

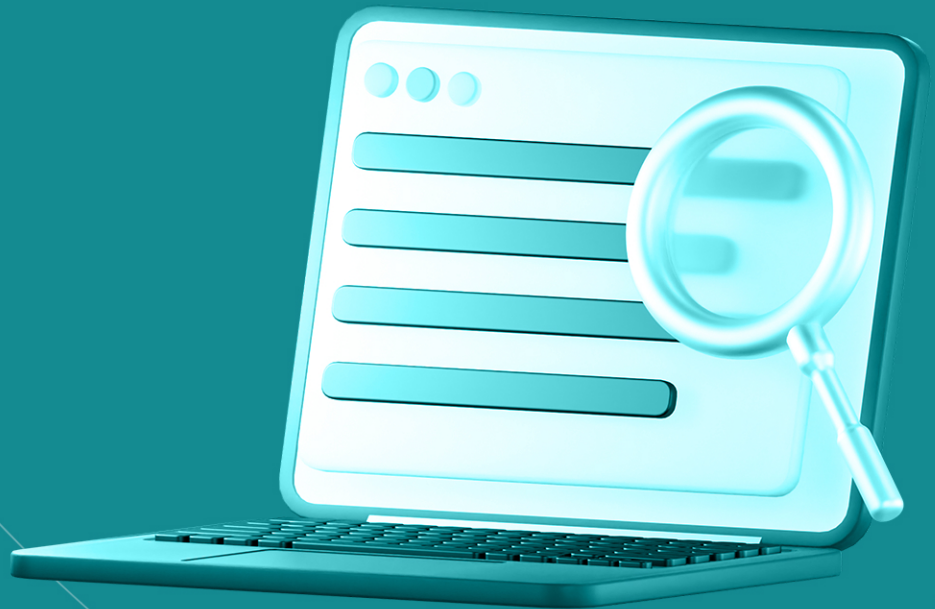
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MALDIVES  
INLAND REVENUE  
AUTHORITY

MIRA M841

# TAX AUDIT FRAMEWORK



[www.mira.gov.mv](http://www.mira.gov.mv)



# Table of Contents

<b>1. Introduction</b>	<b>2</b>
<b>2. Payment of only the correct amount of tax</b>	<b>2</b>
<b>3. What is a tax audit?</b>	<b>2</b>
<b>4. Compliance risk management</b>	<b>2</b>
<b>5. Selection of cases</b>	<b>3</b>
<b>6. Scope of audits</b>	<b>3</b>
6.1 Types of audits	3
6.2 Single issue based Audits	3
6.3 Limited Scope Audits	3
6.4 Non-filer Audits	4
6.5 Extensive Audits	4
<b>7. Audit Team</b>	<b>4</b>
<b>8. How is an audit carried out?</b>	<b>4</b>
8.1 Our Approach	4
8.2 Commencement of the audit	5
8.3 Initial Interview	5
8.4 Visit to your business premises	5
8.5 Documents required for audit	6
8.5.1 Business Records	6
8.5.2 Records Other than Business Records	7
8.5.3 How to provide your documents?	7
8.5.4 Audit Sampling	7
8.5.5 Consequences of not providing documents	7
8.6 During the audit	8
8.7 Finalizing the audit	8
8.8 Audit time frame	9
8.9 Audit Adjustments	9
8.10 Score for Taxpayer Cooperation	9
<b>9. After Audit</b>	<b>9</b>
<b>10. Objections and Appeals</b>	<b>10</b>
<b>11. Rights and Responsibilities</b>	<b>10</b>
11.1 Auditor	10
11.2 Taxpayer	11
11.3 Tax Agent/Representative	11
<b>12. Confidentiality and privacy</b>	<b>12</b>
<b>13. Complaints</b>	<b>12</b>
<b>14. Improving Compliance with Tax Laws</b>	<b>12</b>
<b>15. Obstructing and influencing the audit process</b>	<b>12</b>

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This framework came in to effect on 1 January 2021.

The information in this document is based on laws and regulations prevailing at the time of publication. It is not expected to be a substitute for a detailed research or exercise of professional judgment on taxation matters in the Maldives. If you have further queries, call 1415 or send an email to [1415@mira.gov.mv](mailto:1415@mira.gov.mv).

## 1. Introduction

The Maldives tax system is based on Self-Assessment and voluntary compliance. In this context, the main functions of the MIRA are to:

- (a) provide taxpayer service and education to help taxpayers discharge their tax obligations with ease and with the least complexity and compliance burden;
- (b) manage tax compliance to detect and prevent delinquent behavior.

Under the Self-Assessment System, tax audit is a principal functions of the Maldives Inland Revenue Authority (MIRA). It is aimed at enhancing voluntary compliance with the Taxation Acts. A taxpayer can be selected for an audit at any time. However, it does not necessarily mean that a taxpayer who is selected for an audit has committed a crime.

This framework is issued to ensure that tax audits are carried out in a fair, transparent and impartial manner. It outlines the rights and responsibilities of audit officers, taxpayers and their agents in respect of a tax audit. Generally, this framework aims to:

- (a) Assist taxpayers in fulfilling their obligations; and
- (b) Assist audit officers to carry out their tasks efficiently and effectively.

## 2. Payment of only the correct amount of tax

You are responsible for paying only the correct amount of tax due under the law—no more, no less.

## 3. What is a tax audit?

A tax audit (also referred to as “audit”) is a reactive compliance action. It is an examination of your accounts and documents in order to ensure that you have declared and paid the correct amount of tax. An audit might involve a single tax type (for instance, GST) or multiple tax types (for instance, GST, Income Tax, and Green Tax etc.) and/or multiple periods depending on the particular circumstances of the case under examination.

## 4. Compliance risk management

Risk management is an important element of effective and efficient management of tax compliance, and correspondingly of the tax audit program. MIRA adopts a risk-based approach towards its taxpayer compliance program. It is impossible to control and check every single taxpayer. Tax administrations do not have sufficient resources to perform audits on every taxpayer every year, or to audit every direct or indirect tax returns. However, a well-designed audit plan will provide for enough audits to effectively deter non-compliance at all levels.

A fair, transparent and equitable tax administration system will enhance public confidence in the tax system. Compliance with tax laws must, therefore, be strictly enforced and tax offences such as non-compliance or tax evasion should be penalized in accordance with the law.

The objective of the audit program is to promote voluntary compliance with the taxation acts and regulations. This is achieved by increasing the probability of detection of non-compliant taxpayers for appropriate compliance actions, such as audit or investigation. MIRA uses methods that focus on high-

risk taxpayers to select cases for audits. It should also provide stronger deterrence for non-compliance, as taxpayers become increasingly aware that tax delinquency will be more readily identified under the MIRA's audit strategy.

## 5. Selection of cases

As stated in the preceding paragraphs, cases for audit are generally selected for audit based on risk as part of our compliance risk management program. Risk analysts select cases based on a set risk assessment criterion. Risk profiling may be based on:

- (a) information received from third parties;
- (b) specific industries;
- (c) specific issues for a certain group of taxpayers; and
- (d) specific geographic location, etc.

## 6. Scope of audits

Each audit is unique and poses different facts and circumstances. Scope of each audit is determined by audit managers based on specific risks of non-compliance identified for the specific case. The identified risks are assessed and prioritized based on a risk analysis (probability of the risk occurring and the impact of those risks). Audit managers then set the audit scope (classes of transactions or balances that are riskiest), periods to be covered, and type of the audit, based on the detailed risk analysis. The audit scope, periods covered and type of audit may be revised by the audit managers at any time as the audit progresses based on further risks identified.

Generally, a tax audit covers a period of two (2) years of assessment. This may not always be the case, especially if taxpayer has not filed tax returns for the period(s) or where taxpayer is suspected of fraud or evasion.

### 6.1 Types of audits

We carry out the following types of audits.

### 6.2 Single issue based Audits

Single issue audits are confined to one item of potential non-compliance, single tax type and a two-year audit period. Given their narrow scope, single issue audits typically take less time to perform and maybe conducted at the office, when the auditor is confident that all necessary information can be ascertained through in-office examination.

### 6.3 Limited Scope Audits

Limited scope audits are conducted where the potential non-compliance issues identified are more than one. The objective is to examine key potential risk areas of noncompliance. The audit will usually require auditors to visit taxpayer's business premises / corporate office and may be carried out as a field audit.

## 6.4 Non-filer Audits

Non-filer audits are conducted as a treatment strategy for the non-filers. The main objective of this audit is to determine the tax payable of the taxpayer, due to failure of filing the tax returns by the due date in accordance with the tax laws and regulations. Taxpayers tax liability could be assessed based on available information if taxpayer fails to cooperate or provide documents for the audit.

## 6.5 Extensive Audits

Extensive audits are conducted for the most serious cases of non-compliance that have criminal implications—fraud, evasion, and criminal activity. This type of audits is usually all-encompassing and involves multiple adjustments to taxpayer's declaration. Taxpayer's taxable profits may be completely re-constructed by auditors based on available evidence, due to the severity and magnitude of non-compliance.

# 7. Audit Team

An audit team comprises of an audit leader, audit assistant and a manager. The audit team is assigned to carry out the audit works. The audit leader will be the Officer in Charge of the audit and will be in contact with you throughout the audit.

Each auditor is given an access card bearing his/her name and photograph. You are advised to check the access card in order to verify the authenticity of the auditor's identity.

# 8. How is an audit carried out?

We conduct our audits in accordance with the tax laws and regulations and General Tax Audit Manual. In addition to this, Non-filer audits and Extensive audits are conducted under Standard Operating Procedure specifically designed to conduct such audits.

## 8.1 Our Approach

During our audits we prefer to work with you and obtain required information and documents for the audit with your cooperation. We collect and analyze the information we receive. Our auditors will help you understand the issues and explain the purpose of the audit. We aim to have clear and ongoing engagement and open communication with you during our audit. Therefore, we encourage you to participate and put forward your view of the facts and issues.

In the event where you fail to cooperate with our auditors, we may use formal powers prescribed in the Tax Administration Act (Law no: 3/2010), "the Act". Under the Act, we may require a person to provide information, to attend to answer questions relating to their tax affairs and give evidence, or to produce any books, documents or other records in their custody or under their control. In serious cases of non-cooperation, or where the case involves fraud or evasion, MIRA has the power to escalate the audit to an investigation and access your business premises and records under a search warrant issued by the Tax Appeal Tribunal.

## 8.2 Commencement of the audit

You may first be informed about the audit via phone. A suitable date and time to commence the audit will be agreed with you. Formally to notify you of the audit, an Audit Notice will be sent to your registered email address specifying the estimated commencement date of the audit, the Officer in Charge of the audit, the period to be audited, and a preliminary list of documents that may be examined during the audit. Where we are unable to contact you to commence the audit, we may send the audit notice to the registered email address informing the commencement of the audit.

If any changes are required to the email address and contact number provided to us, you shall update such information before the commencement of the audit.

If you wish to appoint a representative for the audit (such as tax agent/accountant/lawyer/another person), you should inform the Officer in Charge of the audit, in writing, confirming the appointment of representative. The audit will usually start with an initial interview.

## 8.3 Initial Interview

An audit is not only limited to an examination of records. Our auditors will usually conduct an interview with you or your key staff to obtain an understanding of your business activities, business processes, risk management and internal controls, and accounting records. They may also need to speak to your employees involved in specific business operations and may request for records such as internal audit reports, management reports, budgets, chart of accounts, forecasts etc.

During the interview, the Officer in Charge of the audit will inform you of the preliminary audit timeline, the scope, the audit period and taxpayer rights and responsibilities.

The auditors will take notes of these meetings, and in some instances, it may be necessary to make audio or video recording of the interviews. You will be informed if an interview is to be recorded. The meeting minutes taken by the auditors will be shared with you.

Some audits may require a questionnaire to be filled before the initial interview by you in order to better understand your affairs.

## 8.4 Visit to your business premises

Depending on available facilities we prefer to work at your business premises/corporate office. The audit officer will not search for or take possession of any record. Examination of records will only be carried out at the taxpayer's business premises. If it is deemed necessary, the audit officers should be allowed to make copies of relevant documents. Usually, the audit will involve a combination of these practices. If auditors request to work in your premises, you are required to provide working space for the auditors. If auditors request to take originals of your records away for further review/inspection, you will be provided with an acknowledgment detailing the records that are being taken into our custody.

We request your sincere cooperation with the auditors by allowing them access to your business premises and providing them with the requested information and records, throughout the course of audit.

The length of the field visits depends on your business' standard of record keeping, the degree of compliance, the scope of the audit and your level of cooperation. Further, in the event that the

requested information or records are incomplete or unavailable, auditors might re-visit the business premises on another date.

## 8.5 Documents required for audit

Request for documents will be made through email to your registered email with us. All the documents that are of relevance to verify your tax liability may be reviewed by the auditors. The following documents in particular may be examined in every audit, depending on the on type of the audit and the risks involved. Therefore, you are expected to make them available at the inception of the audit.

### 8.5.1 Business Records

- (a) Tax computations prepared by you;
- (b) Chart of accounts, code of accounts, accounting instruction manuals and programming documentation, which describe the accounting system you use in your business;
- (c) Detailed breakdown of the accounts selected from the chart of accounts, trial balance or Financial statements to select samples for further testing if required by the auditors;
- (d) Details of invoices issued to customers and invoices received from suppliers. The auditors may also request for documents related to the invoices, such as agreements, order forms, vouchers, delivery notes, receipts, etc.;
- (e) Where you record transactions using the accrual basis of accounting, details of inventory, debtors (including bad debts written off) and creditors at the end of each accounting period;
- (f) Details of payments made to or for the benefit of your employees or officers (separately identifying payments and benefits you made to directors, substantial shareholders, trustees or partners and to other persons associated with those directors, substantial shareholders, trustees or partners);
- (g) Bank statements, credit card statements and related documents, such as deposit slips;
- (h) Details of transactions between you and parties related to you;
- (i) Details of withdrawals you make;
- (j) Agreements relating to business transactions;
- (k) Transfer pricing documentation;
- (l) In certain circumstances, personal records of the shareholders and other related parties involved in the business operations;
- (m) Any other relevant documents or explanations necessary as may be required.

You are required to provide all the information requested to verify your tax liability for the audit period within the timeframe specified by the Officer in Charge. The requested documents shall be provided in a readable format and documents such as input tax invoices, payment vouchers etc. must be compiled in such a manner that auditors can easily inspect.

Documents that are provided after the given timeframe or any documents submitted in an unorganized manner can be rejected by the Auditors. Auditors will notify you if any such documents are rejected via email at the submission.

Auditors have the authority to request for records from third parties. Where documents are obtained from third parties such documents will be shared with you before we make an assessment based on such documents.

### 8.5.2 Records Other than Business Records

Sometimes, there may be a need to examine records other than business records, even if the taxpayer under audit is a person conducting a business. These other records may include:

- (a) Personal bank account statements of shareholders, partners and directors;
- (b) Credit card statements;
- (c) Records relating to the ownership of assets;
- (d) Records relating to the taxpayer's personal / family expenses; and
- (e) Any other statements or explanations as may be required.

### 8.5.3 How to provide your documents?

If your records are available electronically, the auditor may request for your electronic records before meeting with you. This speeds up the audit process and leads to less time spent at your business premise. Documents may be provided electronically through email, stored in a pen drive or using cloud storage such as Google Drive, Dropbox, etc. If requested by auditors, physical documents must be provided.

If electronic records are not available, or physical records are needed, the auditor will review the documents at your place of business or if required may borrow the documents for further analysis. In this case, the auditor will provide you "Document Handover Form" with the details of the borrowed documents. Such borrowed documents by us will be returned to you once they are reviewed and audit is completed.

### 8.5.4 Audit Sampling

Auditors may use audit sampling methods to apply audit procedures to less than 100% of items within a population order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

### 8.5.5 Consequences of not providing documents

If the documents are not made available within due time or if records are incomplete or unreliable, we may make an assessment based on the factors<sup>1</sup> that may be considered in making an assessment using the "Indirect Assessment Method" or any other method as

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<sup>1</sup> Section 23(a) of the Tax Administration Regulation states the factors that MIRA may consider in making assessment under Section 39(a) of the Tax Administration Act.

specified in the Tax Administration Regulation (Regulation no: 2013/R-45), to assess your taxable liability/income based on information available to us. Below are some indirect assessment methods that we may use:

1. Source and Application of Funds Method (also known as T-Account method);
2. Bank deposits and cash expenditure methods
3. Mark-up Method
4. Unit & Volume Method
5. Net Worth Method

You will not be allowed to submit documents and other evidence in support of an objection filed under Section 42 of the Tax Administration Act, if such documents or evidence were not made available to MIRA during the audit stage.

In addition, you may also be liable to penalties for non-cooperation including failure to submit the documents.

## 8.6 During the audit

As the audit continues, we will keep you informed of the audit's progress, and if we identify additional risks during the audit and need to broaden the audit's scope, we will advise you. We will engage in ongoing and transparent communication with you as our findings develop.

In order to assure that the quality standards of the audit are met, the audit is reviewed by the supervisors at all stages. Audit teams ensure that the audits are undertaken in accordance with our Tax Audit Manual. The audit findings in draft report is checked and approved by the audit supervisor. Finally, the Audit Committee evaluates the consistency of audit decisions and reviews the quality of the audits before finalizing it.

## 8.7 Finalizing the audit

Our auditors will arrange an exit meeting with you or contact you by phone, email, or letter to explain the audit findings, basis at arriving at the assessed figure and inform you about the adjustments to your tax liability, at the completion of the audit. You will be issued with a draft audit report via email for you to comment after the exit meeting. Draft report will detail the audit findings, and where the amount of tax required to be paid by you is determined by MIRA. You will be allowed 7-14 (seven to fourteen) days to comment on the draft audit report based on the type of audit. You have the right to disagree with our proposed assessment, and provide additional supporting documents to justify your claims during the commenting period in writing. If you don't agree with our assessment and we are unable to resolve any issues, you will get the opportunity to formally object to our assessment once we issue "Notice of Tax Assessment" (NOTA).

After making the necessary changes to the draft report based on your comments and additional supporting documents provided, the final audit report together with NOTA will be issued. You are required to pay any additional tax assessed, within 30 (thirty) days of the NOTA.

## 8.8 Audit time frame

MIRA has a maximum of 2 years from the date of the audit notice to assess any additional tax. However, MIRA can request the Tax Appeal Tribunal for an extension of the period for not more than 3 years where there is reasonable cause to believe that the audit cannot be completed within 2 years.

Even though there is a statute of limitations to complete and audit within a specified period, we endeavor to close audits well in advance. For this purpose, your full cooperation is essential. The time frame of each audit varies and depends on:

- (a) The scope of the audit
- (b) The size and complexity of your business
- (c) The standard of your records
- (d) Your cooperation and transparency.

## 8.9 Audit Adjustments

As stated in the preceding paragraphs, our audits are risk based, and will primarily focus on resolving specific risks of non-compliance for the specific case, based on facts and circumstances of the case. Accordingly, we may not examine every transaction, balance or amount in your tax return. Such risk-based audit procedures may result in additional tax assessed or refund.

If you know that you have made an error that resulted in understatement of your tax liability for the period under audit, you are encouraged to disclose that error to the Officer in Charge of the audit.

At the end of the audit, it may or may not result in additional tax. We may close your case without change; or, you may receive a refund.

## 8.10 Score for Taxpayer Cooperation

MIRA will assess your level of cooperation during an audit and give a score upon completion of the audit. The objective of scoring your cooperation is with regard to the Section 5 of the fine relief policy 2022/G-7, where commissioner general has the discretion to relief full or partial fine which are incurred due to Notice of Tax Assessment (NOTA).

## 9. After Audit

We amend your tax returns based on our audit findings. This means that you are not required to submit amended returns for the periods covered under the audit.

You are required to make full payment of the additional tax assessed and the penalties arising from the conclusion of the audit.

For details on fine relief and payment arrangements, refer to the MIRA's Enforcement Policy.

## 10. Objections and Appeals

If you disagree with an assessment arising from an audit or investigation, you have the right to object within 30 days of the NOTA via a Notice of Objection (MIRA 903) related to the issues highlighted in the audit report. You also have the right to object, if you are of the opinion that we have violated any of your rights while carrying out an audit or investigation.

Your objection will be independently reviewed by the Objection Division of MIRA. You will be notified of the outcome once the review is completed. MIRA have to make a decision on objection within 120 days from the date of submission of the Notice of Objection. If MIRA is unable to make a decision with respect to your objection within 120 days, the decision is deemed finalized in favor of you.

If you disagree with the decision of the Objection Division, you may lodge an appeal with the Tax Appeal Tribunal (TAT) within sixty (60) days from the date of the “Objection Review Report” issued by the Objection Division, after paying an amount not less than 25% (twenty-five percent) of tax in dispute. A decision by MIRA is one where MIRA makes an adjustment to an item’s amount, and/or or issues identified in the audit report, whether or not the adjustments cause a change in your tax liability.

You can also make direct appeals to TAT with regard to a notice to produce documents under Section 31(h) of Tax Administration Act, which we have issued to you during an audit of your tax affairs.

For further details on objections and appeals, refer to the [Objection and Appeal Guide \(MIRA M808\)](#).

## 11. Rights and Responsibilities

### 11.1 Auditor

Our Auditors are required to:

- Act with competency and due care;
- Act responsibly and professionally;
- Act with integrity;
- Maintain objectivity and act without fear or favor and impartially
- Maintain confidentiality of information they obtain during the audit.
- Provide reliable information and advice
- Treat you with respect and common courtesy
- Request for documents, books of accounts and information that are relevant to the audit only.
- Ensure that the audit is carried out smoothly with minimal disruption to you.
- Provide you reasonable time to give responses on the issues raised and will be fair in administering tax laws.

Our officers will follow code of ethics for professional accountants in carrying out the audits.

## 11.2 Taxpayer

You are expected to:

- Make yourself / employees available for the initial interview and any subsequent interviews or meetings;
- Provide the auditors with access to your business premises, records and facilities to enable them to conduct the audit;
- Allow examination and copying of records, documents and books of accounts whether in physical and/or electronic form;
- Inform us of changes to your information;
- Be forthcoming and honest;
- Provide relevant information and records;
- Give cooperation and answer all questions fully and truthfully;
- Provide timely, complete and accurate replies to our requests for information; and
- Respect to auditors.

You are prohibited from:

- Giving any form of gifts to the auditor and transacting any business (except in the normal course of business at arm's length) with the auditors during the audit process;
- Providing hospitality beyond the scope of the regulation;
- Providing false or misleading information; and
- Obstructing the auditors from exercising their duties.

## 11.3 Tax Agent/Representative

You must notify us in writing on the appointment of a tax agent/ representative to represent you in tax audits

Tax agent/ representative are expected to;

- Be professional, be fully conversant with tax laws and practices with integrity;
- Be honest, trustworthy, transparent and give fullest cooperation;
- Refrain from misusing information acquired or abusing his position as a tax agent for his own personal advantage;
- Always give complete and accurate feedback relating to the progress of an audit and advise the taxpayer accurately based on the true facts of the audit case; and
- Safeguard the confidentiality of all information and ensure that the information is not disclosed to any unauthorized party.

Tax agent/ representative is prohibited from;

- Giving wrong advice;

- Delaying the process of completing the tax audit; and
- Offering any form of gift or hospitality to the auditor.

## 12. Confidentiality and privacy

Any information or records you provide to an auditor will remain confidential and all documents will be kept secure. During the audit, information will be collected and gathered through interviews, discussions, correspondence, or from your records. The information gathered will be utilized or disclosed, as required/ allowed by the tax laws, for tax purposes only.

Certain circumstances may not be considered as breach of confidentiality by auditors with reference to Section 15 of the Tax Administration Act (TAA).

## 13. Complaints

If you are not satisfied with the manner in which the audit is/was being carried out or the behavior of an auditor, you may make an official complaint to MIRA in writing or log a complaint with 1415 or through MIRA website.

If you disagree with the final assessment arising from an audit or investigation, refer subsection 9 above for details on objection.

## 14. Improving Compliance with Tax Laws

To improve the compliance with tax laws, taxpayers are encouraged to:

- Practice good record keeping. For further information, you may refer to "[Record Keeping Guide \(MIRA M816\)](#)"
- Familiarize with the tax system by attending to trainings sessions conducted by the MIRA.
- Have sound risk management and internal controls processes
- Disclose and amend any error voluntarily to MIRA, after conducting periodic reviews of returns and tax computations.
- Rectify the issues identified by the auditors.

## 15. Obstructing and influencing the audit process

The work of the auditors of the MIRA is carried out under the powers conferred by TAA and in accordance with the directions of the Commissioner General of Taxation. Hence, obstructing an audit is considered an offence pursuant to Section 14 of TAA.

Obstruction can include, but is not limited to:

- Refusing reasonable access to your business premises/ business records
- Intentionally falsifying, concealing, destroying or otherwise disposing of, or causing or permitting the falsification, concealment, destruction or disposal of, a document which has been requested for an audit.

- (c) Creating deliberate delays to obstruct MIRA enquiries.

Such obstructions are penalized under TAA, Section 14, including:

- (a) Fine of up to MVR 200,000; or
- (b) Imprisonment or house arrest for a period between 3 and 36 months; or
- (c) Both of the above.



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