

Transfer Pricing Country Summary

Maldives

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1. Introduction

The Maldives' transfer pricing policy was developed in accordance with the OECD Transfer Pricing Guidelines (TPG). In light of the OECD TPG, the transfer pricing paperwork and the Transfer Pricing Arm's Length Guide have also been produced.

2. Laws & Regulations

a) References to OECD/EU/Local Rules

- Section 67 and Section 79 (r) of Income Tax Act and Transfer Pricing Regulation (2020 –R-43).
- Section 79 (ss) and 79 (oo) of Income Tax Act defines relative and associates.
- Transfer Pricing Regulation Section 8(e).
- Country by country reporting requirement under Section 31-I of the Tax Administration Act as per the rules stipulated in Country by Country Reporting Regulation (2021 –R9).

b) Definition of Related Party

Maldives has a definition of the related party in Section 79 (ss) and 79 (oo) of Income Tax Act defines relative and associates, which goes as follows:

If a person enters into an arrangement or transaction in a tax year under the following conditions, his or her taxable income is computed on arm's length terms, regardless of the actual terms of the arrangement or transaction:

- The arrangement or transaction was made with a colleague; and
- the terms on which the agreement or transaction was made were not arm's length; and
- If the arm's length criteria had been used or imposed:
- the amount of one of those people's income for an accounting period would be larger; or
- the amount of any deduction permitted to one of those individuals for an accounting period would be smaller; or
- the extent of any damage suffered by one of those persons for an accounting period would be less.
- Where a non-resident person carries on business through a permanent establishment in the Maldives, the above rules will apply as if the person and the permanent establishment are separate and distinct persons.

c) Nature of Transfer Pricing Documentation

The nature of TP Documentation follows the OECD standards. Accordingly, the documentation is threefold. A Master file, a Local File and a CbCR is required.

d) Tax Havens & Blacklists

Maldives have not currently published a Tax haven & Blacklist for countries from uncooperative tax jurisdictions.

e) Advance Pricing Agreement (APA)

An APA regulation was released and went into effect on March 16, 2021. Tax administration regulations have been amended to accommodate article 52-1 of the Tax Administration Act, which facilitates MAP. MIRA is actively developing comprehensive rules and processes for implementing dispute resolution procedures.

f) Audit Practice

The tax system in the Maldives is based on self-assessment and voluntary compliance. In this context, the MIRA's primary functions are to:

- provide taxpayer service and education to assist taxpayers in meeting their tax obligations with the least amount of complexity and compliance burden; and
- manage tax compliance to detect and prevent delinquent behaviour.

Tax audit is one of the Maldives Inland Revenue Authority's primary functions under the Self-Assessment System (MIRA). Its goal is to increase voluntary compliance with the Taxation Acts. At any time, a taxpayer can be chosen for an audit. However, being selected for an audit does not always imply that the taxpayer has committed a crime.

3. Transfer Pricing Documentation

a) Level of Documentation

Local File: comprising full information on all of the taxable person's controlled transactions, including facts and economic analysis demonstrating that the conditions of its controlled transactions are at arm's length.

Master File: The master file serves as the MNE group's "blueprint" and gives an overview of the MNE group's company, including the nature of its worldwide business activities, general transfer pricing rules, and global allocation of revenue and economic activity.

CbC Report: CbCR is a report of the MNE group containing certain information relating to the global allocation of the MNE group's income and taxes paid together with certain indicators of the location of economic activity within the MNE's. It is applicable to taxpayers having consolidated turnover of Euro 750 Million and above.

b) Industry Analysis

By identifying value drivers for the relevant industry, a first indication of the level of profitability common in the industry is being given.

c) Company Analysis

A description of the management structure of the local entity, a local organisation chart, and a description of the individuals to whom local management reports and the country(ies) in which such individuals maintain their principal offices.

A detailed description of the business and business strategy pursued by the local entity including an indication whether the local entity has been involved in or affected by business restructurings or intangibles transfers in the present or immediately past year and an explanation of those aspects of such transactions affecting the local entity.

d) Functional Analysis

In conducting a functional analysis, an assessment is made of the significant activities and responsibilities that are performed by the related parties relevant to the Intercompany Transactions under review, the tangible and intangible assets that are employed and the risks that are borne in undertaking the business activities. Such an assessment is consistent with the recommendations that have been made in the OECD Guidelines at paragraph 1.51.

e) Choice of Transfer Pricing Method

All the OECD TP methods are accepted. Therefore, the taxpayer can choose from CUP, Resale price, Cost Plus, TNMM or Profit Split method.

The most appropriate approach is the one that is most suited to the facts and conditions of each specific transaction and offers the most reliable assessment of price, profit, or income.

The following variables must be considered before deciding on the best approach.

consideration:

1. The nature of the regulated transaction, as specified by a formalized functional examination
2. The degree of genuine comparability when comparing two transactions between unrelated parties
3. Data completeness and correctness in relation to the independent party transaction
4. the trustworthiness of any assumptions made; and
5. The extent to which the modifications are influenced if the data is incorrect or the assumptions incorrect.

f) Economic Analysis – Benchmark Study

Local comparables are preferred when conducting a BM study. In case there are not sufficient local comparables, international comparables may be accepted depending on the nature of the study.

g) Inter-company (IC) Legal Agreement

Although an Inter-company legal agreement formalizes the business and financial relationship between group entities, the legal agreements have a lower ranking since the OECD 2017 Guidelines made the “conduct of parties” the prevailing concept.

h) Financial Statements

The Maldives Company Act requires all registered companies to submit annual financial statements, director's reports, and auditor's reports for the previous year to the registrar of companies.

i) Production Process for TP Relevant Returns, Documents, Forms and Financials

In the chart below, the existence of the filing requirements with the details of which format is used, the latest filing date, notification requirement and its deadline, thresholds to be applied in case it exists, and the required languages are demonstrated. These information can be seen respectively for CIT, master file, local file, CbCR, local forms, annual accounts and segmented P&L documentations.

	Prepare or File?	Format	Deadline	Notification Deadline*	Threshold * (Yes/No)	Local Language (Yes/No)*(If “No”, it can be filed in English)
Corporate Income Tax	Prepare	Electronic submission	Due date of tax return 30th June 2022	N/A	No	No
Master File	Prepare	Electronic submission	Not later than filing due date of tax return 30th June 2022	N/A	No	No
Local File	Prepare	Electronic submission	Not later than filing due date of tax	N/A	No	No

			return 30th June 2022			
CbCR	Prepare	Electronic submission	On or before 12 months from end of reporting fiscal year 31st December 2022	N/A	No	No
Schedule 4 (Related Party Disclosure Form)	Prepare	Electronic submission	Not later than filing due date of tax return 30th June 2022	N/A	No	No
Annual Accounts	File	Electronic submission	31 st of March	N/A	N/A	No
Segmented P&L	N/A	N/A	N/A	N/A	N/A	N/A
* Maldives has signed the MCAA agreement for the filing of CBCR						
* Maldives does not request as much and detailed information from smaller and less complex enterprises (SME's included) than it does from large and complex enterprises						

j) Mandatory Language

Documentation must be submitted in English or Dhivehi.

k) Notification Requirement

The transfer price paperwork (both the master file and the local file) must be created and finalized for the accounting period in which the transaction or arrangement occurs. There is no set annual deadline for submitting documents. It must be sent to MIRA within 30 days after receiving the request. The deadline for CbCR submission is 12 months following the end of the MNE's reporting fiscal year.

l) Record Keeping

The Statute of limitations provides that records must be kept for a period of 5 years.

m) Penalties and Interest Charges

No specific penalties regarding transfer pricing are applicable. The penalties derive from other Tax-associated penalties as specified in the table above. Sanctions under Sections 64 and 65 of the Tax Administration Act would apply if the transfer price documentation requirement was not met.