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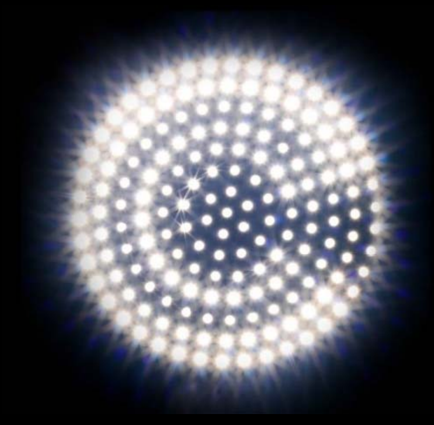
International Tax
Morocco Highlights 2018



Investment basics:

Currency – Moroccan Dirham (MAD)

Foreign exchange control – Transactions in foreign currency generally are not restricted, but there are some administrative formalities. Certain transactions, including the payment of management fees, require the prior approval of the exchange authorities. The export of MAD is prohibited.

Accounting principles/financial statements – Moroccan GAAP. Financial statements must be filed annually.

Principal business entities – These are the limited liability company, private limited company, general or limited partnership and branch of a foreign company.

Corporate taxation:

Residence – A company is resident in Morocco if it is incorporated in Morocco or if its place of effective management is in Morocco.

Basis – Morocco operates a territorial tax system. Companies (both resident and nonresident) generally are subject to corporate tax only on income generated from activities carried on in Morocco. Foreign corporations are subject to taxation on income arising in Morocco if they have, or are deemed to have, a permanent establishment in Morocco.

Taxable income – Companies are taxed on the difference between their trading income and expenditure. Business expenses incurred in the operation of the business generally are deductible, unless specifically excluded. Expenses not allowed include interest on shareholder loans where the stock is not fully paid up, interest on shareholder loans in excess of the official annual interest rate and penalties and fines.

Taxation of dividends – Dividends received by corporate shareholders from taxable Moroccan-resident entities must be included in business profits, but the dividends are 100% deductible in calculating taxable income.

Capital gains – Capital gains are treated as noncurrent income and taxed at the normal corporate tax rate.

Losses – Tax losses may be carried forward for four years from the end of the loss-making accounting period. However, the portion of a loss that relates to depreciation may be carried forward indefinitely. Losses may not be carried back.

Rate – The corporate income tax rates are progressive from 10% to 31% (on income over MAD 1 million). A 37% rate applies to leasing companies and credit institutions. A foreign contractor carrying out engineering, construction or assembly projects, or projects relating to industrial or technical installations, may opt to be taxed at 8% of the total contract price, net of VAT.

Surtax – No

Alternative minimum tax – There is no AMT, but the tax payable by a company must be at a rate of at least 0.5%, regardless of the amount of taxable base, calculated on turnover, financial and noncurrent income.

Foreign tax credit – Foreign tax credits are available if so provided in an applicable tax treaty and/or local legislation.

Participation exemption – See "Taxation of dividends" above.

Holding company regime – Under the offshore holding company regime, companies can be established in financial centers, provided the exchange office is notified within 30 days of the date of registration in the trade register. The main tax advantages available to offshore holding companies are: (1) corporation tax of USD 500 per year on their activities for the first 15 years; (2) a tax exemption on dividend distributions and the transfer of profits abroad; (3) an exemption from VAT; and (4) the same customs benefits and staff rules as apply to offshore banks.

Incentives – A variety of incentives are offered to encourage Moroccan and foreign investors. Incentives include an exemption from business tax for the first five years of operations for newly incorporated companies, and a corporate income tax exemption for companies exporting goods and services or operating tourist establishments (subject to certain conditions) for the first five years of operations, followed by a reduced rate of 17.5% on export sales.

Tax incentives that are available to export enterprises (i.e. a five-year corporate tax exemption, followed by a reduced rate of 17.5%) also apply to sales of manufactured goods to other export enterprises, as well as to enterprises located in export free zones.

There are several export and industrial free zones in the main cities (Tangiers, Kenitra, Rabat, Nador, Fes, Layoune) that are open for various activities. Authorized companies located in the export and industrial free zones benefit from a business tax exemption for the first 15 years, together with an exemption from corporate income tax for the first five years of operations, followed by a reduced rate of 8.75% for the following 20 years.

An offshore financial center in Tangier is open to all international banks and financial institutions that have obtained prior authorization from the ministry of finance. Banks operating in the offshore financial center are entitled to an exemption from registration fees and stamp duty on initial share capital and subsequent increases, and on the acquisition of premises for setting up a head office and branches, provided the premises are retained for at least 10 years; an exemption from VAT; an exemption from the trading license tax and urban tax on buildings occupied by the head office or agency; an annual corporation tax of 10% or USD 25,000 for the first 15 years; an exemption from tax in respect of dividend distributions and transfers of share proceeds; and customs duty exemptions.

Companies with the status of “Casablanca Finance City” are entitled to a corporate tax exemption on sales turnover generated in foreign currency and on capital gains arising from the transfer of foreign securities for five years from the start of the tax year in which the company obtained this status. After the expiration of this period, an 8.75% corporate tax rate applies.

Tax-neutral treatment may be available for corporate income tax purposes for a transfer of investment goods among member companies of a restructuring group.

A five-year tax holiday is granted to industrial companies starting from the day business operations commence. The government will issue a list of qualifying companies.

Companies that register their shares for listing on the stock exchange (except for credit institutions, insurance and reinsurance companies, public-service concession companies and public companies) are entitled to a 25% reduction in the corporate tax rate for three consecutive years following the date of registration if the company enters the stock exchange by selling existing shares. A 50% reduction will apply if the company enters the stock exchange by increasing its capital by at least 20%, accompanied by a waiver of preferential subscription rights.

Companies that qualify as real estate collective investment vehicles (OPCIs) are exempt from tax on rental income derived from buildings constructed for professional use, as well as dividends and interest received.

Favorable tax treatment is available for certain mergers and divisions.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 15% withholding tax, unless the rate is reduced under an applicable tax treaty.

Interest – Interest paid on a loan from a nonresident is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. A loan granted for 10 years or more is exempt from withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – See “Other” below.

Branch remittance tax – A 15% branch remittance tax is imposed on profits remitted to a nonresident head office, unless the rate is reduced under a tax treaty.

Other – Companies that do not have their registered office in Morocco are subject to a (final) 10% tax withheld at source on the gross amount of the following: payments for technical assistance, or technical, scientific or similar information; fees for the use of, or the right to use, certain equipment; remuneration for the transport of goods or persons from Morocco; and certain other commissions and fees. Certain payments (e.g. rents and maintenance) related to aircraft used for international transport are exempt.

Other taxes on corporations:

Capital duty – No, but capital increases are subject to a 1% registration duty.

Payroll tax – Payroll tax (called professional or vocational training tax) is imposed on the gross monthly remuneration of employees subject to social security contributions, at a rate of 1.6%.

Real property tax – No, but see "Transfer tax" and "Other" below.

Social security – An employer is required to register its employees with the social fund and pay social security contributions based on the employee's salary.

Stamp duty – Legal documents subject to registration duty also are subject to stamp duty at a flat rate of MAD 20 per sheet.

Transfer tax – Registration duty at rates ranging from 4% to 6% and a 1% real estate tax are levied on the acquisition of real property.

Other – A 4% registration duty is levied on the sale of shares in nonlisted companies.

Legal entities carrying on business activities in Morocco are subject to business tax, which is based on the rental value of buildings, premises, etc. used for the business and is levied at a rate of 10%, 20% or 30% of the rental value, depending on the entity's business.

Municipal tax is levied at a rate of 10.5% of the rental value of real estate assets situated within urban districts and 6.5% of the rental value of real estate assets in peripheral zones of urban districts.

Anti-avoidance rules:

Transfer pricing – There is no formal transfer pricing legislation in Morocco, but transactions between related parties must be on arm's length terms. Two methodologies are used by the tax authorities: the comparable uncontrolled price method and direct assessment based on available information.

Thin capitalization – There is no formal thin capitalization legislation, but the deduction of interest on shareholder loans is subject to some conditions and limitations. Interest is deductible if the shareholder's stock is fully paid up, the interest rate does not exceed the official annual rate and the debt-to-equity ratio does not exceed 1:1.

Controlled foreign companies – No

Disclosure requirements – No, but information on transactions involving dependent entities should be maintained by the Moroccan resident entity.

Other– a general anti-avoidance rule is introduced based on the concept of the "abuse of law." The tax authorities will be able to invoke this provision to reassess transactions whose main purpose is to avoid or evade tax.

Compliance for corporations:

Tax year – The calendar year normally is the fiscal year, although a company may opt for a different fiscal year.

Consolidated returns – Consolidated returns are not permitted; each company must file its own individual return.

Filing requirements – Accounts for income tax purposes must be filed within three months of the end of the relevant accounting period. Corporate tax is payable in four equal installments, based on the previous year's assessment. The actual amount payable is adjusted in the three months following the end of the accounting period.

Foreign companies that have elected for the 8% default taxation (see "Rate" above) must submit a declaration of their turnover before 1 April following each calendar year.

Penalties – Interest and penalties apply for late filing, failure to file or filing an incorrect return.

Rulings – An optional advance pricing agreement ruling procedure has been introduced.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income; nonresidents are taxed only on Moroccan-source income.

Residence – The following individuals are resident in Morocco for tax purposes: (1) individuals who are habitually resident in Morocco; (2) individuals who are present in Morocco for at least 183 days in a given year, whether or not continuously; and (3) individuals whose professional activities or center of economic interests are located in Morocco.

Filing status – Joint filing is not permitted; each individual must file a separate return.

Taxable income – All compensation received by an individual is taxable, including: salaries and wages, allowances, pensions, annuities and all other employment benefits; investment income; property income; and income derived from the carrying out of a business or profession.

Capital gains – Capital gains derived from the disposal of immovable property generally are subject to a 20% tax. Higher rates are applicable in some specific cases.

Capital gains derived from the disposal of shares are subject to tax at 20%.

Capital gains derived from the disposal of a residence used as principal residence for at least six years are exempt from taxation.

Deductions and allowances – Various deductions and personal allowances are available in computing taxable income.

Rates – Rates are progressive from 0% to 38%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The transfer of property is subject to the 20% tax on capital gains, but the tax payable cannot be less than 3% of the transfer price. Undeveloped land can be subject to higher rates of taxation ranging from 25% to 30%, depending on the period of ownership.

Inheritance/estate tax – There is no inheritance tax, but a gift tax is levied at a flat rate of 20%.

Net wealth/net worth tax – No

Social security – An employer is required to register its employees with the social fund and pay social security contributions based on the employee's salary. Both the employer and employee are required to contribute, and the employee's contribution is withheld by the employer.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The global income tax return, when applicable, must be filed before 1 March of each year in the place where the taxpayer has his/her habitual residence or main business. Independent professionals must file before 1 May.

Penalties – Interest and penalties apply for late filing, failure to file or filing an incorrect return.

Value added tax:

Taxable transactions – VAT is levied on all industrial, commercial and craft activities, and on services rendered in Morocco, as well as on import transactions.

Rates – The standard rate of VAT is 20%, with reduced rates of 7%, 10% and 14% applying to certain transactions.

Registration – All persons subject to VAT must make a declaration of existence within 30 days of the start of their operations, in order to register for VAT purposes.

Filing and payment – VAT returns generally must be filed on a monthly basis.

Other – Nonresident taxpayers carrying out taxable transactions in Morocco are required to appoint a fiscal representative in Morocco. However, under the reverse-charge mechanism, a Moroccan customer of a nonresident taxpayer who has not appointed a fiscal representative should declare the VAT on the transaction on its own VAT return and account for the VAT due.

Source of tax law: General Tax Code and law governing local taxes

Tax treaties: Morocco has signed approximately 50 treaties, of which around 40 are in effect.

Tax authorities: General Tax Administration (*Direction Générale des Impôts*)

Contact:

Ahmed Benabdelkhalek

(abenabdelkhalek@deloitte.com)