MATI's Main Recommendations on Taxes

BPT, T-GST, GST and PIT

1. Because taxation is new in this country, **we need to educate the establishments and the general public that will be paying taxes.**

2. It is proposed to introduce GST and PIT in a period of two to three months this year. **The introduction has to be staggered over a longer period of time.**

3. **There is a need to study the effects of the combined burden of having to pay all these taxes on those affected.**

BPT

4. BPT - Capital Allowance on Building 4% as per the BPT

   It is imperative to have the depreciation on Building to be allowed also over the unexpired lease period.

5. Open Market Value of Asset

   It would be better to take the book value of the asset and also the cost of valuing the properties could be avoided.

   Recommended principle: business valuation as per GAAP = fiscal valuation

6. Low Cost Value Asset

   The value should be up to USD 5000/- and the max allowed under this section of Mrf.100, 000 is too small and this value should be fixed at USD 100,000

7. Deduction is not allowed on Capital Expenditure

   Require to relook at the definition of the capital expenditure or provide replacement cost as an allowable expenditure.

8. **Withholding Tax of 10% to be removed completely**

9. Managerial Remuneration

The restriction on managerial remuneration should be removed with Income tax for individuals are on the cards this restriction should be removed.

I. Introduce GST as from 1st January 2012 or as from middle of 2012. Regulations and educating the public in GST are very important part of this exercise if GST is to be successfully introduced as was the case with the introduction of T-GST. T-GST was collected from a highly regulated sector of the economy. The same cannot be said of the other sectors of the economy or of the general public who would end up paying this tax.

II. Introduce PIT starting from 1st January 2013 and not before. Again, setting up the regulatory framework and educating the general public are very important elements.

III. Introduce BPT (CPT) on 1st January 2012 and not on 18th July 2011 as is planned at present. There are several legal issues with the ruling by the Attorney General by issuing a verdict that BPT (CPT) can be collected starting on 18th July 2011. We suspect many companies will simply not pay and expect MIRA to take them to Court for a Court verdict on this before paying.

IV. Keep T-GST at 3.5% until end 2012 and change to 7% (maximum that we recommend) as from 1st January 2013. If this is acceptable, then this change should be announced at least one year before the introduction in order to make sure that this tax can be collected from the tourist. At present most resorts have to pay a large part of T-GST by themselves until 1st November 2011. Under contractual obligations many of the resorts are unable to collect T-GST from the tourist until 1st November 2011.

Detailed Discussions (FIRST DRAFT)

Tax implications and recommendations by the tourism industry for review

1. Taxes in force / to be introduced

Business Profit Tax (BPT)

BPT charged, under the Business profit Tax Act (Act Number 5/2011), on profits of all businesses carried out in Maldives. Published in the Government Gazette on 18 January 2011, it will commence after 6 months from this date. Companies, partnerships, individuals and all persons who are resident or carrying out business in Maldives subject to tax under this Act. In addition, certain payments made by any Person to a non-resident would also be subject to tax.

Tax Rates

Companies, Partnerships and other Persons	15 percent
Profit from sources outside Maldives	5 percent
Withholding tax	10 percent

Tourism–Goods & Services Tax (T-GST)

T-GST is charged under the Tourism Goods and Services Tax Act (19/2010) on the value of goods and services supplied by tourist establishments and the service providers mentioned in this Act, to tourists in the Maldives.

Tourists are considered as Non-Maldivian nationals who enter the Maldives and not in possession of a "Resident Permit"

Service providers to be registered for T-GST: Tourist resorts, tourist hotels, picnic islands, guest houses and tourist vessels, Diving schools, resort shops, spas, water sport facilities and other such facilities located on tourist establishments, Travel agencies and providers of domestic air and sea transportation services to tourists.

Tax Rate

Currently rate	3.5%
1st January 2012 (proposed)	6.0%
1st January 2013 (proposed)	10.0%

The Industry needs a minimum of 6 months increase notice for any increase. We also need to remove the Bed Tax with the GST.

Goods & Services Tax (GST)

GST of 5% is being proposed to be charged of all goods and services in Maldives

This is something that is not needed in this country. Maldives being such a small economy this general GST will just increase the General Price level and will have double impact on the whole Country and the Tourism Industry additionally.

Personal Income Tax (PIT)

PIT to be introduced on income received from activities other than a business

Applicable to: Any Resident or non resident of the Maldives who earns an income in the Maldives, Any resident of the Maldives who earns and income abroad

Tax Rates and bandwidth

Less than 30,000	–	0%

(The threshold of Mrf 30,000 Is very low to start)

30,000 to 60,000	–	3% on any income above 30,000 to 60,000
60,000 to 100,000	-	3% on 30,000 and 6% on income above 60 thousand to 100,000

100,000 to 150,000	-	3% on 30,000, 6% on 40,000 and 9% on 100 to 150 thousand income
Above 150,000	-	3% on 30,000, 6% on 40,000, 9% on 50,000 and 15% on the income above 150,000

2. General Implications and Recommendations relating to BPT, T-GST, GST and PIT

The business community and those earning incomes above a certain threshold should contribute to Government budget in order to enable Government to function properly. The tourism industry is agreeable to paying T-GST, GST, BPT and PIT. But there are a number of issues that need to be addressed and if possible agreed upon, before these taxes should be introduced.

5. Government should be made more accountable on how tax payers' money is spent. This is about fiscal responsibility on the part of the Government. Is the Government discharging this duty to any reasonable degree?

6. Taxation is new in this country. Maldivians are not used to a tax culture. Introduction of a tax culture would **require educating the establishments and the general public that will be paying taxes.** T-GST is collected from a sector that keeps proper accounts, etc., and as such there were no major issues in collecting this tax. Can the same be said about the other sectors of the economy and the general public?

   Due to the infant tax administrative system only those who try to comply with the law get taxed over and over again

7. It is proposed to introduce GST and PIT in a period of two to three months this year. BPT is being started as from 18th of July. T-GST was introduced on 1st January 2011. This is just too much to be introduced in this short space of time and therefore we cannot agree to the proposed time frames set for the introduction of these various taxes. **The introduction has to be staggered over a longer period of time.**

8. **There is a need to study the effects of the combined burden of having to pay all these taxes on those affected.** The negatives and positives have to be weighed in before the introduction of theses taxes. The economy should not suffer as a result of taxation. Such a study would reveal the effects on the economy. It is not clear if such an impact study was conducted

9. It appears that the Government's idea to collect all these taxes at once is to ensure that budget deficits are wiped out. Given the Government's spending patterns at present, there is no guarantee that these additional revenues will be sufficient to achieve a balanced budget.

10. The proposed taxes are especially heavy on the Tourism Industry and will result in a very negative impact on the industry. Tourism will cease to be an attractive industry to invest in. As a result, new investments will be slowed. Proposals to banks to borrow will not look that attractive any more. Bank lending to this sector will become more and more selective. This is not what we like to see in this country.

11. Finally, should we continue to "milk the cow dry"? Certainly not is the answer. We need to re-examine the present proposals on taxation and determine a more

workable formula on all aspects of the present proposals, if the tourism sector's growth is to be kept at the pace required for economic growth and the restructuring proposed by the government.

3. Tax Specific Implications and Recommendations

BPT Implications and Recommendations

1. Capital Allowance on Building 4% as per the BPT

   This should be changed to allow depreciation on the unexpired lease period of the land according to the accounting standards. The books of accounts are prepared according to IFRS and hence depreciation is calculated on the unexpired of the lease period. In case where the unexpired period is less than 25 years or more than 25 years, the assets are not depreciated over the lease period. **Hence it is imperative to have the depreciation on Building to be allowed also over the unexpired lease period.**

   In our opinion not only building most of the rates are not acceptable. The Underlying assumption of "Capital allowance" is to give the tax benefit within the "Economic Useful Life of the Particular Assets" We can sight particular example. One is Building Capital Allowance over 25 years is not at all suitable to Tourism Industry as no Hotel is going to continue with the same Room for such a long period. As we all know generally every Resort now goes for reconstruction and development every 12 to 15 years. Hence for Tourism Industry the maximum period of the Bridling should be 15 years or the Maximum of unexpired lease period whichever is lower. Also for example the Boat or Dhoni where they are expecting to give the Capital Allowance over a period of 15 years; generally under the difficult working condition the economic useful life of a Boat is much lower than this. Hence the Capital Allowance for most of the assets needs to be relooked at keeping in mind the main industry in the Country.

2. Open Market Value of Asset

The value to be taken for the assets at the time of the commencement of the act should be the written down value basis only (book value) and not the open market value. The properties have to be valued and again the basis of valuation itself is a debatable issue, whether to value on as a going concern basis or future earnings method etc., **hence it would be better to take the book value of the asset and also the cost of valuing the properties could be avoided.**

The valuation of assets at open market would be a titanic task which will not only be very costly and may require a long period of time, but would lead to endless debates and litigation in the courts, in the absence of reliable and generally accepted criteria of valuation, particularly for fixed assets (real estate e.g.) . In the current conditions therefore, continuing to take the usual value used in accounting (historical, LIFO, FIFO, etc. values) is the most practical solution.

Recommended principle: business valuation as per GAAP = fiscal valuation

3. Low Cost Value Asset

With the present inflationary trend and the current cost of operations the value fixed at Mrf.5000/- for write off is very low. **The value should be up to USD 5000/- and the max allowed under this section of Mrf.100, 000 is too small and this value should be fixed at USD 100,000**

(We cannot fix an upper limit. It depends on the size of the operation and number of rooms in case of the resort. Instead of putting a value limit they can clearly define and have certain rules to consider a particular expense to be charged to PL or capitalized and claim Capital Allowance. We should not agree for any upper limit and in any case US$ 100,000 is too low. Just consider an example of a resort with 300 rooms changing the Compressor system of AC will cost this or more than this. Leave alone all such other expenses.)

Or

The exact amount defining the line between assets and expenditures should not be written in the act, but rather be determined from time to time (yearly e.g.) by the Ministry of Finance, along with the other amounts and rates which need to be reviewed periodically depending on the evolution of prices and the appearance of new technology.

Recommended principle: low value assets rules as per GAAP = fiscal rules

4. Deduction is not allowed on Capital Expenditure

   The expenditure on replacements of Linen, Cutlery and Crockery, water tanks etc., is high but does not enhance the capacity or productivity of the asset, but the expenditure is an essential to maintain the standards particularly being tourism industry. Hence require to relook at the definition of the capital expenditure or provide replacement cost as an allowable expenditure.

5. Withholding Tax of 10% to be removed completely

   This has got no benefit to the person to whom the payment is sent. We do not have double taxation agreement with any of the countries, hence this 10% of deduction no party is going to accept the deduction since they cannot claim credit for this deduction in their respective countries. It is going to be an increase in cost of operations for the company's resident in Maldives and we will have to absorb and none of the overseas parties will agree for the deduction in their payment of bills.

   Withholding Tax of 10% to be removed completely

6. Managerial Remuneration

The restriction on managerial remuneration should be removed with Income tax for individuals are on the cards this restriction should be removed. Moreover it is not clear what happens in case there is a loss. The Directors are also working for the company and remuneration is paid to them for the purpose of earning income to the company, hence it would be inappropriate to restrict it. Moreover the relative of the director should not be brought under the managerial remuneration limit, if he or she works in her/his individual capacity as a professional and working as an employee of the company. The proper manner to solve this issue simply and justly is to make the remuneration of director's neutral from a fiscal perspective, so that, in time, the total amount of taxation will be the same regardless whether levied on remuneration, profit or dividends. The restriction on managerial remuneration should be removed with Income tax for individuals are on the cards this restriction should be removed

May be we should argue in a positive way where we should highlight the fact that we should pay as per the Industry norm practice in the rest of the world with addition for severe local conditions in order to attract qualified and experienced people. So in this capacity even if a Director or owner works it should be remunerated as per the Industry norm.

7. Loss Relief

As per the Act the loss can be claimed only from the commencement of the act and can be carried forward for 5 years. As a onetime option the exisisting losses which are there on the date of commencement should be allowed and also the carried forward for 5 years should be changed to 10 years. With the new resorts investments touching around 70 Million dollars, the initial years of operations are always a loss and if this cannot be carried forward beyond 5 years the industry is being deprived of the benefit of carried forward loss to set off when it starts earning

income. This will also prevent from new entrants coming to the industry; the growth of the industry will be affected

8. Bad Debts-

   The bad debts incurred prior to the commencement of the act should be allowed to be brought in after the commencement of the act during the 1st year of the tax period or max within 2 year of the tax period and if it is according to the regulations laid down by the act. Because of the recent global financial crisis many resorts were badly hit on the recoverability. This will be a benefit to the industry which is badly hit because of the global financial crisis

9. Interest Expenditure-

   The interest paid other than financial institutions are restricted to 6%, this needs to be revised to at least the financial institutions rate. Normally the rates in the private market are more than the rates given by the financial institutions; it is illogical to keep the rates less than the financial institutions rate. At best if not more than the financial institution rates it should be kept at least the rate equal to financial institution rates. In Maldives there is no proper capital or debt market to raise finance for the project. The only two sources which are available are bank finance and individual finance. The private borrowings interest rate will always be more than the bank rates especially in the Asian Region. So to peg the borrowings other than financial institutions at 6% will act detrimental to the industry and thereby affecting the growth and development of the industry

10. Tax Free Allowance

    The tax free allowance of Mrf 500,000 is very small figure considering the size and the operations of the tourism industry. This figure would be fine with the trading

companies. For tourism industry the tax free allowance should be at least a minimum of USD 200,000

11. Pension Payment

    Allowable expenditure is only minimum pensionable amount, but as per the pension act, it allows contribution over and above the minimum amount contribution, hence it would be better if the actual amount contributed is allowed as a deduction. The Pension Fund clearly indicates that any payment to the fund is Tax Deductible.

12. Charge to Business Profit Tax Companies

    In case of Non Resident Companies in Maldives it is taxable profits for any tax year, if any rent is recd or any royalty or management fee from a person resident in Maldives in that year and in addition this payment is also subject to withholding tax of 10%. In such case the Nonresident companies should be given the benefit of withholding tax in calculation of the tax of nonresident companies. This needs to be considered otherwise well established management companies would not be interested in taking up the assignments in Maldives and thereby the quality of the industry service will come down or this will increase the cost of operations since the withholding tax has to be borne by the local company which is seeking the service.

T-GST Implications and Recommendations

It is proposed to increase T-GST from 3.5% to 6% as from 1st January 2012. Then it is to be increased to 10% as from 1st January 2013. These proposals will drive away the prices in the resorts by that much or more and would make the Maldives an even more expensive destination. For many, Maldives is still a dream and the increased prices of our product will not help achieve this dream. Tourism industry is already paying a lot to the Government

and therefore, we urge the Government to give the industry a breathing space to help the industry revive from low occupancy, heavy operating costs and the economic chaos caused by recent financial crisis in Europe.

In the light of above, we urge the Government to change its policy on T-GST. Our recommendation is to keep the present rate at 3.5% until end 2012 and then increase to a maximum of 7% as from 1st January 2013. Notice of this intention should be circulated to the industry at least one year before the due date to collect the increased tax. If not, just like the present T-GST of 3.5%, the tax will be to a large extent paid by the resorts until contractual obligations permit these resorts to collect it from the tourist.

T-GST was introduced with the aim of replacing the Bed Tax and reducing the Import Duty. Now while all those remain as they are T-GST is being increased.

GST Implications and Recommendations

GST has to be introduced sooner or later. But the proposed starting date of 1st October 2011 (as stated in Clause 14) is unacceptable. First the Bill has to be debated in Parliament and passed. After that HEP has to make it a law by signing the legislation. Next, the regulations governing the Act have to be drafted, debated and finalized. After that, educating the establishments that will pay the GST and also educating the public have to take place. All these processes take time. That is why we are proposing to change the implementation date to no earlier than 1st January 2012 or even later.

If what is needed is a GST system to the whole economy then it should be a VAT system and not GST. However in any of these cases this has more burden on the economy as a whole than any benefit.

Introduction of a GST would increase prices by that much or more and will have an inflationary effect in the economy. Right now the Country has been witnessing an unusually high inflation rates and the introduction of GST in October will not help the economy. Careful study of the effects of GST on the economy should be done before introducing this tax.

For the tourism industry – Costs of local purchases will go up by the GST amount or more. Direct imports will increase in order to avoid GST. Resorts will have to pay both T-GST & GST. Confusion will arise due to different rates being applied. In view of this it is suggested that eventually the two taxes should merge into one GST.

PIT Implications and Recommendations

1. It is proposed to introduce PIT starting from 1st January 2012. Tax range is from 3% to 15%. Under the proposal, people earning one million rupees per year will pay about 2.8% of their income as PIT, whereas a person earning MRF 10 Million per year will pay about 13.25% of the income as PIT. In that respect, this is especially targeted at the very rich.

2. Since PIT is levied on all those earning incomes in this country, all expatriate employees will have to pay this tax if they reach taxable levels. Income tax levied on expatriates will ultimately be borne by the employer. We hope we all agree that this will be case when this tax is levied. Therefore, it is in our interest to ensure that taxable income rates are kept at the highest possible levels. At the present tax rates, the number of foreigners working in the country who would have to pay this tax is not many. For example, a person earning US$ 2,700/- per month would have to pay less than 1% as PIT. Therefore, we recommend not changing the taxable income brackets. They are Clauses 19, 20 & 21 of the Bill.

3. Under the proposed Bill, dividends earned from publicity listed company are exempt from tax, whereas non-listed companies do not get any benefit whatsoever. See Clause 24. At present, large majority of companies are non-listed and their Shareholders will not enjoy any benefit from this Clause. We are not in favour of this sort of discrimination. Even with this incentive We do not expect a rapid expansion of publicity listed companies.

4. Clause 29 sets a maximum of 5% of taxable income as a deductible on gifts & donations given to charitable causes. Charitable causes are limited to donations given for religious causes, health, aiding the poor and education. We propose to widen the field by including such areas as arts & culture, infrastructure works, sports, etc. Governments all over the world are always designing schemes to encourage its people to be more and more involved in philanthropic works. The way to do this is to encourage the rich by giving them tax breaks on such donations. In that respect We urge to raise the 5% limit to say 10% or even to 15% and widen the field earmarked for giving.

5. Clause 30 – The Bill proposes a 6% cap on interest rates to be applied for tax deductible purposes on private lending outside of banks. We propose to change this clause by doing away with a fixed rate. Instead, the rate should be fixed by a Government Authority like MMA or the Ministry of Finance from time to time and the rate should be based on existing lending rates of the major banks in the country. After all, the interests charged by banks are considered as a tax deductible cost under the Bill.

6. It is proposed to introduce PIT as from 1st January 2012. Several other taxes are there in the pipeline. Already there is T-GST introduced as from 1st January 2011. BPT is going to be introduced as from 18th July 2011. Then we have bills on GST, PIT & to increase T-GST from 3.5% to 6% as from 1st January 2012 & to increase it further upto 10% as from 1st January 2013. Added to this, it was only last month that private sector started contributing to Maldives Retirement Pension Fund. Fortunately this contribution started at a time that coincided with the exchange rate changes announced by MMA. As a result most resorts (if not all) increased the salaries of staff and the employee contribution came out of this increase. As a result this contribution was not felt by those contributing to the scheme, except by the employers, who are actually paying the full 14%. All of the above mentioned taxes and contributions are being levied within a period of 6 months. Further, we are not sure whether the Government will not keep increasing the tax rates every year in order to meet Government budgetary requirements as is the case with the proposed changes to T-GST. WE get the feeling that our sector is not very happy or comfortable with these proposed time frames on the introduction of these taxes. As a result business confidence is at an all time low. Investor confidence in the Country is at a cross road at a time when the Government is urging more and more direct foreign investment. Therefore, we urge the Government to introduce these taxes over a longer period of time. Our recommendation would be:-

   (I) Introduce GST as from 1st January 2012 or as from middle of 2012. Regulations and educating the public in GST are very important part of this exercise if GST is to be successfully introduced as was the case with the introduction of T-GST. T-GST was collected from a highly regulated sector of the economy. The same cannot be said of the other sectors of the economy or of the general public who would end up paying this tax.

(II) Introduce PIT starting from 1st January 2013 and not before. Again, setting up the regulatory framework and educating the general public are very important elements.

(III) Introduce BPT (CPT) on 1st January 2012 and not on 18th July 2011 as is planned at present. There are several legal issues with the ruling by the Attorney General by issuing a verdict that BPT (CPT) can be collected starting on 18th July 2011. We suspect many companies will simply not pay and expect MIRA to take them to Court for a Court verdict on this before paying.

(IV) Keep T-GST at 3.5% until end 2012 and change to 7% (maximum that we recommend) as from 1st January 2013. If this is acceptable, then this change should be announced at least one year before the introduction in order to make sure that this tax can be collected from the tourist. At present most resorts have to pay a large part of T-GST by themselves until 1st November 2011. Under contractual obligations many of the resorts are unable to collect T-GST from the tourist until 1st November 2011