

## “Tax Receipt Lottery”, an enhancer to the Lebanese Economy?

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## I - “Lotteria degli scontrini”, an innovative measure against value added tax evasion

*What if the citizens could be accomplices of the state in its combat against value-added tax evasion?*

- *Italy introduced this same idea through the introduction of tax receipts lottery<sup>1</sup>. This innovated measure aims to guarantee the registration of every purchase in the official economy, where it can be taxed by the authorities.*

The idea of this concept is to provide consumers with an incentive to ask for an electronic receipt which *will be automatically registered with the Tax Authority. The latter will then issue a lottery ticket, giving consumers eligibility to participate in a tax lottery. The lottery in turn gives the chance to win a prize.*

Hence, for the tax authority, the cost of the lottery will be, in turn, outweighed by the extra revenue of an increased tax base, and by a citizen-policing effect of detecting VAT- dodging businesses.

## II- The importance of the tax receipts lottery

Worldwide, **20-35% of government revenue comes from value-added tax** <sup>2</sup> or similar imposes on consumption. However, because of businesses under-report revenues, several countries observe a **large gap between the potential declarations and the practical and effective ones.**

In order to avoid this phenomena, some country have introduced lottery schemes, namely Malta in 1997, Slovakia in 2013, and Portugal in 2014. The number of receipt being estimated from the weight of total receipts in the lottery drum, some common figures have been recorded. In fact, it has been observed, in the above mentioned countries, that, from year to year, the number of **submitted receipt has considerably increased**<sup>3</sup>. This increase has particularly been noticed in small retails, where there was a higher rate of sales increase from the pre- to the post lottery period compared to the sales increase in larger retailers.

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<sup>1</sup> Italian Budget Law for the year 2020

<sup>2</sup> “Governments use receipt lotteries to boost tax compliance” The Economist- Feb 28<sup>th</sup> 2019 Edition

<sup>3</sup> “Improving VAT-compliance-random awards for tax compliance” Taxation papers Working paper N.51-2014- European Commission

However, the attribution of this increase couldn't be identifiable **alone** because of the implementation of multiple other measures improving the tax compliance in those countries.

### III- The impact of the tax receipts lottery if executed in Lebanon

The implementation of the tax receipts lottery could have a considerable positive effect on the Lebanese economy. First, the positive fiscal effect, deriving from the cost of the lottery that should be outweighed by the reduction of the Value Added Tax evasion, would lead to a partial contribution in the **paydown of the Lebanese international and national debts**.

Also, **in the long term**, the reduction of the gap between the potential declarations and the concrete ones could eventually lead **to the reduction of the VAT to its initial rate, 10%**, knowing that this rate has been fixed to 11% since 2017.<sup>4</sup>

In any case, the lottery system would definitely and automatically improve the organization **of the Lebanese tax administration** by simplifying the declaration and control systems.

### IV- The possibility of implementing the lottery system in Lebanon

Lebanese laws and regulations are planting the seeds to a proper implementation of the lottery system. On one hand, the legislator considerably encourages the electronic use related to the value added tax' system. In fact, **article 1 of the Ministerial Decision No 1/1157 dated 25/10/2013**, stipulates that VAT payers should provide their declarations to the tax authority electronically, starting the year following the issuance of this decision (2014). The violation of this requirement is subject to penalties. Also, **the Ministerial decision No 1/432 dated 23/3/2013** introduces the electronic payment of value-added tax to the tax authorities, made by the banks via electronic accounts opened by their customers. A second Ministerial decision <sup>5</sup>related to the same matter has been issued in order to explain the payment process.

**Therefore a part of the electronic system primordial to the preparation of a lottery system is already implemented, the data base being kept in an electronic platform set up by the tax authority.**

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<sup>4</sup> Law No 64 dated 20/10/2017

<sup>5</sup> Ministerial Decision No 1/510 dated 24/4/2013

On another hand, the Lebanese legislator gives great importance to the authority's control and surveillance over the tax declarations. In fact, the legislator, **via article 23 of the law No 44 dated 11/11/2008**, includes the tax control as one of the rare exceptions granted to lifting the banking secrecy. Also, **the Ministerial Decision No 1/1373 dated 21/12/1014** determines the appropriate process related to the invoices issuance in order to simplify the control and tracking led by the tax authorities.

**Thus, the already rooted and developed control system in Lebanon offers a fertile legal land, appropriate to the implementation of the lottery system.**

### V- The Practical Plan for an Eventual Implementation

In order to introduce the lottery system in Lebanon, **an electronic system linking the electronic receipt to the platform** already set up by the tax authority has to be established.

In light of the lottery system executed in Slovakia, the lottery receipt could be registered through any of the following channels: via an application online that should be available on the tax authority's website, via an SMS text message, via the National Lottery Company which served as the operator of the company, and finally, via automatic registration by the retailer issuing the receipt.<sup>6</sup>

In addition, and based on the system executed in Georgia, the administration of the full process should involve several entities including: The Lebanese Tax Authorities (initiator of the lottery), the Lebanese Lottery Company (creator of the winning algorithm), the Lebanese banks (the payment platform), advertising companies (promoter of the lottery), a Lebanese Mobile operator (who will allow the declaration of the receipts in case the registration is made via an SMS text).

Complementary and simple measures, in favor of the Lebanese tax compliance, and which do not involve the creation of algorithms or complex interactions between multiple entities could be implemented as well. For instance, in light of some Italian initiatives<sup>7</sup>, financial police officers could

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<sup>6</sup> "Improving VAT-compliance-random awards for tax compliance" Taxation papers Working paper N.51-2014- European Commission

<sup>7</sup> Italian Garante - E-INVOICES: NO DATABASE TO BE SET UP BY ITALY'S REVENUE AGENCY. NO E-INVOICES FOR HEALTH CARE SERVICES- European Data Protection Board

wait outside shops in order to ask the customers to show the bills or receipts related to their purchases. The government could also issue a new legal obligation for customers based on the retention of the receipts for 24 hours after the purchase. In addition, the legislator should intervene by making the electronic receipt become mandatory. Those measures could considerably help collecting reliable data.