

MIRA POST



Foreign Tax Credit

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Foreign tax credit

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Under the Income Tax Act (ITA), a person who is a resident of the Maldives is required to pay tax on income derived both from the Maldives and from elsewhere, i.e., on their worldwide income. Hence, income sourced outside the Maldives by residents may be subject to tax in the source country, as well as in the Maldives. This may lead to double taxation, which arises when a taxpayer is subject to tax on the same income in more than one jurisdiction.

Several policies are implemented by tax authorities to relieve taxpayers of such double tax burden, which includes bilateral and multilateral double taxation agreements between jurisdictions, and foreign tax credit given to taxpayers who pay taxes in source jurisdictions.

How is foreign tax credit calculated?

Pursuant to section 72 of the Income Tax Act (ITA), where any person resident in the Maldives has paid tax in a foreign country or territory on any part of the person's income which arises from a source outside Maldives and which is also chargeable to tax under ITA in any accounting period, taxpayers are entitled to a deduction of an amount equal to the lesser of the following, from the amount of tax (i.e. tax liability) imposed under the ITA.

- (1) the amount of foreign tax paid;
- (2) tax payable in the Maldives from the net amount of foreign sourced income.

Rules on determining "Foreign tax paid"

1. Foreign tax paid means tax imposed by

the laws of a foreign country or territory which is of a similar character to income tax imposed under the Maldivian ITA.

2. The proportion of foreign tax paid by a control Controlled Foreign Entities (CFE) which is attributable to a person resident in the Maldives who controls such entity, will be deemed as foreign tax paid. In this case the amount of foreign tax paid shall be computed using the following formula:

$$(A / B) \times C$$

Where,

A = Resident shareholder's interest

B = Total of all shareholder's interests

C = Total foreign tax paid by the CFE

Rules on determining "net amount of foreign sourced income"

1. When calculating the net amount of foreign sourced income, taxpayers can make any deductions allowed under the ITA that relates exclusively to the derivation of that income, from the total amount of income derived outside the Maldives in respect of which foreign tax has been paid.

2. For the purpose of determining tax credit to persons who control CFEs, the amount of net foreign sourced income shall be computed using the following formula:

$$(A / B) \times C$$

Where,

A = Resident shareholder's interest

B = Total of all shareholder's interests

C = Taxable Income

Rules on determining “tax payable in the Maldives”

Tax payable in the Maldives from the net amount of foreign sourced income must be calculated using the following formula:

$$(A / B) \times C$$

Where,

A = Net amount foreign sourced income

B = Total taxable income computed as per the ITA

C = Tax payable under the Act (before the deduction of foreign tax credit allowed)

Example: Foreign Tax Credit calculation

Scenario:

A Maldives resident company has foreign sourced income of MVR 500,000 from Singapore and incurs MVR 50,000 in expenses related to that income which are deductible under Income Tax rules of the Maldives.

The company has paid MVR 76,500 in foreign income tax to Singapore’s tax administration. The total taxable income (including the foreign sourced income) is MVR 1,500,000.

Analysis:

Step 1: Determine the amount of foreign tax paid

The tax paid in Singapore represents Singapore income tax, which is of a similar nature to Maldives income tax.

Foreign tax paid = MVR 76,500

Step 2: Determine tax payable in the Maldives from the net amount of foreign sourced income
Maldives tax on net foreign income =

$$A/B \times C$$

$$450,000/1,500,000 \times 150,000 =$$

$$\text{MVR } 45,000$$

A - Net amount foreign sourced income

Foreign sourced income = MVR 500,000

Less: Related expenses deductible under ITA
= MVR 50,000

Net amount foreign sourced income = MVR 450,000

B - Total Taxable Income = MVR 1,500,000

C - Tax payable (before tax credit) = (1,500,000 - 500,000) × 15% =

MVR 150,000

Step 3: Determine allowable foreign tax credit

Lesser of:

Foreign tax paid = 76,500

Maldives tax on net foreign income = 45,000

So, Foreign tax credit = 45,000

Other key points

- Tax credit shall be applied separately with respect to each type of income and each country or territory from which each type of income was derived
- No amount is deductible as tax credit if the amount of foreign tax paid or the amount of tax payable in the Maldives from the net amount of foreign sourced income is equal to or less than zero.
- The tax credit allowed for an accounting period must be deducted no later than two years after the end of that period. Furthermore, if the amount of any foreign tax credit is later found to be excessive or insufficient due to an adjustment in the tax payable either in the Maldives or in another jurisdiction, the taxpayer or the Commissioner General may amend the credit within two years from the date the adjustment was made.



Tax Professionals Gathers for a Landmark Forum - Maldives Tax Forum 2025

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On 15 November 2025, the Maldives held its first national tax forum, bringing together tax professionals, policymakers, and experts to discuss the country's evolving tax system. The event was jointly organized by the Institute of Chartered Accountants of the Maldives and the Maldives Inland Revenue Authority under the theme "Shaping a Smarter Tax Future Together."

The forum focused on how international tax practices can be effectively applied within the local context. Key discussions included the use of digital tools to improve compliance, the complexities of transfer pricing, and the implications of global tax reforms. Sessions also covered topics such as the taxation of the digital economy, destination-based principle, and challenges in non-resident tax compliance.

Five panel discussions explored critical issues:



Panel 1: Challenges in tax compliance for non-residents

Addressed regulatory and practical hurdles faced by non-resident taxpayers, particularly in tourism and construction. Panelists stressed the importance of understanding Permanent Establishment (PE) rules, accurate record-keeping, and timely registration to build trust with tax authorities.

Panel 2: Transfer pricing in the Maldives context

Discussed the complexity of transfer pricing and noted that preparing Master and Local Files requires specialized expertise, which remains limited in the Maldives. Panelists highlighted that advisors, lawyers, and accountants, who are often the first point of contact for foreign investors, need to ensure that the MNEs incorporate transfer pricing obligations and the arm's length principle into initial tax planning rather than applying these requirements retrospectively.



Panel 3: Destination based taxation

Emphasized transitioning to a destination-based GST system aligned with global VAT/GST norms to reduce revenue leakage, especially in tourism and digital services. This shift requires a modern framework for taxing non-resident suppliers, including simplified registration, digital filing, and robust compliance systems.

Panel 4: Inside Pillar 1 and 2: Key development and updates

Examined OECD's global tax reforms and their implications for the Maldives. Panelists underscored the strategic importance of introducing a Qualified Domestic Minimum Top-up Tax, to ensure top-up taxes on low-taxed profits remain in the Maldives even without full GloBE implementation.





Panel 5: Proactive compliance tools and digital transformation

Focused on modernizing tax administration through proactive compliance strategies and digital innovation. The concept of Tax Administration 3.0 was introduced, and MIRA's digital roadmap was presented, with e-invoicing identified as a key initiative.

This forum also reflected the spirit of MIRA's ongoing "Gulhigen MIRA" campaign, which aims to position the authority as a more facilitative and service-oriented institution. By creating space for open dialogue between MIRA and key stakeholders, the event demonstrated a collaborative approach to shaping the future of the Maldivian tax system. MIRA intends to organize more forums in the future to encourage dialogue and shared learning among stakeholders.



Solidarity Levies: How the Baku-to-Belém Roadmap Could Benefit the Maldives

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Did you know?



1 hour Flying in a private jet for a single hour can release more CO₂ than the average person produces in a year

The Baku-to-Belém Roadmap, launched under COP29 and COP30 presidencies, sets an ambitious target: mobilizing USD 1.3 trillion annually by 2035 to finance climate action in developing countries. It focuses on innovative financing that won't burden vulnerable nations. One key solution gaining attention is solidarity levies.

What are Solidarity Levies?

Solidarity levies are small, progressive charges on high-emission or luxury activities such as premium air travel, private jets, maritime shipping, fossil fuel extraction, financial transactions, and even cryptocurrencies, with revenues earmarked for climate finance. These funds are designed to be fair and debt-free, ensuring that those most capable of paying

contribute to global climate resilience. This approach reflects the widely recognized Polluter Pays Principle, which holds that those who generate more emissions and have greater financial capacity should bear a larger share of the costs for climate action. New Report: The Untapped Potential of Solidarity Levies

Building on the Baku-to-Belém Roadmap, the Global Solidarity Levies Task Force (GSLTF) released its [latest report](#), The Untapped Potential of Solidarity Levies: Recommendations for the future of climate and development finance. The report calls for a levy on premium flyers, focused on high-emission, luxury travel segments.

Importantly, the Maldives is mentioned in the report as an example of existing levy practices. The report notes that the Maldives' current departure tax rates for foreign nationals, \$50 for economy, \$120 for business, and \$240 for

first class, are generally higher than the model rates proposed in the report:

Short / medium / long haul economy: €10 / 20 / 30 (equivalent to \$12 / \$24 / \$36)

Short / medium / long haul premium: €20 / 70 / 120 (equivalent to \$24 / \$84 / \$144)

[The Levies on Premium Flyers Legal Handbook](#)

emphasizes that the model rates align closely with the UK's Air Passenger Duty, France's Solidarity Tax, and the Maldives' passenger taxes (Departure Tax and Airport Development Fee) as leading options that are politically durable and administratively feasible approaches to taxing premium air travel. This alignment underscores a significant milestone for the Maldives, positioning it as a global benchmark for designing aviation levies.

COP30: A Turning Point

On 15 November 2025, the GSLTF held its High-Level Event on Solidarity Levies in Belém, Brazil. The event highlighted the deepening commitment to the Premium Flyers Solidarity Coalition, initially introduced in June at the 4th International Conference on Financing for Development under the Sevilla Action Platform.

The Coalition is an innovative climate finance initiative designed to mobilize



Photo credit: BBC

resources by introducing levies on premium air travel and private jets. This approach targets those with the greatest capacity to pay and the highest carbon footprints, ensuring they contribute fairly to global efforts on adaptation, resilience, and loss and damage. By complementing existing commitments under the 2015 Paris Agreement and the Baku-to-Belém Roadmap, the coalition offers a practical, equity-driven solution to address climate finance gaps.

The proposed solidarity levies are designed not only to generate substantial climate finance but also to ensure equitable allocation of funds. Under the GSLTF framework, high-income countries (excluding Small Island Developing States) are to channel a share of revenues from these levies to support vulnerable nations, while upper middle-income countries could contribute on a voluntary basis.

As of this article, the Coalition includes France, Kenya, Benin, Djibouti, Nigeria, Sierra Leone, Somalia, South Sudan, and Spain

Why It Matters for the Maldives

The Maldives faces existential threats from rising seas and climate shocks. Tourism, the backbone of its economy, depends on fragile ecosystems that are increasingly at risk.

Solidarity levies offer a practical way to mobilize climate finance without adding debt burdens. In this context, the Premium Flyers Solidarity Coalition provides an avenue for the Maldives to access additional resources for resilience projects such as coastal protection and renewable energy.

Did you know?



Aviation levies are tried and tested. At least 52 countries have an aviation tax



GOODS AND SERVICES TAX (GST)

Registration

Persons required to register for GST are;

1. Persons providing tourism goods and services
 2. Persons importing goods to the Maldives
(Excluding persons who import goods for personal use and government authorities who import goods to the Maldives)
 3. Persons whose total value of taxable supplies for past 12 months exceed MVR 1,000,000
 4. Persons whose taxable supplies for the following twelve months is expected to exceed MVR 1,000,000
- A person carrying on business or providing service under a permit, who is not required to be registered with the MIRA, has discretion to voluntarily request the Commissioner General to register the person with MIRA.
 - You can register for GST by submitting MIRA 105 (GST Registration) form.

