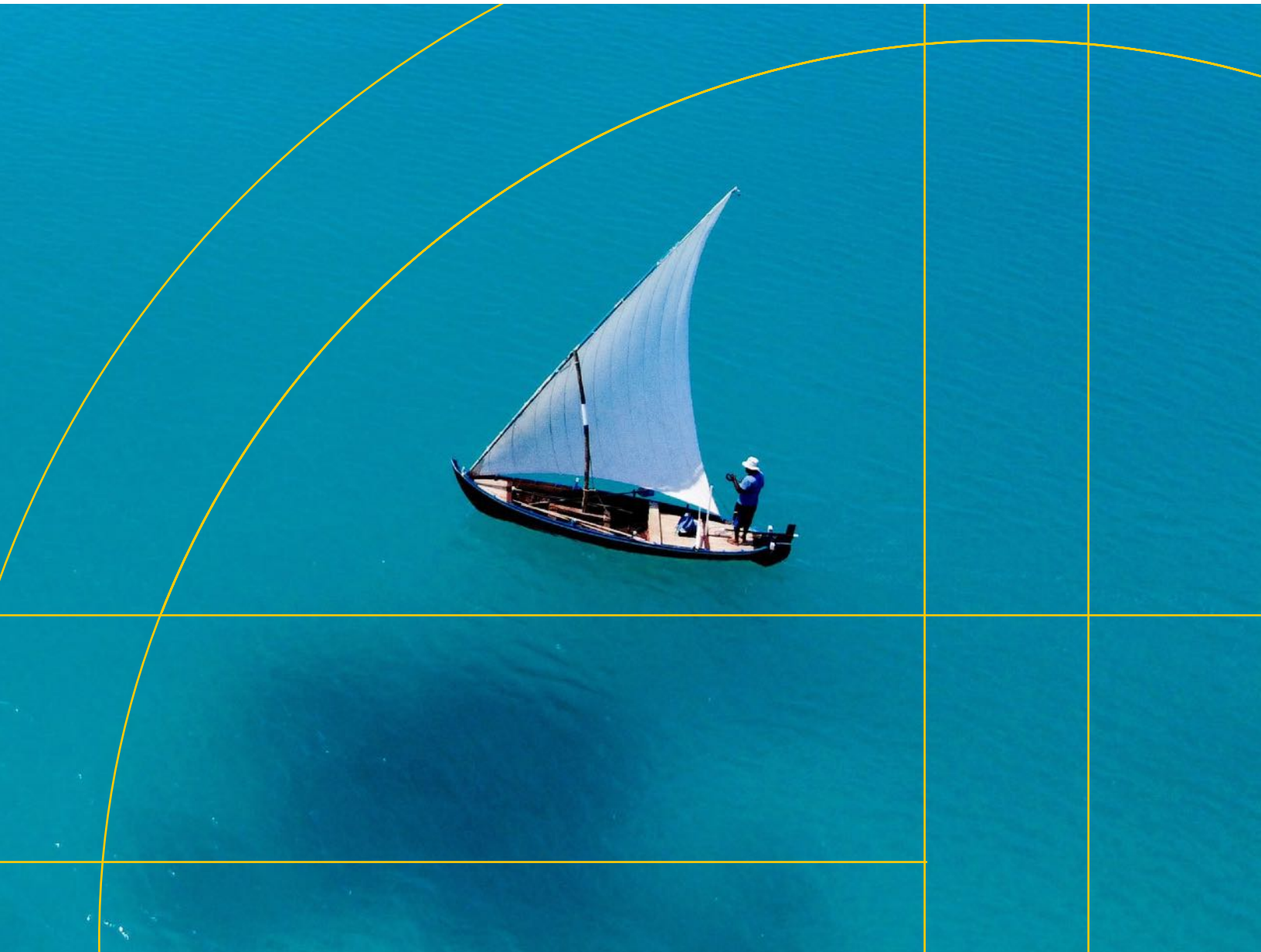


an overview of
Goods & Services Tax (GST)
in the Maldives



1. Introduction

The Tourism Goods and Services Tax Act was announced in 2010 and commenced in 2011 as an indirect tax imposed at the rate of 3.5% on goods and services supplied by enterprises operating in the tourism industry. The Act was abrogated and replaced with Goods and Services Tax Act (GST Act) in October 2011 - this initiated a broad based indirect tax to be imposed by all qualifying enterprises operating in the Maldives.

Good and Services Tax Act makes a categorical distinction between the suppliers of tourism goods and services and suppliers of general goods: tourism sector imposes tax at the rate of 12% on goods and services supplied by enterprises operating in the tourism sector while general sector enterprises imposes tax at the rate of 6% on goods and services supplied regardless of where the recipient of the supply is located.

2. Imposition of GST

Goods and Services Tax (GST) is levied on the value of goods sold and services supplied in the Maldives within charge to tax. Registered traders are allowed to deduct tax charged on their input tax, and therefore, GST is broadly a tax on the value added at each stage of the production cycle.



For the purpose of the GST Act, a good is defined as goods sold by enterprises operating in the Maldives, excluding a right or interest under a law or contract and money. Services are anything which are not goods.

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Some supplies which the government considers, should not be within the GST reach, are exempt, while certain essential items are zero-rated. The distinction between zero-rated and exempt supplies is that zero rating allows registered businesses to claim input tax they have incurred.

The registration status and requirements are central in determining whether or not GST is charged. For a business to charge GST, the business must conduct a taxable activity and must be registered for GST with the Maldives Inland Revenue Authority (MIRA).

2.1 Taxable Activity

A taxable activity is defined as any business conducted continuously or permanently for the supply of a good or service.

2.2 Registration

Any person who conducts a business which falls within the definition of a “taxable activity” as defined above must register for GST within 30 days from which the following occurs:

1

Total value of goods and services supplied in the past 12 months exceeds MVR 1,000,000.

2

Estimated value of supply for the following 12 months exceeds MVR 1,000,000.

3

Imports goods into the Maldives.

4

Conducts a taxable activity in the Tourism Sector.

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Persons importing goods to the Maldives and businesses operating in the tourism sector are obliged to register regardless of the value of the taxable supplies (i.e., even if the business do not meet the MVR 1 million registration threshold). Even businesses who do not meet the registration criteria have the option to voluntarily register for GST.

Subject to specific provisions of the GST Act, certain goods and services are exempt from tax or not considered as taxable activities. For example, employment undertaken for any consideration under an employment

contract is not considered as a taxable activity while financial services are specifically exempt from GST. Thus, if the business is a provider of such non-taxable activities or an exempt supply, even though the registration threshold is met, the business is not required to register for GST with respect to such activities. Details of exempt supplies are discussed under Section 4.

2.3 Output Tax and Input Tax

The tax charged to the recipient of any good or service supplied by a registered person is referred to as the output tax. In simple terms, it is the GST paid by the consumer. Hence, in the ordinary course of business, the registered person carrying out the taxable activity will collect this amount from the consumer and pay it to MIRA. Even if the registered person (i.e., the business) fails to collect this amount from the recipient (i.e., consumer), it is the responsibility of the registered business to pay this amount to the tax authority.

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Input tax is the GST the registered person is able to claim back from MIRA. It is the tax the registered person pays to its suppliers. However, different rules apply in claiming back input taxes and in any case if input tax is to be claimed, the supplier must also be registered with the MIRA – transaction should occur between GST registered parties.

Therefore, ultimately registered businesses collect the taxes (output tax) and pay such amounts to MIRA, while claiming credits for the GST that they have already paid (input tax). In this regard, registered businesses guarantee that GST is collected and paid at all stages of the distribution chain while the cost of the tax is ultimately borne by the end-consumer.

3. Categorical Distinction

3.1 Tourism Sector

The GST Act categorises the following as tourism goods and services:

1

Goods and services supplied by tourist resorts, tourist hotels, guesthouses, picnic islands, tourist vessels and yacht marinas authorised by the Tourism Ministry

2

Goods and services supplied by shops, diving schools, spas, water sports facilities, and other similar facilities established in any of the above mentioned tourist establishments (this excludes shops solely established to serve the employees working in such establishments).

3

Goods and services supplied by travel agency service providers authorized by the Tourism Ministry.

4

Goods and services supplied to foreign tourist vessels by their agents.

5

Domestic air transportation services supplied to persons other than Maldivians.

From 1 November 2014 onwards, the applicable tourism sector GST rate has been 12%. Hence, any business which falls within the tourism sector (as defined above), must charge tax at the rate of 12% on the value of goods sold and services supplied by them.

The GST payable with respect to tourism goods and services must be paid to MIRA in United States Dollars (USD).

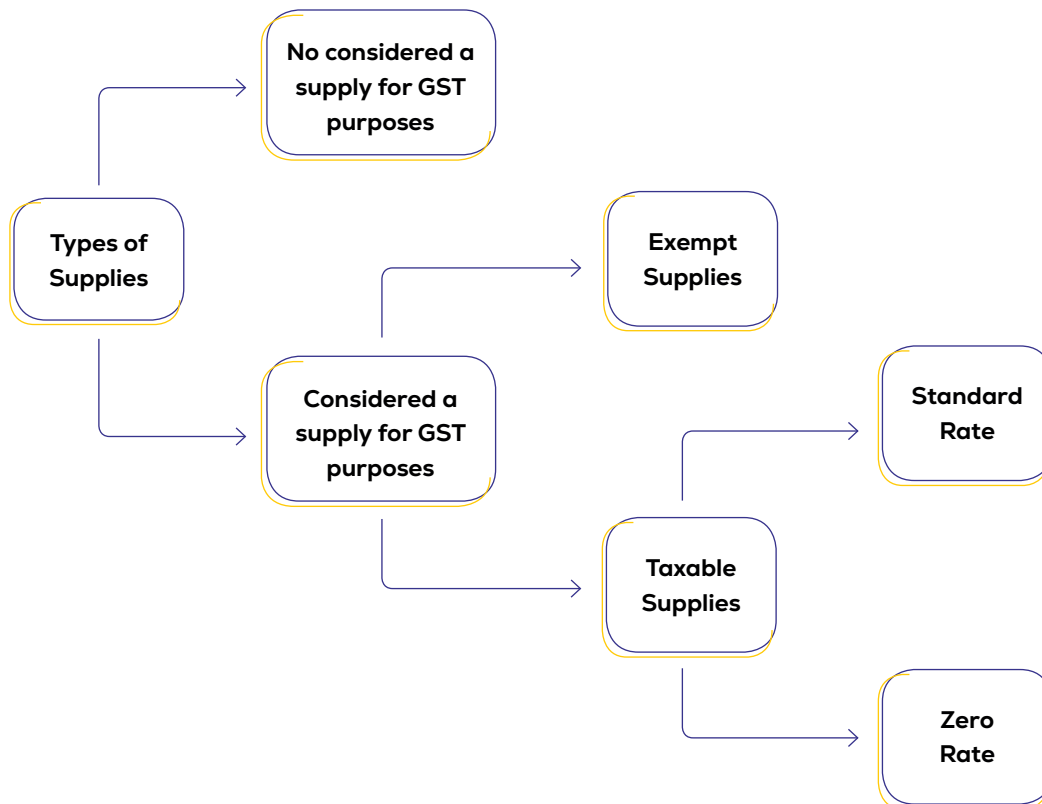
3.2 General Sector

All other businesses that are required to register, but do not fall into the tourism sector are categorised as operating in the general sector. The standard rate of tax to be charged in the general sector is 6%.

The GST payable with respect to general goods and services must be paid to MIRA in Maldivian Rufiyaa (MVR).

4. Types of Supplies

A taxable supply is a good sold or service provided in the Maldives excluding supplies specifically exempted under the GST Act. Hence, a taxable supply can either be a supply taxed at the standard rate or at zero rate. Only a limited number of supplies are zero rated and exempted.



4.1 Zero-Rated Supplies

In the Maldives, the following goods and services are zero-rated:

1. Essential goods specified in Schedule 1 of the GST Act
2. Exports:

This includes:

1

Goods exported or re-exported under a registration with the Maldives Customs Service.

2

Goods supplied by duty free shops.

3

Services exported by registered persons in the Maldives to persons outside the Maldives (which are consumed outside the Maldives).

4

Sale of going concern

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The disposal of a going concern is zero rated only if:

1. the buyer is also registered with the MIRA; or
2. the purpose of the disposal transaction is to transfer the ownership of a business owned by an individual or individuals to a company at least 99 per cent of the share capital of which is held by the same individual or individuals; or
3. MIRA determines that there is no revenue loss to the State with respect to the transaction even if it is zero-rated.

Although zero-rated goods are considered as taxable supplies, if you are a registered person selling zero-rate goods or services, you are not required to pay tax in relation to such activities. However, if you have incurred any input tax in relation to it, you are allowed to claim the input tax attributable to the supply of zero-rated goods and services.

4.2 Exempt Supplies

The following goods and services are specifically exempt from GST and are not considered as taxable supplies:

1

Electricity, water, sewerage and postal services

2

Education services

3

Health services

4

Drugs and medical devices

5

Sale of goods received as donations or gifts by non-profit organisations

6

Financial services

7

Rent earned from immovable properties

8

International transportation services

9

Supplies made to persons exempted from GST by another Act

10

Fines

11

Flats, land and buildings sold by the Government or third parties under a social housing scheme

12

Day care services

In determining whether the above listed supplies are exempt, there are specific rules or conditions. Let's say you have a home-based tuition centre and your business meets the 1 million per annum registration threshold for GST. You may think that as an educational service provider you are exempt from GST and you are not required to register for GST or charge GST. However, the GST Act specifies that the services must be registered with the relevant Government Authority or State Institution for it to be considered as an exempt supply. Meaning, the services you provide from your home-based tuition centre will only be exempt, if you are authorized by the Education Ministry. Similar conditions apply to all of the above mentioned exempt supplies.

In contrast to the suppliers of zero-rated goods and services, suppliers of exempt goods and services are not entitled to recover any input tax attributable to the exempt supplies.

5. Time of Supply

To accurately account for GST at the correct time, understanding the term “time of supply” is vital. Simply put, time of supply is the time at which a supply is deemed to be made for the purpose of GST.

The general rule is that the time of supply of a good sold or a service supplied occurs at the earlier of the following:

■ 1

**the time at which
an invoice is
issued; or**

■ 2

**the time at which
the recipient of a
supply makes any
payment (full or
partial).**

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This means that even in cases where suppliers issues an invoice when selling goods on credit basis and do not receive any payment from the recipient, the time of supply for the goods have occurred on the day the invoice was raised and the supplier must account for GST on that date, though no payment was received with respect to the goods. On the other hand, where any payment is received for a supply prior to the issuance of an invoice, GST must be accounted for on the date on which the payment was made.

However, with respect to payments being made under an installment agreement, each installment is considered as a distinct taxable transaction. Hence, the time of supply of each installment is deemed to occur on the earlier of the following:

1. the date on which the installment payment was received; or
2. the due date of the installment payment.

The GST Regulation requires registered persons to issue an invoice within three days from the date of completion of services supplied and the same applies to goods sold as well - an invoice must be issued within three days from the date the goods were removed from the place of supply or in the case where the goods are not removed, from the date the goods were made available to the consumer.

Subject to provisions of the GST Regulation, special time of supply rules apply for certain supplies such as vouchers, loyalty schemes and lotteries.

6. Value of Supply

GST is levied on the value of goods sold and services supplied in the Maldives within charge to tax. Hence, determining the value of supply is of significance in GST computation.

The GST Act stipulates that the 'consideration' of a supply is the value of the supply with the addition of the tax charged. Hence, for ease of understanding the following formula is derived;


$$\text{Consideration} = \text{Value of Supply} + \text{GST}$$

In other words:

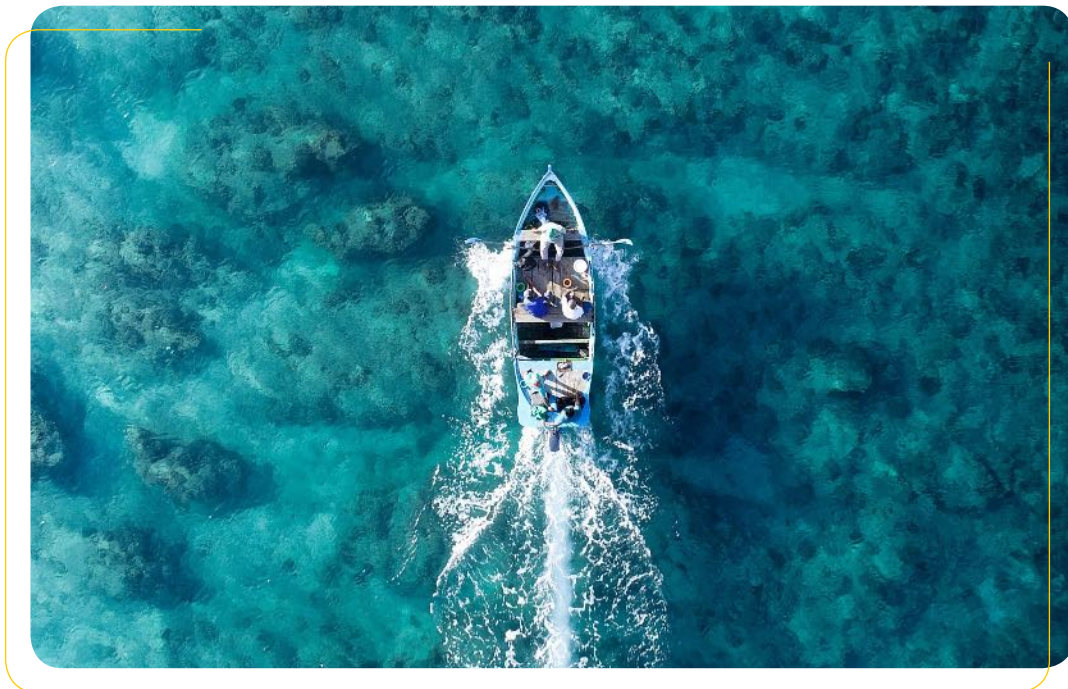

$$\text{Value of Supply} = \text{Consideration} - \text{GST}$$

So, in a nutshell, the value of supply is the consideration of a good sold or service supplied exclusive of GST amount.

The GST Act defines consideration as payments made or any act or forbearance offered in respect of obtaining a good or service, whether by that person or by another person on his behalf. Meaning, it is the actual amount paid or payable with respect to a supply, whether it is in monetary terms or non-monetary terms. Where the consideration is not in monetary terms, it is equal to the open market value of the consideration.

While in the normal course of business, the market prices are charged by sellers, on some occasions there may be exceptions. To address to such scenarios, the GST Regulation provides special rules that apply to:

1. Related party transactions
2. Supplies made by means of machines, meters or devices operated through coins/tokens
3. Vouchers
4. Loyalty schemes



7. Record Keeping

Every registered person is required to maintain the following records:

1. Tax invoices and receipts (issued or received)
2. Credit/Debit notes and similar documents
3. Details of output tax and input tax declared for each taxable period
4. Documents with respect to imports and exports
5. Details of goods acquired or taken for private consumption or non-business purposes
6. Details of free of charge or complimentary supplies
7. Details of lost, damaged or returned goods
8. Relevant business agreements
9. Other relevant documents relating to the GST computation

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The above listed documents and records must be maintained for a minimum period of 5 years.

7.1 Tax Invoice

If you are a GST registered person, upon request from a registered purchaser/recipient, you are required to issue a tax invoice within 28 days. Only one invoice must be issued for each transaction. Even if the supply is for more than one person, a single tax invoice must be issued with respect to the transaction. In such cases, input tax can be claimed by the person stated in the invoice as the recipient of the supply.

For a tax invoice to be valid, the following particulars must be included:

1 "Tax Invoice" marked in a prominent manner	2 Name, address and TIN of the supplier	3 Name, address and TIN of the recipient*
4 Invoice number	5 Issuance date	6 Quantity and details of the supply
7 The GST-exclusive value of the supply	8 Tax charged (i.e., GST amount)	9 GST-inclusive value of the supply; if the amount of tax has been included in the price of the good or service, a statement to such effect.

* If the total value of the supplies (GST-inclusive value) is lower than MVR 5,000, the details of the recipient is not necessary.

7.2 Receipt

A receipt may be issued instead of a tax invoice, where the recipient of the supply is not a GST registered person. The following particulars must be included in such receipts:

1

Name, address and
TIN of the registered
person

2

Date of payment

3

Receipt number

4

Quantity and details
of the supply

5

The GST-exclusive
value of the supply

6

Tax charged
(i.e., GST amount)

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7

GST-inclusive value of the supply; if the amount of tax has been included in the price of the good or service, a statement to such effect.

7.3 Credit/Debit Notes

Following the issuance of a tax invoice, if the value of a transaction differs for any reason (i.e., reduces or increases) a credit or debit note must be issued accordingly.

Similar to the particulars of a tax invoice, in prominent letters it must be specified whether it is “Debit Note” or “Credit Note” and must include the credit/debit note number, the date of issue and the details of the supplier and the purchaser. In addition, the following must also be included:

1. Reason for issuing the credit/debit note.
2. Original tax invoice number, its date, amount of tax specified in that tax invoice, amount of tax calculated after the change in value, and the difference between the two

If the identification number of a tax invoice, receipt or a debit/credit note is not generated via a software, the documents must include pre-printed numbers.

8. Deductions

8.1 Setting off Input Taxes

As explained before, input tax is the GST paid on the supplies purchased – it is the tax the registered business pays to its suppliers. Hence, when submitting tax returns at the end of any taxable period, a registered person is entitled to set off the input tax paid from the output tax payable.

If input tax is paid in relation to supplies partly used for the provision of taxable supplies and partly for provision of an exempt supply, the claimable input tax must be apportioned as attributable to the taxable supplies (a reasonable estimate must be made).

To claim input tax, the registered person must hold a valid tax invoice issued by the supplier and input tax must be claimed within 12 months from the taxable period in which input tax could have first been claimed. If not, the input tax claimed can be disallowed and penalties may be imposed by the MIRA.

Subject to certain provisions of the GST Regulation, special rules apply in claiming input tax in relation to capital expenditure.

8.2 Irrecoverable Debts

If the value of a supply is written off as an irrecoverable debt by a registered person under the following circumstances, the GST with respect to such supplies can be deducted from the output tax payable by the person:

1. Court passes a judgement that the debt or part of it is irrecoverable; or
2. The debtor is liquidated or declared bankrupt; or
3. The debt is written off as irrecoverable in accordance with International Financial Reporting Standards or another accounting standard approved by the MIRA.

However, in any case, if the debt is recovered (partly or in whole), the GST with respect to such amounts must be included in the tax return for the taxable period in which that amount was recovered.

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8.3 Discrepancies in Computation

For any reason, if the tax paid by a registered person is less than the actual tax payable for the period, the outstanding amount will be considered as an amount due and maybe subject to penalties if the discrepancy was noticed after the applicable deadline for the respective taxable period.

However, if a discrepancy in computation resulted in an excess payment being made for a taxable period, the MIRA will allow a deduction with respect to such amounts from the tax payable in subsequent taxable periods.

9. Filing and Payment

9.1 Taxable Period

The taxable period of a registered person is determined by the total value of goods and services supplied by the person.

If the total value of goods and services supplied by the person is less than MVR 1 million per month, the taxable period of the person is every 3 months (quarterly). If the value of goods and services supplied by the person is MVR 1 million per month or more, the taxable period of the person is every month (monthly).

	Taxable Periods
Value of supply < MVR 1 million	January - March
	April - June
	July - September
	October - December
Value of supply ≥ MVR 1 million	January
	February
	March
	April
	May
	June
	July
	August
	September
	October
	November
	December

As such, all registered persons are required to compute GST separately for each taxable period and file separate tax returns and make payments.

If a registered person, by discretion, wants to choose a monthly taxable period even if the value of supply does not reach the MVR1 million threshold, a request can be put forward to MIRA and with the approval of the Commissioner General the taxable period can be changed.

9.2 Filing and Payment Deadlines

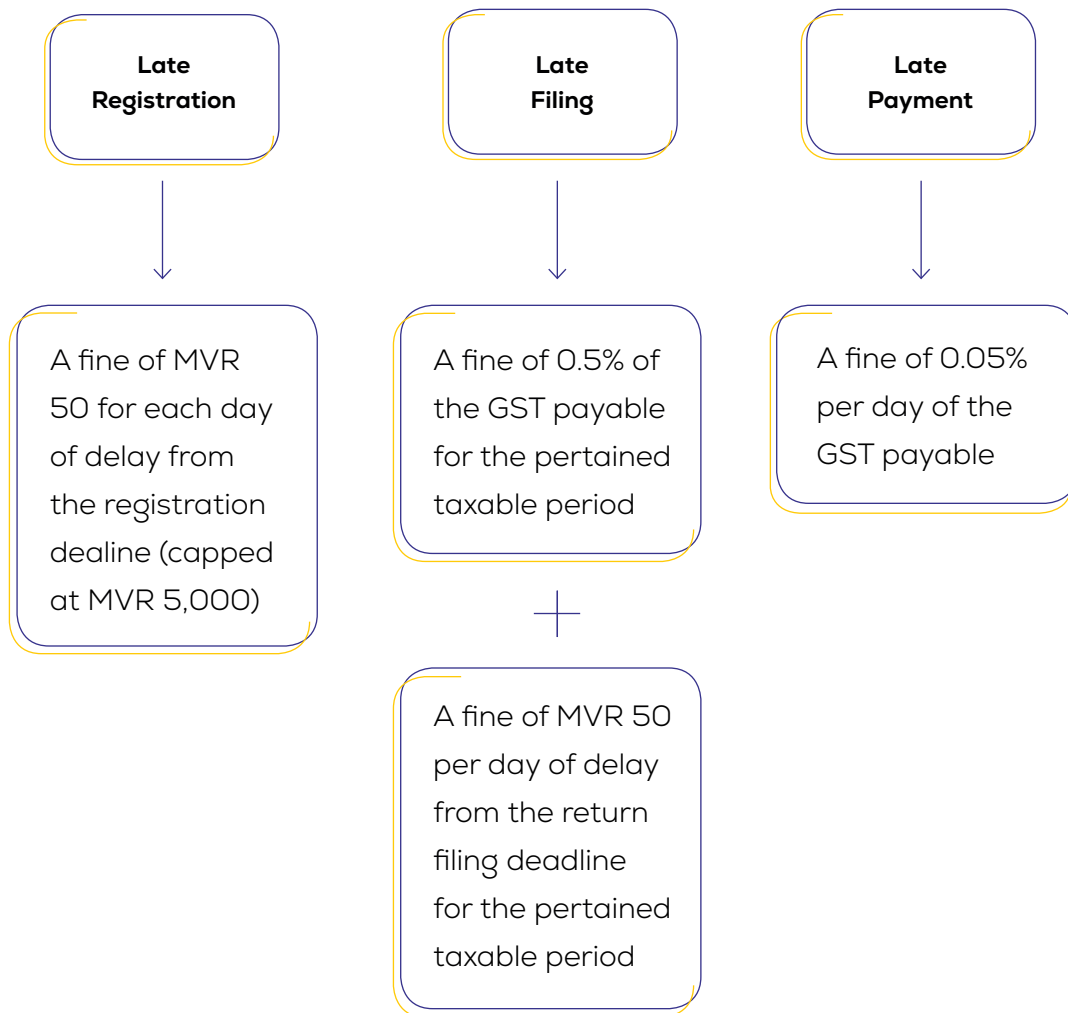
Registered persons are required to file a tax return for each taxable period on or before the 28th of the month following the end of the taxable period, unless on reasonable grounds, the Commissioner General has postponed the deadline.



**For the taxable period Jan-Mar (quarterly filers),
tax returns must be filed by the 28th of April,
together with the tax payment for the period.**

9.3 Penalties

Penalties applicable for late registration, late filing and late payment of GST are administered by the Tax Administration Act.



10. Change of Information & Deregistration

10.1 Change of Information

If there has been a change in the following registration related information, the MIRA must be notified within 30 days:

1. Changes to the name, address or nature of the business;
2. In case of a company, changes to Memorandum of Association or Articles of Association of the company
3. Partnership status
4. Mergers

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Establishment of a company or business consortium in a foreign country consisting of shareholdings or financial interests of a person who has been registered for GST or the financial interests of a shareholder or director of such registered persons.

10.2 Deregistration

Under the following circumstances, a registered person may apply for deregistration via the submission of MIRA106 Form (Deregistration Form):

1. The total value of supplies at the end of any 12 month period is less than MVR 500,000;
2. The total value of supplies at the beginning of any 12 month period is estimated to be less than MVR 500,000;
3. Taxable activities are ceased with no intention to resume the activities in the following 12 months.

However, where a person is registered for GST voluntarily, the Commissioner General has the discretion to not deregister such persons until 2 years has elapsed since registration, though an application for deregistration has been submitted.

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You are only allowed to stop charging GST upon notification of deregistration from MIRA - merely submitting the MIRA 106 Form does not constitute as termination or being removed from the GST register.

10.3 Consequences of De-registration

Upon deregistration, GST on goods in possession at the time of termination for which input tax has been claimed must be paid to the MIRA.

Where the deregistered person is an importer, upon deregistration an account of imported goods in possession at time of deregistration must be submitted to the MIRA. Such goods must be sold with the issuance of tax invoice and GST must be paid accordingly.

Contact us

For additional information with respect to the application of GST, please contact one of the following members of our team:



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ABOUT US

CTL Strategies is a multi-disciplinary law firm registered in the Maldives, specialised in tax advisory services. We advise international hotel chains, multinational companies, some of the big four audit firms, and a number of the world's largest companies as well as high net-worth individuals on commercial transactions, tax compliance, planning and tax disputes.

We are ranked in the 2021 edition of Chambers and Partners, and as a Highly Recommended Tax Disputes Firm by Asia Law Profiles.

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This publication is intended to provide an overview of the GST regime in the Maldives. It should not be taken as legal advice of any nature, nor should be regarded as offering detailed explanation of all the matters addressed in the Amendment. Readers are advised to seek professional advice specific to their particular circumstances.

Cover photo: Husen Siraaj on Unsplash

Date of publication: 1 April 2021

