



Zakat Simplified Guideline for Zakat Treatment of the Most Common Disputed Zakatable Items



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.



1. Introduction to the Most Common Disputed Zakatable Items Guideline:

This guideline contains the most common zakatable items in dispute and objection between zakat payers and ZATCA, where the Authority has studied and analyzed the most common of these items and published them in the "Guideline to the Most Common Disputed Zakatable Items" (available at this link: [\(zakat.pdf \(zatca.gov.sa\)\)](#) in an effort to raise awareness regarding zakat accounting.

Zakatable Items that Will be Discussed in this Guideline:

1. Estimated assessment for not submitting the declaration within the due date.
2. Investments.
3. Fixed assets not used in the business.
4. Profits under distribution.
5. Real estate under development.
6. Revenue difference between financial statements, VAT returns and real estate transactions.
7. Debited loans or backstop or additional financing and equivalents that granted to the investee establishment.
8. Charitable endowment companies and non-profit organizations to be subject to the levy of zakat.



The First Item: The Estimated Assessment for Not Submitting the Declaration Within the Due Date

Description of the item:

When a zakat payer fails to submit a declaration by the due date, the Zakat, Tax and Customs Authority assesses the zakat payer and determines an approximate zakat obligation based on the zakat payer's information sources. The zakat payer may submit an objection to this obligation and correct the items under the assessment.

Legal procedure:

The zakat payer shall submit the declaration on its due date, within one hundred and twenty (120) days from the end of the Zakat year, which in the event of compliance with it is considered a guarantee that prevents the Authority from making the estimated assessment, as it is a means that the Authority use when forced; for the purposes of establishing a zakat base for the zakat payer who has not submitted a declaration to the Authority expressing his assets, obligations and the amount of the zakat base contained therein.

The Authority's role:

When the zakat payer who maintains commercial books does not submit his zakat declaration within the specified due date, the Authority in this case will assess the zakat payer and hold him accountable by the deemed method, because he has exceeded the due date specified in the regulation (120) days for submitting the declaration.

Example

Al Ghorob Company maintains its commercial books and did not submit the declaration on the due date, as stipulated in the regulation (120) days, so the Authority has conducted the assessment and accounted the company using the deemed method, according to the zakat payer's information and data available to the Authority, for non-compliance with submitting the declaration and financial statements on the due date.



The Second Item: Fixed Assets Not Used in the Business

Description of the item:

The zakat payer records the value of fixed assets, which have not been used in the business, within the fixed assets of the establishment that are recorded in the statement of financial position.

Legal procedure:

The implementing regulation for levying zakat, issued by Ministerial Resolution No. 2216 and dated 7/7/1440AH, in item (A) of Paragraph No. (1) of Article Five, stated the following: It shall be deducted from the zakat payer's base who maintains commercial books:

1. Net fixed assets and equivalents, including - but not limited to - the following:
 - Fixed assets obtained for use in the zakat payer's business, at the book value that recorded in the financial statements.

The Authority's role:

The Authority rejects to deduct this item because the condition for levying zakat was not fulfilled as there were no documents confirming the usage of this fixed asset in the business.

Example

(A) Company submitted its zakat declaration, recording the value of unused fixed assets in the business as part of its fixed assets at a value of 2,000,000 SAR, and the Authority determined that these assets are not used in the business, therefore, it will take the following procedure:

Non-acceptance of deduction of the value of fixed assets that not used in the business, amounting to 2,000,000 SAR.



The Third Item: Profits Under Distribution

Description of the item:

They are the profits carried forward from previous years and not distributed to the shareholders, and kept by the establishment for the purpose of financing its operations. Some zakat payers do not add them to the base when submitting the zakat declaration, as they are profits under actual distribution.

Legal procedure:

The implementing regulations for levying zakat, issued by Ministerial Resolution No. 2216 and dated 7/7/1440 AH, in Paragraph No. (8) of Article Four related to the components of the base, stipulated the following:

"Profits under distribution, with the exception of profits announced for distribution and whose owners did not come to receive them, provided that they are deposited in a private account in which the zakat payer is not allowed to dispose of them."

The Authority's role:

The balance of profits under distribution shall be added to the zakat base, regardless of their classification in the statement of financial position, whether they are distributions proposed by the Board of Directors or approved for distribution, with the exception of profits announced for distribution and whose owners did not come to receive them; provided that they should be in a private account that the zakat payer is not allowed to dispose of them.



Example:

Al Tamayuz Company wants to submit its zakat declaration for the year ending in 2021, which contains the profits as follows:

Balance of retained earnings from previous years	The amount	The value of these profits is added to the zakat base
	3,000,000	
Profits under distribution (not announced)	The amount	The value of these profits is added to the zakat base
	200,000	
Profits under distribution (they were announced and the owners did not come to receive them, and they were not deposited in a private account in which the establishment is not allowed to dispose of them)	The amount	The value of these profits is added to the zakat base
	400,000	
Profits under distribution (they were announced and the owners did not come to receive them, and they are deposited in a private account in which the establishment is not allowed to dispose of them)	The amount	The value of these profits is added to the zakat base
	900,000	



The Fourth Item: Real Estate Under Development

Description of the item:

Real estate under development is a component of the statement of financial position that is classified as non-current assets.

Legal procedure:

The implementing regulations for levying zakat, issued by Ministerial Resolution No. (2216) dated 7/7/1440AH, in Paragraph No. (9) of Article Five, stipulates that the following items shall be deducted from the zakat base for the zakat payer who maintains commercial books:

The value of the real estate under development that prepared for sale and classified as non-current assets in the financial statements and intended to be sold upon completion of development, unless the real estate is available for sale in its current condition, or for which the total sales and advance payments received from customers exceeds 25% of its value as recorded in the financial statements of the zakat year to which the declaration pertains.

The Authority's role:

The Authority does not deduct the item of real estate under development unless the conditions mentioned in the regulations are met, which are:

The real estate shall not be available for sale in its current condition, and the total sales and advance payments received from customers shall not exceed 25% based on each project according to its value as recorded in the financial statements of the zakat year to which the declaration pertains.



Example

The balance of the real estate development for (A) Company that are recorded within the non-current assets in the financial statements as of December 31, 2020, amounted to 30,000,000 SAR, and the sales percentage was 20%. What is the balance of the real estate development item that may be deducted from the zakat base?

The balance of the real estate development that recorded in the financial statements as on December 31, 2020, with the amount of 30,000,000 SAR is deducted in full from the zakat base, as real estate development is considered non-zakatable assets, and the sales percentage of them did not reached %₂₅.

The Fifth Item: The Difference in Revenue Between the Financial Statements, VAT Returns, and Real Estate Transactions

Description of the item:

For the purposes of examination and review, the examiner checks and compares the revenues according to the income statement and the disclosed revenues in the VAT returns for the same period. When differences are noticed, the Authority requests a clarification and the necessary documents from the zakat payer to verify these differences. If the clarifications and documents are not existent, the Authority conducts assessments according to available information and data.

Legal procedure:

The implementing regulations for levying zakat, issued by Ministerial Resolution No. 2216, dated 7/7/1440 AH, stipulated in Article Eighteen the following:

(The zakat payer bears the task of proving the validity of the items stated in the declaration and any additional data, and if he is unable to do so, the Authority may refuse the item that the zakat payer cannot prove its validity).



Example

Al Jawdah Company submitted its zakat declaration for the year 2020, and the disclosed revenues in the income statement amounted to 1,600,000 SAR. When the Authority conducted the necessary assessment, it was found that the disclosed revenues in the VAT system were 2,000,000 SAR, and the Authority had requested the zakat payer (the company) to submit the necessary documents that support and justify these differences, but the company did not respond to the Authority's request and the required documents were not submitted.

Upon that, the Authority added the difference of 400,000 SAR to the zakat payer's adjusted net profit for zakat purposes.

The Sixth Item: Debited Loans or Backstop or Additional Financing and Equivalents that Granted to the Investee Establishment

Description of the item:

They are debts that are financed from one zakat payer to another, in which the financier has a portion of the ownership.

The value of these finances is recorded within the non-current assets, as well as within the liabilities or equity of the debtor.

Legal procedure:

Paragraph No. (4) of Article Five of the Regulations states the following:

(Debited loans or backstop or additional financing and equivalents that granted to the investee establishment shall not be considered an investment that deducted from the zakat base).



The Authority's role:

It shall not accept the deduction of the debt owned by the creditor who financed an investee establishment, for the zakat declaration submitted for the fiscal years beginning on or after January 1, 2019.

Example

Al Jawdah Company submitted its zakat declaration for the year 2020, and the statement of the financial position of Al Jawdah Company included - within the items of non-current assets - an item (loan granted to Al Salam Company) with a value of 1,000,000 SAR, Al Salam Company is one of the subsidiaries of Al Jawdah Company where it owns 30% of Al Salam Company.

Upon that, the value of the loan amount 1,000,000 shall not be deducted from Al Jawdah Company's zakat base.



The Seventh Item: Charitable Endowment Companies and Non-Profit Organizations to be Subject to the Levy of Zakat

Description of the item:

When the Authority issues a decision that states charitable endowment companies and non-profit organizations are not subject to the levy of zakat; they shall submit the declaration on the due date.

Legal procedure:

The implementing regulations for levying zakat, issued by Ministerial Resolution No. 2216, dated 7/7/1440 AH, stipulated in Article Sixteen the following:

(Every zakat payer - to whom the provisions of the Regulations apply - shall register with the Authority before the end of his first fiscal year, including non-subject zakat payers.

The Authority's role:

All zakat payers shall submit all zakat requirements and duties, including registration and submission of the declaration.



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