Industry Tax Guide: Lease of Immovable Property
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The information in this guide is based on laws and regulations prevailing at the time of publication. It is not expected to be a substitute for a detailed research or exercise of professional judgment on taxation matters in the Maldives. If you do not understand anything in this guide or have queries related to your particular circumstances, call 1415 or send an email to 1415@mira.gov.mv.
I. Introduction

Income derived from the rental of movable or immovable property is a taxable income under the Income Tax Act (ITA). The legal owner of the property is liable to pay tax on the income earned from the lease of the property. However, in case of financial leases the owner of the property is the lessee.

Residents are required to pay tax on rental income earned worldwide and non-residents are required to pay tax only on rental income earned from a property situated in the Maldives. Leasing immovable property has Goods and Services Tax (GST) consequences too.

As such, it is important for lessors of immovable property and those planning to lease such property to be fully aware of the tax implications. This guide explains, in relation to the lease of immovable property:

- the requirement to register for income tax and GST, and how to go about doing it;
- the tax returns you must file and the payments you must make;
- the deadlines for filing tax returns and making payments;
- what records you must maintain; and
- other tax-related information which you need to know.

Since this guide focuses on the lease of immovable property, it does not explain the tax implications of the disposal of immovable property.

**Immovable property**

Immovable property includes land, uninhabited islands, lagoons, reefs, reef knolls, buildings, warehouses, plant, factories, monuments, permanent structures, livestock, equipment used in agriculture and forestry, rights associated with land and other such property. But does not include ships and aircrafts.
2. Rent from lease of immovable property

Lease of immovable property refers to the supply of residential and commercial immovable property by way of a conventional lease between a landlord and a tenant in consideration for periodic rental payments. Consequently, “rent” from the lease of immovable property includes the following in addition to periodic rental payments:

- Security deposits, advance rental payments and other payments received in relation to the immovable property, to the extent that the lessor has the right to consume the deposit or payment in part or in full.
- Payments received in relation to the immovable property, not resulting from the responsibilities of the lessee as specified in the lease agreement.
- Payments received in respect of anything affixed to the immovable property.
- Payments received under an insurance policy obtained to compensate for the non-payment of rent.
- Payments received for breach of lease agreement by the lessee.

Example 1: Security deposit

Dhondheeni Real Estate Pvt. Ltd leases an apartment to Ameen. Ameen pays MVR 80,000 as a security deposit from which, as per the tenancy agreement, Dhondheeni Real Estate may make a deduction if Ameen fails to pay monthly rent for two consecutive months.

If Ameen fails to pay monthly rent for two consecutive months, Dhondheeni Real Estate must include the portion of the deposit which it is allowed to consume, in computing its taxable income.

Example 2: Amount collected to fulfil lessor’s responsibility

The agreement between Dhondheeni Real Estate and Ameen in Example 1 states that it is the responsibility of the lessor to pay all utility bills of the apartment. To cover up for this, Dhondheeni Real Estate collects MVR 2,000 every month from Ameen. Since these payments do not result from the responsibilities of the lessee, they must be considered as part of the rent.

Example 3: Rent from billboard affixed to building

A corner shop owner gives permission to a telecom company to fix a billboard to the outer wall of his shop, in return for a monthly fee of MVR 1,000. Such payments must be considered as rent from immovable property.
Conventional lease

As a general rule, rent from immovable property encompasses any income that arises from an arrangement whereby a tenant and a landlord enter into a formal agreement whereby the tenant occupies the landlord’s property for a stipulated period in consideration for periodic rental payments made by the tenant to the landlord.

In most circumstances, the facts will speak for themselves. However, the following criteria can be used as a general guideline to distinguish a conventional lease from other types of leases:

- A rental period that exceeds a typical holiday or hotel-stay period.
- A flow of periodic rental payments.
- A written lease agreement.
- The presence of warranties, guarantees and security given by the tenant to the landlord.
- The absence of goods and services provided by the landlord to the tenant (other than the leased property itself and repairs and maintenance to it).
3. Registration

The Tax Administration Act requires all persons conducting business activities in the Maldives, including lessors of immovable property, to register with the Maldives Inland Revenue Authority (MIRA). In cases where you are also required to register with the Ministry of Economic Development (MED) under the Business Registration Act, you need not submit a separate registration form to MIRA – your registration with MIRA will be initiated when you submit your business registration form to MED. We will communicate your registration details as soon as your registration process has been completed.

In some cases, it is possible that you are not required to register with MED under the Business Registration Act, but still must register with MIRA. In such cases, you must submit a Income Tax Registration (MIRA 117) form to MIRA.

Registration requirements

Companies, partnerships and other entities carrying on business in the Maldives must register with MIRA irrespective of the amount of income.

However, if the legal owner of the immovable property that earns rental income is an individual or a deemed partnership, the individual or deemed partnership need not register with MIRA if all of the following conditions are met:

- Individual or deemed partnership did not obtain a permit or license from a government authority for a business activity carried on by the individual or deemed partnership; and
- That individual or partnership does not employee a person from whose remuneration the individual or deemed partnership is required to withhold under employee withholding tax (EWT); and
- Average monthly gross revenue in any 12-month period earned by the individual or deemed partnership (through lease of immovable property and from other businesses carried on by that individual or deemed partnership) is not more than MVR 40,000.

“Deemed partnership” refers to two or more persons who share the gross receipts from a commercial activity, whether or not using a separate name and whether or not the persons have joint or common rights in any property that produces the receipts.

Rental income earners must be registered with MIRA in the name of the legal owner of the immovable property, i.e. if the owner is an individual, the business must be registered in the name of that individual, and if the owner is a group of individuals, in the name of that group of individuals, and so on.
Example 4: Owner is an individual
Hussain owns 10-storey residential building in Male’. He leases out 7 floors of the building to various parties. Being the legal owner of the leased out premises, Hussain must register his rental business with MIRA under his name.

Example 5: Multiple owners
Ahmed, who owns a plot of land in Hulhumale’, transferred the ownership of the land to his four sons, who built a 4-storey building on the land and leased it out. A total monthly rent of MVR 55,000 is earned from the property.
Since the building is jointly owned by more than one individual and earns an average monthly income in excess of MVR 40,000 the business must be registered with MIRA as a deemed partnership (being carried on by the four sons). Further, they must appoint one person amongst themselves as the responsible person and notify MIRA as such when submitting the registration form.

Example 6: Lessor does not meet registration requirements
Haseena has leased out a plot of land she owns in AA. Mathiveri to a guesthouse operator for a monthly rent of MVR 18,000. Haseena does not earn any other business income.
Since Haseena is an individual who does not meet the registration criteria mentioned earlier, she will not be required to register with MIRA.

If owner of the property is deceased
If the owner of the immovable property is deceased, the person or persons who assumes the charge of the deceased person’s tax obligations as required by the law or under Islamic Shariah must file the tax returns and pay taxes up to the date of death of the deceased person. If and when the title to the property is transferred to another person or persons by a court judgment or otherwise, it is the responsibility of the new owner(s) to inform MIRA and change the registration accordingly.

Example 7: Owner of the property is deceased
After the death of his brother Dhon Manik, Alifulhu now receives rental income from a house owned by Dhon Manik. Alifulhu is the sole heir to Dhon Manik’s inheritance, and a court judgment is pending regarding the inheritance of Dhon Manik.
In this case, since Dhon Manik is still the legal owner of the immovable property, the business must be registered with MIRA in the name of Dhon Manik. However, Alifulhu must appoint himself as the person responsible for tax obligations and inform MIRA as such. If and when the court transfers ownership of the property to Alifulhu, registration with MIRA must also be transferred to Alifulhu.

In the event of death of the legal owner of immovable property, a court judgment may apportion the lawful right or interest of each inheritor to the income from the immovable property owned by the deceased. In such cases, for the purpose of income tax, income receivable by each inheritor as per the court judgment is considered as a separate income in which no other party has a lawful right or interest. Subsequently, the inheritors will not be considered as a deemed partnership. For registration of the individual inheritors with MIRA, only the income apportioned to each individual inheritor as per the court judgment would need to be taken into account.

If ownership of the property is transferred by a court judgment

When the title to an immovable property is transferred to another person or persons by a court judgment, for the purpose of income tax, the legal owner of the property would be the transferee as specified in the court judgement, irrespective of whether or not ownership documents have been amended as per the judgment.

Consequently, if a court judgment, for example, separately identifies the owners of separate floors of a building already registered with MIRA as a deemed partnership, the separate floors must now be registered with MIRA under their respective owners’ names effective from the date of the judgment.

Example 8: Hiba

Zubair has willfully gifted his house in Male’ to his daughter Zaina. The court has endorsed the hiba (gift) as valid. The property is now being used as a rental business. Male’ City Council’s records however still shows Zubair as the owner of the property.

In this case, prima facie gift is not taxable to Zaina as gift was received from a related person (i.e. father). However, the rental business must be registered under Zaina’s name as she is legal owner as per the court judgment, even though the City Council’s records show otherwise.

If the property is sold but ownership records have not been updated

If an immovable property is sold but the ownership records at the relevant government authority have not been updated to reflect the sale, the seller must continue to be registered
with MIRA until the ownership records are update, even though he may not earn any income during the period.

Example 9: Property is sold but ownership records have not been updated

Usman sells his house in Vilimale’ to Shiyam. Shiyam has now leased the ground floor of the building to another business as a storage facility. However, the “ownership registry” issued by the City Council has not been changed, nor is there a court judgment changing the ownership.

In this situation, Usman must register his house with MIRA as he still is the legal owner of the house as per the City Council’s records. Shiyam must also register as he earns rental income from the property.

If separate floors of a building are legally owned by different individuals

In cases of jointly owned buildings where separate floors or apartments are legally owned by different individuals, each individual must register the floor(s) or apartment(s) owned by that person (i.e. his/her business) with MIRA separately. In this case even if the land is jointly owned, the owners are not required to register the building as a deemed partnership, and each person will account for income tax separately.

When a plot of land attributable to a particular person is clearly identified in the registry

Even if the entire land area is jointly owned with a single registry, if the part of the land attributable to a particular person is clearly identified in the registry, that person will be allowed a separate registration, rather than registering under a deemed partnership.

If a third party is allowed to use the property free of charge

For an immovable property to be considered as not generating income, the property must be occupied by a relative and it must not be bigger in size than what is reasonably necessary for the relative and his/her immediate family to occupy. If the relative sublets such a property to a third party, it would be considered as a lease by the legal owner of the property, and the income receivable would be valued at the market rate.

Relatives

For the purpose of income tax, a person is a relative of another person if he or she is:
• The individual’s spouse; or
• A brother, sister, parent, grandparent, child or step child of the individual or the individual’s spouse; or
• The spouse of a person specified above.

**Example 10: Third party allowed to occupy the property for free of charge**

Bakur owns a 10-storey building, of which 8 floors are leased out and Bakur earns a monthly rental income of MVR 250,000. In one of the remaining floors lives his brother while the other floor is occupied by Bakur’s friend Ismail. Bakur does not charge rent from his brother nor from Ismail.

Since Bakur is the legal owner of the building, the rental business must be registered with MIRA in Bakur’s name. The floor occupied by Bakur’s brother is not considered as generating income for tax purposes. However, the floor occupied by Ismail must be taken into account for tax purposes as generating income at the going market rate.

**Property developed by a person other than its owner**

Sometimes a person other than the owner may finance and develop/build a property under an agreement with the owner, which specifies that the developer gets part of the building for an agreed duration. In this situation the developer must register with MIRA as developer is earning rental income from developers share of the property. Where the developer did not choose the ‘20% options’ (See below ‘Computation of taxable income’), developer can capitalize the expenditure incurred for the development of the property and such capitalized expenditure must be deducted in the computation of developers taxable income.

The owner also must register if the owner earns income from the property. However, owner must not deduct capital allowance in respect of any expenditure incurred by the developer or any other person.

**Example 11: Immovable property developed by a person other than its owner**

Under an agreement with Rasheed, Ahmed has built a 10-storey building on Rasheed’s land. As per the terms of the agreement, Ahmed has the right to occupy or sublet the first 6 floors of the building for 15 years, and now earns rental income from these 6 floors. Rasheed also leased out the remaining 4 floors.

In this situation both Ahmed and Rasheed must register with MIRA separately.
4. What you need to know for income tax purposes

4.1 Residents earning rental income
Residents are required to pay tax on rental income earned from Maldives and abroad. The tax rate and the tax free-threshold depends on the type if the person. For instance individuals are required to pay income tax if the annual taxable income exceeds MVR 720,000. Taxable income in the rental income after allowable deduction from the total rental income.

4.2 Non-residents deriving rental income from Maldives
Non-residents are deriving income from an immovable property situated in the Maldives will be subjected Non-resident Withholding Tax (NWT). NWT will be charged at 10% on the gross payments received by the person. However, non-residents deriving income from an immovable property have the option to file a tax return to assess tax on a net basis.

Example 12: Non-resident deriving rental income from Maldives

Musthafa is a Maldivian citizen who lives in Malaysia and is not a resident for Maldivian tax purposes. Musthafa owns an office building in Male’. Dhondheeni Pvt Ltd leased three floors of office space from the building for a monthly rent of MVR 450,000. In such a case Dhondheeni Pvt Ltd must withhold 10% of the rental payment made to Musthafa as non-resident withholding tax. A gross basis tax will be paid on behalf of Musthafa.

However, Musthafa could opt to file a tax return to be assessed for tax on a net basis, meaning he would be able to claim allowable deductions and pay tax on rental income at individual income tax rates.

Find out more

A snapshot explaining the basics of Income Tax is available at here.
Please refer ‘Guide to non-resident withholding tax (NWT) [DRAFT]’ which is available here.

Computation of taxable Income

Persons earning income solely from lease of immovable property
In computing the taxable income of a person who derives rent from immovable property situated in the Maldives and prepares financial statements on cash basis can elect to claim a deduction equivalent to 20% of total rental income as expenditure incurred in deriving the rental income. If the taxpayer chooses the “20% option”, no other deduction is allowed, and this option cannot be changed for 5 years except with the approval of the Commissioner.
General. This 5 year period will continue under the ITA if the person has elected the ‘20% option’ under the Business Profit Tax Act (BPTA). If the 20% option is chosen, it must also be applied to rental income from all immovable property held by the lessor.

**Persons earning income from lease of immovable property along with other business income**

Even in this case, the lessor has the option of choosing the 20% option or the actual expenses option. If the former is chosen, he will not be allowed to deduct any other expense in relation to the rental business, and must remain with the option for 5 years unless approved otherwise by the Commissioner General. The taxpayer may however make other deductions in respect of other business activities carried on by the taxpayer.

**Deductions allowed**

If the taxpayer decides to deduct actual expenses rather than 20%, the following deductions may be deducted as expenses in computing his taxable income:

- Expenses incurred in concluding a lease agreement;
- Insurance premiums paid in relation to the rented property;
- Fees or commissions paid to an agent appointed in relation to a leasing transaction;
- Expenses incurred on the repair and maintenance of the rented property, so long as it does not affect the value of the property;
- The cost of materials used for repairs if it is carried out by the lessor;
- Interest on a loan taken out to acquire, build, repair, or develop the rented property;
- Capital allowances so far as they are permitted by the ITA and Income Tax Regulation (ITR);
- Other direct expenses incurred in relation to the rented property;
- Capital allowances so far as they are permitted by the ITA and ITR for any furniture or other assets leased together with that property.

**Deductions not allowed**

The following deductions are not allowed in computing the taxable income of a lessor of immovable property:

- Capital expenditure incurred on the acquisition or construction of the property (capital allowance may be claimed instead);
- Domestic or private expenses;
• Fine or interest payable in respect of any failure to comply with any law.
• Other non-deductible expenses stipulated in ITA s 32.

Accounting period
All the taxpayers are required to prepare their accounts from 1 January to 31 December every year.

Accounting basis
There are two recognized accounting bases for income tax purposes:
• **Cash basis:** Persons with an annual turnover of less than MVR 10 million may opt to prepare their accounts using the cash basis.
• **Accrual basis:** Persons with an annual turnover of more than MVR 10 million must prepare their accounts using the accrual basis.

If you choose the accrual basis, you must prepare accounts in accordance with:
• International Financial Reporting Standards (IFRS); or
• IFRS for SMEs; or
• International Accounting Standard (IAS)
• Accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

You must recognize rental income received as per the basis that was used to prepare your accounts, whether or not 20% deduction option was chosen.

If you carry on more than one business activity, you must prepare combined financial statements for all the activities taken as a whole.

Returns and payments
Generally all persons chargeable to tax are required to file tax returns. However, individuals and deemed partnerships are given exemptions if they meet certain conditions. Individuals are not required to file Income Tax Return (MIRA 604) form if taxable income for the year is not in excess of MVR 720,000 and total income for the year is not in excess of MVR 2,000,000. Deemed partnerships are not required to file Income Tax Return (MIRA 604) form if taxable income for the year is not in excess of MVR 500,000 and total income for the year is not in excess of MVR 2,000,000. Companies, partnerships and other entities are required to file a Income Tax Return every year irrespective of the level of gross income or taxable income.
Income tax is to be paid in three payments: first interim payment, second interim payment and the final payment. Income tax interim return (MIRA 603) must be submitted when making the interim payments. Persons are required to make interim payments if the total interim is more than MVR 20,000. The interim payments for your first tax year must be equal to half of the estimated taxable income for that year. The Income Tax Return must be accompanied by financial statements.

- Filing of the first income tax interim return and making payment:
  - Interim is half of the tax payable for the previous tax year or can estimate interim
  - By 31 July of the same tax year

- Filing of the second income tax interim return and making payment:
  - Interim is half of the tax payable for the previous tax year or can estimate interim
  - By 31 January of the following tax year

- Filing of the income tax return and making payment:
  - Payment of the balance after deducting the interim payments from the tax liability for the current tax year
  - By 30 June of the following tax year

If you present your financial statements in Maldivian Rufiyaa, you must pay income tax to MIRA in Rufiyaa. If your presentation currency is United States Dollar, you may make the payment in either United States Dollars or Rufiyaa. If the latter case, you must convert the amount to Rufiyaa using the exchange rate: USD 1 = MVR 15.42.

If your annual turnover exceeds MVR 10,000,000 (approx. USD 648,508), you must submit audited financial statements signed by an authorized auditor together with your Income tax Return. However, if your only income is rent from immovable property and you have chosen the 20% deduction option, you are not required to submit any supporting documents with your Income Tax Return.

Find out more

To understand what your presentation currency is, refer to our Guide to Currency and Exchange Rate (MIRA M818), which is available [here](#).

Requirement to submit audited financial statements

If your annual turnover exceeds MVR 10,000,000 (approx. USD 648,508), you must submit audited financial statements signed by an authorized auditor together with your Income tax Return. However, if your only income is rent from immovable property and you have chosen the 20% deduction option, you are not required to submit any supporting documents with your Income Tax Return.
Penalties

- Non-payment of tax:
  - 0.05% of the outstanding amount per day.

- Non-submission of tax return:
  - If there is no tax liability, MVR 50 per day of delay.
  - If there is any tax liability, MVR 50 per day of delay, and 0.05% of the tax liability
5. What you need to know for GST purposes

GST is a tax imposed under the GST Act, which states that any taxable activity carried out in the Maldives which is registered for GST will be liable to collect GST on its supplies from its customers.

The law categorizes GST into the following two sectors:

- Tourism goods and services (currently 12%)
- General goods and services (currently 6%)

As per GST Act, the supply of residential or commercial immovable property by way of a conventional lease between a landlord and a tenant in return for periodic rental payments is exempt from GST. Therefore, GST lessors of immovable property shall not be required to register for GST.

Find out more

To learn more about goods and services exempt from GST, check out our Guide to Exempt Goods and Services (MIRA G823), which is available here.

Example 13: Lease of island

Umar has leased an island from the government to develop a tourist resort. He subleases it to a hotel chain, who will develop and operate it.

Since Umar is making an exempt supply, he will not be required to register for GST. However, when the resort obtains its operating license from the Ministry of Tourism, the operator would be required to register for tourism sector GST.

Supply of immovable property on a daily-use basis

Supply of accommodation by guesthouses which let rooms on a daily-use basis and do not require authorization from the Ministry of Tourism to provide such accommodation is not considered as rent from immovable property. Therefore, such accommodation services will
be subject to GST at the general sector GST rate. If authorization from the Ministry of Tourism is required, the services will be subject to GST at the tourism sector GST rate.
6. Relevant laws, regulations and tax rulings

The following laws, regulations and tax rulings provide the legal basis for the guidelines provided in this guide:

- **Income Tax Act (Law Number 25/2019)**
- **Income Tax Regulation (Regulation Number 2020/R-21)**
- **Business Registration Act (Law Number 18/2014)**
- **Goods and Services Tax Act (Law Number 10/2011)**
- **Goods and Services Tax Regulation (Regulation Number 2011/R-43)**
- **Tax Administration Act (Law Number 3/2010)**
- **Tax Administration Regulation (Regulation Number 2013/R-45)**
- **Tax Ruling TR-2014/G19 (Imposition of GST on immovable property)**
For Queries

1415
1415@mira.gov.mv

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