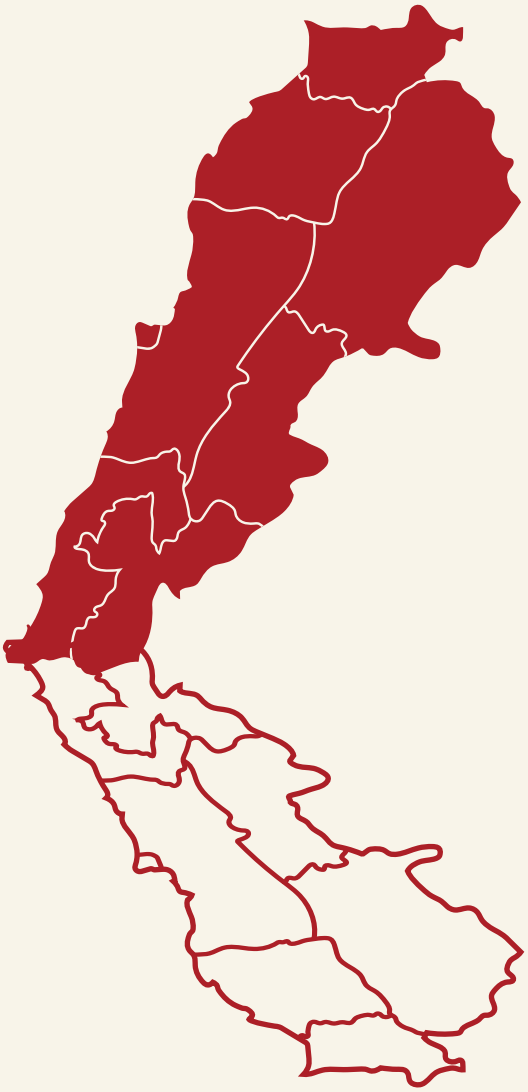
SOCIAL POLICY IN LEBANON BETWEEN

WELFARE & WARFARE



POLICY NOTE

Two Sides of a Broken Contract:

Taxation, Social Spending, and the Fiscal Foundations of Recovery in Lebanon for All

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unicef for every child

ALDIC

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The Language Platform

Design
Valerie Nseir

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86%

of revenue is generated by indirect consumption taxes (VAT, fuel, customs).



2019-2026

Tax burden shifts from the top 1% to the bottom 50%. The bottom 50%'s share rose from 20% to 26%, while the top 1%'s fell from 14% to 7%.



22% vs. 1%

In 2026, social spending nominally covers 22% of the 2026 budget, but childcare, disability support and family allowances together remain under 1%[1].

BACKGROUND

This policy note draws on the roundtable discussion "Two sides of a broken contract" (01 September 2026), the second session of the series "Social Policy in Lebanon Between Welfare and Warfare: Civil Society and Expert Engagement and Exchange Towards Social Justice in Lebanon", co-organised by CeSSRA and UNICEF[2]. Bringing together researchers, practitioners, and policy specialists[3], this second roundtable was conducted in collaboration with the Lebanese Association for Taxpayers' Rights (ALDIC) and chaired by Sabine Hatem from the Institute of Finance, Basil Fuleihane.

The roundtable examined the two sides of Lebanon's broken contract: a revenue system increasingly reliant on regressive taxation and a social protection system that remains inadequate and unevenly distributed. The roundtable started from the mismatch between a narrow and regressive revenue system with indirect taxes generating around 86% of state income and a social-spending framework that allocates 22% of the 2026 budget to social objectives (social protection, health and education). This framework concentrates resources in public-sector pensions and healthcare, leaving childcare, disability support, and family allowances representing less than 1%. Tax and spending decisions shape children's access to nutrition, education, healthcare, and family support. In the context of repeated crises and the recent war, rebuilding Lebanon's broken contract is essential for protecting children and enabling an equitable recovery.

This policy note draws on that discussion, and on the fiscal foundations laid out in the series' first roundtable on children's exposure to recurrent crisis[4], to set out reform directions capable of financing more equitable and durable social protection in Lebanon. It is addressed to stakeholders engaged in fiscal reform, public finance, and social protection in Lebanon, including Parliament's Finance and Budget Committee, the Ministry of Finance, international donors and development partners, and civil society organisations.

1. All figures and numbers were cited by speakers and presented during the roundtable discussion held on September 1st, 2026.

2. Read the full invitation here: https://www.socialsciences-centre.org/english/calls-announcements/event-summaries/roundtable-2-two-sides-of-a-broken-contract-taxation-social-spending-and-the-fiscal-foundations-of-recovery-in-lebanon-for-all

3. Dr. Sami Atallah: The Policy Initiative. Me Ralph El Najjar: Tax Lawyer, ALDIC member. The roundtable was moderated by Léa Yammine co-director of CeSSRA, and chaired by Sabine Hatem, from the Institute of Finance, Basil Fuleihane.

4. Read the policy note here: https://www.socialsciences-centre.org/english/research/policy-briefs/repeated-exposures-childhood-and-war-in-lebanon

CONTEXT AND PROBLEM STATEMENT

Lebanon's fiscal system remains highly regressive, and the country's polycrisis has deepened its underlying distributive injustices. According to figures gathered by The Policy Initiative, revenue from taxes on income, wages, and profits declined from around 3% of GDP before the 2019 financial crisis to 1.7% in 2026, while revenue from property- and wealth-related taxation fell from 5% to 1.34% over the same period. Concurrently, consumption-tax revenue reportedly rose from 8% to 11.4% of GDP, exceeding the international benchmark of 7.7 to 7.9% cited during the discussion. Preliminary budget analysis by The Policy Initiative further suggests that the bottom 50% of the population, receiving only 11% of national income, saw its share of the tax burden increase from 20% to 26% following the 2019 collapse. By contrast, the top 1%, receiving approximately 20% of national income, saw its contribution decline from around 14-15% to 7%. These inequalities are reinforced by an extensive system of approximately 170 tax exemptions. They reportedly include VAT exemptions benefiting gold, silver, jewellery, and casino or gambling activities, while 13 of the 41 basic commodities examined remain subject to VAT (for instance, bottled water, chicken, or tomato paste).

Lebanon's fiscal crisis cannot therefore be reduced to a revenue shortfall that economic recovery alone will resolve. Although tax receipts have been recovering since 2022, this rebound, driven mostly by increased consumption taxation, has largely restored the pre-crisis fiscal architecture, while further exacerbating its regressive distributional foundations and placing an additional burden on vulnerable and lower-income households. The implications are particularly significant for children who are disproportionately affected when households face higher living costs and when social spending fails to reach families.

What would fiscal recovery mean if public revenues were restored while the inequalities embedded in taxation and expenditure remained unchanged? By requiring lower- and middle-income households to contribute disproportionately through consumption taxes while simultaneously paying privately for essential services that the state fails to provide, the existing system imposes a double burden. As a result, it undermines the reciprocity on which tax compliance, and the social contract itself, ultimately depend.

KEY FINDINGS

1. Regressive taxation compounds the vulnerability of groups already underserved by public provision.

Sabine Hatem framed taxation not only as a technical or administrative matter but as a direct determinant of how citizens live and what they can access and afford.

> *"Tax policy is not just numbers… every decision the state makes regarding its tax policy has a direct impact on how citizens can live in a dignified way and have access to basic services." (Sabine Hatem, Institute of Finance, Basil Fuleihane)*

Fiscal injustice is therefore compounded when the state increases revenue through consumption taxes (which absorb a larger share of lower-income households' resources) without providing adequate and accessible social services in return. This asymmetry extends to refugees and other non-citizens, who contribute to public revenues through VAT and other consumption taxes but remain largely excluded from the rights, services, and protections conventionally associated with the social contract. Where public provision is insufficient, families absorb the gap through private payments, unpaid care, delayed treatment, and interrupted schooling, while the resulting care burden is transferred to households and borne disproportionately through the unpaid labour of women and girls.

2. The tax system increasingly targets consumption while granting clientelistic tax privileges to specific, often well-connected, interests.

The political economy of taxation shifts the burden onto consumption while protecting wealth and organised interests. Dr. Sami Atallah's analysis indicated that Lebanon's fiscal adjustment in recent years has shifted a growing share of the burden onto lower- and middle-income groups. Because households cannot readily reduce expenditure on food, transport, energy, and other essential goods, adjustment driven primarily by consumption taxation disproportionately affects those with the least capacity to absorb further losses. This regressive pattern is reinforced by tax exemptions, many of which appear to disproportionately benefit wealthier households and asset holders (including some 23 inheritance-related exemptions and 20 concerning built property). Yet their distributional incidence, beneficiaries, fiscal costs, and stated social or economic rationales remain largely undocumented and insufficiently scrutinised.

> *"The exemptions are important when they are linked to economic and social objectives. Yet in the Lebanese case, are they really analysed according to their social impact, or are they merely politically allocated tax privileges or gifts? As we can see in the study, they are mainly gifts: tanfi'āt* تنفيعـات*."*
> *(Dr. Sami Atallah, The Policy Initiative)*

Atallah's preliminary analysis of the "benefit-to-tax ratio" measures the value of public benefits received relative to taxes paid. It suggests that the position of the bottom 50% deteriorated after the 2019 financial crisis. Before the crisis, this group received an estimated 2.66 units in public benefits for every unit paid in taxes; afterwards, this ratio fell to 1.4. Although the ratio remained above one on average, the decline indicates that the fiscal system became less redistributive toward lower-income households after the crisis, as their tax contribution increased relative to the benefits they received. These figures generated a broader discussion among participants about the political economy underlying the tax system, particularly the unequal capacity of organised interests and ordinary citizens to influence fiscal decisions. Participants consequently emphasised the importance of accessible evidence, public scrutiny, and collective mobilisation in challenging these distributive inequalities.

3. Tax justice is undermined by the structure of the law itself, not only by its enforcement

Me Ralph El Najjar argued that Lebanon's tax inequity is built into the law by design, not merely a matter of weak tax collection. According to him, those who benefited most from crisis, war, and the economy's distortions should carry a proportionally greater share of the collective burden. Yet, current arrangements are producing the exact opposite outcomes. Lebanon's schedular income-tax system taxes different categories of income separately rather than assessing total income together. Currently, two people earning the same amount can face very different tax burdens depending on the source of their earnings.

> *"The problem in Lebanon is that I don't pay my taxes based on how much money I make, but based on how I make my money." (Me Ralph El Najjar, ALDIC)*

This form of inequality reflects two structural gaps. On one hand, Lebanon lacks a comprehensive wealth tax. On the other hand, the state administratively lacks sufficiently accurate, updated and usable beneficial-ownership information to identify the individuals who ultimately control assets held through corporate and offshore structures. The first requires medium-term legislation defining taxable wealth, thresholds and valuation rules, while the second can be addressed more immediately through a verified beneficial-ownership register accessible to the tax administration. This reform is reinforced by Lebanon's FATF grey-listing, which remained in effect as of June 2026 and requires improvements in beneficial-ownership transparency, creating an opportunity to align anti-money laundering compliance with more effective and equitable taxation of property and wealth.

4. A sizeable social-spending envelope with no credible reforms delivers limited and unequal protection

The audience discussion also emphasised the importance of reform credibility, stressing that legislative reforms would erode what remains of the political trust if they fell short on the administrative capacity to implement them. Participants argued that credibility depends on reciprocity. Citizens' trust is a precondition for compliance, not its by-product: participants asked why citizens should pay taxes without receiving functioning education or healthcare in return, framing the social contract as a two-way exchange that the Lebanese state has not upheld. Existing assistance mechanisms, including cash-transfer programmes and disability allowances, also remain substantially dependent on external financing, raising concerns about their adequacy, continuity and national ownership. To maintain the balance between the two sides of this contract, the audience pressed for collecting dues already owed on public maritime properties and quarries before adding burdens on compliant taxpayers. Finally, concerns were raised by the audience that future reform would fall disproportionately on the formal sector while informality remained untouched.

POLICY RECOMMENDATIONS

1 Rebalance the tax mix toward income, wealth, and under-taxed assets while protecting lower-income households from the regressive burden of consumption taxation

Consumption taxes will remain central to revenue mobilisation in the short term, but no increase should be introduced without compensatory measures for lower-income households. The government should remove unjustified VAT exemptions benefiting luxury goods and activities, review the taxation of essential commodities, and adopt measurable targets and a clear timeline for increasing the revenue share derived from income, wealth, property and other under-taxed assets (public maritime property, quarries, vacant built property etc.).

2 Sequence reform by aligning the taxation of capital and labour while making beneficial ownership visible

Lebanon can immediately improve progressivity by aligning the taxation of capital income more closely with that of wages and by establishing verified beneficial-ownership information accessible to the tax administration, as already expected under FATF standards. In parallel, it should prepare a comprehensive wealth-tax framework with clear thresholds and valuation rules, aggregating income from labour, business, financial assets and property, an objective that requires amendments to the Income Tax Law and sustained rebuilding of administrative capacity.

3 Institutionalise annual review of tax exemptions

Rather than treating Lebanon's roughly 170 tax exemptions as fixed, each should be subject to a published annual review assessing who benefits, how much revenue is forgone, and whether it serves a demonstrable social purpose. This would bring Lebanon in line with the IMF's Fiscal Transparency Code (Pillar II: Fiscal Forecasting and Budgeting), which requires governments to publish, alongside the annual budget, a statement on the nature and fiscal significance of tax expenditures.

4 Build credibility through visible, reciprocal delivery, and enforce obligations already owed before adding new ones

Since compliance is a two-way exchange, citizens are more willing to pay when they see functioning services in return. Yet, that willingness cannot be the starting condition: the state must move first, delivering visible improvements in services before it can credibly expect greater compliance in return. Equally, credibility requires collecting revenue already legally owed (including dues from the occupation of public maritime property, from quarries, etc.) before raising burdens on accessible taxpayers. Only when citizens see obligations applied fairly across the board will they trust that new revenue serves the public good, not only the privileged few.

5 Pair progressive taxation with a rebalancing of social spending to finance and build a social protection system across the lifecycle

Since compliance is a two-way exchange, citizens are more willing to pay when they see functioning Earmark a growing share of new progressive revenue for inclusive, rights-based benefits, starting with a child grant and the disability allowance, so that fairer taxation translates into stronger protection. In parallel, the government should review the composition of the existing social-spending envelope, and progressively reallocate a larger share towards benefits that reach households outside the formal public sector. Align these measures with the National Social Protection Strategy with a clear commitment to progressively replacing external funding with sustainable domestic financing.

6 Strengthen tax administration and widen coverage, making formalisation more attractive through tangible benefits

The Ministry of Finance should retain and rebuild skilled tax-administration staff, digitalise filing and payment, and progressively introduce e-invoicing and incentives for digital payments to identify undeclared income in the cash economy. The government should develop a simplified presumptive tax regime for small businesses, with safeguards for low-income livelihoods, and coordinate with social-protection institutions to link formalisation to tangible benefits. These efforts should prioritise reaching untaxed income before increasing the burden on already compliant taxpayers.

CONCLUSION



Lebanon's fiscal contract remains broken on both sides, with a revenue system that taxes consumption over wealth and a spending system where social protection nominally exists but barely reaches children, persons with disabilities, women, and informal workers. Closing this gap requires shifting revenue toward income and wealth, institutionalising transparency over exemptions, and protecting and expanding social spending.

Unless public spending is deliberately redirected towards the groups the current system renders invisible, even a more progressive tax system will leave those most exposed to Lebanon's crises without the social protection to which they are entitled. As Lebanon moves from emergency response towards recovery and reconstruction following the war, fiscal reform must be assessed not only by the revenues it generates but also by its contribution to the population's wellbeing and realisation of their rights, notably for children. A more progressive and equitable fiscal system can help lay the foundations for an inclusive recovery, ensuring that investments in social protection throughout the lifecycle, from childhood to old age, in education, and in health reach those most affected by multiple crises.