

MIRA POST



Income Tax: Auditing Financial Statements

Volume: 14
Number: 2
February 2025

Income Tax: Auditing financial statements

Mariyam Waheed, Senior Tax Officer, Tax Academy



The process of filing an income tax return is often more complex compared to other forms of taxation. As such, it is essential to prepare well in advance to ensure the timely and accurate submission of the required documentation along with the income tax return. Some taxpayers who earn business income are required to submit financial statements and an auditor's report along with their return. The preparation of these financial documents, the appointment of a licensed auditor, and the receipt of the audit report can be time-consuming. Therefore, proactive planning and early engagements with a licensed auditor are crucial to avoid any delays in the submission of the income tax return.

Taxpayers whose total income derived during an accounting period exceeds MVR 10 million, it is mandatory to submit an auditor's report alongside the income tax return. The financial statements must be audited by an independent auditor approved by MIRA. The appointed auditor must hold a valid license issued by the Institute of Chartered Accountants of the Maldives (ICAM) at the time of filing the income tax return. A list of approved auditors

is published on the MIRA's official website. Taxpayers should ensure that they appoint an eligible and licensed auditor from this list to meet the compliance requirements for the accounting period.

Given the limited number of auditors, to ensure the timely filing of your income tax return and avoid penalties, it is imperative to appoint a qualified and licensed auditor well in advance of the deadline. Taxpayers can prepare for audit engagements by preparing all the documents, making sure systems and records are up to date and responding, expeditiously, to any queries or requests made by the auditor.

The auditor's report must be duly signed by the appointed auditor and submitted as an integral part of the income tax return. If a taxpayer is obligated to submit an auditor's report, the income tax return will not be accepted without this report. As such, ensuring the timely completion and submission of income tax return, financial statements and the auditor's report is critical to avoid non-filing penalty. If you fail to submit income tax return by the deadline, a fine of MVR 50 per day of delay will be imposed along with a fine of 0.5% of any tax payable.

Taxpayers must ensure that their income tax return for the year 2024 is filed and tax is paid before the deadline of **30 June 2025**. If you are required to audit your financial statements, call an approved auditor now.

You can find the list of MIRA approved auditors from the below link.

https://www.mira.gov.mv/Pages/View/list_of_approved_auditors

GST Agency Rule: 'Supplies made via retail shops'

Aishath Inaan Hathim, Senior Tax Officer, Tax Academy

In recent years, there has been an increase in the number of individuals in the Maldives generating income by supplying their products to the public through retail establishments. This encompasses the sale of homemade food products such as short-eats, sandwiches, desserts etc. sold via retail shops, to handcrafted arts and crafts. The retail shops handle the display and sale of these products on behalf of the producer or supplier, with the shops receiving a commission as compensation for the sale and promotion of their goods.

For the purpose of Goods and Serviced Tax (GST), retail shops in such transactions are recognized as agents while the producers or suppliers supplying through these shops are identified as principals. The GST agency rules detailed in GST rulings TR-2012/G8 and TR-2015/G28 provide the necessary guidelines to ensure that the correct amount of GST is accounted for in transactions involving agents and principals. This article aims to provide clarification on the GST treatment of agency relationships, focusing on its implication for supplies made via retail shops.

The GST Agency Rule: Who are Agents and Principals

GST Ruling TR-2012/G8 defines an agent as “person who acts for or represents another person (the principal) by supplying the principal’s goods or services to a third party OR by obtaining goods or services for the principal from a third party”.

The party being represented by the agent is defined as the principal.

Retail shops often act as agents for individuals and other businesses whereby the latter are recognized as the principal. GST implications of such arrangements depend on several factors, including whether the shop (agent) is a GST registered person, the principal is a GST registered person and the nature of the goods or services supplied.

It is important to note that under the GST agency rule, two distinct supplies are recognized when goods or services are supplied through an agent;

1. the agency service supplied by the retail shop (agent) to the principal.
2. the goods or services supplied to consumers by the producer or supplier (principal).

GST Implications

For the Agent: If agency service is provided by a GST registered agent, the commission received from the principal is subject to GST, at the rate applicable to the good or service being supplied by the agent on behalf of the principal.

If the goods or services supplied are exempt from GST, the commission is also exempt. Similarly, if the goods or services supplied are out of scope of GST, the commission is also out of scope of GST.

For the Principal: When a retail shop (agent) supplies goods or services on behalf of a principal, the supply is treated as if it was made by the principal. This means that the principal, if registered for GST, must issue a tax invoice, and account for the GST applicable to the supply. A GST registered principal can also claim an input tax deduction in respect of the agency services received.

In accounting for GST, it is treated as though there is no supply from the principal to the agent.

Examples - Is the agent and/or principal registered for GST?

Example 1 – A GST registered agent supplying on behalf of a GST registered principal

A producer (supplier) sells their homemade short eats (hedhikaa) through a retail shop for which a commission is paid by the supplier to the retail shop for the agency service (i.e. managing sales of hedhikaa). Here, the principal is the producer of hedhikaa and the agent is the retail shop, who sells hedhikaa on behalf of the producer. In situations where both the supplier and the retail shop are GST registered persons:

GST on the price of goods supplied is to be accounted for as follows:

1. GST must be charged from the customers
2. The supplier shall issue a tax invoice to the customer
3. GST payable on the good supplied shall be paid to MIRA by the supplier
4. A GST registered customer purchasing the good can claim input tax deduction

GST on the commission for agency service is to be accounted for as follows:

1. The retail shop must charged GST on the commission for the agency service

provided

2. The retail shop shall issue a tax invoice to the principal
3. GST payable on the commission shall be paid to MIRA by the retail shop
4. The supplier can claim input tax deduction for the GST charged by the retail shop

Under the GST Ruling TR-2012/G8, an alternative approach to issuing tax invoices and accounting for GST can be used if both the agent and the principal are registered for GST:

1. The retail shop acting as an agent can issue a tax invoice and account for GST as though the retail shop made the supply to the customer
2. Subsequently, supplier (principal) shall issue a tax invoice to the retail shop and account for GST as though the principal made the supply to the agent
3. The retail shop can claim an input tax deduction for the GST charged by the supplier.
4. A GST registered supplier can claim input tax deduction for the GST charged by the retail shop

Hence, the resulting tax payable of both parties will be the same as with the initial approach:

- The retail shop's GST payable to MIRA will be tax paid on commission only
- GST payable on the price of the good supplied will be paid to MIRA by the principal

Additionally, while following this approach, the retail shop is required to maintain sufficient and proper records to identify the principal's name, address and taxpayer identification number.

Example 2 – A non-registered agent supplying

on behalf of a GST registered principal

In situations where the supplier (principal) is a GST registered person, but the retail shop (agent) supplying the good on its behalf is not registered for GST:

GST on the price of good supplied is to be accounted for as follows:

1. Customers must be charged GST by the supplier on the price of the good, at the applicable rate
2. The supplier shall issue a tax invoice to the customer
3. GST payable on the good supplied shall be paid to MIRA by the supplier
4. A GST registered customer purchasing the good can claim input tax deduction

As the retail shop is not registered, GST must not be charged on the commission of agency service. Hence, there will be no input tax deductions to the supplier from the transaction. Subsequently, the retail shop is not required to issue tax invoices or pay GST to MIRA.

Example 3 – A GST registered agent supplying on behalf of a principal not registered for GST

In situations where the supplier (principal) is a not registered for GST, but the retail shop (agent) supplying the good on its behalf is a

GST registered person:

As the supplier is not registered, customers must not be charged GST on the price of the product supplied. Hence, there will be no input tax deductions to a GST registered customer from the transaction. Subsequently, the supplier is not required to issue tax invoices or pay GST to MIRA.

GST on the commission for agency service is to be accounted for as follows:

1. The supplier must be charged GST by the retail shops, on the commission for the agency service provided
2. The retail shop shall issue a tax invoice to the principal
3. GST payable on the commission shall be paid to MIRA by the retail shop

To summarize, understanding and adhering to the GST agency rule is essential for both the retail shops operating as agents and to those supplying their products through such agents. Following the guidelines set forth in Tax Ruling TR-2012/G8 and TR-2015/G28 helps both parties to ensure compliance with GST regulations and avoid potential penalties. Detailed information can be found in the official documents TR-2012/G8 and TR-2015/G28 available on the MIRA website.



GST on goods and services supplied free of charge

Mariyam Adam, Manager, Contact centre

In the realm of business operations, the provision of goods and services provided free of charge is a common practice, often used to promote business, enhance customer satisfaction or as charitable donations. Complimentary goods and services are goods and services provided to customers without charge, i.e. goods and services supplied free of charge. While consumers are not required to pay taxes on these complimentary goods and services, businesses must comply with the tax obligations as stipulated by the GST Act and GST Regulations. This includes bearing the applicable GST by the business or charging the GST amount from the customer. Here are essential rules regarding the GST treatment of goods and services free of charge.

Specific Conditions for GST Exemption

Generally, GST must be accounted for when goods and services are supplied free of charge and GST must be computed based on the open market value of the goods and services. However, GST Regulation provides circumstances where the business is not required to account for GST on goods and services that are provided free of charge. These include goods and services supplied:

1. Directly in connection with the promotion of the business of the supplier

As per GST Regulation, GST is not applicable when goods or services are provided free of charge if the recipient is actively involved in

promoting businesses or similar activities, is an employee of a business engaged in promotion, is a publisher or part of a business that disseminates publications to promote businesses, or is an employee or an independent contractor working with the publisher to promote the supplier's business. In these cases, the goods and services are provided directly in connection with the promotion of the supplier's business, and thus, GST is not applicable at the time of supply.

2. Directly for the purpose of carrying on the business of the supplier

If goods or services are provided by the supplier to the recipient for the purpose of carrying on the supplier's business, GST does not need to be accounted for. This means that the recipient's activities must be wholly devoted to directorship, managerial, operational, financial, or administrative functions in relation to the undertaking carried out by the supplier of the goods and services.

Whether goods and services are provided directly to promote the business or directly for the purpose of carrying on the supplier's business, GST treatment will differ if the goods and services are used for both business and private purposes. Even though it is a single supply, the value of the goods and services provided free of charge must be reasonably apportioned between

business and private use. This ensures that the appropriate GST is accounted for based on the actual use of the goods and services.

168 Hour Rule

If the recipient of the supplier is an employee, a person related to the employee, a director, a person related to the director, or a person related to the supplier of goods and services, goods and services supplied for a period not exceeding 168 hours (approximately 7 days) is considered free of charge. GST must not be accounted for such goods and services during this period.

However, the 168-hour exemption applies only while the individual is actively involved in conducting business or spends a reasonable amount of time in a day directly conducting the business of the supplier. It is crucial to maintain accurate records of the activities undertaken by the recipient each day, including the times these activities were conducted.

Please note that this rule does not apply to employees working at a tourist resort or integrated tourist resort who continuously conduct employment activities at the establishment.

3. Charitable donations to an institution which is financed wholly or primarily through the State budget

Charitable donations, including both cash and in-kind contributions, are common practices in many businesses. When a

GST-registered supplier provides goods or services to a state-owned institution, GST is not applicable on those goods and services. It is important to note that cash donations are not subject to GST under the GST Act.

Collective Supply

If goods and services are provided to the recipients specified in Section 54(a) of the GST Regulation, and to persons related to these recipients, it is considered a collective supply. In such cases, the following formula must be used to calculate the value of GST included in the price of goods and services provided free of charge.

$$A/B \times C$$

A = Number of recipient(s) to whom GST relief applies

B = Total number of persons who collectively received the good or service free of charge

C = Open market value of the goods and service supplied free of charge

Record keeping

Every registered person, for the purpose of accounting for tax, should maintain records for 5 years from the end of the taxable period to which they relate. It is important to maintain proper and accurate details of goods and services supplied free of charge or on a complimentary basis. Additionally, receipts and related documents required under Section 92 of the GST Regulation should be maintained in a manner that allows the date and mode of receipt of payment for goods or services supplied by the registered person to be readily ascertained.



Did you know?

In 1705, Peter the Great, the Russian Emperor, imposed a beard tax as part of his efforts to modernize Russia and align it more closely with Western Europe. At the time, facial hair was seen as a symbol of old-fashioned Russian traditions, and Peter, who admired Western European customs, preferred the clean-shaven look that had become fashionable in countries like France and England. To encourage

this change, he introduced a tax on beards, requiring men who wished to keep their facial hair to pay a fee. This bold move was one of many reforms Peter implemented to bring Russia into the modern world, though it was met with resistance from many Russians who saw it as an attack on their cultural identity. The beard tax remained in effect until 1772, during the reign of Catherine the Great.



The current nisab of zakat al-mal is:

MVR 8,800.05