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Guide to Zero-rated Goods and Services

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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.

I. What “zero-rated” means

When we say that a good or service is “zero-rated,” it means that the good or service is still subject to GST, but the rate of GST that applies to the good or service is 0%.

Suppliers of zero-rated goods and services must record zero-rated transactions and report them on their GST Return.

2. Consequences of zero-rating

When a good or service is zero-rated, it means that:

- The supplier must not collect any GST from the recipient of the good or service.
- The supplier can claim input tax he paid to other GST registered persons in relation to the supply.

Example 1: Claiming input tax on zero-rated supplies

Fresh Fish Pvt. Ltd. exports fish from the Maldives. The company will not be paying any GST when it purchases the fish from fishermen because fish is zero-rated. However, it may have paid GST on packaging, transportation and other such services.

Since exports are zero-rated, Fresh Fish Pvt. Ltd. must not charge any GST from buyers of the exported products. However, it may claim input tax it pays to the packaging company, the transportation service provider and other parties in relation to the exported goods.

Although no GST is charged on supplies of zero-rated goods and services, they are still considered as part of the supplier's "taxable supplies". Therefore, zero-rating also implies the following in addition to the above:

- The supplier must raise a tax invoice whenever he supplies a zero-rated good or service to another GST registered person.
- The value of zero-rated goods and services supplied must be included when determining the thresholds specified in the GST Act (for e.g. GST registration threshold, taxable period threshold, deregistration threshold).
- If the supplier charges a service charge on a zero-rated service, he must also zero-rate that service charge.

3. Zero-rated goods and services

Goods and services that are zero-rated under the GST Act are specified in section 22 of the Act. They are:

- Essential goods listed in Schedule I of the GST Act
- Goods and services exported from the Maldives
- Transfer of business as a going concern

Essential goods listed in Schedule I of the GST Act

Schedule I specifies 22 types of “essential goods” that are zero-rated. The following list groups them together and provides explanations on items other than foodstuffs listed in items 1 through 14.

1. Rice, sugar and flour
2. Salt
3. Milk
4. Cooking oil
5. Eggs
6. Tea leaves
7. Deep sea fish, reef fish, all types of fish packed in the Maldives, and *rihaakuru*
8. Potatoes and onions
9. Ingredients used in making curry paste (cumin, fennel, coriander seed, turmeric, garlic, ginger, chili, chili powder, cinnamon, cardamom, peppercorn, and any other such ingredient)
10. *Dhiyaahakuru, kaashi, kurun’baa, rukuraa, and kurolhi*
11. Carrots, cabbage, beans and tomatoes
12. Fruits
13. Bread, buns and rusk
14. Baby food
15. Baby diapers and adult diapers: all kinds of baby diapers and adult diapers, including cloth diapers, are zero-rated
16. Cooking gas, diesel and petrol: cooking gas, diesel and petrol are zero-rated. However, other fuel oils such as kerosene and jet fuel are not zero-rated. Lubricating oils are also subject to GST at the standard rate.
17. Sanitary napkins, tampons, menstrual cups and other such products.

Find out more

To learn more about zero-rated foodstuffs listed above, check out our GST Food Guide (MIRA G821), which is available at <https://cutt.ly/P9bQZf4>.

Goods and services exported from the Maldives

Exported goods and services refer to:

- Goods exported by an export license holder or re-export license holder
- Goods supplied by duty free shops
- Services exported by a GST registered person

Goods exported by an export license holder or re-export license holder

Goods exported by a GST registered person who holds an “Export License” or “Re-Export License” issued by the Maldives Customs Service are zero-rated.

Example 2: Supplies by an export license holder

Adil, who is registered for GST and holds an Export License issued by the Maldives Customs Service exports sea cucumber to Prasanth Ltd., a company based in India. Adil must charge 0% GST on his supplies to Prasanth Ltd.

Goods supplied by duty free shops

Goods supplied by duty free shops licensed by the Ministry of Economic Development are zero-rated. However, goods and services supplied by food outlets at airport terminals are subject to GST at the standard rate.

Example 3: Supplies by duty free shops

On his way to Kuala Lumpur, Ahmed buys a bottle of perfume from a duty free shop at Velana International Airport. The duty free shop must charge 0% GST on this supply.

Example 4: Supplies by food outlets at airport terminals

On his way to Kuala Lumpur, Jameel had lunch at a food outlet at the departure terminal of Velana International Airport. In this case, GST applies at the standard rate.

Services exported by a GST registered person

A service provided by a GST registered person is considered as an export if the service is provided to a person outside the Maldives and the service is consumed outside the Maldives. The location of a person for the purposes of GST is determined as follows:

- An individual is deemed to be in the Maldives if the individual's permanent place of living is in the Maldives, or, is present in the Maldives or intends to be present in the Maldives for an aggregate of 183 days or more in any 12 months period commencing or ending in a Gregorian calendar year.
- A company or any incorporated body is deemed to be in the Maldives if it is incorporated in the Maldives, or, has its head office situated in the Maldives, or, its management and control is in the Maldives
- A partnership or other unincorporated body is deemed to be in the Maldives if it is established or formed in the Maldives, or, its managements and control is in the Maldives.

The supply of goods and services in the following circumstances via a taxable activity of a person varied on in the Maldives, will be deemed as goods and services supplied in the Maldives;

- The goods are in the Maldives at the time the goods are sold; or
- The services or part thereof are physically performed by or through a person who is in the Maldives at the time the services are performed.
- the goods or services or part thereof are supplied by or through the taxable activity carried on in the Maldives by the person; or
- an employee or any other representative of the supplier of goods or services is in the Maldives in connection with the performance of the service.

For a service to qualify as an export, it is not enough for the person who contracts for the services (from someone in the Maldives) just to be outside the Maldives when the services are performed. Even when that is the case:

- Firstly, the service must be supplied to a non-resident (as defined in section 79(II) of the Income Tax Act), and
- Secondly, because GST is a tax on consumption in the Maldives, the person who contracts for the service must not be in the Maldives at the time that the service is performed. This means that a person who is a non-resident, and would otherwise have zero-rated services provided to him by someone in the Maldives, will be charged GST if he is in the Maldives at the time that the services are given, i.e. he consumes the services in the Maldives.

Example 5: Supplies to residents who are outside the Maldives at the time of supply

Zuhoor, a resident of the Maldives, goes to Colombo while his house is painted, then claims that he consumed the house painting services outside the Maldives (i.e. while he was in Colombo), and therefore they should be zero-rated. However, since he is a resident of the Maldives, the house painting services cannot be zero-rated.

Example 6: Supplies to non-residents who are in the Maldives at the time of supply

A Maldivian fails to make loan repayments to a Malaysian lender, Razak. Razak is not resident in the Maldives. He comes to Male' to engage a debt collector, Ikram, to collect the debt for him. Razak stays in the Maldives for two weeks, during which time Ikram collects the debt and pays it to Razak.

Assuming that Ikram is a registered person, he must charge 6% GST on the fee/commission he charges Razak because, although a non-resident, Razak is not outside the Maldives at the time that Ikram performs his debt collection services. If Razak had arranged with Ikram for the collection and payment of the debt from Malaysia, and did not visit the Maldives while Ikram was rendering his services, Ikram could have zero-rated his fee/commission.

Example 7: Non-resident company with employees in the Maldives

The supply of resort accommodation is made to a non-resident company, which rewards its best performing employees with a holiday at the resort. Here, the supply is by a person in the Maldives (the resort) to a non-resident person (the overseas company). However, because the stellar employees are in the Maldives in connection with the services performed by the resort (i.e. they are receiving the services), the company is treated as a person in the Maldives. The services are therefore “consumed” in the Maldives, and are disqualified from zero-rating.

A non-resident may obtain services from a service provider in the Maldives, where those services are for the benefit of someone who is in the Maldives at the time that the services are provided. While legally the contractual supply is to a non-resident who is outside the Maldives at the time the services are supplied, the actual flow of services is to a person who is in the Maldives and who consumes the services. Zero-rating does not apply in that case.

Example 8: Third party beneficiary

A Maldivian who is living and working in Sri Lanka (and is not a tax resident of the Maldives) contracts with, and pays, a Maldivian lawyer to provide legal advice to, and to defend, his brother who is in the Maldives and has been charged with obstructing the police. Here, the legal services are “consumed” by the brother in the Maldives. Therefore, they cannot be zero-rated.

Services supplied to a non-resident cannot be zero-rated if they are supplied directly in connection with property situated in the Maldives.

Example 9: Property in the Maldives

A plumber repairs the drainage system in an apartment block for the owner who is a non-resident outside the Maldives at the time that the plumber does his work. Since the plumber’s services are directly in connection with property situated in the Maldives at the time the services are performed, the services cannot be zero-rated.

Services supplied to the owner or operator of property that are things done to the property or things done to organize or to arrange the property are supplied directly in connection with the property, e.g. painting or repairing the property, navigating a vessel, providing berths for a vessel or parking areas for aircraft. However, services supplied to the owner or operator of property in relation to the property and actions of other people (suppliers, repairers, etc.) are not supplied directly in connection with the property, e.g. arranging for painting or repairs, paying taxes in relation to the visit of a cruise ship.

Example 10: Services supplied directly in connection with property in the Maldives

A Maldives engineer inspects a fault in the power supply system of a foreign vessel, owned and operated by a non-resident company, while the vessel is in port in Male’. Although the service is supplied to a non-resident, which is outside the Maldives at the time the services are performed, zero-rating does not apply because the service is supplied directly in connection with property (the boat), which is situated in the Maldives at the time that the inspection was carried out.

Where the service supplied is simply the supply of information or advice to a non-resident, it can be zero-rated. Although such information or advice may be in connection with property situated in the Maldives, it is not “directly” in connection with property in the sense that the services are not provided “on” or “to” that property.

Example 11: Supply of information

An economist in the Maldives gives a report using historical statistical data from the Maldives Customs Service and Maldives Ports Limited to a non-resident shipping operator who is contemplating opening a cargo transportation service between Perth and Male'. Again, while the information supplied by the economist is in connection with property situated in the Maldives, the service of supplying the information can be zero-rated because it is not supplied directly "on" the data itself.

Example 12: Supply of advice

A financial advisor in the Maldives issues a report to a person who is resident of, and located in, Bahrain about the feasibility of a possible investment in a resort in the Maldives. While the advice is supplied in connection with property situated in the Maldives (viz. the resort), it is not supplied directly in connection with the property (in the above sense), and therefore can be zero-rated.

Export of telecommunication services is zero-rated.

Example 13: Telecommunication services exported by a GST registered person

Kumar makes a call from Colombo to his friend, Manisha, in Eydhafushi. Kumar is a customer of Lanka Bell in Sri Lanka. Manisha is a customer of Dhiraagu in the Maldives, i.e. the call terminates on Dhiraagu's telecom network. Lanka Bell needs to connect Kumar's call to Dhiraagu's network in the Maldives so that his call gets through to Manisha.

Since Manisha is only receiving the phone call, no specific charges are imposed on her. Therefore, no GST is payable by her to receive Kumar's call. However, Dhiraagu is supplying a telecommunications service to Lanka Bell. Dhiraagu is a GST registered person and therefore must charge Lanka Bell GST for its connection service and Dhiraagu may zero-rate that service because it is supplied to a non-resident of the Maldives.

Find out more

To learn more about the GST treatment of telecommunication services, check out our Guide to GST on Telecommunication and Courier Services (MIRA G813), which is available at <https://cutt.ly/D9bQNJB>.

Transfer of business as a going concern

Under normal circumstances, the sale of the assets of a GST registered person will be subject to GST at the applicable rate. However, such transfer will be considered as a transfer of

business as a going concern, and therefore zero-rated if the following general conditions are met:

- The assets must be sold as part of the transfer of a business as a going concern.
- The assets are to be used by the purchaser with the intention of carrying on the same kind of business as the seller (but not necessarily identical).
- Where only part of the business is sold it must be capable of operating separately.

The transfer of business as a going concern will be zero-rated only if:

- The purchaser is registered for GST at the time of transfer, or
- The purpose of the transaction is to transfer the ownership of a business owned by an individual or individuals to a company at least 99% of which is held by the same individual or individuals.

If a transfer of a business as a going concern does not meet the above conditions, GST must be charged at the standard rate.

Example 14: Transfer of a business as a going concern

Naseer sells his restaurant (including the building, machinery, tools and consumables) to another GST registered person. This sale qualifies as a sale of a going concern. If Naseer had sold the machinery and tools but kept the building and consumables, it would not qualify as a going concern.

Example 15: Purchaser of the business not registered for GST

Relax Spa Pvt. Ltd. transfers five spas it operates on different resort islands, to JK Spas Pvt. Ltd., which was not registered for GST at the time of transfer. Therefore, the transaction will not qualify for zero-rating.

Example 16: Transfer of business to a company

Ismail operates a shop in Addu. Due to the growth in his business, he incorporates a company in which he owns 99.9%, and transfers his shop to the company. This transaction will be zero-rated. If Ismail had owned less than 99% of the newly incorporated company, the transfer will not qualify for zero-rating.

4. Zero-rated good supplied as part of a “mixed supply”

A “mixed supply” is the supply of a good which is marketed as a separate supply but which comprises goods that are otherwise supplied separately. The form and nature of the component parts of the supply must not have been altered for it to qualify as a mixed supply. For example, the supply of zero-rated food items and standard-rated food items together for a single price is considered as a mixed supply.

The GST treatment of a mixed supply depends on the GST treatment of the component parts of the supply.

- If the supply comprises only zero-rated goods, the supply will be zero-rated. For example, a fruit basket which contains only fruits will be zero-rated.
- If the supply comprises zero-rated goods and standard-rated goods, the supply will be zero-rated only if 98% or more of the supply comprises zero-rated goods. If this condition is not satisfied, GST must be charged at the standard rate. To determine whether the 98% threshold is satisfied, the value of the component parts of the supply (had they been sold separately) must be considered.
- Food supplied in or with re-usable storage containers will also be considered as mixed supplies. For GST implications of such supplies, see page 12.

Example 17: Mixed supplies

A food hamper that contains fruits, juice packets, chocolates and biscuits is on sale at Asaree Supermarket. This is a mixed supply. If the value of the fruits is more than 98% of the value of all the food items in the hamper (assuming that they were all sold separately), the supply will be zero-rated. Otherwise, it will be subject to GST at the standard rate.

5. Packaging of a zero-rated item

Where a good is sold in normal packaging used in the market for such goods, and without any extra charge for the packaging, the same rate of GST as the good applies to the packaging. For example, packaging simply to contain, promote and protect the food it contains, is considered part of the supply of the food inside it, rather than a supply in its own right, and takes the same liability as its contents.

However, if a zero-rated item is packed in a packaging which is chargeable to tax at the standard rate and the packaging itself can be sold separately, the supplier must charge GST on the value of the packaging. Such supplies constitute mixed supplies, which must be treated as explained in 4 above. For example, if zero-rated foodstuffs are supplied in containers which do more than contain, protect and promote their contents, these containers constitute supplies in their own right and will be subject to GST at the standard rate.

Example 18: Free packaging

Choice Supermarket sells bread with a “free storage container”. The supply will not be zero-rated because bread is not normally sold in storage containers, and storage containers have value in their own right. The supplier must charge GST on the value of the storage container when making the supply.

Example 19: Gift wrapping service

Moments Gift Shop provides wrapping service for gifts purchased from the shop. It charges a fee for this service. The shop must charge GST on the gift wrapping service since it charges a fee for the service. If it provides the gift wrapping service free of charge and it falls within section 54 of the GST Regulation (goods and services supplied free of charge), the shop will not be required to charge GST on the service.

6. GST on agency commission related to a zero-rated supply

Except for collection of payment for bills issued by the principal, where an agent supplies agency services to its principal, the commission charged by the agent in relation to such services is subject to GST at the rate applicable to the good or service being supplied by the agent on behalf of the principal. Hence, commission charged by an agent in relation to a zero-rated supply is also zero-rated.

Example 20: Agency commission

Nadeem, who operates a GST registered shop in Fuvahmulah, sells watermelons supplied by a GST registered local farmer. He charges a commission from the supplier for the watermelons sold through his shop. Since watermelon is a zero-rated fruit, the commission Nadeem gets from the farmer is also zero-rated.

7. Relevant laws, regulations and tax rulings

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>
- Tax Ruling TR-2015/G28 (GST treatment of agency commission): <https://bit.ly/3WDJPZE>
- Fifth amendment to the Goods and Services Act (Law Number 10/2018): <https://bit.ly/3XUs219>



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