Tax alert | Calculating *zakat* on non-financial activities

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Zakat payers can calculate their *zakat* base by adding the internal and external funds used to finance deductible assets to the *zakat* base and subtracting non-*zakat*able assets. *Zakat* of 2.5% is payable on the higher of the *zakat* base or tax adjusted profit according to the *hijri* calendar (354 days).

Items that can be added:

Items that can be added to an organisation's *zakat* base include equity and long-term (more than one year) liabilities and their equivalents:

Examples of equity
Share capital, including increases in capital during the year
Opening retained earnings minus dividends paid (if any)
Opening balance of reserves and statutory reserves
Adjusted net profit
Changes in fair value because of revaluation

Examples of long-term liabilities
Creditors
Amounts due to related parties
Loans from shareholders
Advances from customers
Deferred long-term liabilities
Any payables (such as trades and notes payable)
Loans and similar credit balances added to the base (up to the limit of fixed assets deducted from the *zakat* base)
Provisions (opening less utilised balances over the year)

Items that can be deducted:

Examples of deductions
Fixed assets (including intangibles)
Spare parts not held for sale
Long-term investments in local and foreign entities (subject to certain conditions[1])
Properties under development for sale (subject to certain conditions[2])
Pre-operating expenses
Capital work in progress
Deferred tax assets
Statutory deposits from insurance and reinsurance companies
Accumulated losses
Any advance payments for purchases of fixed assets
Assets financed under build, operate and transfer (BOT); build, own and operate (BOO); and build, own, operate and transfer (BOOT); or similar contracts

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[1]Investments

Investments in entities resident outside of Saudi Arabia can be deducted from the *zakat* base if:

- The minimum *zakat* base for these investments at least equals the *zakat* payer's share of accounting profit reported in the investment entity's financial statements
- A SOCPA licensed accountant certifies that the *zakat* payer has paid all *zakat* due on these investments to GAZT
- The investments are not held for trading purposes

[2]Properties under development for sale

Properties under development for sale can be deducted if:

- They are classified as non-current assets in the organisation's financial statements
- They are available for sale only upon completion of the development
- Total sales and customers' advances received do not exceed twenty five percent (25%) of the value reflected in the organisation's financial statements for the relevant year:
  - GAZT may revise this percentage according to market conditions
  - The 25% must be assessed based upon the value of each individual project and not as a percentage of the total value recorded in the financial statements