هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

Modification of the Activity Result The Regulations for the Zakat Collection 1445H

First Version | November 2024

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.

This guide represents the Zakat, Tax and Customs Authority's ("ZATCA" or "Authority") understanding and interpretation of the implementation of the the Implementing regulation for zakat collecting issued by the Minister of Finance under Decision No. (1007) dated 19/8/1445 AH.

The Zakat,Tax and Customs Authority has issued this Guide to clarify certain treatments concerning the implementation of the statutory provisions in force as of the Guide 's issue date. The content of this Guide shall not be considered an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom .

The Authority would like to highlight that the clarifications and indicative tax treatments, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation, or content provided in this Guide is modified - in relation to unchanged statutory text - the updated indicative tax treatment shall then be applicable prospectively concerning transactions made after the publication date of the updated version of the Guide on the Authority's website.

Amendment Log

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1. Introduction

1.1 About Zakat

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

1.2 Collection of Zakat

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

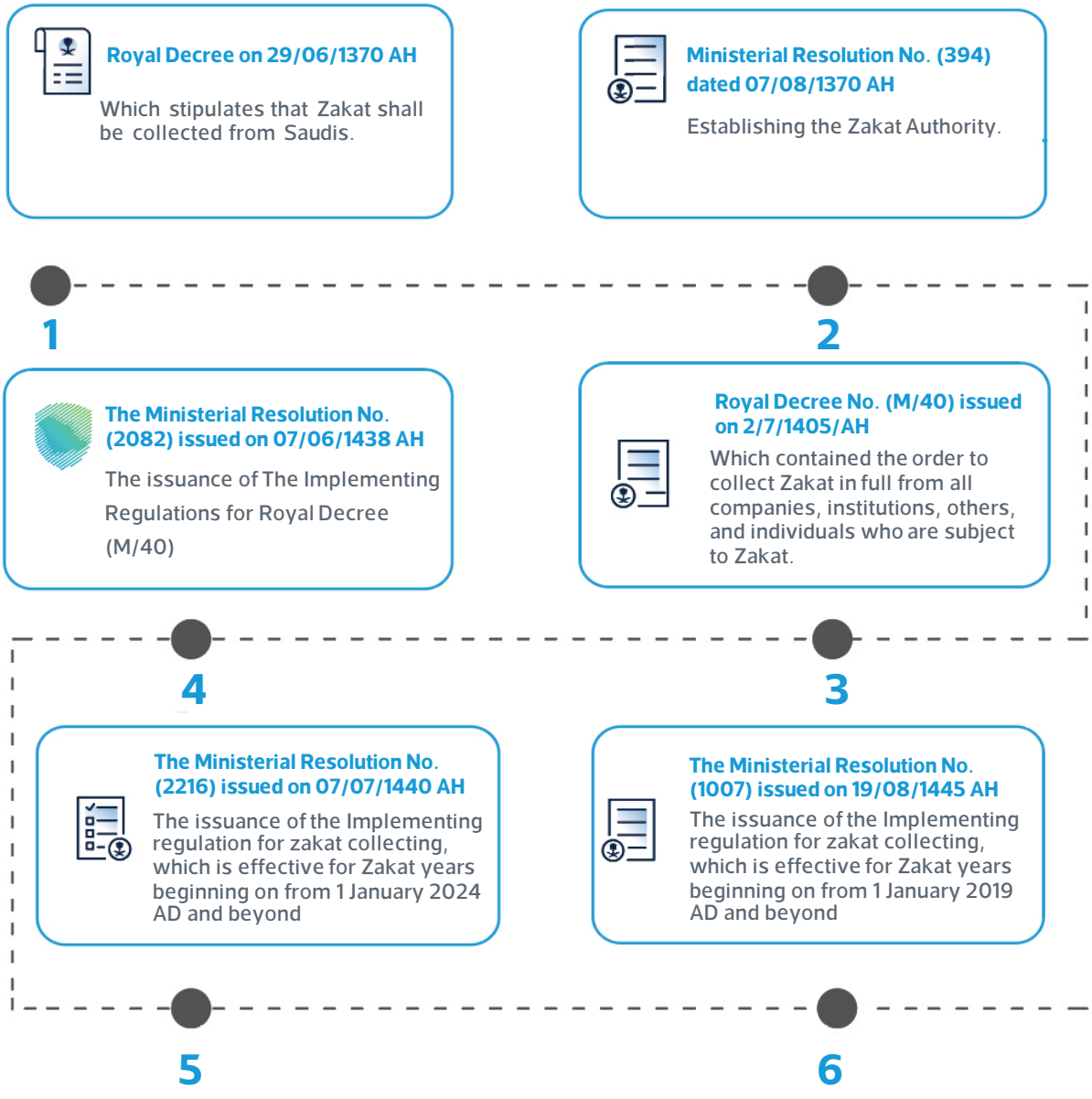
ZATCA undertakes the task of levying Zakat. It undertakes all procedures related to the Zakat payer's Zakat calculation, starting with the registration of the Zakat payer, through the process of calculating the amount of Zakat for the Zakat payer, which includes supervision of the Zakat payer's submission of Zakat Reports, payment procedures, examination of the submitted statements, and verification of them by well-trained personnel working at ZATCA, and ending with the issuance of the Final Zakat Certificate. And what may result from subsequently bearing the burden of studying the Zakat payers' objections to the assessments of the Zakat Authority.

1.3 Application of Zakat Collection in the Kingdom of Saudi Arabia

The collection of Zakat and its disbursement to those entitled is one of the basic tasks of the State, as stipulated in the Basic Law of Governance in Article 21, which states that Zakat shall be collected and disbursed in its prescribed channels. Article 7 further affirms the State's commitment to Sharia obligations, including the collection and distribution of Zakat, stating that the government in Saudi Arabia derives its authority from the Holy Qur'an and the Prophet's Sunnah, which govern all State laws. In confirmation of the foregoing, during the reign of the Founder King Abdul-Aziz—may Allah have mercy on him—Royal Decree No. (17/2/28/8634) dated 29 Jumada Al-Awwal 1370 AH, corresponding to 6 April 1951 AD, was issued ordering the collection of Zakat. This decree was followed by several royal decrees reaffirming it, as well as executive ministerial resolutions, regulations, and circulars, including Royal Decree No. (M/40) dated 2 Rajab 1405 AH, and the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 1 Jumada Al-Thani 1438 AH (28 February 2017 AD), and Ministerial Resolution No. (2216) dated 7 Rajab 1440 AH (14 March 2019 AD), which applies to Zakat years beginning on or after 1 January 2019 for all Zakat payers, except those assessed under the arbitrary method pursuant to Chapter Four of the regulations, for whom it applies to declarations submitted after 31 December 2019. Additionally, the Implementing Regulation for Zakat Collection issued by the Minister of Finance under Resolution No. (1007) dated 19 Sha'ban 1445 AH (29 February 2024) applies to fiscal years commencing on or after 1 January 2024 for all Zakat payers.

The Implementing Regulation for Levying Zakat has been concerned with clarifying the provisions for levying Zakat on commercial activities in general, and has also outlined the provisions for specific activities and cases. Moreover, the Regulation covers the procedures for Zakat collection, as well as the rights and obligations of Zakat payers. The Zakat proceeds collected by ZATCA are received and deposited with the Ministry of Finance into the Social Security account, which is responsible for disbursing them to the poor and needy in accordance with Royal Decree No. (1/5/16) dated 05/01/1383 AH, corresponding to 28 May 1963 AD, wherein Paragraph (1) provides that Zakat shall be collected in full from all joint stock companies, others, and individuals subject to Zakat, and Paragraph (2) stipulates that all amounts collected shall be deposited into the Social Security Fund.

Legislative hierarchy of Zakat



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.

1.6 Purpose of the Guideline

This guide includes explanations of treatments and guidelines related to modification of the activity result for Zakat purposes to calculate the adjusted net profit or adjusted net loss. It provides a clear vision and comprehensive practical applications regarding the calculation of adjusted net profit or adjusted net loss.

The aim of adjusting net profit is to reach the adjusted net profit by excluding the impact of non-accepted or inflated expenses and remedying any undeclared revenues. The purpose of this is to determine the difference between the net book profit and the adjusted net profit, or the difference between the net book loss and the adjusted net loss. This difference is one of the elements added to the Zakat base.

Additionally, reaching the adjusted net profit is the primary determinant for transitioning to the minimum base as an alternative Zakat base. This is done by comparing the adjusted net profit to the Zakat base result and transitioning to the minimum base if the Zakat base is lower than the adjusted net profit.

This guide presents ZATCA's concept and explanation regarding applying the Implementing Regulation for Zakat Collection, which was issued by the decision of the Minister of Finance No. (1007) dated Sha'ban 19, 1445 AH.

For any guidelines regarding any transactions, visit the official website of ZATCA (ZATCA.gov.sa), which contains a large set of tools and information specifically developed to help the Zakat payer, including video guidelines and all relevant data, as well as answers to the FAQs.

2. Key definition

Difference Between Adjusted Net Profit (Loss) and Net Book Profit (Loss)

The total of non-deductible expenses according to the regulation and undeclared revenues.

Adjusted Net Profit (Loss):

The net book profit (or loss) after adjustments in accordance with the regulation's requirements, such as non-accepted expenses or undeclared revenues.

Modification to the Activity Result:

Making adjustments to the net book profit (or loss) to reach the adjusted net profit (or loss).

Expense

Costs incurred for the purpose of practicing activities and generating revenue, which result in a decrease in assets or an increase in liabilities.

Accepted Expenses

Expenses that are accepted by the regulation for deduction either unconditionally or under specific conditions, as per Articles 62 and 63 of the regulation.

Inflated Expenses

Expenses that are inconsistent with authority's information and deducted from the book profit at a value greater than their actual amount, as per Article 61 of the regulation.

Undeclared Revenues

Revenues earned during the period that are not declared in the financial statements or in the Zakat declaration.

Bad Debts

Amounts owed by the debtor to the Zakat payer that are written off from the entity's assets and charged on losses due to the likelihood of being uncollectible.

Depreciation Expense

The process of distributing the cost of an asset over its useful life in order to determine the reduction in its value during each accounting period.

Donations

The amounts paid by the Zakat payer against any aid to another entity for charitable purposes in order to promote community cohesion and support the overall objectives of community development. Donations may also be paid to a non-profit organization to support the charitable purpose for which the said organization is established in order to develop the community, in accordance with the guidelines mentioned in the regulations.

Provisions

Liabilities with uncertain timing and amount, presented in the statement of financial position based on their nature.

Income Tax

A direct tax imposed on the shares of non-Saudi partners in securities companies, as well as on the shares of individuals engaged in the production of oil and hydrocarbons, on non-Saudi residents practicing commercial activities within the Kingdom, and on non-residents earning income from practicing commercial activities within the Kingdom.

Value-Added Tax (VAT)

VAT is an indirect tax imposed on all goods and services bought and sold by establishments, with some exceptions outlined in the Implementing regulation of the VAT Law.

VAT Taxable Person

A person who independently engages in economic activity with the aim of earning income, and is either registered for VAT purposes in the Kingdom or is required to register for VAT purposes in accordance with the VAT Law and Regulations.

Real Estate Transactional Tax

An indirect tax imposed on all transactions under which a legal effect resulted in the form of transferring the right of ownership of the real estate or possession of it for the purpose of owning it, or the possession of its benefit from one person to another; transactions may be based on an agreement between the two parties such as selling or based on the independent freewill of the owner such as a devisor's will. This is in accordance with the detailed guide on Real Estate Transactional Tax.

Real Estate Transaction

Any legal act that transfers ownership of real estate or possession for the purpose of owning it, or owning the benefit of it, including without limitation, contracts- for the purpose of transferring the usufruct- or long-term leases such as; sale, netting, gift, will, barter, lease (Ijara), financial lease, transfer of stakes in real estate companies, or usufruct for a period of more than 50 years.

Excise Tax

An indirect tax imposed on types of goods that are harmful to public health or the environment, or on luxury goods in varying percentages. These include soft drinks, energy drinks, and tobacco and its derivatives.

Suspension Situation for Tax in Excise Tax

A status where the excise good tax is due on certain goods in a suspension situation according to the suspension conditions outlined in the Implementing regulation of the Excise Goods Tax Law, issued by the Board Members of the Authority on 13th Ramadan 1438 AH, along with subsequent modifications.

Investment Properties

Properties held to earn rental income, for capital appreciation, or both purposes, in accordance with the International Accounting Standard 40 (IAS 40) - Investment Property.

2.1. Mechanism for Adjusting Net Profit or Net Loss

A modification of the activity result must be made, whether the result at the end of the year is a profit or a loss, as incurring a loss during the year does not exempt the Zakat payer from complying with the rules for modifying the activity result.

The net book profit is adjusted as follows:

- If the modification relates to a non-accepted expense or an inflated expense that the entity has charged on the income statement (deducted from the profit), the adjustment is made by adding the non-accepted expense or the difference in the inflated expense to the net book profit in order to eliminate the effect of its deduction from the profit.
- If the modification relates to undeclared revenue, the adjustment is made by adding the effect of the undeclared revenue to the net book profit according to the regulations, in order to reflect its impact on the profit.

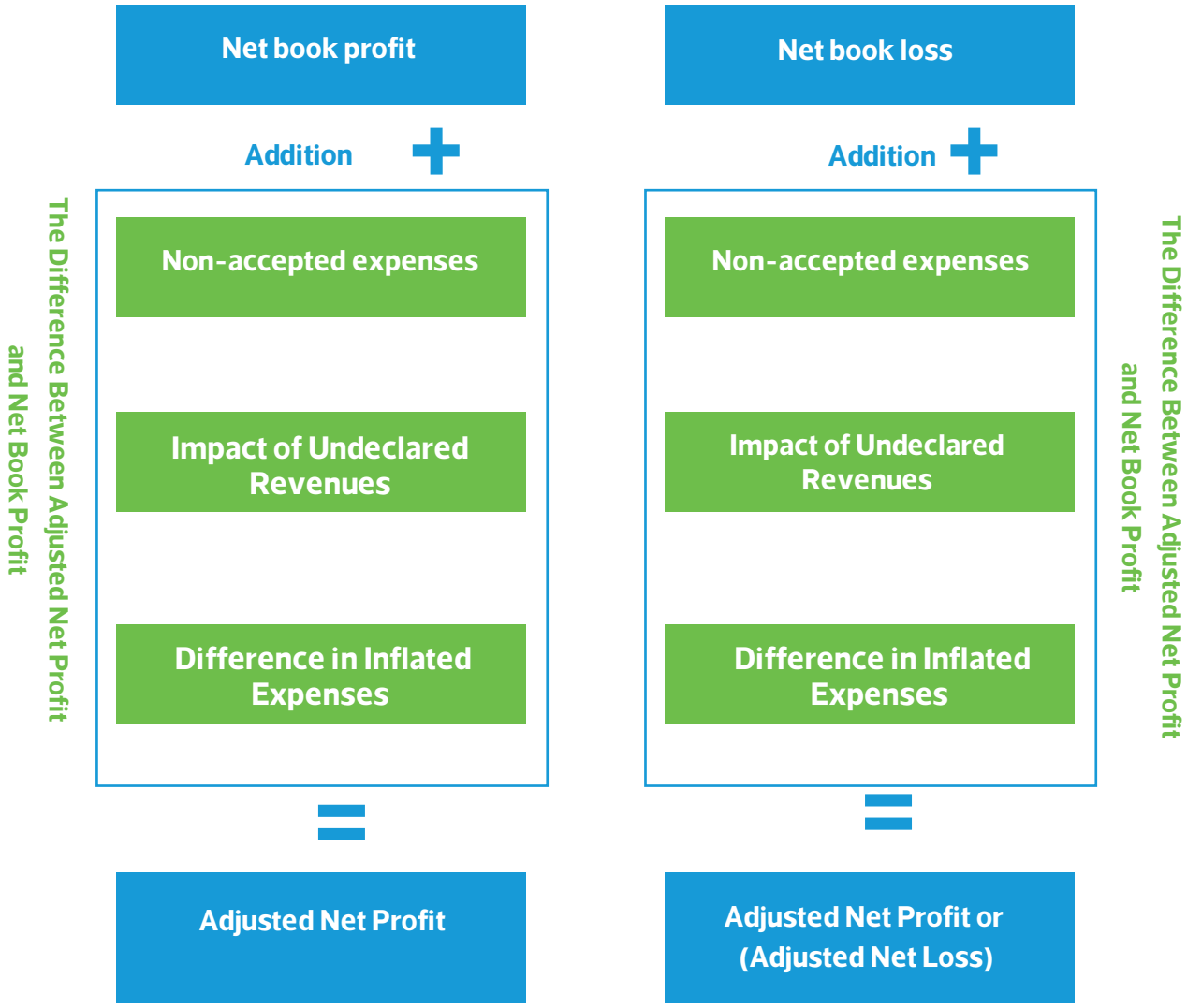
The net book loss is adjusted as follows:

- If the modification relates to a non-accepted expense or an inflated expense that the establishment has charged to the income statement (deducted from the profit), the adjustment is made by reducing the loss by the amount of the non-accepted expense or the difference in the inflated expense, in order to eliminate the effect of its deduction.
- If the modification relates to undeclared revenue, the adjustment is made by reducing the loss by the amount of the undeclared revenue in order to reflect its impact on the loss.

Mathematically, the modification procedure does not differ in the case of profit or loss which involves a negative value. In all cases, non-accepted expenses will be added, resulting in an increase in the adjusted profit or a reduction in the adjusted loss (a reduction in the negative value). Similarly, the impact of undeclared revenues will always be added, resulting in an increase in the adjusted profit or a reduction in the adjusted loss (a reduction in the negative value).

In cases where the Zakat payer's activity **outcome** does not involve any non-accepted expenses or undeclared revenues, no modification is required for the activity result. In this case, the net book profit (or loss) is acceptable for Zakat purposes without any modifications.

1. Mechjanism for modifying Net book Profit or Loss



Example (1)

The financial year 2024 ended for a Company, and the net book profit, as shown in the profit and loss statement, was 50,000 SAR. After examining the company's revenues and expenses, the following was noted:

Item	Amount
Non-Accepted Zakat expenses	10,000 SAR
Estimated profit for undeclared revenues by the company according to the regulations	15,000 SAR

What is the adjusted net profit?

The Solution:

The adjusted net profit is as follows:

Net book profit	50,000 SAR
(+) Addition of the non-accepted Zakat expenses	10,000 SAR
(+) Addition of the estimated profit for undeclared revenues by the company according to the regulations	15,000 SAR
Difference between adjusted net profit and net book profit	25,000 SAR
(=) Adjusted net profit	**75,000 SAR**

Example (2)

A Company incurred a net loss of (90,000) SAR for the year 2025. After examining the company's revenues and expenses, the following was noted:

Item	Amount
Invoices for over-recorded expenses in the company's expenses	40,000 SAR
Non-accepted Zakat expenses	30,000 SAR
Estimated profit for undeclared revenues by the company according to the regulations	60,000 SAR

What is the adjusted net profit?

The Solution:

The adjusted net profit is as follows:

Net book profit	**(90,000) SAR**
(+) Difference from over-recorded invoices	40,000 SAR
(+)Addition of the non-accepted Zakat expenses	30,000 SAR
(+) Addition of the estimated profit for undeclared revenues by the company according to the regulations	60,000 SAR
Difference between adjusted net profit and net book profit	130,000 SAR
(=) Adjusted net profit	**40,000 SAR**

Example (3)

A company achieved a net profit of 25,000 SAR for the year 2024. After examining the company's revenues and expenses, no adjustments were required to the net book profit of the company.

What is the adjusted net profit?

The Solution:

The adjusted net profit is as follows:

Net book profit	**25,000 SAR**
Difference between adjusted net profit and net book profit	0
(=) Adjusted net profit	**25,000 SAR**

2.2. Purpose of Adjusting Net Profit

The purpose of adjusting net profit is to reach the adjusted net profit by excluding the effect of non-accepted or inflated expenses, as well as treating for any undeclared revenues. The aim is to determine the difference between the net book profit and the adjusted net profit, or the difference between the net book loss and the adjusted net loss. This difference is one of the elements added to the Zakat base.

In addition, reaching the adjusted net profit is the primary determinant for transitioning to the minimum base, as an alternative to the Zakat base. This is done by comparing the adjusted net profit with the Zakat base result, and transitioning to the minimum base if the Zakat base is lower than the adjusted net profit.

Based on the above, adjusting the net profit (or loss) aims to achieve two objectives:

The first is determining the difference between the net book profit and the adjusted net profit.

The second is reaching the adjusted net profit, which is the key criterion for determining the minimum base.

2.2.1. Addition of the Difference Between Adjusted Net Profit/(Loss) and Net Book Profit/(Loss) to the Zakat Base

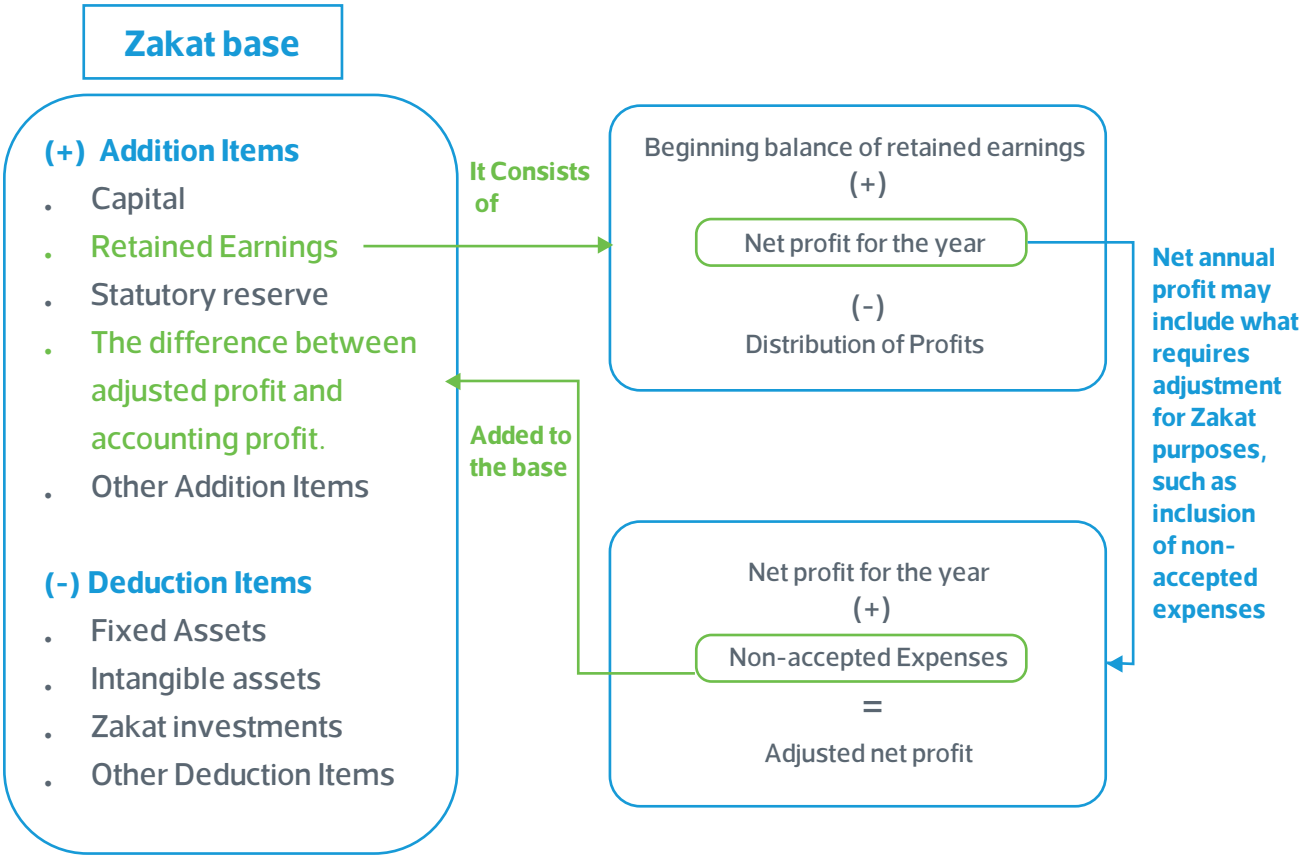
The difference between the adjusted net profit (loss) and the net book profit (loss) is added to the Zakat base to exclude the impact of non-accepted Zakat treatments included in the net book profit for the year, as reflected in the retained earnings item added to the Zakat base under equity items. The net book profit after Zakat and tax is considered part of the equity items added to the Zakat base because it is included in the retained earnings item added to the Zakat base at the end-of-period balance.

Based on this, and since the net book profit may include items that require modification according to the provisions of the regulation, such as non-accepted expenses charged on the income statement during the year, it is necessary in this case to add the difference between the adjusted net profit and the net book profit to the Zakat base. This difference represents the Zakat-related modifications required for the net book profit.

The net book profit is adjusted according to the mechanism explained in paragraph 2.3 of this guide to reach the adjusted net profit. Naturally, the difference between the net book profit and the adjusted net profit represents the Zakat-related modifications to the net book profit, and this difference required to be added to the Zakat base.

The adjustment is made to the net book profit after Zakat and tax because the net book profit included in the retained earnings item added to the Zakat base is the net book profit after Zakat and tax expenses.

The same applies to the net book loss, which, if realized, is part of the retained earnings added to the Zakat base at the end-of-period balance. Therefore, in cases of loss, the difference between the adjusted net loss and the net book loss is added to the Zakat base.



2.2.2. Determining the Minimum Zakat Base

The adjusted net profit is the primary determinant for transitioning to the minimum base. The minimum base refers to the alternative Zakat base, which is moved to if the Zakat base falls below the adjusted net profit, as outlined in Article 27 of the regulations. This article includes the rules for the minimum base.

Based on this, reaching the adjusted net profit is essential to determine whether the transition to the minimum base is applicable or not.

The minimum Zakat base is the adjusted net profit if the adjusted net profit is less than total non-deducted assets plus the difference between the adjusted net profit and the net book profit. The minimum base is the lower of the following:

1. Total non-deducted assets plus the difference between the adjusted net profit and the net book profit.
2. The adjusted net profit.

Example (4)

The following data was reported by a company at the end of 2025:

Item	Amount
Total non-deducted assets	19.000 SAR
The difference between adjusted net profit and net book profit	8.000 SAR
Zakat Base	16.000 SAR
Adjusted net profit	29.000 SAR

What is the minimum Zakat base for the company?

The Solution:

The calculation of the minimum Zakat base for the company is as follows:

Calculating the Minimum Base	
Total non-deducted assets	19.000 SAR
(+) Difference between net book profit and adjusted net profit	8.000 SAR
Total	**27.000 SAR**
Adjusted net profit	29.000 SAR
Compare the results above, and the minimum base is the lower amount. Thus, the minimum Zakat base is 27,000 SAR.	

Since the Zakat base of 16,000 SAR is less than the adjusted net profit of 29,000 SAR, the alternative Zakat base is the minimum base, which is the lower of the adjusted net profit or the non-deducted assets plus the difference between the adjusted net profit and the net book profit. Therefore, the minimum Zakat base is 27,000 SAR.

3. Adjusted Net Profit or Adjusted Net Loss

3.1. Introduction

At the end of the financial year, the entity prepares an income statement that shows the result of its operations, whether profit or loss. This is done by determining the net book profit or net book loss, which includes all revenues and expenses for the accounting period. It is well-known that the net book profit or net book loss is the result of revenues and gains during the period, minus the expenses and costs related to the same period. An increase in revenues leads to an increase in net book profit, while an increase in expenses reduces net book profit.

Based on the above, and since the Regulations for the Zakat Collection have established conditions and rules for the acceptance of expense deductions from profits, in addition to certain rules and considerations related to undeclared revenues, the net book profit may not necessarily align with the net profit accepted for Zakat purposes. This necessitates adjustments to the net book profit to reach the net profit that complies with the provisions of the regulation, known as the adjusted net profit.

This requires Zakat payers to adjust the net profit to reach the adjusted net profit in accordance with the provisions of the regulation. This includes verifying the correctness of all expense deductions and ensuring that all revenues are declared. The regulation outlines the conditions and provisions for accepting expense deductions charged on the income statement, as well as the treatments for failing to declare revenues that are required to be declared. Additionally, it includes other provisions related to adjustments in calculating the adjusted net profit and the associated procedures, as will be detailed in this guide.

4. General Controls for Modifying Activity Results

4.1. Introduction

Net book profit is adjusted according to the provisions outlined in the regulations, which include the general rules and controls for modifying activity results. Article 60 of the regulations addresses the mechanism for treating undeclared revenues, while Article 61 outlines the mechanism for treating inflated expenses that contradict the Authority's information. In addition to proving non-actual expenses and revenues or those recorded at incorrect values, as per Article 64 of the regulation. These issues represent significant discrepancies in the information related to the activity results of the Zakat payer that require modification and treatment as indicated in Article 59 of the regulations. Regarding expenses, Article 62 specifies the general controls for accepting the deduction of expenses charged on the income statement.

Based on this, the Zakat payer must adhere to the general controls related to activity results. This includes ensuring that all revenues for the period are declared, verifying the general controls for accepting expenses charged on the income statement during the period, and ensuring that the values recorded in the activity results align with the supporting documents and evidence. Failure to observe these requirements gives the authority the right to the reassessment of the Zakat according to the fixed facts and information.

4.2. Significant Discrepancy in the Information Related to the Result of the Zakat Payer Activity

Significant discrepancy in information refer to discrepancies between the information presented in the records or declared in the Zakat payer's declaration and the information held by the authority. Article 59 of the regulations gives the authority the right, upon discovering differences in the information provided by the Zakat payer regarding activity result, to reassess

the Zakat base for the Zakat payer. In some cases, the authority may notice differences between the information available and held about information that has been declared in the Zakat payer's declaration regarding the activity result. In such cases, the Zakat payer must prove the accuracy of the information provided in the declaration or justify the reasons for the discrepancy. Otherwise, the authority has the right to reassess the Zakat base for the Zakat payer according to this discrepancy.

The information available and held by the authority includes any information or facts that can be relied upon to verify the accuracy of the information provided in the Zakat payer's declaration. This includes, but is not limited to:

- Documents issued by relevant government authorities and platforms.
- Declarations and information submitted by the Zakat payer.
- The Zakat payer's financial statements and related documents.
- Reports and documents issued by related parties, such as reports from chartered public accountants or authorized notaries, among others.

This discrepancy includes several forms and cases, such as the presence of undeclared revenues in the Zakat payer's declaration, the charging of expenses on the income statement that contradicts the information available to the authority, and recording items on the income statement at amounts higher than their correct and actual values. Examples of such discrepancies include, but are not limited to, the following:

- Discrepancies between the information in the declaration regarding salaries and employee costs compared to what is recorded in social insurance records.
- Differences in rental costs charged on the income statement compared to what is documented

in contracts registered on designated government platforms.

- Discrepancies in the valuation of certain types of assets recorded on the income statement versus what is documented in certified documents from competent authorities regarding the values of these assets.
- Differences between the revenues declared in the Zakat declaration and what is recorded in the Zakat payer's books and records.

In this regard, it is important to highlight what was mentioned in Article 111, which emphasized that the burden of proving the accuracy of the Zakat declaration lies on the Zakat payer. This underscores the importance of verifying all items of the activity result and the supporting documents, along with analyzing all potential discrepancies. The authority has the right to request any data or clarifications for the purpose of verifying the accuracy of any information or clarifications relied upon in calculating Zakat dues, provided that this does not exceed a period of ten (10) years from the date of submitting the Zakat declaration, as stipulated in Article 110 of the regulations.

Example (5)

A company submitted its Zakat declaration for the year 2024, which included a difference of 10,000 SAR between the net book profit and the adjusted net profit. This amount represents bad debts that did not meet the conditions for accepting the write-off expense. The company's Zakat declaration did not include any other modifications to the adjusted net profit.

In 2027, the authority began procedures to examine the company's Zakat declaration and found the need to request some documents and clarifications from the company to verify the correctness of the adjustment to the net book profit as per the Zakat payer's declaration. Does the authority have the right to request the necessary documents to conduct the examination in this case?

The Solution:

The authority has the right in this case to request the necessary documents to examine the Zakat declaration. Article 110 of the regulations states that the authority may, at any time, request any data or clarifications for the purpose of verifying the accuracy of any information or clarifications relied upon in calculating Zakat dues, provided that this does not exceed a period of ten (10) years from the date of submitting the Zakat declaration.

4.3. Undeclared Revenues

Undeclared revenues refer to the revenues not included in the Zakat payer's activity results stated in the submitted Zakat declaration. One of the cases of significant discrepancies in the information submitted by the Zakat payer is a discrepancy between the revenue fixed in the Zakat payer's declaration and the actual revenues fixed in the authority's information. According to the regulations, this discrepancy can take multiple forms, including:

1. The revenue stated in the Zakat payer's declaration may be more than the actual revenue fixed in the authority's information.

2. The revenue stated in the Zakat declaration may be less than the actual revenue fixed in the authority's information.

Article 60 of the regulations outlines the mechanism for remedying undeclared revenues in the Zakat declaration based on the type of discrepancy, as follows:

1. In case the revenue stated in the Zakat declaration is more than the revenue fixed in the information of the Authority, what is stated in Zakat declaration shall prevail, provided the adjusted net profit or the adjusted net loss may not be affected.
2. In case the revenue stated in the Zakat declaration is less than the revenue fixed in the information of the Authority, then the higher of the following amounts is added to the adjusted net profit or deducted from the adjusted net loss:

a. Difference x (the gross profit stated in Zakat declaration ÷ the revenue stated s in the Zakat declaration).
b. Difference × 15%.

The above-mentioned remedies do not conflict with the Zakat payer's right to modify the submitted Zakat declaration as per Article 103 of the regulations, if the Zakat payer discovers an error, provided this occurs before the issuance of the Zakat assessment by the authority, while considering the other conditions stipulated in Article 104 of the regulations.

Based on the above, it is the Zakat payer's duty to ensure the declaration of all revenues earned during the Zakat year. The Zakat payer must also justify any discrepancies between what is stipulated in the Zakat declaration and what is steted in the fixed Authority's information. These discrepancies may take several forms, including but not limited to the following:

- A discrepancy between the revenues declared in the Zakat declaration and those recorded in the Zakat payer's accounting books and records.
- A discrepancy in revenues compared to what is stipulated in the VAT declaration without supporting documents for the difference.

- The Zakat payer does not declare certain revenues earned during the year in their accounting books.
- Declaring certain revenues earned during the year at a lower value than their actual value fixed in the documents.
- The Zakat payer's violation of the recognized accounting methods for calculating the revenues for the period.

The cases mentioned above are examples of discrepancies in the revenue information declared in the Zakat payer's declaration, which gives the authority the right to apply the provisions of Article 60 of the regulations mentioned above. The article addresses undeclared revenues by adding the profit from the undeclared revenue, not the entire amount of undeclared revenue. This approach takes into account the Zakat payer's right to reduce undeclared revenues by the costs associated with them. For example, if the undeclared revenue amounts to 100,000 SAR, the declared profit is adjusted by adding the profit from the undeclared revenue, calculated by multiplying the undeclared revenue by the higher of the following percentages:

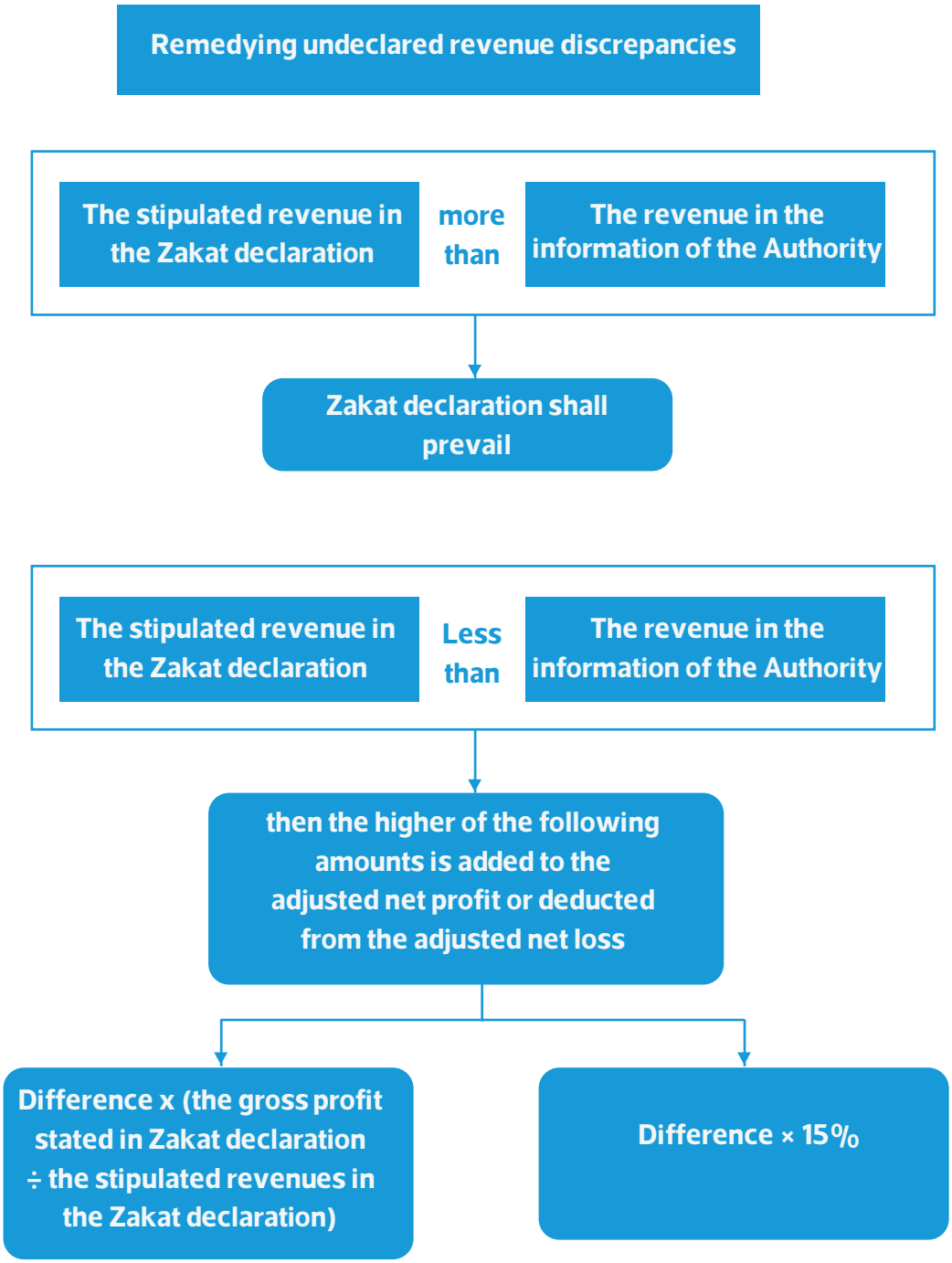
- 15%
- The gross profit percentage confirmed in the Zakat payer's declaration.

Assuming the gross profit percentage confirmed in the Zakat payer's declaration was 12%, the higher percentage in this case would be 15%. Therefore, the adjustment to the declared profit would be by adding (100,000 * 15%) = 15,000 SAR only. It is important to note that 15% was used because it is the higher percentage.

Article 60 confirmed that no modification would be made to the Zakat payer's declaration if the revenue stated in the Zakat declaration is more than the revenue fixed in the authority information. For example, a Zakat payer may mistakenly declare a sales revenue of 20,000 SAR when the actual correct revenue is only 2,000 SAR. As a result, the Zakat payer's Zakat base increases by the error in the declared revenue, leading to the overpayment of the accrued Zakat.

In this case, the authority is not required to modify the Zakat payer's declaration. Instead, the Zakat payer has the right to correct this error according to the controls for amending the Zakat declaration outlined in Articles 103 and 104. These articles state that if a Zakat payer requests amending a reduction in their declaration, the following conditions must be observed:

a. The amendment request for the Zakat declaration shall be submitted before issuing the Zakat assessment.
b. The expiration of the limitation period at the time of submitting the request shall not have passed.
c. Upon amending the declaration as per the Zakat payer's request, the limitation period specified in Article 106 of the Regulations shall be calculated as of the date of amending the declaration.


Remedying undeclared revenue discrepancies
The stipulated revenue in the Zakat declaration
more than
The revenue in the information of the Authority
Zakat declaration shall prevail
The stipulated revenue in the Zakat declaration
Less than
The revenue in the information of the Authority
then the higher of the following amounts is added to the adjusted net profit or deducted from the adjusted net loss
Difference x (the gross profit stated in Zakat declaration ÷ the stipulated revenues in the Zakat declaration)
Difference × 15%

Example (6)

The Zakat declaration submitted by a company for the Zakat year contains the following data:

Item	Amount
Accounting net profit	150.000 SAR
Revenue stated in Zakat declaration	650.000 SAR
Gross profit stated in Zakat declaration	430.000 SAR

Upon examining the company's declaration, it was found that the company declared revenue of 120,000 SAR in its Zakat declaration, while the revenue fixed according to the authority's fixed information was SAR 100,000. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

In this case, since the revenue stated in the company declaration is more than the revenue fixed in the information of the Authority, Zakat declaration shall prevail, provided the adjusted net profit may not be affected.

Example (7)

The Zakat declaration submitted by a company for the Zakat year contains the following data:

Item	Amount
Accounting net profit	300.000 SAR
Revenue stated in Zakat declaration	1.000.000 SAR
Gross profit stated in Zakat declaration	700.000 SAR

Upon examining the company's Zakat declaration, it was found that the company declared revenue of 120,000 SARin its Zakat declaration, while the revenue fixed according to the authority's fixed information was 520,000 SAR. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

In this case, since the revenue stated in the company declaration is less than the revenue fixed in the information of the Authority. Thus, the profit for the difference of 400,000 SAR is calculated, and the higher of the following is added:

A	B
Difference x (the gross profit stated in the Zakat declaration ÷ the revenue stated s in the Zakat declaration)	Difference × 15%.
400,000 SAR × (700,000 SAR ÷ 1,000,000 SAR)	400,000 SAR × 15%
= 280,000 SAR	= 60,000 SAR
Since the result of equation (A) is more than the result of equation (B), the adjustment required to the company's accounting net profit is adding 280,000 SAR to the adjusted net profit.	

Example (8)

The income statement of a consulting company at the end of the Zakat year appeared as follows:

Income Statement	
Revenues	7,000,000 SAR
Cost of Revenues	6,020,000 SAR
Gross Profit	980,000 SAR
General and Administrative Expenses	660,000 SAR
Selling and Distribution Expenses	340,000 SAR
Profit Before Zakat	(20,000) SAR
Zakat	0
Net Book Loss	**(20,000) SAR**

During the examination of the company's Zakat declaration, it was found that the company declared legal consulting service revenues of 4,000,000 SAR in its Zakat declaration, while the actual legal consulting service revenue, according to the fixed information in the authority, amounts to 4,200,000 SAR. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

In this case, since the revenue stated in the company's declaration is less than the revenue fixed in the authority, a profit for the difference of 200,000 SAR will be calculated. The higher of the following calculations will be added:

A	B
Difference x (the gross profit stated in Zakat declaration ÷ the revenue stated s in the Zakat declaration)	Difference × 15%.
200,000 SAR × (980,000 SAR ÷ 7,000,000 SAR)	200,000 SAR × 15%
= 28,000 SAR	= 30,000 SAR
Since the result of equation (B) is more than the result of equation (A), the adjustment required to the company's accounting net loss is adding an amount of 30,000 SAR to the net book loss (reducing the loss), and thus the loss will turn into an adjusted net profit, as follows: (20,000 SAR) + 30,000 SAR = 10,000 SAR.	

4.4. Inflated Expenses

Inflated expenses refer to expenses charged on the income statement at a value higher than their actual amount. This includes cases where a specific expense is inflated, a group of expenses is inflated, or the gross expenses are inflated, as will be explained. One of the significant discrepancies in the information submitted by the Zakat payer is the difference between the expenses stipulated in the Zakat payer's submitted declaration and the actual expenses fixed in the information of the authority. These discrepancies can take multiple forms: the expenses stipulated in the Zakat payer declaration may be more than the expenses fixed in the information of the authority, or they may be less.

Article 61 of the regulations includes that expenses which contradict the information of the Authority, shall be remedied as follows:

1. In case the expenses stipulated in the Zakat declaration are greater than the expenses fixed in the information of the Authority, the difference shall be added to the adjusted net profit or deducted from the adjusted net loss.
2. In case the expenses stipulated in the Zakat declaration are less than the expenses fixed in the information of the Authority, Zakat declaration shall prevail, provided the adjusted net profit or the adjusted net loss shall not be affected.

Based on the above, the Zakat payer must declare expenses in the declaration in accordance with the actual expenses and the supporting documents. They must also justify any discrepancies between what is submitted in the Zakat declaration and what is stipulated in the fixed information of the authority. Examples of such discrepancies include, but are not limited to:

- The declared expenses in the declaration or some of them are non-compliant with what is recorded in the Zakat payer's accounting books.
- The declared expenses in the declaration or some of them are non-compliant with reports and documents issued from relevant authorities. For instance, this could involve reporting higher salary expenses charged on the income statement than those confirmed in social insurance records, or higher rental expenses charged on the income statement compared

to those documented in certified contracts on a competent government platform such as the "Ejaar" platform.

- Declared expenses in the declaration that exceed the related supporting documentation, such as reporting maintenance costs higher than the invoice amount or the annual contract value.
- The appearance of other expenses in the declaration without a detailed analysis or supporting documents.

The above cases are examples of discrepancies in declared expenses in the Zakat payer's declaration, which give the authority the right to apply the provisions outlined in Article 61 of the regulation, as mentioned above. The cases of inflated expenses are not limited to those mentioned but include any situation where expenses or some of them are non-compliant with the information held by the authority.

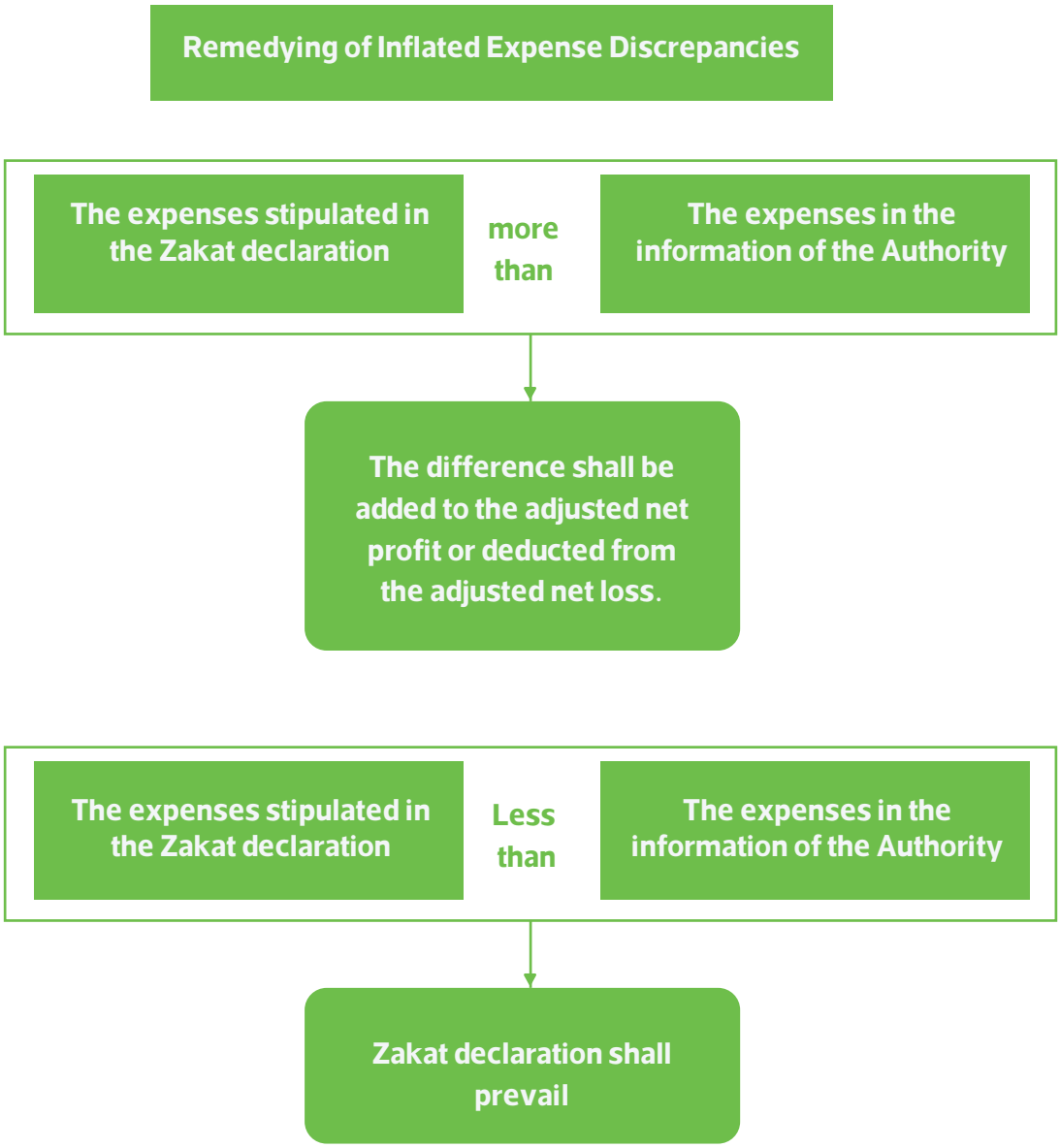
Inflated expenses also include cases where a specific expense is inflated, such as when a Zakat payer overstates salary and wages expenses higher than their actual value as shown in the documents and information fixed in the authority. It also includes situations where a Zakat payer inflates a specific group of expenses, such as overstating revenue costs or selling and marketing expenses higher than their actual value as shown in the documents and information fixed in the authority. Additionally, it includes cases where the total expenses charged on the income statement are higher than their actual value as shown in the documents and information fixed in the authority.

Article 61 confirms that no amendment will be made to the Zakat payer's declaration if the expenses in the Zakat declaration are less than the expenses fixed in the information of the Authority. For example, if a Zakat payer declares general and administrative expenses of 400,000 SAR while the actual general and administrative expenses in the fixed information and

documents of the authority amount to 600,000 SAR, this will result in an increase in the Zakat base by the amount of expenses incorrectly undeducted, leading to an overpayment of accrued Zakat.

The authority is not required to amend the Zakat payer's declaration in this case. Instead, the Zakat payer has the right to correct this error in accordance with the controls for amending the Zakat declaration as stipulated in Articles 103 and 104. These articles indicate that if the Zakat payer's request for amendment is due to an under-declaration, the following controls shall be considered:

a. The amendment request for the Zakat declaration shall be submitted before issuing the Zakat assessment.
b. The expiration of the limitation period, at the time of submitting the request, shall not have passed.
c. Upon amending the declaration as per the Zakat payer's request, the limitation period specified in Article 106 of the Regulations shall be calculated as of the date of amending the declaration.


Remedying of Inflated Expense Discrepancies
The expenses stipulated in the Zakat declaration
more than
The expenses in the information of the Authority
The difference shall be added to the adjusted net profit or deducted from the adjusted net loss.
The expenses stipulated in the Zakat declaration
Less than
The expenses in the information of the Authority
Zakat declaration shall prevail

Example (9)

The Zakat declaration submitted by a company at the end of the Zakat year includes the following data:

Item	Amount
Accounting net profit	90,000 SAR
Advertising campaign expenses	30,000 SAR
Other expenses	120,000 SAR

Upon examining the company's declaration, it was found that the actual advertising campaign expenses, according to the fixed documents and information of the authority, amount to 40,000 SAR. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

In this case, since the advertising campaign expenses stipulated in the company's Zakat declaration amounting to 30,000 SAR are less than the actual advertising campaign expenses fixed in the authority's information, which amount to 40,000 SAR, the amount in the Zakat declaration shall prevail. Therefore, the adjusted net profit remains unaffected

Example (10)

The income statement of a company at the end of the Zakat year appeared as follows:

Income Statement	
Revenues	3,000,000 SAR
Cost of Revenues	1,500,000 SAR
Gross Profit	1,500,000 SAR
General and Administrative Expenses	550,000 SAR
Selling and Distribution Expenses	200,000 SAR
Profit Before Zakat	750,000 SAR
Zakat	70,000 SAR
Net Book Loss	**680,000 SAR**

Upon examining the company's Zakat declaration, it was found that administrative and general expenses exceed the fixed amount in the documents and analyses provided by the company according to its accounting records by SAR 50,000. The company does not have any justification for this increase. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

In this case, since the administrative and general expenses reported in the company's Zakat declaration amount to 550,000 SAR, which is 50,000 SAR higher than the fixed administrative and general expenses documented in the authority's information, this excess amount of 50,000 SAR will be added to the adjusted net profit.

4.5. Evaluating Income Statement Items

Article 64 of the regulations stipulates that the authority has the right to re-evaluate any expenses or revenue that is not actual or recorded at a value other than its true value. This procedure is covered under Article 59 of the regulations, which considers including expenses or revenue that is not actual or recorded at a value other than its true value in the Zakat payer's submitted declaration as a significant discrepancy in the information related to the Zakat payer's activity result. Additionally, Article 58 of the regulations specifies that the authority has the right to take all statutory actions to verify the validity of the information provided by the Zakat payer for the purpose of calculating the Zakat base.

This article includes the concept of recording non-actual expenses and costs by the Zakat payer, which gives the authority the right to exclude the impact of such expenses charged on the income statement based on the facts and information available to them. Examples of this include, but are not limited to:

- Proving costs that contradict the reality of the entity and the facts associated with it, such as charging the income statement with depreciation expenses for assets that do not exist or are not owned by the entity.
- Proving costs related to subsequent periods, such as charging the income statement with salary expenses for the first month of the following year.
- Proving capital expenses, such as charging the income statement with costs associated with fixed assets, such as the costs of purchasing, transporting, or installing fixed assets, while taking into account the related accounting considerations.

The above examples represent non-actual expenses and costs, where charging them on the income statement constitutes a discrepancy in the information that entitles the authority to reassess the Zakat obligation on the Zakat payer. This also applies to all cases involving the charge of non-actual expenses or costs on the income statement.

This article also covers cases where the Zakat payer records certain expenses, costs, and losses and charges them on the income statement with values that do not reflect the true nature of these expenses or losses, as well as the documents supporting them. Additionally, it includes cases

where the Zakat payer reports certain revenues, profits, or gains with unrealistic values that contradict the actual situation of these revenues or gains and their supporting documents. This entitles the authority to re-evaluate these expenses or revenues based on the available facts and information and the Zakat re-assessment accordingly.

This requires the Zakat payer to verify the accuracy of the expenses and revenues recorded within the net profit or loss. This includes all revenues and expenses incorporated in the Zakat payer's activity result, which may have been recorded incorrectly. Specifically, certain types of gains and losses that are calculated periodically based on variable or fixed data must be considered, including but not limited to the following:

- Unrealized gains or losses resulting from the revaluation of certain types of assets, which are recorded within the net book profit according to accounting standards.
- The company's share in the results of subsidiaries.
- Depreciation and amortization expenses.
- Financing costs.
- Gains or losses from the disposal of fixed assets.

The aforementioned examples represent items that may be subject to errors in the declared value calculation due to the reliance of these items -often- on specific calculations when determining the associated revenue or expense amount. For example, determining the company's share in the results of a subsidiary depends on the net profit or loss of the subsidiary and the percentage of investment in it. The calculation of depreciation or amortization expenses is based on the cost of the asset in addition to the approved depreciation percentage. The determination of gains or losses from the disposal of assets depends on their book value, which includes the accumulated depreciation of these assets.

The point is that such types of gains and losses may be subject to errors or may be recorded at incorrect values, as they do not rely on a fixed, specific value when recorded but rather depend on a calculation process to determine their value. Naturally, recording revenues or expenses at incorrect values is not limited to the examples mentioned above, but it also applies to all transactions, revenues, and expenses included in the Zakat payer activity results.

Example (11)

The income statement for a Zakat payer at the end of the Zakat year included the following expenses:

Expense	Amount	Explanation of the Expense
Company building rent	210,000 SAR	Rent for one year of the company building was recorded based on the initial agreement with the landlord. After examination, it was found that the annual rent in the certified contract is 190,000 SAR.
Factory machinery maintenance	160,000 SAR	Maintenance was performed by a foreign company at the Zakat payer's factory in Riyadh. An invoice of 40,000 $ was issued by the foreign company, and the amount was recorded by the Zakat payer at an exchange rate of 4 SAR. After examination, it was found that the exchange rate according to data issued from the Saudi Central Bank on the date of the transaction was 3.75 SAR.

What the amount of the adjustment that should be made to the company's net profit?

The Solution:

The authority has the right to re-evaluate the expense items as follows:

Expense	Amount of Adjustment to Net Adjusted Profit	Reason for Re-evaluating
Company building rent	20,000 SAR	The expense was overstated by the Zakat payer, as the actual contract amount was not recorded.
Factory machinery maintenance	10,000 SAR	The expense was calculated at a higher value than its actual value due to the difference in the exchange rate used.
Total Adjustments	**30,000 SAR**	

Example (12)

The income statement of a company at the end of the Zakat year appeared as follows:

Income Statement	
Revenues	7,000,000 SAR
Cost of Revenues	(4,300,000) SAR
Gross Profit	(2,700,000) SAR
General and Administrative Expenses	(300,000) SAR
Selling and Distribution Expenses	(100,000) SAR
Operating profit	(2,300,000) SAR
Unrealized losses from investment property valuation	(1,500,000) SAR
Financing expenses	(450,000) SAR
Profit Before Zakat	350,000 SAR
Zakat	120,000 SAR
Net Book Loss	**230,000 SAR**

Upon examining the company's declaration, it was found that the unrealized losses from the valuation of investment properties amounted to only 1,300,000 SAR, based on the documents and information fixed in the authority. The company did not provide evidence to justify the unrealized losses charged on the income statement. What is the amount of the adjustment that should be made to the company's net profit?

The Solution:

The company recorded unrealized losses that contradict the verified information and documents fixed in the authority, which show that the actual losses from the valuation of investment properties amount to 1,300,000 SAR, whereas the company recorded these losses in the declaration as 1,500,000 SAR. Therefore, the authority has the right to re-evaluate the expenses items as follows:

Net book profit	**230,000 SAR**
(+) Difference from revaluation of unrealized losses on property valuation	200,000 SAR
Total Zakat adjustments	200,000 SAR
Net profit	**430,000 SAR**

4.6. General Controls for Expense Acceptance

The general controls for expense approving refer to the rules and controls that must apply to all expenses in order for them to be approved. Article 62 of the regulations outlined the general controls for approving the Zakat payer's activity expenses. It stipulates three key conditions for approving expenses charged on the income statement, which are as follows:

1. Expenses shall be actual; whether conventional or necessary, even if they belong to previous years, taking into consideration the provisions of paragraph (9) of Article 63 of the Regulations.
2. Expenses shall be linked to the activity.
3. Expenses shall be proven with documents approved by the Authority.

The above conditions are general conditions for approving expenses charged on the income statement. This does not conflict with the specific conditions for certain types of expenses mentioned in Article 63 of the regulations, which are as follows:

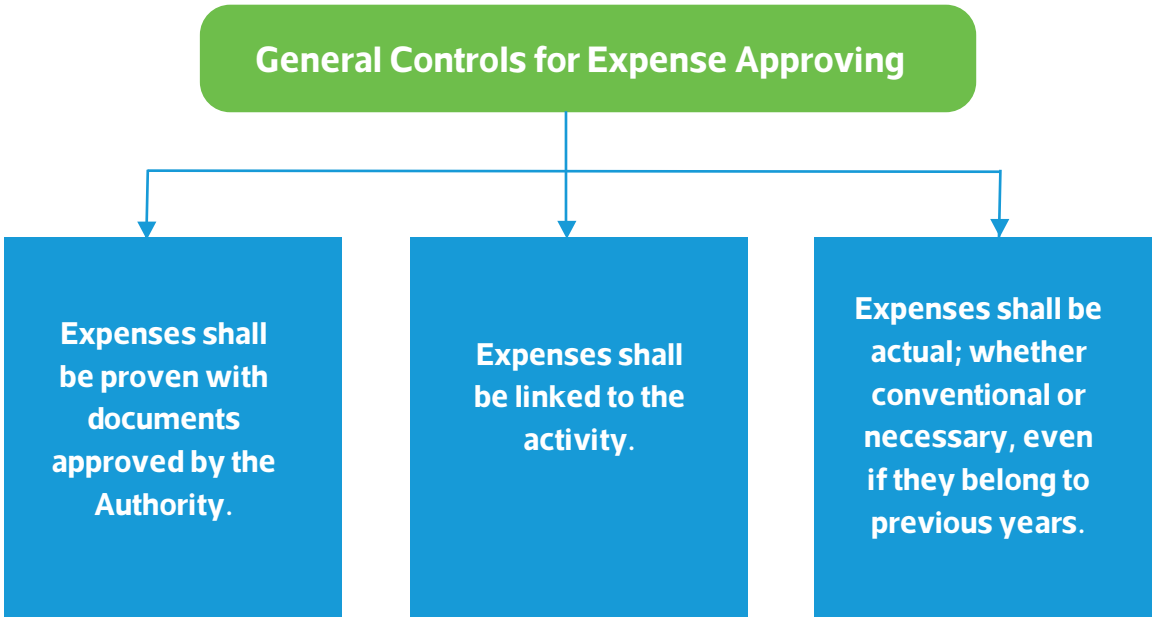
1. Bad debts.
2. Annual depreciation instalment.
3. Funding revenues incurred by the Zakat payer holding statuary accounts for his employees in housing ownership contracts.
4. Owners' salaries and allowances.
5. Remuneration of Board Members.
6. Wages difference which exceeds the registered in the General Organization for Social Insurance.
7. The fundraising.
8. Tuition fees for the children of the employees of the Zakat payer holding statuary accounts.
9. Provisions made during the year.
10. The paid Zakat or income tax.

The expenses mentioned above include specific conditions for their acceptance, as will be detailed in section 4 of this guide. Naturally, the general controls must also be met in addition to the specific conditions. As for the rest of the establishment's expenses, in order for them to be deductible, the general rules and controls must be fulfilled. Examples of this include:

- Revenue costs from purchasing goods or manufacturing costs.
- Rental expenses.
- Marketing and sales costs.
- Government fees and charges.
- Travel and transportation costs.
- Consulting fees.
- Maintenance and operational expenses.

To clarify, for rental expenses to be accepted, it is required that the expense is actual and realistic, related to a leased asset, and linked to the Zakat payer's activity, with proving documents available.

On the other hand, for the acceptance of bad debt expenses, it is required that the expense be actual and linked to a debt that has been written off, and that it is linked to the Zakat payer's activity with proving documents available. Additionally, as stated in Article 65 of the regulation, the specific conditions related to bad debt expenses must be met. These conditions will be reviewed in section 4 of this guide.


General Controls for Expense Approving
Expenses shall be proven with documents approved by the Authority.
Expenses shall be linked to the activity.
Expenses shall be actual; whether conventional or necessary, even if they belong to previous years.

4.6.1. Expenses shall be actual; whether conventional or necessary, even if they belong to previous years.

In order for the expenses declared in the declaration to be accepted, they must be actual expenses, whether they are conventional or necessary for the activity. "Actual expenses" refers to real expenses that are recognized from an accounting perspective. This includes all actual activity costs, such as employee salaries, rent for offices, warehouses, and factories, in addition to various government fees. These mentioned expenses, along with other typical commercial activity expenses, are genuine actual expenses that have been properly proved in the accounting system.

This condition does not conflict with the acceptance of provisions deduction created during the year, the rules of which are detailed in paragraph 4.10 of this guide. Paragraph nine of Article 63 states that it is permissible to deduct expenses created during the year, as will be clarified.

Based on the above, non-actual expenses are unrealistic or not recognized in accordance with the relevant accounting treatments. Examples of this include the following:

- Non-real expenses, such as charging the activity result declared in the declaration with expenses for the depreciation of non-existent or non-affiliated assets, or charging the income statement with rental expenses without any actual leased properties.
- Expenses related to subsequent periods, such as charging the activity result declared in the declaration with medical insurance expenses for part of the following year.
- Capital expenses, such as charging the activity result declared in the declaration with costs associated with the existence of fixed assets, like costs for the purchase, transport, or installation of fixed assets, or as charging the activity result declared in the declaration with costs for purchasing certain types of fixed assets, while considering the related accounting principles.

Actual expenses include expenses related to prior years, as these expenses are considered acceptable while considering the following conditions:

- The expense has not been deducted in any previous year.
- The general deduction conditions apply to the expense, along with any specific deduction conditions if the expense falls under those mentioned in Article 63 of the regulations.
- The expense must be charged on the income statement in the same period as the Zakat declaration.

Expenses from prior years are considered acceptable if the above conditions and controls are met. An example of this is when an entity proves Zakat or tax expenses related to a prior year during the current year.

From an accounting perspective, the prior year expenses are linked to International Accounting Standard 8 (IAS 8) - Accounting Policies, Changes in Accounting Estimates, and Errors - which aims to establish controls for selecting and changing accounting policies, as well as for the remedies and disclosure of changes in accounting policies and estimates, and the correction of errors. This standard must be applied when selecting or changing the policy, accounting estimate,

or correcting errors from previous periods, which refers to the following:

Accounting Policy	Accounting Estimates	Accounting Error
Principles, bases, conventions, rules, and specific practices applied by the entity in preparing and presenting the financial statements	Amounts presented in the financial statements that are subject to uncertainty regarding their measurement	Misstatements and errors in the financial statements of a previous period resulting from failure to use or misuse of available information

The standard includes cases where the settlement is made to the balance of retained earnings, as well as situations where adjustments are made to the current year's profit and loss (income statement), resulting in the appearance of prior year expenses in the current period's activity results, as follows:

- When applying an accounting policy in retrospect, the financial statements for all prior financial periods presented for comparison should be adjusted to reflect the impact of the new accounting policy on the relevant periods. However, in circumstances where it is not reasonably possible to determine the impact of the new accounting policy on the relevant periods, the adjustment or settlement should be made to the balance of retained earnings at the beginning of the current period to reflect the impact of the change in policy. Examples of this include a company changing the method used for inventory valuation or changing the method used for asset depreciation.
- When correcting prior period errors, the resulting impact should be settled to the balance of retained earnings. An example of this includes errors in calculating depreciation expenses for previous years or errors in proving rental expenses for the financial year.
- When changing accounting estimates, the resulting impact affects the current period's activity results. Examples of this include adjusting estimates related to provisions created in previous years or adjusting estimates related to the useful lives of depreciated assets.

Based on the above, in cases where prior period expenses are settled by adjusting the balance of retained earnings, this will not have any impact on the Zakat payer's activity results. This is handled by adding equity items to the Zakat base in accordance with the provisions of the regulations, considering that the retained earnings item is one of the equity items added to the Zakat base at the end-of-term balance. This includes any adjustments or settlements that occur during the year. Conversely, what is stated in Article 62 applies to settling prior years expenses by including them in the current period's profits and losses -income statement-.

Actual expenses include expenses incurred outside the Kingdom, referring to costs paid to non-resident suppliers. For example, this includes the Zakat payer receiving goods or services from non-resident suppliers. The Zakat ruling for these expenses and costs is the same as that for expenses and costs incurred within the Kingdom. Naturally, all other conditions for accepting the expense must also be met.

Example (13)

The general and administrative expenses of one of the companies included the following expenses:

Expense	Amount
The company's factory rent expense	180,000 SAR
Expenses of salaries for sales department employees	320,000 SAR
Cleaning expense for the company's headquarters	15,000 SAR

The company has provided supporting documents for the mentioned expenses. Are these expenses acceptable for Zakat purposes?

The Solution:

Yes, all the mentioned expenses are considered convential and necessary for the company's activity. They are also accepted as actual expenses for Zakat purposes, provided the other conditions for accepting expenses are met, including the availability of supporting documents.

Example (14)

The income statement of one of the companies for the year 2024 included the following items:

Expense	Amount
Zakat expense for the year 2022 paid based on a Zakat assessment from the authority	30,000 SAR
Depreciation expense from previous years due to the company's change in production estimates for some depreciated assets	18,000 SAR
Hospitality expense for the company's clients	5,000 SAR
Fuel expense for the company's factory	13,000 SAR

Are the mentioned expenses acceptable for Zakat purposes?

The Solution:

Yes, all the expenses mentioned above are accepted as actual expenses, even if they relate to previous years.

Example (15)

The analysis of retained earnings item for a Zakat payer at the end of the Zakat year was as follows:

Beginning Inventory	**70,000 SAR**
(+) Profit for the year	150,000 SAR
(-) Profit distributions	(100,000)SAR
(-) Settlements for prior years' expense errors	(45,000 SAR)
End-of-term balance	**75,000 SAR**

What is the adjustment amount that should be made to the company's net profit?

The Solution:

The Zakat payer settled prior years' expenses by settling the retained earnings balance. As a result, there is no impact on the net profit for the year, and thus no adjustment needs to be made to the net profit. In any case, even if the company had charged prior years' expenses on the income statement for the year, they should still be considered acceptable expenses as long as they meet the conditions for approving expenses.

4.6.2. Expenses Must Be Linked to the Activity.

To accept the expenses charged on the income statement, these expenses must be linked to the Zakat payer's activity. This includes all costs and expenses that are necessary or conventional for the activity, such as employee salaries, costs of services provided to the establishment, and maintenance expenses for equipment and machinery used in the establishment's activity.

Expenses are considered unlinked to the activity if they are personal in nature or connected to activities not related to the Zakat payer's business. This includes the personal expenses of the owners or partners and the costs of assets they own that are not related to the activity.

The consideration of whether an expense is linked to the activity depends on the nature of the expense. Examples include:

- Depreciation and amortization expenses are considered linked to the Zakat payer's activity if they are linked to depreciated assets used in the Zakat payer's activity.
- Salaries and wages are considered linked to the Zakat payer's activity if the salaries are paid to company employees.
- Employee costs and benefits are considered linked to the employee's activity if they are stipulated in employment contracts, company policies, or they are legal obligations for the Zakat payer.
- Rent expenses are considered linked to the Zakat payer's activity if the rented property is used for the Zakat payer's activity.
- Production costs are considered linked to the Zakat payer's activity if they are linked to the production of the establishment's products.

The criteria for determining whether an expense is linked to the activity are not limited to the examples mentioned above. The Zakat payer can provide evidence that an expense is linked to the activity, and the burden of proof regarding what is stated in the Zakat declaration lies with the Zakat payer, as indicated in Article 111 of the regulations. If the Zakat payer is unable to prove the validity of the information in the Zakat declaration, the Authority has the right to disallow the item that the Zakat payer has failed to prove its validity.

Example (16)

The general and administrative expenses item for one of the companies included the following expenses:

Expense	Amount	Explanation of Expense
Medical insurance expense	40,000 SAR	The expense is the cost of medical insurance for the company's employees.
Hotel rent expense	15,000 SAR	The expense is related to a partner's travel for tourism purposes.
Vehicle insurance expense	7,000 SAR	The expense is related to the personal car of the company's manager.

What is the Zakat ruling on the mentioned expenses?

The Solution:

Expense	Amount	Accepted / Not Accepted	Explanation of Expense
Medical insurance expense	40,000 SAR	Accepted	Considered an actual expense related to the company's activity.
Hotel rent expense	15,000 SAR	Not Accepted	This expense is not related to the company's activity.
Vehicle insurance expense	7,000 SAR	Not Accepted	This expense is not related to the company's activity.

4.6.3. Expenses Must Be supported by documents accepted by ZATCA

For expenses charged on the income statement to be accepted, they must be supported by verifiable documents that are acceptable to the authority. Documentary evidence is one of the most important aspects of verifying the accuracy of the information stated in the Zakat payer's declaration, including the expenses deducted from the net profit.

The requirements for verification vary depending on the nature and type of the expense. Some expenses require invoices and contracts, while others require approved internal documents. For example, a work contract, monthly payroll, and social security registration can serve as supporting documents for verifying an employee's salary expense. Similarly, an annual lease contract registered with the competent authorities and the associated invoices can serve as proof of the annual rent expense. In some cases, documentary evidence may require relevant analyses and statements from the establishment's accounting system. This shows that the forms of evidence differ based on the nature and type of the expense.

The key types of documents that can be relied upon to verify the validity of expenses can be divided as follows:

- Contracts signed with third parties.
- Invoices issued in accordance with invoicing requirements as per relevant regulations.
- Payment documents.
- Statements and reports issued by relevant government entities and associated platforms, such as customs statements and social security records, among others.
- Internal analyses of the establishment based on its accounting systems and books, such as the analysis of specific types of expenses or investments.
- Reports and documents from independent parties, such as reports from chartered accountants or authorized notaries.
- The establishment's approved internal regulations.

The types of documents that can be submitted to verify the validity of expenses are not limited to those mentioned above, as the Zakat payer can submit any document that can be relied upon to validate the expense. The type of document that can be submitted depends on the nature of the expense charged to the income statement. Additionally, the authority has the right to request any additional documents to verify the validity of the expenses charged on the income statement.

Regarding the retention of documents, the Zakat payer is required to retain the documents relied upon when submitting the Zakat declaration within the Kingdom for a period of no less than ten (10) years. During this time, the Authority has the right to request any data or clarifications to verify the accuracy of any information or clarifications relied upon in calculating Zakat dues. The Authority also has the right to obtain any data or documents held by any third party without referring to the Zakat payer holding statutory accounts, including direct access to data and documents in general, without violating the relevant statutory systems and procedures, in accordance with Article 110.

Example (17)

The income statement for one of the companies included the following expenses:

Expense	Amount	Nature of the Expense
Rent Expense	90,000 SAR	The expense represents factory rent for the company, but the company did not provide supporting documents for the expense
Promotional Gifts Expense	35,000 SAR	The expense represents promotional gifts for the company's clients according to the marketing plan approved by the executive committee, and the company provided invoices and supporting documents for it.
Travel and Transportation Expenses	60,000 SAR	The expense represents travel tickets for the company's employees to attend a business conference in another city, and the company provided supporting documents for it.

What is the Zakat ruling for the mentioned expenses?

The Solution:

Expense	Amount	Accepted / Not Accepted	Reason
Rent Expense	90,000 SAR	Not Accepted	The company did not provide supporting documents for the expense.
Gifts Expense	35,000 SAR	Accepted	It is an actual expense linked to the company's activity and supported by documents.
Travel and Transportation Expenses	60,000 SAR	Accepted	It is an actual expense linked to the company's activity and supported by documents.

5. Specific Controls for Expense Acceptance

5.1. Introduction

Article 63 of the regulations includes provisions for acceptable expenses, which outline some specific conditions and controls for certain types of expenses. These conditions and controls do not conflict with the general rules outlined in Article 62 of the regulations, which were detailed in paragraph 3.6 of this guide. For expenses charged on the income statement to be accepted, the general conditions must be met in all cases.

5.2. Bad Debts

Bad debts refer to amounts owed by others that are written off and removed from the company's assets, being charged on losses due to the likelihood or certainty of their uncollectability. Establishments typically write off debts after attempting to collect them and taking necessary actions, such as filing lawsuits and making various collection efforts. Additionally, establishments may write off debts due to the debtor declaring bankruptcy, in accordance with bankruptcy laws in the Kingdom, which may involve suspending existing claims and preventing any action against the debtor for a specified period or until the bankruptcy proceedings conclude. This may result in the inability to fully collect the amounts owed by the bankrupt party or only a partial collection of the debt.

Writing off a debt is considered as the waiver of the company's right to the debt from an accounting perspective. After the write-off, this debt no longer appears as a due to the entity within its assets. Therefore, writing off a debt requires a decision from an authorized party within the establishment, according to the specified authorization levels.

Bad debts directly written off from the income statement are considered accepted expenses to reach the adjusted net profit or adjusted net loss, provided the following conditions are met:

A. The Zakat payer must submit a certificate approved by a chartered accountant licensed in the Kingdom stating that these debts have been written off by a decision of the authorized person:

This condition emphasizes the importance of having supporting documentation for the expenses charged on the income statement. Since the chartered accountant report is from an independent third party, it can be relied upon to verify the validity of the expense. However, the Zakat payer is exempt from this requirement in the following cases:

- If the bad debt does not exceed 1% of the Zakat payer's revenues.
- If a final judgment of bankruptcy or insolvency has been issued against the debtor in accordance with relevant regulations.

B. The Zakat payer must have recognized this revenue in the year of due within his financial statements.

The expense of the bad debt is accepted against the revenue earned in a previous period. To approve the bad debt expense, the Zakat payer must have recognized the sales or revenue that led to the debt, such as selling goods on credit in a previous year. The Zakat payer bears the burden of proving this by providing supporting documents showing the revenue recognition in a prior period. These may include submitting accounting statements for previous periods, such as customer and sales statements , as well as sales invoices issued to the customer in accordance with invoicing requirements in relevant regulations.

Accordingly, bad debts arising from accounts receivable or loans to an employee that cannot be repaid do not qualify as accepted bad debts for the Zakat payer. This is because no revenue was generated or recognized from the employee's loan in previous periods.

C. They must be resulting from the exercise of the activity.

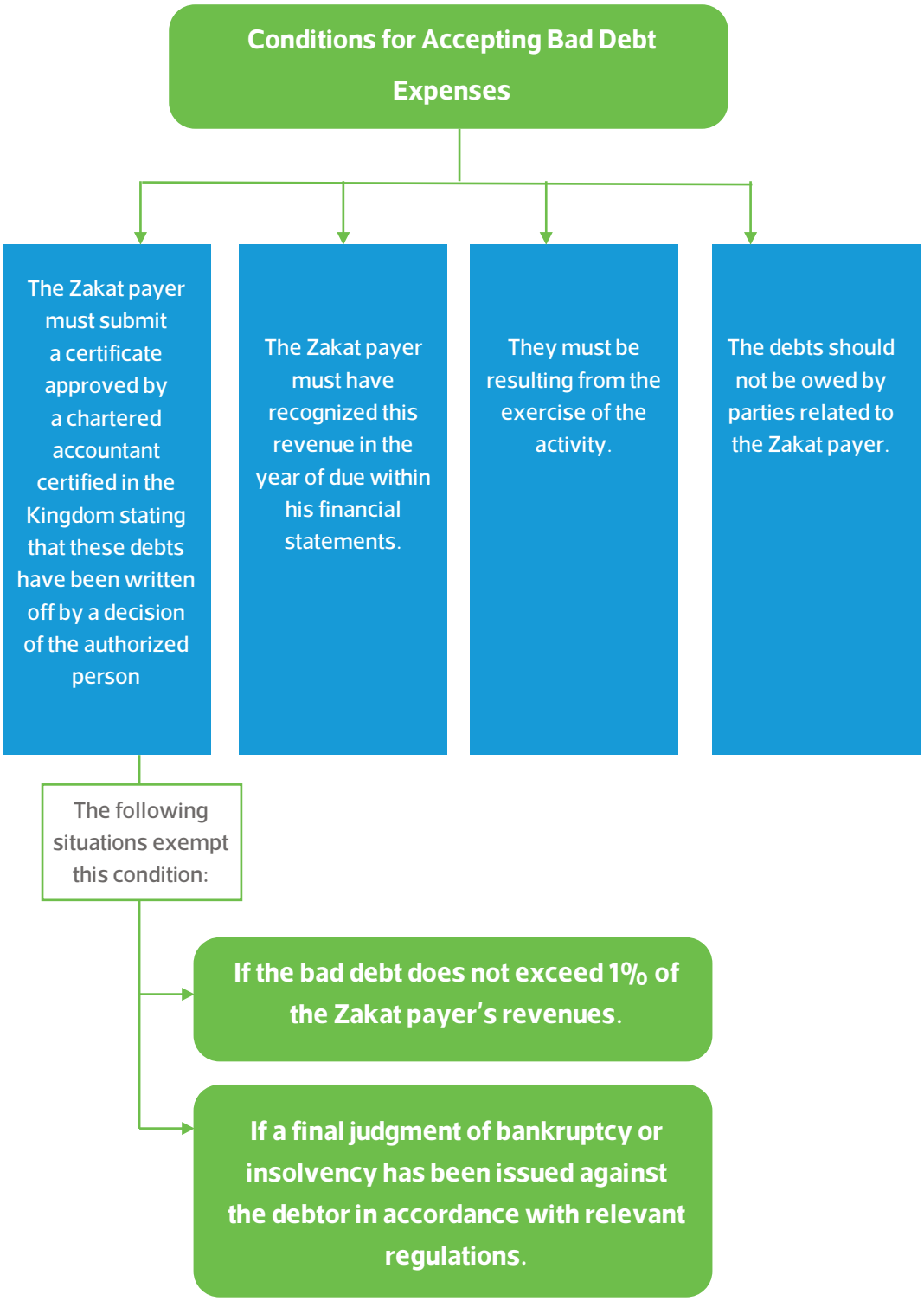
Bad debts are considered linked to the Zakat payer's activity if they arise from the Zakat payer's exercise of the activities, such as from the Zakat payer's usual sales. This can be proved with regular documents related to the exercise of the activity, such as invoices issued to the customer

in accordance with invoicing requirements in the relevant regulations.

D. The debts should not be owed by parties related to the Zakat payer.

As defined in Article 1 of the regulations, "related persons" refers to the meaning outlined in the Transaction Pricing Instructions issued by the Board Members of the Zakat, Tax, and Customs Authority (decision no. 6-1-19) on 25/5/1440H and its amendments. This includes natural or legal persons who exercise actual control over the Zakat payer, those controlled by the Zakat payer actually, or those under the actual control of the same person who controls the Zakat payer.

Therefore, the writing-off of debts resulting from transactions between related parties is not considered an acceptable expense for Zakat purposes. For example, if a holding company writes off a debt from sales to one of its subsidiaries, the subsidiary is considered a related entity to the controlling holding company, and thus, the debt write-off expense would not be accepted in this case.


Conditions for Accepting Bad Debt Expenses
The Zakat payer must submit a certificate approved by a chartered accountant certified in the Kingdom stating that these debts have been written off by a decision of the authorized person
The Zakat payer must have recognized this revenue in the year of due within his financial statements.
They must be resulting from the exercise of the activity.
The debts should not be owed by parties related to the Zakat payer.
The following situations exempt this condition:
If the bad debt does not exceed 1% of the Zakat payer's revenues.
If a final judgment of bankruptcy or insolvency has been issued against the debtor in accordance with relevant regulations.

Example (18)

The cost of sales for a company at the end of its Zakat year 2025 included a bad debt expense directly written off amounting to 190,000 SAR. After examining the company's data, the following was found:

- The debt write-off was approved based on a report from a chartered accountant indicating that the write-off was done with the approval of the authorized person in the company.
- The expense relates to a debt owed by independent parties not affiliated with the company and arises from the supply of goods.
- The revenue related to this debt was previously recognized in the income statement for the year 2024.
- This debt represents 4% of the company's revenues.

Is this expense considering an accepted Zakat expense?

The Solution:

Yes, this expense is considered an accepted Zakat expense, as it meets the conditions outlined in Article 65 of the regulations regarding bad debt expenses.

Example (19)

The general and administrative expenses of a company at the end of its Zakat year 2024 included a directly written-off bad debts expenses amounting to 250,000 SAR. After examining the company's data, the following was found:

- The write-off of the debt was approved based on a report from a chartered accountant stating that the write-off was done with the approval of an authorized person in the company.
- The debt is a housing loan paid to a former employee of the company, which the company has determined to be uncollectible after the employee's resignation.

Is this expense considered an accepted Zakat expense?

The Solution:

No, this expense is not considered an accepted Zakat expense because loans and advances paid to employees are not recorded as revenues of the company, meaning the conditions stated in Article 65 of the regulations are not met for this expense.

Example (20)

A holding company provides services to some of its wholly-owned subsidiaries. The income statement of the company at the end of its Zakat year 2024 included a directly written-off bad debts expense related to one of its subsidiaries amounting to 1,160,000 SAR. After examining the company's data, the following was determined:

- The write-off was approved based on a report from a chartered accountant stating that the write-off was done with the approval of an authorized person in the company.
- The debt represents an accrued balance from the subsidiary due to the holding company executing one of the subsidiary's subcontracted contracts, and the holding company proved the revenue related to this contract when the service was performed.

Is this expense considered an acceptable expense for Zakat purposes?

The Solution:

No, this expense is not considered an acceptable expense for Zakat purposes, as the write-off of debts to parties related to the Zakat payer is not allowed according to what is stated in Article 65 of the regulations.

5.3. Depreciation

The term "Asset Depreciation" refers to the process of the distribution of the asset's cost over their useful life in order to identify the reduction in the value of the asset in each accounting period. The accumulated depreciation instalments over the years constitute the accumulated depreciation for that asset. The depreciated asset is presented in the statement of the financial position at its cost, in case of using the cost model, minus the accumulated depreciation.

Depreciation methods vary according to the requirements of International Accounting Standard 16 (IAS 16) - Property, Machinery, and Equipment -. An entity may use any of the approved accounting depreciation methods, such as the straight-line method, declining balance method, or units of production method. However, the most common method is the straight-line method, which assumes that each year of an asset's life benefits equally from its services and should therefore be charged with an equal portion of its cost. Thus, the annual depreciation instalment remains constant throughout the asset's useful life.

Regardless of the depreciation method used, the annual depreciation instalment for fixed assets is considered an acceptable expense to reach the adjusted net profit or adjusted net loss. The establishment typically specifies certain depreciation rates for their assets based on management's estimates, which take into account various factors and criteria. As a result, the annual depreciation instalment expense appears in the company's books according to the rates and considerations set by management.

The deduction of the book depreciation charged on the income statement is accepted provided that the conditions for deducting depreciated fixed assets outlined in Article 48 of the regulations are met, which are as follows:

A. It must be listed in the financial statements of the Zakat payer.

Thus, depreciation cannot be deducted for any assets or properties not listed in the Zakat payer's financial statements.

B. It must be held for the purpose of use, not for resale.

This requirement is related to the accounting principle related to recognizing depreciation expenses, as assets held for sale are not considered depreciable properties according to the provisions of International Accounting Standard 16 (IAS 16). Additionally, assets held for sale in the context of normal activity are treated as inventory in accordance with the requirements of International Accounting Standard 2 (IAS 2) - Inventories - and therefore cannot be depreciated. Moreover, assets held for resale are not deduction items from the Zakat base, meaning their depreciation cannot be deducted.

C. It must be deducted at its net value as shown in the financial statements.

The value shown in the financial statements is the book value of the asset after deducting the accumulated depreciation associated with it.

The provisions of Article 48 also state that in cases where the asset is not registered in the company's name, one of the following controls must be met:

1. There is an impediment that prevents the transfer of ownership of the asset to the company's name.
2. It is used in the company's activity.
3. It is an in-kind share in the capital.
4. Its revenues or expenses are recognized in the financial statements.

This requirement is related to demonstrate the connection between the depreciation expense and the Zakat payer's activity, as registering the asset in the Zakat payer's name is one of the criteria that can be relied upon to demonstrate the relationship of the asset's depreciation to the activity.

Based on the above, the acceptance of the depreciation instalment deduction is related to the depreciated asset and its connection to the Zakat payer's activity. The annual depreciation instalment expense is not accepted if the conditions mentioned above, related to the depreciated

asset, are not met. For example, if the depreciated asset is held for sale rather than for use, the depreciation expense would not be considered an acceptable expense in this case.
The annual depreciation instalment is used to measure the depletion and amortization expenses related to intangibles which do not have a tangible physical existence but can be identified and controlled by the entity as a result of past events such as purchase or self-development, and they must have future economic benefits. Examples of such assets include software, patents, and intellectual property.

Depletion of intangible assets, as defined in International Accounting Standard 38 (IAS 38) - Intangible Assets, refers to the systematic allocation of the amortizable amount of an intangible asset over its useful life. These assets, which have a limited useful life, are depleted regularly over the useful life of the asset, often using the straight-line method to reflect the periodic decline in the value of the intangible asset. For Zakat purposes, the depletion of intangible assets is considered an acceptable expense to reach the adjusted net profit or adjusted net loss.

Example (21)

The income statement of a company at the end of 2025 appeared as follows:

Income Statement	
Revenues	700,000 SAR
Cost of Revenues	(105,000 SAR)
Gross Profit	595,000 SAR
General and Administrative Expenses	(95,000 SAR)
Selling and Distribution Expenses	(80,000 SAR)
Profit Before Zakat	420,000 SAR
Zakat	(35,000 SAR)
Net Book Loss	**385,000 SAR**

The company's costs and expenses included the following details:

- Depreciation expense of 5,300 SAR related to factory machinery, which appeared as an asset in the company's statement of financial position.
- Depreciation expense of 3,000 SAR for a car stored in the company's warehouses, which was held for resale.
- Depreciation expense of 9,000 SAR for the administrative building registered under one of the partners, where the ownership was not transferred to the company due to an existing mortgage on the property preventing its transfer.

Which of the above expenses should the net profit be adjusted by?

The Solution:

- The depreciation expense for the machine amounting to 5,300 SAR is considered an accepted expense, as it meets the conditions for accepting depreciation instalment expense.
- The depreciation expense for the car amounting to 3,000 SAR is considered a non-accepted expense, as the car was held for resale purposes.
- The depreciation expense for the building amounting to 9,000 SAR is considered an accepted expense, as it meets the conditions for accepting depreciation instalment expense since its ownership has not been transferred to the company due to an existing impediment.

The net profit adjustment in this case will be as follows:

Net Book Profit	**385,000 SAR**
(+) Depreciation expense for the vehicle held for resale	3,000 SAR
Difference between adjusted net profit and net book profit	3,000 SAR
(=) Adjusted Net Profit	**388,000 SAR**

Example (22)

The following data appeared in the trial balance of a company for the financial year ending on December 31, 2024:

- Depreciation expense of 340,000 SAR for factory buildings registered under the Zakat payer's name and reflected in the statement of financial position.
- Amortization expense of 96,000 SAR for the company's accounting system, recorded under intangible assets in the statement of financial position.
- Depreciation expense of 43,000 SAR for the Zakat payer's transport vehicles, which are used to transport goods between factories to complete the manufacturing process.
- Depreciation expense of 77,000 SAR for a building registered under the name of one of the partners and used by the partner to manage other companies he owns.
- Depreciation expense of 366,000 SAR for investment properties not listed in the company's financial statements by the end of 2024.

What is the amount of adjustment needed to be made to the Zakat payer's book profit?

The Solution:

The company's book profit must be adjusted by the following expenses:

- Depreciation expense of 77,000 SAR for the building registered under the partner's name and not used for the Zakat payer's activities.
- Depreciation expense of 366,000 SAR for investment properties not recorded in the company's financial statements.

As for the other depreciation expenses, they are considered acceptable as they meet the conditions. Thus, the amount of the adjustment to the book profit is as follows:

Unacceptable depreciation expense for the building	77,000 SAR
Unacceptable depreciation expense for investment properties	366,000 SAR
Difference between adjusted net profit and net book profit	**443,000 SAR**

5.4. Funding Revenues

Employee housing support programs provided by companies can take various forms, including:

- The establishment coordinates with funding institutions that, in turn, provide funding to the establishment's employees, with the establishment bearing the interest and profits generated from the funding contract.

As a result, the establishment incurs funding revenues on behalf of its employees, which are charged on the Zakat payer's income statement.

Costs of funding revenues borne by a Zakat payer on behalf of their employees under housing ownership contracts are considered accepted expenses to reach the adjusted net profit or adjusted net loss. This refers to the establishment (the Zakat payer) bearing the housing finance profits earned by the financier (the bank or finance company) on behalf of the employee. For example, the establishment (the Zakat payer) may agree with a bank to provide housing funding for its employees, and the establishment bears the funding profits accrued to the bank from the housing funding contracts on behalf of its employees.

To accept the costs of funding revenues borne by the Zakat payer on behalf of their employees in housing ownership contracts, the conditions outlined in Article 54 of the regulations must be met. These include that the loan may be interest-free and the Zakat payer should not earn any financial profits from the funding process and that the employee should not bear any additional amounts as a result.

Example (23)

The income statement for Al-Saada Company at the end of the year 2025 appeared as follows:

Income Statement	
Revenues	25,000,000 SAR
Cost of Revenues	(14,000,000 SAR)
Gross Profit	11,000,000 SAR
General and Administrative Expenses	(5,000,000 SAR)
Selling and Distribution Expenses	(3,000,000 SAR)
Operating profit	3,000,000 SAR
Financing expenses	(780,000 SAR)
Profit Before Zakat	2,220,000 SAR
Zakat	(246,000 SAR)
Net Book Profit	**1,974,000 SAR**

The financing expenses included the following details:

- Financing expenses of 440,000 SAR for a long-term loan drawn for the purpose of purchasing equipment for the company.
- Financing expenses of 210,000 SAR owed to a bank related to housing loan interest for company employees, which the company has agreed to bear on behalf of its employees. These interest payments are made without the company charging any profits to its employees.
- Financing expenses of 130,000 SAR for a short-term drawn for the company's operational activities.

Is there a need to adjust the net book profit based on the above?

The Solution:

All the financing expenses mentioned are considered accepted expenses for Zakat purposes. The financing expenses related to the housing loans for company employees are also considered accepted expenses since the conditions for acceptance have been met.

5.5. Owners' Salaries and Allowances

In cases where a partner or owner of an establishment is employed within it, the salaries and allowances paid to them are considered accepted expenses to reach the adjusted net profit or adjusted net loss, provided that these salaries and allowances are registered with social insurance. Therefore, expenses for partner or owner salaries are not accepted if they are not registered with social insurance.

Naturally, having supporting documents to verify the validity of the expense is also a necessary condition for its accepting expenses. Such documents include:

- The documented employment contract.
- Payroll statements.
- Payment documents.

Based on the above, registering the salaries of owners and partners with social insurance necessitates treating their salaries in the same manner as those of the establishment's employees. This requires their acceptance whenever the statutory supporting documents are provided.

All benefits and advantages designated for owners and partners fall under the category of salaries and allowances, including allowances and other benefits. To be accepted, it is required that the owner or partner is registered with social insurance, in addition to having the necessary documentation that demonstrates the maturity of the partner or owner to these benefits, such as a documented employment contract, internal regulations of the establishment, or other documents accepted by the authority. Otherwise, any additional benefits received by the owner or partner may be considered personal expenses not related to the business activity, and it is the responsibility of the Zakat payer to prove the connection of such benefits and advantages to the business activity.

Transactions involving partners and owners who are employees in the establishment should be viewed from the perspective of the employee working for the establishment, according to specific benefits documented through proper legal procedures, just like all other employees.

Consequently, partners or owners are not entitled to any additional benefits or advantages unless these benefits are documented through recognized legal procedures for them to be accepted. In some cases, partners or owners may receive additional privileges that are not stipulated in the documented employment contracts or the internal regulations of the establishment, or that have not been approved by the authorized party.

Example (24)

The income statement for a company at the end of the year 2024 appeared as follows:

Income Statement	
Revenues	2,000,000 SAR
Cost of Revenues	(360,000 SAR)
Gross Profit	1,640,000 SAR
General and Administrative Expenses	(177,000 SAR)
Selling and Distribution Expenses	(105,000 SAR)
Profit Before Zakat	1,358,000 SAR
Zakat	(66,000 SAR)
Net Book Profit	**1,292,000 SAR**

The company's expenses included the following details:

- Salaries and wages of partner (A) amounting to 67,000 SAR, registered with social insurance.
- Salaries and wages of partner (B) amounting to 43,000 SAR, not yet registered with social insurance.
- Salaries and wages of partner (C) amounting to 16,000 SAR, for which the company registered the partner with social insurance at the beginning of 2025.

Should the net book profit be adjusted according to what has been mentioned above? What will the adjusted net profit be?

The Solution:

The salaries and wages of partner (B) and partner (C) are considered unacceptable expenses since they are not registered with social insurance before the end of the Zakat year. Therefore, they must be adjusted against the net book profit. The adjusted net profit is as follows:

Net book profit	**1,292,000 SAR**
(+) Salaries and wages of partner (B)	43,000 SAR
(+) Salaries and wages of partner (C)	16,000 SAR
Difference between adjusted net profit and net book profit	59,000 SAR
(=) Adjusted net profit	**1,351,000 SAR**

5.6. Remuneration of Board Members

Remuneration of Board Members is considered an acceptable expense in determining the adjusted net profit or adjusted net loss, provided it complies with the relevant regulations. Therefore, for such remuneration to be accepted, it must not violate applicable laws and regulations, including the Companies Law and the rules and bylaws of the Capital Market Authority concerning listed joint-stock companies. An example of this is Article 21 of the Implementing Regulation of the Companies Law, issued by Ministerial Resolution No. (284) dated 23/06/1444 AH, which states that the remuneration of independent board members should not be a percentage of the company's profits, nor should it be directly or indirectly linked to its profitability. Accordingly, if the remuneration of an independent board member is based on a percentage of the company's profits, this violation of the relevant regulations may be considered by the Authority as grounds to reject such remuneration as an allowable expense.

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Example (25)

The general and administrative expenses of Al-Diyaa Company for the year 2025 included the following expenses:

Expense	Amount	Status
Remuneration of the Chairman of the Board	120,000 SAR	Fixed amount specified in the company's regulations
Remuneration of the Deputy Chairman of the Board	90,000 SAR	Fixed amount specified in the company's regulations
Remuneration of the Independent Board Member	70,000 SAR	Fixed amount specified in the company's regulations

And after the examination, no violations regarding the remuneration of board members were found in any of the relevant regulations. Therefore, is it necessary to adjust the net profit according to the data above?

The Solution:

It is not necessary to adjust the net profit according to the data above, as the remuneration of board members, in this case, is considered an acceptable expense for Zakat purposes.

Example (26)

The general and administrative expenses of Al-Amal Company for the year 2024 included the following expenses:

Expense	Amount	Status
Remuneration of the Chairman of the Board	340,000 SAR	5% of the company's net profit
Remuneration of the Deputy Chairman of the Board	136,000 SAR	2% of the company's net profit
Remuneration of the Independent Board Member	100,000 SAR	2% of the company's net profit

Is it necessary to adjust the net profit according to the data above?

The Solution:

Yes, it is necessary to adjust the net profit by the remuneration of the independent board member due to a violation of the relevant regulations regarding the remuneration being directly or indirectly based on the company's profitability.

Remuneration of the Independent Board Member	100,000 SAR
Difference between Adjusted Net Profit and Net Book Profit	**100,000 SAR**

5.7. Difference in wages from those registered in the Social Insurance.

There are often differences between the wages and allowances recorded by the establishment with the General Organization for Social Insurance and those charged by the establishment on the income statement of wages and allowances. For Zakat purposes, any wage difference exceeding what is recorded with the General Organization for Social Insurance is considered an accepted expense to reach the adjusted net profit or adjusted net loss, provided that supporting documentation for this difference is presented and accepted by the authority.

There are various reasons for the differences between the salaries and wages declared as expenses by the Zakat payer and those registered with the General Organization for Social Insurance. Some examples of these reasons include:

- The salaries of some employees at the establishment exceed the maximum salary allowed for registration with the General Organization for Social Insurance, which is 45,000 SAR.
- The non-mandatory registration of an employee with the General Organization for Social Insurance due to age restrictions or other reasons.
- The salaries of the establishment include certain allowances that are not recorded as part of the wage subject to subscriptions at the General Organization for Social Insurance, such as transportation allowances and cost-of-living allowances. The wage subject to subscriptions at the General Organization for Social Insurance includes the basic salary, housing allowance, and monthly commissions-if any-but does not include other types of allowances.

Accordingly, the existence of a difference between the salaries and wages declared as expenses by the Zakat payer and those registered with the General Organization for Social Insurance is a common and expected matter. Therefore, in order for this difference to be considered an acceptable expense, it is necessary to provide supporting documents that are accepted by the authority. Examples of such documents include, but are not limited to:

- A detailed analysis of the reasons for the difference.
- The employment contract of the employee.

- Approved payroll records.
- Bank transfers.
- The labor regulations.
- A certificate from a certified chartered accountant in the Kingdom that clarifies the amounts of wages and salaries subject to social insurance and those not subject to it.

One of the important Zakat procedures is for the Zakat payer to identify, analyze, and gather documents supporting these differences when submitting the Zakat declaration. This documentation should be provided to the authority when submitting the declaration or upon request. In some cases, it may be difficult to refer back to these analyses when reviewing declarations from previous years due to the passage of time.

Example (27)

During the examination of Al-Saadah Company's declaration for the year 2024, it was noted that the salaries and wages registered with Social Insurance amount to 6,300,000 SAR, while the salaries and wages recorded in the company's books amount to 6,807,000 SAR. The company was asked about the reasons for the differences before the preliminary assessment was issued, but it did not justify them.

What actions can be taken regarding the adjustment of net profit in this case?

The Solution:

In this case, the differences in salaries between what is registered with the Social Insurance system and what is recorded in the company's books are considered unacceptable expenses, as the company did not clarify the reasons for the differences nor provide supporting documents. Therefore, the net profit will be adjusted by 507,000 SAR.

Example (28)

In the previous example, after the preliminary assessment of Al-Saadah Company was issued, including the adjustment of net profit by 507,000 SAR, the company justified the differences to the authority as follows:

Difference	Reason
130,000 SAR	Exceeding the maximum allowable salary in the Social Insurance system, as recorded in employee contracts.
60,000 SAR	Additional allowances (transportation allowance) documented in employee contracts that cannot be registered in Social Insurance.
75,000 SAR	No documents or justifications are available with the company to support this difference
32,000 SAR	Additional allowances (cost-of-living allowance) documented in employee contracts that cannot be registered in Social Insurance.
210,000 SAR	Overtime amounts compliant with the documented labor regulations, recorded as part of salaries and wages expenses.
507,000 SAR	**Total differences**

What is the amount of adjustments to the net book profit after the company's clarifications above?

The Solution:

The amount of adjustment to the net book profit after the company's justification is as follows:

Differences for which no supporting documents exist	75,000 SAR
Difference between Adjusted Net Profit and Net Book Profit	**75,000 SAR**

5.8. Donations

The paid donations are considered accepted expenses to reach the adjusted net profit or adjusted net loss, provided that these donations are paid to licensed entities within the Kingdom and in accordance with relevant regulations. Therefore, donations paid to unlicensed entities for collecting donations or donations paid to entities outside the Kingdom are not accepted, taking into account the relevant regulations and provisions regarding donations and the related controls.

Therefore, in order for donations to be accepted as a deduction, the following conditions must be met:

1. Must be actually paid.

Unpaid donation expenses accrued during the Zakat year are not accepted; the donations must be paid within the Zakat year, whether they are cash or in-kind donations. Cash payments can be verified by providing a bank transfer document or a bank statement confirming the payment. In-kind donations can be proven with a receipt related to the donations, such as when certain entities donate furniture, assets, or vehicles to charitable or licensed educational organizations. This condition does not apply in cases of a promise to donate or donation agreements where entities commit to donating to certain bodies unless the actual payment is made during the Zakat year.

2. Must be paid to a licensed entity within the kingdom.

Donation expenses paid to unlicensed entities are not accepted. For example, if an establishment donates to some natural persons or unlicensed entities, such donations will not be accepted. These donations must be made to licensed entities within the Kingdom, such as charitable, medical, and educational organizations licensed by the Ministry of Human Resources and Social Development, as well as licensed endowment entities and government-approved platforms and funds for collecting donations.

3 Must be supported by supporting documents.

The acceptance of donation expenses requires submission of a supporting document for the donation. This means the Zakat payer must possess the actual supporting documents that substantiate the paid donation expenses.

Conditions for Accepting Donation Deductions

Must Be Actually Paid: Donations that are accrued but not paid during the zakat year are not accepted for deduction.

Must Be Paid to Licensed Entities Inside the Kingdom

Must Be Supported by Supporting Documents: This includes payment documents and donation receipts, as the case may be.

Example (29)

The following table illustrates the analysis of donation expenses shown in the income statement for one of the Zakat payers:

Difference	Reason	Status
Donations to Entity (A)	150,000 SAR	Donation to a non-profit organization outside the Kingdom.
Donations to Entity (B)	200,000 SAR	Paid donation to a licensed entity within the Kingdom.
Donations to Entity (C)	600,000 SAR	Paid donation to an unlicensed association.
Donations to Entity (D)	450,000 SAR	Paid donation not supported by documentation.

Is it necessary to adjust the net profit according to the data above?

The Solution:

Yes, it is necessary, and the adjustment is as follows:

Adjustment	Reason	Amount
Donations to Entity (A)	Paid donation to an entity outside the Kingdom	150,000 SAR
Donations to Entity (B)	Paid donation to an unlicensed entity	600,000 SAR
Donations to Entity (C)	Paid donation not supported by documentation	450,000 SAR
Difference between Adjusted Net Profit and Net Book Profit		**1,200,000 SAR**

Example (30)

The following table illustrates the analysis of in-kind donation expenses shown in the income statement for a company operating in the medical field:

Donated Asset	Value	Status
Medical Equipment	80,000 SAR	Donation to a non-profit organization outside the Kingdom.
Ambulance	200,000 SAR	Donation to a non-government licensed health association in the Kingdom.

Is it necessary to adjust the net profit according to the data above?

The Solution:

The mentioned donation expenses are considered acceptable expenses for Zakat purposes, as they were paid to licensed entities within the Kingdom during the Zakat year. Therefore, it is not necessary to adjust the net profit for these expenses.

5.9. School Tuitions

School tuitions incurred by the facility on behalf of its employees, according to the specified employment benefits, are considered accepted expenses for reaching the adjusted net profit or adjusted net loss, provided that they are paid to a licensed educational institution in the Kingdom and to be stipulated in the employment contract of the employee or the Zakat payer's regulations.

School tuitions refer to the costs of children's education borne by the company on behalf of its employees as part of employee benefits and incentives. The manner of covering these costs and compensating them varies according to the company's policy and internal procedures. The payment may be made directly to the educational institution, or the employee may be compensated for the educational expenses incurred. In all cases, these school expenses are considered acceptable for Zakat purposes if the following conditions are met:

1. They shall be paid to a licensed educational institution within the KSA:
It means: The institutions licensed to provide education services provided by schools, whether public, private, or international; and regulated by the Ministry of Education in Saudi Arabia or the Ministry of Human Resources and Social Development, such as nurseries.

2. These benefits shall be stipulated in the employment contract or the Zakat payer's regulations.
This condition is intended to prove the employee's entitlement to this benefit, as it is related to the employment contract with the company. These benefits are due to the employee, whether for all employees or based on the employee's job grade.

3. Existence of documentary proof of the payment process:
Such documents may include, but are not limited to: a contract with the educational institution and an official invoice issued by the educational institution in line with the instructions of invoicing in the Kingdom with a proof of disbursing this payment directly to the employee or to the educational institution.

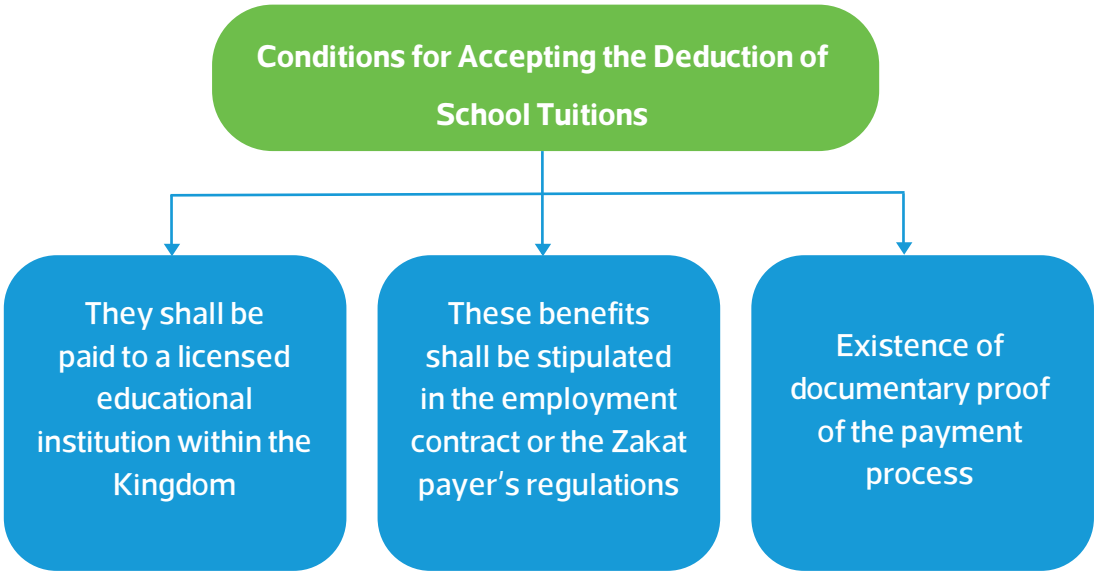
Companies differ in how they compensate employees for school expenses, and this variation includes the maturity of this compensation and the amount of it, as follows:

- Some companies compensate all employees for their children's school expenses.
- Some companies compensate only employees in specific job grades for their children's school expenses.
- Some companies compensate up to a maximum limit, linked to a specific number of children.
- Some companies compensate up to a maximum limit, linked to a specific value.

And there are various other forms of compensating employees for their children's educational expenses. The purpose of mentioning this is to clarify that the Zakat ruling does not change based on the method of compensation, as long as the conditions for accepting the expense, as specified in the regulations, are met.

In some cases, one of the benefits provided to employees is an allowance called 'Children's Education Allowance' or something similar, which is included in the employee's monthly or annual salary. This allowance is paid to the employee regardless of whether it is used for educational expenses, and regardless of whether the employee has school-related expenses for their children or not. The employee is not required to meet any specific conditions to mature this allowance; it is automatically paid as part of the employee's monthly or annual salary according to the employment contract or the company's internal regulations, along with other allowances matured for the employee.

In this case, the expense is not considered part of school tuitions mentioned in this paragraph, but rather is classified as part of the employee's salary, subject to the same treatment as other allowances. It is treated in the same way as salary and wage expenses.



Example (31)

At the beginning of its Zakat year, the Saudi Consulting Company approved its internal policy, which included compensating its employees for the school tuitions they incur for their children's education. At the end of the year, the company compensated some employees for the following school expenses:

Difference	Reason	Status
Employee Essam compensation	15,000 SAR	School expenses paid by the employee for a school inside the Kingdom for his children's education, with supporting documents provided.
Employee Ali compensation	17,000 SAR	School expenses paid by the employee for a school in the United Kingdom for one of his children.
Employee Abdullah compensation	12,000 SAR	School expenses paid by the employee for a school inside the Kingdom, with supporting documents provided.
Employee Hossam compensation	9,000 SAR	School expenses paid by the employee for a school inside the Kingdom, but no documents were provided to prove the amount or clarify the relation of the payment to the employee or his children.

Which of the mentioned expenses is considered acceptable for Zakat purposes?

The Solution:

Based on the information provided, the acceptance of the expenses can be determined as follows:

Difference	Reason	Status	Reason
Employee Essam compensation	15,000 SAR	Acceptable for Zakat	Specified in the company policies and paid to a licensed entity in the Kingdom; also the employee has supporting documentation.
Employee Ali compensation	17,000 SAR	Not Acceptable for Zakat	Paid to an entity outside the Kingdom.
Employee Abdullah compensation	12,000 SAR	Acceptable for Zakat	Specified in the company policies and paid to a licensed entity in the Kingdom; also the employee has supporting documentation.
Employee Hossam compensation	9,000 SAR	Not Acceptable for Zakat	The employee has no supporting documentation proving the payment or its relation to his children.

5.10. Created Provisions

Provisions are defined as uncertain obligations in terms of the time and amount. To differentiate between provisions and other liabilities, such as dues to creditors, as outlined in International Accounting Standard 37 (IAS 37) – potential provisions and liabilities - By considering the lack of certainty regarding the timing or amount of the expenses incurred concerning provisions. In contrast, amounts owed to creditors are defined as liabilities with a specific timing and amount according to the agreement made with the supplier.

In general, all provisions are considered probable and should be established when the following conditions are met:

- There is a present obligation on the entity, whether it is a legal or constructive obligation, as a result of a past event. Examples include amounts due for end-of-service benefits or potential fines.
- It is probable that this obligation will result in an outflow of resources from the entity.
- A reliable estimate can be made of the amount due.

Examples of provisions that an entity created include the provision for credit risk, provisions for employee benefits and obligations, provision for legal claims, provision for Zakat or income tax, provisions for impairment of certain types of assets, and other provisions that entities create throughout the year based on the requirements of their activities.

From an accounting records perspective, when creating a provision, the entity charges the amount of the provision on the income statement in order to confirm the loss associated with this potential liability in the year it is created. The provision is recorded as a liability for the entity until it is used or its purpose ceases to exist.

For Zakat purposes, provisions created during the year are considered acceptable expenses in order to reach the adjusted net profit or net loss. This includes all types of provisions that

the entity created throughout the year to address potential risks and potential liabilities. The acceptance of the provision expense created during the year is one of the recent developments in Zakat application as per the regulations, considering the Zakat payer's inclusion of provisions shown in the statement of financial position in the Zakat base as end-of-term balance according to the provisions outlined in the regulations. Additionally, when a provision is reversed due to its purpose no longer being applicable, the provision is returned to the revenues of the period and excluded from the entity's liabilities. As the provision is returned to the profits once again, which necessitates that it becomes part of the Zakat payer's Zakat base.

Example (32)

A company created several provisions in accordance with accounting standards to address certain risks or potential liabilities that arose in its activities during the year. These provisions include the following:

Provision	Amount	Reason for Creation
Litigation Provision	400,000 SAR	The provision was created due to a lawsuit filed by a customer against the company, demanding the refund of sales amounts paid to the company.
Doubtful Debts Provision	110,000 SAR	The provision was created because the company's management doubts collecting a sales invoice amount from a customer, due to the likelihood of their bankruptcy.
Zakat Provision	75,000 SAR	The provision was created to meet the annual Zakat due on the company at the end of its Zakat year.
Employee Benefits Provision	66,000 SAR	The provision was created for the end-of-service benefits owed to the company's employees.

What is the Zakat treatment for these created provisions?

The Solution:

Based on the information in the table above, all the created provisions are accepted for Zakat purposes. The company is required to include the balance of the provisions in its Zakat declaration according to its classification as per the provisions of the regulations «equity or liabilities».

5.11. Zakat and Tax

5.11.1. Zakat and Income Tax

Zakat and income tax expenses paid during the year are considered acceptable expenses to reach the adjusted net profit or net loss. Income tax is a direct tax that is paid periodically to the competent authorities, and it is associated with the income earned by the Zakat payer over a specific time period.

To accept the Zakat and income tax expenses charged on the income statement, it is required that the Zakat or tax be actual and realized, with supporting documents available. This includes Zakat and income tax expenses that have been actually paid to the tax authorities, or those that are due from the establishment based on documents proving the actual entitlement, such as the issuance of a final decision on the Zakat dues that are subject to objection. It is also a condition for accepting the Zakat and income tax expense that the expense is charged on the income statement of the Zakat payer during the Zakat year.

In any case, the acceptance of the above-mentioned Zakat and tax expenses is conditional upon submitting supporting documents and proof that they are related to the Zakat payer's activity.

Example (33)

An analysis of the tax and Zakat expense item in the financial statement disclosures of a limited liability company at the end of 2024 revealed a tax and Zakat expense charged on the income statement amounting to 69,000 SAR. Upon obtaining the supporting documents for these expenses, it was found that they consisted of the following:

Expense	Amount	Nature of Expense
Previous year's Zakat expense	21,000 SAR	Zakat expense paid for a Zakat assessment issued for 2017 AD.
Zakat provision	4,000 SAR	Provision for Zakat for the current period expected to be paid at the beginning of the following year
Income tax	44,000 SAR	Income tax expense paid abroad for one of the company's foreign branches
Total	**96,000 SAR**	

The Solution:

Based on the above information, these expenses are considered acceptable for Zakat purposes, as they are Zakat and tax expenses paid, provided that the supporting documents are available. Additionally, the Zakat provision should be included in the Zakat base as part of the additions to the Zakat base.

Example (34)

In 2024 AD, Riyadh Company received a Zakat assessment for three previous years, demanding an additional payment of 3,000,000 SAR. Based on estimates of the company's Zakat consultant, the company created a provision of only 2,000,000 SAR to cover this liability, and the company filed an objection to the assessment in the same year.

In 2025 AD, a final decision was issued by the competent tax committees, confirming the validity of the Authority's procedure. As a result, the full Zakat difference of 3,000,000 SAR became due from the company.

After the decision was issued, the company took the following procedures:

- Submitted a request to divide the Zakat amount due, so it would be paid over three years.
- Transferred the provision balance of 2,000,000 SAR to the account of liabilities to the Zakat, Tax, and Customs Authority in the statement of financial position.
- Increased the liabilities account by the remaining amount of 1,000,000 SAR and recorded this amount in the income statement.

What needs to be done over the two years regarding the adjustment of the company's net profit?

The Solution:

Year	Procedure
2024 AD	The company created a Zakat provision of SAR 2,000,000 during this year. Therefore, no adjustment to the company's net profit is required, as provisions are considered acceptable expenses.
2025 AD	The company recorded an amount of SAR 1,000,000 in the income statement to cover the actual liability due to the Authority. Hence, no adjustment to the company's net profit is required, as this expense is considered acceptable, given that the Zakat charged on the income statement is an actual Zakat due to the Authority.

5.11.2. Other Types of Taxes

Other taxes incurred by the Zakat payer can be treated as accepted expenses, provided that they are required for the Zakat payer's business activities and are not required to be capitalized on the statement of financial position. This can be detailed as follows:

5.11.2.1. Value-Added Tax (VAT)

Value-Added Tax (VAT) is an indirect tax imposed on the supply of goods and services at all stages of supply. The supplier of goods or services subject to VAT is required to provide the VAT to the ZATCA for this supply. This tax, resulting from the supply of goods or services, is referred to as output tax.

Regarding the supplier, output tax is not considered revenue for them, as the supplier collects the tax from the client and then provides it to ZATCA. The supplier acts more like an intermediary in collecting this tax from the customer and providing it to the Authority. Therefore, the collection of output tax by the supplier and its providing to the Authority has no impact on the supplier Zakat payer's activity results.

As for the customer receiving the goods or services, if they receive a product or service from a person subject to VAT, they will pay the VAT to the supplier for that product or service. This tax incurred by the client is called output tax. The Zakat impact of this tax on the client's activity results can be divided into two cases:

1. If the client is a person subject to VAT and the supply is related to their economic activity, they are entitled to deduct (recover) the VAT incurred unless there is another legal restriction preventing this deduction. In this case, the incurred tax has no impact on the Zakat payer's activity results, as it is a recoverable tax that will be charged on current assets until it is recovered. Therefore, this tax is not considered an accepted expense for Zakat purposes if the Zakat payer charges it on activity results.

2. If the client is not subject to VAT or there is a legal restriction on deducting (recovering) the incurred VAT, such as for non-deductible purchases, then the incurred tax will be part of the Zakat payer's activity costs. In this case, it will be considered an accepted expense for Zakat purposes, provided the other conditions for accepting the related expense are met. In order for this expense to be accepted it must be verified that the Zakat payer has not included it within the cost of sales. Instead, it is accepted if it falls under marketing-related expenses or similar expenses from which the gross profit is reduced.

Example (35)

Upon examining the Zakat declaration of a Zakat payer, it was found that a VAT expense of 127,000 SAR was charged on the income statement for the year 2025 AD. After obtaining the supporting documents, it was revealed that:

- Amount of 27,000 SAR represents VAT incurred by the company on purchases related to a fully taxable activity, and the company can recover (deduct) this tax through its tax declaration.
- Amount of 100,000 SAR represents VAT incurred by the company on purchases related to a fully exempt activity, and the company cannot recover (deduct) this tax through its tax declaration.

Is it necessary to adjust the net profit according to the above cases?

The Solution:

Regarding the tax expense of 27,000 SAR, since the company can deduct this tax in its VAT declaration, this expense is not acceptable for Zakat purposes, and the net profit must be adjusted accordingly.

As for the tax expense of 100,000 SAR, since the company will not be able to deduct this tax in its VAT declaration, this expense is considered acceptable for Zakat purposes, as it is an actual cost linked to the Zakat payer's activity, provided that the supporting documents are available and the other previously mentioned conditions.

6.11.2.2. Real Estate Transaction

The Real Estate Transaction Tax is an indirect tax imposed at a rate of 5% on the total value of any real estate transaction. The due tax is collected from the seller, who is responsible for paying it, and any other liabilities arising from it. The buyer typically pays this tax to the seller during the property sale process.

Regarding the seller, the real estate transaction tax collected from the buyer is not considered revenue for the seller, as the seller collects it from the buyer and provides it to the Authority. The seller acts more like an intermediary in collecting this tax from the buyer and providing it to the Authority. Therefore, the collection and supply of this tax to the Authority have no impact on the seller Zakat payer's activity results.

As for the buyer, the Zakat impact of this tax on the buyer's activity results can be divided into two cases:

1. If the property represents a fixed asset or an investment property for the buyer: In this case, the incurred real estate transaction tax is considered part of the asset's cost. Therefore, it is not recognized as an expense charged on the income statement but is treated as a capitalized cost added to the asset's value in the statement of financial position. As a result, the tax cost in this case cannot be charged as an expense in the income statement for Zakat purposes. The only deductible portion is the annual depreciation of the asset – if the asset is depreciated – as explained in paragraph 4.3 of this guide.

2. If the property represents an asset held for resale in the context of the entity's ordinary ctivity: In this case, the property is considered part of the real estate inventory owned by the entity, and the tax cost is treated as part of the cost of the inventory purchased during the year. Therefore, it is charged on the statement of financial position as part of the inventory value. When the property is sold and revenue is realized, its cost is recognized in the income statement. In this case, the tax cost included in the cost of the sold property is considered an acceptable expense for Zakat purposes.

Example (36)

A company paid real estate transaction tax on properties it purchased during the year 2024 AD as detailed below:

Expense	Amount
Real estate transaction tax for the purchase of an office building used in the company's activities	1,050,000 SAR
Real estate transaction tax for the purchase of land held for resale in the context of the company's real estate activities	3,000,000 SAR

Which of the above taxes can be considered an acceptable Zakat expense?

The Solution:

Expense	Status	Amount	Reason
Real estate transaction tax for the purchase of an office building used in the company's activities	Not acceptable for Zakat	1,050,000 SAR	The correct procedure is to record the property as an asset of the company in the statement of financial position, capitalizing the tax paid as part of the asset's cost, and not charging it on the income statement.
Real estate transaction tax for the purchase of land held for resale in the context of the company's real estate activities	Acceptable for Zakat upon realization of revenue from the property sale	3,000,000 SAR	The land cost is included in the real estate inventory items along with the paid real estate transaction tax. Upon selling the property, the purchase cost, including the incurred real estate transaction tax, is charged on the income statement. Therefore, the tax is considered an acceptable expense, provided supporting documents are available.

5.11.2.3. Excise Tax

Excise tax is an indirect tax and it is imposed on goods that have negative impacts on public health or the environment in varying percentages. These goods involve soft drinks, energy drinks, sweetened drinks, electronic smoking devices or tools and the like, liquids used in those electronic devices and the like, tobacco and its derivatives. Excise goods include the following:

1. Tobacco products.
2. Soft drinks.
3. Sweetened beverages.
4. Energy drinks.
5. Electronic smoking devices or tools and the like.
6. Liquids used in smoking devices.

In general, the excise tax is payable by producers of excise goods within the Kingdom, importers of excise goods from outside the Kingdom, and holders of excise goods outside of a tax suspension arrangement for which tax has not been paid.

The excise tax incurred by those liable for it is considered part of the cost of acquiring the goods. Since excise goods are assets held for sale in the course of regular business activities, they are considered part of the entity's owned inventory, and the tax cost is treated as part of the cost of inventory purchased during the year. As such, it is charged on the statement of financial position as part of the inventory's value. When the goods are sold and revenue is realized, their cost is recognized in the income statement. In this case, the cost of goods sold, which includes the excise tax, is considered an acceptable expense for Zakat purposes.

The applicability of the aforementioned conditions requires that the excise tax incurred is non-deductible and non-recoverable. However, it is permissible to deduct and recover the excise tax incurred if the excise goods are used in the production of other excise goods. In this case, the Zakat payer may deduct and recover the excise tax incurred on the excise goods used in production. Therefore, this incurred tax has no impact on the Zakat payer's activity result since

it is a recoverable tax that will be charged on current assets until it is recovered. Consequently, this tax is not considered an acceptable expense for Zakat purposes.

Example (37)

The following data appeared in the accounts of a Zakat payer at the end of their Zakat year:

- Excise tax of 90,000 SAR paid on products purchased for resale.
- Excise tax of 340,000 SAR paid on products purchased for use in the production of other excise goods.

Which of the above expenses is accepted for Zakat purposes?

The Solution:

Only the excise tax expense of 90,000 SAR is accepted. The tax paid in the amount of 340,000 SAR is considered unaccepted expenses for Zakat purposes if it can be recovered from the authority through the Zakat payer's tax declarations.

Zakat and Tax Expenses	
Zakat and Income Tax	**Acceptable** if paid or set aside created provisions
Value-Added Tax (VAT)	**Acceptable** if not deductible in the tax declaration, provided it is not charged on the cost of sales.
	Non-acceptable if deductible in the tax declaration
Real Estate Transaction Tax	**Acceptable** if the property is intended for sale in the course of activity, once revenue is realized
	Non-acceptable if the property is for use, and it is considered a capital cost
Excise Tax	**Acceptable** as it is considered part of the inventory cost, once revenue is realized.
	Non-acceptable if it is recoverable in the tax declaration.

5.12. Comprehensive applications

Example (38)

The income statement for a Zakat payer at the end of the year 2024 appeared as follows:

Income Statement	
Revenues	1,000,000 SAR
Cost of Revenues	(300,000 SAR)
Gross Profit	700,000 SAR
General and Administrative Expenses	(180,000 SAR)
Selling and Distribution Expenses	(40,000 SAR)
Profit Before Zakat	480,000 SAR
Zakat	(75,000 SAR)
Net Book Profit	**405,000 SAR**

Upon examining the general and administrative expenses amounting to 180,000 SAR, the following was noted:

- Depreciation expense of 35,000 SAR related to the company's equipment.
- A direct bad debt expense of 15,000 SAR charged on the income statement based on a report from a chartered accountant showing that these debts are on a subsidiary (affiliated) company and their write-off was approved by the authorized party.
- A direct bad debt expense of 17,000 SAR charged on the income statement based on a report from a chartered accountant showing that these debts are on one of the company's clients and their write-off was approved by the authorized party. The company had declared the related revenue in previous years.

- Salaries and wages for the company's employees amounting to 83,000 SAR, consistent with what is recorded in social insurance.
- Donations of 20,000 SAR paid to a charity outside the Kingdom.
- Provision for doubtful debts amounting to 10,000 SAR.

Is there an adjustment to the net book profit based on the above information?

The Solution:

- The bad debt expense of 15,000 SAR on a party related to the Zakat payer (a subsidiary company) is considered an unacceptable expense due to the non-fulfilment of the conditions for accepting bad debt expenses, given that the bad debt is owed by a party related to the Zakat payer.
- The donation expense of 20,000 SAR is considered an unacceptable expense, as it was paid to an entity outside the Kingdom.
- The remaining expenses are acceptable for Zakat purposes based on the information provided.

The adjustment to the net profit in this case would be as follows:

Net book profit	**405,000 SAR**
(+) Bad debt expense on a related party	15,000 SAR
(+) Donations paid to entities outside the Kingdom	20,000 SAR
Difference between adjusted net profit and net book profit	35,000 SAR
(=) Adjusted Net Profit	**440,000 SAR**

Example (39)

The income statement for a Zakat payer at the end of the year 2024 appeared as follows:

Income Statement	
Revenues	12,000,000 SAR
Cost of Revenues	(6,300,000 SAR)
Gross Profit	5,700,000 SAR
General and Administrative Expenses	(3,125,000 SAR)
Selling and Distribution Expenses	(2,190,000 SAR)
Operating profit	385,000 SAR
Financing expenses	(420,000 SAR)
Losses from investment in associate companies	(140,000 SAR)
Profit (Loss) Before Zakat	(175,000 SAR)
Zakat	0
Net Book Loss	**(175,000 SAR)**

The company's expenses and costs included the following details:

Expense	Amount	Status
Rent	SAR 430,000	Rent for the partner's private residence.
Professional Fees	SAR 125,000	Recorded by the company but not supported by any documentation.
Lawsuit Provisions	SAR 630,000	Provision created due to a lawsuit filed against the company by a supplier.
Withholding Tax	SAR 43,000	Tax withheld from the Zakat payer on revenue earned from a foreign country.
Partner's Salaries and Allowances	SAR 560,000	Salaries for the partner for his work in the company under an authentic employment contract, but not registered with the General Organization for Social Insurance (GOSI).
Equipment Depreciation	SAR 130,000	Depreciation instalment of the company's factory equipment.
School Tuitions	SAR 66,000	School tuitions paid to an employee as compensation for his child's educational costs. This compensation was exceptionally approved by the company's General Manager since such benefits do not appear in the company's labor regulations or the employee's contract.
Fuel	SAR 330,000	Fuel for machines used in the company's factory.

Is there an adjustment to the net book profit as stated above?

The Solution:

Yes, there is an adjustment to the net profit based on the following expenses:

Expense	Amount	Reason for Adjustment
Rent	430,000 SAR	It is considered a non-activity expense concerning its relation to the partner's private residence.
Professional Fees	125,000 SAR	There are no supporting documents.
Partner's salaries and allowances	560,000 SAR	Partner's salaries are not registered with the General Organization for Social Insurance.
School Tuitions	66,000 SAR	Not stipulated in the employee's contract or in the company's bylaws.
Total Adjustments	**1,181,000 SAR**	

Thus, the adjusted net profit is as follows:

Net book loss	**(175,000 SAR)**
(+) Difference between adjusted net profit and net book profit	1,181,000 SAR
(=) Adjusted net profit	**1,006,000 SAR**

Example (40)

The income statement for a Zakat payer at the end of the year 2025 appeared as follows:

Income Statement	
Revenues	150,000,000 SAR
Cost of Revenues	(101,805,000 SAR)
Gross Profit	48,195,000 SAR
General and Administrative Expenses	(16,306,000 SAR)
Selling and Distribution Expenses	(9,501,000 SAR)
Operating profit	22,388,000 SAR
Financing expenses	(3,200,000 SAR)
Company's share of profits from associate companies	8,600,000 SAR
Reversal of slow-moving inventory provision	146,000 SAR
Other revenues	740,000 SAR
Profit Before Zakat	28,674,000 SAR
Zakat	(4,763,000 SAR)
Net Book Profit	**23,911,000 SAR**

The clarifications to the financial statements show the following analyses:

1. Details of the cost of revenues are as follows:

Expense	Amount
Cost of materials	53,000,000 SAR
Wages and salaries	18,000,000 SAR
Depreciation	10,805,000 SAR
Transportation, shipping, and clearance	5,000,000 SAR
Other expenses	15,000,000 SAR
Total	**101,805,000 SAR**

- Wages and salaries include an amount of 1,125,000 SAR as salary for a partner not registered with the Social Insurance.
- Depreciation includes an amount of 740,000 SAR for a factory registered in the name of one of the partners, and the company was unable to transfer ownership due to a mortgage on the property.
- Shipping and clearance expenses include shipping costs amounting to 4,670,000 SAR, which are not supported by documents.
- Other expenses include the following details:

– Direct bad debt expense related to a debt on a subsidiary amounting to 5,000,000 SAR.

– Expense for renting a company warehouse building amounting to 1,600,000 SAR, while the invoices and supporting documents show that the actual rent for the year is 1,300,000 SAR.

2. Selling and distribution expenses:

Expense	Amount
Wages and salaries	4,000,000 SAR
Sales commissions	1,500,000 SAR
Advertising and promotion	3,500,000 SAR
Miscellaneous expenses	7,306,000 SAR
Total	**16,306,000 SAR**

- Sales commissions include an amount of 200,000 SAR paid to sales representatives for achieving the sales target related to a corporation owned by one of the partners.
- Advertising and promotion expenses include an amount of 1,000,000 SAR for producing a promotional video to market the company's products.
- Miscellaneous expenses include the following details:

– Insurance expense for a building amounting to 435,000 SAR, and upon examination, it was

found that the building is owned by one of the partners, with no evidence showing its relation to the company's activity.

- Travel and business trip expenses amounting to 180,000 SAR, no supported documents are available.
- Depreciation of company properties, machinery, and equipment amounting to 6,000,000 SAR.

3. Details of general and administrative expenses:

Expense	Amount
Wages and salaries	1,160,000 SAR
Professional and consulting services	1,000,000 SAR
Remuneration of board members	500,000 SAR
Rent	140,000 SAR
Depreciation and amortization	200,000 SAR
Other expenses	6,501,000 SAR
Total	**9,501,000 SAR**

- Wages and salaries include an employee benefits provision amounting to 375,000 SAR.
- Professional and consulting services include amounts paid to an external consultant outside the kingdom amounting to 70,000 SAR.
- Remuneration of board members consists of fixed annual amounts specified in the company's policies, in compliance with relevant regulations.
- Other expenses include the following:

- Direct bad debt amounting to 201,000 SAR without presenting a certified chartered accountant's report.
- Funding revenues paid by the company to a bank amounting to 1,509,000 SAR, on behalf of its employees for the employee housing support programs. The company does not entitle any interest or profits in return.

- –Donations amounting to 803,000 SAR paid to natural persons within the kingdom, with the knowledge of one of the partners.
- School tuitions of 530,000 SAR paid for employees to educational institutions within the kingdom, as per the contracts signed with employees.
- Paid Zakat amounting to 200,000 SAR as Zakat assessment differences for previous years.
- Value-added tax (VAT) of 66,000 SAR, which represents input tax borne by the company on its purchases and is fully deducted in its tax declaration.

4. General Details:

- Aside from the partner's salary not registered with Social Insurance, it was found upon examining the wages and salaries item of the employees recorded in the company's books that they exceed the amount registered with Social Insurance by 320,000 SAR, with the company not justifying the reason for this discrepancy.

What would the adjusted net profit be in this case based on the information provided?

The Solution:

First: Identification of unaccepted expenses for Zakat:

Expense	Reason	Amount
Salarie Cost of revenues	Salary for a partner not registered with Social Insurance.	1,125,000 SAR
Transportation and clearance Cost of revenues	Expense not supported by documents	4,670,000 SAR
Bad debts – Cost of revenues	Due to being related to connected parties of the Zakat payer	5,000,000 SAR
Rent – Cost of revenues	Expense recorded in excess of supporting documents	300,000 SAR

Sales commissions – Selling and distribution expenses	Expense not related to business activity	200,000 SAR
Insurance – Selling and distribution expenses	Expense not related to business activity	435,000 SAR
Travel and business trip expenses – Selling and distribution expenses	Not supported by documents	180,000 SAR
Donations – General and administrative expenses	Does not meet the conditions – - Paid to individuals	803,000 SAR
Value-added tax – General and administrative expenses	Does not meet the conditions -– Can be recovered through the tax declaration	66,000 SAR
Wage difference – General details	Wage difference from what is registered with Social Insurance	320,000 SAR
Total represents the difference between the adjusted net profit and the net book profit		**13,099,000 SAR**

- The bad debt of 201,000 SAR has been accepted directly without submitting a chartered accountant's report, due to the unnecessary requirement of such a report in this case, as the bad debt did not exceed 1% of the Zakat payer's revenues.

Secondly: The adjusted net profit is as follows:

Net book loss	**23,911,000 SAR**
(+) Difference between adjusted net profit and net book profit	13,099,000 SAR
(=) Adjusted net profit	**37,010,000 SAR**

6. Other Expenses and Special Cases

6.1. Introduction

The activities of establishments involve a diverse range of varied expenses that differ according to the nature of the activity. As a result, there are some non-exclusive expenses that impact the activity result. Additionally, the statement of other comprehensive income for commercial entities includes several items affecting the gross comprehensive income, which necessitate clarifying their impact on the Zakat payer's activity results. Furthermore, some specialized activities are characterized by specific, uncommon types of expenses, such as insurance activities. Article 81 of the regulation includes some provisions related to Zakat payers engaged in insurance activities and their connection to activity modification, which will be discussed in this guide section.

6.2. Insurance Activity Expenses

Article 81 of the regulation includes some provisions specific to Zakat payers engaged in insurance activities. These provisions state that the reserve for unearned premiums and the reserve for outstanding risks during the specified Zakat year, determined according to professional assets, are considered accepted expenses to reach the adjusted net profit, provided that they are returned to the Zakat base when their purpose no longer exists.

The reserve for unearned premiums refers to the portion of premiums collected or recorded in the books that cover risks related to the current or future years. Meanwhile, the reserve for outstanding risks refers to the compensations for claims received or reported during the Zakat year that have not completed their disbursement procedures within the Zakat year.

These reserves in insurance companies are associated with potential liability risks arising from insurance contracts that the insurance company must establish in accordance with regulatory requirements. These reserves are charged on the income statement during the Zakat year and are returned to revenues if their purpose no longer exists. On the side of the statement of

financial position, these reserves appear before being closed with other statutory and technical reserves within the balance of insurance contract liabilities, as required by International Financial Reporting Standard 17 (IFRS 17) - Insurance Contracts.

Example (41)

One of the insurance companies created a reserve for unearned premiums during the year 2024, which represents the company's liabilities toward policyholders to cover risks that are still under insurance coverage for future periods. The reserve created was charged on the income statement. In 2025, the company closed the reserve, and it appeared as revenue in the company's income statement for 2025.

- In this case, since the company returned the reserve to the income statement in 2025, the reserve created for 2024 is considered an accepted expense.

Example (42)

An actuarial expert estimated that one of the insurance companies should create a reserve for outstanding risks to ensure the correct estimate of the financial liabilities arising from the company's insurance contracts. The accounting department created the reserve during the year 2024 on the income statement and it was not utilized throughout the year. The entire resrve balance was closed in response to the income statement in 2025.

- In this case, the reserve for outstanding risks is considered an accepted expense, as the company closed it in the subsequent year of its creation in response to the income statement.

6.3. Treatment of Some Common Expenses

6.3.1. Rental Costs

Rental expenses are common costs for Zakat payers, including the rent for premises, factories, warehouses, vehicles, machinery, and other items related to the Zakat payer's activity. Rental costs can be considered accepted expenses as long as they meet the general criteria for expense acceptance, in addition to having sufficient supporting documentation.

This includes the importance of having evidence that the rental cost is related to the Zakat payer's activity and is not linked to any personal considerations. It also includes providing documents that substantiate the validity of the expense, such as:

- A documented lease contract.
- Payment vouchers.
- Evidence that the rented asset is associated with the practice of the activity.

In cases where rental costs are proven to be related to personal purposes, such as renting a car for the personal use of the owner or partner, the expense in this case is not considered an accepted expense to reach the adjusted net profit.

The above does not apply to cases where the lease contract is recognized as a financial lease in accordance with the requirements of International Financial Reporting Standard 16 (IFRS 16) - Leases. This results in the lessee recognizing a right-of-use asset in their accounting books, leading to the appearance of depreciation expense for the right-of-use asset, in addition to interest expense resulting from the accounting treatment of the financial lease. Therefore, the lessee does not report any rental expense resulting from this contract. Moreover, the expenses arising from the financial lease, represented by the asset's depreciation and the periodic interest expense, are considered accepted expenses for Zakat purposes.

Example (43)

The financial data extracted from the detailed trial balance of a company included the following expense details:

- Rent for a building used as the main administrative office of the company, the amount was recorded under a documented lease contract and a tax invoice received from the leaser in the company's name.
- Rent for a car used by an engineer from one of the departments during a work assignment to repair a water line in another city.
- Rent for a personal lodge for the general manager to host a private family event.

The Solution:

Upon reviewing these details and applying the general conditions for expense acceptance according to the regulations, the following is concluded:

- The rent for the administrative building is considered an accepted expense since it is used for company activities, with the necessary supporting documentation.
- The rent for the engineer's car is considered an accepted expense as it was used for company activities, and supporting documents must be provided.
- The rent for the general manager's personal lodge is considered a non-accepted expense as it is not related to the company's activities.

6.3.2. Employee Salaries and Wages and Their Equivalents

Employee salaries and wages are necessary costs for Zakat payers, as employees are generally essential for practicing activities. Employee salaries typically include some costs, allowances, and other benefits that are categorized as employee salaries and wages expenses. Examples of these, but not limited to, include the following: housing allowance, transportation allowance, cost of living allowance, bonuses, overtime, and the company's share of social insurance contributions paid on behalf of the employee.

This requires the entity to maintain the necessary and detailed analyses of salary and wage expenses charged on the income statement in order to substantiate them and analyze any associated discrepancies. Additionally, the company is legally required to declare employee contracts on the designated governmental platforms, as well as register them with the General Organization for Social Insurance (GOSI) for the purpose of calculating monthly contributions to the pension fund of the organization. Registering with the organization means that the entity must declare all the employee receives in terms of salaries and allowances of all types as stipulated in the employment contract. These salaries and allowances are also subject to other regulations, such as the Wage Protection System (WPS), which requires the entity to pay the employee the amount registered with GOSI on a monthly basis.

In accordance with paragraph six of Article 63 of the regulations, as detailed in paragraph 4.7 of this guide, salary expenses and their equivalents, including allowances and benefits, are considered accepted expenses to reach the adjusted net profit, provided that the employee's relationship with the employer (the Zakat payer) is verified and the correctness of the incurred amounts is substantiated. This can be done by providing supporting documents, which may include, but are not limited to, the following:

- The approved employee contract.
- Approved payroll statements.
- Bank transfers.
- Social insurance documents.

In some cases, the entity may provide temporary employees or workers through rental contracts or labor provision contracts with licensed entities. These employees are used in such cases for specific temporary projects or maintenance, cleaning, and operational work. Examples of this include:

- The entity contracting with a service provider to supply labor responsible for cleaning the company's administrative building.
- The entity contracting with a service provider to supply technical labor for the purpose of working on certain construction or contracting projects.

In such cases, the costs of rented labor can be considered accepted expenses, provided that supporting documents for these costs are available, along with submitting proving that the rented labor was employed in the company's activity.

Example (44)

It was found through the examination of the general and administrative expenses item in the income statement of one Zakat payer that the following data exists:

Expense	Amount	Explanation
Employee Salaries and Wages	750,000 SAR	Salaries and wages of the company's employees based on official employment contracts and registered with the General Organization for Social Insurance.
Rented Labor Salaries	320,000 SAR	Labor not under the Zakat payer's sponsorship, hired from other companies through documented service contracts for the purpose of working on one of the company's projects.
Service Labor Salaries	79,000 SAR	Salaries of service staff at the company's headquarters through a documented operating contract with a service and maintenance company. It also includes the salary of the domestic worker of the Chairman of the Board of Members, totaling 17,000 SAR.

The Solution:

Based on the explanation above, the acceptance of these expenses is determined as follows:

Expense	Amount	Accepted/Not Accepted	Reason
Employee Salaries and Wages	750,000 SAR	Accepted	Salaries documented with records and registered with the General Organization for Social Insurance.
Rented Labor Salaries	320,000 SAR	Accepted	Costs are documented and used in the company's activities.
Service Labor Salaries	79,000 SAR	Partially Accepted	Only the documented part related to the company's activities is accepted, amounting to 62,000 SAR, while the 17,000 SAR is not accepted as it is unrelated to the company's activities.

6.3.3. Unrealized Gains and Losses

Some assets require, from an accounting perspective, the recognition of gains or losses resulting from the revaluation of these assets at the end of the financial period. This leads to an impact on the net book due to the gains or losses recognized through profit or loss. Examples of this include:

- Gains and losses resulting from changes in the fair value of investment properties, in accordance with International Accounting Standard 40 (IAS 40) - Investment Property, which stipulates that gains and losses arising from changes in the fair value of investment property must be recognized in profit or loss for the period in which they arise.
- Gains and losses resulting from changes in the fair value of equity instruments held for trading, in accordance with International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments, which stipulates that gains from a financial asset measured at fair value must be recognized in profit or loss unless the entity has chosen to present the gains and losses in other comprehensive income according to the considerations outlined in the standard.

These unrealized gains and losses are considered acceptable for Zakat purposes and should not be excluded from the activity's results for Zakat purposes. However, it is important to consider what is stated in Article 64 of the regulations, which grants the right of the authority to re-evaluate any expense or revenue that is determined as not actual or not recorded at its true value, as detailed in paragraph 3.5 of this guide.

6.3.4. The Company's Share in the Results of the Invested Company Using the Equity Method.

Suppose the Zakat payer invests in invested entities, and the investing company records the investment using the equity method, as per International Accounting Standard 28 (IAS 28) - Investments in Affiliates and Joint Ventures. This standard defines the equity method as an accounting method where investments are initially recorded at cost upon purchase and subsequently adjusted based on changes in the investing establishment's share of the net assets of the invested establishment. The investing establishment's profit or loss is adjusted

by its share of the profit or loss of the invested establishment, which includes reducing the investing establishment's profit or loss by its share of profit distributions received from the invested establishment. Accordingly, the movement of the investment using the equity method is as follows:

Investment balance at the beginning of the period		**XXX**
Add or (Less)	The investor company's share (profit or loss) in the results of the investee entity's operations	XX
(Less)	Profit distributions received during the year from the investee entity	XX
Investment balance at the end of the period		**XXX**

Based on the above, it is noted that:

- The income statement of the investor establishment is periodically affected by the profits or losses of the investee establishment according to the equity method.
- The income statement of the investor establishment is not affected by profit distributions received from the investee establishment according to the equity method.

According to International Accounting Standard 28 (IAS 28), an establishment that has mutual control or significant influence over an investee establishment must account for its investments in the affiliate or joint venture using the equity method. This includes the following cases:

Investee Entity	Definition	Accounting Treatment
Subsidiary	An establishment controlled by another establishment	Accounted for using the equity method and treated in accordance with International Financial Reporting Standard 10 (IFRS 10) - "Consolidated Financial Statements"
Affiliate	An establishment over which the investor has significant influence	Accounted for using the equity method and treated in accordance with International Accounting Standard 28 (IAS 28) - "Investments in Associates and Joint Ventures"
Joint Venture	A mutual arrangement where the parties have mutual control	

Regarding the impact on activity results, it is clear from the above that the company's share in the business results of the investee company accounted for using the equity method is recognized in the income statement of the investee company. The company's share in the results of the investee company accounted for using the equity method is accepted for Zakat purposes and

in principle, it is not permissible to exclude such investments from profit or loss for Zakat purposes, unless the investment is measured using the equity method. In such cases, the Zakat payer may exclude their share of the investee's profits from their net activity results, provided the following conditions are met:

1. The investment must be measured in the Zakat payer's financial statements using the equity method.

2. The investee entity must be subject to Zakat collection during the same year.

3. The Zakat payer must be assessed based on adjusted net profit. However, if the Zakat payer is assessed based on a Zakat base (Additions - Deductions), their share of the investee's profits shall not be excluded from the net activity results. The same applies if the taxpayer is assessed on un-deducted assets.

6.3.5. Profit Distributions from Investee Companies

In the case of investments in establishments inside or outside the Kingdom, where the investing company does not have significant influence over the decisions of the investee company, profit distributions resulting from the investment are recorded in the income statement of the investing establishment.

Profit distributions realized and recorded in the Zakat payer's income statement are considered actual realized revenue and should not be excluded for the purpose of adjusting net profit. Instead, they must remain as part of the income included in the Zakat payer's net profit.

Example (45)

The income statement of a Zakat payer at the end of 2025 appeared as follows:

Income Statement	
Revenues	17,000,000 SAR
Cost of Revenues	(12,000,000 SAR)
Gross Profit	5,000,000 SAR
General and Administrative Expenses	(2,000,000 SAR)
Selling and Distribution Expenses	(1,000,000 SAR)
Operating profit	2,000,000 SAR
Financing expenses	(500,000 SAR)
The company's share in the profits of affiliates	1,500,000 SAR
The company's share in the losses of subsidiary companies	(300,000 SAR)
Profit distributions received from investee companies	100,000 SAR
Unrealized losses from the valuation of investment properties	(430,000 SAR)
Other Revenues	120,000 SAR
Profit Before Zakat	2,490,000 SAR
Zakat	(330,000 SAR)
Net Book Profit	2,160,000 SAR

Should the net book profit be adjusted for any of the above items?

The Solution:

- Upon reviewing the income statement items mentioned above, the net profit is not adjusted for the company's share in the profits of affiliates or for the company's share in the losses of subsidiary companies, as these results should remain within the net profit and are considered accepted expenses, unless the investment is measured using the equity method, the investee entity is subject to Zakat collection during the same year, and the Zakat payer is assessed based on adjusted net profit.

- The net profit is also not adjusted for profit distributions received from investee companies. Additionally, the net book profit is not adjusted for unrealized losses from the valuation of investment properties, and this item is considered an accepted expense at the recorded amounts unless the Authority proves the inaccuracy of the valuation, as per Article 64 of the regulations.

6.4. Other Comprehensive Income Items

Other comprehensive income is considered part of the establishment's comprehensive income, which includes gains and losses that have not been recognized and presented within the income statement as unrealized items. Companies recognize other comprehensive income items after reaching the establishment's net book profit.

Other comprehensive income items are presented according to International Accounting Standard 1 (IAS 1) Presentation of Financial Statements as follows:

- Either in a single statement, within the profit and loss statement, where other comprehensive income items are presented after reaching the establishment's net profit.
- Or in a separate statement that includes the presentation of other comprehensive income items under the name of the Statement of Comprehensive Income, and this statement follows the gains and losses statement.

In both options, the final result of the gross profit and loss items, along with other comprehensive income items, is the gross comprehensive income.

Presentation of the Statement of Comprehensive Income

Statement of Profit or Loss with Comprehensive Income	
Revenues	XX
Cost of Revenues	XX
Gross Profit	XXX
General and Administrative Expenses	XX
Selling and Distribution Expenses	XX
Profit Before Zakat	XXX
Zakat	XX
Net Book Profit	XXX
Other Comprehensive Income	
Items that will not be reclassified subsequently to profit or loss	
Remeasurement of Employee Benefits	XX
Change in Fair Value of Investments	XX
Other Items	XX
Total	XXX
Items that will be reclassified subsequently to profit or loss	
Foreign Currency Translation Differences	XX
Change in Fair Value of Cash Flow Hedges	XX
Total	XXX
Total Other Comprehensive Income	XXX
Total Comprehensive Income	XXXX

Statement of Comprehensive Income	
Net Book Profit	XX
Items that will not be reclassified subsequently to profit or loss	
Remeasurement of Employee Benefits	XX
Change in Fair Value of Investments	XX
Other Items	XXX
Total	XX
Items that will be reclassified subsequently to profit or loss	
Foreign Currency Translation Differences	XX
Change in Fair Value of Cash Flow Hedges	XX
Other Items	XX
Total	XXX
Total Other Comprehensive Income	XXX
Total Comprehensive Income	XXXX

Other comprehensive income items include a set of unrealized gains or losses resulting from the application of relevant accounting standards, most notably the following:

- Actuarial remeasurement differences for defined benefit plans.
- Revaluation surplus related to the subsequent measurement of tangible and intangible assets.
- Differences arising from converting -translating- the financial statements of foreign operations into the parent company's functional currency.
- Changes in the fair value of investments in equity instruments classified as fair value through other comprehensive income (available-for-sale investments).
- Changes in the fair value of derivative financial instruments.

Regarding the relationship between other comprehensive income items and the activity result, it can generally be stated that the net profit that is adjusted for Zakat purposes is the net book profit after Zakat and tax and before other comprehensive income items. This is because other comprehensive income items are typically transferred directly to equity in the entity, either within retained earnings or as a separate item within equity, without any impact on the entity's profit or loss. Therefore, there is no need to adjust the net profit concerning other comprehensive income items.

Regarding some other comprehensive income items that may be reclassified to the entity's profit or loss upon meeting specific conditions, such as:

- Currency translation differences.
- The share of other comprehensive income (loss) of affiliates and joint ventures.

If certain other comprehensive income items are reclassified to the entity's profit or loss upon meeting specific conditions, this does not require any adjustment to the activity result, as these gains or losses will be recognized in the profit or loss for the period without the need for any adjustments or exemptions from profit.

Example (46)

The comprehensive income statement of a company appeared as follows:

Comprehensive Income Statement	
Net Book Profit	3,000,000 SAR
Items that will not be reclassified subsequently to profit or loss	
Actuarial remeasurement of Employee Benefits	(150,000 SAR)
Change in Fair Value of Investments in Equity Instruments	(90,000 SAR)
Total	(240,000 SAR)
Items that will be reclassified subsequently to profit or loss	
Foreign Currency Translation Differences	(15,000 SAR)
Total	(15,000 SAR)
Total Other Comprehensive Income	(255,000 SAR)
Total Comprehensive Income	2,745,000 SAR

Should the net book profit be adjusted for any of the above items?

The Solution:

No adjustment should be made to the net book profit for any items in the comprehensive income statement above. The end-of-term balance shown in the statement of financial position for these items will be included in equity added to the base.

7. Conclusion of the Guideline

7.1. Conclusion

The regulations concerning the modification of activity results outlined in this guide summarize the importance of modifying activity results in accordance with the provisions of the regulatory materials included in the regulations. Reaching the adjusted net profit or adjusted net loss results in a difference between the net book profit and the adjusted net profit, or a difference between the net book loss and the adjusted net loss. This difference is considered one of the additions items to the Zakat base.

Furthermore, reaching the adjusted net profit is a fundamental procedure for determining whether the Zakat payer will make transition to the minimum Zakat base as an alternative to the Zakat base.

The Zakat payer adjusts the net profit by considering the general conditions for accepting expenses outlined in Article 62 of the regulations, as well as the specific conditions for certain types of expenses detailed in Article 63. The Zakat payer must adjust the net profit if the conditions and considerations mentioned are not met.

Additionally, the authority has the right to reassess the Zakat of the Zakat payer if discrepancies are discovered between the information provided by the Zakat payer and the information it holds regarding the adjusted net profit, as stipulated in Article 59 of the regulations. This includes any undeclared revenues by the Zakat payer or inflated expenses charged on the income statement.

8. Request for Ruling

If you are not aware of how to apply zakat to a certain activity or transaction you carry out, or plan to carry out, after referring to the respective statutory provisions and Guideline, you can submit an application to ZATCA for issuing a Ruling decision according to the Implementing Regulations for Zakat Collection issued by the Ministerial Resolution No. (1007) dated 19 Shaaban 1445H corresponding to 29 February 2024.

9. Contact us

For more information about any transaction that is subject to Zakat collection, please visit ZATCA's website zatca.gov.sa or call the number 19993.

10. Frequently Asked Questions

1. Is the adjusted net profit added to the Zakat base as a separate item?

- No, the adjusted net profit is not added as a separate item in the Zakat base; rather, the difference between the net book profit and the adjusted net profit is added.

2. In what cases the Zakat base is the adjusted net profit?

- The Zakat base is the adjusted net profit when transitioning to the minimum base, provided that the adjusted net profit is less than the non-deducted assets plus the difference between the net book profit and the adjusted net profit.

3. Is it possible for the net book profit to be equal to the adjusted net profit?

- Yes, this is possible in cases where all the expenses of the entity are acceptable and the net profit does not include any other adjustments.

4. Does the authority have the right to reject the documents submitted by the Zakat payer for the purpose of proving the validity of the expense?

- The authority has the right to reject the documents submitted by the Zakat payer to prove the expense if these documents are unverifiable or insufficiently demonstrate the validity of the expense, while considering the controls outlined in Article 99 of the regulations.

5. Is it permissible to deduct depreciation expenses in the Zakat declaration according to the depreciation rates determined by the entity in its accounting books?

- Yes, the entity may determine the book depreciation rates according to its own discretion. The depreciation instalment for assets as specified by the entity in its accounting books is considered an acceptable expense for Zakat purposes, while considering other conditions outlined in the regulations and detailed in this guide.

6. Are donation expenses paid to licensed charitable organizations in the Kingdom for their charitable projects outside the Kingdom considered acceptable?

- Yes, donation expenses are acceptable in this case, provided that the donation is made to a licensed entity within the Kingdom, regardless of how the donation is used and the projects associated with it.



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