



## Guideline

# **Zakatpayers for whom a decision has been issued by the Zakat, Tax and Customs Authority (ZATCA) exempting them from Zakat collection**



The Zakat, Tax and Customs Authority (ZATCA) issued this Guideline with the purpose of clarifying some of the treatments related to the application of the statutory provisions in force at the date of its issuance. This Guideline shall not be considered as an amendment to any of the provisions of the laws and regulations applicable in the Kingdom.

ZATCA shall apply the explanatory treatments stated in this Guideline - wherever applicable - considering the relevant legal texts. In the event that any clarification or content herein is amended - to an unamended legal text - then the updated clarification treatment shall apply to transactions that take place after the date of publishing the updated version of the Guideline on ZATCA'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 acts of worship. Its significance is underscored by its repeated mention in the Qur'an. Allah Almighty has linked it with prayer in more than eighty verses. It stands as the key pillars that distinguishes the Muslim community from others, **embodying** a manifestation of the **elevated principles** of Islamic jurisprudence. It serves as a means to combat poverty and alleviate the suffering of the needy, contributing to the realization of social solidarity.

### 1.2. Zakat Collection

This indicates the profound significance of Zakat in Islam is entrustment of its management and supervision to the State. Indeed, it is the responsibility of the State to collect Zakat on funds and allocate it to eligible recipients. This is achieved by appointing designated personnel (Zakat employees) to visit individuals holding wealth across the Islamic State. They assess the Zakat amount owned by them, collect the funds, oversee the distribution process, and ensure its allocation to the rightful beneficiaries.

ZATCA is responsible for the collection of Zakat. It undertakes all procedures related to the computing the Zakat for Zakat payer, starting with the registration of the Zakat payer, through the process of Zakat assessment for the Zakat payer, which includes overseeing the submission of Zakat returns, managing payment procedures, scrutinizing submitted statements, conducting verification through competent personnel employed at ZATCA. The process concludes with the issuance of the final Zakat certificate. This may also include reviewing objections from Zakat payers regarding ZATCA's Zakat assessments.

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

The collection of Zakat and its disbursement to eligible recipients is one of the basic tasks of the State, as stipulated in Article 21 of Basic Law of Governance, which stipulates as follows: (**Zakat shall be collected and spent for legitimate expenses.**). Article 7 set forth evidence of the State's attention to the duties of Sharia and its commitment thereto in general, which includes collecting Zakat and disbursing it to the beneficiaries. It stipulates as follows: (Government in the Kingdom



of Saudi Arabia derives its authority from the Book of God and the Sunna of the Prophet (PBUH), which are the ultimate sources of reference for this Law and the other laws of the State).

In confirmation of the foregoing, during the reign of the Founder King Abdul-Aziz -may Allah have mercy on him- Royal Decree No. (8634/28/2/17) dated 29/6/1370H corresponding to (6 April 1951), was issued with the order to collect Zakat. The said Royal Decree was followed by many royal decrees confirming the same as well as implementing ministerial resolutions, in addition to the regulations and circulars, including Royal Decree No. (M/40) dated 2/7/1405H, and the Zakat implementing regulations issued by Ministerial Resolution No. (2082) dated 1/6/1438H, Corresponding to (28 February 2017) and the Zakat implementing regulations issued by Ministerial Resolution No. (2216) dated 7/7/1440H corresponding to (14 March 2019), which applies to the Zakat years starting from January 1, 2019 for all Zakat payers, except for those who are accounted for by the discretionary method according to the chapter 4 of the regulations, whereas the regulations apply to their declarations submitted after 31 December 2019. Therefore, the Zakat implementing regulations issued on 7/7/1440H do not apply to the fiscal years prior to this date, and those years are treated in accordance with the regulations and instructions prior to this date.

The Zakat implementing regulations has been particularly concerned with clarifying the provisions for Zakat collection on commercial and professional activities, and alike, besides other Zakat funds, the requirements for submitting the Zakat declaration, procedures of the assessment, examination 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. (1/5/16) Dated 05 / 01 / 1383H corresponding to (28 May 1963), wherein Paragraph (1) provides for: "Zakat shall be collected in full of all joint stock companies, and others, and individuals subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be given to the Social Security Fund."



## 1.4 The Zakat, Tax and Customs Authority (ZATCA)

ZATCA is a Saudi government authority that was established pursuant to the Council of Ministers' Resolution dated 23 Ramadan 1442H corresponding to (4 May 2021), following the Resolution to merge (previously named) The General Zakat and Income Authority with the General Customs Authority to be one entity named the Zakat, Tax and Customs Authority.

## 1.5. ZATCA's Responsibilities

The Statute of ZATCA defines the tasks of ZATCA in Article (3) thereof, and it includes the following:

1. Collecting Zakat, taxes, and customs fees from Zakat payers according to the relevant laws, regulations, and instructions.
2. Providing high quality services to the Zakat payers and help them meet their obligations.
3. Follow up with the Zakat payers, and take the required procedures to ensure collection of dues
4. Raising awareness amongst Zakat payers, strengthen their voluntary commitment and ensure their commitment to the instructions and controls issued by ZATCA under its mandates.
5. Leveraging modern technology in implementing, monitoring and facilitating ZATCA's operation, while 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 in the customs port facilities, in coordination with the relevant authorities.
8. Setting criteria for monitoring performance indicators for ZATCA's operations and plans, ensuring the enhancement of its performance and services. ZATCA may coordinate in this regard with whomever it deems relevant within its competencies.



9. Cooperating and exchanging experiences with regional and international bodies and organizations, as well as specialized institutions within and outside the Kingdom, within the limits of ZATCA's competencies.
10. Representing the Kingdom in regional and international organizations, bodies, forums and conferences related to ZATCA's competencies.

### **1.6. About the Guidelines for the Zakatpayers for whom a decision has been issued by the ZATCA exempting them from Zakat collection.**

This Guideline provides guidelines and basic information on the Zakatpayers not subject to Zakat as decided by the ZATCA. This Guideline shall assist in creating a clear vision and provide guidance regarding the procedures, controls, and conditions in respect with the Zakatpayers not subject to Zakat as decided by the ZATCA in accordance with the ministerial resolutions issued in this regard. This Guideline further provides practical applications and examples explaining and interpreting the mentioned ministerial resolutions as well as rules issued in this regard.

This Guideline represents the concept of the ZATCA and its interpretation regarding the application of Zakat implementing regulations issued pursuant to the Ministerial Resolution (MR) No. (2216) dated 7 Rajab 1440H, as well as MR No. 57732 dated 3 Dhu al-Qi'dah 1443H. It also includes the rules for the exemption of the Zakat payer - endowment-owned (Waqf)- from Zakat collection, as stipulated by MR No. (37981) dated 9 Jumada al-Tahni 1444H and Rules of not to subjection of non-governmental associations, institutions, and training unites to Zakat, in accordance with MR no. (61600) dated 14/10/1444H.

In order to obtain guidance on any special transaction, please visit ZATCA's official website ([ZATCA.gov.sa](http://ZATCA.gov.sa)), which offers a wide range of tools and information that have been developed specifically to assist the Zakat payer, including visual guidance materials, all relevant data, as well as answers to the most FAQs.



## 2. Zakatpayers for whom a decision has been issued by the ZATCA exempting them from Zakat collection.

### 2.1. Introduction to the Zakatpayers for whom a decision has been issued by the ZATCA exempting them from Zakat collection

This Guideline addresses the recently issued rules of the ZATCA and approved by ministerial resolutions in respect to the taxpayers and other parties for whom a decision has been issued by the ZATCA exempting them from Zakat collection including:

1. Companies wholly owned by the State
2. Zakatpayer completely owned by a Waqf (endowment)
3. Associations, institutions, and training unites; and
4. Zakatpayer completely owned by the mentioned parties

### 2.2. Definitions and related terms

The following terms and phrases referred to in this guideline shall have the meanings provided next to each of them, unless the context indicates otherwise. Any amendment made to the regulations and laws that relate to these definitions shall result in a corresponding change in the meanings of this guideline

**ZATCA:** The Zakat, Tax and Customs Authority.

**Regulations:** The Zakat implementing regulations issued by Ministerial Resolution No. (2216) dated 7th Rajab 1440H and any amendments thereto.

**Kingdom:** The Kingdom of Saudi Arabia.

**Zakatpayer:** A natural or legal person who carries out an activity that is subject to Zakat in accordance with the provisions of Article 2 of the Regulations, whether it is a sole proprietorship or a company, or who carries out the activity under a license issued by a competent authority in the Kingdom.





**Zakat declaration:** A form prepared by ZATCA that includes several elements and items, and it must be filled out and submitted by every Zakat payer. The purpose of the declaration and its submission is to disclose the amount of Zakat base and the Zakat due from the Zakatpayers.

**Public Waqf (endowment):** An endowment that is established for public charity purposes in particular or in general.

**Private (family) Waqf (endowment):** The endowment that is conditional upon certain individuals from the specific lineage and relatives, either by name or description.

**Joint Waqf (endowment):** An endowment that shares the conditions of more than one type of endowment.

**Endower:** A person who establishes the endowment.

**Endower's Condition:** Conditions set by the endower with respect to the endowment, its revenue, disbursement, trustee, or beneficiary.

**Beneficiary:** A beneficiary of the endowment in accordance with Endower's conditions.

**Disbursement to a specific person:** All disbursements made to the Endower, his posterity, any specific person described other than the public charity descriptions or parties related to the Waqf (endowment).

**Trusteeship:** Actions taken to serve the interest of an endowment and its revenue by means of maintaining, leasing, developing, and repairing the endowment, and legally representing it as well as disbursing its yields in accordance with the Endower's conditions.

**Trustee:** A natural or legal person in charge of an endowment.

**General Authority of Awqaf:** A General Authority that is a legal person with financial and administrative independence, linked to the Prime Minister. It engages in tasks and specialties that are entrusted by the Law of the General Authority of Awqaf. Its headquarters is located in the City of Riyadh, and it may establish branches in the Kingdom if required.



**Non-Governmental Associations:** Each group that has a continuous organization for a finite or indefinite period, composed of persons of natural, legal capacity, or both, and is essentially non-profitable - it does not have owners who possess the realized surplus, and if its period expires, the frozen surplus is distributed to them - that aims to achieve one of the purposes of charity and solidarity.

**Non-Governmental Institutions:** Any entity, whether for a specified or unspecified period, established by one or more individuals with natural or legal capacity, or both together, non-profit oriented - having no owners entitled to its generated surplus., When its duration ends, the frozen surplus is distributed among them - all with the aim of achieving the purposes of public or private interest.

**Training Unites:** Entities with a legal personality whose main purpose is to provide a service in the field of technical and vocational training inside the Kingdom without aiming to achieve financial profit - it does not have owners who possess the realized surplus, and if its period expires, the frozen surplus is distributed to them - Its establishment and growth depend on continuous self-financing, and it may accept gifts but may not collect donations.



## 2.3. Companies wholly owned by the State

### 2.3.1. Introduction to the Ministerial Resolution regarding the inclusion of state-owned companies under Zakat collection.

The Ministerial Resolution No. (57732) was issued on 3 Dhu al-Qi'dah 1443H, which includes all provisions and controls related to the subsection of companies wholly owned by the Kingdom to the Zakat levy.

The Ministerial Resolution specified the general rule that imposes Zakat on companies wholly owned by the Kingdom pursuant to the provisions of the Regulation. In return, the decision made exceptions as the mentioned companies are not subject to the collection of Zakat based on conditions and controls set therein.

The decision also indicates the additional requirements that these companies must adhere to in order to confirm their exemption from Zakat collection..

It's worth noting that the Ministerial Resolution applies to financial years beginning on or after January 1, 2023, without any exceptions for retroactive application of the decision.

### 2.3.2. Companies completely owned by the State and subject to Zakat

As a general rule, wholly Kingdom-owned companies are subject to zakat in accordance with the Regulations when the following are met:

- **Possession of a commercial registration by the Company.**

I.e.: The company is incorporated in the Kingdom under a documented Memorandum of Association and carries out a licensed activity under a commercial register issued by the Ministry of Commerce in the Kingdom, and it is subject to the laws and regulations applicable to other companies in the Kingdom unless otherwise stipulated.

- **The actual activity of the Company can be attributable to the private sector**

I.e.: the activity of the company as per the articles of association of the company, the memorandum of association, or any other legal document that could be attributed to another company in the private sector..



That is, any other company that is not owned by the Kingdom and operates in the private sector can practice the same activity pursuant to an official license issued by the Ministry of Commerce in the Kingdom.

Thus, for the sake of clarity, business activities can be divided for the purposes of this paragraph into two parts:

Business activity that can be attributed in the private sector	Business activity that cannot be attributed to the private sector
Activities that are registered with the Ministry of Commerce. Any person, whether the company owned by the Kingdom or operating in the private sector, may apply to issue a license to practice such activities.	Activities that the Kingdom applies to practice it by means of establishing a wholly owned company for this purpose, taking into account that other private sector companies - not owned by the Kingdom - cannot apply and obtain a license to practice such activities.
<b>Result</b>	
As such, for the purposes of implementing the resolution, such companies are considered subject to the provisions of the Regulation unless the exceptions mentioned in the Resolution - Second Item are met.	As such, such companies fall outside the scope of competition of the private sector, and they are entitled to apply for obtaining the ZATCA's approval not to be subject to Zakat levy in accordance with the Regulation.

### Example

Company (X) is a company wholly owned by the Kingdom and has a commercial register in line with the commercial regulations issued by the Ministry of Commerce and other related regulations in the Kingdom.

By referring to the Company's Memorandum of Association and Articles of Association, the nature of the company's licensed activity can be assigned to the private sector.

**Required:** Determine whether Company (X) is subject to Zakat or not

**Answer:** Company (X) wholly owned by the Kingdom is subject to Zakat, as Company X carries out a business activity that can be attributed to the private sector.



### **Example**

Company (X) is a company wholly owned by the Kingdom and has a commercial register in line with the commercial regulations issued by the Ministry of Commerce and other related regulations in the Kingdom.

By referring to the Company's Memorandum of Association and Articles of Association, the nature of the company's licensed activity cannot be attributed to the private sector.

**Required:** Determine whether Company (X) is subject to Zakat or not

**Answer:** Company (X) wholly owned by the Kingdom is (not) subject to Zakat, as Company X carries out a business activity that cannot be attributed to the private sector.

### **2.3.3. Exemptions from being subject to Zakat for a wholly state-owned company carrying out commercial activities subject to Zakat**

In accordance with Ministerial Resolution No. (57732) dated 3 Dhu al-Qi'dah 1443, Section (2.3.2) determines the exemptions from Zakat for: Companies wholly owned by the State for the financial year in which they fulfill any of the following conditions:

#### **1. All investments of the State-owned company must be outside the Kingdom.**

i.e.: the main purpose of establishing the company must be to invest in entities and activities outside the borders of the Kingdom of Saudi Arabia, without having any investments within it, whether directly or indirectly..

The definition of investments outside the Kingdom for the purposes of the Resolution: investments that are represented in owning shares in equity rights attributable to foreign companies, including investment funds established outside the Kingdom.

It also includes other forms of investments made in financial instruments, such as debt instruments, bonds, and sukuk in various types, regardless of their maturity date or the issuer of such instruments.



### **Example**

Company (X) is a company wholly owned by the State.

The company carries out licensed business activity and has a regular commercial register issued by the Ministry of Commerce. The main activity of the company is investment in its various forms. The Company's policy is based on investing in other companies and entities outside the Kingdom only and having no direct investments inside the Kingdom.

**Required:** Determine whether Company (X) is subject to Zakat collection in accordance with the Ministerial Resolution, noting that the Company's activity can be attributed to the private sector as an investment activity.

**Answer:** Company (X) is a wholly Kingdom-owned company and has a commercial register and its activity can be executed in the private sector. However, it is concluded that all investments of Company (X) are investments made outside the Kingdom of Saudi Arabia. Thus, the exception stated in Ministerial Resolution No. (57732) applies to Company (X) related to the subjection of Zakat, accordingly, Company (X) is not subject to Zakat.

### **Example**

Company (X) is a company wholly owned by the Kingdom.

The company carries out licensed business activity and has a regular commercial register issued by the Ministry of Commerce. The main activity of the company is investment in its various forms. At the end of the financial year, the financial statements and notes attached to the audited financial statements showed the following:



Assets	Saudi Riyals	Note
Cash and equivalent	One million	-
Investments at fair value through other comprehensive income	(50) millions	(50) million represented in investments in shares of listed and unlisted companies outside the Kingdom of Saudi Arabia Saudi Arabia.
Investments at amortized cost	4 million	Represented in investments made in debt instruments and sukuk issued by companies and governments inside and outside The kingdom.
Total assets	(55) million	

**Required:** Determine whether Company (X) is subject to Zakat collection in accordance with the Ministerial Resolution

**Answer:** The exemption stated in Ministerial Resolution No. (57732) does not apply to Company (X), though it is a company wholly owned by the Kingdom and has a commercial registry, given that the Company has other investments represented in sukuk and bonds inside the Kingdom.

Accordingly, Company (X) shall prepare the Zakat declaration including the Zakat computation as per the Regulations, and submit it to the ZATCA within the statutory dates.



**Example:** Company (X) is a company wholly owned by the Kingdom.

The Company is engaged in a licensed commercial activity and has a regular commercial register issued by the Ministry of Commerce. The main activities of the company are to invest its capital and re-invest the profits from such investment.

At the end of the financial year, the financial statements and notes attached to the audited financial statements showed the following:

Assets	Saudi Riyals	Note
Cash and equivalent	(15) million	
Investments at fair value through other comprehensive income	(20) millions	Represented in investments in the shares of companies listed inside and outside the Kingdom.
Total assets	(35) million	

**Required:** Determine whether Company (X) is subject to Zakat collection in accordance with the Ministerial Resolution

**Answer:** The exemption mentioned in the Ministerial Resolution does not apply to Company (X), although it is wholly owned by the Kingdom, given that part of its investments is made in companies inside the Kingdom. Therefore, this Company is subject to Zakat collection according to the Regulations.

Thus, Company X shall submit a zakat declaration, compute and pay Zakat in accordance with Article 17 of the Regulation.





## **2. The Company's budget be funded from the state treasury**

This refers to: That this state-owned company or/and the results of its operations are included in the annual general budget of the Kingdom of Saudi Arabia that reports the annual revenues and expenditures of the Kingdom, aggregated for all government entities and agencies across its various operational sectors and overseeing them..

In the event that the above conditions are met, the rest of the conditions shall be collectively met as follows:

- **The nature of the Company's business is service-oriented**

The principle stipulates that the licensed activity of the Company should not include any activity other than service-oriented activities, such as importing or buying and selling goods, and other similar other activities that are not inherently considered as services according to the list of economic activities approved by the Ministry of Commerce in the Kingdom.

However, this condition does not violate the cases in which the company may perform a non-service activity, provided that this activity shall not dominate company's main nature of work as it performs the service activity licensed by official entities in the Kingdom.

- **Company's purpose is to support government entities in performing their businesses**

I.e.: The main purpose of establishing the company by the state is designate it exclusively for providing any type of support to other state's bodies of ministries, authorities, and other government entities.

- **Most of its clients are government entities**

It is meant that the beneficiaries or the intended recipients of the service are mostly government entities in the country.. Thus, the purpose of establishing this company should be to support the government sector. This is without having its main objectives to serve customers from private sector or individuals within the context of its economic activity, which in this case, aims to generate commercial profit.



- **Its purpose is not generating commercial profit**

i.e.: The commercial nature of this company's activity should not predominantly aim at competing in the market and achieving profit., Rather, its focus should be on providing support to government entities and other state institutions to assist them in performing their tasks and achieving their goals.. This is even if the surplus is achieved as a result of engaging in these activities.

- **Company's sales to private sector shall not be more than 10% of total sales**

As an exception of the aforesaid, in the event the company provides services to the private sector, sales to the private sector shall not be more than 10% of its total sales. Total sales is total revenues generated from sales as a result of implementing contracts or purchase orders before the deduction of disallowance of any costs or expenses related to these services excluding value added tax.

**Example:**

Company (X) is wholly owned by the state; It has a Commercial Registration also its budget is financed by state's treasury. Company (X) engaged in the field of information security (a service activity) it provides all its services to ministries, government departments, and other state's bodies in the Kingdom. It can also provide its services to private sector in certain exceptional cases.

At the end of the financial year, company's total sales are amounting to SR 100 million, classified as below:

Classification as per sector	Saudi Riyal
Sales to the public sector	95 million
Sales to the private sector	5 million

**Required:** Determine whether the company (X) meets the conditions of exception stated in the decision for the purpose of subjecting to Zakat collection or not.

**Answer:** considering the above inputs, meeting exception conditions stated in the Ministerial Resolution shall be analyzed as follows:



Condition	Applicable/ not applicable	Clarification
1. Company's budget shall be funded from the state treasury	Applicable	The company is within state's budget.
2. Company's establishment purpose is to support government entities in performing their businesses.	Applicable	It can be understood from the example that the purpose of establishing the company is to support the govt sector in the field of information security.
3. Company's work nature shall be service-rendering	Applicable	Information security is a service activity.
4. Its purpose shall not be generating commercial profit.	Applicable	The main purpose is to support government entities with certain exceptions
5. Most of its clients are government entities	Applicable	Provide its services to ministries, government department and other state's bodies.
6. Its sales to private sector shall not exceed 10% of total sales	Applicable	Upon analyzing the inputs, private sectors sales represent 5% of total sales which is lower than the percentage stated in the Ministerial Resolution.

Therefore, the exception stated in the Ministerial Resolution is applicable to the company; accordingly, the company is not subject to Zakat collection as per the Regulations.



**Example:** company (X) is wholly owned by the state. It has a Commercial Registration, also its budget is funded from the state's treasury. The company (X) operates in the field of organizing the transportation inside the Kingdom (a service activity). The company exclusively affiliates with the Ministry of Transport and owned by it.

Company's revenues are generating from transport services revenues collected from individuals inside the Kingdom as the company is the operator of land transport lines inside the Kingdom.

**Required:** determine whether the company (X) meets the conditions of exception stated in the decision for the purpose of subjection or non-subjection it to Zakat or not.

**Answer:** considering the above, meeting exception conditions stated in the Ministerial Resolution shall be analyzed as follows:

Condition	Applicable/ not applicable	Clarification
1. Company's budget shall be financed by state's treasury	Applicable	The company is within state's budget.
2. Company's establishment purpose is to support government entities in performing their businesses.	Not Applicable	It can be understood from the example that the purpose of company's establishment is to organize the transport inside the Kingdom.
3. Company's work nature is service-oriented.	Applicable	Transport organizing is a service activity.
4. Its purpose shall not be to generate commercial profit.	Not Applicable	The main purpose is commercial
5. Most of its clients are government entities	Not Applicable	The company operates transport lines inside the Kingdom and provides its services to individuals.
6. Its sales to private sector shall not exceed 10% of total sales	Not Applicable	Most of its sales are for providing its services to individuals.



Therefore, the exception stated in the Ministerial Resolution is not applicable to the company. Accordingly, the company is subject to Zakat as per the Regulations.

#### **2.3.4. Procedures of requesting exemption from zakat from ZATCA by the companies wholly owned by the state that are not subject to Zakat.**

Ministerial Resolution in item three stipulated that the mechanism and conditions of submitting request for exemption from Zakat for companies owned by the state. These can be summarized and clarified from procedural matter as per the current practice with the ZATCA as follows:

1. Submit the annual declaration and in case of approval for exemption, an information statement is issued. Those to which exceptions stated in the Ministerial Resolution, among the fully state-owned companies, must submit the Zakat declaration as per the form adopted by the ZATCA and its attachments in Arabic along with the audited financial statements and/or any reports specified by ZATCA before the end of 120 days from the end of the company's financial year.
2. Fill out the request for exemption from Zakat collection and submit it to ZATCA along with the submitted declaration and other documents. After submitting the Zakat declaration by the company, it shall contact ZATCA regarding the request for exemption from Zakat via official communication channels after filling the request according to the form prepared by ZATCA (as clarified below) attaching the following document to the minimum:
  - A copy of the declaration submitted on ZATCA's website with acknowledgement attached.
  - Audited financial statements and/or any other audited reports ZATCA may request.
  - A valid Commercial Registration
  - Articles of Association and any subsequent amendments to it.
  - Any other data ZATCA may request to determine the possibility of accepting not subject to Zakat collection request.



3. ZATCA studies the request; and in case of approval, it notifies the company via official communication channels.

In the event ZATCA approves company's request, it shall be notified and requested to resubmit the declaration to ZATCA's website on a form of information declaration to which the audited financial statements of the Zakat payer are attached. In the event the request is rejected, Zakat payer is required to pay the due Zakat as per the previously submitted Zakat declaration.

### **2.3.5. Other considerations and legal requirements**

If the company owned by a government entity owns more than other company completely, each subsidiary shall submit a request for exemption from zakat to ZATCA independently. Thus, the said companies on which exceptions of subjecting to Zakat are applicable as per the Ministerial Resolution cannot submit a unified request for exemption from zakat.

### **Appendix: FAQs of subjecting the companies wholly owned by the state to Zakat.**

#### **1. When shall the companies completely owned by the state be subject to Zakat?**

The companies completely owned by the state are subject to Zakat upon meeting the following controls:

- A company has a Commercial Registration
- Company's business can be attributed to the private sector.

Further, there are certain exceptions as stated in the Ministerial Resolution issued in this regard.

#### **2. What are the exceptions for not being subject the companies completely owned by the state to the Zakat collection?**

Companies completely owned by the state are exempt from Zakat collection for the financial year in which any of the following controls occurs:

- All investments of company owned by the state are outside the kingdom.



- Company's budget is financed from state's treasury and in which the following conditions are met:
  - a. Company's business nature is service-rendering.
  - b. Company's purpose is to support government entities in performing their businesses
  - c. Most of company's clients are government entities
  - d. Its purpose is not to generate commercial profit
  - e. Company's sales to private sector shall not exceed 10% of total sales.

**3. As for companies completely owned by the state that fully invest outside the Kingdom, what are the types of investments mentioned in the Ministerial Resolution and the rules for the purposes of applying the exception stated in the resolution?**

For the purposes of applying the exception stated in the resolution, investments mean all types of investments that may take the form of investments in other companies' equity or other financial instruments such as deeds, bonds, investment funds units and other forms and types of investment.

**4. What are the financial years to which the Ministerial Resolution is applicable regarding subjecting the companies completely owned by the state to Zakat?**

This resolution applies to the financial years starting on or after January 1, 2023.

**5. Is the partially state-owned taxpayer entitled to apply for approval not to be subject to Zakat collection according to Ministerial Resolution No. (57732)?**

The said resolution requires that the company shall be completely owned by the state and one of the exceptions mentioned in the resolution is applied to it. Therefore, the said Zakat payer is not entitled to request an approval of not subject to Zakat collection; it shall also calculate the Zakat and settle it for the share owned by the state and the remaining shares in the event they are subject to Zakat as per the Regulations.



## 2.4. Second: Zakat payer owned by Waqf (endowment)

### 2.4.1. Introduction to the rules for the exemption of the Zakat payer owned by Waqf (endowment) from Zakat collection

ZATCA has issued rules of not subjecting the Zakat payer, owned by Waqf (endowment), to Zakat. These rules are approved pursuant to Ministerial Resolution No. 37981 dated 9 Jumada Althani 1444H including determining all provisions and controls related to not subjecting the Zakat payer completely owned by Waqf (endowment), to Zakat.

ZATCA showed that the rules are applied to the Zakat payer subject to Zakat collection pursuant to Zakat Implementing Regulations, that is completely owned in a direct or indirect manner by one or more Waqf (endowment), provided that the Waqf (endowment) shall be establish in the Kingdom and registered using legal methods, also standards stated in the rules shall be met.

The Ministerial Resolution stated that rules is applicable to years starting on or after January 1, 2023.

This section considers explaining and clarifying the conditions and controls of not subjecting the Zakat payers included by the resolution to Zakat collection.

### 2.4.2. About Waqf (endowment)

Waqf (endowment) is the entity under the supervision of Waqf (endowment) trustee under the control of The General Authority for Awqaf in the Kingdom, taking into consideration the provisions stated in the law of General Authority of Awqaf issued by Royal Decree No. (M/11) dated 26 Safar 1437AH and related laws applicable in the Kingdom of Saudi Arabia.

Waqf (endowment) types

According to Article 1 of the Law of General Authority of Awqaf, Waqf (endowment) has three types:

1. **Public Waqf (endowment):** Waqf that is dedicated to specific general charitable purposes or descriptions, such as endowments for the times of Hajj and Umrah..
2. **Private Waqf (endowment) - familial:** Waqf (endowment) intended for designated or specific descendants and relatives, either in particular or as described, e.g., Waqf (endowment) disbursement are limited to descendants and relatives.





3. **Joint Waqf (endowment):** Waqf (endowment) which combines more than one type of Waqf (endowment), e.g., Waqf (endowment) that includes general charity and disbursements to a specific person.

### 2.4.3. Guidelines and conditions for aligning with the rules of exemption from Zakat collection for taxpayers owned entirely by an endowment (Waqf)

The provisions of Article 2 of the rules referred to the following conditions for the exemption of zakatpayer owned by an endowment (Waqf) from Zakat, which can be detailed as follows:

**First:** Zakat payer shall be completely owned by Waqf (endowment) whether in a direct or indirect manner.

The term “Zakatpayer” refers to what is mentioned in Article 2 of the Regulations.

However, for the purposes of applying the rules regarding the exemption of the zakatpayer owned by the endowment (Waqf) from Zakat collection, the term «zakatpayer» refers to anyone who engages in an activity subject to Zakat under a license issued by the competent authorities in the Kingdom, regardless of its legal form.

Accordingly, for rules purposes, the said Zakat payer shall be completely owned whether directly or indirectly by one Waqf (endowment) or more, it shall not be owned of any percentage by other entities or Zakat payers other than the Waqf (endowments) registered and certified with legal methods in the Kingdom.

Thus, the Resolution is not applicable to Zakat payers not completely owned by Waqf (endowment) in a direct or indirect manner.

**Example:** Below are cases for Zakat payers directly or indirectly owned by Waqf (endowment).

1. Zakat payer (X) is completely owned by Waqf (endowment) - direct ownership
2. Zakat payer (X) is 60% owned by Waqf (endowment) (Y) and the remaining is owned by Waqf (endowment) (Z).
3. Zakat payer (X) is 90% owned by Waqf (endowment) (Y) and the remaining is owned by another Zakat payer (Z), noting that Zakat payer (Z) is fully owned by natural persons.
4. Zakat payer (X) is 40% owned by Waqf (endowment) (Y) and the remaining is owned by another Zakat payer (Z), nothing that Zakat payer (Z) is fully owned by Waqf (endowment) (D).



**Required:** Determine the meeting of the condition of the total ownership of Zakat payer (X) to the Waqf (endowment/s), noting that all mentioned Waqf (endowments) are legally registered and certified in the Kingdom.

**Answer:**

Case	Condition meeting
1. Zakat payer (X) is completely owned by Waqf (endowment) - direct ownership	Met
2. Zakat payer (X) is 60% owned by Waqf (endowment) (Y) and the remaining is owned by Waqf (endowment) (Z).	Met
3. Zakat payer (X) is 90% owned by Waqf (endowment) (Y) and the remaining is owned by another Zakat payer (Z), noting that Zakat payer (Z) is fully owned by natural persons.	Not met
4. Zakat payer (X) is 40% owned by Waqf (endowment) (Y) and the remaining is owned by another Zakat payer (Z), noting that Zakat payer (Z) is fully owned by Waqf (endowment) (D).	Met

**Second: Waqf (endowment) shall be established and registered with legal methods in the Kingdom**

As a complement to what was stated in the first condition, Zakat payer shall prove and submit supporting documents to ZATCA that it is completely owned by one Waqf (endowment) or more, provided that these Waqf (endowments) shall be established in the Kingdom and as per its laws, certified, subjected to applicable laws in the Kingdom, and under the supervision of the General Authority of Awqaf mentioned in this guideline.

This requires obtaining Waqf (endowment) deed issued by Ministry of Justice in the Kingdom and Waqf (endowment) registration certificate issued by the General Authority of Awqaf.



**Third: Proving that Waqf disbursement are directed towards general charity not for disbursement to a specific person or mutual disbursement taking into consideration other criteria stated in the rules**

According to the provisions of Article 2 paragraph (2) stipulating that Zakat payer owned by Waqf (endowment) shall not be subject to Zakat collection provided that Waqf (endowment) document states that all Waqf disbursements are for general charity and not disbursement to a specific person or if there is a disbursement to a specific person stipulated, it should not exceed 10% of total revenues (Waqf (endowment)), while considering the following:

- A. Disbursement to a specific person includes everything disbursed to the endower, their descendants, any certain person, a person does not belong to public charity categories or entities related to the Waqf (endowment).
- B. Waqf (endowment) yield includes all Waqf (endowment) annual revenues including assets revenues, income and profits of investments, companies, donations -etc.
- C. In the event more than one Waqf (endowment) own the Zakat payer, calculating the percentage of disbursement to a specific person shall be proportionately between these Waqf (endowments).
- D. The evidence in determining the percentage of disbursement to a specific person in the event Waqf (endowment) document mentioned the disbursement to a specific person, shall be through the audited financial reports of the Waqf (endowment) mainly represented in the audited financial statements issued by a licensed chartered accountant or a report from a licensed chartered accountant in the Kingdom.



### **Report Template from a chartered accountant:**

A conclusion regarding spending percentage on a specific item by Waqf (endowment/s): associations - non-governmental institutions - entities completely owned by an association or institution - training unites as per the organizations of establishing non-profit training unites in the professional and technical training field \*\*\*\*\*

### **The scope**

We have been appointed by ..... (Waqf (endowment)/s) to implement an engagement represented in the verification of disbursement to a specific person by the Waqf (endowment) on December 31, \*\* as shown in the table attached in Appendix (1).

This engagement was prepared pursuant to the management's confirmation that information and data shown in the table submitted by Waqf (endowment) management advising that the annual spending on a specific item by the Waqf (endowment) does not exceed 10% of total Waqf (endowment) revenues. As for the (subject), it is clarified in the table.

Contrary to the explained in the previous paragraph which outlines our engagement scope, we did not make any procedures regarding the remaining information included in the table. Therefore, we do not provide any conclusion regarding this information.

### **Controls applied by the company**

Upon preparing the subject, Waqf (endowment/s) has applied the following controls ("controls"). These controls have been specially prepared for the table, as a result the information mentioned in the subject may not be suitable for another purpose, based on the following:

- According to Article 2 (5) item B of Zakat Implementing Regulations issued by the Ministerial Resolution No. 2216 dated 7 Rajab 1440 AH ("Regulations").
- Also, Article 2 paragraph (2) of the Rules of Endowment-owned Zakat Payer Not Subject to Zakat Collection that is approved by the Ministerial Resolution No. 37981 dated 9 Jumada Althani 1444AH.
- Waqf (endowment/s) accounting books and records for the year ended in 31 December XX .



### **Management responsibilities**

Waqf (endowment/s) administration is responsible for selecting and determining the controls according to which the Waqf (endowment/s) is established of all material aspects.

This responsibility includes applying and considering internal control systems, maintaining sufficient records, and making estimates related to preparing the subject, thus it shall be free of any material alteration arisen from a fraud or mistake.

### **Our responsibility**

Our responsibility is limited to estimating a limited confirmation conclusion about the above subject based on the evidence with us.

This engagement has been prepared according to the conditions of reference of this engagement as agreed with the Waqf (endowment/s) in .....

### **Description of Implemented Procedures**

Our procedures have been designed according to the evidence to provide a basis for making our conclusion.

Our engagement was not designed to submit a conclusion regarding internal control regulations. Therefore, our procedures did not include monitoring test or implementing the procedures related to verifying the collection or calculating of data inside information technology systems. Our procedures include a basis of directing inquires mainly to individuals responsible for preparing the subject, related information and applying the analytical procedures and other suitable procedures.

Our procedures include but not limited to the following:

- 1.** Comparing the table with Waqf (endowment) accounting books and records for the year ended on 31 December XX.
- 2.** Implementing the analytical procedures as per the table to determine the important aspects.
- 3.** Comparing the expenditure on the specified purpose for the endowment with the books and accounting records.
- 4.** Comparing the expenditure on the specified purpose for the Waqf (endowment) with accounting books and records with total expenditure for the year ended on 31 December XX.



### **Conclusion**

Based on our procedures and evidence we have obtained, we were unaware of any material amendments that need be made to the subject matter as of 31 December XX in order to comply with the standards.

### **Another issue**

The table attached in Appendix 1 has been sealed by us for identification purposes.

### **Usage restrictions**

The purpose of this report is solely to meet the legal requirements for not subjecting the Waqf (endowment/s) before ZATCA, it is not intended to fulfill any requirements for any other entity.

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### **Chartered accountant**

### **License number**

### **Riyadh**



### **Example**

Waqf (endowment) (X) is established in the Kingdom of Saudi Arabia and legally certified according to the laws applicable in the Kingdom.

Waqf (endowment) document stipulates that all Waqf expenditures are directed towards public welfare purposes..

Waqf (endowment) completely owns company (Y) which is a company practicing a commercial activity and licensed according to the laws applicable at Ministry of Commerce in the Kingdom.

**Required:** Show the conformity of not subjecting to Zakat rules on company (Y).

**Answer:** Zakat payer, company (Y), s entitled to submit a request for exemption from Zakat collection according to the Ministerial Resolution and the mentioned rules based on the following:

- Waqf (endowment) (X) is established in the Kingdom and legally certified as per the laws applicable in the Kingdom.
- Waqf (endowment) (X) completely owns company (Y).
- Waqf (endowment) (X) document stipulates that all Waqf disbursement channels are for general charity.

### **Example**

Waqf (endowment) (X) is established and legally certified according to the laws applicable in the Kingdom. Waqf (endowment) (X) document stipulates the specific expenditure, and it has been verified through the audited financial reports of the Waqf (endowment) that 4% of Waqf disbursement are allocated to descendants, while the remaining disbursements are allocated to public charity.

Waqf (endowment) (X) completely owns the Zakat payer (Y) which is a company practicing a commercial activity and licensed as per the laws applicable at the Ministry of Commerce in the Kingdom. Waqf (endowment) yield includes company Y's profits and revenues.



**Required:** Show the conformity of not subjecting to Zakat collection rules on company (Y).

**Answer:** According to the above inputs, company (Y) can submit a request for not subject to Zakat collection according to the rules for the following reasons:

- Waqf (endowment) (X) is established in the Kingdom and legally certified according to the laws applicable in the Kingdom.
- Waqf (endowment) (X) completely owns the company (Y).
- It is evident from Waqf (endowment) (X) accounts and financial reports that the percentage of disbursement to a specific person is 4% of total Waqf (endowment) yield which is lower than the percentage stated in the rules.

### **Example**

Waqf (endowment) (X) is established in the Kingdom of Saudi Arabia and legally certified as per the laws applicable in the Kingdom. Waqf (endowment) (X) document stipulates the mutual disbursement. According to Waqf (endowment) accounts and financial reports, it is evident that 15% of Waqf (endowment) yield is being spent on descendants while other disbursements are for general charity. The Waqf (endowment) completely owns company (Y) which is a company practicing a commercial activity and licensed as per the laws applicable at Ministry of Commerce in the Kingdom; thus, it is a Zakat payer according to the provisions of the Regulations.

**Required:** Show the conformity of not subjecting to Zakat collection rules on company (Y).

**Answer:** According to the above inputs, company (Y) cannot submit a request for not subject to Zakat collection as the percentage of disbursement to a specific person is higher than the percentage stated in the rules (10%) regardless the meeting of the remaining conditions.





### Example

Waqf (endowment) (X) and Waqf (endowment) (Y) are endowments established in the Kingdom of Saudi Arabia and legally certified as per the laws applicable in the Kingdom. Waqf (endowments) document stipulates the mutual disbursement (general charity and other disbursement to a specific person).

At the end of the financial year, based on Waqf (endowment) accounts and financial reports, disbursement aspects of Waqf (endowments) have been analyzed as follows:

Disbursement aspects	Waqf (endowment) (X)	Waqf (endowment) (Y)
General charity	80% of Waqf (endowment) income	95% of Waqf (endowment) income
Disbursement to a specific category	20%	5%
Total Waqf (endowment) income at the end of the year	20 million	50 million

Waqf (endowment) (X) and Waqf (endowment) (Y) completely own company (Z) which is a company practicing a commercial activity and licensed as per the laws applicable at Ministry of Commerce in the Kingdom. Waqf (endowment) (X) and Waqf (endowment) (Y) completely own the company (Z) at a percentage of 30% and 70% respectively.

**Required:** Show the conformity of not subjecting to Zakat collection rules on company (Z).

**Answer:** According to the above inputs, the mentioned Waqf (endowments) are established and legally certified in the Kingdom; also both Waqf (endowments) share the complete ownership of the company (Z).



However, it is also necessary to determine the meeting of the additional condition to decide the extent of company (Z) subjection to the rules to not subject to Zakat collection. This can be made through determining the percentage of disbursement to a specific person proportionately between Waqf (endowments) (X) and (Y) as follows:

Calculating the percentage of disbursement to a specific item proportionately between Waqf (endowments) (X) and (Y)

= (ownership of the Waqf (endowment) (X) in the company (Z) \* the percentage of disbursement on a specific category) + (ownership of the Waqf (endowment) (Y) in the company (Z) \* the percentage of disbursement to a specific category)

$$(30\% * 20\%) + (70\% * 5\%)$$

$$= 6\% + 3.5\%$$

$$= 9.5\% \text{ the percentage of disbursement to a specific category}$$

Therefore, taking into consideration that the percentage of disbursement to a specific person is less than the percentage stated in the rules (10%), company (Z) meets the controls of non-subjection to Zakat collection according to the rules.



#### **2.4.4. Procedures of request for non-subjection to Zakat to ZATCA by the Zakat payer completely owned by Waqf (endowment)**

Article 4 of the Regulations stipulates the method and conditions for applying for exemption from Zakat collection, which can be clarified at the procedural aspect based on the current practices adopted by the Authority, as follows::

**1.** Submitting the Zakat annual declaration, in the event the approval is issued for not subjection, an information declaration is issued to which audited financial statements of the Zakat payer are attached. According to the provisions of Article 17 of the Regulations, Zakat payers on which rules are applicable, shall submit the Zakat declaration as per the form accredited by ZATCA along with its attachments in Arabic and Zakat payer's audited financial statements before the end of 120 days period from Zakat payer's financial year end.

- It should be noted that declaration's attachments shall also include filling Zakat payer's transactions with related parties record through transactions with related parties disclosure form attached to the declaration according to transfer pricing instructions and their subsequent amendments issued by ZATCA's board of directors decision No. 619-1- dated 25 Jumada Aloula 1440H corresponding to January 31, 2019 where transactions with related parties shall be disclosed according to transfer pricing instructions as follows, included but not limited:
  - A. Related party name
  - B. Transaction nature
  - C. Transaction volume
  - D. Transfer pricing method

Noting that what is applicable to other Zakat payers is also applicable to the Zakat payer subject to the rules regarding other transfer pricing requirements stated in the transfer pricing instructions such as local file, master file and other (if applicable).



2. Filling out the request for exemption from Zakat collection (according to the form prepared by ZATCA for this purpose as shown below) and submit it to ZATCA along with the submitted declaration and other supporting documents. Zakat payer shall contact ZATCA via official communication channels to request for exemption from Zakat collection.

- The documents to be submitted with the application, which can be summarized at a minimum as follows:
  - A. A copy of the declaration submitted on ZATCA's website and the receipt notice.
  - B. The zakatpayer's audited financial statements.
  - C. Evidence of the zakatpayer's eligibility for not being subject to Zakat, such as submitting the endowment deed and the endowment registration certificate issued by the General Authority for Awqaf.
  - D. An applicable commercial registration.
  - E. Articles of Association and any subsequent amendments thereto.
  - F. Any other data that ZATCA may require to study the possibility of approving the request not to be subject to Zakat.

3. ZATCA studies the request, and in case it approves the same, ZATCA notifies the zakatpayer through the approved communication channels.

In the event that ZATCA approves the request of the zakatpayer, a letter of exemption from Zakat collection for the requested year will be issued to them. under the request.

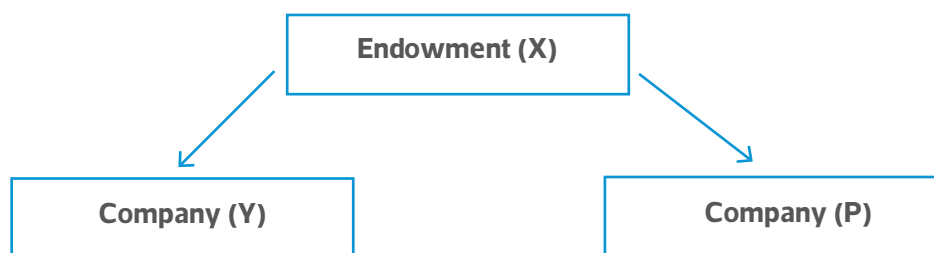
In the event that the request is rejected, the zakatpayer shall be required to pay the Zakat due according to the previously submitted Zakat declaration.



### 2.4.5. Other considerations regarding submitting requests for exemption from Zakat collectio in accordance with the Rules

According to the provisions of Paragraph (4) of Article 4 of the Rules, if the endowment owns more than one zakatpayer, or if the zakatpayer who is owned by the endowment owns completely another zakatpayer, then each zakatpayer must submit a separate request for not to be subject to Zakat.

**Example:** Endowment (X) is established in the Kingdom of Saudi Arabia and is legally documented in accordance with the regulations applicable in the Kingdom. The endowment (X) wholly owns the zakatpayers (Y) and (P), who are two limited liability companies carrying out commercial activities licensed in the Kingdom.



The financial years of the above companies begin on January 1 and end on December 31.

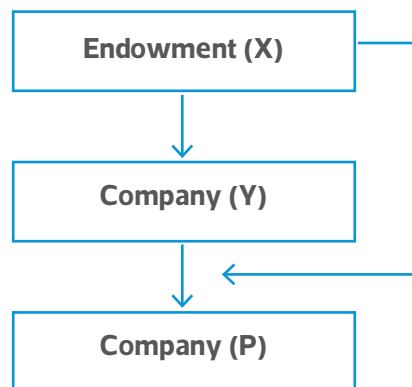
**Required:** Clarification of the mechanism for submitting requests not to be subject to Zakat in accordance with the rules for the financial year ended 31 December 2023 by zakatpayers (Y) and (P)

**Solution:**

- The rules apply to zakatpayers (Y) and (P) given that they are fully owned by the endowment (X) directly.
- However, according to Paragraph (4) of Article 4 of the Rules, each of the companies (Y) and (P) must submit a separate request for not being subject to Zakat. It is not permissible to submit a consolidated application for this.



**Example:** Endowment (X) is established in the Kingdom of Saudi Arabia and is legally documented in accordance with the regulations applicable in the Kingdom. The endowment (X) wholly owns the zakatpayer (Y). Company (Y) also owns 50% of the shares of Company (P), while the remaining ownership belongs to the endowment (X). Companies (Y) and (P) are two limited liability companies that carry out commercial activities licensed in the Kingdom, and the definition of zakatpayer applies to them. According to the Zakat Implementing Regulations.



The financial years of the above companies begin on January 1 and end on December 31.

**Required:** Clarification of the mechanism for submitting requests for not to be subject to Zakat in accordance with the rules for the financial year ended 31 December 2023.

**Solution:** The rules apply to zakatpayers (Y) and (P) given that they are fully owned by the endowment (X), as follows:

- Endowment (X) owns 100% of the shares of Company (Y) directly.
- Endowment (X) owns 100% of the shares of Company (P) with an indirect percentage of (50%) through its full ownership of Company (Y) and the other (50%) directly.

However, according to Paragraph (4) of Article 4 of the Rules, each of the companies (Y) and (P) must apply separately for not being subject to Zakat. It is not permissible to submit a consolidated application for this.



#### 2.4.6. Other statutory considerations and requirements

1. Existing transactions with related entities, the endower, his descendants, the board of supervisors, and other beneficiaries of the endowment or the zakatpayer owned by it shall be subject to what is stated in the Transfer Pricing Bylaws issued by ZATCA's Board of Directors Decision No. (619-1-) dated 25 Jumada Al-Awwal 1440H, and any amendments thereto.
2. The zakatpayer for which a decision was issued not to be subject to Zakat shall be subject to the rest of the provisions included in the Zakat Implementing Regulations and any amendment that may occur thereto. Accordingly, the zakatpayer shall abide by the rest of the provisions included in the regulations, including, but not limited to, registration, provisions relating to maintenance and retention of commercial books, examination, objection and appeal procedures. and other provisions...etc.
3. In the event that ZATCA proves that the zakatpayer provided incorrect information or did not comply with the provisions of these rules, it may cancel the previously issued decision not to be subject to Zakat, and re-assess on the zakatpayer based on the information available to it in accordance with the provisions of the regulations.
4. These rules shall be applied without prejudice to the provisions of AWqaf and related regulations in force in the Kingdom of Saudi Arabia and any amendments thereto.

#### 2.4.7. The effective date of the rules

Ministerial Resolution No. (37981) in Clause Two stipulates that the Rules apply to the financial years beginning on and after 1 January 2023, and it is permissible, based on the request of the zakatpayer, to apply them to the financial years to which the Zakat Implementing Regulations are applicable issued by Ministerial Resolution No. (2216) dated 7 Rajab 1440H, and no final decision was issued by ZATCA to be subject to Zakat.

It should be noted that the aforementioned Zakat Implementing Regulations apply to the financial years beginning on 1 January 2019 and thereafter.



**Example:** Below are the cases of zakatpayers who are wholly owned by endowments established and legally documented in the Kingdom, and the rules of not being subject to zakat issued under the aforementioned ministerial decision apply to them, noting that the zakatpayer submitted its annual declarations and paid the zakat due according to the declarations for previous years until 31 December 2022:

**Case (1):** The zakatpayer (X) submitted a request not to be subject to Zakat in accordance with the resolution and rules for the financial year ending 31 December 2022

**Case (2):** A final zakat assessment was issued for the zakat payer (Y) for the financial years from 1 January 2015 to 31 December 2021, and ZATCA's decision regarding these years became final.

While submitting the zakatpayer's zakat declaration for the year 2022, they submitted a request to ZATCA not to be subject to Zakat in accordance with the decision and rules for the aforementioned years (2015 to 2021) retroactively, in addition to the financial year ended 31 December 2022.

**Case (3):** The zakatpayer (p) is a company that was established on 1 July 2019 and submitted its returns until the year ending on 31 December 2022.

**Required:** Determine the extent to which the rules of not being subject to zakat for the zakatpayers above.

**Solution:**





Case	The extent to which the rules apply	Clarification
<b>Case (1)</b>	Applies	<p>The decision gave the right to apply the rules retroactively, provided that no final decision has been issued by ZATCA regarding the financial year subject to Zakat.</p> <p>Thus, the zakatpayer, being in the process of submitting a declaration for the year 2022, has the right to submit an application not to be subject to Zakat in accordance with the decision and the Rules.</p>
<b>Case (2)</b>	Partially applies	<ul style="list-style-type: none"><li>• Years from 2015 to 2018: it does not apply because these years are not covered by the Regulations, also a final decision by ZATCA was issued in respect of such years.</li><li>• Years 2019 to 2021: not applicable, as in respect of these years, final decisions have already been issued.</li><li>• Financial year 2022: Applicable.</li></ul>
<b>Case (3)</b>	Applies	<p>The years starting from 1 January 2019 and thereafter are the years to which the provisions of the regulations apply.</p> <p>Thus, the zakatpayer has the right to apply not to be subject to Zakat as long as a final decision has not been issued by ZATCA.</p>



## **Appendix: Frequently asked questions about Zakatpayers owned by an endowment not being subject to Zakat**

### **1. To whom the rules for not being subject the zakatpayers owned by an endowment to Zakat apply?**

The rules apply to the zakatpayer who is subject to zakat according to the Regulations, who is wholly owned, directly or indirectly, by one or more endowments, provided that the endowment is established in the Kingdom, documented in statutory means, and fulfills the conditions stipulated in the Rules of not to subject Waqf Owned to Zakat.

### **2. If the endowment wholly owns more than one company wholly, whether directly or indirectly, is it permissible to submit a consolidated application for not being subject to Zakat for all companies, or should the Waqf itself can also act on behalf of these companies to submit a unified request for not being subject to Zakat?**

According to the rules, the company to which the rules for not being subject to Zakat apply must apply separately for not being subject to Zakat and it is not allowed to submit a consolidated application for all Waqf owned companies, even if that ownership is whole.

### **3. What are the controls and conditions for Waqf owned zakatpayers on not being subject to Zakat?**

The Waqf owned zakatpayer which is documented through statutory means and is wholly established in the Kingdom is not subject to Zakat, if the Waqf document stipulates that all Waqf expenditures are for general charitable purposes, and there is no spending on a certain person, or on a certain person not exceeding (10%) of the Waqf yield, taking into account the other controls mentioned in the Rules in this regard.

### **4. What are the financial years to which the decision applies?**

This decision applies to the financial years beginning on or after 1 January 2023, and, based on the zakatpayer's request, it may be applied to the financial years to which the Zakat Implementing Regulations, issued by Ministerial Resolution No. (2216) dated 7 Rajab 1440H, apply, and no final decision has been issued by ZATCA in this regard for application.



**5. Does the Waqf owned zakatpayer have the right to submit a request for not to be subject to the Zakat for the previous years preceding the date of entry into force of the rules issued in this regard and approved by the Ministerial Resolution No. (37981)?**

According to the Ministerial decision referred to above, the zakatpayer has the right, upon his request, to apply the Rules to the years to which the provisions of the regulations issued by Ministerial Resolution No. (2216) dated 7 Rajab 1440H apply, that is, to the years starting from 1 January 2019, provided that no final, supported decision has been issued in respect of these years by ZATCA.

**6. Are the rules applied to the Zakatpayer partially owned by Waqf which is established and recorded by statutory means in the Kingdom?**

The rules apply only to the zakatpayers wholly owned by Waqf which are established and recorded by statutory means in the Kingdom. Accordingly, the zakatpayer partially owned by Waqf must submit its zakat declaration in accordance with the provisions of the Regulations and calculate the zakat on the shares owned by that Waqf and other shares if those other shares fulfill the provisions of subjection to the zakat stipulated in Article Two of the Regulations.



## **2.5. Third: Associations, Non-Governmental Institutions and Training Units**

### **2.5.1. An introduction to the rules regarding the exemption of Associations, Non-Governmental Institutions, and Training Units from Zakat collection.**

ZATCA issued the rules regarding the exemption of associations, non-governmental institutions and training units from Zakat collection, which were approved by the Ministerial Resolution No. (61600) dated 14/10/1444H, which included defining all provisions and controls regarding the exemption of associations, non-governmental institutions and training units from Zakat collection. The decision indicated that the following are subject to the provisions of these rules:

1. Non-profit institutions, and non-governmental institutions.
2. Institutions wholly owned by non-profit associations and non-governmental institutions.
3. Training units established in accordance with the statutory rules for the establishment of non-profit training units in the field of technical and professional training.

ZATCA also clarified that these rules also apply to the Zakatpayer subject to zakat under the Zakat Implementing Regulation and owned by the aforementioned authorities, provided that the association, institution or training unit is established in the Kingdom and meets the standards stipulated in the rules.

### **2.5.2. Associations, Non-Governmental Institutions and Training Units**

#### **A. Associations and Non-Governmental Institutions**

Associations, and non-governmental institutions fall under the Law of Civil Associations and Institutions issued by the Royal Decree No. (M/8) dated 19 Safar 1437H and its Implementing Regulations, which aims to organize, develop and protect civil work, contribute to national development and enhance citizen contributions in the management and development of society. The Ministry of Social Affairs is the authority responsible for the affairs of associations and institutions within the provisions of the law of civil associations and institutions.

These associations and institutions are distinguished by their main role in charitable, non-profit work, including, but not limited to: Al-Bir Association, King Abdulaziz Charity Association, Namaa Foundation, Iqraa Humanitarian Foundation, and other associations and institutions under the supervision of the Ministry of Social Affairs.



## **B. Training Units**

As for the Training Units, they are regulated by the statutory rules for the establishment of non-profit training units in the field of technical and vocational training issued by Cabinet Resolution No. (17) dated 15 Muharram 1430H. The Technical and Vocational Training Corporation supervises the work of the training units and monitors the implementation of the provisions of the training units' rules and instructions issued in their regard. The licensing of the Training Unit is through the issuance of a decision with the initial approval of the Governor of the Technical and Vocational Training Corporation to establish a non-profit Training Unit. The Training Unit then follows up on fulfilling the relevant conditions and requirements to obtain the final license for the Training Unit.

### **2.5.3. Controls and conditions for applying the rules for not subjecting Associations, Non-Governmental Institutions, and Training Units to Zakat**

Non-profit Associations, Non- Governmental Institutions and any entities wholly owned by any of them, directly or indirectly, and Training Units, are not subject to Zakat, if the following conditions are met:

- A. Their revenues are allocated for spending on charitable purposes or society, and not for specific persons. With the exception of, Non-Governmental Institutions, if they have disbursement on a certain party that does not exceed (10%) of the net profit of the Institution, taking into account the following:
- That the specified disbursement is specified within the objectives of the Institution in its Bylaws, Articles of Association, or Incorporation deed.
  - To include in the disbursement account on a particular person all that is spent on a description outside the descriptions of public charity or society.
  - All revenues and gains from assets, income and profits from investments, donations, gifts, and the like should be included in the Foundation's revenue.
  - The calculation of the percentage of the disbursements to a specific category - in the event that more than one institution participates in the ownership of the zakatpayer - is proportional to these institutions.
  - The evidence in determining the percentage of the disbursements on a particular party should be through the audited financial reports of the Institution or a report from a chartered accountant licensed in the Kingdom.



- B. It must be licensed by the competent authorities in the Kingdom and documented by statutory means.
- C. It must have financial statements audited by a chartered accountant licensed in the Kingdom, or documents accepted by ZATCA.
- D. The Training Unit must have a final license issued by a competent authority such as the Technical and Vocational Training Corporation and other government agencies such as the Ministry of Culture.

**Example:** A Non-Governmental Institution (X) that allocates its funds on public charitable aspects and does not specify specific persons. It is licensed by the competent authorities in the Kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom.

**Solution:** The Non-Governmental Institution (X) is not subject to Zakat \; as it has allocated its spending on public charitable aspects, it has not identified specific persons, and it is licensed by the competent authorities in the kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom.

**Example:** Establishment (X) is wholly owned by Non-Governmental Institution (Y). It allocates its funds on public charitable aspects and does not specify specific persons. It is licensed by the competent authorities in the Kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom.

**Solution:** Establishment (X) is not subject to Zakat collection; as it is wholly owned by Non-Governmental Institution (Y), as it has allocated its funds to public charitable aspects, and has not identified specific persons, and it is licensed by the competent authorities in the kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom.

**Example:** Training Unit (X) allocates its funds to public charitable causes and does not specify specific persons. It is licensed by the competent authorities in the Kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom, and it is licensed with a final license issued by the Technical and Vocational Training Corporation.



**Solution:** Training Unit (X) is not subject to Zakat collection; as it has allocated its funds to public charitable aspects and does not specify specific persons. It is licensed by the competent authorities in the Kingdom of Saudi Arabia, documented by statutory means, and has financial statements audited by a licensed chartered accountant in the Kingdom, it is licensed with a final license issued by the Technical and Vocational Training Corporation.

**Example:** (X) and (Y) are two non-governmental institutions that are licensed and legally documented in the Kingdom and are subject to the supervision of the Ministry of Social Affairs in the Kingdom of Saudi Arabia. The basic regulations of the aforementioned associations provide for joint disbursements: for general charitable causes and others for a specific person.

At the end of the financial year, based on the accounts and financial reports of the two associations (X) and (Y), the aspects of disbursement were analyzed and were as follows:

Disbursements	Non- Governmental Institution (X)	Non- Governmental Institution (Y)
General charitable aspects	80%	95%
Disbursement to Specific category	20%	5%

The Non-Governmental Institutions (X) and (Y) own full ownership of Company (P). It is a company that carries out commercial activity and is licensed according to the regulations in force at the Ministry of Commerce in the Kingdom. Each of the two non-governmental institutions participates in the full ownership in Company (P) at (40%) and (60%), respectively.

**Required:** Statement of the extent to which the rules of not being subject to Zakat apply to company (P)

**Solution:**

According to the above data, Non-Governmental Institutions (X) and (Y) are associations established and legally documented in the Kingdom. However, it is also necessary to determine the extent to which an additional condition applies the judgment on the extent to which the company (P) is subject to the rules of not being subject to Zakat, through determining the percentage of disbursement to a specific person by ratio and proportionality between the Non-Governmental Institutions (X) and (Y) according to the percentage of ownership in the company (P), as follows:

Calculation of the percentage of disbursement to a specific category by ratio and proportionality between Non-Governmental Institutions (X) and (Y)

= (Ownership of (X) in the company (P) \* percentage of disbursement to a specific person) + (Ownership of (Y) in the company (P) \* percentage of disbursement to a specific person)

= (40% \* 20%) + (60% \* 5%)

= 8% + 3%

= 11% percentage of disbursement to a specific person

Accordingly, taking into account that the percentage of disbursement to a specific category is higher than the percentage stipulated in the rules (10%), the company (P) does not fulfill the controls not to be subject to Zakat in accordance with the rules, and therefore it is subject to the Zakat collection in accordance with the regulations.





#### **2.5.4. Conditions for submitting an application for not to be subject to Zakat and obtaining a certificate of not being subject to Zakat issued by ZATCA**

Article 5 of the rules stipulates the mechanism and conditions for submitting a request to not be subject to Zakat, which can be clarified from a procedural point of view, in accordance with the current practice of ZATCA, as follows:

**1.** Submission of the annual Zakat declaration and in the event of approval for not to be subject to Zakat, an information declaration accompanied by the audited financial statements of those subject to the rules shall be issued in accordance with the provisions of Article (17) of the regulations, whereby those to whom the rules apply must submit the Zakat declaration according to the form approved by ZATCA with its attachments in Arabic and attach the audited financial statements or the report of the licensed chartered accountant of the Zakatpayer before the end of (120) days from the ending of the financial year of the Zakatpayer.

It should be noted here that the attachments to the declaration must also include filling in the Zakatpayer's transaction record with related parties through the disclosure form of transactions with related parties attached to the declaration, in accordance with the Transfer Pricing Bylaws and their subsequent amendments issued by ZATCA's Board of Directors Decision No.(1-19-6) dated 25 Jumada Al-Awwal 1440H, corresponding to 31 January 2019. It is required to disclose transactions with related parties in accordance with the Transfer Pricing Bylaws as follows - for example but not limited to:

- The name of the related party.
- The nature of the transaction.
- The volume of transactions.
- The transfer pricing method.



It should be noted that the same applies to the Zakatpayer subject to the rules as applies to other Zakatpayers regarding the transfer pricing requirements for other transactions contained in the Transfer Pricing Bylaws, including, for example, the local file, the main file, and others, if applicable.

**2.** Fill out a request for not to be subject to Zakat collection (according to the form prepared by ZATCA as shown below for this purpose) and submit it to ZATCA along with the submitted declaration and other supporting documents. The Zakatpayer must communicate with ZATCA through approved communication channels to request for not to be subject to Zakat, along with audited financial statements.

- License of the Association, Non-Governmental Institution, or Training Unit.
- A valid commercial registration for the Zakatpayer owned by the Association or Non-Governmental Institution.
- Memorandum of Association and any subsequent amendments to it of the Zakatpayer owned by the Association or Non-Governmental Institution.
- Any other data that ZATCA may require to determine the possibility of approving the request not to be subject to Zakat.

**3.** ZATCA studies the application and, if approved, it notifies the Zakatpayer through the approved communication channels. In the event that the application is through the system, it is submitted in the form of an information declaration accompanied by the audited financial statements of the Zakatpayer.



### 2.5.5. Other regulatory considerations and requirements

1. The rest of the provisions contained in the Zakat Implementing Regulations and any amendments thereto shall apply to the Zakatpayer who has been issued a decision not to be subject to Zakat.
2. In the event that ZATCA proves that the person regarding whom a decision was issued for exempting it from Zakat collection provided incorrect information or did not comply with the provisions of these rules, it may cancel the decision for exempting from Zakat collection, and re-assess the information available to it in accordance with it based on the provisions of the regulations and what is stated in Article (23) of it.
3. These rules shall be applied without prejudice to the provisions of the Law of Associations and Non-Governmental Institutions and the organizational rules for establishing non-profit training units in the field of technical and vocational training, and the relevant regulations in force in the Kingdom of Saudi Arabia and any amendments thereto.



## **Appendix: Frequently asked questions about the rules for exempting Associations, Non-Governmental Institutions and Training Units from Zakat collection.**

### **1. What are the entities and establishments that are subject to the provisions of the rules for exempting Associations, Non-Governmental Institutions and Training Units from Zakat collection?**

The following are subject to the provisions of these rules:

- A. Non-profit associations and Non-Governmental institutions.
- B. Entities wholly owned by non-profit associations and non-governmental institutions.
- C. Training Units established in accordance with the statutory rules for establishing non-profit Training Units in the field of technical and vocational training.

### **2. What is meant by the Training Units established according to the statutory rules for the establishment of non-profit Training Units in the field of technical and vocational training?**

They are establishments of a legal personality whose main purpose is to provide a service in the field of technical and vocational training inside the Kingdom without aiming to achieve material profit, and their establishment and growth depend on continuous self-financing, and they may accept donations and may not collect donations, in accordance with the provisions of the statutory rules for establishing Non-Profit Training Units in the field of technical and vocational training.

### **What are the conditions for the non-subjection of non-profit associations, institutions, entities fully owned by any of them, and training units to Zakat collection?**

Non-profit associations and Non-Governmental institutions, establishments wholly owned by any of them, directly or indirectly, and training units, are not subject to Zakat if the following conditions are met:

- Their revenues are allocated for spending on public charity or society, and not for specific persons. With the exception of this, non-governmental institutions, if they have a disbursement to a specific person that does not exceed (10%) of the net profit of the institution, taking into account the controls stipulated in the rules.



- It must be licensed by the competent authorities in the Kingdom and documented by statutory means.
- It must have financial statements audited by a chartered accountant licensed in the Kingdom or documents accepted by ZATCA.
- The Training Unit must have a final license - a non-profit training facility.

### **3. What are the financial years to which the decision applies?**

This decision applies to financial years beginning on or after 1 January 2023.



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