OVERVIEW OF

COMPLIANCE IMPROVEMENT PLAN 2025-2026

MALDIVES INLAND REVENUE AUTHORITY

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COMPLIANCE IMPROVEMENT PLAN 2025-2026

As the tax authority, our goal is to empower taxpayers and build trust in the tax system through efficient administration of tax laws. We prioritize encouraging voluntary compliance by simplifying the process for taxpayers and deterring non-compliance through appropriate corrective measures.

This plan aims to inform the public about compliance improvement activities and to strengthen their commitment to fulfilling tax obligations, ultimately fostering voluntary compliance.

The compliance improvement activities planned for the years 2025-2026 include:

WIDENING THE TAX BASE AND MAINTAINING AN ACCURATE TAXPAYER REGISTRY

Targeted registration initiatives will be carried out with a specific focus on taxpayers operating as permanent establishments, domestic transport service providers, rental income earners, professional service providers, online businesses, and expatriates conducting business in the Maldives. Furthermore, ongoing efforts will be made to identify businesses operating in other sectors without proper tax registration.

The taxpayer registry also includes a significant number of non-operating taxpayers with several unfulfilled tax obligations, thereby affecting the overall compliance of the tax population. To maintain the integrity and accuracy of the taxpayer registry, a proactive GST deregistration program will be initiated to remove the inactive taxpayers.

IMPROVING ON-TIME FILING RATE AND ENSURING COMPLETENESS OF RETURNS FILED

A relatively low on-time filing rate is reported from micro taxpayers, with some failing to fulfill their filing obligations despite operating active businesses. Additionally, non-compliance has been observed among large taxpayers in submitting the required income tax return schedules and other supporting documents. To improve filing compliance, a series of compliance measures have been planned. These measures will involve conducting awareness sessions for both general and targeted groups, implementing system validations, and continous monitoring of high-risk non-filers using internal and external data. Efforts will also be made to influence the behavior of non-filers and late filers through calls, visits, and other initiatives. In addition, fast-track administrative assessments will be conducted for high-risk non-filers to recover unreported taxes.

INCREASING THE ON-TIME PAYMENT RATE AND ENSURING TIMELY REVENUE COLLECTION

The low rates of timely payment of taxes combined with the difficulties in recovering aged debts, and the increasing volume of recent debts are creating significant challenges in efficient administration of tax laws. Moreover, despite the leniencies offered, some taxpayers fail to be compliant in settling their dues as per the agreed-upon installment plans.

Proactive reminders will be given to late and non-payers, and additional measures will be taken to enhance revenue collection by revamping our tax recovery process. These measures include regular monitoring of taxpayers in default, holding one-on-one meetings with taxpayers with high overdue taxes, publicizing non-compliant taxpayers, freezing bank accounts, pursuing civil litigation, recovering taxes from third-party sources, and collaborating with other government agencies. In addition, there will be a strong focus on categorizing debt based on its recoverability and taking action based on the varying behavior of taxpayers within the debt portfolio.

ACCURATE REPORTING OF TAX DECLARATION

The interventions outlined in this compliance improvement plan are designed to address the issue of inaccurate reporting within specific taxpayer segments. These interventions aim to provide tailored solutions that effectively reduce reporting risks, ranging from engagements, audits to criminal investigations. On a more collaborative approach to managing reporting risks, we also plan to implement a cooperative compliance framework by 2026. This framework seeks to enhance engagement with taxpayers and improve the overall effectiveness of our risk mitigation strategies.

1. Tourist resorts and multinational enterprises (MNEs)

A significant portion of tax revenue is from tourism-related indirect taxes, especially the TGST from tourist resorts. However, the income tax contributions from these resorts do not correspond with the industry's growth. This discrepancy is primarily due to high operating expenses, substantial non-current assets, and the activities of Multinational Enterprises (MNEs) that involve shifting profits to offshore companies in low-tax jurisdictions, as well as employing various strategies to reduce their tax liabilities.

Additionally, improper record-keeping of transfer pricing documents and non-disclosure of information in Schedule 4 of the income tax return are notable documentation risks observed in this segment. To address these risks, forums and symposiums will be organized with stakeholders, and segment-specific guides will be issued to clarify intended interpretations. Furthermore, significant focus will be placed on identifying avoidance schemes, auditing high-risk taxpayers, and proposing legislative revisions to mitigate these risks.

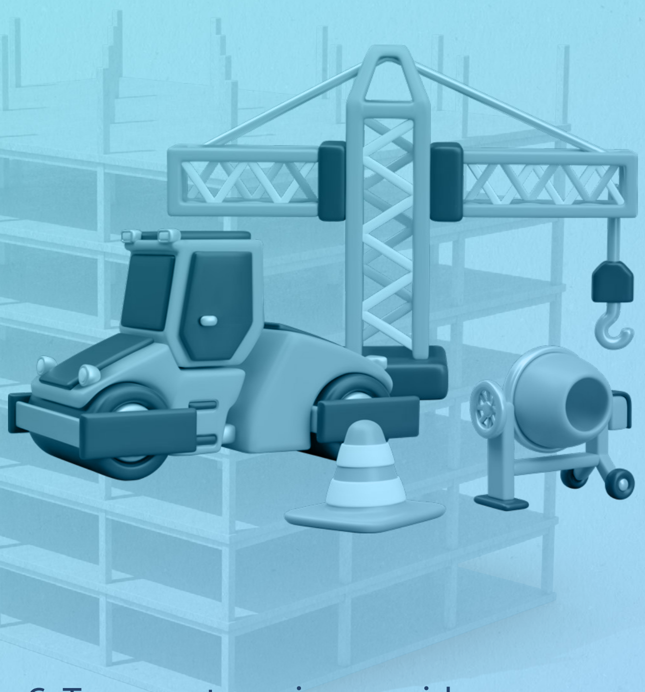
2. Guesthouse and tourist hotels

Despite the growth in bed nights and occupancy, the reported revenue from this segment has significantly declined. Moreover, overvaluation of non-current assets, underreporting of extra sales, frequent changes in ownership, and poor record-keeping are common risks identified in this segment. To mitigate these risks, efforts will be made in collaboration with other line ministries and specific activities will be carried out such as conducting focus group awareness sessions, publicizing segment-specific guides, conducting targeted inspections, and assessing undisclosed revenue through audits of high-risk taxpayers.

3. Construction and real estate

The reported imports and interest expenses from the industry have significantly risen, despite a decline in reported tax revenue. Additionally, common risks identified within the industry include improper treatment of consideration received from different forms of construction arrangements, failure to report advances from residential projects and incorrect application of the time of supply rule for GST purposes.

Developing industry-specific guides, educating taxpayers, meeting with industry stakeholders and associations to comprehend the underlying causes of the risks, and conducting audits of high-risk taxpayers will be carried out to address non-compliance in the construction and real estate industry.



4. Wholesale and retail trade

Overstatement of costs, claiming of high interest, incorrect classification of capital expenditure as revenue expenditure, incorrect classification of revenue, and inconsistencies in tax revenue reported from rapidly growing segments of the economy are notable risks observed from the industry. Taxpayers will be assisted through means of awareness sessions on proper record keeping and commonly encountered tax risks. Furthermore, inspections of taxpayer records, detection of high-risk taxpayers based on third-party information, and audits of these taxpayers will be conducted depending on the severity of risks identified.

5. Food service businesses

The food service sector in the Maldives is a rapidly growing industry that has experienced consistent expansion in recent years. Nonetheless, the tax reportings made from the industry do not align industry's growth. Overstatement of direct costs and under-reporting revenue despite carrying active operations are major risks identified from the industry. To ensure that the growth in this industry is reflected in tax declarations, an industry-specific campaign will be carried out to track down taxpayers with potential tax risks. It will also include, inspecting records and tax computations, and performing audits to assess and recover any unreported tax liabilities.

6. Transport service providers

The number of newly registered activities in the industry has increased; however, this growth has not been reflected in tax declarations. Additionally, risks have been identified, such as the improper treatment of capital and revenue expenses, excessive claims for interest and capital allowances, and incorrect revenue reporting despite having active operations, particularly among ferry service providers. Another significant risk involves the incorrect classification of standard-rated services as exempt services, which has been identified among international transport providers. To address these issues, industry-specific information sessions will be organized, and targeted engagements will be conducted with medium to large taxpayers in the international transport sector. Moreover, audits of high-risk taxpayers in the domestic transport industry will be carried out.

7. Professional service providers

Professional service providers are at risk of not meeting their income tax reporting obligations, especially when they receive income from multiple sources. Towards taxpayers in this segment, primary focus during 2025-2026 will be to facilitate tax compliance of medical officers, lawyers, and the accounting profession. As such, to raise awareness, workshops and information sessions will be conducted in collaboration with the relevant authorities. Furthermore, high-risk individuals will be identified through data from third-party sources, and tailored actions will be taken based on the assessed level of risk.

8. High-net worth individuals

A comprehensive framework for managing the compliance of high-net-worth individuals (HNWIs) will be established, primarily focusing on defining and identifying potential HNWIs, and implementing tailored strategies to mitigate tax risks associated with their complex financial dealings. The framework will emphasis on encouraging HNWIs to proactively address tax issues early, to ensure accurate reporting and voluntary compliance. Additionally, detailed guidance will be developed, and revisions to relevant legislation, including income tax return schedule 3, will be proposed. Furthermore, in cases of significant underreporting, audits will be conducted for high-risk individuals to determine the correct amount of taxes.

CONCLUSION

In addition to the targeted areas outlined in this compliance improvement plan, we will continue to focus on streamlining operations by adopting innovative solutions. Our efforts will include enhancing data management and automation through system integration and use of data analytics. Furthermore, we plan to implement e-invoicing processes and work towards creating an 'effortless' tax system to boost efficiency and enhance the taxpayer experience.

The activities outlined in this compliance improvement plan will be implemented during the years 2025 and 2026. The content, approach, and application of our compliance strategies will be refined as new risk areas are identified.