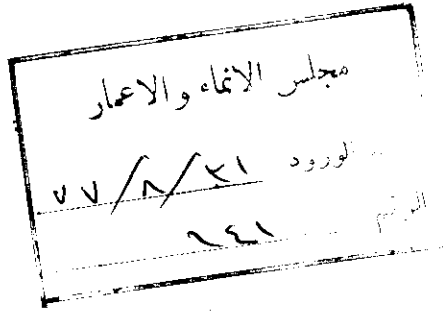


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Papers on Indirect Taxes

James A. Maxwell

Lebanon, 1970

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

République Libanaise
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Centre des Projets et des Etudes sur le Secteur Public
(C.P.E.S.P.)

Indirect Taxes

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highway-user taxes.

Introduction

In almost all developing countries indirect taxes have been much more important sources of government revenue than have direct taxes. In Lebanon, this division has been approximately 72% and 28%. Indirect taxes split into two parts--customs duties and excises. Customs duties are external excises imposed on goods which come from foreign countries; excises are imposed on goods domestically produced. For many decades this difference gave customs great advantages over excises in terms of public acceptance. Moreover, customs duties, besides raising a revenue, could be used to promote industrial development. The two purposes conflict since success in substitution of domestic goods for imports reduces customs revenue. But this conflict may be unobserved, or, if observed, it may be accepted.

The advantages of indirect taxes, and notably of customs, are as follows:

- 1) Administration of them is easier than is administration of direct taxes;
- 2) Impact on taxpayers is concealed;
- 3) As a consequence of these two advantages, evasion is reduced;
- 4) Applied properly, they are revenue-productive and elastic;

- 5) They are the only way to secure a tax contribution from low-income persons;
- 6) They are "convenient" because paid little by little.

Their disadvantages are:

- 1) When applied to articles of wide consumption, they are inequitable because they are regressive;
- 2) They distort consumption, since they apply to users of the taxed goods;
- 3) They distort and interfere with productive processes.

A debate concerning the merits of indirect versus direct taxes is bound to be inconclusive. What is best for one country will not be best for another. Moreover, indirect taxes are not of one piece, as will appear in what follows. In Lebanon customs duties are well administered, fiscal stamp duties are not; the salt duties are regressive; the customs duties on alcoholic beverages are not; the impact of the entertainment taxes is visible rather than concealed. The certainty is that indirect taxes will make a large contribution to government revenue in Lebanon for many years. Since the important ones do not have high rates, and since their incidence is not seriously regressive, this is not a bad prospect. But a strong effort should be made to improve the structure and administration of income taxes so that expanding governmental needs

for expenditure can be met through them.

Indirect taxes - Lebanon

Indirect taxes in 1968 provided 74% of the tax revenue of the Lebanese government. The yields of the major indirect taxes were as follows:

	1968 yield millions of LL.	
Customs	177.6	51.0%
Inflammables	55.4	15.8
Tobacco	33.7	9.7
Cement	4.9	1.4
Alcoholic beverages	1.7	.5
Entertainment taxes	1.8	.5
Fiscal stamp duties	27.1	7.8
Miscellaneous*	<u>46.5</u>	<u>13.3</u>
Total	348.7	100.0%

A good many of the revenues listed in the budget as indirect taxes should be called fees and dues. Attempts to make a more precise classification, however, are futile and would serve to confuse officials who may be readers of this memorandum. For reasons which will

* Registration, court, notary, traffic, and consular fees

appear later, some of the yields given here are not informative. For example, the revenue from tobacco exceeds the sum of L.I. 33.7 million listed above. Another difficulty of classification is that much of the customs revenue consists of external excises on such items as tobacco and alcoholic beverages. To secure the impact by commodities, the customs revenue and the internal excise revenue should be combined. Other difficulties of classification and terminology will not be mentioned. The dominant facts are that customs yield more than half the revenue from indirect taxes and 38% of the total tax revenue; that, of the other indirect taxes, those on inflammables are a strong second. As will appear later, these and customs are well administered.

Structurally and in principle, most of the indirect taxes of Lebanon are acceptable, and the rates are not excessive. A few, however, suffer from poor administration. The entertainment taxes are an instance. These are, in the best of circumstances, difficult taxes. But the usual difficulties are aggravated by ineffective inspection with the result that the places of entertainment sometimes pocket the taxes paid by patrons. Another feature of the weak administration is excessive decentralization, so that the Indirect Tax Bureau in the Ministry of Finance exercises little control over, and gets little information from, the regions outside Beirut. The fiscal stamp duties are a second weak spot in the system for different reasons. The Ministry of Finance has virtually no

information concerning what duties are revenue-productive; it does not know their incidence or the costs of compliance. Since these duties are imposed on a great variety of "instruments," this practice of operating blindly is most unfortunate.

Lebanon has no broadly-based or general indirect tax, and, as will appear, no such tax need be given serious consideration for the near future. If administration of the present indirect taxes is strengthened, and a few minor structural reforms can be made, general sales taxation seems remote.

Inflammables

The excises on inflammables are by far the most revenue-productive of the internal indirect taxes. In 1968, their yield was LL 100.2 million. In addition, customs duties are collected on "imports" of inflammables although the imports are from refineries located in Lebanon.

The dominant product in the group of products is benzine which, as the following table shows, contributed 87.8% of the total.

Fees on Inflammables, 1968

	<u>LL Millions</u>	<u>Percent</u>	<u>Fee per litre</u>
Benzine	87.9	87.8	19.19 LP
Kerosine	3.4	3.4	7.77 LP
Gas oil	4.7	4.6	1.649 LP
Fuel oil	4.0	4.0	1.102 LP
Aircraft gas	<u>.2</u>	<u>.2</u>	6.0 LP
TOTAL	100.2	100.0	

The table shows also that this excise rate on benzine is much higher per litre than that on other products.

The fee-rates on inflammables are a set of four rates: (1) a fiscal fee; (2) a municipal fee; (3) a ^Mconstruction fee; and (4) an autonomous treasury fee. All four apply only to benzine.

	LP fee per litre				
	<u>Benzine</u>	<u>Kerosine</u>	<u>Gas oil</u>	<u>Fuel oil</u>	<u>Aircraft gas</u>
Fiscal fee	13.25	4.00	--	--	4.00
Municipal fee	4.00	2.00	--	--	2.00
<i>re</i> construction fee	1.25	--	1.50	1.00	--
Autonomous Treasury	0.686	1.769	0.149	0.102	--
	<u>19.186</u>	<u>7.769</u>	<u>1.649</u>	<u>1.102</u>	<u>6.00</u>

As an historical hangover, dating from the period before collection of internal excises, customs duties are levied on inflammable products as a sort of external excise. This method appears to be founded only in history and it would seem sensible to limit use of import duties to actual imports.

The table following shows for 1968 the customs revenue, the ad valorem and effective rates, and, for 1970, the specific rates. The points to note are that: (1) For benzine and kerosine, when the duty is added to the excises, the tax rates per litre become respectively 20.61 LP, i. e., 19.19 + 1.42, and 9.35 LP, i. e., 7.77 + 1.58; (2) Butane, on which no excise is imposed, bears a duty of 1.320 LP per 1,000 KN (net kilograms) which is approximately 10% ad valorem.

Customs Revenue and Rates on Inflammables

		Revenue 1,000 LL	Effective rates, 1968	Specific rates	
				1968	1970
27/10/21	Benzine	6,117	15.3%	1.42 p. per litre	Same
27/10/41	Kerosine	704	10.3	1.58 p. per litre	Same
27/10/51	Gas oil and				
	Fuel oil	43	0.1	Exempt	Exempt
27/10/62	Oil for			18%	Same
27/10/69	lubricating and			11%	Same
27/10/71	illuminating	578	0.4	11%	Same
27/11/11	Ethane	683	10.1	1,320 p. per 1000 KN	Same
27/11/21	Other	34	7.3	8%	18% Same

Benzine: The tax on benzine is a satisfactory type of tax. Its level in Lebanon is low in comparison with the level in Western Europe, and this would indicate that it has considerable stretch. Undoubtedly, this is the case. Politically, however, a special problem arises in Lebanon because a considerable part of its system of transport of persons is by "service." But the cost of benzine is a small part of the "service" cost, and the fact remains that taxation of benzine in Lebanon is comparatively light.

Kerosine: The tax on this product of 9.35 LP per litre (excise of 7.77 LP plus customs duty of 1.58 LP) is high in comparison with that

on other inflammables (except benzine). This tax is regressive, since use of kerosine for heating and lighting is mostly by lower-income persons. The tax is, of course, an old one, to which payers have become accustomed. Nonetheless, the long-run aim should be to reduce the rate.

Gas oil and fuel oil: Taxation of these is light. The burden falls on industrial and on consumer use, with no possibility of effective separation. At the present low rates, these taxes are acceptable.

Butane: It carries a customs duty of 10%, but no excise. Use is growing rapidly--imports of 21,805 tons in 1964 and 48,916 tons in 1968--and heavy use is by middle and upper-income persons. An excise on butane would be productive, elastic, and equitable. Since pricing of this product is negotiated, introduction of a tax might, perhaps, be arranged without a matching increase in price.

Some organizational changes seem to be indicated. Levy of an excise and also a customs duty is clumsy; it would seem that the duties should be absorbed as excises. Moreover, levy of the excises as a set of rates (fiscal fee, municipal fee, reconstruction fee, autonomous treasury) must complicate administration. Justification for a separate construction fee and autonomous treasury fee should be examined with a view to possible combination into one fiscal fee.

Entertainment Taxes; Eeirut Race Track;
Alcoholic Beverages

Entertainment tax

1. Movie and theatre tickets: 20% of value of tickets
2. Places offering consumption and also entertainment: 2% of gross receipts
3. Betting places: Value of ticket less than LP 75, 20% above 40%
4. Seaside resorts & swimming pools: Value of ticket: 100-200 LP, 5% above 10%
5. Subscriptions and rents of cabins: 10% if value of ticket is £L 1.0 or less, no tax is levied. Above £L 1.0, the tax is on the whole amount.

N.E. All of the entertainment taxes, except those on betting places, can be levied on a gross receipts basis. This right of option concerning the base of tax is given by Legislative Decree No. 66 dated August 5, 1967.

In principle, all of the entertainment taxes are reasonable, and the rates are moderate. I could secure a breakdown of the yield only for

Beirut as follows:	1968	
	£L 1,000	
1. Movie and theatre tickets	1,036.4	73.5%
2. Places offering consumption and also entertainment	30.7	2.2
3. Betting places	317.3	22.5
4 & 5. Seaside resorts, etc.	25.6	1.8
	<u>1,410.0</u>	<u>100.0%</u>

The notable thing is the insignificant yield from classes 2, and 4 & 5. The Eeirut figures for seaside resorts, etc., are not a good

indication of the revenue for Lebanon because most of the resorts are outside the city. Since this type of tax is reasonable and the rates are moderate, it should be retained. Once again, the revenue figures should be improved so that the Treasury is aware of what is collected for the whole of the Republic and for each type of establishment. The low yield of the tax on places offering consumption and also entertainment is partly attributable to the low rate of 2% of gross receipts. This is a difficult tax to administer. A report on Indirect Tax Bureau Procedures (dated January 15, 1969) states that "little or no supervision is done because these places open very late at night and it is not possible to ask controllers to stay up until four in the morning and expect them to be on their regular jobs by eight the same morning." On the other hand, the activity is a very reasonable base for taxation. While I have no expertise at prescribing in detail how administration could be improved, it is obvious that inspectors here should work special hours. Would it be feasible to impose heavy licence taxes on cabarets both to secure more revenue and to control their number? Could not these be assessed on objective bases, such as seating capacity?

Beirut Park Race Track

Three indirect taxes are collected:

- (1) A duty of 3% on the gross value of betting, (2) a betting fee of 4% on the gross value of betting, (3) an entertainment stamp duty of 20% on entry tickets of less than LP 75 in value and 40% on tickets above LP 75 in value. N.E. In 1967 an entry fee of LP 100 ^{was} ~~is~~ imposed on

first class tickets (value £L 5.00), of LP 50 on second class tickets (value £L 1.75), and of LP 25 on third class tickets (value £L 0.85). The estimated revenue for 1969 is "around £L 250,000." This amount is not included in the figures given below.

In 1968 the yields were as follows:

	<u>£L 1,000</u>
(1) Stamp duty	3,004.7
(2) Betting fee	1,502.3
(3) Entertainment tax	<u>317.3</u>
	4,824.3

All of these taxes are reasonable in their basis, and the rates are modest. I would estimate that, with higher rates, they would yield a more than proportionate increase in revenue.

But it is not sensible to have two duties on the same base--the gross value of betting. This is awkward and must cause unnecessary administrative work. Similarly, two separate taxes on entry tickets must cause unnecessary administrative costs, especially since one tax has two graduations in ticket values and the other has three graduations. The sensible step would be to combine the two taxes into one tax using the three graduations of the tax for the Beirut municipality. Assignment of some proportion of the annual revenue to the municipality would be specified in the decree.

Alcoholic beverages

	<u>Rates of excises*</u>	<u>1968 Revenue</u> <u>£L 1000</u>
1. Beer	7 LP per degree liter	522.0
2. Wine	8 LP per degree liter	73.5
3. Arak	17,1243 LP per Kg. (when it is 53° per liter)	<u>148.1</u> 743.6*

Obviously domestic production of alcoholic beverages is taxed very lightly. Raising the rates would be revenue-productive, and no important shift to consumption of imported beverages would take place. Imports of beer and wine pay the excises and therefore the import duties are "pure" protection. After what is regarded as the appropriate level of protection is settled, changes in duties ought to be accompanied by equivalent changes in excises. Parallel moves are indicated in order to protect the revenue. To raise a duty without increase of excises would bring some substitution of consumption.

*White alcohol	1.0 LP per degree liter	375.5
Industrial alcohol	0.3 LP per degree liter	52.2

The justification for these two nonbeverage taxes is not obvious, but the rates are so low as to be acceptable.

3. Salt & Cement

Salt: the 1952 budget abolished the salt monopoly. Domestic operators of salterns are licenced, paying a fee and an excise of L.P. 10 per cubic meter of salt extracted by them. The revenue is insignificant. The present system is simply an insignificant survival which, through licencing and protective duties, provides for a small domestic industry.

Ciment: An excise of L. L. 5 per metric ton raised in 1968 a revenue of L. L. 4.9 million from the operations of two plants which are protected by tariff duties, while the excise raises the cost of housing and construction by a modest amount, the revenue is easy to collect and may, therefore, be tolerated.

R E G I E

Since 1935 the Régie Co-intéressée Libanaise des Tabacs et Tombacs has been a monopoly covering production, manufacturing, importing and exporting, and local marketing of tobacco. Yearly, the Régie advises the Ministry of Finance concerning the area to be assigned to tobacco cultivation; it supervises cultivation; it buys the tobacco harvest from the authorized area. The Régie does all importing of tobacco products and of foreign leaf, as well as all exporting. Exports are largely barter exports, i. e., U. S. exporters of cigarettes are required to import Lebanese leaf as a condition of export. Pricing of tobacco products sold in Lebanon, both local and imported, is determined by the Ministry of Finance advised by the Régie. The broad objective is maximization of net revenue. Prices of standard U. S. brands of cigarettes are 50-60 percent higher than those of similar Lebanese brands, but prices of other Lebanese brands range down to a low level. Prices are not changed frequently, and some effort is made to hold down prices of cheaper products.

Production of domestic leaf is heavily subsidized -- the purchase price is often twice the price of comparable leaf on the world market. While the number of tobacco planters and the area planted are not being increased, production has expanded because of improved methods and more intensive cultivation.

The Régie , by agreement which runs to December 31, 1973, pays to the government annually a fixed due of £L. 2,000,000 plus approximately 96 percent of its profits . In 1968 the payments were:

Annual fee	£L.	2,000,000
Shared profits		<u>19,325,767</u>
	£L.	21,325,767

The Régie obtains annually a fee of approximately 4 percent of profits-- in 1968 this was £L. 780,469. All the capital of this Régie has been paid off and the return is, therefore, analagous to a fee paid for running the company.

Smuggling of U.S. cigarettes is a problem, especially from Syria. One may doubt, however, that this problem would be much increased by (moderately) higher prices. At present U.S. cigarettes can be bought wholesale and legally very cheaply in neighboring countries which levy low duties and then smuggled into Lebanon at a large profit. Since this smuggling is an organized and full-time business, and since the price differential is already great, moderately higher or lower legal prices in Lebanon would have little effect on this smuggling.

Pricing of tobacco products, imported and domestic, for sale in Lebanon is determined by the Ministry of Finance (advised by the Régie).

It follows that the level of customs duties on imported products is not of much significance. The duties, in fact, are quite low-- on cigarettes the effective rate was about 17 percent in 1968 and is approximately 20-21 percent in 1970-- and these duties do not explain the relative prices of imports in comparison with domestic products. In 1968, customs revenue on tobacco products yielded £L. 2,480,000.

Besides the revenue secured from the Régie as a share of monopoly profits, and besides that secured from customs duties, the government secures revenue from three taxes, namely: army tax receipts, a municipal tax, and income tax. The oldest most important of these, the army tax, which began in 1945, brought L.L. 17,282,294 in revenue in 1968; it is levied as a fixed proportion of the selling price--approximately 15 percent in 1968. The municipal tax, started in 1964, in a tax of P.L. 5 per pack of cigarettes or tobacco (as well as on cigars, etc.) with a value of P.L. 60 or more; it yielded L.L. 3,222,535 in 1968. The income tax, levied on the profits of the Régie as an industrial enterprise, yielded L.L. 439,225 in 1968.

Total revenue coming to government through or from the Régie in 1968 was, therefore, as follows:

Annual fee and shared profits	L.L.	21,325,767
Army tax	L.L.	17,282,294
Municipal tax	L.L.	3,222,535
Income Tax	L.L.	439,225
Total	L.L.	42,269,821

The present agreement with the Régie expires December 31, 1973. Before then a decision must be taken concerning how the tobacco industry is to be run. Two choices, not very different, are possible. The Régie could be continued, or it could be converted to a government enterprise. Government policy of encouraging tobacco farming by substantial subsidies seems to be established. Moreover, the whole process of manufacturing and marketing of tobacco products is now so firmly controlled that no part of the process seems to be severable, and therefore, the alternative of moving toward a "free" market is ruled out. If the Régie is to be continued, the major financial question will be whether or not the Régie is to receive approximately 4 percent of the profit; the major non-financial issue is whether or not the Régie operates more or less efficiently than a government corporation.

Stamp Duties

Stamp duties are simply a method of collecting certain taxes by the use of stamps. They are characteristic of a belief that ease of administration and enforceability should, above all else, govern the selection of taxes. When individuals or businesses are in need of some formal action by government--and government can specify where formal action is required--they can be forced to pay a fee or tax. Failure to pay--to attach the necessary stamps--will be illegal, subjecting the person to the danger of a fine and sometimes to the danger that his action will invalidate the transaction. The problem is to select those cases in which formal governmental action is a proper base for levies and to discard those which place inequitable burdens on individuals, obstruct business, and fall in arbitrary fashion on consumers of certain government services. The fact that, through use of stamps, the direct cost of collection to the government is small, should not override and conceal the large direct costs placed upon taxpayers. Moreover, as will appear later, the use of fiscal stamps in Lebanon conceals from the government what it is doing. The Indirect Tax Bureau sells stamps (at a discount) to dealers who, in turn, sell them to users. No record is **available to tell the** government the use to which the stamps have been put. The government acts blindfolded with respect to the impact of stamp duties. It knows only that a certain aggregate amount of annual

revenue was secured; it does not know what revenue is secured from each of the very many types of instruments subject to duty. It is certain that a good many of these duties produce an insignificant revenue, but the method of collection provides no evidence concerning what they are. This obscurity means that analysis of stamp duties must depend upon generalizations--principles--unsupported by quantitative material.

A distinction should be drawn here between a fee and a tax. Certain transactions and events should be formally recorded by government--legal proceedings, transfer of real property, births and deaths, etc. In such cases, the government can appropriately charge a fixed fee, the amount of which should not exceed the estimated cost of rendering the service. Other transactions will justify the imposition of taxes, i. e., charges in excess of and not related to costs, where the government renders no particular service in return, as when the government requires stamps to be affixed to tickets of entry, or to travel tickets, or to receipts for sales, or to vouchers, invoices, professional certificates.

Total revenue collected through stamps in 1968 was LL. 27,100,000 (of which only one-fifth was collected through the Indirect Tax Bureau). The stamp duties are imposed on "instruments," i. e., signed documents "for the establishment of legal actions" when "produced as a written proof to a judicial or administrative authority"

(Legislative Decree Number 67, August 1967; amended by Decree 9801 in 1968). The main classes of documents (each of which contains a dozen or more subclasses) are as follows:

1. Agreements and Contracts
2. Pledges and guarantees
3. Affidavits and relinquishments
4. Acquittances, receipts, releases
5. Will and donation deeds
6. Property deeds, and destabishment of corporeal rights, deeds
7. Commercial bills of all kinds
8. Securities (stocks and bonds)
9. Transportation tickets of all kinds
10. Invoices of all kinds

The duties are "fixed" or "ad valorem." The fixed duties, which vary widely according to the type of transaction, are in two classes:

1. Those on instruments (such as licenses and permits) issued by governments or their agencies;
2. Those on instruments issued by firms or individuals (such as transactions of insurance companies, contracts).

The duties are modest in amount and, although no figures are available, one may doubt that much revenue comes from the fixed duties. The ad valorem duties are on instruments which involve amounts of money, the rates being: 2 per mill up to LL. 100,000;

1-1/2 per mill for each amount from LL. 100,000 to LL. 500,000;

1 per mill for each amount from LL. 500,001 and over.

The duties are or may be paid by fiscal stamps sold to the public via dealers who receive a commission of 2.5 percent deducted in advance from the price of the stamps. Cash payment is allowable in certain cases (for stocks or debentures issued by share companies, travel agencies, etc). These firms must keep registers and make regular payments.

Schedule III lists "general exemptions" such as voting cards, identification cards for workmen, health cards, etc.

In connection with administration of the fiscal stamp duties, the Indirect Tax Bureau uses twelve forms; eight of them having to do with fines for violations. An obvious inference is that the duties are costly and troublesome to administer. The revenue from fines is not separated from the fiscal stamp revenue.

The following suggestions are offered:

1. The government should study the fixed duties with an eye to repeal of those which are on instruments which do not serve a clear public purpose (other than raising revenue).
2. The duties on the remaining instruments should **generally be fees which cover no more than the cost of the service to the government.**

3. The government should study the ad valorem duties with an eye to discovering those which are productive of a significant revenue. Since no flowback of cancelled stamps is available, information will have to depend on impressions of persons who administer the duties. One obvious step would be to secure figures of cash payments now included in the fiscal stamp revenue. At the same time, the type of payer would be identified. If the cash payments are large, all payments of these types (insurance companies, travel agencies, water and electricity companies, etc.) should be put on a cash basis.
4. A considerable and miscellaneous number of transactions would remain subject to stamp duties. Here serious consideration should be given to exemption of instruments below a certain value, e.g. LL. 30. The revenue secured from a 2 ^{mill} percent tax on instruments of low value must be small, while the nuisance cost is large.

N.B.: Stamps are used also to collect fixed registration fees on transfers of ownership titles. I cannot secure figures of their amount.

CUSTOMS DUTIES

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CUSTOMS DUTIES

Brief Description of Lebanese Tariff

The tariff in Lebanon classifies products into twenty-one sections, e.g., live animals and animal products, vegetable products, fats and oils, etc. Each section is divided into chapters, and each chapter in turn lists products or commodities. The twenty-one sections and ninety-nine chapters list 2,000 products. The classification is prepared by the Customs Cooperation Council located at 40 Rue Washington, Brussels 3, Belgium. The classification is modified over time by the Council and the Arab League. Application of the classification to Lebanon is approved by the Customs Board. Two volumes of "explanatory notes" give technical descriptions of products. In Lebanon, the tariff (Tarif des Droits de Douane) and the notes are available in French and Arabic. A revision is in process which will be printed only in Arabic.

The duties listed in the tariff are those of the "normal" tariff. A "tarif conventionnel" applies lower rates to imports (mostly foodstuffs) from Arab countries which are members of the Arab

Trade and Payments Agreement. () Special rates of one and one-half the normal are applied to some Japanese imports.

Valuation is c.i.f. This valuation is certified by a Lebanese consulate if one is available in the port of exportation, or else by the Chamber of Commerce. The fees for this service are generally low. Landing fees are charged according to a published scale on imports by sea and air, and these are added to the valuation. The official rate of exchange of 308 LL to the U.S. dollar is used to convert foreign currency values.

Most of the duties for Lebanon are ad valorem rather than specific. In periods of rising price levels, ad valorem duties have the great advantage of maintaining their level while specific duties, unless revised frequently, get badly out of date. A specific duty of \$1 per litre on an article valued at \$10 would, if price rose to \$20, become equivalent to 5% ad valorem instead of 10%. Moreover, a specific duty, when applied across the board to an article (or set of articles) which is not homogeneous, discriminates against cheap

() An Arab Trade Convention was signed in 1953. This was a multilateral agreement, but it did not grant any preferential treatment with respect to quantitative trade restrictions. For this reason, its beneficial impact on inter-Arab trade was not great. Lebanon has also concluded bilateral trade and payment agreements with several Arab countries which reduce duties and sometimes relax quantitative restrictions. The impact of these agreements is hard to reckon. No separate statistics even of imports subject to reduced duties are available. See United Nations Economic and Social Office in Beirut (UNESOB), Prospects for Increased Exports of Manufactures and Semi-manufactures from Developing Countries, Lebanon, January 20, 1970.

varieties. Specific duties also conceal the amount of protection which is being given, and this is one reason why the highly protective duties in the Lebanese tariff are usually specific.

To the rates listed in the tariff must be added a municipal or port tax of 3.5% levied on all imports by sea and air, but not on those coming across land borders.

Determination of tariff policy is by a Customs Board of three full-time officers. The Board is served by a staff recruited from the staff of the Director-General of Customs which gives it technical advice. Decisions of the Board, while implemented at once, are forwarded to the Council of Ministers which may, and occasionally does, overrule the decisions of the Board. The Board is, in a sense, a permanent Ministry of Customs which is autonomous and not dependent on parliamentary or electoral support. The Director-General of Customs reports directly to the Customs Board. His concern is with the organization and administration of customs rather than with customs policy.

Composition of Imports

The relative composition of imports has not changed much 1963-1968, when examination is restricted to the twenty-one broad sections into which imports are classified. (See Table 1.) The sections which gained in relative importance were mineral products (section 5); plastics and rubber (section 7); paper and paper materials

(section 10); optical, photographic equipment, radios, T.V. equipment, etc. (section 18). The sections which lost ground were vegetable products (section 2); common metals (section 15); jewels and precious metals (section 14).

The aggregate effective rate of duty, i.e., customs revenue as a percent of the value of imports, was the same--9.2%-- in 1968 as in 1963. The impression given by this similarity--that the restrictive effect of the tariff has not increased--is almost surely wrong. Lebanon has large imports of duty-free and low-duty goods, and these appear to have gained in relative importance, 1963-68. On the other hand, the number of prohibitive rates in the tariff (notably on textiles) appears to have increased. Both of these forces operate to conceal a real increase in the restrictive effect of the tariff. Moreover, Lebanon has modest import restrictions other than customs duties, notably licensing of some agricultural products and light manufactures (wheat, barley, wheat flour, sugar, olive oil, salt, fruit juices, leather goods, natural silk thread, shoes, women's readywear, anhydrides, some machinery and parts). In addition, import licenses are required for all machinery for the establishment of manufacturing plants or expansion of existing ones (International Bank report on the Current Economic Position and Prospects of Lebanon, Part II, dated February 9, 1970). In short, the likelihood is that, recently, restrictions on imports (including the tariff) have

Table 1. IMPORTS BY SECTIONS OF TARIFF

<u>Section of Tariff</u>	<u>Percents</u>		<u>1,000 LL</u>	
	<u>1963</u>	<u>1968</u>	<u>1963</u>	<u>1968</u>
1	6.4	7.2	83.7	134.4
2	10.4	9.4	137.1	175.5
3	.8	.9	10.9	16.4
4	4.6	4.0	60.7	74.7
5	6.1	6.5	80.1	122.5
6	5.6	7.2	73.8	135.2
7	2.0	2.5	26.1	45.8
8	1.1	1.6	14.9	30.0
9	2.2	1.9	29.3	35.3
10	2.5	3.2	32.4	60.0
11	10.2	10.4	133.0	192.7
12	.2	.2	2.6	3.4
13	1.8	1.4	23.2	25.6
14	17.4	16.5	228.7	307.1
15	8.7	7.4	114.6	141.5
16	10.4	10.2	135.6	189.8
17	7.4	6.8	97.3	127.1
18	1.2	1.4	16.2	25.7
19	.1	.2	1.7	3.3
20	.8	1.0	10.7	18.6
21	<u>.1</u>	<u>.1</u>	<u>1.1</u>	<u>.7</u>
	100.0	100.0	1,314.2	1,865.1

gained ground. This conclusion is consistent with the fact that the merchandise balance of trade, 1963-68, declined relatively. Exports as a whole grew more rapidly than did imports.

In the pages which follow, the tariff rates and the customs revenue do not ordinarily include the rates of, and the revenue collected through, two important supplements, the Municipal Tax of 3.5% on imports by sea and air, and the Reconstruction Tax^() which is applied at varying rates (usually 4%) to certain imports--automobiles and some other consumer durables, art objects, firearms, phonographic equipment, radio and television equipment, etc. The practice of the government in presenting its statistics for customs is to exclude revenues from these taxes.

The form of the Municipal Tax is unsatisfactory. It is illogical to levy a duty of 3.5% on imports which otherwise would be exempt (or which would carry a very low duty). A better practice would be not to levy the Municipal Tax on exempt items, making up the revenue loss by higher rates on dutiable items.

The supplementary duties of the Reconstruction Tax have, after a quarter-century (since 1956) become a part of the customs system. They should be merged with the regular rates.

() See Appendix for a list of the duties. The Reconstruction Tax places supplemental levies on several other revenue sources besides customs.

The highest effective tariff rate, 39.0%, was for section 19, arms and munitions (see Table 2). But these imports were less than one-fifth of 1% of total imports, and the customs revenue from them was only 0.7% of total customs revenue (see Table 3). Customs revenue, of course, depends on (a) the rate of duty, and (b) the volume of imports. The section of most importance because of the combination of high duties and large imports is, as Table 3 shows, textiles. They comprised 10.4% of total merchandise imports in 1968, paid an effective rate of 23.2%, and contributed 25.3% of total customs revenue. These duties are designed to foster domestic production, and they do, but continued imports show that domestic prices are higher by the amount of the duties, and that imports of high and medium quality textiles continue. Some other classes of imports, notably shoes, hats, umbrellas, (section 12), and arms and munitions, (section 19), bear a high effective rate and yet, because of their small aggregate amount, make only a modest relative contribution to customs revenue. Other classes, such as chemical products (section 6) and mineral products (section 5) bear a low effective rate and yet, because of their large aggregate amount, yield a large customs revenue.

Several sections contain items which can be and are used for final consumption, and also for industrial or agricultural production. This is very obvious with respect to machinery and electrical equipment (section 16) and metals and metal products (section 15). Very commonly, the rate is 1% when the item is for

Table 3. CUSTOMS REVENUE BY SECTIONS
OF THE TARIFF, 1963 and 1968

Section		1968	1968	1963
		Customs Revenue 1000 LL		
11	Textiles	44,070	25.3%	24.2%
17	Transport equipment	21,825	12.5	15.8
16	Machinery, electrical equipment	17,529	10.0	12.1
15	Metals and metal products	13,661	7.9	7.7
4	Drinks, alcoholic beverages, tobacco	13,532	7.8	7.9
5	Mineral products	8,728	5.0	3.4
6	Chemical products	8,694	5.0	4.3
2	Vegetable products	8,453	4.9	5.2
10	Paper and paper materials	4,701	2.7	2.2
13	Plaster, cement, glass	4,526	2.6	3.0
1	Live animals, animal products	4,419	2.5	1.8
7	Plastics	4,395	2.5	2.2
18	Optical goods, photographic equipment, clocks, musical instruments	3,639	2.1	2.0
3	Fats and oils	2,745	1.6	1.5
9	Wood, coal, coke	2,748	1.6	2.1
8	Skins, leather products	1,751	1.0	0.8
14	Gems, jewelry, monies	1,558	0.9	0.9
19	Arms and munitions	1,239	0.7	0.5
12	Shoes, hats, umbrellas, etc.	1,058	0.6	0.6
21	Art objects	96	0.4	-
20	Miscellaneous	4,783	2.7	1.8
		174,149	100.0	100.0

industrial or agricultural use, and 18% (or more or less) when the use is "other." For example, tariff code 84-12 is "Groupes pour le conditionnement de l'air, etc." (a) Industrial or agricultural use, rate 1%, (b) Other, rate 25%. Use of catchall categories is frequent, and the figures show that the customs people sometimes resolve problems of classification by placing items in "other." Moreover, when specific duties are used, an alternate ad valorem rate is often stated. The customs officers apply the rate which yields the larger revenue. This is a new policy which, while it safeguards the revenue, doubles the work of customs officials. Customs classifications tend to multiply subclasses as old classes become obsolete and new products come forward. This development also leads to overuse of a catchall category. Sometimes articles are combinations, and this raises problems of the appropriate rate of duty.

Protective duties complicate the classification of goods because the aim is to protect particular types of goods within a large class which can be produced behind a protective wall. Objection to the protection will be lessened if the duties are tailored, and the tailoring can best be done through specific duties. For instance, Chapter 55/15, "fils de coton non conditionnes pour vente au detail," contains twenty items, each with its own rate, usually specific. When translated into effective ad valorem terms, the rates in Chapter 55 are usually high. Some examples are:

	Specific rate	Revenue Value of imports	Effective rate
55/05/43 A type of cotton thread	<u>13,000 p</u> 100 KN	<u>9,339</u> 1,861	500%
55/05/24 A type of cotton thread	<u>17,500 p</u> 100 KN	<u>276</u> 200	138
55/09/13 "Other" cotton fabric	<u>300 p</u> KN	<u>516,459</u> 388,652	133
55/09/14 Ditto, dyed	<u>330 p</u> KN	<u>189,905</u> 206,965	92
55/09/15 Ditto, printed	<u>386 p</u> KN	<u>123,851</u> 182,501	68
55/09/55 Ditto, dyed, more than 150 grs.	<u>368 p</u> KN	<u>704,483</u> 1,670,283	42

These duties are tailored to give great, and sometimes prohibitive, protection to particular products manufactured by some firms. The yield is, therefore, zero or insignificant. In some few cases, however, imports flow over the tariff in substantial volume. For example, 55/05/55, "other cotton fabric, dyed, more than 150 grs.," yielded LL 704,483. Only a technician with specialized knowledge of cotton textiles could sort out the duties according to their effectiveness. The suspicion is that many of them serve no purpose except to add complexity to the tariff.

Another source of complexity and of multiplication of duties is the effort to cushion the effect of protection on certain types of consumers. For instance, duties are put on paper products, but

paper used to wrap fruits is exempt, and so are paper bags used to contain cement.

Chapters 84 and 85 of the tariff illustrate how administrative complications arise from efforts to favor imports for certain uses. Chapter 84 carries the tariff on boilers, refrigerators, mechanical engines, etc. Imports for agricultural use are often exempt, those for industrial use bear a duty of 1%, and those for other uses a duty of 18%. Occasionally, the 1% duty is applied to items for agricultural use, and quite often a reconstruction tax is added to the 18% duty. In many cases, the bulk of the imports are for agricultural or industrial use, and on them an insignificant customs revenue is collected. Sometimes the bulk of the imports are not for agricultural or industrial use, and here again an insignificant revenue is collected.

Some illustrations* follow.

Code		Duty	Revenue Value of imports
	Steam generators		
84/01/11	Industrial use	1%	LL 2,656
			LL 265,740
84/01/21	Other	18%	12,846
			84,806
	Apparatus for steam generators		
84/02/11	Industrial use	1%	1,722
			10,445
	Other	18%	804
			4,650
	Refrigerators		
	Industrial or agricultural use	1%	9,558
			897,835
	Other	18%	183,345
	Reconstruction tax	1%	1,510,713

*The designations of many of the items have been abbreviated with some sacrifice of accuracy. The 1970 rates are the same.

Chapter 85 has the same faults, and it adds another administrative complexity by giving a low duty (1%) on imported items for use of information agencies or the press. Some illustrations follow:

	Telephone and telegraph apparatus	Duty	Revenue Value of imports
85/13/11	Information agency or press use	1%	LL 3,146
			LL 32,716
	Other	18%	<u>434,769</u>
			6,637,229
Radio-telephonic equipment			
85/15/21	Information or press use	1%	<u>177</u>
			17,760
	Other	18%	<u>76,174</u>
			980,025

In the case of item 85/13, 97% of imports are dutiable at 18%, and only 3% at a 1% duty. In the case of item 85/15, a 1% duty on imports for special uses raises LL. 177.

The conclusion to draw is that differential rates should be avoided because they complicate administration and impair revenue. Whenever differentiation is retained, it would seem sensible either to drop altogether the low duty, or alternatively, to raise it to 5-10% so that an increased revenue would justify the retention.

The tariff has a good many items which carry a straight 1% rate which is, it seems, regarded as a sort of fee. As a fee, this rate is inadequate. The rate might well be raised to 5%, or, alternatively, dropped altogether.

Tariff Items and Revenue Yield

The 1968 tariff lists 1,974 separate items of which 1,641 yielded some revenue. In Table 4 below these are classified according to revenue yield. Nearly three-quarters of the items (specifically 1,196) yielded under LL. 50,000, and nearly half (specifically 811) yielded under LL 10,000.

Table 4. Tariff Items According to Revenue Yield

<u>Revenue yield</u>	<u>Number</u>		
Under LL. 50,000	1,196*	73.0%)) 81.0%
50,000 - 99,999	131	8.0)	
100,000 - 999,999	285	17.4)) 19.0%
1,000,000 - 1,999,999	21	1.3)	
Over 2,000,000	8	0.3)	
	<u>1,641</u>	<u>100.0</u>	

* 811 items of the 1,196 yielded a revenue of under LL. 10,000.

Table 5 below shows customs revenue, 1968, split into five parts. Nearly one-quarter of the aggregate revenue of LL. 174,100,000 came from items (of which there were eight) yielding over LL. 2,000,000.

Table 5. Customs Revenue, 1968

<u>Revenue yield</u>	<u>Revenue</u>	
Under LL. 50,000	LL. 18.6 million	10.7%)
) 15.9%
50,000 - 99,999	9.3	5.2)
100,000 - 999,999	73.7	42.5)
)
1,000,000 - 1,999,999	31.5	18.1) 84.1%
)
Over 2,000,000	<u>41.0</u>	<u>23.5</u>)
	174.1	100.0

Table 6 below brings Tables 4 and 5 together. In 1968, 84.1% of the customs revenue came from 19.0% of the items (specifically 314); 41.6% came from 1.6% of the items (specifically 25). When attention is concentrated on the low-yield items, it appears that 1,327 of them (81.0%) yielded only 15.9% of the customs revenue, while 1,196 of them (73.0%) yielded only 10.7%.

Table 6. Comparison of Number of Items and Revenue Yield

<u>Revenue yield</u>	<u>Percentage of number of items</u>	<u>Percentage of revenue</u>
Under LL. 100,000	81.0	15.9
Over LL. 100,000	<u>19.0</u>	<u>84.1</u>
	100.0	100.0
LL. 1,000,000 and over	1.6	41.6

The point of this brief statistical analysis is that the tariff appears to have too many duties with an insignificant yield. Sometimes, to be sure, this is due to the attempt to shut out imports by high duties. But in many cases the items are not domestically produced and imports are small. The efficient policy would be either to place items with a low revenue yield into broad, related categories to which a uniform ad valorem rate is applied, or else to place them on the free list. This policy would implement the simple rule that revenue duties should be relatively few because this simplifies the tariff and reduces the cost of customs administration.

Tariff Impact by Types of Commodities

Besides raising revenue, the tariff serves also the objective of protection, i. e., encouraging industrial development by bringing substitution of domestic production for imports. () The objectives of revenue productivity and industrial development conflict, since success in bringing substitution of domestic

() Lebanon wishes to encourage exports of manufactured goods. It provides drawbacks and sometimes exemptions from import duties on goods which undergo domestic processing and are exported. These privileges are, however, carefully safeguarded and some manufacturers claim that the formalities are costly, time-consuming, and restrictive.

production for imports brings a direct loss of revenue. When protection is the objective, certain general rules should be observed. One is to put (a) primary materials and (b) investment goods required by protected industry on the free list or to subject them to low duties. Difficulty arises, however, when the primary materials or investment goods are, or can be, produced domestically. For example, if the duties on imports of woolen or mixed yarn were abolished or reduced, this would help the woolen textile industry, but it would hurt the yarn industry; if the duty on steel sheets were reduced, this would help industry making metal containers, but hurt the steel industry; if the duty on imports of leather for footwear were reduced, this would help manufacturers of footwear, but hurt domestic producers of leather; if the duties on imports of wood were reduced, furniture manufacturers would be helped, but domestic lumbering would be hurt. Only in cases where the raw materials or intermediate goods are not domestically produced can the policy of letting them come in duty-free be followed without conflict.

Another rule, dictated by considerations of equity, is that foodstuffs of wide consumption should be on the free list or subjected to low duties. This will, of course, sacrifice the financial objective of securing revenue.

In what follows, the impact of important duties on (a) non-durable consumer goods, (b) consumer durables, and (c) primary materials is examined.

Non-durable Consumer Goods

As indicated above, the overall duties on food and food products are light, and examination of particular duties uncovers only four products which yielded a revenue of over LL. 1,000,000* in 1968. These are:

		<u>Revenue</u> <u>1,000 LL.</u>	<u>Effective</u> <u>rate</u>
04/02/15	Milk and cream, conserved in metal sealed containers	1,743	13.4%
04/04/00	Cheese and curds	1,297	9.8
09/01/11	Coffee, unroasted	4,203	50.1
09/02/11) 09/02/21	Tea	1,105	22.4

The duties on milk and cream, cheese, and tea are moderate, but the duty on coffee is high. Although substitution of tea (on which the effective duty is 22.4%) alleviates the impact, consideration should be given to reduction of the coffee duty.

The large group of consumer soft goods classified as textiles and textile products bears high duties and yields a large revenue. The eleven most important, yielding an aggregate revenue of LL. 17,578,000 in 1968, are as follows:

* Many food products carry high rates, e.g., tomatoes carry a minimum duty of 36%. But this is nominal, since costs in Lebanon are low in comparison with foreign costs.

Textiles, highest eleven items, 1968

		Revenue 1, 00 LL.	Effective rate
53/11/12	Wool cloth	2, 276	32. 6
53/11/19	Wool cloth, other	1, 989	33. 2
56/07/31	Synthetic cloth and thread, other	1, 802	36. 5
55/09/72	Cotton cloth, other	1, 326	37. 0
58/04/22	Velvet, plush, etc.	1, 211	26. 8
56/07/24	Synthetic cloth and thread, over 180 grs.	1, 388	56. 5
56/05/14	Synthetic thread, other	1, 269	29. 0
60/01/21	Hosiery	1, 702	35. 8
60/05/29	Outside clothing, etc., other	2, 054	38. 2
60/05/31	Outside clothing, wool or hair	1, 107	31. 1
63/01/12	Blankets	1, 454	31. 2
		<u>17, 578</u>	

The aim and justification of these duties is industrial development, and what has been achieved cannot be appraised here. The continuance of large imports over a substantial tariff means that domestic prices have been raised by the extent of the tariff.

The duties on consumer non-durables against which the charge of regressiveness cannot be brought are those on alcoholic beverages and tobacco. Here by far the largest revenue producers are whiskey and cigarettes. It will be convenient to look briefly at the whole of each group.

those of arak are insignificant. The effective duty on whiskey now must be well over 200%. The prices of whiskey in Lebanon are still low compared with those of Western Europe, and the evidence is that demand is price-inelastic. Since consumption is, in the main, by high and middle-income people, and since it is "voluntary" in the sense that cheaper substitutes are available, the incidence of the duty is progressive. Would higher duties have detrimental effects on tourism? In my opinion the direct effect would be insignificant simply because the extra costs are insignificant in the budgets of tourists. Some indirect and impressionistic effects might be felt if tourists came to believe that all charges on them were rising. But this is not a clear and present danger.

Tables 7 and 8 show that the effective rate on gin, vodka, etc., (currently 75% ad valorem) is still below that on whiskey. It would seem that this rate might well be raised to the level of the rates on whiskey. The rates on wines are high. Those duties are protective, and any increase in them should be accompanied by a parallel change in the domestic excises. Only if this is done will the revenue from customs be safeguarded.

Table 9. Customs Revenue
Tobacco, 1968

	<u>1,000 LL.</u>	<u>Percent</u>	<u>Effective rate of duty</u>
Cigarettes	2,045	82.5	17.3
Non-fabricated tobacco	349	14.0	13.7*
Cigars	72	2.9	11.4
Fabricated tobacco	<u>14</u>	<u>.6</u>	8.9
	2,480	100.0	

* Two products are listed (24/01/11 and 24/01/21), the effective rate on one being 26.4%, and on the other 10.8%.

Imports of tobacco products are dominated by imports of cigarettes (although imports of cigars have been growing rapidly). Since 1968 the duties on most tobacco products have been raised by 20%, i. e., those on cigarettes and cigars went up from 203 p. per KN to 250 p. Retail prices are low in comparison with those of Western Europe (although not in comparison with the United States). Tobacco products can be, and are, easily smuggled, and this is an effective deterrent to higher duties. If smuggling can be checked-- and this will be difficult, since legal prices in neighboring countries are much below those in Lebanon--the revenue elasticity of these duties would be high.

Decisions concerning the proper level of tobacco duties can be made only in the light of the overall decisions of the Régie, because the Régie has a complete tobacco monopoly covering production, manufacturing, importing and exporting, and local

marketing.⁽¹⁾ Pricing of tobacco products sold in Lebanon, both local and imported, is determined by the Ministry of Finance, advised by the Régie. The broad objective is maximization of net revenue. The prices set for imports are not, therefore, the direct result of the duties, and the prices of imported cigarettes are considerably higher than would be indicated by the duty.

An important group of non-durable consumer goods is inflammables--petroleum products. Taxation of them is examined in a separate memorandum. Because of an historical hangover, these products are subject to customs duties (as well as excises) although they are not literally imports. The rates are as follows:

		<u>1968 duties</u>	<u>1970 duties</u>
27/10/21	Gasoline	1.42 LP per litre	1.42 LP per litre
27/10/41	Kerosine	1.58 LP per litre	1.58 LP per litre
27/10/51	Gas - oil	Exempt	Exempt
27/10/62	Oil for lubricating and illuminating	18%	18%
27/10/69	Ditto	11%	11%
27/10/71	Ditto	11%	11%
27/11/11	Butane	1,320 LP per 1,000 KM	Same or 18%
27/11/21	Other	8%	Same

⁽¹⁾ A separate memorandum on the Régie has been prepared.

Durable Consumer Goods

Another group of items is consumer durables, such as automobiles, refrigerators, TVs, radios, etc. Most of these items have also a business use, and this complicates both decisions and statistics concerning the appropriate tax rates. Most consumer durables are "luxuries," bought by middle and high-income people; duties and excises on them are not regressive. But when these goods are used in business, taxes on them add to costs and distort production. The 1968 customs revenue from the ten items with the highest yield is given in Table 10, and the 1968 and 1970 duties are given in Table 11.

Table 10. Customs Revenue from
Important Consumer Durables, 1968

		Revenue 1,000 LL.	Effective rate
87/02/11	Autos for transport of persons	17,495	32.7%
87/02/41	Autos, other	1,608	10.5
87/06/31	Auto parts	1,573	17.7
--	Other transport equipment	750	--
40/11/11	Tires, tubeless	1,371	10.5
84/15/39	Refrigerators	1,674	17.3
85/15/11	Radio and broadcast- ing equipment	1,509	25.8
85/15/21	Television sets	1,294	31.8
73/36/00	Stoves for central heating, portable stoves	1,152	17.6
97/03/21	Toys, other	1,025	35.0

Table 11. Duties on Important Consumer Durables

		1968	1970
87/02/11	Autos for transport of persons	140 LP per KN Reconstruction tax: Weight less than 1,500 kgs. 20 p. per KN 1,500-2,000 kgs. 30 p. per KN 2,000 and over kgs. 40 p. per KN	Ditto or 32% Same
37/02/41	Autos, other	100 LP per KN	Same
87/06/31	Auto parts	25 LP per KN (minimum 18%)	Same
--	Misc. transport equipment	13-32%	Same
40/11/11	Tires, tubeless	11%	Same
84/15/39	Refrigerators	13%	Same
	Reconstruction tax	4%	Same
35/15/11	Radio and broadcasting equipment	23%	35% or LL 7 on each item
	Reconstruction tax	4%	Same
85/15/21	Television sets	23%	35% or LL 100 on each item
	Reconstruction tax	4%	Same
73/36/00	Stoves for central heating, etc.	13%	Same
97/03/21	Toys	13%	35%

Automobiles: Duties on them are purely for revenue.

Until recently the duties on autos were based on weight which meant that a vehicle (Mercedes) with a light weight in relation to its ^{price} ~~weight~~ was favored in comparison with e.g. a Chevrolet. At present, however, an alternative ad valorem rate is assessed, the actual collection to be

promoting industrial development by protecting domestic producers and the objective of providing cheap primary materials.

Conclusion

My strong impression is that administration of the tariff is efficient. The customs officers think of themselves as skilled workers serving an old agency with a sound tradition. The method of valuation is accepted and regarded as fair by importers; disputes over the classification in which imports should be placed are infrequent; port charges are reasonable; clearance is prompt.

With respect to tariff policy, the case is mixed. Overall, the rates are quite low, especially on foodstuffs, but high duties are applied in many directions to promote industrial development. Although the evidence is that the trade balance has been improved, the costs to the economy in the form of higher prices, goods and services of inferior quality, and distortion in use of resources, are concealed. Moreover, use of the tariff to promote industrial development creates conflicts with its use to secure revenue.

The Customs Board does not appear to have studied and established criteria for the application and rejection of protective duties. While the Board is served by a staff, it tends to operate in response to short-run political pressures and to make only modest use of economic technicians. Because of this inattention to principles, and because of the conflict and multiplicity of objectives, administration of the tariff

has become complicated and costly. A very large number of tariff items, wholly apart from any protective intent, yield an insignificant revenue. The tariff should be scrutinized, item by item, with an eye to merging items into related categories. Sometimes items should be placed on the free list. The nation would gain by reduced direct costs of customs administration and by reduced indirect costs through easier compliance and greater expedition. Moreover, the device of favoring imports for certain uses through application of differential rates--a low rate for favored uses and a high rate for other uses--should be employed only when the reasons are very strong. And when the device is employed, the low rate (now 1-2% plus the municipal or port tax of 3.5%) should be raised to 5%. The form of present municipal tax should be revised so that it does not apply to items otherwise exempt from duties. Duties on other goods could be raised (perhaps by a uniform percentage) to offset the revenue loss. Consideration should be given also to merging the separate duties of the Reconstruction Tax with the regular duties.

There are signs that the Customs Board, which has the responsibility of balancing pressure from industrialists for tariff favors against pressures from importers and merchants for an open economy, has recently leaned toward the industrialists. Indeed, the ranks of the industrialists have been recruited from the ranks of importers who became aware that the volume of certain imports,

coupled with the prospects of government assistance, would justify a shift of occupation. In short, the Customs Board has allowed fiscal considerations to recede in relative importance.

Summary of Major Recommendations

Clear-cut and consistent tariff policies can be followed only in pursuit of a single major objective. When multiple objectives are pursued, conflicts occur and compromises must be accepted.

1. For this reason, policy conflicts concerning the tariff should be under constant scrutiny by the Customs Board so that the best compromises are chosen. For example, the Board should consider whether or not the present protective duties on steel and iron bars and on sawed wood are worthwhile in view of the higher costs they place on domestic users of these products. The Board does not seem to have studied and established criteria for rejection or application of protection. It operates too much in response to short-run political pressures; it complicates administration; it makes too slight use of economic technicians.

2. The tariff contains many dutiable items with a low yield--811 items in 1968 each yielded less than LL. 10,000. When such items are not domestically produced and when imports are small, they should be placed on the free list or merged into related categories.

3. Some items are low-yield because, even when imports are large, two (or more) rates are applied, one low and one high. For

example, a low rate of 1-2% is often applied to imports of equipment destined for agricultural or industrial use, and a much higher rate of 18-25% is applied to "other" uses. Except when the policy or equity reasons for applying differential rates are very strong, such rates should be avoided because they complicate administration and impair revenue.

4. If, for policy or equity reasons, this differentiation is retained, the low duty should be lifted to 5% so that an increased revenue will justify this retention.

5. A good number of items carry a straight 1% rate. This rate could well be lifted to 5%, or, alternatively, the items could be placed on the free list.

6. The Municipal or Port Tax of 3.5% on imports by sea or air should be revised so as not to apply to exempt goods. Duties on other imports could be raised (perhaps by a uniform percentage) to offset the revenue loss. Consideration should be given also to merging the separate duties of the Reconstruction Tax with the regular duties.

7. Imported foodstuffs of wide consumption not domestically produced should either be on the free list or bear a low duty, for the sake of equity. The major duty in the tariff of Lebanon which infringes this rule is that on unroasted coffee which, in 1968, carried an effective duty of over 50%. This duty should be lowered.

8. The loss of revenue here could be made up by the larger revenue if recommendation 4 is followed. Moreover, more revenue could and should be obtained by raising the current duties on gin, vodka, etc., to the level of the duties on whiskey.

9. The duties on automobiles and parts are purely revenue duties. Their level is moderate and could well be lifted if more revenue is desired.

10. The protective duties on wine should, in the future, not be raised unless accompanied by a parallel increase in the excises. The purpose would be to safeguard the revenue from the wine duties. Indeed, unless additional protection to any good which now carries an excise is intended, duties should not be raised without a parallel increase in excises.

Appendix

Reconstruction Tax:
Principal Customs Duties of

09/01/11	Coffee, unroasted	K. E. 10 p.
09/01/21	Other coffee	K. E. 10 p.
18/06/31	Sweets containing cocoa	K. 1/2 E. 20 p.
22/05/11	Champagne	11%
22/05/21	Wines, more than 15°	11%
22/06/00	Vermouth	11%
37/07/23	Cinema films	K. N. 300 p.
37/07/26	Films, other	K. N. 1,000 p.
71/16/00	Jewelry, fancy	7%
73/40/31	Caskets	28%
74/19/11	Misc. copper pieces	7%
75/06/11	Misc. nickel pieces	7%
81/04/22	Misc. metal pieces	7%
83/06/11	Ornamental objects	7%
83/10/00	Types of pearls	7%
84/15/19	Air-conditioning equipment	4%
84/15/21	Non-electric refrigerators	4%
84/15/39	Equipment for refrigerators	4%
85/15/11	Radio equipment	4%
85/15/21	Television equipment	4%
91/01/00	Watches	4%
92/11/21	Phonographs, etc.	4%
93/04/11	Types of firearms	4%
93/06/22	Types of firearms	4%
93/06/29	Types of firearms	4%
97/03/21	Model toys	4%
97/04/11	Playing cards	10 p.
97/04/21	Other playing cards	4%
98/10/11	Lighters	7%
98/10/21	Other lighters	7%
98/12/00	Types of combs	7%

General Expenditure Taxes

The major types of broad-based taxes on sales for consumption are: (1) the turnover tax, (2) the expenditure tax, (3) the manufacturers' sales tax, (4) the retail sales tax, (5) the value-added tax. In what follows attention will be concentrated on (3), (4) and (5) especially on (5). The turnover tax and the expenditure tax will be passed over lightly because they do not have any relevance for Lebanon.

The Turnover Tax

This tax applies to all business transactions through which a tangible good passes. (It does not extend to transactions in intangibles as would a transactions tax, or to services as would a gross income tax). A good which passes through many stages is, therefore, taxed more heavily than one which passes through few stages, and the cumulative amount of tax on a good at the final stage depends on the prior number of turnovers. The tax provides a strong incentive to vertical integration because, by such action, market transactions are eliminated. Since different industries have "naturally" different degrees of integration, the tax has an impact which is arbitrary and which is damaging to economic efficiency.

The multiple taxation of successive turnovers can be, and has been, avoided by use of a single-stage tax at the level of the manufacturer or the wholesaler or the retailer. It can be avoided also by a tax which limits the tax base to the value-added by a firm.

The Expenditure Tax

This tax, which had only brief and unsuccessful application in India and Ceylon, falls to the ground because of insuperable difficulties of administration. It is the only general expenditure tax which places a progressive tax on consumption and which, therefore, aims directly at the goals of equity and growth. But if, as seems certain, this tax is beyond the administrative strength even of nations with good records of tax compliance, it has no relevance for Lebanon.

The Manufacturers' Sales Tax

This tax which has had, and still has, successful use, is on sale of goods by manufacturers. The very great administrative advantage of such a tax is the relatively small number of vendors-taxpayers - on whom the tax is levied. The size of the firms, and the nature of their business, make it likely that they will keep adequate tax records.

Determination of who is a manufacturer and what is manufacturing raises problems, and a strict definition (as in Canada) includes firms which make only minor changes or alterations in the products they handle, i. e. firms which mainly perform wholesale or retail functions. Moreover, some firms which are mainly manufacturers perform distribution functions. If the tax rate is applied to the actual prices received by manufacturers when they sell at the wholesale or retail level, the tax would be heavy in comparison with the tax on the same products sold at the manufacturers level. This is an administrative problem of some complexity. It is handled usually by setting "constructive" tax bases, or by allowing discounts, in order to equalize taxable prices.

A major criticism of the manufacturers sales tax is that it induces "pyramiding". A tax collected prior to the stage of final consumption cumulates the costs of subsequent sellers at the wholesale and retail levels because they apply their markup to these increased costs. Only a tax collected at the final level, i. e. a retail sales tax on sales to the ultimate consumer, avoids this difficulty.

A simplified illustration follows. Suppose the value of the product of a manufacturer is 100, and that this value rises to 125 at the wholesale

Aggregate Value of Product

	<u>Before manufacturers'</u>	<u>After manufacturers'</u>
	<u>Tax</u>	<u>Tax</u>
Stage I	100	110
Stage II	125	137.50
Stage III	200	220

and to 200 at the retail level. Suppose a manufacturers sales tax of 10% is imposed. If values at each subsequent level change proportionately, the value at Stage III becomes 220. The same revenue of 10 could be raised by a retail tax of 5% with a value increase from 200 to 210.

The major and very important advantage of a manufacturers' sale-tax in comparison with any other general sales tax is the small number of taxpayers. It may be noted that France in 1936 imposed a single-stage manufacturers sales tax. By a series of subsequent steps this was gradually converted into a value-added consumption tax.

Retail Sales Tax

The merit of this tax is that it is imposed at the stage when goods pass out of the productive process into consumption. For this reason distortion of the productive process is avoided. Sales for resale are excluded

from the tax base, and so also are most sales to industrial consumers. This latter exclusion is imperfectly provided by two common tests, the ingredient test and the direct use test.

The ingredient test removes from the tax base property that becomes an ingredient of a product to be sold; the direct use test removes property used directly in producing goods to be sold. But neither rule excludes completely from the tax base sales of supplies used in industrial processes. Sales of office supplies and of fuel, for example, are included in the base. While complete exemption of goods that have a consumption and a production use would not be justified, the result of inclusion in the base is multiple taxation. The tax on the goods used in production is shifted forward and becomes a cost of the relevant consumer goods which, in turn, are taxed when sold at the retail level. The basic source of this difficulty is that some articles can be, and are, used either for production or consumption purposes. The difficulty can be met, if not solved, by administrative rules which suit the situation of each particular nation. All sales to business firms cannot be exempted or excluded because this would open a large loophole by way of personal consumption of business owners. Besides, records of retailers are not so complete as to show the prospective use of articles at the time of sale.

The retail sales tax is regressive, and this has been the most weighty criticism of it. A tax on general consumption must absorb a larger percentage of income from poor than from rich persons, and therefore the effective rate, as a percentage of income, is higher for the poor man than for the rich. The extent of the regression depends on the coverage of the tax. Many governments have exempted food, clothing, medical supplies, etc., thereby reducing regression. But such moves complicate administration and compliance; they induce or permit evasion. A firm which sells exempt and non-exempt articles must distinguish between them in its accounts. Moreover, the definition of food, medicine, clothing, etc. raises problems. Some food is luxurious consumption. Borderline cases require arbitrary decisions. Is or is not all candy to be regarded as food? All soft drinks? Recently in the United States other methods of remedy for regressivity has been utilized. One is to give a flat per capita credit (\$30-40) against the income tax liability of individuals. Persons who have no income tax liability are given a cash payment equal to the per capita credit.

The retail sales tax requires that adequate records be kept by registered retailers. Exemptions complicate record-keeping and yet make them the more necessary. Exemptions are the bane of tax administrators. When misapplied, they fail to serve the aim of equity, and they

bring a loss in revenue productivity. When applied with accuracy they increase the costs of administration and, even more, the costs of compliance by retailers.

A satisfactory retail sales tax for Lebanon would not now seem possible because of the great number of small outlets which do not, and cannot be forced, to keep accurate records. Regressivity also would be a problem, and efforts to alleviate it would introduce other inequities. Exemption of small retailers from the tax would raise the question of where to draw the line. Setting a high base figure of gross retail sales would injure the revenue; setting a low figure, assuming it could be enforced, might lead to a taxpayers revolt. Fifteen years ago (in 1955) the uprising of the Poujadists in France received international attention. The uprising was responsible for the introduction of an estimate procedure (forfait) for assessing small retailers - those with sales of commodities not in excess of 15 million old francs, and sales of services not in excess of 4 million old francs.

Value- Added Tax

The most recent addition to the types of general sales tax is the value-added tax placed on firms at each level of production, using as a base the net value added. For each firm the base is sales receipts from current output minus payments to other firms. The tax takes two main forms, income and consumption, the difference depending on the treatment of capital goods. The income type is imposed on sales receipts minus purchases except purchases of depreciable assets (investment); the latter is imposed on sales receipts minus purchases including purchases of depreciable assets. In national accounting terms the income-type base (assuming no exemptions) is net national income, i.e. income after capital consumption allowances; the consumption-type base is current consumption, and it is smaller than the income value-added base by the amount of net current investment.

The value-added tax has had the longest life in France. It is currently being extended to other Common Market countries. It is being given much attention in the United States and the United Kingdom by those who believe that direct taxes, especially income taxes, have been over-utilized, and that economic growth would be stimulated and balance of payments problems solved by substitution of a value-added tax for taxation of corporation income. This last opinion is given special point by the fact that, under the GATT agreements, the value-added tax can be rebated on exports, while income and profits taxes cannot. Most of those who advocate replacement of a corporation income tax by a value-added tax assume that the corporation

income tax is not shifted. This assumption has been questioned (notably by M. Krzyanick and R.A. Musgrave in the Shifting of the Corporation Income Tax), but it is still adhered to by most students of Public Finance. If the corporation income tax is shifted forward on the product, the favorable effects on the balance of payments from a switch to a value-added tax of the income type would occur, but without much encouragement of investment incentives. A value-added tax of the consumption type, even if shifted, would increase investment, favoring savers in comparison with consumers. A non-shifted value-added tax - and this is the assumption favored - would provide an even greater stimulus to investment.

In what follows attention will be given to a value-added tax of the consumption type, especially the French experience. This tax is a major French tax, yielding one-quarter of the tax revenue.

The French Experience

A general turnover tax, enacted in 1920, collapsed during the 1930's. A manufacturers' sales tax (taxe a la production) was imposed as a substitute in 1936. Agriculture and the professions were excluded (as they had been from the turnover tax), and artisans were exempt. Moreover, small producers were allowed to use a forfait procedure of computing the tax. The tax applied to the wholesale value at the manufacturing stage, with discounts for direct sales at retail by manufacturers.

This tax, by gradual modifications, was transformed into a consumption-type tax by the allowance of tax credits equal to the tax paid by firms on purchases of investment goods (100% credits in 1954), and the same value-added tax was invented. Since then application of the value-added principle has been extended. Most food products are exempt, and sales by farmers of their own products are mostly excluded. The rates on other consumption products are differentiated with higher rates on luxuries.

Computation of tax: A firm, after reckoning the tax liability on its sales, credits (subtracts) the value-added taxes already paid on its purchases. Credits are granted not only on purchases of current items, but also on purchases of capital goods. In short, no distinction is made between goods which are currently expensed and those capital goods which are depreciated. This means that the tax falls only on sales for consumption. Figures for these prior taxes are stated on invoices provided by the suppliers of the firm. The taxable price to the manufacturer is the wholesale price. If a manufacturer makes retail sales, he is allowed to discount the retail price for calculation of tax. Large retailers - those with sales of 400,000 NF - have to pay a value-added tax, their base being calculated at a discount; the intention is to discourage them from engaging in wholesale and manufacturing functions. One limitation on the tax credits has been criticized.

This is called the "buffer rule" by which, when credits are in excess of the tax due on sales, no cash refund or carryover is permitted. The rule is intended to block evasion by understatement of sales. It means however, that a firm which has a low value-added, and which purchases a considerable amount of items on which a tax has been paid, is treated unfairly.

The exemption from tax of purchases of investment goods was adopted in order to stimulate economic growth. The objection has been raised that this action discriminates in favor of capital-intensive industries and against labor-intensive ones. This is correct; the aim is to give an incentive to investment.

A questionable feature of the French tax is the progressive rates. These are an administrative nuisance. It would seem that differential taxation of luxuries could best be done by exices.

Administration: The retail sales tax has the fault that, to be effective and fair, it should cover a large number of firms, many of them small. This increases both administrative and compliance costs; if administration and compliance are ineffective, the whole tax is imperilled. A value-added tax applied at the manufacturers level reduces this problem. In the United States a federal retail sales tax would probably have seventeen times as many taxpayers as a single-stage manufacturers sales tax, and nine times as many as a wholesalers sales tax. Under the French tax large retailers are brought under the tax, while small ones are exempted by administrative decree. This exemption is less costly in revenue than exemption under a retail sales tax because it removes from the tax base only the value-added by small firms, whereas under a retail sales tax the exemption removes the total value of their sales.

The value-added tax in France has administrative complications introduced by numerous exemptions and differential rates. These should be avoided, and they might well be in a country which started without the constraints imposed by prior sales taxation.

Advantages Claimed for French Tax

As a consumption-type tax it favors business investment; it gives an incentive to introduction of labor-saving equipment and raises the relative cost of labor in comparison with capital. The tax is a stimulus to economic growth.

Motor Vehicles Revenue

The vehicles registered March 31, 1970 were as follows:

Private tourism cars	121,393	81.8%
Public tourism cars	10,645	7.1
Private trucks	11,195	7.5
Public trucks	3,477	2.4
Private buses	1,155	.8
Public buses	<u>618</u>	<u>.4</u>
Total	148,483	100.0%
Motorcycles	12,133	
Tractors and Public Equipment	4,790	

Examination and driving licence fees: While the major purpose of these is regulation, a secondary purpose is to secure a revenue in excess of administrative costs. The current fee is a flat LL. 15 for an examination to drive cars and LL. 10 for one to drive vehicles or equipment for agricultural or public works use; the fees for driving licences are LL. 50 and LL. 10 (see Appendix 1, section IX, for a list of examination and driving licence fees). The revenue from examination and driving licences in 1969 is estimated at LL. 2,000,000.

Registration, renewal, and net load capacity levies: A first registration fee is levied on all vehicles. On private passenger cars, this fee is:

2% of value up to LL. 6,000

3% of value between LL. 6,000-12,000

5% of value in excess of LL. 12,000.

On public passenger cars, the fee is 1% of value. The purpose of this lower rate is to favor the taxi and the "service." On carriers of goods, the fee is LL. 150 per ton on net load capacity plus LL. 15 for each one-hundredth fraction of a ton.

Annual fees on circulation permits and renewals are levied. These are LL. 10 for most vehicles (see Appendix I, section IV). On carriers (with certain exceptions) with a net load capacity in excess of 1,000 kgs., an annual fee of LL. 25 on each 100 kgs. of the excess is levied. Furthermore, in January 1970 a new annual tax was levied on trucks and private cars of which the net load capacity exceeded 300 kgs. The fees were LL. 30 for each 100 kgs. (or fraction) in excess of the first 300 kgs., and LL. 25 for each 100 kgs. (or fraction) in excess of 1,000 kgs.

Traffic dues*: These are annual fees assessed on private passenger cars and private trucks according to horsepower as follows:

1st year	LL. 8 per engine horsepower
2nd year	LL. 7 per engine horsepower
3rd year	LL. 6 per engine horsepower
4th year	LL. 5 per engine horsepower
5th year	LL. 4 per engine horsepower
6th year and thereafter	LL. 3 per engine horsepower

This scale was provided in 1970 to replace a scale of LL. 6 per engine horsepower for the first three years and LL. 3 for the next three years.

Reconstruction tax: Since 1956, this has been LL. 2 per engine horsepower.

Municipal tax: A surcharge of 25% on all fees and dues on private cars in all categories is levied for the municipalities (Appendix I, section XIII).

Revenue: In 1969 the revenue from the first registration, the annual renewals, and the traffic dues--all lumped as fees for

* International transport vehicles equipped with diesel engines pay additional annual fees of LL. 10 per engine horsepower.

mechanical inspection--was LL. 26,000,000 of which 60% is estimated to come from the traffic dues. The LL. 26,000,000 was distributed as follows:

Reconstruction	LL. 6 million
Municipalities	LL. 4 million
Treasury	LL. 16 million

The two new annual taxes imposed in 1970 will yield LL. 2,750,000, of which the tax based on net load capacity will provide LL. 1,250,000, and that on horsepower LL. 1,500,000.

Vehicle sales: The excises on these are as follows:

<u>Private vehicles</u>	2% on value up to LL. 6,000
	3% on value LL. 6,000-12,000
	5% on value in excess of LL. 12,000
<u>Public vehicles</u>	1% on value of the car and its plates

The estimated revenue in 1969 was LL. 5,000,000.

Exemptions: Vehicles and equipment owned by the state and the municipalities, the U.N. agencies, and the diplomatic and consular corps are exempt from fees (Appendix I, section XII).

Customs Duties: The duties on motor vehicles and parts are purely for revenue. Their yield is, by a very wide margin, the largest of any category in the tariff. In 1968 it was LL. 21,426,000

of which LL. 17,495,000 was from autos for the transport of persons. At this time, these duties were based on weight, which meant that vehicles with a light weight in relation to price were favored.*

Taxes on benzine: While these taxes are not regarded in Lebanon as part of a system of taxation of highway use, in view of the position to be taken by me, it will be advantageous to summarize them here. The taxes fall into two parts, an excise of LP. 19.19 per litre in 1968, and a customs duty of LP. 1.42 per litre, yielding respectively LL. 87.9 million and LL. 6.1 million--a total of LL. 94.0 million. In 1970 the expected yield is LL. 100 million. Almost all of this revenue comes, of course, from use of motor vehicles. Since the present annual revenue from motor vehicle ownership (customs, mechanical inspection dues, sales taxes, etc.) is approximately LL. 60 million, the total tax take is LL. 160 million.

Appraisal

The various taxes and fees outlined above implicitly take account of ownership and of incremental costs, i. e., that some types

* The weight basis was unfavorable to American cars of which imports are currently about 15-16% of total imports by number. Before World War II, American cars were dominant in Lebanon. The post-war decline is to be explained by many factors other than the basis of the tariff. There was, for many years, a dollar shortage; the large size and heavy weight of American cars were not suited to Lebanese roads and traffic.

of vehicles put heavier costs of highway construction and maintenance on the government. Trucks, and especially heavy trucks, necessitate more expensive roadbeds and bridges; they damage highways more than passenger cars. These factors have been studied with great care by highway engineers and economists, and refined methods of measuring incremental costs and of allocating charges have been devised. So far as I can discover, Lebanon has relied on French studies, rather than on studies of its own.

An issue debated in Lebanon has been whether the base of the annual traffic dues should be value or horsepower. Since value is used as the base for the first registration fees, the customs duties, and vehicle sales, it might seem logical and convenient to make it the base rather than horsepower, and Mr. Ishac, the Head of the Vehicles Registration Department, has argued for this step. But this has not been done. The arguments against this change were (a) that a changeover would take time and be confusing; (b) that reliable value figures for vehicles already in operation, as distinct from new cars, did not exist; and (c) that horsepower was a more objective base than value. These arguments are unconvincing. With respect to (a), a changeover would, of course, take time and be confusing, but this can be said of any change. With respect to (b), satisfactory schedules of value for old cars can easily be prepared on the premise that cars depreciate, for example, by some yearly percentage. With respect to (c),

Moreover, a value base adjusts to fuel changes, whereas a horsepower (or weight) base, unless revised, gets out of date.

horsepower is no more objective than a value base which starts with imported value, and it is more equitable. Accordingly, I recommend that steps be taken to move to a value base, effective in three years.

It should be noted that Lebanon does not utilize the so-called highway-user or ton-mile tax on carriers (based on mileage and weight). This tax, which is widely used by the American states (with separate schedules for different types of carriers) imposes a heavier burden on heavy vehicles on the premise that the other levies do not impose an adequate burden on them. The likelihood is that commercial vehicles, and especially trucks, are not taxed enough. Engineering and economic studies should be made to establish what are incremental costs imposed by various types of vehicles with a view to allocating levies according to the findings.

I have the strong impression that the formalities connected with motor vehicle ownership and use in Lebanon are complicated and bureaucratic. An obvious manifestation is the numerous middlemen who frequent the area around the registry, offering their services. Payment for these services takes money out of the pockets of taxpayers with no benefit to the Treasury. Complicated formalities also increase the opportunities for officials to make illegal deals. I do not know that anything of this sort happens; I simply point out that the administrative set-up encourages and makes it possible. One major reason for the complicated formalities is that every conceivable change--whether in

plates, or permits, or licences--creates new formalities. Officials are aware of the burden put upon car-owners, but they argue that simplification might allow evasion and that the public prefers an established routine and is annoyed by any change. While I do not have enough knowledge of the complicated problems of this field to suggest specific changes in the formalities, I believe that the Registration Department should be instructed to prepare a plan which aims directly at simplification.

The proposition that highway-user taxes are special benefit taxes has, as yet, not been given serious consideration in Lebanon. It has, however, long been accepted in the U.S., Canada, and some nations of Western Europe. The proposition has great merit, and its application to Lebanon should be studied. But a move of this sort requires much preliminary work. Specifically, it requires (a) classification of roads of a country according to categories of use; (b) allocation of future costs of highway maintenance and construction for each type of highway in an appropriate way. A brief memorandum on these matters is attached as Appendix II. The purpose is to indicate not only the logic of regarding highways as a special (rather than a general) function of government, but also the detailed steps which must be taken.

APPENDIX 1

Table of Fees

on

Various Types of Cars and Vehicles

I. Registration Plates:

- | | | |
|--|---|--|
| 1. Registration plates (2) plus installing and sealing: | £L 20 | Fixed |
| 2. Registration plate (1) for motorcars and vehicles utilized in agriculture and public work: | £L 6 | Fixed |
| 3. Plate for operating motor vehicles destined to agriculture and public work, or one registration plate for trailers: | £L 10 | Fixed |
| 4. Dealer's plates (2): | £L 250 | Fixed |
| 5. Transit plates (2): | £L 50 | Fixed |
| 6. Dealer's plate (1) for motor cars and vehicles utilized in agriculture and public work: | £L 50 | Fixed |
| 7. Transit plate (1) for motor cars and vehicles utilized in agriculture and public work: | £L 25 | Fixed |
| 8. Dealer's or transit plate (1 or 2) given to individuals exceptionally: | £L 50 each time, including circulation permit fee | |
| 9. One plate for bicycles, animal-drawn carriages, and hand-drawn wheels and equipment: | £L 50 | Fixed; Municipality collects this fee. |

II. Replacement of Damaged or Lost Plates:

- | | | |
|--|-------|-------|
| 10. One plate for cars, motor cars and vehicles utilized in agriculture and public work, and trailers: | £L 10 | Fixed |
| 11. One dealer's or transit plate for cars, motor cars and vehicles utilized in agriculture and public work: | £L 50 | Fixed |

12. One plate for bicycles, animal-drawn carriages, and hand-drawn wheels and equipment: £L 5 Fixed Municipality collects this fee.

III. First Registration Fee

13. For each private car of all categories and for each bicycle: 2% ad valorem up to £L 6000
3% on the portion between £L 6000 and £L 12,000
5% on the portion exceeding £L 12,000

In connection with private tourism cars that are registered with the Vehicle Registration Department on a temporary entry basis: 1% ad valorem for a period of 3 months. The fee becomes 2% ad valorem in case the period exceeds 3 months.

14. For each public car: 1% ad valorem, including the price of the plate
15. For each bicycle, animal-drawn vehicle, or hand-drawn wheels or equipment: 1% ad valorem. Municipality collects this fee
16. For each private tourism car authorized to transport goods, each private truck, and each motor vehicle destined for transportation of goods: in addition to the fee fixed in (13) above: £L 150 per ton of its net load capacity + £L 15 per fraction of ton from 1 to 100 kgms. Fixed
17. With the exception of such trucks as are registered in accordance with the provisions of Paragraphs (1) and (2) of Article 127 of this Law, there shall be levied, in addition to the fees stipulated herein, an annual fee of £L 25 on each 100 kgms. or fraction thereof of the net load capacity that exceeds 1000 kgms. The first 1000 kilograms shall remain exempted from this fee.
18. The registration fee shall be collected at a rate in proportion to the value stated in the supporting documents and declaration submitted by the registration applicant. The administration shall have the right to ascertain the validity of the said declaration by all the means of ascertainment and by direct estimation, whenever necessary.

Anyone who seeks to diminish or tries to diminish the registration fee through submitting a false declaration or incorrect or forged documents shall be liable for a fine that shall be equal to the double of the fee which eventually falls due on the car or vehicle.

IV. Fees on Circulation Permits and Renewal:

- | | |
|--|--|
| 19. Public and private cars, motor cars, agricultural vehicles, and public work equipment: | £L 10 per year |
| 20. Bicycles, animal drawn vehicles, and hand-drawn wheels and equipment: | £L 5 per year
Municipality collects this fee. |
| 21. Circulation permit authorizing the use of dealer's plates (2): | £L 200 per year |
| 22. Private buses destined for international transportation: | £L 250 per year |
| 23. Private tourism cars authorized to be rented by tourists: | £L 100 per year, in addition to the imposed fee. |
| 24. Vehicles with particular use as defined in Paragraph 5 of Article 122, with the exception of vehicles equipped with winches: | £L 200 per year, in addition to the imposed fees. |
| For winch-equipped vehicles: | £L 1000 per year |
| 25. International circulation permit: | £L 25 per year |
| 26. Replacement of lost circulation permits for cars: | £L 25 every time |
| 27. Replacement of lost circulation permits for motorcars, vehicles, or equipment for agricultural or public work uses: | £L 10 every time |
| 28. Replacement of lost circulation permits for bicycles, animal-drawn carriages, hand-drawn wheels and equipment: | £L 5 every time
Municipality collects this fee. |

V. Private Cars Fees:

- | | |
|--|--|
| 29. Private tourism cars, buses, or trucks; motorcars, and vehicles belonging to the category defined in Paragraph 5 of Article 122: | £L 8 per engine horsepower for the first year
Fee to be reduced at a rate of £L 1 per year until it reaches, and stops at, £L 3 per horsepower. |
|--|--|

الجمهورية اللبنانية

مكتب وزير الدولة لشؤون التميمية الإدارية
مركز مشاريع ودراسات القطاع العام

- 4 -

30. Each year, the ministers of finance and of the interior shall issue a decision fixing the period of payment of the fees.
31. Fees shall be collected pro rata beginning from the date on which the vehicle is put into circulation, with the fraction of month computed as a whole month.
32. Fees falling due on such vehicle as is withdrawn from circulation shall be collected pro rata on the basis of the period during which the said vehicle has been in circulation. The fraction of month shall be considered one whole month.

In case the fee thereon has been paid for a whole year, the proportion of the fee for the period remaining after withdrawal from circulation shall be refunded to its owner, provided that, in both cases, the two registration plates and circulation permit are surrendered.

33. Cars or motorcars that are officially registered with a foreign country, or that are lost, or that become unfit for use in that country, for any reason, shall be considered in the same status of a vehicle or motorcar finally withdrawn from circulation, beginning from the date of its exit from the Lebanese territories.
34. The owner of such car or motorcar as is subject to the fee stipulated in (29) hereof who fails to pay the said fee on the dates appointed by decision of the ministers of finance and of the interior shall, in addition to the fine imposed on the delay of mechanical inspection stipulated in Article 300, be liable for a fixed fine of £L 25, to which shall be added a fine of 10% of the amount of the fee imposed for each month of delay following the first month, provided that the total amount of fines during any one year does not exceed in any case the double of the imposed fee.
35. Any private car (tourism, bus, or truck), or motorcar on which no circulation fees are paid for consecutive years, and that has not been sent for mechanical inspection on the appointed dates shall spontaneously be considered withdrawn from circulation and shall have its registration cancelled.

VI. Fees on International Transportation Vehicles Equipped with Diesel Engines

36. In addition to the fees imposed on private cars in the preceding section, an additional fee shall be collected from these vehicles:

£L. 10 per year
per horsepower
37. The fee shall be collected in January and July every year.

48. For giving a car driving licence:	£L 50	Fixed
49. For giving a motorcar driving licence:	£L 20	Fixed
50. For giving a licence to drive agricultural and public work vehicles and equipment:	£L 10	Fixed
51. For substitution of an international driving licence for a Lebanese driving licence:	£L 100	Fixed
52. For any addition to the driving licence:	£L 25	Fixed
53. For giving an international driving licence which is given only to holders of Lebanese driving licence:	£L 25	Fixed
54. Replacement of a lost driving licence for cars:	£L 15	Fixed
55. Replacement of a lost driving licence for agricultural and public work vehicles and equipment:	£L 10	Fixed
56. Replacement of motorcar driving licence:	£L 10	Fixed

X. Guaranty and Mortgage Fees

57. Guarantee or mortgage fee:	0.50% of the amount of guaranty or mortgage
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XI. Agricultural and Public Work Vehicles and Equipment Sales, Guaranty, or Mortgage Fees

58. Deeds of sale cash or by installment or guaranty or mortgage contracts whose contents not exceeding £L 2500:	£L 10	Fixed
Deeds or contracts between £L 2500 and £L 10,000:	£L 20	Fixed
Deeds or contracts between £L 10,000 and £L 50,000:	£L 50	Fixed
Deeds or contracts exceeding £L 50,000:	£L 100	Fixed

The stipulations of (18) hereof shall be applied for ascertaining the amounts contained in such deeds and contracts.

XII. Exemptions

59. Shall be exempted from the fees stipulated herein:

- All cars, motorcars, bicycles, agricultural vehicles, and public work equipment belonging to the state, municipalities and public agencies pertaining to the state and municipalities;
- Cars, motorcars, bicycles, agricultural vehicles, and public work equipment belonging to U.N. agencies;
- Cars, motorcars, and bicycles belonging to the diplomatic and consular corps on condition of reciprocity; the latter and members of their families are also exempted from fees on examination, driving licence, and substitution of international driving licences for Lebanese driving licences, on condition of reciprocity.

XIII. Municipal Fees

A fee equal to 25% of the amount of fees imposed on private cars of all categories and on motorcars shall be collected on behalf of the municipalities.

The addition relative to the municipal fees stipulated in Article 70 of Legislative Decree No. 68, dated 8/5/1968, shall be cancelled.

Reconstruction Tax: Since 1956 it has been L.L. 2 for each engine horsepower.

Decree No. 11547: An annual tax on trucks and private cars of which the net weight exceeds 300 kgs. was imposed in 1970 as follows:

L.L. 30 for every 100 kgs (or fraction) in excess of 300 kgs.

L.L. 25 for every 100 kgs (or fraction) in excess of 1,000 kgs.

APPENDIX II

The Common Pattern of Taxing Motor Vehicles in the U.S. is as follows:

- 1) An annual fee is levied on persons for the right to operate a vehicle on the public highways. The major purpose is regulation, but a substantial revenue in excess of administrative costs can be obtained. While this fee is usually at a flat rate, occasional differentiation is found, e.g. a higher fee for persons under 21 years of age, or for a chauffeur's licence.
- 2) An annual tax is imposed for registration of the vehicle with division of vehicles into (a) passenger cars and (b) carriers of passengers or freight. The base used for the tax on passenger cars may be weight, horsepower, value, age, or some combination. The tax is usually progressive in the sense that the more valuable and heavier car will carry a higher rate.
- 3) A highway-user tax is levied on carriers with separate schedules for taxis, busses, trucks, truck-trailers, oil-tank trucks, vans, etc. The tax base varies, but usually is gross weight (the vehicle and its authorized load). Again the tax is usually progressive. Often commercial carriers (used in the business of transporting persons and property upon the public highways for gain) are split off from private carriers and subjected to different taxes. Frequently a supplementary ton-mile tax is imposed on heavy trucks.

4) Besides taxation of motor vehicles, there are motor vehicle fuel taxes, the major one being the tax on benzine.

Highway -user taxes as Special Benefit Taxes. In Lebanon, and some other countries, the position is taken that these highway-user revenues are available for general use and that there is no necessary relationship between specific revenues from highway use and specific expenditures on highways. Highways are a governmental function which must compete for appropriations with other governmental functions. Taxes on benzine and on motor vehicles are simply taxes which raise important governmental revenues for general purposes.

In the era before the motor vehicle it was natural to regard highway expenditures as a providing general or collective benefits to the whole society to be financed from general revenues. But nowadays the special benefits provided to highway users by such expenditures, and the special taxes levied on highway users, suggest strongly that the old approach is inappropriate, and that a more sophisticated theory of highway finance is required. This current theory holds that highways are a special, rather than a general, function of government and that an effort should be made to associate the costs of this function with the benefits.

A first step is to classify the roads of a country into categories of use. At one end of the classification are the primary highways, utilized almost exclusively by motor vehicles and of benefit primarily to users of motor vehicles. Below this in the classification will be various types of local roads and access streets which are used by and provide benefits to property owners and non-owners of motor vehicles, as well as to owners. The next step is to allocate future costs of all the parts of the whole highway network in an appropriate way.

As a preliminary, a decision should be made by the legislature concerning the proportion of the cost of each category of roads to be borne by general taxes on the whole community and the proportion to be borne by highway-user taxes. This is subjective decision which, once made, should be subject to infrequent change.

Assume the decision to be that highway-users should bear 90% of future costs of the primary system. How should these costs be apportioned among the different classes of vehicles? One common approach is the ton mile method which attempts to assign costs according to relative use. The measure generally chosen is the gross ton-mile, i. e. the cost of the movement over the highways of one ton for one mile. The charge for each mile of highway use by a passenger car of 4,000 pounds would be one-tenth that of a truck with a gross weight of 40,000 pounds. The ton-mile basis, therefore, allocates costs of providing and maintaining a primary highway system to the

various classes of vehicles according to a measure of use which reflects distance travelled and weight of the vehicle. This method does not require ton-mile taxes; the taxes utilized should be those which can best be administered, such as motor fuel, vehicle registration, etc. Motor fuel taxes alone will not suffice because, while heavier vehicles consume fuel at a higher rate than lighter ones, the taxes on this consumption are not adequate to cover the additional costs attributable to the vehicles. Licence fees which are higher for the larger and heavier vehicles are an acceptable supplementary user charge with respect to passenger cars. For carriers, a highway-user tax based on gross weight is, similarly, a good supplement. What rates of tax to utilize for each type of levy should be determined by analysis of figures of annual mileage and consumption of motor fuel as measures of highway use for each type of vehicle.

In the United States, Canada, and Great Britain the trend with respect to the system of primary highways has been to enlarge the share of cost placed upon users and to reduce the non-user portion. The evidence is that this is economically sound, and that to maintain a substantial non-user share is to give a hidden subsidy to highway users. (See Milton Z. Kafoglis, Highway Policy and External Economies, National Tax Journal, March 1963). The trend has been helped by the practice of placing highway-user revenues in trust funds from which expenditure is made only for highway construction and maintenance within a carefully framed highway system. This

practice persuades highway-users to tolerate higher taxes because of the assurance that larger benefits will accrue to them when the money is spent.

Whenever a linkage is established of benefits received by users and of taxes collected from them, there is a rationale for earmarking. Only when no accurate linkage is feasible is earmarking illogical. Moreover, when annual expenditure on a primary highway system greatly exceeds the revenue from highway-users, the deficiency has to be made up from other sources. Earmarking in such case should not take money away from non-highway uses.

This is not, however, the case of Lebanon where the annual revenue raised from highway users in Lebanon exceeds the annual expenditure which is allocated to highways. Although highway expenditure figures are not available so that the amount of the excess can be stated, there is no doubt that it is substantial.

On what grounds can this situation - not found in most developing countries - be explained? One possibility is that Lebanon is underspending on highways - that the national benefits to be secured from additional expenditure on them has been under-appraised. A second possibility is that the excess revenue raised from taxation of benzine, etc., is judged to be a better method of taxation to provide for general or collective benefits than any other addition to taxes. This judgement has been influenced by the practical fact that the highway-user taxes are relatively easy to

administer and collect. Ownership and operation of motor vehicles can be determined and taxed as possession of many types of income cannot. What is urged here is that the overall situation be reviewed so that taxation of a particular class of people - highway-users - to secure revenue for collective purposes not be overdone; that general taxation to finance expenditure for collective purposes not be neglected; that administrative considerations concerning ease of enforcement do not over-influence tax discussions.

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