

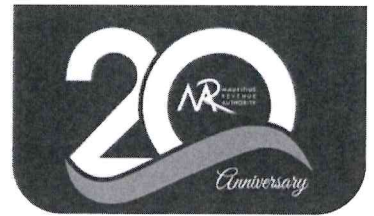
STATEMENT OF PRACTICE (VAT / SP 5/26)

VAT ON MURABAHA ARRANGEMENT

(Issued under Section 69B of the VAT Act)

1. This SOP is in relation to the application of section 5 and Item 50(g) of the First Schedule to the VAT Act in so far as the Murabaha arrangement is concerned.
2. The Murabaha arrangement is an agreement between a financier and a client whereby the financier acquires an asset from a third party for the benefit of a client who obtains possession of the asset after complying with the terms of the agreement. The client agrees to pay the financier an amount that exceeds the cash value of the asset (the value at which the financier acquires the asset). The amount payable by the client is determined with reference to the cash value and the duration of the Murabaha arrangement. The total amount so payable is agreed upon upfront and the client may not be required to pay more than the agreed amount.
3. Where a Murabaha arrangement is entered into between a financier and a client of the financier, the financier is deemed not to have acquired or disposed of the asset under the Murabaha arrangement. It is the client who is deemed to have acquired the asset from the seller for a consideration equal to the amount paid by the financier to the seller at the time the financier acquired the asset from the seller by virtue of the transaction between the seller and the financier.
4. The difference between the amount of the consideration paid for the asset by the financier to the seller and the total consideration payable to the financier by the client under the agreement to acquire the asset is deemed to be a profit margin but is treated as financing charges for VAT purpose and is exempt from VAT by virtue of Item 50(g) of the First Schedule to the VAT Act.

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5. The time of supply for the seller is on the earliest of the issue of an invoice by the seller to the Client/financier or any payment received from the financier or 3 months from the date the supply is delivered or performed.
6. To ensure continuity of the VAT mechanism, the seller has to issue the VAT Invoice in the name of the financier. The invoice should also bear the name and where applicable the business registration details of the client receiving the financial facilities under the Murabaha arrangement.
7. A Murabaha arrangement is merely the provision of finance facility by the financier to the client. As the financier is deemed not to have acquired the asset, it will not be entitled to claim any input tax when providing finance facility to a person not registered for VAT. However, if the client is VAT registered, the latter can claim as input tax the VAT charged on the acquisition of the asset in accordance with the provisions of section 21 of the VAT Act, provided that the details of the client (name and business registration detail) appears in the VAT Invoice.
8. In the event the financier sells the asset to a person other than the client (for example due to client defaults in payment), then the financier should charge VAT on the value of the supply to the person at the VAT rate applicable.
9. Proper records should be kept in respect of Murabaha transactions by both the client and the financier and made available for examination to MRA Officers at time of Audit.
10. This SOP is cross-referred to SP 05/10.

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Building Trust, Compliance and National Progress

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