ZAKAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Simplified Guideline

for Construction Sector

Definitions:

- **Construction Sector:** general and specialized construction activities, and civil engineering works, such as new, repairs, additions and changes construction.
- **General Construction:** construction of entire buildings for housing, offices, shops, public buildings, interests or farm buildings, or construction of civil engineering works such as highways and streets.
- **Build and Operate Contracts:** investment contracts aimed at creating income-producing and income-generating assets, in which the lessor builds and operates the income-generating product in exchange for its benefit and production to the tenant who receives (benefit/ production) in exchange for the obligation to pay rent to the lessor, and does not include whether the sale is the asset alone.

This sector includes the following activities:

1. Complete constructions for civil engineering work.
2. Specialized constructions if they are part of the construction process.
3. Specialized constructions if implemented only as part of the construction process.
4. Construction projects for buildings or civil engineering work, which are carried out by financial, technical and material means in order to achieve the construction project for sale later.

The Authority's method of calculating the zakat pot for the taxpayer who holds the commercial books

The Authority uses the indirect method (the sources of funds method) to reach the zakat base, on the following:

Additions): The addition of the sources of the internal taxpayer's funds and the sources of his external funds in the discount financing.

(Deductibles): Non-Zakatable assets and Zakatable assets.

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:

Statement of financial position			
Assets		**Liabilities and equity**	
Current assets	6,000	Current liabilities	6,000
Long-term assets (property and equipment)	8,000	Long-term liabilities	7,000
		Equity	4,000
Total	**16,000 SAR**	**Total**	**17,000 SAR**

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.

(Unless the Zakat payer sets another date for the beginning of his activity under documentary evidence)

Percentage of Zakat

- Zakat is 2.5 percent of the zakat base for the Hijri year.
- The financial year of the zakat payer is different from the Hijri year; the zakat calculation is based on the number of actual days of the zakat payer, and the zakat rate can be paid as follows:

  2.5%÷354 days x actual days= ***%

$$\text{The number of actual days of the Zakat year for the the Zakat payer} \times \frac{2.5\%}{\text{Number of Hijri year days}}$$

- The adjusted net profit, which shall be subject to Zakat at two and a half percent (2.5%) for the year.
- The short financial period at the end of the company's activity is not subject to zakat, if the number of days of the period is less than three hundred and fifty-four (354) days.

Zakat issues pertaining to the sector:

1. Advance payments

Advance payments received against contracts as part of the project and used for expenses relating to the project are considered obligations of the Zakat payer and are added to the Zakat base In accordance with Paragraph 2 of Article 4 of the Executive Regulations of the Zakat collection, which indicated that less than the balance of the first or last period is added.

2. Construction and operation contracts

Construction and operate contracts vary in their forms, mechanisms, and objectives, including, but not limited to:

- Build, Operate and Transfer contracts (BOT)
- Build, Own, Operate and Transfer contracts (BOOT)
- Build, Own and Operate contracts (BOO)
- Acquisition, Operate and Transfer contracts (AOT)

According to article five of the zakat implementing regulation, the zakat treatment of these contracts is different in its forms, according to the following:

The investment in construction and operation contracts is classified as fixed assets with the lessor	It is considered a deductible asset based on paragraph (1) of Article Five
The investment in construction and operation contracts is classified as unquoted investment with the lessor	it is not considered as deductible investment from the Zakat base according to paragraph (4) of Article (5)
Investments in construction and operating contracts should be classified as non-current assets and the relationship between the lessor and the tenant is one of the employment and construction contracts	It will deductible based on Article (5) (1) (d)
In the event that the Authority finds that the essence of the transaction between the lessor and the lessee is not in the form of construction and operation contracts, it has the right to disallow the deduction of investment from the Zakat base of the lessor	

Example:

The National Electricity Company entered a contract with the Eastern Power Company to set up an electric power station in the city of Jubail at a cost of SR 500,000,000. It has been agreed that the Eastern Power Company will construct and operate the plant for a period of 25 years and then transfer it to the National Electricity Company in the form of a contract for building, operate and Transfer (BOT). The useful life of the plant is 30 years. After completion of the construction of the plant, it will be recorded in the books of the Eastern Power Company as a net investment as per a finance lease contract in accordance with the accounting standards. According to the energy purchase agreement, all of the plant's energy production will be sold to the Saudi Electricity Company. What is the zakat treatment for the net investment in the financial leasing contract mentioned above in the Eastern Power Company? Whereas, the essence of the transaction between the National Electricity Company and the Eastern Power Company is represented in a form of construction and operation contract, and the net investment in the finance lease contracts is classified as unquoted investment as per the financial statements. Accordingly, the Eastern Power Company has the right to deduct from the zakat base.

External document

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