



Ministry of Finance
Republic of Maldives

MEDIUM TERM REVENUE STRATEGY

2024-2028



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LIST OF ABBREVIATIONS

ASC	Airport Service Charge
ATF	Airport Taxes and Fees
BPT	Business Profit Tax
CD	Capacity Development
CIF	Cost, Insurance, and Freight
CIT	Corporate Income Tax
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GGST	General Goods and Service Tax
GRT	Green Tax
GST	Goods and Services Tax
IIT	Individual Income Tax
ITA	Income Tax Act
MCS	Maldives Customs Services
MEDT	Ministry of Economic Development and Trade
MIRA	Maldives Inland Revenue Authority
MOAAW	Ministry of Agriculture and Animal Welfare
MOCCEE	Ministry of Climate Change, Environment, and Energy
MOCI	Ministry of Construction and Infrastructure
MOE	Ministry of Education
MOF	Ministry of Finance
MOHLUD	Ministry of Housing, Land and Urban Development
MOT	Ministry of Tourism
MOTCA	Ministry of Transport and Civil Aviation
MMTRS	Maldives Medium Term Revenue Strategy
MVR	Maldivian Rufiyaa
NSPA	National Social Protection Agency
PO	President's Office
SDGs	Sustainable Development Goals
SEZ	Special Economic Zone
TAT	Tax Appeal Tribunal
TGST	Tourism Goods and Services Tax
TPU	Tax Policy Unit
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax

EXECUTIVE SUMMARY

Formulation of the Maldives Medium-Term Revenue Strategy (MMTRS) indicates establishing a whole of government approach in developing a country-specific vision for medium-term revenue strategies, including a transparent revenue system reform.

By the end of the year 2023, the government revenue has increased to MVR 33,278.6 million, which is 2.4 percent higher than the forecast for the year and 43.2 percent higher than the Government revenue realized prior to Covid-19 pandemic. However, realization of new revenue measures continue to be a fiscal risk to the Government, due to the challenges in formulating and implementing these strategies within a budget year. This document will ensure that a road map has been established to introduce revenue measures the government plans to implement in the medium-term. Though this document is subject to amendments to reflect changes in the Government's fiscal policy over the years, it will facilitate synergy between revenue policy, revenue administration, and its legal framework.

With this MMTRS, the Government aims to further strengthen the current revenue policies and enhance domestic revenue mobilization. This document includes the background of our economy and public finance, the goals and objectives of this strategy and envisioned revenue policy reforms. It also covers revenue administration and legal framework reforms, as well as the governance arrangements of the MMTRS.

Table 1 summarises the policy and administration reform measures proposed for the MMTRS period, 2024 to 2028.

Table 1: MMTRS Summary 2024-2028

Strategic Outcomes: Given the current revenue to Nominal GDP ratio of 32.5% (2023), the target is to reach and maintain a revenue to Nominal GDP ratio of at least 35.5 percent by the end of 2028 to: <ul style="list-style-type: none"> • Improve fiscal sustainability and self-sufficiency in line with the principles specified in Fiscal Responsibility Act • Enhance public welfare, economic competitiveness, and climate resilience. • Increase tax neutrality and strengthen progressivity of the tax system 					
Policy Reform – 7.3 percent of GDP	Administration Reform – 0.4 percent of GDP		Legal Reform	Political Support	External Resources
	Maldives Inland Revenue Authority	Maldives Customs Service			
Indirect Taxes <ul style="list-style-type: none"> • Broaden GST base • Formulation of an Excise Tax regime • Review Export Import Duty regime • Review rates of Airport Taxes and Fees • Review GST rates • Review Green Tax regime Direct Taxes <ul style="list-style-type: none"> • Improve revenue capacity, neutrality, and progressivity of Income Tax • Formulation of a Presumptive Tax regime Other Revenues <ul style="list-style-type: none"> • Formulation of an Infrastructure Fee • Review Tourism Land Rent regime • Monetisation of Carbon Credits Cross-Cutting <ul style="list-style-type: none"> • Limit authority to grant discretionary tax expenditures, and mandate regular inclusion of tax expenditure cost-benefit analysis into the budgetary process 	Strengthen Compliance Risk Management (CRM) <ul style="list-style-type: none"> • Apply and refine CRM framework for large taxpayer risks • Enhance GGST compliance efforts • Evaluate risks associated with high wealth sector • Develop and implement electronic processes for the Vendor Collection Method • Evaluate data management needs and strengthen CRM Workforce Development <ul style="list-style-type: none"> • Implement training plans for staff development, including specialty expertise • Right-size the workforce Institutional Strengthening and Reform <ul style="list-style-type: none"> • Evaluate IT system and replace/upgrade the system based on future business requirements • Implement a performance measurement framework to allow regular monitoring of performance results 	Strengthen Risk-Based Approaches <ul style="list-style-type: none"> • Improve valuation regime on imported goods • Increase effectiveness of Post Clearance Audit (PCA) program • Implement effective compliance processes for e-commerce Workforce Development <ul style="list-style-type: none"> • Implement training programs to strengthen capabilities for risk identification • Develop programs for improving IT skills and data analytics capability • Hire or train specialty expertise Institutional Strengthening and Reform <ul style="list-style-type: none"> • Improve governance and management of current reform agenda • Study the feasibility of a dedicated facility, and improve HR capabilities to capture import revenue from e-commerce • Increase formal collaboration with MIRA 	Short-Term <ul style="list-style-type: none"> • Formulate a consultation process for legislative reforms • Modernize GST Act • Review ITA to address implementation challenges • Legislate for mandatory annual tax expenditure statements • Review SEZ Act • Review Export Import Act • Review Airport Taxes and Fees Act • Review Tourism Act to Revise GRT Rates • Formulate Excise Tax Act & Regulation • Review vehicle vessel fee policy • Review CIT Rate for Telecom Operators Medium-Term <ul style="list-style-type: none"> • Review Tax Administration Act • Review Income Tax Act • Amend legislation to introduce a Presumptive Tax Regime • Review GST Act • Formulate a policy on implementing Infrastructure Fee • Formulate a legislative framework to introduce Property Tax • Formulate legislations to implement monetisation of carbon credits • Amend Tourism Act to revise land rent regime 	<ul style="list-style-type: none"> • Implement a Secretariat to support the MMTRS Steering Committee • Consult widely to generate community support, including the Parliament • Conduct regular monitoring of progress and results to ensure desired outcomes achieved 	<ul style="list-style-type: none"> • Identify capacity needs for reform development and implementation • Identify available external support from CD partners to provide needed capacity • Formalize agreement with CD partners to support the government led MMTRS

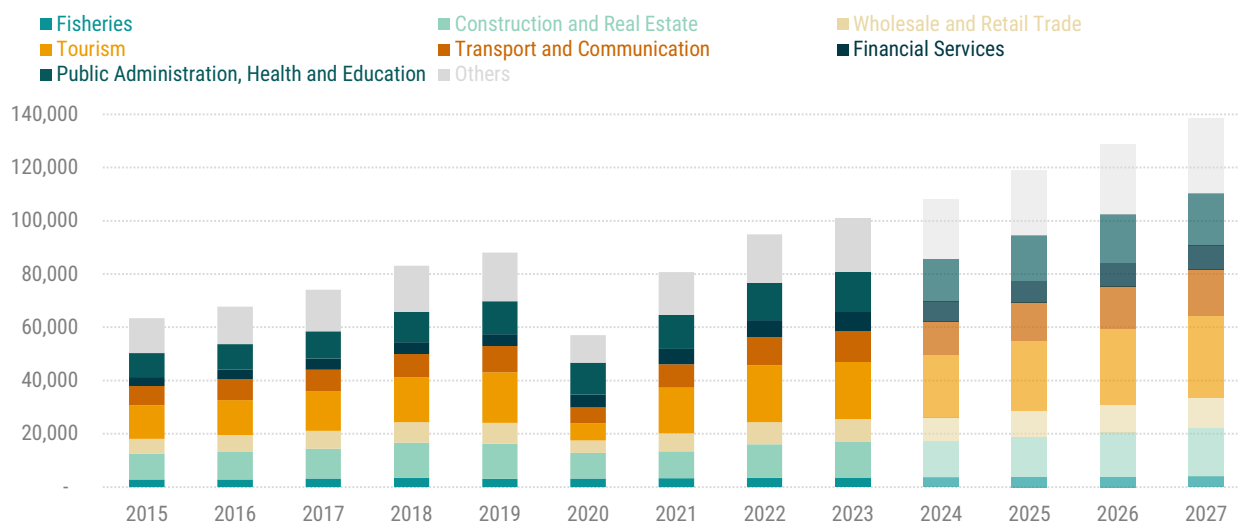
2. BACKGROUND

2.1 ECONOMY AND PUBLIC FINANCE

The Maldivian economy has been experiencing robust economic growth in the past few decades with tourism being the lead industry in driving the growth. Since its introduction in the early 1970s, the tourism industry has become the predominant economic sector in the Maldives, driving most domestic industries, including wholesale and retail, transportation, construction, and communication. With over 170 resorts and 800 guesthouses established across the country, the industry made a direct contribution to the GDP of 20.4 percent in 2022. The dependency on tourism sector was the primary reason for the economic downturn for the country caused by Covid-19 when major tourism markets implemented border control measures and suspended international transportation amid the pandemic. The significance of the tourism industry in the domestic economy is expected to continue in the medium and long term, as more tourist establishments come into operation and infrastructure developments such as the Velana International Airport Expansion Project are completed.

Chart 1: Breakdown of Nominal GDP

MVR millions



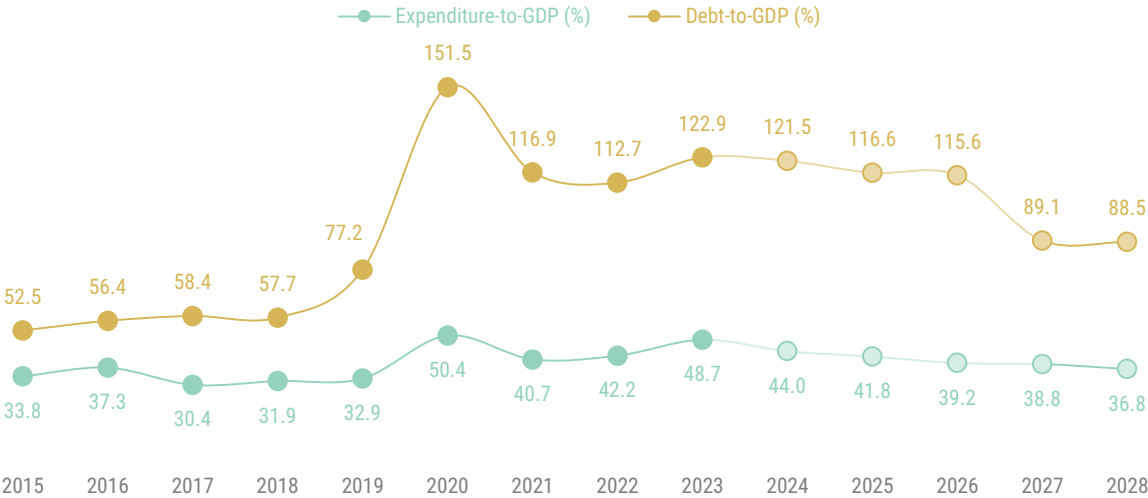
Source: Maldives Bureau of Statistics

Over the past few decades, public finances have expanded significantly alongside the economy due to the country's notable and swift reforms in governance, social welfare, and public infrastructure. The government budget has increased from approximately MVR 1 billion (5.0 percent of GDP) in the mid-1990s to MVR 49 billion (48.7 percent of GDP) in 2023. While more than half of the budget is primarily allocated to finance recurrent expenditure, the current trajectory of expenditure, especially capital and debt service expenditure may not be sustainable in the long-term. Despite plans to rationalize expenditure post Covid-19 recovery, the overall budget remains high, resulting in increased borrowing to finance the deficit. Prior to the Covid-19 pandemic in 2019,

the Government’s debt-to-GDP ratio was 77.2 percent. However, debt-to-GDP ratio peaked in 2020 and remained above 100 percent till 2023.

Chart 2: Expenditure and Debt as Share of Nominal GDP

Percentage



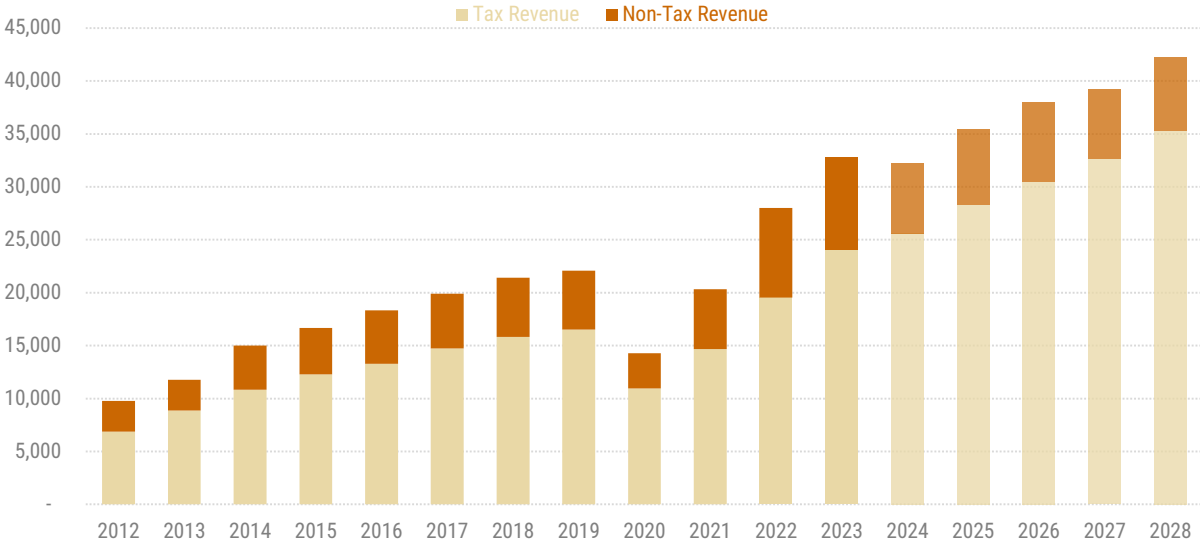
Source: Ministry of Finance

Prior to the implementation of a modern tax regime in 2011, the government’s revenue primarily relied on Import Duty and tourism-related taxes and rents. Despite significant reforms, the government’s revenue structure has continued to be substantially reliant on tourism-related taxes and fees over the years.

Modernization of the Maldivian tax system occurred in 2011 with the introduction of BPT and GST, along with the establishment of the autonomous tax administration body, Maldives Inland Revenue Authority. This extensive overhaul of the tax system enhanced the fiscal capacity, leading to a substantial increase in government revenue by expanding the tax base. Additionally, new revenue measures such as Airport Taxes and Fees, and Green Tax have been introduced since then. Moreover, a comprehensive Income Tax Regime was implemented, along with significant amendments to the Import Duty legislation in 2020, further contributing to domestic revenue mobilisation. As depicted in Chart 3, the highest proportion of government revenue is received as tax revenue, which, over the past five years, accounted for 73.4 percent of total revenue, on average.

Chart 3: Government Revenue 2021-2028¹

MVR millions



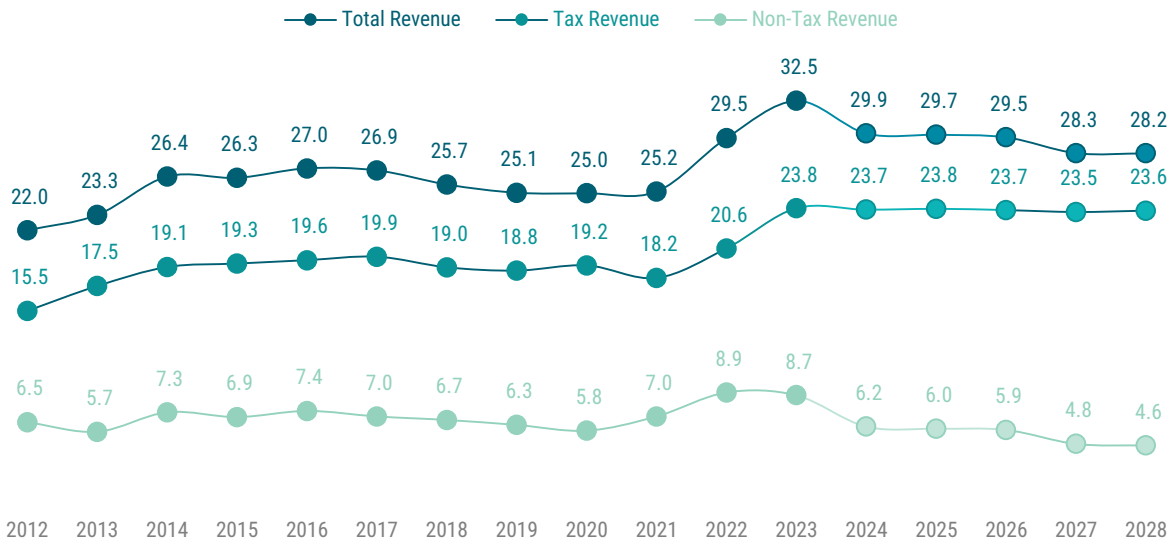
Source: Ministry of Finance

Despite a significant decline in government revenue due to the Covid-19 pandemic, a robust medium-term fiscal strategy is essential to address the widening fiscal gap and ensure continued growth. From 2012 to the end of 2019, government revenue increased at an average annual rate of 11.1 percent. However, due to the economic downturn caused by the Covid-19 pandemic in 2020, Government revenue declined sharply by 34.5 percent compared to 2019.

¹ Medium-term estimates are baseline forecasts and do not include the impact on revenue from proposed revenue measures.

Chart 4: Total, Tax, Non-tax revenue as a Share of GDP²

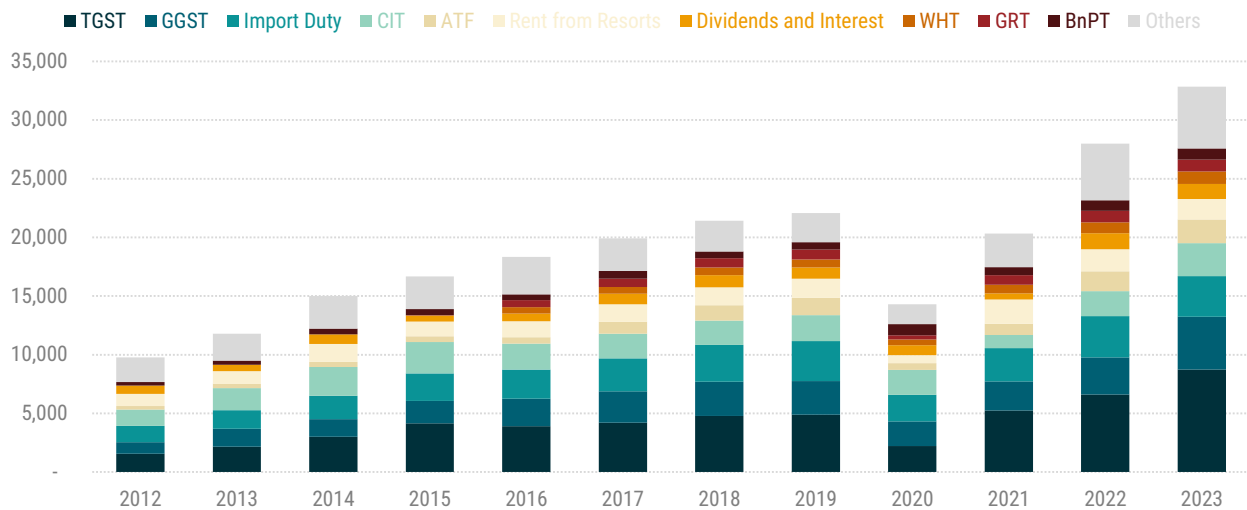
Percentage, as a Share of Nominal GDP



Source: Ministry of Finance

Chart 5: Composition of Government Revenue

MVR millions



Source: Ministry of Finance

² Medium-term estimates are baseline forecasts and do not include the impact on revenue from proposed revenue measures.

Tax revenue accounted for 73.3 percent of the total Government revenue received in the year 2023, of which GST, Income Tax and Import Duty were key contributors. Non-tax revenue accounted for 26.7 percent of total revenue for 2023 with tourism land rent being the key contributor.

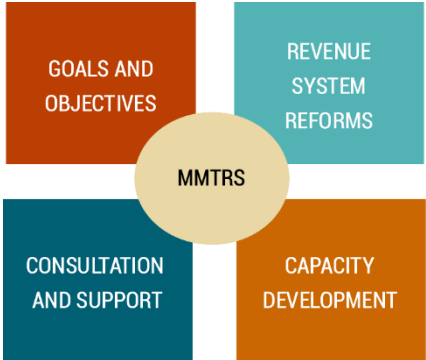
The Government revenue is heavily influenced by the performance of the tourism industry, despite the efforts to diversify revenue streams and reduce dependence on a single sector. As the economy is forecasted to grow over the medium-term, along with a prosperous outlook on the tourism sector, government revenue is expected to register a high growth over the medium-term.

2.2 MEDIUM TERM REVENUE STRATEGY

While developing countries heavily rely on aid and borrowings, both from domestic and foreign sources, mobilizing domestic revenue is crucial for long-lasting growth and stability of their economy. The government's ability to raise revenue determines its capacity to fulfil the social and development agenda for its people, without excessively relying on external debt. With a continuous need for funds to achieve development goals, governments are constantly seeking ways to enhance their capacity to generate domestic revenue. This becomes increasingly important as a nation develops and aims to reduce reliance on foreign sources, taking more control of its own development and fiscal sustainability. To consistently achieve this in a systematic and timely manner, a sound strategy to raise domestic revenue for the medium term is essential.

With a clear medium-term plan for revenue system reforms, the MMTRS³ can assist taxpayers and investors in confidently planning their activities, while providing administrators and lawmakers with a clear understanding of upcoming tasks to ensure timely performance. Additionally, the MMTRS will facilitate coordination and alignment of external resources necessary for capacity development, reducing duplication and waste of resources, and aiding development partners in planning and integrating efforts among all parties.

Figure 1: Components of MMTRS



³ MMTRS is a high-level road map of the revenue system reforms that is required to deliver the revenue capacity needed to meet the fiscal demands for the medium term. It also supports economic growth through reduction of inequities and inefficiencies in revenue policy and administration design. It is a vision for the future revenue system of the country giving clarity and purpose for reforms. MMTRS should have broad support and political commitment to make it effective and successful. It embodies a strategy to finance the spending needs and provide fiscal stability in a guided and sustained manner, in contrast to arbitrary and inconsistent reforms. This document is to be updated timely to reflect any changes to the strategic objectives of the government.

3. VISION, GOALS AND OBJECTIVES

3.1 VISION

Vision of this MMTRS document is to enhance sustainability of government fiscal strategy by strengthening the medium-term revenue policy formulation and implementation.

Domestic revenue mobilisation efforts will be strengthened through enhanced effectiveness of government revenue strategies outlined in this medium-term plan, which is expected to be effectively communicated with all relevant stakeholders and aligned with the overall strategic objectives of the government.

3.2 GOALS AND OBJECTIVES

Objectives of the MMTRS are designed to achieve the aforementioned vision. This vision will be accomplished through the review and revision of current revenue policies, the establishments of an accessible and taxpayer-friendly system to foster public confidence, and the realisation of the broader development agenda set by the government. The publication and dissemination of this strategy would also demonstrate transparency and accountability in the government decision-making, instilling confidence among stakeholders and signalling stability in the economic environment.

Policies outlined in this document aim to increase domestic public resources that support extensive fiscal and development reforms. As such, national commitments to achieving SDGs, such as domestic revenue mobilisation, reducing inequality, and promoting sustainable consumption and production patterns are taken into account, while designing the policies. In addition, recommendations from the Gender-Sensitive Tax Policy Analysis⁴ and findings from the Taxpayer Perception Survey 2022⁵, conducted by the Ministry with technical assistance from USAID, were considered in formulating these policies. Consequently, by enhancing the transparency, effectiveness, and equity of revenue policies, this document aims to improve public perception of tax policy and tax administration.

The MMTRS will also contribute to achieving the fiscal anchors outlined by the government in the Medium-Term Fiscal Strategy. This fiscal document, published annually and prepared for a medium-term period of three years, aims to attain government's medium-term fiscal objectives, with a focus on reducing direct public debt to GDP, decreasing the primary budget deficit as a percentage of GDP, and maintaining a downward trajectory in both debt to GDP and budget deficit to GDP ratios.

⁴ Report can be accessed from:

<https://www.finance.gov.mv/public/attachments/Z9459I0SBknVkvfiZYkJVw0Ijpn4pMWUrUQhdRt3A.pdf>

⁵ Report can be accessed from:

<https://www.finance.gov.mv/public/attachments/VRjub5QsgdIPGG5cX7taMvjcgSpAjUt54MOGumcm.pdf>

Thus, to realise the vision, goals and objectives outlined above, the strategic outcome of this MMTRS is to achieve and maintain a revenue to Nominal GDP ratio of at least 35.5 percent by the end of 2028 to:

- Improve fiscal sustainability and self-sufficiency in line with the principles specified in the Fiscal Responsibility Act;
- Enhance public welfare, economic competitiveness, and climate resilience;
- Increase tax neutrality and strengthen the progressivity of the tax system.

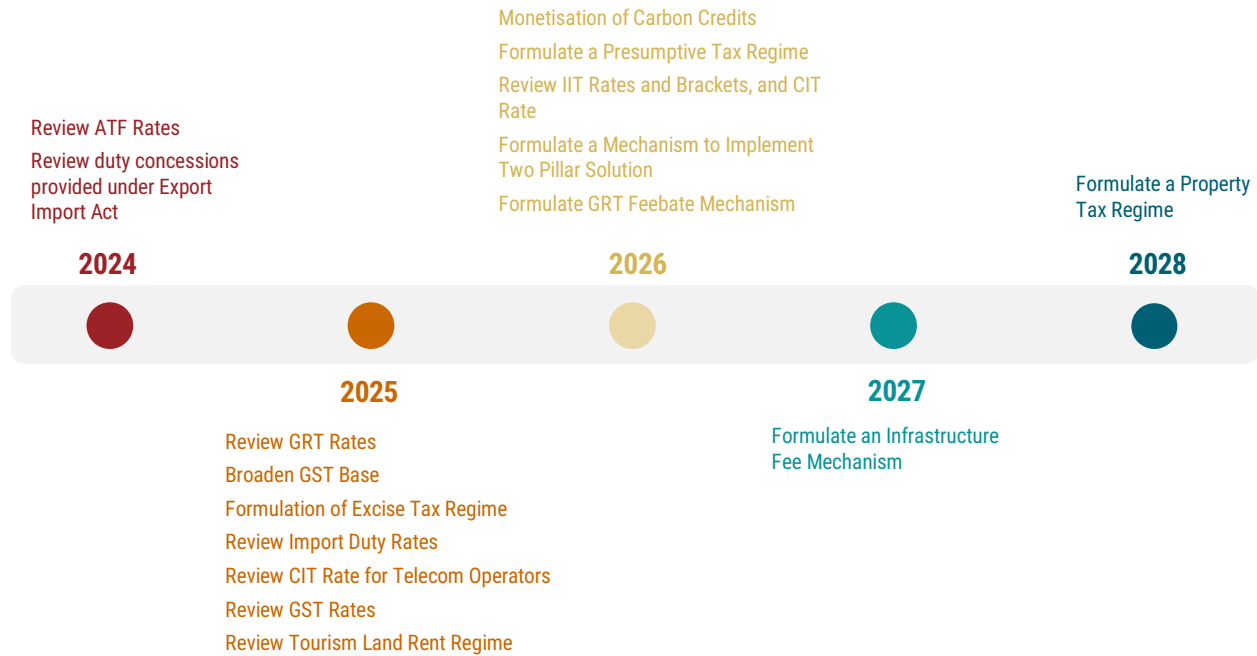
As such, policies and strategies outlined in this MMTRS are based on the principles of

- *Neutrality*: Policies under this MMTRS should aim to uphold the principle of neutrality by minimising distortions and economic inefficiencies.
- *Reliability*: The mix of revenue policies should promote stability, certainty, and sufficiency, with a diversified revenue structure that strikes an adequate balance with the government budget.
- *Responsiveness*: Policies stated should be responsive to domestic and global economic shocks and competition and support economic development policies of the government.
- *Equity*: Policies and strategies should aim to achieve equity objectives through progressive tax policies.
- *Feasibility*: Policies should reflect the capacity of revenue administration authorities and other policy implementation agencies.

3.3 MEDIUM-TERM MEASURES

To achieve the goals and objectives of MMTRS, several policy measures and revenue administration measures are included in this strategy. The policy changes outlined in this document are closely linked to amendments to existing legislation or regulations, and proposed new laws or regulations. Thus, key legislative revisions are planned to be proposed as part of the MMTRS, including amendments to the Tax Administration Act (Law Number 3/2010). These strategic initiatives aim to enhance revenue generation efficiency and strengthen our fiscal framework for sustainable economic growth.

Figure 2: Timeline of revenue policy measures



For a successful tax system reform, MIRA and MCS play a crucial role in ensuring that the policy changes yield the projected revenue. While MIRA focuses on collecting tax revenue, and non-tax revenue as requested by various line ministries, MCS collects import duty and fees as stipulated in the Export Import Act (Law Number 31/79). As part of the MMTRS 2024-2028 MCS will adopt risk based approaches for effective revenue collection and MIRA will undertake actions to strengthen compliance risk management. Additionally, both organizations will focus on workforce development, and further institutional strengthening and reforms.

4. GOVERNANCE

4.1 GOVERNANCE FRAMEWORK

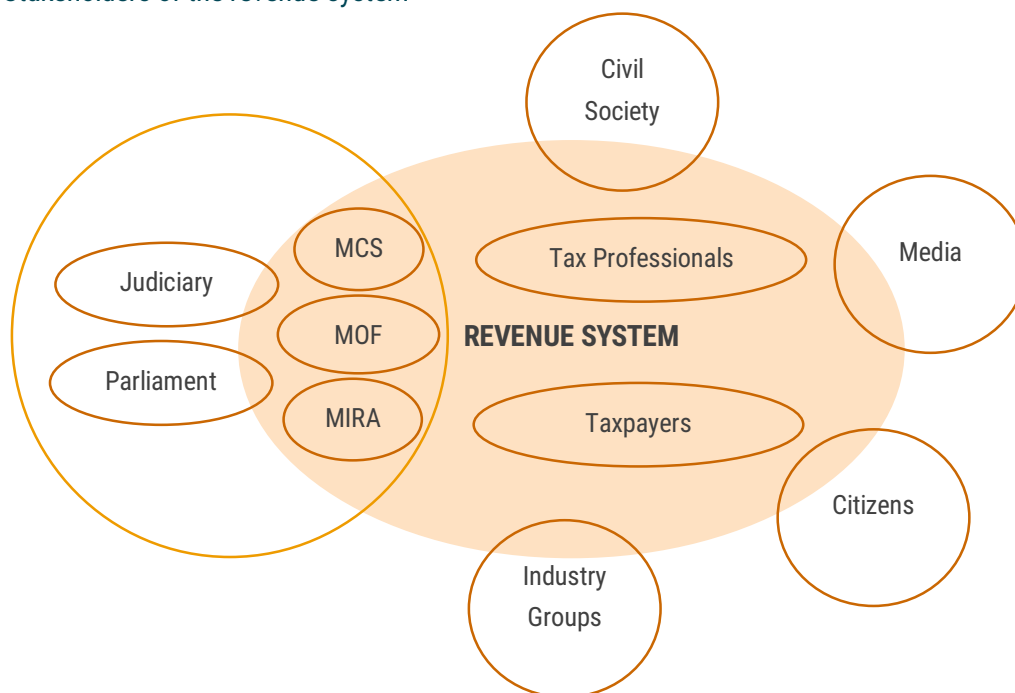
The TPU established under the FAD of MOF has the overall responsibility for the smooth functioning of the MMTRS. As there are various stakeholders in a revenue system, an MMTRS needs a governance framework consisting of key players, and defined roles and responsibilities for it to function systematically and successfully. This framework will ensure control and coordination of policy implementation among multiple parties over the medium term.

While MMTRS is a government led and country owned strategy, it is MOF who leads the development, communication, implementation, and reporting of the strategy. The governance framework of the MMTRS consist of the Steering Committee, Secretariat and Working Group.

4.2 CONSULTATION AND COMMUNICATION

Participation of stakeholders at various relevant stages is essential for an inclusive and comprehensive MMTRS. From design and development to implementation, regular feedback and engagement is necessary for the successful and continuous implementation of the strategy. To ensure proper participation of all relevant stakeholders a consultation process and a communication strategy will be formulated and followed while establishment of a feedback mechanism can help continuous improvement during the implementation. These reforms will be successful where there is widespread public understanding of the link between public finance and economic and social development. Additionally, a communication strategy will be developed and implemented to effectively convey the objectives, rationale, and benefits of MMTRS to stakeholders and ensure cohesive understanding and support throughout the implementation process.

Figure 3: Stakeholders of the revenue system



4.3 SUPPORT AND COMMITMENT

The success of the MMTRS requires a strong cross-government commitment especially from executive branch (cabinet) and the legislative branch (parliament). Successful revenue reform, as set out in the proposed MMTRS, requires strong political will and leadership, combined with whole-of-government support and broad public support. Revenue policy reform is difficult and contentious and needs strong political advocates to ensure that the reform can proceed.

To ensure there is support and commitment for the MMTRS, participation of key individuals from both the cabinet and the parliament is crucial. Proper and regular communication with these political leaders can assist them to build understanding of key policies, their objectives and help delivery of the strategy in timely manner. The President's Office and the Public Finance Committee of the Parliament are two key political players that should be formerly communicated regarding the development and formulation of the MMTRS.

4.4 MONITORING AND EVALUATION

Monitoring and evaluation will form an integral part of the MMTRS governance framework. The key players play a pivotal role of tracking progress and assessing whether objectives included in this document are achieved throughout the period of this strategy.

Working Groups who are responsible for the implementation of the reforms, are to report to Steering Committee through the Secretariat. The Secretariat systematically maintains reports of all ongoing reform processes for Steering Committee for the purpose of regular reviewing and evaluation before attending to issues that needs action to resolve for the goals and objectives of the MMTRS is to be achieved.

4.5 CAPACITY DEVELOPMENT

MMTRS will require investment and capacity development of its implementing partners in key areas such as technology and human resources. Commitment to finance the planned action through allocation of funds from the budget and seeking assistance from external resources are the main resources to ensure that required capacity development needs are addressed.

Programming of required capacity by implementing agencies and coordination among various partners will make the best use of the limited resources. The Capacity Development Program attached in Annex 3 details the list of programs required from implementing agencies for MMTRS implementation including funding or donor sources. Regular review and updates of this program as well as communication and coordination among partners including various donor agencies will streamline capacity development for successful implementation of the MMTRS.

5. CONCLUSION

The Maldives needs a domestic revenue mobilization strategy to maintain fiscal stability over medium and long-term. Recent increases in capital expenditure and debt financing have been a challenge for the Government to attain fiscal sustainability. Experience of other countries has shown fragmented and erratic revenue policy reforms challenging to administer and to be accepted by taxpayers and the public. The MMTRS will improve the success of revenue system reforms as it builds a more holistic and inclusive approach to such reforms. It will contribute towards managing public finance better, while reducing dependency of external and borrowed resources.

The launch of the MMTRS will encourage broader participation of the public in development and strengthening of the government revenue system. It builds a consensus among the citizens, taxpayers and policymakers while guided by the principles of Neutrality, Reliability, Responsiveness, Equitability and Feasibility. The MMTRS sets the high-level direction of the revenue policy over the medium term, while details of these policies will be formulated through consultations, assessments and experiences that will be developed and executed during various stages of the MMTRS.

The implementation of the MMTRS will also ensure that the revenue system supports and facilitates attainment of the broader social and developmental goals that are set in various domestic and international agendas in an efficient and timely manner.