

Tax Update

Changes to Income Tax Currency Rules via Fifth Amendment to Income Tax Regulation (2024/R-84)

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INTRODUCTION

In response to the ongoing dollar shortage in the Maldives, the Government has introduced the Fifth Amendment to the Income Tax Regulation (2024/R-84) (the “**Amendment**”). This Amendment, effective from 12th September 2024, introduces key revisions that taxpayers must follow, primarily concerning the presentation currency for tax returns and the payment currency for tax payments.

Under the Amendment, taxpayers whose functional currency is a currency other than Maldivian Rufiyaa (“**MVR**”), are now required to pay the following taxes in United States Dollars (“**USD**”):

- Corporate / Personal Income Tax (including interim taxes with the exception for 2024 first interim).
- Employee Withholding Tax
- Non-resident Withholding Tax
- Capital Gains Withholding Tax

Refer to the table on **page 5 for the effective date for each tax type.*

KEY HIGHLIGHTS OF THE AMENDMENT

1. PRESENTATION CURRENCY

Corporate Income Tax / Personal Income Tax

Starting from the tax year 2024, taxpayers with a functional currency other than MVR are now required to present their tax returns and accompanying documents in USD. This marks a change from earlier provisions, where taxpayers could choose between Rufiyaa or USD if neither currency was their functional currency. However, this rule will not apply to the preparation of the first interim return for the tax year 2024. The functional currency will be determined in accordance with the principles outlined in International Accounting Standard 21 (The Effects of Changes in Foreign Exchange Rates).

Withholding Taxes

Taxpayers whose functional currency is not Rufiyaa must now prepare their Employee Withholding Tax, Non-resident Withholding Tax, and Capital Gains Withholding Tax returns in USD for periods ending on or after 31st October 2024. Earlier, these returns had to be prepared in Rufiyaa regardless of the functional currency. Currency translations must align with International Accounting Standard 21, using a rate within $\pm 2\%$ of the Maldives Monetary Authority's published exchange rate.

2. PAYMENT CURRENCY

Corporate Income Tax / Personal Income Tax

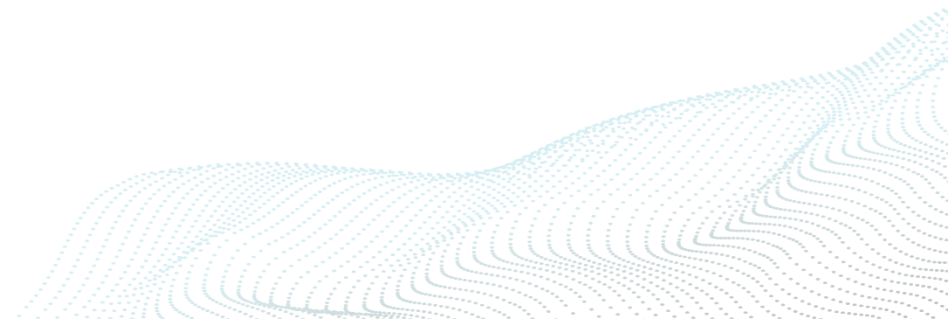
Under the Amendment, if the taxpayer's presentation currency is MVR, taxes can now be paid in either MVR or USD, whereas previously only MVR was accepted. If the taxpayer's presentation currency is USD, taxes must be paid in USD starting from the tax year 2024, with the exception of the first interim payment for the year 2024. Prior to this Amendment, taxpayers had the option to make payments in either USD or MVR.

Withholding Taxes

Non-resident Withholding Tax, Employee Withholding Tax, and Capital Gains Withholding Tax can now be paid in USD or MVR. Previously, these taxes were accepted only in MVR. However, for taxpayers whose functional currency is not MVR, these taxes must be paid in USD for periods ending on or after 31st October 2024.

Exchange rate

Where taxes are translated due to the election to pay in USD (i.e., when the functional currency is Rufiyaa), the tax amount payable in USD must be calculated using the exchange rate of MVR 15.42 per USD.



SUMMARY OF THE AMENDMENT

Tax Type	Functional Currency	Presentation Currency	Payment Currency	Effective from
Corporate Income Tax / Personal Income Tax	MVR	MVR	MVR or USD	Tax year 2024 (Exception for 2024 first interim)
	USD	USD	USD	
	Other	USD	USD	
Non-resident Withholding Tax	MVR	MVR	MVR or USD	October 2024 (i.e., transactions covering from 1 st October 2024)
	USD	USD	USD	
	Other	USD	USD	
Employee Withholding Tax	MVR	MVR	MVR or USD	October 2024 (i.e., transactions covering from 1 st October 2024)
	USD	USD	USD	
	Other	USD	USD	
Capital Gains Withholding Tax	MVR	MVR	MVR or USD	31 st October 2024
	USD	USD	USD	
	Other	USD	USD	

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