

Client Advisory

15 December 2022

Guidance on GST Rate Change

In Brief

With the ratification of the Sixth Amendment to the Goods and Services Tax Act (Law Number 20/2022), changes to GST rates will come into effect on 1 January 2023 and will be as follows:

	Before	After
General Sector	6%	8%
Tourism Sector	12%	16%

Within this transitional period, it is necessary that businesses registered for GST take all the necessary steps to navigate through the resulting implications of the rate change.

The [Fact Sheet](#) on GST rate change issued by the Maldives Inland Revenue Authority (“MIRA”) provides detailed guidance on the application of the correct GST rate with the help of examples and explains the rule of applying a ‘cut off’ for transactions that span the change when the GST rate is increased from 12% to 16% for Tourism Sector and from 6% to 8% for General Sector on 1 January 2023.



As such, with the assistance of case specific scenarios, this advisory will look into the “time of supply” rules which effectively determines whether a GST registered person is applying the correct rate.

Time of Supply

As many of you are already aware, businesses registered for GST should charge GST at the prevailing rate at the time of supply. Generally, the time of supply is the earlier of:

- When a tax invoice in respect of the supply is issued; or
- When a payment in respect of the supply is received

This means, if a tax invoice is issued or a payment is received for a supply prior to 1 January 2023, GST must be charged at the current rate of 6% for General Sector and 12% for Tourism Sector, respectively.

Similarly, if a tax invoice is issued or a payment is received for a supply on or after 1 January 2023, GST must be charged on the supply at the new rate of 8% for General Sector and 16% for Tourism Sector, respectively.

Take note that if goods or services are delivered, time of supply is deemed to have occurred on the third day of the delivery of such goods or service, regardless of the issuance of a tax invoice or the receipt of payment.



Transactions that Overlap Effective Date of Rate Change

While the rule maybe simple, it may get a bit tricky in cases where transactions are regarded as spanning the GST rate change whereby the following events fall on either side of the rate change date:

- Tax invoice issuance date
- Payment date
- Date of delivery of goods/performance of service

For transactions spanning over 1 January 2023, generally, if an invoice is issued or payment is received for the transaction before the effective date of rate change, the applicable rate would still be the prevailing GST rate of 6% for General Sector and 12% for Tourism Sector and vice-versa.

However, based on when supplies are delivered or services performed, in addition to knowing the invoice date and payment date, the application of a cut off on 31 December 2022 impacts the GST rate applicable to such supplies that span the date of the rate change.

Hence, below discussed are few examples of GST treatment applicable to common scenarios overlapping 1 January 2023:



Example 1

Assume that you are in the business of operating a tourist resort (which is a Tourism Sector activity for GST purposes). You have received a booking for the period from 28 December 2022 to 5 January 2023. The booking was confirmed on 15 December 2022. Total charges for the booking are USD 3,000 excluding GST.

Scenario 1:

Advance payment received on 15 December 2022 for guest stay that will span over the rate change date.

Facts:

- An advance payment of USD 1,000 was collected for the booking on 15 December 2022 upon confirmation.
- A tax invoice is raised upon guest checkout on 5 January 2023 upon which the guest paid the balance amount of USD 2,000.

What is the applicable GST Rate?

on the advance payment

As the advance payment of USD 1,000 was made on 15 December 2022, prior to the rate change date, the applicable TGST rate on the advance payment would be 12%.

on the tax invoice raised at check out

As the tax invoice was raised on 5 January 2023, after the effective date of rate change, the applicable TGST rate for the remaining amount of USD 2,000 would be 16%.



Scenario 2:

Tax invoice issued on 15 December 2022 for guest stay that will span over the rate change date.

Facts:

- A tax invoice was issued on 15 December 2022 for the whole stay.
- No payment was collected until the departure date.

What is the applicable GST Rate?

As the time of supply would have been triggered on the issuance of the tax invoice on 15 December 2022 for the whole stay, the applicable TGST rate would be 12%, regardless of the fact that the full payment is made upon departure.

Scenario 3:

Cut off tax invoice issued on 31 December 2022 for guest stay that will span over the rate change date.

Facts:

- A separate tax invoice is issued on 31 December 2022 for December consumption (i.e., meals/stay/extras).
- A second tax invoice is raised on 12 January 2023 upon departure for the remaining period of stay.
- Payments are made for both invoices upon departure.

What is the applicable GST Rate?



on the cut off tax invoice

As a cut off tax invoice is raised on 31 December 2022 for the December consumption, the applicable TGST rate would be 12% on that invoice, regardless of the fact that the full payment will be made upon checkout.

on the tax invoice raised at check out

Where the tax invoice for January consumption is raised upon guest checkout, the applicable TGST rate would be 16%.

Example 2

Assume that you are running a consultancy firm (which is a General Sector activity for GST purposes). Monthly invoices are raised to clients based on services consumed.

Facts:

- An invoice for December month service fee is raised on 3 January 2023.
- Payment is made upon issuance of the invoice.

What is the applicable GST Rate?

As the time of supply would have been triggered on the issuance of the tax invoice on 3 January 2023, the applicable GST rate would be 8%, regardless of the fact that the invoice/payment relates to December 2022.



Example 3

Assume that you are in the business of operating a 24hr shop (which is a General Sector activity for GST purposes). No credit sales are made and payments for all transactions are collected at point of sale.

Facts:

- Invoice issued and payment collected at point of sale.

Scenario 1:

A customer makes a transaction at 00:05.

What is the applicable GST Rate?

As it is a 24hr shop, the cut off should be made from 00:00 of 1 January 2023. Given that the transaction took place at 00:05, the applicable GST rate would be 8%.

Scenario 2:

Assuming the shop is not a 24hr shop and the customer makes a transaction at 00:05.

What is the applicable GST Rate?

As it is not a 24hr shop, a cut off need not necessarily be made at midnight. If the transaction took place at 00:05, the applicable GST rate can still be 6%.

Shops which are not run on a 24hr basis can apply the 8% from the business opening hour on 1 January 2023.



Other considerations

Application of the correct GST rate may not be your only concern; it is also important that you:

1. Take the necessary steps to update the invoicing and point of sale systems in order to account for the rate change from the cut off date
2. Ensure that price display requirements are met inclusive of the new GST rate
3. Update advertisements (brochures, websites, social media posts that display prices)
4. Review existing contracts to identify whether the rate change is to be borne or charged by you



Contact us

If you have any questions or need our assistance, please contact your principal advisor or any one of the following members of our team.



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Zaina specialises in advising clients on a broad range of tax matters with a particular focus on international taxation, transfer pricing, withholding tax and effective tax management. During her time with us, Zaina has also delivered income tax training sessions to large corporations.

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Madeeh is a chartered accountant and leads the firm's tax advisory practice. During his tenure at the Maldives Inland Authority as the Director of Audits, he has gained an expansive insight into the critical issues that arises in tax audits in the Maldives. His current practice involves providing tax advisory services on multi-million dollar investments and cross-border transactions of multinational corporations and advising on effective structuring of tax responsibilities.

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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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