REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Date: JUL 18 2024

REVENUE MEMORANDUM CIRCULAR NO. 081-2024

Subject: 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.

To: All Banks, Including Islamic Banks and Islamic Banking Units of Conventional Banks, Non-Bank Financial Intermediaries, Internal Revenue Officers/Employees and Others Concerned

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Background

The government is committed to undertake various reforms in the capital market, specifically to broaden and deepen the market for both government and private debt instruments, either conventional or Islamic finance arrangement, to boost economic growth.

Sukuk are one of the most significant mechanisms for raising finance in the capital markets through Islamically acceptable structures. Multinational corporations, sovereign bodies, state corporations and financial institutions use *Sukuk* issuance as an alternative to syndicated financing or to bond issuance.

Sukuk are an interest-free bonds that generate returns to investors without infringing the principles of *Shari'ah* (Islamic law) which prohibits the payment of interest (*riba*). They are *Shari'ah*-compliant securities backed by a specific pool of underlying assets. In most practical applications of *Sukuk*, the cash flows that investors see is very similar to what they would see when investing in bonds, making *Sukuk* a suitable alternative for bonds in financing *Shari'ah*-compliant projects or activities.

This Circular is being issued to provide the tax treatment of *Sukuk* pursuant to the tax neutrality provision of Section 14 of RA No. 11439 as implemented by Revenue Regulations (RR) No. 17-2020 for the guidance and observance of all concerned.

Guidelines

1. RR No. 17-2020 requires that Islamic banking transactions are taxed no more heavily (and no more lightly) than conventional banking transactions. Thus, any reference to "interest" shall apply to gains or profits received and expenses incurred in Islamic banking arrangements, in lieu of interest income and/or expenses under the conventional banking transactions.

2. *Sukuk* are defined by Bangko Sentral ng Pilipinas (BSP) as "certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) assets of particular projects or special investment activity that is undertaken in accordance with Shari'ah principles. *Sukuk* are generally named after the Shari'ah principle by which they are structured."

The structure of *Sukuk* involves the following entities and their roles:

a) Originator – the entity or entities that wish to raise funds through the issuance of *Sukuk*. This could be a government, a corporation, a financial institution, or another legal entity with financing needs.

b) Issuer/Special Purpose Vehicle (SPV) – a separate legal entity established to issue the *Sukuk*. It holds the underlying assets or business activities related to the Sukuk and serves as the conduit through which investors can participate in the ownership of the *underlying* assets.

c) Shariah Advisor – Also known as Shariah board is a panel of Islamic scholars or experts in Islamic finance who ensure that the Sukuk structure and the underlying assets comply with Shariah principles. They provide guidance on the structuring of the *Sukuk* to ensure compliance with Islamic law.

d) Lead Manager/Arranger – typically a financial institution or investment bank responsible for structuring the *Sukuk* issuance, coordinating the transaction, and underwriting the issuance. This party plays a key role in the origination and execution of the *Sukuk* issuance.

e) Trustee – a fiduciary appointed to represent the interests of the *Sukuk* holders. The trustee ensures that the rights of the *Sukuk* holders are protected and that the issuer complies with the terms and conditions of the *Sukuk*.

f) Investors – individuals, institutions, or entities that purchase the *Sukuk* certificates, providing the funds needed by the issuer.

g) Underwriters – financial institutions or investment banks that commit to purchase any unsold portion of the *Sukuk* issuance, thereby providing assurance to the issuer that the entire issuance will be subscribed.

   On the other hand, underwriters may not always commit to purchasing the unsold portion of the issuance. Instead, the issuer and the lead arranger may structure the offering in a way that places the responsibility of selling the entire issuance on the issuer. In such cases, the underwriter's role may be limited to facilitating the issuance, providing advisory services, and ensuring compliance with regulatory requirements and market standards.

h) Obligor – the entity responsible for making the payments due on the *Sukuk* to the investors. This entity may be the originator's operating company, business, or the underlying assets themselves.

The specific parties involved and their roles may vary depending on the type and structure of the *Sukuk* issuance.

While these functions are typically performed by separate entities, it is theoretically possible for one entity or individual to take on multiple roles in a *Sukuk* transaction. For example, a corporation could act as the originator, establish the SPV, and also act as the lead manager for the *Sukuk* issuance. However, this may raise potential conflicts of interest and is less common in practice due to the need for independence and expertise in each role.

Note: In *Sukuk* structures, the obligor, originator, and issuer can be the same entity, but they can also be different entities. The specific roles and relationships among these parties depend on the structure and terms of the *Sukuk* issuance. Here are the typical scenarios:

Same Entity:

- In many *Sukuk* structures, the obligor (the entity responsible for making payments to *Sukuk* holders), the originator (the entity that originates the underlying assets or business activities), and the issuer (the entity that issues the *Sukuk*) are the same. This is a straightforward structure where a single entity assumes all these roles.

Different Entities:

- In some *Sukuk* structures, the roles are separated, and different entities perform each function:
  - Issuer: The entity that formally issues the *Sukuk* and represents the *Sukuk* holders.
  - Obligor: The entity that undertakes the responsibility for making payments to *Sukuk* holders.
  - Originator: The entity that originates the underlying assets or business activities that the *Sukuk* are linked to.

- The separation of these roles can be part of the structuring of *Sukuk* transactions to achieve specific objectives. For example, having a separate obligor from the originator or issuer might be a risk management strategy, enhancing the creditworthiness of the *Sukuk* by involving a party with a stronger financial position.

The flexibility in *Sukuk* structures allows for customization to meet the specific needs and preferences of the parties involved. It is important for investors and stakeholders to carefully review the documents and legal agreements associated with a *Sukuk* issuance to understand the roles and relationships among the obligor, originator, and issuer in that particular structure.

3. *Sukuk* are based on one or more of 14 named Islamic contracts, though a smaller number are used in practice. They usually involve the use of a SPV which holds the assets on behalf of the investors and which is the formal issuer of the *Sukuk*. *Sukuk* structures are not standardized and the principal named contract is usually accompanied by a number of other contracts and undertakings.

   Here are some commonly recognized Islamic contracts that may be employed in *Sukuk* structures and other Islamic financial transactions. These contracts provide the legal and Shariah framework for the issuance and trading of *Sukuk*.

   1) Murabahah: Cost-plus financing.
   2) Al-Ijarah: Leasing or rental contract.
   3) Musharakah: Joint venture or partnership.
   4) Mudarabah: Profit and loss sharing partnership.
   5) Wakalah: Agency contract.
   6) Istisna-a: Pre-delivery sale or manufacturing contract.
   7) Salam: Forward sale with advance payment.
   8) Kafalah: Guarantee or suretyship.
   9) Hawala: Transfer or remittance contract.
   10) Musawamah: Bargaining or general sales contract.
   11) Muzara'ah: Sharecropping or agricultural partnership.
   12) Mudarabah Mutlaqah: Unrestricted Mudarabah.
   13) Wadi'ah: Safekeeping or custody contract.

14) *Sukuk*: Islamic bonds.

4. All Banks, including Islamic Banks (IBs)/ Islamic Banking Unit (IBUs) of Conventional Banks and Non-Bank Financial Intermediaries (NBFIs) shall classify and subsequently measure a *Sukuk* investment either at amortized cost, fair value through other comprehensive income, or fair value through profit or loss based on its business model for managing the investment; and the contractual cash flow characteristics of the *Sukuk* in accordance with Philippine Financial Reporting Standards (PFRS) 9, the following shall be followed:

   a. Classification and Measurement: Determine the appropriate classification and measurement category for the *Sukuk* based on its contractual cash flow characteristics. PFRS 9 provides three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

   b. Initial Recognition: Upon issuance of the *Sukuk*, recognize it initially at fair value, which is typically the transaction price. If there are any transaction costs directly attributable to the issuance, they are generally deducted from the initial carrying amount.

   c. Subsequent Measurement: Measure the *Sukuk* instrument based on its classification:

      - For instruments classified at amortized cost, measure them at amortized cost using the effective profit method (effective interest rate method).

      - For instruments classified as FVOCI, measure them at fair value, with changes recognized in other comprehensive income.

      - For instruments classified as FVTPL, measure them at fair value, with changes recognized in profit or loss.

   d. Impairment: Assess the *Sukuk* instrument for impairment based on the expected credit losses. Recognize a loss allowance for the expected credit losses if there is a significant increase in credit risk since initial recognition.

   e. Derecognition: Derecognize the *Sukuk* when it is redeemed, repurchased, or matures, or when the contractual rights to cash flows expire. The gain or loss on derecognition is generally recognized in profit or loss.

   f. Disclosures: Present the *Sukuk* instrument on the balance sheet in accordance with its classification. Additionally, ensure that the financial statements provide the required disclosures, including information about the nature, terms and extent of risks arising from financial instruments, as well as the accounting policies applied.

Taxability

Sukuk issued, structured in a *Shari'ah*-compliant manner, but with economic characteristics similar to bonds, are subject to the following taxes:

1. Determination of Gain: 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.

1.1 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.[1]

1.2 In the case of *Sukuk* pre-termination, entire gains or profits realized by *Sukuk* holders, are subject to FWT[2] 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%

1.3 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%)[3] FWT;

2. 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;

3. 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;

4. Gains or profits realized by the SPV are subject to regular income tax but exempt from VAT;

5. 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;

6. 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.

***Sukuk* Structures**

As already indicated, variations on these structures are possible even when the *Sukuk* is given the same name. In particular, while the obligor, accepting responsibility for the payments under the *Sukuk* and for buying back the assets at the end of the term, is normally the same as the originator, in some cases there is a separate obligor.

The following sub-paragraphs give examples of some *Sukuk* structures that may be encountered in practice.

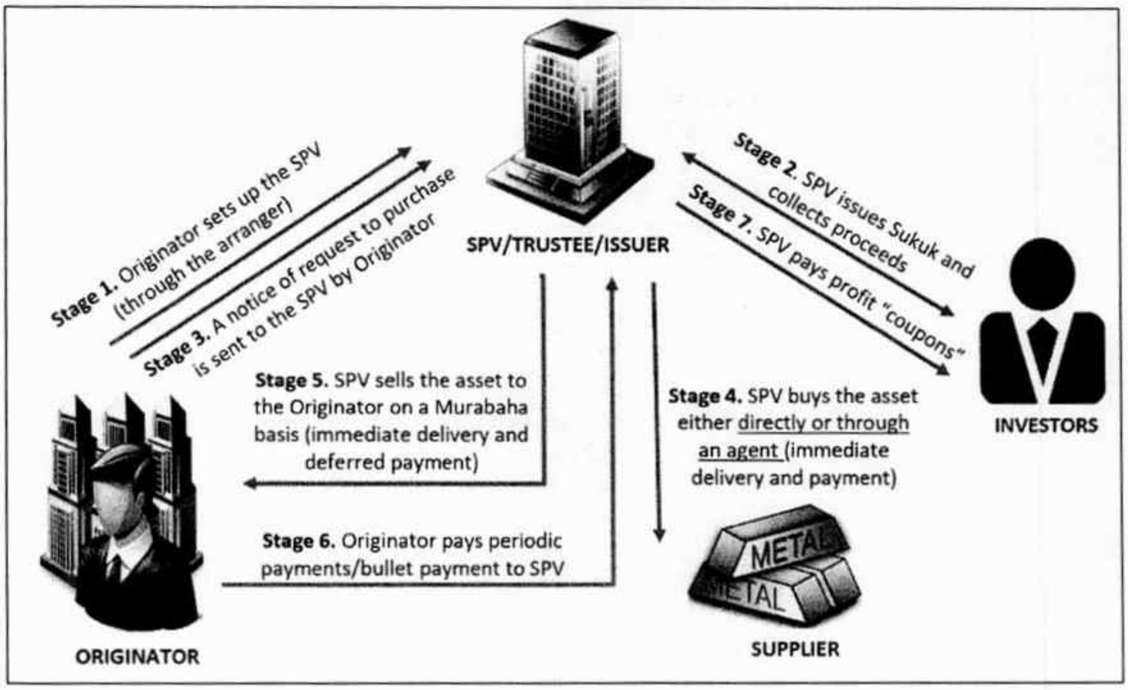
1. Sukuk al-murabahah

1.1 *Murabahah* is basically the sale of goods at a price comprising the purchase price plus a margin of profit agreed upon by both parties concerned. In practice, its use in *Sukuk* is normally in the form of commodity *murabahah* (sometimes called *tawarruq*) in which a commodity is bought and then

[1] *Section 24 (B) (1) of the Tax Code of 1997, as amended.*
[2] *Ibid.*
[3] *Section 25 (B) of the Tax Code of 1997, as amended.*

immediately re-sold, with one of the transactions being on deferred payment terms. The principle of Murabahah, which is the cost-plus-profit arrangement. In this *Sukuk*, the issuer raises funds by selling certificates representing ownership in tangible assets acquired through a Murabahah transaction. The underlying transaction involves the purchase of goods at a disclosed cost, and the goods are then sold to the *Sukuk* issuer at a markup. The *Sukuk* holders, in turn, receive periodic returns based on the agreed-upon profit margin. The structure is commonly used for short-to-medium-term financing needs in various sectors, allowing both issuers and investors to engage in transactions that align with Islamic finance principles.

1.2 Figure 1: Transaction structure diagram of *Sukuk al-murabahah*



1.3 Tax Neutrality

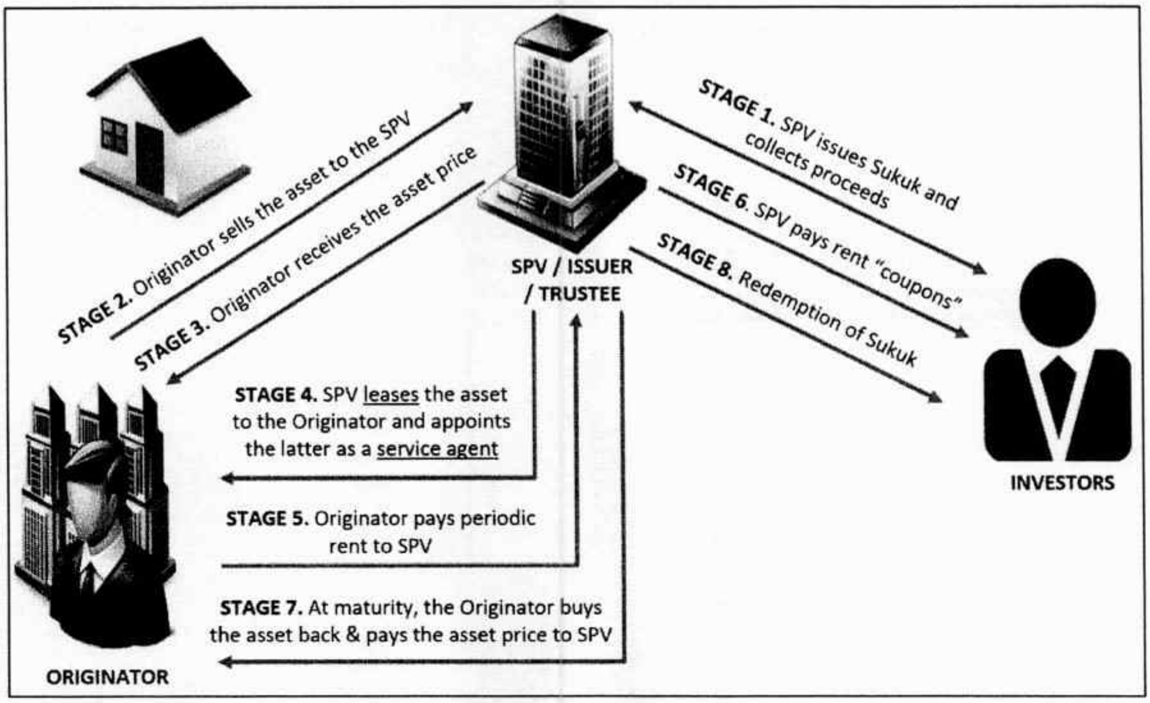
Transactions	Tax Consequence
1. Originator sets up the SPV (through the arranger)	No tax consequence.
2. SPV issues *Sukuk* and collects proceeds	*Sukuk* instruments – subject to DST.
3. A notice of request to purchase is sent to the SPV by Originator	No tax consequence.
4. SPV buys the asset either directly or through an agent (immediate delivery and payment)	Subject to expanded withholding tax.
5. SPV sells the asset to the Originator on a *murabahah* basis (immediate delivery and deferred payment)	No tax consequence.
6. Originator pays periodic payments/bullet payment to SPV	SPV is subject to regular income tax. VAT exempt.
7. SPV pays profit (coupons)	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation,

d. In the case of certificate pre-termination - subject to FWT with varying rates.

2. *Sukuk al-ijara.*

2.1 *Sukuk al-ijara* involves the transfer of ownership or benefit/usufruct of tangible assets from an originator to an SPV, which then issues to investors *Sukuk* certificates representing undivided ownership interests in such assets. The asset is then leased back to the originator by the SPV for a specified term, which is typically commensurate with the term of the certificates. Each *Sukuk* holder is entitled to receive the rentals generated under the lease pro rata to its ownership interest in the underlying asset. The amount of these rentals is equal to, and used by the SPV to pay, the periodic distribution amount payable under the *Sukuk* at that time. *Sukuk-al-ijara* is an asset-based *Sukuk* which is economically similar to a conventional bond.

2.2 Figure 2: Transaction structure diagram of *Sukuk-al-ijara*



2.3 Tax Neutrality

Transactions	Tax Consequence
1. SPV issues *Sukuk* and collects proceeds	*Sukuk* instruments - subject to DST.
2. Originator sells the asset to the SPV	No tax consequence.
3. Originator receives the asset price	No tax consequence.
4. SPV leases the asset to the Originator and appoints the latter as a service agent	No tax consequence.
5. Originator pays periodic rent to SPV	SPV is subject to regular income tax. VAT exempt.
6. SPV pays rent "coupons"	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more

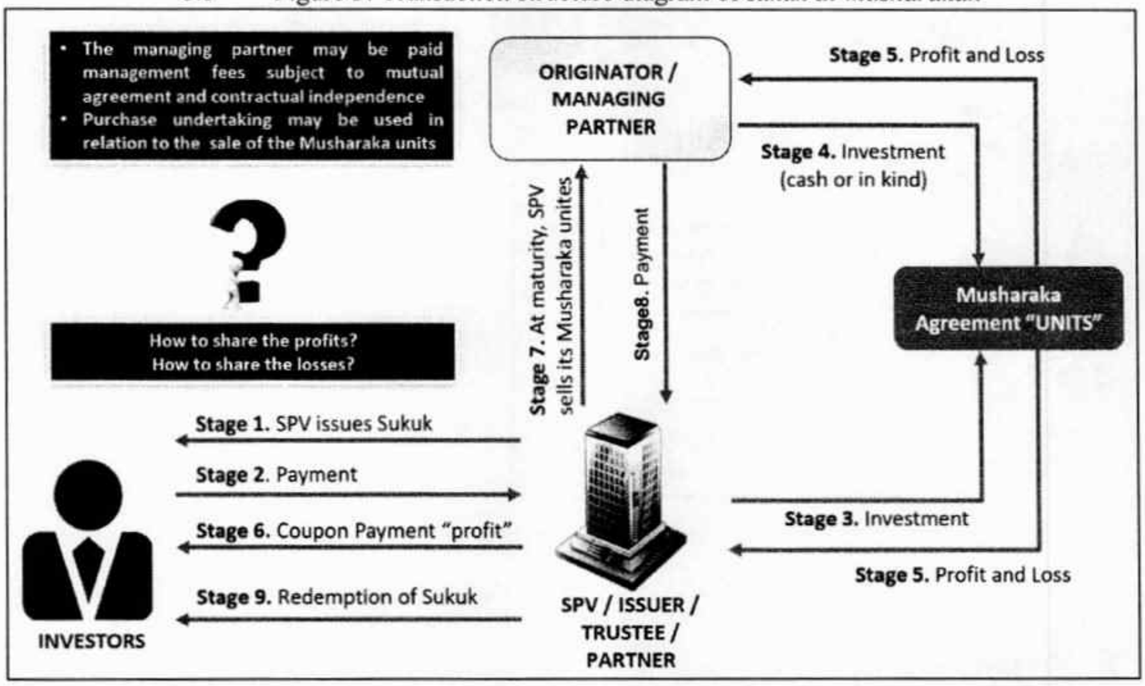
		c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.
7.	At maturity, the Originator buys the asset back and pays the asset price to SPV	No tax consequence.
8.	Redemption of *Sukuk*	No tax consequence.

3. Sukuk al-musharakah

3.1 *Musharakah* means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business venture. All providers of capital are entitled to participate in management, but is not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by every partner strictly in proportion to respective capital contributions.

3.2 A variant on this basic structure is the use of *Sukuk-al-musharakah* in issuances by Islamic banks which are intended to rank as regulatory capital. In these cases, the *Sukuk* are generally perpetual and convertible to equity under certain adverse trigger events.

3.3 Figure 3: Transaction structure diagram of *sukuk al-musharakah*



3.4 Tax Neutrality

	Transactions	Tax Consequence
1.	SPV issues *sukuk*	*Sukuk* instruments - subject to DST.
2.	*Sukuk* investors tender payments to SPV	No tax consequence.
3.	SPV invests to *musharakah* Units	No tax consequence.
4.	Originator invests to *musharakah* Units	No tax consequence.
5.	Profit and Loss	Originator, subject to regular income tax and VAT, if applicable.

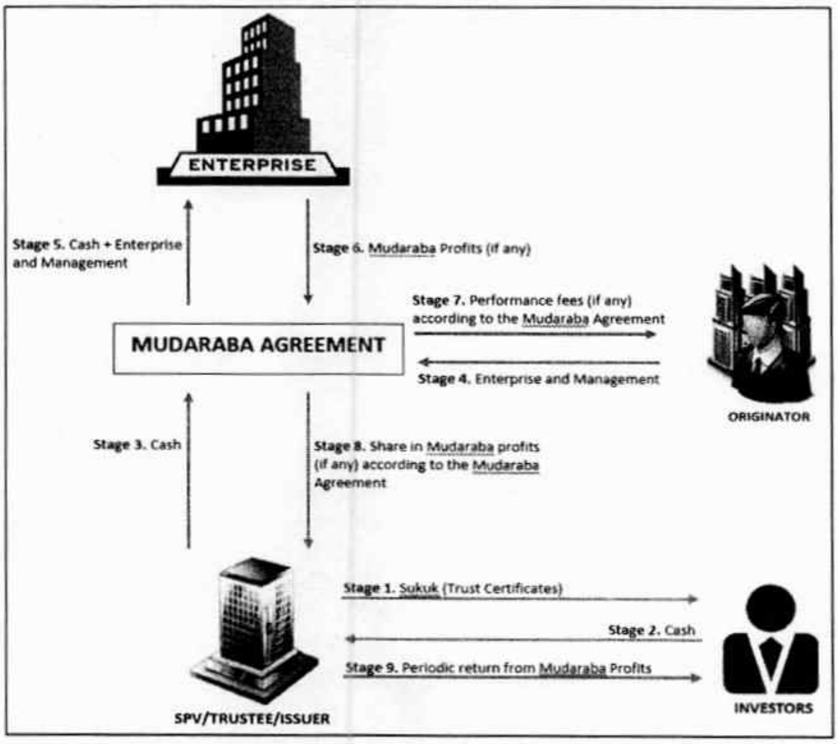
6. Coupon payment, profits are distributed to the *Sukuk* holders.	SPV, subject to income tax. VAT exempt. Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.
7. At maturity, SPV sells its *musharakah* Units	No tax consequence.
8. Payments on *musharakah* Units received by SPV	No tax consequence.
9. Redemption of *sukuk*	No tax consequence.

4 *Sukuk al-mudarabah*

4.1 *Mudarabah* means an agreement between two parties according to which one of the two parties provides the capital (capital provider) and for the other (*mudarib*) to work with on the condition that the profit is to be shared between them according to a pre-agreed ratio. Losses, if any, are borne by capital providers only.

4.2 Like their *musharakah* counterparts, *Sukuk-al-mudarabah* may be used by Islamic banks to raise regulatory capital and, in these cases, the *Sukuk* are usually perpetual and subject to conversion provisions.

4.3 Figure 4. Transaction structure diagram of *Sukuk al-mudarabah*



4.4 Tax Neutrality

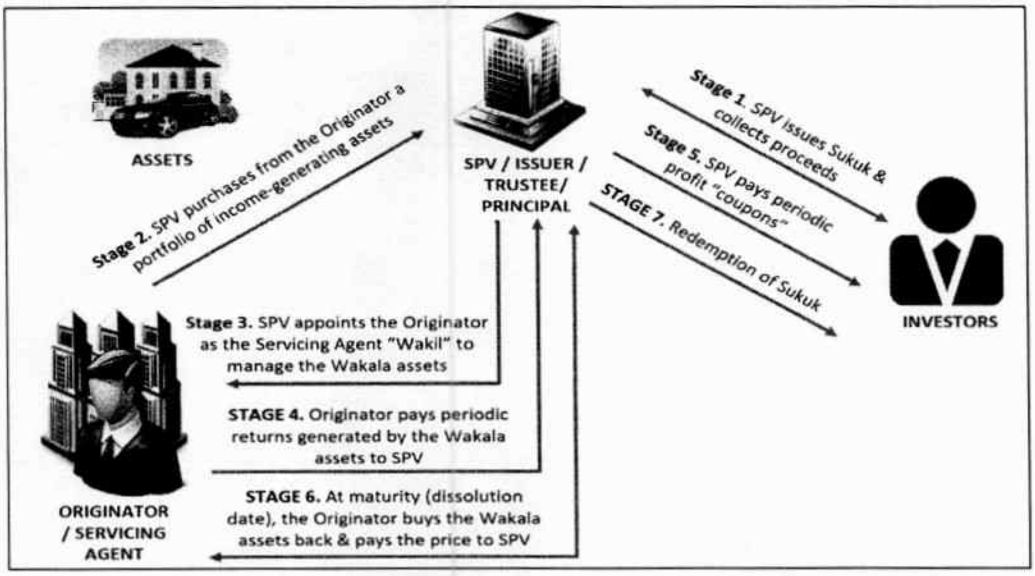
Transactions	Tax Consequence
1. SPV issues *Sukuk*, which represent an undivided ownership interest in an underlying asset, transaction or project.	*Sukuk* instruments – subject to DST.
2. The Investors subscribe for *Sukuk* and pay the proceeds to SPV (the "Principal Amount").	No tax consequence.
3. SPV and Originator enter into a *mudarabah* Agreement, under which SPV agrees to contribute the Principal Amount for the purpose of a *mudarabah* enterprise.	No tax consequence.
4. Originator, agrees to contribute its expertise and management skills to the *mudarabah* enterprise.	No tax consequence.
5. SPV and Originator enter into the *mudarabah* enterprise with the purpose of generating profit on the Principal Amount.	No tax consequence.
6. Profits generated by the *mudarabah* enterprise are divided between SPV and Originator in accordance with the profit-sharing ratios set out in the *mudarabah* Agreement.	Originator, subject to regular income tax and VAT, if applicable. SPV, subject to regular income tax. VAT exempt.
7. Originator may be entitled to a performance fee for providing its expertise and management skills if the profit generated by the *mudarabah* enterprise exceeds a benchmarked return.	Originator, subject to regular income tax and VAT, if applicable.
8. SPV receives the *mudarabah* profits and holds them as Trustee on behalf of the Investors.	SPV, subject to regular income tax. VAT exempt.
9. SPV pays each periodic return to Investors using the *mudarabah* profits it has received under the *mudarabah* Agreement.	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.

5 *Sukuk al-wakalah.*

5.1 *Sukuk al-wakalah* are based on an agency contract. Normally this is used in its investment agency variant (*wakalah bi al-istithmar*) wherein the agent invests the fund into a pool of eligible investments or assets. Commonly, the pool of investment is originally held by the obligor. The obligor in its capacity as an agent will manage the investment based on the agreement between the principal (investors, via SPV) and the agent, which among others governs the expected return (profit) and fees (usually performance based). A sale/purchase undertaking agreement governs the purchase undertaking by the obligor upon maturity and the relevant exercise price.

5.2 *Sukuk al-wakalah* is a further Sukuk structure sometimes used for bank regulatory capital, normally in perpetual form and with convertibility provisions.

5.3 Figure 5: Transaction structure diagram of *sukuk al-wakalah*



5.4 Tax Neutrality

	Transactions	Tax Consequence
1.	SPV issues *Sukuk* and collects proceeds	*Sukuk* instruments - subject to DST.
2.	SPV purchasers from the Originator a portfolio of income-generating assets	No tax consequence.
3.	SPV appoints the Originator as the Service Agent "Wakil" to manage the *wakalah* assets	No tax consequence.
4.	Originator pays periodic returns generated by the *wakalah* assets to SPV	SPV, subject to regular income tax. VAT exempt.
5.	SPV pays periodic profit "coupons"	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.
6.	At maturity (dissolution date), the Originator buys the *wakalah* assets back & pays the price to SPV	No tax consequence.
7.	Redemption of *Sukuk*	No tax consequence.

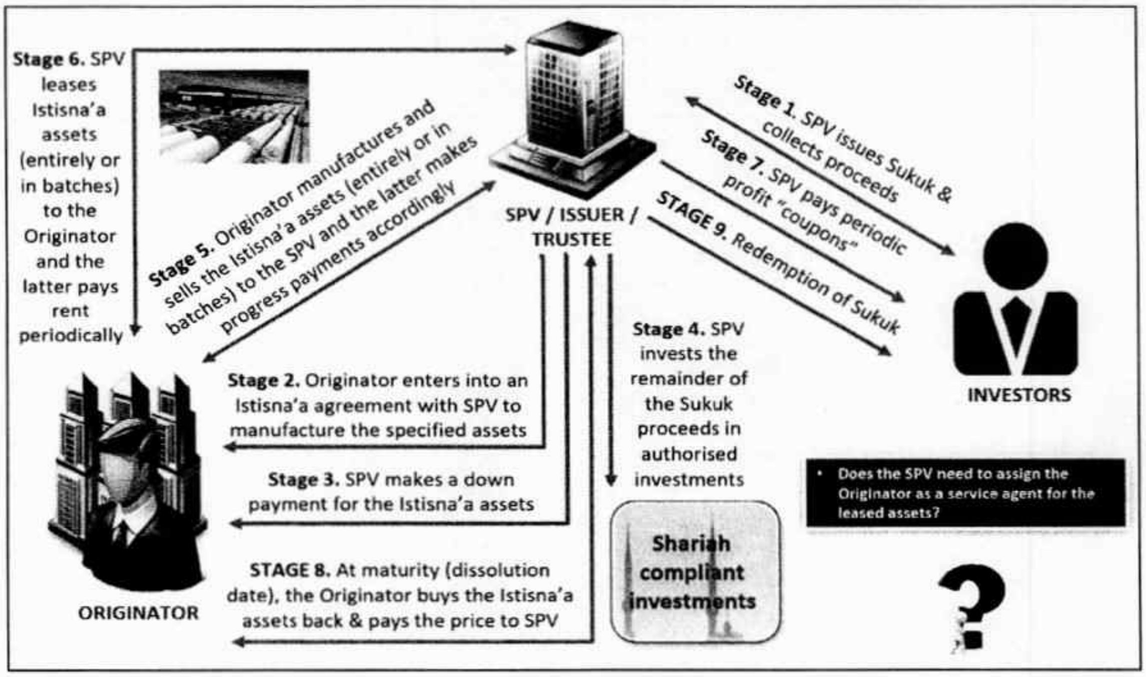
6 *Sukuk* al-*istisna'a*

6.1 *Istisna'a* refers to the sale of a specified asset, with an obligation on the part of the seller to manufacture/construct it using his own materials and to deliver it on a specific date in return for a specific price to be paid in one lump sum or installments. The price can be paid in a lump sum or in installments, as agreed between the parties. *Istisna'a* can be used for financing the manufacture or construction of houses, plants, projects, and building of bridges, roads and highways.

6.2 The issuer of the *Sukuk* is in principle the manufacturer (supplier/seller), the originator is the buyer, while the funds realized from subscription are the cost of manufacturing/constructing the product. However, an SPV is not a suitable entity to undertake a substantial manufacturing/construction project and the suitability of *Sukuk al-istisna'a* for financing purposes is based on the permissibility for the contractor in *istisna'a* to enter into a parallel *istisna'a* contract with a subcontractor. Thus, the SPV may undertake the construction of a facility for a deferred price, and subcontract the actual construction to a specialized firm.

6.3 The *istisna'a* contract is often combined with an advance lease contract (*ijara*). This allows payments during the construction phase which are available for distribution to the *Sukuk* holders. The diagram below incorporates this feature.

6.4 Figure 6: Transaction structure diagram of *Sukuk* al-*Istisna'a*



6.5 Tax Neutrality

	Transactions	Tax Consequence
1.	SPV issues *Sukuk* and collects proceeds	*Sukuk* instruments - subject to DST.
2.	Originator enters into an *istisna'a* agreement with SPV to manufacture the specified assets	No tax consequence.
3.	SPV makes a down payment for the *istisna'a* assets	No tax consequence.
4.	SPV invests the remainder of the *Sukuk* proceeds in authorized investments.	SPV, subject to regular income tax. VAT exempt.
5.	Originator manufactures and sells the *istisna'a* assets (entirely or in batches) to the SPV and the latter makes progress payments accordingly	Originator is subject to regular income tax and VAT, if applicable.
6.	SPV leases *istisna'a* assets (entirely or in batches) to the Originator and the latter pays rent periodically	SPV, subject to regular income tax. VAT exempt.

7.	SPV pays periodic profit "coupons"	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.
8.	At maturity (dissolution date), the Originator buys the *istisna'a* assets back and pays the price to SPV	No tax consequence.
9.	Redemption of *Sukuk*	No tax consequence.

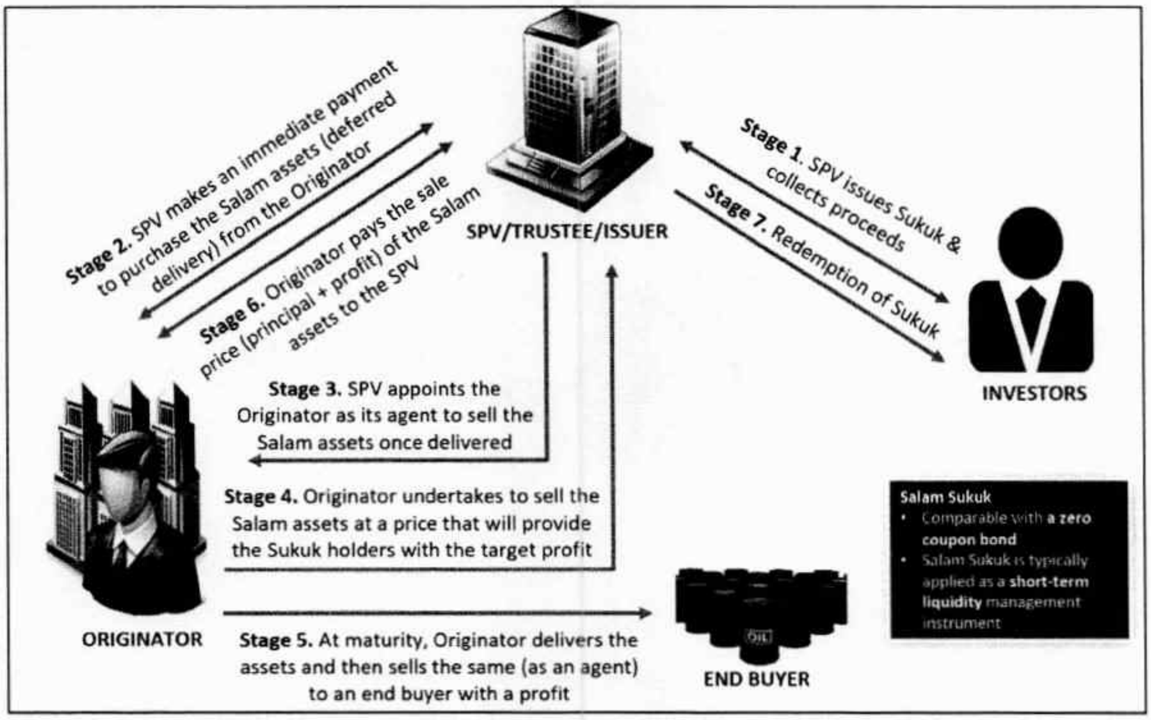
7. *Sukuk al-salam*

7.1 *Salam* is the sale of a specific commodity, well defined in its quality and quantity which will be delivered to the purchaser on a fixed date in the future against an advanced full payment of the price.

7.2 The issuer of the certificates (the SPV) is the buyer of the goods of *salam*, while the originator is the seller. The SPV (possibly through the originator as agent) will normally enter into a parallel *salam* contract to sell the goods once they are received.

7.3 For a number of reasons, *salam*-based *Sukuk* are usually short-term instrument; 90 days would be a typical period.

7.4 Figure 7: Transaction structure diagram of *Sukuk al-salam*



7.5 Tax Neutrality

Transactions	Tax Consequence
1. SPV issues *Sukuk* and collects proceeds	*Sukuk* instruments - subject to DST.
2. SPV makes an immediate payment to purchase the *salam* assets (deferred delivery) from the Originator	No tax consequence.
3. SPV appoints the Originator as its agents to sell the *salam* assets once delivered	No tax consequence.
4. Originator undertakes to sell the *salam* assets at a price that will provide the *sukuk* holders with the target profit	No tax consequence.
5. At maturity, Originator delivers the assets and then sells the same (as an agent) to an end buyer with a profit	Originator subject to regular income tax and VAT, if applicable.
6. Originator pays the sale price (principal + profit) of the *salam* assets to the SPV	SPV subject to regular income tax. VAT exempt.
7. Redemption of *Sukuk*	Subject to final withholding tax at the varying rates: a. 20% if maturity is less than 5 years b. Exempt if maturity is 5 years or more c. 25% if *Sukuk* holders are non-resident aliens not engaged in trade or business in the Philippines or non-resident foreign corporation, d. In the case of certificate pre-termination - subject to FWT with varying rates.

In conclusion, *Sukuk* represent an important and growing segment of the global financial markets, providing Shariah-compliant investment opportunities and alternative financing options. Understanding the taxability of *Sukuk* is essential for both issuers and investors, as it involves considerations such as documentary stamp tax, withholding tax, and the tax treatment of income and gains. Given the evolving nature of tax laws and regulations, it's crucial for stakeholders to stay informed about the specific tax implications associated with *Sukuk* transactions.

All internal revenue officers and other concerned are enjoined to give this Circular as wide a publicity as possible.

ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue

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