Is VAT in Lebanon a Progressive or Regressive Tax?

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In Lebanon's 2027 draft budget, revenues are projected to increase by 14.2% compared with the 2026 budget law. According to *Lebanese Government's Draft Budget 2027: Figures and Main Measures*, VAT represents 52.3% of total revenues, equivalent to 60.1% of overall tax revenues. This highlights the importance and weight of VAT in Lebanon's fiscal framework.

This raises a critical question: given the worsening living standards, is VAT — Lebanon's largest source of government revenue — a fair tax, or is it a regressive one?

The paper proceeds by first outlining the main tax structures, then presenting *Lebanon Opportunities' (LO)* findings on VAT distribution, before assessing whether VAT is progressive or regressive in Lebanon and finally examining reform proposals and their challenges.

Tax Structures Overview

Figure 1: Tax Structures

Tax Type	Definition
Progressive Tax	Tax rate increases as income rises. Higher earners pay a larger share of their income.
Proportional Tax	Flat tax rate applied equally across all income levels.
Regressive Tax	Tax burden falls more heavily on lower-income groups, as they spend

Tax Type	**Definition**
	a larger share of income on taxed goods.

LO Study

LO conducted a data-driven analysis of tax burden distribution in its study, *VAT Is Not a Regressive Tax*, examining how VAT affects households across different income levels. It turns out, VAT costs increase with income from 4.82% of income for the lowest earners to 6.36% for the highest.

Figure 2: VAT Burden Relative to Income

Income Bracket	VAT as % of Income
Less than $5,200	4.82%
$5,200 - $9,600	5.31%
$9,600 - $19,200	5.79%
$19,200 - $40,000	6.24%
$40,000 +	6.36%

Sources: LO, CAS, BLOM Bank

This rise is explained by several factors:

1. **Poorer households pay a higher share for tax-exempted categories**
   Although every household faces an 11% VAT rate, the effective tax burden ranges from 5% for the poorest households to 9% for the richest ones. This happens because low-income households spend 62% of their budget on heavily exempt food and utilities, whereas higher-income groups allocate more of their spending to fully taxed goods and services.

Figure 3: Weighted Effective VAT Rate as per Income Level

Income Bracket	Weighted Effective VAT Rate
Less than $5,200	5.07%
$5,200 - $9,600	6.25%
$9,600 - $19,200	7.23%
$19,200 - $40,000	8.32%
$40,000 +	9.09%

Sources: LO, CAS, BLOM Bank

Figure 4: VAT Exempted Products

EXEMPTED PRODUCTS The supply of the following goods and items shall be exempt from the Value Added Tax:

01. Livestock, poultry, live fish, and agricultural food products sold in their natural state.
02. Bread, flour, meat and fish, milk and dairy products and their derivatives, rice, bulgur, sugar, table salt, vegetable oils, pasta of all types, and food preparations intended for infant nutrition.
03. Books and similar printed materials, magazines, newspapers, paper and cardboard used for writing or printing, newsprint in rolls or sheets, and printing ink.
04. Postal and fiscal stamps, and banknotes.
05. Gas intended for household consumption (butane gas).
06. Seeds, fertilizers, animal feed, and agricultural pesticides.
07. Agricultural machinery.
08. Medicines and pharmaceutical substances, including products intended for medical and pharmaceutical use (such as contraceptives, condoms, sanitary pads and towels, baby diapers, and similar sanitary items).
09. Medical instruments, devices, and equipment.
10. Precious and semi-precious stones, synthetic or reconstituted precious and semi-precious stones, pearls, diamonds, gold, silver, and other precious metals.
11. Banknotes and coins in circulation.
12. Aircraft used for the transport of persons and goods.
    - Diesel fuel (Mazout).

Source: Toward Rethinking VAT System in Lebanon: An Entry Point for a More Equitable Tax System

Figure 5: VAT Exempted Services

EXEMPTED SERVICES The following transactions, when carried out within Lebanese territory, shall be exempt from Value Added Tax:

01. Services rendered by physicians and by professionals of a medical nature, as well as hospitalization expenses.
02. Education.
03. Insurance and reinsurance, and health benefits provided by mutual funds and employers, together with the related services.
04. Banking and financial services, including Islamic banking transactions, contracts, and instruments.
05. Activities of associations and entities recognized as being of public utility, and those concerned with the care of persons with special needs, the elderly, orphans, children, and persons suffering from mental illness, cancer, or other diseases as may be specified by decision of the Council of Ministers, provided such activities are carried out in furtherance of their stated purposes. This exemption shall not extend to activities carried out on a recurring basis where such exemption would result in unfair competition with taxable entities.
06. Public passenger transport, including transport by taxi.
07. Delivery of gold to the Central Bank.
08. Betting, lotteries, and other games of chance.
09. Sale of built real estate.
10. Lease of built real estate for residential purposes.
11. Farmers' activities relating to the supply of their agricultural produce.
12. Activities of licensed daycare centers engaged in the field of child care within Lebanese territory.

Source: Toward Rethinking VAT System in Lebanon: An Entry Point for a More Equitable Tax System

2. Spending Choices and VAT Impact

Even within the same spending categories, higher-income households tend to purchase more expensive and fully taxable goods — for example, imported cheeses and other processed items — whereas lower-income households often rely on cheaper domestic staples that are mostly Tax exempt. After assessing exemption pass-through factors, *LO* found that for food, the effective VAT rate is 1.1% for the lowest income households, compared with 6.5% for the highest income households.

3. Role of Savings

Interestingly, poorest households spend nearly all their income on consumption, whereas top earners allocate only about 70% to consumption, using the rest for savings and investments. Because VAT applies strictly to consumption, households with higher savings incur a lower VAT relative to total income. While this dynamic does narrow the gap in effective VAT rates between the poorest bracket (4.82%) and the richest bracket (6.36%), nevertheless, the top bracket still contributes about 32% more of its income to VAT overall.

Figure 6: VAT Exempted Services

Spending Category	Allocation
Housing and Utilities	22%
Transportation (Including private vehicles and fuel)	19%
Food	10%
Restaurants and Hotels	8%
Clothing and Footwear	8%
Recreation and Culture	6%
Other	27%

Sources: LO, CAS, BLOM Bank

Is VAT in Lebanon a progressive or regressive tax?

While the lowest income households pay an average of $20.80 per month on VAT, the highest income households pay an average of $351.78 per month, an 18-times difference. This shows that VAT acts more as a progressive tax rather than a regressive or proportional one. Therefore, proposals to raise the flat VAT rate will carry a heavier weight on higher-income households, whereas narrowing or canceling exemptions on essentials like food would harm lower-income households more.

While LO's analysis did prove that VAT is a progressive tax, further reforms remain possible to enhance fairness.

Toward Rethinking the VAT System

In *Toward Rethinking VAT System in Lebanon: An Entry Point for a More Equitable Tax System*, the author acknowledges that Lebanon's tax system, not just VAT, requires comprehensive restructuring, including greater reliance on income taxation. Yet he stresses that stronger direct taxation and improved administration remain politically and institutionally difficult to implement.

Therefore, he argues that fairness in the short to medium term can best be achieved by broadening exemptions on essentials and applying differentiated VAT brackets: lower rates for necessities, standard rates for everyday consumption, and higher rates for luxury items.

The author notes "Despite the breadth of Lebanon's VAT system, important coverage gaps remain from an equity perspective. Existing exemptions often apply only to goods in their natural or unprocessed form, meaning that commonly consumed processed equivalents such as tomato paste compared to raw tomatoes, remain taxable despite being close substitutes in low-income consumption baskets. In addition, everyday necessities such as bottled water, hygiene products, and household cleaning products are generally subject to VAT, further increasing pressure on vulnerable households."

The author adds "VAT reform should move beyond a narrow reliance on exemptions and consider both the scope of the exemption list and the introduction of differentiated VAT rates based on the necessity, social value, and consumption profile of goods and services. This would allow the state to protect low- and middle-income households from excessive taxation on essential consumption, while raising additional revenues from non-essential and luxury consumption."

While the analysis is sound in theory, it carries important caveats. The proposed VAT reform would be administratively demanding, requiring clear classification criteria, reliable household consumption data, and transparent review mechanisms. Such complexity not only makes the process demanding, but also exposes it to risks of inefficiency, corruption, and abuse. In practice, the administrative effort might be better directed toward reforming the income tax system instead.

Moreover, because luxury goods are highly price-elastic, raising VAT or customs duties on them would likely reduce consumption and, in turn, diminish the expected tax yield and overall governmental revenues. That said, for very high-income households the impact would be limited, as their greater purchasing power allows them to maintain spending on such goods without being significantly affected.

Conclusion

In conclusion, in the short term, Lebanon's VAT system appears relatively progressive. While, it does carry caveats such as taxing certain everyday goods at the same rate as luxury items, alternative reforms are often administratively demanding without offering greater efficiency. In the longer term, however, Lebanon's fiscal stability requires a broader restructuring of its tax architecture, beginning with income taxation and focusing on stronger direct taxes, improved administration, and enhanced capacity to reduce evasion.

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