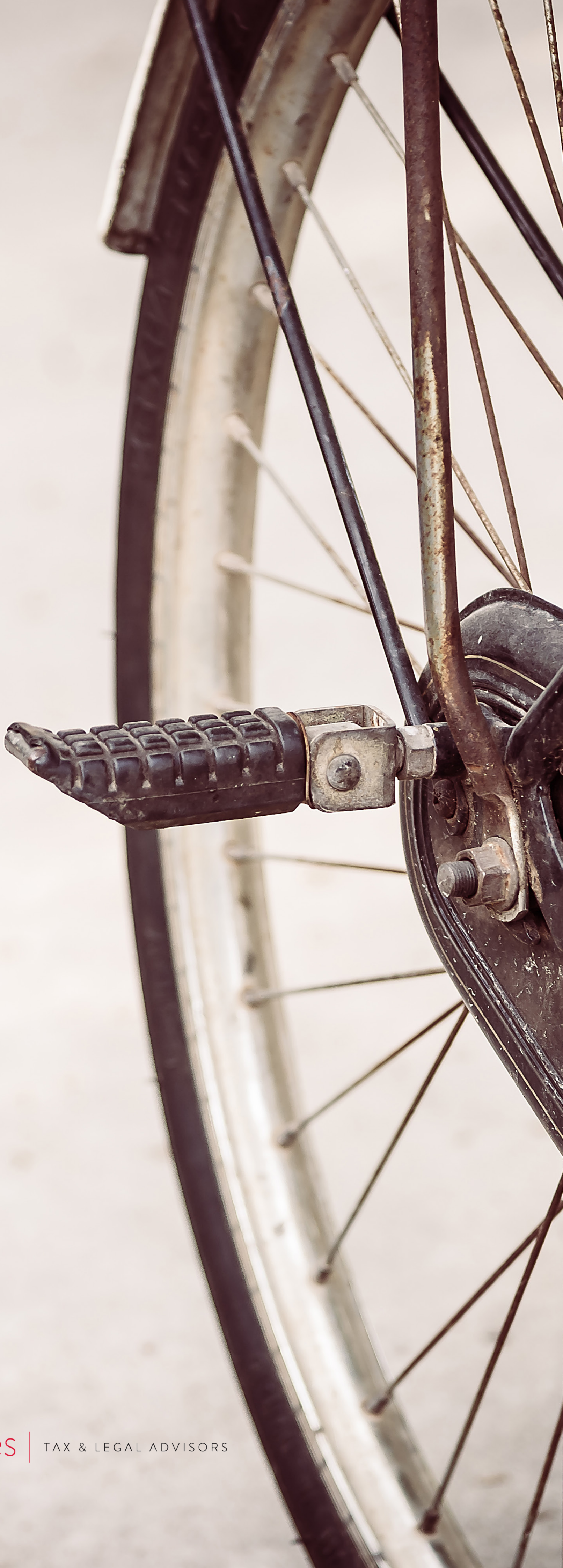
2017

Year in Review

Tax & Legal Developments



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Year in Review

A number of regulatory changes that impacted businesses were introduced in the Maldives during the year 2017. This includes changes in tax rules as well as some changes to the regulatory requirements in the construction sector. This Review summarizes these developments, most of which appeared in our Tax Alerts and Focus.

January

Changes in the Rules on Preparation of Accounts on Cash Basis

The eleventh amendment to the BPT Regulation, introduced on 17 January 2017 brought several major changes to the BPT Regulation. Among those changes was that businesses with an annual turnover of 10 million or less being permitted to elect to prepare their accounts on cash basis. For further information regarding the breakdown of this ruling, see our Tax Alert published on 15 February 2017.

No Interim Tax Payments by Companies That Commence Liquidation Proceedings

The eleventh amendment to the BPT Regulation also introduced new rules for companies that chose to file for liquidation. Companies that commence winding up process prior to the deadline of an interim payment would not be required to make interim payments of a tax year provided they fulfilled the prescribed conditions. For further information regarding the breakdown of this ruling, see our Tax Alert published on 15 February 2017.

Changes to Capital Allowance Rules on Assets Used by Directors and Loss Deduction Rules

As introduced by the eleventh amendment to the BPT Regulation, capital allowance is disallowed on business assets used by directors, partners and such persons, as usage of such assets are considered as non-monetary remuneration and, new loss deduction rules were introduced for group of companies. For further information regarding the breakdown of this ruling, see our Tax Alert published on 15 February 2017.

Reclassification of Business Size and New Rules for Auditors

The ruling, introduced on 19 January 2017, changes the classification of business size, which is based on their annual turnover. Micro Businesses are businesses with an annual turnover of MVR 10 million or less, small businesses are classified as greater than or equal to MVR 10 million and less than 60 million, medium businesses are classified as greater than or equal to MVR 60 million or less than MVR 100 million and large businesses are classified as greater than or equal to MVR 100 million. Additionally, micro businesses are given certain document submission exemptions if they elect to prepare their accounts on a cash basis. The ruling also requires external auditors to give an opinion on whether adequate internal controls are in place and whether the business records are maintained in compliance with the tax laws. For further information regarding the breakdown of this ruling, see our Tax Alert published on 15 February 2017.

Exemption from Return Filing for Qualifying Individuals and Deemed Partnerships

The ruling, introduced on 26 January 2017, granted an exemption from filing a tax return for individuals and deemed partnerships whose gross income did not exceed MVR 1,000,000 for that period. The applicability of this ruling to tax year 2016 was subject on the fulfillment of the criteria set out in the ruling.

Determining Boundaries of a Tourist Hotel or Tourist Guesthouse to Establish Correct Tax Rate

The ruling, introduced on 1 December 2016, explains that supplies of goods and services made by any place located within the boundaries of a Tourist Hotel or Tourist Guesthouse will be required to charge tax at the rate of 12%. The boundaries of a Tourist Hotel or Tourist Guesthouse will be determined based on the operating license or any other document issued by the Ministry of Tourism to the hotel or guest house. The ruling came into effect from 1 January 2017 onwards.

February

Change in Registration Requirements for Individuals and Deemed Partnerships

The ruling, introduced on 2 February 2017, replaced the registration rulings requirements for individuals and, for deemed partnerships, by effectively consolidating the requirements into one ruling. The requirements are such that if an individual or "deemed partnership", requires a government permit to carry on with their business, or employs any person, or has an annual turnover of MVR 40,000 per month over a 12 month period, will be required to register with the MIRA.

April

Introduction of Construction Act

The Act, introduced on 23 April 2017, sets out major standards and parameters applicable to most parties in the construction industry. Some of the key changes introduced by the Act include, establishment of an advisory board called the "Maldives Building and Construction Board", creation of a "Building Code", creation of a register of developers, architects, and similar actors in the industry, guaranteeing compensation for services rendered and a dispute resolution mechanism for actions taken under the Act. The Act came into force on 22 October 2017.

Transfer of Responsibilities and Outstanding Debts to Lease Transfer Recipients

The amendment to the Grant of Rights Regulation, introduced on 26 April 2017, imposed the requirement on the Ministry to make a general announcement asking for any outstanding debts or issues attached to a land or island which is the subject of a lease transfer. The amendment further required lease transfer recipients to take responsibility of outstanding debts and payable amounts associated with the island or land being transferred and to give assurance that they will be resolved.

May

New Rules on WHT: Determining When a Payment is "Payable"

The ruling, introduced on 18 May 2017, imposes certain rules on when a payment will be subject to WHT. The ruling indicates that WHT will be 'payable' on the date on which the payee receives a copy of the invoice or indication of liability to pay OR the date when the payee accrues the payable amount in their books OR the date when a current obligation of the payee arises in connection to a past event; the earlier of any of these. For further information regarding the breakdown of this ruling, see our Tax Alert published on 25 May 2017.

June

Changes in Requirements of Directors Reports

The Ministry of Economic Development published an information sheet on 4 June 2017, which outlines the required sections in a Directors Report submitted to the Registrar of Companies by Private Companies under the Companies Act. See our analysis, Focus, published on 17 September 2017 for more details on the 12 requirements for the report.

August

Changes to Land Sale Regulation Grant Minister Power to Set Minimum Tax

The amendment, introduced on 15 August 2017, changes the composition of the valuation committee that advises the Minister on arriving at a fair value of the land for the purpose of calculation of tax. The change also grants the Minister the power to determine the amount payable as tax to the state, upon the advice of said committee.

Tourism Permit Under Grant of Rights Regulation Not Required Prior to Signing of Management Agreement

The amendment to the Regulation, introduced on 3 August 2017, allows signing of a management agreement prior to receiving the relevant permit issued by the Ministry of Tourism, provided the applicant for the permit fulfills the criteria set out in the Regulation, which includes, taking responsibility for all matters that transpire between signing of the agreement and it's registration with the Ministry.

September

Tourism GST Registrants Now Required to Register Their General Sector Businesses Regardless of Threshold Requirement

The ruling, introduced on 7 September 2017, imposes new registration requirements on tourism businesses. The ruling required Tourism GST registrants to register for General GST if they have a taxable activity in the general sector, regardless of whether they exceed the threshold on MVR 1,000,000. For further information regarding the breakdown of this ruling, see our Tax Alert published on 17 September 2017.

October

Changes to Complimentary or Business Purpose Supplies

The ruling, introduced on 9 October 2017, amends the GST Regulation, extending the period during which GST need not be charged for supplies made for business promotion or marketing purposes, from 3 days to 7 days.

Changes to Share Transfer Fee and Lease Transfer Fee Under Grant of Rights Regulation

The amendment, introduced on 31 October 2017, introduces some key changes to the Grant of Rights Regulation which include, permitting the sub-lease of islands developed from reclaimed lagoons, and, a lease transfer fee of USD 100,000 for transferring the lease of an island, lagoon or land undergoing development and, a share transfer fee of USD 100,000 for the authorization of share transfers of a company or partnership that is a leaseholder. The administrative payments mentioned were imposed under the Regulation for Submission of Proposals for Leasing Islands, Plots of Land and Lagoons for Tourism Purposes prior to this amendment.

November

New Rules on WHT: Applicability of WHT on Certain Commission Payments Made to OTA's

The ruling, introduced on 29 November 2017, establishes specific rules on subjectability of WHT on commissions and fees paid or payable to non-resident Online Travel Agents (OTAs) by tourist establishments. The ruling requires WHT to be levied on payments made to OTA's where there is an actual flow of commission from the tourist establishment to the OTA. Conversely, where there is no actual flow of commission from the tourist establishment to the OTA, that payment will not be subject to WHT – being payments made to OTA's under a merchant model.

December

Changes to Rules on Capital Expenditure Input Tax Deduction

The ruling, introduced on 21 December 2017, brings major changes to input tax deduction rules relating to capital expenditure. Some of the key changes include the requirement to claim input tax relating to capital expenditure at a taxable activity level and, taxpayers can now claim input tax on capital expenditure in full within 12 months, if the gross amount of the expenditure is equal to or less than MVR 500,000 and, If the gross expenditure is more than that, input tax has to be apportioned equally and claimed over 36 months. For further information regarding the breakdown of this ruling, see our Tax Alert published on 18 February 2018.

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About us

CTL Strategies LLP is a firm specialised in providing tax and legal advisory services to businesses. Our tax advisory services include tax related business planning, tax compliance reviews, managing tax audits and controversies, and local and international tax planning.

Tax disputes are the mainstay of our practice and our tax disputes team, comprising of tax attorneys and tax advisors, can represent and assist you in tax audits and investigations by the MIRA, filing tax objections, filing appeals with the Tax Appeal Tribunal and at every stage of tax controversies.

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