



# Tax Alert

**2 April 2023**

## Tax on Plastic Bags

The Waste Management Act<sup>1</sup> (the “Act”) ratified by the President of the Maldives on 18 December 2022, introduced the collection of a fee equivalent to MVR2 (Two Maldivian Rufiyaa) from plastic bags sold or provided at points of sale. The above levy caters to one of the key legislative intents of the Act, which is to mitigate the detrimental environmental impacts caused by waste.

The provision on collection of fees on plastic bags imposes certain administrative and compliance requirements on businesses selling goods. The resulting obligations falling on such businesses registered for Good and Services Tax (“GST”) are clearly outlined in the Act and further detailed in the Regulation on Collecting Plastic Bag Fee by Persons Registered for GST<sup>2</sup> (the “Regulation”) published by the MIRA. The Act also lists the types of plastic bags which are specifically exempted from the levy and prescribes the applicable penalties for non-compliance.

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<sup>1</sup> Act Number 24/2022 (Waste Management Act).

<sup>2</sup> Regulation Number 2023/R-76 (Regulation on Collecting Plastic Bag Fee by Persons Registered for GST).

# An overview of plastic bag fee

<b>Effective Date of the Act</b>	<b>Collection Date</b>
18 December 2022	18 April 2023 [Within 4 months from the effective date of the Act]
<b>Applicable to</b>	
All persons carrying on businesses of selling goods	

## What is considered to be a plastic bag for the purpose of the Act?

Plastic bags are bags made of plastic for the purpose of carrying goods, including bags made of oxo-degradable plastic, synthetic polymer, and biodegradable plastics.

Plastic bags used for packaging necessary for sale of goods by manufacturers do not fall within the ambit of plastic bags used for carrying goods.

# Compliance and Administration

## Including the levy in invoices and receipts

Invoices and receipts issued by businesses must include the amount of the plastic bag levy and it must be separately identifiable. GST is not applicable on the levy. Hence, businesses must ensure that the systems are configured as such that GST is not imposed on the MVR 2 (Two Maldivian Rufiyaa) charged on the plastic bag at point of sale.

## The mechanism (collection & payment)

As per the Act, all businesses selling goods and registered with the MIRA for GST are required to collect the fee on plastic bags and pay such amounts to the MIRA.

The taxable period, filing and payment obligations aligns with your businesses' GST obligations. If you file GST returns on a monthly basis, you will be required to include the details of the tax collected on plastic bags in your monthly GST Return as prescribed by the MIRA. If you file GST returns on a quarterly basis, you will need to account for the tax on plastic bags quarterly via the submission of your GST Return.

In short, if you are in the business of selling goods and are registered for GST, you will be obligated to report the details of the fee collected on plastic bags and pay the same to the MIRA on or before the 28th of the month following the end of your taxable period.

### Example:

For the taxable period Jan-Mar (quarterly filers), tax returns must be filed by the 28th of April, together with the details of tax collected on plastic bags for the period.

The Act also stipulates that the fee collected on plastic bags are separate from the GST collected.

As required by the Act, on 22 February 2023, the MIRA has published a Regulation further detailing the procedures to be followed in the collection and payment of the fee to the MIRA by businesses registered for GST.

The Regulation makes it clear that the fee is to be declared in the GST Return in Maldivian Rufiyaa and that it is the person who is registered for GST with MIRA as the operator of the business who will be held responsible to pay the amount to the MIRA.

Furthermore, the Regulation notably aligns the tax point of the plastic fee with the GST tax point and clarifies that the fee is applicable even when a plastic bag is provided in supplying exempt or zero-rated goods. Even where a plastic bag is returned for the purpose of returning a good, or otherwise, the fee on the returned plastic bag must still be paid to the MIRA.

## Record maintenance

Records on the tax collected from plastic bags must be maintained for a minimum period of 5 years unless otherwise specified.

As per the Regulation, the following records and documents must be specifically maintained in relation to the plastic bag fee.

- / Details of plastic bags purchased;
- / Details of plastic bags received free of charge;
- / Details of plastic bags sold;
- / Details of plastic bags supplied free of charge;
- / Details of plastic bags damaged;
- / Details of plastic bags returned by customers.

## Exemptions

The following types of plastic bags are specifically exempt from the plastic bag fee.

1. Plastics bags distributed or sold at duty free shops
2. Plastic bags used to put all types of unpacked fish
3. Bin-liners provided by waste management service providers or relevant authorities

## Penalties

Generally, a penalty of MVR 5,000 – MVR 50,000 maybe be imposed on businesses for non-compliance. However, for GST registered businesses, non-compliance penalties will be imposed pursuant to the Tax Administration Act<sup>3</sup>.

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<sup>3</sup> Act Number 3/2010 (Tax Administration Act).

## Our comments

As this will be the first time that businesses are required to collect fee on plastic bags, it may be a challenge to administratively prepare for the collection, especially for small businesses not registered for GST.

It is observed that no specific exemption is provided for businesses not registered for GST - the Act requires all persons carrying on businesses of selling goods to collect tax on plastic bags at the point of sale. As of now, it is unclear as to why the Act is silent on the requirements imposed on businesses not registered for GST while the Act clearly outlines the requirements imposed on GST registered businesses and aligns the tax filing and payment obligations with GST.

Therefore, it is expected and imperative that the relevant Ministry or the MIRA to publish some guidance and explanation on the collection and payment of plastic bag fee by persons not registered for GST.

# Contact us

If you have any specific questions relating to this publication, feel free to contact one of the following members of our team:

Zaina's practice covers a broad range of Maldives and cross-border tax matters, with a particular focus on the tax aspects of corporate acquisitions, transfer pricing, and resolution of disputes on related matters.



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# About us

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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.

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