

# Tax alert | Calculating zakat for construction companies

Kingdom of Saudi Arabia | 7 September 2020

## keypoint

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The Saudi General Authority of Zakat & Tax (GAZT) has released a guide to assist construction businesses with calculating *zakat* liabilities. *Zakat* payers can calculate their *zakat* base by adding internal and external source of funds (*zakatable* assets) and subtracting fixed assets, accumulated losses and long-term investments (*non-zakatable* assets). *Zakat* is payable on the higher of the *zakat* base - calculated at 2.5% for 354 days (the length of the *Hijri* year) or 2.5% of tax-adjusted profits.

### What are construction activities?

- General construction works:
  - Housing, offices, shops, farm or public or government buildings
- Civil engineering works:
  - Highways, railways, bridges, air or sea ports, pipelines, power lines and water and irrigation projects

### What are the most common non-zakatable assets?

Deductions from the *zakat* base include:

- Construction and operation contracts such as:
  - Build, operate and transfer (BOT) contracts
  - Build, operate, own and transfer (BOOT) contracts
  - Build, own and operate (BOO) contracts
  - Acquire, operate and transfer (AOT) contracts
- Improvements to infrastructure such as roads, bridges, tunnels and sewage systems
- Cooling systems

### What are the most common zakatable assets?

Additions to the *zakat* base include:

- Progress payments paid to contractors or sub-contractors on projects
- Revenue recognised using the percentage of completion method but not invoiced
- Loans received against construction assets held as collateral

### What questions should construction decision makers ask themselves?

- Is this a finance lease under a BOT, BOOT or similar contract?
- Is this a financing arrangement between contracting parties?
- Are progress payments received reinvested into qualifying non-zakatable assets or held for more than a *hijri* year?

### How can Keypoint help?

Our tax team works with a range of construction businesses in Saudi Arabia. Our sector knowledge, combined with our *zakat* expertise, makes us trusted advisors on a range of *zakat* and construction sector issues.

**Disclaimer:** This tax alert is based on our interpretation of the guidelines issued by the General Authority of Zakat & Tax (GAZT) and is for general information. Seek professional advice in relation to your particular circumstances.