هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

For Treatment of Investments in Investment Funds in Accordance with the Implementing Regulations for Zakat Collection (1445H)

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Note: The English version is for guidance purposes only. In case of any discrepancy between the Arabic and English versions, the Arabic version shall prevail

The Zakat, Tax and Customs Authority has issued this Guideline to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Guideline shall not be deemed an amendment to any of the laws and regulations in force in the Kingdom of Saudi Arabia.

The Authority affirms that it shall apply the explanatory treatments set out in this Guideline, where applicable, considering the relevant statutory provisions. If any clarification or content contained in this Guideline is amended in relation to an unchanged statutory provision, the updated explanatory treatment shall apply to transactions carried out after the date of publication of the updated version of the Guideline on the Authority's official website.

Amendment log

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1. Introduction

1.1 About Zakat

Zakat constitutes the third pillar of Islam and represents its paramount financial act of worship. Consequently, references to it recur frequently throughout the Holy Quran, where Allah - the Almighty and Majestic - has coupled it with Prayer (Salah) in more than 80 instances. It stands as one of the fundamental pillars that distinguish Muslim society and is considered a manifestation of the sublimity of Islamic legislation, acting as a mechanism to combat poverty and alleviate the suffering of those in need, thereby achieving social solidarity.

1.2 Zakat Collection

The significance of Zakat in Islam is evidenced by the entrustment of its administration and supervision to the State. The State is authorized to collect Zakat on visible wealth and to disburse it to eligible beneficiaries. This is carried out through assigning Zakat officers to visit wealth owners throughout the Islamic State, assess the amount of Zakat due, collect it from them, and supervise its disbursement and distribution to eligible recipients.

The Zakat, Tax and Customs Authority undertakes the task of Zakat collection, as it assumes all procedures related to calculating the Zakat of the payer, beginning with the registration of the Zakat payer, passing through the process of calculating the Zakat due - which includes supervising the submission of Zakat returns and payment procedures - examining and reviewing such data, and verifying its accuracy through the human competencies available at the Authority, and concluding with the issuance of the final Zakat certificate, as well as any subsequent responsibility arising from the examination of objections submitted by the taxpayer against the Authority's Zakat assessments.

1.3 Application of Zakat Collection in the Kingdom of Saudi Arabia

The collection and disbursement of Zakat to eligible beneficiaries is one of the core responsibilities of the State, as stipulated in the Basic Law of Governance, where Article 21 thereof states that: "Zakat shall be collected and disbursed in its lawful channels." Furthermore, Article 7 affirms the State's commitment to Islamic Sharia obligations, including the collection of Zakat and its disbursement to those entitled thereto, stating: "Governance in the Kingdom of Saudi Arabia derives its authority from the Book of Allah Almighty and the Sunnah of His Messenger, and they are the governing authority over this Law and all laws of the State."

In confirmation thereof, Royal Decree No. (8634/28/2/17) dated 29th Jumada Al-Thani 1370H/ 6th April 1951G was issued during the reign of the founding King Abdulaziz - may Allah have mercy on him, - ordering the collection of Zakat. This decree was followed by numerous Royal Decrees affirming it, Ministerial Decisions implementing it, as well as regulations, circulars, and interpretative clarifications. These include: Royal Decree No. (M/40) dated 2nd Rajab 1405H/ 23rd March 1985G, the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2082), dated 1st Jumada Al-Thani 1438 H/28th February 2017G, and the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2216) dated 7th Rajab 1440H/14th March 2019G, in addition to the Implementing Regulations for Zakat Collection issued pursuant to Minister of Finance Decision No. (1007) dated 19th Sha'ban 1445H /29th February 2024G, which applies to financial years beginning after 1st January 2024G, or to those for which approval is granted for application of the Ministerial Decision and accounting in accordance with the Regulations issued in 1445H/2023-2024G. The Implementing Regulations for Zakat Collection gave particular attention to clarifying the provisions governing Zakat collection in commercial and professional activities, procedures for submitting Zakat returns, Zakat refund requests, assessment, audit, payment, and the related statutory time limits.

The Zakat proceeds collected by the Zakat, Tax and Customs Authority are deposited into the Social Security Account, which is responsible for disbursement to the poor and needy, in accordance with Royal Decree No. (16/5/1) dated 5th Muharram 1383H/28th May 1963G. Paragraph 1 thereof states: "Zakat shall be collected in full from all joint-stock companies and others, as well as individuals subject to Zakat." And Paragraph 2 further states: "All amounts collected shall be transferred to the Social Security Fund."

1.4 Zakat, Tax and Customs Authority

The Council of Ministers issued a Resolution No. (570) dated 22 Ramadan 1442H corresponding to 4 May 2021 entailing to merge the General Authority for Zakat and Tax and the Saudi Customs Authority in one entity named Zakat, Tax and Customs Authority (ZATCA), which works on levying Zakat, collecting tax and customs duties and achieving the highest degree of compliance by tax and Zakat payers per the best practices and highest efficiency. ZATCA seeks to enable the Kingdom to be a global logistic hub by facilitating trade, protecting national security, and organizing and managing all activities related to customs work and ports in a way that guarantees leveling up its efficiency, productivity and competitiveness. This will be achieved though providing high-quality, client-centered services per the best practices.

1.5 Guideline Purpose:

This Guideline provides essential guidance and information regarding the collection of Zakat from investors in investment funds. It assists in forming a clear understanding and provides practical guidance on how Zakat accounting is applied to investment funds.

This Guideline represents the ZATCA's understanding and interpretation related to the application of the Implementing Regulations for Zakat Collection issued pursuant to Minister of Finance Decision No. (1007) dated 19th Sha'ban 1445H /29th February 2024G, which applies to financial years beginning after 1st January 2024G.

For guidance on any specific transaction, you may visit ZATCA's official website (zatca.gov.sa), which contains a wide range of tools and information specifically designed to assist taxpayers, including visual guidance materials, all relevant data, and responses to frequently asked questions.

2. Key Definitions

Authority: Zakat, Tax and Customs Authority.

Regulations: The Implementing Regulations for Zakat Collection issued pursuant to the Decision of His Excellency the Minister of Finance No. (1007) dated 19th Sha'ban 1445H / 29th February 2024G, and any amendments thereto.

Financial Market: A financial market licensed - pursuant to the provisions of the Capital Market Law, to conduct securities trading activities in the Kingdom.

Transfer Pricing Bylaws: The Transfer Pricing Bylaws and subsequent amendments thereto issued pursuant to the Decision of the Board of Directors of the Zakat, Tax and Customs Authority No. (19-1-6) dated 25th Jumada al-Awwal 1440H/31st January 2019G.

Central Bank: The Saudi Central Bank

Kingdom: The Kingdom of Saudi Arabia.

Zakat payer: The person subject to the provisions of the Regulations who carries out an activity, or in respect of whom a license has been issued to practice the activity.

Activity: Any work intended to generate income on a continuous and regular basis pursuant to a license issued by the competent authorities, or which requires obtaining a license prior to its practice, in accordance with the applicable laws and regulations in force in the Kingdom, whether commercial, industrial, service, professional, or otherwise.

Person: Any natural or legal person.

Fund: An investment fund or real estate investment fund established in the Kingdom, whose units may be offered by the fund manager to investors in the Kingdom in accordance with the relevant laws and regulations in force in the Kingdom.

Equity Funds: Funds that primarily invest in the shares of companies listed in financial markets, whether local, international, or regional.

Unit owner: The Zakat payer who owns a unit in the fund representing an undivided share in the net assets of the fund.

Fund Manager: A Capital Market Institution that undertakes the management of the assets of an investment fund or real estate investment fund, manages its operations, and offers its units in accordance with the applicable laws and regulations in force in the Kingdom.

Custodian: A person licensed pursuant to the Capital Market Institutions Regulations to carry out securities custody activities.

Special Purpose Entity: An entity established and licensed pursuant to the rules governing Special Purpose Entities.

Investment Funds in the Form of Special Purpose Entities: Entities established and licensed to issue debt instruments or investment units by the Capital Market Authority pursuant to the rules governing Special Purpose Entities, enjoying independent financial liability and legal personality, and terminating upon fulfillment of the purpose for which they were established, in accordance with the rules and provisions issued by the Capital Market Authority.

Fund Management Fees: Compensation, expenses, and fees related to advisory services paid to the fund manager.

Custody Fees: Compensation, expenses, and fees related to custody of the fund's assets.

Subscription Transactions: Amounts relating to investors' subscription transactions in investment funds.

Redemption Transactions: Amounts relating to investors' redemption of the value of their owned units in the investment fund.

Sale Transactions: In the case of equity funds, transactions involving the sale of assets from investments in shares during a specified period.

Purchase Transactions: In the case of equity funds, transactions involving the purchase of assets from investments in shares during a specified period.

Fund Terms and Conditions: Contracts containing the data and provisions required under the Investment Funds Regulations and the Real Estate Investment Funds Regulations, executed between the fund manager and the unit owners.

Zakat Year: The financial year of the Zakat payer or the fund, whether Hijri or Gregorian, whether short or long, at the beginning or end of the activity.

Current Asset: Any asset or liability expected to be realized, recovered, or settled within a period not exceeding (365) days after the end of the Zakat year, or any asset held by the fund primarily for trading purposes.

Related Persons to the Fund: Natural or legal persons who exercise actual control over the fund, are controlled by the fund, or are controlled by the same controlling person of the fund.

Transactions Between Persons Related to the Fund: Any transaction between related persons of the fund, including sham and nominal transactions and the exchange of anything of value between them, to the extent that such transactions have financial or legal effect.

Zakat Return: A statement submitted by the Zakat payer - using the ZATCA's approved forms - containing the items related to the calculation of Zakat and showing the Zakat due in accordance with the provisions of the Regulation.

Information Return: A statement submitted by the Zakat payer - using the ZATCA's approved forms - disclosing the items related to the calculation of the Zakat base for disclosure purposes, in accordance with the provisions of the Regulation.

Licensed Certified Public Accountant: A certified public accountant licensed in the Kingdom to practice auditing and assurance, regulated by the Saudi Organization for Chartered and Professional Accountants.

Public Accountant Certificate: A certificate attested by a licensed certified public accountant confirming the calculation of Zakat on investments in investment funds.

Net Profit - Loss: The results of the fund's operations in terms of accounting profit or loss as stated in the income statement for a specified financial period.

Adjusted Net Profit - Loss for Zakat Purposes: Net accounting profit or loss after adjustment of items in accordance with Articles 62 and 63 of the Regulations.

Operating Result: Net accounting profit or loss.

Direct Financing Fund: An investment fund established for the purpose of carrying out direct financing activities for legal persons and investment funds.

Non-Direct Financing Fund: An investment fund established for the purpose of purchasing financing portfolios from entities subject to the supervision of the Saudi Central Bank, where the decision to grant credit is made by financing companies licensed by the Saudi Central Bank.

Open-Ended Investment Fund: An investment fund with variable capital, whose units increase through the offering of new units or decrease through the redemption by unit owners of part or all of their units. Unit owners in such a fund are entitled to redeem the value of their units in accordance with the net asset value on the dealing days specified in the fund's terms and conditions, in accordance with the Investment Funds Regulations.

Exchange-Traded Fund: An investment fund whose units are traded on the main market or the parallel market.

Fund Termination: The date on which the fund ends upon the occurrence of an event or upon expiry of a specified period, in accordance with the fund's terms and conditions, including the asset liquidation phase and distribution of entitlements to unit owners.

Financial Reports of Investment Funds

The financial reports clarify the performance of the investment fund. For this purpose, the fund must issue financial statements upon request and in compliance with other regulatory requirements imposed by the Capital Market Authority:

- "Annual": Including audited financial statements.
- "Semi-Annual": Where the fund is required to issue semi-annual financial statements

3. Zakat Collection from Investors in Investment Funds

3.1 Introduction to the Provisions Governing the Collection of Zakat from Investors in Investment Funds

The Rules for the Collection of Zakat from Investors in Investment Funds were issued pursuant to Ministerial Decision No. (27991) dated 9th Jumada al-Awwal 1444H/3rdDecember 2022G. Thereafter, the Implementing Regulations for Zakat Collection was issued pursuant to the Decision of His Excellency the Minister of Finance No. (1007) dated 19th Sha'ban 1445H/29th February 2024G, whose application applies to financial years beginning after 1st January 2024G. The Implementing Regulations thereby consolidated all previous regulatory instruments, including the Rules for the Collection of Zakat from Investors in Investment Funds.

Investment in investment funds is considered among the deductible items from the Zakat base, provided that the deduction requirements stipulated in the Implementing Regulations for Zakat Collection issued in 1445H/2023-2024G are satisfied. The Regulations have dedicated Section 3 of Chapter 7 of its provisions to addressing the rules governing investment in investment funds, the obligations of the fund, the mechanism for calculating the Zakat of the unit owner in investment funds, and a number of other related provisions.

This Guideline addresses, in detail, the mechanism, conditions, and controls for calculating the Zakat on such investments when applying the deduction requirements for Zakat payers in respect of these investments, in accordance with the provisions of the Implementing Regulations for Zakat Collection (1445H Edition/ 2023-2024G).

3.2 Persons Subject to the Provisions Governing the Collection of Zakat from Investors in Investment Funds

The provisions of the Regulations aim to regulate the mechanism for calculating and collecting Zakat from investors in investment funds, for the purpose of qualifying taxpayers subject to the Regulations to include their owned investment fund units as deductible items from the components of the Zakat base in their Zakat returns, where the deduction requirements stipulated in the Regulations are met.

It should be noted that the provisions of the Regulations constitute a mechanism for regulating the collection of Zakat from investors in investment funds, in case the Zakat payer subject to the Regulations provisions chooses to include investments among the deductible items from the Zakat base in its Zakat return. Accordingly, the application of the provisions of the Regulations relating to the deduction of investment in investment funds is optional and not mandatory, as follows:

Zakat Payer Action with Respect to the Deduction of Investment in Units of Investment Funds	Mandatory Compliance with the Provisions of the Regulations Relating to the Deduction of Investment in Investment Funds
The Zakat payer shall deduct its investment in its Zakat return where the deduction requirements stipulated in the Regulations are satisfied.	Mandatory
The Zakat payer failure to deduct the investment in the Zakat return.	Non-Mandatory

Prior to explaining and clarifying the provisions governing the calculation of Zakat on investments in investment funds, Zakat payers subject to the provisions of the Implementing Regulations for Zakat Collection (1445H/2023–2024G) must be identified. As stipulated under Article 3 of the Regulation, those who carry out an activity subject to Zakat include the following:

1. The Saudi resident individual who carries out an activity pursuant to a license in the Kingdom.
2. The sole proprietorship established in the Kingdom and owned by a Saudi, in accordance with the applicable laws and regulations in force in the Kingdom.

3. The company established in the Kingdom and owned by a Saudi, in accordance with the applicable laws and regulations in force in the Kingdom, including the Saudi partner's or shareholder's share in resident companies, and the shares of government entities and institutions and entities of similar status.
4. Financing funds licensed by the Capital Market Authority.
5. Resident companies wholly owned by the State, and resident companies owned by the Public Investment Fund, in accordance with the controls set out in the relevant Royal Orders and Ministerial Decisions.
6. The share of a non-Saudi shareholder in resident companies listed in the Saudi financial market, excluding the shares of non-Saudi founders in accordance with the company's articles of association, memorandum of association, or other relevant legal documents.

Taxpayers subject to Zakat collection who are assessed using the estimated method shall not be included in the application of the provisions of the Regulations relating to the deduction of investment in investment funds.

It should also be noted that the following cases are not subject to the provisions of the Implementing Regulations for Zakat Collection (1445H/2023–2024G):

a. Resident capital companies in respect of shares owned directly or indirectly by persons engaged in the production of oil and hydrocarbon materials, whether natural or legal persons, resident or non-resident, excluding shares owned directly or indirectly by persons engaged in the production of oil and hydrocarbon materials in capital companies listed on the Saudi financial market, and the shares owned directly or indirectly by such companies in capital companies.
b. Zakat payers subject to the Income Tax Law, and shares subject to income tax for legal persons.

Example:

Below are examples of unit owners in investment funds and the extent to which the provisions of the Regulations apply to them:

Person	Applicability of the Regulation
Resident capital company wholly owned by natural persons holding the nationality of a GCC member state	Applies
Saudi national resident individual carrying out an activity in the Kingdom	Applies
Company operating in oil and hydrocarbon extraction	Does not apply
Company granted approval by ZATCA not to be subject to Zakat collection	Does not apply
Company operating in the telecommunications sector with shares fully listed on the Saudi financial market	Applies
Individual (natural person) not carrying out any subject activity and not meeting the definition of a taxpayer	Does not apply
Person subject to the Regulations and assessed under the estimated method	Does not apply

Further to the foregoing, the provisions of the Regulations clarify the following exclusions in terms of subjection to the provisions governing investment in investment funds, as follows:

- **Unit owner in a financing fund**

Financing funds are defined as investment funds established for the purpose of carrying out financing activities, whether direct or indirect, in accordance with the applicable laws and regulations in force in the Kingdom.

Accordingly, the Implementing Regulations for Zakat Collection (1445H/2023-2024G), under Article 75, Paragraph A, provides for the exclusion of the unit owner in a financing fund. The Regulations further set out the provisions governing the deduction of investment in financing funds in accordance with the provisions of Section 1 of Chapter 7 of Part 2 of the Regulation.

- **Unit owner who owns the fund in full, directly or indirectly, and submits a unified Zakat return with the fund**

This refers to cases in which the taxpayer owns all units of the fund, directly or indirectly, and is entitled, at its option, to submit a unified Zakat return that includes the results of the fund's operations, based on consolidated financial statements, in accordance with Article 16 of the Regulation.

This matter will be addressed in detail in this Guideline (refer to Section 3.7).

3.3 Registration of Investment Funds with the Zakat, Tax and Customs Authority

"Article 76 of the Regulations stipulates that all investment funds approved for establishment by the Capital Market Authority are required to register with the Zakat, Tax and Customs Authority for Zakat purposes and to submit the Information Return as prescribed in the Regulation. This requirement applies to investment funds whose unit owners are investors subject to the Implementing Regulations for Zakat Collection, in the manner set out in the guidance above. Accordingly, investment funds are not required to register where the investing unit owners are not subject to the provisions of the Regulation."

3.4 Obligations of investment funds and investment unit owners

Registration Applications with ZATCA

The investment fund must register with ZATCA within the regulatory dates stipulated in the rules and that were described in the previous Section 3.3 and obtain the assignment number according to the registration certificate approved by ZATCA.

The Fund shall also update its data in the case of any change in its legal form. First, the registration of the investment fund with ZATCA requires the following information - at least:

- Terms and conditions of the fund.
- The identity of the fund or/and the no-objection letter issued by the CMA.
- Contact information for the person- in charge, whether an individual or an establishment.
- Any other data that ZATCA may require to approve the registration

It should be noted that these requirements are subject to periodic change based on the ZATCA's determinations. Accordingly, reference should be made to the ZATCA's website to review the required documents.

Disclosure Requirements - Post-Registration

Article 76 of the Regulations stipulates that investment funds are obligated to disclose the following information to ZATCA:

- Submission of the Information Return within 120 days from the end date of the fund's financial year.

The submission and filing of the Information Return with ZATCA does not require the payment of any Zakat dues by the fund, as the obligation to pay rests with the chargeable persons who are the investment unit owners and who are subject to the provisions of the Regulation, as will be further clarified later in this guide. The Information Return submitted by the investment fund must include disclosure of the financial data disclosed in the investment fund's financial report.

- In addition to the Information Return, other information and reports related to the Return that must be submitted to ZATCA may be classified into two categories:

A. Information to be submitted at the time of filing the Information Return

- The financial statements and financial reports of the investment fund.
- The record of the investment fund's transactions with related persons through the Related Party Transactions Disclosure Form attached to the Information Return, in accordance with the Transfer Pricing Bylaws and their subsequent amendments issued by virtue of the Board of Directors' Resolution No. (19-1-6) dated 25th Jumada Al-Awwal 1440H/31st January 2019G. Transactions with related parties must be disclosed in accordance with the Transfer Pricing Bylaws as follows, by way of example and not limitation:
    1. Name of the related party.
    2. Nature of the transaction.
    3. Volume of the transaction.
    4. Transfer pricing method applied.

A. **Information that ZATCA may request from the fund or the investment unit holder after the submission of the Information Return or during the examination process, including, by way of example and not limitation:**

- A list of investment unit holders who are "chargeable persons" during the financial year.
- Any other data that ZATCA may request, including, for example, the total subscription transactions out of the total purchase amount, the total redemption transactions out of the total sale amount, and additional details on the fund's operating results in terms of revenues and expenses, as well as its financial position, such as details of assets, liabilities, and equity, etc., which assist the ZATCA during the examination process and in verifying the accuracy of the Information Return in accordance with the relevant provisions set out in the Regulation.

Responsibility for Registration of the Investment Fund and Provision of Information to ZATCA

The responsibility for registering the investment fund, submitting the Information Return, and providing the Authority with the data related to the Return, both at the time of filing and thereafter, rests with the investment fund. Accordingly, the fund is required to provide ZATCA with the following:

1. All information referred to in the disclosure requests set out above, whether the fund's financial year is long or short, and whether such information relates to the fund at the beginning of its establishment or at the time of its liquidation.
2. The investment fund and the investment unit holder shall be obligated to provide the Authority with the required information requested by ZATCA within twenty (20) days from the date on which the Authority issues the request. ZATCA shall have the right to extend the aforementioned period or to issue an assessment based on the information available to it in the event of non-compliance with the provision of the requested information.

3.5 Conditions for Deducting the Value of Investment in Investment Funds in Zakat Returns for Zakat Payers Who Are Investment Unit Owners Subject to the Provisions of the Regulations and Who Maintain Statutory Accounts

Article 77 of the Regulations provides that persons subject to the provisions of this Regulations are entitled to deduct the value of their investments in investment funds, provided that the following conditions are met:

First Condition: Zakat payers' investment in the fund must be held for non-trading purposes.

The Implementing Regulations for Zakat Collection provides, in Article 26, the deductible items from the Zakat base, which are as follows:

1. Investment in an establishment inside the Kingdom in accordance with the provisions set out in Article 43 of the Regulations.
2. Investment in an establishment outside the Kingdom in accordance with the provisions set out in Article 44 of the Regulations.
3. Investment in investment funds inside the Kingdom in accordance with the provisions set out in Article 45 of the Regulations.
4. Net fixed assets and assets of a similar nature in accordance with the provisions set out in Articles 49 and 51 of the Regulations.
5. Intangible assets in accordance with the provisions set out in Article 50 of the Regulations.
6. Materials not held for sale and raw materials in accordance with the provisions set out in Article 52 of the Regulations.
7. Investment in direct financing funds and indirect financing funds registered with ZATCA and subject to the provisions set out in Section 1 of Chapter 7 of Part 2 of the Regulations.
8. The value of investment in sukuk and bonds that are treated by their issuer as capital for Zakat purposes, in accordance with the provisions set out in Article 55 of the Regulations.
9. Statutory deposits and equivalents thereto, in accordance with the provisions set out in Article 56 of the Regulations.
10. Deferred tax asset.

Article 77 of the Implementing Regulations for Zakat Collection also provides for the conditions for deducting investment in the fund from the Zakat base, the first of which is as follows:

"The unit owner may deduct his investment in the fund from his Zakat base, provided that the following conditions are met:

- The investment in the fund must be for non-trading purposes."

The concept of trading is considered one of the most significant issues that must be carefully considered and understood when applying the provisions governing the collection of Zakat from investors in investment funds, and the related provisions set out in the Implementing Regulations for Zakat Collection. This is because the realization or absence of the trading purpose in investments in general affects the Zakat treatment of such investments, including investment in investment units.

In general, the Implementing Regulations for Zakat Collection sets out the cases in which an investment is considered to be held for trading purposes in Article 42, which provides as follows:

- Without prejudice to the special provisions applicable to each investment under the Regulation, a condition for deducting the investment is that it be held for non-trading purposes.
- Where an investment is considered to be held for trading purposes, such effect applies to the assets of the investment portfolio included in that investment and does not affect the entirety of the assets of the investment item presented in the financial statements.
- Additional acquisition or sale.
- Investments are generally classified as current assets in the financial statements according to the company's approach to managing its financial assets, or based on the company's business model, which reflects the purpose of holding the investments.
- An investment portfolio is considered a trading portfolio if any of the following conditions are met:
    a. The Zakat payer's activity is inherently trading in investments, as evidenced by the financial statements, statutory documents, or any other document demonstrating the nature of the taxpayer's activity
    b. The investment is managed by a person other than the investor under an employment contract, who has authority to make buying and selling decisions, unless the investment management agreement specifies that the person's role is solely to invest for purposes other than trading, except for the fund manager in investment funds.

c. The investment is classified as a current asset in the taxpayer's financial statements.
d. The investment is listed on the financial market, and the taxpayer conducts a sale followed by a purchase and then one or more subsequent sales, or a purchase followed by a sale and then one or more subsequent purchases within the same Zakat year and portfolio.
e. The investor has a declared or documented intention or decision to dispose of the investment, either at a specified price or within a period of less than one year.
f. The taxpayer classifies the financial statements based on liquidity and does not provide evidence that the investment is expected to be realized over a period exceeding 365 days after the end of the Zakat year.

From the foregoing, the general concept of trading in investments - including investment units - can be summarized as the purchase and sale of securities with the purpose of realizing profits represented by the difference between the purchase and sale prices, assuming the investing company's expectations regarding the value of the investment in subsequent periods are accurate.

Based on the above, the application of this concept to the provisions for Zakat collection from investors in investment funds is clarified as follows:

The provisions for Zakat collection from investors in investment funds refer to the concepts of "trading" and "non-trading" in multiple instances, and certain treatments are conditioned on whether this concept is realized or not. These instances can be summarized and divided into two levels:

First Level: Investment in Investment Units: This level concerns determining the purpose of the unit holder in investing in the units of an investment fund, as stated in Article 77 of the Implementing Regulations for Zakat Collection, which provides the following: "Unit holders may deduct their investment in the fund from their Zakat base, provided that the following conditions are met:

a. The investment in the fund is for non-trading purposes." This level is the focus of the present Paragraph.

Second Level: Investments of the Investment Fund: This level concerns determining the fund manager's purpose in investing in the fund's assets and the impact of the fund's management style on the Zakat treatment of the investment portfolio's assets. This level is associated with the provisions of Article 78 of the Implementing Regulations for Zakat Collection, which include, among others, the following:

b. The fund's investment for non-trading purposes in funds shall be treated as external investments...
c. The proportion of non-trading investments in equity funds shall be determined as follows:
    - The total amount of subscription transactions is deducted monthly from the total amount of purchase transactions, and the total amount of redemption transactions is deducted from the total amount of sale transactions. The higher of the resulting amounts is taken and divided by the net value of the fund's equity investments for the same month.
    - Subparagraph 1 of Paragraph C of this article shall be applied for each month during the year, taking the highest percentage of the months of the year. This percentage is then multiplied by the value of the equity investments recorded in the closing balance of the financial statements of the investment fund. The resulting amount is classified as the trading proportion of that item, while the remainder is treated as an investment held for non-trading purposes.
    - Application of Paragraph C requires that the primary activity of the fund be investment in equities of local and international financial markets.
d. Non-current investment real estate not held for sale shall be treated as fixed assets.

In summary: this Paragraph of this Guideline is not intended to cover this level, as for equity funds it will be explained in Paragraph 2.8.

Accordingly, the purpose of this paragraph is to clarify the methodology for classifying an investment in fund units as either for trading or non-trading, as follows:

The default assumption for investment in investment funds is non-trading, meaning it may be deducted after calculating Zakat on it separately. However, the realization of this assumption depends on determining the investor's investment policy in the fund, the management approach, the fund structure, the method of investment, and other relevant factors, as follows:

1. If the investment in the investment fund units is classified by the taxpayer (unit holder) under current assets, it shall be considered for trading and shall not be deducted from the Zakat base.
2. If the nature of the taxpayer's (unit holder's) activity is speculation in investment units, the investment in the units shall be considered for trading and shall not be deducted from the Zakat base.
3. If the decision to invest in the investment units is managed by a person other than the taxpayer (unit holder) the investment shall be considered for trading and shall not be deducted from the Zakat base. The meaning of this rule is that if the taxpayer contracts with a financial institution or similar entity to manage their investments in fund units, these managed investments are considered for trading. However, direct investment in an investment fund does not necessarily imply trading.

Example (1):

Zakat payer Ali contracted with a third party to manage his investments, and the investment portfolio included investment fund units. What is the Zakat treatment based on the provisions for Zakat collection from investors in investment funds?

This investment is considered for trading, due to the existence of a separate party managing the investment.

Example (2):

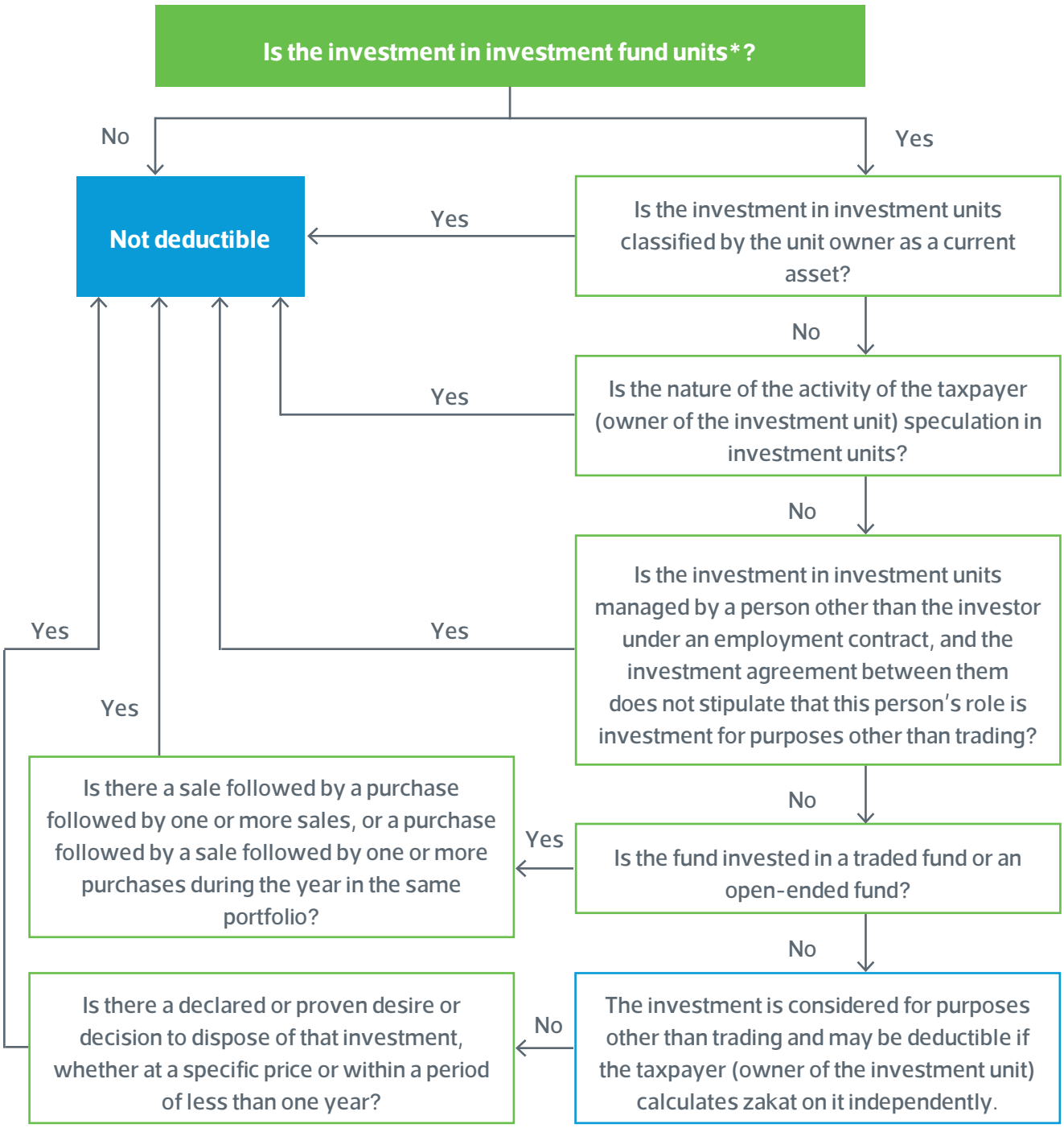
Zakat payer Walid invested in units of the Al-Rashid Fund for Saudi equities, which is managed by Al-Rashid Financial Institution. What is the Zakat treatment based on the provisions for Zakat collection from investors in investment funds?

As long as Zakat payer Walid invested directly in the fund units without contracting a separate party to manage his investments, the investment is not necessarily considered for trading.

e. If the fund in which the investment is made is a traded fund, such as publicly traded real estate investment trusts (REITs), or if the invested fund is an open-ended fund and there are multiple reverse transactions - sale followed by purchase - on the investment in these fund units, or there is a decision or intention by the taxpayer - unit holder - to dispose of the investment in these units upon reaching a certain price or on a specified date, the investment shall be considered for trading.

f. If the fund in which the investment is made is neither a traded fund nor an open-ended fund, the existence of multiple sale and purchase transactions, or the existence of a decision or intention by the taxpayer - unit holder - to dispose of the investment in the units upon reaching a certain price or on a specified date, does not imply that the investment is intended for trading. The Zakat payer - unit holder - may calculate Zakat on this investment separately and deduct it from their Zakat base.

A Diagram illustrating the cases for classifying investment in fund units as trading or non-trading



* This treatment applies to all investment funds - including financing funds - however, the deduction of the investment value in financing funds does not depend on calculating Zakat on it separately and settling it. This treatment does not apply to other investment vehicles, such as portfolios, investment deposits, and the like.

** (Managed: refers to the person who holds the authority to make buying or selling decisions, with the exception of the fund manager in investment funds).

Second Condition: The Zakat on the investment in the fund must be calculated and paid to ZATCA, either within the Zakat payer's audited financial statements or based on a certificate prepared in accordance with the Regulations and certified by a licensed professional accountant in the Kingdom, as provided in Article 78 of the Implementing Regulations for Zakat Collection.

If the Zakat payer subject to the Regulations includes their investments in funds as deductions from the Zakat base in their Zakat declaration, this requires the calculation and payment of the Zakat due on these investments in accordance with the following rules, as stipulated in Paragraphs 2 and 3 of Article 77 of the Regulations.

This shall be based on the audited financial statements of the taxpayer (unit holder) accompanied by the report of a licensed professional accountant in the Kingdom, taking into account the following requirements:

1. The financial statements of the unit holder (investor) must disclose, in the notes to the statements, the method of calculating Zakat on their share in the Zakat base of the investment fund.

The following is an illustrative example of disclosure for the calculation of Zakat on investments in investment funds in the taxpayer's audited financial statements:

(Note Number) Calculation of Zakat on investments in investment funds included as deductions from the Zakat base

The company has included its investments in the fund(s) as deductions from the Zakat base under the annual Zakat account, as detailed in Note no. (__ __).

In accordance with the provisions for Zakat collection from investors in investment funds stipulated in the Implementing Regulations for Zakat Collection (1445H edition), the company is required to calculate its share in the Zakat base of this fund/funds and pay the corresponding Zakat.

Based on the data provided by the fund(s) to ZATCA, which the Administration was able to obtain, the Zakat on these investments has been calculated as follows:

Details	xx/xxxxxx
Additions to the Zakat Base:	**SAR**
Difference between profit adjusted for Zakat purposes and accounting profit	xxxx
Net assets attributable to unit holders at year-end:	xxxx
Debts/loans and equivalents	xxxx
Financed debts already deducted	xxxx
Provisions	xxxx
Other additions	xxxx
Total Additions (1)	**xxxx**
Deductions from the Zakat Base:	**xxxx**
Net fixed assets and equivalents	xxxx
Investment real estate	xxxx
Capital construction	xxxx

In the absence of the information referred to in (1) above, the Zakat on the unit holder's investments in the fund must be calculated and paid in accordance with a certificate issued by a licensed professional accountant in the Kingdom. Similarly, the certificate must include the calculation of the Zakat for the unit holder by determining the Zakat base of the fund and the number of units held, culminating in the calculation of the Zakat due on the unit holder's investments.

If the taxpayer is unable to apply the provisions of Article 78 of the Regulations and access the detailed data to provide to the professional accountant, the taxpayer may apply the provisions of Article 46 of the Regulations to deduct the investment value from the Zakat base. Below is a proposed illustrative template of a certificate issued by a licensed professional accountant regarding the calculation of Zakat on investments in investment funds:

[Proposed Illustrative Template for a Limited Assurance Report on the Certification of Zakat Calculation]

Limited Assurance Report on the Calculation of Zakat from Investment in Investment Funds

To the Partners of (Company Name)

We have performed a limited assurance engagement to determine whether anything has come to our attention that causes us to believe that the matters detailed in the "Subject" section below have not been properly prepared, in all material respects, in accordance with the relevant controls referred to below.

Subject:

The subject of this limited assurance engagement relates to Appendix 1 prepared by the management of (Company Name) regarding the calculation of Zakat on non-trading investments in investment funds for the year ended 31 December XX20 (the "Schedule"), which has been prepared based on the confirmation that the Schedule complies with the Implementing Regulations for Zakat Collection issued pursuant to the Minister of Finance Resolution No. (1007) dated 19th Sha'ban 1445H.

Management's explanations are provided under the assumptions set out in the Schedule.

Relevant Controls:

1. Articles 78 and 79 of the Implementing Regulations for Zakat Collection, which set out the rules for additions and deductions from the Zakat base of the fund.
2. The provisions for calculating the Zakat base in the Implementing Regulations for Zakat Collection.
3. The audited financial statements of the investment fund ***, consisting of the statement of financial position and the statement of comprehensive income.

Management's Responsibility

Management is responsible for the preparation and presentation of the information contained in the "Subject" section above in accordance with the relevant controls, and is also responsible for selecting the methods for applying those controls. Management is responsible for implementing internal control systems deemed necessary to prepare and present the information in the "Subject" section above free from material misstatement, whether due to fraud or error, for selecting and applying appropriate controls, maintaining adequate records, and making reasonable estimates based on the circumstances and relevant events.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the subject above based on the limited assurance engagement we performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information," as adopted in the Kingdom of Saudi Arabia, and the terms and conditions of the engagement agreed with the company's management.

Our procedures were designed to obtain a limited level of assurance sufficient to provide a basis for our conclusion; accordingly, we did not obtain all the evidence required to provide a reasonable level of assurance. The procedures performed rely on our professional judgment, including consideration of the risks of material misstatement in the subject, whether due to fraud or error. We also considered the effectiveness of internal control systems when determining the nature and extent of our procedures; however, our engagement was not designed to provide assurance on the effectiveness of those systems.

Independence and Quality Control

We have complied with the independence requirements and other relevant provisions of the Code of Ethics and Professional Conduct applicable in the Kingdom of Saudi Arabia, which are founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

We also apply the International Standard on Quality Control (ISQC) 1, and accordingly maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable statutory and regulatory requirements.

Summary of Procedures Performed

The procedures applied in a limited assurance engagement differ in nature, timing, and extent from those applied in a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is significantly lower than the assurance that would be obtained in a reasonable assurance engagement.

Our procedures, which included but were not limited to, the following:

- We compared the individual items in the Schedule with the preliminary financial statements of the investment fund ***.
- We examined the individual items in the Schedule based on the Regulations as interpreted by management. Management's explanations are provided under the assumptions set out in the Schedule.
- We verified the mathematical accuracy of the Schedule.

Limited Assurance Conclusion

Based on the limited assurance procedures we performed and the evidence obtained, nothing has come to our attention that causes us to believe that the matters detailed in the "Subject" section above have not been properly prepared, in all material respects, in accordance with the relevant controls.

Other Matters:

Appendix X attached herewith has been stamped by us for identification purposes only.

Name of Licensed Professional Accountant

License Number

[Date]

*All necessary documents required to calculate the Zakat base of the investment fund shall be attached to the certificate.

3.6 General Framework for Accounting for Zakat on Investments in Investment Funds

3.6.1 Introduction

Overview of Investments in Investment Fund Units from an Accounting Perspective

It should be noted that investment in fund units meets the definition of a financial instrument as set out in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are applied in the Kingdom of Saudi Arabia, as well as other standards and interpretations issued by the Saudi Organization for Chartered and Professional Accountants.

A financial instrument is defined as "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity."

Examples of financial instruments include cash, receivables, shares, payables, Sukuk and bonds, certificates of deposit, investments in mutual funds, and others.

In general, investment funds hold a portfolio of financial instruments selected according to specific criteria to achieve the benefits of diversification, which reduces the overall level of investment risk.

According to the International Financial Reporting Standards, also adopted in the Kingdom of Saudi Arabia, a unit in an investment fund may not meet the definition of an equity instrument as defined in the relevant accounting standards; it may instead be considered a liability, a debt instrument.

Conversely, the relevant accounting standards provide that the above classification does not preclude the use of terms such as "Net Asset Value Attributable to Unit Holders" and "Changes in Net Asset Value Attributable to Unit Holders" in the financial statements of entities without shares, such as certain funds.

Given the nature of a fund as a collective investment vehicle that pools capital from investors to invest in various assets, depending on the type and activity of the fund, in exchange for returns earned by the investor, ownership of a unit in an investment fund may not satisfy the definition of an equity instrument as defined in the relevant accounting standards, which define equity as: a contract that represents the residual interest in the assets of an entity after deducting all of its liabilities (i.e., Equity = Assets - Liabilities).

Examples of equity instruments include common and preferred shares that cannot be redeemed by the holder to the issuing entity. In contrast, ownership of units in investment funds is redeemable by the owner either over the life of the fund or upon the closure/liquidation of the fund. Therefore, units in investment funds do not meet the definition of an equity instrument.

Conversely, investment funds recognize equity in their financial statements because this satisfies the definition under the relevant accounting standards, where their assets less liabilities represent the net equity attributable to the unit holders.

Recognition of Investments in Investment Funds in the Investor's Books

Depending on whether the units acquired in an investment fund meet the definition of equity or a liability, the investor in the fund units recognizes the investments in its financial statements in accordance with the International Financial Reporting Standards as adopted in the Kingdom of Saudi Arabia.

Investment Classification	Classification Rule	Classification of the Asset in the Investor's Books
Investments at fair value through profit or loss	Measurement category: residual categories for equity and debt instruments	Usually classified as current assets
Amortized cost	Two conditions must be met to apply the amortized cost measurement standards:	Traded or non-traded
Investments at fair value through other comprehensive income	• **For debt instruments** – two conditions must be met to apply the fair value through other comprehensive income (FVOCI) measurement standards. • **For equity instruments** – if not held for trading, the entity may make an irrevocable election at initial recognition to measure the instrument at fair value through other comprehensive income (FVOCI).	• **Current or non-current** based on the contractual cash flow entitlement of debt instruments. • **Equity instruments** based on the applicable classification standards.

Equity method	when significant influence is exercised	Non-current asset
Consolidation of financial statements	when control is exercised	Non-current asset

Financial Statements of the Investment Fund

In accordance with the relevant regulations of the Capital Market Authority (CMA), an investment fund is required to prepare its financial statements in accordance with the accounting standards approved by the Saudi Organization for Chartered and Professional Accountants.

Accordingly, the investment fund must prepare semi-annual and annual financial statements as a mandatory requirement under the Investment Funds Regulations issued by the CMA in the Kingdom, which obligate the fund to prepare the investment fund's financial statements in accordance with the currently approved standards in the Kingdom, namely the International Financial Reporting Standards (IFRS).

Presentation of Financial Statements for Investment Funds

The IFRS adopted in the Kingdom specify the presentation requirements for current and non-current assets and liabilities according to defined standards, except when a liquidity-based presentation provides more reliable and relevant information.

When this exception applies, the fund must present all assets and liabilities in order of liquidity.

These standards also require the fund, regardless of the presentation method used, to disclose the amounts expected to be recovered or settled beyond 12 months for each item of assets and liabilities, as well as amounts expected to be recovered or settled:

a. Within 12 months after the reporting period.
b. Beyond 12 months after the reporting period.

General Observation: Funds generally present their assets and liabilities based on liquidity. Depending on the nature of the fund, it may choose to present assets and liabilities classified as current and non-current.

3.6.2 Zakat on Investments in Investment Funds

As indicated in Paragraph 2.6, if taxpayers subject to the provisions of the Regulations choose to include their investments in fund units, held for purposes other than trading, as deductions from the Zakat base in their returns, and after verifying compliance with the other deduction requirements and controls set out in the Regulations, this requires the calculation and payment of Zakat on these investments by the taxpayers according to the following formula:

Formula for Calculating Zakat on Investments in Investment Funds:
Zakat Base of the Investment Fund × Unit Holder's Ownership Percentage in the Fund × Zakat Rate Specified in the Regulations*

*** Zakat Rate:**

In accordance with Article 15 of the Regulations, the Zakat rate is adopted as follows:

- (2.5%)of the Zakat base for the Hijri year.
- If the fund's Zakat year differs from the Hijri year, the Zakat rate is calculated based on the number of days according to the following formula:

$$2.5 \times \frac{\text{Number of days in the zakat year for the fund}}{\text{Number of days in the Hijri year}}$$

- Accordingly, the above formula is applied for the purposes of Zakat calculation, except as otherwise stated in the Regulations. The formula applies whether Zakat is calculated on the Zakat base or on the net profit adjusted for Zakat purposes of the investment fund.

At the end of financial year 2024, and in the course of preparing and submitting its Zakat return, the company chose to include these investments in the fund as deductions from the Zakat base. The company obtained the fund's financial information and data, including the information return

Example

Arab Financial Company owns units in an investment fund representing 5% of the total fund units. The company holds these investments for long-term investment purposes; accordingly, they are classified as non-trading investments in the company's books. The company's financial year begins on 1 January and ends on 31 December of the same year.

At the end of financial year 2024, and in the course of preparing and submitting its Zakat return, the company chose to include these investments in the fund as deductions from the Zakat base. The company obtained the fund's financial information and data, including the information return for calculating the company's share of the fund's Zakat base.

The fund's information return disclosed the following data:

- The fund's financial year begins on 1 January and ends on 31 December of each year.
- Components of additions less deductions: SAR 40 million
- Zakat-adjusted profit: SAR 15 million
- There are no differences between accounting net profit and Zakat-adjusted profit.

Required: Calculate the Zakat on Arab Financial Company's investments in the fund.

Solution:

First, it is noted that the components of additions less deductions exceed the Zakat-adjusted net profit. Accordingly, based on the above data, the Zakat base of the fund is SAR 40 million.

By applying the formula above, the Zakat on the company's investments in the fund units is calculated as follows:

Formula for Calculating Zakat on Investments in Investment Funds:

40,000,000 × 5 % × (2.5% × 365 days of the Gregorian year ÷ 354 days of the Hijri year)

= SAR 51,554

Example

United Trading Company owns investments in investment funds representing 5% of the total units of the fund. The company holds these investments for relatively long-term investment purposes; therefore, they are classified as non-trading investments in the company's books.

At the end of 2024, and in the course of preparing and submitting its zakat return, the company chose to include these investments in the fund as deductions from the zakat base. It obtained the fund's financial information and data, including the information declaration required to calculate the company's share of zakat on the fund's investments.

The fund's information declaration showed the following data:

- The fund's financial year begins on 1 January and ends on 31st December of each year.
- The zakat base of the fund: SAR 2 million.
- Adjusted profit for zakat purposes: SAR 10 million.
- There is no difference between accounting net profit and adjusted profit for zakat purposes.

Required: Calculate the zakat due on United Trading Company's investments in the fund.

Solution:

It is first noted that the additions minus deductions are less than the adjusted profit for zakat purposes. Accordingly, based on the above data, the zakat base of the fund is SAR 10 million, being the minimum zakat base of the investment fund.

Therefore, the zakat on the investment in the fund units is calculated by the taxpayer as follows:

Formula for calculating zakat on investment in investment funds:

10,000,000 × 5 % (2.5%× 365 days of the Gregorian year ÷ 354 days of the Hijri year)

= SAR 12,888

Example

Arab Financial Company owns units in investment funds representing 5% of the total units of the fund. The company holds these investments for relatively long-term investment purposes; therefore, they are classified as non-trading investments in the company's books.

At the end of 2024, and in the course of preparing and submitting its zakat return, the company chose to include these investments in the fund as deductions from the zakat base. It obtained the fund's financial information and data, including the information declaration required to calculate the company's share of zakat on the fund's investments.

The fund's information declaration showed the following data:

- The fund's financial year begins on 1 January and ends on 31 December of each year.
- The zakat base of the fund: SAR 40 million.
- Accounting profit: SAR 14 million.
- Adjusted profit for zakat purposes: SAR 15 million.
- The difference between the adjusted profit for zakat purposes and the accounting profit (adjustments to operating results in accordance with the Regulations) amounted to SAR 1 million.

Required: Calculate the Zakat due on Arab Financial Company's investments in the fund.

Solution:

It is first noted that the additions net of deductions exceed the adjusted net profit for zakat purposes. Accordingly, based on the above data, the zakat base of the fund is SAR 40 million.

By applying the prescribed formula, the zakat due on the company's investment in the units of the investment fund is calculated as follows:

Details	Calculation Details	Amount (SAR)
Zakat calculation for the fund based on the zakat base	40,000,000 × 5 % × (2.5% × 365 days of the Gregorian year ÷ 354 days of the Hijri year)	approximately 51,554

3.7 Components of the Zakat Base of Investment Funds

Introduction

The method for calculating the zakat base of investments in investment funds is based on identifying the sources of funds subject to zakat in accordance with the Regulations. This method relies primarily on the additions stipulated in Article 23 of the Regulations (Additive Items), while taking into account the deduction of items permitted to be deducted pursuant to Article 26 of the Regulations (Deductive Items).

3.7.1 Additions to the Zakat Base

First: Net assets attributable to unit owners at their carrying value at the end of the financial year

These mainly represent the internal sources of funds of the fund attributable to the unitholders, which are recognized for accounting purposes as equity components or as the net asset value attributable to the investment fund unitholders.

In general, the net assets attributable to the fund's unitholders mainly consist of the following items:

- Net assets attributable to unitholders at the beginning of the year (opening equity balance).
- Comprehensive income (loss) for the year.
- Distributions made during the year.
- Any other item recognized in the statement of equity in order to arrive at the net assets attributable to unitholders at the end of the year.

By their nature, these components reflect the substance of the structure and operation of investment funds, as they function as investment vehicles that pool capital to acquire and invest in assets. These assets are primarily adjusted by the profits or losses of the year resulting from the fund's investment activities, as well as by any other items affecting these assets, such as distributions or any subscription or redemption transactions that may occur during the year.
From a zakat perspective, and for the purposes of calculating the zakat base of the fund, Paragraph (A/2) of Article 78 of the Regulations stipulates that the net assets attributable to unitholders, at their carrying value at the end of the financial year, shall be added to the zakat base.

Example

The Statement of Changes in Net Assets Attributable to Unitholders (Statement of Equity) attached to the financial statements of the real estate fund at the end of the year 2024 shows the following figure.

Net assets attributable to unitholders at the beginning of the year	2,000,000
Add: Net (loss) income for the year	150,000
Less: Distributions during the year	(100,000)
Subscriptions in fund units during the year	500,000
Redemptions of fund units during the year	(400,000)
Total net assets attributable to unitholders at the end of the year	**2,150,000**

Accordingly, pursuant to Paragraph (A/2) of Article 78 of the Regulations, an amount of SAR 2,150,000, representing the net assets attributable to unitholders at the end of the year, shall be added to the zakat base.

Second: Liabilities of the Investment Fund in accordance with Article 29 of the Regulations

These represent external sources of funds and include, among others, the following non-current liabilities:

- Debts classified as non-current based on the closing balance, whether arising from prior years or incurred during the year.
- Provisions that represent a settled obligation owed to parties other than the unitholders, such as provisions for end-of-service benefits, accrued vacation balances, and similar items.
- Deferred tax liabilities.
- Contract liabilities recognized in accordance with the approved accounting standards.
- Deferred tax liabilities.
- Contract liabilities recognized in accordance with the approved accounting standards.
- Lease liabilities.
- Negative derivative financial instruments.

Current liabilities are not added to the zakat base except in the following cases:

a. If a current asset has been deducted, the corresponding addition is made from current liabilities in accordance with Article 25 of the Regulations.
b. If the value of current liabilities exceeds the value of current assets, the excess shall be added to the zakat base.
c. If the Authority establishes that a current liability is, in substance, a non-current liability, such as when the taxpayer renews a debt classified as current with the same creditor for the same purpose, or reschedules the debt with the same creditor for the same purpose.

Example

An investment fund obtained a long-term loan of SAR 1,000,000 on 20 August 2023, noting that the fund's financial year ends on 31 December 2023. The fund also has a short-term loan with a maturity of eight months amounting to SAR 2,000,000, obtained on 1 January 2023, which was rescheduled for an additional six months. How is the amount to be added to the zakat base from these loans determined?

- The long-term loan is added to the zakat base based on the closing balance, within the limits of the deductible assets.
- The short-term loan is added to the zakat base only if it meets the conditions for adding short-term loans as stipulated in the Regulations.

Example

An investment fund obtained a loan of SAR 2,000,000 on 20 February 2023, with a maturity date of 31 January 2024, noting that the financial year ends on 31 December 2023. How is the amount to be added to the zakat base determined?

This loan is considered a short-term loan and is not added to the zakat base unless it meets the conditions for adding short-term loans as set out in the Regulations.

Third: The difference between the adjusted net profit (loss) and the book net profit (loss) is added to the zakat base, as it determines the fund's adjusted net profit (loss) in accordance with Articles 62, 63 and 64 of the Regulations.

The above refers to identifying the items adjusted in the operating result, including non-deductible expenses and other adjustments - if any - pursuant to Articles 62, 63, and 64 of the Regulations, in order to determine the total adjusted items to be added to the zakat base of the investment fund.

Example:

The income statement of an investment fund shows a book net profit of SAR 1,000,000, while the adjusted net profit for zakat purposes is SAR 1,200,000.

Based on the above, the difference between the book net profit (loss) and the adjusted net profit (loss) is added to the zakat base as follows:

SAR 1,200,000 - SAR 1,000,000 = SAR 200,000.

Fourth: Adding current liabilities when current assets are deducted from the fund's zakat base according to the allocation rule

In certain cases, some items may be classified as current assets due to regulatory requirements or accounting standards. However, from a zakat perspective, the essence of this item may be that the asset is held for a long period, which allows the taxpayer to include it as a deduction from the zakat base. Accordingly, for purposes of the Regulations, in cases where a current asset is deducted, the corresponding short-term liabilities must be added to the fund's zakat base in accordance with the allocation rule set out in Article 25 of the Regulations.

Examples of such cases: Zakat payers engaged in real estate activities may hold properties under development within their assets. This item was addressed in Article 73 of the Regulations.

The mentioned Article required, among other conditions, that these items be classified as non-current assets as a condition for deduction. However, this classification was adjusted following the full adoption of International Financial Reporting Standards (IFRS) in Saudi Arabia starting in 2017, resulting in some of these items being classified as current assets.

From a zakat perspective, the Zakat payer may deduct non-zakatable assets classified as current assets under the following conditions:

- All other conditions in the Regulations are met.
- Any current liabilities, if present, are added, up to a maximum equal to the value of the assets, according to the allocation rule in the Regulations.
- Naturally, the ceiling for adding debts increases due to the deduction of these current assets.

3.7.2 Items Deductible from the Zakat Base

After calculating the items to be added to the zakat base of the investment fund, the next step is to identify the items that are allowable deductions from the base, as specified in the Regulations.

Specifically, the items listed under Article 26 of the Regulations are deductible. Non-exhaustive examples include:

Item	Amount
Net fixed assets and similar items	(xx)
Capital expenditures	(xx)
Intangible assets	(xx)
Investments in entities inside and outside the Kingdom not held for trading, including investments in other funds, subject to conditions and controls set out in the Regulations	(xx)
Non-traded investment real estate not held for sale	(xx)
Deferred tax asset	(xx)

3.7.3 Other Deduction Rules

Fund Investments in Other Investment Funds

According to Paragraph 2(B) of Article 78 of the Regulations, if a fund holds investments in other funds, the same rules applied to investments in external entities are applied. Accordingly, the deduction conditions outlined in Article 44 of the Regulations apply, which include:

1. The investment must be classified as a non-current asset in the investor's financial statements.
2. The investment must not be for trading purposes.
3. The investor must pay zakat on these investments to the Authority through the zakat declaration. The zakat for these investments is calculated independently of the fund's base based on a certificate prepared according to the Regulations and approved by a licensed accountant in the Kingdom.
4. The minimum zakat base for these investments is determined according to the Regulations, whether profits were distributed or not.

Investors holding units in such funds must calculate and pay zakat separately for these investments as if they were external investments. However, if an investment fund invests in other funds, the investor may submit a single accountant's certificate that includes zakat calculation for both the main fund, and the other funds invested in.

Deduction of Current Assets

According to what was explained in Section 3.7.1, in cases where the fund's financial statements present assets and liabilities as current and non-current, when calculating the Zakat base, if the fund has included a current asset in the deductions from the base in accordance with the Regulations and rules, then the equivalent value of the corresponding current liabilities must also be added back to the zakat base in accordance with the allocation rule specified in the Regulations.

Deduction of Investments from the Zakat Base for Equity Funds

Equity funds are defined as funds that primarily aim to invest in listed company shares, whether domestic, international, or both. In other words, the majority of the assets of these funds consist of company shares, which form the main source of investment returns for unit holders.

In most cases, the assets of these funds are not classified as current or non-current, and may simply be listed under assets. This is because the management of these investments and the decision to hold them are closely linked to the redemptions that may occur throughout the year by investors, making it unpredictable when the fund might sell or buy shares in the companies.

Therefore, when calculating the zakat base for an equity fund, the proportion of investments held for non-trading purposes should be determined using the following steps:

Step 1: Apply the following calculation for each month of the fund's financial year:

1. Monthly purchases minus monthly subscriptions
2. Monthly sales minus monthly redemptions
3. Take the higher result of (1) and (2) and divide it by the value of the equity investments at the end of the month.

Note: The above information can be obtained from the disclosures provided by the fund manager.

4. Apply the above calculation for each month of the financial year and take the highest monthly result.

Step 2: Determine the net value of equity investments held for non-trading purposes for the year using the following calculation:

Continuing from the previous calculation:

1. (4) x Equity investments at financial year-end = investments held for trading purposes.
2. Value of equity investments at the end of the year – (result of the calculation out of (5) = investments held for non-trading purposes.

Hypothetical Example:

For the year ending December 31, 2023, the following transactions occurred for an equity fund that invests entirely in shares of listed domestic companies in Saudi Arabia:

- Total subscriptions during the year: SAR 3,000,000
- Total redemptions during the year: SAR 10,000,000
- Fair value of investments at year-end: SAR 40,000,000
- Financial reports of the fund showed unit movements and monthly buy/sell activity for the equities as follows:

Month - 2023	Monthly purchases of investments (1)	Monthly subscriptions (2)	Monthly sales of investments (3)	Monthly redemptions (4)	Monthly carrying value of investments in the fund's financial statements (5)
January	500,000	400,000	900,000	800,000	30,000,000
February	620,000	500,000	1,000,000	900,000	29,500,000
March	250,000	200,000	520,000	500,000	31,000,000
April	150,000	50,000	750,000	700,000	30,500,000
May	220,000	200,000	700,000	600,000	30,500,000
June	100,000	-	800,000	650,000	29,000,000
July	300,000	250,000	1,200,000	1,000,000	31,000,000
August	250,000	200,000	1,500,000	950,000	35,000,000
September	210,000	180,000	900,000	850,000	33,000,000
October	550,000	300,000	1,400,000	1,100,000	34,000,000
November	400,000	350,000	1,330,000	1,000,000	37,000,000
December	450,000	370,000	1,000,000	950,000	40,000,000

Requirement: Calculate the value of investments held for non-trading purposes based on the data provided.

Solution:

Step 1: Compute the difference between the monthly purchases of investments and the monthly subscriptions (2-1)

Month - 2023	(2-1)=6
January	100,000
February	120,000
March	50,000
April	100,000
May	20,000
June	100,000
July	50,000
August	50,000
September	30,000
October	250,000
November	50,000
December	80,000

Step 2: Calculate the difference between the monthly sales of investments and the monthly redemptions(4-3).

Month - 2023	(4-3)=7
January	100,000
February	100,000
March	20,000
April	50,000
May	100,000
June	150,000
July	200,000
August	550,000
September	50,000
October	300,000
November	330,000
December	50,000

Step 3: Calculate the difference between the monthly sales of investments and the monthly redemptions(4-3).

Month - 2023	8 = Higher than 6 or 7	5/8=9
January	100,000	o.33%
February	120,000	0.41%
March	50,000	0.16%
April	100,000	0.33%
May	100,000	0.33%
June	150,000	0.52%
July	200,000	0.65%
August	550,000	1.57%
September	50,000	0.15%
October	300,000	0.88%
November	330,000	0.89%
December	80,000	0.20%

From the calculation above, it is noted that the highest result of the equation corresponds to August 2023.

Step 4: Calculate the value of trading investments in equities as follows:

40,000,000 × 1.57% = SAR 628,000

Step 5: Calculate the value of non-trading investments in equities

Based on the above, the value of investments held for non-trading purposes is:

40,000,000 - 628,000 = SAR 39,372,000

Hypothetical Example:

For the fiscal year ended 31st December 2023, the following transactions occurred for an equity fund that invests entirely in shares of local companies in the Kingdom of Saudi Arabia:

- Total subscriptions during the year amounted to SAR 3,800,000
- Total redemptions during the year amounted to SAR 8,100,000
- The reported value of investments at year-end was SAR 4,000,000 (measured at fair value)
- The funds' financial reports indicated the movement of fund units and the monthly purchase and sale of shares as follows:

Month - 2023	Monthly purchases of investments (1)	Monthly subscriptions (2)	Monthly sales of investments (3)	Monthly redemptions (4)	Monthly carrying value of investments in the fund's financial statements (5)
January	500,000	400,000	600,000	400,000	3,000,000
February	100,000	-	900,000	800,000	2,950,000
March	400,000	-	500,000	-	3,100,000
April	500,000	600,000	750,000	700,000	30,500,000
May	500,000	200,000	800,000	600,000	30,500,000
June	500,000	600,000	800,000	650,000	2,900,000
July	300,000	-	120,000	100,000	3,100,000
August	250,000	1,000,000	150,000	950,000	3,500,000
September	210,000	350,000	900,000	850,000	3,300,000
October	550,000	-	1,400,000	1,100,000	3,400,000
November	400,000	150,000	1,330,000	1,000,000	3,700,000
December	450,000	500,000	1,000,000	950,000	4,000,000

Requirement: Calculate the value of investments held for non-trading purposes based on the data provided.

Solution:

Step 1: Calculate the difference between the monthly purchases and the monthly subscriptions (2-1)

Month - 2023	(2-1)=6
January	100,000
February	100,000
March	400,000
April	(100,000)
May	20,000
June	(100,000)
July	300,000
August	(750,000)
September	(140,000)
October	550,000
November	250,000
December	(50,000)

Step 2: Calculate the difference between the monthly sales and the monthly redemptions (4-3)

Month - 2023	(4-3)=7
January	200,000
February	100,000
March	500,000
April	50,000
May	(150,000)
June	150,000
July	20,000
August	(800,000)
September	50,000
October	300,000
November	330,000
December	50,000

Step 3: Take the higher result of the above for each month and divide it by the monthly investment value.

Month - 2023	8 = Higher than 6 or 7	5/8=9
January	200,000	6.67%
February	100,000	3.39%
March	500,000	16.13%
April	50,000	1.64%
May	20,000	0.66%
June	150,000	5.17%
July	300,000	9.68%
August	(750,000)	(21.43%)
September	50,000	1.52%
October	550,000	16.18%
November	330,000	8.92%
December	50,000	1.25%

From the calculation above, it is noted that the highest result of the formula was recorded for the month of October 2023G.

Step 4: Calculate the value of the equities held for trading as follows:

4,000,000 × 16.18% = SAR 647,200

Step 5: Calculate the value of equities held for non-trading purposes

Based on the above, the value of investments retained for non-trading purposes is:

4,000,000 - 647,200 = SAR 3,352,800

Hypothetical Example:

During the year ending 31st December 2023G, the following transactions occurred for an equity fund that invests entirely in foreign non-resident shares (listed international equities):

- Total subscriptions during the year amounted to SAR 5,450,000
- Total redemptions during the year amounted to SAR 11,200,000
- The reported value of investments at the end of the year was SAR 4,950,000 (fair value)
- The funds' financial reports showed the movement of fund units and the monthly purchase and sale transactions of equities as follows:

Month - 2023	Monthly purchases of investments (1)	Monthly subscriptions (2)	Monthly sales of investments (3)	Monthly redemptions (4)	Monthly carrying value of investments in the fund's financial statements (5)
January	800,000	650,000	1,150,000	900,000	5,000,000
February	820,000	700,000	1,250,000	1,000,000	5,150,000
March	450,000	400,000	770,000	600,000	4,750,000
April	350,000	250,000	1,000,000	800,000	4,000,000
May	420,000	400,000	950,000	700,000	4,200,000
June	300,000	200,000	1,050,000	750,000	4,300,000
July	500,000	450,000	1,450,000	1,100,000	4,125,000
August	450,000	400,000	1,750,000	1,050,000	4,750,000
September	410,000	380,000	1,150,000	950,000	4,720,000
October	750,000	500,000	1,650,000	1,200,000	4,800,000
November	600,000	550,000	1,580,000	1,100,000	4,900,000
December	650,000	570,000	1,250,000	1,050,000	4,950,000

Requirement: Calculate the value of investments held for non-trading purposes based on the data provided.

Solution:

Step 1: Calculate the difference between monthly purchases and monthly subscriptions (2-1)

Month - 2023	(2-1)=6
January	150,000
February	120,000
March	50,000
April	100,000
May	20,000
June	100,000
July	50,000
August	50,000
September	30,000
October	250,000
November	50,000
December	80,000

Step 2: Calculate the difference between the monthly sales and the monthly redemptions (4-3)

Month - 2023	(4-3)=7
January	250,000
February	250,000
March	170,000
April	200,000
May	250,000
June	300,000
July	350,000
August	700,000
September	200,000
October	450,000
November	480,000
December	200,000

Step 3: Take the higher result of the above for each month and divide it by the monthly investment value.

Month - 2023	8 = Higher than 6 or 7	5/8=9
January	250,000	5.00%
February	250,000	4.85%
March	170,000	3.58%
April	200,000	5.00%
May	250,000	5.95%
June	300,000	6.98%
July	350,000	8.48%
August	700,000	14.74%
September	200,000	4.24%
October	450,000	9.38%
November	480,000	9.80%
December	200,000	4.04%

From the above calculation, it is noted that the highest result of the equation was recorded for the month of August 2023.

Step 4: Calculate the value of investments in equities held for non-trading purposes as follows:

4,950,000 × 14.74% = SAR 729,474

Step 5: Calculate the value of equities held for non-trading purposes:

Accordingly, the value of investments held for non-trading purposes = 4,950,000 – 729,474 = SAR 4,220,526

Additional Note: It should be noted that if the fund classifies these investments as held for non-trading purposes and, accordingly, includes them within the deductions from the Zakat base, this requires calculating Zakat on these external investments and paying the due Zakat in accordance with the provisions of Article 44 of the Regulations. The responsibility for calculating and paying Zakat on these investments lies with the unit holders who choose to include their units in the funds as deductions from the Zakat base in their declarations.

Based on the above examples and the methodology for calculating the proportion of equities held for trading and, consequently, determining the value of equities held for non-trading purposes, the underlying logic of this calculation method primarily aims to determine the dynamic ratio of equities.

3.7.4 Other Requests and Issues

Investment Funds Structured as Special Purpose Entities

Except for direct and indirect financing funds, investment funds are not subject to Zakat collection under the Regulations, including funds structured as special purpose entities licensed by the Saudi Capital Market Authority, provided that they do not conduct economic activities or investment operations not stipulated in their Articles of Association or the specific terms and conditions of those investment funds.

Minimum Zakat Base of the Investment Fund

In accordance with the provisions of the Regulations, Article 79 stipulates the calculation of the minimum Zakat base for the unit holder of the investment fund in accordance with the provisions of Article 27 of the Regulations.

Example

The information declaration of an investment fund for the year 2023 shows an adjusted profit for Zakat purposes of SAR 1,200,000, while the Zakat base of the fund is SAR 1,000,000 for the same year.

Based on the above, what is the Zakat base of the fund?

Since the Zakat base is less than the adjusted profit, Zakat on the fund investments is calculated based on the adjusted profit for Zakat purposes as the minimum base. Assuming that a unit holder owns 5% of the total fund units, the Zakat is calculated as follows:

Zakat Base of the Fund (Adjusted Profit in this Case) × Unit Holder's Ownership Percentage × Zakat Rate in the Regulations = Zakat Due:

1,200,000 × 5% × 2.5% × 365 days of the Gregorian year/354 days of the Hijri year = SAR 1,547

Unified Zakat Declaration

Pursuant to Paragraph B of Article 75, a unit owner who owns the investment fund in its entirety, whether directly or indirectly, is exempted from the provisions regarding Zakat collection from investors in investment funds.

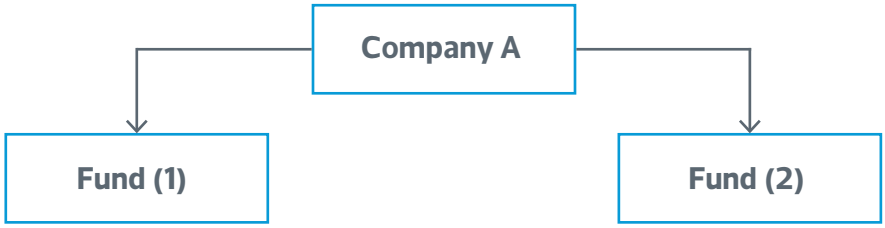
This exemption arises from the provisions of Article 16 of the Regulations, which allow companies wholly owned by the partners themselves, or by a holding company and its fully-owned subsidiaries, whether inside or outside the Kingdom, through direct or indirect ownership, to submit consolidated accounts and a unified Zakat declaration, and to be assessed based on a single Zakat base reflecting their consolidated results.

In light of the above, a unit holder who owns 100% of the investment fund, whether through direct or indirect ownership, and issues consolidated financial statements with the fund, shall be subject to the provisions of Article 16 of the Regulations. In this case, the Zakat on the unit holder's investments in the fund shall be calculated based on the consolidated financial statements of the unit holder and the fund, as well as any investments in subsidiaries or other funds, in accordance with the provisions of the mentioned Article.

Should the Zakat payer wish to submit a unified Zakat declaration, they must submit a request to the Authority. Subsequently, each investment fund must submit its own information declaration individually, in accordance with the regulatory deadlines for filing declarations.

Example

Company (A) owns Funds (1) and (2) below, both of which are registered with ZATCA. Company (A) prepares consolidated financial statements together with the investment funds. Upon reviewing its ownership structure, it was observed as follows:

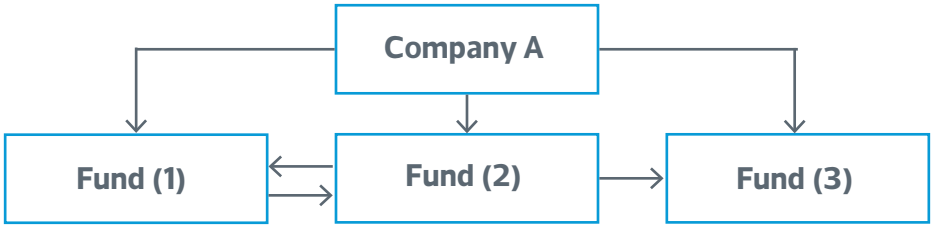


If Company (A) owns 100% of each of Funds (1) and (2), does the principle of submitting a unified declaration apply?

Referring to the ownership structure in the example above, Company (A) owns both Funds (1) and (2) directly at 100%, which entitles it to submit a unified Zakat declaration and consolidated accounts.

Example

Company (A) and Investment Funds (1) to (3) below are all registered with the Authority. The company prepares consolidated financial statements, and upon reviewing its ownership structure, it was observed as follows:



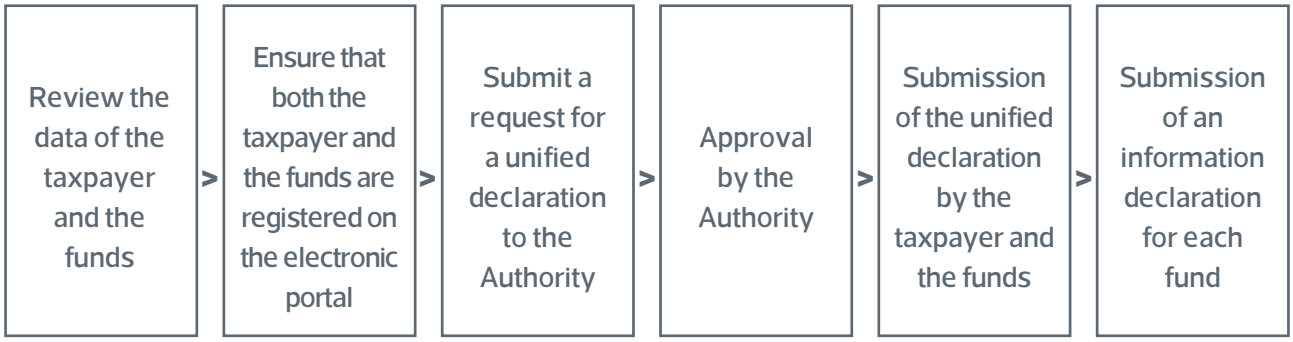
If Company (A) owns 99% of each of the funds, Fund (3) owns 1% of Fund (2), and Fund (2) owns 1% in each of Funds (1) and (3), does the principle of submitting a unified declaration apply to Company (A) and Funds (1) to (3)?

Referring to the ownership structure in the example above, Company (A) owns all the funds directly or indirectly at 100%, which entitles it to submit a unified Zakat declaration and consolidated accounts.

In the event that the conditions for a unified Zakat declaration are met by the taxpayer owning the investment funds, and the taxpayer wishes to be assessed based on consolidated accounts and a unified Zakat declaration, the taxpayer must submit a request to the Authority to issue a unified declaration encompassing all funds fully owned, whether directly or indirectly.

After submission, the Authority reviews the provided data. It should be noted that both the taxpayer and the investment funds must be registered on the Authority's electronic portal "Irad" and ensure that their data is updated accurately.

The figure below summarizes the steps to be followed for submitting a unified Zakat declaration:



Difference between the financial year of the investor and the fund

If the financial year of the investment fund differs from that of the unit holders, the end of the fund's financial year shall be taken into account.

Example

The financial year of the Real Estate REIT Fund ends on 31st December of each year, while the financial year of the unit holder (Arabian Trading Company) ends on 30th June of each year.

Arabian Trading Company submits its Zakat declaration for the year ending 30th June 2024 and calculates the Zakat due on the investment units for that period.

Requirement: How will the calculation of Zakat on the investment units be adopted for the declaration period ending 30th June 2024?

Arabian Trading Company shall adopt the latest financial statements issued by the fund for the purposes of Zakat on its investment in the investment fund, i.e., as of 31st December 2023.

4. Practical Examples

Example (1)

The financial statements of an investment fund (Real Estate Fund) showed the following financial data for the year ended 31st December 2023:

Statement of Financial Position for the Year Ended 31st December	2023	2022
Assets	-	-
Current Assets	-	-
Cash and cash equivalents	0	125,000
Rent receivable	29,000,000	40,000,000
Investments at fair value through profit or loss	66,000,000	64,000,000
Advance payment for investments at fair value through profit or loss	0	946,000
Contract assets	4,000,000	8,000,000
Prepaid expenses and other assets	7,000,000	3,000,000
Total Current Assets	106,000,000	116,071,000
Non-Current Assets	-	-
Investment properties	1,955,000,000	2,208,000,000
Total Assets	2,061,000,000	2,324,071,000
Liabilities	-	-
Current Liabilities	-	-
Accrued expenses and other liabilities	7,000,000	8,000,000
Management fees payable	4,000,000	71,000

Loans - Current portion	13,000,000	158,000,000
Total Current Liabilities	24,000,000	166,071,000
Non-Current Liabilities	-	-
Loans - Non-current portion	791,000,000	646,000,000
Total Liabilities	815,000,000	812,071,000
Equity	-	-
Net assets attributable to unit holders	1,246,000,000	1,512,000,000
Total Liabilities and Equity	2,061,000,000	2,324,071,000
Units Issued (Number)	162,000,000	162,000,000

Statement of Comprehensive Income of the Investment Fund as of 31st December 2023	2023	2022
Income	-	-
Rental income from investment properties, net	130,000,000	169,000,000
Total Income	130,000,000	169,000,000
Expenses	-	-
Depreciation of investment properties	(29,000,000)	(29,000,000)
Administrative fees	(17,000,000)	(18,000,000)
Provision for expected credit losses	(10,000,000)	(13,000,000)
Other expenses	(7,000,000)	(6,000,000)
Total Expenses	(63,000,000)	(66,000,000)

Operating Profit	67,000,000	103,000,000
Financing cost	(21,000,000)	(27,000,000)
Other income	5,000,000	301,000
Income from investments at fair value through profit or loss	467,000	1,210,000
Profit for the Year Before Impairment	51,467,000	77,511,000
Impairment of investment properties	(227,000,000)	(65,000,000)
Profit (Loss) for the Year	**(175,533,000)**	**12,511,000**

Additional Information:

1. Movement of Loans during the Year was as follows:

Details	SAR
Opening balance at the beginning of the year	804,000,000
Drawdowns during the year	-
Repayments during the year	-
Closing balance at the end of the year	804,000,000

2. Movement of Loans during the Year was as follows:

Details	SAR
Opening provision at the beginning of the year	17,000,000
Charged to the year	10,000,000
Utilized during the year	-
Closing provision at the end of the year	27,000,000

3. All expenses recorded in the income statement meet the deduction conditions set forth in Article 63 of the Regulations.
4. (No other provisions are recorded by the fund in the books.)

Required: Calculate the Zakat base and Zakat due for the investment fund for the year 2023.

Solution:

Step 1: Identify amounts to be added to the fund's Zakat base:

Details	SAR
Net assets attributable to unit holders at year-end	1,246,000,000
Long-term loans	804,000,000
Closing balance of provisions	27,000,000
Total additions to the fund's Zakat base	2,077,000,000

*Adjusted Profit (Loss) for Zakat Purposes

Details	SAR
Adjusted profit (loss) for Zakat purposes	(175,533,000)

Step 2: Identify Items Permitted for Deduction from the Investment Fund's Zakat Base

Details	SAR
Investment Properties: SAR	(1,955,000,000)

Step 3: Compare the total additions and deductions with the adjusted profit (loss) for Zakat purposes and calculate the Zakat.

Which is higher	SAR
Total additions (less) deductions from the Zakat base (1):	122,000,000
Adjusted profit (loss) for Zakat purposes* (2):	(175,533,000)
Zakat base (which is higher, 1 or 2):	122,000,000
Zakat:	-
Remaining base = (365 × 2.5% × 122,000,000 ÷ number of days in the Hijri year)	3,144,774

Example (2)

The financial statements of a diversified investment fund (open-ended) for the year ended 31st December 2023 showed the following:

Statement of Financial Position	2023	2022
Assets	-	-
Cash and cash equivalents	95,000	2,000
Investments at fair value through profit or loss	248,000,000	193,000,000
Total Assets	248,095,000	193,002,000
Liabilities	-	-
Accrued expenses and other liabilities	74,000	59,000
Total Liabilities	74,000	59,000
Net Asset Value (Equity) attributable to unit holders	248,021,000	192,943,000
Total Liabilities and Equity	248,095,000	193,002,000
Units Issued (number)	1,300,000	1,200,000

Statement of Comprehensive Income	2022	2023
Investment Income	-	-
Net realized and unrealized gain from listed investments at fair value through profit or loss	24,000,000	30,000,000
Dividend income	425,000	945,000
Other income	-	-
Total Income/(Loss)	24,425,000	30,945,000
Expenses	-	-
Custody fees	63,000	69,000
Other expenses	103,000	112,000
Total Expenses	166,000	181,000
Net Income/(Loss) for the year	24,259,000	30,764,000

Additional Information:

- No provisions have been allocated against future liabilities of the fund. All expenses recorded in the fund's books are deductible expenses in accordance with the provisions of the Regulations. Accordingly, there is no difference between accounting profit and Zakat-adjusted profit.
- There are no loan balances or other creditor balances treated as Zakatable fund sources (long-term loans).
- Investments are listed at fair value through profit or loss in other investment funds established in the Kingdom of Saudi Arabia. A review of the fund's assets and business model indicates that these investments are held for trading purposes.

Required: Calculate the Zakat base and Zakat for these investments.

Solution:

Step 1: Calculate the net profit / (loss) adjusted for Zakat purposes.

Details	SAR
Accounting profit / (loss)	30,764,000
Adjustments to operating results	None
Profit / (loss) adjusted for Zakat purposes	30,764,000

Step 2: Identify the items to be added to the fund's Zakat base.

Details	SAR
Net assets attributable to unit holders at year-end	248,021,000
Total additions to the fund's Zakat base	**248,021,000**

Step 3: Identify the items eligible for deduction from the fund's Zakat base.

Details	SAR
None	-

Step 4: Calculate the fund's Zakat base.

Based on the above, the Zakat base of the fund amounts to SAR 248,021,000, detailed as follows:

Details	SAR
Additions to the Zakat Base (Step 2)	248,021,000
Deductions from the Zakat Base (Step 3)	-
Zakat Base	**248,021,000**

In light of the above, the Zakat base will be SAR 248,021,000.

Step 5: Compare the total of additions and deductions with the net (accounting) profit/loss from the financial statements and calculate the Zakat due.

Details	SAR
Total additions (less) deductions from the Zakat base (1):	248,021,000
Net profit/loss adjusted for Zakat purposes = accounting profit/loss* (2)	30,764,000
Zakat Base (whichever is higher, 1 or 2) = 1	248,021,000
Zakat Due = (1) × 365 × 2.5% × number of days in the Georgian year ÷ number of days in the Hijri year)	6,393,197

5. Request for Issuance of an Interpretive Ruling

If you are uncertain about how to apply Zakat to a specific activity or transaction that you are conducting or intend to conduct, and after reviewing the relevant statutory provisions and the related guidance manual, you may submit a request to the Authority to obtain an interpretive ruling in accordance with the Implementing Regulations for Zakat Collection issued under Ministerial Resolution No. (1007) dated 19th Sha'ban 1445H/28th January 2024G.

6. Contact Us

For more information about VAT treatment, kindly visit our website: **zatca.gov.sa**, or contact us at the following number: 19993

7. Frequently Asked Questions

1. To what extent are Zakat payers required to pay Zakat on their investments in investment fund units?

Payment is generally optional. If the taxpayer chooses to include investments in investment funds in their Zakat base, they must calculate and pay Zakat on these investments in accordance with the provisions outlined in this guide.

Conversely, if the taxpayer chooses not to include their investments in investment funds in their Zakat base, they are not required to calculate or pay Zakat on these investments.

2. Is the investment fund obliged to calculate and pay the Zakat due?

No. According to the Implementing Regulations for Zakat Collection, investment funds, including those structured as Special Purpose Entities and licensed by the Saudi Capital Market Authority, are not subject to Zakat collection. Zakat is collected from the eligible taxpayers who are unit holders in the investment funds in accordance with the applicable rules.

However, investment funds must comply with the disclosure requirements stipulated in the Regulations, such as submitting information returns and other disclosures to the Authority within the prescribed deadlines.

3. What is the Zakat rate applied under the Zakat collection rules for investment in investment funds?

According to the regulations, the Zakat rate applied to the taxpayer depends on the taxpayer's chosen financial year. For a Gregorian financial year, Zakat is calculated at 2.5% multiplied by the ratio of the number of days in the financial year to the number of days in the Hijri year, as approved by the taxpayer and the Authority.

It should be noted that this Zakat rate is applied whether Zakat is calculated on the Zakat base or the minimum base (adjusted net profit for Zakat purposes).

4. Who is obliged to calculate and pay Zakat on investments in investment funds?

According to the provisions of the Zakat Collection Regulations, Zakat payers subject to these regulations who hold investment fund units are required to calculate and pay Zakat on these investments.

This excludes direct and indirect financing funds from the above rule.

5. If a company owns 100% of the units of an investment fund and opts to submit a unified Zakat return, is it still required to submit an information return for the fund?

If a unified Zakat return is submitted by the Zakat payer, the fund is required to submit an information return for informational purposes within 120 days from the end of the fund's financial year, regardless of whether the Zakat consolidation is applied or not.

6.How is the Zakat on the fund's investments accounted for by the taxpayer if the fund's financial year differs from the unit holder's financial year?

According to Paragraph 5 of Article 76 of the Regulations, if the unit holder's financial year differs from that of the fund, the taxpayer must rely on the latest audited financial statements of the fund and calculate the Zakat base accordingly based on the information return submitted in light of those financial statements.

7. Does the fund have any other regulatory obligations under the provisions of related laws, such as the Income Tax Law or Transfer Pricing Instructions currently in effect in the Kingdom?

Unless otherwise specified in the Regulations, the fund is subject to the same requirements that apply to other Zakat payers regarding any other regulatory obligations stipulated in the aforementioned laws.

8.If the fund invests its assets in other funds, can these investments be deducted when calculating the Zakat base?

The fund's investments in other funds are treated as foreign investments in accordance with the provisions of Article 44 of the Regulations, with the understanding that the responsibility for calculating and paying Zakat on these investments rests with the taxpayer unit holder, not the fund itself.

9. Who is obliged to calculate the Zakat base for the fund, the unit holder or the fund itself?

The unit holder who chooses to include their investments in the fund is responsible for calculating their share of the fund's Zakat base and paying the Zakat due on it, based on the information and disclosures provided by the fund.

10. Is the unit holder required to calculate Zakat on their investments in funds based on financial statement disclosures or a certified accountant's report?

The provisions of the Regulations allow the taxpayer to choose either of the two methods for calculating Zakat on their investments in funds: either via disclosures in the financial statements or via a report from a licensed accountant.

11. If the investment fund's Zakat base is negative and the fund incurs losses for the year, can the unit holder still deduct their investments in their Zakat return?

If the fund submits an information return in accordance with the Regulations, this does not prevent the unit holder from including their investments in the deductions, provided the deduction rules outlined in the Regulations are observed, even if the fund's Zakat base is negative and no Zakat is due on these investments. This should be based on the information of the latest financial year, and the taxpayer must comply with the remaining conditions and controls specified in the rules.

12. Is the nature of the fund's activity and the composition of its assets considered when determining the unit holder's eligibility to deduct their investments from their Zakat base?

The default approach is to treat these investments in the unit holder's books according to the intention to hold and the method of managing the financial assets, including units in investment funds (whether for trading or not), regardless of the nature of the fund's activity.

13. To what extent do the provisions of the Regulations apply to individual (natural person) investors in investment fund units?

The provisions of the Regulations apply to investors in investment funds as mentioned in Article 3 of the Regulations, which includes, among others, resident Saudi individuals who conduct activities under a license in the Kingdom.

Accordingly, the provisions apply to individual taxpayers only if they engage in a Zakatable activity as stipulated in the Regulations.

In practice, these individuals referred to in the aforementioned Article conduct a Zakatable activity through the establishment of a sole proprietorship (or individual entity), which requires a legal license issued by the Ministry of Commerce in the Kingdom and/or any other relevant licensed authority.

Otherwise, other individuals who do not engage in a Zakatable activity are not subject to Zakat collection, as the definition of a taxpayer does not apply to them under the Regulations, and consequently, the provisions do not apply.

Additionally, a person who is a Zakat payer is not subject to the provisions in cases where the Regulations allow for taxpayers to be assessed on an estimated basis pursuant to Article 82 of the Regulations.



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