INSTITUTE OF CHARTERED ACCOUNTANTS OF THE MALDIVES

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TAX ALERT - SIXTH AMENDMENT TO THE INCOME TAX REGULATION

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Sixth Amendment to the Income Tax Regulation

On 20 August 2026, the Maldives Inland Revenue Authority (MIRA) published the Sixth Amendment to the Income Tax Regulation (2026/R-67).

The amendments cover several aspects of income tax administration and compliance, including registration requirements, the treatment of employment benefits, accounting and financial reporting requirements, business restructuring, lease arrangements, capital allowances, functional currency and withholding tax.

This Tax Alert provides an overview of the key amendments and their implications for taxpayers and tax practitioners.

References to sections in this Tax Alert are to the Income Tax Regulation (Regulation No. 2020/R-21), as amended, unless otherwise stated.

Key Changes

1. Non-Resident Withholding Tax and Capital Gains Withholding Tax

Registration and De-registration

The Amendment extends the registration requirements through the introduction of Sections 8-1 and 8-2 to the Income Tax Regulation, establishing specific registration requirements for persons required to deduct Non-Resident Withholding Tax (NWT) and Capital Gains Withholding Tax (CGWT).

Under Section 8-1, persons required to deduct NWT under Section 55 of the Act must apply for income tax registration, even where they do not otherwise satisfy the general registration requirements. Similarly, Section 8-2 requires persons responsible for deducting CGWT under Section 50-1(a) of the Income Tax Act to register, irrespective of whether they meet the general registration criteria.

Further, the de-registration requirements under Section 12(c) also applies to non-residents and temporary residents who cease to derive income from the Maldives, except where they remain subject to the registration requirements for Capital Gains Withholding Tax under Section 8-2. Previously, de-registration was required where a permanent establishment ceased its activities in the Maldives.

Treatment of NWT payments and refunds

Section 123(d) establishes that withholding tax remitted to MIRA by a person carrying on business in the Maldives, in respect of income derived by a registered non-resident, is treated as tax paid by the non-resident recipient. Consequently, any excess tax arising from an amended Non-Resident Withholding Tax return cannot be treated as an overpayment by the payer.

However, new Section 123(e) provides an exception where a person carrying on business in the Maldives pays withholding tax under Section 56 of the Income Tax Act without having deducted it under Section 55. In such circumstances, the amount remitted is deemed to be tax paid by the Maldivian payer. Any resulting overpayment may therefore be refundable to the payer, irrespective of the non-resident recipient's registration status, subject to the applicable refund requirements.

Foreign Currency Conversion for Withholding Tax

The Amendment repeals Section 40 of the Income Tax Regulation, which previously prescribed specific foreign currency conversion rules for withholding tax, including the option to use the commercial bank's exchange rate where payments were made through a local bank.

Following the repeal, foreign currency conversions for withholding tax purposes are subject to the general exchange rate rules, including the applicable ±2% band prescribed by the Maldives Monetary Authority (MMA).

2. Employment Income and Benefits

Employer-provided accommodation

Accommodation provided on uninhabited islands in the Maldives and accommodation provided on vessels to employees performing their employment duties on those vessels are now excluded from the definition of remuneration. For this purpose, the definition of an uninhabited island is defined as anything other than an inhabited island (by reference to Section 155(b) of the Decentralisation Act (Law No. 7/2010)).

The Amendment further clarifies the treatment of employer-provided accommodation under Section 17-1 of the Income Tax Regulation. Where accommodation includes a private toiler for the exclusive use of an employee, which is not shared with another employee, the accommodation is deemed capable of accommodating another person, irrespective of its size or quality. Accordingly, such accommodation does not qualify for the exemption under Section 12(w)(7) of the Income Tax Act. However, this clarification does not apply to accommodation on uninhabited islands or vessels, which is separately addressed under Section 17(g) of the Income Tax Regulation.

3. Tax Accounting and Financial Reporting Requirements

Cash Basis Accounting and Submission of Auditor's Report

The existing annual income threshold of MVR 10 million remains unchanged for cash basis accounting. Businesses may continue to opt for cash basis accounting where their annual income does not exceed MVR 10 million, provided that the total cost of their non-current assets, including the estimated cost of assets under development or acquisition, does not exceed MVR 30 million . Where the total cost of non-current assets exceeds MVR 30 million, businesses will not be eligible to adopt cash basis accounting, even if their annual income remains below MVR 10 million.

The exemption from submitting an Auditor's Report is now subject to both income and asset-based thresholds. Consequently, the previous annual income MVR 10 million threshold remains, and businesses with existing or projected non-current assets exceeding MVR 30 million will now be required to submit an Auditor's Report with their income tax return, even where their annual income remains below MVR 10 million.

Functional Currency

Previously, functional currency was determined in accordance with IAS 21, which requires an assessment of the primary economic environment in which an entity operates. Section 60 (b) of the Income Tax Regulation has now been repealed and the new Section 105-1 replaces this judgement-based approach with a prescribed income-based threshold.

Section 105-1 requires taxpayers to adopt a currency as their functional currency where more than 50% of their total income in the preceding tax year is derived in that currency. Where foreign currency income collectively exceeds 50% but no single currency meets this threshold, USD must be adopted.

For the first tax year, the determination is based on estimated income. Persons with no income in the preceding tax year, or who expect no income in their first tax year, may elect to use MVR or USD. The same election is available where the functional currency cannot otherwise be determined under the prescribed rules.

As the determination is based on the preceding tax year's income, the functional currency tax purposes may change from year to year and may differ from the functional currency adopted under IAS 21 for financial reporting purposes. Where the prescribed income-based test does not determine a functional currency, the residual rules permit only MVR or USD to be adopted.

These changes also affect the application of Sections 60, 105, 106 and 107 of the Income Tax Regulation, which govern the recording of foreign currency transactions, preparation of financial statements and presentation currency for tax reporting. Taxpayers should therefore

reassess their functional currency annually and ensure that their accounting records, financial statements and tax returns comply with the prescribed currency requirements.

Consolidated Financial Statements

Section 102-1 extends the requirement to submit consolidated financial statements from the parent entity to all entities forming part of a group. The financial statements submitted must be those of the Ultimate Parent Entity (UPE), covering all entities within the group, rather than those of an immediate or local parent.

This change also brings Maldivian subsidiaries of foreign groups within the filing requirement, including those previously not required to submit consolidated financial statements. Such subsidiaries must obtain and submit the consolidated financial statements of their foreign UPE, unless the filing requirement has already been satisfied by another group entity. Submission by one group entity, together with its income tax return, is deemed to satisfy this requirement for all entities within the group.

For this purpose, the UPE is the highest-level entity within the group that directly or indirectly holds sufficient ownership interests in other group entities to be required to prepare consolidated financial statements under the accounting principles applicable in its country of tax residence, or would be required to do so if its equity interests were publicly traded. No other entity within the group must hold such an interest in the Ultimate Parent Entity. Accordingly, foreign group accounts are not required to be restated in accordance with Maldivian accounting standards for submission purposes**.**

4. Tax Treatment of Lease Arrangements

The Sixth Amendment introduces significant changes to the income tax treatment of lease arrangements, particularly the deductibility of operating lease payments and the classification of finance leases.

Operating Leases

With effect from the 2027 tax year, deductions for operating leases will be determined on a straight-line basis over the lease term, rather than by reference to expenses recognised under the applicable accounting standards. For tax years up to and including 2026, deductions will continue to be determined based on expenses recognised under the applicable accounting standards.

Transitional Adjustments

Provision is given for transitional adjustment in 2027 to address differences arising from the change in deduction methodology. Where the aggregate deductions determined under the previous treatment are lower than the aggregate lease payments, the shortfall may be deducted in 2027. Conversely, any excess deductions must be included in taxable income for that year. This adjustment may have implications for deferred tax calculations and 2027 income tax forecasts, particularly for leases with front-loaded or escalating rental payments, such as resort head leases.

Finance leases

The insertion of Section 72-2 sets out the circumstances in which a lease is regarded as transferring substantially all the risks and rewards incidental to ownership for the purposes of Section 79(dd) of the Income Tax Act.

A lease shall be deemed a finance lease if any of the following conditions are met.

1. Ownership of the asset transfers to the lessee by the end of the lease term.
2. The lessee has a purchase option that is reasonably certain to be exercised because the exercise price is sufficiently below fair value.
3. The lease term is for the major part of the economic life of the asset even if ownership is not transferred.
4. The present value of minimum lease payments at inception amounts to substantially all of the asset's fair value.
5. The leased asset is of such a specialised nature that only the lessee can use it without major modifications.

For subleases, the right-of-use asset arising from the head lease is treated as the relevant asset for lease classification purposes.

Under new Section 72-3, changes in lease classification arising from modifications to the lease scope, term or other relevant factors are recognised prospectively. Accordingly, reclassification between operating and finance leases does not require retrospective application of the revised classification.

5. Capital Allowances

Capital Allowance Rate for Buildings

The revised Section 83 introduces a separate capital allowance rate for certain tourism-related buildings, effective from 1 January 2027. Buildings of tourist resorts, integrated tourist resorts, resort hotels, picnic islands, private islands, yacht marinas, hotels, tourist hotels and guesthouses located on uninhabited islands, will qualify for capital allowances at 2.5%, compared with the existing rate of 4%.

The revised rate will apply to both existing and newly constructed qualifying buildings, with no provisions to preserve the existing 4% rate for buildings constructed before 1 January 2027. This effectively extends the write-off period from 25 to 40 years, while capital allowances claimed for tax years 2020–2026 remain unaffected.

The capital allowance rate for all other buildings will remain at 4%, while the rates applicable to other classes of assets remain unchanged.

Exclusion of Expenditure from the Cost of Buildings

New Section 83(a-1) excludes from the cost of a building, for capital allowance purposes, any expenditure on goods or services purchased from a supplier who was required to register under the Income Tax Act but was not registered.

The restriction applies to both classes of buildings under Section 83(a-1): tourism-related buildings (Class 2.1, 2.5%) and all other buildings (Class 2.2, 4%). Businesses should therefore verify suppliers' income tax registration status before capitalising such expenditure, as the restriction is based on the supplier's registration status rather than whether tax was withheld from the payment. Therefore verification of suppliers' tax registration status, including their Taxpayer Identification Numbers (TINs), is essential when determining the cost of buildings for capital allowance purposes.

Asset Transfers

For qualifying capital asset transfers between companies within the same group, the revised Section 66(b)(2) removes the reference to the remaining useful life of the asset and clarifies that the transferee is entitled to capital allowances arising after the transfer on the same basis as if the transferor had continued to own the asset.

An election for this treatment must be made by submitting Form MIRA 609, together with the required supporting documents, before the income tax return filing deadline for the year in which the transfer occurs, as prescribed under Section 66(d).

6. Dissolution, Winding-Up and Other Administrative Amendments

Dissolution of Partnerships

New provisions under Section 61-1 establish that a partnership's accounting period ends upon dissolution, with the final income tax return and payment due within 30 days. Where taxable income exceeds MVR 500,000 in any 12-month period following dissolution, the Commissioner General may require further returns and tax payments.

The partners will be jointly and severally responsible for fulfilling the partnership's outstanding tax obligations.

Winding-up of Companies

Section 61 specifies the events that determine the commencement of company winding-up for income tax purposes, including voluntary winding-up, dissolution by the Registrar of Companies and court-ordered dissolution. In the case of dissolution by the Registrar of Companies, both a determination under Section 207(a) of the Companies Act (Law No. 7/2023) and registration under Section 231 are required. The appointed person must notify MIRA within 15 days of the events specified under Sections 61(b)(1) and (2), together with the prescribed supporting documents.

Companies must file their final income tax return and settle the related tax liability for the accounting period ending upon commencement of winding-up. The liquidator must also ensure that all outstanding dues to MIRA are settled before making a submission under Section 206(a) of the Companies Act.

Determination of Accounting Period upon Deregistration

Under the revised Section 58(c), the accounting period ends upon deregistration rather than when a person ceases to be within the charge to income tax. The revised provision is subject to the separate rules governing company winding-up and partnership dissolution under Sections 61 and 61-1, respectively.

Changes to Rental Income Deduction Elections

Under Section 28(a) of the Income Tax Act, taxpayers may elect to claim a deduction of 20% of rental income instead of deducting actual expenses incurred in deriving that income. Once made, the election remains in effect for five years.

Section 91-2 requires prior approval from the Commissioner General to change an election made under Section 28(a). An application for approval must be submitted before the filing deadline of the relevant income tax return or interim return.

An election made in the first income tax return submitted for a tax year cannot be changed through an amended return. This restriction applies to elections generally and is not limited

to rental income deductions. Careful consideration should therefore be given to such elections before submitting the original income tax return.

Exemption for Individual Income Tax Returns Filing

Individuals are now exempt from filing an income tax return where their income for the relevant accounting period consists exclusively of remuneration from a single payer. The exemption also extends to individuals who derive no income during the accounting period, provided their total income in the preceding tax year consisted solely of remuneration from a single payer.

7. Disclaimer

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