



Zakat Simplified Guideline for the Zakat Treatment of Debts

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



This guide clarifies the provisions contained in the Implementing Regulations for levying Zakat issued by the Ministerial Resolution No. (2216) dated 7/7/1440 AH.



The Articles of the implementing regulations for levying Zakat related to zakat treatment of debts:

The Implementing Regulations for levying zakat discussed in the second, third and tenth paragraphs of Article 4 (related to the components of the zakat base) the zakat treatment of debts as follows:

Paragraph No. (2):

"Revenues and advance payments of the zakat payer at the beginning or end of the zakat year, whichever is less."

Paragraph No. (3):

The zakat payer's long-term debt and any equivalent item of the zakat base, such as government and commercial finance, creditors, account payable, overdrafts, and shareholder loans (including their current accounts), provided that the following is taken into consideration:

- a. If the zakat payer's debts or loan from other sources is (354) days or longer spanning over two zakat years, the amount of the debt or loan shall add to zakat base for each year in proportion with the number of days of each zakat year.
- b. The zakat year of debts shall not interrupt by the renewal or rescheduling with the creditor, or replacement of debt or other financing sources that finance what was previously financed by these debts.

Paragraph No. (10):

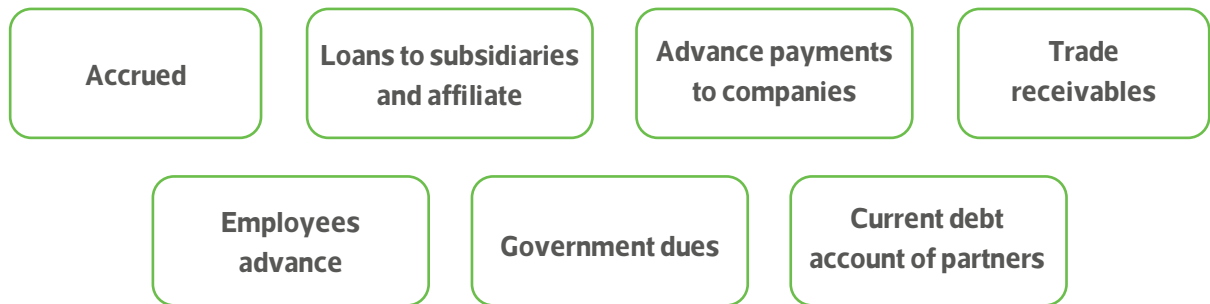
"Any item of liabilities and equity that finances any of the deductible items from the Zakat base."



Zakat Treatment of Debts that Do Not Owe to the Zakat Payer:

In general, the zakat payer's debts are not deducted from the zakat base, as the conditions for deduction do not apply, and they are considered zakat assets.

Including, for example:

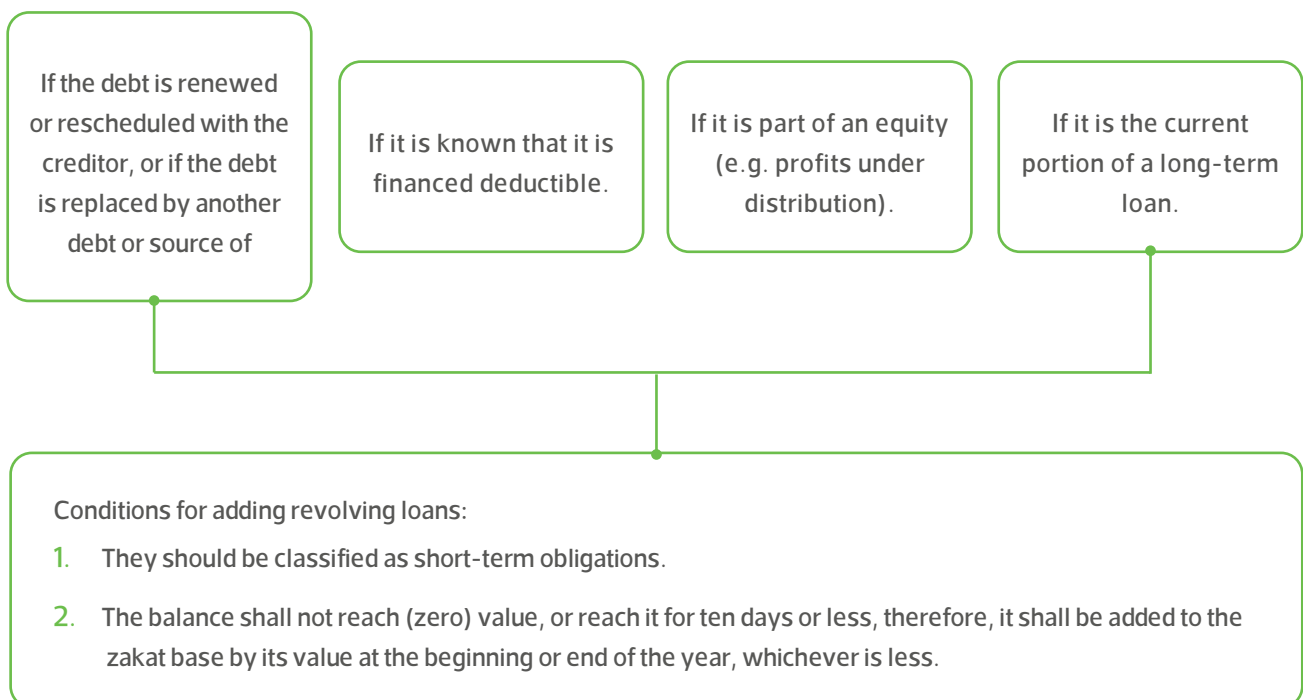


Zakat Treatment of the Zakat Payer's Debts:

First: Short-term loans:

In principle, loans classified as short-term obligations are not added to the zakat base, except in the following cases:

Revolving loans





An example of zakat treatment for loans classified under short-term liabilities:

A company has signed a bill of exchange that are due for payment in (less than 354 days) and were as follows:

1. 6,000,000 SAR, the value of a bill of exchange in return for financing the purchase of a property.
2. 4,000,000 SAR, the value of a bill of exchange in return for financing the purchase of goods.
3. 2,000,000 SAR, the value of a bill of exchange in return for financing the payment of multiple obligations in the activity.

How much should be added to the base in each case?

1. An amount of 6,000,000 SAR is added to the entire bill of exchange to the Zakat base, as it was used in deducted financing (fixed asset).
2. An amount of 4,000,000 SAR shall not add to the value of the bill of exchange for the zakat base, as the bill is short-term and was not financed as a deductible (fixed asset).
3. An amount of 2,000,000 SAR shall not add to the value of the bill of exchange for the zakat base as long as it is a short-term bill of exchange, used to pay off multiple obligations in the activity, and it did not include deductible financing, or did not replace a previous obligation.

Second: Long-term loans:

Loans classified as long-term obligations shall add to the zakat base, considering the following conditions:

1. The long-term debt that arose during previous years shall be added to the balance of the last period, including additions to them during the year, and up to a maximum of deductibles.
2. If a long-term debt arises during the year and its duration is 354 days or more, it shall be added to the base of debt in relation to the year in proportion to the number of days, unless it is known that it was financed for a deducted item, in which case it shall be added up to a maximum of deductions.
3. The total of the debts added to the components of the base, including paragraph (10) of Article 4 when they are added to a maximum of the deductions, shall not exceed the value of the deductions from it.



Example of zakat treatment for long-term loans:

On the 20th of June 2021, a company got a long-term loan of 4,000,000 SAR, knowing that the company's financial year ends on the 31st of December 2020. How do you determine how much of a loan can be added? Assuming that this loan that financed one of the deduction's elements is unknown.

| For a long-term loan, it is added to the base according to the number of days for the zakat year as follows: | | | | |
|--|---|------------|---|-----------|
| Number of days left until the end of the fiscal year | | | | |
| | x | Debt value | = | **** |
| Number of days in the year 366 | | | | |
| 195 | | | | |
| | x | 4,000,000 | = | 2,131,148 |
| 366 | | | | |

The zakat payer's total debts that classified as long-term obligations during the year ending on 31/12/2021 amounted to 50,000,000 SAR, while the total deductions from the base amounted to 35,000,000 SAR.

The zakat payer's debts which its time exceeds 354 days or financed deductible assets are added to the zakat base at the end of the year within the limits of deductions of the amount 35,000,000 riyals only.



Zakat treatment of the most important accounting items classified under obligations:

Eligible expenses:

They are not added to the base as long as they are classified as short-term obligations, unless it is known that they financed one of the deduction's.

Financing from related parties:

1. If the concept of obligations applies to this item; it shall be treated as debts, considering their accounting classification.
2. If the concept of obligations does not apply to this item; it shall be treated as capital.

Advance Payments:

It is added to the base by comparing the balances at the begin and end of the zakat year and adding the lesser of the two.

Government dues:

When the conditions for adding short-term or long-term obligations are apply, it is treated as the zakat payer's obligations and is added to the base.

Provisions:

The provisions shall be added to the zakat base, considering the following conditions:

1. The provision set a side during the Zakat year shall be (Added to) the adjusted (profit/ loss), as it is one of the items of the income statement.
2. The opening balance shall be added to the base less the used amount during the year, as it is one of the items in the statement of financial position.
3. If the Zakat base is less than the adjusted profits, it is not allowed to deduct the used amount from the provisions, as it is deducted from the balance.

Obligations transferred from equity:

The amount transferred from equity to debts during the whole year is added to the Zakat base as one of the internal sources of funds.



Bad debts:

Bad debts are one of the expenses that may be deducted to reach at the activity's result in accordance with the following conditions:

1. Should have been previously reported as revenue in the year the revenue had been derived.
2. The bad debts shall result from an activity.
3. 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.
4. Obligations shall not be due from related parties.
5. The Zakat payer shall report the collection of those debts in the future.



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