



# Guideline For Zakat Documents



The Zakat, Tax and Customs Authority (ZATCA) has issued these guidelines with the purpose of clarifying certain treatments concerning the implementation of the statutory provisions in force as of the date of publication of this guideline. The content of this guide shall not be considered as an amendment to any of the provisions of the laws and Regulations applicable in the Kingdom.

The ZATCA affirms its application of the explanatory treatments outlined in these guidelines, wherever applicable, in light of the relevant regulatory texts. In the event of any modification to any clarification or content provided in these guidelines - in relation to unchanged statutory text - the updated explanatory treatment will be applied in respect of transactions made after the publication date of the updated version of the Guidelines on the 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 way of worship, and therefore often quoted in the Holy Qur'an. Allah Almighty has associated it with prayer in more than eighty verses. It is one of the most important pillars that distinguishes the Muslim community from others, and a manifestation of the supremacy of Islamic legislations; as it represents a useful means to fight poverty and alleviate the suffering of the needy, leading to social solidarity in general

### 1.2 Zakat Collection

As an indication of the great status of Zakat in Islam; the state is entrusted with of administering and supervising the collection of Zakat on declared funds and its distribution to the needy. In fact, the State is responsible to collect Zakat on funds and distribute it to eligible ones, by appointing 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 oversee the disbursement and distribution of it to the beneficiaries.

ZATCA undertakes the task of collecting Zakat. It undertakes all procedures related to 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 supervision over the Zakat payer's submission of Zakat declaration, payment procedures, examination of the submitted statements, verify such by well-trained personnel working at ZATCA, and ending with the issuance of the final Zakat certificate. This may also include examining the resulting Zakat payers' objections to ZATCA's Zakat assessments.

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

The collection and disbursement of Zakat to the beneficiaries is one of the basic tasks of the State, which is stipulated in Article 21 of Basic Law of Governance in, which stipulates as follows: (Zakat shall be collected and spent for legitimate expenses). Article 7 thereof indicated that the state shall take care of Islamic Sharia's obligations in general, which includes levying Zakat and its disbursement to the designated beneficiaries. It stipulates as follows: (Government in the Kingdom of Saudi Arabia derives its authority from the Holy Qu'ran and the Prophet's tradition, both of which govern this Law as well as all the laws of the State).



To confirm this, Royal Decree No. (17/2/28/8634 dated 29/6/1370H corresponding to (6 April 1951) was issued during the reign of the founder King Abdul Aziz (may Allah rest his soul), which included the order for levying of Zakat. This was emphasized in many subsequent royal decrees, 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 on deemed basis in accordance with section 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 shall 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. (16/5/1) Dated 05/01/1383 H 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 who are subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be returned to the Social Security Fund."

## **1.4 The Zakat, Tax and Customs Authority**

Zakat, Tax and Customs Authority (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. Collect Zakat, taxes. and customs fees from Zakat payers according to the relevant laws, regulations, and instructions.
2. Provide 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. Work to raise awareness of Zakat payer and strengthen the degree of voluntary commitment and ensure his compliance with the instructions and guidelines issued by ZATCA under in its jurisdiction.
5. Leverage modern technology in implementing, monitoring and facilitating ZATCA's operation, and in enhancing the security role in combating customs smuggling.
6. Cooperate with the private sector in the implementation and management of some supportive works.
7. Develop the necessary plans to organize, manage and invest in the customs port facilities, in coordination with the relevant authorities.
8. Set standards for following up on the performance indicators for ZATCA's works and plans, which ensure the development of its performance and services. ZATCA may coordinate in this regard with whomever it deems relevant to its mandates.
9. Cooperate and exchange experiences with regional and international bodies and organizations, and specialized consultancy firms inside and outside the Kingdom, within the limits of ZATCA's jurisdiction.
10. Represent the Kingdom in regional and international organizations, bodies, forums and conferences related to ZATCA's jurisdiction.

## **1.6 About the Guidelines for Zakat documents**

This Manual provides guidelines and basic information regarding the documents supporting the Zakat payer's declaration that are required to be kept and submitted to the ZATCA upon request for zakat purposes. This Manual helps to form a clear vision and provide guidance regarding practical applications on keeping the necessary documents to verify the correct treatment of the base items for zakat purposes.

This Manual represents ZATCA's understanding and interpretation regarding the application of Zakat implementing regulations issued pursuant to the Ministerial Resolution No. (2216) dated 7 Rajab 1440H.

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. Zakat Documents

### 2.1 Introduction

This Manual provides explanations and clarifications for documents that need to be retained for Zakat accounting purposes. This is done by addressing the key items of the Zakat base to ensure their processing in accordance with the regulations.

Through this Manual, the Zakat, Tax and Customs Authority studied and analyzed the most prominent items, and collected them in this Manual with explanatory examples for the Zakat payers' review, to bring viewpoints closer together, and to resolve disputes and disagreement between the zakat payers and the Zakat, Tax and Customs Authority.

### 2.2 Definitions and related terms

**ZATCA:** The Zakat, Tax and Customs Authority (ZATCA)

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

**Kingdom:** Kingdom of Saudi Arabia

**Zakat payer:** A natural or legal person, who carries out an activity subject to the collection of Zakat, whether it is a sole proprietorship or a company, or a person carrying out the activity under a license issued by a competent authority.

**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 indicate the amount of the Zakat base and the Zakat due from the Zakat payers.

**Net profit (loss)/ or result of the activity:** The result of the Zakat payer's business in terms of book profit or loss, which is calculated under the generally accepted accounting principles and approved accounting standards for a specific financial period.

**Adjusted Net Profit (Loss) for Zakat Purposes:** Net accounting profit (loss) after being adjusted with clauses in accordance with the Regulation.

**Transfer Pricing:** Setting prices for controlled transaction.

**TP Bylaws:** Transfer Pricing By laws pursuant to Board Resolution NO [6-1-19] dated 25/05/1440H corresponding to 31/01/2019 and any amendments there.



**Arm's Length Principle:** In case the terms and conditions of commercial and financial transactions between related parties differ from those between independent parties, any unrealized profits that could have been realized by any of the related parties are calculated - without these terms and conditions - within the profits of that person and taxed accordingly.

**Master file:** the file that the Zakat payer must maintain, which includes information of global business and transaction pricing policies of MNE's global business to which the Zakat payer belongs.

**Local file:** the file that the Zakat payer must maintain, which includes detailed information about all his transactions with related persons.

## 2.3 Zakat Declaration

According to Article (17) of the Zakat Implementing Regulation (ZIR), the Zakat payer must submit his zakat declaration and its attachments to ZATCA no later than one hundred twenty (120) days from the end of Zakat Year.

The declaration and the attachments thereto are submitted by filling out the return form for the zakat year through the e-service at ZATCA's E-portal "Erad".

These guidelines address the documents required to be attached to the declaration upon filing, in addition to clarifying the most important components of the zakat base and their related documents.

- **The importance of financial statements for zakat purposes**

Article (12) of the ZIR stipulates the following: (For purposes of these Regulations the accounting treatments and financial reports prepared in accordance with Saudi Organization of Certified Public Accountants approved standards shall be considered unless otherwise stated).



From this, it becomes clear that submitting the Zakat declaration and calculating the due Zakat requires the taxpayer to maintain proper accounting records. Therefore, the basis for verifying the accuracy of the taxpayer's Zakat base as per the declaration is to keep the necessary commercial books to determine the Zakat base accurately, along with retaining supporting documents to substantiate their accuracy, in accordance with Article 18 of the regulations.

Therefore, the importance of financial statements for zakat purposes is as follow:

- A. Generally, filing the zakat declaration based on the results of the financial statements reflect credibility in all the Zakat payer's accounts.
- B. The zakat treatment for some items depends on the accounting classification in the financial statements.
- C. The amounts in the financial statements are considered final to calculate the Zakat due.

- **Documents to be attached to the declaration**

Mainly, all Zakat payers, who are required to maintain commercial books must attach the audited financial statements adopted by a certified public accountant licensed by the Saudi Organization for Certified Public Accountants (SOCPA).

Without prejudice to the above, and under the new Companies Law issued by the Ministry of Commerce, which came into effect on January 19, 2023, some companies are exempted from the financial statements requirement if they meet the criteria specified in Article 19 of the same law.

In addition, in some specific cases, the Zakat payer is required to attach the following documents:

**1. When deducting the investments in foreign entities:**

- A. A certificate issued by a certified public accountant in the Kingdom, stating the zakat due from foreign entities according to Article (5) Paragraph (5) of ZIR.
- B. Proof of payment if it was paid outside the Kingdom. However, when providing a certificate issued by a certified public accountant, the zakat on the investment base will be included in the declaration itself.



## 2. If the Zakat payer is a bank or financing facility licensed by the Saudi Central Bank and subject to the rules for calculating zakat on financing activities:

Confirmation letter issued by the Saudi Central Bank (SAMA) that the statutory payment has been deposited.

### 2.4 Activity result for the Zakat year

In the below paragraphs, some basic documents supporting the Zakat payer's activity result for the Zakat year are presented

#### 2.4.1 Revenues

The nature of the revenue may differ for each Zakat payer due to the various commercial activities. Thus, the revenue might be calculated and recorded differently.

- Zakat documents related to revenues.

The Zakat payer must maintain the following documents in support of revenues, for example but not limited to the following:

- Contracts concluded with customers
- Account statement for each customer showing the movement during the year.
- Confirming the value of revenues collected during the year from the contracting parties.

The Zakat payer is also required to submit a reconciliation for any differences of any other information submitted to ZATCA, for example VAT returns upon the request from ZATCA.

#### 2.4.2 Expenses

Article (8) Paragraph (1) specified the basic conditions for accepting expenses for Zakat purposes, which include the following:

- Expenses should be actual expenses as supported by relevant documents.
- Expenses should be related to Zakat Payer's business activity rather than personal expenses or other than Zakat Payer's own activities.



- Expenses shall not be of capital nature
- **Zakat documents for expenses**

To prove the correct zakat treatment for the Zakat payer's expenses, it is necessary to maintain the following documents, for example, but not limited to the following:

Expense	Document
Foreign procurement	<ul style="list-style-type: none"><li>● Settling the amount declared in the declaration with the import customs bayan.</li><li>● Invoices issued by the related parties</li><li>● Supporting documents for the payment of foreign purchases.</li><li>● Proof for any imports made through a third party.</li></ul>
Local procurement	<ul style="list-style-type: none"><li>● Invoices issued by the related parties</li><li>● Supporting documents for the payment of local purchases</li><li>● Proof for any purchases made through a third party</li></ul>
Salaries, wages, and employees' benefits	<ul style="list-style-type: none"><li>● Monthly payrolls with bank transfers.</li><li>● Employment contracts and amendments thereto.</li><li>● Administration policy for benefits and allowances.</li><li>● Administration decision for bonuses.</li></ul>
Services and goods	<ul style="list-style-type: none"><li>● Contracts concluded with suppliers.</li><li>● Invoices issued by suppliers in the name of the Zakat payer</li></ul>

The Zakat payer is also required to submit a reconciliation for any differences of any other information submitted to ZATCA, for example withholding tax returns upon the request from ZATCA.



## 2.5 Zakat Base Items (Additions)

### 2.5.1 Equity and equivalents

#### 2.5.1.1 Capital and any amendments thereto during the Zakat year

Capital is the most important item for the activity that is necessary to initiate the operational processes, which may represent the value of the funds, materials and necessary tools that the partners provide to the entity.

According to Article (4) of the ZIR, the Capital at the beginning of the year is added to the zakat base of the Zakat payer including increase in capital even where the increase is through an equity share capital increase or a result of obtaining financing for an item that may be deducted from the Zakat base.

If the increase in capital is cash, it is added in proportion based on the actual number of days of the zakat year.

- Zakat documents for capital

To prove the correct zakat treatment for the Zakat payer, it is necessary to maintain the following documents, for example, but not limited to the following:

Document	Purpose
Certificate of the capital deposit in the bank	To verify the amount of capital and its deposit date in the bank
Articles of Association and amendments thereto	To verify the specified capital value. In addition to knowing the changes in companies and their ownership shares and knowing their zakat and tax shares.
Commercial Registration	To verify the conformity of the capital amount deposited and registered with the Ministry of Commerce.
In case of capital increase/decrease: <ul style="list-style-type: none"><li>• Partners' decision.</li><li>• The amended Articles of Association.</li><li>• Certificate of deposit of additional capital (in case of increase).</li><li>• Certificate issued by a certified public accountant showing delist of the shares (in case of decrease).</li><li>• An updated copy of the commercial registration.</li></ul>	<ul style="list-style-type: none"><li>• For increase: to verify the increase and that the source of the increase is not one of the equity items.</li><li>• For decrease: to verify that the capital has actually been decreased and the date of the operation.</li></ul>



### **2.5.1.2 Retained earnings**

Retained earnings represent the total value of the accumulated profits from the results of previous years.

This item is treated as per Article (4) Paragraph (5), which requires adding the opening balance to the zakat base minus the dividends paid during the zakat year.

- **Zakat documents for Retained earnings**

Since this item is shown within the equity items in the Zakat payer's accounts, it is treated according to the statement of changes in equity attached to the financial statements.

In case of increase or decrease in retained earnings by settlements from previous years, the following documents must be submitted:

- A. Daily entries supporting previous years' settlements.
- B. General ledger for the retained earnings account.
- C. Any internal minutes of meeting or necessary documents supporting the amendment to the remaining profits or accumulated profits.

### **2.5.1.3 Dividends**

In addition to the mentioned above regarding retained earnings, any change that occurs in the balance of retained earnings shall be considered for zakat purposes. For example, as when reduced by cash dividends, it shall appear as deductions in the statement of changes in equity.

- **Zakat documents for dividends**

In order to verify the actuality of the dividends, the following documents should be maintained to confirm their deduction for Zakat purposes:

- A. The board of directors/partners decision to distribute dividends
- B. The board of directors/partners decision to add dividends to the partners' account.
- C. Accounting entries proving the addition of dividends to the partners' account.
- D. Bank statement proving the payment of these dividends to the partners.



### 2.5.1.4 Reserves

Reserves refer to the amounts that the Zakat payer allocates separately from the profits for each year to address any risks or events that may occur to the Zakat payer. These reserves are included in the statement of changes in equity, and one of the most important examples of these reserves is the statutory and voluntary reserves.

This item is treated as per Article (4) Paragraph (4), which requires adding opening balance to the Zakat base, with considering the change in the above balance, whether from a decrease or an increase. For example, the aforementioned zakat treatment shall not be affected if the source of the increase is an item of equity.

- **Zakat documents for reserves**

Since this item appears among the equity items in the Zakat payer's accounts, it shall be treated as per the information of the statement of changes in equity attached to the financial statements. In case of decrease/or increase, the documents supporting the change must be maintained, including, but not limited to the following:

1. For decrease:

- Decision issued by the Board of Directors or higher authority.
- Certificate issued by a licensed public accountant.

2. For increase:

- Decision issued by the Board of Directors to increase the reserves balance.
- Accounting entries to verify the source of the increase

### 2.5.2 Provisions

Provisions refer to the amounts estimated by the Zakat payer and deducted from the year's revenues to meet the expected liabilities and/or confirmed to arise in the future. For example, including but not limited to the following:

1. Provision for end of service benefits.
2. Provision for doubtful debts.
3. Provision for expected credit losses.
4. Provision for obsolete inventory.





This item is treated as per Article (4) Paragraph (6) by adding the opening balance after deducting the utilized during the year.

- **Zakat documents for Provisions**

The movement of provisions is shown within the notes attached to the financial statements.

In order to verify the calculation of the provisions and the utilized during the year, the following documents are required to confirm their treatment for zakat purposes (considering other provisions not mentioned in these guidelines and may require other documents):

1. The basis for calculating provisions.
2. Statement of account for provisions, showing the movement during the year.
3. In case of payment, provide proof of payment based on bank statements.
4. Statement of the clients' names of debts written off during the year.
5. In case of writing off bad debts:
  - Approval from the administration.
  - Accounting entry.
  - Certificate issued by a licensed public accountant.

### **2.5.3 Liabilities**

Article (4) Paragraph (3) stipulates the controls for adding the long-term obligations items as follows:

- Liabilities of (354) days or more, and are overlapping between more than one zakat year shall be added to the zakat base in proportion to the number of days for the zakat year.
- The zakat year is not interrupted by the renewal of obligations with the creditor.
- The total amount of long-term obligations added to the zakat base shall not exceed the total deductions from the zakat base

The items for long-term obligations and their related documents will be discussed in the following paragraphs.



### **2.5.3.1 Loans and equivalents + the current installment of the loan**

It is a common practice in any course of business to borrow additional cash that contributes to increasing the productivity of the activity and thus generating additional revenues and profits for the Zakat payer.

The purpose of the loan may vary, as it may be either to finance capital expenses or operational expenses.

- **Zakat documents for loans**

To verify the treatment of loans, the following documents should be maintained as supporting documents of loan balances for zakat purposes:

1. Agreement with the lender.
2. Statement of account extracted from the accounting system for loans, showing the movement during the year and the date of addition and the payment details for each loan.
3. Purpose and usage of the loan.
4. In case of payment, prove the payment with payment vouchers including the bank account statement.

### **2.5.3.2 Creditors**

The creditors item arises when the Zakat payer purchases services and/or goods from suppliers "on the account" provided that the payable is settled within a specific period as per the terms of each supplier stated in their issued invoices.

- **Zakat documents for creditors**

The following documents should be maintained to support creditors' balances for zakat purposes:

1. Statement of account extracted from the accounting system for each supplier separately, showing the movement during the year.
2. Relevant invoices for each supplier.
3. In case of payment, prove the payment with payment vouchers including the bank account statements.

### **2.5.3.3 Notes payable**

Notes payable arise when the taxpayer issues a payment receipt for suppliers against supplies. Consequently, the taxpayer is obligated to pay the due amount of those supplies on the due date specified in the payment receipt.



- **Zakat documents for notes payable**

The following documents should be maintained to verify the balances of notes payable and for their treatment for Zakat purposes:

1. Statement of account extracted from the accounting system for notes payable, showing the movement during the year.
2. Copy of the payment receipts issued by the Zakat payer.
3. Details of the goods for each receipt.
4. In case of payment, prove the payment with payment vouchers including the bank Account statement.

### **2.5.3.4 Partners' Loans**

In some cases, the Zakat payer may choose internal sources of finance over external sources of finance. In such cases, the source of the borrowing is one of the partners of the Zakat payer. When borrowing from a partner, a special account is opened for the partner's loan which is separate from the private current account.

- **Zakat documents for partners' loans**

In order to verify the treatment of partners' loans, the following documents should be maintained for Zakat purposes:

1. Agreement with the partner to verify the purpose and uses of the loan and the source of the funds.
2. Statement of account extracted from the accounting system for the partner's loan, showing the movement during the year and the date of addition and payment in details for each partner.
3. Current account statement of the same partner showing the movement during the year.
4. In case of payment: prove the payment with the payment voucher including on the bank account statement.
5. In the case of clearance\*, provide an extract from the system showing the accounting entry. (According to the related parties)

### **2.5.3.5 Amounts due to related parties**

In the normal course of business, the zakat payer may deal with related parties such as partners or associate companies within the same group to provide specific services to the zakat payer.



These transactions may include related parties paying amounts due from the zakat payer on his behalf (working capital financing).

In case that related parties provide services to the zakat payer and/or pay amount dues on behalf of the zakat payer, an account is opened for the related party to record the transactions and obligations owed by the zakat payer.

- **Zakat documents related to the amounts due to related parties**

Although the details of transactions with related parties appear in the notes attached to the audited financial statements, the following should be maintained to support the treatment of the balances of amounts due to related parties for Zakat purposes:

1. Any agreements concluded with related parties, if any.
2. Statement of account extracted from the accounting system of each related party separately, showing the movement during the year and the date of addition and payment in details for each entity.
3. In the case of payment: prove the payment with payment vouchers, including the bank account statement.
4. In the case of clearance, provide an extract from the accounting system showing the accounting entry for the payment.
5. Provide an analytical statement of the relevant external parties with its reconciliation against the withholding tax returns in case of payment.

### **2.5.3.6 Profits under distribution**

On the contrary of the actually distributed profits, and in a proactive step towards the actual distribution, the distribution of a certain amount of profits is declared during the year. Accordingly, the "Profits Under Distribution" account is created within the zakat payer's obligations.

This item is treated as per Article (4) Paragraph (8) by adding the balance of profits under distribution, except the profits declared for distribution and whose owners did not apply for receipt provided that such profits are maintained in an independent account that the zakat payer cannot dispose of for commercial purposes.

- **Zakat documents for declared dividends whose owners did not apply for receipt**

The following documents should be maintained in support of the treatment of the above-mentioned profits for zakat purposes:

1. The Board of Directors' decision on the amount of the proposed dividends.



2. In case of declaring the distribution of dividends, the General Assembly's decision approving the amount of the distributed dividends.
3. Statement of account for the dividends under distribution showing the movement during the year.
4. In case of non-receipt of dividends, a separate bank account statement shall be submitted with the amount of dividends declared for distribution, which the Zakat payer cannot dispose.

## **2.6 Deductions from Zakat base**

### **2.6.1 Non-current assets**

#### **2.6.1.1 Fixed assets and equivalent**

Fixed assets are those used in the activity, including but not limited to the following:

1. Real estates.
2. Machinery and equipment.
3. Vehicles.
4. Furnishings.
5. Spare parts.
6. Payments for purchasing fixed assets.
7. Financed assets for the lessee in the financial leases.
8. Real estates under development which are classified long-term.

This item is dealt with under Article (5) of the Regulations, by deducting the book value as per the audited financial statements, provided that the assets are acquired for the purpose of being used in the commercial activity of trading. Therefore, these statements shall remain the main and approved reference for proper treatment of fixed assets and equivalent.

- **Zakat documents for fixed assets and equivalent**

The following should be maintained in order to support the treatment of fixed assets and equivalent for Zakat purposes:



1. Exhibit for Assets' account.
2. Accounting entries in order to prove that they are recorded in the Zakat payer's accounts.
3. Proof of its use for the activity purposes by reviewing the nature of the Zakat payer's activity through the commercial registration.
4. In case the assets were sold, the sale agreement as well as the proof of receiving the amount of the asset shall be maintained.
5. Documents proving the ownership of the asset.

### **2.6.1.2 Intangible assets**

Intangible assets refer to, including but not limited to the following:

1. Equity.
2. Intellectual property.
3. Patent.
4. Right of use.

This item is dealt with in Paragraph (3) of Article (5), by deducting the value based on the Zakat payer's books, provided that it is not used for trading. Therefore, the financial statements are considered one of the main and approved references for proper treatment of intangible assets.

- **Zakat documents for intangible assets**

The following should be maintained in order to support the treatment of intangible assets for Zakat purposes:

1. Source of generating the asset.
2. The useful life of the asset.
3. The nature of the asset and the basis of its calculation.
4. Document for fair value test or year-end asset valuation.
5. Concluded contracts and payment documents.



### **2.6.1.3 Capital construction under implementation**

Capital construction under implementation are assets owned by the Zakat payer in order to be used in its activity, but they are not completed yet.

This item is dealt with in Paragraph (2) of Article (5), by deducting the capital construction under implementation arising in order to be used in the activity rather than for sale. Therefore, the financial statements are considered as one of the main and approved references for proper treatment of the capital construction under implementation.

- **Zakat documents for capital construction under implementation**

The following should be maintained in order to support the treatment of capital construction under implementation for Zakat purposes:

1. The board of directors' decisions in respect of capital construction under implementation.
2. The analysis of the percentage of completion of the project.
3. Upon completion of the asset, the confirmation letter that the asset has been completed and is transformed into fixed assets.
4. Samples of invoices and agreements.

### **2.6.1.4 Investments in establishment**

This item is dealt with in Paragraphs (4) and (5) of Article (5), by deducting the book value of investments in establishments, provided that they are not for trading based on the audited financial statements. Therefore, the financial statements are considered as one of the main and approved reference for proper treatment of investments in establishments.

- **Zakat documents for investments in establishments**

Investments in establishments are divided into investments in establishments in the Kingdom of Saudi Arabia and investments in establishments outside the Kingdom of Saudi Arabia. Therefore, the following are required to be maintained in order to support the treatment of investments in establishments for Zakat purposes:

**A. Investment in establishments in the Kingdom of Saudi Arabia**

- Articles of association of the investee company.
- The detailed portfolio movement from Tadawul, in case the Zakat payer's invested shares are current.



- Submitting the assigned number of the investee company that proves its registration and accounting with Zakat, Tax, Customs Authority.
- In case of goodwill: The supporting document of the financial statements if the investee company is currently registered with ZATCA.

#### B. Investment in establishments outside the Kingdom of Saudi Arabia

- Articles of association of the foreign investee company.
- Audited financial statements of the foreign investee company.
- Calculation of Zakat for the foreign investee company, supported by a certificate from the chartered accountant licensed in the Kingdom of Saudi Arabia.
- Proof of payment of the Zakat payer's share of the Zakat due on the foreign investee company through the investor's Zakat declaration.

#### C. Investment in the investment funds in the Kingdom of Saudi Arabia

- Proof of the investor's ownership in the investment fund's units.
- Fund's certificate of registration with ZATCA.
- Proof that the investment fund submitted an information declaration with ZATCA, showing the Zakat calculation.
- Disclosure of the investor's share in the investment fund's base, and the calculation of Zakat on these investments, either within the notes in the investor's financial statements or under the certificate of a chartered accountant licensed in the Kingdom of Saudi Arabia.
- Proof of payment of the Zakat due for the investment in the investment fund's units through the investor's Zakat declaration.

For further details in respect of the Zakat treatment of investments in investment funds, kindly refer to the Zakat Collection Rules for Investment Funds (Fund Zakat Rules).





## 2.6.2 Adjusted carried-forward losses

This item is dealt within Paragraph (8) of Article (5), by deducting the least of the following:  
The value of adjusted net carried-forward loss (i.e., after adjusting the result of the activity in accordance with the ZIR), after adding the provisions in which the loss was previously reduced in the year of their formation, or the carried-forward losses in accordance with the audited financial statements.

- **Zakat documents for adjusted carried-forward losses**

In order to calculate the carried-forward losses that are allowed to be deducted, the following is required to be reviewed in order to support their treatment for Zakat purposes:

An analytical statement of the calculation of the carried-forward losses as per the Zakat payer's declaration.

## 2.6.3 Statutory deposit of insurance and reinsurance companies

The activity of insurance companies in the Kingdom of Saudi Arabia is subject to the Cooperative Insurance Companies Control Law issued by Royal Decree No. (M/32) dated 2 Jumada Al-Thani 1424H, corresponding to 31 July 2003. In accordance with Article (58) of the Implementing Regulation of the Cooperative Insurance Companies Control Law, insurance companies should deposit a statutory deposit in one of the banks specified by the Saudi Central Bank, and it should be invested by the establishment, and its proceeds should belong to the establishment.

The above item shall be deducted in accordance with Paragraph (10) of Article (5).

- **Zakat documents for statutory deposits**

The financial statements are supported by the certificate of the Saudi Central Bank (SAMA).

## 2.7 Acceptable and unacceptable documents

In order to accept the documents for Zakat purposes, the following basic conditions shall be met:



1. To be issued in the name of the Zakat payer.
2. The letters or correspondences shall be signed / stamped by the authorized person of the Zakat payer.
3. Dated in the same Zakat year.
4. The certificates that are issued by third parties shall be authenticated by authorized persons.
5. The Accounting certificates shall be authenticated by a chartered accountant licensed in the Kingdom of Saudi Arabia.

In case one of the conditions is not met, ZATCA has the right to reject it for Zakat purposes.

## 2.8 Transfer pricing

Based on the decision of the board of directors of the Zakat, Tax and Customs Authority No. (8-2-23), dated 28 Shaaban 1444H, (corresponding to 20 March 2023), the Transfer Pricing Guidelines for Zakat payers subject to Zakat collection shall enter into force for financial years commencing on or after 1 January 2024.

- **Transfer pricing documents**

As Article (14) of the Transfer Pricing Guidelines stated that that the following documents related to transfer pricing shall be submitted with the Zakat declaration or within (120) days of the end of the Zakat payer's financial year:

1. The disclosure form of the controlled transactions.
2. The certificate of the licensed chartered accountant which confirms that the Zakat payer adheres to the Transfer Pricing policy of the group in the Kingdom.

It also requires the Zakat payer to maintain the following in order to support the transfer pricing policy followed in the Kingdom for Zakat purposes:

1. Transfer Pricing policy of the group.
2. Evidence that the transactions are on an arm's length basis.
3. Master file.
4. Local file.
5. The report for each country.



## 2.9 Zakat disputes documents

### 2.9.1 Appeal to ZATCA

ZATCA is the competent and authorized body to carry out the work of collecting the Zakat and achieving the highest levels of commitment by the Zakat payers with the duties imposed on them by the law. Also, ZATCA shall ensure the protection of the rights of Zakat payers and provide high-quality services for them, as well as spreading awareness regarding their Zakat liabilities. However, the divergence of understanding and interpretation of the applicable Implementing Regulations for Zakat shall occur, since ZATCA is the executive body, and was given the authority under the laws to practice its work, ZATCA shall provide protection for the rights of Zakat payers, as this protection is represented by granting the Zakat payers the right to appeal before ZATCA, and the right of settlement before the internal committee for disputes resolution at ZATCA, as well as the right to appeal before the Independent Committees at the preliminary and appellate levels, as explained below.

Article (20) stated that ZATCA shall issue the assessment including their approval of the declaration or their amendment thereto, with the reasons for the amendment. Also, the Zakat payer has the right to appeal against the assessment; as well as the right of appeal is guaranteed against whom a decision was issued by ZATCA only.

A decision means, everything issued by ZATCA within the limits of its authority under the Laws and Regulations and which has a legal impact on the Zakat payer, including but not limited to the following:

- A decision issued by ZATCA that there are Zakat differences which are due on the Zakat payer.
- Rejection of the Zakat payer's request in respect of not being subjected to Zakat collection.

Therefore, no other parties have the right to file an appeal against a decision issued in respect of someone else unless they are legally authorized by the person who holds the right (capacity) to submit the appeal. The appeal shall be submitted to ZATCA within (60) days from the date of notification of the decision; as the duration shall commence from the date of notification of the decision, and each day following the date of notification, including leaves and official holidays shall be calculated within this period.

Whereas, upon the expiry of the given deadline to file an appeal, ZATCA's decision becomes irrevocable and unappealable before any judicial authority. In case the last day for submitting the appeal falls on an official holiday, the appeal period shall be extended until the next working day.



The Regulations and Laws do not stipulate that the appeals shall be submitted to ZATCA through a specific mean. However, in order to protect the rights of the Zakat payers and to facilitate the appeal process, ZATCA has provided electronic means to formally submit the appeals which help the Zakat payer to protest through it. and they are limited in two ways:

- Through the electronic services of ZATCA which is “ERAD” electronic portal.
  - Through the email designated for appeals for which ZATCA has not yet provided a method for appeal through the electronic portal (manualobj@ZATCA.gov.sa).
- 
- **Information and documents included in the appeal:**
    1. Amend the declaration from the “appeal” icon in the “ERAD” portal.
    2. An appeal memorandum clarifying the reasons and the grounds for its appeal, and it shall be signed and dated.
    3. The name of the Zakat payer, its assigned number, the number of the appealed decision, and the financial period.
    4. The supporting documents of its appeal.
    5. A copy of the authorization issued by the Zakat payer to the representative submitting the appeal (for example, Zakat advisor).
    6. The name and the address of the authorized representative (in case the submission is through a representative).
    7. Proof of payment of Zakat for unappealed items.
    8. Proof of payment of any of the following to accept the Zakat payer’s appeal in terms of technicalities:
      - A. Payment of a part of the appealed amounts during the statutory period of appeal, no less than (10%) of the assessment value and not more than (25%).
      - B. Provide a financial guarantee of at least (50%) of the value of the assessment.

In accordance with the Operating Procedures for the Tax Disputes and Violations Resolution Committees and Appellate Committees, ZATCA shall rule regarding the appeal submitted by the Zakat payer within (90) days from the date of its submission.



If ZATCA rejected the appeal submitted by the Zakat payer or a period of (90) days passes without issuing a decision in respect of it, the Zakat payer shall have the right to submit an internal settlement request with ZATCA within (30) days from the date of issuance of the ZATCA's decision in respect of the appeal submitted by the Zakat payer or filing an appeal case before the Tax Violation and Dispute Resolution Committee of the General Secretariat of Tax Committees

### **2.9.2 Request for settlement with ZATCA**

The Zakat payer has the right to submit an internal settlement request with ZATCA within (30) days from the date of issuing ZATCA's decision in respect of the appeal submitted by the Zakat payer through ZATCA's electronic portal "ERAD".

- **Information and documents included in the settlement request:**

1. Fill out the form prepared by ZATCA and clarify its viewpoint. The same shall be signed and dated.
2. A copy of ZATCA's decision regarding the appeal submitted by the Zakat payer.
3. The name of the Zakat payer, its assigned number, the number of the appealed decision, and the financial period.
4. The supporting documents of its viewpoint.
5. A copy of the authorization issued by the Zakat payer to the representative in order to attend the settlement session (for example, Zakat advisor).
6. The name and the address of the authorized representative (in case the representatives attended the session on behalf the Zakat payer).

In case the Zakat payer rejected the decision of the internal committee regarding the settlement, or the specified period has elapsed without reaching a settlement, the Zakat payer has the right to file an appeal case before the Tax Violation and Dispute Resolution Committee of the General Secretariat of Tax Committees within (30) days from the date of notification of the internal settlement decision.

### **2.9.3 Appeal to the Tax Violation and Dispute Resolution Committee of the General Secretariat of Tax Committees**

The Zakat payer has the right to file an appeal case before the Tax Violation and Dispute Resolution Committee of the General Secretariat of Tax Committees in the following cases:



caset	The duration for filling the case with TVDRC
ZATCA rejected the appeal submitted by the Zakat payer, or a period of (90) days passes without issuing a decision this in respect	(30) days from the date of notification of the ZATCA's decision.
	(30) days after (90) days without a decision being issued by ZATCA.
The Zakat payer rejected the decision of the internal committee regarding the settlement, or a period of (30) days passes without issuing a decision in this respect.	(30) days from the date of notification of the ZATCA's decision.
	(30) days after (30) days without a decision being issued by the Settlement Committee.

- **Information and documents included in the case filed to the Tax Violation and Dispute Resolution Committee:**

1. The case is submitted through a form specified by the General Secretariat of Tax Committees showing the following: The plaintiff's name, commercial registration number, assigned number, national address, date of notification of the ZATCA's decision, date of appeal and its outcome, the full name of the attorney or the legal representative, its identity number, its place of residence, its national address, and the reasons and grounds for the appeal.
2. Supporting documents for the appeal.
3. The Zakat assessment and ZATCA's decision regarding the appeal submitted by the Zakat payer.
4. Zakat declaration.
5. Financial statements.
6. Commercial registration.
7. Articles of association.
8. Professional license to practice law issued by the Ministry of Justice, also a copy of the valid power of attorney (in the event of hiring a lawyer).
9. The capacity of the plaintiff.



The documents that are required upon filling the case in respect of the capacity condition, in accordance with the Royal Decree No. (M/66) dated 15 Rajab 1443, amending the Code of Law Practice.

Legal attorney

Legal representative

Valid power of attorney and professional license to practice law issued by the Ministry of Justice (including the right to plead and defend before committees).

The Zakat payer's official documents, such as the articles of association, the commercial registration, or companies' decisions that indicate the name of the legal representative.



## 2.10 Other considerations

### 2.10.1 General conditions of documents

The documents that are submitted by the Zakat payer in order to prove the validity of the Zakat declaration require several conditions:

- **The documents shall be in Arabic**

The requirement of Arabic language is considered as a basic condition in the documents submitted to ZATCA; as upon registering the Zakat payer, it is initially required to attach the documents in the Arabic language for example: attaching the commercial registration, the articles of association, and the other required documents in Arabic language. In addition, Article (17) of the Implementing Regulation for Zakat Collection stated that the Zakat payer shall submit the Zakat declaration and its attachments in Arabic language, such as the financial statements, and in case the company is foreign, a certified translation shall be submitted.

- **The commercial books shall be maintained in the Kingdom**

Upon referring to Article (18) of the ZIR which stated that it is required to maintain the commercial books necessary to determine the Zakat base and its supporting documents in the Kingdom.

- **The commercial books and accounting records shall be maintained in the Kingdom**

It is required that the books and records to be maintained in the Kingdom in order to calculate the Zakat based on them, in accordance with Article (18) of the Implementing Regulation for Zakat Collection. In addition, the Commercial Books Law stated the controls and requirements for maintaining the commercial books, which are as follows:

1. Maintain the original copy of all documents related to the Zakat payer's trade issued and received by the zakat payer.
2. Properly archiving documents for ease of reviewing the accounting entries and verifying profits and losses.
3. Prepare the commercial books according to the Ministry of Commerce's forms, provided that their pages are numbered.
4. Maintain the commercial books, correspondences, and other documents for at least ten years.

- **Submission of documents based on the forms specified in the relevant Laws and Regulations**

The Zakat payer is required to submit the Zakat declaration according to the forms approved by ZATCA, which can be reached through, logging in to the electronic portal, then selecting "declarations", and selecting "declaration to be submitted", then filling out the declaration with the financial data and submitting it. Upon submission of the declaration, the Zakat payer will receive a notification of receipt of the declaration via the mobile number and email registered with ZATCA.





- **Conditions of electronic documents**

The Zakat payer can maintain its accounts via computer under the following conditions and controls:

1. The computer's location shall be in the Kingdom, and the resident Zakat payer who owns a permanent establishment has the right to have the computer's location abroad, provided that the branch of the establishment inside the Kingdom is provided with a local terminal unit through which all data related to the accounts of the permanent establishment in the Kingdom can be accessed.
2. The data of the books shall be recorded in Arabic language, and (if it is not in Arabic language, it shall be an official translation), as it shall reflect the same information as the books provided.
3. Maintain all original documents that support the entries recorded in the accounting books locally.
4. The closing accounts and the balance sheet shall be extracted directly from the computer, and all adjustment entries shall be attached, and they shall be in Arabic language (if it is not in Arabic language, it shall be translated an official translation), in the event of using traditional computers and using a computer in some account items.
5. Printed data shall be extracted periodically (quarterly) and shall include all information.
6. The establishment shall document a system for entering and directing the accounting entries into the computer for reference when needed.
7. The establishment is required to provide the necessary security means to protect the data from tampering.

ZATCA also has the right to automatically review the systems and programs applied by the Zakat payer in preparing its computerized accounts.

## **2.10.2 Retention of documents and the effect of non-compliance**

- **Retention of documents**

Given the importance of retaining documents in safeguarding the rights of parties and ZATCA's right to correct errors, where Article (21) of ZIR stated that ZATCA has the right to correct errors related to the provisions of the Regulations or the Laws within five years from the deadline specified for submitting the Zakat declarations. Furthermore, it has the right to correct the errors resulting from the calculations or placing a wrong number in place of the correct number within ten years from the deadline specified for submitting the Zakat declarations.



As it is understood from this Article that the supporting documents that support the information in the Zakat declaration shall be maintained. In addition, the burden of proving the correctness of what they claims falls on the Zakat payer, and among the required documents in order to submit the Zakat declaration are the commercial books. As the Commercial Books Law stated that the commercial books and its supporting documents shall be maintained for a period of ten years at the headquarters of the Zakat payer.

- **The effect of non-compliance with retaining documents**

Failure of the Zakat payer to comply with this obligation results in the following:

1. **Arbitrary assessment:** As Article (11) of ZIR stipulated that ZATCA has the right to account for the Zakat payer on deemed basis; in case the Zakat payer did not maintain the commercial books, did not submit the documents in the Arabic language (or certified translation), did not comply with the forms outlined by the relevant Laws and Rules, or was unable to prove the correctness of the information recorded in its declaration through documents which are acceptable by ZATCA.
2. **Disallowing the unproven item:** If the Zakat payer was unable to prove a specific item, ZATCA has the right to disallow the unproven item based on what is stated in the provision of Article (18) of the ZIR.

## 2.11 Practical examples

### 2.11.11 Practical example (1)

The statement of financial position and the statement of income of AL-Riyadh Company showed the following financial data for the financial year ended on 31 December 2022:

Statement of Financial Position		
Description	2022	2021
Cash on hand and in the bank	22,500,000	21,000,000
receivables and accounts receivable	9,000,000	5,000,000
Commodity inventory	2,250,000	1,345,000
Due from related parties	35,465,000	50,000,000



<b>Total current assets</b>	<b>77,345,000</b>	<b>69,215,000</b>
Investments in local establishment	3,455,000	1,016,000
Investments in foreign establishment	7,560,000	-
Properties, machinery, and equipment	12,890,560	10,005,000
Constructions under implementation	345,000	3,500,000
<b>Total non-current assets</b>	<b>24,250,560</b>	<b>14,521,000</b>
Patent	20,000,000	20,000,000
<b>Total intangible assets</b>	<b>20,000,000</b>	<b>25,000,000</b>
<b>Total assets</b>	<b>121,595,560</b>	<b>108,736,000</b>
Payables	5,340,000	11,005,500
Accrued expenses	2,999,000	8,435,000
Dividends payable	13,750,000	-
Installment due on long-term loans	8,235,000	5,550,000
<b>Total current liabilities</b>	<b>24,989,340</b>	<b>24,990,500</b>
Long-term loans	22,250,000	17,780,000
Provisions	7,450,325	6,780,500
Due to related parties	11,459,895	6,899,000
<b>Total non-current liabilities</b>	<b>41,160,220</b>	<b>31,459,500</b>
Capital	25,000,000	25,000,000
Reserves	1,450,000	1,450,000
Retained profits	28,996,000	25,836,000
<b>Total rights of partners</b>	<b>55,446,000</b>	<b>52,286,000</b>
<b>Total liabilities and rights of partners</b>	<b>121,595,560</b>	<b>108,736,000</b>



Adjusting the Result of the Activity	
Description	Amount
Revenues	42,000,000
Cost of revenues	(35,000,000)
<b>Net profit</b>	<b>7,000,000</b>
Sale and distribution expenses	(2,750,000)
General and administrative expenses	(250,000)
<b>Operating profit</b>	<b>4,000,000</b>
The company's share in the results of the subsidiaries	(500,000)
Dividends from invested companies	100,000
Financing costs	(500,000)
<b>Year profit before Zakat</b>	<b>4,100,000</b>
Zakat	(200,000)
<b>Year profit after Zakat</b>	<b>3,900,000</b>



The company submitted its Zakat declaration as follows:

Adjusting the Result of the Activity	
Description	Amount
Net book profit before Zakat	4,100,000
Add:	
End of service benefits provision for employees	725,000
Provision for doubtful debts	273,500
Provision for slow moving inventory	350,750
Expenses not related to the activity and entertainment expenses	675,988
Illegal fines and penalties	93,455
<b>Adjusted net profit</b>	<b>6,218,693</b>



Zakat Base	
Description	Amount
Deductions from the base	
Net fixed assets and equivalents	12,890,560
Investments	11,015,000
Other deductions	20,345,000
<b>Total deductions from the base</b>	<b>44,250,560</b>
<b>Zakat base</b>	<b>47,340,208</b>



### Additional information

1. The company distributed the cash dividends during the year amounting to three million and (500) thousand Saudi Riyals.
2. The utilized amount from the end of service benefits provision for employees was (250) thousand Saudi Riyals.
3. The utilized amount from the provision for slow moving inventory was SR (168) thousand and (970) Saudi Riyals.
4. During the year, debts amounting to (260) thousand and (455) Saudi Riyals were written off.
5. The investments deducted from the base include investments in establishments outside the Kingdom of Saudi Arabia.

**Required:** Identify the supporting documents for the Zakat payer's declaration.

**Solution of the example:** Based on the information above, the Zakat payer shall maintain and submit the following as a minimum when, requested by ZATCA.

Proceduret	Document
Deduction of dividends	<ul style="list-style-type: none"><li>. Partners' decision.</li><li>. Proof of payment / transfer of profits to partners</li></ul>
Deduct the utilized amount from the end of service benefits provision	
Deduct the utilized amount from the provision for slow moving inventory	Proof of the use of the provision during the Zakat year.
Debt write-off	Certificate from the chartered accountant licensed in the Kingdom.
<b>Deduct foreign investments</b>	<ul style="list-style-type: none"><li>. Zakat calculation certificate certified by a chartered accountant licensed under the provisions of the Regulations.</li><li>. Proof of payment of the Zakat due based on the certificate.</li></ul>

