Contents

1. What is a barter transaction? ........................................................................................................3
2. What are the tax implications of a barter transaction? .................................................................4
3. Am I required to keep records of my barter transactions? ..........................................................5
4. GST ...........................................................................................................................................6
   Am I required to pay GST to MIRA on my barter transactions? ......................................................6
   Can I pay MIRA the GST on goods or services that I supply in a barter transaction in goods or
   services? ........................................................................................................................................6
   How do I calculate the GST on goods or services supplied by me in a barter transaction? ....6
   How do I determine the open market value of goods or services supplied to me in a barter
   transaction? ....................................................................................................................................8
   How do I calculate GST on goods or services supplied by me when the purchaser pays me
   partly in other goods or services and partly in cash? ......................................................................9
   Do I include the value of my barter transactions in my calculation of the MVR 1,000,000 GST
   registration threshold? ..................................................................................................................9
   Do I prepare to issue a tax invoice when I exchange goods or services in a barter transaction? 9
   How do I include goods or services supplied by me in a barter transaction on my GST return? 9
   If I supply goods and services to my customer this month in return for him giving me goods and
   services of equal value in a future taxable period, in which GST return do I include this
   transaction? ....................................................................................................................................10
   If my supplier supplies goods and services to me this month in return for my supplying him
   goods and services of equal value in a future taxable period, in which GST return do I include
   this transaction? ................................................................................................................................10
   Can I claim an input tax deduction in relation to the goods or services that I obtain in a barter
   transaction? ....................................................................................................................................11
   On what amount do I claim my input tax deduction? ..................................................................12
5. Income Tax ...................................................................................................................................13
   Am I required to include my barter transactions in my income tax return? .............................13
   In what tax year do I report my barter transactions for income purposes? ............................13
   In my income tax return, how do I value the sales which I have made in barter transactions? 14

Guide to Barter Transactions
Can I claim a deduction for expenses when I acquire goods and services for my business by exchanging them for other goods and services? ................................................................. 14

How do I quantify the amount of expenses in my income tax return when I make purchases through barter transactions? ........................................................................................................... 14

Can I claim the capital allowance if I pay for plant and machinery which I purchase for my business by giving the vendor some of my trading stock? ................................................................. 15

Do I have to calculate the balancing charge or balancing allowance when I sell a business capital asset in exchange for goods or services supplied by the purchaser? .................................................. 16

How do I calculate the balancing charge or balancing allowance when I sell a capital asset purchased through a barter transaction? ................................................................. 16

6. Relevant laws, regulations and tax rulings ................................................................................................. 17

Published on 28 September 2020

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. What is a barter transaction?

A barter transaction is a sale of a good or service by you for which payment is not made in cash. Instead, the purchaser makes payment by giving you goods or services in return. This is sometimes referred to as “payment in kind”.

In a barter transaction there are 2 sales – one by you to the other party to the transaction and another sale by the other party to you, where each of you receives payment for the respective sales in goods or services, rather than in cash.

In an arm’s length transaction (i.e. a transaction between unrelated parties), the value of the goods and services given in payment to you is normally the same value as the goods and services that you sold.

Example: 1

Waheed is in the business of selling electrical appliances. He exchanges a television set worth MVR 10,000 in return for a laptop computer from Ali. This is a barter transaction since no cash is involved in payment by either party.

There are 2 sales:

1. the sale of the television set by Waheed, which Ali pays for by giving Waheed the laptop; and
2. the sale of the laptop by Ali, which Waheed pays for by giving Ali the television set.
2. What are the tax implications of a barter transaction?

Barter transactions can give rise to goods and services tax (GST) and income tax implications, depending on the circumstances in which the transactions occur. The basic rule is that barter transactions are subject to both GST and income tax in the same way as cash based transactions are taxed.

In this guide, we shall first look at the GST implications and then the income tax consequences.
3. Am I required to keep records of my barter transactions?

If you are a GST registered person or registered for income tax, you are required to clear and sufficient records of all of your transactions, including your barter transactions. Where the records relate to barter transactions, they must properly state the nature, details and date of the transaction, the other party to the transaction and the open market value of the goods or services supplied by you in the transaction.

A GST registered person must keep a record of the details required to issue a valid tax invoice.

The records must be kept for at least 5 years.

Find out more

A general guide to record keeping (MIRA M816) is available here. (currently available in Dhivehi only).
4. GST

Am I required to pay GST to MIRA on my barter transactions?

Yes. If you are a GST-registered person, the GST Act requires you to account to MIRA for GST on supplies of goods and services which you make in the course of your taxable activity in the Maldives, and which are not exempt or out-of-scope supplies. It does not matter whether you receive payment in cash or in kind for your supplies of goods and services.

Can I pay MIRA the GST on goods or services that I supply in a barter transaction in goods or services?

No. You must pay your GST to MIRA in Rufiyaa if you are registered for general sector GST, and in United States dollars (USD) if you are registered for tourism sector GST.

How do I calculate the GST on goods or services supplied by me in a barter transaction?

The value on which you calculate GST on goods and services supplied by you is the open market value of the goods and services that you receive from the other party to the transaction. If you are registered in the general sector, the amount of GST output tax is 6% of that open market value; if you are registered in the tourism sector, the amount of GST output tax is 12% of that open market value. You must pay these amounts of GST to MIRA whether or not you have collected them from the other party to your barter transaction.

Find out more


Example: 2

Island TV Company Limited (ITV), a GST registered person, hosts a game show for its viewers. ITV arranges with Perfect Skin Cosmetics Limited (PSC), also a GST registered person, to supply its cosmetics to ITV as prizes for the game show. In return for PSC’s supply of the cosmetics, ITV gives PSC 10 minutes of free advertising on each game show, which is of the same value as the cosmetics.

Continued…
ITV makes a taxable supply of an advertising service to PSC. PSC makes payment to ITV for that advertising by way of giving ITV cosmetics of the same value as the advertising. ITV must therefore account to MIRA for GST output tax at the rate of 6% of the value of the cosmetics, as the consideration received for providing advertising service, even though it does not actually collect this amount in cash from PSC.

Simultaneously, PSC makes a taxable supply of cosmetics to ITV, which makes payment to PSC by way of giving PSC advertising on the game show. PSC must therefore account to MIRA for GST output tax at the rate of 6% of the value of the advertising services given by ITV, as the consideration received for sale of cosmetic products, again even though it does not actually collect this amount in cash from ITV.

Example 3

Ahmed is a GST registered fisherman. Umar is a GST registered person in relation to his general welding business. Ahmed gives Umar 5 yellowfin tuna in return for Umar repairing damage to the hull of his fishing boat.

Ahmed makes a taxable supply of tuna to Umar, for which Umar makes payment by carrying out the boat repair work. However, Ahmed’s supply of fish is a zero-rated supply. Although he is required to disclose the supply in Box 2 of his GST return and in his Output Tax Statement, Ahmed is not required to pay GST to MIRA in respect of that supply.

However, Umar does make a taxable supply on which he is required to account for GST to MIRA. Umar supplies his welding repair services to Ahmed in return for payment by Ahmed by way of 5 tuna. Therefore, Umar must account to MIRA for GST output tax of 6% of the open market value of the 5 tuna.

Find out more


Example 4

Superlux Resort Limited (SRL) is a GST registered person in the tourism sector. In return for supplying temporary medical services for 2 weeks at the resort’s medical clinic, SRL gives Dr Sharma 1 week’s accommodation at no charge in its premium overwater bungalow. Dr Sharma is a medical practitioner registered with the Ministry of Health.

Continued…
SRL makes a taxable supply of resort accommodation to Dr Sharma. Dr Sharma has paid for that accommodation by supplying his medical services to SRL for 2 weeks. SRL must account to MIRA for GST output tax at the rate of 12% of the value of Dr Sharma’s services. Although Dr Sharma supplies medical services to SRL, they are GST-exempt supplies of health services. Therefore, they are not subject to GST. In addition, Dr Sharma will not be a GST registered person in respect of those services.

Find out more


How do I determine the open market value of goods or services supplied to me in a barter transaction?

The open market value of the goods or services supplied to you in a barter transaction is the price that the supplier of the goods or services to you would receive, if he or she had supplied the goods or services to another unrelated person for cash. If your barter transaction is with an unrelated party, MIRA will normally take the open market value to be the amount that you would have received if you had supplied the goods and services in a cash sale to another unrelated customer.

Example: 5

In Example 3, Ahmed could have sold the 5 yellowfin tuna at the Male’ fish market for MVR 400.

The open market value of the tuna is therefore MVR 400. If Ahmed and Umar are not related parties, Umar must account for GST output tax on MVR 400 as the value of the welding repair service supplied by him to Ahmed (i.e. 6% x MVR 400 = MVR 24) because MVR 400 is the price that Ahmed would have received if he had sold the tuna for cash at the fish market.

If Ahmed and Umar are related parties, Umar must instead account for GST output tax on the open market value of the welding services which he supplied to Ahmed, i.e. the cash price which Umar would have charged an unrelated customer for those services.
How do I calculate GST on goods or services supplied by me when the purchaser pays me partly in other goods or services and partly in cash?

To the extent that the purchaser pays you in cash, you must account to MIRA for GST output tax of 6% of the amount of cash if you are registered in the general sector, or 12% if you are registered in the tourism sector. To the extent that the purchaser pays you the balance in goods or services, you must account to MIRA for GST output tax of 6% of the open market value of the goods or services given to you if you are registered in the general sector, or 12% of that open market value if you are registered in the tourism sector.

**Example 6**

In Example 4, assume that in return for the resort accommodation supplied by SRL to Dr Sharma, Dr Sharma provided the 2 weeks’ medical services and paid SRL USD 500.

SRL must account for GST output tax on the cash portion of the payment, i.e. 12% x USD 500 = USD 60, and 12% on the value of Dr Sharma’s medical services, i.e. 12% of the cash price that Dr Sharma would charge an unrelated party for the same services.

Do I include the value of my barter transactions in my calculation of the MVR 1,000,000 GST registration threshold?

Yes. The GST Act requires that you include all of your taxable supplies (whether made for cash or in kind) when you determine whether you meet the GST registration threshold.

Do I prepare to issue a tax invoice when I exchange goods or services in a barter transaction?

Yes. If you are a registered person, the GST Regulation requires you to prepare a tax invoice within 3 days of the supply of your goods or services, regardless of how the purchaser pays for them.

How do I include goods or services supplied by me in a barter transaction on my GST return?

You must include the open market value of the goods and services which you received from the other party in your barter transaction, plus the amount of GST on that value, in Box 1 of your GST return.
If your supplies in a barter transaction are zero-rated supplies (e.g. Ahmed’s supply of tuna in Example 3), you must include the open market value of the supply in Box 2 of your GST return.

Similarly, if you are a registered person who makes some exempt supplies or out-of-scope supplies in a barter transaction, you must include the open market value of those supplies in Boxes 3 and 4, respectively, of your GST return.

You must also include all of your supplies made to other GST registered persons in barter transactions in your Output Tax Statement, which accompanies your GST return.

If I supply goods and services to my customer this month in return for him giving me goods and services of equal value in a future taxable period, in which GST return do I include this transaction?

The GST Act states that the time of supply of goods and services is the earlier of the time that you issue a tax invoice for the supply of your goods or services or the time at which the recipient makes full or partial payment for them.

Because you must prepare a tax invoice within 3 days of the date of the physical supply of your goods or services to him or her, the time of supply is this month, not at the time in the future when he or she makes payment to you in kind for the goods or services. Therefore, you must account for GST output tax on your supply in the GST return for this month.

**Example 7**

Fathimath is a GST registered person who supplies interior design services to Asma today in return for Asma supplying annual accounting services to Fathimath in 6 months’ time.

Fathimath must issue a tax invoice to Asma within 3 days of completion of the interior design services, and therefore account for GST output tax on the value of those services in the GST return for this month.

If my supplier supplies goods and services to me this month in return for my supplying him goods and services of equal value in a future taxable period, in which GST return do I include this transaction?

Since the time of supply of goods and services is the earlier of the time that you issue a tax invoice for the supply of your goods or services or the time at which the recipient makes full or partial payment for them, the time of supply is this month, i.e. when the other party supplies his or her goods or services to you as advance payment for the goods and service that you are to supply to him in a future taxable period. Therefore, you must account for GST output tax on your future supply in your GST return for this month.
Example 8
In Example 7, Asma’s supplier, Fathimath, supplies interior design services to Asma this month in return for Asma supplying accounting services to Fathimath in 6 months’ time.

Asma must also account for GST output tax on the value of her accounting services in her GST return for this month because she has received payment (in kind) from Fathimath this month for those services.

Can I claim an input tax deduction in relation to the goods or services that I obtain in a barter transaction?
Yes, if:

- your purchase of the goods or services was from a GST registered supplier who charged you GST on the supply; and
- your purchase was for the purpose of your making taxable supplies to your customers; and
- you hold a proper tax invoice at the time that you claim the input tax deduction, which evidences the amount of GST paid by you.

Example 9
In Example 2, ITV may claim an input tax deduction for the amount of GST that PSC charges ITV on the supply of its cosmetics to ITV. Similarly, PSC may claim an input tax deduction for the amount of GST that ITV charges PSC on the supply of its advertising services to PSC.

Example 10
In Examples 3 and 5, Ahmed may claim an input tax deduction for the GST of MVR 24 charged to him by Umar for Umar’s supply of welding services. Umar must give Ahmed a valid tax invoice showing this amount before Ahmed can claim the input tax deduction.

However, Umar cannot claim an input tax deduction in respect of Ahmed’s supply of fish to him because Ahmed did not charge Umar any GST on that supply: it was zero-rated. Even if the supply of fish were not zero-rated, Umar could still not claim an input tax deduction because he did not acquire the fish for the purpose of making his own taxable supplies of fitting and turning and welding services. The fish was (presumably) for private consumption.
Example 11

In Example 6, neither party to the barter transaction may claim an input tax deduction. SRL cannot claim an input tax deduction because Dr Sharma made an exempt supply to SRL and therefore did not charge SRL any GST.

Although SRL charged Dr Sharma GST, he cannot claim an input tax deduction because he is not a GST registered person (and, even if he was, he cannot claim input tax deductions in respect of expenditure incurred to make GST-exempt supplies).

On what amount do I claim my input tax deduction?

You may claim an input tax deduction in Box 7 of your GST return of the amount of GST stated in the tax invoice given to you by the supplier of the goods or services to you in your barter transaction. This amount should be 6% (for supplies in the general sector) or 12% (for supplies in the tourism sector) of the open market value of the goods or services that you gave in payment for those that you received.

When you agree with the other party to your barter transaction that the value of the goods and services provided to each other includes GST, your input tax deduction is \( \frac{6}{106} \times \) the value of the goods and services supplied to you (if the supply to you is by a person registered in the general sector) or \( \frac{12}{112} \times \) the value of the goods and services supplied to you (if the supply to you is by a person registered in the tourism sector).

The amount and details of the input tax deduction claim must be included in your Input Tax Statement, which accompanies your GST return.

Example 12

In Example 2, if ITV and PSC have agreed that the values of the cosmetics and advertising services supplied by each party respectively include GST, ITV and PSC may each claim an input tax deduction of \( \frac{6}{106} \times \) the value of the goods or service received from the other party. ITV and PSC must give each other a proper tax invoice to substantiate their respective input tax deduction claims.
5. Income Tax

Am I required to include my barter transactions in my income tax return?

Yes. If you are registered (or obliged to register) with MIRA for income tax, you must include the value of your barter transactions in your income figure in your financial statements, which accompany your income tax return. You must also include associated costs in your financial statements as well as in the relevant sections of your income tax return.

In what tax year do I report my barter transactions for income purposes?

If you adopt accrual accounting, you report your barter transactions in the accounting period in which the transaction takes place.

If you adopt cash accounting, you report your barter transactions in the accounting period in which you receive goods or services as consideration to you by the other party to the transaction, or in which you give goods or services as consideration by you to the other party to the transaction.

Example 13

Yaseen is a gasfitter and Musthaaq operates a dive school in Male’. Both are sole traders, registered for income tax. Yaseen prepares his financial statements on an accrual accounting basis while Musthaaq adopts cash accounting. They agree that Yaseen will repair tanks and other gas pipelines in Musthaaq’s workshop during November 20YY in return for Musthaaq giving Yaseen diving lessons in February 20XX.

Since Yaseen is an accrual accounting taxpayer, he must include the value of his repair services in his income statement for the accounting period in which the services are performed, i.e. in the year ended 31 December 20YY – not later when payment, by way of diving lessons given to him by Musthaaq, is received.

Because Musthaaq is a cash accounting taxpayer, he must include the value of his diving instruction services in the accounting period in which he receives payment for them, i.e. in the accounting period when Yaseen carries out his repair services – also in the year ended 31 December 20YY – not in the 20XX year when the diving instruction services are rendered.
In my income tax return, how do I value the sales which I have made in barter transactions?

You value the goods and services which you sell in barter transactions at the ordinary open market value of the goods and services, i.e. the price that you would get if you sold the goods or services for cash to an unrelated customer.

**Example 14**

In Example 13, the amount that Yaseen includes as revenue from his barter transaction with Musthaaq is the cash amount which he would charge an unrelated party for the same gas fitting repair services which he performed for Musthaaq. Similarly, the amount that Musthaaq includes as revenue from the provision of his diving instruction services to Yaseen is the cash price which Musthaaq would have charged a stranger for the same lessons.

Can I claim a deduction for expenses when I acquire goods and services for my business by exchanging them for other goods and services?

Yes, provided that the goods and services which you acquire are for the purpose of producing taxable income.

**Example 15**

In Example 13, Musthaaq may claim a deduction in respect of the costs he incurs to get the repair work carried out by Yaseen because those costs (which relate to providing the diving lessons to Yaseen) are incurred for the purpose of conducting his dive school business. However, Yaseen is not entitled to a deduction for the costs he incurs to provide his repair services to Musthaaq. Those costs are not incurred for the purpose of deriving income from his gas fitting business. They are incurred to obtain a private benefit; namely, learning how to dive. Expenditure incurred for private or domestic purposes is not deductible.

How do I quantify the amount of expenses in my income tax return when I make purchases through barter transactions?

The amount of deductible expenditure attributable to a barter transaction when you pay in goods is the cost price of the goods given to the other party in return for the goods or services provided by him or her to you.
If you supply services to the other party in payment for goods or services purchased from him or her, the amount of your deduction is the ordinary open market value of your services less your profit margin.

Example 16

Mariyam conducts an importing business. Rasheeda is in practice as a lawyer. They are both sole traders and are registered taxpayers. Rasheeda gives legal advice to Mariyam concerning a dispute with the Maldives Customs Service, in return for which Mariyam gives Rasheeda stationery, which Mariyam imported at a cost of MVR 6,000. Mariyam could otherwise have sold the stationery to a retailer for MVR 8,000.

Mariyam may claim a deduction for income tax purposes for the cost of the legal advice of the amount of the cost price of the goods which she gave to Rasheeda in payment for the advice, i.e. MVR 6,000. She cannot claim a deduction for the resale value of the stationery because that amount (MVR 8,000) includes her profit margin, which is not part of the cost which she incurred.

Rasheeda may claim a deduction of the ordinary open market value of the legal services which she supplied to Mariyam, less her profit margin. If she provided the same legal advice to another client for a cash payment of MVR 8,000 and her profit margin was 25% of the total fee charged, she could claim a deduction of MVR 6,000, i.e. the open market value of the legal services (MVR 8,000) less her profit margin (25% x MVR 8,000).

Can I claim the capital allowance if I pay for plant and machinery which I purchase for my business by giving the vendor some of my trading stock?

Yes. The cost price of the plant and machinery is the cost price of the trading stock which you gave to the other party as payment for the plant and machinery.

Example 17

Sunil operates a hardware store. On 26 April 20YY, Shelving Supplies Pvt Ltd (SSPL) sells Sunil heavy duty integrated shelving units for his newly expanded shop in return for 8 generators, which Sunil has for sale. Sunil paid MVR 10,000 for each generator, which has a retail price of MVR 15,000. He began using the shelving on 15 May 20YY. Sunil and SSPL are registered for income tax.

The integrated shelving units which Sunil has acquired are a capital asset, in respect of which Sunil may claim a capital allowance each year at the rate of 10% [refer Income Tax Regulation (ITR) s 83(a)] of the cost price. The cost price is MVR 80,000, i.e. the 8
Generators given to SSPL in payment for the shelving units, valued at the cost price to Sunil of MVR 10,000 each.

Do I have to calculate the balancing charge or balancing allowance when I sell a business capital asset in exchange for goods or services supplied by the purchaser?

Yes. Taxpayers must calculate the balancing charge or balancing allowance when he or she sells a business capital asset, regardless of whether the purchaser pays for the asset in cash or in kind.

How do I calculate the balancing charge or balancing allowance when I sell a capital asset purchased through a barter transaction?

You must calculate the difference between the disposal value of the capital asset which you sold and the tax written-down value recorded in your accounting records. The disposal value in a barter transaction is the price that you would have received for your capital asset if you had instead sold it for cash on the open market.

Example 18

Assume that SSLP in Example 17 sells its 8 generators to Abdulla 2 years after acquiring them from Sunil. Abdulla makes payment for them by providing SSPL with free delivery services in his pick-up truck for the next 9 months. SSPL’s tax written-down value of the generators at the time of sale is MVR 64,000. The open market value of the generators is MVR 35,000.

SSPL must calculate the balancing charge or balancing allowance by deducting the tax written-down value (MVR 64,000) from the ordinary open market value of the generators at the time SSPL sells them to Abdulla (MVR 35,000), i.e. MVR 35,000 – MVR 64,000 = MVR -29,000. Therefore, SSPL may claim a deduction for the balancing allowance of MVR 29,000 in its 20ZZ Income Tax return.
The following laws, regulations and tax rulings provide the legal basis for the guidelines provided in this guide:

- **Income Tax Act (Law Number 25/2019)**
- **Income Tax Regulation (Regulation Number 2020/R-21)**
- **Goods and Services Tax Act (Law Number 10/2011)**
- **Goods and Services Tax Regulation (Regulation Number 2011/R-43)**
FOR QUERIES

1415

1415@mira.gov.mv

FOR LATEST NEWS AND UPDATES

Maldives Inland Revenue Authority
MIRAmaldives
MIRA Maldives
miramaldives
www.mira.gov.mv