SHC LAW & TAX

Tax Update

2nd Amendment to Income Tax Act (25/2019)

Key Highlights

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INTRODUCTION

The president has ratified the 2nd Amendment to the Income Tax Act (Law No. 25/2019) on 31 August 2026.

The amendment introduced a substantially broader withholding tax framework for non-resident contractors. In addition to increase in the applicable withholding tax rate, it significantly expands the scope and application of the non-resident contractor provisions.

In particular, the amendments will affect the following:

- Non-resident Withholding Tax ("**NWT**") on payments made to non-resident contractors for the supply of goods, including under composite contracts involving both goods and services.
- Tax liability of non-resident contractors operating through a permanent establishment ("**PE**") in the Maldives.
- Classification of payments to non-resident contractors that fall within other specified categories of payments.

WHAT HAS CHANGED?

KEY ASPECT	PREVIOUS POSITION	POSITION UNDER THE AMENDED ACT
Definition of 'Non-resident Contractor'/ Contract value subject to NWT	• A 'non-resident contractor' were previously defined as a non-resident, who, under a contract, agreement or arrangement (other than an employee), undertakes to perform **services** in the Maldives or provide the use of, or right to use, another person's **services** in the Maldives. • Payments made for the supply of goods were not covered under the definition. Accordingly, payments for goods were not subject to NWT.	• Under the amendment, the definition has been expanded to include the supply of both **goods** and **services.** Accordingly, payments to non-resident contractors for the supply of goods are now subject to NWT. • For example, in a mixed contracts involving both goods and services, the **full contract** value may now be subject to NWT rather than only the service component.
Non-resident withholding tax (NWT) rate **5% → 10%**	• Payments to non-resident contractors were subject to NWT at 5%.	• Payments to non-resident contractors are now subject to NWT at 10%.
Classification of payments	• Where a payment to a non-resident contractor also falls within another specified category of payment, such as fees for technical services, it was previously required to be reported under that **specific** category.	• Where a payment to a non-resident contractor could otherwise fall within another specified category, the payment is treated in its entirety as a payment to a **non-resident contractor**.

KEY ASPECT	PREVIOUS POSITION	POSITION UNDER THE AMENDED ACT
Tax liability of non-resident contractors with a PE	• A non-resident contractor with a PE could elect to treat NWT as its full and final tax or declare its income on a **net basis** and be subject to corporate income tax on its taxable profits. • Where the net basis option was exercised, tax was imposed on taxable profits after allowable deductions and a tax-free threshold of MVR 500,000 (approx. US$ 32,425).	• NWT on payments to a non-resident contractor with a PE is now treated as **final tax**. • There is no longer an option to declare the relevant income on a net basis.

WHAT SHOULD BUSINESSES CONSIDER FOLLOWING THE AMENDMENT?

The amendments may increase the NWT exposure and compliance obligations of businesses making payments to non-resident contractors. Businesses should consider reviewing their existing arrangements and contractual terms to assess the impact of the amended provisions, particularly where they:

- Purchase goods from non-resident suppliers, as such payments may now fall within the NWT provisions.
- Enter into mixed contracts, as NWT may apply to the full contract value.
- Make payments that may also falls within another specified category of payments.
- A non-resident contractor with a PE in the Maldives, given the shift to final tax on gross receipts.
- Review existing tax gross up clauses considering the increased 10% rate; and
- Consider the impact of new contracts and pricing.

Questions on this Update? Reach out to the authors:

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