Finance and Tax Policy in Morocco

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Abstract: Our contribution is of managerial nature based on an interesting framework for practitioners. We seek to explain on the basis of developments in financial theory financial behavior of processing industries. We examine the impact of tax measures on the choice of funding a wide range of small and medium industries (SMIs). The aim is to better understand the link between funding and tax policy. For this, we performed an empirical study on a representative sample of processing industries. The results highlight that the bank debt remains the preferred way for these industries despite that each introduction to stock market grant businesses a special discount at the corporate tax.

Key terms: *Financing - Tax Policy - processing Industries*

1. Introduction:

Any financial policy is a bet between two concerns: the concern of profitability of own capitals and safety concern [1]. Because of its importance, it is necessary, before taking a decision on financial matters, to understand that this is a politically motivated decision that affects the financial position, profitability and risk of the company [19].

A sound financial management requires compliance with a number of financial balance rules, the breach of which may cause difficulties. Everything starts with the evaluation of needs. Then, it is necessary to look for the money that will cover these needs. At this level, financial policymakers have a wide range of financing. Among these means, choice must be made. However, making a choice is not easy [2]. In any case, we must consider the variable tax. A lever to which the economic literature remains abundant, but may variable tax really improve access of processing industries to the stock market?

It is proposed to provide answers to these raised questions, according to a three-point plan: The first is essentially a state of literature which aims to address the theoretical framework of the raised issue. The second seeks to present the conditions of realization of the empirical study by SMI. The latter offers the analysis of the results.

2. Theoretical frame :

Franco Modigliani and Merton Miller Howard showed in their initial work that in a world without taxes, without transaction costs and where the possibility of default risk does not exist, the value of the firm is independent of its capital structure [4, 11].

In a later article and integrating new hypotheses, the two authors provide a review of their initial contribution by adopting the theory of compromise or trade-off theory (TOT) which states that the optimal structure is reached by a tradeoff between the benefits and disadvantages of the main sources of funding. The adoption of new assumptions led theorists to go beyond the static framework of balance to get in a dynamic perspective and to show that in the presence of taxation, the financing structure is not neutral and that the value of the company's operating assets in debt is equal to the value of economic assets of a non-debt company majored by the present value of the tax economy related to the tax deductibility of interest on debt. [11].

Many articles have questioned the assumptions leading to this result: The debt puts pressure on the company by increasing the risk of bankruptcy. Therefore, the costs of the bankruptcy question the proportionality relationship between the firm value and the tax benefit [20]. Similarly, the introduction of agency costs (due to the leverage) allows determining the optimal capital structure when such costs are minimal [8].

Again, Miller published a new article that includes in reasoning personal taxation [13]. In this context, the economist showed that the inclusion of the two tax systems (corporate taxation and taxation of investors) allows reaching the same conclusions as those produced in 1958, namely neutrality of debt.

Unlike the compromise theory, the theory of hierarchical funding or Pecking Order Theory (POT) accepts the existence of an optimal capital structure and favors the existence of a hierarchy of sources of funding established on the assumption of information asymmetry which exists between internal stakeholders of the company and its external stakeholders. Indeed, the leaders know more about the risks and the value of their business than foreign investors. This information asymmetry leads to prioritize funding. The reverence of this

hierarchy has the advantage of reducing the cost of capital by minimizing the use of loans [15, 17].

In the same vein, the signal theory advocates a signaling solution with the level of debt of the company [18] and the degree of involvement of the manager himself in the financing of investment projects [5].

The literature continues the analysis of the capital structure. Empirical studies have shown that the tax status of the company is endogenous to funding decisions [3] and that companies that seem less financially constrained present significantly greater sensitivity than companies that seem more financially constrained [9]. Other more specific studies in a given area have shown that tax planning optimizes recovery of foreign tax credits for US firms subject to a global tax system [16, 21].

3. Methodology

Our random sample survey is conducted among a representative sample of SMI through the questionnaire. We favored the method of stratification because our study population consisted of heterogeneous subgroups and very homogeneous within their midst. We have taken fiscal measures as variables of interest.

We worked on data from the Ministry of Industry, Trade, Investment and digital economy of Morocco on the SMI for the 2014 financial year. We were interested in liabilities and its composition to assess the indebtedness of SMI.

Elaboration of our sample has gone through several stages:

1) Firstly, we conducted a thorough analysis of available information. Then we tried to collect the missing information over the phone.

2) We divided the population into two study strata: SMI taxed according to corporation tax and SMI taxed according to income tax. This stratification based on the type of tax is made according to the choice of variables and connection with the objectives of the study.

3) After considering the field constraints and for a confidence level of 95% and a maximum variability (P=0.5), the total number of our proportional stratified sample is higher than 418 SMI, drawn randomly in each of the two strata.

Our study population has 7640 SMI. The population follows a normal distribution and has a degree of acceptable variation. For a confidence level equal to 95%, a default degree of variability (P=0.5) and a level of precision of (+/- 5%), we obtain the size of the following sample:

$$N = 7640 / (1 + 7640 * (0.05 * 0.05)) = 380 \text{ SMI}$$

We added 10% more SMI to alleviate the phenomena of non-response and incorrect answers, giving a representative sample of the population:

$$380 + 380 * 10\% = 418 \text{ SMI}$$

4) We calculated the number of SMI by strata in the sample proportion to their representation in the studied population. The number of each of the two defined strata is calculated using the following formula:

Sample number for stratum "Companies subject to the declaration of the SI" = total sample of employees * stratum weight "Companies subject to the declaration of the SI" in the total population

In addition to the studied variables, variables reflecting the SMI identity are introduced into our estimates along with variables characterizing the financing structure. The total studied SMI resources includes own and foreign capitals. To measure the weight of the financial market in the SMI financing, we referred to the data available on the website of the stock exchange of Casablanca.

4. Results and discussion:

4.1 Results:

As part of a funding via an IPO, the SMI could not claim the benefit of deduction of dividends. However, the asymmetry has stopped working and the entrance of a SMI to Casablanca Stock Exchange between 1 January 2013 and 31 December 2016 is crowned by a large tax exemption which amounts to 25% for 3 years from the year following the year of registration, if the IPO takes place through public capital opening. This exemption could reach 50% for the same period, if this introduction is effected through a capital increase of at least 20% with abandonment of preferential subscription rights.

Despite the fiscal and financial incentives adopted, funding for SMI via the financial market remains a minority. The share of bank indebtedness refers to arbitrage between bank financing and other borrowings rather than between bank financing and debt market. This represents indeed a very limited part of the non-bank debt.

4.2 Analysis of the results:

The vast majority of our sample SMI does not issue securities on the stock exchange market. Their finance refers mainly to arbitrate between bank financing and self-financing. The latter represents the majority of non-bank resources and offers many advantages. The result can be explained by: (1) the access conditions which are binding and (2) the cost of the operation.

(1) The thresholds are considered very high for a large population of SMI:

- **Equity funds adapted to different sizes and different strategies**

The following table specifies the requirements for the three funds:

Table 1	Main market	Development market	Growth market
Business profile	Large companies	Midsize companies	High growth companies
Minimum amount to issue	MAD 75 million	MAD 25 million	MAD 10 million
Number of shares, minimum to issue	250,000 shares	100,000 shares	30,000 shares
Minimum equity	MAD 50 million	-	-
Minimum turnover	-	MAD 50 million	-
Number of certified exercises	3	2	1
Consolidated accounts	Yes (if the company has subsidiaries)	-	-
Animation Convention	-	1 year	3 years

- **Bond funds and easily accessible funds:**

The bond and mutual funds are essential levers allowing companies to diversify their funding sources. Table 2:

Bonds	
Minimum amount to issue	MAD20M
Minimum maturity	2 years
Number of certified exercises	2
Consolidated financial accounts	YES (for companies with subsidiaries)

Table 3: **Capital Risk Investment Schemes and Collective Investment Funds Securitization**	
Minimum amount to issue	MAD20 M

(2) **Cost of operation**:

The IPO operation is costly in time and money. Indeed, it should be specified by at least a year in advance and requires the company to a number of costs to reorganize and prepare an admission file. Some of the transaction costs are paid only once at the time of introduction. The surveys estimate a cost of between 2.5% and 5% of the collected or placed amount.

In addition, it is noted that any IPO requires three main phases:

Phase 1: Preparation and constitution of the file

This first step is to prepare the IPO file. Il will be for the board to decide the following: legal, financial, statutory reorganization, determining the mode of introduction: disposal or increase, securing the desired date...

To accomplish this, the company must be accompanied by the necessary skills. This starts with the choice of advisors to support the company throughout the process of market introduction: Financial agent, auditors, legal advisers, communications agency.

After this first phase, the company must establish the necessary documents and must also trace the conductor pattern of the stock transaction.

Phase2: Submission and validation of the file

Once the first phase validated and records made, the company must deliver the introductory package, including the Information Note to the Moroccan capital markets authorities. The decision to admit in any of the 3 markets is made by the Casablanca stock exchange.

Phase3: Organization of subscriptions and share quotations

After obtaining the visa, the financial advisor appoints the selling group, in charge of placing securities of the company to the public.

Finally, the IPO requires the publication of reliable financial information with a certification or the auditors certifying their sincerity. In addition to the stress of transparency, the listed company must constantly give the signal of a successful company.

5. Conclusion:

The results of our study show that SMI are not able to comply with the implications of an IPO. This requires not only to qualify but also to bait investors by offering attractive yields. The concern not to have a favorable answer to its bid is huge because investors prefer safe return investments, and remain perplexed against new listed securities. In addition, the handling of fiscal policy remains insufficient to effectively improve access of SMI to the financial market. This underlines the

importance of further research in the area of SMI funding. It appears that they need at this stage and after this laudable financial liberalization more manipulation not only of the tax variable but other more explanatory variables in the financial behavior of these entities.

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