SHC LAW & TAX

Tax Update

6th Amendment to Income Tax Regulation (2026/R-67)

Key Highlights

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INTRODUCTION

The Sixth Amendment to the Income Tax Regulation (Regulation No. 2026/R-67) came into effect on 20 August 2026.

The Amendment introduced a number of key changes to the existing rules, including exemptions for **employer-provided accommodation**, thresholds for **cash basis accounting**, the treatment of **operating leases**, **capital allowance** for **buildings**, income tax **filing exemption** and criteria for determination of **functional currency** and **the transfer of risks and rewards** in relation to **finance leases.**

Certain amendments, particularly those relating to capital allowances and treatment of leases, may have a significant practical impact on businesses and may require taxpayers to revisit existing arrangements and strengthen their tax compliance processes.

KEY AMENDMENTS

AREA	KEY AMENDMENT	DETAILS
Employer-provided Accommodation	Exemption introduced for accommodation on uninhabited islands and vessels	**Accommodation on uninhabited islands and vessels** Employer-provided accommodation will be exempt where it is provided on an uninhabited island (includes **resorts**), or on a vessel to an employee who exercises their employment on that vessel. **Accommodation provided in other locations** The amendment clarifies the existing exemption for employer-provided accommodation where the nature of the accommodation precludes accommodation of any person other than an employee. Accommodation with a **private bathroom** for the employee's **exclusive use** will be deemed capable of accommodating another person, **regardless of its size or quality**.
Cash Basis	Non-current asset threshold introduced alongside the existing revenue threshold for cash-basis accounting	The existing **revenue** threshold of **MVR 10 million** will continue to apply, but a person must now also have **non-current assets** below **MVR 30 million** to qualify for the cash basis accounting. Accordingly, meeting the revenue threshold alone will no longer be sufficient to elect cash basis of accounting.
Operating Lease – deduction	Deductions for payments under an operating lease revised from amount expensed under IFRS 16 to a straight-line basis from 2027	From **2027** onwards, deductions in respect of operating leases will no longer be based on the expense recognized under the relevant accounting standard adopted and will instead be calculated on a **straight-line basis**.

AREA	KEY AMENDMENT	DETAILS
Finance leases – transfer of risk and rewards	Specific criteria introduced for determining whether substantially all risks and rewards are transferred to the lessee	The amendment clarifies when a lease will be treated as a finance lease by setting out specific conditions indicating that substantially all **risks and rewards** of ownership have transferred to the lessee. These include transfer of ownership, a reasonably certain below-market purchase option, a lease term covering most of the asset's economic life, lease payments substantially reflecting the asset's fair value, or the asset being highly specialized for the lessee's use. For **sub-leases**, the **right-of-use asset** under the head lease will be treated as the leased asset.
Capital allowance for buildings – **4% → 2.5%**	Capital allowance rate for the building category applicable to tourist establishments will be reduced from 4% to 2.5%.	From 2027 onwards, the capital allowance rate for the building category applicable to tourist establishments will be reduced from 4% to 2.5%. The reduced rate will **not** apply to **guest houses** located on **inhabited islands**.
Capital allowance for buildings- Unregistered Contractors	Capital allowance will not be available for building costs incurred through unregistered contractors.	Under the amendment, capital allowance **cannot** be **claimed** on **building costs** incurred from **suppliers or contractors** who are required to be registered for Income Tax but are **not registered**.
Income Tax Return Filing Exemption	Value of non-current assets will now be considered when determining whether a person is exempt from filing an income tax return.	A person with non-current assets exceeding, or expected to exceed, **MVR 30 million** will be required to file an income tax return, regardless of whether the applicable revenue or profit threshold for exemption from filing is met. This means that a person may have a filing obligation based on the value of its assets even if its revenue or profit is below the existing thresholds.

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Exemption from submitting audited financial statements	Value of non-current assets will now be considered when determining whether a person is exempt from filing an income tax return.	A person with non-current assets exceeding, or expected to exceed, **MVR 30 million** will be required to submit audited financial statements, regardless of whether their revenue is below MVR 10,000,000, which was previously the relevant threshold for exemption. This means that the obligation to submit audited financial statements may now arise based on the value of a person's non-current assets, even where their revenue is below the existing threshold.
Functional Currency	Specific rules introduced for determining functional currency for tax purposes.	The amendment introduces a **specific statutory test** for determining the functional currency, replacing the previous approach of determining the functional currency based on IAS 21. Pursuant to the amendment, where more than **50% of total income (revenue)** in either the current or previous year is earned in **foreign currencies**, the functional currency will be **USD**.
Consolidated Financial Statements	Requirement to submit consolidated financial statements extended from parent entity to group entities.	The requirement to submit consolidated financial statements, previously applicable only to the parent entity, has been extended to all entities forming part of a group. Accordingly, **entities that are part of a group** must now submit the consolidated financial statements prepared by the ultimate parent entity of the group when filing their income tax returns. If one entity in the group has already submitted the consolidated financial statements, the requirement will be deemed to have been satisfied by other entities in the same group.

CONSIDERATIONS FOR BUSINESSES

- Employers should review employee accommodation arrangements to determine whether they give rise to a taxable benefit.
- Businesses applying the cash basis should reassess their eligibility based on both revenue and non-current assets.
- Existing and proposed lease and sub-lease arrangements should be reviewed, particularly where a substantial part of the head lease term is transferred to a sub-lessee.
- Businesses planning investments in buildings in tourist establishments should factor in the reduced capital allowance rate from 2027.
- Businesses should consider their non-current asset position when assessing their income tax filing obligations.
- Businesses with significant foreign currency income should assess whether they meet the 50% threshold for USD functional currency.
- Businesses undertaking construction or fit-out works should verify the Income Tax registration status of their contractors.
- Businesses should also review the Sixth Amendment in its entirety, as it introduces further changes to the administration and compliance requirements under the Income Tax Regulation.

Questions on this Update? Reach out to the authors:

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