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# ***Challenges for International Tax Administrations - Maldives***



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# ***Tax and Legal Framework***

# *The Maldives Economy*

- *The Maldives economy is primarily based on tourism and tourism related sectors.*
- *More than 150 tourist resorts in Maldives, with “one island, one resort” concept. This includes mid-range, luxury and ultra luxury resorts.*
- *Other industries include construction, wholesale and retail, transportation / logistics, fishing, agriculture, etc.*
- *Most common international tax risks are identified in tourism and construction industry.*

# *Tax and Legal Framework*

- *Modern tax system was introduced in 2010, with enactment of Tax Administration Act as the Primary Law.*
- *Key tax types include Income Tax (BPT prior to 2020), Goods and Services Tax, Green Tax, Airport Taxes and Fees.*
- *In Maldives, residents are taxed on their worldwide income, while non-residents and temporary residents are taxed only on their Maldives-sourced income.*

# Key institutions in the tax system



- *To develop broader tax policies with the consultation from public.*
- *Performing revenue and economic impact analysis of proposed changes.*

- *To enforce and implement tax laws.*
- *Technical input to the TPU.*

- *Review & deliberating on tax disputes.*
- *Decisions on other tax matters*



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# ***International Tax Rules***

# Transfer Pricing

- The Maldives implements transfer pricing rules and applies *arm's length principle (ALP)* to the transactions entered between associated parties.
- ALP is endorsed in Income Tax Act Section 67.
- The rules have been further strengthened by including *transfer pricing documentation* requirements in Section 68 of the Income Tax Act and Transfer Pricing Regulation (Regulation no. 2020/R-43)
- Maldives *mainly follows OECD guidelines* in determining ALP and documentation requirements.
- In addition to this, *general anti-avoidance rules* are specified in Income Tax Act, Section 66.

# Documentation Requirements

The Maldives adopts the three-tiered approach to transfer pricing documentation, consisting of:

1. *The Master file*; which provides an overview of the group's business that is relevant to the business operations in Maldives.
2. *The Local file*; which contains detailed information on taxpayer's business and transactions with its associated parties.
3. *The Country-by-Country Report*; which contains aggregate tax jurisdiction-wide information relating to the global allocation of the MNE's income and taxes paid together with certain indicators of the location of economic activity within the MNE group.



# *Treaties*

- *Inclusive Framework member since 2017.*
- *Implemented BEPS minimum standards.*
- *Signed MAAC in August 2021*
- *Maldives has signed bilateral double tax avoidance agreements with UAE, Bangladesh and Malaysia*

# Exchange of Information (EOI)

- *Maldives have signed international agreements allowing exchange:*
  - *Convention on Mutual Administrative Assistance in Tax Matters*
  - *Multilateral Competent Authority Agreement on Automatic Exchange of CbCR*
- *Exchange framework and appropriate use:*
  - *Activated and received reports.*
  - *Acquired a 3<sup>rd</sup> party system to exchange CbCR*
  - *Developed a policy for appropriate use*
  - *2<sup>nd</sup> phase review to be held this year.*
- *Maldives has completed its first automatic exchange for CRS and CbCR data in **2023***

# *Mutual Agreement Procedures (MAP)*

- *A mutual agreement procedure under Section 64-1 of the Tax Administration Regulation may be accessed on the following issues and cases*
  - *Transfer Pricing Issues*
  - *Juridical or economic double taxation issues*
  - *Issues with determination of country of residence*
  - *Issues relating to the attribution of profits to a permanent establishment*
- *MAP review has been deferred*

# *Advanced Pricing Arrangements (APAs)*

- APAs are initiated by taxpayers and subsequently negotiated and agreed upon between taxpayer and tax administrations.*
- Types of APAs include; Unilateral APA, Bilateral APA and Multilateral APAs.*
- Effective from tax year 2021 onwards.*
- The APA process covers pre-filing consultation, formal application, evaluation and analysis of the application, negotiation and agreement of the APA, and Submission of Annual Compliance Report.*

# Implementing the *Minimum Standard*

- **Challenges:**
  - *Lack of technical expertise in the areas:*
    - *Use of CbCR reports for risk assessments*
    - *APA/MAP programs*
  - *IT/Finance resources specially developing or acquiring applications*
- **Strengths:**
  - *Policy/lawmakers are receptive of these changes.*
  - *Small size of the taxpayer population*



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# ***Risk Management & Auditing MNEs***

# *Common international tax risks*

*Some of the common international tax risks identified in Maldives includes:*

- Exclusive tour operator arrangements with associated parties*
- Management / Marketing Fees / Franchise fees not at arm's length*
- Excessive debt and interest deductions*
- Restructuring activities*
- Sale of villas / resort*
- Excessive capital expenditure*
- Purchases / sale transactions not at arm's length*

# Risk Assessments

- *Maldives adopts Risk-based audit approach*
- *A separate risk team performs the risk profiling and case selection*
- *Most common transfer pricing risks are identified in tourism and construction industry.*
- *Along with income tax return, taxpayers are required to submit a schedule on “Reporting of International Transactions with Associates”.*
- *The documents analyzed by the risk team in profiling taxpayers for transfer pricing risks include Income Tax Return, Schedule, CbCR and CRS data*



# *International Tax Audits*

- *A dedicated international tax audit team with total 11 staffs since 2019*
- *Follows domestic law and OECD guidelines or UN Practical Manual as additional guidance materials*
- *MIRA has subscription to transfer pricing database and uses benchmark analysis produced by database*
- *International tax auditors study benchmarks provided by taxpayers in determining arm's length prices for their controlled transactions*
- *MIRA has entered into assistance programs with TIWB on transfer pricing audits.*



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# *Required Legal Reforms*

# Amendments to GST act

- *Application of the destination principle in full.*
- *GST will be charged at the border for imported goods.*
- *Incorporate digital economy into the GST regime. Under this reform the following supplies will be subject to tax in the Maldives*
  - *Supplies made through an electronic marketplace or platform*
  - *Imported goods ordered online*
  - *GST on offshore booking platforms and agents*

# Amendments to ITA

- *Implementing the Global Minimum Tax (Pillar 2)*
- *Maldives have supported the two-pillar solution at the IF.*
- *Amendments required to implement the Pillar 2 rules.*
  - *Planned to incorporate pillar 2 rules by the end of .... 2025. This will include;*
    - *QDMTT, GloBE rules if Maldives decide to have an IIR or UTPR*
    - *Include STTR income and Administrative mechanism to file STTR returns and annual payments.*
  - *Update Maldives Model DTA and tax treaty policy to include STTR model provisions.*

# Implementing the Pillar 2

- *Observations in context of Maldives;*
  - *SEZ Act exemptions and Section 12-1 (Presidential Exemptions) of the ITA.*
  - *ETR in the Maldives would be lower than 15%.*
    - *Potential additional revenue by implementing the QDMTT.*
  - *STTR of 9% would be an advantage and may rise revenue.*
    - *Rate applicable to all the payments in UAE treaty is less than 9%*
    - *Bangladesh treaty and other treaties in negotiation does not have any rates below 9%*

# Implementing the Pillar 2

- *Policy Decisions*
  - *Options to adopt in implementing pillar 2*
  - *Timing of Implementation*
  - *Legislative drafting decisions on:*
    - *Include basic provisions in law and give reference to model rules*
    - *Include model rules in the law*
    - *Ambulatory approach or static approach*

# *Implementing the Pillar 2*

- *Assistance in Implementation*
  - *Maldives will receive assistance from OECD in bringing required legislative changes*
  - *SCTI and UNDP has agreed to co-organize a workshop for Maldives to assist in implementation*

# Implementing the Pillar 2

- **Challenges:**
  - *Lack of technical expertise in the areas*
  - *General election year, so might be sometime before introduction*
- **Advantages:**
  - *Small size of the taxpayer population.*
  - *Simpler drafting for the law and reliance of the model rules.*





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*Thank you*