MIRA G836

Guide to Input Tax in relation to Capital Expenditure
Guide to Input Tax in relation to CAPEX

Published on 28 May 2018

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1. Introduction

This guide explains the GST treatment of input tax in relation to capital expenditure.

Input tax in relation to revenue expenditure can be deducted within 12 months from the end of the taxable period in which the input tax first could have been claimed. However, a special set of rules exists when it comes to deducting input tax in relation to capital expenditure.

“Claiming input tax” or “deducting” input tax means including the input tax figure in the relevant box of the GST return.

The term “capital expenditure” is hereinafter abbreviated to “CAPEX” and used throughout this guide.
2. CAPEX for the purpose of GST

Any expenditure that must be recognized as a CAPEX under an international accounting standards acceptable to MIRA, must be treated as a CAPEX for the purpose of GST.

Find out more

An up-to-date list of international accounting standards acceptable to MIRA is available at http://bit.ly/2CJdZ6f

If the value of goods must be capitalized under an accounting standards acceptable to MIRA, such goods will be considered as capital goods. The following standard rules apply to the GST treatment of capital goods.

(a) A supply of capital goods is standard-rated.

(b) If capital goods are used solely for exempt-supply, no input tax can be claimed.

(c) Where capital goods are used for making both taxable and exempt supplies, input tax would need to be apportioned according to its proportional taxable use.
3. General rules on claiming input tax in relation to CAPEX

Limitation to the taxable activity level

Unlike input tax in relation to revenue expenditure, input tax in relation to CAPEX can only be set off against the output tax generated by the taxable activity in respect of which the CAPEX was incurred.

Example 1: Limitation to the taxable activity level

Shareef, a GST registered person, owns two retail shops. Shareef is also planning to start an exclusive grocery shop, and he has already started the construction work of the building to be used for grocery shop, which he expects to be completed in 6 months’ time.

Shareef cannot deduct the input tax in relation to CAPEX incurred in respect of the construction of the grocery shop from the output tax that is generated from his retail shops. That particular input tax can be only be claimed against the output tax generated from the grocery shop.

Deduction of input tax can commence only after an output tax is generated from that taxable activity

If a taxable activity is yet to generate an output tax, input tax in relation to CAPEX can be deducted only after the respective taxable activity starts to generate output tax from its primary business operations.

Example 2: Deduction of input tax can commence only after an output tax is generated

Consider the case in Example 1. Shareef cannot claim, or in other words, cannot include in the input tax statement, input tax in relation to CAPEX incurred in respect of the grocery shop until and unless that grocery shop starts to generate output tax from its primary business operations.

However, output tax, if any, generated from the grocery shop prior to the commencement of its primary business operation must be fully accounted for to MIRA in the relevant taxable period. For example, Shareef may dispose scrap from construction of the building thereby generating some output tax. However, for the purpose of claiming input tax in relation to CAPEX, the grocery shop did not start generating output tax.
Example 3: Deduction of input tax can commence only after an output tax is generated

Consider the case depicted in Example 1 and 2. Shareef’s business has now expanded to such an extent that he has decided to construct a building to house his office. His office will not be a separate taxable activity, and will not be generating any direct output tax. Can he claim input tax incurred in building the office?

Since this expenditure is not specifically related to one single taxable activity, he will be allowed to deduct the input tax incurred for the construction of the office building from the output tax generated by other activities. However, capital expenditure will be deemed to have incurred only upon completion of the project. [see Examples 14 &15]

Input tax in relation to CAPEX for both exempt supply and taxable supply

If input tax in relation to CAPEX is incurred for the supply of both exempt goods and services and taxable goods and services, only the reasonably proportionate amount that can be associated with the supply of taxable sales can be deducted as input tax.

Example 4: CAPEX incurred for supply of both exempt supply and taxable supply

Aslam, a GST registered person, has just completed a three-storey building on the plot of land he inherited from his father. Ground floor will be used for a retail shop, while other two floors will be let under a conventional lease to earn rental income. It can be reasonably estimated that the total CAPEX spent on each floor to be the same.

Although the whole building will be used for business purpose, Aslam cannot claim the total amount of input tax incurred on the whole building, as a part of building will be leased to earn rental income which is exempt from GST. However, subject to other rules, he can start claiming one-third of the total input tax in relation to CAPEX incurred on the whole building once the shop starts to generate output tax.
4. Gross CAPEX of MVR 500,000 or less

For the purpose of determining the amount of gross CAPEX, GST exclusive value must be considered.

**Example 5: Determining the amount of gross capital expenditure**

Faisal, a GST registered person, spends MVR 510,000 (inclusive of GST) to replace beds in his guesthouse. To determine whether this capital expenditure is above MVR 500,000 or not, GST exclusive value must be considered. Since GST exclusive value is MVR 481,132, this capital expenditure is below MVR 500,000.

If the gross CAPEX incurred in the acquisition of “similar products” or for the “same purpose” is MVR 500,000 or less, input tax in relation to such expenditure can be deducted in full from the output tax of that taxable activity in the taxable period in which it was incurred. If sufficient output tax is not available to set-off this input tax in full, remainder can be carried forward to be deducted under same rules for further 12 months. Counting of 12 months starts after the end of the taxable period in which the expenditure was incurred.

“Similar products”

Similar products are products that have similar characteristics and meet the same needs of consumers. Similar products need not strictly be identical in nature, but need to have similar and comparable use.

**Example 6: Similar products**

1. Laptop computer and desktop computer
2. Desk and table
3. Car(sedan) and minivan
4. Wooden boat and fiberglass boat

**Example 7: Similar products**

Alifushi Airport Maldives Pvt. Ltd operates a domestic airport, and is a monthly GST filer. Alifushi Airport adds to its fleet of vehicles, as below.

<table>
<thead>
<tr>
<th>Invoice date</th>
<th>Number of vehicles</th>
<th>Type of vehicle</th>
<th>GST exclusive Price (MVR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Feb 20X8</td>
<td>1</td>
<td>Car (Sedan)</td>
<td>375,000</td>
</tr>
<tr>
<td>13 Feb 20X8</td>
<td>1</td>
<td>Minivan</td>
<td>475,000</td>
</tr>
</tbody>
</table>
Although the transactions were carried out on different dates and invoiced on different dates, the values of similar capital items purchased in the taxable period must be taken together when determining the amount of capital expenditure incurred. In this case, the combined value of the vehicles is greater than MVR 500,000, and therefore value of the capital expenditure does not fall within the bracket of MVR 500,000 or less.

“For the same purpose”
CAPEX incurred for the same purpose includes, but is not limited to, CAPEX incurred for the same project or improvement of the same asset.

Example 8: CAPEX incurred for the same purpose
Max Getaway Pvt. Ltd. is due to start the construction of their latest business venture, a resort in Laamu Atoll. CAPEX incurred during the whole construction phase up until the resort officially opens would be classified as CAPEX incurred for the same purpose.

Example 9: CAPEX incurred for the same purpose
Aslam Rasheed is a sole trader who runs a grocery store in Male’. Ahmed Rasheed has decided to improve the condition of his store by installing a new air-conditioner and a deep freezer. The CAPEX incurred for installing the air-conditioner and the deep freezer would be classified as CAPEX incurred for the same purpose.

Example 10: Gross CAPEX of MVR 500,000 or less
Consider the case in Example 9. Suppose the total amount of CAPEX incurred for the upgrade of his business premise was MVR 450,000, and the output tax generated by that grocery store during that taxable period was MVR 200,000.

In this case the CAPEX incurred for the same purpose was less than MVR 500,000. Hence, Aslam Rasheed can deduct input tax of MVR 27,000 in the taxable period in which it was incurred provided that sufficient output tax is available after deducting revenue input tax claimable for that period from MVR 200,000.

Example 11: Gross CAPEX of MVR 500,000 or less
Transfer Ferry Pvt. Ltd. is a speed boat service operator servicing between Fuvahmulah City and Addu City. In order to upgrade one of the speed boats in its fleet, Kurangi-3 was taken out of the operation for the whole taxable period and its 20 horse-power engine was replaced with the more powerful 75 horse-power engine. The CAPEX for the upgrade was MVR 500,000, incurring an input tax of MVR 30,000. The input tax in relation to revenue
expenditure of the company for the period was MVR 5,000. The output tax generated by the company in the taxable period amounted to MVR 25,000. How should the company claim the input tax incurred in the upgrade of Kurangi-3?

**Solution**

Since the company is exclusively in the business of transportation service, the whole business is considered as a single taxable activity. Transfer Ferry Pvt. Ltd. can claim input tax in relation to this CAPEX, up to an amount of not greater than MVR 20,000 in the taxable period in which it was incurred. The remaining MVR 10,000 can be taken over to the next taxable period and can be claimed under the same rules.

Any amount left unclaimed after 12 months can never be claimed in any taxable period.
5. Gross CAPEX of more than MVR 500,000

If the gross CAPEX incurred in the acquisition of similar products or for the same purpose is more than MVR 500,000, input tax in relation to such expenditure must be deducted from the output tax equally over 36 (thirty-six) months from the taxable period in which such expenditure was incurred.

Example 12: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

DM Resorts Pvt. Ltd, a resort operator in Male’ Atoll, had completed a major project to upgrade the resort, whereby the resort became a seven-star luxury resort from a five-star resort. The project has been initially estimated to cost MVR 25 million (exclusive of GST), out of which MVR 15 million was expected to incur input tax. DM Resorts files its GST return on a monthly basis.

Suppose that the project was completed on 25 January 2018, and the actual of input tax in relation to CAPEX incurred for the project was MVR 970,020.

This project would fall within “expenditure incurred for the same purpose, with a value of CAPEX greater than MVR 500,000”. Hence, input tax in relation to this CAPEX should be claimed over 36 months starting from the taxable period in which the project was completed [In this case January 2018]. Subject to the other conditions, the maximum amount of input tax that can be deducted in each month, starting from the month of January would be MVR 26,945 [970,020 ÷ 36]

If the taxable activity has never generated an output tax [for example, a new resort under construction], input tax deduction can start only after the taxable activity’s primary business operation starts and the 36-month period will be counted starting from the last month of the taxable period during which an output tax is generated for the first time.

Example 13: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

Silk Hotels & Resorts Pvt. Ltd, is currently under taking, a mega project of MVR 50m to develop a new seven-star rated hotel in Maldives. The project is expected to be completed by 31 December 2018, and the resorts primary business operation is expected to commence during the month of March 2019. The resort expects to generate some output tax from sale of scrap materials generated during the construction stage.

In this case, the resort cannot start claim input tax in relation to CAPEX, before its primary business operation starts. Suppose the project goes according the plan and the resort starts its primary business operations in the taxable period of March 2019, the resort will have to claim input tax in relation to CAPEX over 36 months, counting from March 2019.

Note that the rule for the starting date of counting is different where the taxable activity is generating an output tax for the first time. In such cases, 36-month period is counted starting from the last month of the taxable period during which an output tax is generated for the first time.
There exists a further condition, that must be satisfied when claiming input tax in relation to CAPEX of more than MVR 500,000 over a 36-month period.

In such a case, the CAPEX claimed in a taxable period must not exceed the amount remaining after the total input tax in relation to revenue expenditure that can be claimed in that taxable period and the total input tax in relation to CAPEX that is deductible for all CAPEXs of MVR 500,000 or less are deducted from the output tax of that taxable activity for that taxable period. Any excess remaining can be carried forward to be deducted in subsequent taxable periods.

Example 14: Gross CAPEX incurred for the same purpose (more than MVR 500,000)

CAPEX incurred for the taxable period of January 2018 for the project K by Sample Pvt. Ltd. was MVR 20,000,000 [exclusive of GST]. Total output tax for the month was MVR 100,000 and the total input tax in relation to revenue expenditure that can be claimed in the taxable period is MVR 65,000. Input tax remaining from previous periods for an expenditure of less than MVR 500,000 is MVR 20,000. What would be the maximum amount of input tax in relation to CAPEX for project K that can be claimed in the taxable period?

Solution

- Input tax in relation to CAPEX for project K = MVR 1,200,000 [6% of 20 million]
- Total amount of output tax = MVR 100,000
- Input tax in relation to revenue expenditure that can be claimed = MVR 65,000
- Input tax in relation to CAPEX in the bracket of MVR 500,000 or less = MVR 20,000
- Input tax allowance available for CAPEX of project K = 100,000 – 65,000 – 20,000 = MVR 15,000
- Actual amount input tax available per month from the project K = 1,200,000 / 36 = MVR 33,333

Maximum claimable for project K during this taxable period is MVR 15,000. The remaining amount of MVR 18,333 can be deducted in subsequent taxable periods, subject to the availability of sufficient input tax allowance and within the original 36-month time frame.
6. Identifying the taxable period in which the CAPEX for the “same purpose” was incurred.

Expenditure incurred for the “same purpose” or a project may be practically spread over a number of taxable periods. For the purpose of input tax in relation to CAPEX, the taxable period in which CAPEX was incurred would be the taxable period in which the project was completed.

**Example 15: Identifying the taxable period in which the CAPEX was incurred**

Nika Resorts Pvt. Ltd. is the operator of Nika Island Resort. Nika Island had started a new project to extend the bed capacity of the resort on 1 March 2017 and completed the project on 20 February 2018 by completing the project of additional 15 beach rooms.

For the purpose of input tax, the capital expenditure would be deemed to have incurred on 20 February 2018.

**Example 16: Identifying the taxable period in which the CAPEX was incurred**

Aishath owns and runs a café in Hulhumalé, and is registered for GST. Recently Aishath has built an extension to the café especially for takeaways. It took 3 months for Aishath to complete work required for the takeaway extension.

Although, Aishath had started spending on the extension right from the start of that work, for the purpose of input tax, the expenditure was incurred on the date the work was completed.
7. Submission of the Information Sheet in relation to the CAPEX

Details of the CAPEX incurred in a taxable period must be submitted to MIRA together with the tax return of the taxable period in which that CAPEX was incurred, in accordance with the format prescribed by MIRA.

If the details of input tax in relation to CAPEX is not submitted as required, such input tax cannot be deducted in any taxable period.

Find out more

Format of the Information Sheet for Input Tax in Relation to CAPEX is available at http://bit.ly/2E0BSWZ

GST registered taxpayers wishing to claim input tax in relation to CAPEX must submit the information sheet and file GST returns online, via MIRAconnect.

Find out more

Taxpayers can register for MIRAconnect via http://bit.ly/1S30fV0. MIRAconnect user guide is available at http://bit.ly/2ji4S1d

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