TAX EXPENDITURES COUNTRY REPORT

Morocco

Fouzi Mourji

June 2025

IDOS German Institute of Development and Sustainability

CEP council on economic policies

The German Institute of Development and Sustainability (IDOS) is institutionally financed by the Federal Ministry for Economic Cooperation and Development (BMZ), based on a resolution of the German Bundestag, and the state of North Rhine-Westphalia (NRW) as a member of the Johannes-Rau-Forschungsgemeinschaft (JRF).

Suggested citation:
Mourji, F. (2025). *Tax expenditures country report: Morocco.* German Institute of Development and Sustainability (IDOS) and Council on Economic Policies (CEP). https://doi.org/10.23661/cr4.2025

DOI: https://doi.org/10.23661/cr4.2025

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Acknowledgements

This report is part of a series of Tax Expenditures Country Reports (TECRs) overseen and edited by Agustin Redonda, senior fellow with the Council on Economic Policies (CEP), and Christian von Haldenwang, senior researcher with the German Institute of Development and Sustainability (IDOS). Flurim Aliu, fellow with CEP, and Sofia Berg, research analyst with CEP, provided additional feedback and valuable support in writing the document. Pepa Echanove (CEP) and Katharina Schaarschmidt (IDOS) contributed to formatting and editing the document.

This report was prepared as part of the activities of the Economic Commission for Latin America and the Caribbean (ECLAC)-Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) project, “Recover better: Overcoming the COVID-19 Pandemic Consequences in Latin America and the Caribbean”.

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List of abbreviations

CST	Special Treasury Accounts
DCT	Domestic consumption tax
DGT	Directorate General of Taxes
EESC	Economic, Social and Environmental Council
GDP	Gross Domestic Product
GTC	General Tax Code
GTETI	Global Tax Expenditures Transparency Index
IMF	International Monetary Fund
MAD	Moroccan dirham
MMAD	Million MAD
ONEE	Office National d'Eau et d'Electricité (National Water and Electricity Board)
PLF	Finance Bill
RSD	Registration and stamp duties
TE	Tax expenditure
VAT	Value-added tax

Executive summary

Morocco's reports on tax expenditures (TEs) analyse the derogatory measures adopted as part of the Finance Act. The reports highlight the impact of these measures on public revenue and their socio-economic usefulness. This country report identifies the main limitations and makes recommendations for improving the transparency and effectiveness of tax expenditure policies. It is based on government reports published until December 2023.

Transparency: Morocco scores 55.7 out of 100 in the Global Tax Expenditures Transparency Index (GTETI), ranking 28th out of 105 countries. Despite improvements in the publication of data, the index reveals a number of shortcomings in terms of the clarity of information and the assessment methodology. The government's TE reports are available to the general public, but they are not always easy to understand, which means that the presentations need to be simplified, and the data made more accessible.

Complexity: The complexity of the Moroccan tax system is based on a multitude of derogatory measures spread across different tax types (value-added tax, corporate tax, income tax). In 2023, 251 derogatory measures were identified, representing a budgetary cost of MAD 35.4 billion (2.4% of GDP). This structure complicates the management and monitoring of tax expenditures. Criticism is levelled at the lack of exhaustive impact studies of these derogatory measures and the absence of clear criteria for creating or removing incentives, which are sometimes influenced by political and economic lobbies.

Fiscal sustainability: This report highlights the continuing decline in tax expenditures as a percentage of GDP, from 2.9% in 2022 to 2.4% in 2023, reflecting a desire to rationalise and reduce tax expenditures. Concerns remain about the system's ability to mobilise sufficient resources to support economic development while maintaining balanced budgets. It should be noted that the latest report on tax expenditures accompanying the Finance Bill (PLF) for 2025 shows that this trend is continuing: as a percentage of GDP, tax expenditures fell to 2.1% in 2024 mainly due to the abolition of 24 measures as part of the VAT reform implemented during the year, resulting in a 28.3% reduction in VAT related tax expenditures. Tax expenditure as a whole has been reduced by 13%, from MAD 37 billion in 2023 to MAD 32.1 billion in 2024.[1]

Evaluation challenges: There is still room for improvement regarding the evaluation of tax expenditures. The report of the Cour des comptes (Court of Accounts) highlights "the absence of in-depth socio-economic impact studies and a structured evaluation framework. Decisions on tax expenditures are often taken without in-depth studies of their effectiveness, which limits the justification for their contribution to national development".

This report highlights the challenges and opportunities associated with tax expenditures in Morocco. Although progress has been made, further reforms are desirable to improve the management and effectiveness of tax expenditures.

[1] This is an updated estimate, published with the Projet de Loi de Finances 2025 (PLF) (Finance Bill). However, this report is mainly based on the 2024 Finance Bill and will use the estimates provided in that document (Ministère de l'Economie et des Finances, 2024).

Morocco at a glance (2023)

Population	GDP	GDP/capita
37.8	**MAD 1,429**	**MAD 37.2**
(in millions)	$ 141 (in billions)	$ 3.7 (in thousands)

22.1%	**29.9%**	**69.5%**
(of GDP) Tax revenue (2022)	**(of GDP)** Central government expenditures	**(of GDP)** Public debt

TAX STRUCTURE

State budget revenue comprises tax and non-tax revenue. Tax revenue mainly includes direct taxes (including income tax and corporate tax), indirect taxes (value-added tax (VAT) and domestic consumption tax (DCT)) as well as customs and registration duties. Non-tax revenue includes "income from monopolies and shareholdings" (the equivalent of corporate tax for public companies), subsidies, donations and various other revenue sources. Among direct taxes, corporate tax represents 53.6% and income tax 43%. In terms of indirect taxes, VAT accounts for 72.7% and domestic consumption tax for 27.3%.

Tax revenue, 2023

Type of tax	Millions MAD	Millions USD	% of total
Direct taxes	118,706	11,718	43.1
Indirect taxes	121,365	11,981	44.0
Customs duties	15,609	1,541	5.7
Registration and stamp duties	20,010	1,975	7.2
Total tax revenue	**275,690**	**27,215**	**100**

Source: World Bank (2024), Ministère de l'Economie et des Finances (2023b), and World Bank (2025) for 2023 at 10.13 MAD for one USD.
Note: There is also a "Social Solidarity Contribution on profits", the amount of which is minimal (21 million MAD or 0.017%).

Tax expenditures key figures (2023)

Annual
reporting since
2006

251
Reported provisions

MAD 35.4
$ 3.5
Total revenue forgone
(in billions)

2.4 %
Total TEs as % of GDP

12.9 %
Total TEs as % of tax revenue
(2022)

Source: Ministère de l'Economie et des Finances (2023b), Redonda et al. (2024b), and World Bank (2025) for 2023 at 10.13 MAD for one USD.

The appendix to Morocco's report on tax expenditures, which provides a wealth of information, includes details on "tax incentives and other measures classified as tax expenditures". This is a presentation of the derogatory measures relating to each tax. This specifies: i) the type of incentive (total or partial exemption, deduction, liquidity facility or reduction), ii) the content of the incentive provision, iii) its objective, iv) the sector of activity concerned and v) the beneficiaries (for details of each tax, see: www.finances.gov.ma and http://lof.finances.gov.ma).

For each table, the report specifies the nature of the data used to estimate the shortfall in revenue for the State budget.

Image by Walkerssk from Pixabay

Key governance and institutional features

The provisions (derogatory measures) that give rise to tax expenditures are a matter for the legislature. They are adopted as part of the Finance Acts submitted to Parliament each year. The Finance Bill (abbreviated PLF in French) is presented by the Minister of Economy and Finance to the plenary session of each chamber of Parliament and is debated by the "economic and social committee"; it is often amended by the parties (which represent pressure groups). Once passed, the Finance Bill becomes the Finance Act, which is then implemented by the government (in particular the expenditure of the various ministries), and the Directorate General of Taxes (DGT) oversees the implementation of tax provisions and derogatory measures. In the same spirit, a report assessing the budgetary impact (of existing provisions) is produced by the DGT for each year t with an update for year t-1; this report is attached to the Finance Bill for year t+1.

Introduction and removal of tax expenditures

The introduction and removal of measures relating to tax expenditures follow the same process as that of the Finance Acts; in fact, they form part of them (the articles relating to taxation).

It should be noted that the preparation of Finance Acts, which include provisions on tax expenditure, is carried out by technocrats from the Ministry of Economy and Finance, in compliance with the framework law on finance (*Bulletin Officiel*, 2021). The political parties making up the government majority are not equipped to constitute a force for credible and technically argued proposals[2]. However, under the Moroccan constitution, it is the Parliament that legislates. As with most other laws, the Finance Act is submitted by the government to

[2] In fact, major policy directions often emanate from speeches by the King (supreme authority) followed by budgetary constraints (maintaining balances to avoid crises like that of 1983) that influence most decisions. Currently, these constraints favor eliminating or reducing tax expenditures. Authorities emphasize that this vigilance regarding macroeconomic balances allows Morocco to obtain favorable ratings and good relationships with its lenders.

Parliament, which discusses it in committee, makes amendments and then votes to approve it. In practice, parliamentarians representing pressure groups can suggest measures in advance to obtain advantages. They can also negotiate with the government beforehand on the amendments to be made to the draft submitted, which will then be voted on (a way for the majority parties to show to the general public that they are proposing amendments which are then introduced). Every year, the Moroccan employers' confederation (represented in Parliament) drafts a plea which it submits to the public during discussions on the Finance Bill.

Proposals to introduce derogatory measures also come from the government, with arguments based on development objectives (for example, encouraging investment in certain sectors or activities) or social objectives (supporting the purchasing power of low-income households). The same is true of the proposals to abolish these measures to improve the mobilisation of resources (see above the passage relating to the framework law which stipulates the mobilisation of resources and the reduction of tax loopholes). Parliament then makes its decision, as part of the debate on the Finance Act.

In the case of the introduction of tax expenditures, *ex ante* estimates of the budgetary costs are presented[3] alongside targeted objectives. These estimates are produced by DGT executives and are provided (along with other fact sheets and notes) to members of Parliament by the Minister of Economy and Finance when the Finance Acts are discussed in the committee. These estimates are made all other things being equal; they do not include the effects of the proposed measures on agents' behaviour. The Court of Accounts deplores the fact that "recourse to this type of expenditure takes place in the absence of clear rules and, often, without being supported by sufficiently substantiated prior studies" (Cour des comptes, 2020). Critics of tax expenditures in Morocco point out that they are sometimes inspired by lobbies.

Ex post, the provisions that are the subject of tax expenditure give rise to an estimate of revenue forgone for the State budget for the current year, also made by DGT executives. The results are included in the report on tax expenditures which accompanies the following year's Finance Bill. Each report also includes an update on the measures assessed for the previous year.

The Directorate General of Taxes and its prerogatives

The Directorate General of Taxes (DGT) is located within the Ministry of Economy and Finance. Its prerogatives range from establishing the basis of assessment for various taxes to collection and control. To this end, it ensures compliance with the legal provisions set out in the Finance Acts. Thus, to establish the basis of assessment for VAT, corporate tax, registration and stamp duties (RSD) and business tax, the DGT defines the bases that will be used for levies. In the event of taxpayer complaints, the DGT is responsible for examining them and taking action, at various levels from regional to national.

As taxation in Morocco is based on a declaratory process, the DGT has the right to carry out checks, the aim of which is to discourage the risk of under-declaration.

[3] They are approximate, concerning observed volumes and their trends. Agent reactions are not integrated. To anticipate them, one must estimate elasticities that would reveal volume changes without measures.

Box 1. The Court of Accounts

The primary mandate of the Court of Accounts in Morocco is to verify the compliance of procedures regarding expenditure commitments with applicable regulatory texts. However, in practice and in several of the Court of Accounts' reports, questions are also raised concerning the appropriateness and relevance of public spending.

In the case of tax expenditures, the Court of Accounts' report published in 2020 initially provides a summary of tax expenditures, including the overall cost based on assessed measures, as well as a breakdown by type of tax and by sector (Cour des comptes, 2020). Subsequently, the commentary addresses the comprehensiveness of the assessed measures.

The commentary also discusses the issue of the distribution of tax expenditures. It notes, for instance, that "tax expenditures remain concentrated in a limited number of sectors. Specifically, the three sectors of real estate, electricity and gas, and social security and insurance together account for more than half of all recorded tax expenditures, in approximately equal shares." In its interpretation of the data, the Court of Accounts also observes that "in terms of the type of exemptions, tax expenditures granted in the form of full exemptions constitute the largest share of the total amount." Moreover, the report goes on to comment on the concentration of tax expenditures by tax type (with VAT accounting for the largest share), as well as on the number of measures through which tax expenditures are implemented within each tax category.

One of the principal observations of the Court of Accounts is that "decisions concerning tax expenditures are made without sufficient information. Their approval takes place without time limitations or clearly defined objectives" (Cour des comptes, 2020).

The Tax Expenditures Report

Article 48 of the Organic Law on Finance stipulates that the PLF must be submitted to the office of the House of Representatives by 20 October of the current financial year at the latest. The report for the year 2023 (which accompanies the PLF 2024) consists of 102 pages and is accompanied by 13 documents, including the tax expenditures report.

The report contains four chapters. Chapter 1 summarises the methodology and provides an overview of the benchmark tax system. Chapter 2 discusses the tax expenditures in place in 2023 and updates that for 2022. It includes a number of tables and comments providing:

i. a summary of the derogative measures or tax expenditures and their costs (amount for the current year and an update for the previous year) according to several criteria (type of tax and provision, by beneficiaries and objectives and by sector) and it specifies the tax expenditures eliminated each year,
ii. a matrix of measures evaluated by type of tax (including customs duties). For 2023, the focus is on the most important VAT tax expenditures.

Chapter 4 focuses on the most important VAT tax expenditures. It completes the information by specifying the beneficiaries of the incentive and its purpose, as well as the evaluation method and the source of the data.

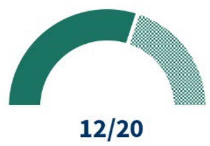
55.7/100

The overall GTETI score

Tax expenditures transparency

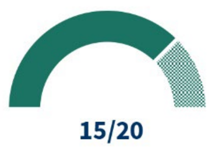
The quality and scope of tax expenditure reporting in Morocco is reflected in the Global Tax Expenditures Transparency Index **(GTETI)**, where it ranks **28 out of 105** assessed countries.

Dimension 1 – **Public availability**
This dimension captures the extent to which tax expenditure reports are made available to the public. It considers the regularity of reporting, the timeliness of data, the online accessibility, and the reader-friendliness of the document.



Dimension 2 – **Institutional Framework**
This dimension evaluates how well the institutional framework promotes transparency and accountability in tax expenditure policymaking. It assesses the legal basis for tax expenditure reporting, the requirement to submit reports to parliament, the assignment of the responsibility to report to a specific public authority, and the consideration of tax expenditures in the country's budget cycle and medium-term strategy.

Dimension 3 – **Methodology and Scope**
This dimension analyses the extent to which tax expenditure reports cover all tax expenditures available at the national level, the level of specification of the reference benchmark system against which tax expenditures are assessed, and the method(s) used to calculate revenue forgone.



Dimension 4 – **Descriptive TE Data**
This dimension assesses the information available in the report to identify and explain the nature of different tax expenditures. It evaluates the extent to which the report specifies the policy objective(s) of tax expenditures. Also, it analyses the availability of tax expenditure data regarding the type of tax expenditure (tax credit, deduction etc.), beneficiaries, time frames, and the legal basis under which tax expenditures are granted.

Dimension 5 – **TE Assessments**
This dimension analyses the extent to which revenue forgone estimates are provided in the report, including levels of (dis)aggregation and the time span of revenue forgone estimates (previous years and forecasts). Further, it assesses the availability of information on tax expenditure evaluations, considering both the existence of ex-ante and ex-post evaluation frameworks, and the scope of publicly available evaluations.

Source: Redonda et al. (2024a)

Benchmark

Tax expenditures are defined as derogations from the reference tax system. This includes deviations from the normal tax base, deviations from the standard tax rate, or changes to the tax period that benefit the taxpayer. However, the definition of what falls within the reference tax system and what should be considered a TE is not always unambiguous. The General Tax Code gives the rates for the various taxes: personal income tax (Table 1), corporate income tax (Table 2) and the commentary that follows for VAT. Estimates of lost revenue are made by considering the difference between the revenue that would have been collected if the basic rate had been implemented and the revenue collected after implementation of the tax expenditures.

In Morocco, tax expenditures no longer include provisions of a 'structural nature'. Following a reconfiguration carried out in 2018, tax expenditure statistics only take into account expenditure that 'lends itself to review'. Thus, provisions considered to be exceptions to the rule, and which could be removed, are included in the tax expenditures report, but provisions which are unchangeable are not. The related measures are considered to be part of tax policy and are therefore not subject to change. This general approach has led, for example, to the exemption for the sale of bread or the reduced rate of 10% on banking and credit transactions no longer being considered as tax expenditure since 2018. On this point, the Economic, Social and Environmental Council (CESE), which is a consultative body whose members are appointed by the highest authorities in Morocco (the King, the Prime Minister and Parliament), supports the DGI's decision. In the 2019 report, it supports this approach, stating that 'a more detailed analysis suggests considering only effective tax expenditure that is likely to be abandoned over time'. In other words, reduced VAT rates on essential products are a matter of tax policy rather than tax expenditure (EESC, 2019).

Under the new framework, tax incentives that are subject to a reduced or zero rate will no longer be systematically considered as tax expenditure. The target system is based on a case-by-case analysis of each tax incentive to determine whether it is an integral part of the tax system (i.e. tax policy) or whether it constitutes a tax expenditure. With regard to VAT, according to the target framework, classification as a 'tax expenditure' is based on the following rule: tax incentives consisting of a reduced or zero rate different from the planned rate will be considered as tax expenditures. As a result, the new benchmark is ultimately based on three rates (0%, 10% and 20%) and an exceptional rate of 8% for sugar. As far as corporation tax is concerned, the benchmark includes provisions to avoid double taxation as well as provisions relating to the exercise or financing of activities that are in the public interest. With respect to income tax, the benchmark includes provisions relating to the exercise or financing of activities in the public interest.

As a result, it appears that Morocco's vision of tax expenditures is divided between, on the one hand, the elimination of derogatory measures (elimination of tax niches) and, on the other hand, the exclusion from the scope of calculation of provisions considered essential for social balance and economic development.

Income tax

For income tax, the reference system includes an exemption threshold of 30,000 MAD. In other words, individuals whose income is below this threshold are not subject to income tax. The reference system also includes a progressive tax scale with three different tax rates (Table 1). In fact, the guiding principle in the design of this tax is progressivity. Thus, the rates applicable by income bracket are as follows: 10% for the income bracket from

MAD 30,001 to MAD 50,000; 20% for the bracket from MAD 50,001 to MAD 60,000; 30% between MAD 60,001 and MAD 80,000; 34% between MAD 80,001 and MAD 180,000 and 38% thereafter.

Table 1. Rate scale of personal income tax[4]

	Income bracket (in MAD)	2018 – 2023
Exemption threshold	30,000 or lower	-
Lower rate	30,001 to 50,000	10%
Intermediate rate	50,001 to 60,000	20%
	60,001 to 80,000	30%
	80,001 to 180,000	34%
Base rate	Over 180,000	38%

The last part of Table 4 below gives details of the content of the tax expenditure provisions for income tax, with the cost generated by each provision and its percentage share.

Corporate Tax

For corporation tax, the reference system includes four different rates for each of the net profit brackets, with a principle of progressivity, as well as the rate applied to credit institutions and similar bodies (Table 2 shows changes in rates from 2018 to 2023).

Table 2. Details of applicable rates by band

Net profit (in MAD)	2018	2019	2020	2021	2022	2023
300,000 or less	10%	10%	10%	10%	10%	-
from 300,001 to 1,000,000	20%	17.50%	20%	20%	20%	20%
More than $1,000,000	31%	31%	31%	31%	31%	35%
Credit institutions and similar bodies, Bank Al Maghrib, the Caisse de dépôt et de gestion and insurance and reinsurance companies	37%	37%	37%	37%	37%	40%

VAT

For VAT, the standard rate is 20%; and the incentive or support measures provide for exemption and reduced rates of 10% and 14%. Table 4, which summarises the costliest tax expenditure provisions, gives details of the goods or transactions concerned by each of the main VAT measures, as well as their costs.

[4] General income tax, which became income tax in 2006, underwent a number of changes until 2010. That year saw the last change to the income tax scale, with an increase in the exemption threshold to 30,000 MAD and a reduction in the marginal rate to 38% for the income bracket exceeding 180,000 MAD.

Regarding real estate asset transfers, VAT-exempt operations include those relating to social housing for primary residential use with a surface between 50 m² and 80 m², and a sale price not exceeding 250,000 MAD excluding tax. The cost in terms of tax expenditure amounts to MAD 2.17 million in 2023. From 2024, these exemptions have been replaced by direct assistance to households. This aid is degressive: MAD 100,000 for the acquisition of housing priced at MAD 300,000 or less and MAD 70,000 when the price is between MAD 300,000 and 700,000.

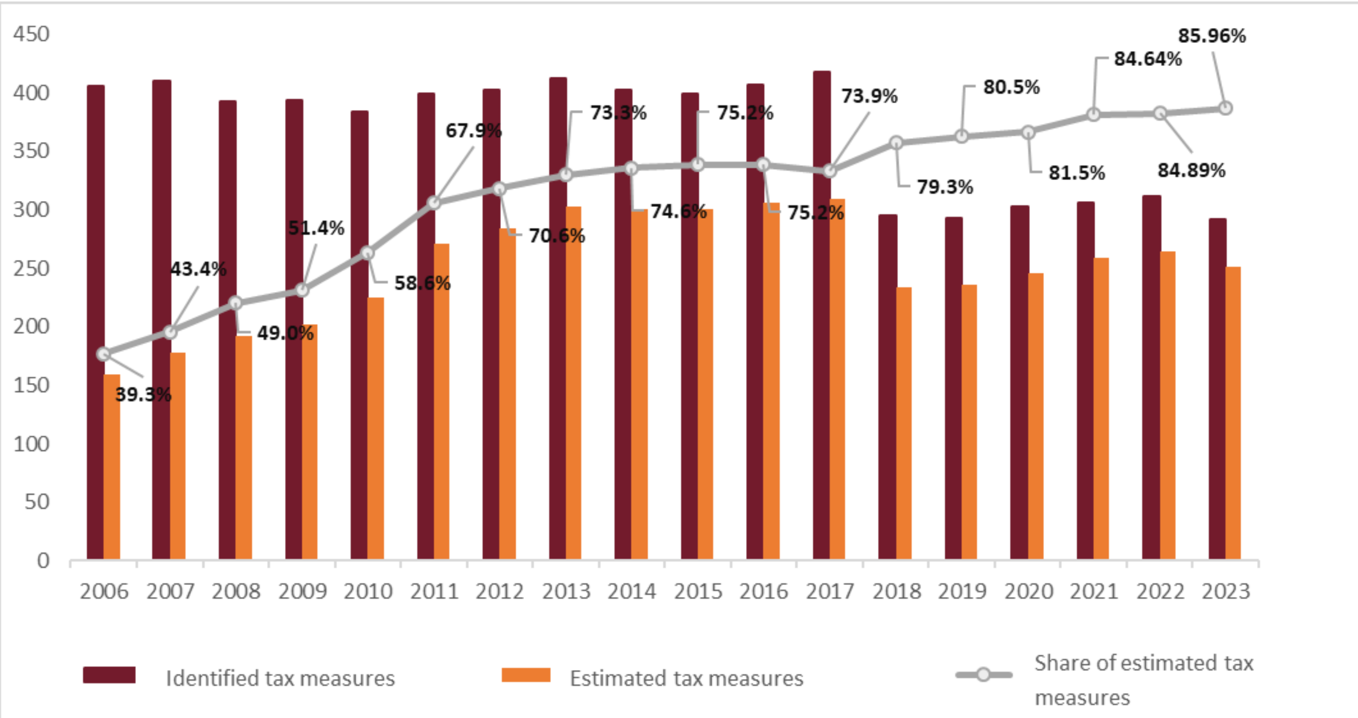
Revenue forgone

Rationalisation of tax expenditures was one of the recommendations made at the 2013 national conference on taxation due to the fiscal cost they pose to the State without their socio-economic benefit being evaluated.

As mentioned, the estimates of revenue foregone in the reports on tax expenditure in Morocco are static (made all other things being equal; they do not take account of the effects that these measures have on agents' behaviour).

Whereas there is still a difference between the number of reported and estimated tax expenditure provisions, this gap has been going down over time (see Figure 1).

Figure 1. Number of tax expenditures with a revenue forgone estimate compared with the total number of identified tax expenditures



Source: Based on annual tax expenditure reports (Ministère de l'Economie et des Finances, 2023a; Ministère de l'Economie et des Finances, 2023b).

In addition, as mentioned, following a reconfiguration in 2018, the tax expenditure statistics only consider expenditure that 'lends itself to revision'. To study the impact that this new benchmark could have on the number and overall structure of tax measures, the benchmark tax system was applied to updated data for 2017 in order to compare estimated results with actual results. The application of the benchmark resulted in 291 measures being considered as tax expenditures instead of 418, i.e. a reduction of around 30%. In terms of cost, application of the benchmark resulted in an amount of 28 551 MMAD being considered as tax expenditure instead of 34 748 MMAD, i.e. a reduction of 18%. This reduction is essentially explained a decrease in the cost of registration and stamp duties (RSD) (MAD 3 178 million) and VAT (MAD 2 622 million).

For households, the application of the benchmark has reduced the number of derogations from 106 to 92, a reduction of 13%. The impact in terms of cost for this category rose from 11 313 MMAD to 13 206 MMAD, an increase of almost 17%.[5] Tax incentives for businesses fell from 186 to 152, a drop of 18%. As for the impact in terms of cost, it fell from 19 468 MMAD to 14 521 MMAD, a drop of almost 25%.

In terms of structure, the government continues to grant more tax expenditures to households. Their share of total expenditures increased from 25% to 32% and of the overall cost of tax expenditure from 33% to 46%.

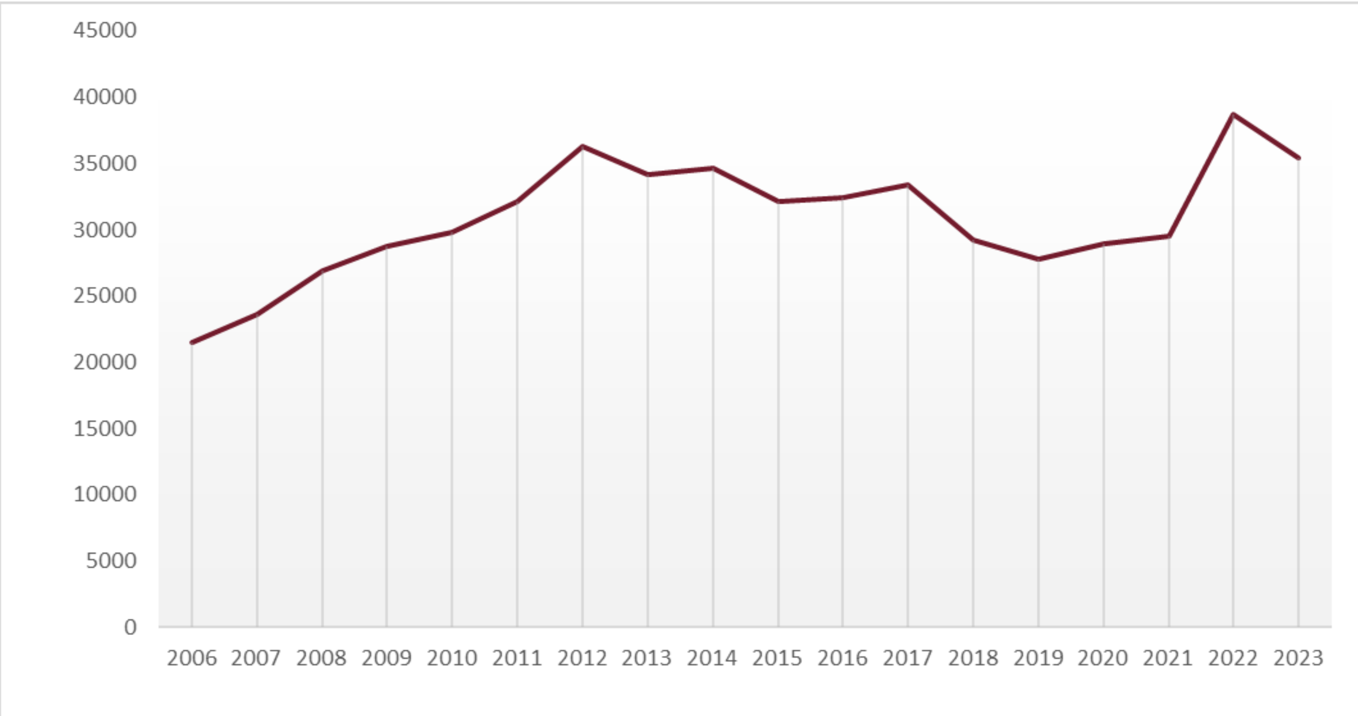
Applying the new benchmark to the updated 2017 data meant that 99 of the 171 tax incentives included in the old benchmark were considered to have a social purpose, a reduction of 42%. In terms of cost, social tax expenditure rose from 14,394 MMAD to 14,603 MMAD, an increase of 1%.

In terms of economic activities, the number of tax expenditures included in the new benchmark fell by 23% from 230 to 178. In terms of cost, they totalled 13,787 MMAD instead of 20,184 MMAD, a fall of 32%.

The tax expenditure trend

Figure 2 shows the evolution of tax expenditure in millions of current Moroccan dirhams over the period 2006-2023. It shows an upward trend until 2012, followed by a slight downward trend and an upturn in 2019, which accelerates in 2021 and 2022 before falling again in 2023. However, if we show the importance of tax expenditure as a percentage of GDP over the same period, the trend is downwards - as both quantities are expressed in current MAD, the effect of prices is eliminated (Figure 3).

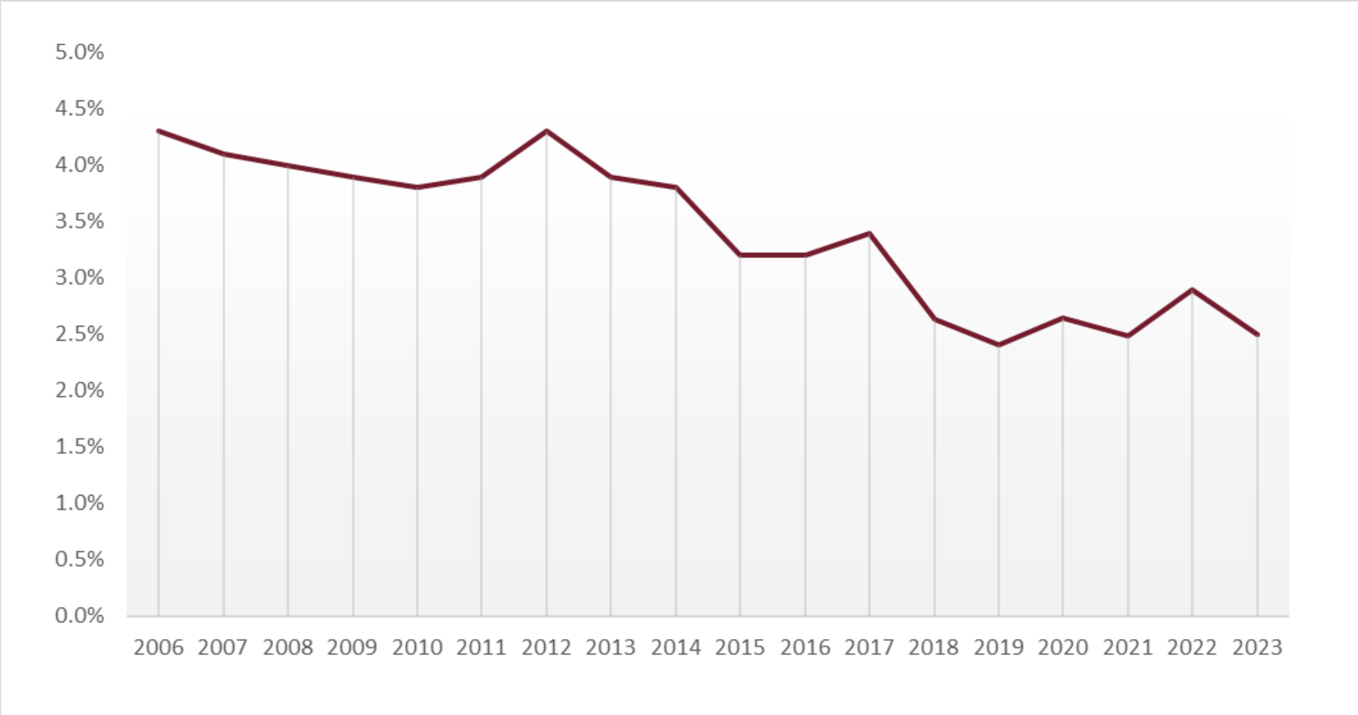
Figure 2. Evolution of tax expenditures in millions of dirhams (current dirhams)



Source: Based on annual tax expenditure reports (Ministère de l'Economie et des Finances, 2023a; Ministère de l'Economie et des Finances, 2023b).

[5] The size of tax expenditure is linked to the rate differential (the reduced rate compared with the standard rate) as well as to volumes (amounts of expenditure). If these amounts increase, tax expenditure also increases. In this case, the measures maintained seem to concern values that have increased (or are better observed), which has compensated for the measures that have been eliminated.

Figure 3. Tax expenditures as a percentage of GDP



Source: Based on annual tax expenditure reports (Ministère de l'Economie et des Finances, 2023a; Ministère de l'Economie et des Finances, 2023b).

This trend is due to the strategies deployed in Morocco to reduce tax benefits and, as mentioned earlier, the decision to no longer consider those provisions that are not likely to be eliminated as tax expenditures.

It should first be noted that the availability of data on derogatory measures has changed significantly over time, since the first report in 2006. The same is true regarding the methods used to estimate tax expenditures, which have been gradually refined. In fact, each year's report on tax expenditures also provides the updated figures for the previous year. Interannual comparisons of levels of tax expenditures must therefore be made with this information in mind.

The changes include, for example, the use of non-tax data to estimate the loss of income inherent in certain provisions. In the section on the methodology for estimating tax expenditures for 2018 (Finance Bill 2019), it is stated that "Although the generalisation of remote declaration from 1 January 2017 is a determining factor in the availability of data, there are still some tax expenditures for which information is not available". As a result, "tax expenditures for which information is not available from taxpayers' returns has been reconstructed based on non-tax data. An average effective rate has been applied to this tax base. For this type of tax expenditure, the estimate remains approximate".

We can see that the availability of data has changed and that the methods used are constantly being adapted to make up for the shortcomings that persist.

For example, as VAT exemptions are grouped together under Article 91 of the GTC, data from the most recent national survey of household consumption and expenditure in 2014 and data from the input-output table of the national accounts were used to estimate a number of these measures. Overall consumption of the products and services concerned has been estimated, taking into account households' own consumption and intermediate consumption by businesses. Tax expenditures due to exemptions has been estimated by applying the two reference VAT rates, a reduced rate of 10% and a standard rate of 20%.

However, in the case of Morocco, given that the process of publishing the reports began later than in other countries, and that it benefited from their experiences in the context of cooperation between tax administrations, the methods applied were well established from the onset. In other words, changes in estimation methods are designed to reflect the reality of lost revenue as closely as possible. The downward trend is therefore real and is due, not to the methods, but to the abolishment of certain provisions and the fact that certain structural provisions have been excluded from the scope of calculation (see above).

To illustrate this point, we note that for the last two years, the report for 2023 explains the downward trend in the size of tax expenditures as a share of GDP, from 2.9% in 2022 to 2.5%[6] in 2023 (a drop of almost half a percentage point), by the fact that "Over these two years, the number of measures identified as tax expenditure fell from 311 to 292".

In value terms, tax expenditure fell by 6.6% overall, from 37 957 MMAD in 2022 to 35 434 MMAD in 2023. This reduction is mainly due to: i) the 59.8% reduction in tax expenditure relating to corporate income tax; this is due to the implementation by the 2023 Finance Law of the reform of corporate income tax through convergence towards unified rates, which has made it possible to abolish 14 corporate income tax measures with a budgetary impact of MAD 3,053 million, and ii) the reduction in tax expenditure relating to import duties of MAD 467 million (-18.4%). The report adds that 'this reduction is essentially attributed to the reform of the corporation tax'.

The tax authorities also state that "The decrease in tax expenditures will continue with the reform of VAT, a tax that accounts for more than half of the cost of tax allowances".[7]

The report for the year 2023 (which accompanies the PLF 2024) also provides a table summarising the provisions by Finance Law (Ministry of the Economy and Finance, 2023a). This shows that 85% of the derogations were adopted prior to 2018. In terms of cost, these measures represent more than 95% of the tax expenditure recorded in 2023. Similarly, the exemptions adopted by the Finance Acts after 2018 have an increasingly smaller budgetary impact, with the exception of 2020, which saw a significant increase following the transitional measures granted to real estate activities and the measures relating to the reform of corporate income tax.

Finally, the report indicates that the new personal income tax scale will not come into force until 2025; as a result, the cost to the budget remains high: it even increases from 4.8 MMAD in 2023 to 5.3 MMAD in 2024 (Ministry of the Economy and Finance, 2023a; Ministry of the Economy and Finance, 2024).

The total revenue forgone linked to tax expenditure provisions is estimated at 35.4 MMAD in 2023. This represents 2.43% of GDP. This percentage is relatively low, but it is consistent with the low proportion of GDP accounted for by tax revenue (18.87%). These levels are lower than the world average (around 4% of GDP and almost 25% of

[6] The figure is rounded down from the one we established above, using various sources to estimate GDP in 2023.

[7] It is stated that "The VAT reform provided for in the 2024 Budget will not only simplify the reference tax system and the categorisation of measures; it also heralds a significant reduction in tax expenditures in the 2024 edition".

tax revenues). On the one hand, it can be said that this is not an underestimate, as 85.9% of the derogation measures have been evaluated (see below).

Table 3 summarises the amounts of tax expenditures by type of tax. The total amounts to 35.4 million MAD. VAT-related tax expenditure accounts for 57.2% of total tax expenditure (VAT receipts account for 32% of tax receipts). Table 4 shows that of the 85 VAT-related measures, seven account for the bulk of VAT-related tax expenditure.

Tax expenditure related to income tax ranks in second place in the total tax expenditure, with 13.4%. Of the 251 measures assessed (85.9% of measures), the 20 most costly provisions account for 57.73% (44% of which relate to VAT).

Table 3. Tax expenditures (TEs) by type of tax, 2023

Types of tax	Number of provisions	TEs in MMAD	TEs in % of GDP	TEs in % of total revenue forgone	Tax revenue in MMAD	Tax revenue in % total tax revenue	TEs in % of total tax revenue
VAT	85	20 277	1.4%	57.2%	88 280	32.0%	7.4%
Income tax	52	4 762	0.3%	13.4%	51 089	18.5%	1.7%
Tax on insurance contracts	14	4 237	0.3%	12.0%	-	-	1.5%
Corporate tax	41	2 137	0.2%	6.0%	63 645	23.1%	0.8%
Import duties	3	2 075	0.1%	5.9%	15 609	5.7%	0.8%
Domestic Consumption Tax	7	1 105	0.08%	3.1%	33 085	12.0%	0.4%
Registration and Stamp Duties	40	613	0.04%	1.7%	20 010	7.3%	0.2%
Special annual tax on vehicles	9	229	0.02%	0.6%	-	-	0.08%
Total	**251**	**35,435**	**2.43%**	**-**	**275,690**	**-**	**-**

Source: Based on the *Rapport des dépenses fiscales au Maroc* (Ministère de l'Economie et des Finances, 2023a; Ministère de l'Economie et des Finances, 2023b).

Table 4. Revenue forgone of the 20 most costly provisions in 2023

		Cost in MMAD 2023	%
VAT measures	Application of the reduced rate of 10% on crude or refined petroleum or shale oils.	6 704	18.9%
	Exemption for the sale of social housing for principal residential use, where the covered surface area is between 50 m^2 and 80 m^2, and the sale price does not exceed MAD 250,000 excluding tax.	2 172	6.1%
	Exemption for services provided by insurance companies which are subject to the “Tax on Insurance Contracts”, as well as services provided in the context of Takaful insurance and Takaful reinsurance operations.	1 838	5.2%
	Basic foodstuffs intended for feeding livestock and farmyard animals are exempt from VAT on import from 1 January 2023 until 31 December 2023.	1 042	2.9%
	Application of a reduced rate of 10% on import of fluid edible oils excluding palm oil, whether refined or unrefined, as well as seeds, oleaginous fruits and vegetable oils used for the manufacture of the said fluid edible oils.	928	2.6%
	Application of the 14% rate with deduction entitlement on passenger and freight transport operations excluding rail transport operations.	824	2.3%
	Exemption for domestic and imported sales of raw sugar (beet, cane and similar sugars – sucrose).	671	1.9%
	Application of the 14% rate with deduction entitlement on electrical energy.	564	1.6%
	Exemption on imports of seagoing vessels, ships, boats, steamers and craft capable, by their own means, of keeping seaworthy, as means of transport and engaged mainly in maritime navigation.	486	1.4%
	Companies exporting products and services may, at their request and within the limit of the amount of turnover exported, be authorised to receive goods, raw materials, irretrievable packaging and services required for the said operations, with domestic VAT suspended.	366	1.0%
Total		**15,595**	**44.0%**

		Cost in MMAD 2023	%
Measures relating to corporate tax	Exemption for undertakings for collective investment in transferable securities (UCITS).	863	2.4%
	Exemption for property developers for their acts, activities and income relating to the completion, under an agreement with the State, of a construction programme for at least 500 social housing units, spread over a maximum period of 5 years. Property developers may also enter into an agreement with the State, under the same conditions, to carry out a programme to build at least 100 social housing units in rural areas. Notwithstanding any provisions to the contrary, property developers who have entered into agreements with the State for the construction of social housing programmes for which the building permit was issued before the date of the start of the state of health emergency declared throughout the country to deal with the spread of the corona virus Covid-19, pursuant to decree no. 2-20-293 of 29 Rajab 1441 (24 March 2020), are granted an additional period of one year.	423	1.2%
	Exemption for farms with an annual turnover of less than five million (5,000,000) dirhams.	219	0.6%
	Capital goods may be amortised on the basis of a sliding scale for equipment.	164	0.5%
Total		**1,669**	**4.7%**
Measures relating to income tax	Application to the gross taxable amount of pensions and life annuities for the purpose of determining net taxable income in respect of pensions of a flat-rate allowance of -70% on the gross annual amount below or equal to MAD168,000; -40% for the remainder.	890	2.5%
	Exemption for taxpayers with agricultural income and an annual turnover of less than five million (5,000,000) dirhams in respect of the said income.	603	1.7%
	Exemption for benefits paid at the end of a life insurance contract, a capitalisation contract or a Takaful investment contract with a term of at least 8 years.	484	1.4%

		Cost in MMAD 2023	%
	Without prejudice to the application of the provisions of article 144 II-2°, exemption of the profit made on the sale of a building or part of a building occupied as a main residence for at least five (5) years on the day of the said sale, by its owner or by the members of real estate companies deemed to be fiscally transparent.	450	1.3%
	Exemption from withholding tax on interest received by non-residents in respect of loans granted to or guaranteed by the State.	418	1.2%
	Deduction, up to a limit of 10% of overall taxable income, of the amount of interest relating to loans granted to taxpayers by credit institutions and similar bodies, by social welfare organisations and by companies with a view to the acquisition or construction of housing for use as a main residence.	347	1.0%
Total		**3 192**	**9.0%**
Total revenue forgone of the 20 most costly provisions in MMAD		**20 456**	**57.7%**
Total tax expenditures revenue forgone in MMAD		**35 435**	

Source: Based on the tax expenditure report (Ministère de l'Economie et des Finances, 2023a; Direction Générale des Impôts, 2023).

Evaluation

The economic and social impact of tax expenditures has not yet been established. In the recommendations to the Ministry of Economy and Finance, in the section dealing with budget implementation, the report of the Court of Accounts (Cour des comptes, 2020) mentions the need to "periodically monitor tax expenditure and carry out studies on the appropriateness of maintaining them".

In Morocco, there is no external entity or recourse to independent expertise dedicated to assessing the socio-economic effects of tax expenditures. On the other hand, the CESE, which is a consultative body, carries out *ad hoc* studies at the request of Parliament or on its own initiative. In 2019, it published a study on tax expenditures (CESE 2019).

As explained in the report by the Court of Accounts (Cour des comptes, 2020), the management of tax expenditures needs to be improved. The Court of Accounts observes that the work carried out on tax expenditures suffers from certain shortcomings that cast doubt on the effectiveness of the tax measures and their socio-economic impact. The design is often not based on sufficiently well-founded preliminary studies (ex-ante) to justify its conception and implementation. The choice of a tax expenditure as an incentive is not compared to other possible means of intervention, such as a direct subsidy. As a result, decisions regarding these measures are not made based on detailed or relevant information. Moreover, their validation, despite the low visibility, is carried out without limiting their time limits or setting long-term objectives. The Court of Accounts points out that "moreover, once validated, tax expenditure is not monitored or evaluated through socio-economic impact studies, which could lead to the necessary reprofiling and adjustment of said tax expenditure. However, this kind of monitoring and evaluation is also necessary to decide whether to maintain or abolish each of the derogatory measures".

The Court of Accounts' report regrets the fact that "from an organisational point of view, there is no steering, monitoring or assessment body dedicated to tax expenditures".

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Political economy and reform

In terms of the political economy surrounding tax expenditure policymaking in Morocco, it seems that power relations and lobby groups remain the main sources of inspiration behind the introduction of new measures. These lobbies are expressed through the members of parliament who lobby the ministers of their party on the measures they want to see initiated, knowing that in the end, they are the ones who will vote on the Finance Acts (with the tax measures they have suggested).

The other source of inspiration comes from social stability objectives when it comes to reduced VAT rates on food products, for example, or in the past (until 2023), the rates applied to social housing.

In the case of cuts, the issues have more to do with accounting: balancing the budget by raising revenue. The downward trend in tax expenditures mentioned previously is inspired by this concern, and the propensity to use cash transfers as an alternative policy. For example, it is not the result of an impact study but of guidelines resulting from negotiations, in particular with the Bretton Woods institutions, which refer to international experiences and are in line with the recommendations of the aforementioned framework law. This is the case with the provision contained in the 2024 Finance Act, which provides for direct assistance to households in need of access to housing, in place of incentives for property investors (exemption from VAT or reduced rates of corporate tax).

In this respect, it should be noted that the tax expenditure strategy is also explained by the incentives and suggestions made by the Bretton Woods institutions (World Bank and IMF) to the Moroccan authorities to reduce tax expenditures seeking to improve the mobilization of the resources needed to pursue development objectives and reducing distortions between sectors and agents. For example, the section entitled 'Safeguarding Fiscal Sustainability' in the International Monetary Fund's 2017 annual report on Morocco (IMF, 2018) recommends on p. 15 that 'To facilitate progress in this direction, and based on an analysis of distribution effects of tax reforms, staff recommended a comprehensive strategy aiming to: align reduced VAT rates on manufacturing goods and services with the standard VAT rate; reduce tax exemptions; lower and simplify corporate tax rates; and, raise property tax'.

In 2021, Morocco formally adopted a framework law on tax reform, one of the fundamental objectives of which is to rationalize tax expenditures. In the preamble, it is mentioned that the aim is 'to establish an efficient, fair, equitable and balanced tax system as a structuring lever for financing the national economy, making it possible to mobilize the full tax potential to finance public policies' (Bulletin Officiel, 2021).

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