Draft Finance Bill 2024: the three-year VAT reform takes shape

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On 19 October 2023, the Council of Ministers examined the general guidelines of the draft Finance Bill (Projet de Loi de Finances, PLF) for 2024. The bill was tabled in the House of Representatives the following day. On tax, the message is clear: after corporate income tax (IS) in 2023, it is now the turn of VAT (TVA) to be reformed, in line with framework law No. 69-19 on tax reform.

The bill may still change in Parliament. But its broad outline already lets businesses start preparing.

From four rates to two

Morocco currently has a standard rate of 20% and three reduced rates of 7%, 10% and 14%. These differences often create "buffer" situations (butoir): a business that buys at 20% and sells at 7% or 14% builds up a VAT credit that it struggles to recover.

The bill proposes to move all transactions gradually, by 2026, to **two rates: 10% and 20%**. The transition would be spread over one to three financial years depending on the sector. It would cover, in particular, electricity, transport, water for non-domestic use, refined sugar and the services of insurance brokers.

Exempting basic products

The second strand is social. The bill extends the VAT exemption to widely consumed products, including:

- medicines and pharmaceutical products;
- school supplies;
- water for domestic use;
- butter of animal origin, canned sardines, powdered milk and household soap.

Depending on the product, the exemption would be granted with or without the right to deduct. For manufacturers and distributors, this is the key point: with the right to deduct, you recover the VAT paid on your purchases; without it, that input VAT becomes a cost.

Tackling false invoices and the informal economy

The bill also introduces control mechanisms:

- **VAT withholding at source** by certain customers on services and on purchases of capital goods and works, depending on the supplier's tax compliance;
- an **optional reverse-charge regime**, allowing a VAT-registered customer to account for VAT itself on purchases from suppliers who are outside the scope of VAT or exempt, and then deduct it;
- VAT on **digital services supplied remotely** by non-resident providers to customers established in Morocco.

Voluntary disclosure and the "right to make mistakes"

The PLF 2024 proposes to reopen, for one year, voluntary tax regularisation for individuals. It would cover undeclared liquid assets and certain expenses, in return for a discharging contribution.

It also creates a **right to make mistakes**: after receiving from the tax authorities a statement of the irregularities they have found, a taxpayer could correct its return voluntarily, with reduced penalties.

What to prepare now

If these measures are adopted, businesses will need to:

1. **Update product records and VAT rates** in their invoicing software on 1 January 2024, then at each later stage.
2. **Measure the effect on margins and prices** of products moving from a reduced rate to a higher one, or the other way round.
3. **Review their VAT credit position**: for some sectors, the reform will reduce the buffer effect; for others, there will be a transitional period to manage.
4. **Prepare their purchasing teams**: the future withholding at source means collecting suppliers' tax compliance certificates.

A simple example

Take a road haulier currently charging 14%. If the bill is adopted as it stands, this rate would fall in stages to 10% by 2026. The haulier will need to track the effect of each stage on its selling prices and check that the VAT on fuel, parts and maintenance remains recoverable.

Next steps

Both houses of Parliament will debate and amend the bill before the final vote. It will then be published in the Official Gazette (*Bulletin officiel*) before the end of the year. We will cover the final measures as soon as they are published. In the meantime, our tax & legal team can model the effect of the bill on your prices, margins and cash flow. To discuss your situation, contact us.

Sources

- Communiqué du Cabinet royal sur le Conseil des ministres du 19 octobre 2023 consacré aux orientations du PLF 2024 (in French) (maroc.ma).
- Projet de loi de finances n° 55-23 pour l'année budgétaire 2024 (in French), déposé à la Chambre des représentants le 20 octobre 2023 (finances.gov.ma).
- Loi-cadre n° 69-19 portant réforme fiscale (in French) (sgg.gov.ma).

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