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Number-crunching the VAT

Discussions on the launch of a Value-Added Tax (VAT) began under the Hoss administration, with the tax finally coming about based on Law No. 379 on December 24, 2001 under the Hariri government. The VAT was then implemented on the first of February 2002.

VAT Compliance

The VAT applies to all operations within Lebanese borders that involve financial transactions and any services provided for a fee by persons subject to the tax. Those subject to the tax are natural or legal persons who undertake such transactions or services as part of their independent commercial activities, with the proviso that turnover over the four quarters exceeds LL 500 million (\$331,000). Businesses whose transactions range between LL 150 million (\$100,000) and LL 500 million have the option of voluntary compliance to the VAT.

Specifying which business transactions fall under the VAT can be complicated due to the incorporation of many basic services in one final product. While the final product itself may not be subject to VAT, those involved in generating it may fall under VAT requirements. For example, services provided by doctors or medical professionals, and medication expenses are not subject to the VAT, while electricity, gas, heating and refrigeration are subject to the VAT and are part of the medical services. The following services fall under the VAT:

- n Private property rental
- n Communications
- n Water
- n Electricity
- n Visual and audio-visual media
- n Commercial activities
- n Slaughter houses
- n Warehouses
- n Tobacco
- n Car parks
- n Cooperatives
- n Ports and airports
- n Gas
- n Property and fixed assets

The law clearly dictates that the following activities are exempt from the VAT:

- n Education

- n Medical services
- n Insurance and reinsurance
- n Banking and financial services
- n NGO activities
- n Agricultural crop delivery
- n Betting and lottery
- n Finished real estate rental
- n Public transport
- n Agricultural equipment
- n Fertilizers and seeds
- n Books, newspapers & other publications
- n Cattle, poultry, fish, cheese, bread, flour, meat, milk and dairy products.

Implementation decrees

Some VAT decrees were issued days before the VAT law went into effect, while many followed even after it was implemented. More specifically, 20 decrees were issued before the law was put into practice and 21 decrees followed afterward.

Calculating the VAT

Article 25 specified the VAT at a rate of 10%. However, the method used to calculate the VAT can render a higher rate. For example, if a merchant imports a product for LL 80,000, the applicable VAT is LL 8,000. The importer then sells the product to a retailer for LL 85,000 (with LL 500 as additional tax). The retailer sells the product to a consumer for LL 95,000, adding LL 1,000 to the paid tax and therefore the total VAT paid reaches LL 9,500, resulting in 10% of the price of the final product sold or 11.8% of the original import price.



Companies subject to VAT

The number of registered companies initially reached 7,328, out of which 6,429 were obliged to pay VAT while 899 opted to register. The majority of registered companies (87.33%) were located in Beirut (37.43%) and Mount Lebanon (49.9%). By September 2002, the number of registered companies totalled 8,150 with 3,956 in Mount Lebanon and 3,091 in Beirut.

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