



The unique professional contribution and tax compliance

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Abstract: Taxation in Morocco is crucially important to the economic and social governance, playing a vital role in financing public services. The introduction of the unique professional contribution (UPC) in 2021 marked a significant change, replacing the flat-rate profit system. This reform aimed to simplify the collection of taxes and social security contributions for activities generating modest incomes.

The reform aimed to consolidate various tax and social security obligations into a single contribution, encouraging tax compliance. Although UPC has brought benefits such as increased transparency and simplified tax procedures, initial challenges have been encountered, including difficult initial adjustments for some taxpayers and operational challenges related to the management of complementary rights.

Keywords: Taxation, Flat-rate scheme, unique professional contribution, tax compliance

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1 Introduction

In Morocco, taxation is a key element of the country's economic and social governance. It plays a vital role in collecting resources to finance public services and government policies. However, the Moroccan tax system has undergone significant changes over the years to better respond to the evolving economy and society. One of these changes was the implementation of the Unique Professional Contribution (CPU) in 2021 which was a major reform that aimed at simplifying taxation and encouraging tax compliance among individuals engaged in small-scale income-generating activities.

In response to the recommendations made during the National Tax Conference in 2019, the Finance Law for the 2021 budget year marked a significant turning point in the Moroccan tax landscape by introducing the Unique Professional Contribution (CPU) to replace the previous flat-rate system.

The goal of this newly implemented innovative system is to simplify the collection of taxes and social contributions for Moroccan businesses. It is characterized by the consolidation of several tax and social obligations into a single contribution. At the heart of this reform lies the ambition to simplify tax obligations and stimulate tax compliance. Tax compliance is considered the foundation upon which the financial viability and fairness of a society rest. It implies that every citizen and business adheres to tax laws by paying their taxes accurately and on time. This adherence to tax obligations ensures the funding of essential public services, such as education, healthcare, and infrastructure, while equitably distributing the tax burden.

The objective of this research is deeply rooted in understanding and evaluating the Unique Professional Contribution (CPU) as a tax reform tool in Morocco and its impact on tax compliance.

In this context, the central question guiding our study is as follows:

To what extent does the implementation of the Unique Professional Contribution (CPU) in Morocco, as a major tax reform, promote better tax compliance? What are the key features of the CPU, and how does it compare to the previous flat-rate benefit regime? What Are the Potential Benefits of the Unique Professional Contribution (CPU) in Terms of Tax Simplification? And What Are the Challenges and Obstacles to Its Implementation?

2 Key Characteristics of the CPU and Comparison with the Flat-rate Benefit Regime

The reform of the tax system is established as a crucial national priority, given the major role that taxes play in financing public policies and maintaining financial and macroeconomic stability. Taxes are an essential lever for economic, social, and environmental development, and a major tool for mitigating social and spatial inequalities. The 2019 National Tax Conference outlined various strategic recommendations for tax reform. These guidelines aimed to establish an efficient, fair, and equitable tax system that plays a key role in financing the national economy. They sought to fully mobilize the tax potential to support public policies, thereby promoting economic development while encouraging social inclusion and cohesion.¹ These efforts closely aligned with the main pillars of the New Development Model, resulting from extensive consultation with all stakeholders, thus demonstrating their collective willingness and commitment to this process.

According to Dahir No. 1-21-86 of 15 Hija 1442 (July 26, 2021), which promulgates framework law No. 69-19 on tax reform, under Article 11, the objective was to facilitate the integration of production, trade, and service units operating in the informal sector into the structured economic fabric.

In this context, the state commits to implementing a simplified and accessible tax regime, the Unique Professional Contribution (CPU), for individuals operating in this sector. This new system revoked and replaced the flat-rate benefit regime concerning income tax (IR), which applies on an optional basis to professional income generated by individuals (notably traders and service providers) engaged in eligible activities.²

2.1 Individuals Subject to Taxation

- Taxpayers who were subject to the flat-rate profit regime prior to the year 2021.
 - New individuals who have started their professional activities and opted for the Unique Professional Contribution from January 1st, 2020.
 - Taxpayers previously subject to the actual net profit regime or simplified net profit regime, whose turnover did not exceed two million (2,000,000) dirhams for commercial, industrial, and artisanal activities, or five hundred thousand (500,000) dirhams for service providers for two consecutive years.
- However, taxpayers exercising professions, activities, or services set by regulatory methods are excluded from the Unique Professional Contribution regime.³

¹ Dahir No. 1-21-86 of 15 Hija 1442 (July 26, 2021) promulgating framework law No. 69-19 on tax reform. Article No. 4

² Dahir No. 1-21-86 of 15 Hija 1442 (July 26, 2021) promulgating framework law No. 69-19 on tax reform. Article No. 11

³ Article 41 III of the General Tax Code 2021, page 74

2.2 Taxable Base

This contribution encompasses:

- Income tax
- Professional Tax
- Municipal Service Tax (if the taxpayer is the owner)
- Additional Rights (Compulsory Health Insurance)

$$\text{CPU} = \text{Income Tax} + \text{Professionnel Tax} + \text{Municipal Service tax} + \text{Mandatory health insurance}$$

Income tax is determined based on the turnover achieved, to which a fixed coefficient is applied for each profession according to the table referred to in Article 40-I of the General Tax Code. Upon obtaining the taxable base, a withholding tax rate of 10% is applied. If the taxpayer engages in multiple professions or activities subject to different coefficients, the total professional income equals the sum of incomes determined based on the specific rate assigned to each profession or activity.

This tax is accompanied by an additional right, as individuals subject to the Unique Professional Contribution (CPU) as established by the 2021 Finance Act will now have access to Compulsory Health Insurance (AMO) in accordance with the Organic Law No. 98-15 concerning the mandatory health insurance regime.

Indeed, this equation is applied exclusively and solely for the calculation of the Unique Professional Contribution for the year 2020, which was characterized by physical submission at the General Directorate of Taxes, as it was a transitional year.

Moreover, individuals subject to the Unique Professional Contribution (CPU) are fully and permanently exempted from the professional tax and municipal service tax starting from 2021, in accordance with Law No. 47-06 on local tax laws, as amended and supplemented by Law No. 07-20. However, they remain subject to the registration formalities for the professional tax.

Table 1. The amount of additional rights to be paid depends on the amount of the calculated tax:

Amount of tax calculated	Corresponding additional fees	annual	Corresponding additional fees	quarterly
Less than 500 MAD	1200,00 MAD		300,00 MAD	
From 500.00 to 1000.00 MAD	1560,00 MAD		390,00 MAD	
From 1001.00 to 2500.00 MAD	2280,00 MAD		570,00 MAD	
From 2501.00 to 5000.00 MAD	2880,00 MAD		720,00 MAD	
From 5001.00 à 10 000,00 MAD	4200,00 MAD		1050,00 MAD	
From 10001.00 to 25 000,00 MAD	6000,00 MAD		1500,00 MAD	
From 25 001.00 to 50 000,00 MAD	9000,00 MAD		2250,00 MAD	
More than 50 000.00 MAD	14400,00 MAD		3600,00 MAD	

Source 1: Circular note no. 731 regarding the tax provisions of the finance law no. 65-20 for the fiscal year 2021

The Unique Professional Contribution (CPU) was implemented to replace the old flat-rate regime. Under this regime, a specific coefficient was applied to each profession's⁴ turnover annually, as outlined in the General Tax Code.

Taxpayers who opted for the flat-rate regime must ensure that their annual profit is not less than the current normal annual rental value of each establishment they own. To determine this, a coefficient is applied to the rental value, ranging from 0.5 to 10 based on criteria such as establishment size, customer flow, and activity level⁵.

⁴ Article 40 of the General Tax Code 2019, page 74

⁵ Article 42 of the General Tax Code 2019, page 73

The law also stipulated that each taxpayer under the flat-rate regime should be taxed based on the higher result obtained by comparing the flat-rate profit to the minimum profit. This comparison was made without the need for rectification procedures of the taxable base, whether normal or accelerated, as provided respectively in Articles 11 and 12 of the tax procedures books.

3 CPU: Maximizing Benefits in Full Tax Compliance

As part of the proposed tax reform and the implementation of the recommendations from the latest tax conference held in Skhirat in May 2019, efforts have been made to find a better formula to encourage small businesses, traders, and very small enterprises (VSEs) to comply with tax regulations. This could be achieved through the establishment of a simple, fair, inclusive, and transparent tax regime for this category of taxpayers.

The notion of "compliance" refers to adherence to an established standard or law. Roquilly and Collard (2009) specify that compliance involves conforming to the requirements of a law, regulation, or any standard set by an authoritative body, whose non-compliance could be sanctioned by a judge or regulatory authority.⁶

Regarding tax compliance, Andronic (1998) defines it as the willingness of taxpayers to comply with tax laws that ensure the economic balance of a country. This definition highlights the importance of tax compliance in achieving the economic and social objectives set by states⁷. Similarly, Tyler (1990) asserted that tax compliance is a mirror that reflects the level of civic mindedness in a society⁸. This statement emphasizes the link between tax compliance and the civic culture of a society, underscoring its role in the overall functioning of the society. What is more, Song and Yarbrough (2002) highlight that tax compliance depends on taxpayers' willingness to comply with tax laws, a willingness influenced by ethical, legal, and situational factors⁹. This perspective emphasizes the role of various factors in taxpayers' decisions to comply or not with tax laws.

Improving the simplicity of tax procedures and clarity in financial aspects can be crucial factors in encouraging taxpayers to comply with tax obligations. When professionals clearly understand what is expected of them, they are more likely to adhere to tax laws. Simplifying processes and ensuring financial transparency not only give taxpayers a clearer view of their tax obligations but also build trust in the tax system, thereby encouraging compliance and deterring tax evasion, as is the case with the CPU.

Previously, flat-rate taxpayers would file their global income declaration specifying the turnover achieved during the fiscal year, but the tax administration recalculated the tax based on the rental value multiplied by a revaluation coefficient ranging from 0.5 to 10. This coefficient was determined by the tax inspector based on criteria such as customer base and the importance of the activity.

However, under this new regime, the taxable base for concerned traders is established based on their actual activity. For its first application, the Unique Professional Contribution (CPU) for the 2020 fiscal year was calculated considering all tax rights due in the context of professional activity based on the income generated in 2019 (reference year), professional tax, and municipal service tax.

⁶ From regulatory compliance to performance: towards a multidimensional approach to legal risk", EDHEC publication by ROQUILLY, C and COLLARD, C page: 12

⁷ Attempt to analyze the relationship between tax pressure and taxpayer compliance: Literature review International Journal of Accounting, Finance, Auditing, Management and Economics, 2022 by Rida Belahouaoui, El Houssain Attak

⁸ Attempt to analyze the relationship between tax pressure and taxpayer compliance: Literature review International Journal of Accounting, Finance, Auditing, Management and Economics, 2022 by Rida Belahouaoui, El Houssain Attak

⁹ Tax ethics and taxpayer attitudes: A survey. Public administration review, 442-452 1978, by Song, Y. D., & Yarbrough

For the 2021 fiscal year, taxpayers subject to the CPU regime were required to e-declare their actual turnover and choose the most convenient payment method, either quarterly or annually. The system could then place the taxpayer in the corresponding complementary tax bracket.

In the same spirit of simplification, the 2022 budget law introduced amendments and additions to the provisions of Article 40-I of the General Tax Code (CGI) to improve the calculation methods of the CPU.

The measures introduced are as follows:

- Revision of the profit margins applied to the declared turnover by grouping similar activities. This approach aims to simplify the calculation process.
- Clarification of the taxation method for professional income determined under the CPU regime, especially when the taxpayer engages in multiple professions or activities.

Before January 1st, 2022, the taxable base of the CPU was determined by applying a fixed coefficient specific to each profession, according to the table annexed to the General Tax Code (CGI), which listed no fewer than 795 distinct professions. To simplify and improve the calculation methods of the CPU, the 2022 budget law repealed this table and replaced it with a simplified table integrated into Article 40-I of the CGI. This new table grouped all professions from the old table into four categories of homogeneous professions, each subdivided into subcategories. This reorganization aims to simplify the CPU liquidation process by grouping similar activities and reducing the complexity related to determining the coefficients.

These adjustments aim to make the CPU liquidation more transparent and better account for situations where a taxpayer engages in various professional activities. Consequently, the CPU has enabled taxpayers to have better financial visibility and a very clear understanding of their tax obligations by simplifying administrative procedures. Social networks, the press, and the internet portal have played a crucial role in improving tax compliance among Moroccan taxpayers.

Moreover, to further facilitate taxpayer compliance, the General Tax Directorate (DGI) introduced a two-year tax amnesty starting from 2020. This measure aims to encourage professionals operating in the informal sector to transition to the formal economy. Specifically, this provision allows taxpayers engaged in professional income tax activities and identifying themselves for the first time with the DGI by registering for the professional tax role from January 1st, 2020, to be taxed only based on the income generated and operations carried out from the date of their identification. This approach encourages both the adoption of the CPU for flat-rate taxpayers and adherence to tax obligations, thereby prompting actors in the informal sector to regularize their situation and contribute more transparently to the formal economy.

In addition to its electronic services, the General Tax Directorate's (DGI) Internet Portal offers a documentary, information, and popularization space. In 2022, the DGI published and updated 486 publications covering a wide range of topics, including news, announcements, tax developments, guides, tax questions, and tax forms. Furthermore, the DGI participated in 11 television and radio programs addressing various tax themes, such as the CPU regime, the tax regime for small and medium-sized enterprises (SMEs), and foreign retirees residing in Morocco, as well as improvements to services offered to taxpayers¹⁰.

Tax compliance, though essential, is only one aspect of the multiple benefits offered by the CPU. Regarding social benefits, traders adopting the CPU regime could gradually benefit from compulsory health insurance (AMO), social benefits, retirement, and unemployment benefits, provided they join the social security system according to the prevailing legislation and pay the aforementioned complementary dues. Thus, the CPU encompasses a broader perspective, integrating significant social benefits for self-employed workers.

¹⁰ Activity Report of the Tax Administration 2022 page 30

Additionally, CPU taxpayers can benefit from the advantages and support programs offered by the state, similar to structured companies. This includes opportunities to participate in tenders and other initiatives aimed at promoting business growth and development. This approach allows traders to fully benefit from the advantages offered to established companies, strengthening their market position.

The CPU has also generated significant productivity gains in terms of human resources. By eliminating the need to manually enter physical declarations and manage the collection of taxes and fees, the CPU frees up valuable human resources. These resources can then be strategically redeployed to focus on higher-value-added activities, such as tax audits. Thus, the CPU optimizes staff efficiency, enhancing the tax administration's capacity to monitor and ensure compliance with tax laws.

Table 2. Comparison between Old Regime (Flat-rate Profit Regime) and New Regime (CPU)

Old Regime (Flat-rate Profit Regime)	New Regime (Unique Professional Contribution)
<ul style="list-style-type: none"> - Filing of the global income declaration with the tax administration - The taxpayer declares their turnover generated during the fiscal year - The tax inspector verifies this declaration by applying a reassessment coefficient ranging from 0.5 to 10 on the rental value RV * Reassessment coefficient - The tax inspector compares the result of the equation above with the declared turnover, selecting the most advantageous amount for the tax administration, which will be the income tax. 	<ul style="list-style-type: none"> - Filing of the CPU declaration on the corresponding platform (e-declaration) - The taxpayer declares their turnover realized during the fiscal year - Based on this turnover, a rate is automatically applied according to the profession to determine an income tax - This income tax is increased by additional rights corresponding to the bracket of the calculated income tax resulting in the unique professional contribution

Source 2: Elaborated by the authors

4 Challenges and Obstacles to Implementing the Unique Professional Contribution (CPU)

The implementation of the Unique Professional Contribution (CPU) represents a major step in the tax reform process, offering considerable benefits for both taxpayers and tax authorities. However, this transition to the new regime is not without significant challenges.

❖ Taxpayers already benefiting from health insurance coverage

Taxpayers who are already covered by private health insurance represent a challenge to the context of the Unique Professional Contribution (CPU). The CPU does not recognize privately subscribed health insurance by taxpayers, thereby obliging them to bear additional costs in terms of contributions. This situation becomes particularly burdensome for professionals who, despite having existing medical coverage, are required to pay additional contributions imposed by the CPU.

For example, consider a CPU taxpayer who has already subscribed to health insurance through their bank to benefit from comprehensive health coverage. Under the CPU regime, this taxpayer is still required to pay additional

contributions despite having private medical insurance through their bank. As a result, although this taxpayer has invested in private medical coverage to meet specific needs, the CPU mandates additional contributions under complementary rights. These contributions, imposed by the CPU regime, represent additional costs, despite the taxpayer having already taken steps to ensure their medical protection.

What is more, let's examine the example of a married taxpayer who benefits from health insurance through their spouse's insurance policy. However, this taxpayer is engaged in a professional activity subject to the Unique Professional Contribution (CPU). In this case, despite already having medical coverage through their spouse's insurance, the CPU does not acknowledge this existing insurance. Consequently, as a professional, this taxpayer is required to pay complementary rights, resulting in additional financial costs. The CPU does not consider the fact that they already have medical coverage through their spouse's insurance, which may seem unfair and lead to redundant expenses.

This issue raises questions about the fairness and effectiveness of the current system. Taxpayers find themselves in a situation where they bear additional financial burdens without fully benefiting from their existing health insurance. This can create financial strain and raise concerns about the rationale of the current regime.

It is essential to carefully consider the implications of this gap in the system and seek solutions that reconcile the CPU's objectives with the reality of taxpayers who are already insured. Thoughtful consideration of how to coordinate existing health insurance schemes with the CPU could help address this issue and ensure a more balanced approach for all affected professionals.

❖ **Taxpayers in Joint Ownership**

Taxpayers in joint ownership refer to a group of individuals who share ownership of a property or business, often as a result of inheritance or other legal circumstances. Joint ownership can also apply to professional activities subject to the Unique Professional Contribution (CPU). In this context, each co-owner participates in the ownership and management of the business, and profits earned may be taxed on behalf of the joint ownership.

The specific issue for taxpayers in joint ownership lies in managing the tax implications and responsibilities related to the CPU. Due to the collective nature of joint ownership, there may be challenges in identifying the co-owners for health insurance coverage under the CPU regime. The CPU may impose medical coverage in the name of the joint ownership, but this raises questions about how this coverage is distributed among the co-owners.

In cases where there are multiple co-owners, only one person within the joint ownership may benefit from medical coverage under the joint ownership. This individual is often the one taxed under their name for CPU purposes. This means that even though multiple co-owners are involved in the ownership and management of the business or professional activity subject to the CPU, medical coverage may be attributed to only one co-owner. Other co-owners may be deprived of this medical coverage, despite their involvement in the joint ownership.

This situation requires careful management to ensure fairness and compliance with the requirements of the current tax regime. Taxpayers involved in joint ownership may face particular challenges regarding contributions and medical coverage, necessitating an adaptive approach to meet the specific needs of this type of ownership structure.

❖ **Case of De Facto Partnership**

In the context of de facto partnerships, the issue also arises regarding health insurance coverage. These partnerships are formed by two or more individuals who decide to pool their contributions to share the profits or losses generated by their common activities.

Regarding health insurance coverage, the profits earned by these de facto partnerships are considered professional income, which may be subject to the Unique Professional Contribution (CPU). When determining health insurance coverage, only the principal partner can benefit from this coverage. Other partners may be excluded from health insurance coverage, despite their involvement and equivalent responsibilities within the de facto partnership.

This provision can lead to inequalities among partners in terms of social benefits within the de facto partnership. It requires careful management to ensure that all partners understand the implications of the CPU regarding health insurance coverage and to avoid any imbalance or misunderstanding among members of the de facto partnership.

❖ **Dual Management between the General Tax Directorate (DGI) and the National Social Security Fund (CNSS)**

The core issue within this complex structure of contributions lies in the dual management between Income Tax (IR) overseen by the tax administration and complementary rights managed by another organization, namely the CNSS. This duality raises significant challenges when disputes arise. Indeed, taxpayers face a dispersion of organizations, each with its own processes and procedures, which can lead to delays, misunderstandings, and even complex disputes. Coordination between the tax administration and the CNSS becomes crucial to ensure transparent, smooth, and harmonized management of tax and social obligations, thereby avoiding contentious situations detrimental to both taxpayers and the involved organizations.

❖ **Transitional Modalities for Calculating the Unique Professional Contribution (CPU): Impact of Covid-19 and Implications for Taxpayers**

Exceptionally for the year 2021, and as a transitional measure, the General Tax Directorate established a declaration for the Unique Professional Contribution (CPU) by calculating turnover for each flat-rate taxpayer.

As a transitional measure, the CPU for the 2020 fiscal year was determined by considering all rights payable in the context of conducting a professional activity for the 2020 fiscal year. Thus, the CPU was calculated including Income Tax (IR) related to professional income for the 2019 fiscal year, professional tax (TP) for the 2019 fiscal year, communal professional service tax (TSC/P) for the 2019 fiscal year, increased by complementary rights dedicated to medical coverage.

This improvised approach to turnover calculation did not account for the impact of the COVID-19 crisis on the activities of many taxpayers, who faced disruptions due to health measures, thereby penalizing the majority of individual taxpayers taxed under the CPU regime.

5 Conclusion

The transition to the Unique Professional Contribution (CPU), replacing the old flat-rate tax regime, has brought significant changes to the Moroccan tax landscape, generating both benefits and challenges. On the benefits side, the CPU has contributed to greater tax transparency, encouraging taxpayers to more accurately declare their income and actively participate in the country's economy. The CPU has also simplified tax procedures, offering a more equitable solution adapted to the economic reality of each taxpayer.

However, this transition has not been without drawbacks. Some taxpayers may have experienced initial difficulties adjusting to the new rules, and the complexity of managing complementary rights may have posed practical challenges. Furthermore, the diversity of individual and professional situations requires a flexible approach to ensure that the CPU functions optimally for all.

The CPU has paved the way for taxation that is more aligned with economic reality, encouraging tax compliance while presenting operational challenges to overcome. The success of this new regime relies on efficient management and the ability to adapt to the specific needs of taxpayers, aiming for a balance between promoting tax transparency and facilitating compliance obligations.

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