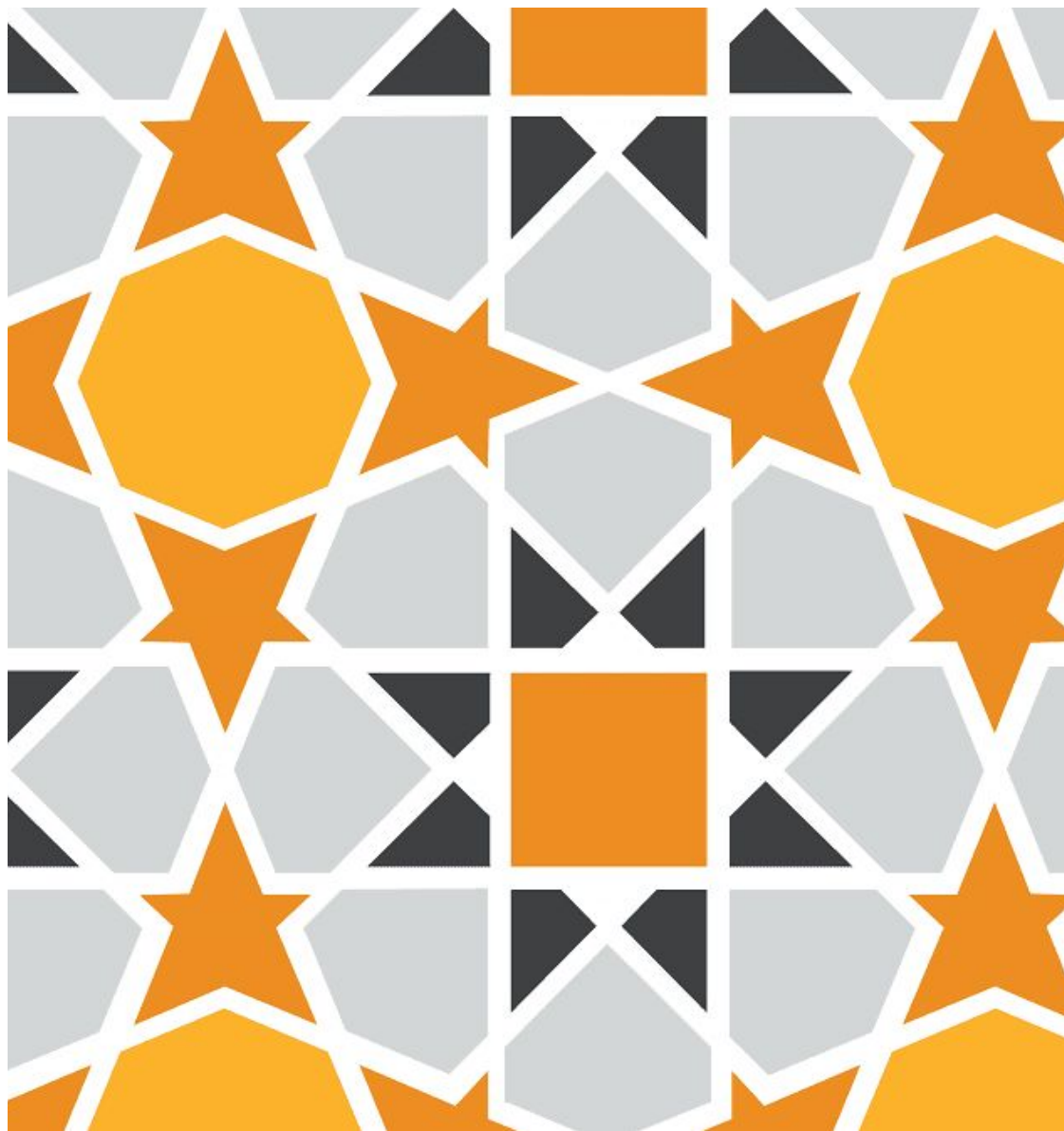


# Saudi Arabia: Zakat rules for investment funds

August 2022





## In brief

### Zakat rules for investment funds

As part of the Kingdom's 2030 vision in providing a safe and stable investment environment, Zakat, Tax and Customs Authority (ZATCA) introduced Zakat rules for investments funds, on August 4, in the form of a public consultation paper.

The purpose of the introduced rules is to clarify the zakat calculation mechanism and provisions for the Capital Market Authority (CMA) approved investment funds and their investors.

## In detail

### Applicable payers

- The rules would apply to investment unit holders of CMA-approved investment funds (other than financing funds) who engage in activities subject to zakat collection in accordance with the provisions of the Zakat By-Laws.
- Financing Funds subject to CMA regulation are obligated to pay Zakat to ZATCA, and the Zakat will be calculated in accordance with the Zakat By-Laws applicable to the financing institutions.

### Actions to consider

- All CMA-regulated investment funds are required to register with ZATCA. The investment fund manager is required to submit to ZATCA an informative Zakat return containing fund-related information. The fund manager must also provide ZATCA with a list of unit holders in addition to other information.
- The investment unit holders may deduct their investment in the fund from the Zakat base provided that:
  - a. The investment is not held for trading as stated in Article (5) of the Zakat By-Laws;
  - b. Zakat is calculated on the funds by virtue of a CPA certificate.

### Zakat calculation on the investment funds:

- **Additions**

Article 4 of the Zakat By-Laws stating the items to add to the Zakat base, in addition to the following:

- Net assets belonging to the unit holder in the value shown in the Fund's financial statement at year end;
- Debts payable by the fund are added in accordance with Article (4) paragraphs (3) and (10) of the Zakat By-Laws.



The purpose of the introduced rules is to clarify the zakat calculation mechanism and provisions for the Capital Market Authority (CMA) approved investment funds and their investors.





## Deductions and other considerations

- **Deductions**

Article 5 of the Zakat By-Laws stating the items to deducted from the Zakat base, in addition to the following:

- Investment funds not held for trading should be treated the same as foreign investments stated in Article (5) of the Zakat By-Laws.
- The percentage of the investment funds not held for trading is determined using the following:
  - a. The higher from the below should be divided by the net investment value in the fund's share for the same month:
    1. The total amount from subscription activities is deducted from the total amount of purchase activities on a monthly basis; OR
    2. The total amount of the refund process is deducted from the total amount of sales.
  - b. The preceding applies to all months in a year, and the highest percentage in the year is to be considered and multiplied by the investment value in the shares' ending balance as reflected in the fund's statement of financial position. According to Article (5) of the Zakat By-Laws, the result is classified as the percentage held for trading, and the remaining percentage is treated as non-trading.
  - c. The preceding paragraphs will apply to funds whose primary activity is investing in listed shares.

- **Other considerations**

- Investment real estate that are not held for trading are subject to the same Zakat treatment as fixed assets.
- Fixed assets and available for sale investment real estate are not deductible from the Zakat base.
- The difference between net adjusted profit and accounting profit should be added to the Zakat base noting that fund management fee expenses, custodian, supervisory and audit fees are Zakat deductible.

### Zakat base

The minimum zakat base for the investment unit holder is his share of the fund's adjusted net profit, whether the profit is distributed or not.



## Deductions and other considerations

### Filing date for Zakat return

Within 60 days from the end of the fiscal year, regardless of the length of the fiscal year.

### Documents to be submitted with the return

1. The investment fund's financial statements and reports.
2. A list of the owners of investment units during the fiscal year, when requested by the ZATCA.
3. A record of the investment fund's transactions with related parties.
4. Any other data requested by the ZATCA from the Fund.

### Notification

Fund manager to inform the ZATCA within 60 days upon liquidation or termination of a Fund.

### Additional points to consider:

- The owner can issue consolidated financial statements with the fund in case he owns 100% (direct or indirect) of the fund.
- Transfer pricing rules apply to the Fund.
- Fund is under ZATCA and CMA penalties rules.

# The takeaway

Once these By-Laws are enforced, which is expected soon, the Zakat impact will be significant, and companies in KSA and unit holders will be affected differently depending on whether or not these companies invest in investment funds.

It is recommended that applicable payers (investment unit holders) ensure the implementation of these By-Laws on their investments in investment funds and that Zakat be calculated by a certified CPA in order for ZATCA to accept the deductibility of these investments in these payers' zakat declarations.

## Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

### Riyadh

#### Mohammed Yaghmour

PwC Middle East Tax & Legal Services  
Leader  
+966 56 704 9675  
mohammed.yaghmour@pwc.com

#### Mohammed Al-Obaidi

Zakat and Tax Leader - KSA  
+966 11 211 0236  
mohammed.alobaidi@pwc.com

#### Fayez Al Debs

Partner, Zakat and Tax  
+966 11 211 0400  
fayez.aldebs@pwc.com

#### Chadi Abou Chakra

Partner, Indirect Tax  
+966 56 068 0291  
Chadi.Abou-Chakra@pwc.com

#### Mohammad Harby

Partner, Zakat and Tax  
+966 56 907 2618  
[mohamed.harby@pwc.com](mailto:mohamed.harby@pwc.com)

#### Ebrahim Karolia

Partner, Tax  
+966 56 890 3663  
karolia.ebrahim@pwc.com

#### Mohammed Alkhashi

Partner, Tax  
+966 56 648 0014  
mohammed.x.alkhashi@pwc.com

#### Khurram Iqbal

Partner, Zakat and Tax  
+966 54 004 6348  
khurram.iqbal@pwc.com

#### Hafez Yamin

Partner, Indirect Tax  
+966 54 033 7096  
hafez.y.yamin@pwc.com

### Khobar

#### Mugahid Hussein

Partner, Zakat and Tax  
+966 54 425 6573  
mugahid.hussein@pwc.com

#### Wael Osman

Partner, Zakat and Tax  
+966 56 699 4653  
wael.osman@pwc.com

### Jeddah

#### Dr. Yaseen AbuAlkheer

Partner, Zakat and Tax  
+966 54 425 0540  
yaseen.abualkheer@pwc.com

#### Fehmi Mounla

Partner, Zakat and Tax  
+966 2 610 4400  
fehmi.mounla@pwc.com

#### Mohammad Amawi

Partner, Zakat and Tax  
+966 2 610 4400  
mohammad.h.amawi@pwc.com

#### Suleman Mulla

Partner, International Tax  
+966 54 122 8051  
suleman.mulla@pwc.com

#### Mohamad Najjar

Partner, Indirect Tax  
+966 54 367 9392  
suleman.mulla@pwc.com



# Thank you

©2022 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.