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OVERVIEW OF
**COMPLIANCE
IMPROVEMENT
PLAN 2023-2024**



MALDIVES
INLAND REVENUE
AUTHORITY

OVERVIEW OF COMPLIANCE IMPROVEMENT PLAN 2023-2024

As the tax administrator, we strive to empower taxpayers and foster trust in the tax system through effective and efficient administration of tax laws. Promoting voluntary compliance by making it easy for taxpayers to fulfill their tax obligations and deterring non-compliance through regulated actions is the utmost priority of MIRA.

Transparency and openness are core pillars we embody in reaching our objectives. Hence, the purpose of publishing compliance improvement activities is to keep the taxpayers informed of MIRA's initiatives and to improve taxpayers' commitment towards fulfilling tax obligations, ultimately enhancing voluntary compliance.

The compliance improvement activities planned for the years 2023-2024 include:

GENERAL COMPLIANCE INTERVENTIONS

General compliance interventions involve the continuous efforts made by MIRA in optimizing tax compliance. We plan to educate taxpayers and the public about regulatory changes, including the recent GST rate change, facilitate taxpayers operating across the country through visits, conduct training sessions for specific audiences, simplify tax return filing, communicate with taxpayers about meeting their tax obligations on time, and carry out other usual activities. These activities will be carried out with a specific focus on assisting small taxpayers. At the same time, we will promptly detect non-compliers and take appropriate measures to encourage compliance.

SPECIFIC COMPLIANCE INTERVENTIONS

The specific compliance interventions of this compliance improvement plan are targeted at treating risks identified from registration, filing, payment, and accurate reporting. Emphasis will be given on non-compliance identified from specific tax types, taxpayer sizes, and regions.

Maintaining an accurate and up-to-date taxpayer registry

The taxpayer registry comprises a huge number of small and micro taxpayers who are not responsible for large tax revenue but has several unfulfilled tax obligations, thus, compromising the overall compliance of the tax population. To safeguard the taxpayer registry and keep it up to date, a proactive deregistration campaign will be launched. Eliminating inactive taxpayers from the registry by providing options such as fine relief and other leniencies, will be the main target of this campaign.

Broadening the tax base through targeted registration programs aimed at taxpayers providing domestic transport services, online businesses, and expatriates conducting business in the Maldives, will be carried out. Additionally, for other sectors, continuous efforts will be put into detecting businesses that actively operate without registering at MIRA.



Improving on-time filing rate

A relatively low on-time filing rate is reported from the wholesale and retail trade, construction and transportation industry. A series of compliance treatments are planned to improve the filing rates. Treatments will range from proactive reminders to reactive actions such as, periodic monitoring of high-risk non-filers based on information available from internal and external sources, attempts to change the behavior of non-filers and late filers through visits, calls, and other means; and carrying out fast-track audits of high-risk non-filers to recover unreported taxes.

Increasing the on-time payment rate

Timely fulfillment of payment obligations is lower than expected and is considered a major challenge for the tax administration. While 22% of large taxpayers have failed to pay on time, mostly from Income Tax, micro, small, and medium taxpayers are not paying their GST promptly. All taxpayers are urged to meet their payment obligations and remain compliant.

Proactive reminders will be provided for late and non-payers, and additional measures will be taken to protect revenue collection by strengthening our enforcement actions. These measures vary from periodic monitoring of taxpayers in default, one-on-one meetings with major taxpayers, publicizing non-compliers, freezing of bank accounts, pursuing civil litigation, initiating tax recovery from third-party sources and taking action through other government agencies. Furthermore, legislative changes will also be proposed to revise the current non-compliance penalty regime.

Accurate reporting of tax declaration

Accurate reporting is the core of compliance risk management. Interventions through this compliance improvement plan are aimed at addressing inaccurate reporting of tax liabilities identified from specific taxpayer groups and providing differentiated solutions to reduce risks associated.

1. Tourist resorts and guesthouses

Majority of the state tax revenue is derived from tourism-related indirect taxes, particularly the TGST from tourist resorts. However, the income tax contribution from tourist resorts does not reflect the industry's growth. This is mainly due to high operating expenses, highly valued non-current assets, as well as, activities of Multinational Enterprises (MNEs) such as shifting profit to offshore companies in low-tax jurisdictions, and applying other schemes to minimize their tax payable.

Moreover, improper record keeping and underreporting of revenue are some risks observed in tourist guesthouses. To address these risks, consultations with stakeholders will be held to create industry-specific guidelines. Furthermore, a high degree of attention will be given to identifying avoidance schemes as well as auditing high-risk taxpayers.



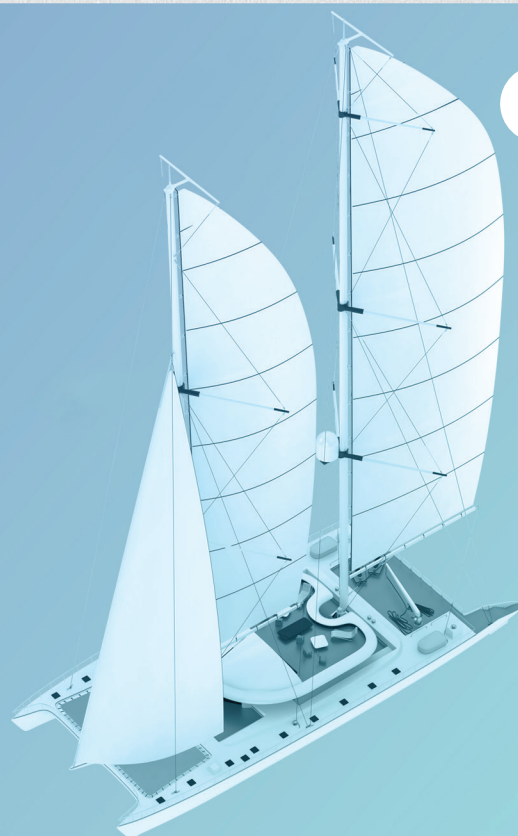
2. Tourist vessels

Common risks identified among tourist vessels include under-reporting of operating revenue by vessel operators who rent out to third parties and omission of extras sales. To mitigate these risks, specific activities such as conducting focus group information sessions, inspection visits, understanding their business models in liaison with relevant stakeholders, and assessing undisclosed revenue through audits of high-risk taxpayers will be carried out.

3. Construction

Fragmentation of turnkey projects to avoid declaring full project revenue and under-declaration of NWT on payments made to foreign contractors are common risks identified from infrastructure development projects. Furthermore, real-estate developers entering into complex barter arrangements results in increasing their tax risks. Moreover, the recent boom seen in the construction industry was expected to have a direct impact on sectors such as hardware and furniture businesses. However, similar growth was not observed in the tax declaration of these sectors.

Developing industry-specific guides, educating taxpayers, meeting with industry experts and associations to comprehend the underlying causes of the risks, and conducting audits and investigations of high-risk taxpayers will be carried out to address non-compliance in the construction industry.



4. Wholesale trade

Majority of the businesses operating in the Maldives belong to the wholesale and retail trade. Although being a key player in the economy, the industry contribution is not reflected in the tax declaration, particularly from the wholesalers' segment. Taxpayers will be assisted through means of awareness sessions on record keeping and commonly encountered tax risks. Furthermore, inspections of taxpayer records, detection of high-risk taxpayers with the help of third-party information, and audits of these taxpayers will be conducted depending on the risks identified.

5. Food service businesses

Food service business is a booming sector in the Maldives, which has experienced steady growth in recent years. To ensure that this growth is reflected in tax declarations, the focus will be on educating taxpayers about taxes, inspecting records and tax computations, identifying high-risk taxpayers, and performing audits to recover any unreported tax liabilities.



6. International transport and logistics

Classification of standard-rated services as exempt services and not reporting a corresponding tax declaration compared with industry growth by international shipping & airline operators are major risks identified from this sector. To raise awareness of industry-specific tax regulations, information sessions will be held focusing on providers of ancillary services. Additionally, medium to large shipping companies will be audited for income tax purposes to get a better understanding of the industry standards and address the risks observed.

7. Government subsidised industries

Although government spending on healthcare and education has more than doubled in recent years, a corresponding growth is not reflected in the income tax declaration of these industries. Therefore, industry-specific awareness sessions, liaising with regulatory bodies and other stakeholders to reduce tax risks, conducting inspection visits, and audits of high-risk taxpayers will be instigated to improve industry tax practices.

8. Professional service providers

Professional service providers are at risk of not meeting their income tax reporting obligations, especially when they receive income from multiple sources. These professionals include medical officers, educators, lawyers, accountants, and more. To create awareness, workshops and information sessions will be held in collaboration with relevant authorities. Additionally, high-risk individuals will be identified based on data from third-party sources and differentiated actions will be taken based on the level of risks identified.

CONCLUSION

In addition to the target areas specified in this compliance improvement plan, we will continue our efforts in detecting and deterring non-compliance based on information available from government institutions, regulatory bodies, and other relevant stakeholders.

Activities included in this compliance improvement plan will be carried out during the years 2023 and 2024. The content, mix and application of our compliance strategies will evolve and change as new risk areas are detected and taxpayers' behavioral changes are monitored over time.