MALDIVES
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Guide to Transitional Accounting Periods

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Contents

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The information in this guide 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 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

The accounting period of a taxpayer has implications on the due date for filing his Business Profit Tax (BPT) return and the amount of interim and final payments payable under the BPT Act.

Prior to the issuance of Tax Ruling TR-2015/B46, persons other than individuals had the option to choose either the calendar year or any other 12-month period as their accounting period. Individuals did not have that option – they have always been required to prepare their accounts from 1 January to 31 December every year.

However, following the issuance of TR-2015/B46, all taxpayers, including individuals, are now required to adopt an accounting period of 1 January – 31 December (i.e. the calendar year), by the end of 2016. This means that taxpayers who currently have different accounting periods must change their accounting period to 1 January – 31 December, by the end of 2016.

2. Transitional accounting period

When a taxpayer changes his accounting period, it will result in an interim accounting period before the taxpayer can start to follow his new accounting period – this interim accounting period (which is always less than 12 months) is referred to as a transitional accounting period.

Example 1: Transitional accounting period

Liberty Pvt. Ltd. has an accounting period of 1 October – 30 September. The company decides that it will align its accounting period with the calendar year in 2015. Hence, the accounting period of 1 October 2015 – 31 December 2015 will be considered as a transitional accounting period.

Tax Ruling TR-2015/B47 explains the method of calculating the interim payments and the due dates for filing the BPT return and making tax payments in respect of transitional accounting periods.

Tax-free threshold

Since transitional accounting periods are shorter than 12 months, the tax-free threshold of MVR 500,000 per annum must be adjusted on a pro-rata basis in computing the taxable profit for the transitional accounting period. To adjust the tax-free threshold, you must use the following formula:

$$\frac{\text{MVR } 500{,}000}{(1 + A)} \times \frac{\text{Number of days in the transitional accounting period}}{365}$$

In the formula above, "A" is the number of subsidiaries in the group which are within the charge to tax in the Maldives. Note that for the purpose of counting the number of days in an accounting period, February will be considered as having 28 days (even if it is a leap year).

Example 2: Apportioning the tax-free threshold

Liberty Pvt. Ltd. in Example 1 has two subsidiaries incorporated in the Maldives. Therefore, its tax-free threshold for the transitional accounting period will be:

$$\frac{\text{MVR } 500{,}000}{(1 + 2)} \times \frac{92}{365}$$

$$= \text{MVR } 42{,}009$$

3. Interim payments for a transitional accounting period

Transitional accounting periods beginning on or before 31 July

If the transitional accounting period begins on or before 31 July, the taxpayer must:

- Submit a statement of interim payment (MIRA 303) and pay the *first interim payment* for the transitional accounting period, by 31 July of that tax year, and
- Submit a statement of interim payment and pay the *second interim payment* for the transitional accounting period, by 31 January of the following tax year, and
- Submit a BPT return and pay the *final payment* for the transitional accounting period by 30 June of the following tax year. Refer to page 7 for more details on the final payment for transitional accounting periods.

If a taxpayer aligns his accounting period with the calendar year in 2015 following the issuance of Tax Ruling TR-2015/B46, he will not be required to pay the first interim payment for the transitional accounting period. This is because Tax Ruling TR-2015/B46 was issued after the due date for that payment. However, if a taxpayer opts to switch to the calendar year in 2016, he must pay both the interim payments as specified above.

The interim payments for the transitional accounting period must be computed using the following formula:

$$\frac{\text{Tax payable for the most recent accounting period for which a BPT return had been filed as of the due date for the interim payment}}{2} \times \frac{\text{Number of days in the transitional accounting period}}{\text{Number of days in the most recent accounting period for which a BPT return had been filed as of the due date for the interim payment}}$$

Example 3: Transitional accounting period beginning on or before 31 July
Autonomy Pvt. Ltd. has an accounting period of 1 April – 31 March. The amount of tax payable by Autonomy for the accounting periods ending on 31 March 2014 and 31 March 2015 were MVR 76,400 and MVR 89,500 respectively. BPT returns for these two accounting periods were filed on 30 April 2015 and 30 November 2015 respectively. Autonomy decides that it will align its accounting period with the calendar year in 2015. Hence, the accounting period of 1 April 2015 – 31 December 2015 will be considered as a transitional accounting period. *Continued...*

Since Autonomy decided to align its accounting period with the calendar year in 2015, it is not required to pay the first interim payment for the transitional accounting period.

However, it must pay the second interim payment for the transitional accounting period by 31 January 2016. This payment is computed as follows:

$$\frac{\text{MVR } 89{,}500}{2} \times \frac{275}{365}$$

$$= \text{MVR } 33{,}716$$

If Autonomy had not filed the BPT return for the accounting period ending on 31 March 2015 by 31 January 2016 (which is the due date for the second interim payment), the interim payment computation would have been based on MVR 76,400 instead of MVR 89,500.

Further, if Autonomy aligned its accounting period with the calendar year in 2016, it must pay the first interim payment for the transitional accounting period by 31 July 2016 and the second interim payment by 31 January 2017.

Interim payments for a transitional accounting period are payable even if the taxpayer is liable to pay an amount of interim payment in relation to an accounting period preceding the transitional accounting period on the same due date.

Example 4: Two interim payments payable on the same day

In addition to the MVR 33,716 payable by 31 January 2016 (being the second interim payment for the transitional accounting period), Autonomy Pvt. Ltd. in Example 3 must also pay the second interim payment for the accounting period ending on 31 March 2015, by 31 January 2016.

Transitional accounting periods beginning after 31 July

If the transitional accounting period begins after 31 July, the taxpayer must:

- Submit a statement of interim payment and pay the interim payment for the transitional accounting period, by 31 January of the following tax year, and
- Submit a BPT return and pay the final payment for the transitional accounting period by 30 June of the following tax year. Refer to page 7 for more details on the final payment for transitional accounting periods.

The interim payment for the transitional accounting period must be computed using the following formula:

$$\text{Tax payable for the most recent accounting period for which a BPT return had been filed as of the due date for the interim payment} \times \frac{\text{Number of days in the transitional accounting period}}{\text{Number of days in the most recent accounting period for which a BPT return had been filed as of the due date for the interim payment}}$$

Example 5: Transitional accounting period beginning after 31 July

Sovereignty Pvt. Ltd. has an accounting period of 1 November – 31 October. The amount of tax payable by Sovereignty for the accounting periods ending on 31 October 2014 and 31 October 2015 were MVR 106,400 and MVR 109,500 respectively. BPT returns for these two accounting periods were filed on 30 April 2015 and 30 April 2016 respectively.

Sovereignty decides that it will align its accounting period with the calendar year in 2015. Hence, the accounting period of 1 November 2015 – 31 December 2015 will be considered as a transitional accounting period.

Sovereignty must pay the interim payment for the transitional accounting period by 31 January 2016. This payment is computed as follows:

$$\text{MVR } 106{,}400 \times \frac{61}{365}$$

$$= \text{MVR } 17{,}782$$

If Sovereignty had filed the BPT return for the accounting period ending on 31 October 2015 by 31 January 2016 (which is the due date for the interim payment), the interim payment computation would have been based on MVR 109,500 instead of MVR 106,400.

In addition, as explained earlier, interim payments for a transitional accounting period are payable even if the taxpayer is liable to pay an amount of interim payment in relation to an accounting period preceding the transitional accounting period on the same due date. Therefore, Sovereignty must pay interim payment of MVR 17,782 even though it is also required to pay the second interim payment for the accounting period ending on 31 October 2015, by 31 January 2016.

4. BPT return and final payment for the transitional accounting period

Taxpayers are required to file a separate BPT return and make the final payment for transitional accounting periods too. The due date for filing the BPT return and making the final payment for a transitional accounting period will always be 30 June of the tax year following the tax year in which the accounting period was changed.

In computing the final payment for the transitional accounting period, the taxpayer must deduct interim payments which relate to the transitional accounting period.

Example 6: BPT return and final payment for the transitional accounting period
Autonomy Pvt. Ltd. in Example 3 must file a BPT return for the transitional accounting period of 1 April 2015 – 31 December 2015, by 30 June 2016. In computing the final payment for the transitional accounting period (which is also payable on 30 June 2016), it must deduct the interim payment of MVR 33,716. Sovereignty Pvt. Ltd. in Example 5 must file a BPT return for the transitional accounting period of 1 November 2015 – 31 December 2015, by 30 June 2016. In computing the final payment for the transitional accounting period (which is also payable on 30 June 2016), it must deduct the interim payment of MVR 17,782.

Requirement to audit the financial statements

The BPT return for the transitional accounting period must be filed together with financial statements prepared in accordance with Tax Ruling TR-2015/B39 (Submission of financial statements and appointment of auditors). This means that the financial statements must be audited by an independent auditor registered with MIRA, if the ruling requires the taxpayer to do so.

5. Accounting period immediately following the transitional accounting period

The interim payments payable for the accounting period immediately following the transitional accounting period must be computed using the following formula:

$$\frac{\text{Tax payable for the transitional accounting period}}{2} \times \frac{\text{Number of days in the accounting period immediately following the transitional accounting period}}{\text{Number of days in the transitional accounting period}}$$

Example 7: Accounting period immediately following the transitional accounting period
Assuming that the tax payable by Autonomy Pvt. Ltd. for the transitional accounting period in Example 3 was MVR 64,800, each of the interim payments payable by Autonomy for the accounting period of 1 January 2016 – 31 December 2016 will be: $\frac{\text{MVR } 64{,}800}{2} \times \frac{365}{275}$ $= \text{MVR } 43{,}004$ The two interim payments for this accounting period are payable on 1 July 2016 and 31 January 2017.

6. Relevant laws, regulations and tax rulings

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

- Business Profit Tax Act (Law Number 5/2011): http://bit.ly/1OlHlo5
- Business Profit Tax Regulation (Regulation Number 2011/R-35): http://bit.ly/1LI6lid
- Tax Ruling TR-2015/B46 (Ninth amendment to the Business Profit Tax Regulation): http://bit.ly/1IKZNiZ
- Tax Ruling TR-2015/B47 (Effect of change of accounting period): http://bit.ly/1QsCeas
- Tax Ruling TR-2015/B39 (Submission of financial statements and appointment of auditors):

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