Client Advisory on

Sixth Amendment to the Income Tax Regulation

The principal changes and their practical implications for taxpayers.

CTL STRATEGIES

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Introduction

On 20 August 2026, the Maldives Inland Revenue Authority ("MIRA") published the Sixth Amendment to the Income Tax Regulation[1] (the "Amendment").

The Amendment introduces a number of substantive changes across the income tax framework – in particular to the tax treatment of leases, the capital allowance rate and cost of buildings, the determination of functional currency, eligibility for cash-basis accounting, filing and audit obligations, and the Employee Withholding Tax ("EWT") treatment of employer-provided accommodation.

This advisory summarises the principal changes and their practical implications for taxpayers. It is aimed at businesses operating in the Maldives – particularly resort and other tourism sector operators, asset-intensive businesses, groups forming part of foreign structures, and partnerships – that will need to adjust their tax computations, systems and compliance processes for the changes.

Most of the changes take effect from the date of publication, 20 August 2026. The revised operating lease rules and the new capital allowance rate for tourism buildings apply from tax year 2027, giving affected taxpayers a limited window to prepare.

[1] Regulation Number 2026/R-67.

At a glance

Change	Summary
Operating leases	Deduction reverts to the straight-line basis, with a one-off transitional adjustment in 2027. Effective tax year 2027.
Finance leases	New statutory tests (section 72-2) for when a lease transfers substantially all risks and rewards; reclassifications apply prospectively (section 72-3).
Capital allowance: tourism buildings	Rate cut from 4% to 2.5%, with no grandfathering. Effective 1 January 2027.
Capital allowance: unregistered suppliers	Expenditure to a supplier that failed to register is excluded from the cost of a building (section 83(a-1)).
Staff accommodation (EWT)	Uninhabited-island and vessel accommodation carved out; an en-suite private bathroom now causes the staff-only exemption to fail (section 17-1).
Functional currency	A new statutory revenue-based test (section 105-1) replaces reliance on IAS 21 and may diverge from the accounting functional currency.

Change	Summary
Accounting, filing and audit thresholds	A new MVR 30 million non-current asset threshold applies alongside the MVR 10 million income test for cash basis, return filing and audit report obligations.
Consolidated financial statements	The Ultimate Parent Entity's consolidated statements must be filed by one group entity (section 102-1), potentially triggering sharing of the MVR 500,000 tax-free threshold.
NWT and CGWT registration	Mandatory tax registration for any person required to deduct non-resident withholding tax (section 8-1) or capital gains withholding tax.
Partnership dissolution	Final return and payment within 30 days of dissolution; partners jointly and severally liable (section 61-1).
NWT refunds	The payer may claim a refund only where it grosses up and bears the tax under section 56; otherwise the non-resident recipient is treated as having paid it.

1. New tax treatment for leases

Operating leases

Under the current rules, amounts recognised as expenses in relation to an operating lease in accordance with the accounting standards adopted by the taxpayer are deductible for income tax purposes. This treatment was introduced from tax year 2020, replacing the earlier requirement (under the Business Profit Tax regime) to deduct operating lease payments on a straight-line basis.

The Amendment now reverts to the straight-line method from tax year 2027. Accordingly, in computing taxable income for 2027 and subsequent years, amounts relating to an operating lease will be deductible on a straight-line basis over the lease term, irrespective of the amount recognised as an expense in the financial statements.

This means that although a taxpayer may continue to account for a lease under IFRS 16 by recognising a right-of-use asset and interest on the lease liability, the deduction for income tax purposes will need to be determined separately on a straight-line basis from 2027.

Transitional adjustment

Over the full term of a lease, both methods deduct the same total – the aggregate lease payments. They differ only in timing: IFRS 16 front-loads the expense (interest is highest when the lease liability is largest), while the straight-line method spreads it evenly. A lessee switching methods mid-term will therefore have deducted cumulatively more or less than the payments made to date, and without correction the difference would either be deducted twice or never relieved.

The Amendment provides for a transitional adjustment in tax year 2027 to account for the difference between the accounting-based treatment applied up to 2026 and the straight-line treatment applied from 2027. Where the aggregate amount deducted for tax up to 2026 is less than the aggregate lease payments, the shortfall may be deducted in 2027. Conversely, where the deductions previously claimed exceed the aggregate lease payments, the excess must be included as income in 2027.

Finance leases

New section 72-2 clarifies when a lease is regarded as transferring substantially all the risks and rewards incidental to ownership, for the purposes of the definition of a finance lease in section 79(dd) of the Income Tax Act. A lease may be treated as a finance lease where any one of the following conditions is met:

a. ownership of the asset transfers to the lessee by the end of the lease term;
b. the lessee has an option to purchase the asset at a price sufficiently below fair value that exercise of the option is reasonably certain;
c. the lease term is for the major part of the economic life of the asset, even if ownership does not transfer;

d. at inception, the present value of the minimum lease payments amounts to substantially all of the fair value of the asset; or
e. the leased asset is of such a specialised nature that only the lessee can use it without major modifications.

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

Reclassification of a lease

New section 72-3 provides that where changes to the scope, term or other features of a lease result in its reclassification between an operating lease and a finance lease, the new classification applies prospectively.

2. Capital allowance

Reduced rate for tourism sector buildings

From 1 January 2027, buildings of tourist establishments are placed in a separate capital allowance category carrying a rate of 2.5%. The category includes buildings of tourist resorts, integrated tourist resorts, resort hotels, picnic islands, private islands, yacht marinas, hotels, tourist hotels and guesthouses situated on uninhabited islands.

The change slows the rate at which qualifying tourism sector building expenditure can be recovered through capital allowances from 2027 onwards, and may have a material impact on the taxable income of resort and other tourism sector operators.

Importantly, the 2.5% rate applies from 1 January 2027 to all buildings within the category, not only to those acquired or completed after that date. As capital allowance is computed by applying the prescribed rate to the cost of the asset, the annual allowance on existing resort buildings falls from 4% to 2.5% of cost from tax year 2027, extending the period over which the remaining tax written-down value is recovered from 25 to 40 years. There is no grandfathering of existing assets.

Other buildings – including hotels and guesthouses located on inhabited islands such as Malé and Hulhumalé – continue to qualify at the 4% rate.

Purchases from unregistered suppliers

New section 83(a-1) introduces a restriction in determining the cost of a building for capital allowance purposes. Expenditure on goods or services acquired from a person who was required to register under the Income Tax Act but failed to do so is excluded from the cost of the building. This rule applies whether or not the building is that of a tourist establishment.

Businesses undertaking construction or development projects should therefore consider verifying the tax registration status of suppliers and contractors as part of their procurement and vendor onboarding processes, as a supplier's failure to register may directly reduce the purchaser's capital allowance base.

Transfers of capital assets

Section 66 provides tax-neutral treatment for qualifying transfers of capital assets within a group of companies. Where the prescribed conditions are met, the transferor and transferee can elect for the asset to be treated as transferred at its tax written-down value, with future capital allowances and any balancing allowance or charge continuing in the hands of the transferee as if the transferor had continued to own the asset.

The procedure for making an election under section 66(b) has now been formalised. Persons seeking to make the election must submit the prescribed MIRA 609 form, together with the required information and supporting documents, before the income tax return filing deadline for the tax year in which the relevant transaction occurs.

3. Staff accommodation

Uninhabited island and vessel accommodation

The Amendment provides further guidance on when employer-provided accommodation constitutes an exempt benefit for EWT purposes.

Accommodation provided to an employee on an uninhabited island (such as tourist resorts) in the Maldives, as well as accommodation provided on a vessel to an employee working on that vessel, is now clearly excluded from forming part of taxable remuneration as a non-cash benefit. For this purpose, an "uninhabited island" is any island, ward or region of the Maldives other than an inhabited island as defined in section 155(b) of the Decentralisation Act.[2]

What constitutes staff-only accommodation

New section 17-1 clarifies the types of staff accommodation that qualify for the exemption under section 12(w)(7) of the Income Tax Act. The exemption applies to accommodation that is specifically set up for employees and is of a nature that a person other than an employee cannot be accommodated there or has no right to use it.

Importantly, the Amendment now provides that, regardless of the size or quality of the accommodation, where an employee has access to a private bathroom that is not shared with another employee, the accommodation

[2] Act Number 7/2020.

is treated as being capable of accommodating another person. In such cases, it does not qualify for the exemption.

This is particularly relevant for employers providing staff accommodation outside uninhabited islands and vessels. Employers should review how staff accommodation is configured – in particular whether it has shared or private bathrooms – as this is now the key factor in determining whether the accommodation is a taxable benefit for EWT purposes.

Example – the private bathroom test

An employee provided with a private room in Malé with an attached bathroom for that employee's exclusive use is treated as being capable of accommodating another person, and the accommodation therefore does not qualify for the exemption. Where employees are housed in shared staff quarters with common bathroom facilities, the private bathroom test is not triggered – though the accommodation must still satisfy the remaining conditions in section 12(w)(7). Section 17-1 operates in one direction only: an en-suite bathroom will cause the accommodation to fail the test, but the absence of one does not by itself secure the exemption.

4. Functional and presentation currency

Functional currency

The Amendment replaces the previous determination of functional currency by direct reference to IAS 21 with specific rules under new section 105-1, summarised below.

1. More than 50% of income derived in one currency. The functional currency is generally the currency in which more than 50% of total income was derived in the immediately preceding tax year. For a taxpayer's first tax year, this is based on the currency in which more than 50% of income is expected to be derived.

2. More than 50% of income derived in currencies other than MVR. Where more than 50% of total income is derived in foreign currencies, the functional currency is USD, subject to the rule above. This also applies where income is earned across multiple foreign currencies and no single currency determines the functional currency under the first test.

3. Functional currency cannot otherwise be determined. Where the functional currency cannot be determined under the above rules, the taxpayer may select MVR or USD.

4. No income in the preceding year, or no income expected. Where there was no income in the preceding tax year, or none is expected in the first tax year, the taxpayer may select MVR or USD.

Presentation currency

The Amendment does not materially change the presentation currency framework. Where the presentation currency differs from the functional currency, financial statements and amounts reported in tax returns must continue to be translated using an exchange rate within ±2% of the relevant MMA rate. The Amendment replaces the previous specific reference to IAS 21 with a broader reference to the accounting standards adopted by the taxpayer, and introduces equivalent currency translation provisions for taxpayers using the cash basis of accounting.

Practical impact — accounting and tax may diverge

The new statutory rules may create a misalignment between the functional currency determined for tax purposes and that determined under the applicable accounting standards. Where the tax functional currency is MVR, the presentation currency for tax must also be MVR; where the tax functional currency is any currency other than MVR, the tax presentation currency must be USD.

Example – divergence between accounting and tax

A taxpayer may determine MVR as its functional currency under the applicable accounting standards, while the new tax rules – based on the prescribed revenue-percentage test – result in USD being its functional currency for tax purposes. Businesses should assess whether the statutory test produces a different functional currency from that used for accounting, and consider the resulting impact on the presentation currency used for tax filings and financial statements submitted to MIRA.

5. Accounting basis

Cash-basis accounting thresholds

The conditions for electing to prepare accounts on a cash basis under section 59(e) of the Regulation have been expanded. Previously the principal threshold was that annual total income must not exceed MVR 10 million. Following the Amendment, all of the following conditions must be satisfied:

1. total annual income must not exceed MVR 10 million;
2. the total cost of the person's business non-current assets must not exceed MVR 30 million; and
3. the cost of such assets must also not be expected to exceed MVR 30 million once assets under development are completed or assets being acquired are obtained.

The change is particularly relevant for low-revenue but asset-intensive businesses, especially in their early years, as they may no longer qualify to use the cash basis. It may also affect individuals deriving rental income who only qualify for the 20% special deduction if they are permitted to use cash-basis accounting.

Special 20% deduction for rental income

The Amendment introduces additional procedural rules for changing the 20% deduction election for rental income under section 28(a) of the Income Tax Act. Any change to the election requires the Commissioner General's approval before the relevant income tax or interim return filing deadline, and an election made in the first income tax return for a tax year cannot subsequently be changed through an amended return. Taxpayers deriving rental income should therefore confirm their accounting basis and eligibility for the 20% deduction before filing the original return.

6. Income tax return & supporting documents

Return filing exemption

An individual whose income consists solely of remuneration from one employer continues to be exempt from filing an income tax return. This exemption now also applies where the individual has no income in the accounting period ending in a tax year, provided their income in the preceding tax year consisted only of remuneration from a single employer.

Mandatory filing

At the same time, the following persons must now file an income tax return regardless of any other filing exemption:

- the total cost of business non-current assets is MVR 30 million or more;
- the cost of such assets is expected to reach MVR 30 million or more once assets under development or acquisition are completed or acquired; or
- the taxpayer falls within the exemption under section 12-1 of the Income Tax Act.

Submission of the auditor's report

The exemption from submitting an auditor's report has also been tightened. In addition to having annual income of MVR 10 million or less, taxpayers must now also remain below the MVR 30 million actual and projected non-current asset thresholds. Overall, the Amendment makes a taxpayer's asset base, in addition to its income level, more important in determining its filing and documentation obligations.

7. Submission of consolidated financial statements

The Amendment broadens the requirement to submit consolidated financial statements. Previously, the obligation generally applied where the taxpayer itself was a parent entity required to prepare and submit consolidated financial statements for the group. Under revised section 102-1:

- where a taxpayer forms part of a group, the consolidated financial statements prepared by the Ultimate Parent Entity ("UPE"), covering all entities in the group, must be submitted with the income tax return;
- only one group entity needs to submit the consolidated financial statements, with the remaining group entities deemed to have complied; and
- the consolidated financial statements must be prepared under the accounting standards required for tax purposes in the jurisdiction where the UPE is tax resident.

A UPE is broadly the top entity in the ownership chain that is required to prepare consolidated financial statements under the applicable accounting standards (or would be if its equity interests were publicly traded), and which is not itself controlled by another entity within the group.

Practical impact: Maldives entities forming part of foreign groups should confirm whether the UPE consolidated financial statements will be available in time for the Maldives income tax return filing deadline.

Impact on the tax-free threshold

The change may also affect the tax-free threshold, as the sharing requirement is linked to entities required to submit consolidated financial statements to MIRA. Maldivian subsidiaries that previously claimed the full threshold separately, because neither was required to submit consolidated financial statements, may now need to share the MVR 500,000 threshold where they fall within the revised requirement.

8. Registration and deregistration

Registration

The Amendment broadens the registration requirement for non-resident withholding tax (“NWT”). Under new section 8-1, any person required to deduct NWT under section 55 of the Income Tax Act must register with MIRA, even if that person does not otherwise meet the general registration requirements under the Act. (Previously, the NWT-specific registration requirement applied only to individuals carrying on a business and deemed partnerships required to deduct NWT.)

A separate registration requirement has also been introduced for persons required to deduct capital gains withholding tax under section 50-1(a) of the Income Tax Act, who must now register for tax even if they do not meet any other general registration requirement.

Deregistration

The deregistration provisions have been broadened. Where a non-resident or temporary resident ceases to derive income from the Maldives, that person is required to apply for deregistration. Previously the provision was more narrowly framed and applied where a permanent establishment ceased its activities in the Maldives.

The Amendment also aligns the end of the accounting period with deregistration. Under revised section 58(c), a person’s accounting period ends when the person is deregistered under section 12 of the Regulation, replacing the previous rule under which the accounting period ended when the person ceased to be within the charge to tax.

9. Dissolution of partnerships

Partnerships

New section 61-1 introduces specific income tax rules for the dissolution of partnerships constituted under the Partnership Act.[3] The partnership's accounting period ends when the partnership is dissolved in accordance with section 39 of the Partnership Act. The partnership must then file its final income tax return and make the final tax payment within 30 days of the date on which the accounting period ends.

The Commissioner General is also given the power to require further returns and tax payments for post-dissolution periods where the Commissioner General considers that the partnership has derived, or is likely to derive, more than MVR 500,000 of taxable income during any 12-month period following dissolution. Importantly, the partners are jointly and severally liable for the relevant filing and payment obligations. Partnerships undergoing dissolution should plan for tax finalisation as part of the dissolution process, particularly given the short 30-day deadline.

Winding up of companies

The provisions dealing with company winding up have been revised primarily to align their references and procedures with the new Companies Act.[4] These are largely consequential updates following the enactment of the new Companies Act, rather than a material change to the underlying tax treatment.

[3] Act Number 13/2011.
[4] Act Number 7/2023.

10. Refunds and non-resident withholding tax

The Amendment clarifies who is regarded as having paid NWT for refund purposes. Previously, the refund rule addressed only cases where NWT was deducted from income derived by a non-resident carrying on business in the Maldives through a permanent establishment ("PE"): the tax was treated as paid by the PE, so any refund arose to that PE regardless of who suffered the tax. Other NWT scenarios were not expressly addressed. That provision has been repealed and replaced with the following rules:

Situation	Who is treated as having paid the tax?	Can the payer claim the refund?
NWT is deducted from the income of a non-resident registered for tax in the Maldives and paid to MIRA	The non-resident recipient	No
The payer doing business in the Maldives does not deduct NWT, but instead grosses up the payment and bears the tax under section 56	The payer	Yes

Accordingly, regardless of whether the non-resident recipient is a tax-registered PE or another non-resident person, where NWT is not deducted from the payment but is instead borne and paid by the Maldives payer, any excess payment is refundable to the payer.

11. Effective date

The Amendment is effective from 20 August 2026. However, the revised operating lease rules and the new capital allowance rate for tourism buildings apply from tax year 2027.

12. What should businesses do now?

With most changes already in force and the lease and capital allowance changes taking effect from tax year 2027, affected taxpayers should begin assessing the impact now. In particular, businesses should:

- prepare a lease-by-lease reconciliation of cumulative accounting deductions against lease payments as at 31 December 2026 to quantify the 2027 operating lease transitional adjustment, and review lease terms for finance lease reclassification under section 72-2;
- re-model capital allowances on tourism sector buildings at 2.5% from 2027, and factor the extended recovery period into forecasts and deferred tax;
- verify the tax registration status of suppliers and contractors on construction and development projects, as unregistered-supplier expenditure is excluded from the capital allowance base;
- review how staff accommodation is configured – in particular shared versus private bathrooms – and reassess the EWT treatment of employer-provided accommodation;

- apply the new section 105-1 functional currency test and identify any divergence from the accounting functional currency, together with the resulting presentation currency for tax;
- reassess eligibility for cash-basis accounting, return filing exemptions and the auditor's report exemption against the new MVR 30 million non-current asset threshold;
- for entities in foreign groups, confirm that the UPE consolidated financial statements will be available by the filing deadline, and assess any sharing of the MVR 500,000 tax-free threshold; and
- ensure any person required to deduct NWT or capital gains withholding tax is registered, and factor the 30-day final return deadline into any partnership dissolution.

How we can help

CTL Strategies advises businesses across all sectors on Maldivian tax matters, including tourist resorts, hotels and vessel operators, asset-intensive businesses, and entities forming part of local and international groups. We bring together corporate lawyers, tax advisors and chartered accountants, giving us a working command of the domestic legal and tax framework across the full range of commercial arrangements our clients undertake in the Maldives.

In relation to the Sixth Amendment, we can assist with:

- modelling the 2027 operating lease transitional adjustment and the impact of the 2.5% capital allowance rate across your asset base, including deferred tax consequences;
- reviewing procurement and vendor onboarding to protect the capital allowance base, and preparing section 66 group transfer elections on the MIRA 609 form;
- assessing the EWT treatment of staff accommodation and advising on configuration and documentation;
- applying the section 105-1 functional currency test and resolving any accounting-versus-tax divergence and its presentation currency consequences;
- reassessing cash-basis, filing and audit obligations against the new asset thresholds, and advising on consolidated financial statement and tax-free threshold implications for groups; and
- advising on NWT and capital gains withholding registration, partnership dissolution filings, and NWT refund entitlements.

Get in touch

For a discussion of how the Sixth Amendment affects your business, please contact your principal advisor or:

Madeeh Ahmed

Partner & Senior Tax Advisor

madeeh@ctlstrategies.com

+960 7783337

Zaina Zahir

Tax Advisor

zaina@ctlstrategies.com

+960 7953323

This Advisory has been prepared on the basis of the Sixth Amendment to the Income Tax Regulation (Regulation Number 2026/R-67) published by MIRA on 20 August 2026.

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