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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.
I. Introduction

This guide is issued to help you understand:

- Applicability of exchange rate on Income Tax, Goods and Services Tax and Withholding Tax
- To identify which currency and exchange rate to be used for tax purposes.
2. Income Tax

2.1 In which currency should I maintain my accounting records?

You must maintain your accounting records in the functional currency in which you operate.

2.2 What is “functional currency” and how do I determine my functional currency?

Functional currency means the currency of the primary economic environment in which you operate. To determine the functional currency, principles in International Accounting Standard 21 (The Effects of Changes in Foreign Exchange Rates), must be applied.

2.3 How should I record transactions in currencies other than the currency in which I maintain my accounting records?

Transactions in currencies other than the currency in which you maintain your accounting records must be recorded by applying principles in IAS 21 (The Effects of Changes in Foreign Exchange Rates), using a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the relevant date of the transaction.

2.4 In which currency should I prepare my financial statements?

Your financial statement must be prepared in your functional currency.

2.5 What is “Presentation currency”? Could it be different from my functional currency?

Presentation currency is the currency in which you present your financial statements and other documents specified in section 102(a) of Income Tax Regulation. Your presentation currency may be different from your functional currency.

If your functional currency is Rufiyaa, your presentation currency must be Rufiyaa.
If your functional currency is USD, your presentation currency must be USD.

If your functional currency is a currency other than Rufiyaa or USD, your presentation currency can be prepared in either Rufiyaa or USD.

2.5 If my presentation currency is different from my functional currency, how should I translate my financial statement into my presentation currency?

If your functional currency is different from your presentation currency, the transaction must be converted to presentation currency by applying principles in IAS 21 (The Effects of Changes in Foreign Exchange Rates), using a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the relevant date.

**Example 1: presentation currency is different from functional currency**

Ahmed is a travel agent who mainly deals with the European customers. Hence, most of his transactions are recorded in Euro.

- What is his functional currency?
  
  *Ahmed’s functional currency is Euro.*

- What would be his presentation currency?
  
  *His presentation currency can be either USD or Rufiyaa.*

- Which exchange rate must he use to convert Euro to presentation currency?
  
  *He must use a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the relevant date.*

<table>
<thead>
<tr>
<th>Functional Currency</th>
<th>Presentation Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>MVR</td>
<td>MVR</td>
</tr>
<tr>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>Other</td>
<td>MVR or USD</td>
</tr>
</tbody>
</table>

2.6 In which currency should I prepare my Income Tax returns?

The income tax return and income tax interim return must be prepared in your presentation currency.
2.7 In which currency should I pay Income Tax?

If your presentation currency is in Rufiyaa, your payment must be in Rufiyaa. However, if your presentation currency in USD, you can either make the payment in USD or convert USD to Rufiyaa by using the exchange rate of MVR 15.42.

Non-resident withholding tax (NWT) and employee withholding tax (EWT) must be paid in Rufiyaa.

2.8 Which reference should I use if the Maldives Monetary Authority has not published a rate for a given date?

If the Maldives Monetary Authority has not published a rate for a given date, the reference rate for that date will be the last published rate prior to that date.

2.9 If I make a payment subject to non-resident withholding tax (NWT) in a foreign currency, how should I convert to Rufiyaa?

If you pay the non-resident in a currency other than Rufiyaa, when making the NWT payment, the amount should be converted to Rufiyaa using an exchange rate within ±2% of the rate published by the Maldives Monetary Authority on the day on which you make the payment to the non-resident. In addition, the source of the foreign exchange rates that you adopt must be used consistently.

However, if the payment is made through a commercial bank operating in Maldives, you have the option of using the exchange rate quoted by that bank for the transaction.
**Example 2: Exchange rate to be used**

KAMA travels accrued a payment from which NWT must be deducted as being payable to a non-resident on 20\(^{th}\) September 2020. The non-resident’s invoice had been in USD, and the remittance of the payment to the non-resident was done in USD on 28\(^{th}\) September 2020 through the Bank of Malé.

KAMA travels can covert the amount to MVR to be included in the return, either:

- using an exchange rate within ±2% of the rate published by the MMA on 20\(^{th}\) September 2020, or
- the rate applied by the bank, if the remittance on 28\(^{th}\) September 2020 involved an MVR-USD conversion by the bank.
3. Goods and Service Tax (GST)

3.1 In which currency should I prepare my GST return?
If you are providing goods and services in the general sector, you are required to prepare your GST return in Rufiyaa to MIRA.
If you are providing goods and services in the tourism sector, you are required to prepare your GST return in USD to MIRA.

3.2 In which currency should I pay GST?
If you are providing goods and services in the general sector, you are required to pay GST in Rufiyaa.
If you are providing goods and services in the tourism sector, you are required to pay GST in USD.

3.3 I am registered in the general GST sector. If I issue tax invoice in a currency other than Rufiyaa, how should I translate it to Rufiyaa?
If you are registered for the general GST sector and if you issue a tax invoice in a currency other than Rufiyaa, to translate the transaction to Rufiyaa, you must use a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the time of supply of the transaction.

Similarly, if you are registered for the tourism GST sector and if you issue a tax invoice in a currency other than USD, you must convert the transaction to USD by using a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the time of supply of the transaction.
3.4 I am registered in the general GST sector. If I receive a tax invoice in a currency other than Rufiyaa, how should I translate it to Rufiyaa?

If you are registered for the general GST sector and if you receive a tax invoice in a currency other than Rufiyaa, to convert the amount to Rufiyaa, use a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the time of supply of the transactions.

Similarly if you are registered for the tourism GST sector and if you receive a tax invoice in any other currency other than USD, to convert the amount to USD, use a rate within ±2% of the rate published by the Maldives Monetary Authority (MMA), pertaining to the time of supply of the transactions.

Example 5: Tax invoice received in a currency other than Rufiyaa

ABC resort bought food supplies from XYZ store in Male’ costing MVR 5,600. XYZ store issued a tax invoice on 21st May 2019.

MMA rate for that day was USD 1 = MVR 15.42, and if ABC resort chooses that rate, the amount ABC resort must record in their books would be (5600/15.42) = USD 363.16.

3.5 In which currency should I prepare my Input tax Statement and Output Tax Statement?

All the figures in your input tax statement or output tax statement must be in the currency in which your GST return is prepared.
4. Relevant laws, regulations and tax rulings

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

- Tax Administration Act (Law Number 3/2010)
- Tax Administration Regulation (Regulation Number 2013/R-45)
- 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)
- IAS 21 The Effects of Changes in Foreign Exchange Rate