Investment Incentives in Morocco

The Kingdom of Morocco is located in North Africa, a few miles south of Spain. It covers a territory of about 700,000 square kilometres. Its population, of about 30 million inhabitants, is mostly Arab-Muslim. Berber is also spoken as are French and Spanish. Jewish and Christian minorities have also been economically active and socially accepted for many centuries. The capital city is Rabat, while Casablanca is the most important economic centre of the country. Morocco is governed as a "Constitutional Monarchy". Its moderate policies and liberal economy have made of it an attractive space for investors worldwide. Since King Mohammed VI ascended the throne in July 1999, he has actively pursued multifaceted economic, social and political reforms. Furthermore, multiple incentives have also been deployed to ease efforts for incoming investors.

Morocco's economy is a clearly emerging asset in Morocco's strategic choices. The 2006 forecast GDP growth is expected to increase to 4.6 percent due to the Moroccan government's firm commitment to enforce economic reforms, which include working to decrease the country's economic dependency on the volatile agricultural sector. Within these trends of reforms, both the International Monetary Fund (IMF) and the World Bank have provided valuable funding to Morocco as the county continues to seek economic liberalization. In June 2005, the World Bank endorsed a $150-million loan to Morocco that the government is using to provide housing for the urban poor. The World Bank also approved a $200-million loan in December 2005 that the government is also using to make several financial reforms. In the IMF's Article VI report (released in 2005) on Morocco, the IMF noted the need for Morocco to expand output of the non-agricultural sector, but praised the country's ability to maintain stable prices, a stable current account and stable foreign reserves. In addition, Morocco made a commitment to improve the quality and transparency of its economic statistics by joining the IMF's Special Data Dissemination Standards (SDDS).

Like all other countries the tax burden is an extremely sensitive issue. A variety of taxes are applicable. But the government's concern with the necessity of multiplying incentives has led to a multitude of tax reductions and elimination in specific cases of newly launched projects as well as in many other situations. These encouraging measures are contained in the « Investment Charter » which was adopted in 1995 and has represented ever since a key factor which has generated multiple investment incentives and introduced inter-sector fiscal neutrality. These measures may be summarized as follows:

1. ***Registration taxes**:*

   - *The acts of acquisition of land aimed at investment projects are totally exonerated from "registration rights" normally due to the state; the applicable normal rate is 5% of the value of the purchased land;*

   - *The application of a rate of 2,5% to the acts of acquisition of land aimed at the execution of an operation of "construction" or "lotissement";*

2. ***Customs duties**:*

   - *The minimum rate applied to "imports" is 2,5% while the maximum rate is 10%; [they normally vary between 2,5% and 50%];*

- *There is a total exoneration from the "PFI" [fiscal payment on imports] on all equipment goods.*

3. ***Value added tax*** *(TVA):*

- *Exoneration or total reimbursement (if paid) applicable to all equipment goods and tools either purchased locally or imported;*

4. ***Patent tax*** *:*

- *Suppression of the "variable tax"*

- *Exoneration during the first 5 years of exercise of all physical or moral persons exercising a professional, Industrial or commercial activity; normally it is equivalent to 10% of the value of the rent;*

5. ***Urban tax*** *:*

- *Exoneration during first years after their implementation of all new constructions, additions to existing constructions and machinery or equipment closely linked to the establishment of production of goods and services [its normal rate is equivalent to 13.5% of the rent value of the land];*

6. ***Multiple other incentives*** *:*

- *Numerous other tax incentives are offered to new investors in general and foreigners in particular (whether they reside in Morocco or live abroad); these incentives concern both the initial implementation period and the operating phases [National Solidarity Tax (PSN), Tax on Enterprises (IS); Tax on Construction Profits (TPI); General Tax on Revenues (IGR); Provision on Investments; etc….] These are all reduced or erased according to specific conditions.*

- *Besides, foreign investors may also create new enterprises, participate in already existing ones, subscribe to capital increase of existing societies, create branches or "liaison offices" of their existing foreign firms, acquire Moroccan real estate, etc…*

- *Foreign firms or individuals may also legally hold bank accounts in Morocco: these may either be "accounts in hard currency" or "foreign accounts in convertible dirhams". These do not need any specific authorization or procedure.*

- *The transfer of revenues produced by a foreign investment funded initially in hard currency is guaranteed by the State. There is neither a limitation of the amount to be transferred nor a limitation in time. It is operated directly by the banks, with no special authorization. It may be made on behalf of foreign individuals or firms either residing in Morocco or non residents. They are subject to the payment of a tax (15% representing the tax on the product of shares and assimilated revenues).*

If interested in further details or willing to receive specific analysis or analytical notes related to some of these legal issues, please contact the "HR Legal Firm" directly at: hr@hassanrahmouni.com