



Zakat Simplified Guideline for Zakat Payers' Financing Activities



The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this Guide for the purpose of clarifying certain tax treatments concerning the implementation of the statutory provisions in force as of the Guide's issue date. The content of this Guide shall not be considered as an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom.

Furthermore, the Authority would like to highlight that the clarifications and indicative tax treatments prescribed in this Guide, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation or content provided in this Guide is modified - in relation to unchanged statutory text - the updated indicative tax treatment shall then be applicable prospectively, in respect of transactions made after the publication date of the updated version of the Guide on the Authority's website.



This guideline represents and interprets the provisions of the Rules for Zakat Calculation
for Financing Activities issued under the Ministerial Resolution No. 2215
dated 7/7/1440H



The most important concepts of Zakat Payers' Financing Activities:

The Regulations:

The implementing regulations for zakat levying issued under Ministerial Resolution No. (2216) dated 7/7/1440H.

The Rules:

Rules for Calculation of Zakat for Financing Activities issued under Ministerial Resolution No. (2215), dated 7/7/1440H.

Financing Activities:

Banks and finance companies licensed by the Saudi Central Bank (SAMA).

Zakat payer:

A person carrying out an activity subject to the levying of Zakat under the Regulation.

Zakat payer not subject to Zakat:

A Zakat payer that acquires a certificate not to be subject to the levying of Zakat, in accordance with the Authority procedures.

Resident:

A person who meets the residency requirements outlined in Article (3) of the Regulation.

Non-resident: Any person who does not qualify as a resident.

Zakat year:

The fiscal year of the Zakat payer, whether Hijri or Gregorian, short or long, at the beginning or end of activity.



Net profit:

It means net profit after excluding the effect of Zakat provision (net profit before Zakat provision) in accordance with the audited financial statements of the Zakat payer.

Gross profit:

It means the total income from financing activities after deducting the direct expenses required to obtain income from financing activities in accordance with the Zakat payer's audited financial statements.

Hedging:

The use of one or more financial instruments to hedge any changes in the fair value or cash flows of another item, so that the effects of the hedge instrument are equivalent to those associated with the original instrument.

The Authority's Method for Calculating the Zakat of Financing Activities:

Zakat base for financing activities:

Sources of the Zakat payer's funds used in his zakatable assets.

The formula for calculating zakat for financing activities:

Zakat base = sources of funds x [zakatable assets ÷ total assets].



Procedures for applying the formula for calculating zakat:

- Determining the sources of funds subject to zakat. (Paragraph 4 of the Rules for Calculation of Zakat for Financing Activities) .
- Calculation of non-Zakat assets. (Paragraph 5 the Rules for Calculation of Zakat for Financing Activities).
- Calculation of the total assets of the Zakat payer.
- Deduction the value of paragraph (2) from that of paragraph (3), to extract the Zakatable assets.
- Divide the Zakatable assets by the total assets.
- Multiplying the result of procedure No. (5) by the sources of the Zakat payer's Zakatable funds subject to zakat.
- The result is the zakat base for the Zakat payer of financing activities.

Example:

The data below is from one of the financial leasing companies licensed by the Saudi Central Bank as on December 31, 2019:

Item	Item value
Total assets	200,000,000 SAR
Total equity	150,000,000 SAR
Total liabilities	50,000,000 SAR



- The company counted the non-zakatable assets, totaling 25,000,000 SAR.
- The sources of zakatable funds amounted to 80% of the total liabilities and equity

Accordingly, it is required to calculate the zakat base in accordance to the method used for financing activities.

According to the above data:

- The non-zakatable assets amounted to 25,000,000 SAR out of the total assets value amounting to 200,000,000 SAR, so the amount of zakatable assets is:

$$\begin{aligned} \text{Zakatable assets} &= \\ & \text{Total assets - non-Zakat assets} \\ & = 200,000,000 - 25,000,000 = 175,000,000 \text{ SAR} \end{aligned}$$

- Sources of funds subject to zakat = 80% X (200,000,000) = 160,000,000 SAR




Based on the above, the zakat base is calculated according to the attribution (Altanseeb) method as follows:

Zakat base =	Sources of the Zakat payer's funds x (Zakatable assets ÷ Total assets).
Zakat base =	160,000,000 × (175,000,000 ÷ 200,000,000)
The amount of the zakat base =	140,000,000 SAR











Components of the Zakat Base for Financing Activities:

First: Sources of Funds Subject to Zakat:

-  Equity
-  Debts due from the Zakat payer with a maturity, wholly or partially, of one year or more
-  The negative fair value of financial derivatives which is due after one year

First: Sources of Funds Subject to Zakat:

-  Net fixed assets, and equivalent.
-  Real estate that transferred to the zakat payer under a mortgage execution.
-  Investments in entities or equity shares inside the Kingdom in accordance with the regulations outlined in Paragraph No. (4) of Article Five of the Implementing Regulations for levying zakat.
-  Investments in entities or equity shares outside the Kingdom, provided that the Zakat payer must pay zakat separately in accordance with the Regulations outlined in Paragraph No. (5) of Article Five of the Implementing Regulations for levying zakat.
-  Debts due from the Zakat payer with a maturity, wholly or partially, of one year or more.
-  Zakat payer's investments in the financing instruments issued by the Saudi Government on which the Government bears Zakat thereon on behalf of the Zakat payers as stated in the decision of His Excellency the Minister of Finance No. (2218) dated 7/7/1440H regarding the State's settlement of the Zakat and income tax arising from the investment in government bonds and instruments.
-  The positive fair value of financial derivatives with a maturity of one year or more.
-  The statutory deposit with the Saudi Central Bank.



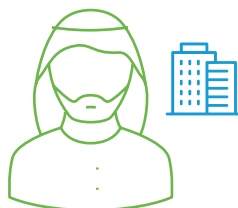
Minimum limit / Maximum limit	In case a net profit is realized	In case a net profit is not realized	In case a gross profit is not realized
The minimum limit	4 x net profit	(40%) of the gross profit	There is no minimum or maximum limit
The maximum limit	8 x net profit	(80%) of the gross profit	

Consolidation of Financial Statements for Zakat Purposes:

Consolidation Cases of Zakat Declaration for Zakat Payers Subject to these Rules



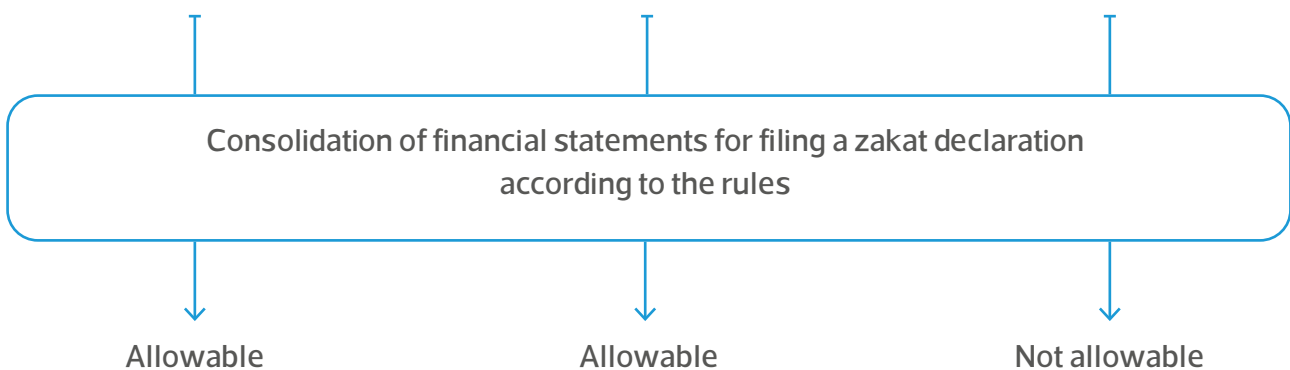
Zakat payer subject to the rules owned by another zakat payer subject to the same rules.



Zakat payer subject to the rules wholly owns a company or other companies not subject to these rules.



Zakat payer subject to these rules owned by another zakat payer who is not subject to these rules.





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