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# Taxation of Charitable Organizations

MIRA M827

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Taxpayers can rely on this guide as to the MIRA’s interpretation of the relevant tax laws and regulations. If you do not understand anything in this guide or have queries related to your particular circumstances, call 1415 or send an email to [1415@mira.gov.mv](mailto:1415@mira.gov.mv).

# I. Charitable organizations and Income Tax

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Two major aspects of Income Tax directly affect charitable organizations. They are:

- Whether the charitable organization is subject to Income Tax under the Income Tax Act:
  - This issue is dealt with in section 12(d) of the Act, which states that the income derived by a charitable organization approved by Commissioner General is an exempt income for the purpose of Income Tax. This means that such organizations are exempt from all the obligations specified in the Act.
- Whether donations made to a charitable organization by a taxpayer can be deducted in computing the taxpayer's taxable income under the Income Tax Act:
  - This issue is dealt with in section 21(a) of the Act, which states that a donation made in money by a taxpayer to a state institution or a charitable organization approved by Commissioner General may be deductible in computing the taxpayer's taxable income for the tax year in which the donation is made. This deduction is however subject to the ceiling specified in section 21(b) of the Act.

## 2. What “Charitable Organization” means

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Sections 12(d) of the Income Tax Act refers to charitable organizations and section 21(a) of the Income Tax Act refer to a State institution or a charitable organization approved by Commissioner General.

For the purposes of Income Tax, a charitable organization is defined in the Section 79(b) of the Income Tax Act as any body, association or public institution that satisfies below conditions:

- the body, association or public institution is established for the promotion of Islam, relief of the poor, medical relief or education or any other object of similar general public utility prescribed in the Regulation made pursuant to this Act; and
- the body, association or public institution is not run for the financial benefit of a specific person.

### What “body or association” means?

For the purpose of Section 79(b) of the Act, “body” and “association” means any body or association which is:

- registered with the relevant Government authority under the Associations Act (Law Number 1/2003); or
- established in the Maldives pursuant to an Act of Parliament.

### What “object of similar general public utility” means

For the purpose of Section 79(b) of the Act, “any other object of similar general public utility” means:

- providing humanitarian aid;
- conserving the environment or wildlife;
- enhancing social well-being;
- promoting cultural activities;
- promoting sports and recreational activities;
- developing a profession or an industry; or
- developing a regional or island community

#### Example 1: Body established pursuant to an Act of Parliament

Maldivian Red Crescent is a non-governmental organization established pursuant to the Maldivian Red Crescent Act (Law Number 7/2009). Therefore, the organization will be exempt from Income Tax, and donations made in money by a taxpayer to the Maldivian Red Crescent will be deductible in computing the taxpayer's taxable income.

### 3. Charitable organizations approved by Commissioner General

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It is important to note that sections 12(d) of the Income Tax Act will apply only to charitable organizations approved by the Commissioner General.

However, Section 21 of the Income Tax Act will apply to both Government institution and charitable organization approved by the Commissioner General.

A charitable organization that fulfil the criteria in sections 12(d) and 21(a) of the Income Tax Act must make an application to us as explained below in order for it to be exempt from Income Tax and for donations made in money to that organization to be deductible in computing taxable income of donating taxpayers.

Charitable organizations that are already in the list of charitable organizations approved by MIRA for the purposes of the Business Profit Tax Act (Law number 5/2011), will be deemed as charitable organizations that are approved by the Commissioner General under Income Tax Act.

#### Procedure for approval

A charitable organization that wishes to be approved by Commissioner General for the purposes of sections 12(d) and 21(a) of the Income Tax Act is required to submit a completed MIRA 103 (Registration of Charitable Organizations) form to MIRA together with all necessary supporting documents.

We will communicate our decision regarding the application to the applicant in writing. If the organization is granted approval, our letter will specify the date on which the organization was approved.

The list of charitable organizations approved by the Commissioner General will be published on MIRA's website.

#### Find out more

An up-to-date list of charitable organizations approved by Commissioner General is available at <https://cutt.ly/w3yeYPw>.

## “MIRA-approved” logo

Charitable organizations which are approved by Commissioner General may use the logo designated by MIRA in their marketing materials, letterheads, emails, websites, and other such materials. The logo indicates that the organization is approved by Commissioner General, which would help the organization to attract donations from businesses. Charitable organizations which are approved by Commissioner General may request for a soft copy of the logo from MIRA.

Organizations which are not approved by Commissioner General are not allowed to use this logo.



## Obligations of approved charitable organizations

Charitable organizations which are approved by Commissioner General pursuant to a MIRA 103 application must submit an annual report and a statement of donations to MIRA in relation to every calendar year, by 30 June of the following year, in a format prescribed by MIRA. The format is available at <https://cutt.ly/N9bzryM>.

If a charitable organization which is approved by Commissioner General pursuant to a MIRA 103 application does not submit the documents specified above by 31 July of the following year, it will be removed from the list of charitable organizations approved by Commissioner General. If such an organization wishes to be reapproved by Commissioner General, it must submit a new MIRA 103 application.

## 4. Exemption from Income Tax

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A charitable organization which carries on business activities in the Maldives but is not approved by Commissioner General will be required to fulfil the requirements in the Income Tax Act just like any other taxpayer.

The exemption in section 12(d) of the Income Tax Act applies only if the organization was approved by Commissioner General on or before the date on which it would have had to file its Income Tax return if the exemption was not granted.

### Example 3: Non-exempt charitable organizations

Boxing Association of Maldives registered with the Ministry of Youth, Sports and Community Empowerment in February 2020. It applied for Commissioner General approval on 14 June 2021 and got the approval on 21 June 2021.

Since the association was granted approval before 30 June 2021 (which is the due date for filing its Income Tax return for the tax year 2020 if the exemption was not granted), it will be exempt from income tax for the tax year 2020.

A charitable organization which is exempt from Income Tax under section 12(d) of the Income Tax Act will not be required to pay withholding tax on any payment it makes to a non-resident.

## 5. Deductibility of donations made to charitable organization approved by Commissioner General

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In computing a taxpayer's taxable income under the Income Tax Act, the taxpayer may deduct donations it made in money during the year to state institutions and charitable organizations approved Commissioner General. However, the taxpayer is allowed to deduct the donation only if the charitable organization was on the list of approved charitable organizations on the date on which the donation was made.

### Example 4: Deductibility of donations

Hiyaa Pvt. Ltd. donated MVR 40,000 to Faridhoo Development Society on 10 August 2021. Faridhoo Development Society was approved by Commissioner General in January 2020, but removed from the list of on 1 August 2021 because it failed to submit its 2020 annual report and statement of donations.

Since Faridhoo Development Society was not on the list of charitable organizations approved by Commissioner General on the date on which the donation was made, Hiyaa Pvt. Ltd. will not be allowed to deduct the donation in computing its taxable income.

### Example 5: Deductibility of donations

On 27 February 2023, Tech Maldives Pvt. Ltd. donated 10 computer systems to Care for Children, a charitable organization which was approved by Commissioner General on 15 November 2021.

The donation from Tech Maldives Pvt. Ltd. to Care for Children was made in-kind. Hence, the value of donation cannot be deducted when computing the taxable income of Tech Maldives Pvt. Ltd., even though Care for Children was listed as a charitable organization approved by Commissioner General on the date of donation,

## 5% cap on deduction

Section 21(b) of the Income Tax Act states that the maximum amount of donations that can be deducted by a taxpayer in computing his taxable income is 5% of his taxable income after deducting all allowable deductions except any deduction in respect of donations and loss relief.

### Example 5: 5% cap on deduction for donations

Hiyaa Pvt. Ltd. donated MVR 100,000 to various approved charitable organizations in 2020. It has a taxable income of MVR 1,654,740 for the year, before claiming deductions for donations and loss relief.

The maximum deduction that Hiyaa Pvt. Ltd. can claim for donations is MVR 82,737 (5% of 1,654,740), even though it donated MVR 100,000.

## Donations in kind

Taxpayers are not allowed to claim deductions for donations made in-kind when computing their taxable income for the accounting period in which the donation was made.

## Requirement to hold evidence of donation

A deduction in respect of a donation will be allowed only if the taxpayer holds a receipt or other document issued by the recipient of the donation to prove that the taxpayer did make the donation as claimed.

## 6. Charitable organizations and Goods and Services Tax (GST)

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Charitable organizations need to be aware of the GST registration requirements and whether or not they are required to charge GST on the goods and services they supply.

### GST registration

A charitable organization that carries on a taxable activity or activities in the Maldives must register for GST, and charge GST on its supplies, if it satisfies any of the following conditions:

- It supplies tourism sector goods and services
- It imports goods into the Maldives
- The total value of its taxable supplies during the past 12 months exceeded MVR 1 million
- The total value of its taxable supplies for the following 12 months is expected to exceed MVR 1 million

### Sale of goods received as donations by a non-profit body or association

If a non-profit body or association registered with the Ministry of Youth, Sports and Community Empowerment sells goods it received as donations or gifts, the sale will be exempt from GST.

#### Example 6: Donated goods sold by non-profit body or association

A businessman donates several computers to a charity registered with the Ministry of Youth, Sports and Community Empowerment. The charity, which is registered for GST, keeps some computers for its own use and sells the remaining computers.

Since the charity is registered with the Ministry of Youth, Sports and Community Empowerment, and because the sold items were received as donations, the sale of the computers will be exempt from GST.

#### Find out more

For more information on what exemption from GST means, refer to our Guide to Exempt Goods and Services (MIRA G823), which is available at <https://cutt.ly/69bQJOy>.

## 7. Relevant laws, regulations and tax rulings

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The following laws, regulations and tax rulings provide the legal basis for the guidelines provided in this guide:

- Income Tax Act (Law Number 25/2019): <https://bit.ly/3Hu3erK>
- Goods and Services Tax Act (Law Number 10/2011): <https://bit.ly/3R4IDON>
- Goods and Services Tax Regulation (Regulation Number 2011/R-43): <https://bit.ly/3WAFM54>



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