ZAKAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Manual of

Zakat Handling of Investments in Equity of Taxpayers who Maintain Statutory Accounts

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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 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 sets 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 rules 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. (178634/28/2/) dated Jumada Al-Thani 29, 1370 AH corresponding to April 6, 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 2, 1405 AH, and the Executive Regulations for Levying Zakat promulgated by Ministerial Resolution No. (2082) dated Jumada Al-Thani 1, 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 1, 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 071440/07/ 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 in the Social Security Account, which is responsible for disbursement to the poor and needy in accordance with Royal Decree No. (161/5/) Dated 051383/01/ 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

The Zakat, Tax and Customs Authority is a Saudi governmental body established under a resolution of the Saudi Council of Ministers issued on Ramadan 23, 1442 AH corresponding to May 04, 2021 AD, after the resolution to merge the General Authority of Zakat and Tax with the General Customs Authority under the name of the Zakat, Tax and Customs Authority.

1.5. ZATCA's Tasks

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

1. Collecting Zakat and taxes as well as custom fees from taxpayers in accordance with the relevant regulations and instructions.
2. Providing high-quality services to taxpayers to support them in fulfilling their duties.
3. Liaising with taxpayers and taking the necessary measures to ensure the collection of dues.
4. Raising awareness among taxpayers, enhancing the degree of understanding and voluntary commitment to compliance and ZATCA.
5. Leveraging modern technology in implementing, monitoring, and facilitating ZATCA's operation, and in enhancing the security role in combating customs smuggling.
6. Cooperating with the private sector in the implementation and management of some supportive works.
7. Developing the necessary plans to organize, manage, and invest the facilities of customs ports in coordination with the relevant authorities.
8. 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.
9. Cooperating and exchanging experience and best practice with regional and international bodies and organizations.
10. Representing KSA in regional and international forums and conferences.

1.6. About the Investments Handling Manual

This Manual provides guidelines and basic information regarding the Zakat Handling of the Investments in Companies' Equity Item for those who are subject to Zakat (taxpayers) operating in various sectors. It helps form a clear vision and provides guiding instructions regarding the practical applications of debt accounting.

This Manual does not cover other types of investments, such as the following: debt instruments, such as sukuk and bonds, which are mainly measured at amortized cost and other measurement methods. The foregoing will be covered in another manual, namely: (Manual of Zakat Handling of Debts and the Like).

This Manual constitutes ZATCA's concept and interpretation regarding the implementation of the Executive Regulations for Levying Zakat promulgated on Rajab 07, 1440 AH. It is worth noting that this Manual is not a legal document, and its contents are only of a guiding nature, and it does not aim to contain all relevant provisions of the Executive Regulations for Levying Zakat. Although these guidelines are not binding on ZATCA or the taxpayer with respect to any transaction to be carried out; they provide general guidelines on how ZATCA treats zakat-related procedures on a practical level.

To check the instructions on any transaction, you can visit the official website of ZATCA at (zatca.gov.sa), which contains a wide range of tools and information specially-developed to assist the taxpayer, including visual guidance materials and all relevant data, as well as responses to the Frequently-Asked Questions (FAQs).

2. INVESTMENTS IN EQUITY AND ZAKAT HANDLING

2.1. Introduction

The Executive Regulations for Levying Zakat, in its Fourth and Fifth Paragraphs of Article 5, addressed the zakat handling of investments, as follows:

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

1. Investments, for a non-trading purpose, in an establishment inside the Kingdom of Saudi Arabia, if the same establishment is registered with ZATCA and is subject to levying of zakat in accordance with 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.

2. 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.

From the foregoing, it is noted that the types of investments that the provisions of the abovementioned Regulations refer to are, in nature, investments in shares or equity instruments in establishments, which shall be mainly addressed in this Manual. In particular, the zakat handling to the equity investments of companies shall be addressed, namely:

- Subsidiaries.
- Associates and joint ventures.
- Equity or shares instruments, which are handled under IFRS 9 (Financial Instruments).

The zakat handling of some other forms of investments that come in the form of special arrangements shall also be discussed.

2.2. Main Types of Investments in Corporate Equity Instruments and their Zakat Handling:

2.2.1. Investments in Companies in the Form of Equity Instruments or Shares

An equity instrument is defined as a contract on the remaining share in the assets of a particular company after deducting all of its liabilities (i.e., equity = total assets - total liabilities). Common examples of equity instruments include: ordinary shares, preferred shares, and ownership interests in companies other than the issuer of shares.

From an accounting perspective and based on the controls and guidelines covered in the relevant accounting standards, investments in equity shares or instruments in companies take one of the following forms:

1. Investments in subsidiaries.
2. Investments in associates and joint ventures.
3. Investments in equity or shares instruments, which are handled in accordance with IFRS 9 (Financial Instruments).

Subsidiaries

They are companies that are (controlled) by other companies.

The main criterion in accordance with the relevant IFRS currently in force in the Kingdom of Saudi Arabia is proven (control) of another company so as to classify the investment in such a company as a subsidiary in the books of the investing company or the parent (holding) company.

Control is realized from an accounting perspective in the following cases:

- If the investing company has a high power or influence over the invested-in company that gives it the ability to direct the activities of the invested-in company.

- Existence of a right or influence with the investing company that enables it to change or direct the returns of the invested-in company, such as decisions to buy and sell goods and services, manage financial assets, buy and sell fixed assets, and determine the financing structure of the invested-in company.
- If the investing company has a high power or influence over the invested-in company that gives it the ability to influence the returns accruing thereto from its investment in the invested-in company.

The difference will be explained, later in this Section, between what is known as "control", which, if realized by a company over another company, it shall be classified as a 'subsidiary' (on the one hand), and the term "significant influence" (on the other hand), which if exercised by a company over another company or a joint venture, the invested-in company shall be classified as an ally or a joint venture.

Accounting for Investment in a Subsidiary by the Equity Method in the Separate Financial Statements of the Parent Company (the Investing Company)

This method requires that the investment be, initially, proven at cost, and then the investment account is modified during the subsequent periods of ownership as follows:

- Adding (deducting) the share of the investing company in the profit or (loss) of the invested-in company, including its share in other comprehensive income.
- Deduction of the share of the investing company in the dividends paid by the invested-in company.

Example (1):

On 012020/01/ AD, Company (X) had an investment balance in Subsidiary Company (Y) of SAR 500,000, and the company achieved, during the year, a net income of SAR 100,000, and paid dividends of SAR 50,000. The company uses the equity method to account for its investment in the subsidiary, and the ownership percentage of the Company (X) in the subsidiary company is 70%.

On December 31, 2020 AD, the investment account in the subsidiary company shall be modified according to the equity method as follows:

Classification	Details	Amount (SAR)
Investment Balance at the Beginning of Year	Balance on 01 / 01 / 2020 AD	500,000
Add (Deduct): Company (X)'s Share in the Net Income (Loss) of Subsidiary (Y)	100,000 × 70%	70,000
(Deducting): Company (X)'s Share of Dividends of Company (Y)	50,000 × 70%	(35,000)
Balance of the Investment Account in the Subsidiary Company at the End of Year		535,000

Accounting for Investment in a Subsidiary by the Cost Method in the Separate Financial Statements of the Parent (Holding) Company

This method requires that the investment be recognized at cost without adjusting it to the subsidiary's share of profits or losses until its disposal. Also, unlike the equity method, the investing company's share of the subsidiary's dividends is recognized in the income statement (profit or loss statement). That is, this method requires recognition of the investment at cost in addition to one accounting entry at the end of each year related to the share of the holding company in the distributions of the subsidiary company (if any). Such distributions are deemed income in the statement of profits or losses.

Example (2):

In the previous example, on December 31, 2020 AD, the investment account in the subsidiary company shall be modified according to the cost method as follows:

Classification	Details	Amount (SAR)
Investment at Cost	Balance on 01 / 01 / 2020 AD	500,000
Company (X)'s Share in the Net Income (Loss) of Subsidiary (Y)	Not Applicable	Not Applicable
Deducting: Company (X)'s Share of Dividends of Company (Y)	Not Applicable	Not Applicable
Balance of the Investment Account in the Subsidiary Company at the End of Year		500,000

From the above example, it is noted that the share of the Company (X) in the profits of the subsidiary Company (Y) is not recognized for using the cost method in accounting for its investments. Regarding the share of the holding company in the dividends of the subsidiary company, the dividends from the subsidiary company are recognized in (the profit or loss statement or the income statement) and not as an adjustment to the investment account balance as in the equity method. Accordingly, It is noted that the investment balance remains at cost.

Zakat Handling of Investments in Subsidiaries

For deduction of investments in subsidiaries, the following criteria shall be required:

1. Such investments shall be in the form of shares or equity instruments in establishments, whether inside the Kingdom of Saudi Arabia or abroad.
2. Such investments shall be held for non-trading purposes, and shall be classified in the financial statements as non-current assets.
3. The invested-in subsidiary company shall be subject to the provisions of levying zakat in the Kingdom of Saudi Arabia and shall be registered with ZATCA, or zakat shall be paid on such investments if the invested-in company is established outside the Kingdom of Saudi Arabia (foreign investments) in accordance with the controls provided for in the Regulations.

Deduction of Investment Amount from ZB

In the event that the investment in the subsidiary company may be deducted from ZB, the mechanism for deducting the investment in subsidiaries from the components of ZB shall be summarized as follows:

1. The book value of the investment shall be deducted from the book value of the investment shown in the audited financial statements without modification.
2. The activity result.

Not to modify the result of the activity with any items recognized in the profit or loss statement.

Example (3):

On January 01, 2020 AD, Company (S) had an investment balance in Subsidiary (Y) of SAR 260,000. The accounting profit of the subsidiary Company (Y) at the end of the year amounted to SAR 60,000, and a dividend of SAR 25,000 was distributed. Company (X) uses the equity method to account for said investments in Company (Y), noting that the percentage of ownership of Company (X) in (Y) is 80%. Assuming that Company (Y) is a company residing in the Kingdom of Saudi Arabia and registered with ZATCA, and has submitted the zakat declaration for 2020 AD and paid the zakat due in respect thereof. It is required to calculate the deducted value from ZB and to identify the method of handling the accounts related to the above process for 2020 AD in the zakat declaration of Company (S).

Example Solution:

By analyzing the data above, Company (X) will calculate the (book) investment balance in Company (Y) as follows:

Classification	Details	Amount (SAR)	Classification in Financial Statements
Investment Balance	Start of Year Balance	260,000	Statement of Financial Position within Non-Current Assets
Add (Deduct): Company (X)'s Share in the Net Income (Loss) of Company (Y)	60,000 × 80%	48,000	List of Profits or Losses
Deducting: Company (X)'s Share of Dividends of Company (Y))	25,000 × 80%	(20,000)	Statement of Financial Position within Non-Current Assets
Balance of the Investment Account in the Subsidiary Company (Y)		288,000	Statement of Financial Position within Non-Current Assets

In light of the above:

- The value of the investment will be included in the deductions from ZB in the amount of SAR 288,000 without adjusting the investment account balance.
- Not to modify the result of the activity with any items recognized in the profit or loss statement, which are the share of Company (X) in the profits of Company (Y) during 2020 AD.
- This zakat handling applies whether zakat is calculated on the components of ZB or the minimum threshold (adjusted net profit for zakat purposes).

Example (4):

During 2020 AD, Company (S) bought 60% of the shares of Company (Y) at a price of SAR 200,000, and this resulted in the relationship of a holding and subsidiary company between the two companies. During the same year, the accounting profit of Company (Y) amounted to SAR 60,000, and it distributed profits of SAR 25,000. Company (X) chose to apply the cost method to account for the investment in Company (Y). Assuming that Company (Y) is an establishment inside the Kingdom of Saudi Arabia and registered with ZATCA, what is required is to calculate the amount of the deducted investment from the components of ZB and to identify the method of handling the accounts in respect thereof for 2020.

Example Solution:

By analyzing the data above, Company (X) will calculate the investment balance in Company (Y) as follows:

Classification	Details	Amount (SAR)	Recognition in Financial Statements
Investment at Cost	Initial Purchase	200,000	Statement of Financial Position within Non-Current Assets
The addition (deduction) of Company (X)'s Share in the Net Income (Loss) of Subsidiary (Y)= SAR 60,000 shall not be taken into account.	Not Applicable	Not Applicable	It does not affect the investment balance, but is recognized in the profit or loss statement.
Company (X)'s Share of Dividends of Company (Y)	Not Applicable	Not Applicable	It does not affect the investment balance, but is recognized in the profit or loss statement.
Balance of the Investment Account in the Subsidiary Company (Y)		200,000	Statement of Financial Position (at Cost) within Non-Current Assets

In light of the above:

- The investment value shall be included in the deductions from ZB (at cost) of SAR 200,000.
- No adjustment to the result of the activity with the share of Company (X) in the distributions of Company (Y) at the amount of SAR 15,000 (SAR 25,000 x 60%) recognized in the statement of profit or loss.
- This zakat handling applies whether zakat is calculated on the components of ZB or the minimum threshold (adjusted net profit for zakat purposes).

2. Associates and Joint Ventures

Associates

These are also known as associate companies. This term refers to the companies in which the investing company has (significant influence) over the invested-in company, i.e. the ability to participate in the financial and operating policy decisions of the invested-in company, but has no (control) or (joint control) over those policies referred to in the case of subsidiaries.

The significant influence arises from the investor's acquisition, directly or indirectly, through companies, of 20% to 50% of the voting rights. If it is less than 20%, it is assumed that the investor will not have a significant influence unless it is possible to showcase such an influence. The existence of a significant influence can be proven in one of the following ways:

- Representation on the board of directors.
- Participation in the policy development process.
- Existence of important transactions between the investor and the invested-in company.
- Exchange of administrative staff between them.
- Providing necessary technical information between the two companies.

Example (5):

Company (X) owns 16% of the shares of Company (Y), and Company (Y), a telecommunications company, significantly depends on Company (X) for provision of technical experts, and there are two directors of Company (X) on the board of directors of Company (Y), noting that the number of members of the board of directors in Company (Y) is 8 members.

Although the percentage of ownership did not reach 20% in the shares of Company (Y), the investment should be classified as in an associate company for two reasons: First: Company (Y) is highly-dependent on Company (X) in technical and specialized matters. Second: There is a significant proportional representation of Company (X) on the board of directors of Company (Y).

Accounting for Investment in Associates Using the Equity Method

It should be noted that investments in associates are accounted for under the equity method. Upon initial recognition, the investment in the associate shall be recorded at cost, and the book amount is increased or decreased to prove the investing company's share of the associate's profit or loss after the acquisition date.

Example (6):

During 2020 AD, Company (X) invested in 30% of the shares of Company (Y) for SAR 500,000. At the end of the year, Company (Y) announced a net income of SAR 100,000 and paid a dividend of SAR 50,000 to its shareholders. Company (X) uses the equity method to recognize investments in associates.

Upon initial purchase of the investment, Company (X) will record the transaction at cost. At the end of the year, the share of Company (X) in the net income and dividends of Company (Y) shall be recognized as follows:

Classification	Details	Amount (SAR)	Recognition in Financial Statements
Investment at Cost	Initial Purchase	500,000	Statement of Financial Position within Non-Current Assets
Add (Deduct): Company (X)'s Share in the Net Income (Loss) of Company (Y)	100,000 × 30%	30.000	List of Profits or Losses
Deducting: Company (X)'s Share of Dividends of Company (Y)	50,000 × 30%	(15000)	Statement of Financial Position (Deducted from the Investment Value)
Balance of the Investment Account in the Associate		515,000	Statement of Financial Position within Non-Current Assets

Accounting for Investment in Associates Using the Cost Method

In the cases permitted by the accounting standards of the investing company, accounting for the investment in the associate company under the cost method, and with reference to the foregoing requirements of this method, the investment balance shall be recognized at cost in the statement of financial position in the amount of SAR 500,000, while dividends will be recognized in the statement of profit or loss under income in the statement of profit or loss. Emphasis shall also be on the accounting handling, which states that the share of the investing company in the net income of Company (Y) shall not be recognized, which is unlike the equity method.

Joint Ventures

It means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A participant in a joint venture is a party to a joint venture that has joint control over such a venture. Such parties are called the joint venture, meaning that there is a (legal person) for a venture that is controlled by more than one party. It should be noted that the joint venture in this case entails transferring some of the assets and liabilities of each participating party to an entity under joint control to operate in a particular field; which gives the joint venture legal status (i.e. legal or legal personality).

Such investments are accounted for using the equity method, which is discussed in the previous sections. There are also some exceptions and/or the option of alternative handling methods under the accounting standards of the cost method (or) IFRS 9 (see next Section).

Example (7):

During 2021 AD, Companies (X) and (Y) agreed to establish Company (Z) as a company under joint control with a capital of SAR 100,000. The share of Company (X) is 60% and the share of Company (Y) is 40%, provided that there is equal representation on the board of directors of Company (Z). Both Company (X) and Company (Y) use the equity method to process the investment in the joint venture.

Given the data above, each of Company (X) and (Y) records the cost of the investment in the amount of SAR 60,000 and SAR 40,000, respectively.

Assuming that the joint venture achieves profits during 2021 AD, at an amount of SAR 30,000, each of the two companies (X) and (Y) will register their shares in the joint venture by increasing the investment balance to become as follows:

Classification	Company (X)	Company (Y)	Account Classification in Financial Statements
Investment at Cost	60,000	40,000	Statement of Financial Position within Non-Current Assets
Adding: Share of the Investing Company in the Profits of the Joint Venture	18,000	12000	Added to the investment account balance in the statement of financial position in exchange for recognizing the share in the income statement (profit or loss statement).
Balance of Joint Venture Investment Account in (Z) for Each Participant	78,000	52,000	Statement of Financial Position within Non-Current Assets

Zakat Handling of Investments in Associates and Joint Ventures

In general, investments in associates meet the criteria that qualify them for being deductible from components of ZB for the following reasons:

1. Such investments shall be in the form of shares or equity instruments in establishments, whether inside the Kingdom of Saudi Arabia or abroad.
2. Such investments shall be for non-trading purposes in general, and shall be classified in the financial statements as non-current assets.

Most Importantly:

The process of verifying the deduction controls shall include that the invested-in company is subject to the provisions of zakat collection in the Kingdom of Saudi Arabia and shall be registered with ZATCA, and shall submit zakat returns (or) that the zakat due thereon shall be paid in the case of foreign investments.

Deduction of Investment Amount from ZB

In the event that the investment in the associate company or joint venture may be deducted from ZB, the mechanism of investment deduction shall be summarized as follows:

A) Investment Value

- The taxpayer (investing company) shall deduct the book value of the investment shown in the audited financial statements without modification.

B) Activity Result

- Not to modify the result of the activity with any items recognized in the profit or loss statement.

Example (8):

With reference to Example No. (6), which shows how investments in associate companies are handled, the investment shall be deducted when calculating ZB of Company (X), for example as follows:

- Deduct the year-end balance of SAR 515,000.
- Not to modify the result of the activity with the items recognized in the profit or loss statement.

In addition, with reference to Example No. (7), both Companies (X) and (Y) will deduct their stake in the joint venture at SAR 78,000 and SAR 52,000 (respectively), which represents the balance at the end of the year. Furthermore, the result of the activity will not be amended with any items recognized the profit or loss statement.

Other Considerations

In some cases, the investing company's share in the losses of the associate or joint venture may exceed the amount of investment, for which the investing company uses the equity method to account for its investments. In this case, the investing company shall:

1. Revoke the investment balance in the associate company or joint venture.
2. Cease the use of the equity method and not recognizing any additional losses.
3. Recognize the provision for obligations in the event that there are legal obligations that require recognition of such a provision, or if there are payments made on behalf of the invested-in company.

For example, if the balance of the investment account in an associate company is SAR 60,000, and the investing company's share in the associate's losses for the same year is SAR 70,000, the company shall not recognize losses (SAR 70,000) except to the extent of the investment balance only, which is SAR 60,000. Assuming a loan of SAR 40,000 to the associate, the investing company expected that SAR 25,000 would be received from the loan. Accordingly, the investing company recognizes the remaining amount as a liability (SAR 15,000) in its financial statements as expected losses.

In these cases, it is noted that the investing company's share in the associate's losses exceeds the book amount of the investment, so the investing company does the following in its books:

1. The investing company revokes the book balance of the investment to (zero) because the losses exceed the investment balance.
2. Verifying the existence of any obligations on the invested-in company or payments made on its behalf from the previous example. It is noted that there is an obligation on the invested-in company (a loan), which will make the investing company recognize the provision in its books. The said provision will apply what applies to the provisions set forth in the Regulations as follows:

   - Adjust the result of the activity in the part of the provision in profit or loss.

Adding the obligation balance or/or allocation to ZB in the event of elapse in accordance with the provisions of Article (4) of the Regulations, taking into consideration the deduction of any part used during the year.

3. Investments in Equity or Shares Instruments in Companies Handled under IFRS 9

These investments come in the form of an equity instrument or shares in an entity (such as investments in shares of companies traded in a public market or shares in the capital of companies whose shares are not publicly-traded) for which IFRS 9 requires accounting for, in terms of recognition and measurement, at fair value according to the following (exclusive) classifications:

1. Investments (in equity instruments) at fair value through profit or loss
2. Investments (in equity instruments) at fair value through other comprehensive income.

The differences between the provided classifications can be summarized, from the accounting point of view, as follows:

Classification	Purpose of Keeping	Classification as per Financial Statements	Assess-ment	Unrealized Profits or Losses	Realized Profits or Losses	Distribution of Dividends
Investments equity instruments at fair value through profit or loss	For trading purpose	Current Assets	Fair Value	Recognized in net income	Recognized in net income	Recognized in the statement of (profit or loss)
	For non-trading purposes	Non-Current Assets				
Investments in equity instruments at fair value through other comprehensive income	For non-trading purposes	Non-Current Assets	Fair Value	Recognized in (other) comprehensive income or equity	Recognized in other comprehensive income or equity	Recognized in the statement of income (profit or loss)

Zakat Handling of Investments in Equity or Shares Instruments in Companies Handled under IFRS 9

With reference to the classifications mentioned in the aforementioned accounting standard, and based on the provisions of the Executive Regulations for Levying Zakat, verification of the permissibility of deduction or not from ZB is based on the following:

1. Such investments shall be held for non-trading purposes.
2. Such investments shall be in establishments inside the Kingdom of Saudi Arabia subject to the provisions of levying zakat in the Kingdom of Saudi Arabia, or such investments shall be outside the Kingdom for which zakat has been paid to ZATCA in the Kingdom of Saudi Arabia.

Based on the foregoing, the zakat handling for such investments shall be summarized as follows:

Category	Investment Place	Zakat Handling	Methodology of Deduction from ZB	Deduction Control as per the Regulations
1. For Trading Purposes: Investments at fair value through profit or loss.	Investment inside the Kingdom	It is not permissible to deduct from ZB in all cases	Not Applicable. It shall also be observed that the result of the activity is not modified by changes to the fair value, whether the changes are positive or negative	Not Applicable
	Investment outside the Kingdom			
2. For Non-Trading Purposes: Investments at fair value through profit or loss.	Investment inside the Kingdom	It may be deductible from ZB, provided that the deduction controls set forth in the Regulations are met.	• Book value as shown in the financial statements • Not to modify the result of the activity with any positive or negative changes to the fair value	Paragraph (4) of Article (5)
	Investment outside the Kingdom	It may be deductible from ZB, provided that the deduction controls set forth in of the Regulations are met		Paragraph (5) of Article (5)

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<tr><td rowspan="2">3. For Non-Trading Purposes: Investments at fair value through profit or loss.</td><td>Investment inside the Kingdom</td><td>It may be deductible from ZB, provided that the deduction controls set forth in the Regulations are met.</td><td rowspan="2">Book value as shown in the financial statements
Add deduction for changes in fair value recognized in other comprehensive income.</td><td>Paragraph (4) of Article (5)</td></tr>
<tr><td></td><td>It may be deductible from ZB, provided that the deduction controls set forth in the Regulations are met.</td><td>Paragraph (5) of Article (5)</td></tr>
</table>

Deduction of Investment Amount from ZB

After verifying the permissibility of deducting the investment from ZB, the mechanism for deducting this investment from ZB shall be summarized as follows:

A) Investment Value

1. Deduction of the book value of the investment shown in the audited financial statements of the taxpayer.

2. Observing positive and negative changes to fair value. For example, if changes to the fair value of investments are recognized at fair value through other comprehensive income, such changes are recognized in other comprehensive income or equity. Accordingly, such changes to fair value shall be reflected as additions (in case of positive changes) or deductions (in case of negative changes) when calculating ZB.

B) Activity Result

1. Not to modify the result of the activity (adjusted net profit for zakat purposes) with the part recognized in the statement of profit or loss, which may be represented by the following items, for example:

   - Unrealized profits or loss on valuing investments at fair value through profit or loss.
   - Realized profits or loss on devaluing investments at fair value through profit or loss .

2. Amendment to the result of the activity in the profits or losses realized from the disposal of investments at fair value through other comprehensive income and recognized in the statement of other comprehensive income, that is, the ones not recycled to the statement of profit or loss.

Example (9):
During 2020 AD, Company (X) invested in 10% of Company (Y)'s shares traded in the Saudi Stock Exchange (Tadawul). The investment cost is SAR 100,000. Based on the company's investment management business model, such investments are classified as investments for non-trading purposes. Such investments are recognized and classified in the company's books and financial statements as investments at fair value through other comprehensive income. The fair value as on December 31, 2020 is SAR 140,000. Accordingly, the amount of increase in the fair value of SAR 40,000 was recorded in the statement of other comprehensive income (equity). It should be noted that Company (Y) is a company registered under the Saudi Companies Law and ZATCA, and it submits its returns to ZATCA and pays the due zakat annually, including for 2020 AD.

Given the foregoing, the taxpayer shall verify the deduction controls in accordance with the Executive Regulations for Levying Zakat as follows:

Deduction Control	Check Deduction Control
Such investments are in establishments inside the Kingdom of Saudi Arabia or abroad.	
Shares are held for non-trading purposes.	
Company (Y) is a company registered with ZATCA, and it submits the Zakat returns in accordance with the provisions of the Executive Regulations for Levying Zakat.	

After verifying the foregoing and assuming that the deduction conditions are met, Company (X) deducts the value of the investment in Company (Y) as follows:

Classification	Item in Zakat Declaration	Amount (SAR)
Book value of the investment amount in Company (Y) as at the end of the year	Deductions: Investments in companies inside the Kingdom of Saudi Arabia	(140,000)
Change to fair value	Additions: Changes to fair value	40,000
The Activity Result	The Activity Result	Not Applicable

Example (10):

With reference to the previous example, and assuming that the shares of Company (Y) are traded in a market outside the Kingdom of Saudi Arabia or a non-traded company located outside the Kingdom of Saudi Arabia, the Deduction Controls shall be extended to verify the calculation of zakat on foreign investment under the certificate of a certified public accountant in the Kingdom of Saudi Arabia, and to calculate ZB and pay the zakat due on such investments through the zakat declaration for 2020 AD.

Example (11):

During 2020 AD, Company (X) invested in 8% of Company (Y)'s shares traded in the Saudi Stock Exchange (Tadawul). The investment cost amounted to SAR 100,000, based on the company's investment management business model, such investments are classified as investments for non-trading purposes. Such investments are recognized and classified in the company's books and financial statements as investments at fair value through other profits or losses. The fair (book) value as on December 31, 2020 AD is SAR 80,000. Accordingly, the amount of decrease in the fair value of SAR 20,000 was recorded in the statement of profits or losses (income statement). It should be noted that Company (Y) is a company registered under the Saudi Companies Law and ZATCA, and it submits its zakat declarations to ZATCA and pays the due zakat annually, including for 2020 AD.

Given the foregoing, the taxpayer shall verify the deduction controls in accordance with the Executive Regulations for Levying Zakat as follows:

Deduction Control	Check Deduction Control
Such investments are in establishments inside the Kingdom of Saudi Arabia or abroad.	✓
Shares are held for non-trading purposes.	✓
Company (Y) is a company registered with ZATCA, and it submits the Zakat returns in accordance with the provisions of the Executive Regulations for Levying Zakat.	✓

Assuming that the above deduction conditions are met, Company (X) deducts the value of the investment in Company (Y) as follows:

Classification	Item in Zakat Declaration	Amount (SAR)
Book value of the investment amount in Company (Y) as at the end of the year	Deductions: Investments in companies inside the Kingdom of Saudi Arabia	(80,000)
The Activity Result	Deductible expenses (losses of fair value changes) that do not require an adjustment to the result of the activity.	(20.000)

Example (12):

With reference to Example (11), and assuming the classification of such investments as for trading purposes, since the company aims to use them in speculation by keeping them and achieving profits in the short term.

In such cases, such investments may not be deducted from ZB. In general, the zakat handling shall be summarized as follows:

Classification	Item in Zakat Declaration	Amount (SAR)
Book value of the investment amount in Company (Y)	Not Applicable	Not Applicable
The Activity Result	Deductible expenses (losses of fair value changes) that do not require an adjustment to the result of the activity	(20.000)

From the previous example, it is noted that the investment amount has not been deducted for not fulfilling the deduction conditions set forth in the Fourth Paragraph of Article (5) of the Regulations. Also, the result of the activity has not been modified by the results of the change to the fair value, which is recognized in the statement of profit or loss. This handling applies to the case of unrealized profits (positive changes to fair value) that are recognized in the statement of profit or loss.

Example (13):

During 2020 AD, Company (X) purchased 1,000 shares traded in the Saudi market of Company (Y) shares at a value of SAR 80 per share, for the purpose of long-term strategic investment (not for trading purposes). A purchase commission of SAR 500 was also paid to complete the transaction. Such investments are classified as investments at fair value through other comprehensive income. At the end of 2020 AD, the market share price (fair value) reached SAR 50. Company (Y) is a joint stock company residing in the Kingdom of Saudi Arabia and is subject to the provisions of the Executive Regulations for Levying Zakat in the Kingdom of Saudi Arabia.

Upon analyzing the data above:

- Company (X) will recognize investments at fair value through comprehensive income in an amount of SAR 80 x 1,000 shares plus SAR 500 purchase commission. Company (X) will record the investments at a cost of SAR 80,500.
- At the end of 2020 AD, due to the decrease in the share price to SAR 50, Company (X) will recognize losses as a result of the decrease in the fair value:

Classification	Investment Cost
Investment Cost	80,500
Fair Value at End of Year	50,000
Losses of Decreased Fair Value (recognized in the statement of other comprehensive income)	30,500

Accordingly, and assuming that said investments meet the deductible controls set forth in the Regulations, Company (X) will handle the investments in terms of zakat as follows:

Classification	Item in Zakat Declaration	Amount (SAR)
Book value of the investment amount in Company (Y)	Deductions: Investments in establishments inside the Kingdom of Saudi Arabia	(50.000)
Losses of change to fair value	Negative addition	(30.500)

2.3 Other Issues Pertaining to Zakat on Investments

2.3.1 Investment Trading Control

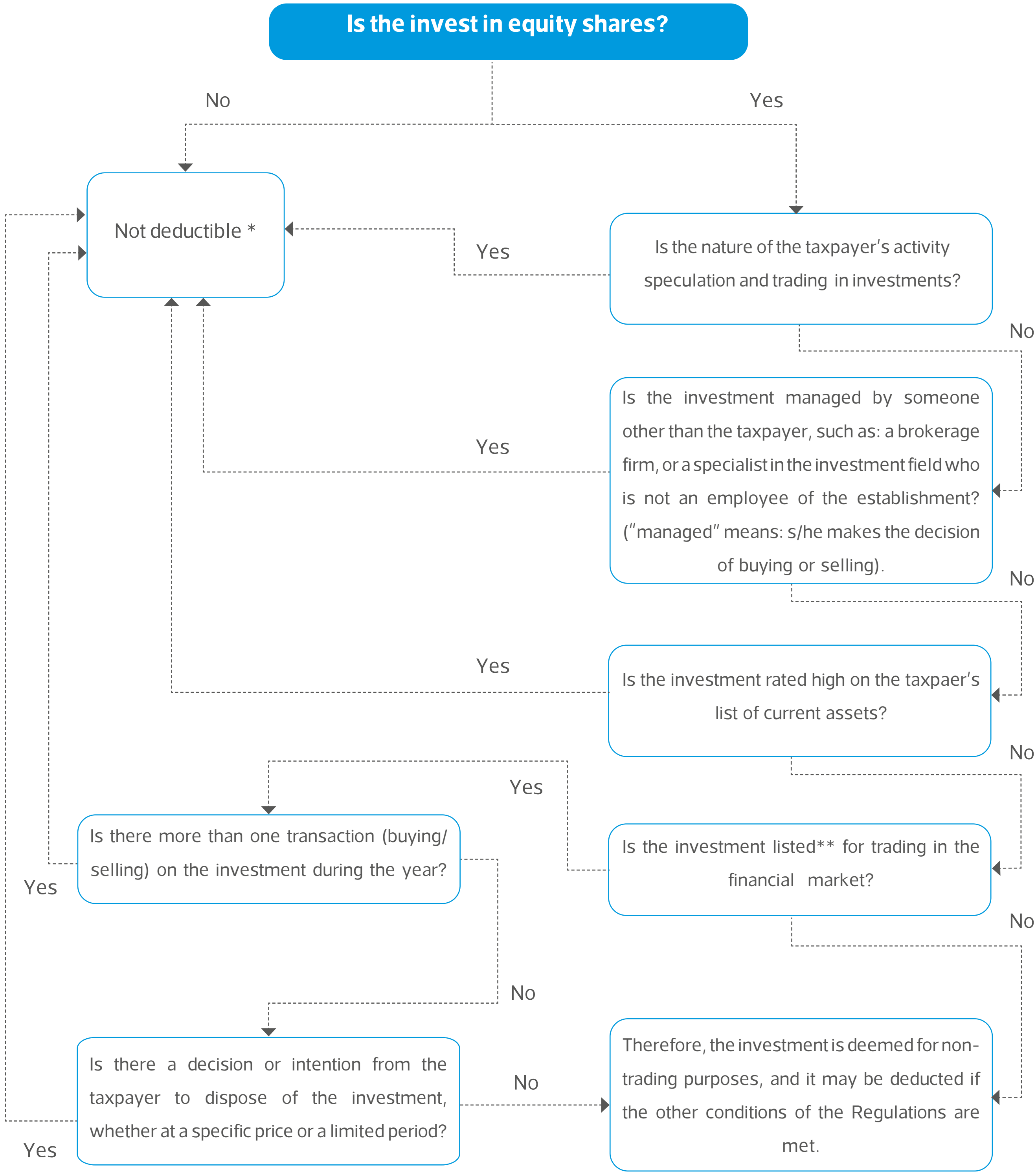
The concept of trading is a key issue that requires attention and understanding, because it has a fundamental impact on the way investments are handled in terms of zakat. This concept is one of the basic concepts in handling investments in accordance with the provisions stipulated in the Regulations.

When a company purchases financial investments such as equity and other instruments held for trading purposes, this refers to specific events or decisions made by the company in managing its financial assets, key of which are:

- The company buys such assets and holds them for a short period of time, usually less than a year.
- Within this time-frame, the investing company's expectation is to witness the investment rise in value and sell it for a profit.
- The concept of trading coincides with other financial or business terms such as speculation, which means buying and selling securities or investments with the aim of making a profit within a short period of time.
- Such portfolios or investments are usually subject to frequent fluctuations during the year, which calls for additional buying or selling.
- Such types of investments are classified as current assets in the financial statements according to the company's way of managing its financial assets, or the so-called business model of the company that documents the management's intention to hold the investments.

Accordingly, the concept of trading in investments or securities can be summarized as a process of buying or selling securities for the purpose of making quick profits depending on the correctness of the investing company's expectations of future price movements. It must be noted that such investment portfolios are subject to frequent fluctuations and movements of buying and selling within a short period of time.

It is worth noting that the classification of investments as trading requires them (not) to be included in the deductible items from the components of ZB, regardless of any other controls, whether they are achieved or not. In addition, in cases in which the company invests in securities classified for trading purposes and has been held for more than one year, the zakat handling shall remain unchanged, meaning that such investments are not deducted from the components of ZB (they are deemed trade offers in which zakat is due regardless of the retaining period).



* In the event that the investment is not deductible based on this methodology, the effect shall apply to the assets of the investment portfolio included in this investment.

** “Listed for Saudi Investments”: means that it is listed in the Saudi Stock Exchange, and “Listed in Foreign Investments” means: means that it is listed in the financial market, or ownership shares can be easily exchanged therein.

2.3.2. Misclassification of Deducted Investment from Components of ZB

In cases where it appears to ZATCA that the taxpayer has deducted an investment from the components of ZB, but the taxpayer's financial statements showed an error that the classification of said investments or the nature of the disclosures attached to the financial statements does not qualify them in terms of form or classification to be eligible for deduction (for example, they were wrongly-classified as current), such investment shall not be deducted from ZB until the taxpayer corrects such an error. That is, the investment is handled as non-deductible from the components of ZB until the error is corrected.

2.3.3. Real Estate Investments

Investment real estate is defined as land, building, or part of a building or both held by the owner or lessee as a right-of-use asset to earn rent or capital appreciation or both, and not for use in the manufacture or supply of goods or services or for administrative purposes, or for sale in the course of ordinary business.

Specifically, the following are examples that fall within the classification of real estate investments:

- Land held for long-term capital development, not for short-term sale in the normal course of business.
- Land held for a currently-undetermined future use (and if the entity does not specify that it will use the land as owner-occupied property or for short-term sale in the normal course of business, the land shall be deemed held for capital development).
- A building owned by the establishment (or a right-of-use asset relating to a building maintained by the lessee) that has been leased under one or more operating lease agreements.
- A building that is vacant but is held to be leased under one or more operating leases.
- A property under construction or development for future use as an investment property.

Real estate held with intent to sell in the ordinary course of business or in the construction or development phase of such sale, real estate occupied by the owner for administrative purposes, or real estate leased to third parties under a finance lease are not deemed investment real estate. When the taxpayer maintains and recognizes investment properties in the accounting books and financial statements, such items are deemed among the deductible items from the components of ZB, provided that they meet the controls set forth in Article 5 of the Regulations.

For more details about investment properties and their zakat handling, please check the Real Estate Activities Manual.

2.3.4 Cases of Certified Public Accountant's Approval of Foreign Investments

Based on the provisions of Paragraph No. (5) of Article (5) of the Executive Regulations for Levying Zakat, which contained the designation of investments in facilities outside the Kingdom of Saudi Arabia for non-trading purposes as being among the deductions, provided that the taxpayer pays the zakat on said investments to ZATCA according to a certificate prepared, in accordance with the provisions of the Regulations, and approved by a chartered accountant licensed in the Kingdom of Saudi Arabia.

Given the Regulations stipulates that the deduction of foreign investments requires the payment of zakat based on a certificate approved by a chartered accountant, the taxpayer shall, when preparing the certificate, verify that the zakat calculation on said investments has been made according to the following:

1. If the taxpayer investing in facilities outside the Kingdom of Saudi Arabia is able to view the data in the invested-in company, such as if s/he is an investor in 5% of the capital of the invested-in establishment, which qualifies him/her to view such data, then his/her investment shall be handled in accordance with the provisions of the Executive Regulations for Levying Zakat, and if some requirements related to calculating Zakat are not met, then s/he shall verify the application of the following:

   أ. If the data that is not available is pertaining to one of the addition clauses, then they are among the elements of the addition unless it is proven that they do not accept the addition.

   ب. If the data that was not available is pertaining to one of the deduction items, it shall not be included in the deductible items unless it is proven that they can be deducted.

   ج. If the data that was not available is pertaining to one of the expenses items, it shall be included in the expenses non-deductible unless it is proven that they can be deducted.

2. If the taxpayer investing in establishments outside the Kingdom of Saudi Arabia can only view the financial statements published in the financial reports, and does not have the ability to view them in detail. For example, s/he may be an investor in less than 5% of the company's capital, and the concerned establishment has financial statements prepared in accordance with the approved criteria, because the information available on this investment is limited; the chartered accountant, when approving the zakat account certificate for such investments, shall verify that the following equation has been applied:

   Zakat = Working Capital of the Invested-in Company x Zakat Percentage % x the Investing Company's Investment Percentage, OR: Minimum Net Profit.

3. If the taxpayer's investments are in establishments outside the Kingdom of Saudi Arabia and such establishments do not keep accounts, or the financial statements available do not meet the requirements of ZATCA; when approving the zakat account certificate for said investments, the chartered accountant shall verify that the establishment has not deducted the investment in this type of establishments.

In all cases, the taxpayer shall keep all data and documents related to the investment for the purposes of examination and assessment procedures.

Example (xx):

In the books of the Arab Company (a company residing in the Kingdom of Saudi Arabia and subject to the provisions of the Executive Regulations for Levying Zakat), there are foreign investments in the United Arab Emirates, for the year ending on December 31, 2020 AD. The book balance of the investment in the books of the Arab Company amounted to SAR 20,000, which represents 4% of the rights of the UAE company. Said investments are included in the non-current assets in the books of the Arab Company.

In the context of preparing and submitting the zakat declaration for 2020 AD for the Arab Company, the Arab Company chose to pay zakat on said investments and include them in the deductions from ZB. The following information was made available about the UAE company through regular accounts, after converting the foreign currency (UAE Dirham/AED) to Saudi Riyal (SAR):

Total Assets = 700,000 (of which 200,000 are current assets, and the rest are non-current assets).

Total Liabilities = 200,000 (of which 100,000 are current liabilities, and the rest are non-current liabilities).

Total Equity = SAR 500,000.

Net Profit = SAR 50,000

Due to the limited information available to the foreign company, the zakat will be calculated on the foreign investment according to the chartered accountant's certificate as follows:

The working capital attributable to the Arab Company (200,000100,000-) x 4% = SAR 4000.

OR the net profit attributable to the Arab Company is Saudi Riyals.

Whichever is greater = SAR 4,000.

Accordingly, the zakat payable for the foreign investment will be = 4000 x 2.5% x 354= 366/ 103.39 x Saudi Riyals.

Example (xx):

In the previous example, it is assumed that the UAE company did not provide the information required to verify the calculation of zakat to support the deduction of such an investment in the zakat declaration of the Arab Company.

In this case, the Arab Company shall not include said investment in the deductions from ZB due to the limited or unavailability of the required information, which makes it impossible to calculate external investment zakat independently under the chartered accountant certificate.

3. OTHER FORMS OF INVESTMENTS

3.1. Financial Derivatives

Financial derivatives are defined as financial instruments that derive their value from a real asset (such as commodities, like gold) or a financial asset (such as stocks or bonds) or one of the market indicators. Such tools are used in managing financial risks and hedging and for purely speculative purposes and others.

In general, financial derivatives are characterized by the following:

- Their value changes when the underlying asset (i.e. an agreed-upon clause in the contract, such as an interest rate), exchange rates, or the price of a particular commodity (such as oil or gold) changes.
- Financial derivatives do not need an initial net investment when entering into the contract, or small amounts of premium may be paid when the contract is concluded.
- They are settled in the future.

Key examples of financial derivatives are the following:

- Future Contracts.
- Forward Contracts.
- Contracts for Difference (CFD).
- Option Contracts.
- Swap Contracts.

The accounting aspect of derivatives can be summarized as follows:

Companies must recognize changes to derivatives in their financial statements. Changes to the fair value of financial derivatives are recognized either in the statement of profit or loss, or in equity, depending on their purpose, as follows:

1. Financial Derivatives for Trading Purposes: Changes to the fair value of such derivatives are recognized in profit or loss.
2. Financial Derivatives for Hedging or Risks Mitigation: For the purposes of hedge accounting, hedges are classified into two categories:

    a. Fair value hedges, which hedge the risk of change to the fair value of recognized assets and liabilities.
    b. Cash flow hedges, which hedge the risks of changes to cash flows associated with either a specific risk relating to a recognized asset or liability or a forecast transaction.

Financial derivatives are included at fair value as derivatives with positive market values are included in the (assets) while derivatives with negative market values are included within (other liabilities) in the statement of financial position.

Zakat Handling of Debts of Taxpayers who Maintain Statutory Accounts Other Than Financing Activities

The financial derivatives recognized in the financial statements are not deemed deductible items from the components of ZB, as the Regulations did not address financial derivatives in the provisions related to the items that can be deducted in Article (5) of the Regulations. Therefore, the positive value of the financial derivative recognized as an asset in the financial statements is not deemed amongst the deductions from the components of ZB.
As regards the aspect recognized in profit or loss; the result of the activity is not modified in line with the provisions of the Regulations, which require observing changes to the fair value when calculating ZB.

Zakat Handling of Taxpayers Subject to Calculating ZB under the Ministerial Resolution No. 2215 (Taxpayers of Financing Activities)

The Ministerial Resolution No. 2215 dated Rajab 07, 1440 AH required taxpayers practicing financing activities to treat the positive or negative value of derivatives as follows:

- The positive value of financial derivatives recognized in the assets shall be treated as non-zakat assets for the part due after one year or more (said treatment does not apply to the rest of the taxpayers, as this item is not deemed amongst the deductions from ZB).
- The negative value of financial derivatives recognized as (liabilities) shall be added as sources of funds subject to zakat for the part due after a year or more.

3.2 Investment Funds

An investment fund is defined as a joint investment program that aims to provide the opportunity for its investors to collectively participate in the program's profits, and is managed by an investment manager for a specified fee. Also, investment funds are managed according to a specific investment strategy and objectives set by the fund manager to achieve investment benefits.

Regarding the zakat handling of investments in investment funds, the deduction controls do not differ from the rest of the investments provided for in this Manual. This means that the condition for deducting such investments is based on the following:

1. Such investments shall be held for non-trading purposes.
2. The fund shall be subject to the provisions of the Executive Regulations for Levying Zakat in the Kingdom of Saudi Arabia.

In the event that the conditions above are not met, investments in investment funds may not be deducted when calculating ZB of the taxpayer.

3.3 Digital Currencies

These are also known as digital money or crypto-currencies. It is a type of currency available in digital form and does not have a physical existence such as coins or notes; yet it has similar properties to coins and notes. Such currencies may be used to purchase goods or services in certain communities, such as online platforms or social networks.

Currently, what distinguishes this currency in some countries is: the freedom to trade and transfer them in exchange for the purchase of goods and services, while there are some restrictions on its trading in other countries for financial reasons; including: reducing the effects of, and combating, money laundering.

In March 2019 AD, the IFRS Interpretation Committee issued a tentative agenda decision on holdings of crypto-currencies. The Committee considered crypto-currencies according to the following characteristics:

1. A crypto-currency, digital, or virtual currency registered on a distributed ledger, and secured using crypto-currency technologies.
2. A crypto-currency that is not issued by the courts or other parties.
3. Holding a crypto-currency does not create a contract between the owner and the other party.

Zakat Handling

With reference to the nature of digital currencies and the different opinions thereon as to whether these currencies by their nature represent financial assets, cash, or even stock or other assets; the zakat handling of such an item stipulates that it may not be deducted from the components of ZB (that is, they are zakat assets). The reason for not deducting this item is due to the fact that, in essence, it is the closest to a tradable value or commodity, and it can be kept and sold in the appropriate market for the long term, which makes it among the non-deductible items like other items such as cash, stock, or other commodities such as gold and silver.

3.4 Investments in Other Special Joint Arrangements

Joint Venture Companies

The Saudi Companies Law defines joint venture companies as a company that does not have a legal personality, is not subject to publicity procedures, and is not registered in the commercial register, and a joint venture company may be proven by all means of proof.

The joint venture company is one of a people's company, which is built on the basis of mutual trust between the partners, and the advantage of personal consideration is clear and noticeable in this type of company more than other people's companies, because the partners in joint ventures do not stand before others, but often present their shares as ownership to the joint managing partner, and s/he deals in his/her own name.

Following are the effects of personal consideration for the formation of the joint venture company:

1. The company's founding contract is not required to be written, and said contract is not published, nor is the procedures for ratification or registration in the commercial registry taken.
2. A joint venture company is a company, like other companies, that brings together two or more people to do business with the aim of making profits, provided that each of the partners deals with others in his/her personal name. However, a joint venture company differs from other companies by not forming a legal person, as it is not deemed a self-contained entity, and there is no personality independent from the partners.
3. All partners in a joint venture acquire the status of a merchant.
4. A joint venture is subject to the provisions of the joint liability company.

Zakat Handling

With regard to the partner in the joint venture, his/her investment in such arrangements does not appear to the public. Such a company does not have the legal personality that must be registered in the commercial registry with the statutory authorities in the Kingdom of Saudi Arabia. Accordingly, unless such investments meet the criteria for permissibility of deduction set forth in Paragraphs (4) and (5), such arrangements may fall outside the scope of the Regulations in terms of zakat handling as an investment, and they may not be deducted from ZB.

Joint Arrangements in the Form of Shares in Assets or the Like (Joint Operating Arrangements)

Such investments may be the form of private contractual arrangements between persons; either to produce a commodity and sell it in the market, or develop products for sale, or even invest in assets such as real estate. These arrangements are called joint operating arrangements. These arrangements are defined as arrangements in which the parties have joint control over their assets and obligations.

What distinguishes these arrangements from other contractual arrangements in the form of joint ventures is that the latter (has an independent legal personality, and is recorded in commercial records and has other official documents) which are accounted for and processed in the books of the joint venture participant using the equity method. Whereas in the joint operating arrangement, the participating party recognizes only its assets and liabilities, and the arrangement has no legal status.

To distinguish between the two arrangements, for example, two companies may agree to enter into a joint operating arrangement to manufacture a certain type of machine and sell it in the Saudi market, whereby the first company manufactures the motor of the machine, while the other company undertakes the process of developing the structure of the machine. The price of the machine is set at 30% of the cost. The cost of manufacturing the machine engine was SAR 10,000 for the first company, while the cost of manufacturing the structure amounted to SAR 20,000 for the second company. In such cases, such an arrangement is deemed a joint operating arrangement. The first company recognizes the engine of the machine upon completion of its manufacture within the current assets (goods), and so does the second company regarding the structure. When the machine is sold, the revenue will be realized for the parties to the arrangement at a percentage of cost, plus a 30% profit margin.

In another example, Companies (X) and (Y) may agree to purchase equipment worth SAR 100,000 under an agreement with joint ownership between them, at a rate of 70% and 30%, respectively. The equipment shall be depreciated on the straight-line method. In such cases, each of the two companies recognizes its share in the machine, and its obligations to purchase the equipment (for example, the supplier's dues) as follows:

Dues	Debit	Credit
Commonly-Controlled Equipment	XX	
Creditors (Suppliers)		XX

Zakat Handling

It is noted that such arrangements require the parties to the arrangement to recognize their share in the assets of the controlled operation and its obligations. Accordingly, zakat handling for such arrangements is summarized as follows:

- The handling of assets recognized by the company as a party to the joint arrangement according to the nature of the asset itself, for example, if equipment is recognized as fixed assets in the joint arrangement, then this item is handled within the deductions in accordance with the provisions of Paragraph (1) of Article (5) in the Regulations.
- Addressing the obligations resulting from such arrangements within the provisions of Article (4) of the Regulations.

Investing in Under-Incorporation Companies

In general, companies go through procedures that may be lengthy when established. During the incorporation period, such companies will not acquire a legal personality, although they may engage in activity with others before being registered in the commercial registry of the competent authorities and completing the necessary procedures.

The under-incorporation companies are those companies that have not yet completed their incorporation procedures, or that have not yet been registered in the commercial registry and have not acquired a legal personality. In such a case, the starting date is deemed the interval for acquiring a legal personality, and it is the point of entry in the commercial register, which is stipulated in the memorandum of association as the beginning of the establishment of the company (that is, the date of registration in the commercial register).

From a practical point of view, for example, a company or an authorized person may establish a company, and the incorporation procedures require a long period of time for establishment and commencement of activity. In such cases, the incorporated company may recognize investments in its accounting books even though the company is in the stage of incorporation, and it may also carry out certain procedures such as depositing the capital and obtaining the necessary licenses.

In terms of zakat, it is necessary to peruse the deduction controls contained in the Regulations, provided for in this Manual. That is, if such companies are registered with ZATCA and submit their zakat declarations, the investment in the books of the founding company may be deducted from ZB. Such handling stems from the fact that the commercial register is not the only measure to enable the (under-incorporation) invested-in company to register with ZATCA, but there are other criteria stipulated by the Regulations for the registration of companies as follows in Article (13):

The zakat year of the taxpayer shall commence with the issuance of the commercial register; from the date of obtaining the first necessary license, or from the date of depositing the capital, whichever is earlier, unless the taxpayer specifies another date for the beginning of the activity with documented evidence accepted ZATCA.

Accordingly, to support the permissibility of deducting investments in under-incorporation companies, the deduction controls set forth in Paragraphs (4 and 5) of Article (5) in the Regulations are the basis for determining this matter.

Nature of Company (X)'s Investment	Type of Investment	Held for Trading Purposes	Deductible from ZB
Investing %75 of the Company (Y)'s Equity	Subsidiary	No	Yes, provided that other deduction controls are met
Investing %25 of the Company (Z)'s Equity	Associate	No	Yes, provided that other deduction controls are met
Equity Instruments in Publicly-Traded Companies	Investments in Financial Instruments (Equity)	YES	No

4. CONTROLS FOR DEDUCATING FOREIGN INVESTMENT

4.1 Introduction

The provisions of Paragraph (5) of Article (4) of the Regulations dealt with the controls for deducting foreign investments, as follows:

- Such investments shall be in stakes in facilities outside the Kingdom of Saudi Arabia.
- The purpose of holding such investments shall be non-trading.
- Zakat shall be calculated according to a certified public accountant licensed in the Kingdom of Saudi Arabia, disclosed in the zakat declaration, and paid to ZATCA.

Key Procedural Controls Set by the Regulations:

- The minimum for such investments shall be the taxpayer's share of the accounting profit according to the audited financial statements of the foreign investment.

In this Section, an in-detail discussion is provided about each of the aforementioned deduction controls, in addition to providing comprehensive examples covering the foreign investment deduction mechanism.

4.1.1 Investments in Stakes of Facilities outside the Kingdom of Saudi Arabia

As discussed in the previous Section, such investments may exclusively take one of the following forms:

- Investments in subsidiaries.
- Investments in associates or joint ventures.
- Investments in equity or shares in companies handled under IFRS 9.

Technically, the said investments must meet the other controls set forth in the Regulations to check for the realization of the deduction terms.

4.2 Holding Investments for Non-Trading Purposes

After checking the form of investments discussed in Section No. (4.1) above, the taxpayer shall check the additional control, which is that the investment is kept for non-trading purposes, which was discussed in the previous Section.

Example (14): Company (X) had the following investments during 2020 AD:

1. Company (X) invests 75% of the equity in Company (Y). Company (X) classifies its investment in (Y) as a subsidiary as a result of its control over Company (Y).
2. The company owns 25% of the shares of Company (Z) over which it exercises significant influence on its decisions and operational policies. Company (X) classifies said investment as an investment in an associate company.
3. Company (X) also has investments of little relative significance in diversified investment portfolios, which the company maintains with the aim of achieving short-term gains. The company classifies said investments as current assets.

4.3 Calculating and Paying Foreign Investment Zakat according to a Certified Public Accountant Licensed in the Kingdom of Saudi Arabia

After calculating the zakat of the taxpayer's share in foreign investment in accordance with the provisions of the Regulations, the task of ratifying such calculation is entrusted to a certified public accountant in the Kingdom of Saudi Arabia to issue the certificate in accordance with the requirements of auditing standards in force in the Kingdom of Saudi Arabia, which fall under assurance services.

Below is a proposed form for a licensed chartered accountant certificate regarding foreign investment:

[Proposed Illustrative Form for a Limited Assurance Report Certifying the Calculation of Zakat]

Limited Assurance Report on Calculating Zakat for Invested-in Companies Established Outside the Kingdom of Saudi Arabia to the Partners in (Company Name)

We have performed a limited assurance engagement to identify whether something has come to our attention that causes us to believe that what is detailed in the subject matter paragraph below (the "Subject Matter") has not been properly prepared, in all material respects, in accordance with the relevant criteria set out below.

Subject Matter:

The subject matter of the Limited Assurance Engagement relates to Appendix (1) prepared by (Company Name)'s Management regarding the calculation of zakat related to non-commercial investments in entities established outside the Kingdom of Saudi Arabia ("invested-in companies") for the year ended December 31, 20-- ("Table"), which was prepared under the assurance that the said Table complies with the Executive Regulations for Levying Zakat promulgated by Ministerial Resolution No. 2216 dated Rajab 07, 1440 AH (the "Regulations"), according to the interpretation of the Management. The Management's explanations are given under the assumptions in the Table.

Relevant Controls:

1. Articles: 4 (Zakat Base), 5 (Permitted Deductions), 6 (Zakat Base - Other Considerations), 8 (Permissible Expenses), 9 (Non-deductible Expenses) and 14 (Zakat Rates) of the Regulations, as interpreted by the Management. The Management's explanations are given under the assumptions in the Table.
2. The preliminary financial statements of the invested-in companies, which consist of the statements of financial position and comprehensive income.

Responsibility of the Management:

The Management is responsible for preparing and presenting the information in the above subject matter paragraph in accordance with the relevant controls, and is also responsible for choosing the methods for applying said controls. The Management is also responsible for applying the internal control systems that it deems necessary to prepare and present the information contained in the subject matter paragraph and that it is free from any material misstatement, whether resulting from fraud or error, and to select and apply appropriate controls, maintain adequate records, and make reasonable estimates in accordance with the relevant circumstances and events.

Our Responsibility:

Our responsibility is to provide a limited assurance conclusion on the subject matter above based on the assurance engagement we performed in accordance with International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" approved in the Kingdom of Saudi Arabia, and the terms and conditions of that engagement that were agreed-upon with the Company's Management.
Our procedures are designed to obtain a limited level of assurance sufficient to provide a basis for our conclusion; and we have not obtained all the evidence required to provide a reasonable level of assurance. The procedures performed depend on our professional judgment, including the risks of material misstatement, whether due to fraud or error. We also considered the effectiveness of internal control systems when determining the nature and extent of our procedures, and our engagement was not designed to provide assurance about the effectiveness of such systems.

Independence and Quality Control:

We have complied with the independence and other requirements of the Code of Ethics and Conduct approved in the Kingdom of Saudi Arabia, which are founded on the fundamental principles of integrity, objectivity, professional competence, due diligence, confidentiality, and professional conduct.

We also implement International Standard on Quality Control (ISQC) (1), thus we are maintaining a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Summary of the Actions Taken:

The procedures applied in a limited assurance engagement are different in nature and timing and less in scope than those applied in a reasonable assurance engagement. As a result, the level of assurance that would be obtained in a limited assurance engagement is much lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures that we have performed included, but were not limited to, the following:

- We have compared the individual items in the Table with the interim financial statements of the invested-in companies.
- We examined the items individually in the Table based on the Regulations as interpreted by the Management. The Management's explanations are given under the assumptions in the Table.
- We have checked the arithmetic accuracy of the Table.

Limited Assurance Result:

Based on our limited assurance procedures and the evidence obtained, nothing has come to our attention that causes us to believe that what is detailed in the subject matter above has not been properly prepared in all material respects, in accordance with the relevant controls.

Other Matters:

Annex (X) attached is stamped by us for identification purposes only.

Name of Chartered Accountant

[Date] **License Number**

* Attached to the certificate are all the requirements necessary for calculating ZB of the foreign invested-in company.

Example (15): The Arab Company, a resident company, owns %90 of the shares of the Gulf Company's ownership in Kuwait. The Arab Company accounts for its investment in the Kuwaiti Company as a subsidiary company under the equity method. The balance of the investment in the accounts of the Arab Company at the end of the year amounted to SAR 46 million, and the Arab Company deducted the value of the said investment from ZB in 2020 AD.

The financial statements of the Kuwaiti Company showed the following financial statements:

Statement of Financial Position as at December 31, 2019 AD

Details	2019 AD	2018 AD
	KD	KD
Assets		
Current Assets		
Cash and Cash Equivalents	419,000	233,000
Receivables and Debit Other Balances	150,000	251,000
Stock	18,000	12,000
Dues from Related Parties	258,000	
Total Current Assets	845,000	496,000
Non-Current Assets		
Net Property and Equipment	542,000	554,000
Total Non-Current Assets	542,000	554,000
Total Assets	1,387,000	1,050,000
Liabilities and Equity		
Current Liabilities		
Creditors and Other Credit Balances	516,000	55,000
Dues to Related Parties		132,000
Total Current Liabilities	516,000	187,000
Non-Current Liabilities		
Employees' End-of-Service Benefits	47,000	66,000
Total Non-Current Liabilities	47,000	66,000

Equity		
Capital	50,000	50,000
Mandatory Reserve	25,000	25,000
Optional Reserves	25,000	25,000
Carried-Forward Losses/Profits	691,000	21,000
Partners' Current Account	33,000	676,000
Total Equity	824,000	797,000
Total Equity and Liabilities	1,387,000	1,050,000

Statement of Comprehensive Income for the Fiscal Year as at December 31, 2013 AD

Details	2019 AD
	KD
Activity Revenues	1,886,000
Deducted: Activity Cost	(826,000)
Gross Profit	1,060,000 **AD**
Added:	150,000
Other Revenues	18,000
Gross Profit and Other Revenues	1,078,000
Deducted: General Expenses and Other Charges	
General and Administrative Expenses	(338,000)
Property and Equipment Depreciation	(52,000)
End-of-Service Provision	(18,000)
Total Expenses and Other Charges	(408,000)
Net Profit of Year	670,000

Other Details:

1. The movement of the end-of-service provision is as follows:

Details	First of Term	Accrual During the Year	Paid During Year	End of Year Balance
End-of-Service Provision	66,000	18,000	37,000	47,000

2. The exchange rate of KD to SAR was 12.25.
3. There were no changes to the statement of changes in equity except for the results of the year business.
4. Within the general expenses, there are hospitality expenses of KD 10,000.
5. Credits are not financed deductible.

Requirement: Meeting the requirements of the Arab Company for the provisions of the Regulations, the Company would like to pay zakat for its investment in Kuwait, accordingly; it is required to identify the zakat handling.

Example Solution: For the purposes of deducting foreign investment in the State of Kuwait from ZB of the Arab Company, the Arab Company is required to verify the following:

- This item represents an investment in a subsidiary; accordingly, this investment is held for non-trading purposes.
- Since the Company has chosen to deduct this investment from ZB, the Arab Company is required to do the following:

1. Minimum Amount for Calculating Foreign Investment Zakat

It should be noted that the calculation of zakat must not be less than the minimum, which is the accounting net profit according to the financial statements of the Kuwaiti Company (KD 670,000 x Exchange Rate to the SAR x Arab Company's Share in Foreign Investment Capital %90 x Rate of Zakat %2.5)

In light of the above, the minimum zakat will be:

Details		Amount
Accounting Net Profit according to the Financial Statements (Kuwaiti Dinars)		670,000
Arab Company's Share in the Company's Net Profit (Kuwaiti Dinar)	%90 × 670,000	603,000
Share of Net Profit in (SAR)	603,000 × 12.25	7,386,750
Minimum Zakat Threshold (SAR)	7,386,750	184,668.75

2. Calculating ZB according to the Regulations:

2.1 Modification of Activity Result

The amendment to the result of the activity shall be made in accordance with the provisions of Articles (8) and (9) of the Regulations, as follows:

Deducted: Activity Cost	670,000
Expenses Non-Deductible shall be added:	
Accrued from Provisions During the Year	18,000
Hospitality Expenses during the Year	10,000
Net Profit Adjusted for Zakat Purposes	698,000

22. Zakat Base (ZB)

Additions to ZB	Amount
Net Profit Adjusted for Zakat Purposes	698,000
Working Capital at Start of Year	50,000
First of Year Reserve	50,000
First of Year Retained Earnings	21,000
Partners' Current Account	33,000
Provisions (First of Year Minus Payments during Year)	29,000
Total Additions (1)	881,000
Deductions from ZB	
Property and Equipment	542,000
Total Deductions (2)	542,000
Total (1 - 2)	**339,000**
ZB (Adjusted Net Profit or ZB, whichever is Higher)	**698,000**
Company's Share in ZB is 90%	**628,200**
(Approx. Zakat)	**15,705**
Currency Conversion to SAR	**192,386**

By comparing the calculated zakat with the minimum, the zakat payable for external investment shall be SAR 192,386.

4.4. Other Considerations Regarding Calculating Foreign Investment Zakat

When the taxpayer calculates the external investment zakat, it is likely that this external investment (the foreign company) owns several other investments outside the Kingdom of Saudi Arabia, and the chain of such foreign investments may extend beyond the company's state to the foreign country, so the resident company shall consider the zakat of such investments in accordance with the provisions of the Executive Regulations for Levying Zakat.

5. CHANGE TO CLASSIFICATION OF DEDUCTIBLE INVESTMENTS AND ITS IMPACT ON ZAKAT HANDLING

In practice, it is necessary for taxpayers of companies investing in other companies to adjust their investment shares during the year, either by increasing or decreasing. Such an amendment may result in a change to the classification of the nature of such an investment from an accounting point of view. For example, in cases where the investing company owns small non-controlling stakes in the shares of a company by increasing the value of its investment so that such an investment becomes a significant influence on the policies of the invested-in company. The nature of this change will result in a modification in the nature of the classification of such an investment from the accounting point of view, which requires a re-examination of the effects of the process in terms of zakat.

Investment reclassification may take one of the following non-exclusive forms:

- Equity investments at fair value through profit or loss or other comprehensive income to an associate or a subsidiary when the overall influence or control over the said forms of investment is demonstrated, respectively.
- Investments in associates or subsidiaries handled in accordance with IFRS 9 (investments at fair value through profit or loss or other comprehensive income).
- Investments in subsidiaries or affiliates to assets held for sale in accordance with IFRS 5.

In view of the change to the classification of the investment due to the occurrence of a circumstance/event, which affects the nature of the ownership of the investing company in the invested-in company, the basis for zakat handling is determining the purpose of owning such an investment after the change of classification. For example, the loss of significant influence in an associate may result in the re-recognition of that investment under the scope of IFRS 9 (Financial Instruments), and thus the company classifies them as investments at fair value.

Such a change does not have an impact on the permissibility of deducting this investment as long as the business model of the establishment in managing investments leads to keeping these shares or investments in the long term, without a short term view of selling or keeping these investments to increase returns or achieve short-term profit (for the purpose of trading). Therefore, such investments remain deductible from ZB after verifying the other controls set forth in the Regulations.

On the other hand, the company may decide to offer such investments for sale or classify them as available for sale in accordance with applicable accounting requirements. In such cases, said investments are listed separately in the financial statements until they are disposed of, for example, within the next 12 months from the date of classification as held for sale. The company's intention in this case, from the date of classification, is to hold them for sale in the short term, making these investments non-deductible from ZB from the date of classification.

6. ILLUSTRATIVE EXAMPLE OF HANDLING INVESTMENTS AND CALCULATING ZB

Example (16): The financial statements of the Saudi Company, a company residing in the Kingdom of Saudi Arabia and registered with ZATCA, showed the following financial statements for the year ending on December 31, 2020 AD.

Details	All Amounts in SAR	
	2020 AD	2020 AD
Assets		
Non-Current Assets		
Property and Equipment	32,000	24,000
Real Estate Investments	9000	8,000
Intangible Assets	6,000	2400
Investments in Subsidiaries	3,000	2700
Investments in Associates or Joint Ventures	3,000	2,500
Investments at Fair Value through Other Comprehensive Income	4,100	3,200
Total Non-Current Assets	**57,100**	**42,800**
Current Assets		
Goods	26,000	24000
Right of Return Assets	1,100	900
Trade Receivables	25,600	22,000
Contract Assets	4,500	5,000
Cash and the Like	22,741	15,300
Total Current Assets	79,941	67,200
Non-Current Assets Held for Non-Sale Purposes	13,500	
	93,441	67,200
Total Current Assets	150,541	110,000

Obligations and Equity		
Equity		
Capital	26,800	26,800
Reserves	900	900
Retained Earnings	36,891	26,000
Total Equity	64,591	53,700
Non-Current Obligations		
Long-Term Loans	22,000	23,000
Government Grants	4,100	1,400
Provision for Employees' Benefits	5,400	3,500.
Total Non-Current Obligations	**31,500**	**27,900**
Current liabilities		
Trade Payables	20,800	13,000
Contract Obligations	2,900	2,400
Revenues Received in Advance	7,100	5,800
Short-Term Loans	2,800	3,100
Other Current Financial Obligations	3,050	400
Zakat Provision	4,800	3,700
Total Current Obligations	**41,450**	**28,400**
Obligations Related to Assets Held for Sale	13,000	-
Total Obligations	**85,950**	**56,300**
Total Equity Obligations	**150,541**	**110,000**

Statement of Financial Position for the Year Ended December 31, 2020 AD

Details	All Amounts in SAR
	2020 AD
Revenues from Customer Contracts	179,000
Rental Income	1,400
Total Revenues	180400
Cost of Revenues	(136,000)
Total Income	44,400
Other Revenues	2400
Sale and Distribution Expenses	(14000)
Administrative Expenses	(18,000)
Other Petty Expenses	(2,550)
Operational Profit	12250
Interest Expenses	(1,300)
Finance Income	200
Others	100
Share in Affiliate's Income	300
Share in Associates' and Joint Ventures' Income	500
Income from Operations before Zakat Provision	12,050
Zakat Disbursement	(1159)
Income from Operations after Zakat Provision	10,891

Statement of Financial Position for the Year Ended December 31, 2020 AD

Additional Notes:

1. The Saudi Arabian Company submits an independent zakat declaration to ZATCA through the separate financial statements it issues as explained above.
2. Investments in the subsidiary represent investments in shares of companies operating outside the Kingdom of Saudi Arabia that are not wholly-owned. The company chose to deduct the investments from ZB. Accordingly, the controls of deduction of foreign investments were complied with, and the zakat due thereon was calculated according to a chartered accountant's certificate. The zakat due amounted to SAR 75.
3. The Saudi Arabian Company owns investments in affiliates and joint ventures operating in the Kingdom of Saudi Arabia and registered with ZATCA. The affiliated company submitted the zakat declaration for 2020 AD and paid the zakat due thereon.
4. The Company maintains other investments classified at fair value through other comprehensive income, which are investments in the shares of some companies whose shares are traded in the Saudi Market. The cumulative balance of the change to the fair value of the investments amounted to SAR 900, as of December 31, 2020 AD.
5. There are expenses not related to the activity, amounting to SAR 100, which represent entertainment expenses for employees and others not related to the activity.

Item	First of Year	Accrual During Year	Payments During Year	Balance at End of Year
Provision for Employees' Benefits	3500	2900	1000	5400

6. The movement of the provision for employees' benefits during 2020 AD was as follows:
7. During 2020 AD, the Company decided to dispose of a production line, and decided to classify this line as non-current assets held for the purpose of sale, after fulfilling the classification

conditions from an accounting point of view. The production line is ready for immediate sale and the production line is expected to be sold within the next 12 months.

Item	First of Year	Accrual During Year	Payments During Year	Balance at End of Year
Short- and Long-Term Loans	26100	3700	10000	24800
Government Grants	1400	2700	-	4100

8. The company has long- and short-term loans as well as government funding in the form of grants. The movement of government loans and grants during 2020 AD was as follows:

Noting that no withdrawals were used during the year to finance the purchase of assets or items deducted from ZB. The company also expects to repay the year's loan and grants withdrawals within the next 12 months.

9. With regard to the remaining obligations, except for the provision for zakat, and after the company verified the controls for the additions stipulated in the Regulations, the balance, to which addition terms apply, amounted to SAR 400.

10. The movement of zakat provisions was as follows:

Item	First of Year	Accrual During Year	Payments During Year	Balance at End of Year
Zakat Provision	3700	1159	59	4800

In light of the foregoing, the Saudi Company will calculate ZB and the zakat due as follows:

Details	Reference	Amount (SAR)
Step One: Calculating Net Profit Adjusted for Zakat Purposes		
Net Accounting Profit		12050
Adding: Non-Deductible Expenses		
Recreational and Non-Activity Expenses 100 Component of provision for employee benefits 2900 Adjusted net profit for zakat purposes a 15050 The second step: Calculation of additions to the zakat base Extras: capital first year 26800 Reserves first year 900 Retained earnings at the beginning of the year 26000 Provision for employee benefits (beginning of the year less (paid during the year) 2500 Long-term loans (first year minus paid during the year) 16100 Government grants (first year) 1400 Obligations over the year		100
Accrual from Provisions for Employees' Benefits		2900
Net Profit Adjusted for Zakat Purposes	A	15050
Step Two: Calculating Additions to ZB		
Additions:		

Working Capital at Start of Year		26800
First of Year Reserve		900
First of Year Retained Earnings		26000
Provision for Employees' Benefits (First of Year Minus Payments during Year)		2500
Long-Term Loans (First of Year Minus Payments during Year)		16100
Government Grants (First of Year)		1400
Obligations subject to Addition Terms		400
Receipts in Advance (Start/End of Year Balance: Whichever is Less)		5800
Reserve for Change to Fair Value of Investments at Fair Value through Other Comprehensive Income		900
Zakat Provision		3641
Total Additions	B	84441
Step Three: Calculating Deductions from ZB		
Deducted from ZB		
Property and Equipment		32000
Real Estate Investments		9000
Intangible Assets		6000
Investments in Subsidiaries		3000
Investments in Associates or Joint Ventures		3000

Investments at Fair Value through Other Comprehensive Income		4100
Total Deductions	C	57100
Step Four: Calculating ZB		
Total Components of ZB (Adjusted Net Profit and Additions Minus Deductions)	D = A + B - C	42391
ZB (ZB or Adjusted Net Profit, whichever is Greater)		42391
Zakat (Net Profit Adjusted for Zakat Purposes)	A x 2.5%	376
Zakat on Remaining Components of ZB	366 x / 354 (B - C) at 2.5%	707
Adding Zakat on Foreign Investments according to a Chartered Accountant's Certificate	E	75
Total Payable Zakat		1158

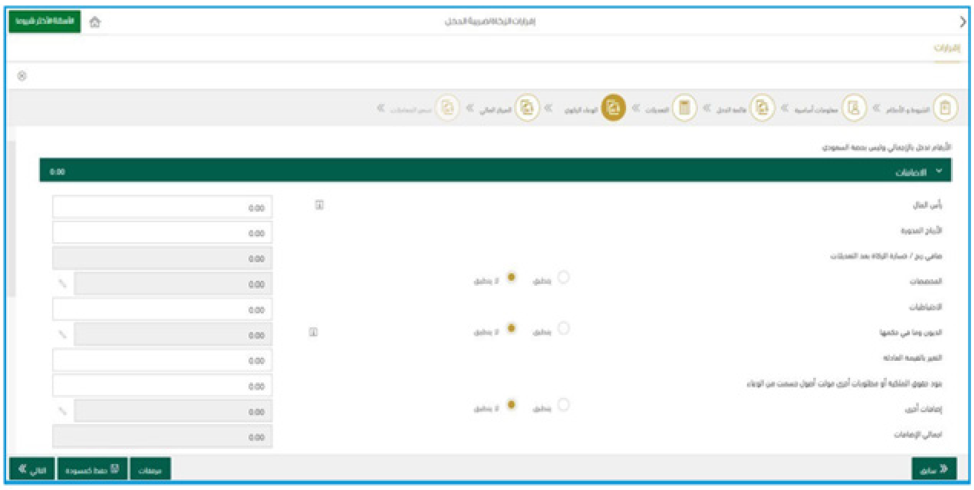
Regarding handling of investments, the following is noted from the previous example:

1. The book value of investments in subsidiaries, affiliates, and joint ventures has been deducted without adjustment.
2. The result of the activity has not been modified with respect to the accounts related to such investments, which are recognized in the income statement, which is the company's share in the results of the operations of subsidiaries, affiliates, and joint ventures.
3. The change to fair value was taken into consideration when deducting investments at fair value through other comprehensive income in order to avoid deducting the value of more than necessary or less than necessary, that is, to conclude the cost of investment.
4. There are some assets that have not been deducted from ZB, such as current assets and others, such as non-current assets held for sale.

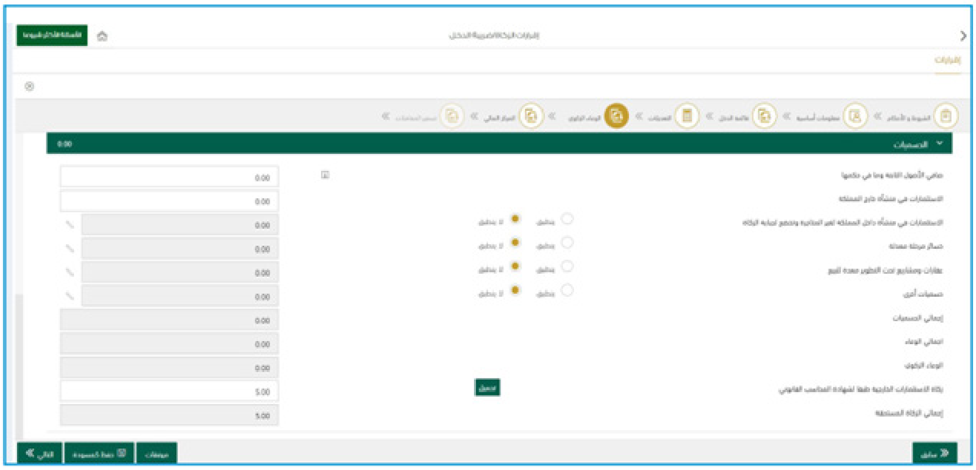
7. Illustrative Example of Handling Investments and Calculating ZB

7.1. Section on Calculating ZB for Taxpayers who Maintain Regular Accounts

Additions to ZB

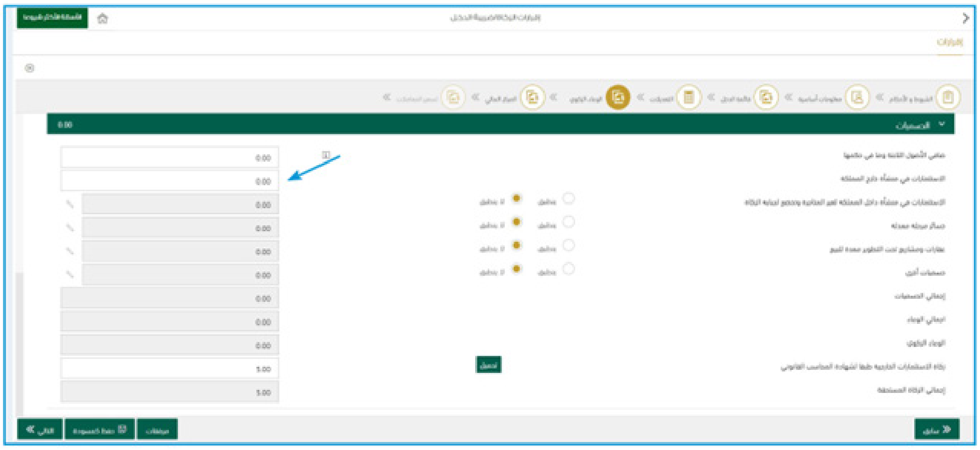


Deductions from ZB



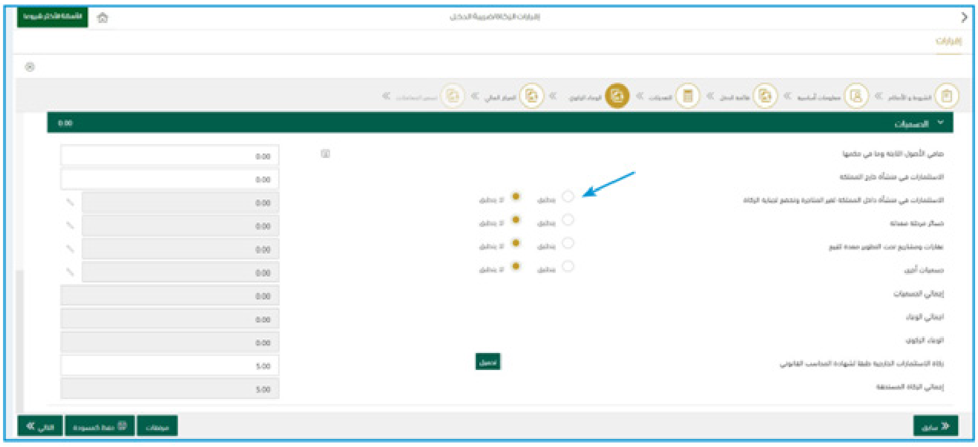
7.2. Foreign Investment

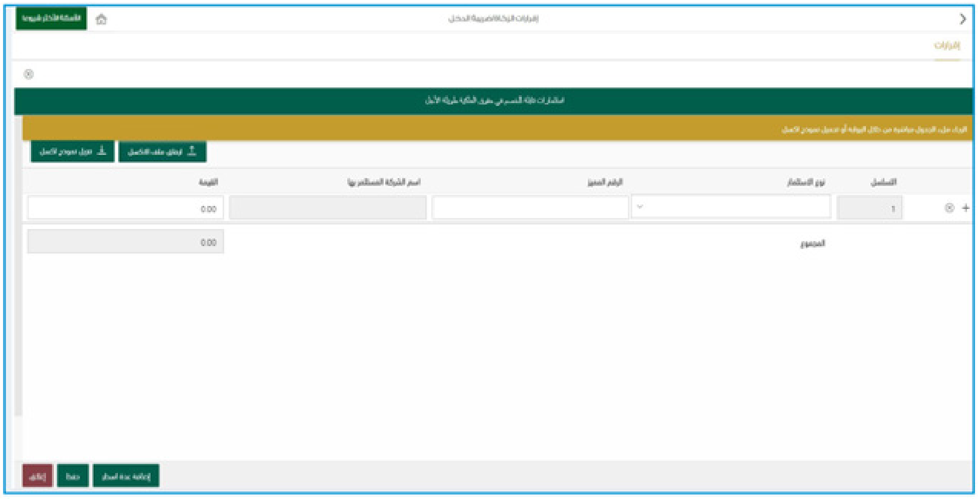
The item book value of foreign investments is included within the deductions from ZB after calculating zakat in respect of them according to a chartered accountant's certificate.



7.3. Investments inside the Kingdom

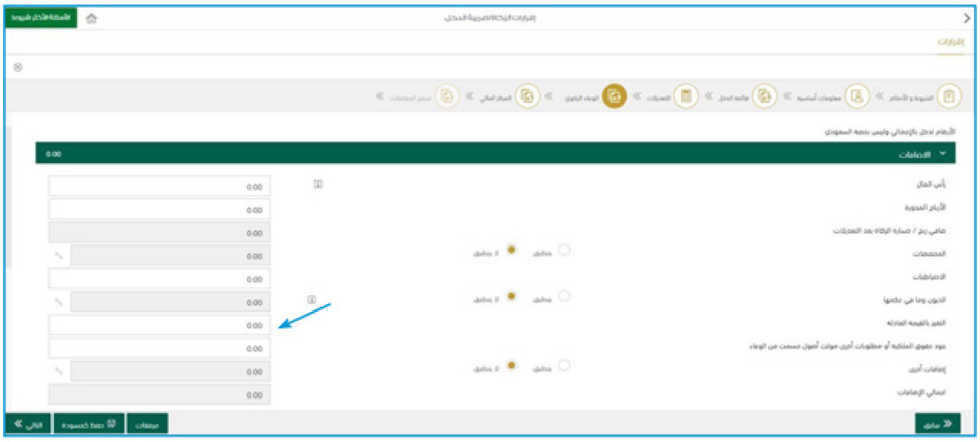
The book value of local investments in companies residing in the Kingdom of Saudi Arabia is included in the table attached to the declaration, taking into account the identification of the invested-in company through the unique number or identification number contained in the table such as the commercial register or company number:





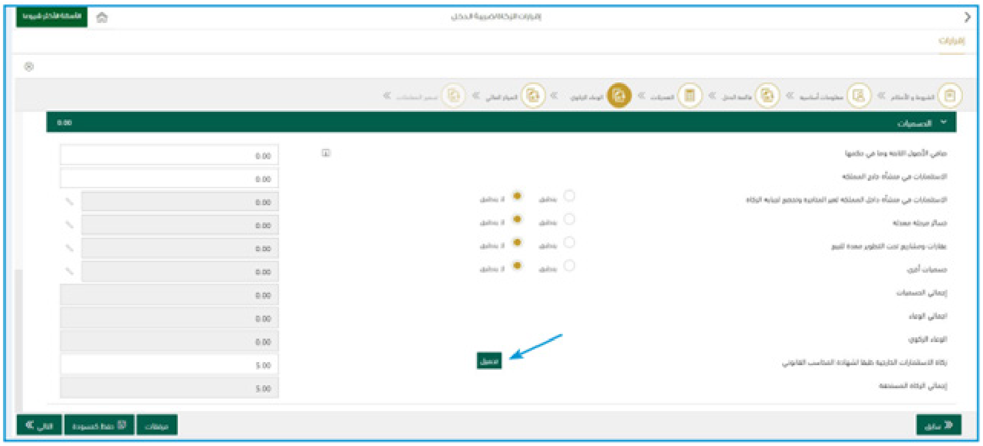
7.4. Changes to fair value

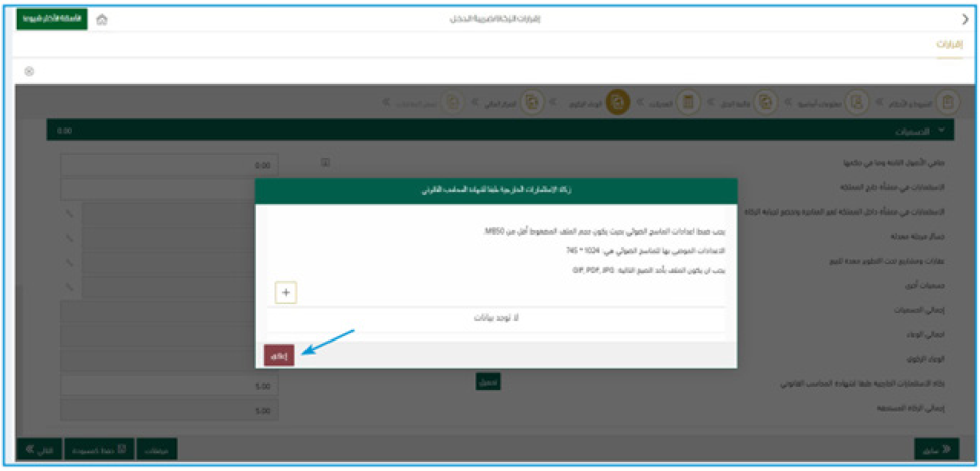
In the event that investments at fair value are included within the items deducted from ZB, the changes to fair value recognized outside the income statement are included in the field shown below. In the event of negative changes to the fair value, these changes may be included in other deductions:



7.5. Certified Public Accountant's Certificate Issued for Calculating Zakat on Foreign Investments

A certified public accountant certificate is attached in support of the amount of zakat calculated on foreign investments:





ANNEX 1: ZAKAT HANDLING OF KEY ITEMS IN THE STATEMENT OF FINANCIAL POSITION RELATED TO INVESTMENTS

Item	Zakat Handling	Ruling as per the Regulations
Investments (equity instruments) at fair value through other comprehensive income	Non-zakatible Assets	Deductible from ZB if it meets the deduction controls set forth in Paragraphs (4) and (5) of Article (5) of the Regulations.
Investments (equity instruments) at fair value from profit or loss; not held for trading	Non-zakatible Assets	Deductible from ZB if it meets the deduction controls set forth in Paragraphs (4) and (5) of Article (5) of the Regulations.
Investments (equity instruments) at fair value from profit or loss; held for trading	Zakatible Assets	Non-Deductible from ZB
(Other) Investments at Fair Value through Other Comprehensive Income, for example: Debt Instruments	Zakatible Assets	Non-Deductible from ZB, along with the application of the exceptions set forth in the Ministerial Resolutions No. (2215) and (2218).
(Other) Investments at Fair Value of Profit or Loss, for example: Debt Instruments and Financial Derivatives.	Zakatible Assets	Non-Deductible from ZB, along with the application of the exceptions set forth in the Ministerial Resolutions No. (2215) and (2218).
Investments at Amortized Cost; such as: Debt Instruments	Zakatible Assets	Non-Deductible from ZB, along with the application of the exceptions set forth in the Ministerial Resolutions No. (2215) and (2218).
Investments in Subsidiaries	Non-zakatible Assets	Deductible from ZB if it meets the deduction controls set forth in Paragraphs (4) and (5) of Article (5) of the Regulations.
Investments in Associates and Joint Ventures	Non-zakatible Assets	Deductible from ZB if it meets the deduction controls set forth in Paragraphs (4) and (5) of Article (5) of the Regulations.

ANNEX 2: ZAKAT HANDLING OF EQUITY INVESTMENT PROFITS

Profits Type/ Investment Handling Method	Investment Valuation by Cost Method	Investment Valuation by Equity Method	Investment Valuation at Fair Value
Realized Profits	There is no impact on the value of the asset (investment)	The realized profit (results of the associate company's business during the year) is deemed part of the income in the income statement and becomes part of the adjusted (zakatible) profits, which will be one of the elements of ZB, and the profits will have an impact on the value of the investment at the end of the period.	It will be through the income statement and it would be reflected in the zakat profit for the year, calculated in equity, and added within the components of ZB.
Non-Realized Profits			It will be through the income statement, and it will be reflected in the zakat profit for the year and calculated in equity, and it will be added within the components of ZB through other comprehensive income. It will be added through the Regulations' handling of the change to fair value.
Distribution of Dividends	Dividends are deemed income in the income statement and become part of the adjusted (zakatible) profit, which will be one of the elements of ZB	Decreasing Asset Value (Investment)	It will be through the income statement and it would be reflected in the zakat profit for the year, calculated in equity, and added within the components of ZB.

Profits Type/ Investment Handling Method	Investment Valuation by Cost Method	Investment Valuation by Equity Method	Investment Valuation at Fair Value
Items of other comprehensive income related to investments (Currencies Exchange Rate)		It is deemed one of the other comprehensive income components, which will affect the value of the equity added to the components of ZB, and the item will have an impact on the investment value at the end of the period	It is deemed one of the other comprehensive income components, which will affect the value of the equity added to the components of ZB, and the item will have an impact on the investment value at the end of the period

ANNEX 3: FAQS

1. WHAT TYPES OF INVESTMENTS ARE DEDUCTIBLE FROM ZB FOR TAXPAYERS WHO MAINTAIN REGULAR ACCOUNTS?

According to the provisions of the Regulations, deductible investments are those represented in owning shares in local or foreign companies in accordance with the controls set forth in Paragraphs (4) and (5) of Article (4). Such investments may take one of the following forms:

- Investments in subsidiaries.
- Investments in associate companies.
- Investments in equity instruments at fair value through profit or loss or other comprehensive income.

Other than that, some other items may take the form of investments, such as investments in real estate shares or other joint arrangements with other parties, which the taxpayer shall look into and handle in accordance with the provisions of other relevant Regulations, including, for example, Real Estate Investments and others.

2. IN THE CASE OF HOLDING INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, IS THE RESULT OF THE ACTIVITY REQUIRED TO BE ADJUSTED FOR CHANGES TO FAIR VALUE RECOGNIZED THROUGH PROFIT OR LOSS?

Whether such changes are positive or negative, it does not require adjusting the result of the activity with unrealized profits or losses.

3. DOES THE CHANGE TO THE INVESTMENT CLASSIFICATION HAVE CONSEQUENCES OR IMPACT ON THE EXTENT TO WHICH THE INVESTMENT MAY BE DEDUCTED FROM ZB?

The basis in assessing the permissibility of deduction is whether it is in equity instruments or shares in companies, in addition to whether such investments are held for the purpose of non-trading purposes, and accordingly the change to classification, in and of itself, may not affect the purpose of holding such investments. For example, a company may own 25% of another company classified as an associate as a result of exercising significant influence over it, such investments are essentially-deemed for non-trading purposes. However, the investing company may lose this significant influence, which may require recognizing them as investments at fair value, while keeping the intention to keep for non-trading purposes as it is. Therefore, the change to the accounting classification does not affect the zakat handling, assuming that other factors remain the same.

4. **A RESIDENT COMPANY INVESTS IN OTHER COMPANIES OUTSIDE THE KINGDOM OF SAUDI ARABIA. THE FOREIGN COMPANY APPLIES THE ZAKAT COLLECTION LAW, SO IS IT PERMISSIBLE TO CONSIDER THIS INVESTMENT AS ZAKAT FOR THE PURPOSES OF THE REGULATIONS AND DEDUCTION FROM ZB?**

According to the provisions of the Regulations, the resident company is required to calculate and pay zakat to ZATCA (at the Kingdom of Saudi Arabia) under the certificate of a chartered accountant in the Kingdom of Saudi Arabia, regardless of whether these investments are zakatible in the home country or not. factors remain the same.

5. **A RESIDENT COMPANY FOLLOWS THE COST METHOD TO ACCOUNT FOR ITS INVESTMENTS IN THE SUBSIDIARIES AND ASSOCIATES THAT IT CONTROLS. HOW ARE THESE INVESTMENTS DEDUCTED FROM ZB?**

After verifying the deduction controls set forth in the Regulations, the taxpayer deducts the value of the investment recognized at cost without modifying the result of the activity by distributions (if any), which are recognized in the profit or loss statement.

6. **HOW TO HANDLE THE PROVISION FORMED AS A RESULT OF DERECOGNITION OF INVESTMENTS ARISING FROM RECURRING LOSSES IN EXCESS OF THE BALANCE OF SUCH INVESTMENTS?**

When recognizing the balance of provisions as a result of such losses that exceed the investment balance and recognizing, in return, the provisions that represent legal obligations owed by the company, in this case, such obligations may be handled as provisions in accordance with the provisions of the Regulations by adding the balance of the provision to ZB, with an adjustment to the result of the activity in the component part during the year (if any). If the nature of this item is an obligation to which the terms of the provisions do not apply, it shall be handled in accordance with the provisions of Article (4) with the application of the limits of additions.

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