Ministry of Finance and Planning

Republic of Maldives

TAX EXPENDITURE REPORT

2024

The Tax Expenditure Report provides details of revenue foregone by the government due to its revenue policies that deviate from the ideal “benchmark system”, where all goods, services and income are taxed at the standard benchmark rates. The publication reports the tax expenditures of main revenue sources, that is, import duty, GST, income tax and tourism land rent. This report will be published annually.

For any queries regarding this publication, please email taxpolicy@finance.gov.mv.

TABLE OF CONTENTS

ABBREVIATIONS

BEC	Broad Economic Categories
BPT	Business Profit Tax
BPTA	Business Profit Tax Act
CSR	Corporate Social Responsibility
FOB	Free On Board
GGST	General Goods and Services Tax
GST	Goods and Services Tax
HS	Harmonized System
IIT	Individual Income Tax
IMF	International Monetary Fund
MCS	Maldives Customs Service
MIRA	Maldives Inland Revenue Authority
SQMT	Square Meter
TE	Tax Expenditure
TGST	Tourism Goods and Services Tax
TLR	Tourism Land Rent

EXECUTIVE SUMMARY

Tax incentives create tax expenditures, reflecting government revenue forgone due to deviations from the standard benchmark tax systems. Tax expenditures (TEs) are provisions in legislations that reduce the amount of revenue the government collects. They include special exclusions, exemptions, deductions, credits, and preferential tax rates. TEs significantly impact government revenue by reducing the amount of income subject to taxation. This report examines TEs of Import Duty, GST, Income Tax, and Tourism Land Rent, to enhance transparency and guide evidence-based policy decisions.

IMPORT DUTY

A negative TE of MVR 40.1 million is estimated for import duty in 2023. Goods for industrial purposes have the largest positive TE while oils and lubricants has the largest negative TE.

Total revenue forgone from duty concessions amounted to MVR 1,653.9 million. The largest component reflects the concessions granted to goods imported to carry out government projects.

GST

Increase in GST rates for the tourism sector to 16% and general sector to 8% led to a significant increase in the overall GST expenditure estimated for the year 2023. Total TE for 2023 amounted to MVR 7,465.5 million, which is a 49.3 percent growth compared to the previous year. Lower GGST rate relative to TGST rate is the main contributor to GST expenditure, and tax expenditure estimated for commodities related to construction was the largest.

INCOME TAX

Total TE for Corporate Income Tax and Individual Income Tax for 2023 is MVR 171.5 million and MVR 71.9 million respectively. The largest contributions to TEs stem from the tax-free thresholds granted to businesses and individuals. Negative tax expenditure for banks for 2023 amounted to MVR 430.4 million, reflecting growth in taxable income and tax payable for the year. Estimated TE from income tax holiday granted to key government projects amounted to MVR 216.7 million.

TOURISM LAND RENT

Tourism Land Rent (TLR) expenditure estimated for the year 2023 is USD 27.3 million. While there is no change in TLR expenditure compared to 2022, TE increased by 13.4 percent compared to 2021. The largest component of TLR expenditure can be contributed to the price ceilings under the current system.

The TEs in this report are estimated assuming that they do not influence taxpayer behavior, overall economic activity, or interact with other tax expenditures. Each tax expenditure is calculated with all other factors held constant.

1. INTRODUCTION

Over the last decade, the Maldives tax system has undergone substantial developments. Alongside the introduction of broad-based taxes, the government has implemented various policies that would support economic growth, promote social welfare, and ensure sustainable development. This includes tax incentives, such as exemptions, deductions, and other provisions collectively known as tax expenditures. This report looks at the tax expenditures estimated for the years 2019 to 2023.

Tax expenditures portray tax revenue foregone by the government due to its policies that cause the tax system to deviate from the ideal "benchmark system", where all goods, services and income are taxed at the standard benchmark rates. While these policies are implemented for reasons ranging from greater equity, supporting infant industries, to attracting investments and many more, at times they tend to be regressive in nature, and fail to achieve the intended objective. Hence, it is crucial to evaluate tax expenditures and ensure that the policy objectives for granting tax incentives are achieved and benefiting the targeted groups and industries.

The tax expenditures presented in this report have been estimated assuming that tax expenditures do not impact the behavior of taxpayers, the overall level of economic activity, and that there are no interactions between different types of tax expenditures. When estimating the tax expenditure for a given type of tax, it is assumed that all else remains constant. Furthermore, the total TE for each tax type does not equate to the sum of all the individual components of tax expenditure. A positive tax expenditure implies that tax revenue under the current regime is lower than that under an ideal benchmark system, while a negative tax expenditure indicates that revenue under the current system is higher than that under the benchmark system.

This report aims to provide a comprehensive analysis of the tax expenditures in the Maldives, namely Import Duty, GST, and Income Tax. In addition, the report evaluates Tourism Land Rent expenditure as this is one of the main contributors to government non-tax revenue. By identifying and quantifying the cost of these tax provisions, the report aims to enhance transparency, and support evidence-based policymaking.

2. IMPORT DUTY

Import duty, levied under the Maldives Export Import Act (Law Number 31/79), is a significant source of government revenue. While the applicable duty rates vary across different categories of goods, as outlined in the Act, import duty revenue is based on these rates and the goods they apply to. This section highlights the discrepancy between the estimated import duty revenue the government would receive under a benchmark system and the actual revenue collected under the current duty structure.

2.1. BENCHMARK SYSTEM

The benchmark system for import duty tax expenditure is established to create a consistent framework for evaluating tax liabilities across different categories of goods. In this system, goods are organized according to the Harmonized System (HS), and a benchmark rate is determined as the average import duty rate applicable to each category.

2.2. METHODOLOGY

As part of the Ministry's efforts to enhance the accuracy of tax expenditure calculations, the methodology for calculating import duty tax expenditure has been reviewed this year. This review includes an assessment of how the specific duty on tobacco products is incorporated into these calculations.

In this analysis, the benchmark rate for each group is determined by calculating the average import duty rate based on prevailing rates, following the classification of imports by type and HS code. These categories are then aligned with Broad Economic Categories (BEC) for effective data presentation and comparison. It should be noted that when the BEC classification cannot be determined, goods are categorized under "Goods Not Elsewhere Classified".

The methodology also incorporates specific duty rates and ad valorem rates as specified in the Maldives Export Import Act. Additionally, the FOB value is used in calculating tax expenditures, in accordance with the 17th amendment to the Export Import Act in 2021, which established that import duties are to be calculated based on the FOB value. Data from the Maldives Customs Service (MCS) is utilized to calculate the average duty rates for the benchmark system and to determine the import duty under the current regime.

2.3. TAX EXPENDITURE ESTIMATES

Table 1 shows the import duty expenditure estimates calculated as per the methodology highlighted above.

Table 1: Import Duty Expenditure Estimates

Unless otherwise stated, Millions of MVR

	2019		2020		2021		2022		2023	
	TE	% Import Duty	TE	% Import Duty	TE	% Import Duty	TE	% Import Duty	TE	% Import Duty
Food items	325.2	9.5	153.5	6.8	35.2	1.2	74.3	2.1	67.2	1.9
Goods for industrial purposes	230.1	6.7	207.5	9.2	241.9	8.5	361.6	10.3	369.5	10.6
Oils and lubricants	(292.9)	(8.6)	(159.2)	(7.0)	(281.6)	(9.9)	(516.5)	(14.8)	(481.7)	(13.8)
Capital goods	260.5	7.6	206.5	9.1	237.3	8.3	275.3	7.9	270.4	7.8
Equipment for transportation	(40.6)	(1.2)	(52.0)	(2.3)	64.3	2.3	(46.7)	(1.3)	10.0	0.3
Consumer goods	572.5	16.8	(672.4)	(29.7)	(359.6)	(12.6)	(376.6)	(10.8)	(278.4)	(8.0)
Other goods	3.3	0.1	(0.0)	0.0	0.1	0.0	(0.0)	0.0	2.9	0.1
Total TE	1,058.1	31.0	(316.2)	14.0	(62.4)	(2.2)	(228.7)	(6.5)	(40.1)	(1.2)

Source: Maldives Customs Service, Ministry of Finance

Additionally, the Maldives Export Import Act specifies instances where certain goods are granted duty concessions, including specific categories of goods and those imported for particular purposes, such as government projects. These exemptions are not directly factored into the import duty expenditure calculations, they represent a substantial portion of the revenue lost due to policy measures.

Table 2: Loss of revenue from Import Duty concessions under various policies

Unless otherwise stated, Millions of MVR

	2019	2020	2021	2022	2023
Relief for goods imported via regional ports	90.5	91.8	172.1	311.2	295.9
Exemption for foreign aid	39.1	10.2	71.1	19.3	50.6
Renewable energy concession	11.1	3.0	16.0	10.0	13.4
Waiver under Diplomatic Privilege	7.9	5.5	5.1	3.5	9.1
Foreign investment concessions	235.4	117.9	182.4	259.1	249.1
Exemptions under the South Asian Free Trade Area	3.5	5.6	9.9	13.4	16.1
Relief given to government agencies	75.7	40.0	651.7	984.1	1,019.7
Total	463.2	274.0	1,108.3	1,600.7	1,653.9

Source: Maldives Customs Service

2.4. CHANGES TO TAX EXPENDITURES

Due to the revised methodology this year, the gross import duty tax expenditure has turned negative, reflecting the higher import duty rates on tobacco and tobacco products compared to the benchmark rate. The total import duty tax expenditure for 2023 is estimated at MVR 40.1 million. This amount represents 0.04 percent of nominal GDP and 1.2 percent of import duty collections of the year.

Although negative, the total import duty tax expenditure for 2023 increased compared to the estimated expenditure for 2022. While the calculated tax expenditure for 2022 was negative for goods in the Equipment for Transportation category, this expenditure increased in 2023 due to changes in the composition and FOB value of goods in this category. Specifically, the FOB value for transportation equipment imports increased by 6.9 percent compared to 2022. A decline in the imports of goods in this category that were subject to duty rates above the benchmark rate was also observed.

The FOB value of imported goods for industrial purposes also increased in 2023 compared to 2022, leading to a 2.2 percent rise in tax expenditure for this category. While the FOB value of imported food items, and capital goods also increased last year compared to 2022, the tax expenditure for these categories showed a decrease. Furthermore, the negative tax expenditure calculated for oils and lubricants, as well as consumer goods, decreased in 2023 due to a decline in their FOB value.

2.5. EVALUATION AND COST BENEFIT ANALYSIS

Concessions	
Description	The Maldives Export Import Act (Law Number 31/79) allows for concessions on import duties on certain goods under specific circumstances as outlined in the Act
Beneficiaries	Importers of goods eligible for duty concessions
Legal Reference	Sections 5, 7(h), 8, 9, and 10 of the Maldives Export Import Act (Law Number 31/79)
Implementation	Various exemptions have been included since the Act's inception in 1979, with amendments made over the years to adapt to changing economic conditions and priorities
Policy Objective	• Foster economic growth and investment • Uphold the Maldives' international commitments by exempting duties on items imported or exported by individuals with diplomatic immunity
Source of Data	Import duty concessions data provided by the Maldives Customs Service
Estimation Method	N/A
Evaluation	In addition to loss of revenue, exemptions can distort market dynamics by encouraging over-reliance on imported goods that benefit from duty waivers, potentially stifling local production and competitiveness

Duty rates lower than benchmark rates	
Description	Imported goods subject to import duty are categorized into 97 chapters, with corresponding duty amounts specified in the Maldives Export Import Act (Law Number 31/79). The President has the discretion to further clarify the types of goods and their associated duty rates
Beneficiaries	Importers
Legal Reference	Section 7 of the Maldives Export Import Act (Law Number 31/79)
Implementation	Duty rates outlined in the Export Import Act have been revised multiple times since its initial implementation. The most recent amendment to Section 7 was made in 2020 as part of the 18th amendment to the Act
Policy Objective	• To lower duties on goods essential for specific industries, thereby stimulating growth in targeted sectors such as technology and renewable energy, supporting national development goals. • To reduce import duty rates on certain essential goods, making them more affordable for consumers and improving public welfare and health outcomes.
Source of Data	Import duty data provided by the Maldives Customs Service
Estimation Method	Import Duty Tax Expenditure Model
Evaluation	Differentiated duty rates may create market imbalances, favoring certain industries or goods over others, potentially leading to inefficiencies and undermining fair competition among businesses.

Duty rates higher than benchmark rates	
Description	Imported goods subject to import duty are categorized into 97 chapters, with corresponding duty amounts specified in the Maldives Export Import Act (Law Number 31/79). The President has the discretion to further clarify the types of goods and their associated duty rates
Beneficiaries	Importers
Legal Reference	Section 7 of the Maldives Export Import Act (Law Number 31/79)
Implementation	Duty rates outlined in the Export Import Act have been revised multiple times since its initial implementation. The most recent amendment to Section 7 was made in 2020 as part of the 18th amendment to the Act
Policy Objective	To discourage the importation and consumption of goods that negatively impact health and the environment, aligning fiscal policy with sustainability goals
Source of Data	Import duty data provided by the Maldives Customs Service
Estimation Method	Import Duty Tax Expenditure Model
Evaluation	While higher duties on certain goods aim to deter their importation, they may also incentivize illegal smuggling or tax evasion. This can undermine revenue generation efforts and lead to the emergence of an unregulated market for these goods.

3. GOODS AND SERVICES TAX

Goods and services supplied in the Maldives are taxed under the Goods and Services Tax Act of the Maldives (Law Number 10/2011). While a dual rate system that distinguishes between the tourism sector and all other sectors is used, with the 6th amendment to the GST Act, the GST rates were revised upwards, effective 1 January 2023.

GST Rates

Section 15 – Tourism Goods and Services (TGST)

TGST rate from 2 October 2011	3.5%
TGST rate from 1 January 2012	6%
TGST rate from 1 January 2013	8%
TGST rate from 1 November 2014	12%
TGST rate from 1 January 2023	**16%**

Section 16 – General Goods and Services (GGST)

GGST rate from 2 October 2011	3.5%
GGST rate from 1 January 2012	6%
GGST rate from 1 January 2023	**8%**

To prevent tax legislation from escalating the tax burden on the consumption of essential goods and services, especially for those at the lower end of the income distribution, the GST Act of the Maldives outlines specific goods and services that are either exempt or taxed at zero rate. However, as a result of these provisions under current policies, government revenue is lower compared to what would be attained under a benchmark system without such provisions. The key contributor to GST expenditure over the past few years is charging a lower GGST rate compared to the TGST rate, which is considered the standard tax rate under the benchmark system.

3.1. BENCHMARK SYSTEM

Based on the GST rates applicable prior to the revision of rates in 2023, the benchmark rate for calculating GST expenditure is 12 percent on all goods and services consumed in the Maldives, except the exemption on public services and the zero rate of tax on exports. This rate has been revised to 16 percent to reflect the rate change in 2023. Accordingly, under this benchmark, tax credits are granted for expenses in the form of business inputs or capital investments at various stages of production, and GST is imposed only on the value added to goods and services at each production stage. Furthermore, goods and services provided by the Government, such as education and health services, are exempt from GST, aligning with international best practices.

3.2. METHODOLOGY

To compute tax expenditure, the Supply and Use Table (SUT) from 2014 was extrapolated for the respective year, and data reported to the Maldives Inland Revenue Authority (MIRA) on sales subject to GST and sales exempt from GST was used. The growth of individual sectors was derived by expressing taxable sales for both tourism and general sector for the relevant year relative to 2014. With the policy change leading to a sudden surge in GST collection in 2023, and as the model does not control for such policy changes, growth in taxable sales was used as a proxy for GST liability growth. However, recognizing the inadequacy of this method in precisely reflecting the growth of the real estate sector, population growth relative to 2014 was used. In addition, sales of GGST exempt goods and services were used to compute the unrecoverable GST revenue using the model. Furthermore, for the purpose of comparison and to maintain a consistent methodology, GST expenditure for previous years has been revised to estimate the year-on-year change in GST expenditure.

3.3. TAX EXPENDITURE ESTIMATES

Table 3: GST Expenditure Estimates

Unless otherwise stated, Millions of MVR

	2019		2020		2021		2022		2023[1]	
	TE	% GST	TE	% GST	TE	% GST	TE	% GST	TE	% GST
Exempt	348.4	4.5	362.9	8.4	440.8	5.7	537.4	5.5	770.6	5.8
Zero-Rated	536.1	6.9	434.3	10.1	595.0	7.7	767.2	7.8	974.0	7.4
Lower GGST Rate	2,644.4	34.1	2,105.0	48.9	2,497.5	32.3	3,644.9	37.3	5,506.7	41.6
Total TE	3,570.6	46.1	3,164.7	73.5	3,558.7	46.0	4,998.9	51.1	7,465.5	56.4

Source: Maldives Inland Revenue Authority, Ministry of Finance

[1] Benchmark rate for 2023 is 16 percent, while it stands at 12 percent for previous years.

Table 4: Largest Tax Expenditure Estimates by Commodities, 2022 - 2023

Millions of MVR

		2022	2023
1	Construction	502.8	1,155.1
2	Financial and related services	567.4	889.9
3	Real estate services	584.8	798.8
4	Electricity, town gas, steam and hot water	516.5	598.5
5	Telecommunications, broadcasting and information supply services and support services	384.7	584.0

Source: Maldives Inland Revenue Authority, Ministry of Finance

3.4. CHANGES TO TAX EXPENDITURES

The overall tax expenditure estimated for 2023 is MVR 7,465.5 million, which is a 49.3 percent increase compared to 2022. Estimated tax expenditures for the year 2023 follow a similar trend as previous years, and implementation of a lower GGST rate remains the key contributor to GST expenditure. With the change in GST rates in 2023 and revision of the benchmark rate to 16 percent, the tax expenditure estimated for this component has increased significantly, reaching MVR 5,506.7 million, causing a steep increase in GST expenditure compared to 2022. Table 4 presents the largest tax expenditure estimates by commodities for 2023. The tax expenditure estimate for construction commodities was the largest, which can be explained by the increased number of government development projects during the year.

3.5. EVALUATION AND COST BENEFIT ANALYSIS

Exemptions	
Description	Goods and services exempt from GST in accordance with the provisions of the Goods and Services Tax Act (Law Number 10/2011).
Beneficiaries	Households
Legal Reference	Section 20 under Chapter 4 of the Goods and Services Tax Act (Law Number 10/2011)
Implementation	Since the introduction of GST regime
Policy Objective	• Exempt goods and services that advance essential social needs and ensure supply of merit goods[2]. • Exempt goods and services that are difficult to tax and simplify administration. • Encourage investment in a certain sector, product or project.
Source of Data	Sectoral GST Data from the MIRA
Estimation Method	GST Expenditure Estimation Model
Evaluation	Most exemptions of goods and services are regressive in nature. The GST incidence analysis for 2019 shows that with the exception of basic food items, most other tax expenditures (including residential rent, electricity, fuels, domestic flights, education, and water services) disproportionately benefit the richest quintiles.

[2] Goods that are welfare enhancing and may be consumed in sub-optimal quantities if taxed.

Zero-Rating	
Description	Goods and services that are charged GST at zero percent in accordance with the provisions of the Goods and Services Tax Act (Law Number 10/2011)
Beneficiaries	Households
Legal Reference	Section 22 under Chapter 5 of the Goods and Services Tax Act (Law Number 10/2011)
Implementation	Since the introduction of GST regime
Policy Objective	• Improve progressivity of the tax system through no taxation of necessities. • Encourage investments, especially to promote domestic production.
Source of Data	Sectoral GST Data from the MIRA
Estimation Method	GST Expenditure Estimation Model
Evaluation	• Most zero-rating of goods and services are regressive in nature. The GST incidence analysis for 2019 shows that with the zero-rating of basic food items, most other tax expenditures (including residential rent, electricity, fuels, domestic flights, education, and water services) disproportionately benefit the richest quintiles. • The current GST regime does not allow for the refund of input tax effectively treating zero-rated supplies as exempt.

4. INCOME TAX

The Income Tax Act (Law Number 25/2019) was effective from 2020, replacing the business profit tax charged under the Business Profit Tax Act (Law Number 5/2011) and the bank profit tax charged under the Bank Profit Tax Act (Law Number 9/85). No tax was charged on employment income prior to the enactment of the Income Tax Act.

From 2020, income earned by businesses, banks, and individuals is taxed in accordance with the Income Tax Act (Law Number 25/2019). The tax brackets and rates applicable under this Act are determined based on the legal form of the taxpayer. As such, businesses, banks, and individuals pay taxes on all their taxable income, in accordance with the following brackets and rates.

Tax Rates and Brackets Applicable to Businesses, Banks and Individuals

Section 9 – Tax Brackets and Rates Applicable to Entities other than Banks and Individuals

Taxable Income Not Exceeding MVR 500,000	0%
Taxable Income More than MVR 500,000	15%

Section 8 – Tax Brackets and Rates Applicable to Banks

[no threshold]	25%

Section 7 – Tax Brackets and Rates Applicable to Individuals

Taxable Income Between	MVR 0	and	MVR 720,000	0%
Taxable Income Between	MVR 720,001	and	MVR 1,200,000	5.5%
Taxable Income Between	MVR 1,200,001	and	MVR 1,800,000	8%
Taxable Income Between	MVR 1,800,001	and	MVR 2,400,000	12%
Taxable Income Exceeding	MVR 2,400,001			15%

Section 12 of the Income Tax Act stipulates the income exempt from Income Tax. This section was further refined with the First Amendment to the Income Tax Act enacted in 2021. A specific section (section 12-1) pertaining to exemption of income derived from key strategic projects and industries was also added with this First Amendment. Chapter 4 of the Income Tax Act specifies the general rules on deductions allowed in calculating taxable income.

4.1. BENCHMARK SYSTEM

2019

As the general principles of bank profit tax and business profit tax are the same under the income tax regime, there are no deviations from the income tax benchmark in the 2019 benchmark for bank profit tax and business profit tax. However, since there was no tax on remuneration prior to 2020, tax on remuneration has not been considered in the 2019 benchmark.

From 2020 Onwards

The benchmark for banks and businesses is set at the rate of 15%, with no tax-free threshold, from the taxable income after deducting expenses that were necessary to derive that income. The benchmark also incorporates rules set for strengthening the tax system, such as anti-avoidance rules.

Taxable income of individuals encompasses earnings from businesses and other sources. The benchmark established for individuals imposes tax, without a tax-free threshold, on the taxable income after deducting necessary expenses incurred to generate that income.

The benchmark specifically includes the following:

1. Income exempted under section 12 of the Act remains exempt.
2. Individual tax rates and tax brackets are applied on business income derived by sole proprietors under section 7 of the Income Tax Act.
3. Rental income earners' election to deduct 20% of rental income under section 28 of the Income Tax Act.
4. Maximum deduction allowed as donations under section 21 of the Income Tax Act.
5. Maximum deduction allowed as head office expenses under section 24 of the Income Tax Act.

4.2. METHODOLOGY

Given the distinct brackets and rates, two separate microsimulation models are used to calculate tax expenditures for individuals and businesses. These models use information from tax returns for the years 2019 to 2023 to estimate the tax payable under the benchmark tax system and the tax expenditures for each individual taxpayer for the respective year.

Tax expenditures for exempt projects have been estimated separately and are based on the information available from the applications for exemption.

4.3. TAX EXPENDITURE ESTIMATES

The main tax expenditure items identified for banks and businesses are[3]:

1. Tax-free threshold: MVR 500,000 for businesses (Section 9 of the Income Tax Act).
2. Donations as a deductible from taxable income (Section 21 of the Income Tax Act).
3. Employee welfare expenses as a deductible from the taxable income of businesses (Section 20 of the Income Tax Act).
4. Zakat-al mal payments as a deductible from taxable income (Section 18 of the Income Tax Act)

Due to the tax rate for banks being higher than the benchmark tax rate, the actual tax revenue derived from banks surpasses the revenue calculated using the benchmark. Consequently, banks exhibit a negative tax expenditure.

The main tax expenditure items identified for individuals are:

1. Tax-free threshold: MVR 720,000 (Section 7 of the Income Tax Act)
2. Progressive rates for business income earned by individuals (Section 7 of the Income Tax Act)
3. Zakat-al-mal payments as deductible from taxable income (Section 18 of the Income Tax Act)
4. Donations as a deductible from taxable income (Section 21 of the Income Tax Act)
5. Deductions allowed for remuneration-related expenses (Section 32(e) of the Income Tax Act)
6. Employee welfare expenses as deductible from the taxable business income (Section 20 of the Income Tax Act).
7. Income tax exemption granted under section 12-1 of the Income Tax Act

[3] Only additional TE item identified in the BPT regime is the 5% preferential rate for foreign businesses (section 7(a) of the BPTA), which was abolished with the introduction of income tax.

Table 5: Corporate Income Tax and BPT Expenditures

Unless otherwise stated, millions MVR

	2019*		2020		2021		2022		2023	
	TE	% BPT	TE	% CIT	TE	% CIT	TE	% CIT	TE	% CIT
Tax Free Threshold	211.5	7.1	85.8	4.2	107.7	3.8	117.7	3.3	89.1	2.5
Donations	7.9	0.3	21.2	1.0	4.3	0.1	9.9	0.3	12.7	0.4
Employee Welfare Expenses	59.0	2.0	11.6	0.6	34.2	1.2	57.9	1.6	67.2	1.9
Zakat	3.9	0.1	1.4	0.1	2.6	0.1	2.8	0.1	1.8	0.1
5% Preferential Rate	0.1	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total TE	283.7	9.6	120.8	5.9	149.5	5.2	189.2	5.3	171.5	4.9
Memorandum Items										
Exempt Projects**					59.0		187.4		216.7	
Bank Income Tax -ve TE	(256.8)		(319.7)		(334.5)		(360.0)		(430.4)	

* Income of sole proprietors and rental income earners were taxed under the BPT regime. Hence, TE of such persons is included in the TE in 2019.

** TE on exempt projects have been estimated for the period to which the exemption is granted.

Source: Maldives Inland Revenue Authority, Ministry of Finance

Table 6: Individual Income Tax Expenditures

Unless otherwise stated, millions MVR

	2020*		2021		2022		2023	
	TE	% IIT	TE	% IIT	TE	% IIT	TE	% IIT
Tax Free Threshold	44.0	41.0	62.2	43.2	71.9	38.0	61.7	36.3
Donations	0.1	0.1	0.6	0.4	1.0	0.5	0.6	0.3
Employee Welfare Expenses	1.4	1.3	0.9	0.6	1.1	0.6	0.6	0.3
PIT Rate for business income	33.8	31.5	40.8	28.3	47.8	25.3	39.5	23.2
Zakat	0.9	0.8	3.5	2.5	3.1	1.6	2.3	1.3
Remuneration Related Expenses	1.1	1.0	0.6	0.4	0.8	0.4	0.4	0.2
Total TE	50.7	47.3	71.0	49.3	83.5	44.2	71.9	42.2

* Tax on remuneration commenced from 1 April 2020. The TE items for 2020 have been estimated accordingly.

Source: Maldives Inland Revenue Authority, Ministry of Finance

4.4. CHANGES TO TAX EXPENDITURES

Individual income tax expenditures in 2023 declined compared to the previous year primarily due to the decline in declared income. The number of taxpayers who had filed income tax returns also reduced from 2,581 taxpayers last year to 2,300 taxpayers in 2023. Tax expenditures of businesses also declined in 2023 compared to 2022 due to an observed reduction in number of declarations and declared income. Furthermore, tax expenditure from tax holidays granted under Section 12-1 of the Income Tax rose, due to the increase in number of exempt taxpayers from 2022 to 2023.

Banks' taxable income and thus tax liability increased compared to 2022, resulting in the increase in negative tax expenditure for 2023.

4.5. EVALUATION OF ESTIMATES AND COST BENEFIT ANALYSIS

Tax-Free Threshold	
Description	MVR 500,000 and MVR 750,000 is available as a tax-free threshold for businesses and individuals respectively
Beneficiaries	Businesses and Individuals
Legal Reference	Sections 9 and 7 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the introduction of the Income Tax Regime
Policy Objective	• A tax-free threshold was included for businesses to reduce the burden of tax on micro and small businesses and rental income earners. • A large tax-free threshold was introduced for individuals to ensure that household expenditures are met and simplify the regime by limiting allowed deductions.
Source of Data	Income Tax Return Data from the MIRA
Estimation Method	Income Tax Expenditure Estimation Model
Evaluation	• While the tax-free threshold is mainly used by small businesses, the threshold is also enjoyed by large corporates. • HIES 2019 data shows that on average, there is more than one income earner in a household. Hence, a household does enjoy a larger tax-free threshold.
Donations	
Description	Maximum 5 percent of taxable income deductible as donations to a state institution or an approved charitable organization.
Beneficiaries	Businesses and Individuals
Legal Reference	Section 21 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the introduction of the Income Tax Regime
Policy Objective	To incentivize donations to charitable organizations and spending on CSR
Source of Data	Income Tax Return Data from the MIRA
Estimation Method	Income Tax Expenditure Estimation Model
Evaluation	• Larger businesses have claimed a higher donation in proportion to their taxable income before donations than small businesses. • Marginally more individuals with income from remuneration claim donation deductions than sole proprietors.
Employee Welfare Expenses	
Description	Deductions allowed for expenditures incurred for the promotion of welfare of employees without discrimination between employees.
Beneficiaries	Businesses and Employees
Legal Reference	Section 20 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the introduction of the Income Tax Regime
Policy Objective	Protection and promotion of employee welfare in the workplace
Source of Data	Income Tax Return Data from the MIRA
Estimation Method	Income Tax Expenditure Estimation Model

Evaluation	• As the second largest TE item, the spending on employee welfare expenses is proportionately higher in larger businesses than small businesses. Similarly, large sole proprietors spending on employee welfare expenses is proportionately higher than small businesses.
Zakat-al-mal	
Description	Deduction allowed for Zakat-al-mal paid by a business or individual from taxable income.
Beneficiaries	Businesses and Individuals
Legal Reference	Section 18 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the introduction of the Income Tax Regime
Policy Objective	Encourage timely payment of Zakat-al-mal
Source of Data	Income Tax Return Data from the Maldives Inland Revenue Authority
Estimation Method	Income Tax Expenditure Estimation Model
Evaluation	• Businesses with income between MVR 10 million and MVR 100 million have on average claimed a higher proportion of their taxable income as deduction for Zakat-al-mal. • More sole proprietors claim Zakat-al-mal deduction than individuals with other income sources.
Remuneration Related Expenses Deductions	
Description	Expenses directly related to employment allowed as a deduction from remuneration received from employment.
Beneficiaries	Individuals
Legal Reference	Section 32 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the introduction of the Income Tax Regime
Policy Objective	Incentivize spending on employment related expenses and career development
Source of Data	Income Tax Return Data from the MIRA
Estimation Method	Income Tax Expenditure Estimation Model
Evaluation	• Less than 1 percent of individuals that declare remuneration claim deduction for remuneration related expenses.
Income Tax Exemption under section 12-1	
Description	Income derived from specific projects or sectors are exempt from income tax as granted by the President.
Beneficiaries	Businesses
Legal Reference	Section 12-1 of the Income Tax Act (Law Number 25/2019)
Implementation	Since the First Amendment to the Income Tax Act, 20 July 2021
Policy Objective	To incentivize significant strategic investment projects carried out by the government and cater to terms agreed in government agreements.
Source of Data	Income tax exemption applications from relevant line ministries
Estimation Method	Income Tax Expenditure Estimation Model
Evaluation	• 23 projects have been granted exemption from income tax, with a total investment value of MVR 35.1 billion, as of the publication of this report. • Exempt projects include, Velana International Airport Development project, social housing projects, and key projects funded through loans. • Exempting specific projects limits the exploitation of the provision and ensures proper evaluation of proposals prior to granting exemption. Details of exempt projects are published on the MoF website.

5. TOURISM LAND RENT

Up until the Second Amendment to the Maldives Tourism Act (Law Number 2/99), Tourism Land Rent (TLR) was based on the rent proposals submitted by the bidders. The Second Amendment was ratified and effective from 8 September 2010. With the enactment of the Second Amendment, properties acquired under the previous bid model transitioned to the new rent regime. Currently, TLR on land leased to develop tourist resort, tourist hotel, yacht marina and integrated tourism projects in the Maldives is charged according to Schedule 1 of the Maldives Tourism Act. The new rent was introduced with the enactment of the Tenth Amendment to the Maldives Tourism Act and became effective from 1 January 2021.

The rent charged varies depending on the location and size of resorts to encourage development of tourism across all atolls in the country. Properties are divided into three categories based on the size of the land, with set rent ceilings and rate per square meter (sqm) for each category. Different rates and rent ceilings are set based on the location of the property to promote resort development in remote atolls further away from the Greater Male' Area. This is to redistribute the benefits of tourism more evenly throughout the Maldives, fostering inclusive growth and development.

Table 7: Current TLR Structure - Schedule 1 of the Maldives Tourism Act

In USD

	Rate per sqm	Rent Ceilings		
		< 200,001 sqm	>200,000 sqm & <400,001 sqm	400,000 sqm <
Gn, S	2	250,000	400,000	800,000
HA, HDh, Sh,	4	500,000	750,000	1,000,000
Th, L, GA, GDh,	6	750,000	1,125,000	1,500,000
N, R, B, Lh, K, AA, ADh, V, M, F, Dh	8	1,000,000	1,500,000	2,000,000

5.1. BENCHMARK SYSTEM

Under the benchmark system, tourism land rent is based on the land area of islands and plots of land leased out for the purpose of developing and operating tourist establishments. The benchmark only includes rent applicable for operating establishments. The rate per sqm is set at USD 8, with a rent ceiling of USD 2,000,000 applied uniformly across all atolls. The benchmark system does not impose a rent ceiling on the size of the land area.

Table 8: Benchmark Rent Structure

In USD

	Rate per sqm	Rent Ceiling
S, Gn	8	2,000,000
HA, Sh, HDh	8	2,000,000
GA, L, GDh, Th	8	2,000,000
N, R, B, Lh, K, AA, ADh, V, M, F, Dh	8	2,000,000

5.2. ESTIMATION METHODOLOGY

For this analysis, a microsimulation model was used to calculate the annual rent payable for each individual property under the existing and benchmark regimes. Using the land area, rent and location of each property, rent receivable under the benchmark system was calculated. Only operating resorts were considered in calculating tax expenditure. This was then compared with the annual TLR payable by each property as per the schedule 1 of the Maldives Tourism Act, to compute the TLR expenditure.

This model uses the annual TLR schedule data from MIRA for 2021, 2022 and 2023.

5.3. TAX EXPENDITURE ESTIMATES

Main tax expenditure items identified are:

1. Rent waived-off in accordance with the Public Finance Act (Law Number 3/2006), during the year 2023.
2. Different rent ceilings based on the location and size of the island. (Schedule 1 of the Maldives Tourism Act)
3. Different rent rates based on the location of the island. (Schedule 1 of the Maldives Tourism Act)

Table 9: Tourism Land Rent Expenditures

Unless otherwise stated, millions USD

	2021		2022		2023	
	TE	% TLR	TE	% TLR	TE	% TRL
Rent Ceilings	16.7	14.0	18.4	13.9	18.4	13.9
Preferential Rates for Specific Atolls	2.4	2.0	1.9	1.5	1.9	1.5
Total TLR Expenditure	24.1	20.1	27.3	20.7	27.3	20.7
Memorandum Items	-	-	-	-	-	-
Rent Waivers	-	-	0.1	-	39.9	-

Source: Maldives Inland Revenue Authority, Ministry of Finance

Table 10: Total Tourism Land Rent Expenditure Estimates by Location

Unless otherwise stated, millions USD

	2021		2022		2023	
	TE	% TLR	TE	% TLR	TE	% TLR
Gn, S	2.9	2.4	3.1	2.4	3.1	2.4
HA, HDh, Sh,	3.6	3.0	4.9	3.7	4.9	3.7
Th, L, GA, GDh,	4.3	3.6	4.3	3.2	4.3	3.2
N, R, B, Lh, K, AA, ADh, V, M, F, Dh	13.3	11.2	15.1	11.4	15.1	11.4
TLR Expenditure	24.1	20.1	27.3	20.7	27.3	20.7

Source: Maldives Inland Revenue Authority, Ministry of Finance

5.4. CHANGES TO TAX EXPENDITURES

The estimated total TLR expenditure for 2023 is USD 27.3 million, a 13.4 percent increase compared to 2021. The estimated TLR expenditure for 2022 aligns with 2023, as there was no change in the original land rent schedule for these two years. In 2023, there was a notable increase in the expenditure for TLR waivers, reaching USD 39.9 million.

The benchmark system sets a maximum rent payable of USD 2,000,000, regardless of the land area or location of the establishment, leading to an increase in TE arising from rent ceilings. The TLR expenditure from rent ceilings increased from USD 16.7 million in 2021 to USD 18.4 million in 2023. However, the TE from preferential rates declined by 19.7 percent, decreasing from USD 2.4 million in 2021 to USD 1.9 million in 2023. While Th, L, GA, GDh atoll experienced a slight decline in TLR expenditure, an increase in TE was observed for all other atolls.

5.5. EVALUATION AND COST BENEFIT ANALYSIS

Rent Ceiling	
Description	Maximum amount of rent payable is established under the Maldives Tourism Act (Law Number 2/99) and differ based on the land area and location of the tourist establishment.
Beneficiaries	Leaseholders
Legal Reference	Schedule 1 of the Maldives Tourism Act (Law Number 2/99)
Implementation	TLR schedule outlined in the Maldives Tourism Act has been revised multiple times since its initial implementation. The most recent amendment to schedule 1 of the Maldives Tourism Act became effective from 1 January 2021 as part of the 10th amendment to the Act.
Policy Objective	Price ceilings were set to limit the maximum rent and uneven burden of rent payable for islands with larger land areas.
Source of Data	Tourism land rent data from the MIRA
Estimation Method	Tourism Land Rent Expenditure Estimation Model

Evaluation	The tourist arrivals have accelerated in international airports which have easier excess to some remote areas where the current preferential rates and price ceilings apply. As a result, there is a possibility that these lower rates and price ceilings are also enjoyed by well-established tourist establishments.
Preferential rates	
Description	Rent per sqm differs based on the location of the tourist establishment, as per the Maldives Tourism Act (Law Number 2/99).
Beneficiaries	Leaseholders
Legal Reference	Schedule 1 of the Maldives Tourism Act (Law Number 2/99)
Implementation	TLR schedule outlined in the Maldives Tourism Act have been revised multiple times since its initial implementation. The most recent amendment to schedule 1 of the Maldives Tourism Act became effective from 01 January 2021 as part of the 10th amendment to the Act.
Policy Objective	Preferential rates were included as an incentive to encourage resort development in all the atolls across the country.
Source of Data	Tourism land rent data from the MIRA
Estimation Method	Tourism Land Rent Expenditure Estimation Model
Evaluation	Development of the tourism industry has accelerated in some remote areas where the current preferential rates and price ceilings apply. However, tourism development in atolls further away from Male' has been limited, despite the preferential rates given to these atolls.

6. ESTIMATES

Millions of MVR

	2019	2020	2021	2022	2023
Total TE	4,912.4	3,020.0	4,011.8	5,357.2	7,983.1
Import Duty	1,058.1	(316.2)	(62.4)	(228.7)	(40.1)
Food items	325.2	153.5	35.2	74.3	67.2
Goods for industrial purposes	230.1	207.5	241.9	361.6	369.5
Oils and lubricants	(292.9)	(159.2)	(281.6)	(516.5)	(481.7)
Capital goods	260.5	206.5	237.3	275.3	270.4
Equipment for transportation	(40.6)	(52.0)	64.3	(46.7)	10.0
Consumer goods	572.5	(672.4)	(359.6)	(376.6)	(278.4)
Other goods	3.3	(0.0)	0.1	(0.0)	2.9
GST	3,570.6	3,164.7	3,558.7	4,998.9	7,465.5
Exempt	348.4	362.9	440.8	537.4	770.6
Zero-Rated	536.1	434.3	595.0	767.2	974.0
Lower GGST Rate[4]	2,644.4	2,105.0	2,497.5	3,644.9	5,506.7
Income Tax	283.7	171.5	220.5	272.7	243.4
Corporate Income Tax	283.7	120.8	149.5	189.2	171.5
Tax Free Threshold	211.5	85.8	107.7	117.7	89.1
Donations	7.9	21.2	4.3	9.9	12.7
Employee Welfare Expenses	59.0	11.6	34.2	57.9	67.2
Zakat	3.9	1.4	2.6	2.8	1.8
5% Preferential Rate	0.1	n/a	n/a	n/a	n/a
Individual Income Tax	n/a	50.7	71.0	83.5	71.9
Tax Free Threshold	n/a	44.0	62.2	71.9	61.7
Donations	n/a	0.1	0.6	1.0	0.6
Employee Welfare Expenses	n/a	1.4	0.9	1.1	0.6
PIT Rate for business income	n/a	33.8	40.8	47.8	39.5
Zakat	n/a	0.9	3.5	3.1	2.3
Remuneration Related Expenses	n/a	1.1	0.6	0.8	0.4
Tourism Land Rent			295.0	314.3	314.3
Rent Ceilings			257.8	284.3	284.3
Preferential Rates for Specific Atolls			37.3	30.0	30.0

[4] Benchmark rate used from 2020 to 2022 is 12 percent and 16 percent from 2023 onwards

Millions of MVR

	2019	2020	2021	2022	2023
Memorandum Items					
Import Duty Concessions	463.2	274.0	1,108.3	1,600.7	1,653.9
Relief for goods imported via regional ports	90.5	91.8	172.1	311.2	295.9
Exemption for foreign aid	39.1	10.2	71.1	19.3	50.6
Renewable energy concession	11.1	3.0	16.0	10.0	13.4
Waiver under Diplomatic Privilege	7.9	5.5	5.1	3.5	9.1
Foreign investment concessions	235.4	117.9	182.4	259.1	249.1
Exemptions under the South Asian Free Trade Area	3.5	5.6	9.9	13.4	16.1
Relief given to government agencies	75.7	40.0	651.7	984.1	1,019.7
Income Tax					
Exempt Projects[5]			59.0	187.4	216.7
Bank Income Tax -ve TE	(256.8)	(319.7)	(334.5)	(360.0)	(430.4)
Tourism Land Rent				0.9	614.5
Rent Waivers				0.9	614.5

[5] TE on exempt projects have been estimated for the period to which the exemption is granted.

7. CONCLUSION

This report highlights the significance of various policies resulting in Import Duty, GST, Income Tax, and TLR TEs. The findings reveal that such tax/revenue policies, while aimed at fostering economic growth and supporting critical industries, result in considerable loss of revenue for the government. As such, the calculated government revenue foregone over the past five years on average is estimated at MVR 5 billion. Total revenue foregone over the past five years amounted to MVR 25,284.6 million. While increases in TE over the past few years have been observed, the main contributors remain the same. The largest revenue loss to the government during the review period was due to the implementation of a lower GGST rate of 8 percent compared to the TGST rate of 16 percent, followed by Import Duty concessions, especially those granted to government agencies. Income Tax incentives, especially tax-free thresholds for businesses and individuals, as well as Tourism Land Rent price ceilings, further contribute to this forgone revenue.

This analysis underscores the significance of conducting regular and comprehensive assessments of tax policies to determine how effectively the intended policy goals are being met. It is crucial to ensure that these incentives achieve their intended objectives and are aligned with the government's broader fiscal goals. Through improved transparency in reporting TE estimates, this report aims to supports evidence-based policy-making and efficient reform of existing revenue policies that allow for TEs.