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Emerging Standards on Accurate Delineation and Comparability Analysis: Insights from Minor International (Labuan) Ltd v MIRA



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Mutual Agreement Procedure

Overview

Mutual Agreement procedure is an international dispute resolution mechanism provided under the Mutual Agreement Procedure (MAP) article of tax treaties signed by Maldives. If a taxpayer considers that he/she is taxed or will be taxed not in accordance with the provisions of a tax treaty, MAP provides a mechanism for the taxpayers to notify MIRA and lodge such issues.

Applicability for MAP

MIRA will consider the following factors in determining whether the requests lodged under MAP are applicable:

- A tax treaty is in place between Maldives and the foreign jurisdiction which contains the appropriate provision to facilitate MAP
- The issue lodged details the reason taxpayer considers he/she is taxed or will be taxed not in accordance with the provisions of a tax treaty entered under Section 51 or 51-1 of the Tax Administration Act
- The Competent Authority receives a valid MAP request within the time limit specified in the applicable DTA

Access to Mutual Agreement Procedure

A mutual agreement procedure under Section 64-1 of the Tax Administration Regulation may be accessed on the following issues and cases

- Transfer Pricing Issues
- Juridical or economic double taxation issues
- Issues with determination of country of residence
- Issues relating to the attribution of profits to a permanent establishment

Application for MAP

To apply for Mutual Agreement Procedure, “Request for Mutual Agreement Procedure” (MIRA 921) form together with supporting documents shall be submitted to internationaltaxation@mira.gov.mv.

More Information

[Guide on Mutual Agreement Procedure \(MAP\)](#)

Emerging Standards on Accurate Delineation and Comparability Analysis: Insights from Minor International (Labuan) Ltd v MIRA

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Introduction

Transfer pricing disputes in the Maldives increasingly center on whether the arm's length principle has been properly applied. In particular, related-party transactions were often analyzed under provisions that allowed MIRA to disregard or adjust transactions that would not have been entered into between independent parties. The Tax Appeal Tribunal's decision of *Minor International (Labuan) Ltd v MIRA* ([TAT-CA-B/2023/005](#)) is an important authority in this context. It builds on earlier decisions by clarifying when comparability analysis is required and how that requirement depends on the accurate delineation of the transaction.

Legal Framework

BPT Act Section 10(a)

The Business Profit Tax Act establishes a coherent framework governing the treatment of related-party transactions and the deductibility of expenses. Section 10(a) of BPT Act limits deductions to

expenses incurred for the purpose of deriving income, thereby requiring a direct link between the expense and a genuine income generating activity, while section 11(a)(5) specifically permits the deduction of interest, subject to compliance with the broader requirements of the Act. These provisions operate alongside section 29(g), which allows MIRA to disregard or adjust transactions that would not have been entered into between independent parties.

The High Court's ruling in *I & T Management Pvt Ltd v MIRA* (2020/HC-A/131) reinforced this principle by emphasizing that the deductibility of interest cannot be denied without proper analysis of the underlying transaction, indicating that MIRA must substantiate its position with evidence demonstrating that the arrangement lacks commercial substance or would not have been entered into between independent parties.

Accordingly, where a transaction is accurately delineated and reflects a bona

fide loan, interest deductions under section 10(a) should be allowed. Conversely, where the arrangement is properly characterized as equity, the requirement under section 10(a) is not satisfied, and the associated interest may be disallowed. This reasoning aligns with the analytical framework later articulated in *Minor International (Labuan) Ltd v MIRA*, reinforcing the importance of accurate delineation in determining both characterization and deductibility.

Furthermore, in reference to the points noted in the High Court of Maldives case of *I & T Management Pvt Ltd v MIRA* (2020/HC-A/131), it was stated regarding the *Minor International (Labuan) Ltd v MIRA* case that the purpose of the expenditure sought to be deducted must be for one sole purpose. Specifically, it must be an expense incurred for the purpose of generating income; the case specifies that if there is any other purpose or intent behind the expenditure, the condition set forth in Section 10(a) of the Business Profit Tax (BPT) Act will not be met. Therefore, while the mitigation of fines and financial burdens arising from the non-payment of tax may reduce the taxpayer's costs, such an act does not constitute an expenditure incurred for the purpose of earning income as defined under Section 10(a) of the BPT Act.

The Decision in *Minor International v MIRA* ([TAT-CA-B/2023/005](#))

The dispute in *Minor International (Labuan) Ltd v MIRA* arose from a tax assessment following an audit of a related

party arrangement. The central issue before the Tribunal was whether MIRA had properly applied the arm's length principle in making the adjustment.

In its decision, the Tribunal affirmed the importance of examining the substance of a transaction rather than relying solely on its contractual form. The Tribunal accepted that where the evidence demonstrates that an arrangement does not reflect the economic reality of a genuine debt transaction, MIRA may characterize the arrangement according to its true substance for tax purposes.

The decision therefore reinforces MIRA's authority under the BPT Act to scrutinize related-party arrangements and ensure that transactions are taxed in accordance with their actual economic character.

Accurate Delineation as a Threshold Requirement

The decision confirms that accurate delineation is a necessary starting point in any transfer pricing analysis. Before considering whether the terms of a transaction are arm's length, it is first necessary to determine the actual nature of the transaction by reference to its economically relevant characteristics.

The Tribunal recognized that the legal form adopted by parties is not always determinative. Instead, the analysis must consider the substance of the arrangement, including the rights and obligations of the parties, the commercial and financial

circumstances surrounding the transaction, and the actual conduct of the parties.

In this regard, factors such as the absence of security, the financial position of the borrower, the level of gearing, repayment expectations, and other commercially relevant indicators may be considered in assessing whether an arrangement genuinely possesses the characteristics of debt. Where the evidence demonstrates that the purported loan does not reflect economic reality, MIRA is entitled to characterize the arrangement according to its true substance.

The decision therefore highlights accurate delineation as a necessary first step that determines the proper tax treatment of the transaction and the relevance of any subsequent pricing analysis.

Comparability Analysis as an Evidentiary Requirement

The decision provides important clarification regarding the relationship between accurate delineation and comparability analysis. The Tribunal distinguished between cases that involve the pricing of a transaction and those that involve determining the true character of the transaction itself.

Where a transaction is accurately delineated as a loan and the dispute concerns whether the terms of that loan are consistent with arm's length conditions, comparability analysis remains an important tool for assessing whether independent parties

would have entered into a comparable arrangement.

However, the Tribunal clarified that comparability analysis does not arise in the same manner where the primary issue is whether the arrangement should properly be characterized as debt or equity. In such circumstances, the inquiry is directed toward determining the true nature of the transaction rather than identifying an arm's length price. Accordingly, where the evidence establishes that a purported loan is, in substance, an equity contribution, the issue is one of characterization rather than pricing. The Tribunal's decision therefore confirms that a detailed comparability analysis is not a prerequisite in every case and that its necessity depends on the outcome of the accurate delineation exercise.

Regarding Comparability Analysis Report

The decision further indicates that the sufficiency of evidence must be assessed on the basis of the overall analysis conducted by MIRA. Where the audit findings contain a structured assessment of the relevant facts, economically relevant characteristics, and reasons supporting the characterization adopted, the absence of a standalone comparability report will not necessarily undermine the assessment.

The decision therefore establishes a clear analytical sequence. A transaction must first be accurately delineated by reference to its economically relevant characteristics, and that analysis determines the transaction's proper characterization.

Only where the transaction is accurately characterized as a pricing matter does the need for comparability analysis arise. Where the arrangement is found, in substance, to be equity rather than debt, the issue is one of characterization rather than pricing, and comparability analysis is not required.

6. Conclusion

The decision in *Minor International (Labuan) Ltd v MIRA* represents an important development in the Maldives' transfer pricing jurisprudence. The Tribunal reaffirmed that the starting point of any transfer pricing analysis is the accurate delineation of the transaction

based on its economically relevant characteristics.

The decision confirms that where an arrangement is determined, in substance, to be equity rather than debt, the dispute is one of characterization rather than pricing. In such cases, comparability analysis is not a necessary prerequisite to support the adjustment.

More broadly, the case reinforces MIRA's authority to look beyond contractual labels and evaluate the economic substance of related-party arrangements, ensuring that transactions are taxed according to their true character and consistent with the principles underlying the BPT Act.

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<https://www.mira.gov.mv/Pages/View/upcomingsessions>

August 2026 Online Sessions Now Open for Registration on the MIRA Website

GST information session

Date: 20 August 2026

Time: 15:00 – 16:00

Language: English

GRT information session

Date: 27 August 2026

Time: 14:30 – 15:30

Language: English

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