ZAKAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Zakat Guideline

for Lodging and Food Services sector

First Edition December 2019

This guideline was issued by the Zakat, Tax and Customs Authority («ZATCA» or «Authority») to elucidate certain treatments regarding the implementation of the statutory provisions in effect as of the date of publication of this guideline. The content of this guideline may not be construed as an amendment to any of the laws and regulations applicable in the Kingdom.

Additionally, it should be noted that the indicative treatments outlined in this guideline will be carried out by the Authority in accordance with the applicable regulations. Where any clarification, explanation, or information given in this guideline is modified but the regulation remains the same, the updated indicative treatment shall then be applicable prospectively to transactions completed after the publication date of the guideline on the Authority's website.

Table of contents

Table of contents

1. Introduction

1.1. About Zakat

Zakat is the third pillar of Islam, an essential financial worship in life of every Muslim, as quoted in the Holy Quran. Allah Almighty equated Zakat with Prayers in more than eighty verses, which is one of the most important pillars that distinguishes the Muslim community from others. It is a manifestation of the supremacy of Islamic legislation; as it represents a defining element in fighting poverty and alleviate the suffering of the poor. A vital element in achieving social solidarity.

1.2 Levy of Zakat

As an indication of the great status of Zakat in Islam; the government is entrusted with administering and supervising the collection of Zakat on declared funds and its distribution to its beneficiaries.

The government is authorized to collect the Zakat on the declared funds and distribute it to the eligible beneficiaries, by entrusting some workers (employees engaged for zakat collection purposes) to go through the owners of funds, throughout the country, and calculate the amount of Zakat, and then collect it from them, and oversee the disbursement and distribution to eligible persons.

The General Authority of Zakat & Tax (the Authority) is responsible for levying and collection of Zakat. All procedures relating to the Zakat account of the Zakat payer, from the registration of the Zakat payer, to the process of calculating the amount of Zakat, which includes supervising the submission of Zakat declarations, payment procedures, examination of data provided, and verification by the Authority's staff, until issuance of the final Zakat certificate, including the investigation of any objections that may be raised by the Zakat payer with regard to the Authority's assessment.

1.3 Application of Zakat Levy in Saudi Arabia

The collection and disbursement of Zakat to the beneficiaries is one of the basic tasks of the state as stipulated in the Basic Law of Governance, and stated in Article (21): (Zakat shall be collected and spent as prescribed by the Islamic Shariʿah). Article (7) thereof indicated that the state shall oversee of Islamic Shariʿah obligations in general, which includes levying of Zakat and its disbursement to the designed beneficiaries, where it states: (Governance in the Kingdom of Saudi Arabia derives its authority from the Holy Quran as revealed by the God Most High and the Sunnah of his Messenger [peace and blessings be upon him], both of which govern this Law and all the laws of the State).

To confirm this, Royal Decree No. (1786342/28//) dated 2913706//H (corresponding to 6 April 1951) was issued during the reign of the founder King Abdul Aziz (may God rest his soul), which included the order for the levying of Zakat. This was emphasized in many subsequent royal decrees, implementing ministerial decisions and interpreting regulations and circulars, including Royal Decree No. (M/40), dated 214057//H and its Implementing Regulations for levy of Zakat issued under Ministerial Decree No. (2082) dated 11438 6/H (28 February 2017) and the Implementing Regulations for Zakat Levy issued under Ministerial Decree No. (2216) dated 714407//H corresponding to (14 March 2019), which shall apply to the Zakat years starting from 1 January 2019 for all Zakat payers, except those who are accounted for on deemed basis in accordance with section 4 of the Regulations whose declarations shall be subject to the regulations after 31 December 2019.

Therefore, the Implementing Regulation for Zakat Levy issued on 714407//H [14 Mary 2019-] shall not apply to financial years prior to this date. Prior years are to be assessed in accordance with the regulations and instructions preceded that date.

The Implementing Regulations for Zakat levy have specifically focused on the Zakat collection regulations in the commercial activities apart from other Zakatable funds together with the requirements for filing Zakat declaration, the procedures of assessment, examination and payment, and their time periods.

The Zakat collected by The General Authority of Zakat & Tax shall be deposited in the Social Security Account, which shall distribute this to the poor and needy in accordance with Royal Decree No. 1615// dated 513831//H (28 May 1963). Paragraph (1) thereof stated "Zakat shall be collected in full from all joint stock companies and others and individuals subject to Zakat". In paragraph (2): "All the amounts collected shall be given to the Social Security Fund".

1.4 Zakat, Tax and Customs Authority

- The General Authority of Zakat & Tax is the agency authorized to collect Zakat in the Kingdom of Saudi Arabia, which is entrusted with levying of Zakat in accordance with the Royal Decree No (1786342/28//), dated 2913706//, which provides for levying of Zakat from those who hold Saudi citizenship.
- Established by Ministerial Resolution No. (394), dated 713708//H, as one of the government bodies under the Ministry of Finance, and was entrusted with the task of the levying of Zakat.
- Royal Decree No. (61) dated 513831//H was issued, which ordered the levying of Zakat in full and transferring or paying it to the Social Security Organization.
- A number of royal decrees and ministerial resolutions regulating Zakat collection activities were issued thereafter, including Royal Decree No. (M/40) dated 214057//H, which included the order to collect Zakat in full from all companies, institutions and others and individuals who are subject to Zakat. Then, the Implementing Regulation of the Royal Decree (M/40) was issued under Ministerial Resolution No. (2082) dated 114386//H.
- On 2014387//H, The General Authority of Zakat & Tax was formed pursuant to the Council of Ministers Resolution No. (465) adopting the Authority's law and organization.

1.5 Functions of the Zakat, Tax and Customs Authority

- The General Authority of Zakat & Tax functions defined in Article (3) thereof includes the following:
- Collect Zakat and taxes from the Zakat payer in accordance with the relevant regulations, rules and instructions.
- Provide high quality services to the Zakat payer to help zakat payers fulfill their duties.

- Follow up the Zakat payer and take the necessary actions to ensure levying of the payable amounts.
- Work to raise awareness of the Zakat payer and strengthen the degree of voluntary commitment and ensure his compliance with the instructions and guidelines issued by the Authority in its jurisdiction.
- Cooperate and exchange expertise with regional and international bodies and organizations, and specialized expertise organizations inside and outside the Kingdom, within the limits of the Authority's jurisdiction.
- Represent the Kingdom at regional and international organizations, bodies, forums and conferences that are related to the Authority's jurisdiction.

Collect zakat and taxes.

Provide high quality services to the Zakat payer to help him

Follow up the Zakat payer to ensure collection of the payable amounts

Raise awareness of the Zakat payer and strengthen the degree of commitment and ensure his compliance with the instructions and guidelines issued by the Authority

Cooperate and exchange of expertise with regional and international organizations

Represent the Kingdom at regional and international organizations, boodies, forums and conferences that are related to the Authority's jurisdiction

1.6 Overview of the General Zakat Guide

The guide provides guidance and basic information on the requirements of Zakat levy, the procedures of its application and the obligations of persons subject to Zakat (Zakat payers) of other sectors except financing activities and insurance companies sectors where the Authority has issued special guidelines for both of them. This guide sheds light and provides guidelines on the practical application of Zakat levy in Saudi Arabia.

This guide represents the concept and interpretation of the Authority on how to apply the Implementing Regulations for levy of Zakat issued on 714407//H. It is worth mentioning that this guide is not a legal document, and its content are for offering instructions only. It is not intended to include all the relevant provisions of the Zakat Levy Implementing Regulations. Although these guidelines are not binding to the Authority or any other body in respect of any performed transaction, they provide general guidance on how the Authority treats Zakat-related procedures in practice.

For instructions on any specific transaction, you can visit the official website of the Authority (gazt.gov.sa), which offers a wide range of tools and information tailored to assist Zakat payers, including visual guidance materials and all relevant data, as well as FAQs.

2. Zakat Concepts, Terminology and Calculation Methods

The Regulations:

The Implementing Regulation for Zakat levy issued under Ministerial Resolution No. (2216), dated 714407//H.

A. Collection of Zakat:

The State shall calculate the Zakat of funds subject to the Zakat, collect such funds from the Zakat payers subject to it, and transfer to the Social Security Agency for disbursement to the beneficiaries of social security.

Zakat collection is the state's mission. The Prophet (peace and blessings of Allah be upon him) used to send messengers every year to collect Zakat from all Muslims. At this time, it is carried out by The General Authority of Zakat & Tax on behalf of the state, in accordance with the relevant laws, regulations and rules. The Authority has issued regulations and rules governing Zakat levy and has provided high-quality services to the Zakat payers to help them fulfill their duties.

B. Zakat payer:

A natural or legal person who carries out an activity subject to levy of Zakat under the Regulation, whether it is a sole proprietorship, a company, or whoever carries out business activity under a license issued by a competent authority.

C. Zakat payer not subject to Zakat:

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

D. Resident:

A natural or legal person to whom the residency requirements specified in Article (3) of the Regulation apply.

E. Non-resident:

Any person who does not qualify as a resident.

F. Zakat year:

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

Example (1)
A company was incorporated on 102018/12/ (the date of issuance of the Commercial Registration). According to Articles of Association, the first financial year of the company starts from the date of issuance of the Commercial Registration and ends on 312019/12/G. Hence, the first financial year of the company will be from 10/12/2018 to 31/12/2019

G. Zakatable year (Al Hawl):

Twelve lunar months (354 days) should have passed since the Zakatable fund. It is a condition for Zakat and payment it in full. Prophet (peace and blessings of Allah be upon him) said: "There is no Zakat on funds until they have completed Al Hawl" If the Zakat year is different than the Hijri year, Zakat payer should pay the due Zakat in proportion with the number of days of the year, according to the following method:

Divide two and a half percent (2.5%) by the number of days of the Hijri year (354), and multiply by the number of actual days of the Zakat year for the Zakat payer.

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

The reason for accounting based on a daily basis is the inability to complete one Hijri year for every Zakatable fund, the difficulty of tracking the internal operations (transactions) of the entity, and inability to oblige the entity to issue financial statements for Zakat purposes only.

Completing Al-Hawl (one Hijri year) is not a condition for the profits generated during the year, as their Hawl (year) is related to their asset, where profits are subject to the full percentage of Zakat (2.5%), and the previous formula shall not apply to them.

How to calculate completion of the Hijiri year

Twelve lunar months (354) days have passed since the Zakatable fund

$$\%2.5 \times \frac{\text{The number of actual days of the Zakat year for the Zakat payer}}{\text{Number of Hijri year days (354)}}$$

Example (2)
The financial year of the company (S) for grains starts on 12019/1/ and ends on 312019/12/ in the same year (Gregorian year). The Zakat base of the Company for the year was SAR 2,500,000, including an adjusted profit for Zakat of SAR 900,000. How to calculate the Zakat base of the company? Zakat is calculated based on the Zakat base in the following manner:

2.5 % Number of Hijri days	x	Number of actual days of the Zakat year for the taxpayer	x	Base value excluding adjusted profit	=	****
354 ÷ 2.5%	x	365	x	1,600,000	x	41,242.9
Zakat Profit	x	2.5%	x	900,000	x	22,500
Total				**2,500,000**		**63,742.9**

H. Business activities:

All forms of business, whether commercial, service, or other works intended to generate profit. Commercial activities include real estate, commodity trading, provision of service, securities, finance, insurance and all banking activities.

The Shariah imposes Zakat on all forms of commercial activities according to the Hadeeth of Jabir bin Samra - may Allah be pleased with him- who narrated (The Messenger of Allah - peace be upon him - ordered us to pay Zakat against what we prepare for sale).

I. Terms of obligations and their impact on Zakat:

Obligations relating to Zakat are divided into two parts:

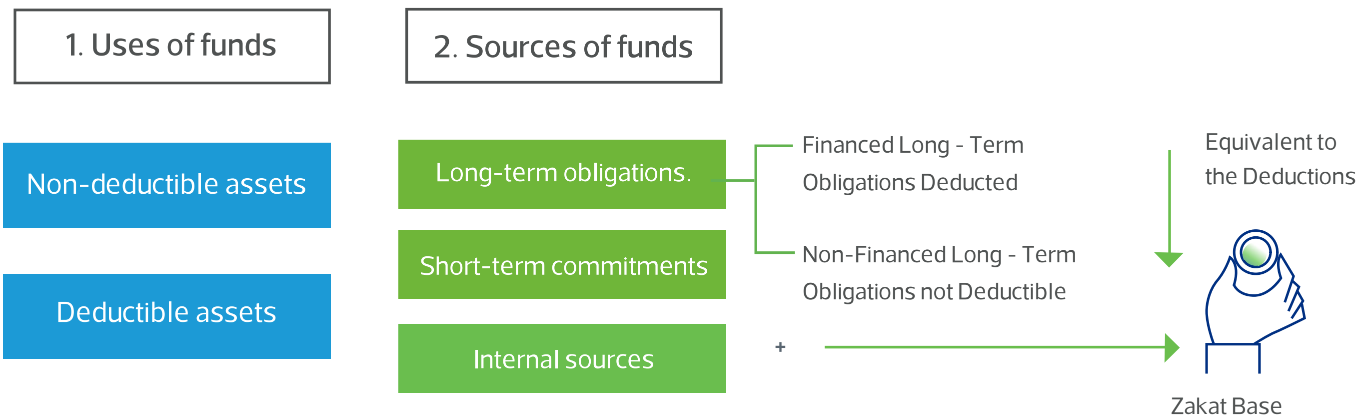
- **Obligations of the Zakat payer:**

They include loans, creditors, notes payable, government and commercial finance, etc.

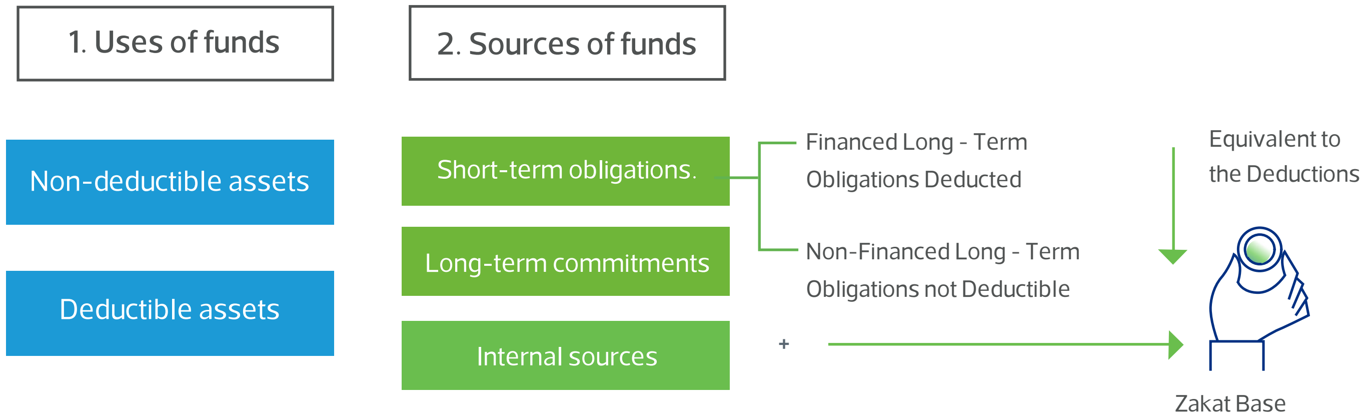
In general, Zakat payer's obligations reduces Zakat base of the Zakat payer, by not adding them to the base, according to the method adopted by the Authority. However, there is a difference in the accounting treatment between short-term and long-term liabilities.

Short-term liabilities that have financed a deductible asset will be added to the Zakat base components, unlike those that have not financed a deductible asset, which will not be added to the base. Long-term obligations are added to the components of the base, provided that the total obligations shall not exceed the amount of the deductible assets. This is adopted in order to ensure that the Zakat funds shall not be utilized in debt. The debts are secured by fixed assets and equivalent deductible assets even if it did not finance such assets to fulfill balance and justice and to avoid double deduction. Accordingly, the long-term obligations reduce the Zakat base of the excess amount.

Guidelines for adding Long-Term Obligations to the Base



Guidelines for adding Short-Term Obligations to the Base



- **Zakat Payer's Obligations**

They include accounts receivable, notes receivables, advances, and so on. Zakat is paid on what is funded by an internal source of funding.

J. Zakat Declaration:

A form issued by The General Authority of Zakat & Tax , which contains a number of elements and items, must be filled out and submitted by each Zakat payer. The purpose of the declaration and its submission is to indicate the amount of Zakat base of the entity and enable the Authority to make the assessment in accordance with the declaration data. The types of declaration are:

- **Type I:** A declaration of the Zakat payer who maintains commercial books and statutory accounts, and issues financial statements consistent with statutory requirements.
- **Type II:** A declaration of the Zakat payer who is accounted for on deemed basis and does not maintain commercial books and statutory accounts.
- **Type III:** Information Declaration for the Zakat payers exempted from levy of Zakat, or a subsidiary that was consolidated (consolidated) and zakat was paid per the holding company's consolidated declaration, or consortium consortia. Such Zakat payer must provide a declaration that includes the disclosure of its data.

K. Assessment:

A decision by the Authority indicating its acceptance or amendment of the declaration, in accordance with the information available to it at the time.

L. Commercial Books:

A set of commercial books maintained by the Zakat payer, which record all commercial transactions, as described by the commercial books law issued by Royal Decree No. (M/61) dated 17140912//H, and it's implementing regulations and any amendments thereto.

M. Methods of Zakat Calculation for Companies:

Zakat for existing companies is calculated in one of two methods:

- Direct method (net of Zakat able assets method).
- Indirect method (sources of funds method).

The procedures of each the methods differ and the items used for the purposes of calculating Zakat as well, but both match in the result (Zakat base). Both methods reach the same result if they are applied correctly and use the same standards and criteria. Following is a summary of the two methods:

Direct method (net of Zakatable assets method):

This method is based on two basic procedures:

- Addition of all Zakatable assets of the entity, including accounts receivables for the Zakat payer.
- Deduction of the value of the obligations that funded the Zakat assets. The result of this formula is the Zakat base of the Zakat payer.

Zakat base = All Zakatable assets - All obligations that funded them

Indirect method (sources of funds method):

This method is based on two basic procedures:

- **Add:**

A. Sources of external funds utilized for the component deductible from the base, which include long-term liabilities and obligations that are known to have financed deductible assets. Such liabilities are added to the limit without exceeding the deductible assets

B. All sources of internal funds of the entity (capital, retained earnings,).

C. Adjusted net profit for the year subject to the audit.

- **Deduct:**

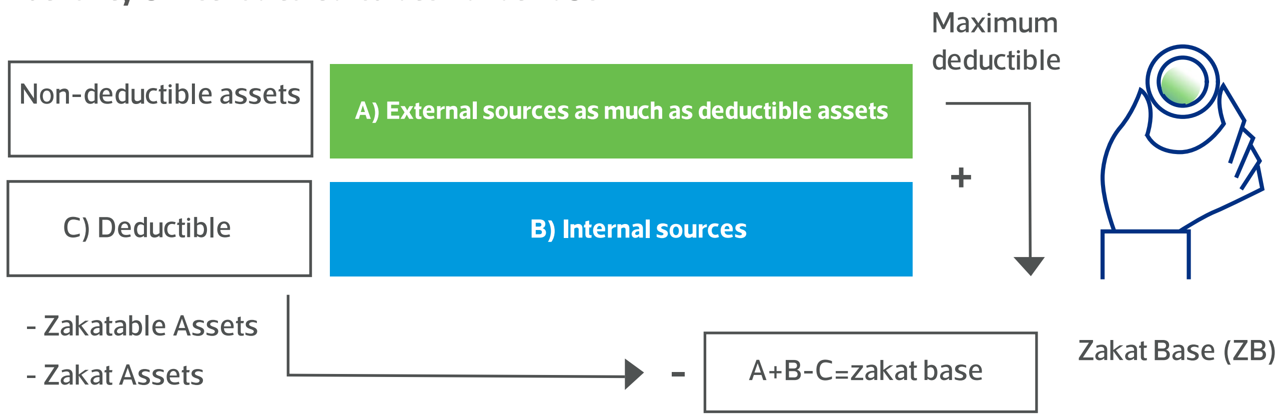
A. The value of non-Zakatable assets of the entity to be deducted in accordance with the conditions of the Regulations.

B. The value of the Zakatable assets in other entities, such as: (investment in the shares of Saudi companies).

The result of this formula is the Zakat base for the Zakat payer. This method is followed by the General Authority of Zakat and Tax

Zakat base = All sources of internal funds (equity, provisions and adjusted net profit for the year) + external sources of funds not exceeding deductible assets (long-term liabilities and liabilities that are financing deductible assets) - or - non-Zakatable assets - Zakatable assets, or adjusted net profit for the year, whichever is greater

Authority's method to Calculate Zakat Base



Example (3)

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

Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current Assets	9,000	Current Liabilities	6,000
Long-Term Assets (Property and Equipment)	8,000	Long-Term Liabilities	7,000
		Equity	4,000
Total	**17,000**	**Total**	**17,000**

(A) Indirect calculation of the Base:

Item	**SAR**
Long-Term Liabilities	7,000
Equity	4,000
Less: Long-term assets	(8,000)
Zakat Base	**3,000**

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.

(B) Direct recalculation of the Base:

Item	SAR
Current Assets	9,000
Less: Current Liabilities	(6,000)
Total	**3,000**

N. Deemed Calculation:

A method used by the Authority to account for the Zakat payer who does not maintain commercial books and statutory accounts. This is because the origin of the Zakat base of the Zakat payer is that it is based on its statutory records containing the data through which the base can be identified. When this is not achieved, the Authority shall form a Zakat base according to the available information, so that the Zakat base can be estimated as closely as possible.

The Authority resorts to the deemed method when the Zakat payer does not comply with the deadlines set for filing the declaration, or there are problems related to the confidence of the Authority in the accuracy of the data provided by the Zakat payer, according to the zakat payer records, in order to approach as close as possible to his correct base.

O. The Basis of Zakat Calculation:

The calculation of Zakat of existing companies is generally based on the overall accounting principles and standards, as the concepts of the accounting standards applicable to Zakat can be applied to companies that prepare financial statements according to the accounting principles observed in Saudi Arabia, while verifying that the Zakat payer complies with the standard of presentation and disclosure and accuracy of such disclosures, such as the distinction between fixed assets and current assets, with the addition of certain requirements relating to increased disclosure of the entity, such as the type of investments owned by the entity, and whether or not they are subject to Zakat, as they do not appear in the financial statements, but they are necessary for the purpose of forming the Zakat base

3. Identify Zakat Base for Zakat Payer Maintaining Commercial Books

The Zakat base for the Zakat payer who maintains commercial books shall be determined according to the method of the Authority in collecting Zakat which is explained in Section 2 of this guide[1].

According to this method, the internal sources of the Zakat payer›s funds and the part of his external sources of funds utilized in financing deductible assets shall be added to Zakat base (additions), whereas the Non-Zakatable assets are deducted from Zakat base (deductions)[2].

3.1 Components of Zakat Base (Additions)

Additions to the Zakat base for the Zakat payer who maintains business books, consists of internal sources of funds (equity) and external sources of funds that have financed deductible ed assets[3].

Reasons for adding to the Zakat base:

- Offsetting the deductible assets against the obligations thereto.
- Determine Zakatable assets financed from internal sources of funds.

1) Article 4 of the Implementing Regulations: Identifying additions and deductions to Zakat base

2) Article 5 of the Implementing Regulations: Identifying Zakat base for those who keep commercial books - Sources of funds method

3) Article 4 of the Implementing Regulations: Identifying Zakat base for those who keep commercial books - Sources of funds method-Funds that compose Zakat base

Example (4)			
The following data is for a company as at the end of the fiscal year:			
Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current Assets	10,000	Current Liabilities	8,000
	5,000	Long-Term Liabilities	2,000
Long-Term Assets (Property and Equipment)	8,000	Equity	5,000
Total	**15,000**	**Total**	**15,000**

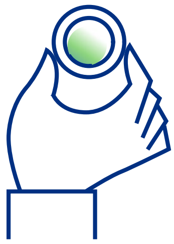
(A) Calculation of the Base

Item	**SAR**
Long-Term Liabilities	6,000
Equity	4,000
Less: Long-term assets	(6,000)
Zakat Base	**4,000**

External sources of funding are added to the base first, to meet them with deduction, and then internal sources of funding are added. In the above example, long-term liabilities for the entire base were added, and then equity is added.

Reasons for inclusion in additions to the Zakat Base

- Define Zakatable assets financed from internal sources of funds
- Offsetting the deductible assets against the obligations thereto
- Meeting deductible assets including the obligations it utilized



3.1.1. Concepts Related to Additions

The Authority's method of calculating Zakat base is based on identifying all sources of internal funds and what has financed deductible assets from the sources of external funds.

Zakat base calculation:

When building Zakat base, the obligations of the Zakat payer (external sources of finance) should be added initially, assuming their priority in financing the deductible items before the internal sources of funding, in the following order:

- **Sources of external funds (maximum limit is the value of deductible assets):**

1. Obligations that are known to have financed deductible assets, such as: a Loans for the purchase of a fixed asset.
2. Long-term liabilities (given debt term), such as (loans with a term longer than 354 days).

Example (5)

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

Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current Assets	8,000	Current Liabilities	3,000
	6,000	Long-Term Liabilities	7,000
Long-Term Assets (Property and Equipment)		Equity	4,000
Total	**14,000**	**Total**	**14,000**

External sources of financing are added to the base first, but not exceed the total value of deductible assets, and then internal sources of funding are added. In the above example, longterm liabilities for the base were added up to the value of deductible assets, and then equity is added.

- **Internal sources of funds:**

1. Equity, such as (capital, reserves, retained earnings).
2. Accumulated provisions after deduction of what was used during the year, such as: (end of service provision after deduction of what was used during the year).

3.1.2. What is added to the Zakat Base:

Below are examples of items to be added to the Zakat base with some guidelines mentioned in the next section, and some examples for further clarification:

Group	Item	Amount
Equity and equivalent	Increase in capital during the year	xx
	Reserves carried forward from previous years	xx
	Retained earnings from previous years	xx
	Adjusted net profit for Zakat collection purposes	xx
	Change in fair value resulting from revaluation	xx
	Change in fair value resulting from the revaluation	xx
Obligations of the Zakat payer classified as long - term and equivalent	Creditors	xx
	Notes payable	xx
	Loans and the like + the current installment of the loan	xx
	Partner or Owner Loans	xx
	Retained amounts from contractors (performance bond)	xx
	Amounts payable to related parties	xx
	Profits in distribution	xx
	Deferred long-term tax liability	xx
Provisions	Opening provisions after deducting the used provisions during the year	xx

3.1.3. What is added to the Zakat Base:

The following are examples of items that are not to be added to the Zakat Base:

Group	Item	Amount
Obligations of the Zakat payer classified as short- term and equivalent unless it is known that they were used for financing deductible assets	Loans	xx
	Creditors	xx
	Accrued expenses	xx
	Notes payable	xx
	Overdraft account	xx
	Retention payable	xx
	Amount due to related parties	xx

3.1.4. Guidelines for Addition to Zakat Base

- **The capital shall be added to the Zakat base according to the following guidelines:**

1. The opening balance shall be added.
2. The increase in the capital during the year shall be added in full if its source is internal (equity).
3. The capital increase during the whole year shall be added if it finances any of the deductible items from the Zakat base.
4. The increase in capital shall be added if it is not financed a deductible asset from the base in proportion with the number of days of the Zakatable year. It shall be treated as a finance source referred to in Article 4, paragraph (3/a) of the implementing regulations

Cases where Capital is added to Zakat Base

The Capital is added to the zakat base

1. Full opening balance

2. Full increase during the year in the two cases:
   - If it is from internal source
   - If it financed a deducted item

3. The increase that has not financed deductibles shall be added in proportion to the number of days

Example (6)
A company increased its capital during the year by SR 10,000,000 as of 120/7/XXG as follows: 1. SAR 3,000,000 transfer from the general reserve. 2. SAR 7,000,000 capital increase from partners, of which SAR 5,000,000 was used to purchase a new production line and SAR 2,000,000 to finance the purchase of goods and raw materials. What is the amount that should be added to the Zakat base?
1. The amount of SR 3,000,000, which is the increase taken from the general reserve shall be added to the Zakat base as it is an internal transfer from an element of the equity. 2. The amount of SR 5,000,000, which is the increase made to finance the purchase of a new production line shall be added to the Zakat base because it financed deductible asset.
3. The amount of the increase made to finance the purchase of goods and raw materials (SAR 2,000,000) shall be added by the number of days, as it is a source of other financing sources. It is treated as an obligation of the Zakat payer. Consequently, an amount of SAR 1,000,000 is added as calculated below with the obligations not exceeding the deductibles amount from the base as follows:

Number of Days Left remaining until the end of the Fiscal Year	×	The increase value	=	****
Number of the Year days 365				
183	×	2,000,000	=	1,000,000
365				

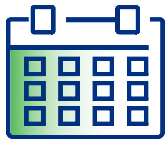
Reserves:

1. It is added to the balance at the beginning of the period if the balance remains until the end of the year, and if the balance has been disposed of during the year, such as cash distributions and others, then the part that has been disposed of is not added to the base.

2. If the reserves are transferred to an equity account, they shall be added to the base for the full term within the equity.

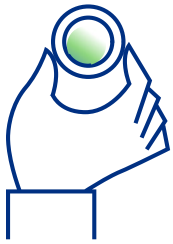
Example (7)
A company has a general reserve balance of SAR 10,000,000, of which SAR 5,000,000 has been used for capital increase and SAR 2,000,000. How much should be added to the base?
SAR 5,000,000 of the reserves used to increase the capital shall be added to the base, in addition to the remaining balance of the reserves, after deductingthe withdrawn from the reserve balance as follows: Opening balance of the year less the withdrawn from the reserve balance during the year: 5,000,000 + 3,000,000 (5,000,000 - 2,000,000) = 8,000,000 Saudi Riyals

Guidelines for adding reserves to the Zakat Base



a. To add to the base reserve at the beginning of the period, if the balance exists at the year end.

b. If reserves are transferred to one of the equity accounts, they shall be added to the base for the whole period within equity.



c. If the balance is disposed by year end it will not be added to the base

Retained earnings:

1. They shall be added to the Zakat base at the opening balance of the period less dividends paid during the Zakat year.
2. Distributions not claimed by owners and have been provided in separate bank accounts, will be considered as dividends paid to partners.
3. Dividends from the current year are considered among the negative additions in the Zakat base if they exceed the balance of the retained earnings.

Example (8)
The opening balance of the retained earnings for the period amounted to SAR 5,000,000. The Company distributed cash dividends during the year amounting to SAR 6,000,000. How much should be added to the base?
The balance of the retained earnings shall be added to the base after deducting the cash dividends distributed during the year as follows: The opening balance of the year less cash dividends during the year: 5,000,000 - 6,000,000 = (1,000,000) Saudi Riyals In this case, the amount of cash dividends is more than the balance of the retained earnings during the year, thus the negative amount is added to the base.

Guidelines for adding Retained Earnings to the Zakat Base

↓

To be added to the base at the beginning of the period minus dividends distributed during the Zakat year

↓

Dividends whose owners did not apply to collect them and set aside in seperate bank accounts ar deemed to be paid dividends to partners

↓

Dividends from the current year's profits are considered as minus additions in the Zakat base if exceeds the retained earning balance

Obligations of the Zakat payer:

- Obligations of the Zakat payer and equivalents referred to in the additions above shall be added to the Zakat base in accordance with the following guidelines:

1. Obligations of (354) days and more, as well as obligations that are (354) days and overlapping between more than one Zakatable year; shall be added to the base proportionally with the number of days of the Zakat year.

2. Short-term obligations that financed deductible assets are added.

3. The hijri year (Al Hawl) shall not be interrupted by the renewal or replacement of obligations by other obligations or sources of financing that finance what have been financed by these obligations, nor by the rescheduling the obligations with the same creditor.

4. The total amount of the obligations added to the Zakat base as stated in the above items shall not exceed the total deductions from the base.

Note that the obligations on the Zakat payer that are classified as short-term (less than a lunar year), are not added to the Zakat base unless they are to finance the assets deducted from the base

Guidelines for adding the obligations on the Zakat payer

Obligations of the Zakat payer and equivalents referred to in the additions above shall be added to the zakat base in accordance with the following guidelines

Obligations of (354) days and more, as well as obligations that are (354) days and overlapping between more than one Zakatable year, shall be added to the base proportionally with the number of days of the Zakat year

Short-term obligations that financed deductible assets are added

The Total Amount of the obligations added to the Zakat base as stated in the above items shall not exceed the total deductions from the base

The Hijara year (Al Hawl) shall not be interrupted by the renewal or replacement of obligations by other obligations or sources of financing that finance what have been financed by these obligations, not by the rescheduling the obligations with the same creditor

Example (9)
A company has secured a long-term loan amounting to SAR 1,000,000 on 202019/8/. The end of the financial year of the company is 312019/12/. The company has a short-term six-month loan of SAR 2,000,000 acquired on 12019/1/ and rescheduled for another six months. How does it determine what loans to be added to the base?

The long-term loan shall be added to the base based on the number of days of the Zakat year, as follows:

Number of Days remaining until the end of the Fiscal Year / Number of the Year days 365	×	Debt amount	=	****
183 / 365	×	1,000,000	=	364,384

The short-term loan shall be added to the base entirely on the basis that the year is not interrupted by rescheduling the debt with the same creditor. Accordingly, an additional full amount of SAR 2,000,000 is added to the base.

Example (10)
A company acquired a loan of SAR 2,000,000 on 102019/2/ which is repayable on 12020/2/. Knowing that the end of the fiscal year is 312020/1/, how does it determine what to be added to the base?

The short-term loan shall be added to the base based on the number of days of the Zakat year, as follows:

Number of Days remaining until the end of the Fiscal Year / Number of the Year days 365	×	Debt amount	=	****

335 / 365	×	2,000,000	=	1,945,205

The short-term loan was added because it lasts more than (354 days) and overlaps with more than one Zakat year, pursuant to paragraph (A/3) of Article (4) of the Implementing Regulations for the collection of Zakat.

Example (11)

A company acquired short-term loans (less than 354 days) as follows:

1. SAR 3,000,000 used to finance the purchase of a plot of land.
2. SAR 2,000,000 used to finance the purchase of goods.
3. SAR 1,000,000 used to meet multiple commitments in the business

What amount should be added to the base in each case?

1. The amount of SAR 3,000,000 shall be added to the Zakat base where it was used to finance a deductible asset (fixed asset).
2. The amount of SAR 2,000,000 shall not be added being a short-term loan and has not financed a deductible item (fixed asset).
3. The amount of SAR 1,000,000 shall not be added being a short-term loan and has been used in multiple commitments in the business and does not include financing of a deductible item.

- **Provisions**

1. The provision set a side during the Zakat year shall be (Added to /deducted from) the (profit/ loss).
2. The opening balance shall be added to the base less the used amount during the year.
3. If the Zakat base is the minimum limit (adjusted profits),the used amount is deducted from the adjusted net profit as a deductible expense, provided that the net profit is compared to the base after the deduction has been made (upon reversing the effect of the used amount on the base provision) and the greater of the two is considered.

The provision set a side during the Zakat year shall be (Added to / deducted from) the (profit/loss)

The opening balance shall be added to the base less the used amount during the year

If the Zakat base is set at the minimum limit (adjusted profits), it is now allowed to deduct the used amount from the provisions, as it is deducted from the balance of the provisions at the begining of the year

Example (12)

The table below shows the movement of provisions during the year:

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
End-of-Service Benefits	2,000,000	500,000	300,000	2,200,000
Provision for Doubtful Obligations	1,000,000	200,000	-	1,200,000
Total	**3,000,000**	**700,000**	**300,000**	**3,400,000**

What amount should be added to modify activity result?

Item	Amount
Amount of Provisions provided during the year	700,000

What amount should be added to the base?

Item	Amount
Opening balance of provisions	3,000,000
The utilized amount of provisions during the year shall be deducted	300,000
Provisions balance which should be added to the base	**2,700,000**

The change in the fair value calculated in accordance with paragraph (6) of Article VI of the Regulation shall be added to the components of the Zakat base.

3.2 Items of Zakat Base (Deductibles)

The deductible items consist of the Zakat base for the Zakat payer who maintains commercial books of non-Zakatable assets, such as fixed assets, assets subject to levy of Zakat in another base such as investments in the capital of companies subject to Zakat in the Kingdom, or which the Zakat payer has paid their Zakat independently, and some other assets specified in the Regulation[4].

3.2.1. Concepts related to deductions

The Authority's method of calculating Zakat base includes deduction of all non-Zakatable assets, assets which have their Zakat paid independently and certain other items.

---

14) Article 5 Paragraph (9) The value of properties under development and intended for sale, which are classified as non-current assets in the financial statements and intended to be sold after completion of their development, unless they are offered for sale as is or the total sales and advances re- ceived from customers exceed twenty five percent (25%) of their value shown in the financial statements of the Zakat year in question. The Authority may review the amendment of this percentage according to the state of the market and its conditions.

The main deductible items consist of the following:

1. Non-Zakatable assets, including fixed assets, such as buildings, machinery and equipment, furniture, intangible assets, etc.

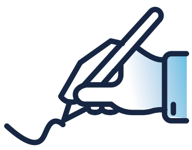
2. Zakatable assets, including investment in shares of Saudi companies or foreign companies subjected to Zakat independently in accordance with the rules specified in the Regulations.

Items of deducted Assets

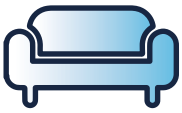
In general, the main deducted items are:

Non-Zakatable assets

- Include fixed assets (e.g. buildings, machines and equipment, furniture, intangible assets, etc)



Intangible Assets



Furniture

Machine and Equipment

Buildings

Zakatable assets

- Include investment in Saudi of foreign companies subjected to Zakat independently in accordance with the guidlens of the Implementing Regulations

Investment in shares

3.2.2 Items to be deducted from the base

The following table shows examples of items that shall be deducted from the base:

Item	Amount
Net fixed assets and equivalents	(××)
Capital work in progress	(××)
Intangible assets	(××)
Investments in entities inside and outside the Kingdom for non-trading in accordance with the rules mentioned below	(××)
Net incorporation and pre-operating expenses and equivalent capital expenses	(××)
Adjusted net loss in the Zakat year adjusted for Zakat purposes	(××)
Adjusted net accumulated loss for Zakat collection purposes in accordance with the guidelines specified below	(××)
Net value of properties under development for sale in accordance with the guidelines specified below	(××)
Statutory deposit of insurance and reinsurance companies	(××)
Inventories of agricultural inputs purchased for use in production	(××)
Deferred tax long term asset	(××)
Deferred tax long term asset	(××)

3.2.3 Guidelines for Deduction from the Zakat Base

1. Fixed assets and equivalent shall be deducted at net value recognized in the accounts provided that they are used in the Zakat payer›s activity. The assets include the following:

- Spare parts and materials not intended for sale.
- Payments for the purchase of fixed assets.
- Assets financed for the Lessee in the financing lease contracts in Build-Operate-Transfer (BOT), Build-Own-Operate (BOO), Build-Own-Operate-Transfer Contracts (BOOT) contracts and other similar form of contracts

Guidelines for deduction from Zakat base

- Fixed assets and equivalents shall be deducted at net book value recognized in the accounts provided that they are used in the Zakat payer's activity. The items that are treated like assets include:
    1. Spare parts and materials not held for sale.
    2. Payments to purchase fixed assets.
    3. Assets financed for the lessee in financial lease contracts for BOT, BOO, BOOT projects and similar ones.

Example (13)
A company in contract with the General Authority of Civil Aviation to construct an airport in Al- Jouf. The contract was in the form of Build-Own-Operate-Transfer Contracts (BOOT) contracts, so that the company builds and owns the airport for a period of ten years during which the airport is operated in favor of the company. At the end of the contract term (ten years) the ownership will be transferred to the General Authority of Civil Aviation. The company spent in the first year SAR 24,000,000 to build the project. The company has the right to deduct the cost of the project (SAR 24,000,000) from the Zakat base for this year.

Example (15)
A company in contract with the Development Authority to build a hotel in Riyadh. The contract was in the form of build-own and operate (BOO), so that the company builds, owns and operates the hotel in its favor. The company has spent SR 100,000,000 to build the hotel. The company has the right to deduct the cost of establishing the hotel (SAR 100,000,000) from the Zakat base for this year

2. Capital constructions and projects underway that are established for use in the business activity and not for sale shall be deducted from the Zakat base.

3. Long-term non-trading investments in establishments within the Kingdom shall be deducted if they are represented in the shares of companies subject to the provisions of Zakat levy, i.e. they represent Zakat assets with the investees.

Investments in establishments outside the Kingdom are deducted as follows:

- Investments shall be in non-trading companies' shares
- The Zakat payer shall pay the Zakat of these investments to the Authority according as certified by a public accountant registered in the Kingdom.
- The minimum Zakat base for these investments shall equal, at least, Zakat payer's share of accounting profit reported in the financial statements.

4. The net accumulated loss under the Authority›s assessment after adding back the lower of provisions utilized previously to reduce the loss for the year during which the provisions have been created and accumulated loss per Zakat payer's accounting books, whichever is less. Note that accumulated losses and losses for the year should be accounted for as negative additions to the elements of equity due to their nature and not within the deduction items from the base

Guidelines for deducting investments from the Zakat base

Investments in entities outside the kingdom are deducted as follows:

The minimum Zakat base for these investments shall equal, at least, Zakat payer's share of accounting profit reported in the financial statements

↓

Zakat payer shall pay the Zakat of these investments to the Authority according to a certificate certified by a certificate certified by a licensed certified public accountant licensed in the Kingdom

↓

Investments shall be in non-trading companies' shares

Example (16)
The following data are for a company as of 3120/12/XX Share Capital; SAR 2,000,000. Statutory reserve: SAR 500,000. Accumulated losses according to the assessment: SAR 900,000. Accumulated losses as per books: SAR 750,000. Adjusted loss for the year: SAR 450,000. Fixed Assets: SAR 800,000 How to add the above items to the Zakat base?

Item	Amount (SAR)
Additions	
Capital	2,000,000
Statutory Reserve	500,000
Accumulated losses	(750,000)
Adjusted loss for the year	(450,000)
Total additions to the base	1,300,000
Deductions	
Fixed assets	800,000
Total Deductions	800,000
Zakat Base (ZB)	**500,000**

5. Properties under development for sale are deducted according to the following:

- They shall be classified as non-current assets in the financial statements.
- They shall be intended for sale once development is completed.
- They shall not be available for sale as is.

- The total sale amount and customers advances received out of it exceeds twenty five percent (25%) of their value reflected in the financial statements for the year of respective declaration.The calculation involves evaluating the disposals at cost (sales) against the overall value of the project as presented in the financial statements. The Authority may revise such percentage depending on the market condition, taking into account that the 25% is for each project separately, and not for the total item reflected in the financial statement

Guidelines for deducting proprities under development from the base

Properties under development for sale are deducted according to the following

They shall be classified as non-current assets in the financial statements

They shall be intended for sale once development is completed

The total sale amount and customers advances received out of it exceeds twenty five percent (25%) of their value reflected in the financial statements for the year of respective declaration. The Authortiy may revise such percentage depending on the market condition, taking into account that the 25% is for each project seperately, and not for the total item reflected in the financial statement

They shall not be available for sale as is

Example (17)
A company operating in the field of real estate investment, where the balance of projects under development classified under non-current assets amounted to SAR 1,000,000. The value of sales excluded at cost from the balance of real estate under development amounted to 20% of the balance of real estate projects under development. Due to the fact that the projects are classified as non-current assets and the value of sales excluded at cost made from the projects during the year is less than 25%, therefore, the total amount of SAR 1,000,000 shall be deducted from the Zakat base.

6. Agricultural inputs (in stock) purchased for use in production purposes shall be deducted, as they are subject to Zakat in agricultural activities

3.2.4 Items that are not deducted from the Zakat base

Below are examples of items that are not deductible from the Zakat Base:

Group	Items that are not deductible from the Zakat Base	Amount
Not deductible assets	Cash and cash equivalents	xx
	Inventory.	xx
	Obligations of the Zakat payer, whatever their duration or nature	xx
	Investments in Sukuk and Bonds	xx
	Investments in companies outside the Kingdom unless Zakat is paid	xx
	nvestments in properties under development that do not meet the conditions specified in the Regulations	xx
	Spare parts held for sale	xx
	Intangible assets purchased for trading	xx
	Investment in deposits or forward transactions	xx
	Statutory deposits excluding statutory deposits of insurance and reinsurance companies	xx
	Investments for trading	xx

- **Items that are not deducted from the Zakat base**

The Zakar payer's obligations include:

Notes Receivable | Advance payments receivable | Receivables

Recevables from goverment | Dues from related parties

3.2.5 Other general guidelines regarding Zakat base:

1. Zakat base shall not be less than the net profit adjusted for the purpose of Zakat levy[5].

Example (18)
Zakat base of one of the Zakat payers was SAR 1,000,000 and the adjusted profit was SAR 1,100,000 for the period from 120/1/XX to 3120/12/XX of the same year. What is the Zakat Base of the Company? Since Zakat is less than the adjusted profit, Zakat should be calculated based on the adjusted profit. Adjusted profit × 2.5% = Zakat amount due 1,100,000 × 2.5% = SAR 27,500

2. The Zakat payer shall be held accountable for Zakat of the entire Zakat year in which one of the partners died or waived his share and the entry of others to replace him, whether heirs or others, if the Zakat payer continues activity.

Example (19)
A joint venture company whose financial year ends on 312019/12/. On 12019/7/, one partner assigned its stake in the company to another partner. How does the company be accountable for Zakat this year? As long as the activity continues, the Zakat base is not affected by the entry or exit of a partner. Accordingly, the Company is accountable for the entire Zakat year in accordance with the Regulation and the continuation of business.

5) Article 6, Specific Controls for Zakat Base, Implementing Regulations

3. A sole proprietorship entity shall be accounted for the Zakat year during which ownership is fully transferred to other owners in proportion to the financial period, whether transfer of ownership was by sale, assignment or otherwise.

Example (20)
A sole proprietorship entity transferred to a new owner on 12019/7/ noting that the financial year ends on 312019/12/. How will the entity be charged this year on the assumption that the calculated Zakat base was SAR 10,000,000? The old owner will be charged proportionally from the beginning of the year until the date of transfer of ownership on (302019/6/). The new owner will be charged proportionally from the date of transfer of ownership (12019/7/) to the end of the year (312019/12/)

Calculation of the Zakat base for both the old and the new owners:				
Number of days before and after ownership transfer / Days of the year 365	×	Zakat base	=	****
183 / 365	×	10,000,000	=	5,000,000

4. In the event that the Zakat payer is converted from one legal form to another in any way, the accounting shall not be applied in a pro rata basis other than what is mentioned in paragraph (3) above.

The table below shows the Zakat treatment in cases of conversion from one legal entity to another as follows:

Conversion of the legal entity		Zakat Transaction
From	to	
inance Company/ Persons	Sole proprietorship	Zakat transaction is not affected
Sole proprietorship	Finance Company/ Persons	Zakat transaction is not affected
Finance Company/ Persons	Finance Company/ Persons	Zakat transaction is not affected
Sole proprietorship	Sole proprietorship	The period between the old owner and the new owner is divided in pro rata basis and is charged accordingly

5. There shall be no clearing or settlement between the payable balances of owners or partners (including their current accounts) and debits to other owners or partners (including their current accounts) Clearing or settlement may be made between the balances of owner and the same owner (or the balances of the partner or the same partner).

6. For Zakat purposes, the revaluation results are taken into account in accordance with the fair value shown in the financial statements.

Example (21)
Al Bahr Company owns shares in Al Salam Company (a Saudi joint stock company listed on the Exchange) and is classified as long-term investment. The fair value of investments in Al Salam Company amounted to SAR 1,000,000 at the beginning of the Zakat year. However, the fair value increased to SAR 1,500,000 at the end of the year. The increase in fair value (SAR 500,000) is included in the other overall income statement. How the investment in Al Salam Company is treated in the Zakat Declaration?

Item	Amount (SAR)
Value of the investment deducted from the Zakat base	1,500,000
Change in fair value added to Zakat base	500,000

3.2.6 Practical Examples

The data below are for a company as at 312019/12/. Zakat calculation is required accordingly.

Balance Sheet (Statement of Financial Position)

As of December 31, 2019

(Amounts in SAR)

Assets	2019	2018
	SAR	**SAR**
Assets		
Current Assets		
Cash in Hand and at Banks	400,000	350,000
Investments recognized at fair value through profit or loss	2,000,000	1,600,000
Trade and other receivables	2,000,000	2,300,000
Inventory	6,100,000	6,200,000
Prepaid expenses and other receivables	500,000	650,000
Total Current Assets	**11,000,000**	**11,100,000**
Non-Current Assets		
Receivable from Related Parties	4,000,000	3,800,000
Projects under construction	3,000,000	2,400,000
Investments in subsidiaries	5,500,000	5,300,000
Real estate investments	5,000,000	5,000,000

Property, plant and equipment	9,000,000	8,700,000
Goodwill and intangible assets	4,000,000	4,000,000
Other long-term assets	1,000,000	1,000,000
Total Non-Current Assets	**31,500,000**	**30,200,000**
Total Assets	**42,500,000**	**41,300,000**

Liabilities and Shareholders' Equity	2019	2018
Current Liabilities	**SAR**	**SAR**
Due to banks	500,000	700,000
Accounts payable	500,000	600,000
Accrued expenses and other credit balances	800,000	700,000
Deferred revenue	1,500,000	1,200,000
Advances from customers	1,300,000	1,800,000
Dividend payable	3,500,000	-
Provision for Zakat	225,000	-
Obligations under a capital lease	500,000	600,000
Current portion of term loan	400,000	500,000
Total Current Liabilities	**9,225,000**	**6,100,000**
Non-Current Liabilities		
Provision for end of service benefits	2,000,000	1,800,000
Term loan	3,400,000	-
Due from related parties	6,100,000	10,500,000
Obligations under a capital lease	3,000,000	3,100,000

Total Liabilities	**23,725,000**	**21,500,000**
Shareholders' equity		
Capital	10,000,000	10,000,000
Statutory reserve	5,000,000	5,000,000
Retained earnings	3,775,000	4,800,000
Total shareholders' equity	**18,775,000**	**19,800,000**
Total liabilities and shareholders' equity	**42,500,000**	**41,300,000**

Income Statement

For the period from 1//1 /2019 to 31/ 12 /2019

(Amounts in SAR)

	2019
	SAR
Revenues	50,000,000
Cost of Revenues	(45,000,000)
Gross Profit	**5,000,000**
General, administrative and marketing expenses	(2,000,000)
Share in (losses) of subsidiaries	(500,000)
Share of results of invested companies by equity method	800,000
Other Loss, net	(300,000)
Income from Operations	**3,000,000**

Finance charges, net	(300,000)
Profit before Zakat and income tax	**2,700,000**
Zakat	(225,000)
Profit for the year	**2,475,000**

Movement of the Provision:

Description	Opening Balance	Provided during the Year	Utilized during the Year	Closing Balance
	SAR	SAR	SAR	SAR
End of service benefits	1,800,000	400,000	200,000	2,000,000
Provision for doubtful obligations	300,000	300,000	-	600,000
Total	**2,100,000**	**700,000**	**200,000**	**2,600,000**

Zakat calculation:

Item	Amount
Adjustment to activity result	**SAR**
Net profit before Zakat	2,700,000
Add: Provision for end of service provided during the year	400,000
Add: Provision for doubtful liabilities provided during the year	300,000

Add: Share in (losses) of companies subject to Zakat	500,000
Excludes: Share in profit of companies subject to Zakat	(800,000)
Total adjusted zakatable profit	**3,100,000**

Additions to the base	
Equity	**SAR**
Capital	10,000,000
Statutory Reserve	5,000,000
Retained earnings less dividends	1,300,000
Dividend payable	3,500,000
Provision for doubtful obligations at the beginning of the year	300,000
Total	**20,100,000**
Obligations on the Zakat payer	
Deferred revenue	1,300,000
Advances from customers	1,300,000
Loans (obtained on 1 July 2019) (365 / 183* 3,800,000)	1,905,206
Due from related parties	6,100,000
Obligations under a capital lease	3,500,000
Provision for end of service -Opening balance minus the utilized amount	1,600,000
Total additions to the base	**35,705,206**

Deductions from Zakat base	
	SAR
Projects under construction (assets)	3,000,000
Investments in local subsidiaries after excluding shares in profit and loss	5,200,000
Real Estate Investments (residential compounds for rent)	5,000,000
Property, plant and equipment	9,000,000
Goodwill and intangible assets	4,000,000
Total assets deducted	**26,200,000**
Zakat base without the adjusted profit for the year	**9,505,206**
Zakat at 2.578% of the Zakat base without the adjusted profit	**245,044**
adjusted profit	3,400,000
Zakat at 2.5% of the adjusted profit	**85,000**
Total Zakat	**330,044**

4. Adjustment to the Result of Business

Adjustment shall be made to the result of business (book profit or book loss) to reach the adjusted net profit for the following purposes[6].

Item	Amount
Net book profit or book loss for the year	×××
Add: Non-deductible expenses	×××
Net profit or loss adjusted for the purpose of Zakat	×××

4.1 Expenses that may be deducted

The following expenses may be deducted to determine the results of the activity for the purposes of Zakat:

6) Article 8 of the Implementing Regulations, Result of Business

Expenses	Conditions to be met in the expenses
Normal and necessary expenses necessary for the business	The expense shall be actual and supported by documents and evidence accepted by the Authority, and verifiable, even if it relates to previous years.
	The expenses shall be related to the business of the Zakat payer and shall not relate to personal expenses or other activities not related to the Zakat payer.
	They should not be of a capital nature. If capital expenditure is included in the expenses, it shall be adjusted as a result of the business activity and included in the fixed assets and depreciated within the depreciation of the asset.
Salaries and allowances of the owner or the partner	salaries and allowances paid to the owner and partner may be accepted if the owner or partner is registered at the General Organization for Social Insurance.
Remuneration paid to the Chairman, Deputy Chairman and members of the Board from the owners or partners	May be deducted within the limits of remuneration paid to independent persons.
Bad debt	Should have been previously reported as revenue in the year the revenue had been derived.
	The Zakat payer shall provide a certificate from a chartered public accountant licensed in the Kingdom confirming that cancellation of such obligations has been made by a decision of the competent authority upon request by the Authority.
	Obligations shall not be due from related parties.
	The Zakat payer shall report the debts written off as revenue where such debts are recovered.

Annual installment depreciation on fixed assets	The assets shall be owned.
	The assets are intended for use in the business, as determined by the Zakat payer›s business books.
	The installment depreciation shall be reasonable and not exaggerated
Donations	Donations must be paid to those authorized to receive donations inside the Kingdom and supported by relevant documents.
Provision for unearned premium and the existing risk reserve in the insurance companies (and / or) reinsurance companies (for further details refer to the insurance business manual)	Shall be returned to Zakat base during the following year.
	Shall be determined in accordance with the professional standards followed for this type of business, and in accordance with the prevailing regulations, bylaws and rules related to this type of business
School expenses paid to the children of the employees of the Zakat payer	Should have paid to an educational institution licensed in the Kingdom.
	Should be explicitly stated in the contract of employment or company's by-laws.
	Such expenses shall be capable of being evidenced by supporting payment documents acceptable to the Authority.

Guidelines of some expenses that may be deducted

Normal and necessary expenses necessary for the business
The expense shall be actual and supported by documents and evidence accepted by the Authority, and veriable, even if it relates to previous years
The expenses shall be related to the business o the Zakat payer and shall not related to personal expenses or other activities not related to the Zakat payer
They should not be of a capital nature. If capital expenditure is included in the expenses, it shall be adjusted as a result of the business activity and included in the fixed assets and depreciated within the depreciation of the asset

Bad Debt
Should have been previously reported as revenue in the year the revenue had been deliverd
The Zakat payer shall provide a certificate from a chartered publiv accountant licensed in the Kingdom confirming that cancellation of such obligations have been made by a decision of the competent authority upon request by the Authority
The Zakat payer shall report the debts written off as revenue where such debts are recovered

Annual installment depreciation on fixed assets
The assets be owned
The assets are intended for use in the business, as determined by the Zakat payer's business books
The installment depreciation shall be reasonable and not exaggerated

Donations
Must be paid to those authorized to receive donations inside the Kingdom and supported by relevant documents

4.2 Non-deductible Expenses

The following expenses may not be deducted to determine the result of the business for the purposes of Zakat:

1. Expenses and costs not associated with the Zakat payer business, including the following:

- Entertainment expenses.
- Expenses of capital nature.
- Salaries, wages and equivalent paid to the owner, partner or any member of his family other than what is registered with the social insurance.
- Personal expenses related to partners.

2. Expenses not supported by other documents or evidence acceptable to the Authority.
3. Zakat or tax, payable or paid, except for VAT incurred by the Zakat payer.
4. Contribution of workers in pension and savings funds.
5. Provisions and reserves formed during the year.
6. Increase in material/service prices/rates provided/rendered by related parties or otherwise

Import differences and how to address them:

During the inspection stage, the Authority verifies the value of the import based on the customs declaration and compares the same with the value declared by the taxpayer. This will be done after deducting any imports added to the fixed assets during the Zakat year and any other imports identified by the Authority based on available information. The taxpayer will then be asked to explain any differences that arise. Some of these differences could be attributed to various factors, including differences in timing and registration, currency evaluation, and import through other companies or related companies. In order to resolve these discrepancies, supporting documents will be required for study and verification purposes.

In the event of import differences not supported by documentation, the difference is handled as follows:

- If the value of the import declared by the taxpayer is greater than its declared value in the customs declaration, the difference must be added in full to the net profit.
- If the value of the import declared by the taxpayer is lower than its declared value in the customs declaration, a profit for this difference shall be calculated in accordance with the procedures established by the Authority. The profit calculated will not be less than the ratio of the total profit of the declaration to the revenues, and the result will be adjusted accordingly.

Example A:

The import value of one of the companies as at 31 December 2019 amounted to SAR 80,000,000 according to the company›s books, whereas the import, as per the customs declaration, was SAR 100,000,000, assuming that the percentage established by the Authority not less than the ratio of the total profit of the declaration to the revenues of the activity is 15%.

How to address the difference?

- **Imports on the items of the financial position or the items of the income statement:**

1. In the previous example, the taxpayer matched the balance of the last period of the inventory in the declaration with the financial statements, and it was found that a portion of his purchases is added to the production stages, which appear within the inventory items in the statement of financial position; therefore, no import differences are calculated (with the right of the Authority to request the necessary samples to verify the validity of these differences).
2. In the event that differences are not supported by documentation, this difference (amounting to SAR 20,000,000) shall be refunded, and a profit for this difference shall be calculated in the percentage established by the Authority at a rate not less than the ratio of the total profit of the declaration to the revenues of the activity, and the result of the activity shall be adjusted as follows:

Import difference × the percentage established by the Authority not less than the ratio of the total profit of the declaration to the revenues of the activity × 2.5% = Zakat value

20,000,000 × 15% × 2.5% = SAR 75,000

- **Import on behalf of other companies:**

1. In the previous example, after the review, the company submitted a statement of these differences, which is its import to a subsidiary company, which was then requested to provide the Authority with the names of the companies and their endorsements of these balances, and the review and verification are conducted to ensure that these companies included the imports within its statements and declarations.

2. In the event that differences are not supported by documentation, this difference (amounting to SAR 20,000,000) shall be refunded, and a profit for this difference shall be calculated in the percentage established by the Authority at a rate not less than the ratio of the total profit of the declaration to the revenues of the activity, and the result of the activity shall be adjusted as follows:

Import difference × the percentage established by the Authority not less than the ratio of the total profit of the declaration to the revenues of the activity × 2.5% = Zakat value
20,000,000 × 15% × 2.5% = SAR 75,000

- **Timing and Registration Difference:**

In the previous example, the taxpayer submitted a statement of imports that were registered at the beginning of the following year with customs and appeared in the company›s books for this year, while providing the Authority with invoices and registration restrictions with the books for this year, so the Authority verifies the authenticity of the submitted documents and import differences are not calculated because the invoices for purchases match the customs declaration.

Example B:

The import value of one of the companies as at 31 December 2019 amounted to SAR 100,000,000 according to the company›s books, whereas the import according to the customs declaration was SAR 80,000,000.

How to address the difference?

- **Other companies importing on behalf of the company:**

In the previous example, after the review, the company submitted a statement of these differences, which is another company that imports on its behalf, the company is requested to provide the Authority with the names of these companies and their endorsements of these balances, and the review and verification are conducted to ensure that these companies did not include these imports in their statements and declarations.

In the event that there are differences that are not supported by documentation, this difference (amounting to SAR 20,000,000) will be refunded and added to the net profit.

- **Timing and registration difference:**

In the previous example, the taxpayer submitted a statement of imports that were registered at the beginning of the following year with customs and appeared in the company›s books for this year, while providing the Authority with invoices and registration restrictions with the books for this year, so the Authority verifies the authenticity of the submitted documents and import differences are not calculated because the invoices for purchases match the customs declaration

Non-deductible Expenses

The following expenses may not be deducted to determine the result of the business for the purposes of Zakat:

- Expenses and costs not associated with the Zakat payer business, including the following
  1. Expenses of capital nature
  2. Entertainment expenses
  3. Personal expenses related to partners
  4. Salaries, wages and equivalent paid to the owner partner or any memer of his family other than what is registered with the social insurance
- Expenses not supported by other documents or evidence acceptable to the Authority
- Zakat or tax, payable or paid, except for VAT incurred by the Zakat payer
- Contribution of workers in pension and savings funds
- Provisions and reserves formed during the year

- Increase in material/service prices/rates provided/rendered by related parties or otherwise parties having direct/indirect influence on Zakat payer's acts/decisions compared to such prices/rates used by independent parties in accordance with applicable regulations, related by-laws and rule

Example (23)

The net profit of a company as at 3120/12/XXG is SAR 10,000,000. If you know that the net profit includes the following expenses:

1. Entertainment expenses of SAR 40,000.
2. Salaries paid to a partner not registered with social insurance SAR 400,000.
3. Personal expenses related to one of the partners of SAR 30,000,
4. End of service provision of SAR 100,000.
5. Zakat amount of SAR 50,000.
6. Commodity was purchased from related party in the amount of SAR 120,000. Note that the market value of this commodity is SAR 100,000.

How is the adjusted profit calculated for Zakat purposes?

The non-deductible expenses are returned to the net profit; to reach the adjusted net profit, as follows:

Item	SAR
Net Profit	10,000,000
Add:	
Entertainment expenses	40,000
Salaries of partners not subject to social insurance	400,000
Personal expenses related to partners	30,000
Zakat expenses	50,000
Difference in the value of goods from a related party	20,000
Adjusted gross profit	**10,660,000**

Example (24)

The following table shows the movement of provisions for a company as at 312012//XX:

	Opening Balance	Provided during the Year	Utilized during the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end of service	1,000,000	300,000	200,000	1,100,000
Provision for doubtful obligations	2,000,000	500,000	800,000	1,700,000
Provision for obsolete and slow- moving inventory	500,000	100,000	-	600,000
Total	**3,500.00**	**900,000**	**1,000,000**	**3,400,000**

If you know that the profit for the year amounted to SAR 8,000,000, calculate the adjusted profit for Zakat purposes.

	20XX
	SAR
Net profit for the year	8,000,000
Add:	
Provision for end of service component during the year	300,000
Provision for doubtful liabilities component during the year	500,000
Provision for obsolete and slow-moving inventory	100,000
Adjusted net profit	**8,900,000**

5. Education Sector

5.1 Definitions related to the sector

This sector is defined as the sector specialized in providing short-term lodging services to visitors and other travelers as well as providing full meals and drinks for fast consumption. It does not include the provision of long-term accommodation services as a main dwelling which is classified under real estate activities. It also does not include the operation of food and beverage services that do not meet with rapid consumption or are sold through independent distribution channels.

This sector includes the following activities:

- Hotels.
- Resorts.
- Providing lodging and accommodation services and facilities, campsites and recreational parks that provide places for cars and parks that provide places for trailers.
- Other accommodation facilities that provide temporary or longer-term accommodation.
- Restaurants and mobile food service activities.
- Event catering and other activities based on temporary contractual arrangements and contractor services.

The most important items in the statement of financial position for lodging and food services sector and their Zakat treatment.

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Food and beverage inventories	Represent materials used in the lodging and catering services sector	Non-deductible assets	Not deductible from the base as they are Zakatable assets.

5.2 Practical Examples

Balance Sheet (Statement of Financial Position)

As at December 31, 2019

(Amounts in SAR)

Assets	2019	2018
	SAR	**SAR**
Assets		
Current asstes		
Cash in hand and at banks	4,290,000	4,190,000
Trade receivables	250,000	300,000
Inventory	1,300,000	1,200,000
Prepayments	150,000	100,000
Total current assets	**5,990,000**	**5,790,000**
Non-current assets		
Fixed assets	4,600,000	4,300,000
Intangible assets	900,000	950,000
Total non-current assets	**5,500,000**	**5,250,000**
Total assets	**11,490,000**	**11,040,000**

Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current Liabilities		
Current portion of long-term loans	400,000	400,000
Trade payables	1,500,000	1,600,000
Accruals and other current liabilities	700,000	670,000
Total non-current liabilities	**2,600,000**	**2,670,000**
Non-current liabilities		
Long term loans	4,000,000	4,400,000
Provision for end of service benefits	510,000	500,000
Total non-current liabilities	**4,510,000**	**4,900,000**
Shareholders' equity		
Capital	1,000,000	1,000,000
Statutory reserve	500,000	500,000
Retained earnings	2,880,000	1,970,000
Total shareholders' equity	**4,380,000**	**3,470,000**
Total liabilities and shareholders' equity	**11,490,000**	**11,040,000**

Income Statement

For the period from 1//1 /2019 to 31/ 12 /2019

(Amounts in SAR)

	2019
	SAR
Revenues	2,000,000
Cost of Revenues	(1,500,000)
Gross Profit	**500,000**
General and administrative expenses	(200,000,000)
Income from Operations	**300,000,000**
Financing charges	(100,000)
Profit before Zakat and income tax	**2,900,000**
Zakat	(20,000)
Profit for the year	**2,880,000**

Movement of the Provision:

	Opening Balance	Generated during the Year	Utilized during the Year	Closing Balance
	SAR	**SAR**	**SAR**	**SAR**
Provision for end of service	500,000	140,000	(130,000)	510,000
Total	**500,000**	**140,000**	**(130,000)**	**510,000**

Zakat calculation:

Item	Amount
Adjustment to activity result	**SAR**
Net profit before Zakat	2,900,000
Add: Provision for end of service provided during the year	140,000
Total Adjusted zakatable profit	**3,040,000**
Additions to the base	
Shareholders' equity	**SAR**
Capital	1,000,000
Statutory reserve	500,000
Retained earnings	1,970,000
Dividends distribution during the year	(1,970,000)
Total	**1,500,000**
Liabilities on the Zakat payer	
Long term loans	4,400,000
Provision for end of service benefits - opening balance less amount utilized during the year	370,000
Total external sources of funds subject to Zakat	**4,770,000**
Total Additions to the base	**6,270,000**
Deduction from Zakat base	
	SAR
Fixed assets	4,600,000
Intangible assets	900,000
Total deductible assets	**5,500,000**
Zakat base without the adjusted profit for the year	**770,000**

Zakat at 2.578% of the Zakat base without the adjusted profit	**19,851**
Adjusted profit	3,040,000
Zakat at 2.5% of the adjusted profit	**76,000**
Total Zakat	**95,851**

Item	Item Nature	Zakat Treatment	Judgment
Capital			
	Represent shareholders' payments in capital	Internal funding sources	Added to the Zakat base to meet deductible assets
Retained earnings	Represent retained earnings from previous years and profit for the year	Internal funding sources	Added to the Zakat base to meet deductible assets
Reserve for translation of foreign currencies	Represent a reserve for the purpose of meeting the change in foreign currency translation	Internal funding sources	Added to the Zakat base to meet deductible assets
Fair value reserve	Represent the revaluation reserve and the meeting the change in fair value	Internal funding sources	Added to the Zakat base to meet deductible assets
Statutory reserve	Represent the estimated reserve by law	Internal funding sources	Added to the Zakat base to meet deductible assets
Cash flows hedge reserve	Provision for cash flow hedge risk	Internal funding sources	Added to the Zakat base to meet deductible assets

6. Appendix: Frequently Asked Questions (FAQ)

FAQ pertaining to the Zakat base:

1. Is it permissible for an entity to deduct the employees' share in the regular pension funds such as the retirement pension, social insurance or saving funds from the Zakat base?

The employees' share in such funds may not be deducted from the Zakat base.

2. What are the expenses that may be deducted from the Zakat base?

All ordinary and necessary expenses that are needed for the business activity, whether paid or due, are deducted to reach the net result of the business activity provided that the following guidelines are met:

1. They shall be actual expenses evidenced by supporting documents or other evidences to enable the Authority to verify its validity even if they relate to previous years.
2. They shall correspond to the business activity and not related to personal expenses or other activities.
3. They shall not be of capital nature, and in case an expense of a capital nature is included in the expenses, the result of the business activity will be adjusted accordingly, and it will be added to the fixed assets and depreciated in accordance with statutory ratios.

3. Is it permissible for an entity to deduct bad debts from the Zakat base? What are the guiltiness for that?

Bad debts are considered expenses that may be deducted according to the following guidelines:

1. 1. Should have been previously reported as a revenue to the entity in the year they become due.
2. Bad debts should have arisen from engagement in business activities, provided that:

   A. The entity shall provide a certificate from a certified public accountant confirming that bad debts had been written off from the books by a competent officer's decision.

   B. The debts written off should not be due from related parties to the Zakat payer.

3. The Zakat payer shall report the debts written off as revenue once such debts are recovered.

4. **Is it permissible for the owner of the entity to deduct his salaries and allowances from the Zakat base?**

The salaries and allowances of the business owner, whether a sole proprietorship, a capital company or a company of persons, as well as the remuneration paid to the chairman of the board of directors of the entity, his deputy and board members, shall be considered as expenses that may be deducted, provided that the salaries and allowances of the owner of the entity are registered in the social insurance, and that the remunerations should not exceed those paid to independent persons.

5. **How is the capital increase calculated when it is unknown that it financed a deductible asset?**

The capital increase, which is unknown to have financed a deductible asset, will be added, according to the number of days, as a source of other funding sources and treated as obligations on the Zakat payer and therefore shall be added not exceeding the amount of deductibles from the base.

6. **How is the Zakat payer accounted for in case the fiscal year is longer than the Hijri year (354 days)?**

Zakat is calculated based on the actual number of days in the year, by dividing two and a half percent (2.5%) on the number of days of the Hijri year (354 days) multiplied by the number of actual days of the Zakatable year, except for the adjusted net profit which shall be subject to Zakat at two and a half percent (2.5%) for the year.

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

Scan this code to view the last
version and all published documents
Or visit the website zatca.gov.sa