MALDIVES
INLAND REVENUE
AUTHORITY

Unofficial Translation of

BUSINESS PROFIT TAX REGULATION

This Regulation was made pursuant to the authority granted to the Maldives Inland Revenue Authority by the Business Profit Tax Act (Act Number 5/2011), and has been published in the Government Gazette on Thursday the 18th of August 2011 (18 *Ramadan* 1432).

MALDIVES INLAND REVENUE AUTHORITY

بسم الله الرحمن الرحيم

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Business Profit Tax Regulation

Introduction and citation

1. (a) This Regulation was made pursuant to the authority granted to the Maldives Inland Revenue Authority by the Business Profit Tax Act (Act Number 5/2011).

(b) This Regulation shall be cited as the "Business Profit Tax Regulation".

Objective

2. The objective of this Regulation is to establish policies and procedures with regard to the imposition of Business Profit Tax in the Maldives.

Chapter 1

Accounting Requirements

Definitions

3. (a) For the purposes of this Chapter, "accounting records" include:

(1) records of daily receipts, payments, income, expenditure, purchases, sales, capital assets, liabilities and other obligations;

(2) vouchers, invoices, receipts, bank statements, all written communication, and other documents as are necessary to verify the entries in the books of account;

(3) in the case of an agent, records of transactions carried out on behalf of his principal;

(4) documents held in manual, mechanical or electronic form.

(b) For the purpose of this Chapter, "agent" in relation to a principal includes any Person in the Maldives:

(1) who is employed by or otherwise engaged on behalf of the principal;

(2) who is the attorney, factor, receiver, trustee or manager of the principal;

(3) through whom the principal is in receipt of any profits or income.

Preparation of accounts

4. All Persons within the charge to tax shall prepare accounts in accordance with this Regulation.

Beginning of accounting period

5. (a) Unless otherwise authorised by the MIRA, a Person's accounting period shall begin when his previous accounting period ends while he continues to be within the charge to tax.

(b) The accounting period of an individual is the period from 1 January until 31 December in any year.

End of accounting period

6. A Person's accounting period shall end on the occurrence of the earlier of the following:

(a) the expiration of 12 (Twelve) months from the beginning of the accounting period; or

(b) when the Person ceases to be within the charge to tax under the Act.

Change of accounting period

7. A Person's accounting period shall not be changed without written consent of the MIRA, except on ceasing to carry on business.

Accounting standards

8. (a) Any Person who is resident in the Maldives carrying on more than one business shall prepare one set of accounts for all those businesses.

(b) Any Person required to prepare accounts in respect of any permanent establishment shall prepare accounts relating only to the business carried on by or through that establishment. And if that Person carries on business through more than one permanent establishment situated in the Maldives, he shall prepare accounts relating to all those establishments taken together, and such accounts shall be drawn up as if the businesses were a single entity.

(c) Accounts required to be prepared under Section 4 of the Regulation shall be prepared in accordance with IFRS or any other international accounting standards acceptable to the MIRA, using the accrual basis of financial accounting.

(d) Notwithstanding Section 8(c) of the Regulation, if the annual total turnover of any business or businesses carried on by an individual does not exceed MVR 3,650,000 (Three Million Six Hundred and Fifty Thousand Rufiyaa), that individual may elect to prepare accounts on the cash basis.

Cash basis

9. (a) In any case where an individual elects to prepare accounts on cash basis under Section 8(d) of the Regulation, in computation of his taxable profits, income shall be cash received in that year and expenditure shall be cash paid in that year.

(b) Notwithstanding Section 9(a) of the Regulation, capital expenditure shall be treated in accordance with Chapter Four of the Regulation, subject to the following.

(1) Where expenditure on the acquisition of an asset, together with like assets acquired at the same time as the asset, does not exceed MVR 50,000 (Fifty Thousand) a Person may deduct the expenditure in full in the accounting period in which it is incurred.

(2) Section 43(b) of the Regulation does not apply to a Person within this Section.

(c) The MIRA may by notice require any Person preparing accounts on cash basis to submit accounts prepared in accordance with IFRS or any other international accounting standards acceptable to the MIRA.

Change of accounting standards

10. Unless otherwise approved by the MIRA, the accounting standards adopted under Section 8(c) of the Regulation in preparing accounts shall not be changed from year to year.

Winding up

11. (a) Notwithstanding Sections 5 and 6 of the Regulation, where a company is being wound up, an accounting period shall end and a new one shall begin with the commencement of the winding up and the latter accounting period shall end on the earlier of the completion of the winding up or the expiration of 12 (Twelve) months from its beginning.

(b) For the purposes of Section 11(a) of the Regulation, a winding up is to be taken to commence on:

(1) the passing by the board of directors of a resolution for the winding up of the company, or

(2) the issue of an order from a court to wind up a company, or

(3) the making of the decision to wind up a company under the Companies Act (Act Number 10/96) or any other Act.

Requirement to submit consolidated accounts

12. (a) A Person that is a holding company shall, with that Person's tax return, submit consolidated accounts for an accounting period to the MIRA for all companies in the group of companies for which it is the holding company, and those consolidated accounts shall be prepared in accordance with the accounting standards adopted under Section 8(c) of the Regulation.

(b) For the purpose of Section 7(e) of the Act and Section 12(a) of the Regulation:

(1) A subsidiary company in relation to another company (a "holding company") is a company that is considered a subsidiary company under the accounting standards adopted under Section 8(c) of the Regulation.

(2) A group of companies is a holding company and all of its subsidiary companies.

(c) Each company in a group of companies that comes within the charge to tax shall submit separate financial statements and a separate tax return even if consolidated accounts are prepared under this Section.

Submission of financial statements

13. (a) A Person shall submit the financial statements of that Person to the MIRA on or before the due date for filing the tax return for a year, unless the MIRA has exempted that Person from this requirement.

(b) An exemption under Section 13(a) of the Regulation may be granted to one or more taxpayers.

Appointment of auditors

14. A Person shall if required to do so by the MIRA for any tax year, appoint an auditor approved by the MIRA.

Auditors' report

15. Where an auditor is required by any law to be appointed by any Person, the auditors' report shall be attached to the financial statements submitted to the MIRA under Section 13 of the Regulation.

Maintaining accounting records

16. (a) Every Person required by this Regulation to prepare accounts shall maintain clear and sufficient accounting records and such records shall enable the Person's taxable profits to be readily ascertained by the MIRA. And such records shall be kept in Rufiyaa or United States Dollar or any other foreign currency approved by the MIRA.

(b) The accounting records shall be maintained either in Dhivehi or English.

(c) Accounting records may be retained in electronic form only if:

(1) the records can be readily printed on paper if required by the MIRA; and

(2) the records can be readily retrieved and viewed to allow the MIRA to ascertain the amount of tax payable by that Person; and

(3) where the records are transferred from one format to another, the duplicate of the records can be confirmed to be identical to the original records; and

(4) it is secure from alteration by unauthorized parties; and

(5) an audit log report of all such records can be generated.

(d) A Person who conducts business via the internet shall maintain records of all internet transactions.

(e) A Person's accounting system and program documentation shall be produced to the MIRA if the Person is requested to do so.

(f) The accounting records required to be maintained under the Regulation shall be kept at the principal place of business in the Maldives of that Person, readily accessible upon request from the MIRA, and shall be retained for a period of 5 (Five) years from the end of the accounting period to which the record relates.

(g) A Person may dispose of his accounting records before the end of the period referred to in Section 16(f) of the Regulation only on written consent of the MIRA.

Chapter 2

Tax Returns and Payments

Exemption from filing tax return

17. (a) Any individual who is required to register under the Tax Administration Act (Act Number 3/2010), other than a company, partnership or any other Person required to prepare accounts under any law is exempted from submitting a tax return for an accounting period if their gross income for that period does not exceed MVR 750,000 (Seven Hundred and Fifty Thousand Rufiyaa).

(b) Notwithstanding Section 17(a) of the Regulation, an individual shall file a tax return if his taxable profit for that year exceeds MVR 500,000 (Five Hundred Thousand Rufiyaa).

Amending tax returns

18. For the purpose of Section 19(a) of the Act, an amended tax return shall constitute notice to the MIRA of the correction of the original return.

Estimation of tax

19. (a) An interim payment of tax required to be made for the first tax year shall be computed in accordance with Chapter 9 of the Regulation.

(b) Where a Person fails to comply with Section 23 of the Act and Sections 19(a) of the Regulation, Sections 23(h) and 33 of the Act shall apply.

Payment of tax

20. Tax payable under the Act shall be paid in Rufiyaa or any other currency determined by the Commissioner General.

Chapter 3

Deductions

Irrecoverable debts

21. For the purpose of Section 10(d)(7) of the Act, a Person is allowed a deduction for the whole or part of any debt that has become irrecoverable in respect of a particular transaction when:

(a) a court issues a judgement that the whole or part of the debt is irrecoverable;

(b) the debtor has been liquidated or adjudged bankrupt; or

(c) the debt is written off as irrecoverable in accordance with the accounting standards adopted by that Person under Section 8(c) of the Regulation.

Leased assets

22. (a) Subject to Section 11(a)(4) of the Act and Section 67 of the Regulation, a Person is entitled to a deduction for a payment made under any lease of premises used for the purpose of the Person's business.

(b) Notwithstanding Section 8 of the Regulation, for the purposes of the Act and this Regulation, where a lessor is not resident in the Maldives, any payment made by a lessee to the lessor in accordance with any lease agreement shall be deemed to be rent paid under an operating lease.

Zakat al-mal

23. Payments made as *Zakat al-mal* may be deducted in calculating a Person's taxable profits provided that the Person possesses a receipt that states that the *Zakat* was paid to the relevant government authority.

Head office

24. In relation to a permanent establishment situated in the Maldives or any other Person, "head office" means:

(a) the head office of the Person that owns the permanent establishment; or

(b) any other permanent establishment of the Person that is situated outside the Maldives; or

(c) any other Person associated with the Person.

Head office expenses

25. (a) For the purpose of Section 10(a)(3) of the Act, "head office expenses" means expenditure on consultants, research and development, data processing, the right to use intangible or intellectual property, general administration costs and other such expenditure incurred by the permanent establishment's head office which relates to the permanent establishment in the Maldives, whether directly or indirectly.

(b) The amount of head office expenses within Section 25(a) is the amount determined in accordance with Section 29 of the Act.

Restrictions on deduction of head office expenses

26. No amount may be deducted under Section 10(a)(3) of the Act in computing the taxable profits of a permanent establishment in respect of head office expenses where the only functions exercised by the head office in relation to the permanent establishment were supervisory in nature, and Sections 28 and 29 of the Regulation shall have effect subject to this Section.

Direct head office expenses

27. An amount of expenditure that can be separately identified as having been incurred by the head office of a permanent establishment wholly and exclusively for the purpose of production of gross income of the permanent establishment may be allowed as a deduction in computing the taxable profits of the permanent establishment.

Indirect head office expenses

28. An amount of expenditure that cannot be separately identified as having been incurred by the head office of a permanent establishment wholly and exclusively for the purpose of production of gross income of the permanent establishment may be allowed as a deduction in computing the taxable profits of the permanent establishment if the portion of the total amount of that expenditure which is allocated to the permanent establishment is calculated on a fair and reasonable basis which is commensurate with the benefits of the expenditure received by the permanent establishment, and is acceptable to the MIRA.

Maximum deduction allowed as head office expenses

29. The maximum aggregate amount deductible under both Section 27 and Section 28 of the Regulation in the calculation of the taxable profits of a permanent establishment shall be the lesser of:

(a) the amount of head office expenses in the accounts of the permanent establishment where those accounts are prepared in accordance with the accounting standards adopted by that Person; or

(b) 3 (Three) per cent of the gross income from trading operations of the permanent establishment for that accounting period.

Employee welfare expenses

30. (a) For the purpose of Section 10(d)(4) of the Act, expenditure incurred as follows by a Person on the welfare of his employees may be deducted in computing the Person's taxable profits.

(1) Payments towards an employee who is incapacitated on medical grounds; or

(2) Payments towards the surviving spouse or children under 18 years of age of a deceased employee; or

(3) Payments towards a fund established for the benefit of the Person's employees, which fully secures the rights of the employees to receive medical and other welfare support; or

(4) Payments towards the promotion of general employee welfare, without discrimination amongst the employees.

(b) Deductions in respect of expenditure to which Section 30(a)(3) of the Regulation applies shall only be allowed if the fund has been approved by the MIRA.

Donations

31. (a) For the purpose of Section 10(e) of the Act, subject to Section 31(b) of the Regulation, a deduction shall be allowed to a Person for cash donations made to a Person approved by the MIRA and for the cost of assets donated within 12 (Twelve) months of acquisition of the asset.

(b) No deduction shall be allowed under Section 31(a) of the Regulation for a donation unless the Person possesses a receipt for the donation.

Pension expenses

32. For the purposes of Section 10(d)(5) of the Act, a deduction in respect of pension expenses shall be allowed:

(a) for the contribution made under the Maldives Pensions Act (Act Number 8/2009), and

(b) only if the Person possesses a receipt from the relevant government authority that states the amount of the pension contribution that has been made.

Valuation of non-monetary benefits

33. For the purpose of Sections 11(c), 11(d) and 43(a) of the Act, non-monetary benefits provided as non-cash remuneration shall be valued at the open market value of such benefits.

Reimbursed expenses

34. The amount of any deduction for expenditure incurred by a Person shall be reduced by the amount of any reimbursement of the whole or part of that expenditure.

Maximum deduction

35. The total of all deductions allowed for any amount of expenditure shall not exceed the total amount of such expenditure incurred by a Person.

Meaning of "fine"

36. For the purpose of Section 11(a)(6) of the Act, "fine" means any fine imposed by a government institution, regulatory authority, court, tribunal, or any other body with a statutory authority in the Maldives or any other country to levy a fine.

Loss Sharing

37. (a) Where, in calculating the taxable profits for any year, a loss has been incurred by a company in a group of companies, subject to Section 13(a) of the Act, an amount equal to the amount of that loss may be deducted in calculation of taxable profits of other companies in that group of companies.

(b) The loss may be deducted under Section 37(a) of the Regulation only by a company holding 99 per cent of the company which incurred the loss and any other company 99 per cent of the shares of which are held by that holding company.

Chapter 4

Capital Allowances

Definitions

38. For the purpose of this Chapter:

(a) "capital allowance" means an allowance allowed in relation to a capital expenditure stated in Section 11(a)(2) of the Act;

(b) "balancing allowance" means a deduction allowed in accordance with Section 52(b) of the Regulation;

(c) "balancing charge" means an amount included in a Person's taxable profits calculated under Section 52(c) of the Regulation;

(d) "written-down value" means the amount of expenditure incurred on the acquisition of a capital asset reduced by the aggregate amount of all capital allowances claimed as deductions in the calculation of a Person's taxable profits in previous accounting periods;

(e) "disposal value" means the amount calculated under Section 53 of the Regulation upon the occurrence of a relevant event referred to in Section 38(h) of the Regulation;

(f) "building" refers to buildings, jetties, slipways, roads and other such permanent structures;

(g) "aircraft" refers to aeroplanes, helicopters, sea planes, and other means of transportation that use aerodynamics as the primary means of propulsion;

(h) "relevant event", means any one of the following events:

(1) disposal of a capital asset;

(2) the owner of a capital asset permanently loses possession of it;

(3) a capital asset ceases to exist as a result of destruction or otherwise;

(4) the Person ceases to use the capital asset or the business in which the asset is used is permanently discontinued or wound up;

(5) the Person that owns the asset ceases to be within the charge to tax with respect to the business in which the asset is used;

(6) the sale of, or the granting of the right to use, whole or part of an intangible asset, to another Person.

Valuation of capital expenditure

39. Where an amount of capital expenditure which qualifies for capital allowance under this Chapter exceeds the amount it would have been if it had been incurred in the open market, the amount of such expenditure shall be deemed to be its open market value.

Open market value of capital assets

40. For the purposes of this Chapter, subject to the provisions of this Regulation, the open market value of a capital asset at the time it was first used shall be taken to be the expenditure on the acquisition of the asset, where:

(a) a Person carrying on a business claims a capital allowance in relation to the expenditure on the acquisition of an asset which was incurred before the beginning of his accounting period; and

(b) the open market value of the asset at the time it was first used is less than the expenditure incurred on its acquisition by that Person.

Use of a capital asset for part of an accounting period

41. A capital allowance shall be allowed for a capital asset in the period of its acquisition only if the asset is used for more than half of that accounting period, that is if it is used for 183 days or more in a full accounting period.

Use of a capital asset for purposes other than business

42. Where a Person carrying on a business claims a capital allowance in respect of a capital asset which is used partly for purposes other than business, the amount of allowance shall be apportioned based on the extent to which the asset is used for a business purpose.

Deduction for cost of low-value assets

43. (a) Notwithstanding anything in this Chapter, where expenditure on the acquisition of a capital asset, together with like assets acquired at the same time as the asset, does not exceed MVR 5,000 (Five Thousand Rufiyaa) a Person may deduct the expenditure in full in the accounting period in which it is incurred.

(b) The aggregate of the expenditure in any accounting period which is deducted under this Section shall not exceed MVR 100,000 (One Hundred Thousand Rufiyaa).

Capital allowance allowed to a Person other than the owner

44. A capital allowance shall be allowed in respect of an asset to a Person other than the owner of the asset if the accounting standards adopted by the Person allow depreciation to be claimed by that Person.

Expenditure accounted for only once

45. For the purposes of this Chapter, the same expenditure shall not be taken into account in relation to more than one business nor under more than one category of allowance.

Valuation of capital assets on the commencement of the Act

46. (a) Where, before the date of commencement of the Act, a Person has incurred expenditure on the acquisition of a capital asset (other than a building), which is used for the purposes of a business carried on by that Person, the expenditure on the acquisition of that asset shall be taken for the purposes of this Chapter to be equal to the open market value of the asset on the date of commencement of the Act or its net book value in the books of account on the date of commencement of the Act, whichever is lesser.

(b) Where a Person has not maintained accounts for periods ending before the date of commencement of the Act, the expenditure on the acquisition of a capital asset shall be equal to the open market value of that asset on the date of commencement of the Act.

Valuation of buildings on the commencement of the Act

47. (a) Where a Person has incurred expenditure before the date of commencement of the Act on the acquisition of a building which is used for the purposes of a business carried on by that Person, the expenditure on the acquisition of the building for the purposes of this Chapter shall be the lesser of:

(1) the open market value of the building at the date of commencement of the Act; or

(2) the net book value of the building in the books of account on the date of commencement of the Act; or

(3) the original cost price of the building reduced by an amount equal to:

$$\text{original cost price} \times A/25$$

where A is the number of years from the date of acquisition or construction of the building until the date of commencement of the Act.

(b) For the purpose of Section 47(a)(3) of the Regulation, where the number of years between the date of acquisition or construction of the building and the date of commencement of the Act exceeds 25, the value of A shall be 25.

(c) The amount of expenditure calculated in accordance with Section 47(a) of the Regulation shall be deemed to be incurred on the date of commencement of the Act.

Original cost of building unknown

48. Where Section 47 of the Regulation applies but the original cost of the building is unknown or cannot be readily ascertained, the original cost shall be taken to be such reasonable estimate of the original cost as may be approved by the MIRA.

General provisions on capital allowances

49. (a) Any capital allowance in respect of a capital asset for any accounting period shall be treated as an expense of the business in that period.

(b) An allowance claimed by any Person under this Chapter for an accounting period shall be made in that Person's tax return for the tax year in which that period ends.

(c) An allowance under the Regulation shall be proportionately reduced if the accounting period is less than 12 (Twelve) months.

(d) An allowance or the aggregate amount of allowances made under this Chapter in respect of any capital expenditure shall not exceed the amount of that expenditure.

Rates of capital allowance

50. A capital allowance under this Chapter shall be computed and deducted in calculating the taxable profits by using the percentage rate given in the table that corresponds to the class of asset in which the asset falls.

Class of asset	Rate (%)
Buildings	4
Aircraft	7
Ocean going wooden vessels	7
Other marine vessels	5
Furniture and fittings	10
Motor vehicles	20
Earth moving vehicles	5
Plant and equipment (excluding office equipment)	10
Office equipment	20
Computer software	33⅓
Crockery, cutlery, utensils, linen, loose tools	33⅓
Other assets	10

Allowance for intangible assets

51. Where a Person carrying on a business incurs expenditure on the acquisition of an intangible asset which is used for the purposes of the business in an accounting period, a capital allowance shall be allowed in computing that Person's taxable profits for that period equal to

$$E/A$$

where E is the expenditure, and

A is the useful life of the asset, estimated by the Person, subject to the approval of the MIRA, expressed in years.

Balancing allowance and balancing charge

52. (a) This Section applies where, during an accounting period, a relevant event referred to in Section 38(h) of the Regulation occurs in relation to a capital asset in respect of which a capital allowance has been allowed under this Chapter.

(b) Where Section 52(a) of the Regulation applies in relation to any asset and there is no disposal value or the written-down value of the asset exceeds the disposal value, a balancing allowance may be deducted in computing the Person's taxable profits for the accounting period equal to the amount by which the written-down value exceeds the disposal value.

(c) Where Section 35(a) of the Regulation applies in relation to any asset and the disposal value exceeds the written-down value of the asset, a balancing charge shall be included in computing the Person’s taxable profits for the accounting period of an amount equal to the excess of the disposal value over the written-down value.

Disposal value

53. (a) If the relevant event is the sale of an asset, the disposal value is the sum of:

(1) the net proceeds of the sale after taking account of cost of the sale, and

(2) any insurance moneys received or receivable in respect of the asset by reason of any event affecting the price obtainable on the sale, and

(3) any other compensation of any description so received or receivable.

(b) If the relevant event is the permanent loss, demolition, destruction or abandonment of an asset, the disposal value is the sum of:

(1) the amount received or receivable for the asset or any part of it, and

(2) any insurance moneys received or receivable in respect of the loss of the asset or other such cause, and

(3) any other compensation of any description so received or receivable.

(c) If the relevant event is the sale or grant of a right to use an intangible asset:

(1) for a consideration not consisting of money, the disposal value equals the consideration in money which would have been given if the right had been granted in the open market for money.

(2) for a consideration in money lower than that which would have been given if the right had been granted in the open market, the disposal value equals the consideration in money which would have been given if the right had been granted in the open market.

(3) Where Sections 53(c)(1) and 53(c)(2) of the Regulation do not apply, the disposal value equals the sum of:

(aa) the net proceeds received or receivable after taking account of the cost of making the grant;

(bb) any insurance moneys received or receivable by reason of any event affecting the consideration obtainable on the grant;

(cc) any other compensation of any description so received or receivable.

(d) In the case of any other relevant event, the disposal value equals the price which the asset would have fetched if sold in the open market at the time of the event.

Assets transferred on transfer of business

54. (a) In any case where the conditions below are met, the provisions of Sections 54(b), 54(c) and 54(d) of the Regulation shall apply to the transferor and transferee.

(1) a business is transferred by an individual (“transferor”) to a company (“transferee”) on or after date of commencement of the Act, and

(2) in consideration for the transfer the transferor acquires shares in the transferee, and

(3) there is no other consideration for the transfer, and

(4) the transfer includes the transfer of an asset used in that business in respect of which an allowance under this Chapter has been made to the transferor.

(b) Where more than one asset is transferred, only one election may be made under this Regulation with respect to all such assets, and such an election is irrevocable.

(c) Where Section 54(a) of the Regulation applies, the transfer of the asset shall not be a relevant event, and any capital allowance, balancing allowance or balancing charge which arises after the date of transfer of the asset shall be allowed to, or imposed on the transferee as would have been allowed or imposed if the transferor had continued to carry on the business.

(d) An election under Section 54(a) of the Regulation shall be made by notice signed by the transferee and transferor and submitted to the MIRA before the earlier of:

(1) the expiry of the period of 6 (Six) months beginning with end of the tax year in which the transfer takes place, or

(2) the time the transferor first disposes of any of the shares referred to in Section 54(a) of the Regulation.

Apportionment of consideration

55. (a) This Section applies in any case where:

(1) a capital asset in respect of which a capital allowance under this Chapter has been allowed has been sold or destroyed separately or together with any other asset, and

(2) the consideration received on the sale relates to all of the assets sold or any insurance recovery is a sum which relates to all of the assets destroyed or the subject of a claim under the relevant insurance contract, and

(3) the parties have not apportioned the total consideration for the sale or the insurance recovery between the assets sold or destroyed.

(b) The MIRA may apportion the sum referred to in Section 55(a)(2) of the Regulation between the various assets to which it relates in accordance with the MIRA's determination of the true value of such assets.

(c) Where the total consideration received on the sale or the total amount of insurance recovery referred to in this Section has by agreement or arrangement between the parties been apportioned between the various assets sold, the MIRA may:

(1) approve the parties' apportionment of the sale consideration or insurance recoveries between the various assets, or

(2) if the MIRA considers that the parties' apportionment affords an unjust tax advantage to either party, apportion the sale consideration or the insurance recovery amount between the various assets in accordance with the MIRA's determination of the true value of such assets.

(d) The MIRA shall give notice to the Persons affected of any apportionment made under Section 55(c)(2) of the Regulation.

(e) The values attributed to any assets in accordance with this Section shall apply to both parties.

Chapter 5

Insurance Companies

Insurance companies

56. (a) For the purpose of Section 14(b) of the Act, the unexpired risk reserve of an insurance company other than a life insurance company for a particular class of business is the amount of the expected value of future claims attributable to the unexpired period of insurance policies in force at the end of the company's accounting period less the amount of the company's unearned premium reserve for the class of business at that date.

(b) An insurance company to which Section 56(a) of the Regulation applies shall calculate its unexpired risk reserve using a generally accepted actuarial method.

(c) For the purpose of Section 14(b)(3) of the Act, unexpired risks outstanding at the beginning of the relevant accounting period include the balance of the company's unexpired risk reserves at the date of commencement of the Act.

(d) Sections 24 to 29 of the Regulation shall apply in determining a fair proportion of head office expenses allowed as a deduction under Section 14 of the Act.

(e) For the purpose of Section 14(c) of the Act:

   (1) a life insurance company is a company whose sole business is life insurance or an insurance company whose business is general insurance and life insurance in which case Section 14(c) of the Act shall apply only to its life insurance business.

   (2) Management expenses means management and general administration expenses directly and indirectly incurred in deriving investment income, and commissions.

   (3) Commissions referred to in Section 14(c) of the Act shall apply only to those commissions related to investment income.

(f) Where management expenses referred to in Section 56(e)(2) of the Regulation are indirectly incurred in deriving investment income, they shall be apportioned between deriving investment income and deriving other income, on a fair and reasonable basis approved by the MIRA.

(g) For the purpose of Section 14(b)(4) of the Act, actual losses for any accounting period:

(1) may include a reasonable estimate of claims payable and reported in that period but unpaid at the end of the period;

(2) may include the amount of claims incurred but not reported (IBNR) at the end of the period where that amount has been reasonably estimated using a generally accepted actuarial method approved by the MIRA;

(3) shall be reduced by the amount of expected net recoveries in respect of claims made;

(4) shall be reduced by the amount of estimated claims payable and reported but unpaid at the beginning of the period; and

(5) shall be reduced by the amount of IBNR claims at the beginning of the accounting period.

Chapter 6

Rent from Immovable Property

Immovable property

57. For the purpose of this Chapter, immovable property means buildings, warehouses, plant, factories, land, uninhabited islands, lagoons, reefs, reef knolls, permanent structures and any other such property leased for any purpose.

Aggregate of rental income

58. Rental income derived by a Person from immovable property shall be the aggregate of the following amounts:

(a) all rental payments received in relation to the immovable property; and

(b) security deposits, advance rental payments and any other payments received in relation to the immovable property, to the extent the lessor of the property has the right to consume part or full payment of it within a tax year; and

(c) all payments received in relation to the rented property not resulting from the responsibilities of the lessee specified in the lease agreement; and

(d) payments received in respect of anything affixed to the immovable property; and

(e) payments received under an insurance policy obtained to compensate for the non-payment of rent; and

(f) any payment received for breach of a lease agreement by the lessee.

Deductions allowed from rent

59. The following deductions may be allowed in computing the taxable profits of a Person that derives rental income from immovable property in an accounting year.

(a) Expenses incurred in concluding a lease agreement;

(b) Insurance premiums paid in relation to the rented property;

(c) Fees or commissions paid to an agent appointed in relation to a leasing transaction;

(d) Expenses incurred on the repair and maintenance of the rented property, so long as it does not affect the value of the property;

(e) The cost of materials used for repairs if it is carried out by the lessor;

(f) Subject to Section 11(a)(5) of the Act, interest on a loan taken out to acquire, build, repair, or develop the rented property.

(g) Capital allowances so far as they are permitted by this Regulation.

(h) Other direct expenses incurred in relation to the rented property.

(i) Capital allowances so far as they are permitted by this Regulation for any furniture or other assets leased together with that property.

Deductions disallowed from rent

60. In computing a Person's taxable profit from the rental of immovable property, a deduction shall not be allowed in respect of:

(a) capital expenditure incurred on the acquisition or construction of the property.

(b) the principal amount of any loan taken out for the acquisition or construction of the property.

(c) expenses incurred for the repair or development of the property that would affect the value of the property.

(d) fees or commissions paid to an agent or any other Person for the acquisition or construction of the property.

(e) lawyers' fees incurred in relation to the acquisition or construction of the property.

(f) other capital expenditure incurred in bringing the property to a usable condition.

Renting part of the property by different Persons

61. Any Persons, who individually or jointly lease a part or parts of any immovable property, whether or not the Persons own the property, shall be considered a partnership in computing the taxable profits from the rental of the immovable property if the gross income or receipts from the leased property are shared by them.

Rental income earned by Persons other than the owner of the property

62. Any Person who derives rental income from any immovable property, whether the income is derived from a transaction entered into between the legal owner of the property under an agreement or any other arrangement, shall pay tax on that income.

Sublease of property leased under an agreement

63. Any Person who derives rental income from the sublease of any immovable property under an agreement or any other arrangement entered into with a Person having the right to lease that property, shall pay tax on that income.

Chapter 7

Withholding Tax

Payments subject to withholding tax

64. A payment stipulated in Section 6(a) of the Act made after the commencement of the Act to a non-resident shall be subject to withholding tax irrespective of the period to which it relates.

Withholding tax on payments with a source in the Maldives

65. Subject to this Section, a payment made in respect of any of the following shall be subject to withholding tax so long as the service is given in the Maldives or by means of a resource in the Maldives:

(a) Payments for personal or technical services;

(b) Payments for research and development;

(c) Payments as a commission or fee not constituting income from employment.

Conversion of foreign currency transactions into Rufiyaa

66. Where a payment of an amount specified in Section 6(a) of the Act is made in a currency other than Rufiyaa, in making the payment of withholding tax to the MIRA pursuant to Section 25(a)(3) of the Act, such amount shall be converted to Rufiyaa at the reference rate published by the MIRA on the date that the tax is withheld.

Chapter 8

Miscellaneous Provisions

Benefits accruing for more than one accounting period

67. This Section applies to Persons to whom Section 22 of the Regulation applies.

(a) Where, in an accounting period, an amount paid or payable by a Person produces benefits over more than one accounting period, the amount of expenditure incurred in an accounting period is the portion of the total amount paid or payable that is commensurate with the benefits of the expenditure attributable to that period.

(b) A Person shall apply the accrual basis to determine the portion of the total amount paid or payable that is commensurate with the benefit of the expenditure attributable to an accounting period.

Currency other than Rufiyaa used in preparing accounts

68. A Person who prepares accounts in a currency other than Rufiyaa shall furnish financial statements to the MIRA in Rufiyaa and those accounts shall be converted to Rufiyaa at the monthly reference rates published by the MIRA.

Inventories

69. (a) This Section applies to a Person to whom Section 8(d) of the Regulation does not apply.

(b) Subject to Section 69(c) of the Regulation, inventories held by a Person at the beginning of an accounting period, and at the date of commencement of the Act, shall be valued in accordance with the accounting standards adopted by that Person.

(c) A Person shall not use the last-in, first-out (LIFO) method of inventory valuation.

Sale of inventory

70. Where any inventory is sold to an associated person for less than its open market value or it is transferred for personal or non-business use, the inventory shall be valued at its open market value.

Tax evasion

71. For the purpose of Section 30(a) of the Act, the main purpose of a tax evasion transaction includes entering into a transaction which:

(a) lacks a bona fide commercial purpose; or

(b) lacks economic substance; or

(c) involves an abuse of organisational form; or

(d) in the case of a company resident in the Maldives or a permanent establishment situated in the Maldives, involves indirect ownership of that company or permanent establishment through an intermediary company which is a resident of, or a permanent establishment which is situated in, a country where it faces an effective tax rate below the rate specified in Section 7(b)(2) of the Act.

Meaning of "transaction"

72. For the purposes of Section 30 of the Act and Section 71 of the Regulation, "transaction" includes any action by a Person that does not involve any exchange or other Persons.

73. Where the amount of tax that a Person pays for any tax year exceeds the amount of tax assessed for that year, the MIRA may deal with the excess in any of the following manners.

(a) Refund the excess amount if there are no outstanding amounts payable by that Person under the Act.

(b) Adjust the amount from the tax payable by that Person in the subsequent tax year.

Guardian of minor

74. For the purpose of Section 28(a)(2) of the Act, where a minor's father is deceased, the guardian of that child shall be a person determined in accordance with Islamic *Shariah.*

Tax agents

75. (a) Tax agents licensed by the MIRA may prepare accounts and file tax returns on behalf of Persons who come within the charge to tax.

(b) The MIRA has the discretion to specify requirements which shall be fulfilled prior to the grant of a license to tax agents.

Tax rulings

76. Persons to whom the Act applies shall comply fully with any tax rulings issued by the MIRA in the course of administration of the Act and the Regulation. And such tax rulings shall constitute part of the Regulation.

Regulation to be read together with Acts

77. This Regulation shall be read together with the Business Profit Tax Act (Act Number 5/2011) and the Tax Administration Act (Act Number 3/2010) and regulations made pursuant to those Acts, and any word or expression used in this Regulation, unless the context otherwise requires, shall have the same meaning that such word or expression has in those Acts.

Commencement of the Regulation

78. The commencement date of this Regulation shall be the date of its publication in the Government Gazette.

Chapter 9

Transitional Provisions

Estimation of interim payment

79. (a) For the first tax year under the Act commencing on 18th July 2011, a Person must pay the first tax year's interim payment on or before 31st January 2012, based on a reasonable estimate of the taxable profits for the period from 18th July 2011 to the end of the Person's accounting period.

(b) A Person that is required to make an interim tax payment by 31st January 2012 may elect any one of the following:

(1) in the case of a Person preparing monthly accounts, apportion the taxable profit for the month of July 2011 for the period that the Person is chargeable to tax and prepare separate accounts for the subsequent months; or

(2) prepare special purpose financial accounts for the period from 18th July 2011 until the end of that Person's accounting period; or

(3) prepare accounts for the full accounting period and apportion the profit on a pro rata basis for days from 18th July 2011 until the end of that Person's accounting period.

Chapter 10

Definition

Definitions

80. (a) In this Regulation, unless otherwise specified:

"The Act" refers to the Business Profit Tax Act (Act Number 5/2011).

"MIRA" refers to the Maldives Inland Revenue Authority established pursuant to the Tax Administration Act (Act Number 3/2010).

"Commissioner General" refers to the Commissioner General of Taxation of the MIRA appointed pursuant to the Tax Administration Act.

"Date of commencement of the Act" means 18th July 2011.

"Gross income" refers to the total amount derived by a Person which is taken into account in calculating the Person's taxable profits, before the deduction of any expenses or allowances deductible under the Act and the Regulation.

"Financial statements" includes the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes to these statements which the Person is required to prepare under the accounting standards adopted by that Person.

"IFRS" means International Financial Reporting Standards and International Accounting Standards issued by the International Accounting Standards Board.

"Partnership" means a partnership as defined in Section 2(b) of the Partnership Act (Act Number 9/96) and two or more Persons who share the gross receipts from a commercial activity, whether or not using a separate name and whether or not the Persons have joint or common rights in any property that produces the receipts.

For the purposes of the Act, the term "full amount" in relation to profits refers to all profits that a Person earns in an accounting period whether they are earned regularly from on-going trading operations or from irregular gains from the disposal of assets, or profits otherwise derived.

"Cash" refers to cash and cash equivalents.

(b) For the purposes of this Act, in phrasing, the singular shall include the plural and the plural shall include the singular.

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