FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
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G. TREATY AND NON-TREATY WITHHOLDING TAX RATES
Morocco

MEMBER FIRM

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             zarkal@pkfmaroc.com

BASIC FACTS

Full name: Morocco
Capital: Rabat
Main languages: Arabic
Population: 32.9 million (2013 PRB)
Major religion: Islam
Monetary unit: Moroccan Dirham (MAD)
Internet domain: .ma
Int. dialling code: +212

KEY TAX POINTS

- Moroccan corporations are subject to a unitary tax system called the corporate tax 'impôt sur les sociétés' or IS system.
- The Finance Law 2016 has introduced progressive rates for corporate tax.
- The standard rate of Value Added Tax is 20% and applies to all suppliers of goods and services, except those taxed at other rates or those who are exempt. A reduced rate of 10% applies to specific items.
- Dividends paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty. Interest on loans obtained from a non-resident and royalties paid to non-residents are subject to a 10% withholding tax (subject to treaties).

A. TAXES PAYABLE

GENERAL REGIME

The Moroccan taxation system consists of direct and indirect taxes. Indirect taxes provide a greater source of tax revenue than the direct taxes. Moroccan corporations are subject to a unitary tax system called the corporate tax 'impôt sur les sociétés' or IS system. The system is statutory and contains a package of incentives designed to encourage both Moroccan and foreign investors. For example, in order to promote foreign investment the Budget Law for 2014 exempted permanently from corporate tax the Fund "AFRICA 50" created by the African Development Bank.

From 2014, the taxation of agricultural incomes, which were until 2013 exempted from income tax, is established. The key measures introduced by the Budget Law for 2015 are summarized as follows:

- Exemption from personal income tax on the gross monthly salary income capped at 10,000 dirhams paid by companies created between 1 January 2015 and 31 December 2019 and within the limits of 5 employees;
- Increase of the VAT exemption period for investment goods from 24 to 36 months from the start of activity;
- Transfer prices: the Budget law 2015 establishes a procedure to taxable businesses in Morocco, having direct or indirect dependency links with companies outside of Morocco to conclude with the fiscal Administration prior agreement on the method of determining transfer prices between them for a period not exceeding four years. This measure will enable these companies to benefit from a legal guarantee against the risk of calling into question the method of determining prices.
CORPORATE INCOME TAX

The definition of ‘corporation’ covers limited liability companies, limited partnerships by shares, general and limited partnerships in which at least one partner is a corporate entity, civil companies, branches of foreign corporations, public sector companies having profit-oriented activity and joint ventures having business-oriented activity. General partnerships and limited partnerships in which all partners are individuals may elect to be taxed under the corporate tax regime. The same applies to joint ventures in which all parties are individuals. Progressive rates are introduced for corporate tax purposes. The applicable rates are set out below:

<table>
<thead>
<tr>
<th>Taxable profit (MAD)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 300,000</td>
<td>10</td>
</tr>
<tr>
<td>300,000 to 1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>1,000,000 to 5,000,000</td>
<td>30</td>
</tr>
<tr>
<td>Over 5,000,000</td>
<td>31</td>
</tr>
</tbody>
</table>

The 37% corporate tax rate applicable to credit institutions, leasing companies and insurance companies is maintained. Foreign contractors carrying out engineering, construction or assembly projects relating to industrial or technical installations may opt to be taxed at a rate of 8% calculated on the total contract price net of VAT and similar taxes. There are also specific rates of corporate income tax detailed as follows:

- 8.75% applying to companies that operate in free zones export, during the 20 consecutive years following the fifth year of full exemption and service companies with the status of "Casablanca Finance City" in accordance with the laws and regulations, beyond the five years of exemption;
- 10% for organisations with regional or international status "Casablanca City Finance", according to the laws and regulations, from the first year of granting such status and optionally for offshore banks during the 15 first consecutive years following the date of obtaining approval;
- 17.5% for companies operating in some northern and southern regions and also for companies exporting products or services after the total exemption from corporate tax for a period of five consecutive years calculated from the year in which the first export operation was performed.

Companies are taxed on the difference between their trading income and expenditure. Business expenses incurred in the operation of the business are generally deductible unless specifically excluded. Expenses not permitted include: fines, penalties, interest on shareholder loans where the stock is not fully paid up, and interest on shareholder loans in excess of the official annual interest rate. Morocco operates a territorial tax system. Companies (both resident and non-resident) are generally subject to corporate tax only on income generated from activities carried on in Morocco. Foreign corporations are subject to taxation on income arising in Morocco if they have, or are deemed to have, a permanent establishment in Morocco. A company is resident in Morocco if it is incorporated there or its place of effective management is in Morocco.

The calendar year is normally the fiscal year although a company may opt for a different fiscal year. Accounts for income tax purposes must be filed within three months after the end of the relevant accounting period. Corporate tax is payable in four equal instalments, based on the prior year's assessment. The actual amount payable is adjusted in the three months following the end of the accounting period. Foreign companies that have elected for the 8% default taxation must submit a declaration of their turnover before 1 April following each calendar year.

MINIMUM CORPORATE TAX CONTRIBUTION

Companies are always subjected to a minimum contribution (Cotisation Minimale; CM) of 0.5% of the annual turnover. The CM is based on turnover, income from interest, subsidies, bonuses or donations received. The CM is not payable by companies during their first 36 months of operation. However, the legal entities liable to Corporate Income Tax which do not have a turnover must pay a minimum contribution. As from 2014, this minimum contribution is raised at MAD 3,000 (MAD 1,500 previously).
The minimum tax (Cotisation Minimale – CM) is no longer creditable against the corporate tax levied in fiscal year 2016 and onward. The excess of the minimum levy over the corporate tax is forfeited to the Moroccan Treasury.

**TAXATION OF AGRICULTURAL INCOME (COMMON MEASURES TO BOTH PERSONAL INCOME TAX AND CORPORATE INCOME TAX)**

First, the definition of Agricultural Income as set by the article 46 of the General Tax Code is profoundly amended. According to the Budget Law for 2014, Agricultural Incomes encompass “profits made by farmer/cattle breeder and derived from all activities inherent in animal/plant operating cycle and whose revenues are intended to human or animal feed, as well as the treating/processing activities of these revenues, apart from their transformation by industrial means.”

As from 1st January 2014, incorporated farms making a turnover superior or equal to MAD 5 million during three (3) consecutive fiscal years are subject to Corporate Income Tax. On the other hand, incorporated farms with a turnover below such threshold keep their current status, under which they are totally and permanently exempted from CIT (article 6-1-A-29 of the General Tax Code). The taxation of incorporated farms or farmers will follow this timetable:

<table>
<thead>
<tr>
<th>Period</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1st January 2014 to 31st December 2015</td>
<td>Turnover superior or equal to MAD 35 million.</td>
</tr>
<tr>
<td>From 1st January 2016 to 31st December 2017</td>
<td>Superior or equal to MAD 20 million.</td>
</tr>
<tr>
<td>From 1st January 2018 to 31st December 2019</td>
<td>Turnover superior or equal to MAD 10 million.</td>
</tr>
</tbody>
</table>

Thus, starting from 1 January 2020, all farms making a turnover superior or equal to MAD 5 million operated either through a corporation or not will be subject to Corporate Income Tax or Personal Income Tax. However, farmers liable to tax are exempted from instalment payments for the first taxable fiscal year (article 170 of the GTC). Incorporated farms and farmers benefit temporary from reduced tax rate for the five years:
- Tax rate of 17.5% for incorporated farms subject to corporate tax for the five consecutive years, starting with the first taxable year;
- Tax rate of 20% for tanners subject to Personal income tax.

**BRANCH REMITTANCE TAX**

A 15% branch remittance tax is imposed on profits remitted to the head office. The Moroccan-sourced income of Moroccan branches of foreign companies is subject to income tax at the ordinary corporate rate of tax. The taxable income is calculated as if the branch was a separate entity from the foreign company.

**VALUE ADDED TAX**

The Value Added Tax (VAT) is a non-cumulative tax levied at each stage of the production and distribution cycle. Thus, suppliers of goods and services must add VAT to their net prices. Where the purchaser is also liable for VAT, input VAT may be offset against output VAT. The standard VAT rate is 20% and applies to all suppliers of goods and services, except those taxed at other rates or those who are exempt. A reduced rate of 10% applies to specific items such as banking and credit services, leasing, gas, water and electricity. Two types of exemptions from VAT are provided. The first is an exemption with credit, equivalent to the zero tax concept, which applies to exports, agricultural materials and equipment, and fishing equipment. The second is an exemption without credit - i.e. the seller receives no credit for input VAT paid. This exemption applies to basic foodstuffs, newspapers and international transport services.

Within the framework of the future tax reform, the Government intends to radically overhaul the value-added tax (VAT) system, notably by progressively aligning the VAT rates, and eventually limiting the
number of rates to two, namely a 10% and 20% rate of VAT. As from 1 January 2014, the rates of the following products are amended: Raw sugar, raw logs, some categories of farm equipment and catering services directly provided by the company to the staff are now subject to the rate of 10%.

The 20% rate applies to equipment and fishing nets, dried raisins and dried figs, candles and paraffin. The 10% rate applies to food for cattle feed (previously subject to the 7% rate). Finally, the rate of 20% applies to commercial vehicles, alimentary fats and margarines (14% previously). Before the Budget Law for 2014, the right of deduction arose at the end of the month following the establishment of the Customs receipts or full or partial payment of bills on behalf of the beneficiary. As from 1 January 2014, the right of deduction of VAT begins at the end of the month of the establishment of Customs receipts or at the end of the month of the full or partial payment of bills on behalf of the beneficiary. As a result, the "one-month lag" rule is abolished. The Finance Law 2016 has introduced VAT exemption on importation and dismantling operations of aircraft. The rate of 20% applies to rail transport operations of passengers and goods (14% previously).

BUSINESS TAX

A business tax or "taxe professionnelle" is levied on individuals and enterprises that habitually carry out business in Morocco. The business tax is applied on the annual rental value of business premises (rented or owned) capped at MAD 50 million net of VAT. The tax rates range from 10% to 30% with exemption for the five first years of activity.

URBAN PROPERTY

Owners of real estate are subject to urban property tax on the rental value of the property. The same applies to owners of machines and appliances that are integral parts of the establishment producing goods or services.

PROPERTY TAX

Property tax is assessed on the rental value of the property. The general property tax rate is 10% of the assessed rental value, as determined by the local tax authorities. If the property is used as a primary residence, only 25% of the assessed rental property value is subject to tax. Properties occupied as a main or second residence are taxed at progressive rates as follows:

<table>
<thead>
<tr>
<th>Tax Base MAD</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5,000</td>
<td>Nil</td>
</tr>
<tr>
<td>5,000 – 20,000</td>
<td>10%</td>
</tr>
<tr>
<td>20,000 – 40,000</td>
<td>20%</td>
</tr>
<tr>
<td>Over 40,000</td>
<td>30%</td>
</tr>
</tbody>
</table>

CUSTOMS DUTIES

All goods and services may be imported. Goods deemed to have a negative impact on national production, however, may require an import licence. Products from the EU are fully exempted from March 2012. Cars, household items and also semi-finished products for local industry are reviewed.

The rates fall for products brought from the outside world. Some materials and products, however, are exempted, especially those imported under the investment charter, imported under customs economic systems and those using renewable energies.

Value added tax is also payable on goods imported into Morocco.
CAPITAL GAINS TAX

Individuals earning capital gains from selling property are subject to tax on property profits. Profits on the sale of property are taxable at 20% of any profit but with a minimum tax of 3% of the sale price.

The taxable gain is computed by deducting the following from the selling price:
• Acquisition price and incidental costs;
• Transfer costs;
• Investment expenses;
• Interest payments.

Capital gains from the sale of a property which has been the primary residence of the taxpayer are not subject to tax under some qualifications:
• The property has been the seller's primary residence for at least six years;
• The property has been the seller's primary residence for at least four years on the day of the sale, and the property area does not exceed 100 sq. m. and the profit does not exceed MAD 250,000;
• The profit made on one or more transfers by individuals within a calendar year whose total value does not exceed MAD 140,000.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL GAINS

Morocco instituted a tax on the proceeds from a company's stocks, shares and comparable income (TPT), distributed by companies based in Morocco and paying taxes on corporations. The tax of 10% is collected at the source and applies to:
• Capital interest;
• Profit percentages;
• Special allowances or the payment of fees and other compensation allotted to members of the board of directors (except for the fraction of these compensations considered as salary and subject to personal income tax (IR));
• Sums levied on profits to repay capital produced to stockholders or to buy over stocks;
• Beneficiary/founder's shares;
• Surpluses from winding up augmented by reserves built up over at least ten years ago;
• Profits made in Morocco by establishments whose home office is located abroad, as these profits are made available to such companies abroad.

LOSSES

Tax losses may be carried forward for a period of four years from the end of the loss making accounting period. However, the portion of a loss that relates to depreciation may be carried forward indefinitely. Losses may not be carried back.

DIVIDENDS

Dividends received by corporate shareholders from taxable Moroccan-resident entities must be included in business profits of the recipient company but the dividends are 100% deductible in the computation of taxable income.

The participation exemption in Morocco is also applicable to dividend derived from foreign subsidiaries. The original participation exemption regime granted 100% allowance to a Moroccan recipient company of Moroccan-source dividends.

CONSOLIDATED RETURNS

Consolidated returns are not permitted. Each company must file its own return.
INTEREST DEDUCTIONS

Interest paid on loans and other debts is deductible to the extent it relates to borrowings made for income producing purposes. Thin capitalisation rules apply to reduce the deduction available where the taxpayer is a foreign entity operating in Morocco, a foreign controlled Moroccan entity or a Moroccan resident with foreign business investments. In each of these cases, the tax deduction for interest may be reduced if the taxpayer's debt exceeds the levels permitted under the thin capitalisation provisions.

REPATRIATION OF PROFITS AND TRANSFER PRICING

In addition to paying interest and dividends, the payment of management fees, service fees and royalties are methods of repatriating profits to the non-resident associates, controllers and owners of Moroccan entities. In these circumstances, the payments made by the Moroccan resident to the non-resident associate must reflect the market value of the goods and/or services to the Moroccan company. That is, all payments must be calculated with reference to arm's length market rates.

Where the Tax Office takes the view that the Moroccan company has paid an excessive amount for the goods and/or services, the Tax Office can disallow the deduction claimed by the Moroccan company and substitute an alternative price. Other transactions between Moroccan taxable entities (or branches) and their related foreign entities or head offices are also subject to the transfer pricing rules. Where a Moroccan branch of a foreign company remits profits to its parent by way of management fees or service fees, the profits are not subject to withholding tax or branch profits tax.

C. FOREIGN TAX RELIEF

Since a Moroccan resident is taxed on worldwide income, the Moroccan tax system provides relief from foreign taxes paid on such worldwide income by means of a foreign tax credit. This foreign tax credit cannot exceed the Moroccan tax otherwise payable in respect of the foreign-source income.

D. WITHHOLDING TAX

Dividends paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty. Interest on loans obtained from a non-resident is subject to a 10% withholding tax. Royalties paid to non-residents are subject to a 10% withholding tax unless the rate is reduced under an applicable tax treaty.

E. PERSONAL TAXES

Individuals, regardless of nationality or activity, who have their habitual residence in Morocco are subject to a personal income tax (impôt sur le revenu or IR) on their worldwide income on a progressive scale between 10% and 38%. Individuals who do not have their habitual residence in Morocco are subject to tax only on Moroccan-source income. Habitual residence status is established by reference to one of the following:

1) Place of permanent abode;
2) Centre of economic interest;
3) Duration of stay in the country exceeding 183 days within any period of 365 days.

The issue of double taxation is partially addressed by tax treaties or unilateral relief in the form of tax credit. All compensation received by an individual is taxable, including salaries and wages, allowances, pension annuities, and all other employment benefits, investment income, property income and income derived from the carrying out of a business or profession. Capital gains derived from the disposal of immovable property are generally subject to tax as part of the personal income of the individual, i.e. 20%. Filing and payment: the tax return must be filed by 31 March of each year in the place where the taxpayer has his/her habitual residence or main business. Resident individuals are assessed to tax on taxable income from January 2010 according to the following scales:
A range of rebates are available to Moroccan resident individual taxpayers. Employers must retain and pay any income tax due on the salaries paid to their employees the previous month within the first ten days of each month. Individuals who receive incomes from non-wage sources must file a tax declaration every year on or before 31 March. Net rental income is taxable under the general income tax (Impot General sur le Revenu or IGR) at progressive rates. A standard deduction of 40% of the gross rental income covers the income-generating expenses in lieu of itemised deductions. As of 2014, the taxation on such rental incomes is now effective as from the first year (the exemption of rental income derived from the renting of new buildings applicable during the three-year period following the completion of the constructions is abolished).

Until 2013, retirement pensions in Morocco were subject to a 55% tax allowance on their whole annual gross amount. The Budget Law for 2014 capped this advantage by introducing a threshold reducing this advantage to 40%:
• 55% from MAD zero (0.00) to MAD 168,000;
• 40% beyond.

Furthermore, the Budget law 2014 creates the new fiscal regime of "auto-entrepreneur", applicable to individuals whose annual turnover does not exceed MAD 500,000 for commercial, industrial, and artisanal activities undertaken, and where yearly turnover does not surpass MAD 200,000 for the provision of services. Under the "auto-entrepreneur" status, individuals are subject to income tax at a rate of 1% or 2% of turnover, depending on the activity. Finally, the Budget Law for 2014 provides a new disposition aiming at deferring taxation on the net capital gain realized by a taxpayer who contributes the stocks he holds in one or several companies to a resident holding company liable to Corporate Income Tax. The operation must satisfy the following conditions:
• The contribution must be carried out between 1 January 2014 and 31 December 2015;
• The value of the contributed shares must be assessed by a legally accredited accounting expert;
• The company to which the shares are contributed shall undertake to keep the shares during a minimum of 4 years from the date of the contribution;
• The taxpayer who proceeds to the contribution shall undertake, in the contribution agreement, to pay the tax on the gains he shall derive from the sale, refunding or cancellation of the stocks received in exchange for the contribution.

In case of non-respect of these formalities, the capital gains are taxed in accordance with ordinary tax rules.

### F. OTHER TAXES

#### DOMESTIC CONSUMPTION TAX

As from 1 January 2014, the amount of this tax is raised to MAD 500 by hectolitre for energizing drinks, and to MAD 700 by hectolitre for wines.

#### TAX ON PLANE TICKETS

The Budget Law for 2014 sets out a new tax on plane tickets coming into force as of 1 April 2014. This tax will be levied on tickets purchased on international flights departing from Moroccan airports.
(domestic flights are exempted). However this tax will not apply to certain category of tickets, such as those for flying and security personal or for children below two (2) years old. The amount of tax is set to MAD 100 for Economy Class and MAD 400 for Business and First Class.

**SPECIAL ANNUAL TAX ON LUXURY VEHICLES**

The Budget Law for 2014 raises the rates of this tax as follows:

<table>
<thead>
<tr>
<th>Value of the vehicle excluding VAT</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>From MAD 400,000 to MAD 600,000</td>
<td>5%</td>
</tr>
<tr>
<td>From MAD 600,001 to MAD 800,000</td>
<td>10%</td>
</tr>
<tr>
<td>From MAD 800,001 to MAD 1,000,000</td>
<td>15%</td>
</tr>
<tr>
<td>Superior to MAD 1,000,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

**G. TREATY AND NON-TREATY WITHHOLDING TAX RATES**

The Moroccan government is eager to encourage foreign investment. This is reflected by the territoriality principle for taxation applicable to corporations mentioned above. In addition, Morocco has concluded about 47 treaties including a multilateral agreement with MAU (Maghreb Arab Union: Algeria, Tunisia, Libya and Mauritania) for the prevention of double taxation, mainly with developed countries. Morocco’s list of treaty-partners include Belgium, Canada, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Romania, Spain, the United Kingdom and the United States. However, the treaty signed with Sweden was cancelled and has not been applicable since 2007.

Most of the tax treaties are based on the UN (United Nations) model and do not contain specific anti-abuse provisions. Reduced withholding tax rates vary from one treaty to another. Of special interest is the treaty with France which offers advantages involving self-employed foreigners and payments for technical assistance and contracts (e.g. imported supplies).