MALDIVES
INLAND REVENUE
AUTHORITY

Guide to Input Tax in relation to Capital Expenditure

MIRA G836

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Contents

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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.

1. Introduction

This guide explains the GST treatment of input tax in relation to capital expenditure.

Input tax in relation to revenue expenditure can be deducted within 12 months from the end of the taxable period in which the input tax first could have been claimed. However, a special set of rules exists when it comes to deducting input tax in relation to capital expenditure.

"Claiming input tax" or "deducting" input tax means including the input tax figure in the relevant box of the GST return.

The term "capital expenditure" is hereinafter abbreviated to "CAPEX" and used throughout this guide.

2. CAPEX for the purpose of GST

Any expenditure that must be recognized as a CAPEX under an international accounting standard acceptable to the CG, must be treated as a CAPEX for the purpose of GST.

Find out more

An up-to-date list of international accounting standards acceptable to the CG is available at https://shorturl.at/QAoaP

If the value of goods must be capitalized under an accounting standard acceptable to the CG, such goods will be considered as capital goods. The following standard rules apply to the GST treatment of capital goods.

(a) A supply of capital goods is standard-rated.

(b) If capital goods are used solely for exempt-supply, no input tax can be claimed.

(c) Where capital goods are used for making both taxable and exempt supplies, input tax would need to be apportioned according to its proportional taxable use.

3. General rules on claiming input tax in relation to CAPEX

3.1. Determining the amount of gross CAPEX

One of the factors determining the treatment of input tax in relation to CAPEX is whether the amount incurred in the acquisition of similar products or for the same purpose exceeds MVR 500,000, as different treatments apply depending on this threshold. For the purpose of this threshold, the value of supply of similar products or products obtained for the same purpose contained in a valid tax invoice received can be used as the amount of CAPEX.

3.2. Limitation to the taxable activity level

Unlike input tax in relation to revenue expenditure, input tax in relation to CAPEX can only be set off against the output tax generated by the taxable activity in respect of which the CAPEX was incurred.

Example 1: Limitation to the taxable activity level
Shareef, a GST registered person, owns two retail shops. Shareef is also planning to start an exclusive grocery shop, and he has already started the construction work of the building to be used for grocery shop, which he expects to be completed in 6 months' time. Shareef cannot deduct the input tax in relation to CAPEX incurred in respect of the construction of the grocery shop from the output tax that is generated from his retail shops (i.e. other taxable activities). That particular input tax can be only be claimed against the output tax generated from the grocery shop.

3.3. Deduction of input tax can commence only after an output tax is generated from that taxable activity

If a taxable activity is yet to generate an output tax, input tax in relation to CAPEX can be deducted only after the respective taxable activity starts to generate output tax from its primary business operations.

Example 2: Deduction of input tax can commence only after an output tax is generated
Consider the case in Example 1. Shareef cannot claim, or in other words, cannot include in the input tax statement, input tax in relation to CAPEX incurred in respect of the grocery shop until and unless that grocery shop starts to generate output tax from its primary business operations.

However, output tax, if any, generated from the grocery shop prior to the commencement of its primary business operation must be fully accounted for to MIRA in the relevant taxable period. For example, Shareef may dispose scrap from construction of the building thereby generating some output tax. However, for the purpose of claiming input tax in relation to CAPEX, the grocery shop did not start generating output tax.

Example 3: Deduction of input tax can commence only after an output tax is generated

Consider the case depicted in Example 1 and 2. Shareef's business has now expanded to such an extent that he has decided to construct a building to house his office. His office will not be a separate taxable activity, and will not be generating any direct output tax. Can he claim input tax incurred in building the office?

Since this expenditure is not specifically related to one single taxable activity, he will be allowed to deduct the input tax incurred for the construction of the office building from the output tax generated by other activities.

3.4. Input tax in relation to CAPEX for both exempt supply and taxable supply

If input tax in relation to CAPEX is incurred for the supply of both exempt goods and services and taxable goods and services, only the reasonably proportionate amount that can be associated with the supply of taxable sales can be deducted as input tax.

Example 4: CAPEX incurred for supply of both exempt supply and taxable supply

Aslam, a GST registered person, has just completed a three-storey building on the plot of land he inherited from his father. Ground floor will be used for a retail shop, while other two floors will be let under a conventional lease to earn rental income. It can be reasonably estimated that the total CAPEX spent on each floor to be the same.

Although the whole building will be used for business purpose, Aslam cannot claim the total amount of input tax incurred on the whole building, as a part of building will be leased to earn rental income which is exempt from GST. However, subject to other rules, he can start claiming one-third of the total input tax in relation to CAPEX incurred on the whole building once the shop starts to generate output tax.

4. Gross CAPEX of MVR 500,000 or less

For the purpose of determining the amount of gross CAPEX, GST exclusive value (value of supply) must be considered.

Example 5: Determining the amount of gross capital expenditure
Faisal, a GST registered person, spends MVR 510,000 (inclusive of GST) to replace beds in his guesthouse. To determine whether this capital expenditure is above MVR 500,000 or not, GST exclusive value must be considered. Since GST exclusive value is MVR 472,222, this capital expenditure is below MVR 500,000.

If the gross CAPEX incurred in the acquisition of "similar products" or for the "same purpose" is MVR 500,000 or less, input tax in relation to such expenditure can be deducted in full from the output tax of that taxable activity in the taxable period in which it was incurred. If sufficient output tax is not available to set-off this input tax in full, remainder can be carried forward to be deducted under same rules for further 12 months. Counting of 12 months starts after the end of the taxable period in which the expenditure was incurred.

4.1. "Similar products"

Similar products are products that have similar characteristics and meet the same needs of consumers. Similar products need not strictly be identical in nature, but need to have similar and comparable use.

Example 6: Similar products

1. Laptop computer and desktop computer
2. Desk and table
3. Car and minivan
4. Wooden boat and fiberglass boat

4.2. "For the same purpose"

CAPEX incurred for the same purpose includes, but is not limited to, CAPEX incurred for the same project or improvement of the same asset.

Example 7: CAPEX incurred for the same purpose

Max Getaway Pvt. Ltd. is due to start the construction of their latest business venture, a resort in Laamu Atoll. CAPEX incurred during the whole construction phase up until the resort officially opens would be classified as CAPEX incurred for the same purpose.

Example 8: CAPEX incurred for the same purpose

Aslam Rasheed is a sole trader who runs a grocery store in Male'. Aslam Rasheed has decided to improve the condition of his store by installing a new air-conditioner and a deep freezer. The CAPEX incurred for installing the air-conditioner and the deep freezer would be classified as CAPEX incurred for the same purpose.

Example 9: Gross CAPEX of MVR 500,000 or less

Consider the case in Example 8. Suppose, a valid tax invoice received for a portion of the amount of CAPEX incurred for the upgrade of his business premise was MVR 450,000 [exclusive of GST], and the output tax generated by that grocery store during that taxable period was MVR 200,000.

In this case the CAPEX incurred for the same purpose was less than MVR 500,000. Hence, Aslam Rasheed can deduct input tax of MVR 36,000 in the taxable period in which it was incurred provided that sufficient output tax is available after deducting revenue input tax claimable for that period from MVR 200,000.

Example 10: Gross CAPEX of MVR 500,000 or less

Transfer Ferry Pvt. Ltd. is a speed boat service operator servicing between Fuvahmulah City and Addu City. In order to upgrade one of the speed boats in its fleet, *Kurangi-3* was taken out of the operation for the whole taxable period and its 20 horse-power engine was replaced with the more powerful 75 horse-power engine. The CAPEX for the upgrade was MVR 500,000 [exclusive of GST], incurring an input tax of MVR 40,000. The input tax in relation to revenue expenditure of the company for the period was MVR 5,000. The output tax generated by the company in the taxable period amounted to MVR 24,000. How should the company claim the input tax incurred in the upgrade of Kurangi-*3*?

Solution

Since the company is exclusively in the business of transportation service, the whole business is considered as a single taxable activity. Transfer Ferry Pvt. Ltd. can claim input tax related to this CAPEX, up to an amount of not greater than MVR 19,000 (i.e. output tax minus revenue input tax) in the taxable period in which it was incurred. The remaining MVR 21,000 can be taken over to the next taxable period and can be claimed under the same rules.

5. Gross CAPEX of more than MVR 500,000

If the gross CAPEX incurred in the acquisition of similar products or for the same purpose is more than MVR 500,000, input tax in relation to such expenditure must be deducted from the output tax equally over 36 (thirty-six) months from the taxable period in which such expenditure was incurred.

Example 11: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

DM Resorts Pvt. Ltd, a resort operator in Malé Atoll, undertook a significant project to upgrade its resort from a five-star to a seven-star luxury resort. During the project, the resort remained operational. DM Resorts files its GST returns on a monthly basis.

For a portion of CAPEX incurred for this project, DM resorts receives a tax invoice with a value of MVR 2 million. Claiming input tax in relation to this CAPEX should be spread equally over 36 months starting from the taxable period in which the tax invoice was issued.

If the taxable activity has never generated an output tax [for example, a new resort under construction], input tax deduction can start only after the taxable activity's primary business operation starts and the 36-month period will be counted starting from the last month of the taxable period during which an output tax is generated for the first time.

Example 12: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

Silk Hotels & Resorts Pvt. Ltd, is currently under taking, a mega project of MVR 50m to develop a new seven-star rated hotel in Maldives. The project is expected to be completed by 31 December 2024, and the resorts primary business operation is expected to commence during the month of March 2025. The resort expects to generate some output tax from sale of scrap materials generated during the construction stage.

In this case, the resort cannot start claim input tax in relation to CAPEX, before its primary business operation starts. Suppose the project goes according the plan and the resort starts its primary business operations in the taxable period of March 2025, the resort will have to claim input tax in relation to CAPEX over 36 months, counting from March 2025.

There exists a further condition, that must be satisfied when claiming input tax in relation to CAPEX of more than MVR 500,000 over a 36-month period.

In such a case, the CAPEX claimed in a taxable period must not exceed the amount remaining after the total input tax in relation to revenue expenditure that can be claimed in that taxable period and the total input tax in relation to CAPEX that is deductible for all CAPEXs of MVR 500,000 or less are deducted from the output tax of that taxable activity for that taxable period. Any excess remaining can be carried forward to be deducted in subsequent taxable periods.

Example 11: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

The amount of CAPEX incurred for the taxable period of April 2025 for the project K by Sample Pvt. Ltd. was MVR 20,000,000 [exclusive of GST]. Total output tax for the month was MVR 100,000 and the total input tax in relation to revenue expenditure that can be claimed in the taxable period is MVR 65,000. Input tax remaining from previous periods for an expenditure of less than MVR 500,000 is MVR 20,000. What would be the maximum amount of input tax in relation to CAPEX for project K that can be claimed in the taxable period?

Solution

- Input tax in relation to CAPEX for project K = MVR1,600,000 [8% of 20 million]
- Total amount of output tax = MVR100,000
- Input tax in relation to revenue expenditure that can be claimed = MVR 65,000
- Input tax in relation to CAPEX in the bracket of MVR 500,000 or less = MVR 20,000
- Input tax allowance available for CAPEX of project K = 100,000 – 65,000 – 20,000 = MVR15,000
- Actual amount input tax available per month from the project K= 1,600,000 / 36 = MVR 44,444

Maximum claimable for project K during this taxable period is MVR15,000. The remaining amount of MVR 29,444 can be deducted in subsequent taxable periods, subject to the availability of sufficient input tax allowance and within the original 36-month time frame.

6. CAPEX that remains unclaimed by the end of 12 months or 36 months duration.

Any amount of input tax in relation to capital expenditure that remains unclaimed, for any reason, by the end of the 12 or 36 months duration can be set off against the output tax in subsequent taxable periods.

Example 12: CAPEX that remains unclaimed by the end of 12 months or 36 months duration
Consider the case in Example 11, if Sample Pvt Ltd. was not able to claim the remaining amount of MVR 29,444 in subsequent taxable periods, subject to the availability of sufficient input tax allowance and within the original 36-month time frame, they can set of the CAPEX amount remaining after the 36 months duration against the subsequent taxable periods.

7. Submission of the Information Sheet in relation to the CAPEX

Details of the CAPEX incurred in a taxable period must be submitted to MIRA together with the tax return of the taxable period in which that CAPEX was incurred, in accordance with the format prescribed by MIRA.

If the details of input tax in relation to CAPEX is not submitted as required, such input tax cannot be deducted in any taxable period.

Find out more
Format of the Information Sheet for Input Tax in Relation to CAPEX is available at https://shorturl.at/OIGgw

GST registered taxpayers wishing to claim input tax in relation to CAPEX must submit the information sheet and file GST returns online, via MIRAconnect.

Find out more
MIRAconnect user guide is available at https://shorturl.at/r6ZMf

8. Relevant laws, regulations and tax rulings

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

- Goods and Services Tax Act (Law Number 10/2011): https://rb.gy/x1lg72
- Goods and Services Tax Regulation (Regulation Number 2011/R-43): https://rb.gy/v0ot0j
- Goods and Services Tax: Twenty-third amendment to the Goods and Services Tax Regulation (TR-2017/G45): https://shorturl.at/g2YH1

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