes provided it is not rented.
5. Cemeteries and adjoining service buildings belonging to religious or philanthropic institutions unless such buildings are rented.

(1) *Ibid.*, articles 15, 16, 17 and 48.

(2) *Ibid.*, article 19.

(3) *Ibid.*, article 5.

(4) *Ibid.*, articles 8 and 9. In Beirut the rate of the surtax is 3 per cent.

6. Property used as hospitals, clinics, orphanages or schools provided it is not rented.
7. Property owned by foreign states if used as offices by their diplomatic or consular delegations or as residences for the heads of such delegations on the condition that similar exemption is accorded to the Lebanese Government by the foreign state concerned.⁽¹⁾
8. Buildings having a yearly rental value that does not exceed Leb. L. 120.⁽²⁾

3. Collection (3)

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 upkeep than new ones, 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 Govern-

(1) Legislative Decree No. 145, *loc. cit.*, article 3.

(2) *Ibid.*, article 8.

(3) *Ibid.*, articles 29-32.

ment is probably aware of the extreme inadequacy of pre-war rents, but seems to be reluctant to redress this situation because of the opposition of the old tenants. But the Government could at least bear part of the burden of old rent receivers by reducing the tax rates applying to them, if not by exempting them completely from the Buildings Tax.

Chapter V

THE SUCCESSION AND GIFT TAX AND OTHER DIRECT TAXES

A. The Succession and Gift Tax

The Succession and Gift Tax which was established by the law of December 21, 1951 was replaced by Legislative Decree No. 146 of June 12, 1959.(1)

The new tax which does not differ much from the old one was applied in July 11, 1959. 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.(2)

In order to reduce evasion, property transferred by a person during the two years preceding his death to a person considered 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.(3) Deduction is made, however, of transfer or registration taxes that have been paid with respect to this transfer. If the transferee 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 tax

(1) Official Gazette No. 35, July 1959.

(2) Legislative Decree No. 146. *loc. cit.*, article 3.

(3) *Ibid.*, article 4.

is levied on the net value of the share of each heir.(1) The following elements of the estate are, however, exempted: pensions; indemnities; securities exempted from taxes by law; collections of books, etc., and furniture up to an assessed value of Leb. L. 25,000.

The following deductions from the value of each share are made before the tax is levied:

- Leb. L. 15,000 for a descendent of legal age (18 years and above) and for a husband or a wife;
- Leb. L. 25,000 for a descendent under legal age but not less than 10 years old;
- Leb. L. 35,000 for a descendent under 10 years of age;
- Leb. L. 35,000 for a disabled descendent;
- Leb. L. 25,000 for a married son;
- Leb. L. 40,000 for a married son who has children;
- Leb. L. 10,000 for a parent;
- Leb. P. 5,000 for other heirs.(2)

b. Basis of the Tax on Gifts: The tax on gifts is levied on all rights and property that are donated after the deduction of any obligations thereon. All gifts given to one person by the same donator during a period of two years are considered for the purpose of computing the tax as one single gift.(3) Benefits from insurance are treated as gifts if the beneficiary is not a legal heir.(4) Donations and contributions made from public funds are however exempted.

Before the tax is levied, a deduction of Leb. L. 1,000 is made unless the beneficiary is a philanthropic institution or an educational, technical, or sport society, in which case the deduction is Leb. L. 10,000.

c. Basis of the Tax on Bequests. Bequests are treated for taxation purpose like inheritance, if the beneficiary is a legal heir. Otherwise they are treated like gifts.(5)

(1) *Ibid.*, article 8.

(2) *Ibid.*, article 9.

(3) *Ibid.*, article 14.

(4) *Ibid.*, article 15.

(5) *Ibid.*, article 17.

d. Basis of the Tax on Awqaf. (1) The tax on awqaf is levied on the share of each beneficiary from the revenue of waqf, with the exception of the founder, after deducting Leb. L. 1,000. (2) When the waqf is terminated and the property distributed, the tax is levied on two thirds of share of each beneficiary from the waqf after deducting Leb. L. 2,000. (3)

2. Assessment

The value of property and rights as declared by the beneficiaries is considered as the basis of the tax unless this value is considered by the financial authorities as lower than the real value, in which case a special committee is asked to assess such value.(4)

The right of exploiting a property for a lifetime is assessed on the basis of the age of the beneficiary in accordance with Table I. No tax is due, however, when the right of exploitation returns to the proprietor.

TABLE I

Age of the Beneficiary	Value of the Exploitation Right in Proportion to the Value of the Property.
Up to 30 years	60%
30 to 40 years	50%
40 to 50 years	40%
50 to 60 years	30%
60 to 70 years	20%
Over 70 years	10%

If the period of the exploitation right is fixed, the right is assessed on the basis of a tenth of the value of the property for

(1) *Awqaf* is the plural of *waqf* which means mortmain property dedicated to a family trust or a religion or philanthropic institution.

(2) Legislative Decree No. 146. *loc. cit.*, article 18.

(3) *Ibid.*, article 19.

(4) *Ibid.*, article 36, section 1.

each 10 years of exploitation right. A fraction of such period is not taken into consideration for the purpose.(1)

Annuities or similar fixed payments for a lifetime are assessed on the basis of the age of the beneficiary in accordance with Table II.(2)

Securities and foreign exchange are assessed on the basis of their average value during the month preceding the death or gift.(3)

All other rights and property are assessed by the Financial Authorities concerned on the basis of declarations and documents submitted by the tax payers, and, if necessary, on the basis of experts reports.(4)

TABLE II

Age of the Beneficiary	Coefficient Applied to the Annuity.
Up to 20 years	15
20 to 30 years	12
30 to 40 years	10
40 to 50 years	8
50 to 60 years	6
60 to 70 years	4
Over 70 years	3

3. Rates

The rates of the tax are given in Table III. They are applied on the net share of the beneficiary after making the deductions already mentioned.(5) The tax on inheritance is reduced to one-third for property which has come to the deceased by inheritance during the five years preceding his death, and on which he paid the tax created by this law.(6)

- (1) *Ibid.*, article 36, section 2.
 (2) *Ibid.*, article 36, section 3.
 (3) *Ibid.*, article 36, section 5.
 (4) *Ibid.*, article 36, section 6.
 (5) *Ibid.*, article 41.
 (6) *Ibid.*, article 43.

TABLE III
Succession Duty Tax Rates in Percentage (1)

Category of Tax-Payers	Up to Leb. L. 25,000	From Leb. L. 25,001 to 50,000	From Leb. L. 50,001 to 100,000	From Leb. L. 100,001 to 200,000	From Leb. L. 200,001 to 400,000	From Leb. L. 400,001 to 1,000,000	Over Leb. L. 1,000,000
Category 1 Descendents Husband Wife	1	2	3	4	5	6	7
Category 2 Parents	2	4	6	8	10	12	14
Category 3 Ancestors (Other than Parents) Brothers Sisters	3	6	9	12	15	18	21
Category 4 Uncles, Aunts, Nephews, Nieces	4	8	12	16	20	24	28
Category 5 Other Tax- Payers	6	12	18	24	30	36	40

(1) Schedule attached to the Legislative Decree No. 146, loc. cit.

The rates vary according to the degree of relationship of the beneficiary to the deceased or donor.⁽³⁾ Philanthropic institutions and educational, technical and sport societies are charged at the rates fixed for the third category as defined in Table III.⁽²⁾

4. Collection

The whole amount of the tax is collected from the beneficiaries during the two months following the notification sent to them by the Financial Authorities, provided there is among the taxable property cash and or, securities valued at more than three times the amount of the tax. If the value of these liquid assets is between the amount of the tax and three times this amount, half of the tax is collected during the two months following the notification, and the remainder is paid in three equal yearly installments. If the value of such liquid assets is less than the amount of the tax, one quarter of the tax is collected as a first payment, and the remaining three quarters are paid in five equal yearly installments.⁽³⁾ In the case of waqf the trustee has to pay the tax due from the beneficiaries from the revenue of their shares during the two months following notification, but when the beneficiaries are of the first or second category, the installment payment should not exceed one-fourth the revenue accruing to them.⁽⁴⁾

5. Evaluation

Two important criticisms may be made against the Succession and Gift 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.

(1) See Table III.

(2) Legislative Decree No. 146 *loc. cit.*, article 44.

(3) *Ibid.*, article 46.

(4) *Ibid.*, article 47.

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. The progressive rate stops at the bracket of 1,000,000 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 18 million Lebanese pounds.⁽¹⁾

B. Other Direct Taxes

1. Tax on Private Vehicles (2)

This tax is levied on all private cars, trucks, and busses and all motorcycles on the basis of their horsepower. Its yearly rate is Leb. L. 4 per horsepower. A surtax of Leb. L. 28 per horsepower is imposed on Diesel vehicles. Besides 25 per cent of the amount of the tax is collected for the benefit of municipalities. And a temporary tax of Leb. L. 2 per horsepower is imposed for the benefit of the Reconstruction Service. The tax is collected every year from the owner. Vehicles belonging to the United Nations and to the Lebanese Government and municipalities are exempted. Vehicles belonging to the diplomatic and consular corps are exempted provided this treatment is reciprocated by the country concerned.

2. Forest Tax

The forest tax is levied on the exploitation of forests.⁽³⁾ The following are the rates of this tax:—100 piasters on each person applying for a permit to cut wood or exploit a forest; 400 piasters per ton of charcoal made; 600 piasters per ton of industrial wood

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

(2) *Official Gazette* No. 42, July 28, 1959; list of Taxes appended to Legislative Decree No. 140.

(3) *Majmu'at al Qawanine*, Legislative Decree No. 145 of February 26, 1942. The Forest Tax, though levied on exploitation, is kept, as in the Budget, among direct taxes on the ground that it does not affect the supply of wood, since forests grow without personal effort.

cut; and 100 piasters per ton of fuel wood.(1) This tax is collected by affixing fiscal stamps on applications and on transport permits of forest products.

3. Stamp Duties (2)

All securities, contracts, 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.(3) The fixed stamp duty 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:(4) 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.

To these normal rates there are several exceptions. The stamp duty on shares for instance is 2 per thousand; the duty on bonds is 1 per thousand; (5) that on insurance premium is 2 per cent.(6)

(1) The Budget Law of 1944, article 12.

(2) Though stamp duties are mostly indirect taxes, in the Budget they are listed under direct taxes.

(3) *Legislative Decree No. 130 L. of December 20, 1933 with its Modifications*, article 3.

(4) *Ibid.*, article 9.

(5) *Official Gazette No. 3*, January 20, 1954, Law of January 15.

(6) *Legislative Decree No. 130 L. of December 20, 1933 with its Modifications*, article 10.

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.(1) 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 Cénacle Libanaise, (2) the Director General of Finance commented on the criticisms raised against the excessive proportion 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 Land Tax and the Succession and Gift 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, on the occasion of presenting the budget for 1952,(3) 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.

(1) See Chapter II, p. 26.

(2) Published in *Les Conférences du Cénacle*, Vol. IV, No. 5-6, May 25, 1950.

(3) *Report of Minister of Finance on the Occasion of Presenting the Budget for 1952*.

Indirect taxes, according to the classification of the Budget 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, and customs duties. The separate and total fiscal importance of indirect taxes is shown in Table II, Chapter II. Actual revenues from these taxes in 1957 formed 65.31 per cent of tax revenue and 56.53 per cent of total revenues.

A. Tobacco Monopoly

The tobacco monopoly is conceded to a private corporation, the "Régie Co-Intéressée des Tabacs et Tombacs", which exploits it on behalf of the Government in consideration of a percentage of the net profit. The company monopolizes the purchase of tobacco, its processing, and sale, (1) 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 cultivated is fixed.(2) 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.(3)

After the harvest the crop of each cultivation is weighed in the presence of a Régie official and the notary public of the district.(4) Then the tobacco is delivered to the warehouses of the Régie where its kinds and categories are determined and registered by the warehousekeeper.(5) The price that the Régie pays for each kind and category of tobacco is fixed every year by

(1) *Arrêté No. 16 LR of January 30, 1935, with its Modifications* (Itany Press, Beirut, 1950), article 1.

(2) *Ibid.*, article 10.

(3) *Ibid.*, article 5.

(4) *Ibid.*, article 21.

(5) 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 three persons, representing the Régie, the Government and the cultivator.

the Permanent Committee for Tobacco and Tambac upon the suggestion of the Régie, and is subject to approval by the Minister of Finance.(1)

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.(2) The price at which authorized 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.(3)

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.(4) The sales are effected through licenced retailers who are allowed discounts fixed by the Régie in consultation with the Permanent Committee.(5)

The Régie concession ends at the end of 1960(6) 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.(7) 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

(1) *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.

(2) *Ibid.*, article 36.

(3) *Ibid.*, article 38.

(4) *Ibid.*, article 50.

(5) *Ibid.*, article 49.

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

(7) *Ibid.*, article 14.

company.(1) Actual revenue to the Government from the Tobacco Monopoly amounted in 1957 to 17,946,786 Lebanese pounds, which constituted 9.88 per cent of the tax revenue of that year.

B. Tax on Inflammables

The tax on inflammables is now (2) levied on benzine and kerosene that are consumed in the Lebanese territories. The rate of the tax is 13.25 piasters per liter of benzine and 4 piasters per liter of kerosene. Besides, 4 and 2 piasters per liter is levied on these two commodities respectively for the benefit of municipalities.(3) Moreover there is a surtax levied for the benefit of the Inflammables Fund at the rate of 0.686 piasters per liter of benzine, 1.769 per liter of kerosene (except the kind used by airplanes).(4) Furthermore temporary surtaxes of 1.25 piasters per liter of benzine, 1.50 piasters per liter of gas oil, and 1 piaster per liter of fuel oil, are collected for the benefit of the Reconstruction Service.(5) 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.(6)

The tax is payable by the importer at the time of the arrival of the inflammable materials to their warehouses.(7) Oil companies refining benzine and kerosene in the Lebanese territories are supposed to pay the tax on the amount produced within the

- (1) 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.
- (2) 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. K 7963 of January 31, 1947, *Majmu'at al-Qawanine*.
- (3) Decree No. 1843 of May 12, 1950.
- (4) *Official Gazette*, No. 37, August 21, 1957, Decree No. 16857, article 3.
- (5) *Official Gazette*, No. 15, April 11, 1956, Law of April 4, 1956, article 12.
- (6) *Majmu'at al Qawanine*, Law of January 30, 1947, articles 1 and 2.
- (7) *Ibid.*, Law of May 12, 1928, article 1.

20 days following the receipt of the payment request sent by the Financial Authorities.(1)

Inflammables used by the Government and municipalities (2) and inflammables used by Lebanese airways(3) are exempted from any tax. Foreign airlines and diplomatic and consular corps are also exempted provided this treatment is reciprocated by the countries concerned.(4)

Receipts from the fiscal tax on inflammables amounted in 1957 to Leb. L. 17,128,153, which formed about 9.43 per cent of tax revenue for that year.

C. Tax on Cement

The cement tax is levied on the consumption of cement whether this material is imported or locally produced.(5) The rate of the tax is 5 Lebanese pounds per ton.(6) This rate may be changed by the executive body at any time without legislative action, provided it does not exceed that amount.(7) 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,(8) and that on the imported cement, at the time it enters Lebanese territory(9). The tax on amounts exported is refunded if the exporter is the factory owner or the wholesaler representing the trade mark.(10)

- (1) *The Budget Law of 1951*, article 21.
- (2) *Majmu'at al Qawanine*, Legislative Decree No. 112 N of April 9, 1941, article 2.
- (3) Law of April 24, 1947, *loc. cit.*
- (4) Law of June 15, 1954, *loc. cit.*, Exemption of diplomatic and consular corps is allowed without the presence of any legal text to that effect.
- (5) *Budget Law of 1938*, article 12.
- (6) *Majmu'at al Qawanine*, Decree No. K 7962 of January 31, 1947, article 1.
- (7) *Ibid.*, Law of January 30, 1947, article 4.
- (8) *Ibid.*, Decree No. 2152 of April 1st, 1938, article 6.
- (9) *Ibid.*, article 17.
- (10) *Ibid.*, article 18.

D. Duty on Alcohol and Alcoholic Liquors

The duty on alcohol and alcoholic liquors is levied on the consumption of alcohol and all alcoholic drinks whether these products are imported or locally produced. (1) The rates are as follows: beer 7 piasters per liter; (2) 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. (3) 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, (4) at the time the goods are cleared from the customs house. The duty on local products is collected when they are produced. (5)

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 material used are in conformity with the laws in force. (6) The quantity of alcoholic drinks made of grapes by small producers are assessed by Government Officials who visit them early after harvest. (7) Evasion is made more difficult by subjecting

(1) *Majmu'at al Qawanine*, Legislative Decree No. 133 LR of December 20, 1933, articles 5 and 3.

(2) *Budget Law of 1950*, article 38.

(3) *Budget Law of 1945*, article 12.

(4) *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.

(5) *Ibid.*, article 5.

(6) *Majmu'at al Qawanine*, Law of June 7, 1937, article 27.

(7) *Majmu'at al Qawanine*, Law of July 22, 1297 (Hajira), article 2.

the transport of alcoholic drinks to a licence that is given only after the collection of the tax. (1)

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. (2) 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 the rental value of their premises; the second class establishments pay 18 per cent; and the third 12 per cent. (3) The rental value is determined in the same way as it is determined for the purpose of assessing the buildings tax. (4)

E. The Tax on Salt

This tax is imposed on the imports of salt and on its extraction. (5) Its rate is 5 piasters on each kilogram of imported salt and 10 piasters a year on each square meter or fraction of a meter of salt pools. (6) The extraction of salt is made subject to a yearly licence that is given only after the collection of the tax. (7)

F. Customs Duties

Customs duties are, at present, divided into three categories: ordinary duties, maximum duties, and conventional duties. (8) Maximum duties on dutiable articles in the ordinary tariff are fixed at twice the ordinary duty, with a provision that they must not be less than 25 per cent of the value of articles subject to advalorem duties. Maximum duties on non-dutiable articles.

(1) *Ibid.*, article 17.

(2) *Majmu'at al Qawanine*, Legislative Decree No. 182 of May 30, 1942, article 27.

(3) *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.

(4) *Budget Law of 1939*, article 37.

(5) *Budget Law of 1952*, article 18.

(6) *Ibid.*, article 19.

(7) *Ibid.*, article 20.

(8) See Direction Générale de Douanes, *Tableau des Droits Inscrits au Tarif des Douanes 1959*, Dispositions Générales.

in the ordinary tariff are subject to 25 per cent advalorem. All countries benefit from the ordinary duties, with the exception, as regards Japan, of certain articles,⁽¹⁾ to which maximum and varied duties are applied.

Conventional duties are duties set by trade agreements. These are bilateral agreements with Palestine, Iraq, Jordan, Syria, Sa'udi Arabia, and Egypt, and a multilateral agreement between countries of the Arab League, including, so far, Lebanon, Egypt, Syria, Iraq, and Jordan. The bilateral agreements with Palestine and Jordan are, at present, the most liberal. The multilateral agreement provides, in general, duty exemptions for agricultural and animal products and natural resources, provided they are imported directly from one of the participating countries, and a 25 per cent reduction of duties for manufactured articles on condition that they are imported directly from one of the participating countries and that the proportion of the value of Arab raw materials and local labor used in their manufacture is not less than 50 per cent of the total cost of production.

The schedule of rates of the foregoing bilateral and multilateral agreements are set in appendices to the *Tarif des Douanes* of 1959. Each schedule is preceded by an introduction which gives the number and date of the decree or decrees implementing the agreement and its modifications, if any.

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, watches, hunting arms, and music instruments, 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. Radio receivers are now subject to a tax of 40 per cent. Prepared drugs, with the exception of antibiotics, pay a duty of 11 per cent. A temporary reconstruction tax, in addition to the regular duty, is levied on a number of articles, such as cars, radio-receivers, watches, and hunting arms.

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.⁽¹⁾ Even luxuries do not pay high duties. Finished diamond, gold and silver articles and jewelry in general, for instance pay only 25 per cent. Natural silk cloth and furs pay only 40 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 that compete with local products 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 the biscuit and chocolate industries are exempted; while iron sheets, and bars, though not produced locally pay a duty of 11 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, 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, pay, however, lower duties. Ordinary soap, woolen cloth, and cotton stockings, for instance, pay 30 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,

(1) These articles are listed in Appendix 8 of the *Tarif des Douanes* 1959.

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

necessary agricultural products such as wheat, rice, barley and corn are exempted, as also sheep, cows, and oxen and their meat. Other necessities pay low duties. Milk, for instance, pays a duty of 11 per cent. 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 are either exempt, or pay 11 per cent; olive oil pays 25 per cent. High rates are only levied on most fruits and 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 set.

Chapter VII

PUBLIC EXPENDITURES

As in the case of public receipts, public expenditures of Central Government are comprised in three types of budgets: the Ordinary Budget, the Financially Independent Budgets and the Development Works Fund extraordinary budget.

I. PUBLIC EXPENDITURES IN ORDINARY BUDGET

Public expenditures that are included in the Ordinary Budget have increased about seven times since 1944.⁽¹⁾ They rose from about 28 million in 1944 to 192 million Lebanese pounds in 1957, and estimates for 1958 put total expenditures at 194 million Lebanese pounds. This rise has been due partly to the increasing Government functions following the independence of the country (e.g. foreign service and defense, 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 some indirect taxes, and the increased consumption of taxed goods such as benzine, tobacco and imported goods.

Beginning with the year 1954, public expenditures in the Ordinary Budget have been divided into three parts:⁽²⁾

Part I. Current Expenditures of Ministries other than Defense, which comprise salaries and compensations to Government employees, all administrative ex-

(1) See Table I, Chapter I.

(2) This was in accordance with the Public Accounting Law of March 19, 1953, as replaced by the Law of December 29, 1954.

penditures, maintenance and repairs not resulting in substantial improvements, other recurrent expenditures, and grants in aid.

II. Capital Expenditures of Ministries other than Defense, which include expenditures on new construction and equipment and repairs resulting in substantial improvements.

III. Defense Expenditures, which comprise all expenditures of the Ministry of Defense.

The division of public expenditures into current and capital was a step in advance. It was made in response to public opinion, which was under the impression that practically all expenditures went to salaries, administration and maintenance. Defense expenditures were, however, left without such division.

For the purpose of analysis we have divided public expenditures on a functional basis into six classes: expenditure on security; expenditure on justice; expenditure on administration and finance; expenditure on economic services; expenditure on social services; and expenditure on public debt servicing and similar payments. We have also maintained the distinction between current and capital expenditures and attempted to make this distinction in the expenditures of the Ministry of Defense as well.

The frequent changes in classification of expenditures in the Ordinary Budget prevent an accurate comparison between one year and another. Thus, whenever possible, adjustments were made in the classification to render the annual figures reasonably comparable.

Table I shows the public expenditures of the Ordinary Budget over a period of years, classified functionally and divided into current and capital outlays.

As can be seen from Table I, expenditure on security has ranked first in the order of magnitude, followed by that on economic services, social services, administration and finance, debt servicing, justice.(1) This order has remained the same over the

(1) These expenditures are not complete, however, until the expenditures in the other budgets are taken into consideration. Though they may not change the order, they will add considerably to the share of economic and social services in the consolidated expenditures (in Ordinary and other budgets).

Public Expenditures in the Ordinary Budget
Classified on Functional Basis and Divided into Current and Capital Outlays
1945 and 1954—1958
(In Thousand Lebanese Pounds)

	Actual Expenditures						Budgetary Estimates	
	1954			1955			1957	
	Current	Capital	and Capital	Current	Capital	Current	Current	Capital
Security, Amount	11,393	29,071	5,353	31,271	9,266	41,420	12,404	12,255
Percent of Total Exp.	31.72	26.15	4.81	23.62	7.00	25.67	7.69	6.37
Justice, Amount	2,370	4,052	—	4,110	—	4,712	—	5,635
Percent of Total Exp.	6.60	3.64	—	3.10	—	2.92	—	2.93
Adminis. and Finance, Amount	4,903	14,856	404	16,099	939	21,194	1,391	24,030
Percent of Total Exp.	13.65	13.37	.36	12.16	.71	13.13	.86	12.49
Economic Services, Amount	10,050	13,045	9,074	13,550	19,175	14,939	26,424	17,568
Percent of Total Exp.	27.98	11.73	8.16	10.24	14.49	9.26	16.38	9.13
Social Services, Amount	5,100	18,417	1,051	20,891	3,234	24,041	3,527	29,252
Percent of Total Exp.	14.20	16.56	.95	15.78	2.44	14.90	.219	15.20
Debt Servicing, Amount	2,105	15,861	—	13,846	—	11,296	—	24,651
Percent of Total Exp.	5.86	14.27	—	10.46	—	7.00	—	12.80
Total of Cur. and of Cap.	35,921	95,302	15,882	99,767	32,614	117,602	43,746	145,656
Percent to Cur. and Cap.	100.00	85.72	14.28	75.36	24.64	72.88	27.12	75.68
Total Exp. (Cur. and Cap.)	35,921	111,184	132,381	161,348	192,467	194,164	151,714	42,450

years given, except in 1945 when expenditure on justice was greater than that on public debt servicing.

During the four years 1954 to 1957, 76.72 per cent of the expenditure were current and only 23.28 per cent were capital. But it should be remembered that the major capital works are financed from outside the Ordinary Budget. Most of the capital expenditure went to economic services.

A. Expenditure on Security

Expenditure on security in the Ordinary Budget in 1945 and during each of the years 1954 to 1958 are shown in Table II. Total expenditures on security amounted in 1957 to L. L. 56,775,000, as compared with L. L. 11,393,000 in 1945, and accounted for 29.50 per cent of total expenditures. While expenditure on internal security has little more than doubled between 1945 and 1957, expenditure on the army has increased to about twelvefold. 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 increase in entertainment taxes, were made with a view to developing the Army.(1) In spite of the large increase in expenditure on defense, the proportion of security expenditure to total expenditures has remained about the same. This is because of the decline in the proportion of other security expenditures.

Capital expenditures in the four years 1954 to 1957, formed 21.17 per cent of total expenditure on security. Most of the capital expenditure went to defense.

(1) Majmu'at al Qawanine, Law of May 30, 1945.

Republic of Lebanon

Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

TABLE II
Expenditures on Security in the Ordinary Budget
1945 and 1954-1958
(In thousand Lebanese Pounds)

(In thousands Lebanese Pounds)

Item	Actual Expenditures				Budgetary Estimates						
	1945	1954		1955		1956		1957		1958	
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital
Defense (a)	3,238	17,657	20,895	4,054	18,933	22,987	7,801	27,368	35,169	10,598	32,502
Gendarmerie and Prisons	6,021	8,226	14,247	921	8,909	9,830	982	10,228	11,210	1,117	12,144
Police	1,991 (b)	2,411	4,402	285	2,652	2,937	406	2,963	3,369	384	3,826
General Security	143	777	920	93	777	870	77	861	1,067	156	1,284
Total of current and of capital	11,393	29,071	40,464	5,353	31,271	36,624	9,266	41,420	50,689	12,255	49,756
Percent to Current											
and to Capital	100.00	84.45	84.45	15.55	77.14	77.14	22.86	77.14	78.41	21.59	80.62
Percent to Current and to Capital of Total of all Expenditures	31.72	26.15	28.94	4.81	23.62	23.62	7.00	25.67	23.13	6.37	25.62
											6.16

of the Ministry of Defense are not divided in the Budget into current and capital. The writer, however,

(a) Expenditures of the Ministry of Defense are not divided in the Budget into current and capital. The writer, however, tried to make as accurate a distinction as possible.

(b) Including expenditures on passive defense amounting to 29 thousand pounds.

B. Expenditure on Justice

Expenditure on justice, in 1945 and during each of the five years 1954 to 1958, is shown in Table III. Total expenditure on justice amounted in 1957 to L. L. 5,643,945, or 2.93 per cent of total expenditures, as compared with 2,370,280 in 1945 which formed then 6.60 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 Rasmiyyah and Al Majallah al Qada-yyah), expenditure on which is included in the expenditures of the Ministry of Justice. Receipts from these two sources amounted in 1957 to L. L. 1,755,117 and L. L. 52,867 respectively.

TABLE III
Expenditures on Justice in the Ordinary Budget
1945 and 1954-1958
(In Thousand Lebanese Pounds)

I t e m	Actual Expenditures				Budgetary Estimates			
	1945	1954	1955	1956	1957	1958		
	Current and Capital	Current	Cap-ital	Current	Cap-ital	Current	Cap-ital	
Legal Adminis- tration	117	235	—	—	—	—	—	364
Civil Courts	1,939	3,246	—	311	—	351	—	4,923
Religious Courts	232	406	—	3,617	—	4,541	9	638
Departments of Fatwa	82	132	—	387	—	553	—	184
Accrued Dues of the Minis- try of Justice(a)	—	33	—	117	—	169	—	—
				280	—	21	—	—
Total of Cur. and of cap.	2,370	4,052	—	4,110	—	5,635	9	6,109
Percent to Cur.	100.00	100.00	—	100.00	—	100.00	—	100.00
Percent of Total Expend.	6.60	3.64	—	3.10	—	2.93	—	3.15

(a) The figures for the years 1956 and 1957 include settlements and judicial payment orders.

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- (a) Including expenditures on agricultural credit amounting to 20 thousand pounds.
- (b) Of which the sum of 485 thousands was spent to cover accrued dues of the Ministry of Interior.
- (c) Of which the sum of 265 thousands was spent to cover accrued dues of the Ministry of Interior.
- (d) Of which the sum of 184 thousands was spent to cover accrued dues of the Ministry of Interior.
- (e) Of which the sum of 641 thousands was spent to cover accrued dues on settlements and judicial payment orders of the Ministry of Interior
- (f) Of which the sum of 130 thousands was spent of accrued dues of the Ministry of Interior.
- (g) Of which the sum of 428 thousands was spent on accrued dues on settlements and judicial payment orders of the Ministry of Interior.
- (h) Of which the sum of 1343 thousands was spent on accrued dues of the Ministry of Interior.
- (i) Excluding expenditures on customs administration which was included in the Budget of Common Interests. These expenditures if computed on the basis of the share of Lebanon from surpluses of Common Interests would amount to about L.L. 1,685,000.
- (j) Including expenditures on agricultural and industrial credit amounting to 34 thousand pounds.
- (k) Including expenditures on agricultural and industrial credit amounting to 36 thousand pounds.

D. Expenditure on Economic services

Expenditure on developmental works are partly included in the Ordinary Budget and partly in the Financially Independent Budgets and the Development Works Fund extraordinary budget. Expenditure on the different economic services in the Ordinary Budget are shown in Table V.

Expenditure on economic services in the Ordinary Budget increased to almost fivefold between 1945 and 1957 but its proportion to total expenditures decreased a little. In 1957 expenditure on these services amounted to L. L. 47,507,000 or 24.68 per cent of total expenditures as compared with L. L. 10,050,000 and 27.98 per cent in 1945. This great growth in economic expenditure has been mainly due to the growth of public receipts, engendered by the large augmentation of wealth and income, and the realization on the part of the Government and the general public of the importance of economic development for the general welfare of the country.

The most spectacular increases of expenditure have been in roads and buildings, electricity and water supply, agriculture, economic services of the Ministry of National Economy and post and telegraph services.

Expenditure on roads and buildings increased from 5.6 million Lebanese pounds in 1945 to 20.1 millions in 1957. Expenditure on electricity and water supply, irrigation and drainage, rose from 0.4 to 2.1 millions. Expenditure on agriculture increased from 0.9 to 8 millions. That on economic services of the Ministry of National Economy rose from 0.3 to 2.8 millions; and that on post and telegraph services from 1.5 to 4.6 millions.

These increases, however, are not matched, in at least some department, by improvement in standard of service. In the Ministry of Agriculture and National Economy, it is generally known that the increase in the services rendered by them have not been commensurate with the increase in their expenditure.

Activities of the Ministry of Agriculture include mainly afforestation and protection of forests, operation of nurseries and demonstration centers, veterinary and quarantine services, and

TABLE V
Expenditures on Economic Services in the Ordinary Budget
1945 and 1954-1958
(In Thousand Lebanese Pounds)

Item	Actual Expenditures				Budgetary Estimates			
	1945		1954		1955		1956	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital
Planning	—	87(d)	—	—	236	—	259	—
Central Admi.	705	969	12	26	861	34	1,086	6
of Public Works (a)	5,756	782	7,396	1,089	13,482	1,766	18,262	2,075
Roads & Buildings	66	367	55	228	497	242	614	157
Communication	—	2,092	365	2,277	570	394	2,963	521
Civil Aviation	443	494	522	506	2,597	516	2,492	626
Electricity & Water Supply	—	744	—	439	691	247	4,187	96
Accrued Dues of Min. of Public Works (b)	910	2,578	455	2,862	1,075	3,207	1,993	3,805
Agriculture	294	1,891(e)	194	1,651	436	1,964	527	1,893
National Economy(c)	372	—	—	—	—	—	—	—
Supply (f)	1,504	3,041	75	3,121	70	3,463	121	4,255
Post & Telegraph	10,050	13,045	9,074	13,550	19,175	14,939	26,424	17,568
Total of Current and of Capital	100.00	59.00	41.00	41.46	58.54	36.12	63.88	37.00
Percent to Current and to Capital	27.98	11.73	8.16	10.24	14.49	9.26	16.38	9.13
Percent to Cur. & to Cap. of Total of all Expenditures	27.98	11.73	8.16	10.24	14.49	9.26	16.38	9.13
(a) Since 1954 including expenditures of the Control of Concessionary Companies.	20,689	23,839	20,689	23,839	20,689	23,839	20,689	23,839
(b) In 1956 and 1957 the figures include settlements and judicial payment orders.	46.46	53.54	46.46	53.54	46.46	53.54	46.46	53.54
(c) Since 1954 figures include expenditures of the Commissariat of Tourism.	—	—	—	—	—	—	—	—
(d) In 1954 Planning was a part of the Ministry of National Economy. Later a separate Ministry of Planning was established.	—	—	—	—	—	—	—	—
(e) Excluding expenditures on planning. See f. n. (d).	—	—	—	—	—	—	—	—
(f) Since 1953, it changed to Wheat Office, and was made financially independent. See expenditure of Wheat Office under the Financially Independent Budgets.	—	—	—	—	—	—	—	—

lease of heavy agricultural machinery. Agricultural research, soil analysis, experimentation, and extension works have so far been undertaken to a limited extent.

The activities of the Ministry of National Economy have almost been restricted to issue of import and export licences—which are in most cases unrestrictedly given—registration and protection of patents, control of measures and weights, some control of prices, and preparation and issue of statistics bulletins of limited scope.

Capital expenditures represented during the years 1954 to 1957 58.87 per cent of total economic expenditure. The tendency has been a growth in this proportion, mostly going to roads and buildings. It should be noted again that the major capital works are financed from outside the Ordinary Budget.

E. Expenditure on Social services

Expenditure on the different social services is shown in Table VI. Total expenditure on these services increased from L. L. 5,100,000 in 1945 to L.L. 32,520,000 in 1957. The proportion of this expenditure to total expenditure increased from 14.20 per cent in 1945 to 16.90 per cent in 1957; thus showing a greater relative emphasis on social services.

When compared with the 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 more or less favorable. While expenditure on social services in Lebanon constituted 16.90 per cent of total expenditures in 1957, the proportion in Norway was 35.7 per cent; in Sweden 40.9; in the Netherlands 33.4; in New Zealand 55; in Syria 23.5; in Egypt 15.2; in Jordan 10; in Sudan 20.6 per cent.(1)

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

(1) Computed from the United Nations *Statistical Yearbook 1958* (New-York, 1958) The Figures are either actual or estimates.

TABLE VI
Expenditures on Social Services in the Ordinary Budget
1945 and 1954-1958
(In Thousand, Lebanese Pounds)

I t e m	A c t u a l E x p e n d i t u r e s				B u d g e t a r y E s t i m a t e s						
	1945 Current and Capital	1954 Current Capital	1955 Current Capital	1956 Current Capital	1957 Current Capital	1958 Current Capital					
Central Administration of Education(a)	105	1,396	20	1,027	578	1,015	610	1,124	657	1,427	844
The Lebanese Universities.	—	292	30	322	53	331	59	379	41	497	50
Elementary and Secondary Educ.	2,042(b)	9,054	97	10,868	582	11,939	67	15,419	99	20,079	150
Vocational Education	318	816	43	751	181	813	74	1,007	75	1,389	99
Teachers Training	—	258	2	281	6	261	1	340	1	518	4
Other Educational Activities	632(b)	448	316	607	728	845	716	1,088	798	1,433	994
Accrued Dues of Ministry of Educ.(d)	—	281	—	291	1	462	164	139	54	—	—
Public Health	2,003	4,090	401	4,404	920	4,595	1,529	6,334	1,346	7,407	1,519
Services of the Min. of Social Affairs	—	1,237	93	1,586	152	3,081	143	2,533	142	2,926	63
Information	—	545	49	754	33	699	164	889	55	881	2,020
Total of Cur. and of Cap. Percent to Current	5,100	18,417	1,051	20,891	3,234	24,041	3,527	29,252	3,268	36,557	5,743
and to Capital Percent to Cur. and to	100.00	94.60	5.40	86.60	13.40	86.84	13.16	90.00	10.00	86.42	13.58
Cap. of Total of all Expenditures	14.20	16.56	.95	15.78	2.44	14.90	2.19	15.20	1.70	18.83	2.96

(a) Since 1954, including financial assistance to educational institutions and other aids for educational purposes.

(b) Elementary education only.

(c) Including aids for educational purposes.

(c) including fees for educational purposes.

(1) Computed from the *United Nations Statistical Yearbook 1958* (New-York, 1958) The figures are either actual or estimates.

and no cost of living subsidy. In some advanced countries these two items account for most of the social services expenditure. In Sweden they formed in 1957, 64.5 per cent of social expenditure and 26.4 per cent of total expenditures. In Norway they formed 69 per cent and 24.1 respectively; in New Zealand, 77 per cent and 42.3 per cent respectively.⁽¹⁾

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 in most 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 1957 to L. L. 21,220,000, and to 65.3 per cent of total social expenditures. 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, 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 1957 to L. L. 7,680,000, and to 23.6 per cent of social expenditures.

Expenditure on curative activities accounts for about three quarters of health services, and comprises disbursements on hospitals, clinics, laboratories and first aid. Disease preventing activities include combating 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, although its expenditures in 1957 amounted to 2,675,000 Lebanese pounds.

Capital expenditure on social services during the period 1954 to 1958 represented 10.69 per cent of total expenditure on social services. Most of the capital expenditures went to education and public health.

F. Expenditure on Debts Servicing, and Similar Payments

Expenditure on debt servicing, pensions, indemnities, and other dues are shown in Table VII.

The only important public debt that the Lebanese Government 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 and the loan from the IBRD. The amount of the former debt was originally L. L. 58,732,000 to be redeemed in 33 yearly instalments. At the end of September, 1959, L. L. 47,400,000 were still outstanding. The amount of the latter is 27,000,000 dollars.

TABLE VII
Payments of Debts, Pensions, Interests, and Other Dues
1945 and 1954-1958
(In Thousand Lebanese Pounds)

I t e m	Actual					Payments					Estimates	
	1945	1954	1955	1956	1957	1958	1954	1955	1956	1957	1958	1958
Pensions and Indemnities	1,740	5,445	7,431	6,629	7,477	8,000						
Due Debts	—	1,552	50	50	1,383	3,000						
Interest on Treasury Bonds and their Amortization	—	4,460	3,999	2,685	2,643	2,443						
Refunds	89	937	1,228	1,932	1,638	—						
Judicial Payment Orders(a)	—	3,467	1,138	—	—	—						
Accrued Debts	—	—	—	—	11,510	—						
Accrued Dues	276	—	—	—	—	—						
Reserve	—	—	—	—	—	721						
Total	2,105	15,861	13,846	11,296	24,651	14,164						
Percent of Total Expenditures	5.86	14.27	10.46	7.00	12.80	7.29						

(a) Include settlements.

II. PUBLIC EXPENDITURES IN FINANCIALLY INDEPENDENT BUDGETS

As was stated in Chapter I, the services with financially independent budgets are numerous.(1) The dates of their establishment, and their receipts and expenditure for one year (1957) were given in Chapter I, Table III. In Chapter II, only the receipts of the more important services were discussed. Similarly, the expenditures of these services will be discussed here. They include: the Directorate of National Lottery, the Directorate General of Telephone, the Wheat Office, Beirut Water Supply, Electricity and Common Transport, Litani National Service, Reconstruction National Service, and Liquid Inflammables Fund. Their actual expenditures for the years 1954 to 1958(2) are given in Table VIII below.

(1) *Supra*, p. 17.

(2) Actual figures in place of estimates are given for the year 1958, on the ground that they were not very seriously affected by the events of May to June, 1958, as in the case of the expenditures in the Ordinary Budget.

BUDGET	1954		1955		1956		1957		1958	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	Current	Capital
Directorate of National Lottery	4,563	—	4,528	—	4,255	—	4,991	—	3,979	—
Directorate Gen. of Telephone	7,070	—	10,804	1,770	11,337	2,421	12,150	—	12,435	5,105
Wheat Office	4,464	—	1,700	—	1,803	—	1,567	—	1,319	—
Beirut Water Supply	1,780	—	2,151	4,337	2,718	—	3,251	—	3,121	2,000
Electricity and Com. Transport(a)	—	—	13,259	8,500	15,741	23,500	19,610	12,000	20,233	—
Litani National Service(c)	—	50	—	988	—	2,488	—	3,978	—	12,862
Reconstr. National Service(d)	—	—	—	—	—	18,687	—	18,687	—	18,687
Liquid Inflammables Fund(e)	—	—	—	—	4,426	—	4,650	—	4,847	—
Total of Current and of Capital	17,877	50	32,442	15,595	40,280	47,096	46,219	34,665	45,934	38,654
Percent to Current and to Capital	99.72	0.28	67.74	32.26	46.10	53.90	57.14	42.86	54.30	45.70
Total Expenditure	17,927		48,037		87,376		80,884		84,588	

(a) Nationalized in 1954.

(b) Payment for purchase of old company.

(c) Under construction.

(d) Expenditure 1956-1958 divided equally, being unavailable for each year separately.

(e) Started in 1956.

(1) For sources, see Chapter II, Table VI.

Of these services, three are not ordinary public enterprises: the Wheat Office, the Reconstruction National Service, and the Liquid Inflammables Fund. Of the remaining five, one is still under construction, the Litani project.

In comparing the current expenditures of the public enterprises with their current receipts, the Telephone is found to be the least successful. It incurred a deficit in each of the five years 1954 to 1958, and a total deficit of about L.L. 5,615,000 during this period. These deficits were covered by withdrawals from Reserve Fund. In spite of these deficits the service is very poor, except where the automatic system is used.

Capital expenditure on all the eight services amounted during the five years 1954 to 1958 to L. L. 136,060,000, of which L. L. 23,500,000 represented purchase price of old Electricity and Common Transport Company. Capital expenditures formed 42.68 per cent of total expenditure on these services during this period. Most of these capital expenditures went to the Directorate General of Telephone, Beirut Water Supply, Electricity and Common Transport, Litani National Service, and Reconstruction National Service. Capital expenditures of the first four were financed from loans and advances by the Treasury; those of the last were financed from Treasury loans, surtaxes and grants in aid.

III. PUBLIC EXPENDITURE IN DEVELOPMENT WORKS FUND EXTRAORDINARY BUDGET

As was stated in Chapter I, the Development Works Fund was created on April 5, 1944 to finance major development projects which required long time for their implementation. Allocations are made to the Fund by acts of Parliament for designated projects; the major source of finance being the Reserve Fund. The Development Works Fund was reconstituted on June 1, 1957, and the responsibility for executing the development projects was divided between two services: the Developmental Projects Service of Buildings and Communications and the Developmental Projects Service of Water and Electricity.

Actual expenditures of the Fund during the period 1944 to 1958 amounted to L.L. 200,646,000. The distribution of

TABLE IX
Distribution of Expenditures from the Development Works Fund
1944 — 1957
(In thousand Lebanese Pounds)

Year	Actual Expenditure							Army	Miscellaneous	Totals
	Water	Roads	Schools	Hospitals	Other Buildings (including the Athletics City)	International Airport	Sea Ports and Other Airports (Other than International Airport)			
1944	1,102	339	—	—	52	—	—	—	139	1,632
1945	1,674	3,581	91	—	243	—	—	—	502	6,091
1946	2,110	3,797	197	—	197	—	—	—	485	6,786
1947	2,145	8,296	100	130	254	—	64	—	483	11,472
1948	1,602	5,969	25	370	575	1,144	65	—	606	10,356
1949	2,517	3,223	34	814	753	7,490	1	—	650	15,482
1950	3,761	1,368	37	210	432	13,029	—	921	933	20,691
1951	1,330	538	18	88	204	8,821	—	1,875	648	13,522
1952	594	135	3	171	512	4,849	—	418	356	7,038
1953	816	54	—	201	66	1,579	—	431	63	3,210
1954	2,534	10	4	119	518	1,716	—	382	463	5,746
1955	5,885	41	212	111	1,934	788	1,008	1,128	1,219	12,326
1956	7,055	174	255	99	2,892	2,891	4,333	1,156	1,951	20,806
1957(a)	13,945	1,686	567	97	9,444	5,134(b)	4,092	204	3,811	38,980
Totals	47,070	29,211	1,543	2,410	18,076	47,441	9,563	6,515	12,309	174,138

(a) Both the Developmental Projects Service of Buildings and Communications and the Developmental Projects Service of Water and Electricity.

(b) Part of this amount was spent on Qulai'at Airport.

these expenditures (except for the year 1958, not being available) are given in Table IX. Actual expenditure for each of the years under consideration were as follows: (1)

1954	L.L. 5,746,000
1955	12,326,000
1956	20,806,000
1957	38,980,000
1958	26,508,000

Actual expenditures are equal to actual receipts. This is because actual receipts for a specific year represent the amount used during that year of the cumulative balance of appropriations, which relate to no definite year in which they may be spent.

The largest amount of expenditure from the Development Works Fund, during the period 1944 to 1957, went to the International Airport. Water had almost an equal share of the expenditure of the Fund. Roads came next, followed by buildings, including those for schools, hospitals and the Athletics City.

A consolidated statement of actual expenditures (as well as of actual receipts) of the Ordinary Budget, the Financially Independent Budgets and the Development Works Fund Budget, for the years 1954 to 1958, is given in Chapter VIII, Table I. Here only a summary of the expenditures is given to show the amount and proportion of current and capital expenditures in the three types of budgets for that period. This is given in Table X below. Taking all the budgets together, about 35.3 per cent of the expenditures, during the five years 1954 to 1958, were capital expenditures. Considering the over-population problem and the under-developed resources of the country this is not an adequate proportion. Besides, it should be noted that 4.2 per cent out of the 35.3 per cent were military capital, and that some of the civil capital expenditure was scarcely productive, such as that on the construction of the Athletics City which amounted to over 10 million Lebanese Pounds, excluding the value of the land.

(1) From closed accounts.

TABLE X
Current and Capital Expenditures in the Ordinary Budget,
Chief Financially Independent Budgets,
And Development Works Fund Budget
1954 — 1958
(In Thousand Lebanese Pounds)

Y E A R	Ordinary Budget		Chief Financially Independent Budgets		Development Works Fund Budget		All Budgets		All Budgets	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	% to Current	% to Capital
1954	95,302	15,882	17,877	50	5,746	21,678	113,179	21,678	83.92	16.08
1955	99,767	32,614	32,442	15,595	12,326	60,535	132,209	60,535	68.59	31.41
1956	117,602	43,746	40,280	47,096	20,806	111,648	157,882	111,648	58.58	41.42
1957	145,656	46,811	46,219	34,665	38,980	120,456	191,875	120,456	61.43	38.57
1958	151,714	42,450	54,934	38,654	26,508	107,612	206,648	107,612	65.76	34.24

(a) Budget estimate

Before closing it should be mentioned that until recently no adequate control has been exercised over public expenditures. Several government agencies were not operating under a budget voted by Parliament.

Central departments of the government have always operated under the Ordinary Budget, prepared by the executive body and voted by Parliament, but its execution was not made subject to control by an outside auditor or an audit court, nor even to adequate financial control in the Ministry of Finance. Consequently many leakages were known to have taken place.

In the case of recruitment for government office, selection was, until recently, subject to considerable favoritism and partisanship. Thus many unqualified employees are now occupying important positions.

Since 1953, however, all government agencies have been required to operate under budgets voted by Parliament. Control of these and the Ordinary Budget has been entrusted to the Court des Comptes (Audit Court), created for this purpose in January 1951. The control of the Court des Comptes extends over the preparation of the budget, (as regards definitions and clarification), 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..

Since the middle of 1959, personnel selection and promotion from one category of office to another have been entrusted to a Civil Service Commission, and has been made subject to educational certificates and degrees, and to examinations and contests, depending upon the nature of the office.

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.

الجمهورية اللبنانية

مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

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.

B. Evaluation of Public Expenditures

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

1. Fiscal Adequacy of the Tax System

An evaluation of the Lebanese tax system requires a consolidated statement of the receipts and expenditures in the Ordinary Budget, Financially Independent Budgets and Development Works Fund extraordinary budget. Such a statement for the years 1954 to 1958 is given in Table I below.

Consolidated Statement of Actual Receipts and Expenditures of Central Government in Ordinary Budget,
Financially Independent Budgets and Development works Fund Extraordinary Budget.

TABLE I

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R e c e i p t s	1954 — 1958 (In Thousand Lebanese Pounds)			
	1954	1955	1956	1957
1. Ordinary Budget (a)	157,444	178,863	191,980	209,942
2. Financially Independent Budgets (c) (chief ones)				185,474(b)
a) Director. of Na. Lottery	5,141	5,196	4,711	5,338
b) Director. Gen. of Tel.	5,511	9,160	10,325	11,873
c) Wheat Office	8,815	4,027	4,065	4,011
d) Beirut Water Service	2,065	2,899	3,100	2,838
e) Electricity and Com. Transp. service (nationalized in 1954)		14,498	18,843	21,335
f) Litani National Service under construction)		—	—	—
g) Reconstruction National service(d) (Started in 1956)		—	6,333	12,889
h) Liquid Inflammables Fund	—	1,503	3,480	5,489
3. Develop. Works Fund				7,021
Extraordinary Budget (e)				—
	178,976	216,146	242,837	273,715
				246,385

(a) Receipts, excluding transfers from Reserve Fund, to avoid duplication.

(b) Excluding aid from Government of U.S.A., amounting to 12,500,000, or about 40,000,000 Lebanese pounds.

(c) Receipts, excluding transfers from Reserve Fund, to avoid duplication, dollars and excluding loans.

(d) Excluding grants in aid as well as advances by Treasury.

(e) Receipts, excluding transfers from other budgets and from Reserve Fund, to avoid duplication and excluding aid from Government of U.S.A. (an aid of Leb. L. 12,800,000 was granted in 1957).

TABLE I (Continued)

Expenditures	1954	1955	1956	1957	1958
1. ORDINARY BUDGET	111,181	132,376	161,348	192,466	181,622
2. SPECIAL BUDGETS (chief ones)					
a) Director. of Nat. Lottery	4,563	4,528	4,255	4,991	3,979
b) Director. Gen. of Telephone					
(1) Current expenditures	7,070	10,804	11,337	12,150	12,435
(2) Capital outlays		1,770	2,421	—	5,105
c) Wheat Office	4,464	1,700	1,803	1,567	1,319
d) Beirut Water Supply					
(1) Current expenditures	1,780	2,151	2,718	3,251	3,121
(2) Capital outlays		4,337	—	—	2,000
e) Electricity and Common Transp. (Nationalized in 1954)					
(1) Current expenditures		13,259	15,741	19,610	20,233
(2) Capital outlays		8,500	23,500(a)	12,000	—
f) Litani Nat. Service Capital outlays	50	988	2,488	3,978	12,862
g) Reconstruction National Service	—	—	18,687	18,687	18,687
h) Liquid Inflammables Fund (started in 1956)	—	—	4,426	4,650	4,847
3. DEVELOP. WORKS FUND					
EXTRAORDINARY BUDGET	5,746	12,326	20,806	38,980	26,508
Total	134,854	192,739	269,530	312,330	292,718
Difference between Rec. and Expenditures	44,122	23,407	- 26,693	- 38,615	- 46,333

(a) Payment for purchase of old company.

(b) Expenditure 1956-1958 divided equally, being unavailable separately.

Total Receipts 1954 - 1958

Total Expenditures 1954 - 1958

Excess of Expenditures over

Receipts 1954 - 1958

1/58

44,112

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As can be seen from this table, if loans, grants in aid, transfers from the Reserve Fund and transfers from one budget to another, are excluded, the receipts would be found to have been insufficient to meet the expenditures in recent years. Since taxes are the major source of revenue, it can be said that the tax system is fiscally inadequate.

While the Ordinary Budget continued to have surpluses, the three types of Budgets taken together had surpluses only in 1954 and 1955, amounting to 44.12 and 23.41 million Lebanese pounds respectively. Large deficits occurred in the following three years 1956 to 1958, amounting to 26.7, 38.6 and 46.3 millions, respectively. These deficits counterbalanced all the surpluses of 1954 and 1955 and left a net deficit of L. L. 44,112,000. The deficits during the three years, 1956 to 1958, were met almost entirely from three sources: withdrawals from the Reserve Fund, advances by the Treasury to the agencies having independent budgets for their needed capital expenditure, and grants in aid by the Government of the United States of America.

Needless to say that these sources either could not, or should not, be depended upon indefinitely. Economic aid from the United States may diminish or disappear altogether, depending upon the policy of the American Government.

The Reserve Fund will soon be used up as a result of large appropriations from it voted, or presented for vote, by the Parliament, as is shown in Table II. In fact if the Reserve Fund is not fed by budget surpluses or other sources, it would show a deficit, in the next five years or so, amounting to about 33 million Lebanese pounds.

TABLE II
Position of the Reserve Fund on Octobre 1, 1959 (1)
(In Thousand Lebanese Pounds)

Advances from R.F. not expected to be paid back	12,071	Credit balance, date of closing accounts of 1958 (May 31, 1959)	92,632
Additional appropriations voted after closing accounts of 1958	23,096	Deficit	33,049
Commitments for 1960 according to enacted laws	14,890		
Appropriations demanded from R.F. not yet voted	34,624		
Commitments for the years following 1960, according to enacted laws	41,000		
	125,681		125,681

Advances and loans by the Treasury to services with independent budgets will soon require borrowing from the Bank of issue (Banque de Syrie et du Liban), since available funds are limited, and because most of the past loans and advances by the Government are irrecoverable or difficult to recover, or are of long duration. (2) Borrowing from the Bank of Issue for making advances to non-reproductive undertakings will tend to bring about inflation.

With the present scale of expenditure, a moderate reform in the tax system may be sufficient to avoid deficits in the future. If, however, larger amounts are to be spent on economic and social development, as formulated in the "Five Years Plan for

- (1) From a statement privately secured from the Ministry of Finance.
(2) Based on an analysis of loans and advances by the Government given in a statement privately secured from the Ministry of Finance.

Development" prepared by the Planning and Development Board, a more fundamental revision of the tax system, including the establishment of new taxes, becomes necessary.

2. *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 for social considerations.⁽¹⁾ 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 — 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."⁽²⁾

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 taxes, which account for about two-thirds of tax revenue. This high

(1) E.F. Schumacker, "Public Finance - Its Relation to Full Employment", *Economics of Full Employment*, Oxford Institute of Statistics (Basil Blackwell, Oxford, 1944), p. 9

(2) E.F. Schumacker, *loc. cit.*, p. 91.

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 not progressive or, for the most part, 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 succession tax is very mild.

Moreover, it should be noted that direct taxes are more strictly applied on the poor than on the influential rich. Wage earners and salaried people who belong to the poor and middle classes are the least able to evade the income tax, 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 reduced 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.

3. *Effects of the Tax System on Production*

The effects of the tax 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 commodities 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. This is because taxation of commodities, that are considered by workers as conventional necessities 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 investments."⁽¹⁾

Another factor in the Lebanese tax system that reduces 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, (2) and should be considered as a hindrance to the use of efficient machinery and technique, (3) which are usually too costly for sole-proprietorship and partnership concerns to adopt. Besides, the discouragement of expandable forms of business organization hinders the realization of a high

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

(2) The formation of corporations is further discouraged by the stamp duty tax (see Chapter VI, p. 68), and by a tax of 1 per cent on authorized capital.

(3) Henry C. Wallich and John H. Adler, *Public Finance in a Developing Country* (Harvard University Press, Cambridge, Massachusetts, 1951), p. 7.

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 excessive dependence on indirect taxes, levied 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.

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 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,⁽¹⁾ 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 underdeveloped countries in general do not experience severe cyclical fluctuations,

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

tuations 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.⁽¹⁾ 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 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 (e. g. 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) Lebanon is one of very few countries whose imports, (mainly from U.S.A., U.K., France, Western Germany 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.

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⁽¹⁾ — "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 land-lords 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 trend should be welcomed. 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.

(1) Dalton, *op. cit.*, p. 233.

The two other important services which contribute to reduction in the inequality of income are social insurance and cost of living subsidies. These services have not yet been provided 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 enable 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 public social services 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. The expenditure on the Athletics City is a good illustration of such negligence. The ten million Lebanese pounds spent on the construction of this city (beside the cost of the land) would certainly have been better spent if they were used in irrigation works. Another example is the relatively small proportion of expenditure that goes to economic development. An increase in such expenditure 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, increasing the desire to invest and produce in the private sector.

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. Besides, 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 are not managed or organized in such a way as to contribute to economic stability.

C. *Economic Development and Fiscal Policy*

The per capita national income of Lebanon in 1956 was L.L. 952 (300 dollars), (1) which is quite a low 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, 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 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 overpopulation, 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

(1) Calculated from figures of national income and population of Lebanon in United Nations *Statistical Yearbook*, 1958.

participation in new industries, and establishment of industrial schools. Projects for these and other activities are included in the Five Years Plan for Economic Development, prepared by the Planning and Development Board.

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, as this 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 much strain on domestic resources. The loan from the I.B.R.D. is a good example to follow. However, the main part of the financial resources required has to come from the country itself.

Domestic financing requires that voluntary and forced savings be increased and hoarding mobilized. 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. The pooling of savings in such banks will help tremendously the private sector in playing its role in economic development.

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

Fourthly, it could encourage the corporate form of business organization by abolishing progression in taxation of corpora-

tion profits, and by relieving corporations from the tax on authorized capital and the stamp duty on issue of shares. Since corporations help to pool individual savings of varying amounts and from all sources into productive undertakings, growth of the corporate form of organization increases the role that private enterprise can play in economic development. Besides, corporations can help directly in increasing productivity, because they can adopt efficient machinery and technological and managerial skills that are too costly for other forms of business organization.

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 the existing ones. 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 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 desire 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 rates of the succession tax. 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.

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, exemptions, and

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

In conclusion 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, and 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.

APPENDIX

Actual Receipts and Expenditures in the Ordinary Budget in 1958 and Estimates for 1959 and 1960 (In Thousand Lebanese Pounds)

R e c e i p t s	1958 Actual	1959 Budget Estimates	1960 Budget Estimates
Direct Taxes and Duties of Similar Nature	53,312	55,350	58,220
Indirect Taxes and Fees	105,190	104,725	116,960
Revenue from Public Property and Public Enterprises	7,239	7,279	7,683
Miscellaneous Receipts	59,732(a)	38,646	39,372
Withdrawals from Reserve	60,103	—	—
Total	285,576	206,000	222,235

(a) Of which about 40 million Lebanese pounds were grants-in-aid from Government of United States of America.

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APPENDIX (Continued)

Expenditures	1958		1959		1960	
	Actual	Budget Estimates	Current	Capital	Current	Capital
Presidency of Republic	451	510	479	—	479	—
Chamber of Deputies	1,657	1,927	1,927	23	1,927	23
Prime Ministry	479	696	2,288	—	2,288	—
Ministry of Justice	6,051	6,341	6,353	—	6,353	—
Ministry of Foreign Affairs	6,203	7,664	7,925	160	7,925	500
Ministry of Interior	22,244	21,473	21,548	2,292	21,548	2,443
Ministry of Finance	11,313	12,971	12,036	1,605	12,036	531
Ministry of National Education	24,137	28,567	29,420	2,427	29,420	1,419
Ministry of Public Health	6,577	7,786	8,816	1,114	8,816	1,748
Ministry of Social Affairs	2,769	3,483	3,448	102	3,448	102
Ministry of Information	1,040	1,274	1,576	2,092	1,576	2,870
Ministry of Pub. Works & Communications	7,492	8,835	7,747	19,271	7,747	30,099
Ministry of Agriculture	3,823	4,189	3,178	2,902	3,178	1,553
Ministry of National Economy	1,706	1,899	1,710	424	1,710	361
Ministry of Post, Teleg. & Telephone	4,550	5,581	5,018	140	5,018	205
Ministry of Planning	283	362	503	—	503	200
Debts Due	13,044	15,193	15,448	—	15,448	—
Reserve for Contingencies	—	715	3,326	—	3,326	—
Total of Current & of Capital, except Ministry of Defense	113,819	129,466	132,746	32,552	132,746	42,054
Total Current & Capital, except Ministry of Defense	136,066	162,018	174,800	—	174,800	—
Ministry of Defense, Cur. & Cap.	45,557	43,982	47,435	—	47,435	—
Grand Total	181,623	206,000	222,235	—	222,235	—

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