



Guideline

# Manual of Key Zakat Items Subject to Objection



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.



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## 1. Introduction

### 1.1 About Zakat

Zakat is the third pillar of Islam. It is the most important financial way of worship at all. Therefore, it was mentioned repeatedly in the Glorious Qur'an. Allah Almighty has associated it with prayer in more than eighty verses. It is one of the key pillars that distinguishes a Muslim community from others, and a manifestation of the supremacy of Islamic legislations. It represents a successful way to fight poverty, alleviate the suffering of the needy, which lead to achievement of social solidarity.

### 1.2. Collection of Zakat

What evidences the great regard of Zakat in Islam is assigning its management and supervision to the State. In fact, the State is the entity responsible to collect Zakat on funds and spend it on those entitled, by assigning some personnel (Zakat Employees) to visit the owners of funds throughout the Islamic State, calculate the amount of their Zakat, then collect it from them, and supervise the disbursement and distribution of it to the beneficiaries.

ZACTA undertakes the task of levying Zakat. It undertakes all procedures related to the taxpayer's Zakat calculation, starting with the registration of the taxpayer, through the process of calculating the amount of Zakat for the taxpayer, which includes supervision of the taxpayer's submission of Zakat Reports, payment procedures, examination of the submitted statements, and verification of them with systems by well-trained personnel working at ZATCA, and ending with the issuance of the Final Zakat Certificate. This may also include examining the resulting taxpayers' objections to ZATCA's Zakat amounts assigned thereto.

### 1.3. Zakat Collection in the Kingdom of Saudi Arabia

The collection of Zakat and its disbursement to those entitled is one of the basic tasks of the State, as stipulated in the Basic Law of Governance in Article 21, wherein the following is set forth: (Zakat shall be collected and disbursed in its disbursement channels). Article 7 set forth evidence of the State's attention to the duties of Sharia and its commitment thereto in general, which includes collecting Zakat and disbursing it to the beneficiaries. It stipulates as follows:



(Government in Saudi Arabia derives power from the Holy Qu'ran and the Prophet's tradition. They are the rulers governing the Law as well as all State laws).

In confirmation of the foregoing, during the reign of the Founder King Abdul-Aziz -may Allah have mercy on him- Royal Decree No. (17/2/28/8634) dated Jumada Al-Thani 29, 1370 AH corresponding to April 06, 1951 AD, was issued containing the order to collect Zakat. The said Royal Decree was followed by many royal decrees confirming it as well as executive ministerial resolutions, in addition to the regulations and circulars, including: Royal Decree No. (M/40) dated Rajab 02, 1405 AH, and the Executive Regulations for Levying Zakat promulgated by Ministerial Resolution No. (2082) dated Jumada Al-Thani 01, 1438 AH corresponding to (February 28, 2017 AD), and the Executive Regulations for Levying Zakat promulgated by Ministerial Resolution No. (2216) dated Rajab 07, 1440 AH corresponding to (March 14, 2019 AD), which is applied to the Zakat Years (ZY) commencing from January 01, 2019 AD for all taxpayers, except for those who are treated under the discretionary method in accordance with Chapter Four of the Regulations, for whom the Regulations shall apply to their reports submitted after December 31, 2019 AD. Therefore, the Executive Regulations for Levying Zakat promulgated on Rajab 7, 1440 AH do not apply to the fiscal years prior to the said date, but rather those years shall be treated in accordance with the previous regulations and instructions prior to the said date.

The Executive Regulations for Levying Zakat has been particularly concerned with clarifying the provisions for levying commercial activities, besides other zakat funds, the requirements for submitting the Zakat Declaration, procedures for examination, assessment, and payment, and their respective terms. The Zakat proceeds collected by ZATCA are received and deposited firsthand in the Social Security Account, which is responsible for disbursement to the poor and needy in accordance with Royal Decree No. (16/5/1) dated Muharram 05, 1383 AH corresponding to (May 28, 1963 AD), wherein Paragraph (1) provides for: "Zakat shall be collected in full from all joint stock companies, and others, and individuals who are subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be returned to the Social Security Fund."



## 1.4 Zakat, Tax and Customs Authority

- ZACTA is the authority entitled to collect Zakat in the Kingdom of Saudi Arabia (KSA). It was entrusted with the collection duties in implementation of the Royal Decree No. (17/2/28/8634), dated 29/06/1370 AH, which stipulates that Zakat shall be collected from Saudis.
- It was established pursuant to the Ministerial Resolution No. (394), dated Shaaban 07, 1370 AH, as one of the government entities affiliated with the Ministry of Finance, and it was entrusted with the task of collecting the Zakat
- Then, the Royal Decree No. (61) was issued on Muharram 05, 1383 AH, which included the order to collect zakat in full and supply it to the Social Security Corporation
- A number of royal decrees and ministerial resolutions followed regulating the works of levying Zakat, key of which are: Royal Decree No. (M/40) issued on 02/07/1405 AH, which contained the order to collect zakat in full from all companies, institutions, others, and individuals who are subject to zakat. Then, the Executive Regulations of the Royal Decree No. (M/40) was issued under the Ministerial Resolution No. (2082) dated Jumada Al-Thani 01, 1438 AH.
- The Executive Regulations for Levying Zakat was promulgated pursuant to Ministerial Resolution No. (2216) issued on 07/07/1440 AH, which is effective from January 01, 2019 AD



## Executive Regulations for Levying Zakat

Royal Decree on 29/ 06/ 1370 AH

Levying zakat from Saudis

Ministerial Resolution No. (394) dated 07/ 08/ 1370 AH

Establishment of the Zakat Authority

Royal Decree No. (M/40) issued on 02/ 07/ 1405 AH

Ordering to collect zakat in full from all companies, institutions, etc., and individuals who are subject to zakat

Issuance of the Executive Regulations of the Royal Decree (M/40)

Ministerial Resolution No. (2082), dated 01/ 06/ 1438 AH

Pursuant to Ministerial Resolution No. (2216) issued on 07/ 07/ 1440 AH, which is effective January 01, 2019 AD

Issuance of the Executive Regulations for Levying Zakat

20/ 07/ 1438 AH

General Authority of Zakat and Tax (GAZT) was issued pursuant to the Council of Ministers' Resolution No. (465)





## 1.5 ZATCA's Tasks

ZATCA's Regulations defined the tasks of ZATCA in Article (3) thereof, which include the following:

- Collecting Zakat and taxes as well as custom fees from taxpayers in accordance with the relevant regulations and instructions.
- Providing high-quality services to taxpayers to support them in fulfilling their duties.
- Liaising with taxpayers and taking the necessary measures to ensure the collection of dues.
- Raising awareness among taxpayers, enhancing the degree of understanding and voluntary commitment to compliance and ZATCA.
- Leveraging modern technology in implementing, monitoring, and facilitating ZATCA's operation, and in enhancing the security role in combating customs smuggling.
- Cooperating with the private sector in the implementation and management of some supportive works.
- Developing the necessary plans to organize, manage, and invest the facilities of customs ports in coordination with the relevant authorities.
- Setting standards for following up on the performance indicators of ZATCA's works and plans, which ensure the development of its performance and services. ZATCA may coordinate in this regard with whomever it deems appropriate from the relevant authorities.
- Cooperating and exchanging experience and best practice with regional and international bodies and organizations.
- Representing KSA in regional and international forums and conferences.



## ZATCA's Tasks



Collecting zakat and taxes.  
and customs fees



Providing high quality services  
to help and serve the Taxpayers



Follow up the taxpayers  
to ensure that dues are collected



Spreading awareness amongst  
taxpayers and monitoring their  
commitment to the instructions  
and controls issued by ZATCA.



Cooperation and exchange  
of experiences with regional  
and international bodies and  
organizations.



Representing KSA in regional  
and international forums and  
conferences related to ZATCA's  
tasks.

### 1.6 About this Manual

This Manual contains key zakat items under dispute and objection between taxpayers and ZATCA, such as zakat handling of investments, non-deductible expenses, additions to/ deductions from the Zakat Base (ZB), retained profits, loans between sister companies, carried-forward losses, and other issues that are frequently disputed and objected to by the taxpayers. ZATCA examined and analyzed such key items, and collected them in this Manual so that taxpayers can be informed, so as to reduce disputes and disagreements between taxpayers and ZATCA, and in an effort by ZATCA to spread awareness about zakat accounting.



## 2. Zakat Concepts, Terminology, and Methods of Calculation

### The “Regulations”:

The Executive Regulations for Levying Zakat issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH.

#### A. Collection of Zakat:

The State’s calculation of zakat on funds, which are subject to zakat, collecting it from the taxpayer, and delivering it to the Social Security Administration to spend it on the security beneficiaries.

Collection of zakat is one of the tasks of the State. The Prophet -Peace Be Upon Him- sent messengers every year to collect zakat from all Muslims. This task is currently being carried out, on behalf of the Ruler, by ZATCA in accordance with the relevant laws, regulations, and rules.

ZATCA issued the regulations and rules governing the collection of Zakat, and provided high-quality services to taxpayers to help them fulfill their duties, as well as collect and supply the same to the Social Security Administration to disburse zakat to the security beneficiaries.

#### B. The “Taxpayer”:

A natural or legal person practicing an activity subject to levy of zakat according to the Regulations, whether it is a sole proprietorship, a company, or a person carrying out the activity under a license issued by a competent authority.

#### C. The “Non-Subject Taxpayer”:

A taxpayer who has a certificate of not being subject to levy of zakat, according to ZATCA’s procedures.



#### **D. The “Resident”:**

A natural or legal person who meets the conditions of residence specified in Article (Third) of the Regulations.

#### **E. The “Non-Resident”:**

Every person who does not qualify as a resident.

#### **F. The “Zakat Year/ZY”:**

The fiscal year of the taxpayer, whether it is Hijri or Gregorian, short or long at the beginning or end of the activity.

#### **Example (1):**

A company was established on December 10, 2018 AD (the date of issuance of the Commercial Register), and the Articles of Incorporation stipulated that the first fiscal year shall commence from the date of issuance of the commercial register and end on December 31, 2019 AD. Accordingly, the company’s first financial year is the period from December 10, 2018 AD to December 31, 2019 AD.

#### **G. The “Elapse of One Year Cycle”:**

Elapse of Twelve Lunar Months (354 days) after the zakatable money has completed the “nisab/prescribed amount”, which is one of the conditions of zakat. The Prophet -Peace Be Upon Him said: (Zakat does not have to be paid on property until a year has elapsed over it). If ZY for the taxpayer is different from the Hijri Year, the taxpayer shall deduct the zakat by calculating the percentage of days from the year, according to the following method:

Dividing two and a half percent (2.5%) by the number of days of the Hijri Year (354), multiplied by the number of actual days of ZY for the taxpayer.

The reason for accounting based on the daily basis is the inability to account for the zakatable years of each property, the difficulty of tracking the internal operations of the establishment, and the inability to oblige facilities to issue financial statements for zakat.




$$\frac{2.5 \%}{\text{Number of Days of Hijri Year}} \times \text{Number of Actual Days of ZY for Taxpayer}$$

The elapse of one year is not required for the profits generated during the year, since the year of it is the year of its origin, since profits are subject to the entire percentage of zakat (2.5%), and the previous equation does not apply to it.

### Calculation of Elapse of One Year

Elapse of Twelve Lunar Months (354 days) over Zakatable Property that Reached the Nisab


$$\frac{2.5 \%}{\text{Number of Days of Hijri Year (354)}} \times \text{Number of Actual Days of ZY for Taxpayer}$$

#### Example (2):

The financial year of (X) Grain Company begins on January 01, 2019 AD and ends on December 31, 2019 AD of the same year (Gregorian Year). The Company's ZB for this year amounted to SAR 2,500,000, including an adjusted profit for zakat purposes of SAR 900,000.



## How to calculate ZB for the Company?

Zakat is calculated based on ZB as follows:

$$\frac{\text{Number of Actual Days of ZY for Taxpayer}}{\text{Number of Days of Hijri Year}} \times 2.5\% \times \text{ZB Amount} = \text{*****}$$



$$\frac{365}{354} \times 2.5\% \times 1,600,000 = 41,242.9$$



$$\frac{\text{Adjusted Profit}}{354} \times 2.5\% \times 900,000 = 22,500$$

<b>Total</b>	<b>2,500,000</b>	<b>63,742.9</b>
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### H. The "Business Activities":

Business in all its forms, whether commercial or service-related, or similar business that is intended to make a profit.

Business activities include: real estate activities, trading in goods, providing services, securities, financing and insurance activities, all banking activities, and others. The Sharia evidence provided that zakat is obligatory in all business activities, including the Hadith of Jaber bin Samura -may Allah be pleased with him: (The Messenger used to order them to deduct the sadaqa from what they prepared for trade.)



## I. Rulings of Obligations and Their Impact on Zakat:

Zakat-related obligations are divided into two parts:

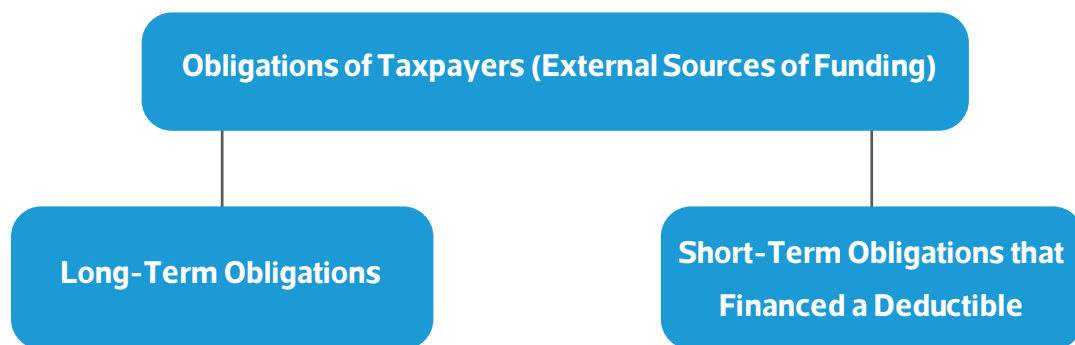
### Obligations of Taxpayers:

These are loans, creditors, notes payable, government and commercial financing, and the like.

Generally Speaking, the Ruling on the Obligations of Taxpayers are as Follows:

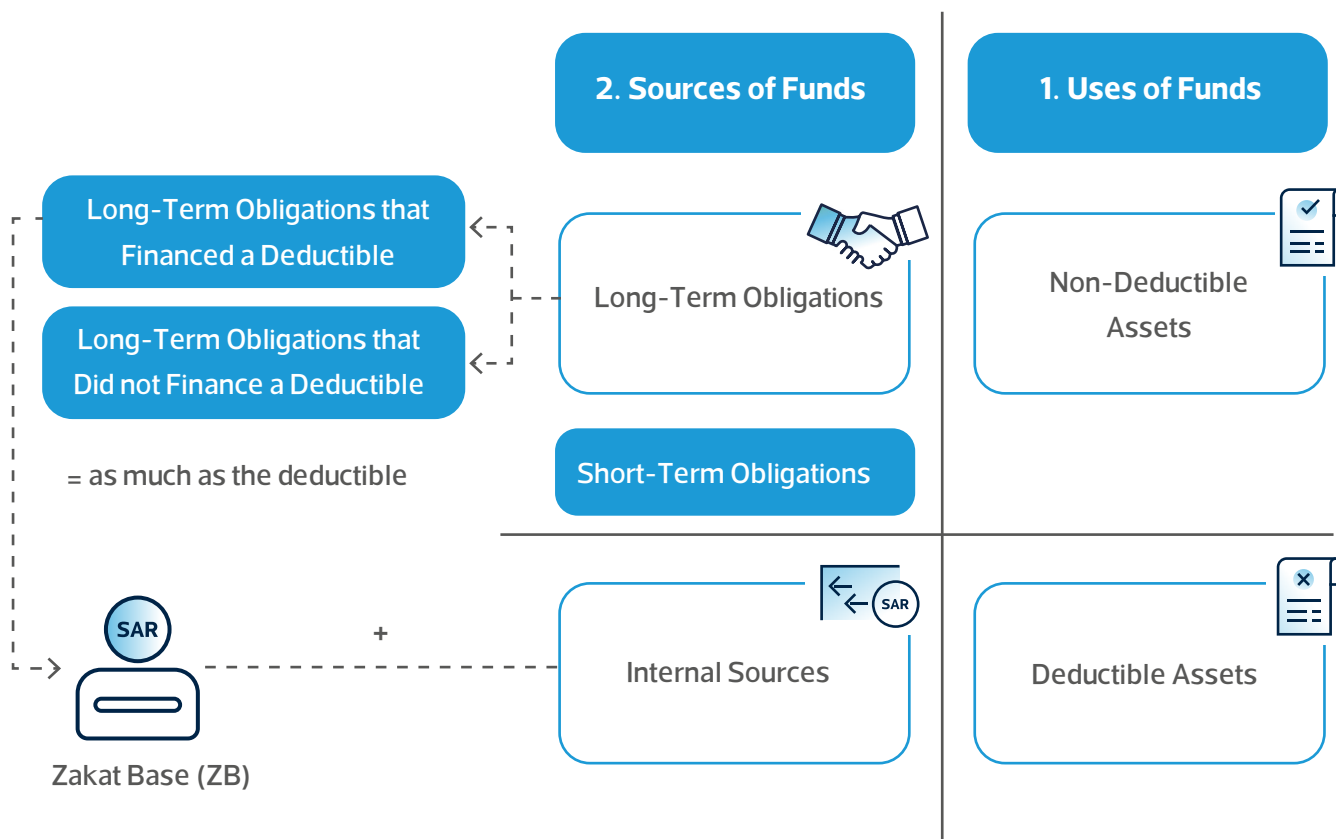
These decrease ZB for the taxpayer by not adding them to the components of ZB according to the method of ZATCA. However, there is a difference in the accounting handling applied in ZATCA between short-term and long-term obligations.

Short-term obligations that financed a deductible will be added to ZB, unlike those that did not finance a deductible, which may not be added to ZB. As for the long-term obligations, they are added to the components of ZB, provided that the total additions do not exceed the amount of the deductible elements. This aims at preserving zakat funds from being exhausted in debt, because such debts are secured by fixed assets and similar deductible assets, even if they did not finance them, which is in achievement of balance and justice and to avoid double deduction, which means that long-term obligations decrease ZB by an amount that exceeds the amount that financed deductible assets.





## Controls for Adding Long-Term Obligations to ZB



### Obligations to Taxpayer:

These include receivables, notes receivable, advance payments, and the like, and the amount whereon zakat is due is the amount financed by an internal source of funding.

### J. Zakat Declaration

It is a form prepared by ZATCA. It contains a number of elements and clauses, and it must be filled out and submitted, and the zakat due on its basis must be paid by each taxpayer. The purpose of the declaration and its submission is to show the amount of ZB for the establishment and to enable ZATCA to make the assessment according to the declaration information. The types of declaration are:

- **First Type:** A declaration by the taxpayer who maintains commercial books and regular accounts, and issues financial statements that comply with the legal requirements.





- **Second Type:** A declaration by the taxpayer who is being accounted under the estimation method, who does not have commercial books and regular accounts.
- **Third Type:** A declaration of information by the taxpayer who is exempted from levying zakat, or for whom zakat has been paid, such as a subsidiary company listed in a consolidated declaration of a holding company, or consortiums, which shall submit a declaration that includes the disclosure of data.

#### **K. Assessment:**

A decision by ZATCA showing its acceptance of the declaration, or its amendment, according to the information available to ZATCA at the time.

#### **L. Commercial Books:**

The set of commercial books maintained by the taxpayer, in which all commercial transactions are recorded, described in the Commercial Books Law promulgated by Royal Decree No. (M/61) dated Dhul-Hijjah 17, 1409 AH, and its Executive Regulations and any amendments thereto.

#### **M. Methods of Calculating Zakat:**

Zakat is calculated according to one of two methods:

- Direct Method (the net zakat assets method).
- Indirect Method (method of sources of funds).

Each method differs from the other in the procedures and in the statement of financial position items used for the purposes of calculating zakat, yet they agree in the result (ZB), as both methods reach the same result if their application is correct and the same criteria and data are used. The following is a summary of the two methods:

##### **Direct Method (the net zakat assets method):**

This method is based on two basic procedures, namely:

- Add all the zakat assets of the establishment, including the receivables of the taxpayer. Deduct the value of the obligations that financed the zakat assets. The result of this equation is ZB for the taxpayer.



ZB = Zakatable Assets - Obligations Financed

Indirect Method (method of sources of funds):

This method is based on two basic procedures, namely:

**Addition:**

- External sources of funds exhausted in deductible component of ZB, which include long-term liabilities, and liabilities that are known to have financed a deductible item; as such obligations shall be added to the extent that they do not exceed the deductible assets.
- All sources of internal funds for the establishment (capital, retained earnings, etc.).
- Adjusted net profit for the year subject to calculation.

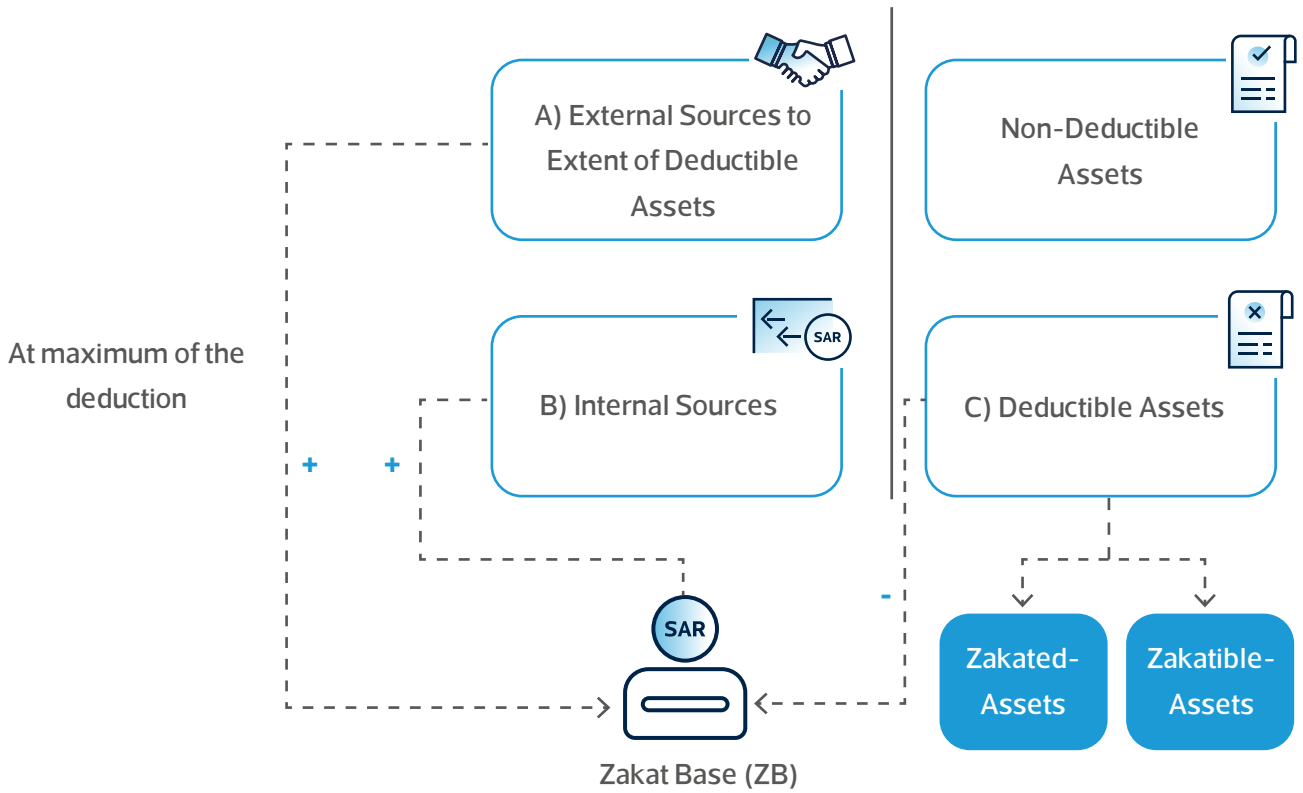
**Deduction:**

- A. The value of the non-Zakat assets of the establishment that is deductible in accordance with the terms of the Regulations.
- B. The value of zakat assets in other establishments, such as: (investment in shares of Saudi companies).

ZB = Internal sources of funds (equity, provisions, net profit, and adjusted profit for the year) + external sources of funds not exceeding deductible assets (long-term obligations and obligations known to have financed deductibles) - non-zakatable assets - zakatable assets, or adjusted net profit for the year; whichever is greater.



## ZATCA's Method for Calculating ZB



$$A + B + C = \text{Zakat Base (ZB)}$$



### 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
<b>Total</b>	<b>17000</b>	<b>Total</b>	<b>17000</b>

#### (A) Calculation of ZB under the Indirect Method

Item	SAR
Long-Term Liabilities	7,000
Equity	4,000
Minus: Long-Term Assets	(8,000)
<b>Zakat Base (ZB)</b>	<b>3,000</b>



The external sources of financing shall be added to ZB first to meet them with deductions, not exceeding the total value of the deductions, and then the internal sources of financing shall be added, and thus the long-term liabilities in the example above were added to ZB within the limits of the deductible assets, and then the equity is added.

(B) Calculation of ZB under the Direct Method:

Item	SAR
Current Assets	9,000
Minus: Current Liabilities	(6,000)
<b>Total</b>	<b>3,000</b>

**N. Estimated Calculation Method:**

A mechanism used by ZATCA to account for the taxpayer who does not keep commercial books and regular accounts, because the principle in determining ZB for the taxpayer is based on his/her statutory records that include data through which his/her ZB can be determined. When this is not achieved, ZATCA determines ZB for him/her according to the information available thereto. Meanwhile, ZATCA has the right to amend the ZB in the event that data or information that was not known at the time of the assessment becomes known. ZATCA resorts to the estimation method when the taxpayer does not comply with the specified deadlines for submitting the declaration, or when there are problems related to ZATCA's confidence in the validity of the data provided by the taxpayer, according to his/her records, in order to get as close as possible to his/her correct ZB.



#### **O. Basis for Calculating Zakat:**

Calculating the zakat of contemporary companies is generally based on the accounting principles, because the concepts of Sharia-based zakat can be applied to companies that hold financial statements, in accordance with the accounting standards in force in the Kingdom of Saudi Arabia, while verifying the commitment of the taxpayer to the standard of presentation and disclosure and the accuracy of the provided clarifications. This includes differentiating between fixed assets and current assets with the addition of some requirements related to increasing the disclosure of the establishment, such as the type of investments owned by it, and the extent to which they are subject to zakat or not, which are not shown in the financial statements, but are necessary for the purposes of forming ZB.



### 3. Determining ZB for Taxpayers Keeping Commercial Books

ZB is determined for the taxpayer who maintains regular commercial books and accounts in accordance with ZATCA's method of collecting zakat, which is explained in the Second Section of this Manual<sup>1</sup>. According to this method, the taxpayer's internal sources of funds and the amounts exhausted from the external sources of funds are added to deductible financing (additions), then the non-zakatable assets (deductions) are deducted.<sup>2</sup>

#### 3.1. ZB Items (Additions)

The additions to ZB for a taxpayer who maintains business books and regular accounts consist of both internal sources of funds (equity) and sources of funds.<sup>3</sup>

##### Reasons for Addition to ZB

- Matching the deductible assets with the obligations assumed therein.
- Accessing zakat assets financed from internal sources of funds.

##### Example (4):

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	10,000	Current Liabilities	8,000
Long-Term Assets (Property and Equipment)	5,000	Long-Term Liabilities	2,000
		Equity	5,000
<b>Total</b>	<b>15,000</b>	<b>Total</b>	<b>15,000</b>

1. Article 4: Determining the additions and deductions to ZB; the Implementing Regulations.

2. Article 5: Determining ZB for those who keep commercial books; method of sources of funds; the Implementing Regulations.

3. Article 4: Determining ZB for those who keep commercial books; funds of ZB, the Implementing Regulations.

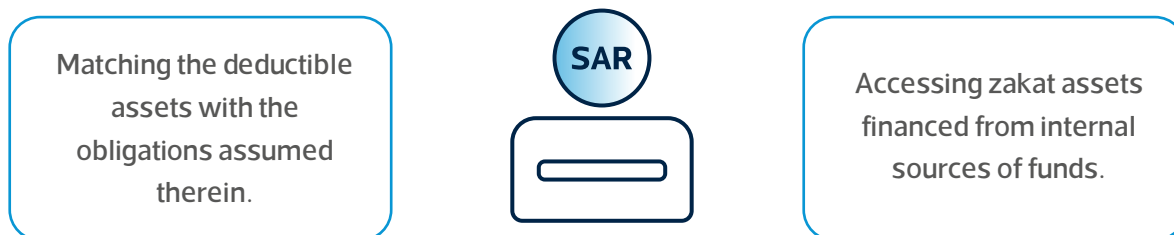


### (A) Base Calculation:

Item	SAR
Long-Term Liabilities	2,000
Equity	5,000
Deducting: Long-Term Assets	(5,000)
ZB	2,000

External sources of financing are added to ZB first to meet them with deductions, and then internal sources of financing are added. Thus, in the abovementioned example, long-term liabilities were added to ZB, and then equity was added.

### Reasons for Addition to ZB







### 3.1.1. Concepts Related to Additions

ZATCA's method for calculating ZB is based on listing all internal sources of funds and the amounts that financed deductible assets from external sources of funds.

#### Forming ZB:

When building ZB, the obligations of the taxpayer (external sources of funding) shall be added initially, assuming its priority in financing the deducted items before the internal sources of funding, according to the following order: amounts that financed deductible assets from external sources of funds.

- External Sources of Funds (Maximum Deductible Assets):
  1. Obligations that are known to have financed deductible assets, such as: (a promissory note for the purchase of a fixed asset).
  2. Long-term obligations (considering the term of the debt), such as: (loans with a term of more than 354 days).

#### Example (5):

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



### (A) Calculation of ZB under the Indirect Method

Item	SAR
Long-Term Liabilities (Not Exceeding the Deductions)	6,000
Equity	4,000
Minus: Long-Term Assets	(6,000)
ZB	4,000

The external sources of financing shall be added to ZB first to meet them with deductions, not exceeding the total value of the deductions, and then the internal sources of financing shall be added, and thus the long-term liabilities in the example above were added to ZB within the limits of the deductible assets, and then the equity is added.

- Internal sources of funds:
  1. Property rights, such as: (capital , reserves and retained earnings).
  2. Retained provisions after deducting the used from them during the year, such as: (end of service provision after deducting the used from it during the year).



### 3.1.2 Additions to ZB:

Below are examples of items to be added to ZB, with some restrictions covered up in the Next Section, and some examples for further clarification:

Group	Amount	Item
Property Rights and the Like	Capital at Start of Year	x x
	Increase to Capital During Year	x x
	Reserves Carried-Forward from Previous Years	x x
	Retained Earnings from Previous Years	x x
	Adjusted Net Profit for Year for the Purposes of Levying Zakat	x x
	Change to Fair Value Resulting from Reassessment	x x
Provisions	Provisions at Start of Term after Deducting the Used During Year	x x
Obligations of Taxpayers Classified as Long-Term and the Like	Creditors	x x
	Notes Payable	x x
	Loans and the Like + Current Installment of the Loan	x x
	Partner or Owner Loans	x x
	Amounts Withheld from Contractors (Quality Performance Guarantee)	x x
	Dues to Related Parties	x x
	Profits under Distribution	x x

The above mentioned additions shall be added on the basis of the balances of the end of the term unless otherwise is specifically-mentioned in the Addition Controls (1.3.4).



### 3.1.3 Non-Additions to ZB:

Below are examples of items that are not added to ZB.

Group	Amount	Item
Obligations of Taxpayers Classified as Short-Term and the Like, Unless they Financed Deductible Assets	Loans	x x
	Creditors	x x
	Expenses Payable	x x
	Notes Payable	x x
	Overdraft Account	x x
	Partner or Owner Loans	x x
	Amounts Withheld	x x
	Amount Due to Related Parties	x x

### 3.1.4 Controls for Additions to ZB:

- The capital is added to ZB according to the following controls:
  1. The balance of the beginning of the term is added.
  2. The increase in the capital during the whole year shall be added if the source is internal (equity, partners' loans, etc.).
  3. The increase in the capital during the whole year shall be added if it financed any of the deducted items from ZB.
  4. The cash increase made on the capital shall be added if it did not finance a deduction from ZB in proportion to the number of days of the period for ZY, as it is considered among the other sources of funding set forth to in Article 4, Paragraph (3/A) of the Regulations.



## Cases of Adding Capital to ZB:

### Capital Added to ZB

1. Full First Term Balance

2. Increase During the Whole Year in Two Cases:

- If it Comes from Internal Source
- If it Financed a Deductible

3. The increase that did not fund a deductible shall be added by the number of days.



### Example (6):

A company increased its capital during the year by SAR 10,000,000 on July 01, 20XX, as follows:

1. SAR 3,000,000 transferred from the general reserve.
2. SAR 7,000,000 cash financing from the partners, of which SAR 5,000,000 is used for the purchase of a new production line and SAR 2,000,000 to finance the purchase of goods and raw materials.

**What amount should be added to ZB?**

1. The full amount of SAR 3,000,000, which is the increase made from the general reserve, shall be added to ZB because it is an internal transfer from one of the components of equity.
2. An amount of SAR 5,000,000, which is the increase for financing the purchase of a completely new production line, shall be added to ZB because it financed deductible assets.
3. The amount of increase that financed the purchase of goods and raw materials (SAR 2,000,000) is added to ZB in proportion to the number of days on the basis that it is one of the other financing sources, and it is deemed a long-term obligation on the taxpayer, and therefore, an amount of SAR 1,000,000 shall be added, as calculated below, with the obligations not exceeding the number of deductions from ZB as follows:

$$\frac{\text{Number of Days Left until End of the Fiscal}}{\text{Number of Days of the Year (365)}} \times \text{Increase Amount} = ****$$



$$\frac{183}{354} \times 2,000,000 = 1,000,000$$



- 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 one of the equity accounts, they shall be added to ZB for the entire period within the equity.

**Example (7):**

A company has an optional general reserve balance of SAR 10,000,000, an amount of SAR 5,000,000 was used for the purpose of capital increase and an amount of SAR 2,000,000 was used in cash dividends to the partners.

**How much should be added to ZB?**

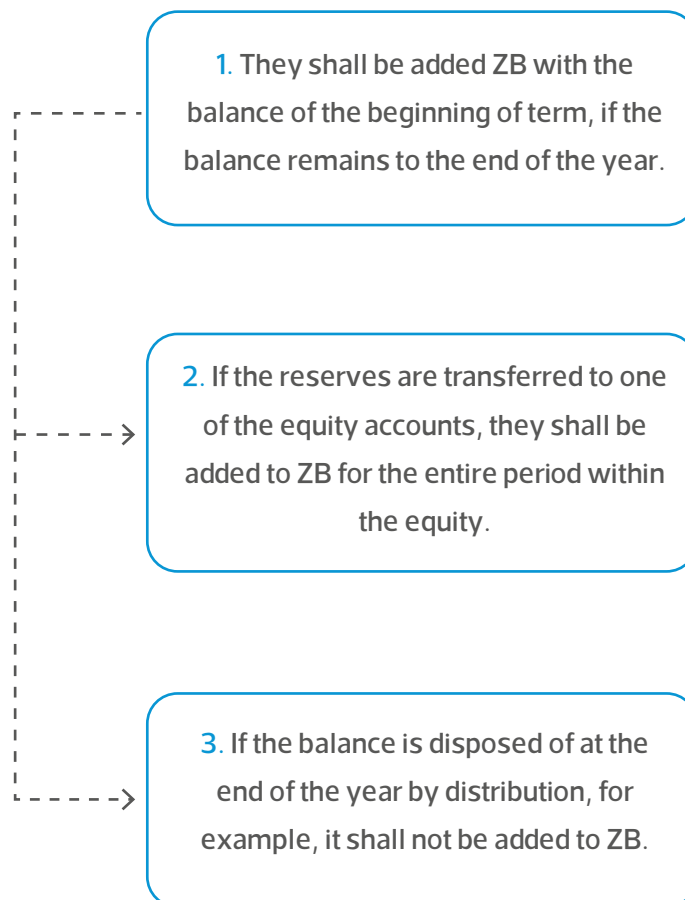
An amount of SAR 500,000 from the reserves that were used for the purpose of increasing the capital shall be added to ZB, in addition to the remaining balance of the reserves, after deducting the cash dividends as follows:

Balance at beginning of the year minus cash dividends during the year:

$$5,000,000 + 3,000,000 (5,000,000 - 2,000,000) = \text{SAR } 8,000,000.$$



### Controls for Adding the Reserve to ZB







- Retained Earnings:
  1. They shall be added to ZB with the balance of the beginning of term minus the dividends paid during ZY.
  2. Distributions whose owners did not apply for receipt and were set aside in separate bank accounts are deemed paid distributions to the partners.

### Controls for adding Retained Earnings to ZB

They shall be added to ZB with the balance of the beginning of term minus the dividends paid during ZY.



Distributions whose owners did not apply for receipt and were set aside in separate bank accounts are deemed paid distributions to the partners





- Obligations of Taxpayers:

The obligations of the taxpayer and the like, referred to in the abovementioned addition items, shall be added to ZB in accordance with the following controls:

1. Obligations that have a period of (354) days or more, as well as obligations that have a period of (354) days and are overlapping between more than one ZY shall be added to ZB in proportion to the number of days for ZY.
2. Short-term liabilities that financed a deductible shall be added.
3. The one-year term shall not be interrupted nor the obligations renewed or replaced with other obligations or funding sources that finance what these obligations were financing, nor rescheduling obligations with the same creditor.
4. The total amount of obligations added to ZB according to the content of the abovementioned items shall not exceed the total deductions from ZB.

It should be noted that the obligations of the taxpayer, which are classified as short-term (less than a lunar year), shall not be added to ZB unless the financing is for assets deducted from ZB.



## Controls for Addition of Obligations of Taxpayers

The obligations of the taxpayer and the like, referred to in the above mentioned addition items, shall be added to ZB in accordance with the following controls:

Obligations that have a period of (354) days more, as well as obligations that have a period of (354) days and are overlapping between more than on ZY shall be added to ZB in proportion to the number of days for ZY.

Short-term liabilities that financed a deductible shall be added.

The one-year term shall not be interrupted nor the obligations renewed or replaced with other obligations or funding sources that finance what these obligations were financing, nor rescheduling obligations with the same creditor

The total amount of obligations added to ZB according to the content of the above mentioned items shall not exceed the total deductions from ZB



**Example (8):**

A company obtained a long-term loan of SAR 1,000,000 on August 20, 2019 AD, knowing that the end of the company's fiscal year is December 31, 2019 AD, and that the company has a shortterm loan of six months in the amount of SAR 2,000,000 that it obtained on January 01, 2019 AD and was rescheduled for another period of six months.

**How to determine the loan to be added to ZB?**

For a long-term loan, it shall be added to ZB based on the number of days for ZY as follows:

$$\frac{\text{Number of Days Left until End of the Fiscal year}}{\text{Number of Days of the Year (365)}} \times \text{Increase Amount} = \text{****}$$



$$\frac{133}{365} \times 1,000,000 = 364,384$$

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



**Example (9):**

A company obtained a loan of SAR 2,000,000 on February 10, 2019 AD and is due for payment on February 01, 2020 AD, knowing that the end of the fiscal year is on January 31, 2020 AD.

**How to determine what is added to ZB?**

For a long-term loan, it shall be added to ZB based on the number of days for ZY as follows:

$$\frac{\text{Number of Days Left until End of the Fiscal year}}{\text{Number of Days of the Year (365)}} \times \text{Increase Amount} = \text{****}$$



$$\frac{355}{365} \times 2,000,000 = 1,645,205$$

The short-term loan was added because its duration is more than (354 days) and overlaps between more than one ZY in accordance with Paragraph (A/3) of Article 4 of the Executive Regulations for Levying Zakat.

**Example (10):**

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

An amount of SAR 3,000,000 used for financing the purchase a plot of land.

An amount of SAR 2,000,000 used for financing the purchase of goods.

An amount of SAR 1,000,000 used for fulfilling multiple activity-related obligations.

How much should be added to ZB in each case?

1. An amount of SAR 3,000,000 shall be added to ZB, as it was used in a deducted financing. (fixed asset)



2. An amount of SAR 2,000,000 shall not be added because it is a short-term loan and it was not used in a deducted financing. (fixed asset)

3. An amount of SAR 1,000,000 shall not be added as long as it is a short-term loan used in multiple activity-related obligations and does not include deducted financing.

- Provisions:

1. To be (added/deducted) to the (profit/loss) provision formed during ZY.
2. The first of term balance shall be added to ZB minus the used balance during the year.
3. If ZB is the minimum (adjusted profit), it shall not be allowed to deduct the used provisions from the adjusted profit because it is a deduction of the provisions of first term balance when it is added to ZB.



To be (added/deducted) to the (profit/loss) provision formed during ZY



The first of term balance shall be added to ZB Deducting the used balance during the year.



If ZB is the minimum (adjusted profit), it shall not be allowed to deduct the used provisions from the adjusted profit because it is a deduction of the provisions of first term balance when it is added to ZB.



**Example (11):**

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

Item	First of Year Balance	Accrual During the Year	Used During the Year	End of Year Balance
	SAR	SAR	SAR	SAR
End-of-Service Indemnity	2,000,000	500,000	300,000	2200,000
Provision for Bad Obligations	1000000	200000		1200,000
<b>Total</b>	<b>3000000</b>	<b>700000</b>	<b>300,000</b>	<b>3400000</b>

What amount should be added to modify the activity result?

Item	SAR
Amount of Provisions Made During the Year	700,000

What amount should be added to ZB?

Item	SAR
First of Year Provisions Balance	3,000,000
Deducting: Used Provisions During the Year	300,000
<b>Provisions Balance Added to Base</b>	<b>2700,000</b>

The change to the deducted fair value in accordance with Paragraph (6) of Article (6) of the Regulations shall be added to the components of ZB.



## 3.2 ZB Items (Deductions)

The deduction items consist of ZB for the taxpayer who keeps commercial books, regular accounts of non-zakatable assets such as fixed assets, assets subject to zakat levying in another ZB, such as investments in the capital of zakatable companies in the Kingdom of Saudi Arabia or whose zakat is paid independently by the taxpayer, and some other assets specified by the Regulations.<sup>4</sup>

### 3.2.1 Concepts Related to Deductions

ZATCA's method for calculating ZB includes deducting all non-zakatable assets, independently zakatable assets, and some other items.

The main items of deductions generally consist of the following:

1. Non-zakatable assets, including fixed assets, such as buildings, machinery, equipment, furniture, intangible assets...etc.
2. Zakatable assets, which include non-trading investment in shares of Saudi companies or foreign companies that are subject to zakat independently in accordance with the controls specified in the Regulations.

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4. Article 5 Paragraph (9): The value of properties under development intended for sale that are classified as non-current assets in the financial statements, and which are intended to be sold after the completion of their development; unless they are offered for sale the way they are or the total sales and advance payments received from clients exceeds twenty-five percent (25%) of its value appearing in the financial statements for ZY subject to declaration. ZATCA may review the amendment of said percentage according to the market condition.





## Controls for Deduction from ZB

Fixed assets and the like shall be deducted at the net book value recorded in the accounts, provided that they are used in the taxpayer's activity. The "like" of assets include the following:

1. Spare parts and materials not for sale.

2. Payments for purchase of fixed assets.

3. Assets financed by the lessee in financial lease contracts in the Build-Operate-Transfer (BOT) projects, Build-Own-Operate (BOO) projects, or Build-Own-Operate-Transfer (BOOT) projects, and similar forms.



**Example (12):**

A company contracted with the General Authority of Civil Aviation to establish an airport in the Al-Jawf Region, and the contract was in the form of Build-Own-Operate-Transfer (BOOT). The said company builds and owns the airport for a period of ten years, during which the airport is operated in favor of the company and then the ownership is transferred at the end of the contract term (ten years) 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 its ZB.

**Example (13):**

A company contracted with the Saudi Electricity Company to establish a power station in Taif Region, and the contract is based on the Build-Operate-Transfer (BOT) method. The said company builds the station and operates it for its benefit, and then transfers the ownership at the end of the contract term (ten years) to the Saudi Electricity Company. The company spent in the first year SAR 50,000,000 on the project.

The company has the right to deduct the amount it spent on the project (SAR 50,000,000) from its ZB.

**Example (14):**

A company contracted with the Development Authority to establish a hotel in the City of Riyadh, and the contract was in the form of Build-Own-Operate (BOO) method. The said company builds, owns, and operates the hotel for its benefit. The company spent SAR 100,000,000 to establish the hotel.

The company has the right to deduct the cost of establishing the hotel (SAR 100,000,000) from its ZB.



### 3.2.2 Deductions from ZB

Below are examples of items that are deducted from ZB:

Item	Amount
Net fixed assets and the like	*****
Capital construction	*****
Intangible assets for non-trading purposes	*****
Investments in non-trading facilities inside the Kingdom of Saudi Arabia or abroad in accordance with the controls provided for below	*****
Net establishment and pre-operating expenses and similar capital expenses	*****
Adjusted net ZY loss for zakat purposes	*****
Adjusted net carried-forward loss for the purposes of levying zakat in accordance with the controls specified below	*****
Net value of properties under development prepared for sale in accordance with the controls specified below	*****
Statutory deposit for insurance and reinsurance companies	*****
Stocks of agricultural inputs purchased for use in production	*****



### 3.2.3 Controls for Deduction from ZB

1. Fixed assets and the like shall be deducted at the net value recorded in the accounts, provided that they are used in the taxpayer's activity. The "like" of assets include the following:
  - Spare parts and materials not for sale.
  - Payments for purchase of fixed assets.
  - Assets financed by the lessee in financial lease contracts in the Build-Operate-Transfer (BOT) projects, Build-Own-Operate (BOO) projects, or Build-Own-Operate-Transfer (BOOT) projects, and similar forms.
2. Capital constructions and projects in progress that are established for the purpose of use in the activity and not for the purpose of selling shall be deducted from ZB.
3. Long-term non-trading investments in establishments inside the Kingdom of Saudi Arabia are deducted if they are represented in shares of companies subject to the provisions of levying zakat, that is, they represent zakatable assets with the invested-in entities.

Investments in facilities outside the Kingdom of Saudi Arabia shall be deducted according to the following:

- The investments shall be in the share capital of non-trading companies.
  - The taxpayer shall pay the zakat on said investments to ZATCA according to an approved certificate from a chartered accountant licensed in the Kingdom of Saudi Arabia.
  - The minimum ZB for said investments shall be the taxpayer's share of their net profit included in the financial statements.
4. The net retained loss according to ZATCA's assessment after adding the provisions that had previously been reduced by the loss in the year of its formation or the retained losses according to the commercial books of the taxpayer, whichever is less.



## Controls for Deducting Investments from ZB

**Investments in facilities outside the Kingdom of Saudi Arabia shall be deducted according to the following:**

The investments shall be in the shares of non-trading companies.

The taxpayer shall pay the zakat on said investments to ZATCA according to an approved certificate from a chartered accountant licensed in the Kingdom of Saudi Arabia.

The minimum ZB for said investments shall be the taxpayer's share of their net profit included in the financial statements.



**Example (15):**

The following data is for a company as of December 31, 20XX AD.

- Capital: SAR 2,000,000
- Statutory Reserve: SAR 500,000.
- Retained Losses under the Assessment: SAR 900,000.
- Retained Losses as per the Books: SAR 750,000.
- Adjusted Year Losses: SAR 450,000.
- Fixed Assets: SAR 800,000.

How are the above items handled when determining ZB?

Item	Amount in (SAR)
<b>Additions</b>	
Capital	2000000
Statutory Reserve	500,000
Retained Losses	(750,000)
Adjusted Year Losses	(450,000)
<b>Total Additions to ZB</b>	<b>1,300,000</b>
<b>Deductions</b>	
Fixed Assets	800,000
<b>Total Deductions</b>	<b>800,000</b>
<b>Zakat Base (ZB)</b>	<b>500.000</b>



5. Properties under development for sale shall be deducted as follows:
- They shall be classified as non-current assets in the financial statements.
  - They shall be ready for sale after the completion of its development.
  - They shall be for sale the way they are.
  - The total sales and advance payments received from its customers shall not exceed twentyfive percent (25%) of its value as in the financial statements for ZY in question. ZATCA may review and amend said percentage according to the market terms and conditions, bearing in mind that the percentage of 25% is for each project separately, and not for the total item as on the financial statement.

**Example (16):**

A company working in the field of real estate investment, and the balance of projects under development classified under non-current assets amounted to SAR 1,000,000, and the total sales and payments received amounted to 20% of their value shown in the financial statements. Since the projects are classified as non-current assets, and because the value of sales made from projects during the year is less than 25%, the total amount of SAR 1,000,000 shall be deducted from ZB.

6. Agricultural inputs (stored) and purchased for the purpose of use in production shall be deducted for the taxpayer who practices agricultural activity, because they are subject to zakat in agricultural activity.



### 3.2.4 Non-Deductible Assets from ZB:

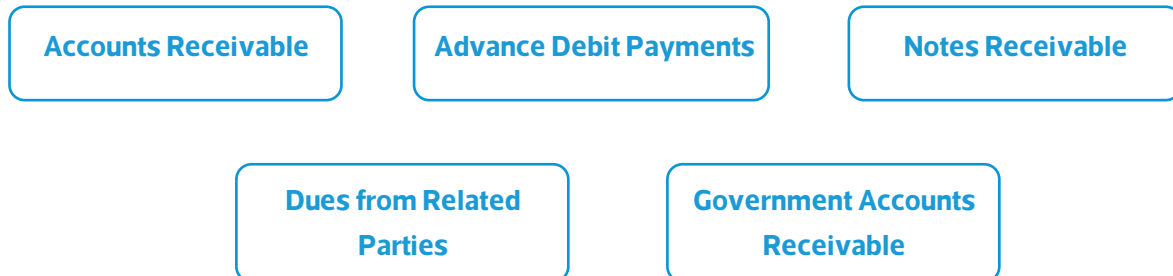
Below are examples of items that are not deducted from ZB.

Group	Non-Deductible from ZB	Amount
Non-Deductible Assets	Cash and the Like	x x
	Stock	x x
	Obligations of the taxpayer, regardless of their term or nature	x x
	Investments in sukuk and bonds	x x
	Investments in companies outside the Kingdom of Saudi Arabia unless zakat is paid on them	x x
	Investments in real estate under development that do not meet the conditions specified in the Regulations	x x
	Spare parts for sale	x x
	Intangible assets purchased for trading purposes	x x
	Investing in deposits or future transactions	x x
	Statutory deposits, with exception of the deposits for insurance and reinsurance companies	x x
	Investments for trading purposes	x x





## Non-Deductible from ZB



### 3.2.5 Other General Controls Related to ZB:

1. ZB shall not be less than the adjusted net profit for zakat collection purposes. <sup>5</sup>

#### Example (17):

ZB for one of the taxpayers amounted to (SAR 1,000,000), and the adjusted profit amounted to SAR 1,100,000 for the period from January 01, 20XX AD to December 31, 20XX AD of the same year.

#### What is the company's ZB?

Since ZB is less than the adjusted profit, zakat shall be calculated based on the adjusted profit.

Adjusted profit x 2.5% = Zakat amount due

$$1,100.00 \times 2.5\% = \text{SAR } 27,500$$

2. The taxpayer shall be accountable for the zakat of the entire ZY in which one of the partners died or assigned his/her share and others replaced him/her, whether they were heirs or not, if the taxpayer continued his/her activity.

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5. Article 6, Specific Controls for ZB, the Implementing Regulations.



**Example (18):**

A joint partnership company whose fiscal year ends on December 31, 2019 AD, and on July 01, 2019 AD, one of the partners assigned his/her share in the company to another partner.

How much should the company pay its zakat for this year?

As long as the activity continues, ZB shall not be affected by the entry or exit of a partner, and therefore the company will be charged for the entire ZY according to the Regulations and due to the continuation of the activity.

- 3. The sole proprietorship shall be charged for ZY during which the ownership was completely transferred to other owners in proportion to the financial period, whether the transfer of ownership was through sale or assignment and the like.

**Example (19):**

A sole proprietorship was completely transferred to a new owner on July 01, 2019 AD, knowing that the fiscal year ends on December 31, 2019 AD.

How is the institution's zakat calculated for this year, assuming that the calculated ZB amounted to SAR 10,000,000? Old Owner: S/he shall be proportionally charged from the beginning of the year until the date of transfer of ownership (June 30, 2019 AD).

New Owner: S/he shall be proportionally charged from the date of transfer of ownership (July 01, 2019 AD) to the end of the year (December 31, 2019 AD).

Calculation of ZB for both the old and the new owners:

$$\frac{\text{The number of days before the transfer of ownership to the old owner and after the transfer of ownership to the new owner}}{\text{Number of Days of the Year (365)}} \times \text{Zakat Base (ZB)} = \text{****}$$



$$\frac{183}{365} \times 10,000,000 = 5,000,000$$



4. In the event that the taxpayer transforms from one legal form to another in any way, the charging shall not apply in proportion, unlike the contents of Paragraph (3) above.

The table below shows the zakat handling in cases of transfer from one legal entity to another, as follows:

Transfer of Legal Entity		
From	To	Zakat Handling
Funds/People Company	Sole Proprietorship	The zakat handling shall not be affected
Sole Proprietorship	Funds/People Company	The zakat handling shall not be affected
Funds/People Company	Funds/People Company	The zakat handling shall not be affected
Sole Proprietorship	Sole Proprietorship	The period between the old owner and the new owner shall be divided proportionately, and shall be accounted for on this basis.

5. There shall be no clearing or settlement between the credit balances of owners or partners (including their current accounts) and the debit balances of owners or other partners (including their current accounts).
6. For zakat purposes, the results of the reassessment are taken into account according to the fair value shown in the financial statements.



**Example (20):**

Al Bahar Company owns stakes in Al Salam Company (a Saudi joint stock company listed on the stock market), which are classified as long-term investments.

The fair value of the investments in Al Salam Company amounted to SAR 1,000,000 at the beginning of ZY, but the fair value increased to SAR 1,500,000 at the end of ZY. The amount of increase in the fair value of SAR 500,000 was recorded in the statement of other comprehensive income.

**How is the investment in Al Salam Company handled in the Zakat declaration?**

Item	Amount in (SAR)
Investment value deductible from ZB	1,500,000
Change to fair value added to ZB	500,000



## 4. Modification of Activity Result

The result of the activity shall be adjusted (book profit or book loss) to conclude the adjusted net profit for zakat purposes as follows: <sup>6</sup>

Item	Amount
	<b>SAR</b>
Net book profit or loss for the year	***
Added: Non-deductible expenses	***
Adjusted net profit or loss for zakat purposes	***

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6. Article 8, which is the result of the activity, Implementing Regulations



## 4.1 Deductible Expenses

The following expenses may be deducted to determine the result of the activity for the purposes of zakat:

Expenses	Expenses Conditions
Ordinary and necessary expenses for the activity	The expense shall be actual and supported by documents and evidence acceptable to ZATCA and verifiable, even if it is related to previous years.
	The expense shall be related to the taxpayer's activity, and not related to personal expenses or other activities not belonging to the taxpayer.
	The expense shall not be of a capital nature, and if an expense of a capital nature is included in the expenses, it is adjusted as a result of the activity, it is added to the fixed assets, and is depreciated as part of the asset depreciation.
Salaries and allowances of the owner or partner	They may be deducted within the limits of salaries and allowances declared to GOSI
Remunerations paid to the chairman, his/her deputy, and members of the board of owners or partners.	They may be deducted within the limits of the bonuses paid to freelancers.



Bad debts	<p>The revenues that resulted from these obligations shall have been previously declared within the taxpayer's revenues in the year of the revenue entitlement.</p>
	<p>The taxpayer shall submit a certificate attested by a legal accountant licensed in the Kingdom of Saudi Arabia, stating that these obligations were written-off by a decision of the authorized person, whenever ZATCA requested such a certificate.</p>
	<p>The obligations shall not be on the parties associated with the taxpayer.</p>
	<p>The taxpayer shall declare what will be collected from these obligations in the future.</p>
Annual depreciation premium for fixed assets	<p>The assets shall be owned.</p>
	<p>The assets shall be intended for use in the activity, according to what is recorded in the taxpayer's commercial books.</p>
	<p>The depreciation premium shall be reasonable and not excessive.</p>
Donations	<p>They shall be paid to the authorities authorized to receive donations inside the Kingdom of Saudi Arabia and supported by supporting documents.</p>



Amounts accrued during the year from the unearned premium reserve and from the reserve for existing risks in insurance companies (and/or) reinsurance (for more details, check the Insurance Activity Manual).	They shall be returned to ZB the following year.
	They shall be determined in accordance with the professional standards followed in this type of activity and in accordance with the laws, regulations, and rules related to the said activity.
School fees paid for the children of the taxpayer	They shall be paid to a licensed educational facility within the Kingdom of Saudi Arabia.
	They shall be expressly stated in the employee's employment contract and in the regulations of the company in which s/he works.
	These expenses shall be supported by exchange documents acceptable to ZATCA.

### Example (22):

The value of the import for a company as of December 31, 2019 AD, amounted to SAR 100,000,000, according to the company's books, knowing that the import according to customs data is SAR 80,000,000. How to address the difference?

Since the value of the import, according to the customs data, is less than the book value, in this case the difference of SAR 20,000,000 shall be returned to the adjusted profit.

In the previous example, assuming that the import value according to the company's books is SAR 80,000,000, knowing that the import according to customs data is SAR 100,000,000, how to address the difference?

1. Assuming that the company achieves a gross profit rate of 8%:

Since the import according to a statement of customs data is higher than the book value, in this case an estimated profit shall be calculated based on the ratio of the declaration's gross profit to the activity's revenue, and the ratio -as explained above- reached 8%.





Since the minimum profit margin set by ZATCA is 15%, the profit is calculated at (15%) of the difference, and zakat is calculated on the result at (2.5%).

Import difference x 15% x 2.5% = Zakat Value.

Zakat Value = 20,000,000 x 15% x 2.5% = SAR 75,000.

2. Assuming that the company achieves a gross profit rate of 15%:

In this case, the value of zakat = import difference x 15% x 2.5%.

Zakat Value = 20,000,000 x 15% x 2.5% = SAR 75,000.

## 4.2 Non-Deductible Expenses:

The following expenses may not be deducted to determine the result of the activity for the purposes of zakat:

1. Expenses and costs not related to the taxpayer's activity, such as:
  - A. Expenses of a capital nature.
  - B. Salaries, wages, and the like paid to the owner, partner, or any of his/her family members other than what is registered with GOSI.
  - C. Personal expenses related to partners.
2. Expenses not supported by documents or other evidence acceptable to ZATCA.
3. Zakat or tax due or paid, except for value added tax incurred by the taxpayer.
4. Share of employees in pension funds and provident funds.
5. Provisions and reserves formed during the year.
6. The value of the increase in the prices of materials or services provided by related parties or that may influence the taxpayer's actions or decisions directly or indirectly compared to the prices used between independent parties in accordance with the relevant applicable laws, regulations, and rules.



7. The import difference, resulting from comparing the value of the import contained in the declaration submitted by the taxpayer with its value contained in the customs data after deducting the import added to fixed assets during ZY, shall be handled as follows:
  - A. If the taxpayer's import value stated in the declaration is greater than its value stated in the customs declarations, the entire difference shall be added to the net profit.
  - B. If the value of the taxpayer's import received from the declaration is less than its value received from the customs declarations, a profit shall be calculated for this difference, not less than the ratio of the declaration's total profit to the activity's revenues, and the result of the activity shall be adjusted accordingly.

**Example (23):**

The net profit of a company as at December 31, 20XX amounted to SAR 10,000,000; and the net profit includes the following expenses:

- An expense that the taxpayer could not prove on a document, amounting to SAR 40,000
- Salaries paid to one of the partners who are not registered with GOSI in the amount of SAR 400,000.
- Personal expenses related to one of the partners in the amount of SAR 30,000.
- End of service provision of SAR 100,000.
- Zakat in the amount of SAR 50,000.

Goods were purchased from a related party for an amount of SAR 120,000, noting that the market value of the good is SAR 100,000.

How is adjusted profit calculated for zakat purposes?

Non-deductible expenses shall be included in the net profit to conclude the adjusted net profit, as follows:



Item	Amount
Net Profit	10,000,000
<b>Adding:</b>	
An expense that the taxpayer could not document	40,000
Partners' salaries not subject to social insurance	400,000
Partners' personal expenses	30,000
End of service provision made during the year	100,000
Zakat expenses	50,000
Difference in the price of the value of goods from a related party	20,000
<b>Adjusted net profit</b>	<b>10,640,000</b>



**Example (24):**

The following table shows the movement of provisions for a company as of December 31, 2020 AD

	First of Year Balance	Accrual During the Year	Used During the Year	End of Year Balance
	SAR	SAR	SAR	SAR
End-of-Service Provision	1,000,000	300,000	200,000	1,100,000
Provision for Bad Debts	2,000,000	500,000	800,000	1,700,000
Provision for Old and Slow-Moving Inventory	500,000	100,000	-	600,000
<b>Total</b>	<b>3,500,000</b>	<b>900,000</b>	<b>1,000,000</b>	<b>3,400,000</b>

The profit for the year amounted to SAR 8,000,000, calculate the adjusted profit for zakat purposes.

20XX	
	SAR
Net Profit of Year	8,000,000
<b>Added:</b>	
End-of-Service Provision Accrued During Year	300,000
Bad Debts Provision Accrued During Year	500,000
Provision for Old and Slow-Moving Inventory	100,000
<b>Adjusted net profit</b>	<b>8,900,000</b>



## 5. Introduction to the Manual of Key Zakat Items Subject to Objection

This Manual contains key zakat items under dispute and objection between taxpayers and ZATCA, such as zakat handling of investments, non-deductible expenses, additions to/deductions from the Zakat Base (ZB), retained profits, loans between sister companies, carried-forward losses, and other issues that are frequently disputed and objected to by the taxpayers. ZATCA examined and analyzed such key items, and collected them in this Manual so that taxpayers can be informed, so as to reduce disputes and disagreements between taxpayers and ZATCA, and in an effort by ZATCA to spread awareness about zakat accounting.

### Key Zakat Items Subject to Objection:

This section addresses key items under objection, which are summarized as follows:

1. The estimated assessment for not submitting the declaration within the regular deadline.
2. Expenses that are not subject to deduction (increase in the salaries and wages expenses shown in the lists over those registered with GOSI).
3. The investments.
4. The fixed assets not used in the activity.
5. The profits under distribution.
6. The real estate under development.
7. The revenue difference between the financial statements, VAT declarations, and real estate disposals.
8. The debit loans, supportive or additional financing, and the like granted to the invested-in establishment.
9. Submission of charitable endowment companies and non-profit associations.



## Item 1: The estimated assessment for not submitting the declaration within the regular deadline:

### First: Item Description

This item refers to: The assessment procedure is carried out by ZATCA when the taxpayer does not submit the declaration on the regular deadline, as ZATCA establishes an approximate zakat obligation using its sources of information pertaining to the taxpayer. The taxpayer may object to said obligation and correct the items made under ZATCA's assessment from his/her point of view.

### Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)

The taxpayer who maintains commercial books does not submit the zakat declaration or submit it for the fiscal year after exceeding the statutory period specified for the obligation to submit the zakat declaration set forth as (120) days from the end of ZY. With the taxpayer exceeding this statutory period, ZATCA shall make the estimated assessment for him/her, due to exceeding the period specified for submitting the zakat declaration for the fiscal year.

### Third: Default (Statutory) Procedure

Commitment to submitting the declaration on its regular date within one hundred and twenty (120) days of the end of ZY for the taxpayer without delay, which -in the event of compliance- is considered a guarantee that prevents ZATCA from making the estimated assessment. In fact, the estimated assessment is a means that ZATCA resorts to as a matter of necessity for the purposes of building ZB for the taxpayer who did not submit to ZATCA a declaration containing his/her assets and liabilities as well as the ZB amount, and the zakat due.

### Fourth: ZATCA's Handling

When the taxpayer who maintains commercial books does not submit his/her zakat declaration within the specified statutory period, ZATCA shall in this case assess the taxpayer and hold him/her accountable in the assessment manner, because the taxpayer exceeded the statutory period specified in the Regulations, (120) days, for submitting the declaration.



## **Fifth: Legal Provision**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Second Paragraph of Article Eleven, stipulated the following:

ZATCA may hold the taxpayer accountable under the assessment method in the following cases:

If the taxpayer does not commit to submitting the declaration within the period set forth in Article (Seventeen) of the Regulations.

Article Seventeen of the Regulations stipulates the following:

“Each taxpayer shall submit the declaration and its attachments in Arabic and pay zakat according to the forms and procedures of ZATCA, within a period not exceeding one hundred and twenty (120) days from the end of ZY, and if the end of this period coincides with an official holiday, it shall be extended to the first working day after the holiday.

### **Example (24):**

Al-Ghoroub Company keeps commercial books and is charged according to the mechanism of charging taxpayers who keep commercial books, and the company did not submit the declaration on the legal deadline, as set forth in the Regulations, (120) days, so ZATCA produced an assessment thereto, and held it accountable in an estimated manner, according to the information and data available to ZATCA about the taxpayer, for failure to submit the declaration and financial statements on the legal deadline.

## **Item 2: Expenses that are not subject to deduction (increase in the salaries and wages expenses shown in the lists over those registered with GOSI):**

### **First: Item Description**

The item of salaries and wages expenses is one of the main items of expenses that are shown in the income statement, as it increases the expenses of the establishment and reduces its profits, and the value of salaries and wages expenses recorded in the financial statements shall be equal to the value of salaries and wages recorded in GOSI. In the event that the salaries and wages recorded in GOSI are less than those recorded in the financial statements without the taxpayer submitting a document explaining the nature of such differences, then what is registered in GOSI is taken into account and the difference shall be returned to ZB, as the approved procedure is what was registered in the data of GOSI.



## **Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)**

This problem refers to: the amount the taxpayer incurs from the value of the salaries and wages items that s/he spends to run his/her activity, and then s/he records them among the expenses that affect the outcome of his/her activity, as this is deemed a reduction to his/her profits without observing the salary expense controls that are accepted for the purposes of collecting zakat.

There are many controls that must be considered before deeming any expense acceptable for the purposes of collecting zakat, and in the event that the controls are not observed, ZATCA shall issue a zakat assessment for the taxpayer aiming to correct his/her commitment to the zakat duty.

Accordingly, the items that fall within the concept of salaries and wages expenses shall be registered with GOSI, or the taxpayer must provide a document explaining the nature of these differences. Therefore, considering them as an expense reduces the net income of the establishment, which in turn will affect ZB of the taxpayer without observing the controls related to salaries and wages, which is considered a wrong action on the part of the taxpayer.

In fact, the taxpayer must not consider it an expense affecting the net result of the activity of the establishment, except after fulfilling the conditions set forth in Paragraph (1/A) of Article Eight of the Regulations for zakat collection purposes.

## **Third: Default (Statutory) Procedure**

Compliance with the provisions of Paragraph (1/A) of Article Eight of the Implementing Regulations for Levying Zakat issued by Ministerial Resolution No. (2216) dated 071440/07/ AH, and taking into account the controls of deductible and non-deductible expenses, specifically the controls of salaries and wages expenses, which means that no item that falls within the items of salaries and wages expenses will be deducted unless its conditions are met.





#### **Fourth: ZATCA's Handling**

When the salary and wages expense recorded in the taxpayer's declaration exceeds the value of the salaries and wages registered with GOSI, without the taxpayer submitting a document explaining the nature of these differences, ZATCA will refund the difference charged with the increase between the salary and wages expenses registered with GOSI than recorded in the taxpayer's declaration. In recording salaries and wages expenses, ZATCA relies on GOSI's data when it is more than what is registered in the taxpayer's declaration without justification, which is in accordance with the provisions of the Second Paragraph of Article Nine of the Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH.

#### **Fifth: Legal Provision**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Second Paragraph of Article Nine, stipulated the following: "The following expenses may not be deducted to determine the net result of the activity: expenses that the taxpayer cannot prove with supporting documents or other evidence accepted by ZATCA."

#### **Example (25):**

Al-Shams Company submitted its zakat declaration for the fiscal year 2020 AD. The zakat declaration included deducting a number of expenses, including salaries and wages expenses, as per the financial statements, yet they were greater than what is registered in GOSI. After that, ZATCA assessed the taxpayer and did not rely, in this case, on the item of salaries and wages expenses recorded in the financial statements in the event that the taxpayer does not provide a document explaining the nature of these differences, but rather ZATCA relies on what is registered in GOSI.

This is deemed an exception to the provisions of the Second Paragraph of Article Nine of the Executive Regulations for Levying Zakat issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH.



### Item 3: Investments (non-deducting investments in sukuk, and non-deducting investments in subsidiaries):

#### First: Item Description

Investments are one of the assets of the establishment that are shown in the statement of financial position within the current or non-current assets. They express the value invested, whether these investments are in subsidiaries, in real estate, or in securities such as stocks, bonds, sukuk, or other types of investments.

#### Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)

Some cases in which the taxpayer does not adhere to the statutory handling of investments included in the financial statements are explained below.

##### Case 1: Investments in Establishments inside the Kingdom of Saudi Arabia (Long Term):

When the taxpayer invests in establishments inside the Kingdom of Saudi Arabia so that these investments are shown in the statement of financial position within the assets of the taxpayer, then the taxpayer deducts those investments without observing the aforementioned investment deduction controls, which stipulate that such investments shall be for non-trading purposes and subject to zakat collection, and accordingly the taxpayer's investment in establishments inside the Kingdom of Saudi Arabia that are not subject to the collection of zakat, it cannot be considered as one of the items deducted from ZB.

- In the event that the invested-in establishment is subject to zakat collection, and the investment in them is classified as long-term, then the taxpayer can consider the value of the investment as one of the items deducted from ZB.

##### Case 2: Short-Term Investments:

- When the taxpayer invests in short-term investments. These investments appear in the statement of financial position within the current assets of the taxpayer, then s/he deducts those current investments without observing the investment deduction controls, which include the requirement that those investments deducted from ZB be non-trading investments, and therefore short-term investments may not be from ZB.



### **Case 3: Investments in establishments outside the Kingdom of Saudi Arabia:**

This case refers to the taxpayer's investing in establishments outside the Kingdom of Saudi Arabia. These investments appear in the statement of financial position within the assets of the taxpayer, and then s/he deducts those investments, without observing the investment deduction controls, which include the requirement that these investments not be for the purpose of trading, with the obligation to calculate the taxpayer due zakat according to the provisions of the Regulations on these investments, which are included in his/her zakat declaration and are thus submitted to ZACTA, while attaching an approved certificate from a certified public accountant in the Kingdom of Saudi Arabia.

Accordingly, the taxpayer's investment in establishments outside the Kingdom of Saudi Arabia may not be considered directly deductible from ZB. Rather, the taxpayer shall adhere to several controls, and if they are achieved, s/he may consider them from the items deducted from ZB.

### **Third: Default (Statutory) Procedure**

The taxpayer shall abide by the investment deduction controls, which stipulate the conditions for deduction for foreign investment, including the condition that these investments are not for the purpose of trading, with the taxpayer calculating the zakat due on these investments within his/her zakat declaration, submitting the dues to ZATCA, upon approval by a certified accountant licensed in the Kingdom of Saudi Arabia.

- Conditions for deduction of internal investment, including the requirement that these investments be subject to zakat levying, and that these investments be classified as longterm investments.

This means that in the event that the taxpayer adheres to the controls for deducting the investments set forth in the Fourth Paragraph of Article Five of the Regulations, s/he shall not be charged according to ZATCA's assessment.



#### **Fourth: ZATCA's Handling**

ZATCA accepts deduction of investments in the following cases:

- Investments in establishments inside the Kingdom of Saudi Arabia if those investments are subject to zakat levying.
- Investments in establishments outside the Kingdom of Saudi Arabia, provided that these investments are not for the purpose of trading. The taxpayer calculates, within his/her zakat declaration, the zakat due on these investments in accordance with the provisions of the Regulations and submits it to ZATCA, along with attaching an approved certificate from a chartered accountant licensed in the Kingdom of Saudi Arabia, provided that the minimum level of ZB for these investments is the taxpayer's share of the net profit included in the financial statements of these investments, regardless of distributing or not distributing the profit.

ZATCA does not accept deduction of investments in the following cases:

- Investing in establishments inside the Kingdom of Saudi Arabia if such investments are in an establishment not registered with ZATCA for the purposes of collecting zakat.
- Investments prepared for trading, even if they are classified as long-term assets, if it is verified that there are buying and selling operations on the investment during the year.
- Investing in bonds, sukuk, currencies, deposits, or futures transactions.
- Investing in facilities outside the Kingdom of Saudi Arabia if the deduction conditions are not met.
- The debit loans, supportive or additional financing, and the like granted to the invested-in establishment even if they are classified as in establishments.

#### **Fifth: Legal Provision:**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Fourth and Fifth Paragraphs of Article Five, stipulated the following:



The following items shall be deducted from the Zakat Base (ZB) of the taxpayer who keeps commercial books:

Investments in an establishment inside the Kingdom of Saudi Arabia for non-trading purposes if such an establishment is registered with ZATCA and are subject to zakat levying under the Regulations. Leased assets are not deemed financing, in the books of the lessor, as an investment that is deducted from ZB, regardless of its classification in the financial statements. Likewise, the debit loans or the supporting or additional financing and the like granted to the invested-in establishment are not deemed an investment deducted from ZB.

The Fifth Paragraph of the same Article provides for the following:

- Investments, for a non-trading purpose, in an establishment outside the Kingdom of Saudi Arabia, provided that the taxpayer pays zakat on said investments to ZATCA according to a certificate prepared in accordance with the provisions of the Regulations, which is approved by a chartered accountant licensed in the Kingdom of Saudi Arabia, provided that the minimum ZB for said investments is the taxpayer's share of the incoming net accounting profit in the financial statements of said investments, whether the profit is distributed or not, and if the taxpayer does not commit to calculating and paying zakat accordingly, said investments shall not be deducted from ZB.

The value of the assets of a company as of December 31, 20XX AD includes the following items:

1. Investments in establishments inside the Kingdom of Saudi Arabia (and these establishments were subject to the collection of zakat) in the amount of SAR 400,000.
2. Investments in establishments inside the Kingdom of Saudi Arabia (and these establishments were not subject to the collection of zakat) in the amount of SAR 100,000. Investments in government sukuk amounting to SAR 300,000.
3. Investments in foreign currencies amounting to SAR 200,000
4. Investments in establishments outside the Kingdom of Saudi Arabia (in which the deduction conditions set forth in the Regulations were not met) in the amount of SAR 600,000.



How are the items of these investments handled for the purposes of collecting zakat?

**Example (26):**

Item	Amount	Zakat Handling
Investments in establishments inside the Kingdom of Saudi Arabia (if those investments are subject to zakat levying)	400000	Non-deductible from ZB
Investments in establishments inside the Kingdom of Saudi Arabia (if those investments are not subject to zakat levying)	100,000	The value of this investment is non-deductible from ZB
Investments in government sukuk*	300,000	The value of this investment is non-deductible from ZB
Investments in foreign currencies	200,000	The value of this investment is non-deductible from ZB
Investments in establishments outside the Kingdom of Saudi Arabia (in which the deduction conditions set forth in the Regulations were not met)	600,000	The value of this investment is non-deductible from ZB
Total investments that are nondeductible from ZB	1200,000	

\* (For the taxpayer to whom the financing activities calculation rules do not apply).



## Item 4: The fixed assets not used in the activity:

### First: Item Description

Fixed assets are one of the assets of the establishment that appears in the statement of financial position within the non-current assets. It expresses the value of the fixed assets owned by the establishment, whether these fixed assets are land, real estate, farms, movable assets, or other examples of fixed assets, which are considered among assets deducted from ZB.

### Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)

When the taxpayer records the value of fixed assets whose use has not been proven in the activity within the firm's fixed assets that appear in the statement of financial position, in order to increase the items of deductions from ZB, without taking into account the importance of basing information on the statement of financial position on official documents. Registration of fixed assets that have not been proven to be used in the activity within the fixed assets shown in the statement of the financial position of the establishment is a wrong procedure, because ZATCA does not accept that the fixed asset that is not used in the activity is considered among the items deducted from ZB.

### Third: Default (Statutory) Procedure

It is important to base all information on the financial position statement on official documents, which means not showing fixed assets that have not been proven to be used in the activity of the facility, among the fixed assets that appear in its financial statements.

### Fourth: ZATCA's Handling

ZATCA assesses the taxpayer's zakat and rejects the deduction that was done by the taxpayer, because there are no documents proving the use of such fixed asset in the relevant activity it shall show in the financial statements of the establishment as fixed assets deducted from ZB.

Registration of fixed assets that are not proven to be used in the activity within the fixed assets shown in the statement of the financial position of the establishment is a wrong procedure, because ZATCA does not accept that the fixed asset that is not used in the activity is among the items deducted from ZB.



## **Fifth: Legal Provision**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Second Paragraph of Article Five, stipulated the following: "The fixed assets acquired for the purpose of use in the activity of the taxpayer shall be deducted from ZB for the taxpayer who keeps commercial books, according to the book value shown in the financial statements."

### **Example (27):**

Company (A) submitted its zakat declaration and recorded the value of fixed assets not used in the activity at a value of SAR 2,000,000 among its fixed assets, and examination by ZATCA it found that these assets are not used in the activity, and therefore ZATCA will take the following procedure:

Not to accept the deduction of the value of fixed assets not used in the activity at a value of SAR 2,000,000.

## **Item 5: Profits Under Distribution:**

### **First: Item Description**

Retained earnings are one of the elements of property rights which appear in the statement of financial position. They represent the profits carried over from previous years not distributed to shareholders and are kept by the establishment for the purpose of financing its operations.

### **Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)**

When submitting the zakat declaration, the taxpayer does not add the profits announced for their distribution, believing that they are not considered among the additions to ZB and that they are similar to the profits that were actually distributed.





### Third: Default (Statutory) Procedure

The balance of profits under distribution shall be added to ZB, regardless of their classification in the statement of financial position, whether they are proposed distributions by the board of directors or their distribution has been approved, with the exception of profits announced for distribution and the rightful owners did not request to receive them, provided that they are in a special account that the taxpayer is not allowed to dispose of.

### Fourth: ZATCA's Handling

ZATCA adds the item of profits under distribution to ZB, regardless of their classification in the statement of financial position, with the exception of profits announced for distribution and the rightful owners did not request to receive them, if they are deposited in a special account that the taxpayer is not allowed to dispose of.

### Fifth: Legal Provision

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Eighth Paragraph of Article Four, stipulated the following: "Profits are under distribution, except for the profits that have been announced for distribution and the rightful owners did not request to receive them, provided that they are deposited in a special account that the taxpayer is not allowed to dispose of."

#### Example (28):

(Al-Tamayyoz) Company intends to submit its zakat declaration for the year ending (20XX), which contains profits as follows:

- The balance of profits carried over from previous years is SAR 3,000,000.
- The profits proposed to be distributed (distribution has not been approved) SAR 200,000.
- The profits under distribution (they were announced and the rightful owners did not come forward to receive them, but they were not deposited in a special account that the establishment is not allowed to dispose of) with a value of SAR 400,000.
- The profits under distribution (they were announced and the rightful owners did not come forward to receive them, and they were deposited in a special account that the establishment is not allowed to dispose of) with a value of SAR 900,000.



How are the profits of these investments handled for the purposes of collecting zakat?

Item	Amount	Zakat Handling
Balance of retained earnings from previous years	3000,000	The value of these profits shall be added to ZB
The profits under distribution (distribution has not been announced)	200000	The value of these profits shall be added to ZB
The profits under distribution (they were announced and the rightful owners did not come forward to receive them, but they were not deposited in a special account that the establishment is not allowed to dispose of)	400000	The value of these profits shall be added to ZB
The profits under distribution (they were announced and the rightful owners did not come forward to receive them, but they were deposited in a special account that the establishment is not allowed to dispose of)	900,000	The value of these profits shall not be added to ZB



## Clause VI: Properties Under Development:

### First: Item Description:

Properties under development is a statement of financial position item that is classified as noncurrent assets.

### Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)

The taxpayer deducts the item of real estate under development without fulfilling the conditions contained in the Regulations in this regard. The Regulations stipulates a number of conditions, so the taxpayer, for example, deducts the value of real estate under development while it is offered for sale the way they are, or the taxpayer deducts the value of real estate under development and has the total sales and payments received from customers exceeded twenty-five percent (25%) of their value appearing in the financial statements for ZY subject to the declaration. The deduction made by the taxpayer for such cases is contrary to the conditions of deduction stipulated in the Executive Regulations for Levying Zakat issued by Ministerial Resolution No. (2216) dated 071440/07/ AH. Therefore, ZATCA may not accept deductions in these items.

### Third: Default (Statutory) Procedure

Upon submitting the zakat declaration, if his/her financial statements include real estate under development, the taxpayer shall ensure that the conditions for deducting real estate under development contained in the Executive Regulations for Levying Zakat issued by Ministerial Resolution No. (2216) dated 071440/07/ AH are met, which provided that these properties for sale are not offered for sale as they are, and that the total sales and advance payments received from customers do not exceed twenty-five percent (25%) of their value appearing in the financial statements for ZY subject to the declaration.



#### Fourth: ZATCA's Handling

ZATCA may not accept the deduction of the item of real estate under development unless the conditions set forth in the Regulations are fulfilled, including that the real estate is not offered for sale the way they are, and that the total sales and advance payments received from customers do not exceed twenty-five percent (25%) of their value shown in the financial statements for ZY subject to the declaration.

#### Fifth: Legal Provision

The Executive Regulations for Levying Zakat promulgated under the Ministerial Resolution No. (2216) dated Rajab 07, 1440 AH stipulated in Paragraph (9) of Article Five that the following items shall be deducted from ZB for the taxpayer who keeps commercial books:

"Paragraph Nine: the value of properties under development intended for sale that are classified as non-current assets in the financial statements, and which are intended to be sold after the completion of their development; unless they are offered for sale the way they are or the total sales and advance payments received from clients exceeds twenty-five percent (25%) of its value appearing in the financial statements for ZY subject to declaration."

#### Example (29):

The balance of development real estate for (1) Company, which appears among the non-current assets in the financial statements as of December 31, 2020 AD, amounted to SAR 30,000,000, and the sales percentage of it reached 20%. What is the balance of the development real estate item that may be deducted from ZB?

The balance of development properties appearing in the financial statements as of December 31, 2020 AD is deducted in the amount of SAR 30,000,000 in full from ZB, as under-development properties are considered non-zakatable assets and the percentage of sales did not reach 25%.

#### Example (30):

The balance of under-development real estate for (B) Company, which appears among the non-current assets in the financial statements as of December 31, 2020 AD, amounted to SAR 10,000,000, and all the said real estate were offered for sale the way they are. What is the balance of the under-development real estate item that may be deducted from ZB?



The balance of real estate under development may not be deducted from ZB, as these real estate under development are considered offered for sale the way they are.

**Example (31):**

Al-Amerah Real Estate Company works in the field of real estate development, and among its projects was Project (A) through which it committed itself to implementing and constructing residential villas, and Project (B) through which it committed to implementing and constructing residential apartments. The total balance of real estate under development amounted to SAR 1,000,000, and the details of the item were as follows:

Project A: Balance at the end of the period is SAR 300,000.

Balance at the start of the period: 250,000, additions: 100,000, exclusions: 50,000

Project B: Balance at the end of the period is SAR 700,000.

Balance at the start of the period: 1,200,000, additions: 50,000, exclusions: 550,000

Requirement: Calculate the amount that is deducted from ZB.

Project A: Percentage of sales and advance payments = 14%

Project B: Percentage of sales and advance payments = 44%

Since the percentage of sales of Project (A) did not exceed 25%, the balance of the project (SAR 300,000) is deducted from ZB, while Project (B) the percentage of sales amounted to 44% of the project, so it is not acceptable to deduct this balance (SAR 700,000 riyals) from ZB.

**Item 7: The revenue difference between the financial statements, VAT declarations, and real estate disposals:**

**First: Item Description**

When reviewing the zakat declaration, ZATCA verifies the data disclosed by the taxpayer, and compares it with the documents and data available thereto, whether these data were derived from sources within ZATCA or from sources outside ZATCA. Key of these items is the revenue item, which is disclosed by the taxpayer separately in the value-added tax, and for the purposes of examination and review, the examiner checks and compares the revenues according to the income statement and the revenues disclosed in the value-added tax returns for the same period.



## **Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)**

A disclosure is made in the VAT declaration of sales (revenues) that do not match when compared with the revenues included in the income statement of the taxpayer. Accordingly, ZATCA -based on the information and evidence available thereto and after requesting the necessary clarifications and documents from the taxpayer to verify the nature of these differences- makes the assessment to the taxpayer based on information and clues available.

## **Third: Default (Statutory) Procedure**

The taxpayer shall ensure the availability of the necessary data and documents that justify any differences, if any, between the declarations submitted according to VAT, real estate disposal tax, and the like, and the revenues according to the income statement of the taxpayer.

## **Fourth: ZATCA's Handling**

ZATCA requests the necessary documents that explain the nature of these differences, and when the taxpayer fails to provide ZATCA with the necessary documents and information, or these documents are insufficient, ZATCA has the right to refund any differences in revenues between the revenues included in the VAT returns and the revenues included in the income statement of the taxpayer, thereby increasing the adjusted earnings of these differences.

## **Fifth: Legal Provision**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Article Eighteen, stipulated the following:

(The burden of proving the validity of the items and any other data contained in the declaration rests with the taxpayer, and in the event that s/he is unable to prove the validity of what is stated in his/her declaration, ZATCA may not approve the item that the taxpayer does not prove to be correct).



In addition, it is stipulated in the Nineteenth Article of the Regulations that:

(ZATCA may examine and review the taxpayer's declaration and request the clarifications and documents it needs, and it may authorize any of its employees or others to come to the taxpayer's site to conduct a field examination of the commercial books and documents, and the taxpayer must provide what ZATCA requests within a period not exceeding twenty (20) days from the date of receiving the data request. If the taxpayer does not commit to submitting the data during that period, ZATCA may renew the period or the assessment based on the available information and evidence. The field inspection shall be documented in minutes signed by ZATCA's representative and the legally-authorized representative of the taxpayer. In the absence of the legally-authorized representative of the taxpayer or his/her refusal to sign the record, this shall be recorded in the minutes. In all cases, the report is considered an evidence against the taxpayer with regard to the facts established therein.

**Example (32):**

Al-Jawda Company submitted its zakat declaration for 2020 AD, and the disclosed revenues in the income statement amounted to SAR 1,600,000. When ZATCA made the necessary assessment of the company, it was found that the revenues disclosed in VAT amounted to SAR 2,000,000. ZATCA requested the taxpayer, Al-Jawda Company, to provide the necessary documents that support and justify these differences, but the company did not respond to ZATCA's request. The required documents were not submitted.

Accordingly, ZATCA added the difference of SAR 400,000 to the adjusted net profit for zakat purposes for the taxpayer; Al-Jawda Company.



## Item 8: The debit loans, supportive or additional financing, and the like granted to the invested-in establishment:

### First: Item Description

This case refers to: debts financed by one of the taxpayers in favor of another taxpayer in which the financed taxpayer owns a percentage of his/her ownership so that the value of these finances appears on non-current assets. In this case, the value of these financings appears in the list of liabilities of the debtor, and is handled, in terms of zakat, in the invested-in company according to the provisions of the Regulations, without deducting it from ZB of the creditor, regardless of its classification.

### Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)

The taxpayer deducts the value of the item, which represents a debt owed by an invested-in company, from ZB.

### Third: Default (Statutory) Procedure

Not deducting debt loans, supportive or additional financing, and the like granted to the invested in company, for the zakat declarations submitted for the financial years beginning on or after January 01, 2019 AD, as they are not considered an investment that is deducted from ZB of the investing company.

### Fourth: ZATCA's Handling

Making the assessment of the taxpayer, and not accepting the deduction of the debt owned by the creditor, who financed an invested-in establishment, for the zakat declarations submitted for the fiscal years beginning on or after January 01, 2019 AD.





## **Fifth: Legal Provision**

Paragraph 4 of Article 5 of the Regulations, which stipulated: (Debit loans, supportive or additional financing, and the like granted to the invested-in establishment are not considered an investment that is deducted from ZB).

### **Example (33):**

(Al-Jawdah) Company submitted its zakat declaration for 2020 AD, and the list of the financial position of Al-Jawdah Company included -among the items of non-current assets- an item (a loan granted to Al-Salam Company) with an amount of SAR 1,000,000. Al-Salam Company is considered one of the subsidiaries of Al-Jawdah Company, as Al-Jawdah Company owns 30% of Al-Salam Company. Accordingly, it is not allowed to deduct the value of the loan amounting to SAR 1,000,000 from ZB of Al-Jawdah Company.

## **Item 9: Submission of charitable endowment companies and non-profit associations:**

### **First: Item Description**

Non-registration of establishments in respect of which a decision is issued by ZATCA not to be subject to the collection of zakat, and thus the failure to submit zakat declarations on time, as these taxpayers believe that their non-submission to the collection of zakat exempts them from registering with ZATCA and from submitting an information declaration.

### **Second: Problem (Non-Compliance of Taxpayer with Statutory Procedure)**

Non-registration with ZATCA and non submission of an information declaration.

### **Third: Default (Statutory) Procedure**

All taxpayers shall register with ZATCA and submit a declaration, whether the taxpayers who are subject to the collection of zakat or those against whom a decision has been issued by the ZATCA not to be subject to zakat.



#### **Fourth: ZATCA's Handling**

Obligating all taxpayers with all zakat requirements and duties, including registration and submission of declarations.

#### **Fifth: Legal Provision**

The Executive Regulations for Levying Zakat promulgated by the Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH, in the Article Sixteen, stipulated the following:

(Each taxpayer subject to the provisions of the Regulations shall register with ZATCA before the end of his/her first fiscal year, including the non-subject taxpayer).

#### **Example (34):**

Awqaf Al-Ihsan Company, a non-profit charitable company, was not registered with ZATCA, because the aim of the company is entirely charitable, and therefore it is not subject to zakat according to their point of view. Awqaf Al-Ihsan Company shall register with ZATCA and submit the zakat declaration in accordance with the provisions of the Regulations.



## 6. Objection and Appeal Procedures

In the event that the taxpayer does not agree with a decision issued by ZATCA, s/he may object to its decision (within the statutory period referred to in this Section), by submitting it to ZATCA to resolve the dispute related to the assessment or any other decisions issued by ZATCA, according to the following order:

- Submitting the objection to ZATCA within the specified deadline, and if ZATCA rejects the objection or the statutory period for the response by ZATCA expires, and the taxpayer does not receive a response, s/he has the right to move to the next step.
- Filing a grievance before the committees for adjudication of tax violations and disputes, and at any stage of the objection before the adjudication committees, the taxpayer has the right to request a referral to the internal committee of ZATCA to settle zakat and tax disputes.

### 6.1 Submitting an Objection

In the event that ZATCA issues the zakat assessment, the taxpayer will be notified of his/her right to object to ZATCA's decision and can submit the objection via ZATCA's electronic system "ERAD".

### 6.2 Controls for Accepting Objections

For ZATCA to accept the taxpayer's objection to any of ZATCA's decisions, it is required to comply with the following controls:

#### 1. Submitting an Objection within the Statutory Period:

The objection shall be submitted within sixty (60) days from the date of the assessment notice as mentioned in the notice, and the assessment shall be final if the objection is not submitted within the specified time period, and the request must include at least the points of disagreement, the reasons for objecting to ZATCA's decision, in addition to the documents that support the viewpoint of the taxpayer.



## 2. Payment of the Amounts Related to Assessment According to the Following:

### Non-Objectionable Items:

The taxpayer shall pay the amounts due in full on the non-objectionable items during the statutory period for the objection.

The screenshot displays the Saudi Tax Authority's online portal interface. At the top, there is a navigation bar with the text "الدفع الإلكتروني للمقرضين" (Electronic Payment for Debtors) and "إدارة المقرضين" (Debtors Administration). Below this is a progress indicator with five steps: 1. إيداع الطلب (Request Deposit), 2. إيداع المبلغ (Amount Deposit), 3. إصدار القرار (Decision Issuance), 4. دفع المبلغ (Amount Payment) - which is currently selected and highlighted in blue, and 5. إيداع الطلب (Request Deposit). A row of navigation buttons is visible below the progress indicator, including "الرجوع" (Back), "التالي" (Next), "إلغاء" (Cancel), "إيداع المبلغ" (Amount Deposit), "مراجعة" (Review), and "تأكيد" (Confirm). The main content area features a heading "التكليف المساقط بالمقرضين (تعبئة المبلغ المقرضين عليه، إذ من تكليف المقرضين بالتكليف المقرضين)" (Waiver of the Debtors' Obligation (Filling the Amount of the Debtors' Obligation, as the Debtors are Obligated to the Waiver of the Debtors)). Below this heading is a table with the following columns: "رقم الترخيص المقرض" (Debtors' License Number), "محافظة" (Governorate), "القرض" (Loan), "القرض" (Loan), "القرض" (Loan), "نوع القرية" (Village Type), "القيمة" (Value), "لغة ارتباطه (إجمالي)" (Total Relationship Language), "إيداع المبلغ المقرضين عليه" (Amount of Debtors' Obligation), and "إيداع المبلغ المقرضين عليه" (Amount of Debtors' Obligation). The first row of the table is highlighted in blue. Below the table, there is a blue button labeled "إيداع المبلغ" (Amount Deposit) and a note: "رود في هذه الحالة المبلغ المقرضين عليه، إذ من تكليف المقرضين بالتكليف المقرضين" (In this case, the amount of the debtors' obligation, as the debtors are obligated to the waiver of the debtors). At the bottom of the form, there is a large empty text box.



### **Payment of Part of the Objected Items:**

The taxpayer shall pay part of the amounts due on the objected items during the legal deadline for the objection, which is twenty-five percent (25%) of the value of the assessment, or provide a financial guarantee of not less than fifty percent (50%) of the amounts due on the objected items.

#### **1. Internal Audit**

ZATCA shall begin the internal audit process after receiving the objection. The Review Department shall conduct the internal review of the assessment objected to by the taxpayer, and shall respond to the objection within 90 days. The review process can result in one of the following:

- A. Fully Accept the Objection:** ZATCA shall then issue a new assessment in place of the first objectionable assessment, and notify the taxpayer of the same.
- B. Partially Accept the Objection:** ZATCA shall then issue a new assessment in place of the first assessment, and notify the taxpayer of the same.
- C. Fully Reject the Objection:** ZATCA shall notify the taxpayer of the rejection of his/her objection to the previous assessment.

In the event that a decision is issued by ZATCA in rejection or partial acceptance, the taxpayer may submit a request before the Zakat and Tax Dispute Settlement Committee in ZATCA or grievance with the Secretariat-General of Tax Committees within 30 days from the date of issuance of the decision by ZATCA, or if 90 days have elapsed from the date of submitting the objection without the Committee deciding thereon (see Item 7.3).



### **6.3 Grievance Before the Relevant Committees:**

Royal Decree No. (26040) dated Rabi' al-Thani 21, 1441 AH was issued approving the work rules of the committees for adjudication of tax violations and disputes, which are included in Article Two, permitting filing a grievance case against the decisions issued by ZATCA.

Accordingly, the competent judicial authority before which the taxpayer may appeal against ZATCA's decisions is the Committee for Settlement of Tax Violations and Disputes, and the Appeal Committee for Tax Violations and Disputes, which are two separate committees at ZATCA.

The taxpayer who wishes to object to the final decisions issued by ZATCA shall submit the objection directly to the settlement committee within a period of 30 days from the date of issuing the notice of reassessment or rejection of the objection, or if 90 days have elapsed from the date of submitting the objection without ZATCA's decision thereon. ZATCA's decision shall be final if no objection is received within the specified period, and in the event the taxpayer or ZATCA objects to the decisions of the settlement committee, the dispute shall be referred to the Appeal Committee whose decisions shall be final and binding and may not be appealed.

### **6.4 Dispute Settlement**

ZATCA formed a committee to settle zakat disputes that arise from the taxpayer's objection to ZATCA's assessments, which is an internal committee to facilitate the resolution of zakat and tax disputes.

The Settlement Committee shall be responsible for resolving the dispute between ZATCA and the taxpayer. The Committee shall submit a solution to the disputes as an alternative to submitting a formal grievance before the Adjudication Committee and the Appeal Committee, which are two judicial bodies competent to consider zakat disputes. The taxpayer may submit a request to the Committee to review the decision issued by ZATCA's Audit Department. The Committee itself may communicate with the taxpayer in the event the taxpayer submits a grievance to the Adjudication Committee.



Whenever the taxpayer submits a request to issue a settlement decision to the Settlement Committee, the request must include at least the points of dispute and the reasons for objecting to the Committee's decision, in addition to the supporting documents that support his/her point of view.

In the meantime, the formal grievance procedures before the Adjudication Committee or the Appeal Committee shall be suspended as a result of a request to go to the Dispute Resolution Committee, until the Committee issues a decision on the settlement application.

The Settlement Committee shall notify the taxpayer if the request to resolve the dispute through the Settlement Committee is accepted or rejected within 30 days from the date of submitting the request.

### **Cases of Rejection of Settlement**

Settlement shall be refused if any of the following cases occur:

- When the Committee is not satisfied with the reasons for the objection of the taxpayer, it shall notify the taxpayer of the rejection of his/her request to issue a settlement decision.
- If the taxpayer does not obtain the settlement decision within sixty days from the date of submitting the application (unless notified of an extension of the period for an additional 60 days), the application shall be deemed rejected in this case.
- When the taxpayer rejects the settlement decision, or does not notify the Committee in writing of approval of the settlement decision.

Refusal of the settlement decision entails the completion of the formal grievance, whereby the objection procedures are completed before the Adjudication Committee and the Appeal Committee, and shall be temporarily suspended during the procedures of the Settlement Committee.



## Objection and Grievance Scheme







## 7. Connect Us

For more information regarding any transaction subject to zakat, please visit the website: [www.zatca.gov.sa](http://www.zatca.gov.sa) or contact us at the following number 19993.

### Annex: FAQs

#### FAQs Related to Key Zakat Items Subject to Objection:

**1. What is the statutory period that the taxpayer who keeps commercial books must not exceed when submitting the zakat declaration, and what is the procedure that ZATCA shall take in the event that this statutory period is exceeded?**

Each taxpayer shall submit the declaration and its attachments in Arabic and pay zakat in accordance with the forms and procedures of ZATCA, within a period not exceeding one hundred and twenty (120) days from the end of ZY. If the end of this period coincides with an official holiday, it extends to the first working day thereafter, and in the event that the taxpayer who keeps commercial books exceeds the statutory period specified in the Regulations, ZATCA has the right to make an assessment on the taxpayer and hold him/her accountable in the estimation manner as stipulated in the Regulations.

**2. How are the salaries and wages expenses recorded in the financial statements handled in the event that their value is higher than that recorded in GOSI?**

The value of salaries and wages registered in GOSI is approved, and the excess of salaries and wages expenses registered in GOSI shall be returned to the adjusted net profit.

**3. Is it permissible for the taxpayer to deduct the item of real estate under development in the event that the total sales and payments received from customers exceed twenty-five percent (25%) of their value shown in the financial statements for ZY subject of the declaration?**

It is not permissible to deduct the item of real estate under development that exceeds the total sales and advance payments received from customers, including twenty-five percent (25%) of its value shown in the financial statements for ZY subject of the declaration.



## FAQs Related to ZB:

### **1. Is it permissible for the establishment to deduct the employee's share in regular retirement funds such as the retirement pension fund, social insurance, savings, and savings funds from ZB?**

The employee's share in these funds may not be deducted from ZB.

### **2. What are the expenses that may be deducted from ZB?**

All normal and necessary expenses necessary for the activity, whether they are paid or due, shall be deducted to conclude the net result of the activity, provided that the following controls are available:

- a. They shall be an actual expense supported by supporting documents or other evidence that enables ZATCA to verify its authenticity, even if it is related to previous years.
- b. They shall be related to the activity and not related to personal expenses or other activities.
- c. They shall not be of a capital nature, and in the event that an expense of a capital nature is included in the expenses, the result of the activity is adjusted for it, and it is included in the fixed assets and consumed according to the statutory proportions.

### **3. Is it permissible for the owner of the establishment to deduct his/her salaries and allowances from ZB?**

The salaries and allowances of the owner of the establishment, whether it is a sole proprietorship, a company of funds, or a partnership of persons, as well as the remuneration paid to the chairman, vice-chairman, and members of the board of directors of the partners in the establishment are among the expenses that may be deducted, provided that the salaries and allowances of the owner of the establishment are



**4. Is it possible to pay zakat to one of the official charitable institutions, so that ZATCA is provided with supporting documents and it is sufficient to pay charitable institutions?**

ZATCA is the entity entrusted with collecting zakat from the establishments subject to zakat. ZATCA deposits the zakat amounts in the account of the Saudi Central Bank of the Agency of the Ministry of Social Security Affairs in order to spend them on those who are entitled thereto, noting that donations to these charitable institutions are among deductible expenses from ZB of the taxpayer who maintains statutory accounts as soon as the supporting documents are submitted.

**5. Does the taxpayer have the right to object to the ZACTA's assessment?**

S/he shall be entitled to do so within 60 days of the assessment date.



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version and all published documents  
Or visit the website [zatca.gov.sa](http://zatca.gov.sa)