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EUROPE, MIDDLE EAST & AFRICA
**DOING BUSINESS
IN MOROCCO**





COMPANY FORMATION IN MOROCCO

MAIN FORMS OF COMPANY/BUSINESS IN MOROCCO

Under Moroccan law, the primary types of corporate structures available are: public limited companies; limited liability companies; limited partnerships with shares; case of partnership SNC (collective company); and individual enterprises, all of which generally conform to Western company forms of the same nomenclature.

The two most widely used are the public limited company (SA) and the limited liability company (SARL).

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

Value-Added Tax (VAT)

The applicable VAT rates are as follows:

- 7% rate applies for some goods of general consumption, water, renting out of water and electricity meters
- 10% rate applies bank and credit transactions and exchange commissions except leasing, the supply of catering services and the activities of some professions (lawyers, interpreters)
- 14% rate is applies for transportation transactions, electrical energy, etc.
- 20% is the standards VAT rate applicable to transactions other than those subject to the reduced VAT rates mentioned above

Exports are exempt from VAT.

Corporation Income Tax and Withholding

Tax Residency is the key of determining corporation taxation. Under territoriality rules relating to corporate tax, companies, whether resident in Morocco or not, are subject to corporate tax on all profits or income relating to goods or property they own, activities they perform or profit-making transactions they carry out in Morocco, even when these are occasional nature, or which the right of taxation is attributed to Morocco by virtue of a double tax treaty.

Also, non-resident entities receiving remunerations such as royalties, interest or other payments for work performed or services rendered to their permanent establishment in Morocco or branches or entities domiciled or performing activities in Morocco are taxed generally through withholding tax.

The applicable corporate tax rates are as follows:

TAXABLE INCOME	CORPORATE TAX RATE
Below or equal to MAD 300 000	10%
Between MAD 300 001 & 1 000 000	20%
Between MAD 1 000 000 & 5 000 000	30%
More than MAD 5 000 000	31%



The withholding tax rate is 15% maximum on the distribution of dividends to nonresident shareholders and after tax profits to the branch's head office.

Taxable income is determined on the basis of financial statements obtained according to the generally accepted Moroccan principles, with some adjustments relating to fiscal law.

It should be noted that a minimum levy is also required by the fiscal law. The minimum levy in general may not be less than 0.5% of the sales with a minimum of MAD 3 000.

However, the entity will not be subject to its levy during the first 36 months following the commencement of operations.

Tax losses arising from normal business activities of the enterprise are deductible. Losses may be carried forward four years.

Income Tax

Individuals who are tax residents in Morocco are liable for income tax on all their income derived in Morocco. Income tax is calculated by applying a progressive tax rate to the taxable income base. As a general rule, all types of remuneration and benefits received by an employee for services rendered are considered taxable income.

Each month, the Moroccan employer has to withhold and pay income tax to the Treasury on every payment to the employee.

The applicable income tax rates are as follows:

TAXABLE INCOME	CORPORATE TAX RATE	ABATEMENT
Below or equal to MAD 30 000	0%	
Between MAD 30 001 & 50 000	10%	3 000
Between MAD 50 001 & 60 000	20%	8 000
Between MAD 60 001 & 80 000	30%	14 000
Between MAD 80 001 & 180 000	34%	17 200
More than MAD 180 001	38%	24 400

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

The public limited company "SA" (Société Anonyme):

- Shareholders: Minimum five
- Minimum authorized capital: MAD 300.000 without public offer for funding and MAD 3.000.000 with public offer for funding
- Capital: release of a quarter at least, the remain within three years maximum
- Shares: Representing authorized capital, they may be either nominal or in the bearer's name, the minimum value of the share being MAD 100
- Liability of shareholders: Limited to their capital contributions
- Duties of the auditors: a consistent financial and legal audit. The auditors are appointed by the shareholders general meeting



The limited liability Company “SARL” (Société à Responsabilité Limitée)

The SARL has the characteristics of both joint stock companies and partnerships at the same time. Characteristics of the SARL:

- Associates: the minimum number is two or one (in the case of a single associate), and the maximum is 50
- Minimum authorized capital: There is no minimum authorized capital. The assets must be subscribed entirely. The assets representing participation in cash may be limited to the value of a quarter of the capital. A period of 5 years starting from the date of registration is granted for the release of the uncalled capital by a simple decision of the management
- Management: one or more managers, chosen among the associates or hired individuals. Their civil and/or penal liability may be committed
- Liability: limited to the assets of the associates. If contribution in kind, the associates are jointly liable for the value allotted to the contributions
- Auditor: Mandatory when the sales turnover is higher than MAD 50 Millions



PERMANENT ESTABLISHMENT IN MOROCCO: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

Permanent establishment means a fixed business through which the business of a company is wholly or partly carried on. For example: Center of management; Branch; Office; Factory.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

The branch has no legal personality; initial formalities are simple. As regards the tax aspect, the branch is a permanent establishment. Therefore, the foreign company that creates a branch in Morocco is taxable under the **corporation tax** and **income tax**. It is also liable to pay tax on the shares of revenue for the profits made by the Moroccan branch.

A subsidiary is an entity in itself, which can take different legal forms. As regards the tax aspect, it is liable to the **corporation tax** and **income tax** like any other company, its partners are foreign persons or not. Dividends paid abroad are subject to different rules depending on whether or not there is a tax treaty.

TAX AND ACCOUNTING OBLIGATIONS

The subsidiary and the branch are taxed in Morocco must pay VAT on sales and the Corporation Tax "IS"(at the official rate) and that, for all their profits or income derived from sources in Morocco.

Both have to keep accounts in accordance with the substantive and procedural provisions of the Commercial Code and applicable to commercial companies in general.

REGISTRATION FORMALITIES

Both companies must nominate a manager and a statutory that will be the responsible to prepare and submit the VAT returns, CIT form and the financial statement.

Branches are preferred by some foreign investors because of their less onerous legal requirements (one manager, no minimum capital and no articles of incorporation).

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

The branch is subject to the rules of the Moroccan commercial law, for everything related to his activities on the territory. It has the obligation to be registered in the commercial register and keep accounts in accordance with the substantive and procedural provisions of the Commercial Code and applicable to commercial companies in general.

By creating a permanent establishment, the foreign company must appoint a legal representative in Morocco, which will be responsible for the representation and ensuring the proper conduct of its business.



HOW TO HIRE MY FIRST EMPLOYEE IN MOROCCO

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

After the registration of the company you must:

- Register the company in social security (CNSS)
- Have a contract signed by the company and employee
- Register the employee in the National Fund for Social Security (Caisse Nationale de Sécurité Sociale– CNSS).

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

Morocco has a modern labour law inspired by the conventions and recommendations of the International Labour Organisation.

There is an employment contract when a person committed to his work at the disposal of another, in obedience to which it is placed, on payment of a fee.

The parties are free to include in their contracts all the terms on which they reach agreement if those are compliant with the applicable laws.

The employment contract is concluded for an indefinite period, for a fixed term or for a specific job.

Minimum Wage

Negotiated in April 2008, the increase of the minimum wage in Morocco came into force on 1st July 2009. The minimum wage is increased to MAD 10.64 for industry, trade and the free professions. It is MAD 55.12 per day in agriculture. All workers should receive, in addition to their salary, a bonus of seniority:

- 5% of the gross salary after two years of continuous service or not in the same institution or with the same employer
- 10% after five years service
- 15% after 12 years of service
- 20% after 20 years of service
- 25% after 25 years of service

Working Time

The labor law allows the employee to work 44 hours per week for non-agricultural sector and 48 hours per week for the agricultural sector. Overtime is billed + 25% between 6pm to 9pm and + 50% between 9pm to 6am.

Annual Leave

- Employees aged less than 18 years old: leave entitlements are of two days per month of work
- Employees aged over 18 years old: leave entitlements are of one day and half per month of work. The employee has the right to leave after six consecutive months of activity.

One month of work corresponds to 26 days of actual work.



Social Security (CNSS)

Social security contributions are payable by the employer and employee on the employee's wages. The standard rates concern four parts:

- Family allowances (imposed only on the employer) at the rate of 6.4% on gross salary without ceiling
- Social benefits (imposed on both employee and employer) at the rate of 4.29% for the employee and the rate of 8.6% for the employer on the gross salary with an annual ceiling of MAD 72,000
- Health care (imposed on both employer and employee) at the rate of 2% for employee and the rate of 3.5% for the employer based on the gross salary without ceiling
- Vocation training (imposed only on the employer) at the rate of 1.6% on gross salary without ceiling

The social security contributions are withheld by the local employer on a monthly basis.



HOW TO READ FINANCIAL STATEMENTS IN MOROCCO

Companies are generally required to prepare financial statements, including a balance sheet, statement of income and expenses, statement of management balances, cash flow statement, and statement of additional information. Companies whose annual turnover does not exceed set limits may prepare simplified financial statements.

The form and content of financial statements are defined in the General Accounting Standards (Code Général de Normalisation Comptable).

The basic financial statements included in annual reports to shareholders comprise:

- A balance sheet, where headings are classified by function
- An income statement, where revenues and expenses are classified by origin, and are systematically analyzed under three overall categories:
 - Operating revenues and expenses
 - Financial revenues and expenses
 - Exceptional revenues and expenses
- Explanatory notes

You will find hereafter a translation of Moroccan Balance sheet and Profit and Loss Statement.



BALANCE SHEET FOR YEAR ENDING 20XX

ASSETS	ACTIF	LIABILITIES AND OWNER'S OR STOCK- HOLDER'S EQUITY (1)	PASSIF
Current assets	Actif circulant	Liabilities	Dettes
Cash	Disponibilités	Long term debt due within one year	Echéance à court terme des dettes à long terme
Marketable securities	Titres de placement cotés		
Bills receivable	Effets à recevoir	Bills payable	Effets à payer
Accounts receivable - less allowance for doubtful accounts	Créances clients - moins provisions pour dépréciation	Accounts payable	Comptes fournis- seurs
Inventories	Stocks	Accrued expenses payable	Charges à payer
Prepaid expenses	Charges constatées d'avance	Income taxes pay- able	Impôt à payer
Total current assets	Total actif circulant	Total current liab- ilities	Total dettes à court terme
Fixed assets	Actif immobilisé	Long term liabilit- ies	Dettes à long terme
Land	Terrain	13% debenture due 2009	Obligations à 13% remboursables en 2009
Building	Construction	Deferred income taxes	Impôts différés
Machinery and equip- ment	Matériel et outillage		
Office equipment	Matériel de bureau		
Total property, plant equipment	Total immobilisa- tions corporelles	Total liabilities	Total dettes
Less accumulated de- preciation	Moins amortissement	Stockholder's equity	Capitaux propres
Net fixed assets	Actif net immobilisé	Preferred stock	Actions privilégiées
Investments	Titres de participation	Common stock	Actions ordinaires
Intangibles (patents, trademarks)	Actifs incor- porels (brevets, marques)	issue premium Accumulated re- tained earnings	Primes d'émission Réserves et report à nouveau
		Total stock- holder's equity	Total capitaux propres
Total assets	Total actif	Total liabilities and owner's or stockholder's equity	Total passif



PROFIT AND LOSS STATEMENT FOR YEAR ENDING 20XX

Net sales

Ventes nettes ou CA net

Cost of goods sold

*Coût des marchandises et des produits vendus
(ces derniers étant évalués au coût de production)*

Gross profit

Marge commerciale ou marge brute

Operating expenses

Charges d'exploitation

- **Selling**

Frais de vente

- **General and administrative**

Frais généraux et administratifs

- **Depreciation and amortization**

*Amortissements autres que ceux inclus
dans les produits vendus*

Operating profit

Bénéfice d'exploitation

Other incomes (expenses)

Autres profits (charges)

- **Dividendes and interests income**

Dividendes et intérêts reçus

- **Interest charges**

Frais financiers

- **Income before provision for income taxes**

Bénéfice courant avant impôt

- **Provision for income taxes**

Provision pour impôt

Income (loss) before extraordinary items

Bénéfice (perte) net courant

Extraordinary items

Éléments exceptionnels

Less applicable income taxes

Moins incidence de l'impôt

Net income (loss)

Résultat net

Shares

Nombre d'actions

Earnings per share