

MOROCCAN TAX REFORM
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Ladies and Gentlemen,

It is a great pleasure and honour for me to be here today and to present to this distinguished audience the Moroccan tax reform which was launched in the eighties (80s).

Economies having become so interrelated, Morocco has shown its willingness and determination to pursue its opening policy on international markets and investors.

For this reason, a vast and bold nationwide program of reforms in commercial law, in corporate law...etc, started and a tax reform was needed to accompany these reforms.

Undoubtedly, open trade has engendered new challenges for Morocco. The country has adhered to the World Trade Organization (WTO) and has signed major Free Trade Agreements (FTA) with the European Union, the USA, Turkey and major Arab partners.

This liberalization of Moroccan trade has caused a major decrease in customs revenues. Therefore, efforts were focused around domestic taxation to raise the resources needed to enable the Government to finance development projects, education, healthcare etc.

However, this focus on internal taxation had to be done with considerable care so as to:

- avoid making the Moroccan tax system more burdensome for both domestic and foreign taxpayers; and at the same time
- preserve the Moroccan competitiveness in the world market; and
- encourage domestic consumption, investment and savings.

To achieve the above mentioned concerns, a reform was designed with the following main objectives:

- generating public revenue in an equitable and sustainable way;
- reducing distortions in economic incentives;

- lifting the tax burden off the poorest and average-income households; and finally
- strengthening the tax administration.

Ladies and Gentlemen,

In the following presentation, I will try to give you an overview of the main aspects of the tax reform in Morocco and its positive consequences. But before this, I will highlight briefly the Moroccan tax system evolution through the last two decades.

- **Before 1984:** the Moroccan tax system was composed of various schedular taxes. For example, an individual was, according to the different types of income he earned, subject to various different taxes (Urban Tax, Wages tax, Capital Gains tax, Dividends Tax, Interest Tax, Business Tax...etc). This structure made the tax system very complicated, hard to manage and to a great extent inequitable;
- **Since 1984:** different taxes were abolished and the former Moroccan tax system became more homogeneous and simpler via the introduction of four main taxes: General Income Tax, Corporate tax, Value Added Tax and Registration and Stamp Duties tax. The aim of this reform was to create a more coherent, simpler and fairer tax system giving more guarantees to taxpayers;
- **In 1996:** an investment Charter was adopted replacing the former investment codes with the main following objectives:
 - reducing the tax burden relating to the acquisition of equipments;
 - reducing the income tax rates;
 - offering tax incentives to promote regional development;
 - promoting offshore and free-trade zones; and
 - apportioning more equitably the tax charges among taxpayers.
- **In 1999:** a national conference was held with the main partners of the tax administration to assess the actual situation and try to come up with a road map and recommendations to be implemented by tax administration.

Ladies and Gentlemen,

One of the cornerstones of the reform was, as we mentioned earlier, to come up with a simpler structure to make the tax system easier to comprehend and use by both the taxpayers and the tax practitioners.

The main trends which have characterized the reform of the Moroccan tax system in its legal dimension can be summarized as follows:

- The simplification of the legal structure;
- The broadening of the tax base;
- The reduction of tax rates; and
- The increase of tax revenues.

1- As far as simplification is concerned, the last decade has seen the revision of the tax system in order to harmonize and regroup the tax laws in a unique code, the General Tax Code (CGI).

The steps of its elaboration can be summarized as follows:

- It started in **1999** until **2003** and imposed the break away from the schedular approach in favour of a more synthetic one with homogeneous procedures and harmonised penalties;
- **In 2004**, a total revision of the Registration and Stamp Duties was achieved and the tax administration took in charge the collection of the VAT;
- **In 2005**, the Book of Tax Procedures (Livre des Procédures Fiscales) was adopted and in the same year, the reform of the VAT was launched. The aim of this reform, which is still ongoing, is to decrease the number of tax rates to 2 or 1 tax rate. In the same year, the tax administration took in charge the collection of the corporate tax;
- **In 2006**: a Book of Assessment and Recovery (LAR) was adopted. The tax administration took in charge the collection of the income tax; and finally
- **In 2007**: the finalisation of the codification process through the publication of the General Tax Code (CGI).

The aim of this code is to provide taxpayers with a clear and coherent tax tool and to adapt to the evolution of the legislation of partner countries.

2- As for the broadening of the tax base, it was done by reducing tax incentives which constitute costly tax expenditures.

Starting 2005, a study was launched to quantify the number of tax incentives included in the Moroccan tax system and measure their cost.

In 2007, 410 derogatory measures were included in the tax system. They represented 17.4% of fiscal revenues which is equivalent to 4.1% of the GDP.

So far, 178 of these measures have been evaluated and this measurement has permitted to quantify tax expenditures and at the same time identify potential sectors that can enlarge the tax base.

3- Concerning the increase of tax revenues, this raise relates more to a structural tendency rather than relating to the current economic circumstances.

4- As for the reduction of tax rates and the boosting of competitiveness, important revisions of the rates of the main taxes have been made:

- For the corporate tax: since its introduction in 1986 with an initial rate of 52%, the rate has been decreased progressively. In 2008, it shifted from 35% to 30% for all sectors except the financing sector whose rate moved from 39.6% to 37%;
- The same attitude was adopted with the individual income tax. Therefore, the marginal rate has decreased gradually from 52% in 1990 to a current marginal rate of 42% in 2007;
- To encourage foreign individuals to settle in Morocco, some major changes have been introduced in the 2008 Budgetary Law:
 - The taxation rate of the gross profit of foreign capital gains has decreased from 42% to a special rate of 20%. This new rate is in full discharge of income tax;
 - The gross income of foreign movable property is now taxable at a rate of 30% instead of 42%. This new rate is also in full discharge of income tax.

All these changes were undertaken to align the Moroccan tax system, especially with regard to tax rates, along with the best practices of its main foreign partners.

Ladies and Gentlemen,

Needless to say that reform of tax structures is generally more effective when accompanied by improvements in tax administration.

In response to the requirements of growing challenges of modernity, Morocco has tried to adapt its tax administration by improving its structure as well as its functioning mechanisms.

The regionalization of the tax services was reinforced. Since 1991, 11 Regional Directions were created.

Moreover, and for the sake of both closeness to the taxpayers and efficiency, the tax administration has chosen to decentralize its management by delegating decision-making to levels closer to the local needs and realities of the taxpayers.

The following examples can illustrate this policy:

- decentralization of tax issuing;
- different competence thresholds in the area of litigation, reimbursement of VAT and Corporate tax.

This delegation has guaranteed more relevance and speed to the decisions taken at the local level. It has also ensured a better level of commitment of local managers.

In its modernization process, the Moroccan tax administration has also opted for the revalorization of its human resources by:

- recruiting higher profile staff;
- providing regular on-job training programs at both the central and regional levels;
- participating in international trainings programs such as the Ankara training session organized by the OECD or that of the Malaysian Technical Cooperation Programme; and
- establishing partnerships with different universities such as Leiden University, Austria University and the Sorbonne University.

As a matter of fact, it was not consistent to modernize the tax administration without adopting new management tools such as e-assessment and e-payment.

With this new face, the Moroccan tax administration wanted to display a new orientation which is more client-oriented by providing user-friendly services accessible and understandable for all.

However, this new orientation called for a change in clients' behavior and mentality which would develop their tax compliance.

Another aspect, which testifies to the efforts of modernization made by the Moroccan tax administration, is the redefinition of tax auditing objectives.

These auditing have acquired, beyond their classical dissuasive function, a pedagogical one whereby the client is made aware of his tax obligations.

Finally, the tax administration has reinforced its policy of closeness to the taxpayers by 2 main measures:

- More consultation; and
- More communication

Indeed, the tax administration has developed its listening capacity to better know the taxpayers and thus better respond to their needs.

In concrete terms, the economic actors are invited to meet with the tax administration and give their opinions and reflections on the draft budgetary law.

The frequency and the permanence of the meetings with professional bodies and the chambers of commerce have helped institutionalize consultation.

At the communicational level, informing the public helps avoid misunderstandings and decrease the number of litigation cases. The point is to provide the taxpayers with clear and available information.

With these communicational actions, the tax administration aims at making all its missions revolve around the client and establish a relationship built on trust and confidence.

The Moroccan tax administration has opted for more participation of the taxpayers so as to make more informed choices. It has favored transparency by making information available to the general public and by offering more clarity about its decisions.

Through these choices, the Moroccan tax administration has clearly adhered to the principles of good governance.

Ladies and gentlemen

Morocco, like its main European partners, is carrying on the process of reform along three lines:

- Reducing the tax burden and consolidating tax revenues through tax base broadening;
- Enhancing the country's attractiveness; and
- Modernizing both the tax policy and the tax administration.

Until now, all the above mentioned actions and measures have proven successful. Indeed, since 1999 tax revenues have constantly increased and for example in 2007, we achieved an increase of 21.4%.

What we expect to achieve in the future is:

- the generalization of e-filing and the use of new technologies in the interaction between the tax administration and taxpayers;
- the adoption of a risk management strategy in order to enable the tax administration to deal with the different risks that it may face (such as risk of non compliance including risk of tax fraud and risk of insolvency by the taxpayers).

The reform process which started 20 years ago, is still going on to make of the Moroccan tax system and of Morocco as a whole an attractive and competitive country for investors from all over the world.

Thank you for your attention.