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L'ECONOMISTE

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Editorial

Prism

Mohamed Ali MRABI

IS now the right time for tax increases that have a direct impact on purchasing power? Voices are already being raised to criticize certain provisions of the Finance Bill. The pill seems hard to swallow, especially after several months of inflation. Admittedly, after peaking at the beginning of the year, inflation has been stagnant for some time. But there's no guarantee that prices won't soar again, in an increasingly tense global environment. Some of the tax measures included in the Finance Bill will have a direct impact on categories such as the middle class, an endangered species, and the poor relation of government programs. In the case of VAT, while some consumer items will be exempt, others, such as refined sugar, electricity, water, and sanitation, will see their rates rise. Ditto for the TIC (Domestic Consumption Tax) on certain products (including wines and other alcoholic beverages), which will also see increases. The Government has its arguments: the reorganization of VAT will simplify the reference system, while initiating a significant reduction in tax expenditure. The Government is also emphasizing the progressive nature of these increases. Its critics wonder whether it might not be more urgent to tackle certain tax niches suffering from «chronic underreporting», in parallel with the broadening of the tax base, rather than trying to make the fewest disgruntled by always hitting the same people. Beyond the relevance of these provisions, which are part of the overall reform of the tax system, it is equally important to consider their impact from a social psychology perspective. Giving meaning to decisions helps to limit resistance, or at the very least, to avoid further damaging the morale of households, many of whom are barely keeping their heads above water.❏

Weekly highlights

Finance Bill 2024: Surprises relating to VAT!

EXEMPTION of basic products, broadening of the scope of VAT, reduction in the number of rates and generalization of the right to refund: these are the main principles on which the gradual reform of VAT should be based, starting next year and ending in 2026. The 2024 Finance Bill proposes three rates: 0%, 10% and 20%.

This great reform should open with the exemption of consumer goods. This is the case for all pharmaceutical products, raw materials and products used in their composition, as well as the non-returnable packaging of these products and the materials used in their manufacture. The same holds true for school supplies and the products and materials used in their manufacture, currently subject to a 7% rate, which should in principle result in lower prices. In the case of medicines, the exemption is already applied for products related to chronic diseases such as cancer. If the measure proposed by the Government is approved by Parliament, it will save Moroccans more than 1 billion dirhams (USD 100 million). The loss of revenue will also be offset by increases planned for other products. The exemption will also apply to butter made from animal milk, currently subject to a 14% VAT, canned sardines, milk powder and household soap, which are currently subject to a 7% tax. So much for the good news on VAT, because if the Government's proposals are approved, certain products such as refined sugar, electricity, water, and sanitation will see their tariffs increase over the next three years. The tax on sugar would rise from 7% to 8% from January 01, 2024, 9% in 2025 and 10% in 2026.

In any case, the Government speaks of «*a gradual adjustment of tax rates to cushion shocks while ensuring the neutrality of this tax for businesses*». Currently set at 7% on water and sanitation services, VAT will rise to 8% from January 01, 2024, 9% in January 2025 and 10% on January 1st, 2026. A VAT rate of 7% is applied to the rental of electricity meters. This rate is set to rise to 11% from January 1st, 2024, 15% in 2025 and 20% from January 01, 2026. For electricity, the tax will be 16% from next year, compared with 14% at present. The Government is proposing a rate of 18% in 2025, rising to 20% in 2026.

To cushion the impact of these increases on low-income individuals, the social brackets are to be reorganized. The VAT adjustment will also affect electricity from renewable sources. This would become less expensive: a VAT of 12% would be applied from January 2024, compared with the current 14%. The VAT rate should increase to 12% from January 1st, 2024 and 10% from 2025.❏

Khadija MASMOUDI

Integration of the informal sector: The Tax Package

THE Finance Bill for 2024 has provided for a mechanism to gradually integrate informal activities into the organized economy and fight against tax fraud. Several measures are planned, including the introduction of a new optional VAT reverse charge regime, in line with international best practices. Thus, that scheme allows persons carrying on an activity subject to that tax to calculate the amount of VAT on their purchases made from suppliers outside the scope of that tax or to be exempt from it, without the right of deduction. The idea is to allow them to deduct the amount of this tax at the same time, with the exception of transactions involving the acquisition of land and agricultural products.

This new system would improve the transparency of commercial operations carried out by companies, and encourage integration into the organized economy (the formal sector). For the sponsors of this project, the idea is to encourage fiscal transparency and combat false invoicing. To this end, two new VAT withholding mechanisms are proposed. The first concerns withholding tax on transactions carried out by suppliers of goods and works subject to VAT. This withholding tax will be levied by taxable customers on the amount of VAT due in respect of taxable transactions carried out by suppliers of goods and works, who fail to present their customers with a certificate justifying their tax compliance with the obligations to declare and pay taxes, duties and levies laid down in the General Tax Code (CGI). This document has been issued electronically by the tax authorities for less than 3 months, reads the presentation note of the Finance Bill 2024. However, the central Government, the local authorities, State-owned entities, and other legal entities governed by public law are not required to apply the above-mentioned withholding tax, in accordance with the legislation and regulations in force.

The other mechanism concerns withholding tax on transactions carried out by service providers subject to VAT. This withholding tax will be applied to service transactions, the list of which is set by regulation, and will amount to 75% of the VAT. This withholding tax will first be applied by the central Government, the local authorities and State-owned enterprises and their subsidiaries, as well as other public bodies that pay remuneration for these services to taxable persons. Secondly, this withholding tax will apply to private legal entities and individuals subject to tax, whose income is determined according to the actual net income or simplified net income regime. This applies to entities paying the remuneration for these services to taxable individuals who have presented a certificate attesting to their good standing in terms of obligations to declare and pay taxes, duties, and levies set out in the General Tax Code. Failing presentation of this certificate, 100% of the amount of this tax will be withheld at source.❏

Mohamed CHAOUI

Weekly highlights

Direct social assistance

Financing available as early as December

SOCIAL protection reaches a new level. After the generalization of Compulsory Medical Insurance (AMO), including for former beneficiaries of the RAMED (medical coverage scheme for the underprivileged), preparations are underway for the entry into force this December of Direct Social Assistance (ASD), as announced by the King at the opening of the Parliament fall session. On Monday October 23, the Head of Government addressed both Houses of Parliament, in accordance with Article 68 of the Constitution, to outline the content of this major new royal project. What lies ahead is a veritable social revolution.

For the Head of Government, the assistance measures will help to support the most vulnerable categories, in particular women and the elderly, and to establish solidarity between generations

The Head of Government made it clear that his main concern is to successfully implement the Royal guidelines. To achieve this, it is imperative to guarantee the financial sustainability of the project, and to control the system for targeting beneficiaries. Implementation of this project will require the mobilization of 25 billion Dirhams (USD 2.5 billion) by 2024. This amount is included in next year's finance bill, currently before the House of Representatives. According to the timetable, an annual budget of 29 billion Dirhams (USD 2.9 billion) will be required from 2026 onwards. Added to this is the budget of almost 10 billion dirhams that the Government allocates each year to cover the cost of extending AMO to poor and vulnerable families and former RAMED beneficiaries, representing an annual budget of around 40 billion dirhams (USD 4 billion) by 2026, allocated to the two components of medical coverage and direct social assistance for the extension of social protection.

In any case, the financing scheme has been finalized. In fact, the government has taken a series of measures to guarantee the mobilization of 20 billion dirhams over the next three years from the Government's own resources. To this must be added 6 billion Dirhams (USD 600 million) from tax revenues relating to the Social Solidarity Contribution on corporate profits and income, as part of their responsible commitment to the success of this national project. Also on the menu are tax revenues from the activation of the full discharge contribution on assets and cash held abroad. Not forgetting the mobilization of 15 billion Dirhams (USD 1.5 trillion) through the rationalization, consolidation, and redirection of financial allocations to a range of existing social programs, in line with royal directives. The financing plan also provides for the mobilization of 9 billion Dirhams (USD 900 million) from the Social Cohesion Fund reserve for the year 2024. To complete the financing round, 12 billion dirhams will have to be gradually recovered by 2026 and after the end of a three-month period from the start of direct aid disbursements, through the gradual reform of the Caisse de Compensation (subsidy fund for basic foodstuffs), in line with the provisions of the framework law on social protection.

The price of a 12-kilogram gas cylinder is set to rise. This increase will take effect from next April, at a rate of 10 Dirhams each year, and will end in 2026. At present, the price of this butane gas cylinder is 40 Dirhams (4 US dollars), for a real cost to the Government of 130 Dirhams (USD 13). Curiously, when the Head of Government made this announcement, M.P.s applauded.

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Mohamed CHAOUI

2023-2024 crop year

The great challenge of water deficit

BY happy coincidence, it rained the day before and the day of the official launch of the 2023-2024 crop year by the Minister of Agriculture, Maritime Fishing, Rural Development and Water and Forests, Mohamed Sadiki. The launch ceremony took place on Friday, October 20, in the commune of Sidi Mohammed Ben Rahal (35 km south of the town of Settat). At the start of the ceremony, the Minister announced that «*the launch of the crop year comes after a 2022-2023 season marked by a significant rainfall deficit and an irregular time distribution of rainfall*», before adding that this situation had been compounded by the succession of drought years over the last five crop years and a situation characterized by higher input costs. It was good to be reminded of this in front of an audience (over 200 people), the vast majority of whom were small peasants awaiting the good news the Minister was about to announce, namely the measures his department has taken to ensure a successful 2023- 2024 crop year. Faced with challenges such as water scarcity and the high cost of agricultural inputs, and as part of its efforts to implement the Generation Green 2020-2030 strategy, the Ministry of Agriculture has taken a series of measures, including the supply of production factors (seeds and fertilizers), the development of agricultural sectors, irrigation water management, agricultural insurance, and financing and support for farmers to ensure a successful crop year. In passing, the Minister noted that «*an additional one million hectares of irrigation would have made it possible to exceed the 53 million quintals achieved during the previous crop year, to reach 75 to 80 million quintals*», while expressing surprise at the fact that «*the Chaouia region, the breadbasket of Morocco, with its fertile soils, has not yet benefited from an irrigated perimeter*».

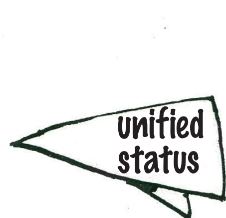
This state of affairs remains inexplicable, especially as the region boasts no fewer than five dams, including the Al Massira dam, one of the largest in the country. In fact, the Minister in charge of the Department of Agriculture also pointed out that «*a national program to supplement cereal irrigation has been launched to guarantee stable cereal production. The aim is to reach one million hectares by 2030, using 1.5 billion cubic meters of water resources*».❏

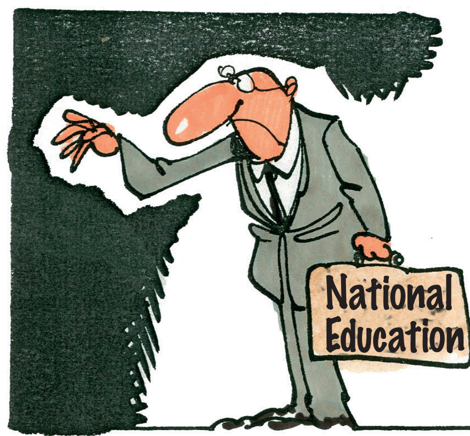
Jamal Eddine HERRADI

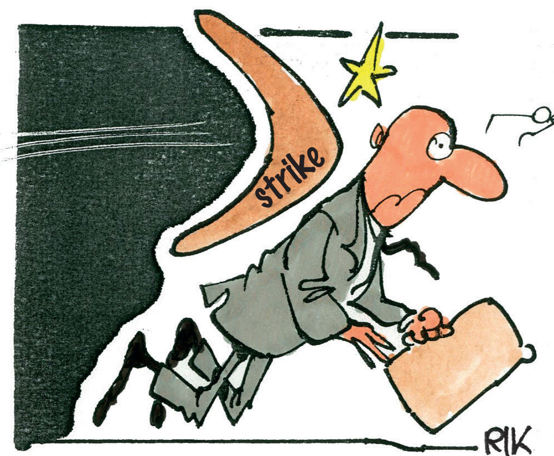
Weekly highlights

National Education: Towards a stalemate?

THE curse that has afflicted school education for decades now doesn't seem to have been lifted yet. With every step forward, we take two (or more!) steps back. The teachers' strike action launched last Tuesday, and continuing until this Thursday, is sending public schools into a new cycle of turbulence. On November 02, the sector's most representative education workers federations (UMT, CDT, FDT, UGTM) are organizing a sit-in in front of the Ministry of Education headquarters in Rabat. This follows their refusal to meet with the Minister, Chakib Benmoussa, on Tuesday, October 24.







The situation is serious, because while previously only the coordination of ex contract teachers held strikes and sit-ins, today they are also the sector's official spokespersons. They are all united against their supervisory authority. The main motive is the new unified statute for national education staff, approved by the Council of Government on September 27 and published in the Official Gazette on October 09. This status had been validated by the four largest education federations, and was the subject of an agreement on January 14, 2023. Has the Ministry finally failed to keep its promises? «*After a two-year process of dialogue, the Ministry finally failed to live up to the delibration principle and has issued the status without consultation. The Ministry didn't take into account our points of disagreement*», explains Mohamed Khoufaifi, deputy SG of the UMT's national teaching federation. « At the moment, there's a general sense of frustration. Teachers' workload has become heavier, with no incentives in return, and a whole program of sanctions has been established «, he added. In particular, the union leader insists on the salary increases that have not been granted, and on the «exclusion» of teachers from the monetary incentives granted to other categories.

Today, instead of restoring confidence for a new beginning, the statute reforming the 2003 statute has signaled the rift between the unions and the Ministry. «*At present, the situation is worse than a step backwards. The updated statute is already in the Official Bulletin, which makes a new revision process difficult*», says Mohamed Ould Dada, a former director of human resources at the Ministry of Education, and also a former regional academy director. The unions, for their part, are sticking to their guns, which bodes well for a possible stalemate in which schoolchildren will once again be the main casualties.❑

Ahlam NAZIH

Trade defense: Tunisian school notebooks back on the market

«*THE anti-dumping measure applied to Tunisian notebook imports will expire on January 03, 2024*», announces the Ministry of Industry and Trade. This measure is applied via a customs tax, the highest rate of which is 27.71% for all Tunisian exporters, with the exception of the Sitpec company, which has been taxed at 15.69% by the Moroccan authorities. The aim was to regulate the market against the unfair competition complained of by domestic producers Mapaf, Med Paper, and Promograph. The latter have won their case. In January 2019, the Government had set up a trade defense measure for a period of five years. That is, until the beginning of 2024. Hence the legal importance of this issue, which is back on the agenda. Domestic producers can request a review of the anti-dumping measure. The law on trade defense measures allows them to do so. The onus is on those requesting that the measure be maintained to prove the legitimacy of their claim. «*Their request must be in writing and contain evidence that the lifting of the measure after expiry is likely to lead to the continuation or recurrence of dumping and injury*», explains the Directorate General for Trade. This request must be made no later than 30 days from September 08, 2023, the date on which the administration published its public notice. The local producers actually submitted their request for renewal of the anti-dumping measure before the legal deadline expired on October 06, 2023. There are now five, rather than just three, companies who have referred the matter to the ministry responsible. In addition, there has been an almost total reconfiguration of the original plaintiffs. Of these, only Mapaf remained on the list.

On the other hand, four new operators have joined the fray. They are Dicapa, Lexus, Imprimerie modern, and Sopaleb. In the meantime, Med Paper and Promograph have withdrawn from the battle due to their respective commercial strategies in the production of school notebooks. L'Economiste contacted Med Paper to find out more about their withdrawal from the list of plaintiffs.

«*The anti-dumping renewal request is not necessary as far as our company is concerned. We've had time to invest to become more competitive than the Tunisians, even with the subsidies their government grants them. In fact, we're the only company to manufacture Tunisian school notebooks from recycled paper*», says Med Paper CEO Mohsine Sefrioui. Nevertheless, five producers are calling for the anti-dumping agreement to be extended for a further five years. From 2024 to 2029 in principle. The investigation by the Directorate General of Trade is continuing. In principle, Tunisian exporters will be asked to express their position..❑

Faïçal FAQUIHI