

Saudi Arabian Monetary Authority

BANKING CONTROL



11 April 2017

From : Saudi Arabian Monetary Authority (SAMA)
To : All Banks, Insurance and Finance Companies
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Accounting of Zakat and Income Tax**

This has reference to SAMA circular no. 381000029499 dated 15/03/1438, which explains amendments to SAMA Accounting Standards for Commercial Banks issued in December 1994, regarding treatment of Zakat and Income Tax.

In order to clarify the accounting treatment and financial statement presentation of Zakat and Income Tax, SAMA has decided to take the following actions:

- SAMA Accounting Standards for Commercial Banks will no longer be applicable from 1 January 2017.
- All Banks, Insurance Companies and Finance Companies should prepare their financial statements using IFRS except for IAS 12 and IFRIC 21 so far as they relate to the accounting of Zakat (IFRS as adopted by SAMA). Accounting for Zakat is a matter, which is not addressed by IFRS, and therefore SAMA recognizes a need to provide guidance for a uniform application of accounting and financial statements presentation of Zakat and related matters.
- For the purpose of accounting of zakat and income tax, a standalone guidance document is being issued as per Annexure I which should be applicable from 1 January 2017. This treatment should be applied consistently across all the three sectors i.e. Banking, Insurance Companies and Finance Companies.

Ahmed Al AISheikh
Deputy Governor for Supervision

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Treatment of Zakat and Income Tax for Banks, Insurance and Finance companies

1. Zakat and Income Tax charge for the current period (including foreign subsidiaries and branches)

Zakat and Tax for the current period should be charged directly to the retained earnings of all Banks, Insurance and Finance Companies (hereinafter together referred to as the Entity) operating in the Kingdom of Saudi Arabia irrespective of their ownership structure.

If the retained earnings are not sufficient to cover the Zakat and Tax for the current year, such charge will result in accumulated losses of the Entity, which should be adjustable against future profits.

2. Zakat and Tax charge in case of accumulated losses

In case the Entity has accumulated losses at the end of current period, Zakat and Tax charge for the current period will result in accumulated losses / increase in accumulated losses and should be adjustable against future profits.

3. Zakat and Income Tax Charge for Prior Period:

Any Zakat or Income Tax pertaining to prior year(s) shall also be charged to the retained earnings of the entity, as already explained under 1 and 2 above.

In prior years, if an Entity has debited the retained earnings with the zakat and income tax amount included within the proposed gross dividends and has not recognized a liability in the financial statements, then in accordance with this circular the proposed dividend for that year shall be adjusted to recognize a liability for the zakat and income tax amount.

4. Presentation in the Financial Statements:

The total amount of Zakat and Income Tax shall be disclosed in the financial statements under the 'Statement of Changes in Shareholders' Equity' to be split as follows:

- *Zakat for the current year;*
- *Zakat for the prior year(s);*
- *Income Tax for the current year;*
- *Income Tax for the prior year(s).*

5. Accounting Policy on Zakat and Income Tax:

The Entity shall disclose its Accounting Policy for calculating and charging Zakat and Income Tax and the related accounting treatment in the notes to the financial statements.

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6. Other Disclosures:

The Entity shall disclose its shareholding in the financial statements as at the end of the year/period, split as follows:

- *Shareholding %age, subject to Zakat; and*
- *Shareholding %age, subject to Income Tax*
- *Any other disclosures (including the disclosures already made in the financial statements in prior years) relevant to the zakat / tax assessment status and any related contingencies*

7. Accrual frequency:

All accruals for Zakat and Tax are to be made on a quarterly basis from the effective date of this circular.

8. Effective Date:

This guidance document shall be applicable effective 1 January 2017. Comparative figures have to be presented.

Any changes to the accounting for zakat and tax as a result of these requirements would be accounted for in accordance with the requirements of IAS 8.

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