

REVENUE MEMORANDUM CIRCULAR NO. 81-2024 issued on July 18, 2024 provides the tax treatment of *Sukuk* (Islamic Bond) as Islamic banking arrangement pursuant to the Tax Neutrality Provision of Republic Act No. 11439 (An Act Providing for the Regulation and Organization of Islamic Banks) as implemented by Revenue Regulations No. 17-2020.

Sukuk issued, structured in a *Shari'ah*-compliant manner, but with economic characteristics similar to bonds, are subject to the taxes per the Circular. The gain or profit in *Sukuk* is determined based on the specific structure and terms of the *Sukuk* issuance. It can be calculated through profit-sharing ratios, rental income, mark-up or price differentials, or the sale of underlying assets. The method of determining gain or profit depends on the contractual arrangements outlined in the *Sukuk* documentation.

Gains or profits realized by *Sukuk* holders from *Sukuk* transactions with maturity of less than five years are subject to 20% Final Withholding Tax (FWT). On the other hand, those with maturity of five years or more are excluded from the gross income and are therefore exempt from Income Tax.

In the case of *Sukuk* pre-termination, entire gains or profits realized by *Sukuk* holders, are subject to FWT with varying rates based on the remaining maturity thereof:

- Four (4) years to less than five (5) years - 5%;
- Three (3) years to less than (4) years - 12%; and
- Less than three (3) years - 20%

Gains or profits realized by *Sukuk* holders, from *Sukuk* transactions, who are non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporation are subject to twenty-five percent (25%) FWT.

The *Sukuk* issuer is required to withhold the tax at every payment of gains or profits and for purchases of asset either directly from a supplier or through an agent.

Gains or profits realized by Originator/Obligor, Arranger, Manager, and Underwriter from *Sukuk* transactions are subject to regular Income Tax and Value-Added Tax (VAT) or Percentage Tax, whichever is applicable.

Gains or profits realized by the Special Purpose Vehicle are subject to regular Income Tax but exempt from VAT.

Any disposal or lease of the underlying asset, and execution of any additional instrument required in a *Sukuk* transaction, for the purpose of compliance with *Shari'ah* principles but which will not be required in a conventional bond transaction, shall be deemed excluded for taxation purposes.

A Documentary Stamp Tax (DST) is imposed on all *Sukuk* instruments under Sections 176 and 179 of the National Internal Revenue Code of 1997, as amended, (Tax Code) unless excepted under Section 199(g) of the same code.

Guidelines and examples of some *Sukuk* structures that may be encountered in practice are provided in the Circular.