



A Bill for an Act

ENTITLED

**THE VALUE ADDED TAX (AMENDMENT) (No. 2)  
ACT, 2023**

**An Act to amend the Value Added Tax Act, Cap. 349 to provide for equivalent tax treatment of Islamic financial business to conventional financial services.**

BE IT ENACTED by Parliament as follows:

**1. Amendment of Value Added Tax Act**

The Value Added Tax Act, in this Act referred to as the principal Act, is amended in section 1—

- (a) by inserting immediately after the definition of “input tax” the following—

“(laa) Islamic financial business” means financial business which conforms to Shari’ah principles and includes—

- (a) the business of receiving property into profit sharing investment accounts or of managing such accounts;

- (b) any other business of a person which involves or is intended to involve the entry into one or more contracts under Shari`ah principles or otherwise carried out or purported to be carried out in accordance with Shari`ah principles including—
    - (i) equity or partnership financing;
    - (ii) lease-based financing;
    - (iii) sale-based financing;
    - (iv) currency exchange contracts; or
    - (v) fee-based activity;
  - (c) the purchase of bills of exchange, certificates of Islamic deposit or other negotiable instruments;
  - (d) the acceptance or guarantee of any liability, obligation or duty of any person; and
  - (e) the business of providing finance by any means, including through the acquisition, disposal or leasing of assets or through the provision of services which have similar economic effect and are economically equivalent to any other financial business;
- (b) by inserting immediately after the definition of “services” the following—
  - (sa) “takaful” means insurance business conducted in accordance with Shari`ah principles;

**2.    Amendment of section 14 of principal Act**

Section 14 of the principal Act is amended—

- (a)    by substituting for subsection (2) the following—

“(2) Where—

- (a)    goods are supplied under a rental agreement;
- (b)    goods or services are supplied under an agreement or law which provides for periodic payments; or
- (c)    goods are supplied to a person offering Islamic financial business for purposes of sale-based financing,

the goods or services are treated as successively supplied for successive parts of the period of the agreement or as determined by the law, and each successive supply occurs on the earlier of the date on which payment is due or received.”; and

- (b)    in subsection (5), by inserting immediately after the words “finance lease” the words “lease-based financing”

**3.    Amendment of section 28 of principal Act**

Section 28 of principal Act is amended by substituting for subsection (1) the following—

“(1) Where section 25 applies for the purposes of calculating the tax payable by the taxable person for the taxable period, a credit is allowed to the taxable person for the tax payable in respect of—

- (a)    all taxable supplies made to that person during the tax period;

- (b) all imports of goods made by that person or imports of services made by the contractor or licensee or a person providing business processes outsourcing services during the tax period;
  - (c) a taxable supply to the person offering Islamic financial business for purposes of sale-based financing to the taxable person; or
  - (d) import of goods by the person offering Islamic financial business for purposes of a sale based financing to the taxable person,
- if the supply or import is for use in the business of the taxable person.”

**4. Amendment of section 31A of principal Act**

Section 31A of the principal Act is amended by inserting immediately after subsection (1a) the following—

“(1b) Notwithstanding the provisions of subsection (1), a manager of takaful business shall furnish a tax return to the Commissioner General for each tax period, within fifteen days after the end of the tax period on behalf of the participants in each group in the takaful business.”

**5. Insertion of section 75A in principal Act**

The principal Act is amended by inserting immediately after section 75 the following—

**“75A. Re-characterisation of arrangements under Islamic financial business**

(1) For the purposes of determining liability to tax under this Act, the Commissioner General may re-characterise an arrangement under Islamic financial business not provided for under this Act to the equivalent arrangement under conventional

financial services for purposes of reflecting the equivalent economic substance other than the form.

(2) The Commissioner General shall comply with Shari'ah principles in re-characterising an arrangement under Islamic financial business not provided for under this Act.

**6. Amendment of Second Schedule to principal Act**

The Second Schedule to principal Act is amended—

(a) by inserting immediately after subparagraph (2) (b) (iv) the following—

“(v) Islamic financial arrangements offered by a person as an Islamic financial business but does not include provision of credit facilities under a lease based financing.”