

## Sukuk Conference

Grand Hyatt, Dubai

25 April 2007

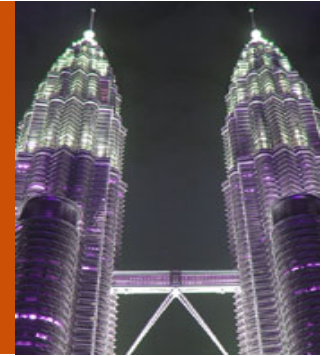
PwC



# Sukuks – Tax Structuring

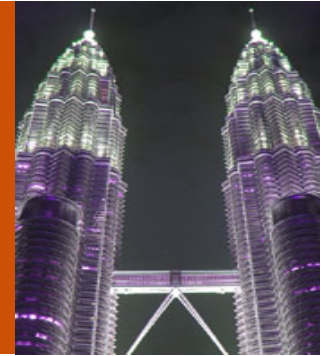
Ebrahim Karolia, Senior Manager  
International tax and Islamic Finance tax structuring

# Introduction



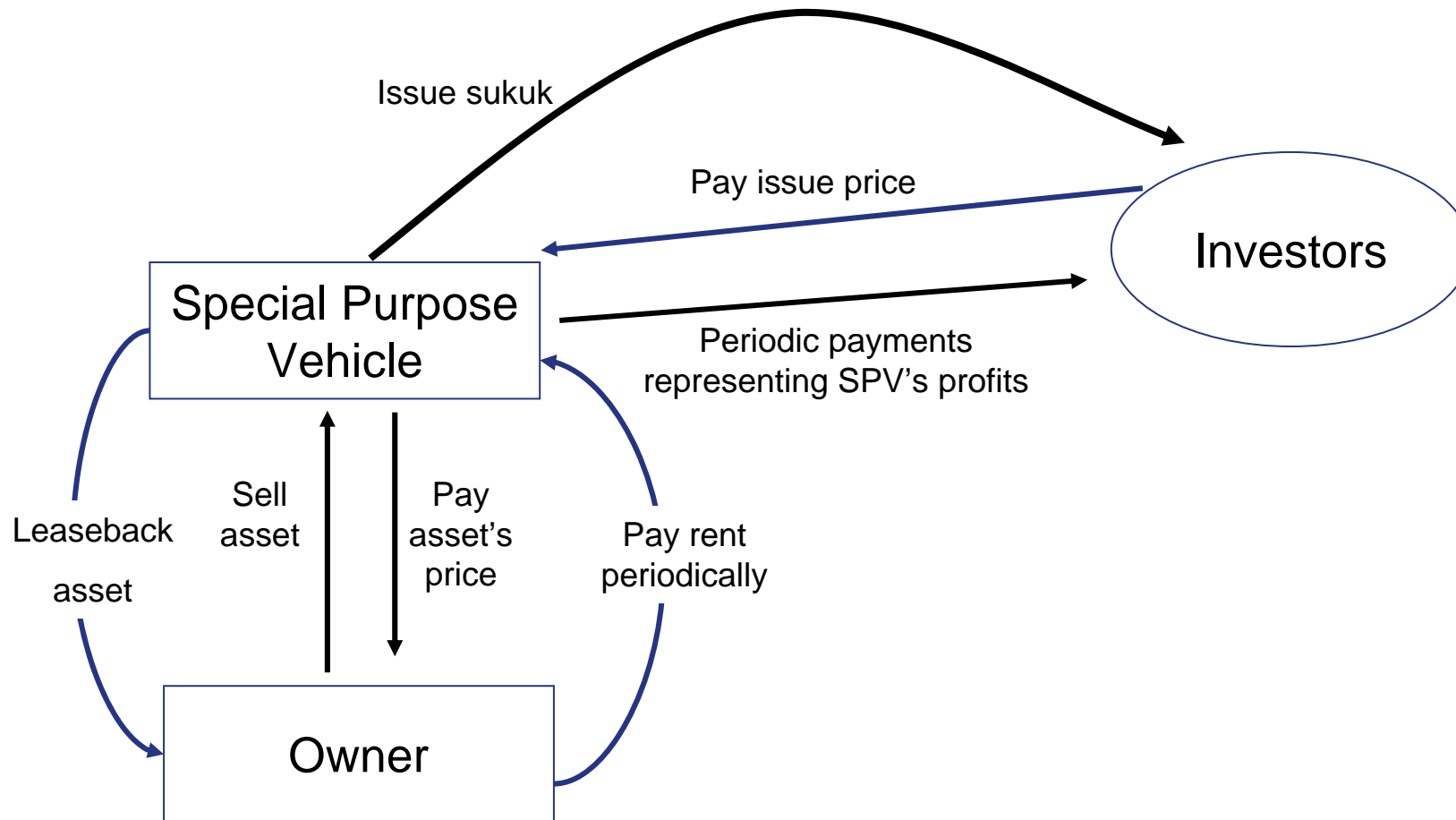
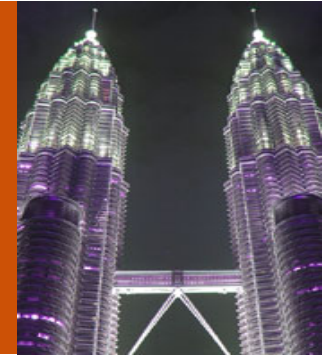
- Tax structuring
- ‘Common’ Sukuk structures (Ijara / Mudaraba)
- Structural issues
- Tax issues
  - Local
  - International
- Recent legislative changes in the UK
- Other Developments

# Tax structuring

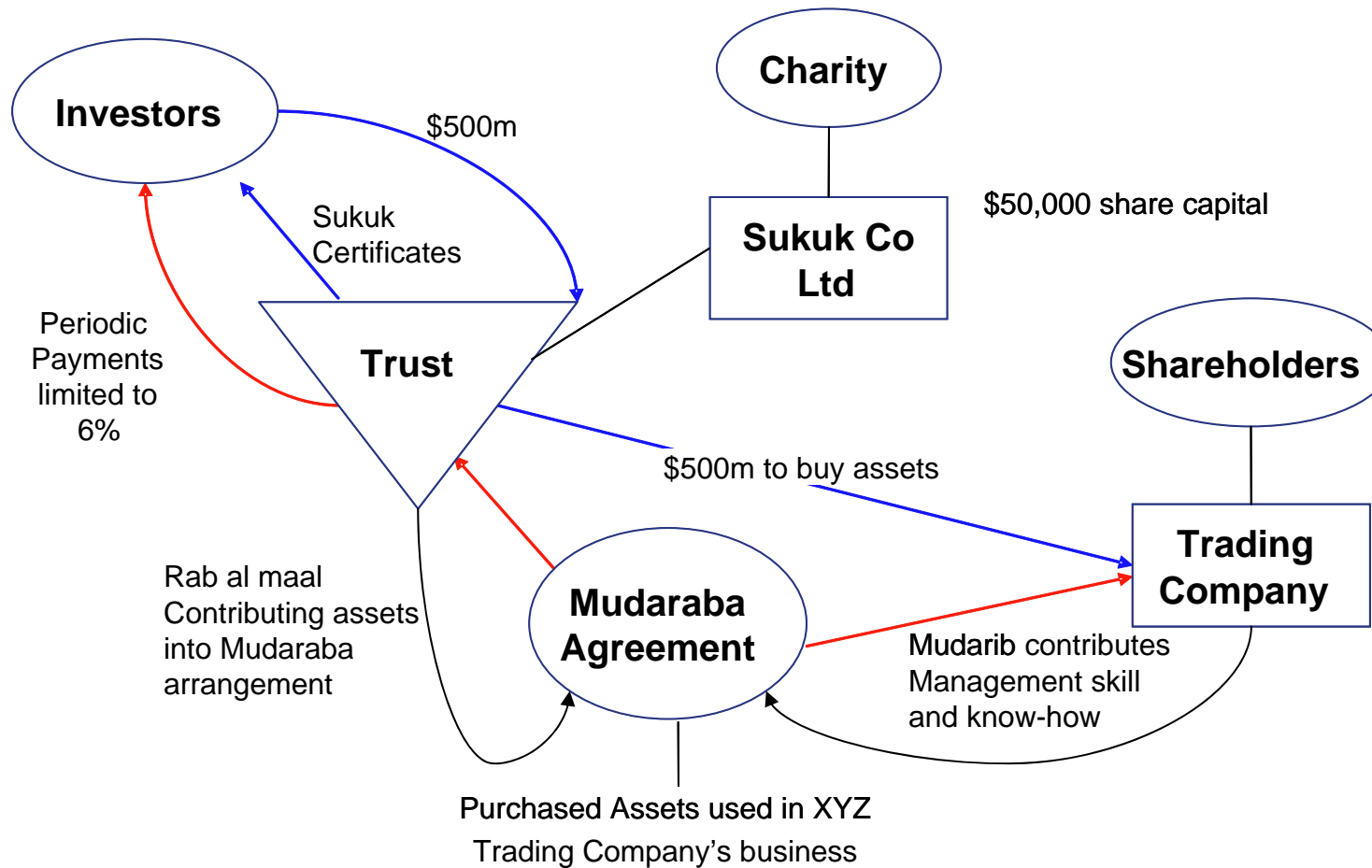
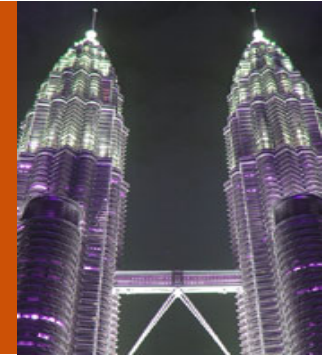


- Probably second most important issue after Shari'ah compliance
- Local, regional and beyond...
- Continuously changing tax environment
- Tax 'leakage'
- Outdated tax efficient structures
- Local taxes
- International tax issues

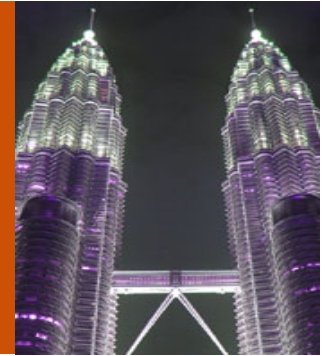
# Common Sukuk Structures: Sukuk Al-Ijara



# Common Sukuk Structures: Sukuk Al-Mudaraba



# Structural Issues



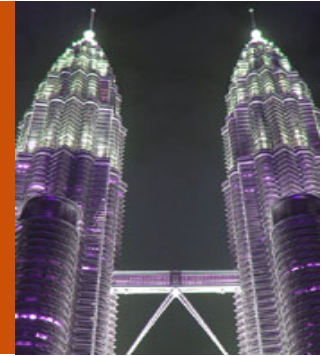
- Tax efficient structures determined by:
  - Location of underlying assets
  - Underlying asset class
  - Type of Sukuk
- Bearing in mind, other commercial non tax issues...
- For example, accounting and consolidation issues:
  - UK GAAP, IAS, IFRS
  - Legal form vs economic substance for *Shari'ah* boards to consider

# Structural Issues (continued)



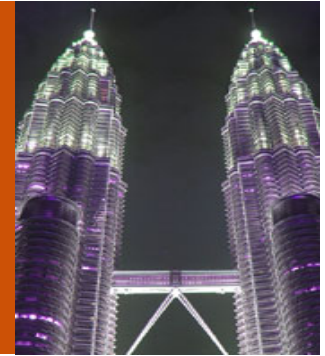
- Location:
  - US – Cayman Islands?
  - European – Luxembourg, Jersey or other?
  - GCC – Bahrain or UAE?
  - Far East – Malaysia, Singapore possibly Mauritius?
- Underlying asset class:
  - Real Estate, equipment/machinery, intangible asset?
- Type of Sukuk: Ijara, Mudaraba, Musharaka, other?

# Tax Issues at Local Level



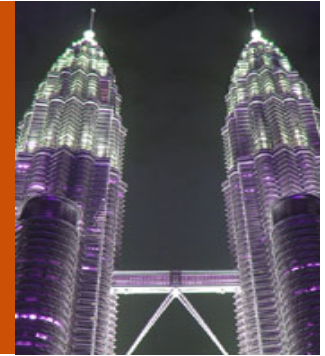
- Acquisition taxes
- Taxes during holding period
- Nature of asset will determine:
  - Allowances available during holding period
  - Specific taxes that will apply
  - Local filing requirements
- Exit strategy and associated taxes

# International tax issues



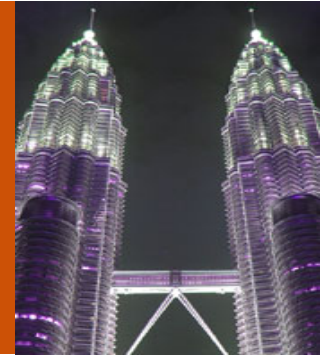
- Cross border movement of funds
- Withholding taxes
- Application of double tax treaties
- Cross border regulations and agreements
- Governmental restrictions, consents and clearances

# Recent legislative changes in the UK



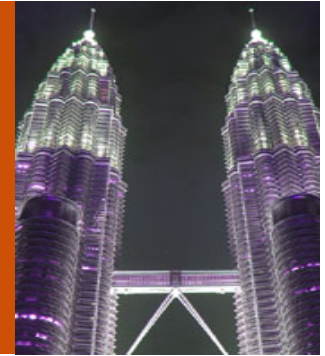
- SDLT relief (2003) for *Murabaha* mortgages
- Alternative finance arrangements (FA 2005)
- Extension to all persons (FA 2006)
- 2007 Budget announcement: Sukuks to be taxed as conventional bonds
- Ongoing Treasury consultation process

# Other developments



- Consultation process
  - Advancements on *Shari'ah* compliant financial investments which are backed by Real Estate, Private Equity, Equipment and even Intangible assets.
- Islamic lobbies and other pressure groups have not yet been strong enough to arrive at similar achievements in other European countries. However, there are attempts to promote the creation of Islamic products in Germany and the Benelux countries.
- IFSB and AAOIFI

# Questions?



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