



Zakat General **Simplified Guideline**



The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this Guide for the purpose of clarifying certain tax treatments concerning the implementation of the statutory provisions in force as of the Guide's issue date. The content of this Guide shall not be considered as an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom.

Furthermore, the Authority would like to highlight that the clarifications and indicative tax treatments prescribed in this Guide, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation or content provided in this Guide is modified - in relation to unchanged statutory text - the updated indicative tax treatment shall then be applicable prospectively, in respect of transactions made after the publication date of the updated version of the Guide on the Authority's website.



Zakat:

Zakat is the third pillar of Islam and the most important financial worship. As an indication of the great status of Zakat in Islam, the state is entrusted with administering and supervising the collection of Zakat on declared funds and its distribution to the needy.

It is stipulated in the Basic Law of Governance, as stated in Article (21): (Zakat shall be collected and spent as prescribed by the Islamic Shari'ah).

Application of Zakat Levying in Saudi Arabia:

The Royal Decree No. (17/2/28 /8634) dated 29/6/1370H (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, ministerial decisions, and Zakat regulations and circulars, including:

Royal Decree No. (M/40) dated 2/7/1405H, included the order to collect Zakat in full from all companies, institutions and others and individuals who are subject to Zakat.

Implementing Regulation for levy of Zakat was issued under Ministerial Resolution No. (2082) dated 1/6/1438H.

Implementing Regulation for levy of Zakat was issued under Ministerial Resolution No. (2216) dated 7/7/1440H, effective 1 January 2019G.



The main concepts of Zakat levying regulation:

Zakat Payer:

A natural or legal person who carries on Activities subject to Zakat under the Regulations, whether a sole proprietorship, corporate or a person engaged in a business activity under a license issued by a competent authority.

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

Resident:

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

Non-resident :

Any person who does not qualify as a resident.

Zakat year:

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

Declaration:

A statement provided by the Zakat Payer in a form approved by the Authority showing fiscal items of the zakat account and zakat due in accordance with the Zakat Regulations. The fiscal year of the Zakat payer, whether Hijri or Gregorian, short or long, at the beginning or end of activity.



Commercial Records:

Book of accounts and financial/accounting records maintained by the Zakat Payer in which, all commercial transactions are recorded as per the Commercial Books Law issued by Royal Decree No. (M/61) dated 17/12/1409H (21/02/1989G) and its implementing regulations and any amendments thereto.



Shares held by non-Saudi partners Resident Saudi companies listed on a Saudi stock exchange



shares of Saudi companies



The Saudi individual institutions.

Registration for Zakat purposes:

A Zakat payer subject to the regulations hereof shall register with the Authority prior to the end of the Zakat payer's first fiscal year. A Zakat payer who is not subject to the Regulations must also register with the Authority. When the ownership and location of a business change, the Zakat payer must update his or her information.

Companies owned by the same partners or by the holding company and its subsidiaries wholly owned within or outside the Kingdom, whether by direct or indirect ownership, may submit consolidated accounts and zakat declarations and be held accountable on the basis of what their results show with a single zakat base, provided that the authority approves the declaration's unification.

Submission of the Zakat Declaration and Payment of the Final Amount Due

A Zakat payer shall file the declaration and the attachments in accordance with the Authority's approved forms and pay the Zakat no later than one hundred twenty (120) days from the end of the Zakat year.



Authority's Method to Calculate Zakat Base:

The Authority uses the indirect method (sources of funds method) to reach the zakat base. This method is based on two basic procedures:

Add: External sources equivalent to the deductible assets

Deduct: The value of non-Zakatable assets and the value of the Zakatable assets.

$$\text{Zakat base} = \text{Add} - \text{Deduct}$$

- **Reasons for adding to the Zakat base**

1. The deductible component, including obligations.
2. Access to zakat assets financed through internal funds.

- **Estimation of Zakat base**

The obligations of the Zakat payer (external sources of financing) must be added at the Zakat base; assuming its priority in funding the items settled before internal sources of funding, in the following order:

1. External sources of funds (up to the maximum value of the assets settled).
2. Internal sources of funds.

Add:

- | | | |
|--|-----------------------------------|--|
| 01> Capital | 02> Advanced Revenue and Payments | 03> Long-term obligations (maximum sum deducted from the zakat base) |
| 04> First Year Reserves | 05> Retained Earnings | 06> Profit Under Distribution |
| 07> Adjusted Net Profit / Net Fixed Assets | 08> First Year Allocation | 09> Change in Fair Value |
| 10> Any item taken at discounted rate | | |



Deduct:

01> Net Fixed Assets

02> Capital Work In Progress

03> Intangible Assets

04> Zakat Investments/ Investments in entities inside and outside the Kingdom for non-trading in accordance with the rules mentioned below

05> Net Incorporation

06> Adjusted Net Loss Adjusted carry-over loss or as per the lists, whichever is less

07> Net Value of Properties Under Development

08> Statutory Deposit of Insurance and Reinsurance Companies

09> Agricultural Inputs

Example of Calculating Company's Zakat:

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

| Statement of Financial Position | | | |
|---------------------------------|-----------------------------|-----------------|---|
| Liabilities and Equity | | Assets | |
| 6000 | Current Current liabilities | 9000 | Current assets |
| 7000 | Long-term liabilities | 8000 | Long-term assets (property and equipment) |
| 4000 | Equity | | |
| 17000 SR | Total | 17000 SR | Total |



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 were less than the deductions, and then equity was added.

| S.R. | Item |
|-------|------------------------|
| 7,000 | Long-term liabilities |
| 4,000 | Equity |
| 8,000 | Less: Long-term assets |
| 3,000 | Zakat Base |



Zakat Base Rules:

- **The minimum Zakat base**

For zakat collection purposes, the zakat base cannot be less than the adjusted net profit.

- **Beginning of the zakat payer's fiscal year.**

Date of deposit of capital

Obtaining the necessary licenses

Issuance of commercial register

(Unless the zakat payer determines a further date for the commencement of the activity based on documentary evidence)

- **Zakat Ratio**

Divide two and a half percent (2.5%) by the number of days of the Hijri year if the zakat payer's fiscal year differs from the Hijri year; The zakat calculation is based on the zakat payer's actual number of days, and the zakat ratio can be calculated as follows:

and the zakat ratio can be calculated as follows:

$$\text{the number of actual days of the Zakat year for the Zakat payer} \times \frac{2.5\%}{354}$$

- Adjusted net profit is applied to it (2.5%) for any financial period.
- The short financial period at the end of the activity of the company is not subject to zakat, if the number of days of the period is less than three hundred and fifty-four (354) days.



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.

Expenses that may be Deducted

- Normal and necessary expenses necessary for the business
- Salaries and allowances of the owner or the partner
- Remuneration paid to the Chairman, Deputy Chairman and members of the Board from the owners or partners
- Bad debt
- Annual installment depreciation on fixed assets
- Donations that paid to authorized entities
- Provision for unearned premium and the existing risk reserve in the insurance companies (and / or) reinsurance companies.
- School expenses paid to the children of the Zakat payer

Expenses that may be Deducted

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.

4. Contribution of workers in pension and savings funds.



- 5. Provisions and reserves formed during the year.
- 6. Import differences.

Objection and Appeal Procedures:

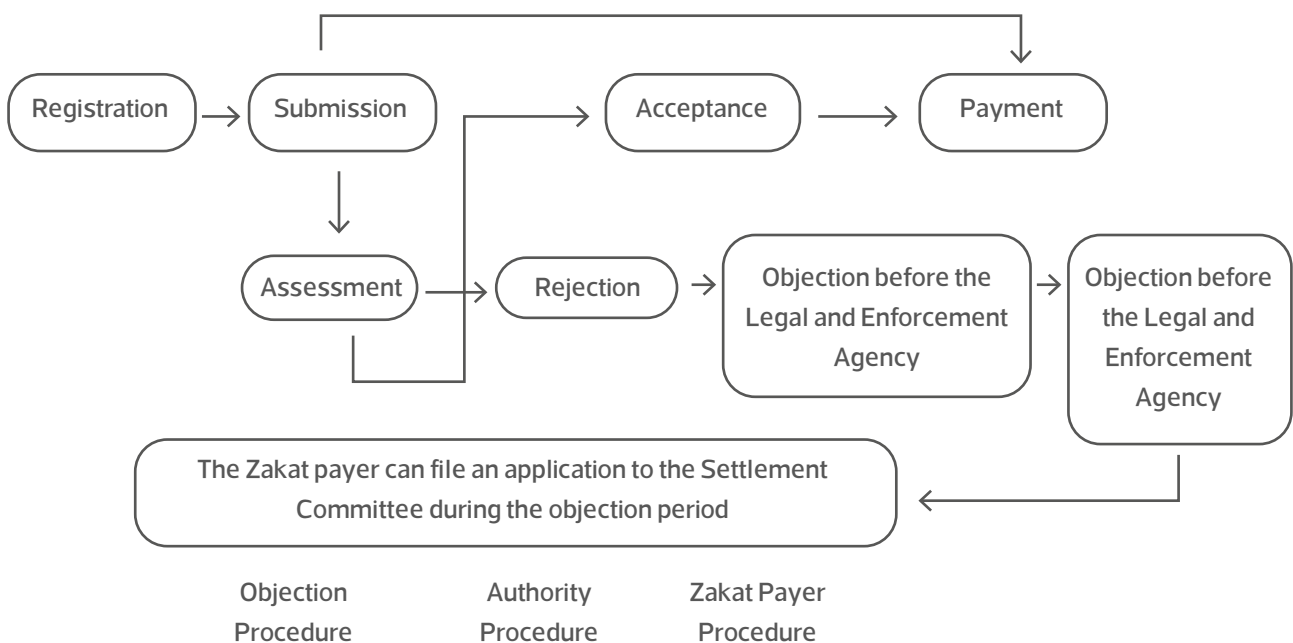
Declaration of Submission Methods:

Registration, Submission, Acceptance, Payment, Assessment, Objection before the Legal and Enforcement Agency, the Zakat payer files an application to the Tax Dispute and Appellate Committee. The Zakat payer can file an application to the Settlement Committee during the objection period.

Zakat payer procedure/authorization procedure/objection procedure

Objection and Appeal Procedures:

Declaration of Submission Methods:





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