MIRAPOST

Increased Rates for Tourism Sector GST, Green Tax, and Airport Taxes and Fees

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Increased Rates for Tourism Sector GST, Green Tax, and Airport Taxes and Fees

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On 5 November 2024, the President ratified three amendments to tax laws, which increased rates for the Tourism Sector GST (TGST), Green Tax, and Airport Taxes and Fees. These changes are part of the seventh amendment to the GST Act, the fourteenth amendment to the Maldives Tourism Act, and the second amendment to the Airport Taxes and Fees Act. Here are the key highlights of the changes to these taxes.

Goods and Services Tax

The tourism sector GST rates have increased from 16% to 17%, effective from 1 July 2025. With this amendment to the GST Act, suppliers registered for TGST are required to charge GST at 17% for the goods and services supplied by them. Taxpayers are required to charge at the rate prevailing at the time of supply.

Additionally, supplies made by cafés operated in a tourist establishment, especially for employees of such establishments are now excluded from the definition of tourism sector goods and services. With this amendment all such cafes are required to charged GST at 8% effective from 5 November 2024. Taxpayers are required to apply to change the registration to the general sector GST. Prior to this amendment, only staff shops (tuck shops) are excluded from the definition of tourism sector GST.

Green Tax

The new Green Tax rates would be effective from 1 January 2025 at below rates.

- Tourists staying at resorts, integrated resorts, resort hotels, hotels, tourist guesthouses and tourist vessels will be charged USD 12 per day, up from USD 6.
- Tourists staying at hotels and tourist guesthouses on inhabited islands with 50 rooms or less, the rate will increase to USD 6 per day, up from USD 3.

Moreover, from 1 January 2025 onwards, children below the age of 2 years would be exempt from Green Tax.

Airport Taxes and Fees

The Airport Development Fee and Departure Tax rates will increase for passengers who purchase a ticket or change their travel dates on or after 1 December 2024, for departures from the Maldives on or after that date. However, it is important to note that Maldivian passengers in economy class will not see a rate change. The new rates are as follows:

Travel class	Maldivian	Foreigner
Economy class	USD 12	USD 50
Business class	USD 120	USD 120
First class	USD 240	USD 240
Private jet	USD 480	USD 480

In addition to the rate change, the new amendment introduces new rules in relation to excess tax refunded to passengers. Airlines and airport operators can now claim refunds from MIRA for any excess tax paid back to passengers, in a later period, that has already been paid to MIRA. The airline or airport operator can claim back the excess in the Airport Taxes and Fees return submitted to the period in which the refund was paid to the passenger.

MIRA is in the process of formulating the regulations and bringing necessary changes to the tax revenue management system and tax returns to implement these changes. For more information, taxpayers can contact MIRA at 1415.

MIRA issues a circular regarding change of GST registration of cafés operating exclusively for employees in tourist establishments

Pursuant to the seventh amendment to the Goods and Services Tax (GST) Act, goods and services supplied by cafés operating exclusively for the employees in tourist resorts, integrated tourist resorts, resort hotels, hotels, tourist guesthouses, picnic islands, private islands, tourist vessels, yacht marinas and other such establishments are now classified as general goods and services.

In light of this amendment, please be informed that the tourism sector GST registration of such cafés must be changed to the general sector GST. Please email registration@mira.gov.mv to initiate the change of GST registration of such cafés, at the earliest.

The circular issued regarding this is available in to view via below link.
[GST registration of cafés operating exclusively for employees in tourist establishments]

Income taxation of individuals earning rent from an immovable property

Mariyam Waheed, Senior Tax Officer, Tax Academy

Rent from immovable property is a taxable income under the Income Tax Act. Hence, income earned by renting a building, apartment, flat, land, warehouse or similar properties is also a taxable income for the purpose of income tax. Moreover, the rent obtained from the sublease of an immovable property mentioned above will also be a taxable income.

An individual receiving rental income is liable to register for income tax, if the person received an average monthly income of MVR 40,000 or more in a 12-month period.

Individuals are taxable only on income received in excess of the tax-free threshold in a tax year. The tax-free threshold of an individual is MVR 720,000. Expenses incurred in earning rental income can be deducted in the computation of the person's taxable income pursuant to the Income Tax Act and Regulation. As such, this includes expenses incurred in relation to the construction and maintenance of the property and interest paid for a loan obtained for the development of the property. In addition, capital allowance may be deducted in relation to the property.

Capital allowance is an allowed rate of deduction over a specified period of time for the capital expenditure incurred on the asset. Capital allowance rate for a building is 4%. However, if the cost of development of a building is financed from a housing loan obtained from a licensed bank under the Maldives Banking Act or a non-banking financial institution licensed under the Maldives Monetary Authority Act, the amount of such loan utilized for the cost of the building must be allocated over the loan repayment period and deducted as the capital allowance of the building.

If an expenditure on immovable property is incurred for both business and personal purpose, only the portion of the expenditure incurred for business purposes can be deducted for tax purpose. Thus, the taxpayer must fairly apportion these expenses. For example, an individual owns a five-story building; three of the floors are rented for business purposes, while the other two levels are occupied by the owners for personal purposes. In this instance, only the expenses incurred in relation to the three floors rented for business can be deducted for tax purposes.

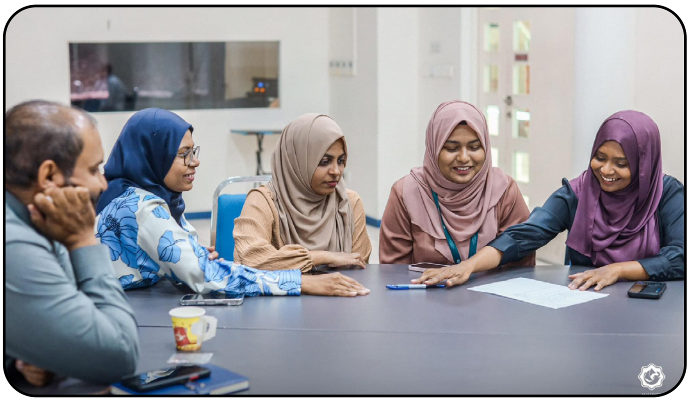
Under Income Tax Act, persons receiving income from rental of immovable property may elect to deduct 20% of the total rent as the expense incurred in generating the rental income. Deducting 20% of the total rent as expense could only be elected by persons preparing financial records in cash basis. Person electing this method will not be allowed to deduct any other expenditure including capital allowance. Furthermore, this election will not be changed without prior approval from the Commissioner General of Taxation before elapse of 5 years from the accounting period which the election was made.

An individual will be exempt from filing income tax return if the taxable income for the accounting period ending in that tax year and the previous tax year is less than or equal to MVR 720,000 and the total income for the accounting period ending in that tax year and the previous tax year is less than or equal to MVR 2,000,000. However, if all of the above-mentioned conditions are not met, you are required to file an income tax return for the year. Total taxable income must include any other income derived by the individual.

Individual who derives solely rental income and opt to deduct 20% as expense, or individuals who derives only rental income and opt to deduct 20% as expense and received remuneration can choose to submit a "simplified return" via MIRAconnect for their income tax return. An instruction sheet on how to submit the "simplified return" is available on MIRA website. If you derive only rental income and opt to deduct actual expenses related to rental income or you receive any other type of business income in addition to rental income, you can also find an instruction sheet on the "Instruction Sheet" tab of MIRA website.

Highlights of the training sessions to MIRA team

Communication and TV presenting session



Tax Technical (income tax) session

Transfer pricing documentations training session

Effective decision making and emotional intelligence training

Navigating the updated non-resident withholding tax return: key changes and benefits

Fadhuva Hussain, Assistant Tax Officer, Contact Centre

In today's global economy, staying informed about tax regulations is vital, especially for non-residents receiving payments from businesses in the Maldives. The Non-resident Withholding Tax (NWT) introduced in 2020 under the Income Tax Act (ITA) replaced the previous withholding tax system under the Business Profit Tax Act. We will explore key updates to the NWT return (MIRA 602), including the new functional currency option, detailed payment tables, and how non-residents can leverage tax treaties to reduce their tax liabilities.

Key updates to the Non-resident Withholding Tax Return

The Non-Resident Withholding Tax Return, now updated to version 24.1, introduces several key changes designed to streamline the tax reporting process. These updates provide clearer, more detailed tables and a simplified calculation format, making the reporting process easy for taxpayers.

1. Functional currency option

One of the most notable updates is the addition of an option to select a functional currency in the return. The return should be prepared and paid in United States Dollar (USD) if the functional currency is not the Maldivian Rufiyaa (MVR). If the functional currency is MVR, then return must be prepared in MVR but payment can be made either in MVR or USD. It is important to note that regardless of the currency in which the business pays the non-resident, the NWT return must be filed and taxes paid based on this rule. The functional currency of a person must be determined in accordance with International Accounting Standard (IAS) 21.

2. Detailed payment tables

The payment details section has been expanded to include four distinct sub-tables, providing greater clarity and ensuring compliance with the Income Tax Act (ITA) and the Income Tax Regulation (ITR).

Table 1: Payments Subject to Withholding Tax (Section 55 of ITA)

The table requires details of payments subject to withholding tax under Section 55 of the ITA. The updated version adds two important columns:

- **Country of the Payee's Bank Account:** This specifies the country where the payee's (non-resident) bank account is held.
- **Treaty Article Selection:** This allows taxpayers to indicate whether a payment is subject to

a relevant tax treaty. This is important for non-residents who may benefit from tax treaty provisions that reduce withholding tax rates. It is essential to indicate this, as the definition of the same payment may differ between the Income Tax Act and the relevant tax treaty, potentially affecting the applicable withholding tax rate.

For example, payments for the use of ships or aircraft are classified as Royalty (Category B) for the Income Tax Act. But if you apply the treaty with the UAE, such payments would fall within the scope of Article 9 (Shipping and Air Transport) of the UAE treaty, not Article 13 (Royalties).

Table 2: Tax Withheld Based on Provisions

This section addresses payments where the exact amount or timing cannot be determined at the time of the transaction. In such cases, the withholding tax is calculated based on provisions made under Section 36 of the Income Tax Regulation. Provisions must be recorded as per an approved international accounting standards. The tax calculated on these provisions must be included in the return for the relevant period and paid in full.

Table 3: Adjustments to Tax Withheld Based on Provisions

This table requires taxpayers to report adjustments to provisions made previously in the withholding tax returns, where the payment amount has been ascertained. If the ascertained amount differs from the provision, any adjustments to withholding tax must be reported in the return for the period when the correct amount is ascertained.

Table 4: Adjustments Due to Debit Notes and Credit Notes

This new table is crucial for handling adjustments related to debit notes and credit notes issued after the original payment. These notes can impact both the amount of income and the corresponding withholding tax. The inclusion of this table will simplify compliance for taxpayers, as previously, adjustments related to debit and credit notes had to be submitted separately by email; now, taxpayers can report these transactions directly in the NWT return and bring the necessary adjustments in a return filed subsequently.

How to claim treaty benefits

Tax treaties, or Double Taxation Avoidance Agreements (DTAs), are agreements between two countries designed to prevent the same income from being taxed twice. Currently, the Maldives has treaties with the UAE and Bangladesh. To claim treaty benefits in the Maldives, the person conducting business in the Maldives must complete the NWT return, specify the relevant treaty article, and submit a Certificate of Residence to confirm their eligibility under the applicable treaty.

Conclusion

The updated NWT return in the Maldives brings important changes that taxpayers must understand to remain compliant. Staying informed and compliant will help ensure accurate filings and smooth cross-border operations in the Maldives.

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