



MALDIVES  
INLAND REVENUE  
AUTHORITY

# **Income Tax Guide: Director's Current Account Debit Balances**

MIRA 1856

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Published on: 16 March 2025

Taxpayers can rely on this guide as to the MIRA’s interpretation of the relevant tax laws and regulations. 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](mailto:1415@mira.gov.mv).

## I. Introduction

Under the Income Tax Act, the term *remuneration* is defined in broad terms to encompass a wide array of payments and benefits received by employees, directors, or partners in exchange for services rendered. This includes traditional forms of compensation such as salaries, wages, and allowances, as well as non-monetary benefits. Furthermore, it extends to compensation for loss of employment or service, restrictive covenant payments, and entry or exit inducement payments.

For income tax purposes, directors of a company are statutorily classified as employees of the company. Therefore, all types of compensation within the ambit of remuneration as defined earlier paid by the company to the director will be considered for employee withholding tax (EWT).

In many cases, companies engage in financial transactions with their directors. This may involve providing loans to directors, paying expenses on their behalf, or accepting loans from directors. When a company provides an interest-free or below market-rate loan or advance to a director, the financial benefit received by director is generally taxable and forms part of the director's remuneration

For accounting purposes, these financial transactions are typically recorded in a *director's current account*. This guide examines the tax implications of transactions recorded in directors' current accounts. It is important to note that tax implications arise not from the mere recording of transactions in these accounts but from the underlying nature of the transactions themselves.

## 2. Loans or advances taken by the director

If personal funds are withdrawn from the company as a loan or advance, the amounts would give rise to a taxable benefit that should be included in the total remuneration, unless the loan or advance qualifies for an exemption.

Since loans or advances are repayable to the company, the taxable benefit arises from the difference between:

- The interest calculated using the ordinary open market rate, and
- The actual interest rate charged by the company (if any).

This difference represents a financial advantage received by the director and is therefore treated as part of their remuneration for income tax purposes.

### 3. Personal expenses paid by the company

If a company pays for the personal expenses of the director the amounts would give rise to a taxable benefit that should be included in the total remuneration.

- **If the amounts are repayable to the company:** These payments are treated as a loan or advance extended to the director, subject to the rules outlined for such transactions.
- **If the amounts are not repayable:** The principal amounts paid by the company are considered a direct benefit to the director and must be included as part of their remuneration.

#### 4. Loans and advances: the exemption criteria

The ITA provides an exemption for interest on loans or advances issued by a company to its directors under the following conditions:

1. The repayment period of the loan or advance does not exceed 12 months; and
2. The principal amount of the loan or advance does not exceed MVR 50,000.

The exemption ceases to apply in cases where there is more than one such loan issued to the director at any given time.

For this purpose, each transaction should be looked into individually and tested against the exemption conditions. Therefore, when the company makes funds available to the director as a loan or advance, the company must identify the amount of the loan or advance and the repayment period to determine whether the benefit is exempt. If individually, the transaction meets the exemption criteria, it would be an exempt benefit. It is worth remembering that only one loan or advance should exist at any given time for the exemption to apply.

To support the exemption, the company must maintain proper records detailing the terms of the funds provided to the director, including repayment periods and amounts. In the absence of specific terms or if the transaction fails to meet the exemption criteria, it should be treated as a taxable benefit and included in the director's remuneration.

## 5. Waiver of loans or advances to directors by a company

When a company waives a loan or advance (either partially or fully) provided to a director, the waived amount should be treated as remuneration provided in money. This is comparable to granting a salary or monetary allowance.

To determine the financial benefit, the ordinary open market interest rate must be applied to the loan or advance up to the date of the waiver. The waived amount should then be treated as remuneration in money for the month in which the waiver is effected.

Where applicable, both the financial benefit (interest) and the monetary benefit (waived amount) must be included in the computation of the director's total remuneration.

## 6. Debit balance in the director's current account

The daily debit balances in a director's current account should be treated as a loan or advance to the director. If interest is not charged at the ordinary open market rate, the resulting financial benefit to the director must be included as part of the director's remuneration.



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