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Fiscal Approach to Mitigate Post-Covid-19 Economic and Social Impacts in Morocco

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Abstract:

Morocco, like the emerging countries, manages a complex economy due to multiple social and economic needs as well as glaring inequalities in income and wealth.

The current crisis in Morocco has certainly aggravated the overall budget deficit, mainly because of the decline in tax revenues, the increase in public spending induced by the Covid-19, and the combined effects of the poor cereal harvest and the downturn in the global economy, which is certainly well felt.

This crisis is an opportunity to improve the efficiency and equity of the Moroccan tax system and to capitalize on the remarkable momentum of solidarity caused by this pandemic. To this end, it is proposed, first, to mobilize and enhance the fiscal potential, then to establish solidarity taxes, and finally, to extend medical coverage and establish a pension system for the self-employed.

Keywords:

Solidarity, tax potential, Zakat, inheritance tax, medical coverage, pension, self-employed.

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Introduction:

The Covid-19 pandemic has highlighted dogmatic economic thinking. The current public debate questions the direction that the Moroccan economy should take to mitigate the economic and social effects induced by this pandemic crisis.

Traditionally, economic policy is defined as a set of coherent actions taken by public authorities and aimed, with the help of various tools, at achieving socio-economic objectives in the desirable way. As such, budgetary policy and monetary policy are the two most widely used levers in public action to orient economic and social development.

In order to support the economy and seize the opportunities that are opening up in the world, the State must be involved in the identification, repositioning and recomposition of regional and global value chains through its budgetary policy.

In this context of crisis induced by pandemic Covid-19, the question posed in Morocco, as in other similar countries, is how to finance the recovery of the economy without having negative consequences at the social and economic level? Is it necessary to find new fiscal mechanisms to finance the recovery and relieve the budget deficit that will result from the current crisis? what are the future evolutions and developments of our public finance?

I- Study of the existing (AS-IS):

The budgetary effects of this pandemic crisis will aggravate the Moroccan economy which is on its last legs. It is characterized by a significant drop in the GDP growth rate⁴.

Thus, this decline is estimated at 80 billion DH of value added lost during the state of health emergency⁵. To this must be added 42 billion dirhams of budget deficit expected for the year 2021.

1- Background Observed:

The context of this current crisis has reinforced this complexity already mentioned above. This situation will be even more complex after Covid-19 and may aggravate the overall budget deficit due mainly to two major points:

- a) The decline in Treasury revenues as a result of the freeze on economic activities (in particular, corporate income tax, value added tax and income tax);
- b) The increase in incompressible public expenditure induced by Covid-19;
- c) The combined effects of the poor cereal harvest and the global economic downturn⁶.

⁴According to the Minister of Economy and Finance, during his speech to the House of Councillors on May 19, 2020, two months of confinement will cost the Moroccan economy 6 GDP growth points in 2020.

⁵ The Minister of Economy and Finance in answering questions from parliamentarians on 19/05/2020 estimated that Morocco loses for each day of confinement 500 MDH revenue from the Treasury, by extrapolation over 80 days of confinement, this makes 40 billion DH of revenue during the state of health emergency.

⁶ The export sectors most affected in Morocco are the automotive: -96% in April, -86% in March, aeronautics: -81% in April, -52% in March, electronics: -93% in April, -51% in March, textiles: -86.5% in April, -40% in March according to the Statement of the Minister of Economy and Finance 19 May 2020 before the House of Advisors.

Public finances will be strained by the severe depression in national economic activity resulting from this health crisis and the drying up of national and international funding sources.

2- Fiscal measures taken by the State:

In reaction to this pandemic, the government has taken a series of fiscal measures, the main ones of which can be summarized as follows:

- The postponement of the filing of tax returns⁷ until June 30, 2020 for companies that wish to do so and whose turnover for the year 2019 is less than 20 MDhs as well as the payment of the additional corporate tax due for the year 2019 and the first instalment due for the current year. The companies concerned, benefit automatically from this deferral without any formality. The turnover declared for the 2018 fiscal year is deemed authentic. However, the declarations of the value added tax and the repayment of taxes withheld at source for which companies are mere intermediary collectors, are excluded from the scope of this measure of deferral of tax deadlines; The deferment or postponement of tax payment for companies with a turnover of MAD 20 million or more, which are facing financial difficulties;
- The suspension of tax controls and notices to third parties until June 30, 2020;
- The deductibility⁸ of the donations granted to the special fund for the management of the Coronavirus pandemic from the tax result;
- The exemption⁹ of the assistance indemnity granted by a company in difficulty to the personnel in temporary stoppage of work;
- The non-application of penalties and late payment increases relating to late payment and late filing of declarations relating to taxes¹⁰ instituted by law n :47/06 governing the taxation of local authorities.

3- The limits of the fiscal potential in Morocco:

The Moroccan fiscal potential suffers from several constraints that limit its scope, the main ones can be summarized as follows:

- The high levels of tax expenditures granted in the form of tax rate reductions or tax exemptions¹¹. These expenditures are estimated at about 30 Dh billion according to the 2019 tax expenditure report.

- The existence of a large informal sector. According to the statement of the Minister of Economy and Finance made in the Chamber of Councillors on May 19, 2020, households working in the informal sector exceed 4 million households;

⁷ Economic Intelligence Committee (EIC) press release, March 16, 2020.

⁸ Press release issued on March 23 by General Tax Administration.

⁹ Circular note of April 25, 2020 from the General Tax Administration.

¹⁰ Circular note of May 11, 2020 from the Minister of the Interior.

¹¹ The 2019 tax expenditure report, source: General Tax Administration.

- Tax evasion more prevalent¹² in Morocco.
- The high concentration of taxes on a minority of taxpayers.
- The organizational insufficiency of the Tax Administration.

The consequences of these limitations are: a strong erosion of taxable income, glaring inequalities in income and wealth and a national economy strangled by debt.

II- Opportunities for improvement (To Be)

Taxation plays a key role in the mobilization and allocation of domestic resources necessary to achieve socio-economic development objectives.

To this end, the State must play its full role in the recovery of the economy and reposition itself in strategic economic and social sectors due to the recomposition of the global value chain, decarbonization, digitization and polarization of consumption ...

For all these reasons, the need for a real tax reform is obvious in order to give back confidence to national and international actors and to legitimize public action.

The main fiscal levers for implementing this tax reform can be summarized in three broad categories as follows:

1- Mobilization and valorization of fiscal potential:

In this perspective, it is reasonable to develop the domestic fiscal capacity through the following actions:

- The expansion of the tax base to cover the tax potential not yet taxed, including the real companies that are hiding and developing in the informal sector and which constitute real risks for the national economy as well as the taxation of the digital economy in full expansion.
- The rationalization and limitation¹³ of tax incentives only for key sectors whose tax expenditures are justified because of their positive economic and/or social impact;
- The fight against national and international tax evasion and fraud by strengthening tax resources and controls and by broad international cooperation.

2 - Consolidation of the tax-solidarity concept:

It is well known that solidarity has never been alien to the concept of taxation. From a fiscal point of view, solidarity is often linked to the redistribution of wealth and the financing of social policies.

As such, it is suggested that some taxes whose proceeds will be allocated to the special fund for the fight against the Covid-19, must fulfill a function of transitional solidarity tax that

¹² Tax evasion and fraud in Morocco, PhD thesis, Yahya Aissaoui, June 2005 Faculty of Legal, Economic and Social Sciences of Casablanca.

¹³ Report of the Economic and Social Council: The Moroccan tax system, economic development and social cohesion, Economic and Social Council, A.S. n°9/2012, www.ces.ma.

is part of the remarkable solidarity impulse caused by this Coronavirus pandemic and which could be raised at the end of the crisis. These are:

- The institution of a national solidarity contribution on income, profits and self-deliveries of construction on a temporary basis, which will replace the social solidarity contribution on profits.¹⁴,

In order to continue efforts to mobilize resources to strengthen solidarity, the proceeds of these contributions, which are levied on the highest profits and revenues, will be allocated to the special trust account entitled "Special Fund for the Management of the Coronavirus Pandemic".

The same applies to the creation of a tax on inheritance and on unproductive wealth:

- Allocation of zakat proceeds to the Covid-19 special fund: There are good reasons to remember that zakat is first and foremost a recurring instrument of solidarity because it has historically been operated within a logic of social solidarity. This crisis offers an opportunity to capitalize on this national social dynamic of unprecedented solidarity induced by the pandemic.

3- The expansion of medical coverage and the establishment of a pension system for the self-employed:

In Morocco, very few self-employed and self-employed persons are covered by the compulsory health insurance scheme.

To this end, and in the context of the implementation of the support program for the reform of basic medical coverage, a distinction must be made between the non-salaried working and the poor population.

For the first category, there is no reason why these self-employed workers who have varying degrees of income should remain outside the medical coverage. Especially since these health insurance contributions are fiscally considered as deductible expenses from the taxable income.

However, for the informal sector, the government has recent data on this population following its census during this pandemic to identify the beneficiaries of the subsidy. A minimum health insurance contribution of 100 DH per month will be reasonably acceptable (for the insured in addition to his or her beneficiaries). The following are considered as beneficiaries.

We can also match the pension contributions on the same bases thus defined.

Regarding the poor population, it is time to correct the dysfunctions of the RAMED medical coverage programs, in parallel with the efforts that the public authorities will have to make in terms of reform of the national health system because of the new statistics available to the State when distributing aid to this population.

The real problems for this category of population are twofold:

- The first is the financing modality of this medical coverage system;

¹⁴ Introduced by Article 7-III of the Finance Act No. 80-18 for the year 2019

- The second is the difficulty of identifying the indigence.

The State may provide for the establishment of a tax system to finance the medical coverage of this category of population through the institution of a tax with public health value based on harmful consumption (tobacco, alcohol, polluting fuels ...) and gambling and betting with the object of greyhound races as well as luxury products. This tax will be collected by companies and paid to the tax administration's revenue office operating on behalf of the public treasury.

Conclusion:

This crisis provides a better opportunity to make key changes. In terms of strategic thinking, there is no perfect model that fit with all situations, to attenuate the negative effects of such a pandemic.

Therefore, the best economic model emanates from a collective conceptual construction that can only be enriched jointly by all, relying necessarily on democratic values of good governance, better readability of rules and improvement of the climate of confidence to legitimize public action and allow the national economy to recover and face the challenges of competitiveness.

In order to adapt to the mutations of the Moroccan society and to progressively modify economic and social behaviors in the long term, the following accompanying measures should be taken:

- **Adaptation to international standards:** Morocco's integration into the dynamics of the global economy has certainly had a profound effect on public action. Consequently, the evolution of fiscal policy is highly dependent on international norms and standards;
- **Renovation of the legal framework:** the model of public action based on the socio-professional consent of the tax in spite of the failing parliamentary consent, has become obsolete and unacceptable because of the new international mode of tax regulation and the demands of civil society. Consequently, the change of paradigms and the anchoring to constitutional principles and to those of the organic law of finances (OLF) are likely to legitimize public action and to restore confidence of the actors;
- **Participative management:** The effort of the tax administration must be directed towards its refocusing on its real jobs which justify its reason for being in existence. An administration that communicates, digitizes and respects the constitutional principles that guarantee tax equity for taxpayers and efficiency in public action and ensure quality service to the public. It is universally accepted that a better tax policy can only be successful if the administration implements it.

I would like to conclude with a reminder of a historical phrase of the Roman emperor Tiberius¹⁵, which symbolizes good management and distribution of the tax burden, quoted by Suetonius in his book, *Life of the Twelve Caesars*: "A good shepherd shears these sheep, he does not skin them." The fact remains that we are in 2021 and the Moroccan tax system is characterized by a strong concentration on a minority of taxpayers, and also by dysfunctions that affect both the efficiency and effectiveness. This makes it a tax haven for some and a hell for others.

The policy adopted by Morocco will certainly strengthen its economic position in African countries. In the same sense, it will serve as a model of inspiration for those countries

¹⁵ The Roman emperor Tiberius (November 16, 42 BCE-March 16, 37 CE) was a very competent military leader and a sensible civic leader who tried to limit Rome's out-of-control budget. But he was also harsh and unpopular. He is best known for his trial for treason, sexual perversion, and ultimately his responsibility in shirking to enter seclusion.

that want to consolidate commercial, industrial and financial relations, especially Central Africa with which it maintains increasingly important relations.

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