

**Chandrawat
& Partners**

Doing business in Maldives

A comprehensive guide



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Introduction

There are 1,110 coral islands and 26 atolls that make up the small island nation of The Maldives, which is in South Asia. The Maldives, despite its small size, has a stable political and economic climate that promotes a favorable business environment for foreign investors. The government actively promotes foreign investment by offering a variety of incentives, such as tax breaks and allowing 100% foreign ownership of businesses. With streamlined procedures for company registration and a generally effective legal framework, the Maldives also ranks favorably in terms of ease of doing business.



Tourism, fisheries, and shipping make up a large portion of the Maldives' economy. With over 28% of the gross domestic product ("GDP") coming from tourism (by also a maintenance of over 60% of the foreign currency earning) and employing a sizeable portion of the population, it is the economy's largest contributor. The government has implemented regulations to assist the tourism sector grow, including the development of new resorts and the expansion of airport facilities. Another important sector of the economy is the fishing sector, with the Maldives ranking among the top tuna exporters in the world.

Economic overview

Economy

The Maldives is a sovereign, independent, and democratic republic that was established on Islamic principles. The Maldivian constitution lays out the guiding principles and framework for the operation of the executive, legislative, and judicial branches.

The small but expanding Maldives economy is largely dependent on foreign investment and tourism. To ensure sustainable growth and development, the government is committed to implementing economic reforms and diversifying the economy.

Political Climate

The Maldives is a presidential representative democratic republic with the President as the head of state and government. The country has a unicameral parliament called the People's Majlis, which is made up of 93 members.

The government has been working to establish democracy and the rule of law in the nation ever since the election. The government has implemented a one-stop shop for business registration and simplified the registration process for foreign businesses in an effort to improve the business climate in the nation.



Foreign direct investment policy

Foreign direct investment is crucial for the nation's economic growth. In order to attract more foreign direct investment, the Maldives government has increased the opportunities available in the business world. Due to its open legal system and growing political stability, the Maldives continue to be one of the most alluring options for investors. The resort industry in the Maldives receives the majority of foreign direct investment. Sectors like telecommunication, banking, accounting, insurance, manufacturing, air travel, etc. are included in the other foreign direct investment.

In Maldives Foreign Direct Investor are get benefits like –

- In Maldives foreigner can register 100% foreign owned company.
- Foreign companies can send the income to their own country without pertaining restrictions.

All foreign investors are required to pay an administrative fee of USD5,000 to the Maldives Inland Revenue Authority.

In order to foster major investments and increase economic growth through diversification, Special Economic Zones ("SEZ") laws came into effect in 2014 and still persists . The SEZ has less stringent regulations and provides tax concessions for foreign investors. The SEZ law gives special preference to major investments in the areas as health, education, information technology, manufacturing, ports, etc. Investors benefit from tax incentives and other exemption of import and export duties.

Key sectors

A variety of investment opportunities are available in the Maldives, a tropical haven in the Indian Ocean, for investors looking to diversify their portfolios. One of the most significant investment opportunities is in the tourism industry. For tourists looking for opulent resorts, thrilling water activities, and distinctive cultural encounters, the Maldives has emerged as a top choice. Investing in hotels, restaurants, and tour operators can be highly profitable in this sector.

Investment opportunities in renewable energy are also available. Being an island country, the Maldives is heavily dependent on imported fossil fuels, which makes it expensive and unreliable. In addition to reducing the nation's reliance on fossil fuels, investing in renewable energy sources like solar, wind, and tidal power can yield high returns for investors.

Additionally, the Maldives is experiencing a growing real estate market, driven by increased demand for housing from both locals and expats. Investing in apartments, villas and commercial properties is highly profitable, especially in the capital Male.

The Maldives serve as a regional center for tuna fishing, making the fisheries industry a final promising area for investment. Overall, the Maldives offers a variety of investment opportunities across a number of industries, making it a desirable location for those seeking high returns and diversification.

The coastal bliss of Maldives also encompasses the dynamic of bank and non-financial institutions to boost remote financial services. With a robust net asset composition of 5.7 billion dollars there is a strong base and profitability.

Advantages

Stable economy

A prime reason to look at the Maldives for business is because of its stable economy, compared to its other Asian neighbors. In fact, the Maldives has been continued to be blessed with a predominantly stable economy, coupled with a stable legal system – making it an attractive destination to set up a business, especially as a foreigner.

Investment incentives

There are numerous benefits to investing in the Maldives, the most important being that you have the right to 100% ownership, your investment has legal backing and there are no restrictions for profits and earnings. This encourages foreigners to invest in all sectors, big or small.

Opportunities

The opportunities to invest in the Maldives are tenfold, and you can focus on industries such as resort management, banking, accounting and even telecommunications. The government of Maldives have opened up several opportunities for foreigners to benefit, for a long time. In fact, Maldives is also seen as a potential hotspot for many investments therefore keep your options open and do your research.



Types of businesses

Maldives Limited Liability Company ("LLC")

This type of companies offer total ownership to foreigners with limited liability and a business profit tax rate of 5% on their earnings from outside of the country. That is the reason, most of the foreigners choose the LLC as the type of company to form their entity in Maldives. Moreover, in LLC the shareholders' liabilities are limited to their contributions to the share capital.

Sole Proprietorship

In Maldives, the sole proprietorship is the simplest form of business to operate. However, the sole proprietorship is not a legal entity and the business owner is personally responsible for its debts. Moreover, the sole proprietorship can operate under the name of its owner or a business name registered for the purpose.

Partnership

There are two types of partnerships firm can be created under Maldives Partnership Act: General Partnership – General partnership is comprises of two or more partners who have unlimited liability and are jointly and severally liable for all the debts and obligations of the partnership. Limited Liability Partnership – This type of partnership exists as a separate legal entity distinct from its owners whereas the partner is not personally liable for any debts other than for the amount already invested in the partnership. This can be converted to a general partnership.

How to set up business?

The following steps are involved in the process of forming a company in the Maldives:

- **Reserve a company name:** A unique company name should be selected and reserved as the first step with the Ministry of Economic Development.
- **Prepare company documents:** The next step is making the necessary copies of the company's memorandum and articles of association, as well as the company registration form and company seal, is the next step.
- **Notarize the documents:** Once the company documents are prepared, they must be notarized by a public notary.
- **Submit the documents:** The notarized business documents must then be delivered to the Ministry of Economic Development along with the required paperwork and application fee.
- **Receive approval:** If everything is in order, the Ministry of Economic Development will issue a certificate of incorporation after reviewing the application and supporting documents.
- **Register for tax:** The newly formed business must then register with the Maldives Inland Revenue Authority to pay taxes.
- **Obtain necessary licenses:** Depending on the nature of the company's operations, additional licenses or permits may be required from other governmental organizations.

Taxation

Income Tax Act ("ITA")

After the commencement of the new Income Tax Act (2020); the Corporate tax rate stands at 15%. Meanwhile the personal taxation range from 5-10%.

It is necessary to be registered under the Ministry of Economic Tax development. (MED)

This taxation system was implemented after a change in the previous 'Business Profit Tax' after 37 years.

Goods and Services Tax ("GST")

Goods and Services Tax is a tax charged on the value of goods and services supplied in the Maldives. GST is charged under the Goods and Services Tax Act.

If a business's annual sales of goods and services total more than Maldivian Rufiyaa 1 million (roughly USD 64,850), registration is required. However, even if the value of their supplies does not exceed the Maldivian Rufiyaa \$1 million threshold, importers of goods into the Maldives and suppliers of tourism-related goods and services are required to register.

The Act imposes a GST at the rate of 8% for general goods and services and a rate of 16% for tourism sector and 8% for the general sector.





Accounting standards

The Maldives Inland Revenue Authority ("MIRA") in the nation accepts the International Financial Reporting Standards ("IFRS"), IFRS for small and medium enterprises standard, and standards adopted by the Accounting and Auditing Organization for Islamic Financial Institutions as acceptable accounting standards.

While a tax resident of the Maldives is required to pay income tax on income received from anywhere in the world, a non-resident is only liable for income tax in relation to income derived from the Maldives. Wages, business profits of any kind, rent from the rental of either movable or immovable property, dividends, and interest are among the types of income that are taxed. Rent from an immovable property in the Maldives is regarded as income earned there and is taxable.

Companies must maintain accurate and current accounting records that are kept for a minimum of seven years. IFRS must also be followed when preparing annual financial statements for businesses. A balance sheet, income statement, cash flow statement, and statement of changes in equity are all required in the financial statements.

An authorized auditor in the Maldives must audit annual financial statements. In the Maldives, businesses' fiscal years run from January 1 to December 31. Annual tax returns for businesses must be submitted to the MIRA.

Employment and labor laws

The Employment Act and the Labor Relations Authority are responsible for enforcing employment and labor laws in the Maldives. The following are some essential elements of Maldivian labor and employment laws that companies should be aware of:

Employment contracts: All employees must have a written employment contract from their employers that outlines all of the terms and conditions of their employment, including their starting and ending dates as well as their pay, benefits, and working hours.

Working hours: Employees in the Maldives are only permitted to work a maximum of 8 hours per day and 48 hours per week. Work completed outside of regular business hours requires payment of overtime.

Minimum wage: The minimum wage for employees in the Maldives for small businesses at Maldivian Rufiyaa 4,500, the minimum wage for medium businesses at Maldivian Rufiyaa 7,000, and the minimum wage for large businesses at Maldivian Rufiyaa 8,000.

Termination of employment: Employers are required to adhere to specific processes, which include giving notice or payment in lieu of notice and paying any owed wages and benefits.



How we can help?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends and potential competitors.

Our experts can help set clear objectives, outline actionable steps and identify opportunities for growth and expansion.

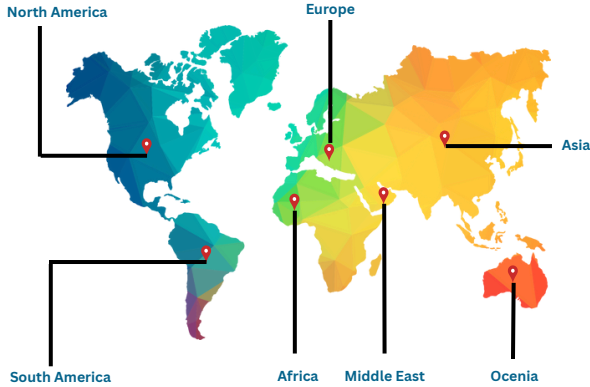
Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC") or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.

Our team can investigate and identify any licenses, permissions or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



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