

Synthesis Report on Tax expenditures for the year 2011

The enlargement of the tax base has allowed the consolidation of fiscal revenues of recurring costs, which moved from 84.3% in 2000 to 88.5% in 2010.

This trend has been confirmed by the improvement of income tax revenue whose part in the overall fiscal revenues increased from 32.9 % in 2000 à 35.9 % in 2010, thus registering an average annual progression of 9.8% with an average GDP growth rate in daybook of 6.3 % in the same period.

To evaluate the cost generated by the improvement of fiscal revenues, an inventory of 399 derogation clauses were introduced in 2011, against 384 in 2010, 393 in 2009 and 392 in 2008.

The table that follows gives the evolution of these derogations between 2010 and 2011.

Tableau 1: Trend of Derogation clause measures

| Tax | Evaluation 2010 | | | Evaluation 2011 | | | Variation 11/10 | |
|----------------------------|---------------------|---------------|--------------------|---------------------|---------------|--------------------|-----------------|--------------|
| | Identified measures | Part | Evaluated measures | Identified measures | Part | Evaluated measures | identified. | Evaluated |
| - Value Added Tax | 129 | 33,6% | 109 | 129 | 32,3% | 113 | 0,0% | 3,7% |
| - Corporate Tax | 85 | 22,1% | 40 | 90 | 22,6% | 58 | 5,9% | 45,0% |
| - Income Tax | 73 | 19,0% | 24 | 80 | 20,1% | 40 | 9,6% | 66,7% |
| - Registration duties | 87 | 22,7% | 42 | 90 | 22,6% | 51 | 3,4% | 21,4% |
| - Domestic Consumption Tax | 7 | 1,8% | 7 | 7 | 1,8% | 7 | 0,0% | 0,0% |
| - Excise Duties | 3 | 0,8% | 3 | 3 | 0,8% | 2 | 0,0% | -33,3% |
| Total | 384 | 100,0% | 225 | 399 | 100,0% | 271 | 3,9% | 20,4% |

Hence, the number of measures identified moved from 384 in 2010 to 399 in 2011, among which 271 were evaluated in 2011 against 225 in 2010; that is an increase of 20.4%.

Table 2: Evaluation of derogation clauses

| label | 2008 | 2009 | 2010 | 2011 | Variation 2011/2010 |
|----------------------------------|--------|--------|--------|--------|------------------------|
| Number of identified measures | 392 | 393 | 384 | 399 | 3,9% |
| Number of evaluated measures | 192 | 202 | 225 | 271 | 20,4% |
| Evaluated amounts in million MAD | 26 944 | 28 734 | 29 801 | 32 075 | 7,6% |

Tax expenditures evaluated in 2011 amounted to MAD 32,075 million against MAD 29,801million in 2010; that is, an increase of 7.6%.

Their share represents 18.3% in fiscal revenues against 17.4% in 2010. As to their share in GDP, it represented 3.9% in 2010 and 2011.

Without excise duties and domestic consumption tax, the part of fiscal expenditure moved from 3.6% of GDP in 2010 to 3.7% in 2011.

As far as the part of tax expenditures in revenues of corporate tax, VAT and registration duties, it moved from 20.2% in 2010 to 21.0% in 2011.

Total exemption (MAD 17,606 million) represents 54.9% of the total evaluated measures, followed by rate reductions of 25.3% (MAD 8,127 million)

The increase of fiscal expenditures estimated for the year 2011 in relation to 2010 is 7.6%. This is largely due to the updating operations already carried out and to the estimation of budget impact of 52 measures, newly evaluated, with an amount of MAD 1,274 million

Expenditures by tax payables are as follows:

Table 3: Evaluation by tax payable

| Tax payable | In MAD millions | | | | |
|-----------------------|-----------------|-------|-----------------|-------|--------------------|
| | Evaluation 2010 | | Evaluation 2011 | | Variation 10/09 |
| | Amount | Share | Amount | share | |
| - VAT | 13 758 | 46,2% | 13 236 | 41,3% | -3,8% |
| - Corporate tax | 6 016 | 20,2% | 7 069 | 22,0% | 17,5% |
| - Income tax | 4 216 | 14,1% | 4 326 | 13,5% | 2,6% |
| - Registration duties | 3 891 | 13,1% | 5 513 | 17,2% | 41,7% |

| | | | | | |
|----------------------------|---------------|---------------|---------------|---------------|-------------|
| - Domestic Consumption tax | 1 285 | 4,3% | 1 268 | 4,0% | -1,3% |
| - Excise duties | 636 | 2,1% | 664 | 2,1% | 4,4% |
| Total | 29 801 | 100,0% | 32 075 | 100,0% | 7,6% |

Hence, as far as VAT is concerned, and which is an important part of tax expenditures with 41.3%, the amount moved from MAD 13,758 million in 2010 to MAD 13,236 million in 2011.

If we exclude this amount from the afferent tax expenditures to reduced tax payables, the estimation amounted to MAD 10,423 million in 2011; that is, 78.7% of the total tax expenditures related to VAT.

As to corporate tax, the amount of tax expenditures estimated was MAD 7,069 million in 2011. Companies mostly benefit from the majority of these expenditures (MAD 6,744 million of which 2.666 concern the export sector).

Tax expenditures estimated at the level of income tax reached the figure of MAD 4,326 million, of which 2506 go to households.

Finally, registration duties, the amount afferent to tax expenditures is of MAD 5,513 million; that is, 17.2% on the whole. MAD 2,782 million relate to real estate activities.

Expenditures by beneficiary are as follows

Table 4: Main beneficiaries

| beneficiaries | 2010 | | 2011 | | | |
|---|------------|---------------|------------|---------------|---------------|---------------|
| | Number | Amount | Number | Part | Amount | Part |
| - Enterprises | 166 | 17 091 | 173 | 43,4% | 19 154 | 59,7% |
| <i>Of which : real estate promoters</i> | 15 | 2 591 | 16 | 4,0% | 3 072 | 9,6% |
| <i>Exporters</i> | 12 | 2 418 | 12 | 3,0% | 2 981 | 9,3% |
| - Households | 103 | 9 285 | 110 | 27,6% | 9 627 | 30,0% |
| - Public services | 55 | 3 217 | 56 | 14,0% | 3 143 | 9,8% |
| - Others | 60 | 209 | 60 | 15,0% | 151 | 0,5% |
| Total | 384 | 29 801 | 399 | 100,0% | 32 075 | 100,0% |

In 2011, 43.4% of enterprises and 27.6% of households benefited from derogation clauses measures

Evaluations of Tax expenditures by sector of activities are as follows:

Table 5: Main sectors of activity

In MAD million

| Sector of activity | 2010 | | | 2011 | | | | |
|----------------------------------|---------------------|--------------------|---------------|---------------------|-------------|--------------------|---------------|-------------|
| | Identified measures | Evaluated measures | Amount | Identified measures | Part | Evaluated measures | amount | Part |
| - Real estate | 39 | 28 | 4 438 | 41 | 10% | 33 | 5 413 | 16,9% |
| - Agriculture and fishing | 31 | 20 | 4 035 | 31 | 8% | 23 | 4 296 | 13,4% |
| - Printing | 4 | 3 | 357 | 4 | 1% | 3 | 159 | 0,5% |
| - Electricity and gas | 4 | 3 | 1 097 | 4 | 1% | 3 | 1 278 | 4,0% |
| - export | 12 | 5 | 2 421 | 12 | 3% | 5 | 3 003 | 9,4% |
| - car and chemical industry | 5 | 5 | 734 | 5 | 1% | 4 | 296 | 0,9% |
| - food industry | 14 | 14 | 2 312 | 14 | 4% | 14 | 2 471 | 7,7% |
| - market intermediation | 33 | 16 | 1 322 | 40 | 10% | 29 | 1 464 | 4,6% |
| - social security | 18 | 14 | 3 564 | 18 | 5% | 14 | 2 983 | 9,3% |
| - regions | 28 | 15 | 1 091 | 28 | 7% | 18 | 887 | 2,8% |
| - health and social welfare | 53 | 24 | 1 253 | 53 | 13% | 34 | 2 029 | 6,3% |
| - Transport | 20 | 13 | 1 212 | 20 | 5% | 13 | 1 424 | 4,4% |
| - Public service | 14 | 6 | 2 045 | 15 | 4% | 7 | 1 744 | 5,4% |
| - Tourism | 3 | 3 | 423 | 4 | 1% | 4 | 449 | 1,4% |
| - Measures common to all sectors | 24 | 18 | 2 464 | 27 | 7% | 20 | 3 225 | 10,1% |
| - Other sectors | 82 | 38 | 1 033 | 83 | 21% | 47 | 954 | 3,0% |
| Total | 384 | 225 | 29 801 | 399 | 100% | 271 | 32 075 | 100% |

In this context, we notice that the real estate sector always predominantly profits from derogation clause measures. From 41 measures, those evaluated totaled MAD 5,413 million in 2011, against MAD 4,438 million in 2010, witnessing an increase 22.0%, representing 16.9% of tax expenditures evaluated in 2011.

Tax expenditures afferent to contracts signed with the state related to exemption from all tax and duties assigned to ongoing social housing programmes amount MAD 1,126 million, of which MAD 798 million relate to VAT and MAD 328 million to corporate tax.

Tax expenditures assigned to the sector of energy reached MAD 1,278 million in 2011; that is, 4, 0% of all expenditures (MAD 778 million originate from VAT and MAD 500 million from registration duties).

As to the transport sector, it has benefitted from 20 derogation clauses. 13 clauses were evaluated and reached MAD 1,424 million in 2011, of which:

- MAD 432 for transport at a VAT rate of 14%;
- MAD 768 million for registration duties.

Additional measures assigned to export enterprises totaled MAD 3,003 million in 2011 of expenditures, of which MAD 2,666 million are related to corporate tax.

Tax expenditures related to concessional tax regime that regions benefit from reached MAD 887 million in 2011. These expenditures relate mainly to the Tangier zone with MAD 404 million for corporate tax and MAD 60 million for income tax.

The tourism sector benefited from MAD 449 million in 2011. The expenditures come mainly from the application of rates reduced to 17.5% for hotel businesses on part of their turnover made in hard currency (MAD 341 million)