

# **Islamic Finance in Australia**

## **Interest or not interest, that is the question?**

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# MOVING THE WORLD TO ISLAMIC BANKING

RETAIL . CORPORATE . INVESTMENT . ASSET MANAGEMENT . CORPORATE FINANCE . TREASURY



ISLAMIC FINANCE BANK

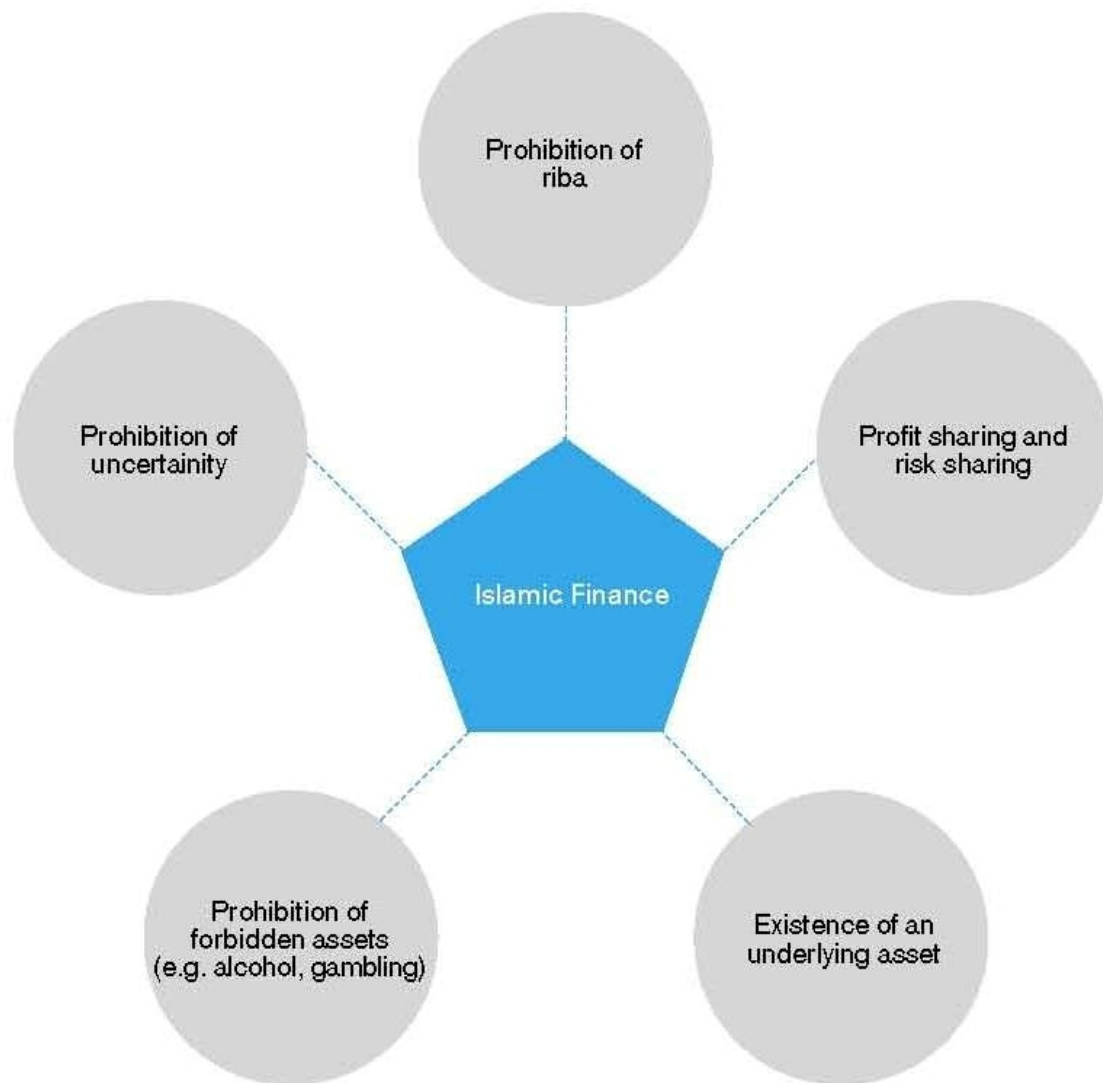
# Islamic Finance: Australia reacts belatedly. And impetuously?

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## Introduction

- The growth of Islamic Finance
  - The Shariah
  - The prohibitions
  - The structures
  - The tax implications
  - The opportunity
  - The Australian response
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## KEY PRINCIPLES UNDERLYING ISLAMIC FINANCE



# The *Shariah* and finance structures

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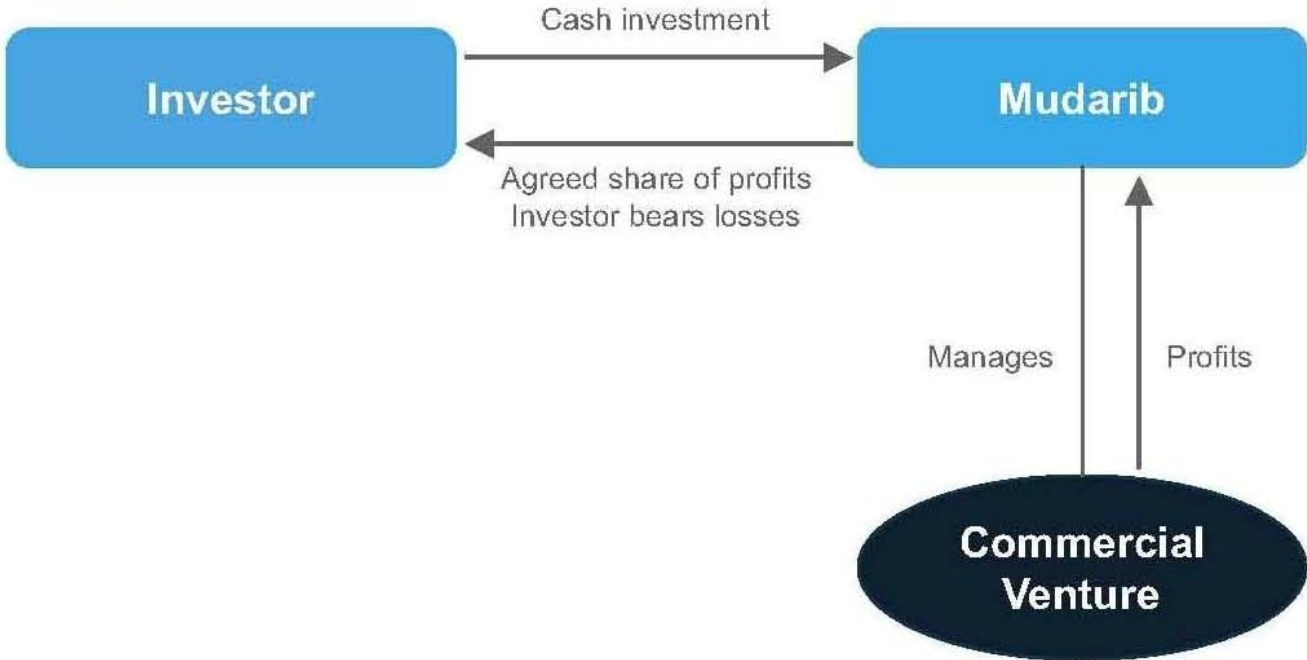
- *Murabaha* (cost plus)
  - *Mudharabah* (profit sharing limited partnership)
  - *Ijara wa-igtina* (lease-purchase)
  - *Musharakah* (joint venture) and *sukuk* (securitization)
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**MURABAHA MECHANISM**



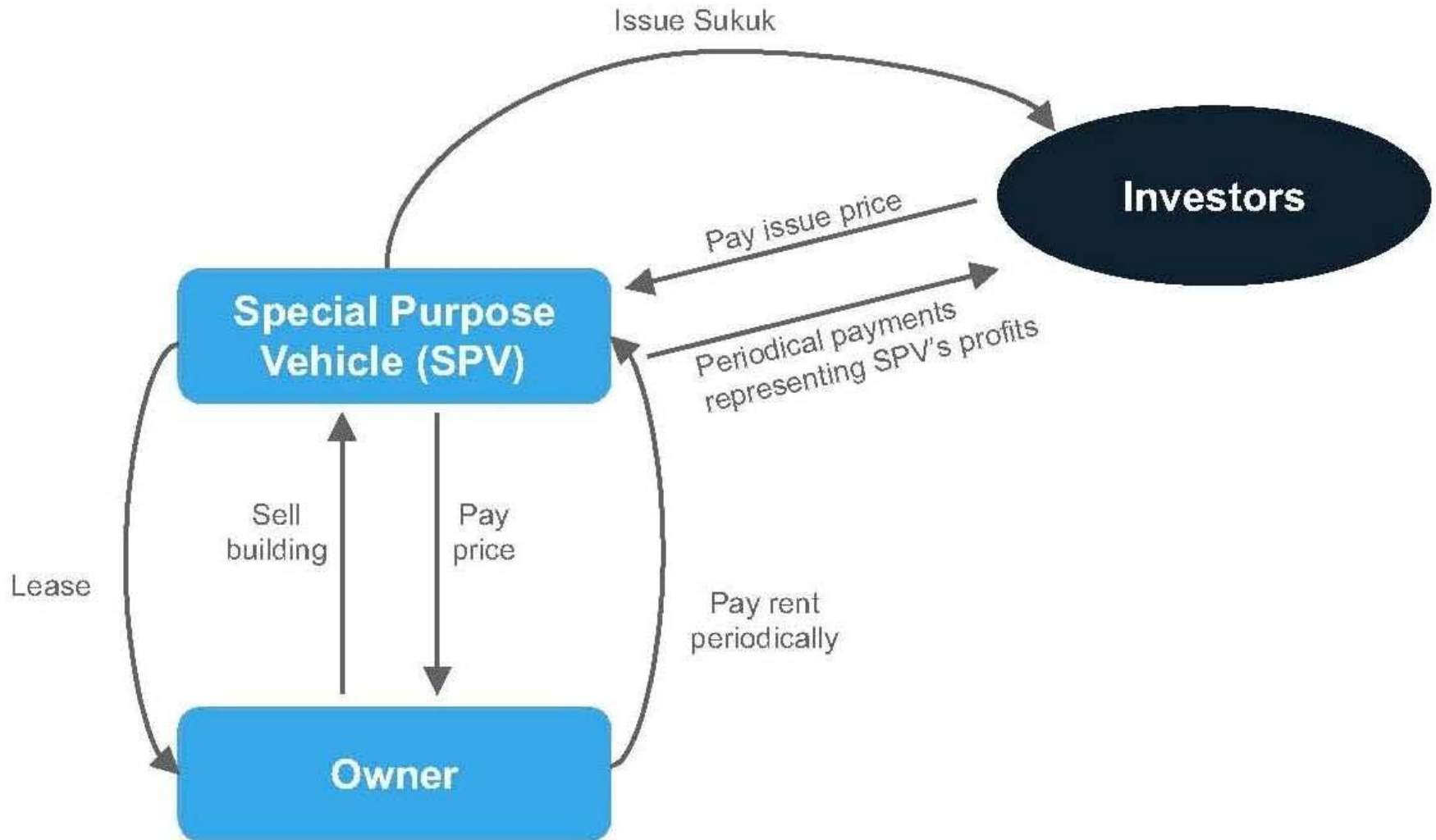
Source: PwC UK

**MUDARABA MECHANISM**



Source: Amin, M and Suleman, I, 'Islamic Finance: The Tax Adviser's Role', *Tax Adviser*, September 2008

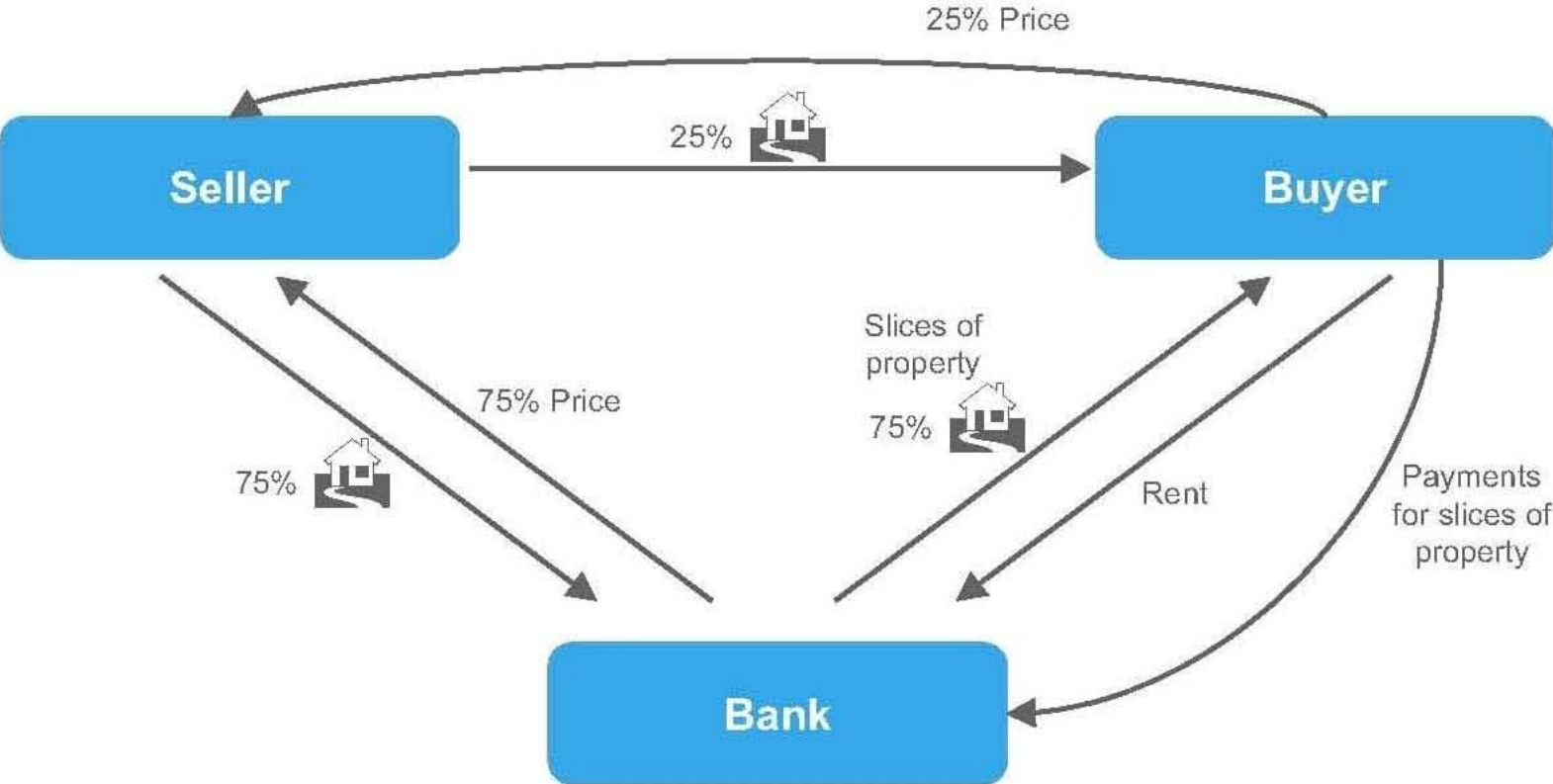
# IJARA SUKUK



Source: Amin, M and Suleman, I, 'Islamic Finance: The Tax Adviser's Role', *Tax Adviser*, September 2008



**DIMINISHING MUSHARAKA TRANSACTION WITH 25 PER CENT DEPOSIT**



Source: Amin, M and Suleman, I. 'Islamic Finance: The Tax Adviser's Role', *Tax Adviser*, September 2008

# Tax implications of Islamic finance

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➤ Stamp duty

➤ GST/VAT

➤ CGT

➤ Income tax

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# Responses by other countries

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- Malaysia
  - Positive discrimination
  
- United Kingdom
  - No special favours

# Islamic finance in Australia

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- Australian tax implications of Islamic finance
  - Inward Islamic foreign investment
  - Developments in Australia
    - 2004 Victorian stamp duty amendments
    - 2009 Financial Centre Forum report
    - 2010 Australian Trade Commission report
    - 2010 Board of Taxation Discussion paper
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# Critique of the Australian response: threshold questions

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- In substance interest or in lieu of interest?
  - Should Australia cater for Islamic finance?
    - The Islamic interest / The national interest
  - Are reforms benefitting one religious group permissible?
  - Should artificial / complex financial arrangements be endorsed?
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# Critique of the Australian response: threshold questions (cont'd)

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- Are tax concessions a desirable policy tool?
  - Acceptability of tax integrity risks?
  - How significant is Islamic finance?
  - Is tax important to Islamic financiers?
  - `Level playing field` concession or global finance centre?
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# Conclusion

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➤ Reform process failure?

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