

Al Maliya Article

2020 Special finance law

Summary of the tax expenditure report

In order to sustain a steady increase in tax revenue, a greater mobilization of the tax potential will be necessary, particularly through the streamlining of tax expenditures.

I. TAX EXPENDITURES RECORDED IN 2018 AND 2019 BROKEN DOWN BY FINANCE LAW

Since tax expenditures are always changing according to the different finance laws in force, it is important to compare this change in terms of number and cost. The table below illustrates the breakdown of tax expenditures recorded in 2018 and 2019 which are adopted by the various finance laws.

Table 1: Breakdown of tax expenditures by FL

Tax expenditures/Finance Law	2018		2019	
	Number	Cost in Millions of dirhams	Number	Cost in Millions of dirhams
Total tax expenditures	295	28 558	293	27 785
including those prior to the 2016 FL	274	28 094	265	27 215
including those relating to the 2016 FL	3	Insignificant	3	Insignificant
including those relating to the 2017 FL	13	464	13	437
including those relating to the 2018 FL	5	Insignificant	5	Insignificant
including those relating to the 2019 FL	-	-	7	133

This table reveals the following:

- 90% of the tax exemptions were adopted prior to 2016. These exemptions represent, in terms of cost, more than 98% of the tax expenditures recorded in 2019.
- The tax exemptions adopted by the finance laws after 2016 have an increasingly significant budgetary impact.

II. BREAKDOWN OF TAX EXPENDITURES BY TAX TYPE

In order to analyze the distribution of tax expenditures by type of tax whether in terms of number or in terms of cost, the table below breaks down the tax expenditures recorded in 2018 and 2019:

Table 2: Breakdown of tax expenditures by tax type

In millions of dirhams

Tax type	2018				2019				Change 18/19
	Exemptions identified	Exemptions evaluated	Amount	Share	Exemptions identified	Exemptions evaluated	Amount	Share	
VAT	85	83	14 642	51%	84	81	14 274	51%	-3%
Corporate Tax (IS)	62	49	4 662	16%	57	46	4 990	18%	7%
Income tax (IR)	82	50	4 563	16%	82	51	3 648	13%	-20%
DET	37	29	557	2%	39	31	508	2%	-9%
TSAV	8	4	246	1%	9	7	285	1%	16%
TASS	11	10	2 854	10%	12	11	3 034	11%	6%
Domestic consumption tax (TIC)	7	6	246	1%	7	6	225	1%	-8%
Import duty	3	3	787	3%	3	3	821	3%	4%
Total	295	234	28 558	-	293	236	27 785	-	-3%

The number of exemptions identified as tax expenditures increased from 295 in 2018 to 293 in 2019. Among these exemptions, 236 were evaluated in 2019, i.e. 81% of the exemptions identified. The overall amount of the corresponding tax expenditure decreased by 773 million dirhams between 2018 and 2019, going from 28,558 million dirhams to 27,785 million dirhams, due to the drop in tax expenditure relating to the income tax (-915 million dirhams) and to VAT (-368 million dirhams).

On the other hand, tax expenditures relating to the corporate tax and the TASS have increased respectively by (328 million dirhams) and (180 million dirhams).

III. BREAKDOWN OF TAX EXPENDITURES BY TYPE OF EXEMPTION

This report identifies 293 tax exemptions as tax expenditure in 2019. These exemptions consist of total, partial or temporary exemptions, reduced tax rates, deductions, treasury or cash facilities, lump-sum Taxation and allowances.

The table below summarizes the number of expenditures by type of exemption in 2018 and 2019:

Table 3: Breakdown of tax expenditures by type of exemption

Type of exemption	In millions of dirhams							
	2018				2019			
	Number	Share	Amount	Share	Number	Share	Amount	Share
Total exemptions	188	63.7%	16 330	57.2%	189	64.5%	16 001	57.6%
Reduced tax rates	50	16.9%	8 236	28.8%	49	16.7%	8 156	29.4%
Partial or temporary exemptions	20	6.8%	2 091	7.3%	20	6.8%	2 137	7.7%
Allowances	5	1.7%	759	2.7%	4	1.4%	317	1.1%
Treasury or cash facilities	5	1.7%	410	1.4%	5	1.7%	427	1.5%
Deductions	16	5.4%	698	2.4%	16	5.5%	710	2.6%
Lump-sum Taxation	11	3.7%	35	0.1%	10	3.4%	36	0.1%
Total	295	-	28 558	-	293	-	27 785	-

The analysis of tax expenditures shows consistency in terms of structure for the two consecutive years. In fact, total exemptions hold the majority share of 58% in 2019 followed by reductions with 29%.

BREAKDOWN OF TAX EXPENDITURES BY SECTOR

Tax expenditures have changed in different ways over the years depending on the sector. The table below shows the breakdown of tax expenditures by sector:

Table 4: Breakdown of tax expenditures by sector

Sector	In millions of dirhams							
	2018				2019			
	Exemptions identified	Exemptions evaluated	Amount	Share	Exemptions identified	Exemptions evaluated	Amount	Share
Real estate	40	33	5 406	18.9%	39	34	4 407	15.9%
Security & welfare	13	11	4 940	17.3%	15	13	4 882	17.6%
Agriculture, fishing	25	23	2 627	9.2%	26	23	2 527	9.1%
Public services	2	1	314	1.1%	2	1	326	1.2%
Food sector	7	7	1 115	3.9%	7	7	995	3.6%
Exports	10	5	2 716	9.5%	10	5	2 778	10.0%
Financial sector	41	30	1 799	6.3%	40	29	1 985	7.1%
Social-Health	23	22	711	2.5%	25	24	881	3.2%
Transport	21	17	1 264	4.4%	22	20	1 286	4.6%
Exemptions benefiting all sectors	25	15	725	2.5%	24	15	871	3.1%
Energy and gas	4	4	5 126	18.0%	4	4	5 075	18.3%
Mining activities	7	7	275	1.0%	7	7	286	1.0%
Automotive and chemical sector	5	5	544	1.9%	5	5	450	1.6%
Regions	14	13	106	0.4%	9	8	76	0.3%
Publishing, Printing	4	4	122	0.4%	4	4	139	0.5%
Tourism	5	4	182	0.6%	5	4	187	0.7%
Education	14	12	143	0.5%	14	12	154	0.6%
Arts and crafts	5	4	44	0.2%	5	4	47	0.2%
Other sectors	30	17	398	1.4%	30	17	434	1.6%
Total	295	234	28 558	-	293	236	27 785	-

With an almost stable expenditure structure between 2018 and 2019, the tax expenditures recorded in 2019 are largely attributable to the energy sector (18%), the security and welfare sector (18%) and the real estate sector (16%).

BREAKDOWN OF TAX EXPENDITURES BY TYPE OF BENEFICIARY

The term “tax expenditures” suggests that there is a party who benefits from them. These beneficiaries can be companies, households or even public services. The table below details the share of tax expenditures, in number and amount, by type of beneficiary for 2018 and 2019.

Table 5: Breakdown of tax expenditures by type of beneficiary

Beneficiaries	2018				2019			
	Exemptions identified	Exemptions evaluated	Amount	Share	Exemptions identified	Exemptions evaluated	Amount	Share
Companies	153	122	13 415	47.0%	150	122	13 504	48.6%
Including Property developers	16	12	769	2.7%	16	13	734	2.6%
Including Farmers	18	16	2 310	8.1%	19	16	2 224	8.0%
Including Exporters	10	5	2 716	9.5%	10	5	2 778	10.0%
Including Fishermen	6	6	122	0.4%	6	6	73	0.3%
Including Educational institutions	11	9	122	0.4%	11	9	124	0.4%
Households	90	75	13 592	47.6%	91	77	12 652	45.5%
Including Employees	16	9	2 767	9.7%	16	9	2 931	10.5%
Including Manufacturers and service providers	8	7	279	1.0%	8	7	292	1.1%
Including Authors-Artists	5	3	82	0.3%	5	3	97	0.4%
Public services	20	15	938	3.3%	20	15	958	3.4%
Including State	9	5	861	3.0%	9	5	919	3.3%
Including Development agencies	7	6	58	0.2%	7	6	32	0.1%
Including Public institutions	4	4	19	0.1%	4	4	7	0.0%
Other	32	22	613	2.1%	32	22	671	2.4%
Total	295	234	28 558	-	293	236	27 785	-

With an almost stable expenditure structure between 2018 and 2019, households and companies hold the majority share of tax expenditures (95%), (46% for households and 49% for businesses).

BREAKDOWN OF TAX EXPENDITURES BY GOAL

Tax expenditures are aimed at achieving specific goals. Thus, the table below breaks down the tax expenditures in 2018 and 2019, in number and in cost, according to goals.

Table 6: Breakdown of tax expenditures by goal

Goal	In millions of dirhams							
	2018				2019			
	Exemptions identified	Exemptions evaluated	Amount	Share	Exemptions identified	Exemptions evaluated	Amount	Share
Developing the social economy	14	9	128	0.4%	16	11	245	0.9%
Facilitate access to housing	34	30	5 253	18.4%	33	29	4 254	15.3%
Mobilize domestic savings	27	20	4 211	14.7%	28	21	4 417	15.9%
Encourage investment	29	20	848	3.0%	28	22	979	3.5%
Reduce health costs	13	12	404	1.4%	13	12	446	1.6%
Reduce financing costs	19	14	346	1.2%	18	13	274	1.0%
Reduce factor cost	19	17	1 535	5.4%	20	18	1 564	5.6%
Develop the agricultural sector	18	17	2 416	8.5%	19	17	2 322	8.4%
Support purchasing power	17	17	6 213	21.8%	17	17	6 002	21.6%
Encourage education	12	9	107	0.4%	12	9	113	0.4%
Develop disadvantaged areas	6	5	58	0.2%	6	5	32	0.1%
Promote culture and leisure	10	7	122	0.4%	10	7	139	0.5%
Encourage exports	12	7	2 757	9.7%	12	7	2 821	10.2%

Reduce state burdens	-	-	-	0.0%	-	-	-	0.0%
Modernization of the economic fabric	7	3	-	0.0%	7	3	-	0.0%
Attract external savings	7	7	204	0.7%	2	2	198	0.7%
Develop the mining sector	6	6	275	1.0%	6	6	286	1.0%
Encourage crafts	4	3	33	0.1%	4	3	35	0.1%
Other goals	41	31	3 649	12.8%	42	34	3 658	13.2%
Total	295	234	28 558	-	293	236	27 785	-

In 2019, major exemptions mainly had to do with the support of purchasing power (6,002 million dirhams, or 22%), the mobilization of domestic savings (4,417 million dirhams, or 16%) and facilitating access to housing (4,254 million dirhams, or 15%).

BREAKDOWN OF TAX EXPENDITURES BY PURPOSE

Tax expenditures have a purpose which can be economic, social or cultural. And in order to determine the majority share of tax expenditures in terms of purpose, the table below breaks down these expenditures in 2018 and 2019 by purpose and by type of tax:

Table 7: Breakdown of tax expenditures by purpose

Tax type	In millions of dirhams							
	2018				2019			
	Economic activities	Social activities	Cultural activities	Total	Economic activities	Social activities	Cultural activities	Total
VAT	5 304	9 216	122	14 642	5 233	8 902	139	14 274
Corporate Tax (IS)	4 039	623	-	4 662	4 355	635	-	4 990
Income tax (IR)	1 492	3 071	-	4 563	1 527	2 121	-	3 648
DET, TSAV and TASS	2 538	1 120	-	3 657	2 695	1 132	-	3 827
Domestic consumption tax (TIC)	246	-	-	246	225	-	-	225
Import duty	783	4	-	787	807	14	-	821
Total	14 403	14 033	122	28 558	14 843	12 804	139	27 785

In 2019, exemptions with economic purposes benefit from the majority of tax expenditure, i.e. 53.4%. As for exemptions with social purposes, they benefit from 46.1% of the share of overall tax expenditure, and those for cultural purposes only benefit from 0.5%.

BREAKDOWN OF TAX EXPENDITURES ELIMINATED BY YEAR

The tax expenditures eliminated by year are as follows:

Table 8: Breakdown of tax expenditures eliminated

In millions of dirhams

Year	Number of exemptions eliminated	Amount of exemptions eliminated
2006	32	1 313
2007	7	882
2008	15	2 744
2009	10	1 631
2010	12	1 639
2011	-	-
2012	5	2 938
2013	3	622
2014	15	1 347
2015	13	4 887
2016	1	784
2017	5	508
2018	1	301
2019	9	293
Total	128	19 889