

COUNTRY PAPER

Maldives

Maldives Inland Revenue Authority (MIRA)

An Introduction of the MIRA

The MIRA was established as an autonomous body on 2 August 2010 under the Tax Administration Act ratified by the President on 18 March 2010. The main responsibilities of the MIRA include the execution of tax laws and the implementation of tax policies. In addition, MIRA provides technical assistance to the government in determining the tax policies. In terms of tax administration, the MIRA undertakes assessment and enforcement activities to ensure that revenue due to the government is collected accurately and completely. Furthermore, educating the public with respect to tax is also a key area that the MIRA undertakes. The MIRA also collects other levies and charges on behalf of the government in addition to the taxes.

Taxes

On establishment of MIRA, three taxes have been implemented, namely Tourism Goods and Services Tax, Goods and Services Tax (which replaced the Tourism Goods and Services Tax) and Business Profit Tax, and up until the establishment of MIRA, the Maldives did not have a modern tax system.

- **Tourism Goods and Services Tax (T-GST)**

The Tourism Goods and Services Tax Act commenced on 1 January 2011. Under the Act, T-GST is charged on the value of goods and services supplied by tourist resorts, tourist hotels, guest houses, picnic islands and tourist vessels, and on certain other services supplied by places providing services to tourists in the Maldives. The tax rate under the Act is 3.5%.

- **Goods and Services Tax (GST)**

In October 2011, the T-GST Act was repealed and replaced by the Goods and Services Tax Act. The GST Act commenced on 2 October 2011, and expanded the tax to all sectors of the economy. The Act imposes a GST at the rate of 3.5% from 2 October 2011 to 31 December 2011 and 6% from 1 January 2012 to 31 December 2012.

The GST rate on tourism goods and services increased to 8% on 1 January 2013, and is set to increase to 12% from 1 November 2014.

- **Business Profit Tax (BPT)**

The Business Profit Tax, which was ratified on 18 January 2011, commenced from 18 July 2011. Under the Act, tax is imposed at the rate of 5% or 15% on profits exceeding MVR 500,000 in a tax year. The rate of 5% is applicable to businesses resident in the Maldives, generating all of their income from outside the Maldives, while all other businesses are subject to the rate of 15%. Further, if any payment specified in Section 6 of the Act made by a business to a non-resident, a withholding tax at the rate of 10% is imposed on the gross amount of such payment.

The MIRA collects more than 75% of the total government revenue. Since the MIRA was established, exponential growth in revenue collection is observed. Over the last three years, the average year-on-year growth in revenue is over 57%, significant increase growth is due to the introduction of new taxes such as Goods and Services Tax (GST) and Business Profit Tax (BPT) in 2011.

The policies for the administration of the MIRA are determined by the Board of Directors appointed by the President with the approval of the People's Majlis (parliament of the Maldives), while the work undertaken by the MIRA on a daily basis is overseen by the Commissioner General of Taxation, who is also a member of the Board of Directors.

Administratively the MIRA is divided to 8 departments; Taxpayer Education and Facilitation, Return and Payment Processing, Enforcement and Compliance, Technical and Legal Service, Large Taxpayer Service, Audit and Investigation, Management and Information Systems, and Human Resource and Administration. As of date, 203 staff are employed at the MIRA.

Recent Changes Introduced by MIRA

As a young tax authority, the MIRA is taking initiatives in various regards. Geographically, the Maldivian population is scattered among many islands and consequently it is a challenge to provide complete and up-to-date information to the taxpayers based in remote areas of the country. Therefore, the MIRA teams are travelling all across the country and providing

information about the new tax system that is being implemented. Furthermore, to increase the compliance rate among the taxpayers, MIRA teams are visiting the business premises and making compliance checks. In order to modernize the tax system and to enable online submission of returns and payments, the MIRA is currently using SAP Tax and Revenue Management system. With this new revenue management system, the MIRA will be able to start online services to taxpayers. To further increase the reach of MIRA to the general public, MIRA has also opened its first branch outside the capital in a populated island in the north of the country. Plans are being made to open another in the south as well.

Collaboration with other tax authorities and international organisations

The MIRA takes initiative to establish and maintain relationships with other tax authorities. In this regard, the members of the board of directors of the MIRA have visited Singapore, Thailand and Inland Revenue Board of Malaysia (IRBM) and the tax administration of Taiwan to establish relationships. Recently, the senior management of the MIRA has also visited Bureau of Internal Revenue, Philippines on a study visit.

During the year 2012, MIRA gained the membership of the International Fiscal Association (IFA). IFA is an international organization that deals with fiscal matters of countries, examine tax laws, and study the fiscal and economic fluctuations resulting from taxation.

MIRA was also elected as a member of the Commonwealth Association of Tax Administration (CATA) Management Committee during 2012. Commissioner General of Taxation represents the Maldives in CATA.

Maldives for the first time participated as an observer in the 43rd SGATAR Annual Meeting held in Korea from 14 – 17 October 2013 and the 10th ATAIC Annual Conference which was held in Dakar Senegal from 25 – 29 November 2013. Maldives application for membership was submitted to the Head of Delegation Meeting during the 10th ATAIC Technical Conference. Maldives is the 28th country to become a member of the Association.

Bilateral Tax Treaties

The Maldives has not signed a bilateral treaty yet. However, a Tax Information Exchange Agreement (TIEA) has been negotiated with India, and is ready for signing. Ukraine, South Korea and Czech Republic have also sent formal requests to commence negotiations on a tax information exchange agreement. In addition, Sri Lanka has also sent a formal request to commence negotiation on a double tax avoidance agreement.

On 13 November 2005 the Maldives signed the SAARC's Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters. MIRA, as the Competent Authority of Maldives, has requested SAARC to negotiate a multilateral DTA amongst its member countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka), and the proposal was considered at the recently concluded meeting of competent authorities of SAARC, held in Nepal.

Current taxation issues

The Maldivian population is geographically scattered across many islands separated by the sea. This causes difficulties to reach taxpayers at an affordable cost as a result of which compliance of taxpayers in the atolls is ensured only on a limited scale.

A modern tax system is a new concept to the public and there is an inevitable public hesitation towards this change. Several businesses did not maintain the financial records and this posed as a challenge for both the taxpayer (especially small and micro businesses) to comply and the MIRA to implement and administer the taxes.

Furthermore, lawyers who represent the MIRA in court have encountered difficulty in justifying the position of the MIRA due to the judiciary's lack of understanding of the processes and practical application of the tax laws.

In addition, information on spending of taxpayers' money by the government is not available to the public, which leads to taxpayers to question if their money is being spent productively. This is a major challenge in getting taxpayers to accept the new system.

