

MALDIVES¹

In the Republic of Maldives, collection of domestic taxes, fees and other charges was carried out by different ministries and other Government agencies before the creation of the Department of Inland Revenue.

The Department of Inland Revenue was created on 25 December 1996 with the main aim of centralizing tax administration in the Maldives. The main aims behind the creation of the Department were to eventually broaden the Government's tax revenue base, organize government tax policy, and harmonize the collection of tax revenues and non-tax revenues.

The Department of Inland Revenue has taken over the collection and assessment of nearly 30 existing taxes, fees and other charges, thus becoming the government agency for carrying out the largest collection function of revenue for the Republic of Maldives.

The Department is currently studying the possibilities of introducing fees and charges on sectors that are currently not levied, and the possibility of increasing the current value of fees and charges in order to adjust the fees to the current value of money.

For an effective tax administration, the department is divided into five sections: Administration and Budget, Audit and Assessment, Taxpayer Service and Information Technology, Collections and Enforcement, and Revenue Management.

Other steps being taken towards development of the Department are staff training and consolidation of various fees and taxes collected by various government departments. Currently the department has 37 staff.

The Maldivian economy is heavily dependent on tourism and fisheries, which are the major sources of foreign exchange earnings and government revenue. Maldives' economy has achieved an impressive growth over the last decade. Tourism and fisheries are the major drivers of the economy contributing about 40% of the total government revenue from these two sectors. While the economy is growing, the proportion of the tax revenue from the total government revenue is declining due to a higher increase in non-tax revenue.

Most of the tax revenue comes from two sources: import duties and tourism tax.

Import duty is levied on imported commodities. It is a percentage charged on the cost insurance and freight (CIF) of imports. The duty charges range from 5% - 200%. Import duty is about one quarter of the government revenue.

Tourism tax composes 9.3% (2006) of the government revenue. This figure is expected to fall to 7.5% in 2007. This contribution is generated through the tourist bed tax levied at a flat rate of USD 8.00 per tourist bed night. This is up from the USD 6.00 per tourist bed night charged up to November 2004.

Dividends from the state-owned enterprises and the resort lease rents are the principal sources of non-tax revenues.

Other indirect taxes include vehicle fee, vessel fee, land rent, royalties, administrative fees and stamp duties which have little impact on the total government revenue.

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Currently there is only one direct tax imposed in Maldives. The Bank Profit Tax is applicable to all the commercial banks operating in Maldives and is charged at a rate of 25% on its taxable income. Only 2 % of the total government revenue is accounted for the collection of Bank Profit Tax.

Apart from Bank Profit Tax, there is no system of direct taxation in Maldives. A conventional source of revenue available to most countries such as sales, excise or VAT is also not practiced. The tax base of the country therefore remains narrow.

With its high growth rate, it is important for Maldives to sustain development. As identified by the government in the Sixth National Master Plan, it is important to broaden the tax base to cater to the development of the economy. With the decline in proportion of the tax revenue to the total government revenue, there is a need to introduce a tax system which will be more efficient and fair.

Since its establishment, the department has undertaken many steps to achieve its objectives. One of the major steps towards broadening the revenue base was drafting tax laws, namely Business Profits tax, Property Rental Value Tax and a Tax administration Law. With the help of the International Monetary Fund, Commonwealth Fund for Technical Cooperation and the Asian Development Bank, Maldives is close to implementing its first broad-based tax system. Any business operating with a profit is subject to the proposed tax system.

These legislations are new to Maldives and therefore thorough preparation would be necessary before they are introduced. Furthermore, a tax administration manual and a tax law manual have been prepared separately for these three taxes.

At present, there is no agreement on Double Taxation Avoidance (DTAA) between Maldives and any SAARC member countries or non-member countries. The international taxation issues and the provision for DTAA are pending issues to be discussed in the Revenue Board.

Now our proposed tax legislation is in the Law Commission (an arm of the Office of the Attorney General) for further monitoring before it is sent to parliament for approval. The tax legislation is planned to be introduced in the near future upon the consent of parliament.

There is still much to be done before the tax legislation is implemented. It is very important for Maldives, being a culture without any tax regime, to educate its people and increase their tax awareness before any legislation is implemented. Since the administrative department has no tax experience, it will be more effective if we take all the measure available to improve compliance.

Comment on Current Trends

Current thought at the policy level at the Ministry of Finance and the Department of Inland Revenue lean towards making the taxation regime in the Maldives fairer and more equitable and in line with international best practice. Some of the issues under discussion include:

- Exercising all possible avenues of persuasion to have the draft bill on Business Profit Tax, (corporate tax) tabled at the Citizens' Majlis (the Parliament). The draft bill and all its attendant documents including the administration manuals are still under scrutiny at the offices of the Attorney General.
- Introduction of a VAT/GST type tax, with subsequent and correlated decrease in import taxes.
- Eventual introduction of an income tax system.
- Changing the flat USD8.00/tourist/night tourism bed tax to an *ad valorem* tax.
- Introducing property, real estate and other such taxes.

Some of the challenges to the implementation of the above would be:

- Consolidation of political will across the various organs of government.

- Educating the general public viz the benefits of a more equitable system of direct taxation.
- Persuading current stakeholders in key industries to transit with a positive attitude into new modes of thinking.
- Professional training of Department of Inland Revenue.
- Increasing the enforcement capacity of the Department of Inland Revenue.