



A Regulatory & Tax Framework Review in Key European Markets

IFN Europe 2014

26 June 2014



Islamic Finance in Europe

Motive to develop Islamic Finance

Internal Demand

- More than 20 million Muslims in the EU
- Strong demand from Muslim population
- Muslims deposits are forecasted to expand in the coming years

Attracting Muslim Investors

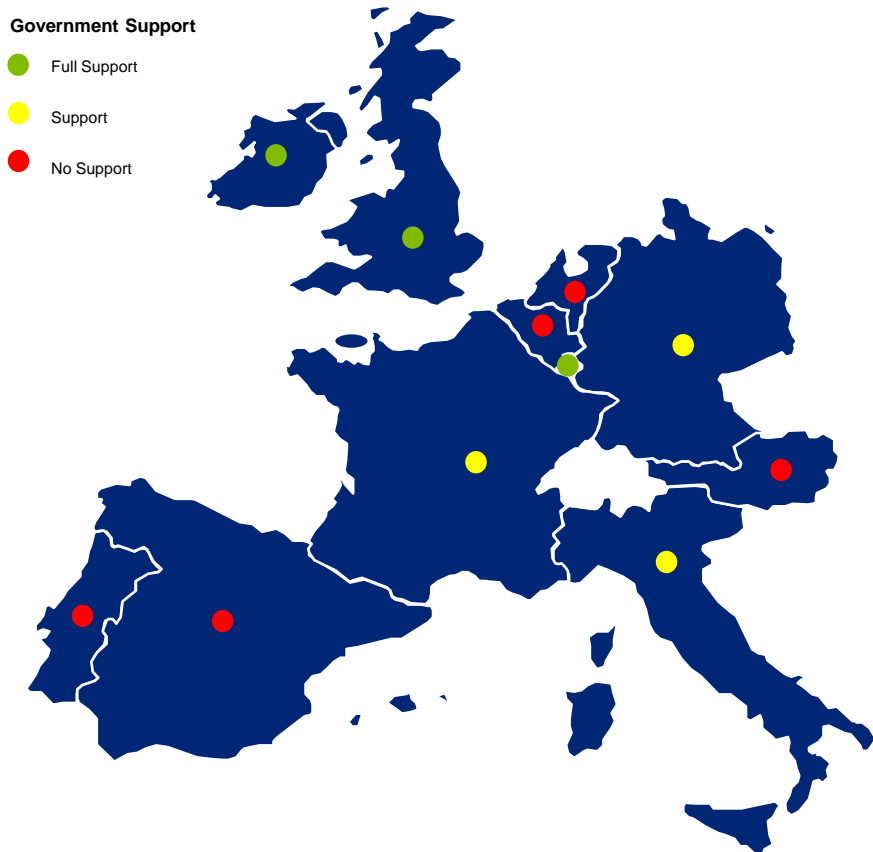
- European countries are looking for new sources of liquidity and financing
- Increasing business relationships between Europe and Islamic countries

Alternative Finance

- The need for alternative Finance
- The growing demand on Social Responsible investments

The share of the Muslim population in Europe is expected to increase during the next decades

Muslim population by country



EU Countries	Muslims in 2010	Estimated in 2030	
Cyprus	22,7%	22,7%	●
Bulgaria	13,4%	15,7%	●
France	7,5%	10,3%	●
Belgium	6,0%	10,2%	●
Austria	5,7%	9,3%	●
Netherlands	5,5%	7,8%	●
Germany	5,0%	7,1%	●
Sweden	4,9%	9,9%	●
Greece	4,7%	6,9%	●
United Kingdom	4,6%	8,2%	●
Denmark	4,1%	5,6%	●
Italy	2,6%	5,4%	●
Slovenia	2,4%	2,4%	●
Luxembourg	2,3%	2,3%	●
Spain	2,3%	3,7%	●
Croatia	1,3%	1,3%	●
Ireland	0,9%	2,2%	●
Finland	0,8%	1,9%	●
Portugal	0,6%	0,6%	●
Hungary	0,3%	0,3%	●
Malta	0,3%	0,3%	●
Romania	0,3%	0,4%	●
Czech Republic	0,1%	0,1%	●
Estonia	0,1%	0,1%	●
Latvia	0,1%	0,1%	●
Lithuania	0,1%	0,1%	●
Poland	0,1%	0,1%	●
Slovakia	0,1%	0,1%	●

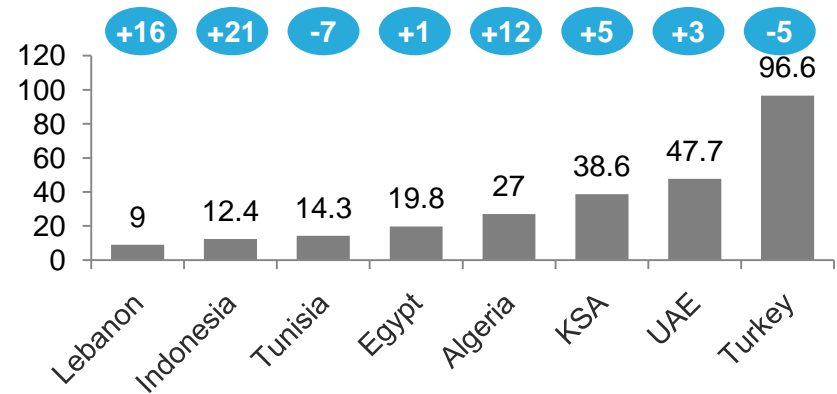
Sources: PEW Research 2010

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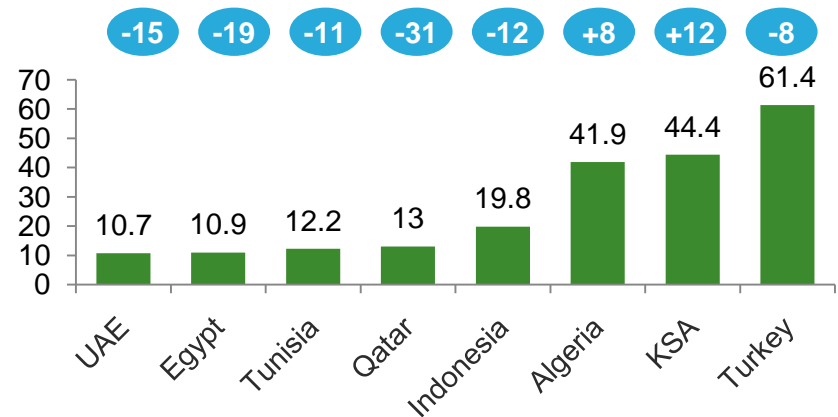
Bilateral trade between the EU and MENA countries is growing overall



EU exports (USD billion and yoy Δ (%))



EU imports (USD billion and yoy Δ (%))



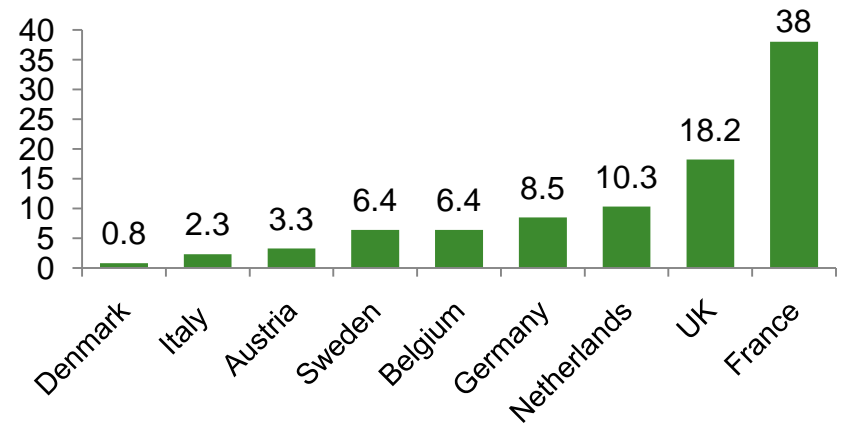
Sources: WTO World Trade Organization International Trade Statistics 2012

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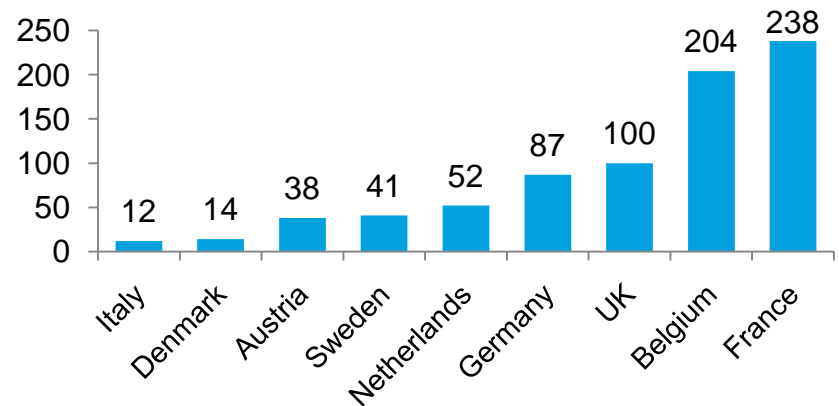
Several European countries have a strong culture of ethical investing



SRI¹ retail funds by country by AuM (€M, 2013)



SRI¹ retail funds by country by number (2013)



1. Socially Responsible Investment, June 2013
Sources: Vigeo Rating

Taxation of Islamic Financial instruments

Issues and challenges

Instrument	Direct Tax	Indirect Tax
Sukuk	<ul style="list-style-type: none"> • Debt / Equity • Qualification of the yield on Sukuk (tax deductibility) 	<ul style="list-style-type: none"> • Underlying asset • Qualification of the yield on Sukuk
Murabaha	<ul style="list-style-type: none"> • Qualification of the margin (CG / Financing cost) • Period of taxation 	<ul style="list-style-type: none"> • Indirect tax treatment relating to the buying and selling of the underlying asset
Mudaraba	<ul style="list-style-type: none"> • Qualification of the remuneration • The tax deductibility of the remuneration 	<ul style="list-style-type: none"> • Indirect tax consequences depend on the terms and conditions of the agreement
Musharaka	<ul style="list-style-type: none"> • PE issues • Distribution of profits should comply with the local requirements 	<ul style="list-style-type: none"> • Indirect tax consequences depend on the terms of the partnership agreement and the nature of the underlying transaction
Ijara	<ul style="list-style-type: none"> • Qualification of the remuneration (specially when there is a financing component) 	<ul style="list-style-type: none"> • Qualification of the leasing operation (specially when there is a financing component) • Nature of the underlying asset to be considered



Islamic finance in Europe

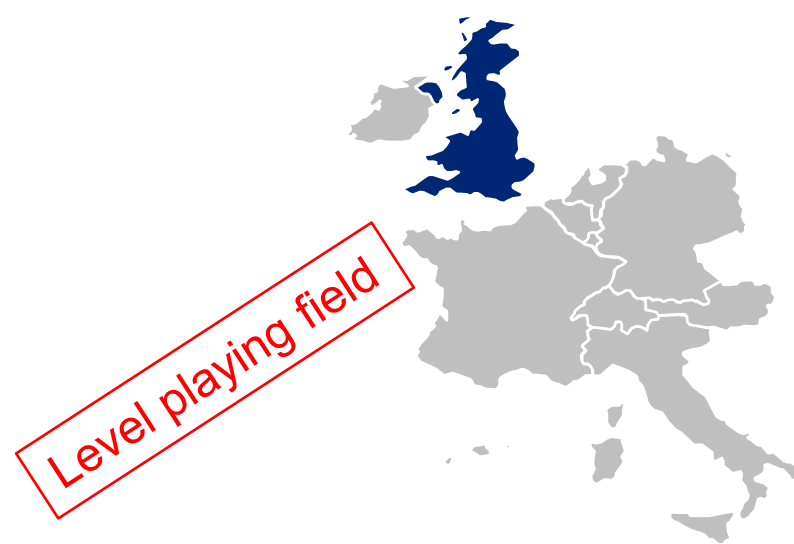
Focus on United Kingdom

Advanced Islamic financial market in Europe

- Islamic financial activities started in 1980s
- First fully fledged Shari'ah compliant retail bank in Europe (currently five)
- Major global provider of the specialist legal expertise required for Islamic finance

Strong government support

- Government Islamic Finance Task Force
- Abolition of double taxations in 2004
- The whole Islamic financial sector operates under a single piece of legislation (Financial Services and Market Act 2000)
- Initiatives to ensure consistent regulatory treatment of Islamic finance with its statutory objectives and principles



	UK
Sukuk	Treated as debt – interest treatment for remuneration paid on Sukuk
Murabahah	Treated as debt - Cost plus margin taxed on instalments and treated as interest on the borrower side
Mudarabah	Remuneration is qualified as an interest if the Mudarib is Fiancial Institution
Ijarah	Treated as leasing agreement – payment under Ijarah agreement tax deductible



Islamic finance in Europe

Focus on France

Strong support from authorities have led to a friendly environment

- Investments funds and sukuk allowed in 2007

Parity of tax treatment is guaranteed

- Compensation paid by sukuk is deductible from taxable income
- Non-resident sukuk investors are exempt from withholding tax in France
- No double stamp duties on sukuk issuances

Plan to pursue Islamic friendly approach

- Launch of Shari'ah compliant deposit schemes
- Tax regulation for musharakah and mudarabah

Good potential

- Asset under management of USD 147.2 million
- High trade flow with Islamic countries
- Population originating from Islamic countries



	France
Sukuk	Treated as debt – interest treatment for remuneration paid on Sukuk
Murabahah	Treated as debt - Cost plus margin taxed on instalments and treated as interest on the borrower side
Ijarah	Treated as leasing agreement – payment under Ijarah agreement tax deductible



Islamic finance in Europe

Focus on Germany



First Western country to tap into the Islamic capital market in 2004 (Saxony-Anhalt sukuk)

In 2009 the regulator accepted a Shari'ah compliant banking operation request

- Limited scope of offering

Development of Islamic finance has solid prospects

- Largest Economy in Europe
- Strong demand for alternative sources of funding
- Trading partnership with Islamic countries (Turkey)

	Germany
Sukuk	Debt or equity depending on the structure and the underlying asset
Murabahah	Likely to be treated as financing arrangement, accordingly the remuneration should be treated as an interest
Mudarabah	Likely to be treated as equity,
Ijarah	Treated as leasing agreement – payment under Ijarah agreement tax deductible



Islamic finance in Europe

Focus on Italy

Islamic retail banking deposits are planned to rapidly increase

- USD 5.8 billion by 2015; 33.4 billion by 2050

Generate significant revenues

- USD 218 million by 2015; 1.2 billion by 2050

Plan to launch a “Mediterranean Partnership Fund”

- Part of which would be Shari’ah compliant
- In collaboration with Arab governments and Islamic development bank

Good future prospects

- Some institutions are active on Islamic capital market (trade finance)
- Italian banks are active in the GCC region
- Bilateral trade ties covered by Islamic insurances are in place



	Italy
Sukuk	Likely to be treated as debt, accordingly the remuneration should be treated as an interest
Murabahah	Likely to be treated as financing arrangement, accordingly the remuneration should be treated as an interest
Mudarabah	Likely to be treated as equity,
Ijarah	Likely to be treated as debt (leasing investment)



Islamic finance in Europe

Focus on Ireland

Strong foundation for the Islamic finance industry

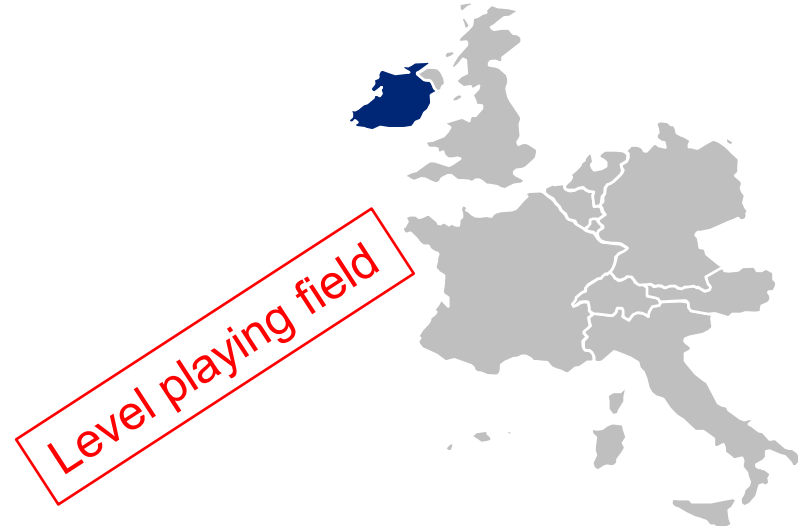
- Comprehensive tax treaty network
- Specific tax code for Islamic instruments

Highly supportive to Islamic finance development

- Dedicated FSA team to deal with the establishment of Shari’ah compliant investments funds

Optimal market and economical conditions

- Home to more than 50 world-class fund service providers
- Home to 20% of Islamic funds outside Middle East
- Easy access to European market



	Ireland
Sukuk	Treated as debt – interest treatment for remuneration paid on Sukuk
Murabahah	Treated as debt - Cost plus margin taxed on instalments and treated as interest on the borrower side
Mudarabah	Remuneration is qualified as an interest if the Mudarib is Financial Institution
Ijarah	Treated as leasing agreement – payment under Ijarah agreement tax deductible



Islamic finance in Europe

Focus on the Netherlands



Islamic finance and mainly Islamic mortgages had been the topic of discussion within the Dutch government from 2004 to 2008.

Different financial institutions interested in the development of these kind of mortgages but the financial institutions have ended studies due to e.o. institutional obstacles.

Currently, poor implication of the government to promote such initiative however a high degrees of Muslim population.

	Netherlands
Sukuk	No clear guidance / analysed case by case
Murabahah	No clear guidance / analysed case by case
Mudarabah	No clear guidance / analysed case by case
Ijarah	No clear guidance / analysed case by case

Islamic finance in Europe

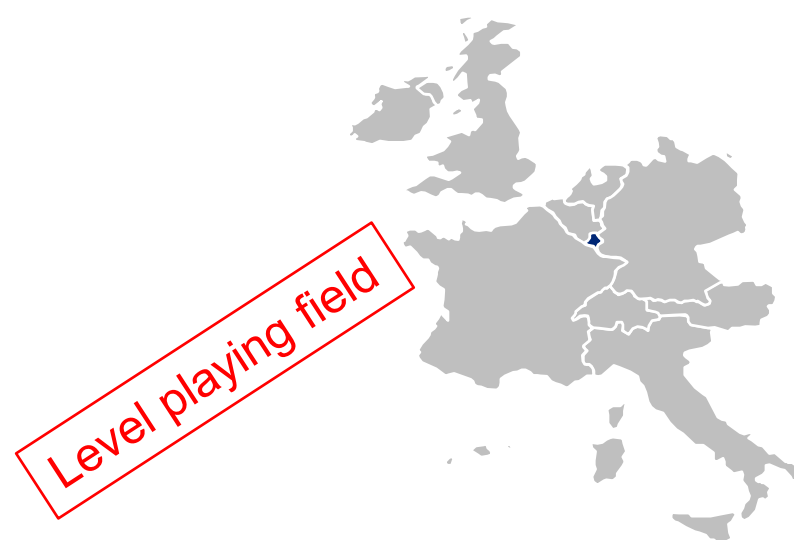
Focus on Luxembourg

Advanced Islamic financial market

- First European country to list a *Sukuk* (2002)
- 16 *Sukuk* have been listed
- Strong government promotion to attract Islamic funds
- First EU country to adopt UCITS IV (first mover advantage)

Best market conditions

- Flexible and efficient regime for securitization vehicles
- Second largest investment fund center in the world
- **Regulated** Islamic funds reaching USD 5 billion AuM
- Competitive pricing, incentives and access to European market



	Luxembourg
Sukuk	Treated as debt – interest treatment for remuneration paid on Sukuk
Murabahah	Treated as debt - Cost plus margin taxed on instalments and treated as interest
Mudarabah	Management agreement
Ijarah	Treated as leasing agreement – payment under Ijarah agreement tax deductible

Contacts

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