1. Introduction

The Goods and Services Tax (GST) is the single strongest revenue-raising tool at the behest of the Maldivian government. Amidst rising public debt and insufficient revenue to pay for recurrent expenditure, the Maldivian parliament has passed the sixth amendment to the GST Act, which primarily increased the rates. The purpose was to increase government revenue. Updating the Maldivian GST system has been long overdue. However, the changes brought by the amendment fail to consider any aspects of modernizing the system except for the increase in rates. In this article, the author discusses the GST update and its impact on businesses and on the economy. Firstly, a contextual update and the change in law are described. Second, the purpose of the update is considered. Thirdly, the main part of this article focuses on the consequences for both businesses and the economy as a result of the rate increase without considering the change holistically.

2. Change in Law

The Maldivian economy is experiencing rapid economic growth. The real GDP increased by 12.3% in 2022 and is forecasted to grow by 7.6% in 2023. A significant portion of the GDP is contributed by the tourism industry. The total number of tourist arrivals in 2022 reached an astounding 1.67 million and is expected to grow to 1.8 million in 2023. However, the downside is that while the government is achieving the budgeted revenue, the expenditure has been unmanageable. The budget deficit for the year is expected to be MVR 8.62 billion (USD 557 million). Therefore, to reduce the deficit, either the revenue will have to be increased or the expenditure will have to be reduced. The government has chosen the latter option.

Tax has been the Maldivian government’s main revenue-making machine with the GST being the largest contributor. The GST accounts for around 9% of total GDP. In 2021, the Maldives Inland Revenue Authority (MIRA) collected 85.1% of total government revenue (a combination of tax revenue and non-tax revenue), of which 75.6% is tax revenue.

The Maldivian GST system consists of two categories: the GGST and TGST. The TGST focuses on goods and services broadly supplied in the tourism industry. The definition of tourism goods and services is in USD and is a major source of dollar income for the government. For an economy that is significantly reliant on tourism for its sustenance, this amount is crucial to acquire foreign reserves to pay for essential imports. Moreover, the tourism industry is the largest sector in the Maldives, employing more than three times the population. Additionally, there is an extra increase in revenue, of which 75.6% is tax revenue. Tourism goods and services, and the increase in the GST rates.

In November 2022, the Maldivian parliament voted to increase the GST rate in the sixth amendment of the GST Act. The main amendments included broadening the definition of what is “tourism sector goods and services”, and the increase in the GST rates. The new rates came into effect on 1 January 2023.

3. Purpose of the Reform

The official purpose for the GST increase was to increase government revenue. In addition to the rising public debt to finance the growth in the productive capacity of the economy, the government is also increasing expenditure to counterbalance these outflows.

- tourism sector goods and services tax (TGST) from 12% to 16%.
- general sector goods and services tax (GGST) from 6% to 8%.

Another key purpose is to increase the government’s foreign currency reserves. The TGST is collected at GST and is a major source of dollar income for the government. For an economy that is significantly reliant on imports for its sustenance, this amount is crucial to acquire foreign reserves to pay for essential imports. Additionally, the tourism industry is the largest sector in the Maldives, employing more than three times the population. Improved revenue is essential to counterbalance these outflows.

However, tourism has picked up significantly since 2020. This increase in revenue, of which 75.6% is tax revenue, contributed to a significant portion of the GDP. The increase in revenue has been unmanageable. The budget deficit for the year is expected to be MVR 8.62 billion (USD 557 million). Therefore, to reduce the deficit, either the revenue will have to be increased or the expenditure will have to be reduced. The government has chosen the former option.

The Maldivian parliament has recently amended the Goods and Services Tax Act 2011 to increase the country’s GST rates. In this article, the author discusses the change in the Act, the purpose of the reform and the impact of this reform on businesses and on the Maldivian economy.

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The TGST is collected. However, tourism has picked up significantly since 2020. This, coupled with the non-distortionary nature of the GST, gives more reason to increase it.

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Another key purpose is to increase the government’s foreign currency reserves. The TGST is collected on the tax invoice date. A tax invoice is a written document issued by a supplier to a recipient of goods or services to indicate that a supply of goods or services has been made and to show the amount of tax. The definition of tourism goods and services are broad, including tourism-related goods and services supplied by tourist resorts, integrated tourist resorts, resort hotels, hotels, tourist guest houses, picnic islands, tourist vessels, yacht marinas and other such entities. This is a measure that was introduced during the COVID-19 pandemic as tourism was at an all-time low.

Furthermore, the International Monetary Fund (IMF) has advised that tourists that are visiting the Maldives are unlikely to be deterred by the changes in the prices. This is due to the inelasticity of demand in relation to high-end tourism. This is based on the "one island, one resort" model that is unique to the Maldives, which positions itself as a luxury destination.

A GST rate increase, among other recommendations, has been long overdue in the pursuit of modernizing the existing system in the Maldives. The average VAT/GST rate in the Maldives is still below the average of 14.2% of the South Asian Association of Regional Cooperation (SAARC) countries. Nevertheless, the aim is not to match the SAARC average rates in a "one size fits all" approach to tax. However, the previous rates were significantly lower and hence an increase was suggested.

The IMF’s recommendation was to increase the GGST to 8-10%, which was followed. However, the suggestion to increase the TGST to 14-15% was not followed. Instead, it was increased to 16%. On top of that, an increased rate was suggested for the medium term (two to five years) and at the earliest during 2024, based on the local and global economic outlook. Nevertheless, the Maldives has prematurely chosen to increase the rates. An increase in the rate without other efforts to modernize the system is ill-advised. This hurried approach has negative impacts on businesses and the economy, which administered the Act. The Maldives Parliament had legislated, the MIRA took significant steps to educate taxpayers. However, the time it will take for all businesses to understand and adapt cannot be discounted. In this way, one of the most confusing aspects was understanding the "time of supply" considered below.

4. Impact on Businesses and the Economy

4.1. Abrupt nature of implementation

When a tax invoice is issued, the rate that applies is the one in force at the time. A tax invoice is a written document issued by a supplier to a recipient of goods or services to indicate that a supply of goods or services has been made and to show the amount of tax.

A major concern was how abrupt the implementation of the Act was. The Bill was passed on 22 November 2022 and was to be applied from 1 January 2023 onwards. A little over a month was inadequate for most businesses to prepare for the changes that ensued. Moreover, the December holiday period was a particularly inappropriate time to roll out a task that demanded additional administrative capacity. All businesses have to charge GST at the higher rate for invoices and payments that are on or after 1 January 2023 (the date). Therefore, confusion arose in relation to transactions that were before 1 January 2023. The period is allocated to educate taxpayers to alleviate them from unnecessary administrative burdens.

The main factors to consider were the tax invoice date and payment date. If the tax invoice was issued after the date, it was applicable at the new rates. Conversely, if the tax invoice was issued before the date, the earlier rate applied.

SIMILARLY, if a payment was made before the date, the earlier rate applied. If the payment was made after the date, the new rate will apply.

4.2. Time-of-supply confusion and subsequent inefficiencies
Admittedly, once parliament had legislated, the MIRA took significant steps to educate taxpayers. However, the time it will take for all businesses to understand and adapt cannot be discounted. In this way, one of the most confusing aspects was understanding the “time of supply” considered below.

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Pandemic 2020 was marked by numerous economic quakes. Nevertheless, the abrupt nature of the implementation made the GST inefficient while pandemics were very much at the forefront. The GST Act was implemented without considering the resource spent on investigating the majority of businesses is likely to be disproportionate to the revenue that can potentially be collected.

The effort to consider the veracity of the time of supply for such invoices will not be worth the administrative burden for the MIRA. This is because 82% of the total GST is contributed by only 7% of GST-taxable persons. Any resource spent on investigating the majority of businesses is likely to be disproportionate to the revenue that can potentially be collected.

Therefore, the businesses that had the resources to clarify the time of supply would have benefitted greatly by invoicing in advance despite the payments coming in later. Once again, smaller firms are unlikely to have had this advantage, which was ultimately a product of policy inefficiency.

4.3. Burden of the change (impact of the tax)

Greater time in between the amendment to increase the rates and its implementation would have left businesses with the ability to commercially negotiate amicable terms in advance. However, the issue is whether businesses would have had the foresight that the GST would change this abruptly during this period. In economics, the cost that firms incur when they change their prices. A GST change will inevitably result in menu costs. Businesses must update their pricing and display goods and services one easy way to identify the burden allocation is to look at whether the contract price was inclusive or exclusive of GST. In a business-to-business setting, the usual parties are the vendor and the client. The main factors to consider were the tax invoice date and payment date. If the tax invoice was issued before the date, the older rate applied. Conversely, if the contract price is GST inclusive, the vendor is in a better position if the contract price is GST exclusive. Then, it is straightforward as the price will not change. Conversely, if the contract price is GST exclusive of GST, it leads to an additional administrative burden. This is because the vendor will have to absorb the increase in GST to their detriment.

For instance, if a service was booked prior to the change in law and partly prepaid, the lower rate would have applied to the prepaid amount, but the higher rate would apply to the remainder so long as the invoice or payment is on or after 1 January 2023.

Businesses were unable to clarify all matters related to the time of supply during such a short period of time. Additionally, it created further inefficiencies, such as the bunching phenomenon. Those businesses that understood the time-of-supply rules would have quickly invoiced before 1 January 2023 to take advantage of the lower rate. Therefore, many invoices were artificially bunched to December 2022.

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4.4. Menu costs

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4.5. Inflation
4.2. Menu costs

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The revised GST Act[30] is for both parties to be clear about the terms and obligations on each side. A dispute in relation to GST burden allocation can easily be avoided either by drafting the price exclusive of GST or via a change-in-law clause.

The same applies to point-of-sale (POS) systems. Businesses will have to meticulously change the pricing of all goods and services internally for the purposes of sales and accounting. This is because businesses are unlikely to accommodate the new price levels and prefer to stick to the old pricing. Moreover, any limited quantity of printed material the business had with the old pricing will have to be replaced.

One way that contracts can accommodate any similar changes in the future is via a “change in law” clause, which will facilitate the change in GST by varying the contract price.

4.5. Inflation

One of the most immediate consequences is a rise in cost-push inflation. A 2% rise in GGST will increase the price of all goods and services in the general sector except for a few exempted and zero-rated goods and services. This directly increases the price levels of goods and services for Maldivian residents and thereby reducing their real income. It also increases the costs for businesses. The inflation rate is expected to increase to 5.4% in 2023 with the increase in GST.[29]

A drop in real income during a period of high economic growth encourages workers to negotiate wage increases, which will push the costs of businesses up further. Most of which will inevitably be reflected in the price levels once again.[30]

4.6. Undue burden on smaller guest houses

Another key factor specific to the Maldives is that while the larger tourist resorts may be able to cope with the rate increase because they cater to high-income tourists, the guest house tourism sector may suffer.

A guest house is a simple accommodation establishment that provides overnight lodging with minimal services.[31] In the Maldives, guest houses are located on inhabited islands where locals offer accommodation services for visitors. There are over 836 operating guest houses in the Maldives currently.[32] This is not an insignificant number. A quick search on the booking.com website will show that the average room rate per night for these guest houses is roughly USD 100. The guest market consists of small guest houses and backpackers looking for simple affordable visit. As a result, the impact on the two, both guest houses and resorts fall within the ambit of TGST subject to 16%. For example, if the government decides to impose a 4% increase in price is likely to be a barrier.

Nevertheless, the overhaul that followed was myopic; an increase in rates in isolation without a simultaneous increase in wages would cause significant increases in revenue for the government. This may, unfortunately, validate the decision that was made but for the wrong reason. Freedom of contract is a core tenet surrounding the law of contracts; businesses in a less precarious situation.

In conclusion, the GST in the Maldives has been in dire need of an overhaul, potentially even a complete redraft of the GST Act. The GST rate in isolation may not have the intended effect and could have been merely a revenue booster. The GST increase may be the last straw for many businesses and industries and result in a severe blow to many guest houses operated by locals on these inhabited islands. It may even be the final blow for some.

In conclusion, the GST in the Maldives has been in dire need of an overhaul, potentially even a complete redraft of the GST Act. The GST Act was intended to broaden the tax base and ensure that the government substantially. This is precisely the reason why any changes to the GST Act should be profoundly considered to be effective, rational, and implemented.

Nevertheless, the overhaul that followed was myopic; an increase in rates in isolation without further thought for small-scale operations. Guest houses often do not make a sufficient profit to absorb the additional cost. Furthermore, due to small-scale operations, guest houses often do not have a sufficiently diverse client base to offset the price increase.

The increase in GST rates will cause significant increases in revenue for the government. This may, unfortunately, validate the decision that was made but for the wrong reason. It is also because the price consists in part of GST and the fees of the online travel agencies, such as booking.com, that often make the sale to the final consumer. So, two portions are taken from the revenue. Thus, while some of these guest houses fit within the confines of small and medium-sized enterprises, they are burdened by having to pay the GST. Smaller businesses also face more than proportionate compliance costs in relation to the revenue they earn. A reduction in revenue followed by an increase in costs will unfairly squeeze several of these guest houses. This will be a severe blow to many guest houses operated by locals on these inhabited islands. It may even be the final blow for some.

5. Conclusion

In conclusion, the GST in the Maldives has been in dire need of an overhaul, potentially even a complete redraft of the GST Act. The GST Act has been an extremely efficient and reliable tool that has benefited the government substantially. This is precisely the reason why any changes to the GST Act should be profoundly considered to be effective, rational, and implemented.

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and Service Tax, p. 11 (IMF June 2022).
Sec. 16 GST Act.

7.
MIRA, Annual Report 2021, supra n. 5, at p. 33.
The World Bank, Population, total – Maldives, available at

8.
Id., at p. 35.

9.
MV: People’s Majilis [Parliament House] of Maldives, The Sixth Amendment to the GST Act
10/2011, Bill 21/2022, available at
MV: People’s Majilis of Maldives, The Report by the Parliament Committee to amend the GST Act
https://majlis.gov.mv/storage/action_les/1023/CjN142hQSaRbIo7fh3xI3THkm6tbywdkrgw20lQ.pdf

10.
Sec. 15(a)(1) GST Act.

15.
Foreign currency reserves are exchange reserves maintained by the central bank of a country in
the form of foreign currency cash, assets and gold for purposes such as liquidity maintenance
and to meet international financial obligations (paying foreign debt).

16.
2023 Government Budget, supra n. 2, at p. 43.

17.
Z. Fazal, The GST Reforms that Can No Longer Be Delayed in the Maldives, 32 Intl. VAT Monitor 6,

18.
IMF, supra n. 6, at p. 6.

19.
Id.

20.
MV: People’s Majilis of Maldives, The Sixth Amendment to the GST Act
10/2011, Bill 21/2022, available at
MV: People’s Majilis of Maldives, The Report by the Parliament Committee to amend the GST Act
https://majlis.gov.mv/storage/action_les/1023/CjN142hQSaRbIo7fh3xI3THkm6tbywdkrgw20lQ.pdf

26.
Maldives consists of 1,192 islands spread across 26 atolls. Approximately 200 islands are
inhabited and over 150 islands are resort islands. Each of these islands hosts just one brand as
a hotel resort on the island.

26.
Sec. 17 GST Act.

21.
IMF, supra n. 6, at p. 14.

27.
IMF, supra n. 6, at p. 13.

22.
Fazal, supra n. 17.

28.
S. Riza, GST rate change: Does it vary the contract price? (Riza and Co. 7 Feb. 2023), available at

29.
IMF, supra n. 6, at p. 17.

29.
2023 Government Budget, supra n. 2, at Executive Summary p. iv.

30.
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22. Fazal, supra n. 17.
23. IMF, supra n. 6, at p. 13.
24. IMF, supra n. 6, at p. 17.
25. Id., at p. 8.
27. IMF, supra n. 6, at p. 13.
30. Often referred to as the wage-price spiral.