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

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Date JUN 22 2020

REVENUE REGULATIONS NO. 17-2020

SUBJECT : Implementing the Tax Neutrality Provision of Republic Act No. 11439, Otherwise Known as "An Act Providing for the Regulation and Organization of Islamic Banks"

TO : All Internal Revenue Officers and Others Concerned

SECTION 1. SCOPE. - Pursuant to Section 244 of the National Internal Revenue Code, as amended, these Regulations are hereby promulgated to implement Section 14 of Republic Act No. 11439 which mandates a neutral tax treatment between Islamic banking transactions and equivalent conventional banking transactions within the provisions of the National Internal Revenue Code of 1997 (NIRC), as amended.

SECTION 2. COVERAGE. – These Regulations cover transactions of Islamic banks, either domestic or foreign, and Islamic Banking Units (IBU) in the form of a division, department, office, or branch of a conventional bank that are authorized to conduct business in accordance with the principles of Shari'ah pursuant to the guidelines prescribed by the Bangko Sentral ng Pilipinas.

SECTION 3. TAX NEUTRALITY – Islamic banking transactions must have a parity of tax treatment of equivalent conventional banking transactions within the provisions of the NIRC, as amended, such that Islamic banking transactions are taxed no more heavily (and no more lightly) than conventional banking transactions.

SECTION 4. BASIC PRINCIPLES. – To implement the tax neutrality provision, the following precepts and principles are hereby prescribed:

4.1 The tax treatment of Islamic banking arrangements should be based on their economic substance rather than their form.

4.2 Where an Islamic banking arrangement is economically equivalent to a conventional bank product, the tax treatment of the two should be the same.

4.3 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.

4.4 Any reference to a disposal or lease of an asset shall not apply to any disposal or lease of an asset by or to a person that is carried out in accordance with Islamic banking arrangements as defined by the Bangko Sentral ng Pilipinas; Provided that the resulting tax effect on the Islamic banking arrangement would approximate or be similar to that applicable to the corresponding conventional banking transactions.

4.5 Any reference to an instrument that is carried out in accordance with Islamic banking arrangements as defined by the Bangko Sentral ng Pilipinas which produces an additional instrument required for the purpose of compliance with Shari'ah principles but which will not be required in any other conventional banking transactions, shall be deemed excluded for taxation purposes.

SECTION 5. TAX TREATMENT OF ISLAMIC BANKING ARRANGEMENTS – The details on the tax treatment of the following Islamic banking arrangements will be covered in a separate Revenue Memorandum Circular.

5.1 Murabahah (Profit disclosed sale);
5.2 . Tawarruq (Commodity Murabahah);
5.3 Salam (Sale with deferred delivery and spot payment);
5.4 Ijarah (Lease);
5.5 Mudarabah Partnership (Profit Sharing Partnership);
5.6 Wakalah Investment (Investment Agency);
5.7 Istisna;
5.8 Musharaka;
5.9 Sukuk; and
5.10 Other Islamic banking transactions with economically equivalent conventional finance transactions.

SECTION 6. ACCOUNTING AND REPORTORIAL REQUIREMENTS. - For purposes of these Regulations, an Islamic Bank shall ensure that financial statements are prepared in accordance with the Philippine Financial Reporting Standards (PFRS) taking into account the differences between Islamic and conventional banking transactions. Authorized conventional banks with Islamic banking arrangements shall maintain a system segregating the transactions of the Islamic banking unit from its conventional banking business.

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SECTION 7. BUSINESS REGISTRATION AND INVOICING – Authorized Islamic banks shall register with the Bureau of Internal Revenue similar to a conventional bank following the existing guidelines on business registration.

Islamic banks including conventional banks with Islamic banking windows shall issue receipt on profits/gains/fees derived from its banking operations.

SECTION 8. REPEALING CLAUSE. Any revenue issuances inconsistent herewith are considered amended, modified or revoked accordingly.

SECTION 9. EFFECTIVITY CLAUSE. These Regulations shall take effect fifteen (15) days after publication in the Official Gazette or in a newspaper of general circulation, whichever comes first.

CARLOS G. DOMINGUEZ III
Secretary of Finance

AUG 05 2020

Recommending Approval:

CAESAR R. DULAY
Commissioner of Internal Revenue

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