Corporate Income Tax Collection In Lebanon:

Criticisms and Recommendations

by

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CHAPTER I

INTRODUCTION

Historical Brief

Taxation is the imposition of a mandatory levy on the citizens of a country by their government. In almost all countries tax revenue is the major source of financing for public services (Grolier, 1993). It is the process by which the people pay the expenses of carrying on the government (World Book, 1971).

Despite the adage that nothing is certain in the world but death and taxes, taxation has not always been the chief source of revenue for governments. For example at early ages, the Athenians had use of the revenues from publicly owned mines and tribute from conquered countries. In the feudal hierarchy of the Middle Ages, funds flowed upward in the form of rent fees and fees paid in lieu of military services. However, at that time the distinction between taxes and other compulsory payments was not clear cut (Awada, 1967).

A codified system of taxation was introduced by the Romans. In the early republic a POLL TAX was levied against each citizen, but as foreign tribute began

flowing into Rome, the poll tax on Romans was forgiven. The emperor Augustus (27 BC-AD 14) introduced the PROPERTY TAX and INHERITANCE TAX at the beginning of the imperial period, and later emperors imposed taxes on a long list of products (Ekelund, 1990).

During the Middle Ages kings derived most of their income from their feudal holdings and generally needed to levy taxes only to pay for their expensive wars and their lavish life style. Because ordinarily such taxes could be collected only with the consent and aid of the nobles and other large landholders, monarchs found it necessary to call these landholders into session to approve such taxation. These sessions of landholders evolved into parliaments and other legislative bodies. Especially with the Magna Carta (Great Charter) which is a document that marked a decisive step forward in the development of constitutional government in England. In this Charter King John was forced to grant many rights to the English aristocracy. Moreover , he was forced to approve the Charter in June , 1215 (Ekelund, 1990).

In modern times the great petroleum producing nations of the Middle East realize enough revenue from their oil production to allow their citizens freedom from the burden of heavy taxation (Grolier, 1993). At least, till the late eighties, since after the Gulf War

some Middle Eastern countries faced deficit in their budgets; thus resulting in the introduction of taxes (Labaki, 1987).

Furthermore, the need of the monarchy for tax revenue can be said to have been one of causes of the rise of parliamentary government. In fact, many of the constitutional changes that have taken place into modern world have resulted from the struggle between monarch and legislature over the collection of taxes. An important example was in Britain with the 1688 glorious revolution which established parliament's authority over taxation (Ekelund, 1990).

Nowadays, democracies have Parliaments that assess in legislating income tax law to be implemented by the government.

Classifying Taxes

Ultimately, taxes are the price paid for publicly provided services. In a democracy a majority of citizens (or their representatives) vote to impose taxes on themselves in order to finance, through the public sector, services on which they place value but which they believe cannot be adequately provided by market process (Abdallah, 1980).

Taxes, which drain money from the private sector, must ultimately be paid by a reduction in private consumption or investment expenditures. Determining which individuals or households actually reduce their private consumption or wealth as a consequence of a tax is not always straightforward. The economic units that are nominally assigned legal tax liability are often able to shift the actual burden of the tax onto other sources. Some taxes are not shifted at all; others may be only partially shifted (Awad, 1982).

Whether or not a tax is shifted provides one basis for classifying taxes. A tax is said to be direct if the economic unit that is legally assigned tax liability bears the full burden of the tax. The personal income tax, for example, is generally regarded by economists as a direct tax. An indirect tax is one that is shifted either wholly or in part. Any tax legally imposed on a commodity must be an indirect tax because ultimately only individuals (or corporations) can bear the burden of taxes. An indirect tax is said to be shifted forward if consumers of the taxed object bear the tax burden in the form of a higher price for the good. Backward shifting occurs when suppliers of productive resources to a taxed industry earn lower incomes as a result of the tax (Brealy, 1984).

The indirect tax is levied in Lebanon by the government; even though it is somewhat not well organized and managed. For example, a supplier importing goods from foreign countries is obliged to pay customs duty to the government on his imported goods (Abdallah, 1980). This supplier accordingly shifts forward to consumers of the taxed object their share of the tax burden in the form of higher price for the good. The share of the consumers' burden varies with the elasticity of the good whether it is an elastic or an inelastic good (Ekelund, 1990). Backward shifting occurs when suppliers of productive resources to a taxed good earn lower incomes as a result of the tax on elastic goods for example (Awad, 1982).

When the individual consumer faces forwarded tax burden accordingly to his share in it; he would be facing higher price on the good he is buying. This consumer would feel that his government is weakening him by obliging him to pay higher prices for goods without any protection from the future he has to face.

The second form of taxation in Lebanon is the direct tax. This form of tax is imposed directly. For example the personal income tax is regarded as direct (Awada, 1967).

Lebanon as a matter of fact, always imposes his tax burden heavily on indirect taxes while imposing a less tax burden on direct taxes.

In addition to the direct-indirect classification, taxes are also often classified as being either proportional, progressive, or regressive. These classifications depend on the relationship between the tax base -- the value, income or wealth being taxed -- and the average tax rate -- The amount of tax, usually expressed as a percentage, imposed on each unit of the base. If the tax rate remains constant when the tax base varies in size, the tax is a proportional one. If the rate increases as the base increases, the tax is progressive. A regressive tax is characterized by the tax base and average tax rate varying in opposite directions. A slightly different definition of progressive, proportional or regressive taxation is useful for analyzing the equity characteristics of indirect taxes. Under the equity definition, the tax burden is traced to the actual bearer and then related to income or wealth. A tax is progressive in this case if the tax burden expressed as a percentage of the income of the taxpaying unit rises with income. It is proportional If the tax burden is a constant proportion of income, and the tax is regressive if income received and the

percentage of income paid in taxes vary in opposite directions (Ekelund, 1990).

Excess Burden

The direct burden of a tax borne by the individual taxpayer is the transfer of individual purchasing power to the public sector (Awada, 1967). If in addition, the tax distorts the taxpayers' choices in ways that prevent their attaining maximum satisfaction with their remaining income, the tax is said to have generated an excess burden. The personal income tax can provide an example of this problem. Suppose an individual is earning an hourly wage of $5, and given that wage, chooses to work 50 hours per week. In his or her opinion, the $5 received for the 50th hour of work exactly compensates for the hour of leisure activity foregone in order to earn it. The additional $5 that could be earned by working a 51st hour is not enough in his or her view to compensate for that additional hour of leisure activity foregone. Now suppose that an income tax of 10 % is imposed. For each hour the individual works, the government collects 50 cents in tax revenue. At the lower net hourly wage of $4.50, the individual may choose to reduce his or her work effort to 42 hours per week. That individual's gross earnings are now $210, out of which $21.00 in tax revenue is collected (Awad, 1982).

To see how an excess burden may have been generated by the income tax, consider the following alternative way of collecting the same amount of tax revenue from the individual. Suppose that the taxing scheme simply assessed a fixed tax liability or lump sum tax of $21.00 on the individual regardless of how large or how small his or her money income was. Now he or she might well choose to work more than 42 hours per week under this taxing scheme because the net monetary reward for the 43rd and each successive hour of leisure foregone is now $5 rather than the $4.50 obtained under the income tax. Given the fixed tax liability of $21.00, the individual now possibly might choose to work the same 50 hours per week as he or she was working prior to imposition of any tax. Tax revenue and implicitly, publicly provided services remain the same under both the income tax and the lump sum tax. But in the case of the lump sum tax, the individual is able to make a better allocation of time between work and leisure. The choice to work the extra 8 hours per week under the fixed tax indicates that he or she prefers 50 hours of work per week with a net income of $229.00 to 42 hours of work and weekly income of $210.00. The inability to achieve this preferred position with an income tax is an indication of the excess burden of that tax (Awad, 1982).

Unfortunately, almost all taxes have the potential for generating excess burden. Taxes may alter the relative prices of commodities, discouraging consumption of those goods as they become relatively more expensive after the tax. Some taxes also affect business firms' choice with respect to the combination of capital and labor to be used in production processes. The only tax that does little to impede efficient resource allocation in the private sector is a lump sum tax of the type described above. Individual choices are not distorted by this type of tax because tax liability is fixed and cannot be altered by any change in the taxpayer's behavior. The efficiency advantages of the lump sum tax, however, are offset by its failure to measure up to the standards of equity or fairness commonly used to evaluate tax instruments (Labaki, 1987).

Good and Bad Taxes

What constitutes a good tax? This issue has always stirred lively debate among tax scholars, legislators and concerned taxpayers. Efficiency is one criterion against which a tax might be evaluated. The best tax by standard is the one that generates the least excess burden. Most experts would be unwilling to accept efficiency as the sole indicator of a good tax. However, because the most efficient tax is a lump sum discussed above. Despite the

desirable properties of this tax from the standpoint of efficiency, most people would undoubtedly disapprove of the inequity of a tax that imposed identical tax burdens on the richest and poorest members of society. The best tax systems seek a balance between the often conflicting objectives of efficiency and equity (Du Sautoy, 1957).

The principle of horizontal equity is widely accepted as a desirable feature of a tax. Stated simply, this principle requires that equals be treated equally with some measure of economic capacity or well being, such as income or wealth, typically regarded as the relevant index of equality. Despite its apparent straightforwardness, problems do arise in applying the standard of horizontal equity (Ekelund, 1990). If the household is the basic taxpaying unit; for example, does a household with four family members have the same economic capacity for taxpaying purposes as a single member household with the same income? What if two individuals have identical opportunities to earn income but one chooses employment with a high monetary reward and the other opts for a job with lower money but greater non pecuniary advantages (for example, social prestige) (Labaki, 1987).

A corollary to the principle that equals be treated equally is the principle of vertical equity, which

suggests that unequal be treated unequally (Ekelund, 1990). According to this principle, individuals should be taxed in accordance with their ability to pay. Unfortunately, although the ability to pay principle generally requires that taxpayers with greater economic capacity pay a greater share of total tax burden, it is a subjective standard and does not provide clear guidelines with respect to the precise allocation of tax shares. A proportional, a progressive or even, within limits, a regressive income tax; for example, can collect more in total tax revenue from the rich person than from the poor person.

The concept of minimum aggregate sacrifice in the ability to pay principle recognizes that a tax, considered independently of the public services it finances, involves a loss of welfare as a consequence of the taxpayer's loss of private purchasing power and seeks to minimize the aggregate welfare loss. Based on the assumption that a $1 reduction in purchasing power entails a smaller welfare loss. The greater the individual's (or the corporation's) total income, minimum aggregate sacrifice requires extreme progression in the tax system in the form of a leveling off after tax incomes (Curran, 1988) (Torbey, 1994).

A weakness of the ability to pay principle; however, is that, by dealing only with allocation of a predetermined aggregate tax burden, it fails to link the tax and expenditure sides of the public budget. An alternative tax principle that remedies this problem is the benefit principle of taxation (Ekelund, 1990). Under the benefit principle, an individual's tax burden is based on the benefits that he or she receives from public services. The benefit principle is, in most instances, difficult to follow with great precision because of difficulties with actually measuring individual benefits from public services and because the people who most need services are often the least able to pay for them. In some cases an attempt to follow the general guidelines of the benefit principle would appear to underlie particular taxes; as for example, an excise tax on gasoline, the proceeds of which are used to finance highway building and maintenance.

In addition to generating revenue to finance public services, taxation can be employed to serve other objectives. Among the most important of which are income redistribution, economic stabilization and the regulating of consumption of certain commodities or services (Abdallah, 1982). Altering the distribution of income in society is a function that many governments perform. Although it is not the only means of performing this

function, taxation is the most explicit with the revenue collected by taxing one group in society transferred directly to another group. The size of the government deficit is an important policy variable for purposes of economic stabilization. Adjustments in tax rates are an important means of manipulating the deficit. Finally, excise taxes are often imposed on goods and services with the objective of reducing consumption by raising the price of the taxed commodities. Tobacco and liquor are two commodities often subject to this sumptuary taxation (Torbey, 1994).

CHAPTER II

INCOME TAX LAW AND ECONOMIC SITUATION

Lebanese Income Tax Law (Decree 144/59)

In Lebanon, the Income Tax Law is detailed under the Legislative Decree 144 of June 12th, 1959. Approximately, the income tax law is revised every decade. Moreover, it was revised in 1993 to be implemented in 1994. This newly revised law was issued on January 6, 1994 in the "Official Journal". Furthermore, this income tax law was revised according to the inflation that had occurred over a decade of time.

The Lebanese Income Tax Law distinguishes three types of incomes and taxes divided under three titles:

Title One : Taxation of profits derived from industrial, commercial and non-commercial professions.

Title Two : Tax on salaries, wages and retirement pensions.

Title Three : Taxation of income from movable assets. (Income Tax Law)

Title One

The tax applies to income or profits derived from trade, by business firms or by liberal professions (Torbey, 1994). It is charged on persons whether residing in Lebanon or abroad on the total income or profits accomplished by them in Lebanon, and is levied in respect of net profits.

The law distinguishes between commercial and non-commercial companies. These commercial and non-commercial companies are taxed according to a progressive taxation rate varying from 3 to 10% (See Table No. 1). Commercial companies are subdivided into "persons' companies" sole proprietorship, partnership, and limited partnership; and "capital's companies" such as corporations (S.A.L.) and private limited companies (S.A.R.L.) (Torbey, 1994).

Table 1

Income Tax Rates On title 1

(as of 1994 revision)

Tax Brackets Of Annual Income	Tax Percentage Rate
Between 1 L.L. & 7,500,000 L.L.	3%
Between 7,500,000 L.L. & 18,750,000 L.L.	5%
Between 18,750,000 L.L. & 37,500,000 L.L.	7%
Over 37,500,000 L.L.	10%

Source : Article 32 from Income Tax Law Decree 144/59 as amended by Article 5 of Law No. 282/93.

Title Two

This tax applies to all income from wages, salaries, remuneration, allowances and retirement pensions (Torbey, 1994). It is assessed on net annual income for each taxable natural person after an abatement of 3 million L.L. for the individual, 1.5 million L.L. for his wife if married and 300,000 L.L. for every child he has up till five (Torbey, 1994). If a taxpayer, is taxable under both title one and title two, he will benefit from only one abatement. Here the tax is also progressive varying from 2 to 10% (See Table No. 2).

Table 2

Income Tax Rates On Title 2

(as of 1994 revision)

Tax Brackets Annual Salaries	Tax Percentage Rate
Between 1 L.L. & 5,000,000 L.L.	2%
Between 5,000,000 L.L. & 10,000,000 L.L.	4%
Between 10,000,000 L.L. & 50,000,000 L.L.	6%
Between 50,000,000 L.L. & 75,000,000 L.L.	8%
Over 75,000,000 L.L.	10%

Source : Article 58 of Income Tax Law Decree 144/59 as amended by Law No. 282/93.

Title Three

Tax on income from movable capital assets covers the different proceeds from those assets, dividends, and interests. Whatever be the denomination or the nationality of the producing institution or the domicile of the beneficiary of these revenues; as long as they are derived in Lebanon or revert to residents in this country (Awada, 1967).

However, revenues, profits and income realized from the exercise of trade are taxable in accordance with tax or profit (Torbey, 1994). The rate of taxation is fixed at 5% of the gross income according to the new legislation issued on January 6, 1994 (Torbey, 1994).

LEBANESE ECONOMIC SITUATION

Lebanon had witnessed over the last four years a very significant real economic growth in a context of a parallel rise in productivity and a constant improvement in the Lebanese Pound's real exchange rate. Real GDP grew by an average of 6.5% per annum (see table 3), driven by the low Incremental Capital to Output Ratio of

4.0 over the period (Central Bank Bulletin), suggesting an increasing degree of investment efficiency. Improvement in the real sector coupled with a restrictive monetary policy containing money supply, brought down inflation sharply from 131% in 1992 to 10.6% in 1996 (Central Bank). Improvement in country risk perception has boosted capital inflows from US$ 3.0 billion a year in 1992 to US$ 7.3 billion in 1996 (Banque Audi - Economic Analysis Unit). At the public finance level, an important budget deficit still prevails. The issue is yet structural since more drastic measures should be undertaken to contain the fiscal deficit. For this reason a great and united measures are suggested by the officials to take abstemious policy in their expenditures giving privileges to necessities on less important needs. Moreover, taxes are to be imposed on the population; this measure was adopted in 1998 government budget (Annex 9).

Lebanon's total debt represents a sum of 20464.2 billion L.L. as of October 1997. This debt is divided between the internal debt amounting to 16852.9 billion L.L. and to foreign debt amounting to 17.65% of the total sum which is 3611.3 billion L.L. Moreover, 69.71% of the internal debt is due to the private banking sector and the balance is due for the Central Bank (Central Bank Bulletin, October 1997).

Such economic developments actually occurred within the context of a very favorable business environment and investment incentive framework characterized by:

- Liberal trade and investment policies,
- A comprehensive banking secrecy and a free exchange regime with completely relaxed restrictions and no control on capital flows,
- Strong and well defined legal rights for property,
- A developped business law with different types of companies.

The year 1996 witnessed the reopening of the Beirut Stock Exchange, one of the oldest in the Middle East, which resumed its operations on January 22nd, with revised laws and regulations and advanced clearing and settlement systems. Among the laws and regulations lately ratified rise the law relating to bank equity floatation, a law regulating fiduciary contracts, in addition to an expected law governing the Financial Market Council.

ECONOMIC INDICATORS

According to The Central Bank and Banque Audi Economic Analysis Unit, hereby, are all the economic indicators of the several sectors making the Lebanese Economy for the last 3 years (see Tables 3,4,5 and Appendix B).

In table no. 3, the GDP in millions of US$ is mentioned with growth rate of the real GDP of years 94, 95 and 96.

In table no. 4, the balance of payments is reflected showing the trade balance, the gross capital inflows and the banks' foreign assets in the three years from 1994 to 1996.

In table no. 5, government expenditures and government revenues revealing always a budget deficit in the three years from 1994 to 1996.

Table 3

Macroeconomic Indicators

Macroeconomic indicators	1994	1995	1996
GDP (US$ million)*	9,500	11,700	13,900
Real GDP growth rate	8.5%	7.0%	4.0%
GDP deflator	16.5%	16.0%	14.5%
GDP per capita	3,100	3,800	4,400

Source: Central Bank Bulletin, 1997.

Table 4

Balance of Payments

Balance of payments	1994	1995	1996
Trade balance (US$ million)*	-5,418	-6,479	-6,541
Gross capital inflows	6,548	6,735	7,327
Change in banks' net foreign assets	(730)	(335)	(642)
Change in BDL net foreign assets	1,861	591	1,428
Balance of payments	1,130	256	786

Source: Banque Audi – Economic Analysis Unit

Table 5

Public Finance

Public finance	1994	1995	1996
(LP billion)			
Government expenditures	5,152	5,739	7,225
O.W. Debt service	1,472	1,862	2,656
Government revenues	2,242	3,033	3,532
O.W. Custom duties	792	1,321	1,632
Budget deficit	2,910	2,706	3,693
Total debt (LP billion)	7,953	11,356	16,060
Total debt (US$ million)	4,829	7,115	10,348
O.W. Net internal debt (US$ million)	4,075	5,825	8,579
O.W. Foreign debt (US$ million	772	1,291	1,769

Source: Central Bank Bulletin, 1997.

CHAPTER III

INCOME TAX COLLECTION OF DECREE 144/59

(TITLE 1)

Paying taxes should be a commitment from all the citizens to their country. Since participating in this duty would oblige the government and the rulers to abide to their duties in protecting the continuance of the government and its role in protecting and helping in prospering the welfare of all its citizens under a better truly advanced economy. This economy would bring to the citizens a large trust in their country and its government. Moreover, they would be satisfied to participate in their duties arising from paying taxes when they see their collected money well used by their government (Abdallah, 1980).

Taxes in Lebanon cover a wide scope of activities and are enforced or collected by different departments. Moreover, we can divide taxes into two main categories:

1 - Taxes and Duties Administered by the Income Revenue Service.

Taxes and duties administered by the Income Revenue Service are the following:

Income Tax, Built-on-Property Tax, Succession Tax (inheritance tax), Entertainment Tax, Liquor Duties, Fiscal Stamp Duty, Cement Tax, Taxes on Liquid Fuels, Excise on sold, and Duty on playing cards (Awada, 1967).

2 - Taxes not Administered by the Income Revenue Service.

Taxes and duties not administered by the Income Revenue Service are the following:

Customs Duties, judicial duty, transfer motor-cars fees; exit tax on travelers and aerodrome taxes (Awada, 1967).

Income Tax in Lebanon falls under title 1 and under the administration of the Revenue Service and is imposed directly on the concerned individuals or companies.

The Income Tax is a direct tax imposed on the sales of the sole proprietorship and the net profits of companies and corporations (Torbey, 1994) as displaced in the following examples.

The Sole Proprietorship

The Sole Proprietorship is owned by one person and the direct tax imposed is a percentage of total earnings from sales or services accomplished. This percentage varies with the kind of job or service offered (Torbey, 1994). For example, a person owning a shop selling toys and gadgets, should pay on net sales a 20% tax rate as the Lebanese Law mentions. In addition, he is allowed a family discount for himself, wife and children (See figure 1).

Figure 1

For example a married person having 2 children and owning a shop selling toys and gadgets, will pay a tax burden of 20% of net sales according to the Lebanese Law. Also, he is allowed family discount for himself, wife and children. If this person's sales amounted in year 1995, 40,000,000 L.L.:

40,000,000 L.L. x 20%	=	8,000,000 L.L.
Less his own discount	=	3,000,000 L.L.
Less his wife's discount	=	1,500,000 L.L.
Less 300,000/child	=	600,000 L.L.
Taxable Income	=	2,900,000 L.L.
(According to Table 1 p.16)		2,900,000 L.L. x 3%
Tax	**=**	**87,000 L.L.**

The company and partnership

They are also exposed to direct taxation. While this time their net profit is submitted to a percentage of taxation according to their job (Torbey, 1994). Moreover, here family allowances are discounted also. Net profit is meant by revenues less expenditures. For example if he's a used car salesman: 15% of his income is exposed to taxation. Moreover, he's allowed discounts for himself and his family (wife and children) according to the Lebanese Income Tax Law, his discount is 3 millions L.L. and his wife's 1.5 millions L.L. while his children's discount is 300 thousands L.L. to a maximum of 5 children (See figure 2).

Figure 2

For example a married man having 3 children and having a used car exposition; getting a net profit of 60,000 U.S.D. or 96,000,000 L.L. per year @ 120 cars by 500 U.S.D. as profit. Therefore, he should pay a burden according to the law, of 15% of his net profit.

96,000,000 L.L. x 15%	=	14,400,000 L.L.
Less his own discount	=	3,000,000 L.L.
Less his wife's disc.	=	1,500,000 L.L.
Less 300,000/child	=	900,000 L.L.
Taxable Income	=	**9,000,000 L.L.**

(According to T.1 p.16) 7,500,000 L.L x 3% = 225,000 L.L.

1,500,000 L.L x 5% = 75,000 L.L.

Tax = 300,000 L.L.

The corporation

The corporation is also subject to direct taxation. While this time we have no family allowances /discounts and no tax percentage according to the kind of the job. Only a tax percentage of 10% of the net profit was approved in the law to be subject to taxation (See figure 3) (Torbey, 1994).

This direct tax is levied yearly by the government, Moreover, this operation requires a large personnel and money efforts (Torbey, 1994). If a company or sole proprietorship or corporation is not paying its income taxes, the government has no means to follow up the implementation of imposing taxes on it. Because, the number of sole proprietorships, companies and corporations exceed by far the work capacity of the employees available in the Finance Ministry to follow up collection of taxes. While in indirect taxation like the customs duty, it is easier to collect taxes since there is a government control on seaports and the airport. In other words, direct taxes are imposed on income, and indirect taxes on expenditures (Abdallah, 1980).

Figure 3

According to the Lebanese Taxation Law issued on January 6, 1994; only 10% of a corporation's net profit are exposed to taxation.

For example a corporation having its net profit to be 100,000 U.S.D. or 160,000,000 L.L. should pay a burden of :

160,000,000 L.L. x 10% = 16,000,000 L.L.(exposed to tax)

(According to Table 1) 7,500,000 L.L. exposed to 3%

While the difference 8,500,000 L.L. exposed to 5%

So the tax this corporation is going to pay is

(7,500,000 x 3%) + (8,500,000 x 5%) = 225,000 + 425,000

Corporate Tax = 650,000 L.L.

Table 6

Income Tax Table Summary

Tax laws and regulations were subject to major reforms starting in fiscal 1994.

	Tax Rate	Comments
1. Corporate entities (Limited Liability Companies; Stockholding Companies; Partnerships Limited by Shares). Not applicable on Holdings and Offshores.	10%	
If the corporation is a real estate company.	5%	Building and selling properties.
2. Trading; non-trading; industrial activities (all non-corporate entities; all persons not falling in any other income tax category)		Taxes are applicable on these brackets after **deducting** from the individual's earnings an amount of LP3,000,000 plus LP1,500,000 for the married taxpayer and LP300,000 per child up to 5 children
- Profits (LP) ≤ 7,500,000	3%	
- 7,500,000 < Profits (LP) ≤ 18,750,000	5%	
- 18,750,000 < Profits (LP) ≤ 37,500,000	7%	
- Profits (LP) > 37,500,000	10%	

Salaries - Income (LP) ≤ 5,000,000 - 5,000,000 < Income (LP) ≤ 15,000,000 - 15,000,000 < Income (LP) ≤ 25,000,000 - 25,000,000 < Income (LP) ≤ 75,000,000 - Income (LP) > 75,000,000	2% 4% 6% 8% 10%	Taxes are applicable on these brackets after **deducting** from the individual's earnings an amount of LP3,000,000 plus LP1,500,000 for the married taxpayer and LP300,000 per child up to 5 children.
4. Daily wages	6%	Deduction : LP10,000/day
5. Non-Residents - Services : 50% x 10% - Other : 10% x 10%	 5% 1%	
6. Capital gain	6%	
7. Dividends and interest	5%	
8. Revaluation of non-monetary assets and trading asset of real estate	1.5% 10%	For one time only in order to adjust the carrying asset value for the effect of inflation and currency devaluation. Adjustment surplus is taxed.

9. Exemptions

-Interest on saving and current accounts.

-Earnings from Lebanese Treasury Bills.

-Capital gains on Lebanese stocks and bonds.

Taxes withheld shall be settled semi-annually with the tax authorities during the 15 days which follow. Penalty on delayed payment and/or default of tax declaration is computed at the rate of 3% per month.

Functions and responsibilities of Income Tax Officials

The functions and responsibilities of Income Tax Officials that are performed now by the Controllers , Principal Controllers, Chief of Income Tax and Chief of Revenue Service are as follows:

1 - Functions and Responsibilities of Controllers

1 - The Controller is responsible or in charge of a certain area or region assigned to him.

2 - He receives the mail concerning his area's jurisdiction.

3 - He is responsible for collecting notices from newly starting businesses in his area.

4 - He opens , for the newly starting taxpayers , files with a special number for every new taxpayer.

5 - He keeps the files on his area, prepares indices of taxpayers names, and holds responsibility for all the documents he gets from the newly introduced taxpayers.

6 - He receives all the tax declarations presented by the taxpayers during the period specified by the law for each kind of business registered in the Commercial Register.

7 - He prepares preliminary schedules and send it to the data processing center during the period specified.

8 - He prepares a work schedule at the beginning of each year and distributes the study of files over various months of the year.

9 - He implements the work schedule and is responsible for every unexplained delay.

10- He conducts the onsite check of taxpayers' records and prepares reports.

11- He prepares citations for detected violations.

12- He signs assessment and reduction schedules.

13- He sends notices of basic and additional taxes to taxpayers.

14- He receives claims of protests and objections; and he replies on it.

15- He prepares the schedules of reductions for claims accepted by the administration or the committee of claims or the council of the state, and informs the taxpayer of the action.

16- He informs the taxpayer if the claim is overruled by the Administration.

17- He discusses and recommends applications for exemptions from tax.

18- He acts as a reporter for the committee of estimated profit (Art. 25 of The Income Tax Law). He is required to prepare reports on

taxpayers whom he finds may possibly be assessed based on estimated profits and transmits the reports to the said committee.

19- He should take the oath describes in Article 3 of the Legislative Decree 123 of June 12, 1959 before starting his job.

20- He studies the files and cases transmitted to him by the Chief of Income Tax Department , prepares reports about it and gives his recommendations.

21- He implements laws and regulations honestly and sincerely, and follows the instructions of his superiors who safeguard the rights of the treasury.

22- He must not mistreat taxpayers, but guide them to obey their responsibilities towards the administration.

23- He keeps the professional secret (Art. 104 of the Income Tax Law).

Decree 2500 of December 18, 1971 made another grade of controllers responsible for office assistance in various checking jobs given by superiors (Legislative Decree 144 of June 12, 1959).

2 - Functions and Responsibilities of Principal Controllers

Principal Controllers perform their jobs according to instructions by the Minister of Finance no. 1965/2/447 of August 21, 1961 that can be summarized as follows:

1 - A principal Controller heads a group of Controllers.

2 - He is the direct superior of all Controllers in his group.

3 - He checks their work and has the right to inspect and supervise them.

4 - He sees that laws, regulations and administrative instructions are being followed by his group of Controllers. The Controllers must follow his directives unless error or illegal mistakes are seen; then, they can refer to the Chief of the Department.

5 - He studies the contents of the file made by the Controllers and considers the extent to which it follows the laws and regulations.

6 - He records his opinion in the report and forwards it to the Chief of Income Tax Department (Memo by Chief of Revenue Service no. 18 of January 16, 1971 paragraph 10). In case of changing the report of a Controller; the case must be

submitted to the Chief of Income Tax Department with sufficient justification.

7 - The Principal Controller must point to the errors he discovers in the work of the Controllers after checking their work.

8 - He hold a meeting with his group at least every 15 days, where he discusses with them the work progress and provides them with any necessary instructions.

9 - Principal Controllers are equivalent to an advisory committee to the Chief of the Department. He resorts to them when needed to solve administrative problems and for seeking solutions for important and basic cases.

10 - He keeps a record to follow the progress of assessment in areas under his jurisdictions and informs the Chief of the Department when necessary.

11 - Before the end of a year, they conduct a comprehensive and general study backed with statistics and basic information about the status of the previous year's assessments for each type of tax and for every activity and group of similar activities.

12 - They also give recommendations for improving performance.

13 - He has the right of inspection mentioned in the law and is bound by the professional secrecy. He must take oath in front of the Court of Accounts as stated in the Legislative Decree 123/59.

14 - He has the right to accompany the Controllers whenever he finds it necessary, and reviews the way they study and audit the taxpayers.

15 - The Principal Controller must restudy any file or case as required by the Chief of the Income Tax Department.

3 - Functions and Responsibilities of Chief of Income Tax Department

1 - The Chief of Income Tax Department is responsible for the department and directs the work in it.

2 - He is the direct superior of all the department's employees.

3 - He signs the official documents under his jurisdiction.

4 - He inspects the department and supervises the good relationship of the employees with the taxpayers.

5 - He receives reports of the Tax Controllers via Principal Controllers.

6 - He signs assessment and reduction schedules and receipt orders (Art. 33 of General Accounting Law).

7 - He must hold a meeting at least once per month for the Principal Controllers to discuss their work progress, the obstacles that face the work of the Controllers and the directives and actions that could be taken.

8 - He is the chief of the committee on estimated profit mentioned in Art. 25 of the Income Tax Law.

9 - He is the recorder of the committee on claims on income tax (Art. 94 of the Income Tax Law). He submits a report on each claim overruled by the department and gives it to the said committee for any decisions on the claim.

10 - He prepares before the end of each year a report about the work's progress in his department to the Chief of Revenue Service.

11 - He enjoys the right to inspect; and he is bound by professional secrecy. But he does not take the oath mentioned in L.D. 123/59.

4 - Functions and Responsibilities of Chief of Revenue Service

1 - The Chief of Revenue Service is the direct superior of the Income Tax Department and the chain superior of all employees of the department.

2 - He gives the assessment schedules executive power (Art. 33 of the Law of General Accounting).

3 - He approves any reduction of tax; except those due to a numerical error or for an amount not exceeding 50% of the original tax (Art. 38 of the Law of General Accounting).

4 - He coordinates tax legislation and issues instructions and directives concerning application of legal texts.

5 - He studies international tax agreements.

6 - He collects tax statistics.

7 - He prepares appeals of tax cases to the Council of State.

8 - He is assisted in his duties by two sections:

First: The bureau of tax legislation that assists him in functions mentioned in paragraphs 4,5,6 & 7.

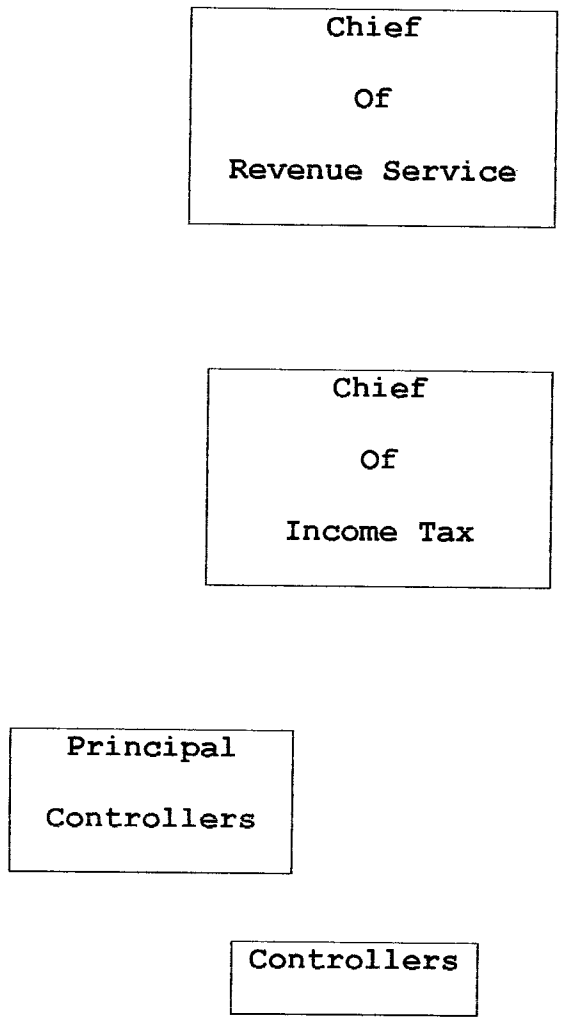
Second: A group of assistants (Principal Controllers), who by his authority control all the groups' work progress. For this they can accompany Principal Controllers in their visits. They submit written reports to the Chief of Service telling him about the work's progress with their remarks if appropriate. They are not permitted to give any instructions to any of the Departments Chiefs, Principal Controllers or Controllers. The Chief of Revenue Service may authorize the assistants to restudy some of the taxpayer's cases for the purpose of checking the correctness of previous study and conformance to reality and law. They have the right of inspection and are bound to keep professional secrecy and take an oath. They also give their opinion in reductions suggested by Income Tax Department upon assignment from the Chief of Revenue Service.

9 - He distributes, in collaboration with the Department Chief, the work in the Income Tax Department among Principal Controllers and Controllers. He also establishes the basic principles that must be followed to organize and implement the schedule work.

10 - He has the right to inspect and is bound to keep professional secrecy, but does not take an oath as mentioned in L.D. 123/59.

Figure 4

Ministry of Finance Income Revenue Service Administration



CHAPTER IV

CRITICISMS OF CORPORATE TAX SYSTEM COLLECTION

The Lebanese Income Tax Law (Decree 144/59) was revised in 1993 and issued in the "Official Journal" on January 6, 1994. Even though, it was revised, our Lebanese Income Tax Law still has weaknesses in the system of collecting taxes. In order to present the injustices due to these weaknesses; I shall:

Identify most significant weaknesses in Corporate Tax Collection

My objective is just to search for the weaknesses in corporate tax collection and its implementation from all personnel in charge. This result in dangerous injustices in the whole tax system.

The main problems resulting in tax collection weaknesses are the following:

- Heavily reliance on indirect taxation.
- The joint responsibility in the direct taxes' administration between the Revenue and the Treasury service.
- Differentiation of Lebanese laws between various types of income; which some taxpayers use for evasion and fraud purposes.
- Lack of coordination among the regional tax departments.
- The organization of Income Tax Department is inefficient in structure and human resources.

The forecasted percentage from income tax in the Lebanese budget was in 1997 **9.2%** and is amounting in the Budget Project of 1998 to **8.8%**. In fact, only between **15%** to **19%** of this percentage was collected over the last four years (Lebanese Budget Publications). While in a country like the U.S.A. in 1992, the federal personal and corporate income taxes accounted for **53%** of the total federal revenue; that is, $568 billion out of $1,076 billion (Grolier Encyclopedia). Comparing the revenue from Corporate Income Tax collection; we notice that when a budget in the U.S.A. accounts for a **53%** it is collected

as it should be; while in Lebanon when the budget accounts for 8%or 9% only **15%** or **19%** of it is collected. Thus, as a matter of fact Lebanon is facing a real problem in Corporate Tax collection.

CHAPTER V

RECOMMENDATIONS

A brief examination of the main problems facing the Lebanese Tax system and its collections shows that:

1 - Lebanon relies heavily on indirect taxation. These indirect taxation have some advantages over the direct taxation since they require considerably simpler governmental machinery for administration and collection. Indirect taxes are normally shifted forward, i.e. they go into the price of the item where the final consumer pays for them. On the other hand, income tax incidence is totally absorbed by the taxpayer. As a social reform, a change in our tax philosophy is needed. The direct taxes with their progressive rates are defended in many quarters not only because they bring revenue to the government, but for their being based principally on the ability to pay.

In general, the direct tax concept is to take into consideration the citizen's ability to pay. It is usually the first source of revenue in most developed countries. Despite the fact that tax rates in Lebanon are relatively low compared to other countries such as

U.S.A., France, etc., direct taxes in Lebanon constitute a relatively small percentage of total tax revenue for high income citizens are relieved from paying what they can afford. It can be argued that the shortage in revenues from direct taxes is not due to the low rates of taxes, but due to poor enforcement of laws. One remedy of the problem is to reorganize the different tax departments particularly the Income Tax Department along the lines proposed in this study.

2 - The administration of the internal taxes in Lebanon is a joint responsibility of the Revenue and the Treasury Service (which is responsible for revenue collection), both acting under the supervision of the Director General of Finance.

The enforcement of tax laws and the collection of taxes are particularly complex for two reasons:

1 - Taxes are of great variety and diversity: excise taxes, customs duties, inheritance tax, income tax, property tax and many others.

2 - The tax administrative structure is very fragmented. A number of government agencies are allowed to levy taxes.

In order to avoid these complexities, these functions should be streamlined and placed under one agency. The law should permit the creation of a unified

tax service under the jurisdiction of the Ministry of Finance with full control over auditing, collection, enforcement, and administration of all taxes.

It is important to mention one hardship caused by excessive fragmentation of duties which requires taxpayers to go from one office to another securing successive approvals from several employees for one application. Thus a taxpayer files his return in a certain department, pays in another one, and has to go to a third one after payment to obtain clearance. Better voluntary compliance of taxpayers can be expected if a more comprehensive service is provided.

3 - Lebanese laws differentiate between various types of income; a loophole which some taxpayer use for evasion purposes. As an example one can invest in different sectors while paying taxes separately on each. This matter can be resolved by adopting the principle of taxation on total income, whether in the form of money, property or services (Labaki, 1987). Adopting this principle should be followed carefully by the Ministry. By doing this, social justice could be achieved since every one is paying what he is supposed to pay as a taxpayer.

4 - Another limitation of the Lebanese tax system is that the Regional Departments outside Beirut report to the General Director of Finance, unlike Beirut tax Departments which report directly to the Revenue Service. This affects the coordination among tax departments.

It is recommended that Regional Departments just like the Beirut Departments be placed under the supervision of the Revenue Service.

5 - The current organization of the Income Tax Department is inefficient in fulfilling its duties for the following reasons:

a - The structure is not well designed, where span of control is very wide, authority is not well defined, and many functions neglected.

b- The department does not insure effective utilization of human resources in the accomplishment of its mission, due to the lack of motivation and incentives among qualified personnel.

NEW FUNCTIONS IN THE REVENUE SERVICE

A - Inspection Department

Part of setting up the proposed Income Tax Department is to provide for having it supervised in addition to the Revenue Service, by a newly created Inspection Department under the authority of the Revenue Service.

The Head of the Inspection Department will be the principal assistant to the Revenue Service chief in planning and carrying out the inspection program of the various tax departments. His job includes the independent review and appraisal of all tax departments activities. The reputation of any tax department with the taxpayers is reflected by its employees, who should have professional qualifications and a high moral standing. For this reason strict surveillance will be maintained, and a strict code of conduct, on and off duty, should be applied and enforced by surveillance (Labaki, 1987).

Accordingly, this department should obtain a yearly quietus for its employees management during that year.

B - Electronic Data - Processing Department

Also important is the creation of a new Data - Processing Department under the supervision of the Revenue Service.

Although the partial conversion of manual tax processing system to a computerized one was completed earlier, a computer system is only as good as its basic operating system.

The main advantage of computerization is establishing a master file of taxpayers which will carry all necessary and relevant data. Retrieval can be made through the master file to identify taxpayers who have failed to fill tax returns or who have failed to make payments and generate delinquency notices (Labaki, 1987). A particularly strong argument in favor of automation is that permits a higher degree of centralization of clerical operations and more effective control over tax compliance.

In summary, the proposed Data-Processing Department may have the following objectives:

1 - To provide a systematic check on taxpayers who fail to fill their tax returns.

2 - To provide consolidated account information for each taxpayer reflecting his current status at any time.

3 - To match data reported on the information document against data reported on the taxpayer returns.

4 - To classify returns for audit purposes.

5 - To derive information needed for management reports and statistics of income.

C - Public Relations Department

Maintaining good relations with taxpayers is of primary importance. Our study should not be focused upon the enforcement side only, but should also aim to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of our tax departments.

To achieve good relations with the public , the creation of a department is recommended which will be under the supervision of the Revenue Service and will be named The Public Relations Department. Its main objectives would be :

1 - Informing taxpayer of their rights and duties.

2 - Providing useful tax information to assist the taxpayer.

These objectives can be attained through television campaigns, radio, magazines, newspapers and conferences.

To carry out the duties of all the previously mentioned divisions we need human resources.

Human Resources

A - Staffing

Employees are the major asset in any institution, and The Income Tax Department is no exception.

The following criteria should be used in assessing the professionalism of a tax collector:

1- Obtaining accurate information which is necessary in determining tax liability .
2- Maintaining an impartial attitude when examining tax return to ensure fair application of laws.
3- Exercising professional skills in examining documents and preparing reports.
4- Utilizing her/his time effectively.
5- Revealing a good image of the tax department since the agent represents his department.

6- Encouraging the taxpayers to increase their willingness to comply voluntarily with tax laws and regulations.

B - Recruitment Evaluation Criteria

In order to have the ideal tax collector, the below mentioned requirements should be the minimum to be considered while recruiting new candidates for this post.

1 - Department and Divisions Heads

a- They should be trained and acquainted with the public sector.

b- They must have a reasonable number of experience's years matching with the job requirements.

c- They must have leadership capabilities and oriented towards human relations.

d- They must have the required academic background to meet present and future demands of the position.

2 - Principal Controllers

a- They must hold a university degree in business administration, economics, finance, law or any related field.

b- They must have at least three years experience in private or public sector.

c- They must have leadership capabilities and oriented towards human relations.

3 - Controllers

a- They must hold a university degree in business, economics, finance, law or any related field.

b- They must be oriented and capable to work in a team esteem.

4 - Assistant Controllers

a- They must hold a technical or business certificate.

b- They must meet a minimum intellectual standard.

While recruiting at all levels a priority should be given to employees from within the department promoting them to higher vacant positions. This would be an incentive to successful employees.

However, we should keep in mind that all prospective employees should take the test required by the Civil

Service Council and meet all other requirements provided by laws and regulations.

C - Personnel Development

1- Training

The quality of any public bureaucracy is largely determined by the devotion, ability, and honesty of public servants. No administrative system can be any better than the man and the woman who manage it. An effective career service is dependant upon many factors, but none is more crucial than the education and training (Du Sautoy, 1957). Training is the dynamic ingredient in public administration, the revenue service must offer training through:

a- The Training Institute (Ministry of Finance) which came into existence in 1973 following Decree 2500 of December 18, 1971. This decree stipulated in its articles that the new principal controllers or controllers should not be assigned to any task unless they passed a training program conducted by the Ministry of Finance. The major subjects in the training program of this institution where: tax laws, public relations, auditing techniques, administrative organization and report writing.

This Training Institute was reactivated in the last two years by the Ministry. Moreover, a lot of efforts should be relied on this Institute in adopting any newly introduced technique that can help the personnel present in the Ministry.

b- The Coordination with the Civil Service Council to offer yearly courses to all levels of employees.

c- Training abroad must be activated by the revenue service through cooperation and aid with some of the developed countries such as U.S.A., France, England, etc. to train promising employees.

2 - Financial Rewards or Merit System

Financial rewards strategy is one of the basic means for inducing employee productivity. This may be achieved through wage increases other than high cost of living and bonuses upon evaluation of the employee's performance.

To attract high caliber of professionals, their market value must be a basic variable in establishing an independent wage scale. It is therefore recommended that the salary for the Revenue Service Personnel should not be evaluated in

the same manner as other employees of the public sector. This is supported by the importance of the service provided and the role the employee occupies in generating income for the government.

3 - Employees' Rotation

Rotation of all employees in the department is necessary. It prevents familiarity between tax collectors and tax payers. A rotation also allows the employee to gain experience in all areas of tax collection.

It is suggested that an inspection should not be in the same division more than three years, the principal controller more than three years and the controller more than two years. The reason for the short period given to the controllers is that they are in the field most of the time and have direct relations with tax payers.

Government Policy

The fiscal policy of the government should contribute to the attainment of certain economic goals such as economic stability at high levels of output and employment, rapid economic growth, greater equality in

the distribution of income and maximum economic "well-being".

The government in Lebanon should play a greater role in planning and coordinating the different sectors of the economy through its fiscal policy and mainly through the tax system.

The tax system should take into consideration the effects of the war and should meet the following necessities:

1 - Securing a better redistribution of income by concentrating on direct taxation whereby more weight should be stressed on high income groups.

2 - Generating more revenues from taxation, in order to help partly cover budget deficits and the mounting public and foreign debts. No increase in tax rates is necessary in achieving these goals provided that the following measures are taken:

a. Taxes should be imposed on all citizens and foreigners taking into consideration their ability to pay.

b. Family income tax should be adopted rather than personal tax; as the family constitutes one economic unit (household).

c. Supporting the economic use of capital by encouraging savings and directing them towards productive investments rather than expending capital on consumption.

d. Canceling all permanent tax exemptions in the current tax laws and creating new tax exemptions for productive sectors in the economy.

e. Encouraging the establishment of new financial institutions which are willing to lend money long-term basis for productive sectors of the economy.

f. The tax system should take into consideration the inflationary effects as long as this is not given priority over the reconstruction plans where a huge capital influx is needed to rehabilitate different sectors of the Lebanese economy. This should not of course prevent future planning of tax rates at all levels to serve long range economic policy objectives.

CHAPTER VI

CONCLUSION

Starting from the Lebanese Independence in 1943 till now, the citizens got used periodically to different sorts of public scandals such as: diversion of main issues, privileges of some officials' interests at the expense of general public interests, etc. (Labaki, 1987).

This regular repetition of scandals arose a phenomena of rejection in the citizens' attitude towards everything that is public. This rejection attitude towards the government is focussed when the citizens question their government for the absence of many necessities such as: social security for all, better public schools, public hospitals, etc. (Labaki, 1987).

From this research, we have two beneficiaries, both the citizens and the government. For this reason the mutual benefit will be for all if achieved. Moreover, prosperity will reach both the people and the government.

In such a way, trust will arise in the people and the government will manage now all the collected money to the benefit of its citizens' needs. By doing so each

party would be obliged to play his role accordingly. The people pay their taxes and the government manage their money in offering public services which the people are in need for.

The income tax department operates on the conditions of relatively low uncertainty for two reasons:

1 - Its functions tend to be repetitive and routine in nature.

2 - It is a legal monopoly and it has no competition to threaten its position.

Given such conditions, a traditional structure is appropriate for the income tax department as it accentuates control, stability and predictability without completely ignoring flexibility.

No structure however, can afford not to emphasize the development of human resources in both technical and interpersonal terms.

This study which is intended to serve as suggestions for a reform of the income tax system in Lebanon is of no value unless a reform also starts in the tax administration on the one hand and that penalties

mentioned in the law be enforced against people guilty of fraudulent operations on the other.

In conclusion, in addition to generating revenue to finance public services, taxation can be employed to serve other objectives, among the most important of which are income redistribution, economic stabilization, and the regulating of consumption of certain commodities or services. Altering the distribution of income in society is a function that many governments perform. Although it is not the only means of performing this function, taxation is the most explicit, with the revenue collected by taxing one group in society transferred directly to another group. The size of the government deficit - the important policy variable for purposes of economic stabilization. Adjustments in tax rates are an important means of manipulating the deficit. Finally, excise taxes are often imposed on goods and services with the objective of reducing consumption by raising the price of the taxed commodities. Tobacco and liquor are two commodities often subject to this sumptuary taxation.

In summary, we return to the universal law: "Tax revenue is the major source of financing for public services. It is the process by which the people pay the expenses of carrying on the government". For this reason a nation to survive and carry on its existence should

abide to this law. Furthermore, both its citizens and its government should abide to the role needed from them. My research will benefit Lebanon on large scale. Thus preventing a lack of trust between both the people and the government.

Finally, all the citizens combined with their government have to abide to this important law. Their existence in a strong, unified and prosperous nation depends on a mutual obligatory performance; each for his own expected obligation towards the other.

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Appendix A

Legislative Decree 144 of 12/6/1959 (Income Tax Law)

Article 108 : Any person who willfully, with intent to evade the tax or assist any other person to evade the tax :

a. Omits to include any income in the statement submitted by virtue of the present legislative decree; or

b. Makes any false or incomplete statement; or

c. Prepares or maintains, or authorizes the preparation or maintenance of any false books or records, or falsifies or authorizes the falsification of any books of accounts or registers, or records, or makes use of any fraud art or contrivance whatsoever shall, for each offence, be liable to a fine of 300 to 2000 pounds and to imprisonment for a term running from 3 months to one year, or to either two penalties, and in any case to double the amount of the understated tax.

The prescription period shall be interrupted as of the date the General Director of Finance refers the case to court through the public attorney.

APPENDIX B

Economic Indicators (Source : Banque Audi-Economic Analysis Unit)

Agriculture	1994	1995	1996
Agricultural exports (US$ million)	59	84	98
Banks credits to agriculture (US$ million)	26	34	37
Agricultural exports/total exports	10.3%	10.2%	9.6%

Industry	1994	1995	1996
Industrial exports (US$ million)	513	740	920
Banks credits to industry (US$ million)	118	155	165
Industrial exports/total exports	89.7%	89.8%	90.4%
imports of industrial machinery (US$ million)	117	116	313
New factories	408	431	459
Food products	76	80	90
Textile and clothes	38	28	34
Tanned leather	8	15	9
Wood and furniture	50	80	69
Paper products	4	13	19
Chemical products	32	36	40

Non mineral products	24	15	25
Mineral products	110	97	126
Machines	8	10	12
Jewelry	13	8	10
Others	45	49	25
New employees	3,527	3,451	3,414
New capital (LP million)	78,725	95,797	100,969

Construction	1994	1995	1996
Construction permits ('000 sqm)	22,388	34,032	13,144
Beirut	1,678	1,732	876
Mount Lebanon	13,433	19,365	7,664
North	3,056	3,560	2,085
South	3,116	5,987	1,557
Bekaa	1,105	3,388	962
Cement delivery ('000 tons)	3,466	3,978	3,802
Cimenterie Nationale	1,099	1,252	1,325
Société des Ciments Lebanais	1,557	1,786	1,652
Sibline	325	386	404
Imports	485	555	422
Construction cost index	5.89%	2.12%	-0.39%
Total material	9.85%	2.60%	0.25%
Total labor	-8.44%	0,00%	-3.23%

Transport	1994	1995	1996
Beirut Port activity			
Number of ships	3,359	3,443	3,263
Number of containers	92,530	132,79 6	103,39 3
Merchandise ('000 tons)	5,655	6,678	6,150
Beirut Airport activity			
Number of planes	19,045	20,478	21,004
Number of passengers ('000)	1,438	1,612	1,645
Cars in circulation ('000)	1,221	1,370	n.a

Energy	1994	1995	1996
Electricity generated (million Kwh)	4,584	5,004	7,411
Oil imports ('000 metric tons)	2,404	2,608	2,183

Foreign trade	1994	1995	1996
(US$ million)			
Imports	5,990	7,303	7,559
Exports	572	824	1,018
Trade balance	-5,418	-6,479	-6,541
Exports/imports	9.5%	11.3%	13.5%
Exports to main trading partners			
U.A.E.	18.0%	29.9%	28.0%
Saudi Arabia	15.2%	11.0%	14.0%

Syria	10.8%	8.0%	7.0%
France	4.5%	6.0%	5.0%
Kuwait	5.6%	4.0%	7.7%
Imports from main trading partners			
Italy	13.3%	13.0%	12.1%
U.S.	9.3%	10.6%	11.0%
Germany	10.0%	8.4%	9.0%
France	8.9%	7.6%	7.8%
Japan	4.2%	4.0%	3.9%
Main exports			
Paper and paper products	15.2%	26.1%	32.5%
Textiles	11.9%	9.8%	9.0%
Vegetable products	8.4%	8.5%	7.4%
Jewelry	9.1%	8.4%	8.1%
Metals and metal products	9.4%	8.0%	6.6%
Electrical equipment	7.5%	7.9%	7.7%
Main imports			
Electrical equipment	15.5%	15.6%	17.7%
Vehicles	11.5%	11.4%	11.8%
Metals and metal products	9.1%	9.8%	8.6%
Mineral products	10.0%	8.8%	9.6%
Food and beverages	8.1%	7.8%	7.6%
Textiles	7.6%	6.9%	6.2%

Monetary situation (LP billion)	1994	1995	1996
M1 (Currency + LP demand deposits)	1,437	1,561	1,753
M2 (M1 + Quasi - money in LP)	8,587	9,663	14,002
M3 (M2 + FX deposits)	19,651	22,883	29,241
M4 (M3 + Tbs public)	21,549	26,233	33,708
Counterparts of M3			
Foreign assets - net	15,757	15,788	16,405
Gold	5,821	5,701	5,292
Gold (US$ million)	3,535	3,572	3,410
FX	9,935	10,087	11,113
FX (US$ million)	6,032	6,320	7,161
Debit position of public sector	-1,747	-562	3,079
Net claims	4,347	5,350	8,296
Valuation adjustment	-6,094	-5,912	-5,222
Claims on private sector	7,873	10,425	13,026
Claims in LP	1,091	1,384	1,725
Claims in FX	6,782	9,042	11,300
Other items - net	-2,232	-2,768	-3,264

Prices and wages	1994	1995	1996
Consumer Price Index (in LP)	12.1%	9.9%	5.2%
Consumer Price Index (in US$)	16.4%	13.5%	8.3%

Minimum salary (in LP)	200,000	250,000	250,000
Minimum salary (in US$)	120.0	156.7	161.0
(LP/US$ exchange rate (year end)	1,647	1,596	1,552
(LP/US$ exchange rate (yearly average)	1,680	1,621	1,571

Banking system	**1994**	**1995**	**1996**
Number of operating banks	79	79	80
under foreign control	27	28	29
Number of branches	579	616	n.a.
Number of staff employed	13,679	14,282	n.a.
Activity highlights (LP billion)			
Total footings	28,106	34,400	n.a.
Total assets	24,285	29,055	37,183
Total deposits	20,350	23,884	30,685
Total credits	8,169	10,695	13,290
Total shareholders' equity	676	1,146	1,943
Key ratios			
Liquidity ratio	70.77%	66.89%	67.82%
Shareholders' equity / Total assets	2.78%	3.94%	5.23%
Net return on average shareholders' equity	57.45%	41.29%	n.a.
Net return on average assets	1.49%	1.43%	n.a.

Top 10 banks by customers' deposits as of 31/12/1996 (LP billion)

Bank	Deposits
Banque du Liban et d'Outre Mer Sal	4,196
Banque de la Méditerranée Sal	3,191
Banque Audi Sal	2,391
Banque Libano-Française Sal	2,086
Byblos Bank Sal	1,829
Fransabank Sal	1,829
Société Générale Libano-Européenne de Banque Sal	1,721
Banque Nationale de Paris Intercontinentale	1,539
Arab Bank PLc	1,410
Bank of Beirut and the Arab Countries Sal	1,059