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MALDIVES INLAND REVENUE AUTHORITY

Malé, Republic of Maldives

TAX RULING

Goods and Services Tax: GST implications of a reduction in the consideration payable by a customer to a supplier

Reference No.: TR-2013/G15

Date of issue: Thursday, 29 August 2013

This ruling is issued pursuant to the authority granted under Section 84 of the Tax Administration Act (Law Number 3/2010) as amended by Law Number 14/2011. Unless otherwise stated, all legislative references are to the Goods and Services Tax Act (Law Number 10/2011). This ruling is legally binding.

Introduction

1. This ruling explains how Goods and Services Tax (GST) shall be calculated where a breach of a contract by a supplier of goods and services results in a reduction in the consideration payable by the customer to that supplier.

Ruling

2. This ruling applies where:
 - (a) a person registered with the MIRA under the Act (“supplier”) enters into a contract with another person (“customer”) for the supply of goods or services; and
 - (b) the contract states that failure on the part of the supplier to honor any provision of the contract entitles the customer to deduct a specified amount from the consideration payable to the supplier under the contract; and
 - (c) the supplier fails to honor such a provision; and
 - (d) the customer enforces such entitlement pursuant to such failure.
3. Where, at the time that the customer enforces his entitlement in terms of paragraph 2(d) of this ruling:
 - (a) the supplier has not issued a tax invoice to the customer, the supplier shall issue a tax invoice to the customer in accordance with sections 41 and 42 of the Act, which shows the value of the goods or services excluding GST as the amount after the deduction of the specified amount referred to in paragraph 2(b) of this ruling;
 - (b) the supplier has issued a tax invoice to the customer, the supplier shall issue a credit note to the customer in accordance with section 44 of the Act.



Example 1

Supplier Pvt. Ltd. (“Supplier”) agrees to provide electric wire installation services to Customer Pvt. Ltd. (“Customer”) for MVR 25,000. Both companies are registered for GST with MIRA.

The contract between the two companies states that Customer shall pay 6% GST (MVR 1,500) to Supplier. Therefore, the total consideration payable by Customer to Supplier under the contract is MVR 26,500.

The contract also states that, if Supplier fails to complete the services specified in the contract within 10 days, Customer may deduct 5% of the consideration payable to Supplier. Supplier manages to complete the services within 13 days, as a result of which Customer makes the 5% deduction from the consideration as agreed in the contract. At that time, Supplier had not yet issued a tax invoice to Customer.

Implications for Supplier Pvt. Ltd.

Supplier issues a tax invoice to Customer showing the GST-exclusive value of the supply as MVR 23,750 (i.e. the amount after the 5% deduction), GST charged of MVR 1,425 (i.e. 6% of MVR 23,750) and the GST-inclusive value of the supply of MVR 25,175. Supplier must remit the GST of MVR 1,425 to MIRA by the 28th day of the month following the end of the taxable period in which the supply of the service took place, i.e. the taxable period in which the tax invoice is issued by Supplier or payment is made by Customer, whichever happens first.

Implications for Customer Pvt. Ltd.

Customer deducts 5% from MVR 25,000. Hence, the GST-exclusive amount payable by Customer to Supplier is MVR 23,750. The total GST-inclusive consideration paid by Customer to Supplier is MVR 25,175. Customer can claim an input tax deduction of the GST of MVR 1,425 paid to Supplier.

Example 2

Assume the same facts as in Example 1, except that, at the time Customer makes the 5% deduction from the consideration as agreed in the contract, Supplier has already issued a tax invoice to Customer showing the originally agreed GST-exclusive amount of MVR 25,000.

Implications for Supplier Pvt. Ltd.

Supplier’s tax invoice, which has already been issued to Customer, shows the GST-exclusive value of the supply as MVR 25,000, GST charged of MVR 1,500 (i.e. 6% of MVR 25,000) and the GST-inclusive value of the supply of MVR 26,500. Supplier must remit the GST of MVR 1,500 to MIRA by the 28th day of the month following the end of the taxable period in which the supply of the service took place, i.e. the taxable period in



which the tax invoice is issued by Supplier, which now precedes the time of payment made by Customer.

Since, as a result of the 5% reduction in price, the GST-exclusive value of the supply shown on the tax invoice is now incorrect, Supplier must issue Customer with a credit note in accordance with section 44 of the Act. Amongst other things, the credit note must show the reason why it is issued, the amount of GST shown in the original tax invoice (MVR 1,500), the amount of GST after the change in the GST-exclusive price (6% of MVR 23,750 = MVR 1,425), and the difference between the two amounts of GST (i.e. MVR 1,500 – MVR 1,425 = MVR 75).

Supplier may claim a deduction of MVR 75 as an “other adjustment” in its GST return for the taxable period in which it issues the credit note to Customer.

Thus, overall the net output tax paid by Supplier to MIRA is MVR 1,425 (i.e. MVR 1,500 – MVR 75).

Implications for Customer Pvt. Ltd.

Customer deducts 5% from MVR 25,000. Hence, the GST-exclusive amount payable by Customer to Supplier is MVR 23,750. The total GST-inclusive consideration paid by Customer to Supplier is MVR 25,175. Customer can claim an input tax deduction of the GST of MVR 1,500 charged by Supplier, as specified in the original tax invoice issued by Supplier.

Customer must then add MVR 75 as an “other adjustment” in its GST return for the taxable period in which it received the credit note from Supplier. Thus, overall the net input tax deduction claimed by Customer is MVR 1,425 (i.e. MVR 1,500 – MVR 75).

Date of Effect

(e) This ruling shall take effect from its date of issue.



Yazeed Mohamed
Commissioner General of Taxation

This is the unofficial translation of the original ruling issued in Dhivehi. In the event of conflict between this translation and the Dhivehi version of this ruling, the latter shall prevail. Therefore, it is advised that both the Dhivehi version of this ruling and this translation be read concurrently.