# GST Guide: Loyalty Schemes

## MIRA G858

MALDIVES INLAND REVENUE AUTHORITY

# Contents



Published on 30 July 2026

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.

# 1. Introduction

Goods and Services Tax (GST) is imposed on goods and services supplied in the Maldives and is calculated based on the value of the supply. The GST framework provides different valuation rules to determine the value of supply, depending on the nature of the transaction, the relationship between the parties, and the form of consideration involved.

Loyalty schemes have become an integral feature of modern commercial practices across multiple sectors, including retail, hospitality, tourism, aviation, financial services, and digital platforms. Within the Maldives, these schemes are most prominently observed in the tourism industry.

This guide examines the GST implications of loyalty schemes, with a particular focus on the determination of the value of supply and the time of supply at both the point of issuance and the point of redemption.

# 2. The definition of loyalty scheme

For the purposes of GST, a loyalty scheme refers to an arrangement under which a recipient of goods or services is awarded points that are capable of being redeemed for goods or services. For GST purposes, the tax treatment is not affected by whether the redemption of such points occurs with the loyalty program operator or with a third-party supplier. In both cases, the redemption constitutes consideration for the supply.

**Example 1: Loyalty points redeemed as consideration**

Island Rewards Ltd operates a loyalty scheme under which members earn points from participating businesses. Points may be redeemed with participating suppliers for goods or services. Coral Bay Resort is a participating supplier and accepts loyalty points as consideration for accommodation. Under an agreement with Island Rewards Ltd, the program operator compensates Coral Bay Resort for points redeemed by members at pre-determined rates.

Although there is compensation paid by the operator of the scheme to the resorts, the consideration paid by the guests is the redemption of the points.

# 3. Value of supplies involving loyalty schemes

### 3.1. The awarding of loyalty scheme points does not constitute a taxable supply

Where consideration is paid in respect of a taxable supply of goods or services and the transaction results in the award of loyalty scheme points, the consideration will be treated as having been paid exclusively for the supply of the goods and/or services. For GST purposes, the loyalty scheme points awarded do not constitute a separate supply, and no part of the consideration is attributable to the points.

**Example 2: Awarding loyalty points to a customer is not a taxable supply**

A grocery retailer, Mango Mart, operates a loyalty scheme across all of its outlets. Under the scheme, a customer earns 10 loyalty points for every MVR 100 spent on taxable goods purchased at any of Mango Mart's outlets. The points may be redeemed at any outlet operated by Mango Mart. Under the terms of the scheme, every 10 points are equivalent to MVR 1 when redeemed against future purchases.

A customer purchases goods for MVR 500 from one of Mango Mart's outlets. As part of the transaction, the customer is awarded 50 loyalty points.

For GST purposes, the full MVR 500 is treated as consideration for the taxable supply of goods made at the time of supply. The award of the 50 loyalty points does not constitute a separate supply, and no part of the MVR 500 is allocated or attributed to those points.

Accordingly, GST is calculated at MVR 500 at the time of the supply, notwithstanding that the customer has also received loyalty points which may be redeemed in a future transaction.

**Example 3: Awarding loyalty points to a customer is not a taxable supply**

*Bank of Giraavaru* operates a loyalty scheme for its credit card customers. Under the scheme, customers earn loyalty points based on the value of purchases made using the Bank's credit cards. The points may be redeemed for purchases made at reward partners.

A customer uses the bank's credit card to make purchases totaling MVR 20,000 during a month and, under the Bank's loyalty scheme, earns 2,000 loyalty points.

The provision of the credit card facility by the bank constitutes a GST-exempt financial service. The award of loyalty points by the bank in connection with the customer's use of the credit card does not constitute a separate supply for GST purposes, and no separate consideration is regarded as being provided for those points.

Accordingly, the award of loyalty points does not give rise to any separate GST consequence, and no question arises as to whether the bank has made a taxable supply by awarding those points.

## 3.2 The value of supply in respect of supplies involving loyalty schemes

Where the consideration for a supply of goods or services consists, wholly or partly, of the redemption of loyalty scheme points, the open market value of the supply to a person paying wholly in money, excluding GST, must be taken as the value of the supply.

**Example 4: Entire consideration consists of redeemed points**

*Galaxy Alliance* operates a loyalty scheme under which customers may redeem points for goods sold at any of its participating retailers.

A product sold by a participating retailer has an open market price of MVR 540 (inclusive of GST) when purchased wholly in money. A customer redeems loyalty points to obtain the product without making any payment in money.

For GST purposes, the value of the supply is the open market value of the product to a person paying wholly in money, less the GST amount included in that price.

Assuming the retailer is registered in the General GST sector, the value of the supply can be calculated as:

**MVR 540 ÷ 1.08 = MVR 500**

Accordingly, the value of supply is MVR 500, and therefore the supplier must account for MVR 40 as the GST, even though the customer did not make a payment in money.

| Example 5: The use of loyalty points as part of the consideration |
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| *EverythingTech* sells a product for MVR 1,080 (inclusive of GST) to customers paying wholly in money.<br>To purchase the product, a customer redeems loyalty points equivalent to MVR 200 and pays the balance of MVR 880 in cash.<br>For GST purposes, the value of the supply is the open market value of the supply to a person paying wholly in money, less the GST amount included.<br>Assuming *EverythingTech* is registered in the General GST sector, the value of the supply is MVR 1000.<br>The use of loyalty points as part of the consideration does not reduce the value of supply on which GST is calculated. |

### 3.3 Determination of open market value of supply to a person paying wholly in money

The general definition of open market value for GST purposes is the consideration in money that the supply of a good or service would generally fetch if supplied in similar circumstances in the Maldives at the date of supply, being a supply freely offered and made between persons who are not related. However, in the case of transactions involving loyalty schemes, the GST Regulation qualifies this concept by requiring the value of the supply to be determined by reference to the amount that would be paid by a person who pays only in money. This qualification is significant because it narrows the relevant market for valuation purposes to transactions conducted only in money, rather than transactions involving loyalty points or other non-monetary considerations.

### 3.4 Determination of open market value with reference to Average Daily Rate (ADR)

For accommodation supplies in the tourism sector, MIRA will accept the ADR of a specific room or room type as the open market value of that room or room type. Accordingly, when determining the value of a supply involving a loyalty scheme, the ADR of comparable rooms supplied wholly for monetary consideration may be used to establish the open market value of the accommodation provided.

| Example 6: Open market value determination (accommodation supply in the tourism sector) |
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| Ms. Priya is staying in *Isola Maldives*, a luxury resort in the Maldives which offers various room types with rates that vary based on the seasonality and occupancy level. Her stay coincides with the peak season, and she chooses to stay in a *Supremo Villa*.<br>Ms. Priya decides to redeem her loyalty points for a one-night stay in a Supremo Villa. Under the resort's redemption policy, guests redeeming points from any participating loyalty program are required to make a cash co-payment of USD 150. Ms. Priya redeems |

50,000 points, and the loyalty program operator pays USD 200 to *Isola Maldives* in respect of this redemption.

To compute the GST amount to be accounted for in respect of this supply, the part payments received should be ignored and the open market value of *Supremo Villas* supplied to guests who pay solely in money must be considered where the supply involves the redemption of loyalty points.

During the peak season, ADR of the *Supremo Villa* in respect of guests who pay only in money is found to be USD 702 and can be taken as the open market value of the supply. ADR can be calculated by dividing the total consideration received from guests who paid only in money for stays in Supremo Villa during the peak season by the corresponding number of room nights.

Consequently, the value of supply in this case would be USD 600, and the GST payable in respect of the supply would be USD 102.

# 4. Time of supply of transactions involving loyalty schemes

Time of supply determines the taxable period in which the GST relating to a supply must be accounted for to MIRA.

Generally, the time of supply of goods or services is determined as the earlier of the following:

- the time at which a tax invoice, receipt, credit note, or debit note is issued; or
- the time at which full or partial payment for goods or services is made.

However, the treatment differs if the consideration for a supply involves points earned under a loyalty scheme. If the consideration for the supply of goods or services is the redemption of points earned by a member under a loyalty scheme, the time of supply of goods or services is the time at which the loyalty points are redeemed.

| Example 7: Time of supply-redemption of loyalty points |
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| Sand Resorts operates a loyalty program for its repeat guests. Under this program, guests earn points for each stay, which can later be redeemed for services such as spa treatments or dining.<br><br>On 10 August 20X5, a guest redeems 1,000 loyalty points for a massage at the resort's spa. The time of supply is the time at which the loyalty points are redeemed, being 10 August 20X5. |

| The 3-day rule |
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| The 3-day rule on time of supply may apply to supplies involving loyalty schemes. For further details on the 3-day rule and other specific time of supply rules, refer to the *Guide to Time of Supply.* |

## 4.1. The time at which the loyalty points are redeemed

Loyalty points are considered to be redeemed at the time the customer exercises the right to use those points as consideration for goods or services, resulting in an enforceable entitlement to the reward.

For example, if a customer uses loyalty points to book a hotel stay, the redemption is considered to have taken place at the time the booking is made using the points, and not when the customer checks in or completes the stay.

| Example 8: Loyalty points redemption date |
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| Sand Resort in the Maldives operates a loyalty scheme under which guests earn points for each stay. On 1 August 20X5, a guest uses 2,000 loyalty points to book a two-night stay scheduled for 10 September to 12 September 20X5. |

The time of supply for this transaction is considered to be 1 August 20X5, being the date on which the loyalty points were redeemed to make the booking—not the date the guest checks in or completes the stay. Accordingly, the GST in respect of this transaction must be accounted for in the tax return pertaining to the taxable period in which 1 August 20X5 falls.

## 5. Documentation and record keeping

A person operating or participating in a loyalty scheme must maintain sufficient records to substantiate the GST treatment adopted in respect of transactions relating to the issuance and redemption of loyalty points. Where loyalty points are accepted as consideration, wholly or partly, for a supply, the records maintained must enable MIRA to verify the time of supply, the value of the supply and the amount of GST accounted for in respect of that supply.

In addition to the records required under Chapter 14 of the Goods and Services Tax Regulation, a person operating or participating in a loyalty scheme should maintain where applicable:

- the terms and conditions governing the loyalty scheme;
- agreements between the loyalty scheme operator and participating suppliers;
- records of loyalty points issued, redeemed, transferred, cancelled and expired;
- records identifying the date on which loyalty points were redeemed;
- tax invoices, receipts, credit notes and debit notes relating to supplies involving loyalty points;
- settlement statements and reimbursement records between the loyalty scheme operator and participating suppliers;
- records supporting the determination of the open market value of supplies made in exchange for loyalty points, including the methodology adopted and the calculations performed;
- where the supplier relies on the ADR to determine the open market value of accommodation supplied in the hospitality industry, records supporting the ADR calculation for the relevant room type and period; and
- any other documents necessary to substantiate the GST treatment adopted.

# 6. Relevant laws and regulations

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

- Goods and Services Tax Act
- Goods and Services Tax Regulation
- Tax Administration Act
- Tax Administration Regulation

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