

Volume 10
Number 6
September 2021



MIRAPOST



2021

First interim deadline
for 2021:
30 September 2021

First Interim filing and payment deadline for 2021 is 30 September 2021

Ahmed Shaheen, Principal Tax Officer, Tax Academy

The image shows a laptop displaying the MIRA 603 Interim Return 2021 Income Tax form. The form is titled "Interim Return 2021 INCOME TAX" and is version 21.3. It is provided by the Maldives Inland Revenue Authority. The form includes fields for TIN (Taxpayer Identification Number) and Taxpayer Name, with "XXXXXXX" and "Mohamed" entered respectively. Below these are radio buttons for Taxpayer Type: Individual (selected), Company / Partnership / Others, Banks, Non-resident shipping or aircraft operator, and Insurer. There is also a field for the number of companies in a group, with "0" entered. The Accounting Period is set from 01/01/2021 to 31/12/2021. The form contains several instructions and questions, such as "This is your:" with options for First or Second interim return, and "What is your presentation currency?" with options for Rufiyaa or United States Dollar. Navigation buttons like "Back", "Check and Calculate", "Save as Draft", and "Submit" are visible at the top.

If your tax payable for the tax year 2020 was an amount more than MVR 20,000, it is mandatory to file an interim return and make interim payment for the tax year 2021. If the accounting period for tax year 2020 was less than 365 days, MVR 20,000 has to be prorated accordingly and check if you are required to file the tax return. If 2021 is your first tax year and estimated tax payable for the year is more than MVR 20,000, you are required to file an interim return. If the accounting period is less than 365 days, MVR 20,000 has to be prorated accordingly. If your income is derived solely from employment and remuneration is received from only one payer, you are not required to make an interim payment.

If you have reasonable grounds to believe your tax

payable for the year 2021 will be less than that of 2020, you may estimate your interim payments in accordance with the regulation. However, if total tax payable for the year 2021 is greater than 20% of estimated interim payments, each interim payment payable for 2021 is deemed to be half of tax payable for 2020 considering you haven't paid interim payments in full by the deadline.

Interim return is MIRA 603 form. If you fail to submit Interim return by the deadline, a fine of MVR 50 per day of delay will be imposed along with a fine of 0.5% of tax payable. If you fail to make interim payment by deadline, a fine of 0.05% of outstanding amount will be imposed per day of delay.

Maldives signs the Convention on Mutual Administrative Assistance in Tax Matters (MAAC)

Khadheeja Nashaya Naeem, Deputy Manager, Marketing

Maldives became party to the Convention on Mutual Administrative Assistance in Tax Matters (MAAC) at a signing ceremony held at OECD Headquarters in Paris. The Agreement was signed on 11 August 2021 by H.E. Mr. Hassan Sobir, the Ambassador of the Republic of Maldives to the Kingdom of Belgium and the Ambassador of the Republic of Maldives to the European Union.

Following the signature of MAAC, two Competent Authority Agreements specifying the modalities for exchanging information has been signed on 12 August 2021 by the Commissioner General of Taxation, Mr. Fathuhulla Jameel. These Agreements are the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (CRS-MCAA) and Multilateral Competent Authority Agreement on the exchange of Country-by-Country Reports (CbC-MCAA).

Maldives joined as a member of Global Forum on Transparency and Exchange of Information on Tax Matters (Global Forum) on February 2016 and since then, Maldives Inland Revenue Authority (MIRA) has been continuously working on the implementation of the international tax standards with the assistance from Global Forum. Global Forum is an international body comprising of over 160 countries and financial centers working together to increase transparency of tax systems to curb tax evasion and avoidance on a global scale.

The Agreement provides an international legal framework for exchanging information and cooperation in tax matters while respecting the fundamental rights of taxpayers. As a member of the Convention, various forms of administrative cooperation such as exchange of information on request (EOIR), automatic exchange of financial information (AEOI), spontaneous exchange of information (SEOI), service of documents and assistance for conducting tax examinations will be provided between the signatories of the convention. These actions aid in combating non-compliance through tax evasion and

avoidance.

As party to the MAAC, under the Common Reporting Standard (CRS), MIRA will have access to financial information of Maldivian tax residents that hold financial accounts (whether in banks or other specified financial institutions such as trusts) in countries participating in this Convention. This includes information of financial accounts of all individuals, and entity accounts with a balance or value more than USD 250,000 which are maintained by Financial Institutions of the participating jurisdictions.

This is particularly important as tax residents of Maldives are taxed on their worldwide income, and having access to financial account information that may be held in 143 other countries further supports MIRA's efforts to prevent tax evasion, and also in identifying those who have under-declared their incomes.

Furthermore, under Country-by-Country Reporting (CbCR) MIRA will also have access to financial information of Multinational Enterprises with consolidated revenue of €750 million that have constituent entities that are resident in Maldives, and operate in jurisdictions of participating countries.

The assistance provided under the Agreement will be reciprocal and hence, Maldives will also be providing pre-agreed information to tax authorities of participating jurisdictions. The information exchanged with foreign jurisdictions will be submitted to MIRA by the financial institutions registered under Common Reporting Standard, and entities that have notified MIRA under the Country-by-Country Reporting regulation.

The first filing deadline for MNE's registered under CRS is before 31 July 2022. Entities required to file Country-by-Country reports in Maldives shall file for Reporting Fiscal Years commencing on or after 1 January 2021, no later than 12 months after the last day of the Reporting Fiscal Year of the MNE Group.

Do I have to register my business for GST?

Ahmed Shaheen, Principal Tax Officer, Tax Academy

Goods and Service Tax (GST) is a tax charged under the Goods and Services Tax Act (Law Number 10/2011), it's a value-added on the price of goods and services supplied in the Maldives, where tax burden falls on the final consumer. The law obliges the GST registrants to collect this tax.

Business registration with MIRA is different from registering for GST. Although it requires persons who operates a business to register with MIRA, GST registration is mandatory upon fulfilling GST registration requirements stated in the Act.

Providers of tourism related goods and services are mandatory to register for GST with MIRA irrespective of their income threshold. Section 15 of GST Act stipulates the details of tourism related goods and services. Tourism sector GST is to be charged at 12%.

Importers of goods and services are also mandatory to register for general sector goods and services irrespective of their income threshold. Even though, above mentioned conditions are not fulfilled, if either, a persons whose total value of goods sold and services supplied during the past 12 months exceeded MVR 1,000,000 or, persons whose total value of sale of goods and supply of services for the following 12 months is estimated to exceed MVR 1,000,000 must register with MIRA for Goods and Service Tax.

Furthermore, it is an offense to collect GST without registering unless the business is registered with MIRA for GST. Once a person is registered for GST, irrespective of income threshold, one must charge GST from all his business transactions. GST collection commencement date will be stated on the GST registration certificate.

What are the allowable deductions from remuneration income?

Ahmed Shaheen, Principal Tax Officer, Tax Academy

Taxation on remuneration was commenced on 1 April 2020. Section 54 of the Income Tax Act mandates the collection mechanism of income tax on remuneration income. The law abides the payer of remuneration to collect Employee Withholding Tax on remuneration payable to their employees.

For purpose of Income Tax Act, remuneration means salary, wages, allowances and benefits derived by an employee or director or partner as consideration for services rendered by the employee or director or partner, and includes any compensation for loss of employment or service, restrictive

covenant payment, and entry or exit inducement payment.

When computing taxable income from remuneration, one can deduct the amount of employee pension contribution. In addition to this, deductions stated under section 32 (b) of the Income Tax Act are allowed. This includes, cost of clothing required for work where that clothing is a special clothing required for work not suitable to be worn outside of work. Moreover, if costs incurred to acquire trainings directly related to employment where such costs are borne by the individual can also deductible.

Countries have reached a historic agreement to revamp international tax framework

Hussain Amir, Deputy Manager, Tax Academy

Countries announced the historic agreement to revamp the international tax framework in a joint statement issued on 1 July 2021. The statement was issued after the online discussion held among the 139 members OECD/G-20 Inclusive Framework. 130 members of the Inclusive Framework agreed on the proposal and to finalize the technical aspects by October 2021 and implement the new framework by 2023. Barbados, Estonia, Hungary, Ireland, Kenya, Nigeria, Peru and Saint Vincent and the Grenadines are the 9 Inclusive Framework members that did not agree on the statement. However, Barbados, Peru and Saint Vincent and the Grenadines later joined Togo in supporting the agreement, taking the number of countries in agreement with proposal to 134 countries. Togo joined the Inclusive Framework as the 140th member country.

What are the proposed changes to the tax framework?

The advancement in technology and the financial industry over the past century has completely changed the way global companies conduct business. However, taxing based on 'physical presence' has never changed since inception in the early 1900s. The 'brick and mortar' basis is not the most apt basis to tax in the 21st century. Today companies could provide goods and service to the consumers without having a physical presence in the country (i.e. market country). Under the current system, though the companies derive value from market countries, those countries are not entitled to tax the company as the company does not have a physical presence in the country. The current work on the international tax framework is to address the deficiency in the system. The countries have reached a two-pronged solution. 'Pillar one' gives a new taxing right to the market country based on a new nexus and 'Pillar two' or the Global Anti-Base Erosion (GLoBE) rules sets a global minimum tax ensuring companies pay the minimum tax.

Pillar 1

Under the pillar one, portion of the residual

profit of the company is allocated to market countries entitled to tax under the new nexus rule. Initially companies earning a global revenue of more than €20 billion and a profitability of 10% would be in the pillar one scope. The carve-outs are the extractives and regulated financial service providers. A new nexus rules creates a broad taxing rights in market countries. The taxing right is based on the income of the company attributable to the country. Countries would be entitled to tax to the extent the company derives a minimum of €1 million in revenue from the country. The threshold is adjusted for small countries; the revenue threshold is €250,000 for countries with a GDP lower than €40 billion. Residual profit is the profit in excess of 10% of the revenue. 20%-30% of this residual profit is allocated to the market countries and shared based on the proportion of the revenue derived by the company from the country.

Pillar 2

There two broad rules ensuring companies pay the minimum tax. Under the Income Inclusion Rule (IIR) if an entity of the group has not paid at least up to the minimum tax, the resident country of the parent jurisdiction would top-up the gap. Undertaxed Payment Rule (UTPR) supplements the IIR, where entities making payments to an entity not taxed under the IIR is denied the deduction. The minimum tax rules will apply for multinational entities with a global revenue of €750 million or more. The minimum tax rate is said to be at least 15%. Agreeing on the minimum tax rate is one of the key issues to be addressed in the coming days.

What next?

With the current agreement, OECD is working on the technical and implementation issues. The countries agreed to resolve these issues by October 2021 and implement the package by 2023. Another important element in the agreement is for countries to revoke Digital Service Tax (DST) implemented in the countries.

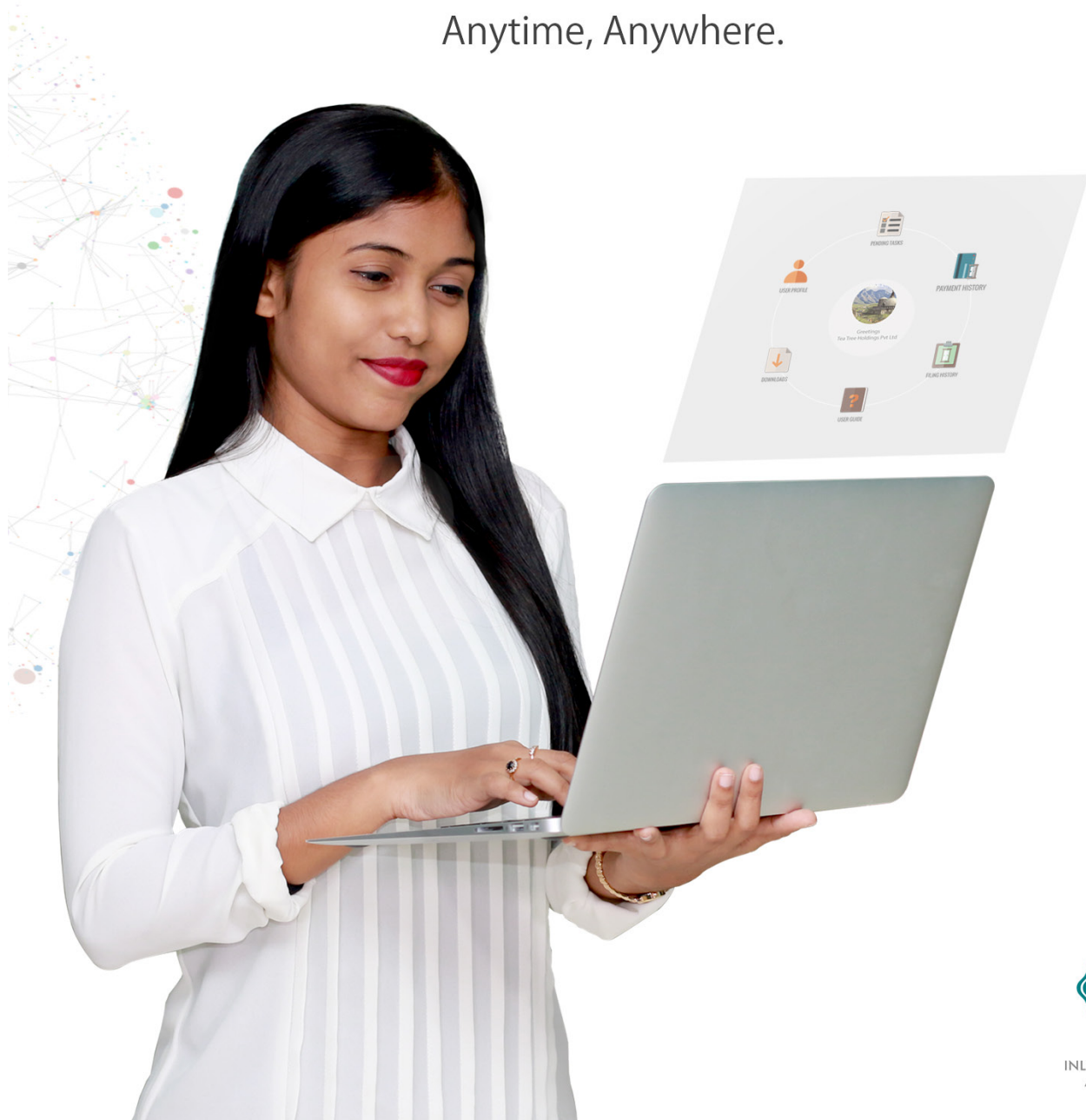
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