

## **CLARIFICATION NOTE FOR INCOME TAX EXEMPTION FOR ISLAMIC FINANCIAL ACTIVITIES**

### **1.0 Preamble**

1.1 This note aims to clarify the definition of “digital solutions” as stipulated in P.U.(A)127 Labuan Business Activity Tax (Exemption) Order 2024 and P.U.(A) 34 Labuan Business Activity Tax (Exemption) Order 2026, in relation to the income tax exemptions for Islamic financial activities in Labuan IBFC.

### **2.0 Clarification**

2.1 The tax exemption is granted to a Labuan entity that conducts qualifying activities related to Islamic finance for promoted sectors that is leveraging digital solutions and adhering to Shariah principles.

2.2 In this regard, the Authority wishes to clarify that “digital solutions” refers to:

- a) The adoption and application of advanced technology-driven tools, platforms, or systems (such as blockchain and artificial intelligence) to enhance the delivery, accessibility, efficiency, and governance of financial services; and
- b) Entities approved by the Authority under the Digital Financial Services (DFS), in accordance with the Circular on Innovative Financial Services in the Labuan International Business and Financial Centre issued in 2018.

2.3 Eligible Labuan entities must be able to provide proof to the Inland Revenue Board (IRB) to substantiate their eligibility for the tax exemption, including, where applicable, evidence of approval under the Authority’s DFS, or other relevant documentation demonstrating their utilisation of digital solutions.