

Tax alert | Calculating *zakat* on financing activities

Kingdom of Saudi Arabia | 4 February 2020



On 14 March 2019, Saudi Arabia's Ministry of Finance released a ministerial resolution concerning *zakat* rules for financing activities. Specific rules apply to banks and finance companies licensed by the Saudi Arabian Monetary Authority (SAMA) and effective for fiscal years commencing on or after 1 January 2019. The *zakat* base for companies involved in financing activities is calculated by multiplying sources of funds subject to *zakat* by the product of total *zakatable* assets divided by total assets.

What are sources of funds?

Sources of funds include owners' equity or other internal sources of funds, debts owed by the *zakat* payer older than one year and the fair value of derivatives – such as swaps, futures, options and forwards - classified as liabilities in the financial statements with a maturity of one year or more.

What are *zakatable* assets?

Zakatable assets are total assets less non-*zakatable* assets.

What are non-*zakatable* assets?

Non-*zakatable* assets includes net fixed assets, real estate, investments in entities in Saudi Arabia, statutory deposits with SAMA, investments in debt instruments such as bonds, *sukuk* on which the state bears *zakat*, investments in entities outside Saudi Arabia (subject to certain conditions), debts due to the *zakat* payer older than one year and the fair value of derivatives classified as assets in the financial statements with a maturity of one year or more.

Upper and lower limits of the *zakat* base

Maximum and minimum limits for the *zakat* base are based on financial statements audited by a licenced auditor in Saudi Arabia.

Where a *zakat* payer makes a profit before *zakat* provision (**net profit**), the minimum *zakat* base is four times net profit and the maximum *zakat* base is eight times net profit.

Where a *zakat* payer makes a loss, the minimum *zakat* base is 40% of **gross profit** (income realised from financing activities after deducting direct expenses) and the maximum *zakat* base is 80% of gross profit.

Where a *zakat* payer makes a **gross loss**, there are no maximum or minimum levels.

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Zakat base examples

A financial institution in Saudi Arabia reports net profits of SAR700m. To calculate its zakat base, first determine sources of funds subject to *zakat*, *zakatable* assets and total assets:

<i>Zakat base</i>	
Minimum	SAR0.7b*4= SAR2.8b
Maximum	SAR0.7b*8= SAR5.6b

Scenario 1	
	SAR
Funds subject to <i>zakat</i>	12,000,000,000
<i>Zakatable</i> assets	12,000,000,000
Total assets	24,000,000,000
<i>Zakatable</i> ratio	50%
<i>Zakat base</i>	6,000,000,000

Zakatable/total assets
= SAR12b/SAR24b
=50%

Funds**zakatable* ratio
= SAR12b*50%
=SAR6b

As the *zakat* base is greater than the maximum limit, *zakat* liabilities are based on SAR5.6b.

Scenario 2

Changes to sources of funds subject to *zakat*, *zakatable* assets and total assets:

	SAR
Funds subject to <i>zakat</i>	6,000,000,000
<i>Zakatable</i> assets	6,000,000,000
Total assets	12,000,000,000
<i>Zakatable</i> ratio	50%
<i>Zakat base</i>	3,000,000,000

Zakatable/total assets
= SAR6b/SAR12b
=50%

Funds**zakatable* ratio
= SAR6b*50%
=SAR3b

As the *zakat* base is within the limits, *zakat* liabilities are based on SAR3b.

Scenario 3

Changes to *zakatable* assets:

	SAR
Funds subject to <i>zakat</i>	6,000,000,000
<i>Zakatable</i> assets	3,000,000,000
Total assets	12,000,000,000
<i>Zakatable</i> ratio	25%
<i>Zakat base</i>	1,500,000,000

Zakatable/total assets
= SAR3b/SAR12b
=25%

Funds**zakatable* ratio
= SAR6b*25%
=SAR1.5b

The *zakat* base is below the minimum limit so *zakat* liabilities are based on SAR2.8b.

Disclaimer: This tax alert is based on our understanding of a translation of MR 2215 released on 14 March 2019, is for general information and applies to Saudi *zakat* payers. Seek professional advice in relation to your particular circumstances.