ZAKAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Zakat Simplified Guideline

for Real Estate Activities Sector

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.

Real Estate Activities: real estate activities sector includes the activity of property lessors, real estate agents and/or real estate brokers, buying and selling real estates, properties leasing and Providing other services related to real estate such as assessing the value of the property or acting as agents of the execution contract in the purchase of real estate properties.

The real estate activities sector includes:

1. Buying and selling real estates
2. Properties leasing
3. Providing other services related to real estate such as assessing the value of the property or acting as agents of the execution contract in the purchase of real estate properties.

The Authority's method of calculating the zakat base for zakat payer who holds commercial books:

The Authority uses the indirect method (the method of sources of funds) to reach the container, and builds this method on the following:

(Additions): add the internal sources of the Zakat payer›s funds and the part of his external sources of funds utilized in financing.

(Deductions): Non-Zakatable and Zakatable assets are deducted from Zakat base.

Zakat base = Additions- Deductibles

Additions:

1. Capital
2. Advanced revenue and payments.
3. long-term liabilities
4. Reserves during the year.
5. Retained earnings
6. Profit under distribution
7. Adjusted net profit
8. provisions at the beginning of the year
9. The change in the fair value calculated
10. Offsetting item of the deductible assets

Deductibles:

1. Net fixed assets.
2. Capital constructions underway.
3. Intangible assets.
4. Zakatable investment.
5. Incorporation expenses.
6. Adjusted net loss in the Zakat year.
7. Adjusted net accumulated loss for Zakat.
8. Properties and equipment.

Methods of Zakat Calculation for Companies (Example):

The following data is for a company as at the end of the fiscal year:

<table>
<tr><th colspan="4">Al Tamayuz Company wants to submit its zakat declaration for the year ending in 2021, which contains the profits as follows:</th></tr>
<tr><td colspan="2">Assets</td><td colspan="2">Assets</td></tr>
<tr><td>Current assets</td><td>6,000</td><td>Current liabilities</td><td>6,000</td></tr>
<tr><td rowspan="3">Long-term assets (property and equip-ment)</td><td rowspan="3">8,000</td><td>Long-term liabilities</td><td>7,000</td></tr>
<tr><td>Equity</td><td>4,000</td></tr>
<tr><td>Total</td><td>17,000 SAR</td></tr>
<tr><td>Total</td><td>17,000 SAR</td><td>Assets</td><td>Assets</td></tr>
</table>

External sources of funding are added to the base first to meet them with deductions, not exceeding the total value of the deductions and then internal sources of funding are added. Therefore, in the example above, long-term liabilities for the entire base were added because they are less than the deductions, and then equity was added:

Item	SAR
Long-term liabilities	7,000
Equity	4,000
Less: Long-term assets	8,000
Zakat Base	3,000

Zakat Base Rules:

Minimum

Zakat base shall not be less than the net profit adjusted for the purpose of Zakat levy.

The fiscal year of the Zakat payer

Zakat year begins with the next:

1. Issuance of the Commercial Registration.
2. Necessary licenses.
3. Capital deposit date.

1- Real estate under development for sale

It is real estate created and developed by the assignee for the purpose of sale.

Real estate under development created and developed for the purpose of sale shall be deducted from the base, provided that the following controls are met:

The implementing regulation for levying zakat, issued by Ministerial Resolution No. 2216 and dated 7/7/1440 AH, in item (A) of Paragraph No. (1) of Article Five, stated the following:

It shall be deducted from the zakat payer's base who maintains commercial books:

A. To be classified as non-current assets in the financial statements.
B. It should be ready for sale after completion of development.
C. It is not offered for sale as is.
D. The total sales and advance payments received from clients shall not exceed twenty-five percent (25%) of their value appearing in the financial statements, and this percentage is reached according to the following:
    1. Calculating twenty-five percent (25%) of the values appearing in the financial statements.
    2. The account for the zakat year shall be declared for each project separately.
    3. Sales and advance payments are arrived at by the value of exclusions at cost (sales) from the project account shown in the financial statements.

4. The total value of the real estate project under development prepared for sale is arrived at by the sum of the balance of the beginning of the zakat year and the value of additions during the zakat year in question.
5. Accordingly, the percentage of sales and advance payments is calculated according to the following equation:
6. Real estate that is ready for sale after its construction and development is completed, shall not be deducted from the container.

Example:

- A company working in the field of real estate investment, and the financial statements showed the following:
- The balance of properties under development for sale classified within the non-current assets of one of the projects amounted to 1,000,000 riyals
- The total sales shown in the income statement amounted to 260,000 riyals, and the value of sales excluded at cost from the balance of properties under development amounted to 200,000 riyals.
- The value of the advance payments received from clients amounted to 20,000 riyals for the account of the project, which appears in the financial statements.

Zakat transaction:

The total balance of 1,000,000 riyals is deducted from the zakat base because the total value of advance payments and sales excluded at cost amounting to 220,000 riyals is less than (25%) of the balance of properties under development as on the date of the statement of financial position.

2- Real estate under development to which discount controls apply, but it was classified as current assets after applying international accounting standards:

This item is dealt with by accepting the deduction of these real estate classified as current assets, and other deduction controls have been applied to them according to the following conditions:

- To add current liabilities (if any to the base, and a maximum value of the real estate under development).
- The value of the real estate under development deducted from the base shall be added to the upper limit referred to in paragraph (3/c) of Article 4.
- The total sales and advance payments received from customers shall not exceed twenty-five percent (25%) of their value appearing in the financial statements for the Zakat year in question.
- What is added to the base of current and non-current debts shall not exceed the total items deducted from the base, including real estate under development.

3- Real estate under development for the purpose of possession:

Real estate that has been created and developed for the purpose of ownership and use.

Real estate under development for the purpose of possession are considered non-zakatable assets that are deducted from the base because they are created and developed for the purpose of possession and use.

4- Off-plan sale

It is the sale of off-plan real estate units that have not yet been built or completed, in which the real estate developer aims to receive advance payments from the beneficiary, the buyer or the financier of the project, provided that he builds the real estate unit according to the contract details.

The real estate developer shows the payments made and received from clients on the side of current liabilities.

Off-plan sales are shown on the current assets side.

Current liabilities are not added on, and current assets are not deducted.

5- Financial leasing

A contract in which the lessor finances the purchase of a capital asset at the request of the lessee with the aim of investing it, with the lessor retaining ownership of the asset until the end of the contract and the lessee having the option to purchase the asset at the end of the lease term or return the asset to the lessor at the end of the lease term or renew the contract again.

For the lessee: the leased asset is the right-of-use asset, a non-zakatable asset that is deducted from the base on the basis that it is a fixed asset in accordance with the executive regulations, and in return, the obligations, both current and non-current, are added.

For the lessor: The financially leased assets are not considered an investment that is deducted from the zakat base, regardless of its classification in the financial statements.

Example:

- A company purchased a building through a finance lease, with the lessor retaining ownership of the building until the end of the contract and paying all due installments in the amount of 10,000,000 riyals.
- An amount of SAR 10,000,000 will be deducted from the Zakat base for the lessee.
- And from the zakat base for the lessee, because the contract is a finance lease contract that ends with ownership and the lessee has been given the right-to-use the asset for a period of zakat and dispose of the building at the end of the contract.

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