



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Press Release  
For immediate Release  
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## Government grants tax neutrality to sukuk

ISLAMABAD, September 3: In a landmark decision, the federal government, on the recommendations of the Securities and Exchange Commission of Pakistan, has accorded tax neutrality to sukuk by allowing certain tax exemptions that were earlier available only to conventional securitization issues. The amendments to the tax law have been notified through an ordinance.

The difference in the tax treatment of conventional TFCs and sukuk rendered the issuance of sukuk unviable. The amendments to the tax law now provide the same tax exemptions bringing the issuance of sukuk on a par with their counterparts in terms of the costs entailed. This measure is a great boost for the Islamic financial industry and its overall growth and development.

Prior to the proposed amendments, provisions were available in the income tax law to exempt the originator (the company) and the Special Purpose Vehicle (SPV) to facilitate only issuance of TFCs under Companies (Asset Backed Securitization) Rules, 1999, against receivables. SPV's income was completely exempt under section 136 of the second schedule and specific exemptions from withholding tax under sections 151, 153 and 233 were also available to SPV and the originator.

For the purpose of issuance of sukuk under the Issuance of Sukuk Regulations, 2015, the baseline assets are fixed assets (depreciable assets) on which these extra taxes were attracted on the originator as well as SPV: taxable gain on transfer of assets to SPV in the hands of originator, withholding tax on sale proceeds by SPV to originator against transfer of assets, withholding tax on payment of rentals by originator to SPV, tax on rental income earned by SPV, tax on gain of transfer-back of assets by SPV to originator; withholding tax on payment by originator to SPV at the time of transfer-back of assets

Earlier this year, the government had also introduced a tax concession of 2% for Sharia-compliant manufacturing companies through the Finance Act to promote Islamic finance. The tax concession, along with tax neutrality for sukuk, are welcome decisions and it is expected that a good number of companies will opt to become Sharia-compliant, which in turn will augment the capital markets and ensure industrialization.