



Zakat General Guideline

In accordance with the Implementing Regulation for Zakat Collection issued in 1445 AH



Citation

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

The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this guideline 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 as amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom of Saudi Arabia.

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



Amendment Log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
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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 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 to collect 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. This may also include examining the resulting Zakat payers' objections to ZATCA's Zakat amounts assigned to it.



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 Kingdom of Saudi Arabia , as stipulated in the Basic Law of Governance in Article 21, which reads as follows: (Zakat shall be collected and disbursed in its disbursement Sharia channels). Article 7 set forth evidence of the State's attention to the duties of Sharia and its commitment to it in general, which includes collecting Zakat and disbursing it to the beneficiaries. It stipulates as follows: The government in Saudi Arabia derives power from the Holy Qu'ran and the Prophet's tradition. They are the rules governing the Law as well as all State laws).

In confirmation of the preceding, during the reign of the Founder King Abdul-Aziz -may Allah have mercy on him- Royal Decree No. (17/2/28/8634) dated Jumada Al Thani 29, 1370 AH corresponding to April 6, 1951 AD, was issued containing the order to collect Zakat. The said Royal Decree was followed by many royal decrees confirming it and executive ministerial resolutions, in addition to the regulations and circulars that explain and clarify it, including: Royal Decree No. (M/40) dated Rajab 2, 1405 AH, and the executive regulations for collecting zakat issued by Ministerial Resolution No. (2082) dated Jumada Al-Thani 1, 1438 AH. Corresponding to (28 February 2017 AD) and the executive regulations for collecting zakat issued by Ministerial Resolution No. (2216) dated 7 Rajab 1440 AH corresponding to (14 March 2019 AD), which applies to the zakat years starting on or after January 1,2019 AD for all Zakat payers, except for those who are accounted for by the arbitrary method according to the fourth section of the regulations, the application of the regulations applies to their declarations submitted after December 31,2019 AD, and the Executive Regulation for Zakat



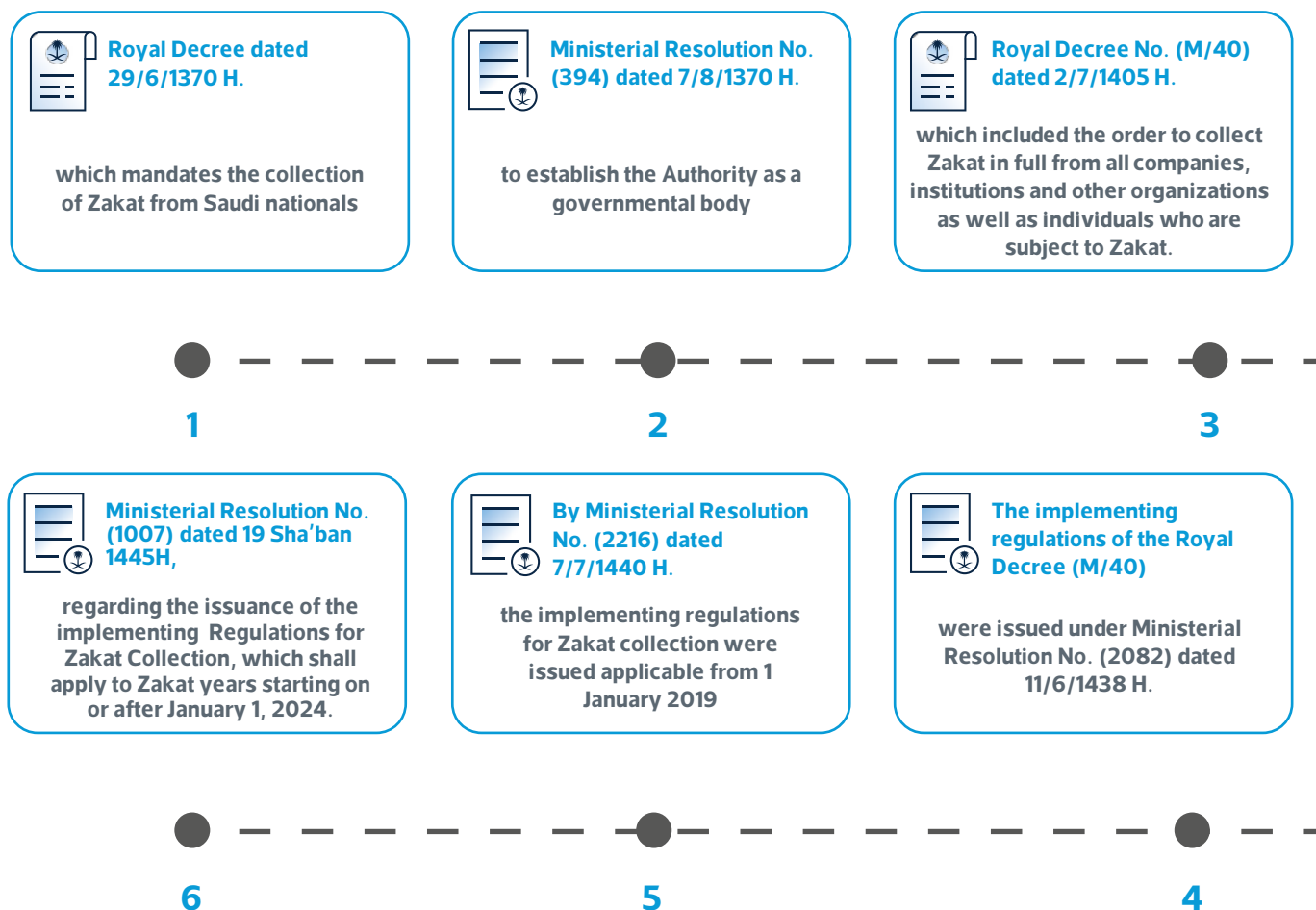
Collection issued by the Minister of Finance under Resolution No. (1007) dated 19 Shaban 1445 AH (corresponding to Thursday, 29 February 2024), which shall apply to fiscal years commencing on or after 1 January 2024 for all Zakat payers.

the Implementing Regulation for Zakat Collection has been concerned with clarifying the provisions for levying commercial activities in general and has also elucidated the provisions for specific activities and cases. Moreover, the Regulation has encompassed 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 in the Social Security Account, which is responsible for disbursement to the poor and needy in accordance with Royal Decree No. (1/5/16) Dated 05 / 01 / 1383 AH corresponding to (May 28, 1963 AD), wherein Paragraph (1) provides for: "Zakat shall be collected in full from all joint stock companies, and others, and individuals who are subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be returned to the Social Security Fund."



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 through providing high-quality, client-centered services per the best practices.



1.6 Purpose of the Guideline

This Guideline provides clarifications on the zakat treatments outlined in the Implementing Regulation for Zakat Collection, issued by the Minister of Finance under Resolution No. (1007) dated 19/8/1445 AH. The Guideline offers a comprehensive explanation of the zakat provisions stipulated in the Regulation, including Zakat payers subject to the Regulation, the method of calculating the zakat base, specific provisions for certain activities, zakat collection procedures, and more. The Authority has studied, analyzed, and collected this manual for the benefit of Zakat payers, in its endeavor to raise awareness about its Zakat collection approach.



2. Key Definitions

2.1 Accounting Terms in Zakat Calculation

Fair Value

The price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2. Adjusted Net Profit

The net book profit adjusted by the regulation's requirements, such as unacceptable expenses or undeclared revenues.

3. Adjusted Net Loss

The net book loss adjusted by the regulation's requirements, such as unacceptable expenses or undeclared revenues.

4. Accepted Expenses

Expenses that the regulation accepts to be deducted absolutely or under specific conditions stated in the regulation.

5. Instruments or Bonds

Securities issued by governments or corporations to raise funds from investors for a specified period with a predetermined maturity date.

6 Deferred Tax Asset

The value of income taxes expected to be recovered in future periods related to the following:

- Deductible temporary differences, i.e., those that can be deducted from taxable profit in future periods.
- Unused tax losses that are carried forward to future periods.
- Unused tax credits that are carried forward to future periods.



7. Deferred Tax Liability

Amounts of income taxes that will become payable in future periods related to taxable temporary differences.

8. Reclassification

A procedure outlined in the regulation requires the reclassification of liability items to another group in the financial statements according to the provisions of the regulations.

9. Debtors and Creditors Partners' Loans

Amounts owed to or by partners, excluding capital and carried forward or accrued profits.

10. Contract Costs

Costs incurred to obtain a contract or costs necessary to fulfill the contract, which are recognized as an asset when relevant accounting conditions are met.

11. Contract Liabilities

Amounts received in advance from customers until the contract or service liabilities are fulfilled, and their execution on the revenues.

12. Financial Derivatives

Financial instruments that derive their value from actual asset (such as commodities like gold), a financial asset (such as stocks or bonds), or a market index. These instruments are used in financial risk management and hedging.

In general, financial derivatives are characterized by the following:

- Their value changes with changes in the underlying asset, which is the item agreed upon in the contract, such as interest rates, exchange rates, or the price of a specific commodity like oil or gold.
- They do not require a net initial investment when the contract is entered into, or only small amounts may be paid as premiums at the time of contract initiation.
- They will be settled in the future.



13. Lease liabilities

Liabilities arising from finance lease contracts held by the lessee.

14. Right-of-Use Asset

Assets arising from finance lease contracts held by the lessee.

15. Finance Leased Asset

Assets leased under finance lease contracts.

16. Equity

The remainder of the assets' value after excluding the value of liabilities. The components of equity differ according to the legal form of the establishment and usually include: Capital, reserves, retained earnings, and accumulated losses

17. Profits Under Distribution

Profits declared for distribution but not yet deposited into the shareholders' accounts.

18. Distributed Profits

Profits declared for distribution and deposited into the shareholders' accounts.

19. Treasury Stocks

Shares of the company repurchased by the company itself.

20. Carried-Forward Losses

Balance of retained losses from previous years.

21. Unrealized Gains

Gains or profits resulting from the revaluation differences of certain types of assets.

22. Investment Portfolio

An investment base through which investments are made in listed securities, typically created by a licensed securities company.

23. Investment Properties

Properties held to earn rental income, to grow capital, or for both purposes.



24. Vital Assets

A collection of living animals and plants held for the purpose of conducting activities.

25. Intangible Assets

Non-cash assets that are identifiable and lack physical substance.

26. Real Estate Projects Under Construction

Real estate projects that are incomplete and still in the development or construction phase.

27. Provisions

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

28. Holding Company

A joint stock or limited liability company that aims to control other joint stock or limited liability companies called subsidiaries, by owning more than half of the capital of such companies or by controlling the formation of their Board of Directors.

29. Subsidiaries

It is a joint stock or limited liability company, which is controlled by a joint stock or limited liability holding company.



3. Issuance of the Implementing Regulation for Zakat Collection

3.1 Ministerial Resolution

The approval of the Implementing Regulation for Zakat Collection has been issued, hereinafter referred to in this guide as "the regulation," By Ministerial Resolution No. (1007) dated 19/8/1445H. The Regulation shall apply to fiscal years commencing on or after 1/1/2024. This Regulation replaces the previous Implementing Regulation for Zakat Collection issued by Ministerial Resolution No. (2216) dated 7/7/1440H, and all previous decisions and regulations related to Zakat collection. It cancels any provisions that contradict it. As an exception, the decision stipulates that the following Ministerial Resolutions related to Zakat collection shall remain in effect:

- Ministerial Resolution No. (2218) dated 7/7/1440H, as amended, which sets forth the
 - rules for the government's bearing of Zakat and income tax resulting from investments in government sukuk and bonds.
 - Ministerial Resolution No. (57732) dated 3/11/1443H, which stipulates that companies owned by the government are subject to Zakat collection.

Ministerial Resolution No. (15417) dated 2/3/1444H, which includes the rules for exempting companies wholly owned by the Public Investment Fund from Zakat collection.

The Resolution of His Excellency the Minister of Finance No. (1007) and its amendments, as set forth in the Minister of Finance's Resolution No. (947) dated 26/07/1446H and the Resolution of His Excellency the Minister of Finance No. (1463) dated 08/12/1446H, stipulated that the Zakat, Tax and Customs Authority (ZATCA) shall—upon the Zakat payer's request—apply the provisions of the Regulations to fiscal years starting before January 1, 2024, in accordance with the following:

1. The Zakat payer shall submit a request in accordance with the following controls:
 - a. The request shall be limited to provisions related to the calculation of the Zakat payer's base, taking into account the exclusion of the items that the regulations allow to be deducted.



- b. The request shall not relate to a matter for which a final Resolution has been issued by the Authority or a final judgment by the competent authority.
 - c. The Zakat payer shall attach a Zakat return to the request in accordance with the provisions of the Regulation.
 - d. The request must be submitted within a period not exceeding August 31, 2025. By way of exception, the request shall be submitted within a period not exceeding 60 days from the date of notification of the commencement of the Zakat payer's audit, with respect to the fiscal year for which the audit commences after the publication of this Resolution. If the last day of the 60-day period falls on an official holiday, the period shall be extended to the first working day following the holiday.
- 2. A request shall not be considered if the Zakat payer has any outstanding Zakat return that have not been submitted to the Authority.
 - 3. If there is an objection by the Zakat payer with the Authority or a lawsuit filed with the competent authority to adjudicate Zakat violations and disputes, and is related to the submitted request, the Zakat payer must withdraw their objection or lawsuit within 20 days from the date of notification of approval of the request.
 - 4. The Zakat payer shall not be permitted to amend their return for the fiscal year in question after being notified of the approval of the request.
 - 5. If the application of the provisions of the Regulation results in Zakat due less than that declared by the Zakat payer in their previous return, the Authority shall accept what the Zakat payer has declared. The Zakat payer shall not, in this case, be entitled to a refund, or to withhold or defer or transfer Zakat dues declared before the entry into force of this Resolution.



6. The Zakat payer is not entitled to withdraw their request for the application of the provisions of this resolution after submitting it.
7. The Authority may revoke the application of the Regulation to a Zakat payer who has benefited from such application if it is proven to the Authority that the Zakat payer has provided inaccurate information or has failed to withdraw their objection or lawsuit.

Based on the preceding, a Zakat payer may submit a request to apply the provisions of the Regulation to fiscal years commencing before 1/1/2024, in one of the following two cases:

1. Within a period not exceeding 60 days from the date of publication of the decision approving the Regulation.
2. Within a period not exceeding 60 days from the date of notification of the commencement of the Zakat payer's audit, concerning the fiscal year for which the audit commences after the publication of the Resolution.

This is subject to the conditions and considerations set forth in The Resolution and its amendments above.



This option aims to provide Zakat payers with the opportunity to benefit from the advantages outlined in the Regulation regarding the calculation of the Zakat base and to understand the impact of these provisions. Zakat payers can assess the impact of applying the Regulation's provisions by calculating the zakat base according to the Regulation and its updates, such as the existence of a maximum zakat base, as will be explained.

For example, a Zakat payer may, when beginning the examination of a previous year's zakat return, calculate the zakat in accordance with the provisions of the Regulation, and then compare that with the zakat submitted in the declaration of the previous year under examination, taking into account the ongoing examination's data and any potential zakat differences that may arise. This allows the Zakat payer to make an appropriate decision about applying the Regulation's provisions to the previous year's declaration under examination.

This applies to all cases where the provisions of the Regulation can be applied to previous years, such as applying it to declarations associated with ongoing objections or to submitted declarations that have not yet undergone examination. Zakat can be calculated according to the provisions of the Regulation and compared with the submitted declarations for any previous year or with the ongoing objection and its associated zakat differences. Based on this comparison, the appropriate action can be taken.

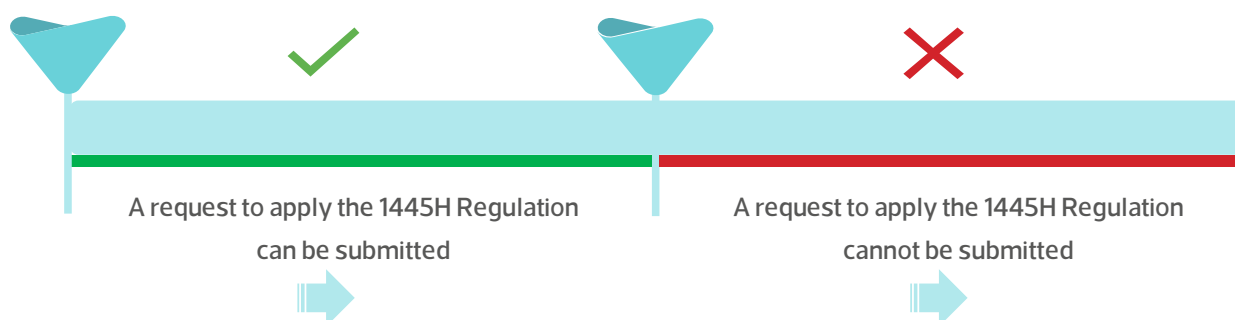
In any case, all conditions outlined in the Ministerial Resolution and its amendments must be observed when submitting any request to apply the provisions of the Regulation to any previous year. It is also important to note that the Zakat payer cannot refrain from the request after submission, which necessitates a proper study of the application of the Regulation's provisions and its impact.



Cases of Applying the Regulation to Years Before 2024

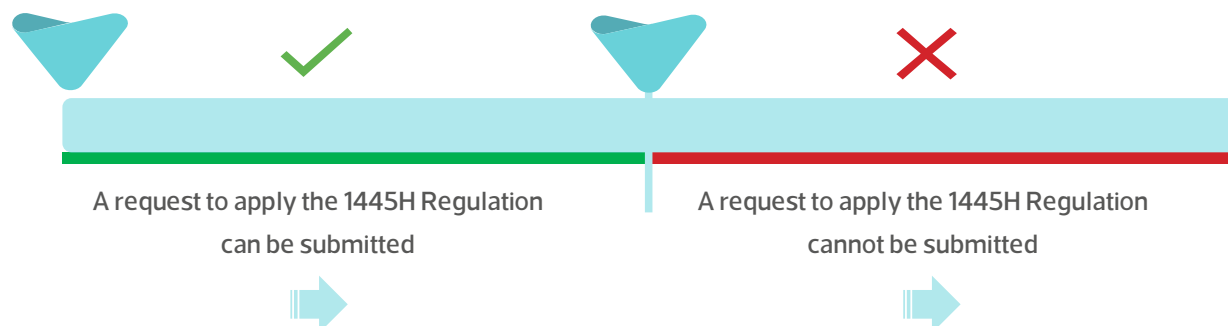
31/08/2025

Passing of 60 days



Date of receipt of audit notification

Passing of 60 days





Example (1)

Amal Company submitted its Zakat declaration for the year 2023 based on the Zakat Regulation of 1440H. Following the publication of Ministerial Resolution No. 1007 concerning the Zakat Regulation of 1445H, the company decided to recalculate and submit a new declaration for 2023 based on the new Regulation of 1445H. The company submitted its request on the fifty-second day after issuing the Ministerial Resolution No. 1007 and fulfilled all the requirements stipulated in the Ministerial Resolution.

The solution:

In this case, since the company submitted its request within the 60-day period stipulated in Ministerial Resolution No. 1007 concerning the Zakat Regulation of 1445H and fulfilled all the requirements and conditions stipulated in the Ministerial Resolution, the company's request to apply the provisions of the new Regulation of 1445H is valid.

Example (2)

Al Noor Company submitted its Zakat declaration for the year 2021. Following the issuance of Ministerial Resolution No. 1007 concerning the Zakat regulation of 1445H, the company studied the impact of the Ministerial Resolution on its 2021 Zakat declaration and decided to submit a request to apply the provisions of the new regulation of 1445H. The company fulfilled the other requirements of the Ministerial Resolution and submitted the request sixty-two days after the publication of Ministerial Resolution No. 1007.

The solution:

In this case, the company's request to apply the provisions of the regulation is invalid as it was not submitted within sixty days of the publication of Ministerial Resolution No. 1007 concerning the Zakat regulation of 1445H.



Example (3)

Al Saada Company did not submit its Zakat declaration for the year 2023. Following the issuance of Ministerial Resolution No. 1007 concerning the Zakat regulation of 1445H, the company decided to take advantage of the Ministerial Resolution in relation to its Zakat declaration submitted for the year 2019 and decided to submit a request to apply the provisions of the new regulation of 1445H. The request was indeed submitted within forty days of the publication of the Ministerial Resolution.

The solution:

In this case, the company's request to apply the provisions of the 1445H regulation is invalid due to the existence of declarations that the company has not submitted, specifically the Zakat declaration for the year 2023.

Example (4)

Al Wadi Company received a notification to commence the Zakat audit for its 2022 Zakat declaration on August 22, 2024. The company decided to submit a request to apply the provisions of the 1445H regulation. The company prepared the declaration based on the 1445H regulation and submitted the request to the authority on November 30, 2024.

The solution:

In this case, the company's request to apply the provisions of the 1445H regulation is invalid as it was not submitted within sixty days of the notification to commence the examination.



Example (5)

A final resolution was issued against Al Sahara Company by the competent bodies for adjudicating Zakat violations and disputes regarding the Zakat declaration for the year 2020. Following the issuance of Ministerial Resolution No. 1007, the company decided to submit a request to apply the provisions of the 1445H regulation to the year 2020. The company recalculated the Zakat for the year based on the 1445H regulation and submitted the request within 30 days of the publication of Ministerial Resolution No. 1007.

The solution:

In this case, the company's request to apply the provisions of the 1445H regulation is invalid, as a final resolution for the same year has already been issued by the competent body for adjudicating Zakat violations and disputes.



3.2 Introduction to the Regulation - General Features

The Implementing Regulation for Zakat Collection is characterized by a number of prominent features aimed at improving the Zakat collection system. This is evident from a review of the Regulation and its provisions. The most prominent features can be briefly summarized as follows:

1. **Comprehensiveness and Detail:** The Regulation provides a detailed exposition of the provisions for Zakat collection. Comprising one hundred and twenty-eight articles, the Regulation includes comprehensive details and a detailed presentation. For example, the Regulation details the rules for calculating Zakat, including the mechanism for calculating Zakat as well as the items of addition and deduction in general. This is followed by a detailed breakdown of these elements in the provisions related to the Zakat base. The Regulation also elaborates on the conditions and considerations related to addition and deduction items. Moreover, the Regulation includes a separate chapter for the specific provisions of certain activities, such as funding, construction, and insurance, among others. This comprehensiveness aims to provide a clear and complete picture regarding Zakat provisions, making this Regulation a comprehensive reference that can be relied upon to facilitate the clear and straightforward application of Zakat by Zakat payers.
2. **Consolidation of Various Resolutions and Rules:** The Regulation has consolidated most of the legislative ministerial resolutions and Zakat rules within its framework. For example, provisions related to investors in investment funds, Zakat on financing activities, Zakat for Zakat payers assessed on an arbitrary basis, and other rules and regulations that were previously scattered have been included in the Regulation. This facilitates reference to, review of, and compliance with the provisions.



3. **Setting Controls for Treatments:** The Regulation is characterized by clearly setting out controls for potential items, to clearly explaining the Zakat treatment. For example, it sets controls for adding and deducting partners' loans, deducting government dues, deducting investments, deducting employee housing, and other items that involve related treatment controls. These controls aim to minimize the potential for interpretation in treating the item and enable the Zakat payer to apply correct treatments through clear, applicable, and verifiable controls.
4. **Preparing the Classification of Items for Zakat Purposes:** The Regulation has paid attention to the classification of effective items of Zakat and whose Zakat classification may differ from their accounting classification. This highlights the positive shift in the Regulation's attention to these detailed and effective details in calculating Zakat. Examples include the classification of partners' loans, profits under distribution, employee benefits provisions, and other items.



3.3 Contents of the Regulation

Referring to the general features of the Regulation as mentioned earlier, the content of the sections and chapters of the regulation will be presented in summary as follows: The Regulation consists of one hundred and twenty-eight articles divided into five chapters. Each chapter includes a number of sections, and some sections include a number of sub-sections, as follows:

Chapter I: General Provisions, which comprises three sections:

First: Definitions.

Second: The objectives of the Regulation.

Third: Zakat payers.

- a. The first section includes thirty-six definitions for the terms and phrases used in the Regulation.
- b. The second section includes the primary objective of the Regulation, which is to state the provisions for Zakat collection and clarify the rights and obligations of Zakat payers.
- c. The third section includes a number of provisions related to the subject, such as those subject to the provisions of the Regulation, residency controls, and those excluded from being subject.

Chapter II: Rules for Calculating Zakat, which comprises seven sections:

First: The mechanism for calculating Zakat.

Second: Calculating the base for Zakat payers.

Third: Items to be added to the base.

Fourth: Items to be deducted from the base.

Fifth: Provisions related to the base.



Sixth: Adjusted net profit or loss.

Seventh: Special provisions for certain activities.

- a. The first section refers to the reliance on approved financial statements, as well as provisions for the commencement and cessation of activity, and provisions for changes in ownership, mergers of Zakat payers, the Zakat percentage, and consolidated declarations.
- b. The second section includes a number of general provisions related to calculating the Zakat base, such as relying on the values appearing in the financial statements, the equality between assets and liabilities, the equation for calculating the Zakat base, and the application of transfer pricing guidelines.
- c. The third section provides a general overview of items to be added to the Zakat base, including provisions for the placement of liabilities added to the base.
- d. The fourth section provides a general overview of items to be deducted from the Zakat base.
- e. The fifth section provides a detailed overview of provisions for the base, including provisions for the minimum and maximum limits of the base, as well as detailed provisions and controls for addition and deduction items of the Zakat base.
- f. The sixth section includes provisions for the treatment of the result of the activity, including general controls for accepting expenses, as well as conditions for accepting certain specific expenses.
- g. The seventh section includes special provisions for certain Zakat payer activities, such as financing activities, real estate and construction activities, investors in investment funds, and insurance activities.



Chapter III: Calculation of the Base for Zakat payers assessed on an arbitrary basis.

- a. This Chapter includes provisions for Zakat payers assessed on an arbitrary basis, such as how to calculate the Zakat base and related provisions.

Chapter IV: Rights and Obligations of the Zakat payer: This Chapter comprises two sections:

First: The rights of the Zakat payer.

Second: The obligations of the Zakat payer.

- d. The first section includes a presentation of the rights of Zakat payers, such as the right to amend the Zakat declaration, the right to instalment payments of zakat dues, and to appeal against the decisions of the authority, Zakat payer's right to recover excess amounts, and other related rights.
- e. The second section includes a presentation of the obligations of Zakat payers, such as registration, submitting declarations, submitting all documents and clarifications in Arabic, and other related duties.

Chapter V: Zakat Collection Procedures: This Chapter comprises four sections:

First: The Zakat declaration.

Second: Zakat assessment and estimation.

Third: The collection.

Fourth: Final provisions.

- a. The first section includes provisions on the Zakat declaration, which covers the submission, amendment, examination, and correction of the declaration, along with related provisions.



- b. The second section includes provisions on Zakat assessment and estimation, which cover the criteria, timeframes, and conditions related thereto.
- c. The third section includes provisions on the collection, which cover the payment of Zakat dues and their instalment, as well as criteria and procedures for seizing the Zakat payer's assets.
- d. The fourth section includes final provisions, which cover guidelines and interpretative decisions, in addition to the right of the Authority's Governor to propose special rules for certain activities.



Summary of Chapters and Sections of the Regulation

Chapter I Articles 1-8

General Provisions

Section 1:

Definitions

Section 2:

Provisions of the
Regulation

Section 3:

Zakat payers

Chapter II Articles 9-81

Rules for Calculating Zakat

Section 1:

Mechanism for
Calculating Zakat

Section 2:

Calculating the Zakat Base
for Zakat payer holding
statutory accounts

Section 3:

Items of addition to the
Zakat Base

Section 4:

Items of deduction from
the Zakat Base

Section 5:

Provisions Related to
the Zakat Base

Section 6:

Calculation of Adjusted
Net Profit or Loss

Section 7:

Special Provisions for
Certain Zakat Payer
Activities



Chapter III Articles 82-91

Calculation of the Zakat: The base for Zakat payers assessed on an arbitrary basis

Chapter IV Articles 92-101

Rights and Obligations of the Zakat Payer

Section1:

Rights of the Zakat
Payer

Section 2:

Obligations of the Zakat
Payer

Chapter VI Articles 102-128

Zakat Collection Procedures

Section1:

Zakat Declaration

Section 2:

Zakat Assessment and
Estimation

Section 3:

Collection

Section 4:

Final Provisions



3.4 The most important concepts and applications in the regulation

The Regulation includes a number of concepts and applications related to Zakat calculation. We will present below the most important of these concepts and applications to provide a general overview of them before delving into the specific details of Zakat calculation, we present the following:

1. The equation for calculating the Zakat base.
2. Reliance on the end-of-period balances.
3. The principle of equity between assets and liabilities and the concept of liabilities placement related to that.
4. Financial statements presented on a liquidity basis.
5. Treatment of provisions.
6. Updates on the adjustments to the result of the activity.
7. Limits of the Zakat base.
8. Zakat percentage.
9. Approved financial reports.
10. Application of transfer pricing guidelines.

3.4.1 Equation for Calculating the Zakat Base

Zakat can be calculated using one of two methods:

- The direct method (Net Zakatable Assets Method).
- The indirect method (Sources of Funds Method).



Each method differs from the other in the procedures and the statement of financial position items used for Zakat calculation purposes, while both methods lead to the same result (Zakat base) if correctly applied and using the same standards and inputs. Below is a summary of both methods:

The Direct Method (Net Zakatable Assets Method)

This method is based on two main steps:

- Adding all the Zakatable assets of the establishment, including receivables owed to the Zakat payer.
- Deducting the balance of liabilities that funded the Zakatable assets. The result of this equation is the Zakat payer's base.

Zakat Base = Zakatable Assets - Liabilities that Funded Them.

Indirect Method (Sources of Funds Method):

This method is based on two main procedures:

Addition:

- External Sources of Funds used in a deductible element of the base, including long-term liabilities and their equivalents, not exceeding the deducted assets.
- All Internal Sources of Funds of the establishment (owners' Equity and its equivalents), including adjustments to the net result of the activity.

Deduction:

- The value of non-zakatable assets of the establishment that must be deducted in accordance with the regulation conditions.



- The value of assets on which zakat has already been paid in other establishments, such as investments in shares of Saudi companies.

Zakat Base = Internal sources of funds (Equity and its equivalents), including adjustments to the net result of the activity + External sources of funds not exceeding the deducted assets - non-zakatable assets - Assets on which zakat has already been paid, taking into account the limits of the base.

The Zakat base for Zakat payer is calculated according to the Regulation using the indirect method. This method involves the formation of the base by adding the items of addition represented in the sources of Zakatable Funds (Non-current liabilities and their equivalents within the deductions, and Equity and its equivalents) and then deducting the deduction items represented in the deductible assets, in accordance with the procedures and concepts outlined in the Regulation.

The equation for forming the base is summarized in Article 21 of the Regulation, which states that the Zakat base is represented by adding the addition items while deducting the deduction items.

The addition and deduction items can be presented and summarized as follows:

As per Article 23 of the Regulation, added items include:

- 1. Equity and its equivalents.**
- 2. Liabilities stipulated in Article 29, within the limits of the deducted assets.**

The article included the addition of non-current liabilities, which encompass the following:

- The debts classified as non-current according to the end-of-period balance, whether from prior years or added during the year; such as advance payments from the Zakat payer's customers, issued bonds and instruments.



- Provisions representing a stable debt to non-owners; such as: Provision for end-of-service benefits and leave balance provision, and equivalents.
- Deferred tax liability.
- Clause of contract obligations established as per the approved accounting standards.
- Lease liabilities.
- Negative derivative financial instruments.

The article also included the addition of current liabilities in the following cases:

- If a current asset is deducted, the addition shall be a current liability according to Article (25) of the regulation.
- If the value of current liabilities exceeds the value of current assets, the difference is added to the zakat base.
- If it is proven to the authority that a current liability is equivalent to non-current liability, such as when the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or if the debt is rescheduled with the same creditor for the same purpose.



The difference between the adjusted net profit/loss and net book profit/loss - after Zakat and Tax -.

Addition items include a number of detailed procedures, criteria, and treatments, which will be explained later in this guide.

The deduction items, as outlined in Articles 26, 31, and 32, include a number of assets that can be summarized as follows:

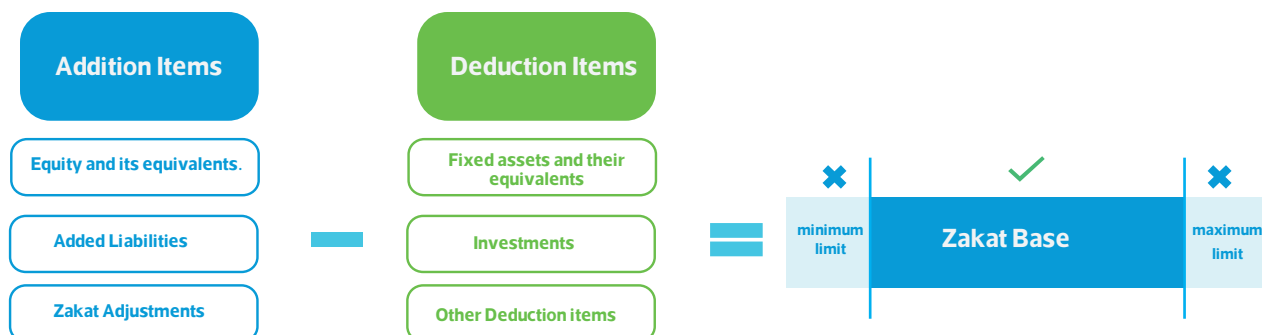
1. Investment in an establishment within the Kingdom according to Article 43 of the regulation.
2. Investment in an establishment outside the Kingdom according to Article 44 of the regulation.
3. Investment in investment funds within the Kingdom according to Article 45 of the regulation.
4. Net fixed assets and their equivalents according to Articles 49 and 51 of the regulation.
5. Intangible assets according to Article 50 of the regulation.
6. Materials not intended for sale and raw materials according to Article 52 of the regulation.
7. Investment in direct financing funds and indirect financing funds registered with the authority and subject to the provisions of Sub-section 1 of Section 7 of Chapter 2 of the regulation.
8. The value of investment in bonds and instruments, treated as capital by the issuer for zakat purposes, according to Article 55 of the regulation.
9. Statutory deposits and their equivalents according to Article 56 of the regulation.
10. Deferred tax asset.
11. Partners' debit loans according to the criteria outlined in Article 31 of the regulation.

Deduction items of the base also include a number of detailed procedures, criteria, and treatments as outlined in the Regulation.

After calculating the base, it is important to verify that it does not exceed the maximum limit and to consider the minimum limit as specified in Articles 27 and 28 of the Regulation.



The Equation for Calculating the Zakat Base



The Regulations included the detailed controls for add-back items and deduction items

Example (6)

The following data is the end-of-period balances for a company as of December 31, 2024:

- Equity and its equivalents = 100,000 SAR.
- Liabilities to be added to the base = 30,000 SAR.
- Fixed assets subject to deduction conditions = 55,000 SAR.

If the maximum limit of the base is 100,000 SAR, what will be the company's Zakat base?

The solution:

In this case, the calculation of the company's Zakat base is as follows:

Addition Items	
Equity and its equivalents	100,000 SAR
Liabilities to be added to the base	30,000 SAR
Total Addition Items	130,000 SAR

Deduction Items	
Fixed assets	55,000 SAR
Total Deduction Items	55,000 SAR
Zakat Base	75,000 SAR
In this case, the base has not reached the maximum limit.	



Example (7)

The following data is the end-of-period balances for a company as of December 31, 2024:

- Equity and its equivalents = 200,000 SAR.
- Liabilities to be added to the base = 60,000 SAR.
- Investments in companies within the Kingdom are subject to a zakat collection of 30,000 SAR.

Zakat adjustments to net profit amounted to 10,000 SAR. The maximum base limit is 210,000 SAR. What will the zakat base for the company be?

The solution:

In this case, the calculation of the company's Zakat base is as follows:

Addition Items	
Equity and its equivalents	200,000 SAR
Liabilities to be added to the base*	30,000 SAR
The difference between the adjusted net profit and net book profit.	10,000 SAR
Total Addition Items	240,000 SAR

Deduction Items	
Investment in companies within the Kingdom subject to Zakat collection	30,000 SAR
Total Deduction Items	30,000 SAR
Zakat Base	SAR 210,000

Since the maximum base limit is 210,000 SAR, the Zakat payer's base will be 210,000 SAR.

* Liabilities that must be added to the base have been added, not exceeding the deductible assets amounting to 30,000 SAR.



3.4.2 Adoption of the end-of-period balances.

The Zakat base is calculated by adding addition and deduction items based on the balances of these items as shown in the statement of financial position at the end of the Zakat year. The Regulation has adopted the treatment of all items based on the end-of-period balances, as stipulated in Article 17 of the Regulation. When calculating the Zakat base and determining the value of addition and deduction items, the Zakat payer shall refer to the financial statements at the end of the Zakat year, disregarding any increases or decreases in the item during the Zakat year. Only the End-of-Year balance shall be considered.

For example, in cases where there is an increase in capital during the year, the Zakat payer must rely on the capital as of the end-of-period balance. Similarly, in cases where the Zakat payer obtains bank loans during the year, the Zakat payer must rely on the loan item as of the end-of-period balance. This is regardless of the following:

- The date of addition.
- The nature of the addition.
- The reason for the addition.

These considerations do not affect what should be relied upon when adding the item to the zakat base, which is the end-of-period balance. This rule applies to all addition items, such as equity and its equivalents, and liabilities added to the base, and all deduction items, such as fixed assets and investments deducted from the Zakat base.



Example (8)

The following movement was recorded on some items of the statement of financial position of a company during the year 2024:

Item	Beginning Balance	Debit	Credit	Year-End Balance
Retained Earnings	SAR 10,000	SAR 2,000	SAR 3,000	SAR 11,000
Long-term Loans	SAR 20,000	SAR 6,000	SAR 9,000	SAR 23,000

How are the amounts to be added to the Zakat base determined?

The solution:

Items are added to the Zakat base based on their ending balance as follows:

Addition Items	
Retained Earnings	SAR 11,000
Long-term Loans	SAR 23,000



3.4.3 Equality Principle Between Assets and Liabilities and the concept of liabilities placement related to it

Article 20 of the Regulation stipulates the Equality principle and its application when calculating the Zakat base. The Equality principle is one of the most important principles related to adding liabilities to the base as an item of addition. This principle assumes that non-current liabilities shall be equal to non-current assets, and current liabilities shall be equal to current assets. It is also assumed that non-current assets are essentially deductions unless proven otherwise, and current assets are essentially not deductible unless proven otherwise.

Based on the foregoing, non-current liabilities are added to the base as they equal to deductible assets, while current liabilities are not added to the base as they equal to non-deductible assets.

Consequently, if a current asset is deducted, the equal current liabilities that were not added to the base must be added. Conversely, if a non-current asset is not deducted, the equal non-current liabilities that were added to the base must be excluded. This is in accordance with Article 25 of the Regulation on "Placement of Liabilities added to the Zakat Base " The term "Placement " here refers to the Correction of additions of liabilities to the Zakat base upon a current asset is deducted and a noncurrent asset is not deducted. The purpose of this procedure is to ensure the equality of current and non-current assets and liabilities. The related cases are as follows:

1. No need to correct the addition of liabilities: This occurs when all non-current assets are deducted and all current assets are not deducted.
2. Need to correct the added liabilities: This occurs when one or both of the following conditions are met:
 - a. When a non-current asset is not deducted, the addition of liabilities must be corrected by excluding a proportion of the non-current liabilities added to the base as follows:

Non-current liabilities excluded from being added to the Zakat base= (non-current asset excluded ÷ total non-current assets) × non-current liabilities.



Provided that the non-current liability excluded from the base shall not exceed the value of the un-deducted non-current asset.

- b. When a current asset is deducted, the addition of liabilities must be corrected by adding a proportion of the current liabilities that were not added to the base as follows:

Current liabilities added to the Zakat base = (current asset deducted ÷ total current assets) × current liabilities.

Provided that the added current liabilities shall not exceed the value of the deducted current asset.

Placement Cases

Placement Cases			
Case	Action	Type of Correction	Value of Correction
Deduction of all non-current assets and un-deduction of all current assets.	None	None	None
Un-deduction of non-current asset.	Placement	Excluding a proportion of the non-current liabilities from being added to the base.	(non-current asset excluded ÷ total non-current assets) × non-current liabilities.
Deduction of current asset.	Placement	Adding a proportion of the current liabilities not added to the base.	(current asset deducted ÷ total current assets) × current liabilities.
The non-current liability excluded from the base shall not exceed the value of the un-deducted non-current asset. Also, the added current liabilities shall not exceed the value of the deducted current asset.			



Example (9)

The following data appeared in the financial position statement of a company at the end of 2024 AD:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash	20,000 SAR	Creditors	10,000 SAR
Debtors	10,000 SAR	Accrued Expenses	5,000 SAR
Total	30,000 SAR	Total	15,000 SAR
Non-Current Assets		Non-Current Liabilities	
Property and Equipment	30,000 SAR	Bank Loans	40,000 SAR
Tangible assets	20,000 SAR		
Total	50,000 SAR	Total	40,000 SAR
		Equity	
		Capital	25,000 SAR
Total	80,000 SAR	Total	80,000 SAR

Assuming that all non-current assets are non-zakatable assets that can be deducted, and current assets do not include any deductible assets.

What is the treatment that should be applied to the liabilities added to the base?



The solution:

In this case, non-current liabilities are added on the assumption that they are offset to the deducted non-current assets. No adjustment is made to the liabilities, as none of the placement cases outlined in Article 25 of the regulation apply. This is because all non-current assets will be deducted as they are fully deductible, and no current assets will be deducted as they are not fully deductible.

Accordingly, the liabilities added to the base are as follows:

Item	Amount
Bank Loans (Non-Current Liabilities)	40,000 SAR
Total	40,000 SAR



Example (10)

The following data appeared in the financial position statement of a company at the end of 2024 AD:

Assets		Liabilities and Equity	
Current Assets		Current Assets	
Cash	60,000 SAR	Creditors	10,000 SAR
Debtors	30,000 SAR	Accrued Expenses	10,000 SAR
Spare parts	10,000 SAR		
Total	100,000 SAR	Total	20,000 SAR
Non-Current Assets		Non-Current Assets	
Right-of-use assets	35,000 SAR	Lease liabilities	45,000 SAR
Investments	5,000 SAR	Bank Loans	5,000 SAR
Total	40,000 SAR	Total	50,000 SAR
		Equity	
		Capital	70,000 SAR
		Total	70,000 SAR
Total	140,000 SAR	Total	140,000 SAR

Assuming that all non-current assets are non-zakat assets that can be deducted, and spare parts item which is included among current assets is considered as deductible assets.

What is the treatment that should be applied to the liabilities added to the base?



The solution:

In this case, non-current liabilities are added on the assumption that they are equal to the deducted non-current assets. Moreover, due to the deduction of a current asset (spare parts) from the base as it meets the deduction conditions, it is necessary to correct the liabilities added to the base. This is done by calculating the proportion of this deducted current asset to the total current assets and adding the same proportion of current liabilities not included in the base, provided that this addition does not exceed the value of the deducted asset. This can be expressed as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted Current Asset (Spare Parts)	$\frac{\text{Spare Parts}}{\text{Current assets}}$	Addition of a Portion of Non-Added Current Liabilities	$20,000 \times 10\% =$ 2,000 SAR
	$10,000 / 100,000 =$ 10%		

- Note that the added liability amount (2,000) does not exceed the value of the deducted asset (10,000).

Accordingly, the liabilities added to the base are as follows:

Item	Amount
Non-current liabilities (Lease liabilities)	45,000 SAR
Non-current liabilities (Bank Loans)	5,000 SAR
Total Liabilities Before Placement	50,000 SAR
Correction for Added Liabilities due to Deduction of Current Asset	2,000 SAR
Total Liabilities Added After Placement	52,000 SAR



Example (11)

The following data appeared in the financial position statement of a company at the end of 2024 AD:

Assets		Liabilities and Equity	
Current Assets		Current Assets	
Banks	20,000 SAR	Accrued Salaries	35,000 SAR
Prepaid Expenses	15,000 SAR	Other current Liabilities	5,000 SAR
Total	35,000 SAR	Total	40,000 SAR
Non-Current Assets		Non-Current Assets	
Fixed assets	56,000 SAR	Bank Loans	60,000 SAR
Investments	14,000 SAR		
Total	70,000 SAR	Total	60,000 SAR
		Equity	
		Capital	5,000 SAR
		Total	5,000 SAR
Total	105,000 SAR	Total	105,000 SAR

Assuming that the deduction conditions are not met for the investments item included in non-current assets in the above statement and that current assets do not include any deductible assets.

What is the treatment that should be applied to the liabilities added to the base?



The solution:

In this case, non-current liabilities are added on the assumption that they are equal to the deducted non-current assets. However, since no non-current asset is deducted from the base due to the absence of a deduction condition, it is necessary to correct the liabilities added to the base. This is done by calculating the proportion of this non-deductible non-current asset to the total non-current assets and excluding this proportion from the non-current liabilities added to the base, provided that this does not exceed the value of the non-deductible asset. This can be expressed as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (Investments)	$\frac{\text{Investments}}{\text{non-current asset}}$	Exclusion of a Portion of Added Non-Current Liabilities	$60,000 \times 20\% =$ 12,000 SAR
	$14,000 / 70,000 =$ 20%		

- Note that the added liability amount (12,000) does not exceed the value of the deducted asset (14,000).

Accordingly, the liabilities added to the base are as follows:

Item	Amount
Non-current liabilities (Bank Loans)	SAR 60,000
Total Liabilities Before Placement	SAR 60,000
Correction for adding liabilities due to un-deduction of non-current asset	SAR (12,000)
Total Liabilities After Placement	SAR 48,000



3.4.4 Liquidity-Based Financial Statements

The statement addressed the classification of assets and liabilities in financial statements based on liquidity. This is done to determine current and non-current items. Financial statements prepared on a liquidity basis refer to those in which assets and liabilities in the statement of financial position are arranged based on the item's liquidity, rather than being classified as current and non-current based on their maturities.

Statement of Financial Position Presented on a Liquidity Basis

Assets	
Cash and Cash Equivalents	xxx
Murabaha Deposits	xxx
Inventory	xxx
Prepaid Expenses	xxx
Due from Related Parties	xxx
Property and Equipment	xxx
Intangible Assets	xxx
Investment Properties	xxx
Liabilities	
Loans	xxx
Employee Benefits Liabilities	xxx
Creditors	xxx
Accrued Expenses	xxx
Zakat Provision	xxx
Equity	
Capital	xxx
Statutory Reserve	xxx
Retained Earnings	xxx

Statement of Financial Position Classified by Maturity into Current and Non-Current

Current Assets	
Cash and Cash Equivalents	xxx
Murabaha Deposits	xxx
Inventory	xxx
Prepaid Expenses	xxx
Non-Current Assets	
Property and Equipment	xxx
Intangible Assets	xxx
Investment Properties	xxx
Current liabilities	
Creditors	xxx
Accrued Expenses	xxx
Zakat Provision	xxx
Non-Current liabilities	
Loans	xxx
Employee Benefits Liabilities	xxx
Equity	
Capital	xxx
Statutory Reserve	xxx
Retained Earnings	xxx



Article 19 of the regulation defines "current" as referred to in the regulation for companies that classify their financial statements based on liquidity. It refers to any asset or liability expected to be realized, recovered, or settled within a period not exceeding 365 days after the end of the Zakat year. This includes, for example, but is not limited to: cash and cash equivalents, inventory, commercial receivables, or any asset held by the Zakat payer for trading purposes.

This definition and clarification underscore the importance of accounting classification for the purposes of calculating the Zakat base, as outlined in the principle of Assets and Liabilities Equality. The treatments and assumptions related to current assets and liabilities differ from those related to non-current assets, and many provisions for addition and deduction are linked to this classification.

From a procedural perspective, if the financial statements are presented on a liquidity basis, the Zakat payer must determine the current and non-current assets and the current and non-current liabilities according to the above criteria. The calculation of the zakat base, as will be fundamentally explained, relies on this classification. For example, if the Zakat payer's liabilities whose financial statements, presented on a liquidity basis, include a bank loan, it is necessary to determine whether this loan is current or non-current. This is done by considering the term for settling and repaying the portion of the loan. If this term exceeds 365 days after the end of the zakat year, that portion of the loan is considered non-current for the purpose of calculating the zakat base.

Classifying financial statements based on liquidity is common in some sectors and activities, such as the banking sector, the insurance sector, financing activities, and investment funds. Therefore, what has been mentioned for such activities should be taken into account, provided it does not conflict with the specific provisions for these activities as stipulated in the regulation.



Example (12)

The following data is for a company that presents its financial statements on a liquidity basis as of December 31, 2024:

Assets	
Cash and Cash Equivalents	50,000 SAR
Machinery and Equipment	30,000 SAR
Liabilities	
Non-Current Assets	
Bank Loan	20,000 SAR
Bank Facilities	15,000 SAR
Advance Payments from Customers	30,000 SAR
Accrued Expenses	5,000 SAR
Equity	
Equity	10,000 SAR

- The machinery and equipment are used in the company's operations and are not held for trading purposes.
- The period for repaying the loan is three years.
- The period for repaying the bank facility is six months.
- Customer advances are typically settled within a year.

How are assets and liabilities items treated for Zakat purposes?



The solution:

- Machinery and equipment are considered non-current assets as they are not held for trading purposes and thus are deducted from the Zakat base if other deduction conditions are met.
- Loans are considered non-current liabilities, as they will repaid in more than 365 days, and thus are added to the Zakat base.
- Cash and cash equivalents, customer advances, and accrued expenses are considered current items.
- Equity is not affected by presenting financial statements based on liquidity or maturities, as equity is always added to the Zakat base.

2.4.5 Treatment of accounting Provisions

Accounting provisions are defined as uncertain liabilities as to timing and amount that are created to cover potential future obligations, based on a number of considerations outlined in relevant accounting standards. Article 24 of the regulation clarifies the treatment of accounting provisions when calculating the Zakat base, based on their nature. All provisions presented in the Statement of Financial Position are treated as equity and added to the Zakat base, except for provisions that represent a stable debt owed by the Zakat payer to non-owners, such as end-of-service benefit provision, vacation leave provision, etc. When treating provisions as liabilities, the rules applicable to liabilities are applied to them, including their addition to the base along with other added provisions within the limits of deductible assets, and their connection to the above placement rules. Also, when treating provisions as equity, the rules applicable to equity are applied to them, allowing their addition to the base without limit, and their inclusion in the maximum limit of the base, as will be clarified.



Examples of provisions treated as Equity

- Asset retirement provision
- Legal cases provision
- Zakat and tax provision

Examples of provisions treated as liabilities:

- Employee benefits Liabilities provision
- Vacation provision
- Employee tickets provision

Example (13)

The following table shows the analysis of Provisions for a company at the end of the year 2024:

Provision	End-of-period balance
Employee benefits liabilities	120,000 SAR
Provision for Legal Claims	90,000 SAR
Vacation provision	77,000 SAR
Provision for Site Restoration	45,000 SAR
Provision for Zakat and tax	60,000 SAR



How are the above provisions classified for Zakat purposes?

The solution:

The following provisions are treated as equity:

Provision	End-of-period balance
Provision for Legal Claims	90,000 SAR
Provision for Site Restoration	45,000 SAR
Provision for Zakat and tax	60,000 SAR

Whereas the following provisions are treated as liabilities:

Provision	End-of-period balance
Employee benefits Liabilities	120,000 SAR
Vacation provision	77,000 SAR



3.4.6 Updates on the adjustments to the activities results

The result of activities is adjusted to arrive at the adjusted net profit or adjusted net loss. Article sixty-two clarifies the general controls for accepting the deduction of expenses. Article sixty-three includes specific conditions and considerations for certain specified expenses. Among the emerging provisions included in the regulation regarding the adjustment of the net result of activities are the acceptance of the deduction of provisions formed during the year, the acceptance of the expense of Zakat or income tax paid, and the acceptance of the difference in wages that exceeds the amount recorded in social insurance, provided that supporting documents acceptable to the authority are presented. Additionally, the regulation has added some controls related to accepting the expense of bad debts. Details regarding the treatments of adjustments to the result of activities will be discussed in paragraph (4.2.2) of this guideline.



Example (14)

The analysis of the general and administrative expenses of Al Noor Company at the end of its Zakat year included the following expenses:

- Zakat expense amounting to 84,000 SAR.
- Provision for lawsuits amounting to 12,000 SAR.
- Salaries and wages amounting to 120,000 SAR. Upon examination, it was found that the amount registered with the General Organization for Social Insurance (GOSI) was 100,000 SAR, and documents prove that the difference (20,000 SAR) represents allowances that cannot be registered in the social insurance system.

What expenses are not accepted according to the treatments in the regulation?

The solution:

All the mentioned expenses are accepted for zakat purposes according to the regulations' treatments, and there is no need to adjust the result of activities.

3.4.7 Zakat Base Limits

The term "limits of the zakat base" refers to the maximum limit of the base that cannot be exceeded when calculating the zakat base, as well as the minimum limit to which one transitions as an alternative to the zakat base when the associated condition is met. Article 27 of the regulation includes provisions for the minimum limit of the zakat base, while Article 28 covers the maximum limit of the base, a new provision in the regulation. The limits of the zakat base are as follows:

Minimum limit of the Base: The transition to the minimum limit of the Zakat base occurs if the Zakat base of the Zakat Payer holding statutory accounts decreases below the adjusted net profit. The minimum limit of the base is the lower of the following:

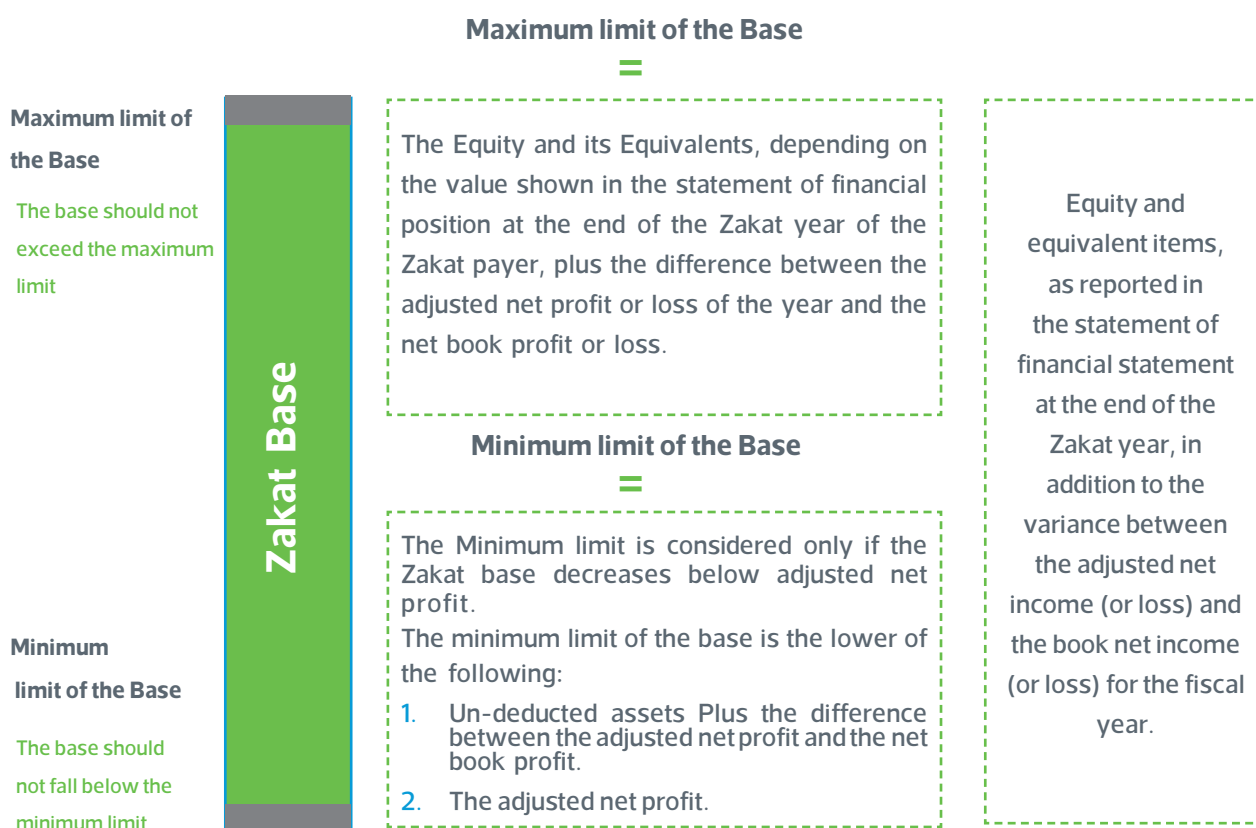


1. The total un-deducted assets plus the difference between the adjusted net profit and the net book profit.
2. The adjusted net profit.

Maximum limit of the Base: The maximum limit of the base is considered absolutely, and the maximum limit is the equity and its equivalents, depending on the value shown in the statement of financial position at the end of the Zakat year of the Zakat payer, plus the difference between the adjusted net profit or loss of the year and net book profit or loss.

Equity includes any item reclassified to be part of Equity.

Limits Of Zakat Base





Example (15)

The following data appeared at Al Masar Company at the end of 2024 AD: -

Item	Amount
Items to be added to the Zakat base (Equity and its equivalents)	100,000 SAR
Items to be added to the Zakat base (Liabilities)	70,000 SAR
Items to be deducted from the Zakat base	50,000 SAR
Un-deducted assets	10,000 SAR
Difference between the adjusted net profit and the net book profit	5,000 SAR
Adjusted net profit	30,000 SAR
Net book profit	25,000 SAR

How much is the Zakat base in this case?

The solution:

First: Calculating the components of the Zakat base:

Addition Items (Equity and its equivalents + Liabilities + Difference between the adjusted net profit and net book profit)*	155,000 SAR
(-) Deduction Items	50,000 SAR
Zakat Base	105,000 SAR

*Liabilities have been added to the base not exceeding the deductible assets, amounting to 50,000 SAR



Secondly: Comparing the calculated Zakat base in the previous step with the minimum and maximum limits:

Minimum limit of the Base	
Since the calculated Zakat base is greater than the adjusted net profit, the minimum limit is not considered.	

Calculating the Maximum limit of the Base	
Equity and its equivalents	100,000 SAR
(+) Difference between net book profit and adjusted net profit	5,000 SAR
Total	SAR 105,000
Therefore, the maximum limit of the base is 105,000 SAR .	

Since the result of the Zakat base calculation in the first step is the calculated maximum limit, the Zakat base for this company is the maximum limit of **105,000 SAR**.



Example (16)

The following data appeared at Al Wefaq Company at the end of 2024 AD: -

Item	Amount
Items to be added to the Zakat base (Equity and its equivalents)	20,000 SAR
Items to be added to the Zakat base (Liabilities)	30,000 SAR
Items to be deducted from the Zakat base	40,000 SAR
Un-deducted assets	15,000 SAR
Difference between the adjusted net profit and the net book profit	1,000 SAR
Adjusted net profit	20,000 SAR
Net book profit	19,000 SAR

How much is the Zakat base in this case?

The solution:

First: Calculating the components of the Zakat base:

Addition Items (Equity and its equivalents + Liabilities + Difference between adjusted net profit and net book profit)	51,000 SAR
(-) Deduction items from the Zakat base	40,000 SAR
Zakat Base	11,000 SAR



Secondly: Comparing the calculated Zakat base in the previous step with the minimum and maximum limits:

Calculating the Minimum limit of the Base *		Calculating the Maximum limit of the Base	
Undeducted Assets	15,000 SAR	Equity and its equivalents	20,000 SAR
(+) Difference between adjusted net profit and net book profit	1,000 SAR	(+) Difference between adjusted net profit and net book profit	1,000 SAR
Total	16,000 SAR	Total	21,000 SAR
Adjusted net profit	20,000 SAR		
The results above are compared, and the minimum zakat base is the lower amount; therefore, the minimum limit is 16,000 SAR.		Therefore, the maximum limit of the base is 21,000 SAR.	

Since the zakat base result is less than the adjusted net profit, the zakat base will be the lower amount between the adjusted net profit and the undeducted assets plus the difference between the adjusted net profit and the net book profit, which results in an amount of **16,000 SAR.**

* The minimum limit is only considered if the zakat base is less than the adjusted net profit.



Example (17)

The following data appeared at Al Kamal Company at the end of 2024 AD: -

Item	Amount
Items to be added to the Zakat base (Equity)	30,000 SAR
Items to be added to the Zakat base (Liabilities)	20,000 SAR
Items to be deducted from the Zakat base	55,000 SAR
Un-deducted assets	15,000 SAR
Difference between the adjusted net profit and the net book profit	2,000 SAR
Adjusted net loss	(18,000) SAR
Net book loss	(20,000) SAR

How much is the Zakat base in this case?

The solution:

Calculating the components of the Zakat base is as follows:

Addition Items (Equity and its equivalents + Liabilities + Difference between adjusted net profit and net book profit)	52,000 SAR
(-) Deduction items from the Zakat base	55,000 SAR
Zakat Base	(3,000) SAR

Since the Zakat payer's base is negative and they have not realized an adjusted net profit, there is no zakat due from the Zakat payer in this situation.



Example (18)

The following data appeared at Al Riyadh Company at the end of 2024 AD: -

Item	Amount
Items to be added to the Zakat base (Equity)	30,000 SAR
Items to be added to the Zakat base (Liabilities)	30,000 SAR
Items to be deducted from the Zakat base	45,000 SAR
Un-deducted assets	15,000 SAR
Difference between the adjusted net profit and the net book profit	4,000 SAR
Adjusted net loss	(18,000) SAR
Net book loss	(22,000) SAR

How much is the Zakat base in this case?

The solution:

First: Calculating the components of the Zakat base:

Addition Items (Equity and its equivalents + Liabilities + Difference between adjusted net profit and net book profit)	64,000 SAR
(-) Deduction items from the Zakat base	45,000 SAR
Zakat Base	19,000 SAR

Given that the Zakat payer's base is positive but they have not realized an adjusted net profit, their zakat calculation will be based on the result of the base.



Secondly: Comparing the calculated Zakat base in the previous step with the minimum and maximum limits:

Minimum limit of the Base	Calculating the Maximum limit of the Base	
Since the calculated Zakat base is greater than the adjusted net profit, the minimum limit is not considered.	Equity	30,000 SAR
	(+) Difference between net book profit and adjusted net profit	4,000 SAR
	Total	34,000 SAR
	Therefore, the maximum limit of the base is 34,000 SAR.	

Since the result of the zakat base does not exceed the maximum limit of the base, the Zakat payer's calculation will be based on the zakat base of **19,000 SAR.**

***The minimum limit is only considered if the zakat base is less than the adjusted net profit.**



3.4.8 Zakat Percentage

According to Article 15 of the Regulations, the zakat percentage is 2.5% if the zakat year for the zakat payer holding statutory accounts is Hijri year. If the zakat year for the zakat payer differs from the Hijri year, the zakat percentage is calculated by dividing 2.5% over the number of days of Hijri year multiplied by the actual number of days of Zakat Payer's Zakat Year as per the following equation:

Percentage of Zakat = $(2.5\% \div \text{number of days of the Hijri year}) \times \text{number of days of the fiscal year of the Zakat Payer}$

The zakat year for a Zakat payer may differ from the Hijri year in several cases. In such cases, zakat must be calculated according to the Zakat percentage based on the actual number of days.

The detailed cases related to this will also be reviewed in paragraph (4.4.2) of this guide.

The difference between the zakat year and the Hijri year

The zakat percentage for the year is calculated as follows:

$$\begin{array}{r} \text{Actual number} \\ \text{of days in a} \\ \text{year} \end{array} \times \frac{2.5\%}{354 \text{ days}}$$

Hijri Year

Zakat Percentage is
2.5%



Example (19)

A Saudi company submits its zakat declaration based on its Gregorian financial year of 365 days. What zakat percentage should be used?

The solution:

A Saudi company submits its zakat return based on its Gregorian financial year of 365 days. What zakat percentage should be used?

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 365 \text{ Days} = 2.5777\%$$

Example (20)

A Saudi company submits its zakat declaration based on its first Gregorian financial year, which runs from November 1, 2024, to December 31, 2025. What zakat percentage should be used?

The solution:

Since the actual number of days in the year is 426, the zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 426 \text{ Days} = 3.0085\%$$



3.4.9 Approved Financial Reports

The calculation of the zakat base for a zakat payer holding statutory accounts is based on the zakat payer's financial statements and the classifications and categorizations of items therein. Therefore, as stipulated in Article 9 of the regulations, applying the standards endorsed by the Saudi Organization for Chartered and professional Accountants regarding the terms, accounting treatments, and financial reports submitted to the Authority, unless otherwise stipulated in the Regulations, or relevant laws, regulations, and rules. The Authority may amend the data of Zakat Payers in the event that said data contradicts the accounting standards endorsed by the Saudi Organization for Chartered and professional Accountants regarding the classification and indexing.

As a result, the Authority has the right to amend the financial data submitted by the Zakat payer if such data contradicts the accounting standards approved by the Saudi Organization for Chartered and professional Accountants. This may result in the reassessment of the Zakat payer's based on the correct accounting treatments. Examples includes, but are not limited to:

- Errors in classifying an item as current or non-current.
- Errors in recognizing accounting revenue.
- Errors in calculating certain items or transactions in the financial statements.

The aforementioned examples are non-exhaustive and represent some of the errors that may occur in applying the approved accounting procedures or standards, which may lead the Authority to correct the treatment of the item or transaction for zakat calculation purposes. This emphasizes the importance for Zakat payers to verify their compliance with the correct accounting treatments in accordance with the approved standards.



3.4.10 Application of Transfer pricing Guidelines

According to Article 22 of the regulation, the transactions conducted with related parties of the Zakat payer are subject to the Transfer pricing guidelines issued by the Board of Directors of the Authority under Resolution No. (6-1-19) dated 25/5/1440 AH, and any amendments thereto. The aforementioned ministerial resolution included the coverage of Transfer pricing provisions for Zakat payers starting on or after 01/01/2024 AD. The decision also included the application of Transfer pricing provisions to Zakat payers in two phases:

Phase One: Zakat payers are required to submit the specified Transfer pricing documentation (master file - local file) if the transactions with related parties reach 100 million Saudi Riyals or more. Investment funds are exempted from the application of Transfer pricing provisions in this phase.

Phase Two: This phase will start three years after the application of Phase One. In this phase, Zakat payers are required to submit the specified Transfer pricing documentation (master file - local file) if the transactions with related parties exceed 48 million Saudi Riyals. This phase also includes investment funds.

In general, the purpose of Transfer pricing information is to ensure that the terms and conditions of transactions between related parties are comparable to the terms and conditions of transactions between independent parties. This requires the submission of a disclosure form along with the Zakat payer's declaration to disclose transactions with related parties and the pricing methods used for those transactions.



The Master File for Transfer pricing purposes refers to a file that contains guidelines about the business and international activities of the multinational group to which the Zakat payer belongs, in addition to the group's transfer pricing policy and the economic functions and characteristics of the related parties.

The Local File for Transfer pricing purposes refers to a file that contains detailed information about the transactions that took place between the Zakat payer and the related parties.



4. Zakat payers and Zakat Activities

4.1 Introduction

Section 3 of Chapter One of the regulation includes provisions related to Zakat payers. The sub-sections of this chapter include provisions regarding those subject to the regulation, exemptions, and related provisions such as the determination and controls of residency. Section 1 of Chapter Two includes a number of important provisions related to activities, such as the commencement of Zakat collection, cessation of activity, mergers between Zakat payers, and the consolidation of accounts. This guide reviews the most prominent provisions related to zakat payers and activities.

4.2 Those subject to the provisions of the Regulation.

4.2.1 Subject Persons

Nature of the Person	Control for Subjection
Person	Saudi or treated as such among the citizens of the Gulf Cooperation Council countries who are residents and practice an activity under a license within the Kingdom.
Sole Establishment	Owned by a Saudi person and established in the Kingdom, in accordance with the relevant laws and regulations.
Investment Fund	Finance Funds licensed by the Capital Market Authority.
Resident Company	Owned by a Saudi person and established in the Kingdom.
	The share which is held by a Saudi partner or shareholder.
	State-owned Resident Companies and Public Investment Fund-owned Resident companies as per the rules stipulated in the relevant Royal Orders and Ministerial Resolutions.
	The Shares held by non-Saudi shareholders in Resident companies listed in the Saudi Stock Exchange except for the shares held by non-Saudi founders.



Article 3 included a number of significant criteria for subjection, which can be summarized as follows:

1. Resident Saudi person or treated as such among the citizens of the Gulf Cooperation Council countries residing in the Kingdom, is subject to the provisions of the regulation if they practice an activity pursuant to a license issued in the Kingdom. It follows from this that a Saudi non-resident natural person is not subject to the provisions of the Regulation. Additionally, engagement in an activity pursuant to a license in the Kingdom is a prerequisite for a natural person to be subject to the provisions of the Regulation. The specific activities subject to the Regulation will be discussed separately in the following paragraph.
2. Sole Establishment is subject to the regulations if it is established in the Kingdom and owned by a Saudi individual. Sole Establishments owned by non-Saudis or established outside the Kingdom, even if owned by Saudis, are not subject to these regulations.
3. Funds are only subject to the provisions of the regulations if they are licensed financing funds by the Capital Market Authority. Article 1 of the regulation defines the finance fund as an investment fund established for the purpose of engaging in direct or indirect financing activities, in accordance with the applicable laws and regulations in the Kingdom.

Therefore, other types of funds are not subject to Zakat, but the provisions of Sub-section 3 of Section 7 of Chapter Two, which relate to investors in investment funds, apply to them.
4. Resident companies are subject to the provisions of the regulation based on the ownership percentage held by Saudi individuals, as well as the ownership of the Investment Fund or government agencies and authorities, in accordance with the relevant royal decrees



and ministerial resolutions. Consequently, non-resident companies are not subject to the regulations, nor are shares owned by non-Saudis in resident companies, except in the case of shares held by non-Saudi shareholders in companies listed in the Saudi Exchange, with the exception of shares held by non-Saudi founders.

Article 1 of the regulation defines a "Person": Any natural or legal person. It also defines "Saudi": A person holding the Saudi nationality or treated as such among the citizens of the Gulf Cooperation Council. Accordingly, citizens of the Gulf Cooperation Council countries are treated as Saudi citizens in this regard.

It is noted from the specified criteria the importance of considering residency in determining the applicability of the regulations. Residency is a key determinant of a person's subjectivity to the provisions of the regulations. This is evident from the requirement that both the individual and the company must be residents, as well as the stipulation that a sole proprietorship or financing fund must be established in the Kingdom. The provisions related to residency will be discussed in paragraph (3.3) of this guide.

In addition to the above, residency alone is not sufficient for a person to be subject to the provisions of the regulations. The condition of Saudi nationality, or its equivalent, must also be met. Resident companies are subject to the provisions of the regulations only to the extent of shares or ownership stakes held by Saudis or government entities, with the exception of publicly traded shares in companies listed on the Saudi stock exchange, which are subject to the regulations regardless of nationality. Furthermore, Saudi nationality must be established for the sole proprietorship established in the Kingdom and for the natural person, to be subject to the provisions of the regulations.



Criteria for Subjection

Resident Company	Investment Fund	Sole Establishment	Person
- Owned by a Saudi person or treated as such and established in the Kingdom. - The share held by a Saudi partner or shareholder. - The share held by Saudi government agencies and authorities. - State-owned Resident Companies and Public Investment Fund-owned Resident companies as per the rules stipulated in the relevant Royal Orders and Ministerial Resolutions. - The Shares held by non-Saudi shareholders in Resident companies listed in the Saudi Stock Exchange except for the shares held by non-Saudi founders.	Finance Funds licensed by the Capital Market Authority.	Owned by a Saudi person and established in the Kingdom, in accordance with the relevant laws and regulations.	Resident Saudi person, who practices an Activity under a license within the Kingdom.



Example (21)

Sole establishment owned by a Jordanian investor and established in the Kingdom according to the relevant laws and regulations. Is the establishment subject to zakat collection under the regulations?

The solution:

In this case, since the establishment is owned by a non-Saudi individual, it is not subject to zakat collection in the Kingdom according to the regulations.

Example (22)

A financing fund established in the Kingdom and licensed by the Capital Market Authority. Is the fund subject to zakat collection under the regulations?

The solution:

In this case, since the fund is licensed by the Saudi Exchange Authority, it is subject to zakat collection in the Kingdom according to the regulations.

Example (23)

A company established in the Kingdom and owned by a Saudi partner and a Spanish partner. Is the company subject to zakat collection under the regulations?

The solution:

In this case, the share of the Saudi partner is subject to zakat collection in the Kingdom according to the regulations, while the share of the Spanish partner is not subject to zakat collection in the Kingdom according to the regulations.



Example (24)

Listed Joint-Stock Company in the Saudi Exchange has shown that the ownership of its shares includes 73% held by Saudi shareholders, 7% held by non-Saudi shareholders, and the remaining shares are owned by a non-Saudi founding shareholder. Is the company subject to zakat collection under the regulations?

The solution:

According to the regulations, the company is subject to Zakat collection on the shares owned by Saudi and non-Saudi shareholders in the traded shares, while the shares owned by the non-Saudi founding shareholder are not subject to Zakat collection in the Kingdom.

4.2.2 Activity Practice

Based on the provisions concerning the persons subject to Zakat, it is crucial to determine the concept of practicing the activity that necessitates adherence to the regulations. This entails determining the extent to which resident Saudi natural persons engaged in this activity are subject to it.

According to Article 1 of the regulations, a zakat payer is defined as: A person who is subject to the provisions of the Regulations and practices an activity, or who issued a license to practice the said activity.

The term "activity" is defined in the article as: Any act performed for the purpose of continuously and regularly generating profit under a license issued by the relevant entities, or which requires a license by the relevant entity prior to its performance, as per the relevant laws and regulations applicable in the Kingdom; whether commercial, vocational, service, industrial, or other activity.



Example (25)

A Saudi resident owns a personal property and rents it out annually. Does this activity fall under the definition of a subject activity according to the provisions of the regulation, assuming that this activity does not require any regulatory licenses to practice?

The solution:

Since the practice of this rental activity by this person does not require a license from the relevant entities, the definition of activity in the regulations does not apply to this activity. Therefore, the practice of this activity by a natural person does not require this person to be subject to the provisions of the regulation.



4.3 Controls of Residency:

Establishing residency is one of the fundamental criteria for subject to the provisions of the regulation. Article 4 of the regulations outlines the residency controls and distinguishes between the residency controls for natural persons and residency controls for legal ones, as follows:

Residency Conditions for Natural Persons (One condition is sufficient)	Residency Conditions for Legal Persons (One condition is sufficient)
a. Such person has a permanent residence in the Kingdom and is physically present in the Kingdom for no less than 30 days, whether consecutive or aggregated, during the Zakat Year. b. Such person does not have a permanent residence in the Kingdom and is physically present in the Kingdom for no less than 183 days, whether consecutive or aggregated, during the Zakat Year.	a. Said Person is incorporated under the applicable laws of the Kingdom. b. Its principal headquarters is located in the Kingdom



- a. **Natural Person:** The residency requirements for natural persons are based on the actual length of stay in the Kingdom. For this purpose, a stay in the Kingdom for part of a day is considered a full day's stay. However, a stay in the Kingdom for one day or part thereof - while in transit between two points outside the Kingdom - is not considered residency within the Kingdom.

The considerations for the residency of a natural person also included a difference in the duration of residency considered in the case of the existence of a permanent residence or not. The term "permanent residence" is not defined in the regulation; however, the Executive Regulations of the Income Tax System issued by Ministerial Resolution No. (1535) dated 11/6/1425 H, included the following in Article 3: "2. Permanent residence means the residence owned by the natural person, or rented under lease contracts during the tax year for a total period of not less than one year, or the residence provided for the natural person by any other entity during the tax year for a period of not less than one year."

Accordingly, the presence of a permanent residence results in the residency period being set at (30) days. However, in the absence of a permanent residence, the period for determining residency is set at (183) days.

- b. **Legal Person:** The residency requirements for legal persons are based on the consideration of legal affiliation. If a company is established in the Kingdom according to its regulations, it is considered a resident company. The existence of the principal headquarters in the Kingdom has also been considered as one of the residency conditions. Article 5 of the regulation includes the criteria of the principal headquarters, where a location shall be deemed a principal



headquarters in the Kingdom if at least two of the following conditions are met:

- a. The usual meeting of the Board of Directors or the Board of Managers is regularly held in the Kingdom, by any means; and during which the main policies and decisions related to the management of the establishment and the facilitation of its business are made.
- b. The senior executive decisions related to the management of the establishment's functions are made inside the Kingdom, including: A decision made by the CEO and its deputies.
- c. The establishment's businesses that generate the majority of its revenues are inside the Kingdom.

It follows from the considerations of the principal headquarters that if the company meets the conditions for having its principal headquarters in the Kingdom, either through the company itself or one of its branches, then the company is considered a resident for Zakat purposes. If the other conditions for being subject to Zakat are also met, such as being owned by a Saudi individual, then the company is subject to the provisions of the regulation and must declare in its annual tax declaration the income generated from its operations and its branches operations, within and outside the Kingdom.

An example of this is when Saudi partners establish a securities company outside the Kingdom, and this company establishes several branches both inside and outside the Kingdom. Based on this initial information, the company is considered a non-resident company and will only be subject to the provisions of the Income Tax Law for its branch's activities within the Kingdom.



However, if additional information reveals that the company's main management is conducted within the Kingdom, based on the above criteria, the company will be considered a resident company for Zakat purposes. Since the company is owned by Saudi individuals and meets the residency criteria, it will be subject to the Zakat regulations and must declare all its activities, both inside and outside the Kingdom, for the purpose of calculating the Zakat base.

Conditions for considering the principal headquarters

Conditions for considering the principal headquarters

Regular and frequent holding of the Board of Directors' meetings

The senior executive decisions related to the management of the establishment's functions are made inside the Kingdom

The establishment's businesses that generate the majority of its revenues are inside the Kingdom.

At least two conditions must be met

Zakat regulation

Zakat on the establishment and its branches inside and outside the Kingdom if the owner is Saudi



Example (26)

A Saudi individual who does not have a permanent residence in the Kingdom but has resided in the Kingdom for 120 days in total during the Zakat year. Is this person considered a resident of the Kingdom for Zakat purposes?

The solution:

This person is not considered a resident of the Kingdom as their residency is less than 183 days and he does not have a permanent residence.

Example (27)

A Saudi individual who resides in the Kingdom and has a permanent residence there, but has only stayed in the Kingdom for 45 days during the Zakat year, is this person considered a resident of the Kingdom for Zakat purposes?

The solution:

This person is considered a resident of the Kingdom as he meets one of the residency conditions. He has a permanent residence in the Kingdom and has stayed for more than 30 days during the Zakat year.



Example (28)

A Saudi individual who does not have a permanent residence in the Kingdom but has resided in the Kingdom for 120 days in total during the Zakat year. Is this person considered a resident of the Kingdom for Zakat purposes?

The solution:

This Saudi company is considered a resident of the Kingdom as it was established in the Kingdom and according to its laws.

Example (29)

A company established outside the Kingdom by Saudi individuals has established a branch within the Kingdom. The company holds its regular Board of Directors' meetings through this branch, and most of the company's revenue is generated through this branch within the Kingdom. How is this company taxed under residency considerations?

The solution:

The company is considered a resident of the Kingdom for Zakat purposes as the principal headquarters is determined to be within the Kingdom through its branch. Consequently, the company will be subject to Zakat in its activities within the Kingdom as well as on all its internal and external branches, given that it is owned by Saudi individuals.



Example (30)

A company established outside the Kingdom by Saudi individuals conducts business activities in the Kingdom through its branch. Board of Directors meetings are held within the branch in the Kingdom, while the senior executive decisions are made outside the Kingdom. Most of the company's revenue is generated from its foreign branches. Is this company considered a resident for Zakat purposes?

The solution:

The residency conditions do not apply to this company as the principal headquarters were not met in its branch located within the Kingdom. Therefore, this company is not considered a resident for Zakat purposes.



4.4 Persons not subject to the provisions of the Regulations

According to Article 6 of the regulations, persons subject to the Income Tax Law are not subject to the regulations. This includes shares owned by non-Saudi individuals in companies resident in the Kingdom, as these shares are subject to the provisions of the Income Tax Law.

For example: If an Egyptian partner owns a share in a company resident of the Kingdom, this share owned by the Egyptian partner is subject to the Income Tax Law and not to the provisions of the regulation.

This also applies to shares owned by individuals involved in the production of oil and hydrocarbon materials in companies resident of the Kingdom, as these shares are subject to the provisions of the Income Tax Law.

For example: If a company operating in the oil sector owns shares in a limited liability company established in the Kingdom, these shares owned by the oil company are subject to the Income Tax Law and not to the provisions of the regulation.

An exception applies to shares owned by individuals in the oil and hydrocarbon sectors. Specifically, if these shares are owned by securities companies listed on the Saudi Exchange and shares directly or indirectly owned by these companies in securities companies.

For example: If a company operating in the oil sector owns shares in a publicly listed joint-stock company on the Saudi Exchange, these shares are not subject to the Income Tax Law. Therefore, it is subject to the provisions of the regulations.



Example (31)

Al Khair Company is a company established in accordance with the Kingdom's regulations, owned 50% by a Saudi partner and 50% by an Egyptian partner. Is the company subject to Zakat tax according to the provisions of the regulation?

The solution:

The residency conditions do not apply to this company as the principal headquarters were not met in its branch located within the Kingdom. Therefore, this company is not considered a resident for Zakat purposes.

Example (32)

Al Amal Company is a limited liability company established in accordance with the Kingdom's regulations and is wholly owned by a company operating in the oil and hydrocarbon production sector. Is the company subject to Zakat Collection according to the regulations?

The solution:

This company is not subject to Zakat Collection according to the provisions of the regulation.



4.5 Persons excluded from Zakat collection

The term "Persons excluded from Zakat collection ", as mentioned in Article 1 of the Regulation, refers to the zakat payer who is not required to pay Zakat to the authority. Article 7 of the Regulation exempts certain zakat payers engaged in public benefit activities from Zakat collection, as follows:

1. Charitable Associations, Non-Government Organizations, and Training Units; and their fully-owned establishments.
2. Endowments, companies, and foundations fully owned by Awqaf.
3. Non-profit organizations and the companies fully owned by them.
4. The person on which a decision by the Authority is issued stipulating its exemption from Zakat collection.

The exemption from Zakat collection is by submitting an annual request to the Authority within (120) days from the end of the Zakat Year, according to a number of conditions and regulations stated in the article.



4.5.1 Charitable Associations, Non-Government Organizations, and Training Units; and their fully-owned establishments

The Associations and Non-government Organizations Law, issued under Royal Decree No. (M/8) dated 19 Safar 1437 AH, defines a non-profit association as any continuously organized group, for a specified or unspecified period, composed of natural or legal persons, or both, primarily not for profit, and established to achieve a charitable or social purpose, or for a religious activity determined by the Ministry of Islamic Affairs, Awqaf, Dawah, and Guidance, or a social, cultural, health, environmental, educational, scientific, professional, creative, youth, tourism, or consumer protection activity, or any other civil activity deemed appropriate by the Ministry, whether through financial, moral, or technical expertise or otherwise, and whether the activity is directed towards public services, such as public benefits associations, or is primarily directed towards serving members of a specific profession or field, such as professional associations, scientific societies, and literary associations.

The Associations and Non-government Organizations System also defines a non-government organization as any ongoing entity, established for a specified or unspecified duration, by one or more natural or legal persons, or a combination thereof. Its primary purpose is to serve the public interest or a specific cause, without aiming for profit. Such entities rely on funds, endowments, grants, or bequests provided by the founder(s). Family and charitable funds of all types are considered Non-government organizations.



Regarding training units, the regulatory rules for establishing non-profit training units in the field of technical and vocational training, issued by Council of Ministers Resolution No. (17) dated 15 Muharram 1430 AH, defines a training unit as a legal entity whose primary purpose is to provide technical and vocational training services within the Kingdom without aiming for financial profit. Its establishment and growth depend on continuous self-financing, and it may accept grants but is prohibited from collecting donations.

Charitable Associations, Non-Government Organizations, and Training Units; and their fully-owned establishments are excluded from Zakat if the following conditions are met:

- a. Their returns are disbursed to public charity purposes or to society, not a specific person.
Non-Government Organizations are excluded from this Paragraph if less than (10%) of the organization's net profit is distributed to a specific person.
- b. Licensed by the competent authority in the Kingdom and legally documented.
- c. Ownership of financial statements are audited by a chartered accountant certified in the Kingdom, or any other documents acceptable by the Authority.
- d. The training unit shall have a final license (Non-profit training organization).



Taking into account the following regarding condition (A) (that its revenues are allocated for public charity purposes or the society, and not for specific individuals, this does not apply to Non-Government Organizations if the disbursement to a specific person does not exceed 10% of the organization's net profit.):

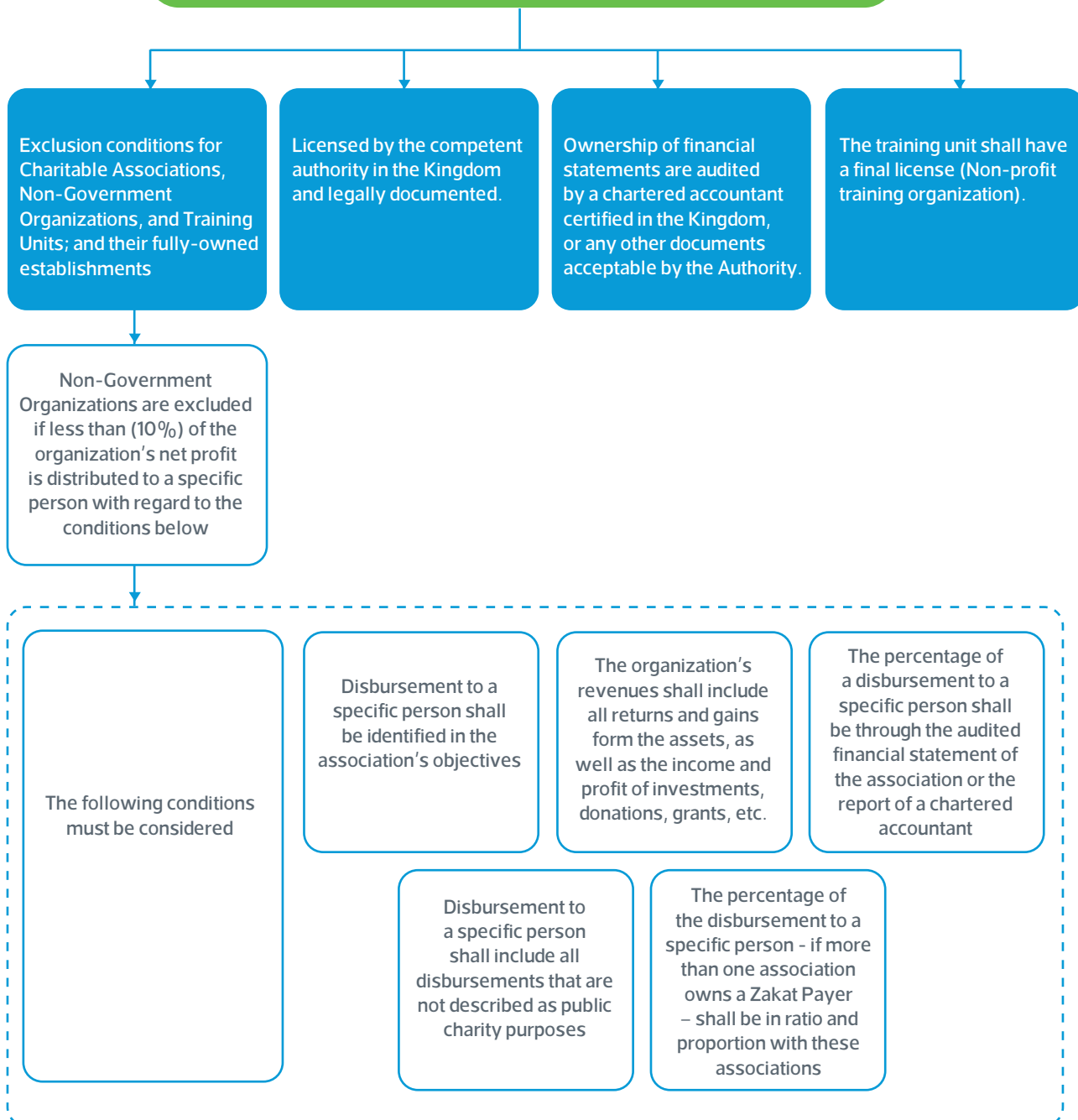
1. Disbursement to a specific person shall be identified in the association's objectives, article, or deed of association.
2. Disbursement to a specific person shall include all disbursements that are not described as public charity purposes or the society.
3. The organization's revenues shall include all returns and gains from the assets, as well as the income and profit of investments, donations, grants, etc.
4. The percentage of the disbursement to a specific person - if more than one association owns a Zakat Payer - shall be in ratio and proportion with these associations
5. Identification of the percentage of disbursement to a specific person shall be through the audited financial statement of the association or the report of a certified chartered accountant in the Kingdom.

Based on the foregoing, the exemption for these establishments and those fully owned by them is conditional upon the existence of the stipulated licenses, in addition to audited financial statements or any other documents accepted by the authority.

Furthermore, it is a condition that their returns are disbursed to public charity purposes or to society. However, non-government organizations have been exempted if the disbursement to a specific person does not exceed 10% of the organization's net profit, taking into account the related considerations mentioned above.



Exclusion conditions for Charitable Associations, Non-Government Organizations, and Training Units; and their fully-owned establishments





Example (33)

A charitable association licensed by the competent authorities in the Kingdom, with financial statements certified by a chartered accountant, and all its returns are disbursed to public charity purposes not a specific person. Can the association be exempted from Zakat?

The solution:

Yes, it can, because it meets the conditions for exemption stipulated in the regulations.

Example (34)

A non-government organization licensed by the competent authorities in the Kingdom and its returns are disbursed to public charity purposes, except for 12% of the organization's net profit, which is disbursed to specific persons. The organization also has statements certified by a chartered accountant. Can the organization be exempted from Zakat?

The solution:

No, it cannot, because it does not meet the condition of the percentage disbursed to a specific person, as the percentage disbursed to specific persons exceeds 10% of the organization's net profit.



Example (35)

A non-government organization licensed by the competent authorities in the Kingdom and its returns are disbursed to public charity purposes and has audited financial statements by a chartered accountant. This organization fully owns the establishment (Q). Can establishment (Q), fully owned by the non-government organization, be exempted from Zakat?

The solution:

Yes, it can, as all the conditions for exemption stipulated in the regulations are met since the organization is licensed by the official authorities, has disbursed its returns to public charity purposes, and has audited financial statements by a chartered accountant.

Example (36)

Non-government organizations (A) and (B) own 30% and 70%, respectively, of the company (M), which conducts commercial activities in accordance with the regulations of the Ministry of Commerce in the Kingdom. If the disbursements of these organizations are as follows:

Disbursements	Organization (A)	Organization (B)
Public charity purposes	90%	85%
Disbursement to a specific person	10%	15%

Does the exemption from Zakat collection apply to company (M)?



The Solution:

According to the above information, the non-government organizations (A) and (B) are established and officially documented in the Kingdom. However, in order to determine whether the exemption from Zakat collection applies to company (M), additional conditions must be met by calculating the proportion of disbursement to a specific person ratio and proportion to the ownership of charitable institutions (A) and (B) in the company (M), as follows:

Calculation of the percentage of disbursement to a specific person in ratio and proportion to the ownership of non-government organizations (A) and (B)=

(Ownership of non-government organization (A) in company (M) x Percentage of disbursement to a specific person) + (Ownership of non-government organization (B) in company (M) x Percentage of disbursement to a specific person)

$$= (30\% * 10\%) + (70\% * 15\%)$$

$$= 3\% + 10.5\%$$

Percentage of disbursement to a specific person = **13.5%**

Therefore, considering that the percentage of disbursement to a specific person is higher than the stipulated percentage (10%), company (M) does not meet the conditions for exemption from Zakat collection and is thus subject to Zakat collection in accordance with the regulation.



4.5.2 Endowments, companies, and foundations fully owned by Awqaf.

Endowment is the entity under the supervision of the Trustee and the General Authority of Awqaf in the Kingdom, the General Authority of Awqaf Law issued by Royal Decree No. (M/11) dated 26 Safar 1437 AH defined the types of endowments.

According to Article 1 of the General Authority for Awqaf Law, endowment is classified into three types as follows:

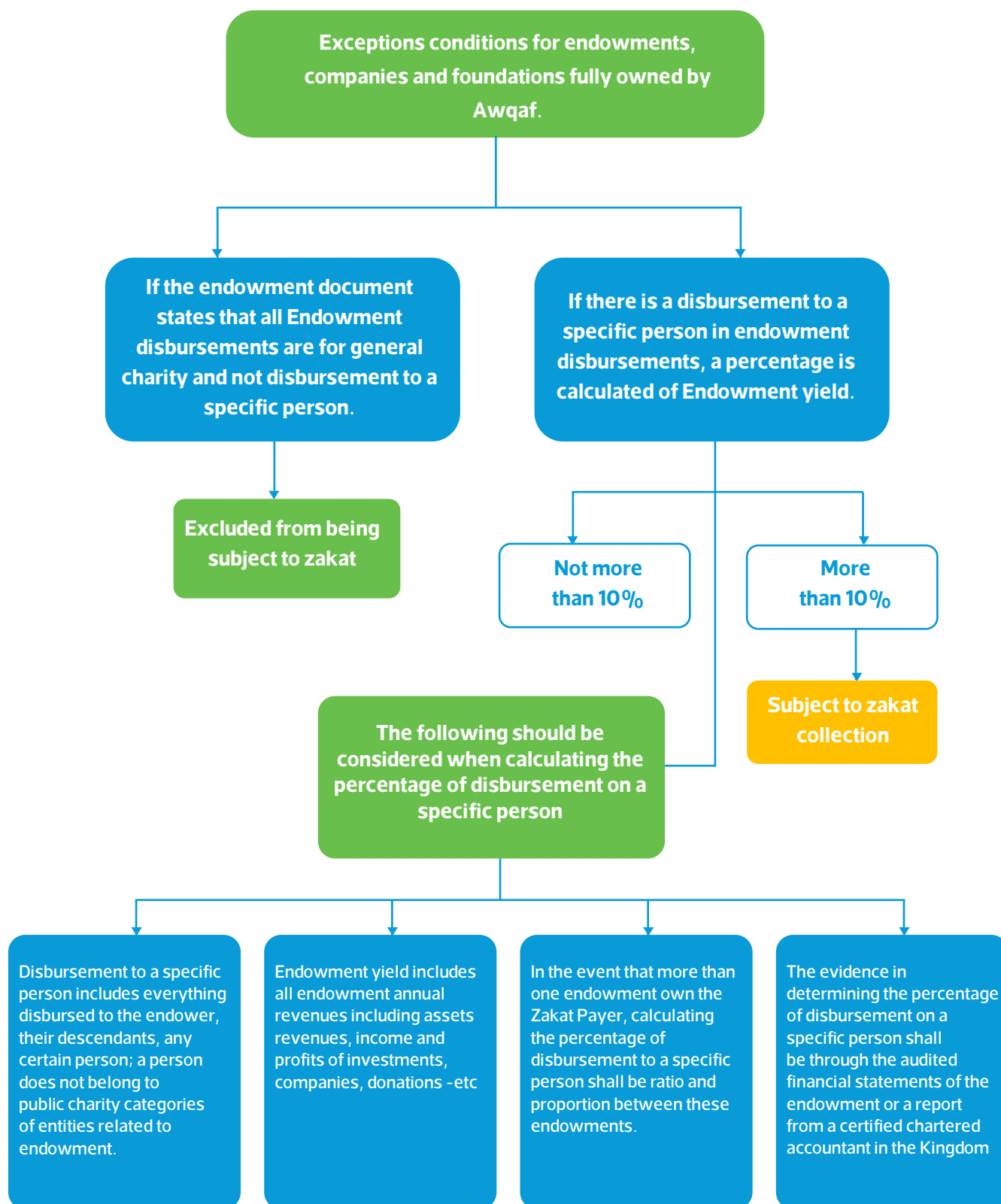
- a. General Endowment: Endowment conditioned upon specific public charity purposes, either by name or description, such as endowments for Hajj and Umrah pilgrimage times.
- b. Specific (Family) Endowment: Endowment conditioned upon a specific individual from the descendants or relatives, either by name or description, such as endowments whose funds are restricted to the descendants or relatives.
- c. Joint Endowment: Endowment whose condition includes more than one type of endowment, such as an endowment that includes disbursements for public charity purposes and disbursements to a specific person.

Endowments, companies, and foundations owned by Awqaf are excluded from being subject to zakat if the endowment document states that all endowment disbursements are for public charity and not disbursement to a specific person or if there is a disbursement to a specific person stipulated, it should not exceed (10%) of the total revenues while considering the following:

- a. Disbursement to a specific person includes everything disbursed to the endower, their descendants, or any certain person; a person does not belong to public charity categories or entities related to the endowment.



- b. Endowment yield includes all endowment annual revenues including assets revenues, income and profits of investments, companies, donations -etc.
- c. In the event that more than one endowment owns the Zakat Payer, calculating the percentage of disbursement to a specific person shall be ratio and proportion between these endowments.
- d. The evidence in determining the percentage of disbursement on a specific person - in the event the endowment document mentions the disbursement to a specific person - shall be through the audited financial statements of the endowment or a report from a certified chartered accountant in the Kingdom.





Example (37)

Endowment (A) was established in the Kingdom according to the applicable regulations, and the Endowment document specifies that all its disbursements will be directed towards public charity purposes. Does the Endowment (A) meet the conditions for exemption from Zakat collection?

The solution:

Yes, the conditions for exemption from Zakat collection are met for Endowment (A), as it was established in accordance with the applicable regulations in the Kingdom, and the Endowment document specifies that all its disbursements are for general charitable purposes.

Example (38)

Endowment (B) is registered in the Kingdom according to the applicable regulations and owns 60% of Company (M), while another commercial company owns 40% of Company (M). Does the Endowment (M) meet the conditions for exemption from Zakat collection?

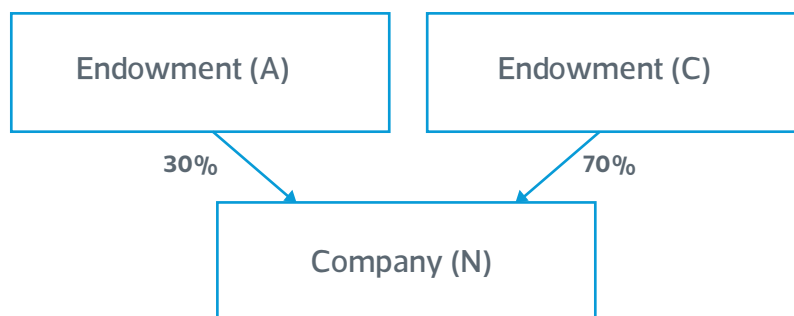
The solution:

The conditions for exemption from Zakat collection are not met for the company (M) as it is not fully owned by the Endowment.



Example (39)

Company (N) is owned 70% by Endowment (C) and 30% by Endowment (A). All these Endowments are registered in the Kingdom, and their documents specify that all their disbursements are for public charity purposes. Does the Company (N) meet the conditions for exemption from Zakat collection?



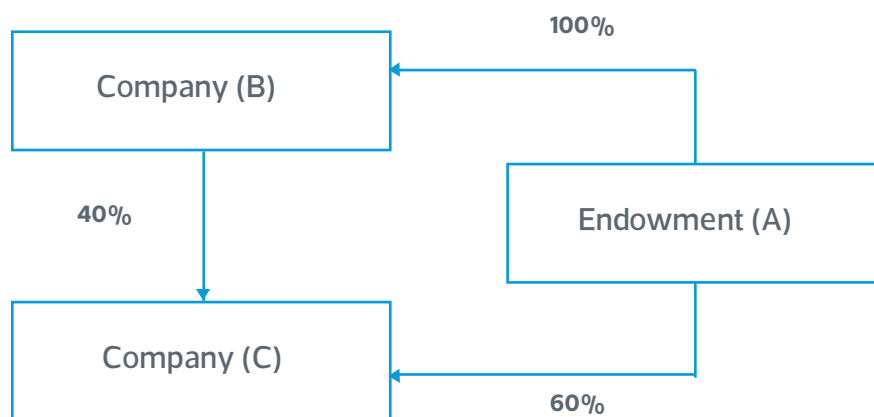
The solution:

Yes, the conditions for exemption from Zakat collection are met for the company (N), as it is fully owned by Endowment (C) and Endowment (A), both of which are registered in the Kingdom. The Endowment documents specify that all their disbursements are for general charitable purposes.



Example (40)

Endowment (A) is registered in the Kingdom in accordance with the applicable regulations, and its endowment document stipulates that all its disbursements are used for public charity purposes. Endowment (A) owns 100% of Company (B), and Company (B) owns 40% of Company (C), while the remaining 60% is owned by Endowment (A). Does the Company (C) meet the conditions for exemption from Zakat collection?



The solution:

The company (C) is considered to be 100% owned by the Endowment (A) in this case, where the Endowment directly owns 60% and indirectly owns 40% through its ownership of Company (B). Since Endowment (A) is registered in the Kingdom, and its Endowment document stipulates that all its disbursements are for charitable purposes, the conditions for exemption from zakat collection for company (C) are met.



Example (41)

Company (D) is 100% owned by Endowment (A), and Endowment (A) is registered in the Kingdom in accordance with applicable regulations. A chartered accountant's report shows that the percentage of disbursement to a specific person in Endowment (A) is 13% of the endowment's revenues. Does the Endowment (D) meet the conditions for exemption from Zakat collection?

The solution:

The conditions for exemption from zakat collection for company (D) are not met, as the percentage of disbursement to a specific person in the Endowment that owns (D) has exceeded 10%.

4.5.3 Non-profit Organizations and Companies Fully Owned by Them.

The Companies Law issued by Royal Decree No. (M/132) dated 1/12/1443 H classified non-profit companies into public non-profit companies and private non-profit companies as follows:

Public Non-Profit Company: A company that takes the form of a joint-stock company and cannot take any other form. It spends the profits generated from its activities on any of the public non-profit disbursements or fields aimed solely at serving society as a whole. The Ministry, in coordination with the National Center for Non-Profit Sector Development, shall determine such disbursements and fields.

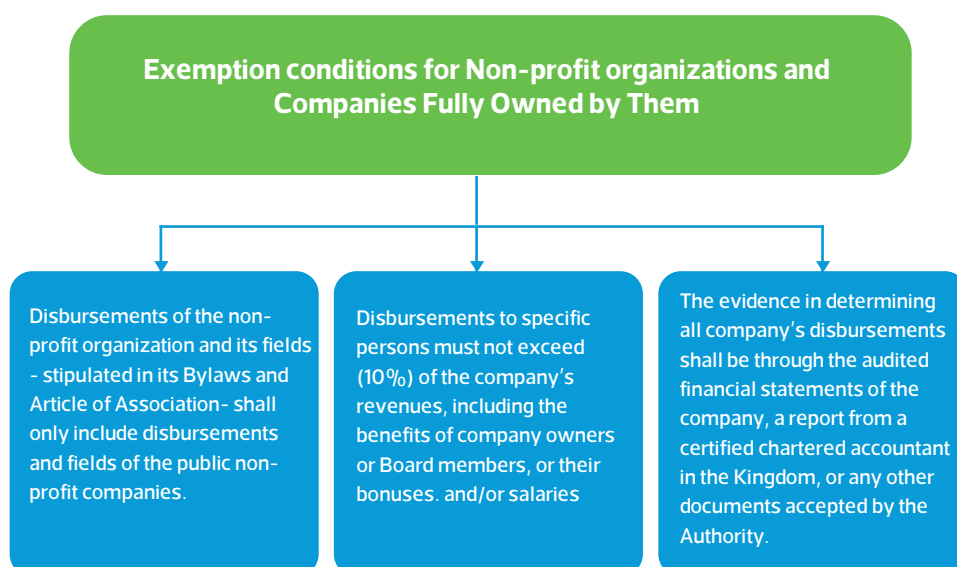
Private Non-Profit Company: A company that takes the form of a limited liability company, a joint-stock company, or a simplified joint-stock company, and cannot take any other form. It spends the profits generated from its activities on any non-profit disbursements or fields.



Non-profit companies and their wholly-owned companies, established in accordance with the provisions of the Companies Law, its executive regulations, and any amendments thereto, are exempt from zakat collection, taking into consideration the following:

- a. Disbursements of the non-profit company and its fields - stipulated in its Bylaws and Article of Association- shall only include disbursements and fields allocated to the public non-profit companies.
- b. Disbursements to specific persons must not exceed (10%) of the company's revenues, including the benefits of company owners or Board members, or their bonuses and/or salaries, for the services and works provided thereby to the company.
- c. The evidence in determining all company's disbursements - including Sub-paragraph (B) herein - shall be through the audited financial statements of the company, a report from a certified chartered accountant in the Kingdom, or any other documents accepted by the Authority.

According to the Companies Law and its Executive Regulations, this treatment is considered an exemption from the requirement for non-profit companies to pay Zakat. Article 196 states: "As an exemption from related regulations, the Zakat, Tax, and Customs Authority, in coordination with the Ministry, shall establish the necessary controls to exempt non-profit companies from Zakat collection provisions and from taxes."



Example (42)

A non-profit company established under the Saudi Companies Law, and it is evident in its financial statements that all its disbursements are allocated to public fields designated for non-profit companies. The statements show that the percentage of disbursement to a specific person is 10% of the company's revenue, in addition to board members' benefits, which amounted to 5%. Does the company meet the conditions for exemption from Zakat collection?

The solution:

The conditions for exemption from zakat collection for the company are not met, as the percentage of disbursement to a specific person has reached 15%, due to the inclusion of benefits for board members within the percentage of disbursement to a specific person.



Example (43)

A non-profit company established under the Saudi Companies Law, and it is evident in its financial statements that all its disbursements are allocated to public fields designated for non-profit companies. The statements show that the percentage of disbursement to a specific person is 10% of the company's revenue, and this percentage includes board members' benefits. Does the company meet the conditions for exemption from Zakat collection?

The solution:

Yes, the conditions for exemption from zakat collection for the company are met, as it is established under the Saudi Companies Law, and it is evident in its financial statements that all its disbursements are allocated to public fields allocated to non-profit companies, and the percentage of disbursement to a specific person does not exceed 10% of the company's revenue.



4.5.4 To whom does the Authority issue a decision exempting them from Zakat Collection?

The Authority may exempt certain zakat payers from Zakat when the necessary conditions are met, as determined by the Authority. This exemption shall be by a decision issued by the Authority in this regard.

4.5.5 Revocation of the Decision of Not-subjection to Zakat Collection

The Authority has the right to issue a decision revoking a previously issued decision exempting a Zakat payer if the Zakat Payer provides incorrect information or fails to comply with the provisions for exemption from Zakat. The Authority may conduct a re-assessment based on the available information, and inform the Zakat Payer of the decision revocation reasons. The decision to not subject oneself to Zakat is based on the documents and evidence submitted by the Zakat payer. The burden of proof rests on the Zakat payer to validate the accuracy of the information and documents related to the request for exemption from Zakat collection.

For example, a limited liability company owned by an endowment might submit a request for exemption from zakat collection on the grounds that it is fully owned by the endowment. Assuming the company has provided the required documents and information at the time of the exemption request, including the founding contract that shows the entire shareholding of the company is owned by the endowment, the authority would then study the request and issue a decision not to subject the Zakat payer to zakat collection based on the submitted documents.



Subsequently, it became clear to the authority, during its examination of one of the entities related to the exempted company, that the founding contract submitted by the company at the time of the exemption request had undergone some amendments which the company did not present to the authority. These amendments included the entry of a new partner into the company, making the company no longer fully owned by the endowment. It was also revealed that these amendments were in effect at the time the company submitted its exemption request.

Therefore, since the company provided incorrect information regarding the percentage of ownership by the endowment, the authority has the right to revoke the previously issued exemption decision.

Example (44)

A Non-government organization obtained a decision of not-subjection to Zakat collection for the year 2024 after submitting a request to that effect. Subsequently, the Authority found that some of the information provided by the organization when submitting the request was incorrect. Does the Authority have the right to revoke the decision of not-subjection in this case and re-assess the situation based on the available information?

The solution:

Yes, the Authority has the right to revoke the not-subjection decision and re-assess the situation based on the available information, as the zakat payer provided incorrect data in the previous not-subjection request, which was accepted based on this data that has been proven to be incorrect.



4.6 Commencement of collecting Zakat for Zakat purposes

Article 10 of the Regulations stipulates the provisions for the commencement of the first Zakat year for a Zakat payer. The first Zakat Year of the Zakat payer shall commence in accordance with the first date of any of the following:

- a. The date of issuing the establishment's commercial register.
- b. The date of acquiring the first of the licenses necessary to practice the activity in accordance with the relevant laws applicable in the Kingdom.
- c. The date of depositing the capital in accordance with the relevant laws.

Consequently, the calculation of the Zakat base and the determination of the actual number of days of the first Zakat year shall commence. The circumstances of Zakat payers differ at the time of establishment depending on the regulatory requirements and procedures related to the commencement of activities. Examples of this include the following:

- The establishment of companies generally requires their registration in the commercial register before commencement of business activities. A company may engage in its purposes after registering with the commercial register and obtaining the necessary licenses, as stipulated in Article 10 of the Companies Law. The company acquires legal personality after its registration with the commercial register, and no claim can be made against third parties based on the company's founding contract or articles of association until after the registration with the commercial register, as referenced in Articles 8 and 9 of the Companies Law.
- Some professional or charitable activities may require obtaining the necessary licenses from relevant authorities before issuing the commercial registration.

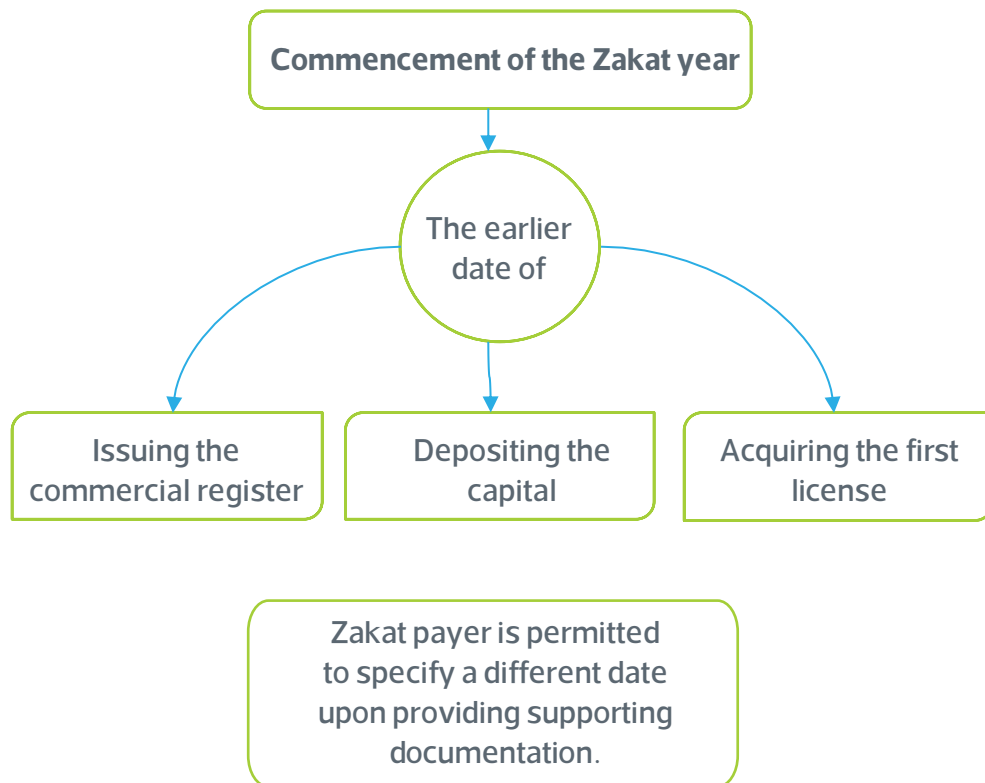


- The establishment of a joint-stock company requires the deposit of the paid portion of the issued capital before registration with the commercial register. A certificate confirming the deposit of the paid portion of the issued capital must be attached to the articles of association when submitting the application to establish the company, as stipulated in Article 61 of the Companies Law.

Regulatory and procedural requirements for establishing entities and establishments may vary over time, necessitating consideration of the method to reach the Zakat payer's first zakat year based on the earliest of the above mentioned factors.

It is also important to note that Article 92 of the Regulations grants the zakat payer the right to determine a different date for the commencement of the activity, provided that they submit the supporting documents accepted by the Authority.

Linked to the commencement of the first Zakat year for the Zakat payer is Article 15 of the Regulations, which emphasizes the subjection of a short period at the commencement of the activity, less than 354 days to Zakat collection, considering its impact on the Zakat percentage. Conversely, a short financial period of less than 354 days at the end of the activity is not subject to Zakat.



Example (45):

Al Hayat Professional Consulting Company issued its commercial registration to commence its activities on 1/11/2024 AD, based on a professional consultancy license issued by the competent authority on 15/10/2024 AD. The company also deposited its capital on 2/12/2024 AD. What is the commencement date of the Zakat year for Al Hayat Company?

The solution:

The Zakat year for Al Hayat Company commences on 15/10/2024 AD, which is the date of obtaining the license to practice the business activity, as this date precedes the date of issuing the commercial registration and the date of capital deposit.

**Example (46):**

Al Noor Medical Services Company obtained a license to practice the business activity on 2/5/2025 AD. The company did not issue a commercial registration or deposit capital, nor did it actually practice the business activity until 10/7/2025 AD. The company had all the supporting documents to prove this. What is the commencement date of the Zakat year for Al Noor Company?

The solution:

Originally, the Zakat year for Al Noor Company should commence on 2/5/2025 AD, which is the date of issuing the license to practice the business activity. However, the company may request to determine the actual commencement date of the activity on 10/7/2025 AD as the commencement date of the business activity, according to the documents available to it. The Authority will consider this based on the submitted documents.



4.7 Cessation of Practice of the Activity for Zakat Purposes

Articles 11 and 12 of the Regulations stipulate the provisions for ceasing the practice of the activities. Zakat collection shall cease if the Zakat Payer permanently ceases the practice of the activity, provided that a written application is submitted to the Authority within (60) days from the date of cessation. Otherwise, Zakat accounting shall be maintained until the date of submission of the application. The Authority shall set another date for the cessation of the activity of the Zakat Payer if proof thereof is provided.

The Zakat payer shall be deemed to have ceased the activity for liquidation purposes as soon as liquidation procedures are initiated. The liquidator, bankruptcy trustee, or bankruptcy committee shall, in accordance with the relevant laws, notify the Authority in writing of the commencement of liquidation procedures. Liquidation, as defined in the Bankruptcy Law issued by Royal Decree No. (M/50) dated 28/5/1439 AH, is the procedure aimed at recording creditors' claims, selling the bankruptcy assets, and distributing the proceeds to the creditors under the management of the liquidation trustee. The liquidation process is initiated based on a ruling from the competent court, as stipulated in Article 99 of the Bankruptcy Law. Naturally, the authority has the right to verify the validity of the liquidation initiation and request supporting documents for this.

The Cessation of Zakat collection does not include the following cases:

- a. If the Zakat Payer temporarily ceases the activity, the collection of Zakat shall not be ceased.
- b. If the Zakat Payer ceases some of its activities and maintains the rest of the same, the Zakat collection shall be maintained regarding other ongoing activities.
- c. Other cases of dissolution other than bankruptcy, where the Zakat Payer shall submit and pay the due Zakat declarations and submit the financial statements on regular dates until dissolution.

**Example (47):**

A company (N) has several diverse activities. The company's board of directors decided to permanently cease activity (A), while the rest of the company's activities maintain. Does Zakat collection cease for the Zakat payer accordingly?

The solution:

Zakat collection shall be maintained on the ongoing activities, and the company must submit its Zakat declarations and fulfill its Zakat dues accordingly. The cessation of some of the company's activities does not affect this.

Example (48):

The owner of company (A) permanently ceased the activity of business and canceled the company's commercial registration. Is the company considered to have ceased activities for Zakat purposes in this case?

The solution:

The company is considered to have ceased activities for Zakat purposes, as the company has permanently ceased activities. This requires the company to submit a written application within 60 days of the cessation date.



Example (49):

The board of directors of company (H) decided to temporarily cease activities until all regulatory requirements related to the company's production lines are completed. Is the company considered to have ceased activities for Zakat purposes in this case?

The solution:

The company is not considered to have ceased activities for Zakat purposes in this case, as the company has ceased activities temporarily.

4.8 Change of owners and legal form during the practice of activity

A change in ownership refers to the transfer of shares or stock, whether voluntarily through sale and assignment or necessarily in cases such as death or enforcement against shares and stocks. Article 25 of the Companies Law stipulates that the transfer of shares in companies occurs through registration with the commercial register, except for joint-stock companies, where the transfer of shares is registered in the shareholders' register if they are unlisted, or through stock trading on the Capital Market if they are listed.

Accordingly, ownership in a company-across its various forms-may change during the zakat year, which is considered a common occurrence as the company's continued activity.

Another form of ownership change is the transfer of ownership of a sole proprietorship from one owner to another during the zakat year, whether through sale, assignment or otherwise.



A change in legal form refers to the transformation of a company from one form to another, such as converting a limited liability company into a joint-stock company. Article 220 of the Companies Law permits the transformation of a company from one form to another according to certain regulations outlined in the law. This transformation does not result in the creation of a new legal person. The company retains its rights and remains responsible for its obligations before the transformation, as confirmed in Article 223 of the Companies Law.

Zakat collection for the Zakat year shall not be affected in any way by a change of ownership or transfer of shares, based on the principle that the Zakat payer continues to practice the activity, as stipulated in Article 13 of the Regulations. This includes the following cases:

1. If one of the Zakat payer's owners died, or has assigned his share to others, - whether heirs or others - with the Zakat Payer continuing to practice his business activity.
2. If the ownership of the sole proprietorship is transferred to another owner, by sale or assignment or an equivalent, at the end of the year, the Zakat is calculated for the entire year regardless of the duration of each owner's ownership duration.
3. The Zakat Payer compliance to the provisions of the Regulations shall not be affected in the event of its transformation from one legal form to another.
4. Differences in ownership percentages and shares during the Zakat year, where the zakat payers are accounted based on their ownership and equity shares at the end of the Zakat year.

**Example (50):**

Company (B) is owned by partners (Ahmed) and (Mohammed). In the middle of the year, partner (Ahmed) decided to waive all his shares in company (B) to a new partner. How is company (B) accounted for at the end of the Zakat year with the entry of the new partner?

The solution:

Company (B) is accounted for the entire Zakat year as long as it continues its activities, and the entry of a new partner during the year does not affect this.

Example (51):

(Abdullah) owns a sole proprietorship engaged in the restaurant activity. In November 2024 AD, (Abdullah) waived the establishment to a new Saudi resident owner. How is the establishment accounted for at the end of the Zakat year?

The solution:

The sole proprietorship is accounted for the entire Zakat year, and the transfer of the establishment during the year does not affect this.



Example (52):

(Ahmed) owns a sole proprietorship operating in the restaurant activities. In August 2024, (Ahmed) waived the proprietorship to a new non-Saudi owner. How is the proprietorship accounted at the end of the zakat year?

The solution:

The proprietorship is not subject to zakat at the end of the zakat year, as it is owned by a non-Saudi individual. Additionally, the short period during which it was owned by the Saudi owner is not subject to zakat.

Example (53):

The partners in Al Falah Company - a limited liability company subject to Zakat - decided to convert the company into a closed joint-stock company with the entry of new shareholders during the Zakat year. The company transformed into a new legal form before the end of the Zakat year. How is the company accounted for regarding Zakat at the end of the year?

The solution:

The company's subjection to the provisions of the regulations is not affected if it is transformed from one legal form to another. The company is accounted for the entire year, regardless of the change in the company's legal form and the entry of new shareholders.



4.9 Merger between Zakat Payers

Merger refers to the absorption of one company into an existing company or the consolidation of companies to establish a new one. Article 225 of the Companies Law stipulates that a merger can occur by merging one or more companies into another existing company, or by consolidating two or more companies to establish a new company.

The Companies Law also includes several provisions related to merger situations, which are relevant to the zakat treatment of mergers, including:

- For merger cases that result in the creation of a new entity through the consolidation of companies to establish a new entity, the merger decision becomes effective and enforceable as of the date of the registration of the newly established company with the commercial register.
- In cases of mergers that do not result in a new entity but involve the absorption of the merged company into the surviving company, the merger decision becomes effective and enforceable from the date on which the registration data of the merged company's details with the surviving company in the commercial register.
- Upon the effective date of the merger decision, all rights, obligations, and assets of the merged company or companies are transferred to the surviving company in cases where no new entity is created, or to the newly established company in cases where a new entity is formed.



It is evident from the above that the registration date of the newly established company is considered the effective date of the merger decision, as is the registration date of the merged company's details for the effective date of the merger decision. As a result, all statutory obligations are transferred to the new entity in cases where a new entity is created, and to the continuing surviving entity in cases where no new entity is created, including zakat obligations.

Article 14 of the regulations includes provisions regarding mergers between Zakat payers, which fall under the two cases mentioned in the Companies Law, as follows:

The first case: If the merger results in the creation of a new entity.

- a. If the Zakat Payer is held accountable according to one Hijri year, he shall be held accountable for a full Hijri year if his fiscal year is short and shall be held accountable for two Hijri years if his fiscal year is long, Article (15) paragraph(4) shall not apply in this case which relates to the non-subjection of Zakat on short financial periods at the end of activity.
- b. If the Zakat Payer is held accountable according to a Gregorian year, he shall be held accountable for a full Gregorian year if his financial year is short and shall be held accountable for two Gregorian years if his fiscal year is long, Article (15) paragraph(4) shall not be applied to this case which relates to the non-subjection of Zakat on short financial periods at the end of activity.



In this case, a new entity will be created as a result of the merger, and this new entity will be the zakat payer for Zakat purposes. Here, the first Zakat year of this new entity must be determined, whether it is a short or long year and whether it is a Hijri or Gregorian year, considering the establishment contract of this new entity or its bylaws or any other related documents. As a result:

In case the year is short, the zakat payer will be charged for a full Zakat year, and the percentage will be 2.5% if it is a Hijri year and $(2.5\% / 354) * 365$ if it is a Gregorian year.

In case the year is long, the zakat payer will be charged for two Zakat years, and the percentage will be $(2.5\% * 2)$ if it is a Hijri year and $((2.5\% / 354) * 365) * 2$ if it is a Gregorian year.

The purpose of this treatment is to account for the new entity resulting from the merger, while considering the periods prior to the merger concerning the merged companies. The new entity is viewed as an extension of the activities of the merged entities, as follows:

In the case of a short year, the new entity is accounted for a full year. This includes covering the new short period in addition to the short portion of the year prior to the merger, resulting in a full year to be accounted for based on whether it is a Hijri or Gregorian year.

For example, if the merger occurred in the middle of the year 2024 and the zakat period following the merger is short, ending at the end of 2024, then the zakat accounting will cover the entire year of 2024. This approach ensures that the zakat period includes the full activity of the merged companies both before and after the merger.

In the case of a long year, the new entity is accounted for over two full years. This includes covering the new long period in addition to the short portion of the year before the merger, resulting in two full years for accounted for based on whether the zakat payer's year is Hijri or Gregorian.



For example, if the merger occurred in the middle of the year 2024 and the zakat period following the merger is long, ending at the end of 2025, then the zakat accounting will cover both the year 2024 and the year 2025. This approach ensures that the zakat period includes the full activity of the merged companies both before and after the merger.

Merger Cases Resulting in the Creation of a New Entity		
Case	Zakat payer's Hijri Year	Zakat payer's Gregorian Year
Short Year	Held accountable for a Full Hijri Year $\text{Zakat base} \times 2.5\%$	Held accountable for a Full Gregorian Year $\text{Zakat base} \times \left[\frac{2.5\%}{354 \text{ day}} \times \text{Number of Days in the Full Year} \right]$
Long Year	Held accountable for two Hijri Years $\text{Zakat base} \times 2.5\% \times 2$	Held accountable for a Full Gregorian Year $\text{Zakat base} \times \left[\frac{2.5\%}{354 \text{ day}} \times \text{Number of Days in the Full Year} \right] \times 2$



The second case: If the merger results in the ownership of another Zakat Payer without creating a new entity:

The owning Zakat Payer - who continues the activity - shall be held accountable according to his fiscal year; the Zakat year of the Zakat Payer shall commence from the date of the last declaration submitted to the Authority, so that the merger does not result in any interruption in the Zakat declaration periods in respect of the continuing Zakat Payer in the activity.

The purpose of this treatment is to account for the continuing Zakat payer for Zakat purposes without interruption, including the merged entity. The merger of the merged entity does not affect the zakat periods of the continuing Zakat payer who is still engaged in the activity. For example, if the merger occurs in the middle of 2025 and the last zakat declaration submitted by the continuing Zakat payer is for the year 2024, then the zakat accounting for the Zakat payer who is still engaged in the activity for the year 2025 will cover the entire year, including the merged entity, which will be part of the entity continuing in the activity.

Example (54):

Company (A) merged with company (B) to form a new company (C). As a result of this merger, the legal status of companies (A) and (B) ceased to exist. If you know that the Zakat base of the company (C) is 50,000 SAR, what will be the Zakat due for the first year of company (C) according to the following assumptions:

1. Company (C) held accountable the Hijri calendar, and its first year was a short year starting from 15/05/1446 H and ending on 30/12/1446 H.
2. Company (C) held accountable the Hijri calendar, and its first year was a long year starting from 15/09/1446 H and ending on 31/12/1447 H.



The solution:

Case	Zakat payer's Hijri Year
Short year From 15/05/1446 H to 30/12/1446 H.	Held accountable for a full Hijri year: Zakat base x 2.5% $50,000 \text{ SAR} \times 2.5\% = \mathbf{1,250 \text{ SAR}}$
Long year From 15/09/1446 H to 30/12/1447 H.	Held accountable for two Hijri years: Zakat base x 2.5% x 2 $50,000 \text{ SAR} \times 2.5\% \times 2 = \mathbf{2,500 \text{ SAR}}$

Example (55):

Company (A) merged with company (B) to form a new company (C). As a result of this merger, companies (A) and (B) ceased to exist. If the Zakat base of the company (C) is 70,000 SAR, what will be the Zakat due for the first year of company (C) based on the following assumptions:

1. Company (C) held accountable the Gregorian calendar, and its first year was a short year starting from 10/08/2024 AD and ending on 31/12/2024 AD.
2. Company (C) held accountable the Gregorian calendar, and its first year was a long year starting from 10/08/2024 AD and ending on 31/12/2025 AD.



The solution:

Case	Zakat Payers Gregorian Year
Short year From 10/08/2024 AD to 31/12/2024 AD.	Held accountable for a Full Gregorian Year $\text{Zakat base} \times \left[\frac{2.5\%}{354 \text{ day}} \times \text{Number of Days in the Full Year} \right]$ $70,000 \text{ SAR} \times \left[\frac{2.5\%}{354 \text{ day}} \times 366 \right]$ $70,000 \text{ SAR} \times 2.5847\% = 1,809.32 \text{ SAR}$
Long year From 10/08/2024 AD to 31/12/2025 AD.	Held accountable for a Full Gregorian Year $\text{Zakat base} \times \left[\frac{2.5\%}{354 \text{ day}} \times \text{Number of Days in the Full Year} \right] \times 2$ $70,000 \text{ SAR} \times \left[\frac{2.5\%}{354 \text{ day}} \times 365 \right] \times 2$ $70,000 \text{ SAR} \times 2.5777\% \times 2 = 3,608.76 \text{ SAR}$



Example (56):

Company (N) decided to merge with company (M) by acquiring all of the company (M) while company (N) remains in existence. Company (N) submitted its last tax declaration before the merger for the year 2024 on 01/04/2025 AD. What will be the Zakat for the initial fiscal year of the company (N) after the merger if the Zakat base for the first year after the merger is 100,000 SAR?

The solution:

The Zakat year of company (N) commences from the date of the last declaration submitted before the merger. Since the previous declaration submitted was for the year 2024, the first Zakat year starts on 01/01/2025 AD; therefore, company (N) will be held accountable for a full Gregorian year, which is the year 2025. This is calculated as follows:

$$= \text{Zakat base} \times \left[\frac{2.5\%}{354 \text{ day}} \times \frac{\text{Number of Days in the Full Year}}{365} \right]$$

$$= 100,000 \text{ SAR} \times \left[\frac{2.5\%}{354 \text{ day}} \times 365 \right]$$

$$100,000 \text{ SAR} \times 2.5777\% = 2,577.70 \text{ SAR}$$



4.10 Accounts consolidation for Zakat purposes

The term "Consolidated Zakat Declaration" refers to the declaration that includes the zakat accounting for the holding or controlling company and its subsidiaries according to consolidated financial statements. Article 16 of the regulation includes the provisions of Accounts and Consolidated Zakat Declarations, given that the Zakat payer may submit consolidated accounts and a consolidated Zakat declaration in any of the following cases:

1. If the company is wholly owned by the same partners.
2. If the holding company owns a subsidiary company (whether inside or outside the Kingdom) by 100%.

This includes both direct and indirect ownership.

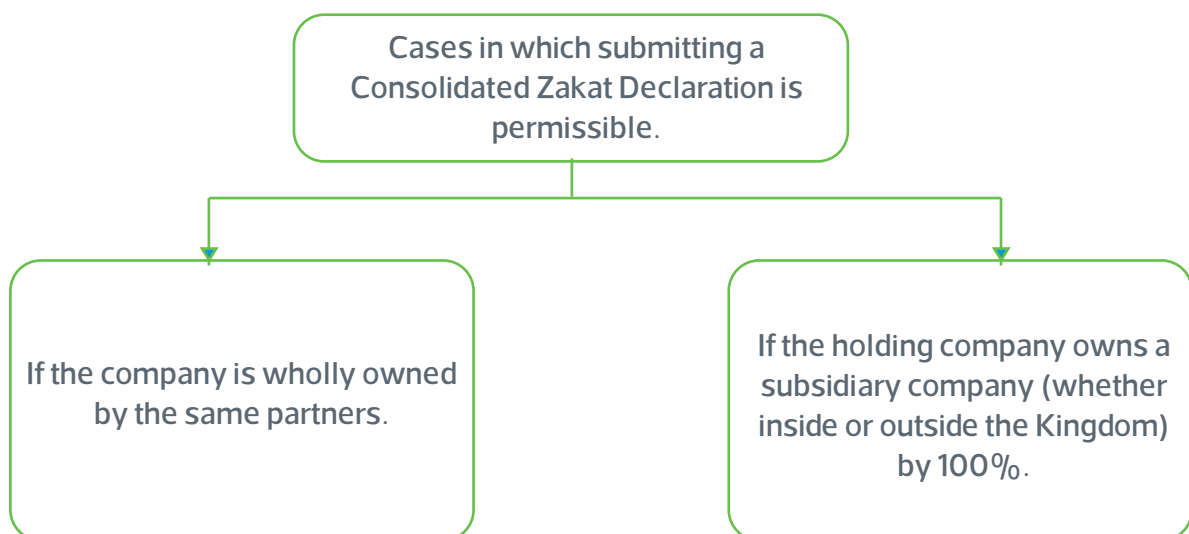
The procedure of submitting a Consolidated Zakat Declaration results in the following:

- a. A consolidated zakat declaration is submitted for all companies included in the Zakat Consolidated Procedure.
- b. The subsidiary shall separately submit the information declarations if included in the consolidated Zakat declaration with its wholly-owned holding company.
- c. In the event that the Zakat Payer submits a consolidated Zakat declaration, he may refrain from such procedure only after obtaining the approval of the Authority.



In cases where it is not possible to submit the Consolidated Zakat Declaration, Zakat shall be calculated for the holding company and its subsidiaries thereof in a separate manner whatever the ownership ratio of the holding company is, taking into account the treatment of debts and investments between them according to sub-section II and IV of section 5 of the Regulations. The holding company and each of its subsidiaries shall submit independent Zakat declarations, in accordance with the procedures of the Authority.

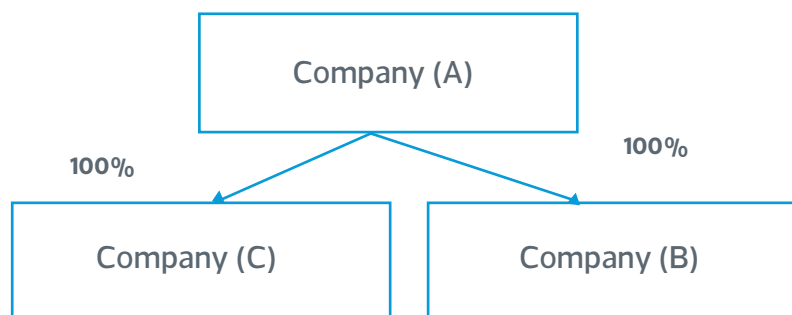
Based on the foregoing, filing a consolidated Zakat return is an option available to the Zakat payer, as the Zakat payer may elect to file a consolidated Zakat return in cases where such filing is permitted.





Example (57):

Company (A) owns 100% of companies (B) and (C). Is it permissible for these companies to consolidate their accounts and submit a Consolidated Zakat Declaration? Note that they are Saudi companies, registered with the authority, and submit their declarations separately.



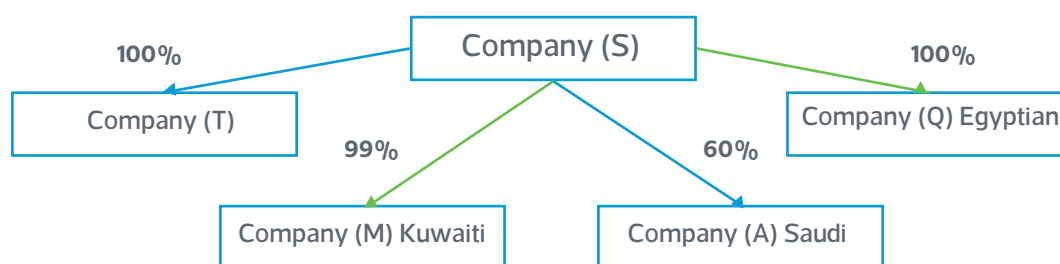
The solution:

Given that company (A) has 100% ownership of both companies (B) and (C), it is entitled to consolidate the accounts and submit a Consolidated Zakat Declaration.



Example (58):

Company (S) is a Saudi company registered with the authority and submits its declarations independently. This company owns a group of companies both inside and outside the Kingdom as follows:



Based on the ownership structure shown above, how can company (S) consolidate its accounts and submit a Consolidated Zakat Declaration?

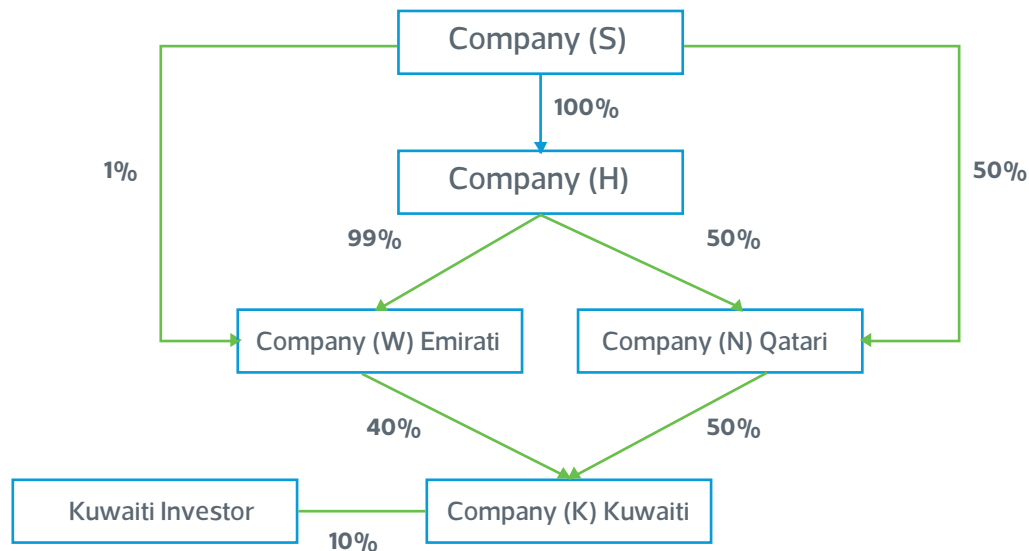
The solution:

Company (S) can consolidate its accounts and submit a Consolidated Zakat Declaration with the companies that are 100% owned by it, whether these companies are inside or outside the Kingdom. Therefore, company (S) can consolidate its accounts and submit the Consolidated Zakat Declaration with company (Q) and company (T) only.



Example (59):

Company (S) owns a group of companies directly and indirectly as follows:



If it is known that company (S) is a Saudi company registered with the authority and based on the ownership structure shown above, **how can company (S) consolidate its accounts and submit a Consolidated Zakat Declaration?**

The solution:

A detailed breakdown of the ownership structure of company (S) reveals the following:

- Company (S) directly owns 100% of company (H).
- Company (S) directly owns 50% of company (N) and indirectly owns another 50% through company (H), resulting in a total ownership of 100% of company (H) by company (N).
- Company (S) indirectly owns 99% of company (W) through company (H) and directly owns 1%, resulting in a total ownership of 100% of company (W) by company (S).

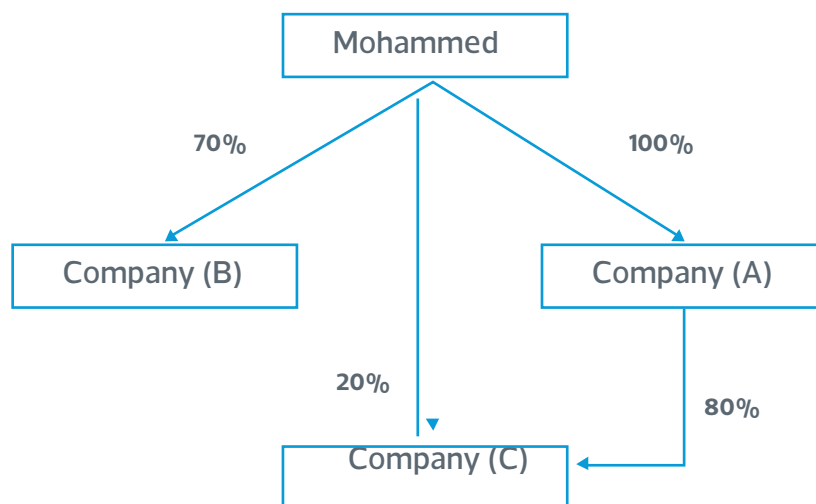


- Company (S) indirectly owns 90% of company (K) through companies (N) and (W).

Based on the foregoing, company (S) can consolidate its accounts and submit a Consolidated Zakat Declaration with companies (H), (N), and (W), but not with company (K).

Example (60):

Mohammed, a Saudi individual, owns the following Saudi companies:



Based on the ownership structure shown above, how can the accounts be consolidated and a Consolidated Zakat Declaration be submitted?

The solution:

A detailed breakdown of the ownership structure of the companies owned by Mohammed reveals the following:

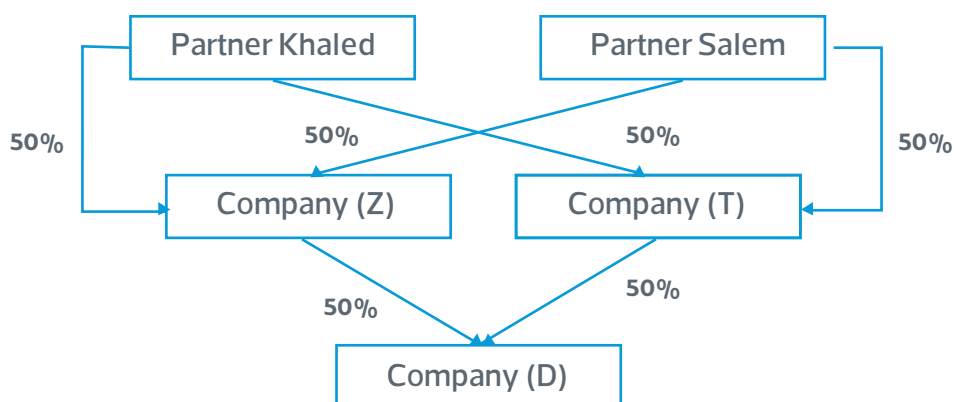


- Mohammed directly owns 100% of company (A).
- Mohammed directly owns 20% of company (C) and indirectly owns another 80% through company (A), resulting in total ownership of 100% of company (C) by Mohammed.
- Mohammed owns only 70% of company (B).

Companies that are wholly owned by the same shareholder can apply to consolidate their accounts and submit a Consolidated Zakat Declaration. Applying this to the ownership structure is possible for companies (A) and (C).

Example (61):

Partner Salem and Partner Khaled, two Saudi individuals, own the following Saudi companies:



Based on the ownership structure shown above, how can the accounts be consolidated and a Consolidated Zakat Declaration be submitted?

The solution:

A detailed breakdown of the ownership structure of the companies owned by the partners reveals the following:



- Company (T) is 100% owned by both partners directly, with Salem owning 50% and Khaled owning 50%.
- Company (Z) is 100% owned by both partners directly, with Salem owning 50% and Khaled owning 50%.
- Company (D) is 100% owned by both partners indirectly, with Salem owning 50% and Khaled owning 50% through companies (T) and (Z).

Companies that are wholly owned by the same partners can apply to consolidate their accounts and submit a Consolidated Zakat Declaration. Applying this to the ownership structure makes this possible for all companies owned by the partners.



5. Zakat Base Calculation

5.1 Introduction

The calculation of the Zakat base is calculated in accordance with the provisions and procedures stipulated in the Regulation. Chapter two of the Regulation, "Zakat Calculation Rules," includes all provisions related to the calculation of the Zakat base, starting with the general rules for calculating the Zakat base, followed by the details of the components of the base, including addition and deduction items, and ending with the provisions related to the Zakat base that must be considered when calculating Zakat.

This introduction aims to provide a general overview of the steps and procedures for calculating the Zakat base, which can be summarized as follows:

First: Procedures for addition items to the Zakat base.

Second: Procedures for deducting items from the Zakat base.

Third: Consideration of the provisions related to the base.

5.1.1 Procedures for Addition Items to the Zakat Base:

The steps involved in addition Items to the Zakat Base can be divided into three sections:

a. Adding Equity items and its equivalents:

Equity items are a fundamental component of the Zakat base. All Equity items are added to the Zakat base at the end-of-period balance. Equity includes all items classified as Equity in the Zakat payer's financial statements, as well as items that are reclassified as Equity for Zakat purposes, such as provisions treated as Equity and other items that require reclassification to Equity such as profits under distribution.



Reclassifying items to Equity requires excluding these items from their previous classification, which has an impact on other Zakat base calculation procedures. For example, when treating profits under distribution classified as a current liability as Equity, the following is done:

- Adding profits under distribution to the Equity items at the end-of-period balance.
- Excluding profits under distribution from current liabilities, which affects other Zakat base procedures such as the placement of liabilities, which in one case depends on adding a percentage of current liabilities to the base.

b. Adding the difference between the adjusted net profit/loss and the net book profit/loss:

This addition is directly related to Equity items. This is because the Equity items added to the Zakat base included the addition of the retained earnings item with the end-of-period balance. It is known that the retained earnings item includes the net book profit for the year, which may include some expenses that are not accepted to be deducted for Zakat purposes or some undeclared revenues.

Therefore, the difference between the net book profit and the adjusted net profit is added to the Zakat base as a difference that must be added back to the net book profit previously added to the Zakat base as part of Equity.

c. Adding liabilities within the limits of deducted assets:

After adding Equity items and the difference between the adjusted net profit and the net book profit, the next step is to add liabilities items, but not exceeding the deducted assets from the base.



The addition of liabilities includes adding non-current liabilities at the end-of-period balance. It also includes making correction to the addition of liabilities - if applicable - which refers to the placement procedures when deducting a current asset or when not deducting a non-current asset.

Adding liabilities requires verifying the deducted assets and their nature for the following reasons:

1. To identify the amount of deducted assets, which sets a limit for adding liabilities.
2. To identify deducted assets from current assets and non-deducted assets from non-current assets for placement purposes.

5.1.2 Deduction Items from the Zakat Base:

After adding the addition items, the deduction items are deducted from the Zakat base. The deduction items from the Zakat Base include non-Zakat assets and assets for which Zakat has been paid as stated in the regulation, which can be divided into assets and properties used in the activity, real estate assets and properties, Zakatable investments, debts and amounts due from others that can be deducted, in addition to other deduction items.

The deduction items from the Zakat also include a number of detailed procedures, criteria, and treatments specified in the regulation.



5.1.3 Consideration of Provisions Related to the Base:

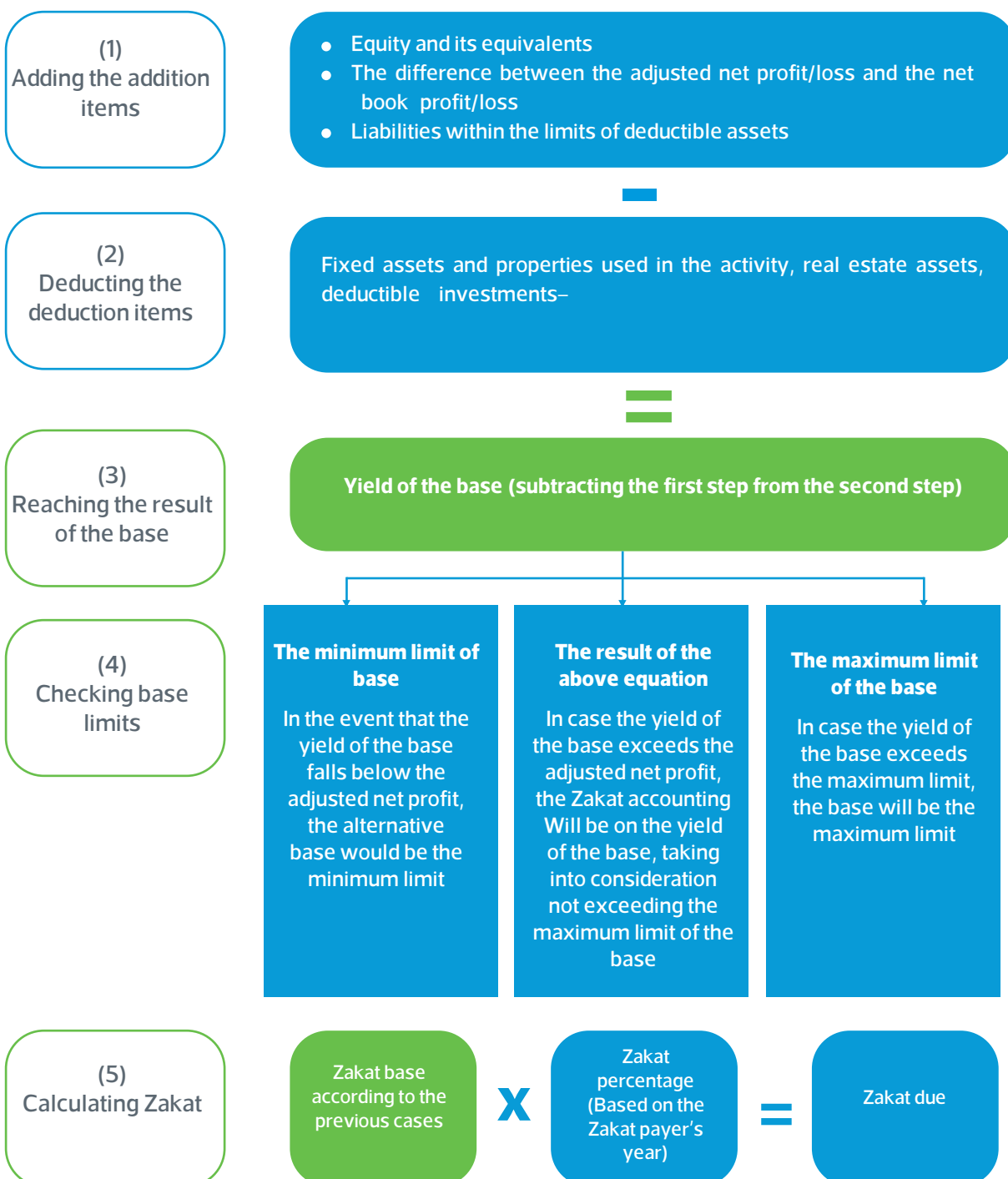
The Zakat base is calculated by deducting the deduction items from the addition items, resulting in the yield of the Zakat base.

Upon reaching the yield of the base, it is necessary to verify some provisions related to the base, including ensuring that the base does not fall below the zakat payer's adjusted net profit, which would necessitate moving to the minimum limit that serves as an alternative to the base in this case. It is also necessary to verify that maximum limit of the base shouldn't be exceeded.

Furthermore, it is necessary to consider and verify the days of the Zakat year in order to determine the Zakat percentage applicable to the Zakat payer's base.



Steps and procedures for calculating the Zakat base





Example (62):

The financial statements of a Saudi company for the year 2025 included the following data:

Statement of Financial position			
Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash	9.000 SAR	Creditors	3.000 SAR
Debtors	3.000 SAR	Accrued Expenses	1.000 SAR
Inventory	17.000 SAR	Provision for Lawsuits	4.000 SAR
		Provision for Zakat	6.000 SAR
Total	29.000 SAR	Total	14.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	20.000 SAR	Bank Loans	12.000 SAR
Intangible Assets	16.000 SAR	Employee Benefits Liabilities	6.000 SAR
Investments	12.000 SAR		
Total	48.000 SAR	Total	18.000 SAR
		Equity	
		Capital	25.000 SAR
		Retained Earnings	20.000 SAR
		Total	45.000 SAR
Total	77.000 SAR	Total	77.000 SAR



Income Statement	
Revenues	20.000 SAR
Cost of Revenues	5.000 SAR
Gross Profit	15.000 SAR
General and Administrative Expenses	6.000 SAR
Selling and Distribution Expenses	2.000 SAR
Profit Before Zakat	7.000 SAR
Zakat	2000 SAR
Net Profit	5.000 SAR

The financial statements also included the following information:

- The inventory item includes 5,800 SAR worth of spare parts not intended for sale, representing 20% of current assets.
- The investment item represents an investment in a Kuwaiti company, and the Zakat payer does not intend to pay Zakat on their share of it in the Kingdom. This investment constitutes 25% of non-current assets.
- General and administrative expenses include donations paid outside the Kingdom that are not accepted for Zakat purposes, amounting to 1,000 SAR.

How much is the company's Zakat based on the above information?



The Solution:

Zakat will be calculated according to the following steps:

First: Adding the addition items:

- Equity and its equivalents:

Item	Amount
Equity items at the end-of-period balance (Capital + Retained earnings)	45.000 SAR
Items reclassified to Equity (Zakat provision + Lawsuits Provision)	10.000 SAR
Net ProfitEquity and its equivalents	55.000 SAR

- The difference between the adjusted net profit and the net book profit

Item	Amount
Net book profit after Zakat	5.000 SAR
Non-accepted expenses (Donations)	1.000 SAR
Adjusted net profit	6.000 SAR

- Liabilities within the limits of deducted assets

Item	Amount
Liabilities within the limits of deducted assets	18.000 SAR
Add the current liabilities by the percentage of the deducted current asset (spare parts not intended for sale) to the total current assets.	800 SAR
Reduce non-current liabilities added to the base by the percentage of the un-deducted non-current asset (investments) to total non-current assets.	(4.500 SAR)
Total Liabilities	14.300 SAR

- The placement was made as follows:

The amount added in the above table related to spare parts was calculated as follows: -



Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (spare parts)	$\frac{\text{spare parts}}{\text{Current Assets}}$	Addition of a proportion of current liabilities not previously added	4000 * 20 = 800 SAR
	$5,800 / 29,000 = 20\%$		

-The amount excluded from the above table related to investments was calculated as follows: -

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (investments)	$\frac{\text{investments}}{\text{Non-current Assets}}$	Exclusion of a proportion of current liabilities previously added	18000 * 25% = 4.500
	$12,000 / 48,000 = 25\%$		

-The amount excluded from the above table related to investments was calculated as follows: -

Item	Amount
Equity and its equivalents	55.000 SAR
The difference between the adjusted net profit and the net book profit	1.000 SAR
Liabilities within the limits of deducted assets	18.000 SAR
Add the current liabilities by the percentage of the deducted current asset (spare parts not intended for sale) to the total current assets.	8.00 SAR
Reduce the non-current liabilities added to the base by the percentage of the un-deducted non-current asset (investments) to the total non-current assets.	(4.500 SAR)
Total Additions	70.300 SAR



Second: Deducting the items of deduction:

Item	Amount
Property and Equipment	20.000 SAR
Intangible Assets	16.000 SAR
Spare parts	5.800 SAR
Total Deduction items	41.800 SAR

Third: Calculation of the Base:

Addition Items	70.300 SAR
(-) Deduction Items	41.800 SAR
Net	28.500 SAR

Fourth: Verification of the Base Limits:

Comparing the calculated result from the previous step with the minimum and maximum limits of the base:

Calculating the Minimum limit of the Base		Calculating the Maximum limit of the Base	
Un-deducted Assets	SAR 35,200	Equity and equivalents	SAR 55,000
(+) Difference between adjusted net profit and net book profit	SAR 1,000	(+) Difference between adjusted net profit and net book profit	SAR 1,000
Total Deduction items	SAR 36,200	Total Deduction items	SAR 56,000
Adjusted net profit*	SAR 6,000		
The results above are compared, and the minimum zakat base is the lower amount; therefore, the minimum limit is 6,000 SAR .		Therefore, the maximum limit of the base is 56,000 SAR .	



Adjusted net Profit = Accounting net profit + Non-accepted expenses

5,000 SAR + 1,000 SAR = 6,000 SAR

Since the result of the third step is not less than the minimum limit of the base and does not exceed the maximum limit, the Zakat base will be the result of step 3, which is **28,500 SAR**.

Fifth: Calculating Zakat:

Zakat percentage:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 365 \text{ Days} = 2.5777\%$$

Zakat Amount:

= Zakat Base x Zakat Percentage = 28,500 SAR x 2.5777% = **734.60 SAR**



5.2 Added Items to the Zakat Base

Article 23 of the regulations comprehensively outlines Added Items to the Zakat Base of the Zakat Payer holding statutory accounts. These items include:

1. Equity and its equivalents.
2. Liabilities stipulated in Article (29) within the limits of the deducted assets.
3. The difference between the adjusted net profit/loss and net book profit/ loss.

Furthermore, the regulations include detailed procedures, criteria, and treatments related to the added items to the Zakat base. These must be adhered to when calculating the Zakat base.

5.2.1 Addition of Equity and its equivalents

Equity items are added to the Zakat base at the end-of-period balance. These include items classified as equity in the zakat payer's financial statements, such as:

5.2.1.1 Items Classified as Equity in the Zakat Payer's Financial Statements:

Equity refers to the rights of the owners of an entity and includes the amounts invested in the entity, as well as the profits or losses resulting from its operations. It represents the remaining value of the assets after deducting liabilities. The components of equity may vary depending on the legal structure of the entity. Examples of equity items include:

- **Capital:** The money invested by the owners in the entity, along with any increases to it.
- **Reserves of all types:** Amounts set aside from profits for statutory or agreed-upon purposes.
- **Retained Earnings:** Profits that have been earned but not distributed from the current year and previous years.



Equity items are added to the zakat base at the balance of the end-of-period. Equity is presented as a separate group in the statement of financial position, and any changes in equity items are shown in a separate statement called the statement of changes in equity. This statement must include, for each component of equity, the book balance at the beginning of the period and the book balance at the end of the period, in addition to several disclosure requirements outlined in International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements- .

In addition to the basic components of equity, sub-section 3 of Section 5 of Chapter 2 of the regulations includes a number of detailed provisions related to equity items, including the following:

Distributed profits:

Distributed profits refer to the profits decided to be distributed to shareholders, and these are deducted from the retained earnings balance at the end-of-period. From a practical perspective, the profits scheduled for distribution during the year may be subject to the following:

- They are distributed and deposited into the partners' accounts before the end of the zakat year.

or

- They remain with the entity as a liability item until distributed at a later period, and they usually appear under current liabilities as accrued profits or profits under distribution, or similar terms.



In either case, the distributed profits will reduce the retained earnings balance and, consequently, reduce equity. Therefore, it is necessary to treat the accrued profits (under distribution) as if they are not actually distributed. According to Article Thirty-Six and Article Thirty-Seven of the Regulations, the treatment of profits under distribution is as follows:

1. Accrued profits (under distribution) that were not deposited into shareholders' accounts during the zakat year shall be added to the zakat base and treated as equity for zakat purposes.

The reason for adding them to the zakat base is that they reduce equity, and since they are not distributed, it is necessary to return them to the zakat base.

For example, the company issues a decision to distribute profits by the authorized party in the amount of 100,000 SAR, and this amount is reduced from the retained earnings based on the issued distribution decision. However, the company only distributed an actual amount of 80,000 SAR, leaving 20,000 SAR as profits under distribution until the end of the year. Consequently, when calculating the Zakat base, the company adds the retained earnings at the end-of-period balance (reduced by the full amount of distributed profits) and includes the 20,000 SAR profits under distribution in the Zakat base, considering them as undistributed profits.

2. Reduction of distributed profits to retained earnings for zakat purposes is acceptable – Even if distributed from the current year's profit – provided that these profits are actually distributed and a decision has been issued by the authorized party.

The burden of proving the actual distribution of distributed profits lies with the Zakat payer, through the submission of supporting documents, provided that these profits have been distributed in accordance with a decision issued by the authorized party, as stipulated in the entity's official documents.



From a regulatory perspective, the Companies Law allows the distribution of interim profits, as indicated in Article 22 of the law, while considering the detailed controls mentioned in the executive regulations of the Companies Law concerning this matter.

3. Distributed profits that the Authority has proved were distributed by the Zakat payer with the intention of reducing the zakat base shall be added to the zakat base.

An example of this is when a Zakat payer distributes profits fictitiously before the end of the Zakat year in a way that shows the retained earnings balance added to the base as reduced by these fictitious distributions. The Zakat payer then retrieves these profits at the beginning of the next Zakat year, intending to reduce the Zakat base. Based on this, and as it has been proven the Zakat payer's intent in distributing these profits was to reduce the zakat base and not to actually distribute them to the partners, such distributed profits are added back to the Zakat base.



Losses Carried Forward:

Losses Carried Forward arise from the accumulation of the entity's losses from previous periods, and as a result, the item of carried forward losses appears within equity items. Loss carried forward reduces equity. According to Article 39 of the regulations, these losses are considered a reduction in Equity based on their balance shown in the Zakat payer's statement of financial position.

The zakat treatment does not differ in cases where losses carried forward are the result of a current year's loss. For example, if a company has profit carried forward from a previous year amounting to 600,000 SAR but the company incurs a loss of 1,000,000 SAR during the current year, resulting in a loss carried forward at the end of the year amounting to 400,000 SAR, the treatment, in this case, will be to reduce the loss carried forward in equity by the end-of-period balance of 400,000 SAR. This means that the key consideration for loss carried forward is the loss balance appeared in the equity items at the end of the year, regardless of the origin of these losses or any of its amortization or reduction during the year.

Treasury Stocks:

These refer to the shares purchased and held by the company. A joint-stock company is allowed to purchase its own shares if its bylaws permit it. The company may buy back its shares for several purposes, including the following:

- Allocating them to employees as part of an employee stock ownership plan.
- Cancelling the purchased shares for the purpose of reducing capital.



- Using the purchased shares as an exchange in acquisitions for shares, stakes, or the purchase of assets.
- Fulfilling the rights of holders of debt instruments that are convertible into shares.
- Any other purpose the company deems appropriate and is approved by the Ministry of Commerce.

Article 34 of the Executive Regulations of the Companies Law includes several conditions and controls related to a company purchasing its own shares, as follows:

- a. The purpose of the purchase must be to reduce the company's capital or to retain the purchased ordinary shares as treasury shares.
- b. The percentage of treasury shares shall not exceed 10% of the total class of shares of the company being purchased at any time.
- c. The value of purchased shares must be fully paid.
- d. The debit balance of the treasury shares must not exceed the retained earnings balance.

From an accounting perspective, treasury shares are shown as a reduction to equity for the duration that the company holds them. The company may later sell the treasury shares in accordance with the controls outlined in the Executive Regulations of the Companies Law. According to Articles 40 and 41 of the Executive Regulations, treasury shares—when they appear in the Zakat payer's accounts—are considered a reduction to the Zakat base.

For example, if a joint-stock company decides to purchase treasury shares in accordance with its bylaws, and as a result, the company purchases these shares and pays their full value, the purchased shares will appear as a reduction to the equity of the joint-stock company, which will accordingly reduce the company's zakat base by the same amount.



- **Employee Stock Ownership Plan (ESOP):**

The above-mentioned ruling applies to treasury stocks held for the purpose of allocating and distributing them to the entity's employees. Some companies purchase treasury stocks specifically to allocate them to their employees as part of an employee stock ownership plan. Companies usually establish certain internal criteria for this purpose, and this procedure is considered an important procedure to motivate and retain employees, as well as to attract top talent. The zakat base may be reduced by the value of the treasury shares held for the purpose of allocating and distributing them to the employees upon meeting the following conditions:

1. Approval of the extraordinary associations for the purchase of the shares and the purpose of the purchase.
2. The entity's policy, the employees' compensation regulations (approved by the Ministry of Human Resources), or any regulatory document must stipulate a share grant program for employees.

For example, if a joint-stock company decides to purchase treasury shares based on the approval of the extraordinary associations for the purpose of allocating these shares as incentives to the company's employees, in accordance with the criteria and considerations stated in the employee compensation regulations approved by the Ministry of Human Resources, the purchased shares will appear as a reduction to the equity of the joint-stock company. Consequently, this will reduce the company's zakat base by the same amount.



5.2.1.2 Reclassified Items Treated as Equity for Zakat Purposes

This includes a number of items listed in the regulation, as follows:

Accounting provisions Treated as Equity:

Accounting provisions are an important component of an establishment's statement of financial position and are defined as liabilities where the timing and amount are uncertain. To distinguish between accounting provisions and other liabilities, such as creditors, as outlined in International Accounting Standard 37 (IAS 37) – Provision contingent Liabilities -, it is based on the lack of confirmation regarding the timing or amount of the expenses due in relation to the provisions. On the other hand, amounts owed to creditors are defined as outstanding liabilities with specified timing and value, according to the agreement made with the supplier.

In general, all accounting provisions are considered contingent and must be recognized when the following conditions are met:

- There is an outstanding obligation on the entity, whether it is a legal or constructive obligation resulting from a past event. Examples include accrued end-of-service benefits or potential fines.
- It is likely that this obligation will result in an outflow of the entity's resources.
- A reliable estimate can be made of the amount required.

Examples of accounting provisions that an entity may create include Provision for Environmental Obligations, employee benefits and liabilities, legal claims, provision for zakat or income tax, Provision for Site Restoration and Rehabilitation, and other provisions that entities create during the year based on the requirements of their activities.



Accounting provisions are presented according to their nature and purpose, as follows:

- An accounting provisions may appear under non-current liabilities, such as an provision for employee benefits.
- An accounting provisions may appear under current liabilities, such as provision for legal claims.
- An accounting provisions may appear as a reduction of a current asset, such as provision for credit risk-reducing receivable debits.

(Not added to the Zakat base, as it is not considered among the items presented in the balance sheet in accordance with Article 17 of the Regulation).

- An accounting provisions may appear as a reduction of non-current assets, such as provision for impairment of certain types of fixed assets.

(Not added to the Zakat base, as it is not considered among the items presented in the balance sheet in accordance with Article 17 of the Regulation).

Regarding the classification of provisions for Zakat purposes, and pursuant to Articles (17) and (24) of the Regulations, provisions presented in the Statement of Financial Position and their equivalents are treated as equity; therefore, they are added back at their year-end balance. An exception is made for the provision for end-of-service benefits and the provision for statutory leaves and their equivalents, which are treated as non-current liabilities. Accordingly, the general rule is that provisions appearing as line items in the Statement of Financial Position are treated as equity for Zakat purposes, with the exception of the provision for end-of-service benefits, the provision for statutory leaves, and similar provisions that represent a fixed and stable liability due to a non-owner.



The reason for treating accounting provisions as part of equity is that they are considered a portion of the entity's profits. Accounting provisions are essentially the setting aside from profits, as they are created by charging the provision expense on the income statement. This implies that if the purpose of the provision no longer exists, it is subsequently returned again to the entity's revenues.

- **Profits under distribution:**

Profits under distribution are usually presented under current liabilities as profits payable to the entity's owners. These are the profits for which a distribution decision has been made but have not yet been distributed because the taxpayer's financial year (the zakat year) closed before the distribution procedures were completed. According to Article 36 of the regulation, profits under distribution are treated as equity, thus requiring reclassification from liabilities to equity for Zakat purposes.

Profits under distribution are treated as equity because they are considered part of the entity's profits that have not yet been distributed. Profits under distribution are recognized in accounting by transferring them from retained earnings, based on the distribution decision, to profits under distribution until they are distributed. Therefore, the profits under distribution are treated as the asset from which they were derived, which is the company's profits.

Profits under distribution are treated as equity, regardless of their designations in the financial statements. Profits under distribution may appear under different designations and classifications, including:



- Under the account of creditors related party.
- Under the designation of profits under distribution.
- Under the designation of payable distributions.

- **Partners' credit loans:**

Partners' loans refer to amounts owed to them by the company, separate from profits and capital.

Partners' credit loans arise from different considerations and for multiple reasons. They may result from partners providing the company with financial funding, whether in cash or in-kind. They may also arise when partners bear some financial burdens on behalf of the company, such as some partners paying company expenses on its behalf.

Partners' loans also appear under different classifications, as they may appear under current liabilities, non-current liabilities, or equity items, depending on their nature and purpose.

Partners' credit loans are listed in the entity's financial statements under various names, such as:

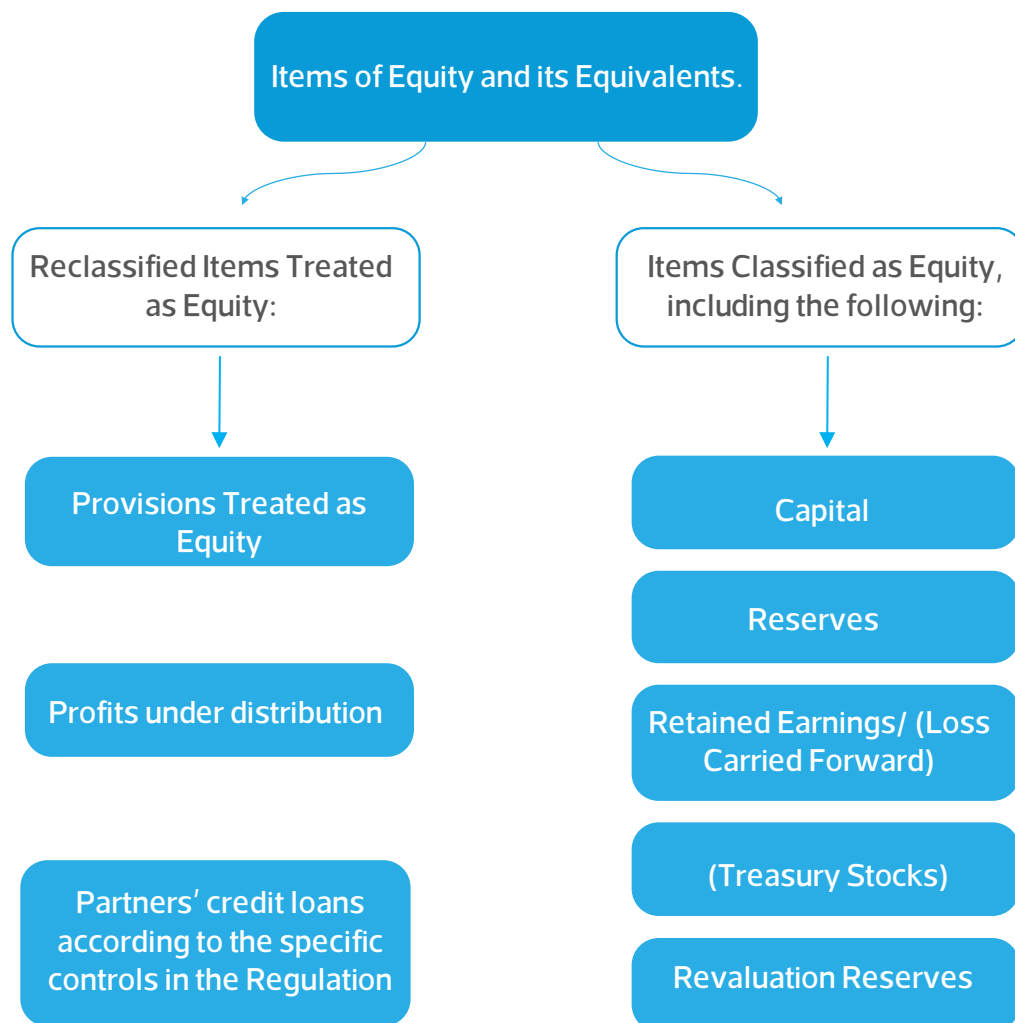
- Due to related party.
- Additional contributions from partners.
- Partners' loans.
- Additional capital.



The zakat treatment of partners' credit loans is carried out according to the regulations, regardless of their designation or classification, as Article 30 of the regulations outlines the rules and cases for treating partners' credit loans for Zakat purposes. Based on the provisions of this article, partners' credit loans are treated depending on the type of entity, as follows: -

1. Joint stock companies listed on the Capital Market: Partners' loans are treated according to their classification in the company's financial statements without any requirements or conditions.
2. Sole Corporation and Single-Member Companies: Treated as Equity regardless of their accounting classification.
3. Securities Companies (except for companies listed on the Capital Market): Treated as liabilities when all of the following conditions are met:
 - a. There shall be financial statements approved by a chartered accountant in the Kingdom.
 - b. They shall be classified in the statements of the Zakat Payer as liabilities.
 - c. Payment period shall be identified in the financing contract.
 - d. Funding return shall be in line with the market price.

If the above conditions are not met, partners' credit loans in securities companies (except for companies listed on the Capital Market) shall be treated as Equity.





Example (63)

The following data appeared in the statement of financial position for a company at the end of 2024:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Banks	90.000 SAR	Accrued expenses	30.000 SAR
Prepaid expenses	120.000 SAR	Other current Liabilities	70.000 SAR
Other current assets	160.000 SAR	Zakat Provision	50.000 SAR
Total	370.000 SAR	Total	150.000 SAR
Non-current Assets		Non-current Liabilities	
Fixed assets	150.000 SAR	Bank Loans	50.000 SAR
Investments	120.000 SAR	Employee Benefits Liabilities	60.000 SAR
Total	270.000 SAR	Total	110.000 SAR
		Equity	
		Capital	210.000 SAR
		Retained Earnings	170.000 SAR
		Total	380.000 SAR
Total	640.000 SAR	Total	640.000 SAR



What items of Equity are added to the Zakat base?

The Solution:

The items of Equity and their equivalents are as follows:

Item	Accounting Classification	Reason For Addition	Amount
Capital	Equity	Equity Item	210.000 SAR
Retained Earnings	Equity	Equity Item	170.000 SAR
Zakat Provision	Included within current liabilities	Treated as Equity	50.000 SAR
Equity and its equivalents			430.000 SAR



Example (64)

The following data appeared in the statement of financial position for a company at the end of 2025:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	50.000 SAR	Murabaha Financing	20.000 SAR
Receivables	20.000 SAR	Accrued Expenses	10.000 SAR
Inventory	40.000 SAR	Provision for Lawsuits	5.000 SAR
Total	110.000 SAR	Total	35.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	90.000 SAR	Murabaha Financing	65.000 SAR
Intangible assets	70.000 SAR	Employee Benefits Liabilities	35.000 SAR
Total	160.000 SAR	Total	100.000 SAR
		Equity	
		Capital	120.000 SAR
		Retained Earnings	35.000 SAR
		Carry forward loss	(20.000 SAR)
		Total	135.000 SAR
Total	270.000 SAR	Total	270.000 SAR

- The inventory item includes a provision for obsolete inventory amounting to 10,000 SAR.
- The commercial receivables item includes a provision for expected credit losses amounting to 5,000 SAR.



What Equity items are added to the zakat base?

The Solution:

The Equity items and their equivalents are as follows: -

Item	Accounting Classification	Reason For Addition	Amount
Capital	Equity	Equity Item	120.000 SAR
Statutory reserve	Equity	Equity Item	35.000 SAR
Carried forward loss	Equity	Equity Item	(20.000 SAR)
Provision for Lawsuits	Included within current liabilities	Treated as Equity	5.000 SAR
Provision for obsolete inventory	Included within current assets (To reach the net value of the current asset)	Not added to the base	0
Provision for expected credit losses	Included within current assets To reach the net value of the current asset(	Not added to the base	0
Equity and its equivalents			140.000 SAR



Example (65)

The following data appeared in the statement of financial position for a limited liability company at the end of 2024:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	100.000 SAR	Loans	40.000 SAR
Contract costs	70.000 SAR	Lease liabilities	10.000 SAR
Contract assets	90.000 SAR	Contract liabilities	100.000 SAR
Inventory	80.000 SAR	Creditors	20.000 SAR
Debtors	120.000 SAR	Related parties	95.000 SAR
Short-term Murabaha	200.000 SAR	Profits Under Distribution	50.000 SAR
Total	660.000 SAR	Total	315.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	150.000 SAR	Loans	110.000 SAR
Intangible assets	60.000 SAR	Lease liabilities	160.000 SAR
Right-of-use assets	130.000 SAR	Provision for asset retirement	40.000 SAR
Investments	205.000 SAR	Employee Benefits Liabilities	75.000 SAR
Total	545.000 SAR	Total	385.000 SAR
		Equity	
		Capital	200.000 SAR
		Statutory reserve	105.000 SAR
		Other reserves	30.000 SAR
		Retained Earnings	170.000 SAR
		Total	505.000 SAR
Total	1.205.000 SAR	Total	1.205.000 SAR



- The inventory item includes a provision for obsolete inventory amounting to 40,000 SAR.
- The debtors' item includes a provision for expected credit losses of 30,000 SAR.
- The creditors related party is a loan from one of the partners. There is no formal financing contract between the partner and the company, and no funding return has been determined for the loan

What Equity items are added to the zakat base?

The Solution:

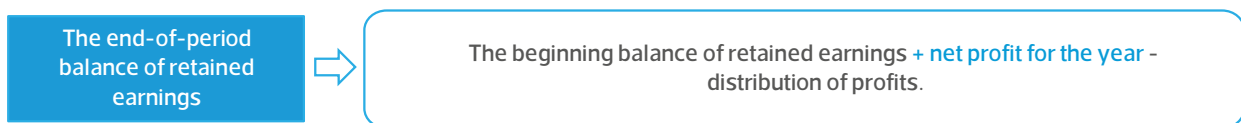
The Equity items and their equivalents are as follows: -

Item	Accounting Classification	Reason For Addition	Amount
Capital	Equity	Equity Item	200.000 SAR
Statutory reserve	Equity	Equity Item	105.000 SAR
Other reserves	Equity	Equity Item	30.000 SAR
Retained Earnings	Equity	Equity Item	170.000 SAR
Provision for asset retirement	Included within current liabilities (To reach the net value of the current asset)	Treated as Equity	40.000 SAR
Provision for obsolete inventory	Included within current assets (To reach the net value of the current asset)	It is not added to the Zakat base, as it is not included among the items presented in the balance sheet.	0
Provision for expected credit losses	Included within current assets (To reach the net value of the current asset)	It is not added to the Zakat base, as it is not included among the items presented in the balance sheet.	0
Related Parties	Included within current assets	Treated as Equity	95.000 SAR
Profits Under Distribution	Included within current assets	Treated as Equity	50.000 SAR
Equity and its equivalents			690.000 SAR



5.2.2 Addition of the Difference Between Adjusted Net Profit/Loss and Net Book Profit/Loss

The net book profit after zakat and tax are considered part of the equity items added to the zakat base since they are included in the retained earnings item that is added to the zakat base at the end-of-period balance.



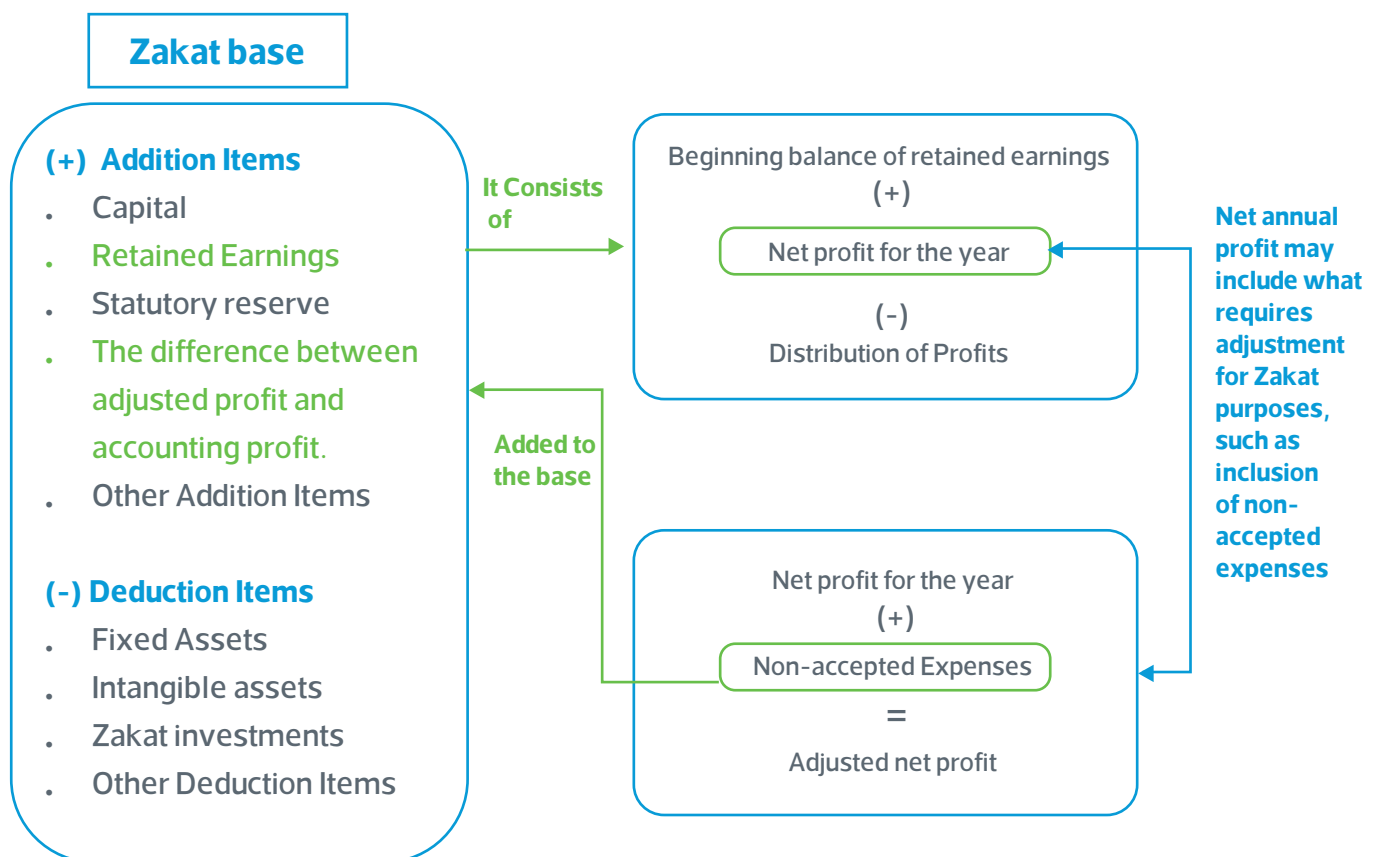
Based on this, the net book profit may require adjustments according to the provisions of the regulations. In such cases, it is necessary to adjust the net book profit to reach the adjusted net profit that is acceptable for zakat purposes. Since the net book profit is added to the zakat base as part of retained earnings, the treatment of the zakat base involves adding the difference that was adjusted in the net book profit to reach the adjusted net profit that is acceptable for zakat purposes.

When adjusting the net book profit, the adjustment is made to the net book profit after Zakat and tax. This is because the book profit included in the retained earnings item added to the base is the net book profit after Zakat and tax.



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 is realized, the difference between the adjusted net loss and the net book loss is added to the Zakat base. In some cases, the book loss may turn into an adjusted net profit. The treatment in this case does not differ either, as the difference between the book loss and the adjusted net profit is added to the zakat base.

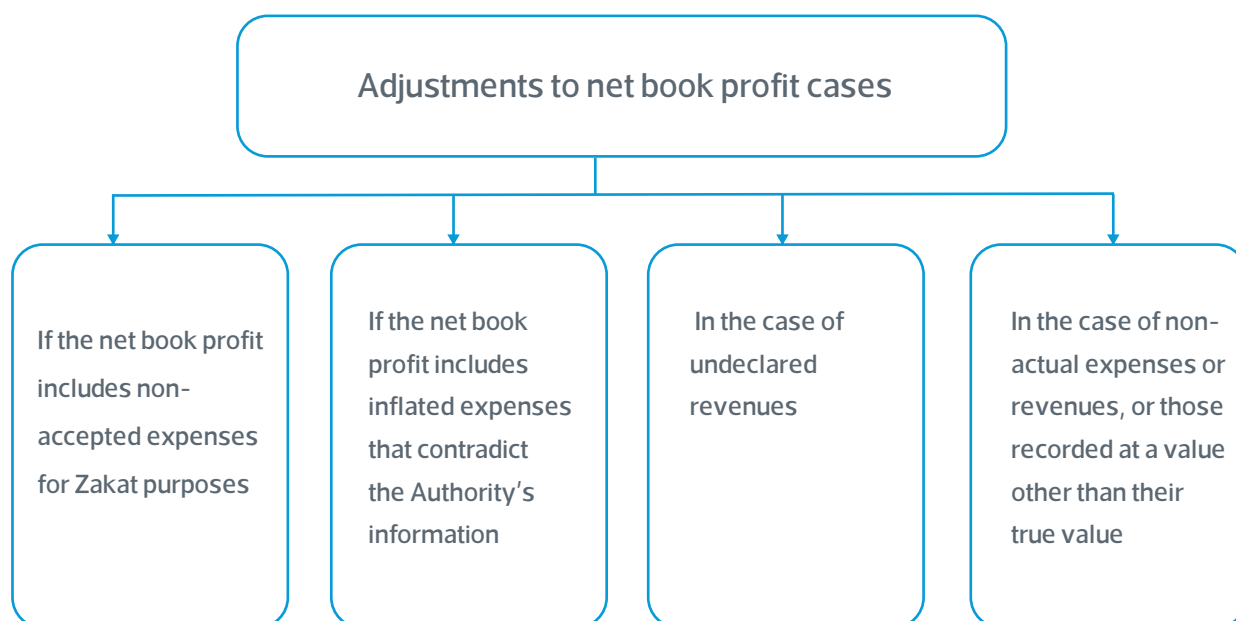
The relationship between Zakat adjustments to activity outcome and the Zakat base





The regulations have specified the cases in which net book profit is adjusted, as follows:

- If the net book profit includes non-accepted expenses for Zakat purposes as stated in Articles 62 and 63 of the regulations.
- If the net book profit includes inflated expenses that contradict the Authority's information, as stated in Article 61 of the regulations.
- In the case of undeclared revenues, as stated in Article 60 of the regulations.
- In the case of non-actual expenses or revenues, or those recorded at a value other than their true value, as stated in Article 64 of the regulations.





Article 62 of the regulations included the general controls for approving expenses charged on the income list in order to reach the adjusted net profit or the adjusted net loss derived from the outcome of Zakat payer activity:

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, which considered provisions made during the year as acceptable expenses.
2. Expenses shall be linked to the activity.
3. Expenses shall be proven with documents approved by the Authority.

The general conditions mentioned above must be observed for all expenses charged on the income statement. Failure to meet any of these conditions makes the expense unacceptable for zakat purposes.

In addition to the general conditions mentioned in Article 62 of the regulations, certain specific conditions for some expenses must also be considered, as outlined in Article 63 of the regulations which included conditions for the acceptance of certain expenses, as follows:

1. Bad debts according to the stipulated controls in Article (65) of the Regulations.

Bad debts refer to amounts owed by others that are written off and excluded from the entity's assets and charged to losses due to the likelihood and confirmation of their uncollectibility. Bad debts are considered deductible expenses for arriving at the adjusted net profit or adjusted net loss, provided that the following conditions are met:



- a. Zakat payer shall submit an endorsed certificate from a certified chartered accountant in the Kingdom stating that debt write-off is being conducted under a decision by the authorized party. This requirement may be waived in certain cases as outlined in the regulations.
- b. The Zakat payer had recognized such revenue in its maturity year within its financial statements.
- c. To be as a result of practicing the activity.
- d. The debts may not be against relevant entities to the Zakat payer.

2. Annual depreciation, for the fixed assets on which the stipulated controls in Article (48) are applied.

Depreciation is defined as the process of distributing the cost of an asset over its productive life in order to determine the reduction in its value during each accounting period. The deduction of book depreciation charged on the income statement is accepted, provided that the conditions for deducting depreciated fixed assets, as stipulated in Article 48 of the regulations, are met, which include the following:

- a. It must be listed in the financial statements of Zakat Payer.
- b. It must be acquired for the purpose of use, not for resale.
- c. It must be deducted at its net value as presented in the financial statements.
- d. It must be registered in the name of Zakat Payer, although this condition may be waived if certain conditions mentioned in the regulations apply.



3. Funding revenues incurred by the Zakat payer holding statutory accounts for his employees in housing ownership contracts, upon fulfilling the stipulated conditions in Article (54).

Costs of funding revenues borne by a Zakat payer for employees under housing ownership contracts are considered accepted expenses to reach the adjusted net profit or adjusted net loss. This applies in cases where the Zakat payer bears the funding revenues on behalf of his employees for employees' housing financing from financial institutions. For this purpose, the Zakat payer must adhere to the conditions specified in Article 54 of the regulations.

4. Owners' salaries and allowances that are registered in the General Organization for Social Insurance.

In cases where a partner or owner of an entity 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.



5. Board of Directors' remunerations - including the owners - in a manner that may not contradict the relevant laws.

Board of Directors' remunerations are considered accepted expenses to reach the adjusted net profit or adjusted net loss, provided that they may not contradict the relevant laws. Therefore, to accept the Board of Directors' remunerations, it is required that they do not violate relevant laws, such as the Companies Law and the laws and bylaws of the Capital Market Authority concerning listed joint-stock companies.

6. Wages difference which exceeds the registered in the General Organization for Social Insurance, provided that supporting legal documents acceptable to the authority are submitted.

There are often differences between the wages and allowances recorded by the entity with the General Organization for Social Insurance and those charged on the income statement of wages and allowances. These differences arise for various common reasons. 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 legal documents acceptable to the authority are submitted.



7. The paid fundraising to the licensed entities within the Kingdom, according to the relevant laws in the Kingdom.

The paid fundraising is considered an accepted expense to reach the adjusted net profit or adjusted net loss, provided that this fundraising is paid to licensed entities within the Kingdom and in accordance with relevant regulations. Therefore, fundraising paid to unlicensed entities for collecting fundraising or fundraising paid to entities outside the Kingdom is not accepted.

8. Tuition fees for the children of the employees of the Zakat payer holding statutory accounts, provided that they shall be paid to a licensed academic facility in the Kingdom and to be stipulated in the employment contract of the employee or the Zakat payer regulation.

Tuition fees incurred by the facility for its employees, according to the specified employment benefits, are considered accepted expenses to reach the adjusted net profit or adjusted net loss, provided that they are paid to a licensed academic facility in the Kingdom and to be stipulated in the employment contract of the employee or the Zakat payer regulation.

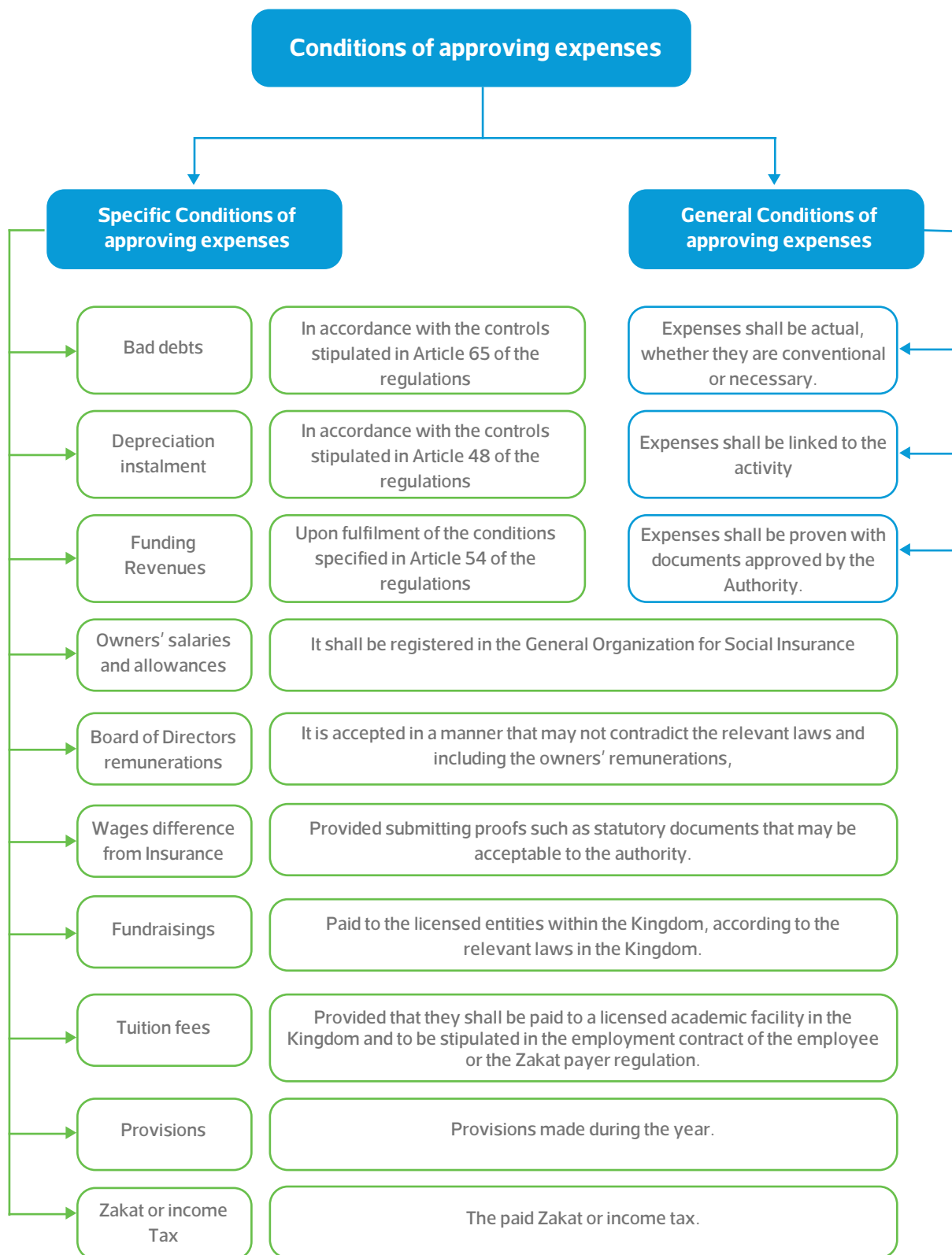


9. Provisions made during the year.

When the facility creates a provision, it charges the value of the provision on the income statement to recognize the loss associated with this potential liability in the year it is created. The provision appears under the facility's liabilities until it is used or its purpose no longer exists. For zakat purposes, provisions created during the year are considered accepted expenses to reach the adjusted net profit or adjusted net loss. This includes all types of provisions that the facility creates during the year.

10. The paid Zakat or income tax.

Zakat and income tax expenses paid during the year are considered accepted expenses to reach the adjusted net profit or adjusted net loss. To accept zakat or income tax expenses charged on the income statement, it is required that the zakat or tax is paid with supporting documentation.





Example (66)

The following is the income statement for a company at the end of 2024:

Income Statement	
Revenues	300,000 SAR
(-) Revenues Cost	100,000 SAR
Gross Profit	200,000 SAR
(-) General and Administrative Expenses	50,000 SAR
(-) Selling and Distribution Expenses	60,000 SAR
Profit Before Zakat	90,000 SAR
(-) Zakat	20,000 SAR
Net Profit	70,000 SAR

- Cost of revenues includes 15,000 SAR of purchases with no supporting documentation.
- General and Administrative Expenses include 13,000 SAR of donations paid to entities outside the Kingdom.

Calculate the adjusted net profit and determine the amount to be added to the zakat base.

The Solution:

Calculating the adjusted net profit	
Net Book Profit	70,000 SAR
(+) Purchases with no supporting documentation	15,000 SAR
(+) Donations paid to entities outside the Kingdom	13,000 SAR
Adjusted Net Profit	98,000 SAR



As for the amount to be added to the zakat base, it will be: -

(+) Purchases with no supporting documentation	15,000 SAR
(+) Donations paid to entities outside the Kingdom	13,000 SAR
The difference between accounting net profit and adjusted net profit	28,000 SAR

Adjusted net profit is not added to the zakat base, as the net book profit has already been added to the base under the retained earnings item. Therefore, only adjustments will be added.

Example (67)

The following is the income statement for a company at the end of 2025:

Income Statement	
Revenues	90,000 SAR
(-) Revenues Cost	20,000 SAR
Gross Profit	70,000 SAR
(-) General and Administrative Expenses	10,000 SAR
(-) Selling and Distribution Expenses	15,000 SAR
Profit Before Zakat	45,000 SAR
(-) Zakat	3,000 SAR
Net Profit	42,000 SAR

- General and Administrative Expenses include 2,000 SAR of allowances paid to the owners, which were not recorded in social insurance.
- Selling and distribution expenses included 6,000 SAR of tuition fees for the children of some company's employees, which were not stipulated in the employment contracts or the company's internal regulations.



Calculate the adjusted net profit and determine the amount to be added to the zakat base.

The Solution:

Calculating the adjusted net profit	
Net Book Profit	42,000 SAR
(+) Allowances paid to the owner, which were not recorded in social insurance.	2,000 SAR
(+) Tuition fees for the children of some owner's employees	6,000 SAR
Adjusted Net Profit	50,000 SAR

As for the amount to be added to the zakat base, it will be: -

(+) Allowances paid to the owner, which were not recorded in social insurance.	2,000 SAR
(+) Tuition fees for the children of some owner's employees	6,000 SAR
The difference between accounting net profit and adjusted net profit	8,000 SAR

Adjusted net profit is not added to the zakat base, as the net book profit has already been added to the base under the retained earnings item. Therefore, only adjustments will be added.



Example (68)

The following is the income statement for a company at the end of 2025:

Income Statement	
Revenues	1,040,000 SAR
(-) Revenues Cost	300,000 SAR
Gross Profit	740,000 SAR
(-) General and Administrative Expenses	550,000 SAR
(-) Selling and Distribution Expenses	170,000 SAR
Profit Before Zakat	20,000 SAR
(-) Zakat	40,000 SAR
Net Loss	(20,000) SAR



- General and Administrative Expenses include 150,000 SAR of bad debt expenses on related parties.
- General and Administrative expenses included 70,000 SAR for various provisions created during the year.

Calculate the adjusted net profit and determine the amount to be added to the zakat base.

The Solution:

Calculating the adjusted net profit/ Loss	
Net Book Loss	(20,000) SAR
(+) Bad debts on related parties not accepted for zakat.	150,000 SAR
Adjusted Net Profit	130,000 SAR

As for the amount to be added to the zakat base, it will be: -

(+) Bad debts on related parties not accepted for zakat.	150,000 SAR
The difference between accounting net profit and adjusted net profit	150,000 SAR

Adjusted net profit is not added to the zakat base, as the net book profit has already been added in the base under the retained earnings item. Therefore, only adjustments will be added.



5.2.3 Addition of Liabilities

Liabilities can be defined as commitments by an entity to others in exchange for acquiring goods, services, or loans, and they appear on the credit side of the statement of financial position. Liabilities may be classified as current or non-current side depending on their nature, purpose, and expected settlement period. International Accounting Standard 1 (IAS 1) - Presentation of Financial Statements - includes criteria for classifying liability within current liabilities. If these criteria are not met, the liability should be classified within non-current liabilities.

For Zakat purposes, liability items are added to the Zakat base at the end-of-period balance, within the limits of the assets deducted from the base. As a general rule, the addition should be for non-current liabilities, as current liabilities are only added to the Zakat base in specific, limited cases.

5.2.3.1 Liability Items

Article 29 of the regulation included the liabilities that must be added to the base, as follows:

a. Non-current liabilities, including:

- Debts of various types such as: bank loans, Lease liabilities, Advance payments made by Zakat Payer customers, and instruments and bonds issued.

This group includes typical financing provided for the Zakat payer assets, such as cash financing which includes various types of loans, as well as debt tools like instruments and bonds. It also includes in-kind financing, such as lease contracts finance obligations that result in the recognition of a right-of-use asset. Additionally, it covers cash financing resulting from transactions with customers, such as cash advances received from customers.

These items may appear under current liabilities in cases where it is expected that these debts will be settled within the next twelve months. Examples of this include the following:

- Advance Payments to be settled within the coming year.
- The current portion of non-current loans.
- Short-term financing.

However, the intended meaning of these items is those classified as non-current liabilities.

For example, if a company's statement of financial position includes several non-current liabilities such as:



- Bank loans.
- Lease liabilities.

And if the same company's statement of financial position also includes bank facilities classified under current liabilities. Based on this, non-current liabilities at the end-of-period balance, represented by bank loans and lease liabilities, are added to the Zakat base.

- Provisions representing a stable debt to non-owners, such as: Provision for end-of-service benefits, employees leave provision, and equivalents.

Provisions presented in the Statement of Financial Position are generally treated as equity, except in cases where they represent fixed debts for the entity. In such cases, they are treated as liabilities. This is based on their inclusion within the concept of entity-based actual undertakings. For instance, a provision for end-of-service benefits amount is considered a definite and a stable debt established on the Zakat payer whenever the employee's service ends. Therefore, this type of provision is treated as a liability regardless of its designation in the financial statements.

In some cases, certain provisions may be classified as current liabilities. However, this discussion focuses on those classified as non-current liabilities.

An example of this is when the statement of financial position of a company includes several provisions as follows: -

- Provision for employee benefits liabilities.
- Provision for employees leave.
- Provision for lawsuits.

The provision for employee benefits liabilities was classified under non-current liabilities, while the remaining provisions were classified under current liabilities. Based on this, the provision for employee benefits liabilities is added to the Zakat base at the end-of-period balance. However, the provision for employees leave is not added due to its classification under current liabilities, and the provision for lawsuits is not added to the liabilities items as this provision is treated as equity.

- Deferred tax liability.

Deferred tax liability represents amounts of income taxes that should be paid in future periods related to taxable temporary differences. These amounts appear among the Zakat payer's



liabilities, as they are due in a later period, such as differences arising from the disparity between tax depreciation and accounting depreciation.

Such an item may appear in tax-liable companies, mixed companies, or companies whose consolidated financial statements include subsidiaries located outside the Kingdom that are subject to taxation in the investment country. International Accounting Standard 12 (IAS 12) - Income Taxes - addresses the accounting cases for income taxes and the resulting assets and liabilities.

An example of this is when the statement of financial position of a mixed company includes a deferred tax liability classified under non-current liabilities. In this case, the deferred tax liability is added to the Zakat base of the company at the end-of-period balance as part of the liabilities items.

- **Clause of contract liabilities established as per the approved accounting standards.**

Contract liabilities are the amounts received in advance from customers until the contract liabilities or services are fulfilled and applying them to revenues. These payments are recorded under the contract liabilities item, which appears under the Zakat payer's liabilities until the service or goods are provided. This specifically refers to the portion classified under non-current liabilities, as the contract liabilities item may also appear under current liabilities.

For example, if a company's statement of financial position includes a contract liabilities item classified as follows:

- **The non-current portion of the contract liabilities is classified under non-current liabilities.**
- **The current portion of the contract liabilities is classified under current liabilities.**

Based on this, the non-current portion of the contract liabilities is added to the Zakat base at the end-of-period balance within the liabilities items.

- **Negative derivative financial instruments.**

Financial derivatives are defined as financial instruments that derive their value from actual asset (such as commodities like gold), financial asset (such as stocks or bonds), or a market index. These instruments are used in financial risk management and hedging.



In general, financial derivatives are characterized by the following:

- Their value changes with changes in the underlying asset, which is the item agreed upon in the contract, such as interest rates, exchange rates, or the price of a specific commodity like oil or gold.
- They do not require a net initial investment when signing the contract, or only small amounts may be paid as premiums at the time of contract signing.
- They will be settled in the future.

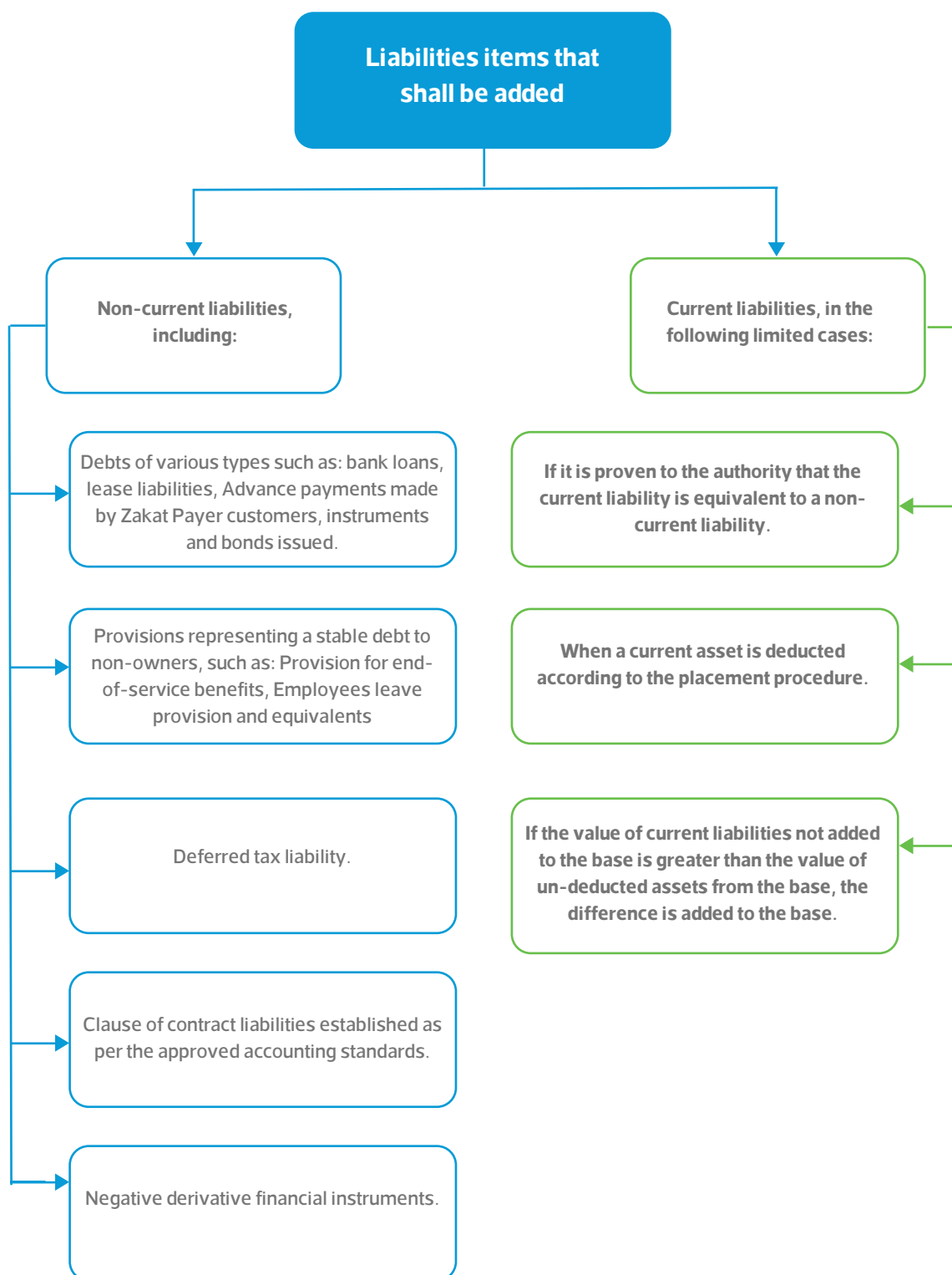
Some of the most common examples of financial derivatives are futures contracts, options contracts, and swap contracts.

Financial derivatives can become negative depending on the value of the related asset or index, resulting in a liability for the entity. In such cases, financial derivatives are considered part of the liabilities that shall be added, if they are classified under non-current liabilities.

For example, if the non-current liabilities of an entity include financial derivative instruments, these derivatives are considered part of the liabilities that shall be added to the Zakat base at the end-of-period balance.

b. Current liabilities, in the following limited cases:

- If it is proven to the authority that the current liability is equivalent to a non-current liability.
- When a current asset is deducted according to the placement procedure that will be clarified.
- If the value of current liabilities exceeds the value of current assets in the Zakat base, the difference is added to the base, after including all additional items and making any necessary reclassification adjustments.





5.2.3.2. Procedures for Adding Liabilities to the Zakat Base

Based on the above, the procedures for adding liabilities to the Zakat base can be summarized in the following steps:

First: Non-current liabilities items listed in the first paragraph of Article 29 are added to the balances of the end-of-period, taking into account the exclusion of any item treated as Equity.

Second: Current liabilities are reclassified as non-current liabilities in cases where it is proven that the current liability is equivalent to a non-current one, such as when the Zakat payer renews a debt classified as current with the same creditor for the same purpose, or re-scheduled the debt with the same creditor for the same purpose.

Third: Verify the exclusion of items that will be reclassified to equity, including the reclassification of partners' credit loans to equity in accordance with Article 30 of the regulation.

Thus, the liabilities that must be added to the Zakat base are included before making corrections to them.

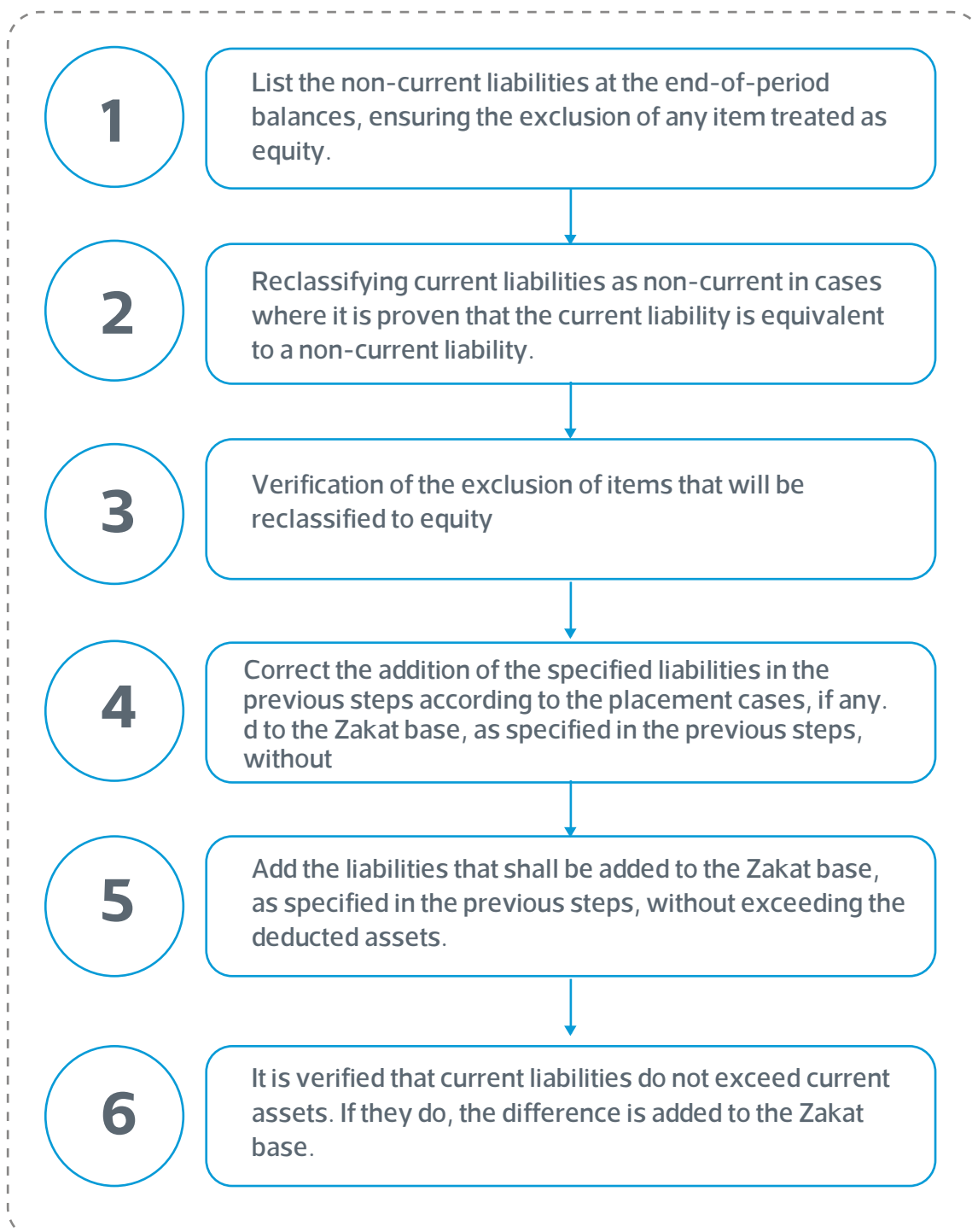
Fourth: The addition of liabilities included in the previous two steps is corrected according to the placement cases mentioned in Article 25 of the regulation. This is done when deducting a current asset or when a non-current asset is not deducted, as will be clarified.

Fifth: The liabilities that shall be added to the Zakat base, as specified in the previous steps, are added taking into account that the added liabilities are within the limits of the deducted assets from it.

Sixth: A verification is conducted to ensure that current liabilities do not exceed current assets. In the event that they do, the excess amount is included in the Zakat base.



Procedures for Adding Liabilities to the Zakat Base





5.2.3.3 Placement of Liabilities Added to the Zakat Base

The placement of external liabilities added to the Zakat base shall mean: Correcting the additions of liabilities to the Zakat base when a current asset is deducted or a non-current asset is not deducted. This is in accordance with the equality principle mentioned in Article 20, which assumes that non-current liabilities shall be equal to non-current assets, and current liabilities shall be equal to current assets. It is also based on the assumption that the default for non-current assets is deduction unless proven otherwise, and the default for current assets is non-deduction unless proven otherwise. Corrections to liabilities are made in accordance with Article 25 of the regulation in the following two cases, or either one:

- In the case of deducting a current asset, the correction is made by adding the equivalent current liabilities that were not added to the Zakat base, based on the ratio of the deducted asset to the total current assets relative to the current liabilities.
- In the case of not deducting a non-current asset, the correction is made by excluding the equivalent non-current liabilities added to the Zakat base, based on the ratio of the undeducted asset to the total non-current assets relative to the non-current liabilities added to the Zakat base.
- The correction equations are as follows:
- When a current asset is deducted, the addition of liabilities must be corrected by adding a proportion of the current liabilities not added to the base as follows:

$$\text{Current liabilities added to the Zakat base} = (\text{deducted current asset} \div \text{total current assets}) \times \text{current liabilities.}$$

Provided that the current liability added to the base does not exceed the value of the deducted current asset.

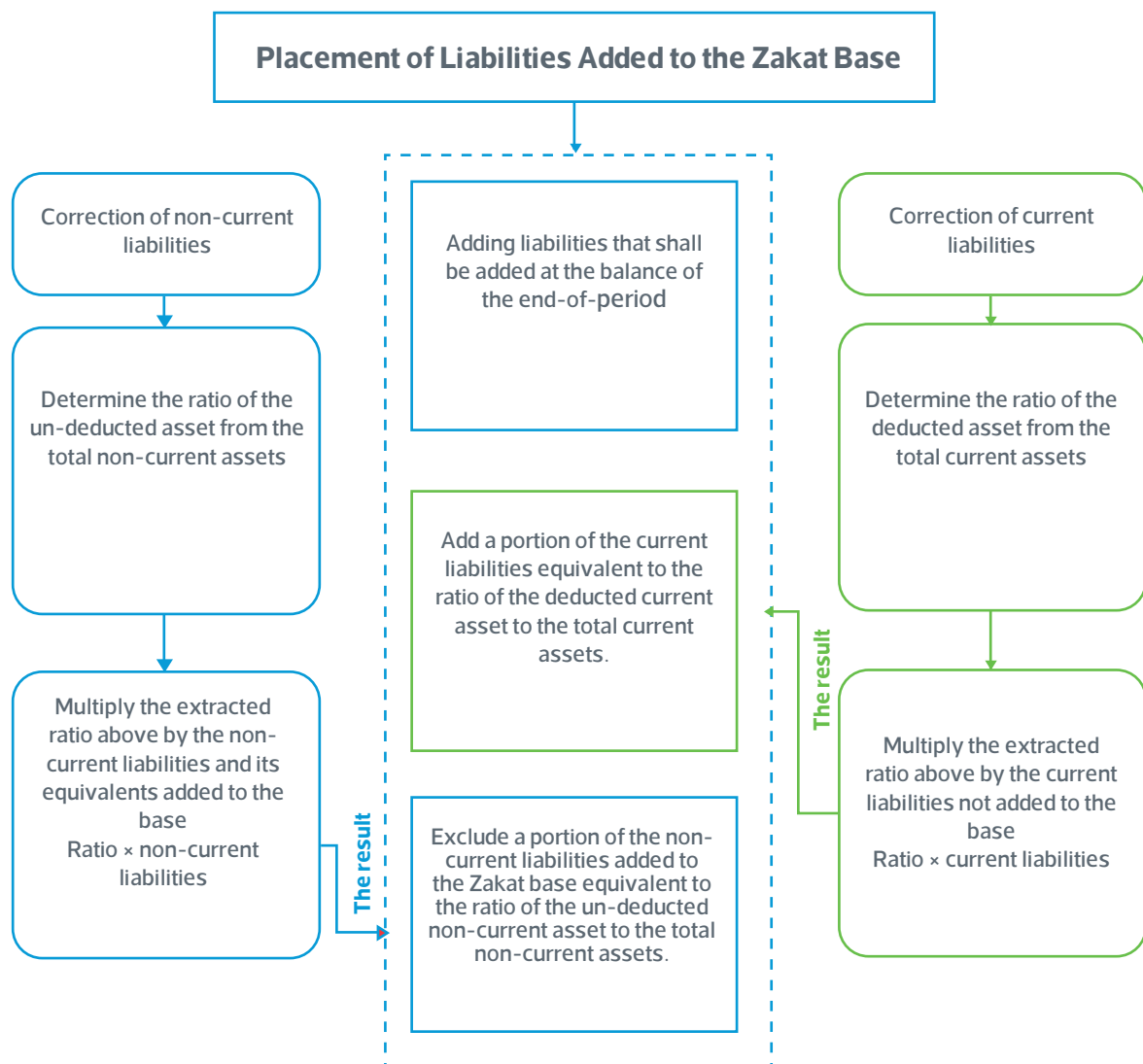
- When a non-current asset is not deducted, the addition of liabilities must be corrected by excluding a proportion of the non-current liabilities added to the base as follows:

$$\text{Non-current liabilities excluded from being added to the Zakat base} = (\text{excluded non-current asset} \div \text{total non-current assets}) \times \text{non-current liabilities.}$$



Provided that the excluded non-current liability does not exceed the value of the undeducted non-current asset.

Based on the above, there is no need to correct the liabilities added to the base when all non-current assets are deducted, and all current assets are not deducted.





Example (69)

The following data appeared in the statement of financial position for a company at the end of 2024:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	200.000 SAR	Current portion of Loans	80.000 SAR
Inventory	160.000 SAR	Creditors	100.000 SAR
Total	360.000 SAR	Total	180.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	250.000 SAR	Non-current portion of Loans	220.000 SAR
Intangible assets	100.000 SAR	Employee Benefits Liabilities	110.000 SAR
Total	350.000 SAR	Total	330.000 SAR
		Equity	
		Capital	100.000 SAR
		Statutory reserve	30.000 SAR
		Retained earnings	70.000 SAR
		Total	200.000 SAR
Total	710.000 SAR	Total	710.000 SAR

- Non-current assets are fully deductible.
- Current assets are not fully deductible.



What is the amount of liabilities that must be added to the Zakat base?

The Solution:

The amount of liabilities that must be added to the Zakat base is determined as follows:

Liabilities added to the base	
Non-current portion of Loans	220.000 SAR
Employee Benefits Liabilities	110,000 SAR
Total	330.000 SAR

No correction was made to the addition of liabilities because all non-current assets were deducted in full and none of the current assets were deducted.



Example (70)

The following data appeared in the statement of financial position for a company at the end of 2025:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	70.000 SAR	Loans	60.000 SAR
Inventory	90.000 SAR	Lease liabilities - current portion	30.000 SAR
Total	160.000 SAR	Total	90.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	100.000 SAR	Lease liabilities - non-current portion	130.000 SAR
Right-of-use assets	90.000 SAR	Employee Benefits Liabilities	95.000 SAR
Total	190.000 SAR	Total	225.000 SAR
		Equity	
		Capital	10.000 SAR
		Statutory reserve	5.000 SAR
		Retained earnings	20.000 SAR
		Total	35.000 SAR
Total	350.000 SAR	Total	350.000 SAR



- Non-current assets are fully deductible.
- Inventory includes an amount of 56,000 SAR for spare parts not intended for sale and is deductible.

What is the amount of liabilities that must be added to the Zakat base?

The Solution:

The amount of liabilities that must be added to the Zakat base is determined as follows:

First: Adding non-current liabilities and their equivalents:

Liabilities added to the base	
Lease liabilities - non-current portion	130.000 SAR
Employee Benefits Liabilities	95.000 SAR
Total liabilities added to the base before correction (placement).	225.000 SAR

Second: Calculating the correction amount related to the deducted current asset (spare parts):

Reason for placement	Percentage	Type of correction	Correction amount
Deductible current asset (Spare parts)	$\frac{\text{Spare parts}}{\text{Current assets}}$	Addition of a Portion of Non-added Current Liabilities	$90,0000 \times 35\% = 31,500 \text{ SAR}$
	$56,000 / 160,000 = 35\%$		



Third: Reaching the amount of liabilities that shall be added to the base:

Liabilities to be added to the base	
Lease liabilities - non-current portion	130,000 SAR
Employee benefits Liabilities	95,000 SAR
Total liabilities before placement	225,000 SAR
Correction of liabilities addition due to deduction of a current asset	31,500 SAR
Total liabilities after placement	256,500 SAR

Since the assets deducted from the base amount to 246,000 SAR, the addition of liabilities to the base will not exceed this amount. Therefore, the liabilities added to the base will be 246,000 SAR only.



Example (71)

The following data appeared in the statement of financial position for a company at the end of 2026:

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	500.000 SAR	Bank facilities	130.000 SAR
Debtors	170.000 SAR	Provision for lawsuits	70.000 SAR
Prepaid expenses and other receivables	200.000 SAR	Accrued expenses	30.000 SAR
Total	870.000 SAR	Total	230.000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	319.500 SAR	Loans	170.000 SAR
Investments	100.500 SAR	Employee Benefits Liabilities	100.000 SAR
Right-of-use assets	250.000 SAR	Lease liabilities	290.000 SAR
Total	670.000 SAR	Total	560.000 SAR
		Equity	
		Capital	200.000 SAR
		Statutory reserve	150.000 SAR
		Retained earnings	400.000 SAR
		Total	750.000 SAR
Total	1.540.000 SAR	Total	1.540.000 SAR



- The investments consist of investments in foreign companies, that have not fully paid their zakat.
- Prepaid expenses and other receivables include an amount of 87,000 SAR for Statutory deposits that meet the deduction conditions.

What is the amount of liabilities that must be added to the Zakat base?

The Solution:

The amount of liabilities that must be added to the Zakat base is determined as follows:

First: Adding non-current liabilities and its equivalents:

Liabilities to be added to the base	
Loans	170,000 SAR
Lease liabilities	290,000 SAR
Employee benefits Liabilities	100,000 SAR
Total liabilities added to the base before correction (placement)	560,000 SAR

Second: Second: Calculation of correction amounts:

- Correction related to the deducted current asset (Statutory deposits):

Reason for placement	Percentage	Type of correction	Correction amount
Deductible current asset (Statutory deposits)	$\frac{\text{Statutory deposits}}{\text{Current assets}}$	Addition of a Portion of Non-added Current Liabilities	$160,0000 \times 10\% = 16,000 \text{ SAR}$
	$87,000 / 870,000 = 10\%$		



It is noted that the provision for lawsuits is excluded from the current liabilities due to its reclassification within the equity items.

- Correction related to the un-deducted non-current asset (investments):

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (investments)	Investments Non-current assets	Exclusion of a portion of the added non-current liabilities	560,0000 × 15% = 84,000 SAR
	100,500/ 670,000 = 15%		

Third: Reaching the amount of liabilities that shall be added to the base:

Liabilities to be added to the base	
Loans	170,000 SAR
Lease liabilities	290,000 SAR
Employee benefits Liabilities	100,000 SAR
Total liabilities before placement	560,000 SAR
Correction of liabilities addition due to deduction of a current asset	160,000 SAR
Correction of liabilities addition due to non-deduction of a non-current asset	(84,000) SAR
Total liabilities after placement	492,000 SAR



Example (72)

The following statement of financial position for a joint-stock company listed in the Capital Market at the end of 2024:

Statement of Financial Position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash and cash equivalents	5,000,000	5,375,000
Debtors	5,750,000	6,840,000
Inventory	7,500,000	6,250,000
Due from related parties	6,250,000	4,375,000
Prepaid expenses and other receivables	5,000,000	7,500,000
Total current assets	29,500,000	30,340,000
Non-current Assets		
Property and Equipment	7,500,000	7,750,000
Intangible assets	1,875,000	2,125,000
Right-of-use assets	5,000,000	7,500,000
Contract costs	3,300,000	3,490,000
Investments	3,750,000	3,262,500
Total non-current assets	21,425,000	24,127,500
Total assets	50,925,000	54,467,500



Liabilities and equity		
Current Assets		
Long-term loans - current portion	4,150,000	5,875,000
Short-term loans	2,537,500	2,375,000
Lease liabilities - current portion	1,250,000	2,500,000
Due to related parties	2,500,000	4,662,500
Accrued expenses and other payables	6,500,000	5,850,000
Zakat provision	562,500	400,000
Total current liabilities	17,500,000	21,662,500
Non-current Assets		
Long-term loans - non-current portion	8,750,000	5,000,000
Lease liabilities - non-current portion	11,250,000	11,875,000
Contract liabilities	4,300,000	4,410,000
Deferred tax liability	1,000,000	920,000
Employee benefits liabilities	250,000	237,500
Total non-current assets	25,550,000	22,442,500
Equity		
Capital	1,250,000	1,250,000
Statutory reserve	375,000	362,500
Retained earnings	6,250,000	8,750,000
Total equity	7,875,000	10,362,500
Total assets	50,925,000	54,467,500



- Items accepted for deduction from the company's Zakat base were as follows:

Item	Accounting classification	Amount (SAR)
Property and equipment	Non-current assets	7,500,000
Intangible assets	Non-current assets	1,875,000
Right-of-use assets	Non-current assets	5,000,000
Contract costs	Non-current assets	3,300,000
Zakat-paid investments (included under investments item)	Non-current assets	2,750,000
Delayed government dues (included under debtors' item)	Current assets	1,200,000
Total accepted deductions		21,625,000

- The Due to related parties' item represents an amount due to partners with no contracts or specified funding return for this amount.
- The 'Accrued expenses and other payables' item includes profits under distribution amounting to 3,000,000 SAR.
- The statement of financial position includes the following provisions:

Provision	End-of-period balance (SAR)
Zakat provision	562,500
Employee benefits liabilities	250,000



- The net book profit for the year was 9,000,000 SAR and included the following expenses:

Expense	Amount (SAR)
Maintenance and equipment expense	1,670,000
Donations to entities outside the kingdom	320,000
Paid Zakat expense	190,000
Expense of Direct write-off of debts to a company-related party	4,000,000
Depreciation expense of company equipments	250,000

The amount of additions to the Zakat base for the company for the year 2024 needs to be calculated.

The Solution:

First: The difference between the net book profit and the adjusted net profit:

Item	Amount (SAR)
Expense of donations to entities outside the kingdom	320,000
Expense of bad debts to a company-related party	4,000,000
Difference between net book profit and adjusted net profit	4,320,000



Second: Items to be added to the Zakat base:

Equity and its equivalents:

Item	Amount (SAR)
Capital	1,250,000
Statutory reserve	375,000
Retained earnings	6,250,000
Profits under distribution	3,000,000
Zakat provision	562,500
Total equity items	11,437,500

Liabilities:

Item	Amount (SAR)
Long-term loans - non-current portion	8,750,000
Lease liabilities - non-current portion	11,250,000
Contract liabilities	4,300,000
Deferred tax liability	1,000,000
Employee benefits liabilities	250,000
Total liabilities items before placement	25,550,000
Add the current liabilities by the ratio of the deducted current asset (delayed government dues) to the total current assets.	566,838.13
Reduce the non-current liabilities added to the Zakat base by the ratio of the un-deducted non-current asset (Investments for which zakat has not been paid) to the total non-current assets.	(1,000,000)
Total liabilities items after placement	25,116,838.13
Liabilities to be added to the Zakat base within the limits of the deducted assets	21,625,000



Note that the 'Due to related parties' item was not added because the company is a joint-stock company, and the item is treated according to its classification in the financial statements (current liability).

The correction amount for the deducted delayed government dues was calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (delayed government dues)	$\frac{\text{Delayed government dues}}{\text{Current assets}}$	Add a portion of the current liabilities not added	$13,937,500 * 4.067\% = 566,838.13 \text{ SAR}$
	$1,200,000 / 29,500,000 = 4.067\%$		

Note that items reclassified to equity were excluded from current liabilities when applying the equation.

The correction amount for Investments for which zakat has not been paid was calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (Investments for which zakat has not been paid)	$\frac{\text{Investments for which zakat has not been paid}}{\text{Non-current assets}}$	Deduct a portion of the added non-current liabilities	$25,550,000 * 4.667\% = 1,192,418.50 \text{ SAR}$ Since the amount of the un-deducted asset is only 1,000,000 SAR, the correction amount should not exceed this figure
	$1,000,000 / 21,425,000 = 4.667\%$		



Note that the correction amount was calculated based on the value of the liabilities added to the Zakat base before placement.

Based on the details above, the addition amount to the company's Zakat base is as follows:

Item	Amount (SAR)
Equity items and their equivalents	11,437,500
Liabilities items within the limits of the deducted assets	21,625,000
Difference between adjusted net profit and net book profit	4,320,000
Total additions to the Zakat base	37,382,500



5.3 Deduction Items from the Zakat Base

The deduction items are deducted from the Zakat base at the end-of-period balance. These assets are deducted for the purpose of excluding them from the Zakat base of the Zakat payer for various reasons, including: either because they are assets used in the activity, such as fixed assets; or because they are Zakat-paid in other Zakat bases, such as certain types of investments; or due to restrictions on their disposal, such as certain types of statutory deposits.

Article 26 of the regulation includes the basic deduction items, and Article 48 of the regulation outlines the general conditions for the deduction of non-current assets and properties, or their equivalents, which can be summarized as follows:

a. They must be listed in the financial statements of the Zakat payer.

An item not included in the Zakat payer's statement of financial position cannot be deducted, even if it is used in the activity. For example, if a company uses certain machinery and equipments without recording them in its accounting books, in this case, the machinery and equipments are not considered acceptable deduction items.

b. They must be acquired for the purpose of use, not for resale.

In this case, the asset is considered acquired with the intention of selling it rather than using it in the activity, which excludes it from the purpose of the deduction as it is considered a zakat asset.

c. They must be deducted at their net value as shown in the financial statements.

Items in the statement of financial position are presented based on the nature of the item according to the accounting treatment prescribed by relevant standards. The values of items in the statement of financial position may appear according to various criteria, such as:

- At cost.
- At fair value.
- At book value according to the prescribed treatment.

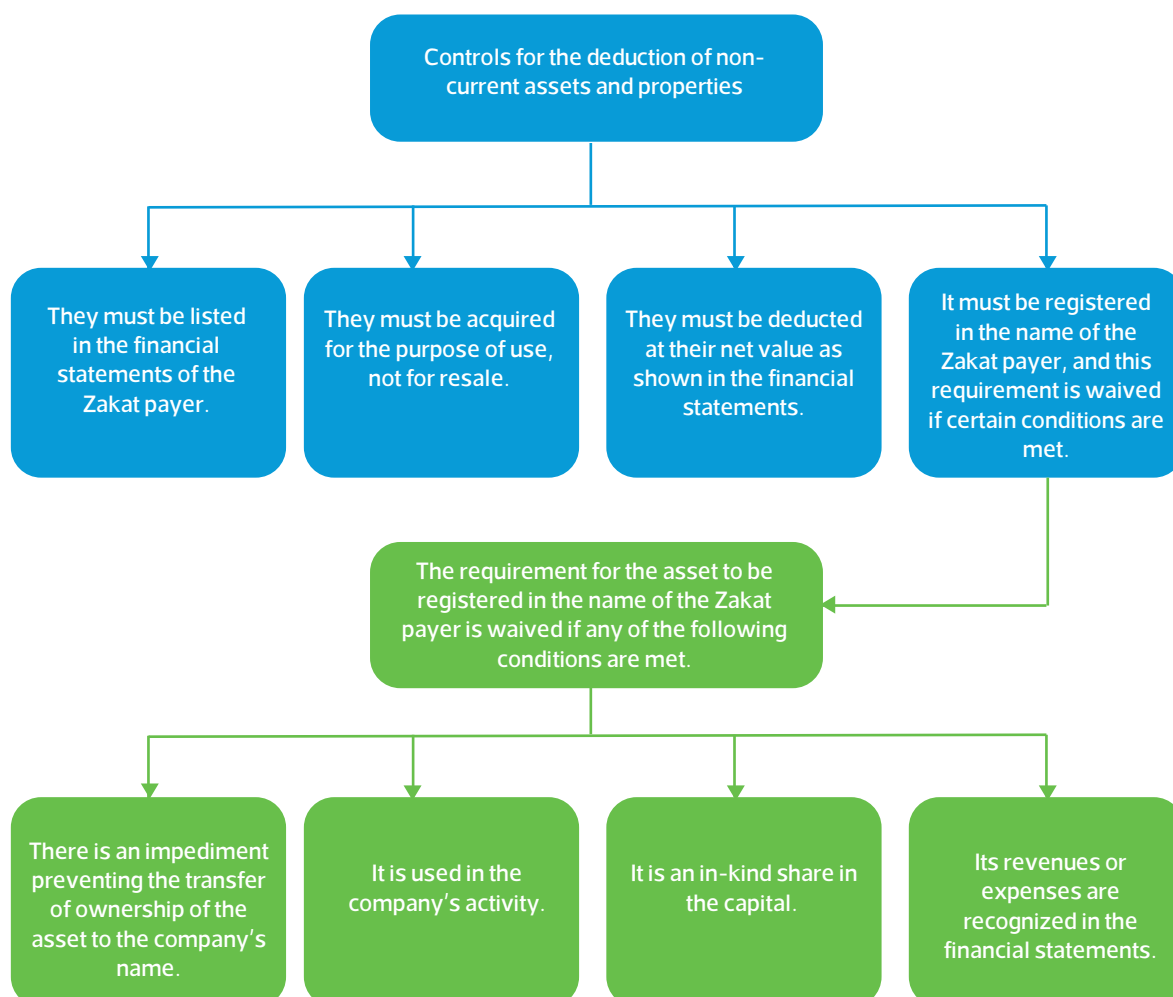
In any case, the requirement is to deduct the asset at its value as shown in the financial statements.



d. They must be registered in the name of the Zakat payer, except when any of the following controls are met:

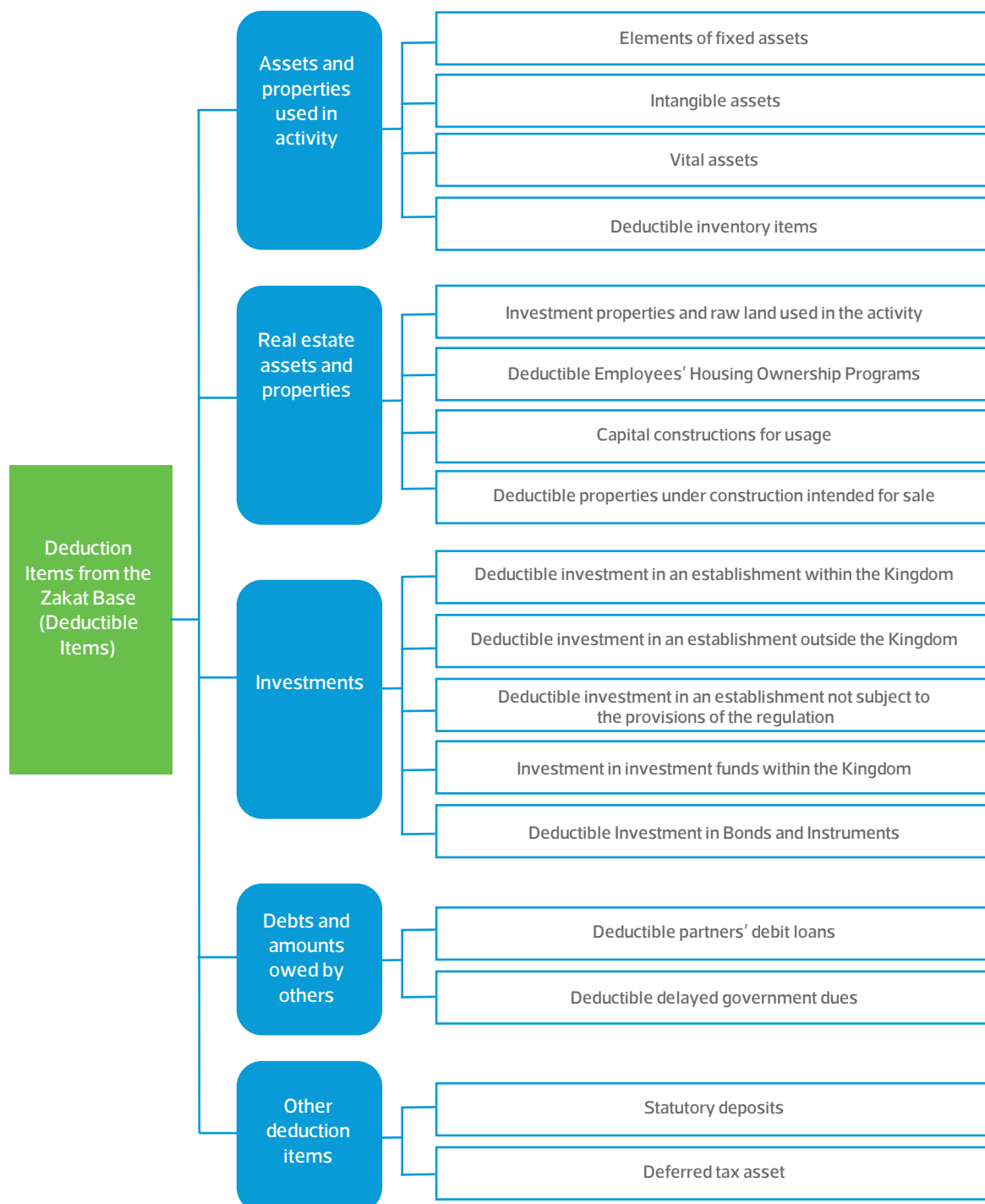
1. There is an impediment preventing the transfer of ownership of the asset to the company's name.
2. It is used in the company's activity.
3. It is an in-kind share in the capital.
4. Its revenues or expenses are recognized in the financial statements.

In addition, the deduction of the items mentioned above requires compliance with all other conditions, controls, and considerations stated in the regulation. The regulation also includes several other deduction items, such as Partners' debit loans if included among the components of the zakat base for the debtor within its equity, and delayed government dues, in accordance with the conditions and controls outlined in the regulation.



The deduction items outlined in the regulations can be divided into five main groups:

1. Assets and properties used in activity.
2. Real estate assets and properties.
3. Investments.
4. Debts and amounts owed by others.
5. Other deduction items.





5.3.1 Assets and Properties Used in Operations

From an accounting perspective, properties, equipment, and real estate used in the Zakat payer's activities are classified as non-current assets of the entity. International Accounting Standard 16 (IAS 16) - Real estate, Machinery, and Equipment - includes the accounting treatments for assets used in the entity's activities, such as real estate, machinery, and equipment used in Zakat payer activity, like premises used for administration and equipment used for manufacturing. The standard defines them as tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one period. For Zakat purposes, deduction items can include fixed assets or properties used in the Zakat payer's activities and its equivalent from a Zakat perspective, which include the following:

1. Items of fixed assets
2. Intangible assets
3. Vital assets
4. Deductible inventory items

5.3.1.1 Fixed Assets Items

Article 49 of the regulation considers fixed assets used in the Zakat payer's business activities as deduction items from the Zakat base. This includes advance payments for purchasing fixed assets, also considered under fixed assets for zakat purposes is the classified right-of-use asset that is non-current with the lessee in finance lease contracts, according to the treatments outlined in International Financial Reporting Standard 16 (IFRS 16), the lessee is required, at the commencement date of the lease, to recognize a right-of-use asset within the lessee's assets. This includes assets financed for the lessee in finance lease contracts, and Assets financed to the lessee in the finance Lease contracts in the BOT projects and the like in addition to the contract costs classified as non-current.



5.3.1.2 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. International Accounting Standard 38 (IAS 38) – Intangible Assets – provides the accounting treatments for intangible assets. The standard requires that to recognize an intangible asset, it is probable that future economic benefits expected to be associated with the asset will flow to the entity, and that the asset can be measured reliably. Based on this, intangible assets are considered assets used in the Zakat payer's activities and not intended for sale or trading, which justifies treating them for Zakat purposes in the same manner as tangible fixed assets. Examples include computer software, patents, and intellectual property

In light of this, article 50 of the regulation has considered intangible assets held for purposes other than trading as items to be deducted from the zakat base.

5.3.1.3 Vital Assets

A Vital asset is a living animal or plant used in the Zakat payer's activity, which can generate future economic benefits for the entity. Examples include herds of cattle, poultry, and plants, excluding fruit-bearing plants. These types of assets typically appear under the company's non-current assets. Based on this, vital assets are considered assets used in the Zakat payer's activity and not intended for sale or trading, justifying their treatment for Zakat purposes in the same manner as fixed assets used in the activity. International Accounting Standard 41 (IAS 41) - Agriculture - provides the accounting treatments for vital assets.

Article 51 of the regulation considers vital assets classified as non-current assets in the financial statements as items to be deducted from the zakat base. However, this does not include vital assets held for sale.



5.3.1.4 Deductible Inventory Items

Inventory refers to assets held for sale in the ordinary course of entity business, including assets held during the production process for the company's normal sale products, as well as assets held in the form of raw materials or supplies used in production. International Accounting Standard 2 (IAS 2) - Inventory - provides the accounting treatments for the inventory item. From an accounting perspective, the inventory item includes a number of elements depending on the nature of the company's activity. For example, the components of inventory differ between industrial and commercial companies. In commercial companies, inventory includes goods available for sale, while in industrial companies, inventory includes several different items such as:

- Raw materials.
- Consumables such as fuel and oils.
- Spare parts.
- Work in progress.
- Finished goods.

According to Article 52 of the regulation, inventory item is not considered of deduction items except in the following cases:

- **Materials not for sale - such as spare parts.**

This refers to spare parts that are not intended for resale but for use, such as spare parts used for machinery and equipment.

- **Raw materials classified as current assets and not part of the final product.**

This includes supplies used in production processes, such as fuel and lubricants.



Example (73)

The statement of financial position of a company includes the following asset items:

Item	Accounting Classification	Value
Property and equipment	Non-current	1,000 SAR
Right-of-use assets	Non-current	5,000 SAR
Debtors	Current	3,000 SAR

Which of the above asset items can be deducted from the company's Zakat base?

The Solution:

The following items can be deducted from the company's Zakat base:

Property and equipment	1,000 SAR
Right-of-use assets	5,000 SAR
Total deduction items	6,000 SAR



- The deduction of the above assets is subject to the general conditions for asset deduction as stipulated in Article 48 of the regulation.

Example (74)

The statement of financial position of a company includes the following asset items:

Item	Accounting Classification	Value
Property and equipment	Non-current	200,000 SAR
Inventory	Current	90,000 SAR
Vital assets	Current	50,000 SAR

The inventory item consists of the following:

- Spare parts not for sale amounting to 10,000 SAR.
- Raw materials not part of the final product amounting to 20,000 SAR.
- Vital assets are assets intended for sale.

Which of the above asset items can be deducted from the company's Zakat base?

The Solution:

The following items can be deducted from the company's Zakat base:

Property and equipment	200,000 SAR
Spare parts	10,000 SAR
Raw materials	20,000 SAR
Total deduction items	230,000 SAR

- Deducting the above asset items requires compliance with the general conditions for asset deductions outlined in Article 48 of the regulations.
- Vital assets were not deducted as they are intended for sale.
- Deducting some current assets (within inventory) requires correcting liability additions in accordance with Article 25 of the regulations.



5.3.2 Real Estate Assets and Properties

This group includes deduction items consisting of real estate assets and properties, which include the following:

1. Investment properties and raw land used in the activity.
2. Employees' Housing Ownership Programs.
3. Capital constructions for usage.
4. Properties under construction intended for sale.

5.3.2.1 Investment Properties and Raw Land Used in the Activity

Investment properties refer to properties held to earn rental income or for capital appreciation, or both, as outlined in the relevant accounting standards. This is according to International Accounting Standard 40 (IAS 40) - Investment Property, which addresses the accounting treatment of investment properties. Investment properties do not include properties acquired for sale in the ordinary course of business or properties acquired for use by the company for administrative or production purposes. An example of this would be a company purchasing a building it owns for the purpose of renting it out to others. From this perspective, investment properties are considered assets used for activity purposes and generating returns, not intended for sale or trading, thus they can be treated for Zakat purposes like fixed assets. Article 49 of the regulations considers non-current investment properties and raw land used in the activity as deduction items from the Zakat base, provided that these real estate assets are not intended for sale.

5.3.2.2 Employees' Housing Ownership Programs

Employee housing support programs offered by entities to their employees can take various forms, such as:

- The entity directly financing its employees to purchase housing without the involvement of any financial institutions.
- The entity constructing housing and selling it to employees as a forward sale.
- The entity building housing and providing it to employees during their employment with the entity under specific conditions and considerations, without the employees owning this housing.
- The entity coordinating with financing institutions that, in turn, finance the employees of the entity, with the entity bearing the interest and profits resulting from the financing contract.



The aforementioned scenarios result in the creation of certain assets in the entity's records, as follows:

- Receivables due from employees in the case of direct financing by the company.
- Receivables due from employees in the case of selling the residence to the employee as a forward sale.
- Real estate assets in the case of housing constructed by the entity and made available to employees.

According to Article 53, housing owned by the Zakat payer that is intended to provide housing for employees is considered a deduction item from the Zakat base. This includes employee housing debts, which are residential loans given to employees through employee housing support programs. As stated in Article 54 of the regulations, employee housing debts are considered deduction items from the Zakat base if the following conditions are met:

- In case their contracts state that funding has been conducted by the interest-free loan or forward sale, without paying any financial profits for the Zakat payer or further fees over the funding principal amount.
- The cost of the housing unit incurred by the employee, may not exceed the actual cost incurred by the Zakat payer, therefore the employee may not incur any additional amounts for the loan, this shall be inclusive to cases where the contract is terminated before the expiration date.

5.3.2.3 Capital Constructions for Usage

In cases where real estate or property used in the company's activity is internally constructed by the company, it is recorded in the accounting records as capital construction at construction costs until it is ready for use. An example of this is when a company constructs its own administrative headquarters.

During the construction phase, capital constructions are treated as fixed assets, as article 49 of the regulation has considered capital constructions and projects under construction that are established for the purpose of being used in the Zakat payer holding statutory accounts activities and not for the purpose of sale as deduction items from the zakat base.



5.3.2.4 Real Estate Under Construction for Sale

In cases where the entity constructs real estate for the purpose of selling it as part of the entity's activities, this real estate is considered a type of inventory covered under the International Accounting Standard 2 (IAS 2) - Inventories. According to the standard, inventory includes land and real estate held for resale.

These types of projects typically require a relatively long time to construct the asset and prepare it for sale. Therefore, the regulations allow the deduction of this type of project during the construction stages, before sales operations begin, according to the rates and guidelines stated in Article 73 of the regulations. This article specifies the following conditions for deducting real estate under construction for sale from the Zakat base:

- The real estate must not be offered for sale in its current condition.
- The percentage of cost of sales must not exceed twenty-five percent (25%) annually of its recorded value as shown in the financial statements for the zakat declaration year in question, subject to the following controls:
 - a. It must be classified as a non-current asset in the financial statements, although classification as a current asset is acceptable if it is in accordance with the determined accounting standards.
 - b. Each project ratio shall be calculated separately.
 - c. The ratio shall be calculated based on sales cost.

According to the following equation:

$$\text{Value of cost (sales) exclusions} \div (\text{Beginning Inventory} + \text{the Additions during the year}) = \text{Cost of sales ratio.}$$



Example (75)

The statement of financial position of a company includes the following asset items:

Item	Accounting Classification	Value
Property and equipment	Non-current	100,000 SAR
Investment properties	Non-current	120,000 SAR
Projects under construction	Non-current	70,000 SAR
Prepaid expenses	Current	30,000 SAR

- Investment properties are real estate assets that are leased out and not intended for sale.
- Projects under construction refer to an administrative headquarters project intended for use in the company's activity.

Which of the above asset items can be deducted from the company's Zakat base?

The Solution:

The following items can be deducted from the company's Zakat base:

Property and equipment	100,000 SAR
Investment properties	120,000 SAR
Projects under construction	70,000 SAR
Total deduction items	290,000 SAR

- Deducting the above asset items requires compliance with the general conditions for asset deductions outlined in Article 48 of the regulations.



Example (76)

The statement of financial position of a company includes the following asset items:

Item	Accounting Classification	Value
Capital constructions	Non-current	320.000 SAR
Real estate under construction	Current	4.000.000 SAR
Intangible assets	Non-current	110.000 SAR
Inventory	Current	80,000 SAR

- The real estate under construction is a project for selling residential apartments. The cost of the apartments sold during the year was (by cost) 400,000 SAR, while the beginning inventory balance for real estate under construction was 1,000,000 SAR. The project is still in the construction phase, with added costs of 3,400,000 SAR during the year.
- The inventory item consists of the following:
 - Spare parts not for sale amounting to 40,000 SAR.
 - Raw materials part of the final product amounting to 25,000 SAR.

Which of the above asset items can be deducted from the company's Zakat base?

The Solution:

Regarding the real estate under construction, the cost of sales ratio is = $(400,000 / (1,000,000 + 3,400,000)) = 9.09\%$. Accordingly, the project can be deducted from the Zakat base.

The following items can be deducted from the company's Zakat base:

Capital constructions	320,000 SAR
Real estate under construction	4,000,000 SAR
Intangible assets	110,000 SAR
Spare Parts	40,000 SAR
Total deduction items	SAR4,470,000



- Deducting the above asset items requires compliance with the general conditions for asset deductions outlined in Article 48 of the regulations.
- Raw materials were not deducted as they are part of the final product.
- Deducting some current assets (within inventory) or Real estate under construction requires correcting the added liability in accordance with Article 25 of the regulations.

5.3.3 Investments

Entities engage in various types of investments to generate returns or grow capital. These investments may constitute the main activity of the entity or an ancillary activity. Examples of investments include:

- Investment in equity in entities (stocks or shares).
- Investment in investment funds of various types.
- Investment in debt instruments (instruments and bonds).
- Investment in Money Market instruments (such as deposits and Murabaha).

For zakat purposes, the Zakat payer is responsible for paying zakat on the investments listed within his assets, and the Zakat payer may only deduct these investments if the zakat on them has been paid either by the Zakat payer or by the investee establishment, provided they are not held for trading purposes. The regulations provide clarification on the related rulings under the following sections:

1. Investment in an establishment within the Kingdom.
2. Investment in an establishment outside the Kingdom.
3. Investment in an establishment not subject to the provisions of the regulations.
4. Investment in investment funds within the Kingdom.
5. Investment in instruments and bonds.

From an accounting perspective, these types of investments are treated as financial assets under International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments, unless the equity investment (shares or stocks) entails control or significant influence over the investee establishment. The treatment is as follows:



Type of Investment	Description	Accounting Treatment
Investments in Equity and Debt Instruments	The investment does not involve control or significant influence	Accounted for under International Financial Reporting Standard 9 (IFRS 9) - Financial Instruments -
Investments in Equity	An entity where the investor has significant influence (Associate)	Accounted for using the equity method and treated under International Accounting Standard 28 (IAS 28) - Investments in Associates and Joint Ventures -
Investments in Equity	An entity controlled by another entity (Subsidiary)	Accounted for using the equity method and treated under International Financial Reporting Standard 10 (IFRS 10) - Consolidated Financial Statements -

The Zakat treatment is not affected by the accounting method used to handle the investment. The investments mentioned above may be deducted when the zakat on them has been paid and are not intended for trading, in accordance with the controls and considerations outlined in the regulations.

For the investment to be deducted, it must not be intended for trading. Article 42 of the regulations includes considerations and controls related to trading, without conflicting with the specific terms and conditions for each investment, as follows:

- When an investment is considered to be held for trading purposes, this effect applies to the assets of the investment portfolio included in this investment, without affecting the total assets of the investment item appearing in the financial statements.

An investment portfolio refers to the investment base through which investments are made in a collection of listed securities, typically created by a licensed securities company.



- The investment portfolio is considered for trading purposes if any of the following conditions are met:
 - a. If the nature of the Zakat Payer's activity is trading in investment according to the financial statements, legal documents of the Zakat Payer, or any other document clarifying the nature of the Zakat Payer's activity.
 - b. The investment is managed by another person who is not affiliated with the investor under an employment contract and this person has the authority to issue purchase and sale decisions, unless the investment management agreement stipulates that the role of this person is to investment without trading, except for the fund manager in the investment funds.
 - c. If the investment is classified in the financial statements of the Zakat Payer in the current assets.
 - d. If the investment is listed in the capital market and the Zakat Payer makes a sale then a purchase, then followed by one or more sales or the Zakat Payer makes a purchase then a sale, then followed by one or more purchases during the year in the same portfolio.
 - e. The investor has an announced or proven desire or a decision to dispose of this investment whether at a specified price or during a period less than one year.
 - f. If the Zakat Payer classified its financial statements based on liquidity and has not provided any indication that the investment is expected to be made within a period exceeding (365) days after the end of the Zakat year.



The investment portfolio is considered for trading purposes if any of the following conditions are met

If the nature of the Zakat Payer's activity is trading in investment according to the financial statements, legal documents of the Zakat Payer, or any other document.

If the investment is listed in the capital market and the Zakat Payer makes a sale then a purchase, then followed by one or more sales or the Zakat Payer makes a purchase then a sale, then followed by one or more purchases during the year in the same portfolio.

The investment is managed by another person who is not affiliated with the investor under an employment contract and this person has the authority to issue purchase and sale decisions, unless the investment management agreement stipulates that the role of this person is to investment without trading, except for the fund manager in the investment funds.

The investor has an announced or proven desire or a decision to dispose of this investment whether at a specified price or during a period less than one year.

If the investment is classified in the financial statements of the Zakat Payer in the current assets.

If the Zakat Payer classified its financial statements based on liquidity and has not provided any indication that the investment is expected to be made within a period exceeding (365) days after the end of Zakat year.



5.3.3.1 Investment in an Establishment within the Kingdom

Article 43 of the regulations considers investment in an establishment within the Kingdom of Saudi Arabia (investment in equity) as a deduction item from the zakat base, provided the following conditions are met:

- a. The value of this investment is classified as non-current assets.
- b. The investment is for non-trading purposes.
- c. The invested in the establishment is registered with the Authority and subject to Zakat collection

The purpose of requiring that the investee entity be registered with the Authority and subject to zakat collection is to ensure that these investments are subject to zakat through the invested company.

Example (77)

Upon reviewing the investment item shown in the financial statements of a company subject to zakat collection, it was found that the investment consisted of the following:

Type of Investment	Accounting Classification	Value	Explanation
Investment in a local company	Non-current asset	5,000,000 SAR	The invested company is subject to zakat collection

What is the Zakat Treatment for this Investment?

The Solution:

This investment can be deducted from the company's zakat base, as it is an investment in a company registered with the Authority, subject to zakat collection, for non-trading purposes, and classified as a non-current asset.



Example (78)

Upon reviewing the disclosure of the investment item shown in the financial statements of a company subject to zakat collection, it was found that the investment is as follows:

Type of Investment	Accounting Classification	Value	Explanation
Investment in a local company	Current Asset	8,000,000 SAR	The invested company is subject to zakat

What is the Zakat Treatment for this Investment?

The Solution:

This investment cannot be deducted from the zakat base of the company due to its classification as a current asset.



5.3.3.2 Investment in an Establishment Outside the Kingdom

Article 44 of the regulations considers investment in an establishment outside the Kingdom of Saudi Arabia (investment in equity) as a deduction item from the zakat base, provided the following conditions are met:

- a. The value of this investment is classified as non-current assets in the Zakat Payer's financial statements.
- b. The investment is for non-trading purposes.
- c. The Zakat Payer pays the Zakat on these investments to the Authority within the Zakat declaration and the Zakat on these investments shall be calculated independently of the Zakat base under a certificate prepared according to the provisions of the Regulation and approved by a certified chartered accountant in the Kingdom.
- d. The minimum Zakat base for these investments shall be in accordance with the provisions of Article 27 of the regulation, whether the profit is distributed or not.

In this case, the zakat on the investment will be through the investor itself, not through the invested company as is the case with companies locally registered with the Authority.

Additionally, Article 46 of the regulations outlines the calculation of the zakat base for foreign investments by deducting current liabilities from current assets if the Zakat payer is unable to calculate zakat on foreign investments-based on justifications acceptable to the Authority. The following conditions must also be met:

1. The percentage of Zakat Payer's ownership in the capital of the investee company is less than (50%).



2. The Zakat Payer is unable to calculate the Zakat in accordance with the provisions of the Regulation.
3. The Zakat Payer is unable to access the detailed data required for that.
4. The Zakat Payer is unable to provide the chartered accountant with the mentioned data.

Example (79)

The details of the investment item shown in the financial statements of a company subject to zakat collection are as follows:

Type of Investment	Accounting Classification	Value	Explanation
Investment in a company outside the kingdom	Non-current asset	SAR 9,000,000	The company does not intend to pay its share of zakat from the investee company

What is the Zakat Treatment for this Investment?

The Solution:

This investment cannot be deducted from the company's zakat base, as it is an investment in a company outside the kingdom, and the company has not paid its share of zakat from the invested company.



5.3.3.3 Investment in an Establishment not subject to the provisions of the Regulation

Article 47 of the regulations considers investment (investment in equity) in an establishment not subject to the provisions of the regulations as a deduction item from the zakat base, provided the following conditions are met:

- a. The value of this investment is classified as non-current assets in the Zakat Payer's financial statements.
- b. The Zakat Payer pays the Zakat on these investments to the Authority within the Zakat declaration and the Zakat on these investments shall be calculated independently of the Zakat base under a certificate prepared according to the provisions of the Regulation and approved by a certified chartered accountant in the Kingdom.
- c. The minimum Zakat base for these investments must be in accordance with the provisions of the Article 27 of the regulation, whether the profit is distributed or not.

In this case, the zakat on the investment will be through the investor itself, not through the investee company, as is the case with local companies registered with the Authority.



Example (80)

Through the examination process of a company subject to Zakat collection, it was found that the investment item shown in the financial statements contains the following details:

Type of Investment	Accounting Classification	Value	Explanation
Investment in a local company	Non-current asset	3,000,000 SAR	The invested company received a letter from the Authority approving its exemption from being subject to Zakat collection, and the Zakat payer has paid their share of the Zakat of the investee company.

What is the Zakat Treatment for this Investment?

The Solution:

This investment can be deducted from the Zakat base of the company since the investment is in a company not subject to Zakat collection, but the investing company has paid its share of the Zakat of the invested company.



5.3.3.4 Investment in Investment Funds within the Kingdom

For zakat deduction purposes, it is important to distinguish between investment in financing funds and other types of funds. Financing funds are subject to zakat collection, which follows from considering it as part of the deductions items from the zakat base. If the conditions for deducting investment in an establishment within the Kingdom are met, as stipulated in Article 45 of the regulations.

As for other types of funds, paragraph six of Article 76 of the regulations states that, except for direct and indirect financing funds, funds are not subject to zakat collection according to the regulations. This includes funds that take the form of special-purpose establishments licensed by the Capital Market Authority, provided they do not engage in economic activities or investment activities not specified in their bylaws or in the specific terms and conditions of those investment funds.

Accordingly, the owner of a unit in investment funds-except for direct and indirect financing funds-may not deduct their investment in the fund from the zakat base unless the following conditions are met:

- a. The investment in the fund must not be for trading purposes.
- b. The zakat on their investment in the fund must be calculated and paid to the Authority, either within their audited financial statements or through a certificate prepared in accordance with the regulations and certified by a certified chartered accountant in the Kingdom, as outlined in Article 78 of the regulations.
- c. The financial statements of the investor, or the certificate mentioned in the previous paragraph, must include the calculation of the zakat of the unit owner. This involves calculating the zakat base of the fund, then determining the number of units he owns in the fund, and finally calculating the zakat owed by him.



For this purpose, if the Zakat payer (unit owner) is unable to access the detailed data of the fund and provide it to the chartered accountant, the procedure outlined in Article 46 of the regulations, as mentioned in paragraph 4.3.3.2 of this guide, may be applied.

Example (81)

Upon reviewing the explanation of investment item shown in the financial statements of a company subject to Zakat collection, it was found that the investment is as follows:

Type of Investment	Accounting Classification	Value	Explanation
Investment in a Local Financing Fund	Non-current asset	14,000,000 SAR	The invested fund is a direct financing fund licensed by the Capital Market Authority.

What is the Zakat Treatment for this Investment?

The Solution:

This investment can be deducted from the company's Zakat base since the investment is in a fund subject to Zakat collection, is not for trading purposes, and is classified as a non-current asset.



5.3.3.5 Investment in Bonds and Instruments

According to Paragraph 55 of the regulations, the Zakat payer may deduct the investment in non-governmental bonds and instruments, provided that the issuer of these bonds and instruments treats them as capital. This can be demonstrated by a statement from the issuer through any of the bonds approved by the Authority, to be treated as capital in the Zakat declaration, the issuer Zakat payer may not refrain from such transaction during the maturity term of bonds and instruments.

The purpose of this is to ensure that the instruments and bonds are included in the Zakat base of the issuer, in order to allow their deduction by the investor.

Example (82)

The investment item details shown in the financial statements of a company subject to Zakat collection include the following:

Type of Investment	Accounting Classification	Value	Explanation
Investment in instruments issued by a local company	Non-current asset	25,000,000 SAR	The company does not have evidence that the instruments are treated as capital by the instruments issuer.

What is the Zakat Treatment for this Investment?

The Solution:

This investment cannot be deducted from the company's Zakat base because the investee instruments are not treated for the issuer as capital in its the Zakat base.



Example (83)

The Statement of financial position of a company at the end of 2024 includes the following asset items:

Type of Investment	Accounting Classification	Value
Property and Equipment	Non-current	700.000 SAR
Capital Construction	Non-current	300.000 SAR
Investments in Establishments within the Kingdom	Non-current	1.000.000 SAR
Investments in Establishments outside the Kingdom	Non-current	600.000 SAR

- Capital construction for use in the company's activities.
- Investments in establishments within the Kingdom are investments in Saudi joint-stock companies for non-trading purposes.
- Investments in establishments outside the Kingdom are non-tradable investments for non-trading purposes, and the company does not intend to pay its share of zakat on these companies.

Which of the above asset items can be deducted from the company's Zakat base?

The Solution:

Property and Equipment	700.000 SAR
Capital Construction	300.000 SAR
Investments in Establishments within the Kingdom	1.000.000 SAR
Type of Investment	2.000.000 SAR



- Deducting the above asset items requires compliance with the general conditions for asset deductions outlined in Article 48 of the regulations.
- Deducting of the above investment items requires compliance with the general regulations related to trading controls as stated in Article 42 of the regulations.

Example (84)

The statement of financial position of a company at the end of 2024 includes the following asset items:

Type of Investment	Accounting Classification	Value
Properties under development	Current	3.000.000 SAR
Investment Properties	Non-current	4.000.000 SAR
Investments in Establishments within the Kingdom	Non-current	4.500.000 SAR
Investments in local funds	Non-current	2.500.000 SAR
Investments in Establishments outside the Kingdom	Non-current	5.000.000 SAR

- The properties under development are intended for sale, and the cost of sales for all projects has exceeded 30%.
- The analysis of investments in establishments within the Kingdom consists of the following:

Item	Value	Notes
Investments in companies registered with the Authority	4.500.000 SAR	Not intended for trading



- The analysis of investments in local funds consists of the following:

Item	Value	Notes
Investment in a financing fund	1.500.000 SAR	-
Investment in a real estate fund	1.000.000 SAR	Not intended for trading, and the company does not intend to pay its share of the fund's Zakat.

- The investments in establishments outside the Kingdom are investments in an Emirati company for non-trading purposes, and the company has paid its share of Zakat of the investee company based on a certificate approved by a certified chartered accountant in the Kingdom.

Which of the above asset items can be deducted from the company's zakat base?

The Solution:

The following items can be deducted from the company's zakat base: -

Investment properties	4.000.000 SAR
Investments in companies within the Kingdom	4.500.000 SAR
Investment in a financing fund	1.500.000 SAR
Investments in establishments outside the Kingdom	5.000.000 SAR
Total deduction items	15.000.000 SAR

- Deducting the above asset items requires considering the general conditions for deducting assets as outlined in Article 48 of the regulations.



Example (85)

The statement of financial position of a company at the end of 2025 includes the following asset items:

Item	Accounting Classification	Value
Property and Equipment	Non-current	700.000 SAR
Investments in non-governmental Bonds and Instruments	Non-current	9.000.000 SAR
Investments in Establishments within the Kingdom	Non-current	3.000.000 SAR

- According to the prospectus related to the investee bonds, the issuing company treats the bonds as capital in its zakat declaration.
- The analysis of investments in establishments within the Kingdom includes the following:

Item	Value	Notes
Investment in a financing fund	1.000.000 SAR	-
Investment in an equity fund	2.000.000 SAR	Not intended for trading and the company has paid its share of Zakat of the investee fund based on a certificate approved by a certified chartered accountant in the Kingdom

Which of the above asset items can be deducted from the company's Zakat base?

The Solution

The following items can be deducted from the company's zakat base:



Property and Equipment	7.00.000 SAR
Investments in non-governmental Bonds and Instruments	9.000.000 SAR
Investment in a financing fund	1.000.000 SAR
Investment in an equity fund	2.000.000 SAR
Total deduction items	12.700.000 SAR

- Deducting the above asset items requires considering the general conditions for deducting assets as outlined in Article 48 of the regulations.



5.3.4 Debts and Amounts Due from Others

This category includes deduction items which are represented by debts or amounts due from others, which include the following:

1. Partners' debit loans
2. Delayed Government Dues

5.3.4.1 Partners' Debit Loans

Article 31 of the regulations outlines the conditions under which partners' debit loans to securities companies - Except for companies listed in Capital Market and a one-person company - may be considered as deduction items from the zakat base. This is applicable when the following conditions are met:

- a. There shall be financial statements for the granted company.
- b. Payment period shall not be identified in the financing contract.
- c. Funding return shall not be consistent with the market price.

Additionally, partners' debit loans are considered as deduction items from the zakat base in cases where the ownership of the recipient establishment has been fully transferred to the Zakat payer's control, such as a sole proprietorship or a one-person company where the recipient was registered with the authority and is subject to zakat collection under the regulations.

As for companies listed on the Capital market, partners' debit loans to these companies cannot be considered as deductible from the zakat base.

The purpose of this treatment is to show the correlation between the treatment of debtor loans and creditor loans. If the loans are treated as equity for the debtor party, they are deducted for the creditor party.



The deduction of partners' debit loans leads to similar consequences as other deduction items, such as placement procedure for cases classified under current assets and increasing the limit for adding liabilities to the base.

Example (86)

The debit balances of one of the securities companies included a due from related parties with the following details:

Type of Party	Accounting Classification	Value	Explanation
Subsidiary	Current asset	17,000,000 SAR	The balance with the subsidiary is shown under the accounts of creditors related party, and the subsidiary has treated this balance as equity due to the failure to meet the conditions for treating it as a liability item.

What is the Zakat treatment for the due from related parties?

The Solution:

The due from related parties (Partners' debit loans) can be deducted from the Zakat base because it meets the conditions for deduction stated in the regulations.



5.3.4.2 Delayed Government Dues

Article 32 of the regulations considers delayed government dues as deduction items from the zakat base, provided the following conditions are met:

- a. It is proven to the Authority that the reason for delaying the payment of Zakat Payer's dues is related to the government entity and the Zakat Payer shall submit the documents for his entitlement for these amounts and the government entity's delay in payment.
- b. It is classified in the financial statements as current assets.

The term "deduction" refers to the proof that the Zakat payer cannot collect these dues within the specified time due to reasons beyond their control, which is considered an obstacle to disposing of them.

Example (87)

The statement of financial position of a company the following asset item:

Item	Accounting Classification	Value
Property and Equipment	Non-current	100.000 SAR
Intangible Assets	Non-current	30.000 SAR
Related Parties	Non-current	70.000 SAR
Debtors	Current	60.000 SAR

- The related parties item consists of a loan granted to a subsidiary company subject to zakat collection in the Kingdom, with no specified payment term and without funding returns. The investee company has classified this loan for zakat purposes as part of Equity.
- The Debtors item includes delayed government dues amounting to 30,000 SAR, with evidence available that the delay is due to the government entity and that the company is entitled to this amount.



Which of the above asset items can be deducted from the company's zakat base?

The Solution:

The following items can be deducted from the company's zakat base:

Property and Equipment	100.000 SAR
Intangible Assets	30.000 SAR
Non-current Related Parties (Loan to Partner)	70.000 SAR
Delayed Government Dues	30.000 SAR
Total deduction items	230.000 SAR

- It is required to consider the general conditions for deducting the above-mentioned assets as stated in Article 48 of the regulations.
- Deducting some current assets (among debtors) requires correcting liability additions according to Article 25 of the regulations.



5.3.5 Other Deduction Items

This category includes deduction items mentioned in the regulations but not covered in the previous groups, including:

1. Statutory deposits.
2. Deferred tax assets.

5.3.5.1 Statutory Deposits

Article 56 of the regulations considers statutory deposits as deduction items from the zakat base if the following conditions are met:

- a. The Zakat payer shall comply with depositing them for the competent authority in accordance with the relevant laws.
- b. The Zakat payer may not be paid for any returns thereon.

Therefore, the Zakat payer will not be able to dispose of these deposits due to the requirement to keep them with the relevant authorities, and the Zakat payer will not benefit from any returns related to them, which permits deducting them and reducing the zakat base accordingly.

5.3.5.2 Deferred Tax Asset

Article 26 of the regulations considers deferred tax assets as deduction item from the zakat base. Deferred tax assets refer to the value of income taxes that are entitled to be recovered in future periods concerning the following:

- Deducted temporary differences, i.e., those that can be deducted from taxable profit in future periods.
- Unused tax losses that are carried forward to future periods.
- Unused tax credits that are carried forward to future periods.



Example (88)

The list of the financial position of a company at the end of 2025 includes the following asset items:

Item	Accounting Classification	Value
Property and Equipment	Non-current	500.000 SAR
Deferred tax assets	Non-current	120.000 SAR
Statutory deposits	Current	900.000 SAR
Inventory	Current	250.000 SAR

- The statutory deposits are deposits that the company is required to place with certain authorities in accordance with the relevant regulations, and the company does not earn any returns on them.
- The inventory item consists of the following:

Item	Value	Notes
Spare Parts	120.000 SAR	Not intended for sale
Raw Materials	80.000 SAR	Not part of the final product

Which of the above assets can be deducted from the company's zakat base?

The Solution:

The following assets can be deducted from the company's zakat base:



Property and Equipment	500.000 SAR
Deferred tax assets	120.000 SAR
Statutory deposits	900.000 SAR
Spare Parts	120.000 SAR
Raw Materials	80.000 SAR
Total deduction items	1.720.000 SAR

- Deducting the above asset items requires compliance with the general conditions for asset deductions outlined in Article 48 of the regulations.
- Deducting some current assets (within inventory), or statutory deposits and deferred tax assets requires correcting of liabilities additions according to Article 25 of the regulations.



Example (89)

The following statement of financial position for a Limited Liability Company at the end of 2024:

Statement of Financial Position		
Assets		
	2024 AD (SAR)	2023 AD (SAR)
Current Assets		
Cash and cash equivalents	10,500,000	11,287,500
Debtors	12,075,000	14,364,000
Inventory	15,750,000	13,125,000
Vital Assets	8,677,000	7,360,000
Debtors of finance lease contracts	2,000,000	4,000,000
Prepaid Expenses and Other Receivables	8,500,000	11,750,000
Total current assets	57,502,000	61,886,500
Non-current Assets		
Property and Equipment	15,750,000	16,275,000
Intangible assets	3,937,500	4,462,500
Projects Under Construction	6,980,000	5,290,000
Right-of-Use Assets	7,875,000	6,851,250
Contract Costs	6,930,000	7,329,000
Investments	10,500,000	15,750,000
Investment Properties	37,000,000	26,400,000
Due from Related Parties	13,125,000	9,187,500
Total Non-Current Assets	102,097,500	91,545,250
Total assets	159,599,500	153,431,750



Liabilities and Equity		
Current Liabilities		
Bank Facilities	5,328,750	4,987,500
Due to Related Parties	5,250,000	9,791,250
Accrued Expenses and Other Payables	13,650,000	12,285,000
Total Current Liabilities	24,228,750	27,063,750
Non-Current Liabilities		
Lease Liabilities	23,625,000	24,937,500
Contract Liabilities	9,030,000	9,261,000
Employee Benefits Liabilities	525,000	498,750
Total Non-Current Liabilities	33,180,000	34,697,250
Equity		
Capital	62,625,000	62,625,000
Statutory Reserve	9,761,250	9,761,250
Retained Earnings	29,804,500	19,284,500
Total Non-Current Assets	102,190,750	91,670,750
Total Liabilities and Equity	159,599,500	153,431,750

For the purposes of calculating deductions for the company's zakat base, the following data was obtained:

The inventory item consists of the following:

Item	Additional Information	Amount (SAR)
Spare Parts	Not intended for sale	3,000,000
Raw Materials	Not part of the final product	5,000,000
Finished Products	Stored for sale	7,750,000
Total Inventory		15,750,000



The (Debtors) item consists of the following:

Item	Additional Information	Amount (SAR)
Domestic Customers	Debts not exceeding 90 days old	7,075,000
Foreign Customers	Exports sales to foreign countries	3,500,000
Government dues	Delayed for a long period due to reasons attributable to the government entity	1,500,000
Total Debtors		12,075,000

The Due from Related Parties item consists of the following:

Item	Additional Information	Amount (SAR)
Due from Company (A)	Company (A) is a subsidiary. Its financing was granted under an Indefinite-term financing contract and with funding revenues not aligned with market rates.	10,125,000
Due from Company (B)	Company (B) is a subsidiary. This amount has been classified as a liability in its zakat declaration due to the related conditions.	3,000,000
Total Debtors		13,125,000

The Investments item consists of the following:

Item	Additional Information	Amount (SAR)
Investment in Companies Within the Kingdom	Companies subject to zakat and registered with the authority.	6,000,000
Investment in Investment Funds	Investment for which zakat has not been paid.	1,500,000
Investment in Non-Governmental Bonds	Investment not for trading and the issuer treated it as capital in its zakat declaration.	3,000,000
Total Investments		10,500,000



Required: Calculate the amount of zakat deductions for the company for the year 2024.

The Solution:

Based on the details provided above, the zakat deductions items for the company's zakat base are as follows:

Item	Amount (SAR)
Property and Equipment	15,750,000
Intangible Assets	3,937,500
Projects Under Construction	6,980,000
Right-of-Use Assets	7,875,000
Contract Costs	6,930,000
Investment Properties	37,000,000
Investment in Companies Within the Kingdom	6,000,000
Investment in Non-Government Bonds	3,000,000
Spare Parts Not Intended for Sale	3,000,000
Raw Materials Not Part of the Final Product	5,000,000
Delayed Government Dues	1,500,000
Due from Company (A)	10,125,000
Total Deductions from the Zakat Base	107,097,500

It is noted that the item "Debtors of finance lease contracts" shown among the company's assets is not deducted according to what is stated in Article 35 of the regulations, which states that finance leased assets in the financial statements are not considered an investment that can be deducted from the zakat base of the lessor, regardless of their classification in the financial statements.



5.4 Provisions Related to the Zakat Base

Zakat payer calculates the zakat base by adding the additional items stated in Article 23 and subtracting the deduction items according to the provisions of the regulations. However, after calculating the zakat base, it is important to consider several rules mentioned in the regulations related to the calculated zakat base, including the rules on the zakat base limits and the zakat percentage used.

5.4.1 Zakat Base Limits

After calculating the zakat base, it is important to consider the minimum zakat base, which one transitions if the zakat base result is less than the adjusted net profit. Additionally, it is necessary to ensure that the zakat base does not exceed the maximum limit.

5.4.1.1 Minimum Limit of the Base

Article 27 of the regulations includes the provisions of the minimum zakat base. The minimum zakat base mentioned in the article is considered an alternate base, unaffected by the addition or deduction items. It is based on the result of the Zakat payer's activity, . However, if the zakat base exceeds the adjusted net profit, the minimum zakat base is not considered. This includes cases where the Zakat payer does not achieve an adjusted net profit but has a positive Zakat base.

Naturally, if the Zakat payer's base is negative and no adjusted net profit is achieved, there will be no zakat base for the Zakat payer to be assessed.



The minimum limit of the base is the lower of the following:

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

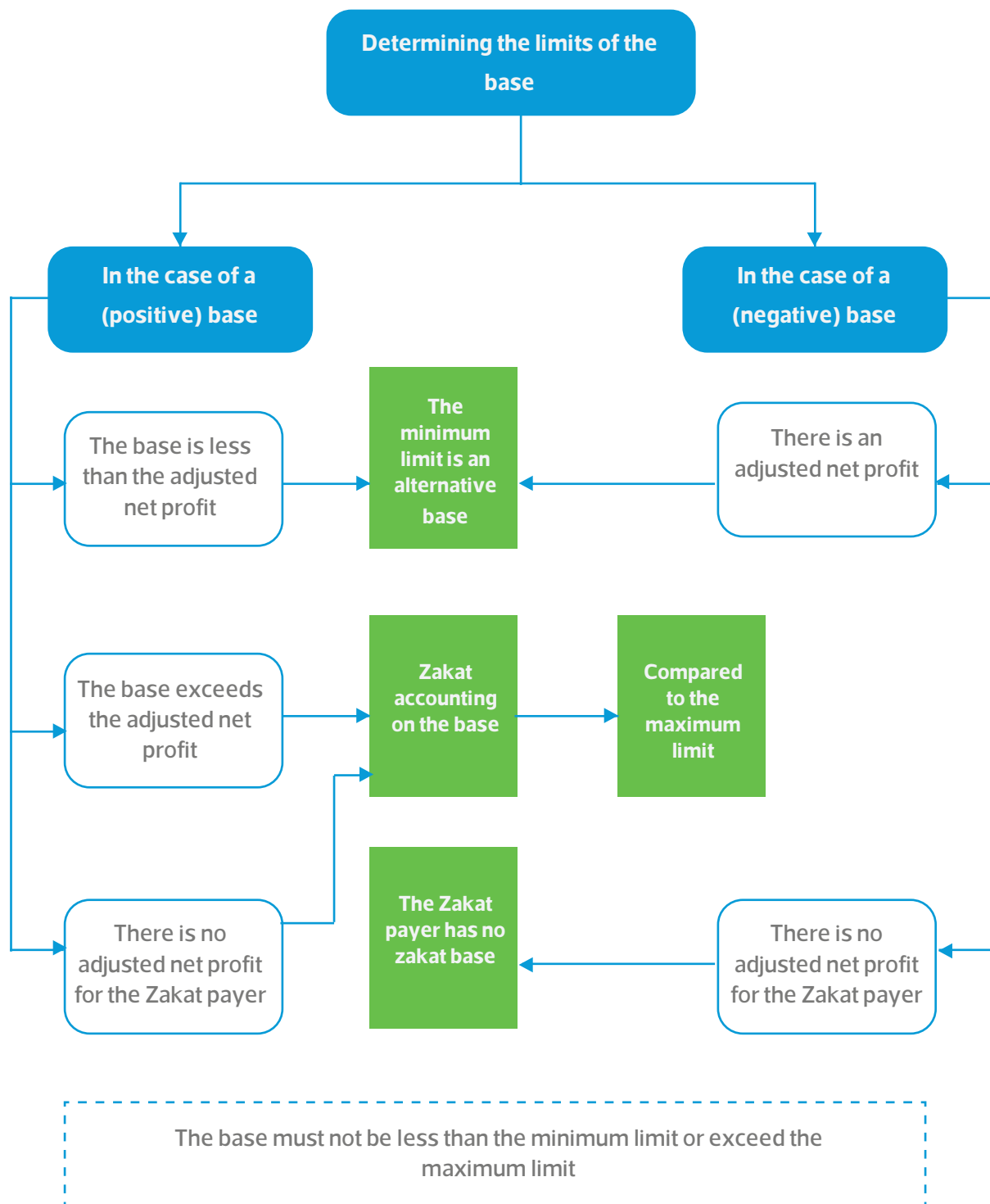
5.4.1.2 Maximum Zakat Base

As stipulated in Article 28, the maximum zakat base must be considered after calculating the zakat base for the Zakat payer to ensure it does not exceed the maximum limit specified in the article.

The maximum zakat base is as follows:

Equity and Equivalents, depending on the value shown in the statement of financial position at the end of the Zakat year of the Zakat payer, plus the difference between adjusted net profit or loss of the year and net book profit or loss.

Equity includes any items reclassified as Equity, such as profits under distribution classified under liabilities, as well as partners' loans and Provisions presented in the Statement of Financial Position treated as Equity according to the provisions of the regulations.





Example (90)

The following data appeared for Al Wefaq Company at the end of the year 2024:

Item	Value
Equity	300,000 SAR
Adjusted net Profit	190,000 SAR
Net Book Profit	140,000 SAR
Difference between Adjusted net Profit and Net Book Profit	50,000 SAR
Zakat Base	490,000 SAR
Minimum Limit for the Base	105,000 SAR

What should the Zakat base be in this case?

The Solution:

Since the Zakat base is more than the adjusted net profit, the zakat base should be compared to the calculated maximum limit, and the minimum limit should not be considered. The calculation is as follows:

Calculating the Maximum Limit for the Base	
Property Rights	300,000 SAR
(+) Difference between net book profit and adjusted net Profit	50,000 SAR
Total	350,000 SAR

Since the zakat base amount exceeds the calculated maximum limit, the zakat base for the company is the maximum limit of 350,000 SAR.



5.4.2 Zakat percentage

According to Article 15 of the regulations, the zakat percentage is 2.5% if the zakat year for the Zakat payer is a Hijri year. If the Zakat payer's zakat year differs from the Hijri year, the zakat percentage is calculated by dividing 2.5% by the number of days in the Hijri year and then multiplying by the actual number of days in the Zakat payer's fiscal year, using the following equation:

Zakat percentage = $(2.5\% \div \text{Number of Days in the Hijri Year}) \times \text{Number of Days in the Zakat payer's Fiscal Year}$

It is common for the Zakat payer's zakat year to differ from the Hijri year, which necessitates using the zakat percentage based on the actual number of days. Examples of such differences include:

- **If the Zakat payer's year is a Gregorian year:**

If the Zakat payer's year is Gregorian, the year will be 365 days. Therefore, the Zakat percentage is calculated as follows: $(2.5\% \div 354) \times 365 = 2.5777\%$. Noted that in a leap year, such as 2024, the number of days increases to 366.

- **For a short period at the beginning of activity:**

If the initial year of the Zakat payer is a short year, the number of days in the first year will be less than 354. Assuming the initial short year has 270 days, the Zakat percentage is calculated as follows: $(2.5\% \div 354) \times 270 = 1.9067\%$.

- **For a long period at the beginning of activity:**

If the initial year of the Zakat payer is a long year, the number of days in the first year will exceed 354 days. Consequently, the Zakat percentage must be calculated. Assuming the initial long year has 400 days, the Zakat percentage is calculated as follows: $(2.5\% \div 354) \times 400 = 2.824\%$.



- **In case of adjusting the Zakat payer's fiscal year-end:**

If an entity adjusts its fiscal year during the year, a short or long transitional period will result. For example, if a Zakat payer's fiscal year ends on December 31st of each year and the Zakat payer's fiscal year is being adjusted to end on September 30th, a short transitional period from January 1st to end of September will occur. When filing a Zakat declaration for this short transitional period, the Zakat percentage is determined based on the actual number of days in the short transitional period.

Example (91)

A Saudi company submits its Zakat declaration based on the Hijri fiscal year, which consists of 354 days. What is the Zakat percentage that must be used?

The Solution:

Since the company's year is based on the Hijri calendar with 354 days, the Zakat percentage that must be used is 2.5%.

Example (92)

A Saudi company started its initial fiscal year on May 1, 2024, and ended on December 31, 2024. What is the Zakat percentage that must be used?

The Solution:

Since the company's first year is a short Gregorian year with 245 days, the Zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 365 \text{ Days} = 1.7302 \%$$



Example (93)

A Saudi company began its initial fiscal year on October 9, 2024, and ended on December 31, 2025. What is Zakat percentage that must be used?

The Solution:

Since the company's fiscal year is a long Gregorian year with 449 days, the zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 365 \text{ Days} = 3.1709 \%$$



Comprehensive cases on calculating the zakat base

Example (94)

The following are the financial statements of a company at the end of 2024:

Statement of Financial Position			
Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and cash equivalents	30,000 SAR	Short-term facilities	15,000 SAR
Inventory	40,000 SAR	Accrued expenses and other payable	5,000 SAR
Total	70,000 SAR	Total	20,000 SAR
Non-current Assets		Non-current Liabilities	
Property and Equipment	80,000 SAR	Long-term loans	40,000 SAR
Intangible assets	25,000 SAR	Employee benefit Liabilities	35,000 SAR
Total	105,000 SAR	Total	75,000 SAR
		Equity	
		Capital	40,000 SAR
		Statutory reserve	10,000 SAR
		Retained earnings	30,000 SAR
		Total	80,000 SAR
Total	175,000 SAR	Total	175,000 SAR

The non-current assets are fully deductible.

- The inventory includes 5,000 SAR for spare parts not intended for sale.



Income Statement	
Revenues	50,000 SAR
Cost of Revenues	20,000 SAR
Gross Profit	30,000 SAR
General and Administrative Expenses	15,000 SAR
Selling and Distribution Expenses	5,000 SAR
Profit before Zakat	10,000 SAR
Zakat	3,000 SAR
Net Book Profit	7,000 SAR

- The general and administrative expenses include a donation expense of 2,000 SAR to unauthorized entities for receiving donations.
- Required: Calculate the company's zakat.

The Solution:

First: Adjusted net Profit

Item	Amount (SAR)
Net book profit	7,000 SAR
(+) Donations to unauthorized entities	2,000 SAR
Zakat adjustments	2,000 SAR
Adjusted net profit	9,000 SAR

Second: Addition items to the Zakat base:

Equity and its equivalents:

Item	Amount (SAR)
Capital	40,000 SAR
Statutory reserve	10,000 SAR
Retained earnings	30,000 SAR
Total Equity items	80,000 SAR



Liabilities:

Item	Amount (SAR)
Long-term loans	40,000 SAR
Employees benefit obligations	35,000 SAR
Total liabilities items before placement	75,000 SAR
Correction of current liabilities additions against the deduction of spare parts	1,428 SAR
Total liabilities items after placement	76,428 SAR

The correction amount for the deducted Spare Parts was calculated as follows: -

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Spare Parts)	$\frac{\text{Spare Parts}}{\text{Current assets}}$	Add a portion of the current liabilities not added	$20,000 * 7,14\% =$ 1.428 SAR
	$5,000 / 70,000 = 7.14\%$		

Third: Deduction Items from the Zakat Base:

Item	Amount (SAR)
Property and equipment	80,000 SAR
Intangible assets	25,000 SAR
Spare Parts	5,000 SAR
Total Deduction Items	110,000 SAR

Fourth: Composition of the Base



Item	Amount (SAR)
Total Addition Items	
(+) Equity and its equivalents	80,000 SAR
(+) Liabilities within the limits of deducted assets	76,428 SAR
(+) Difference between adjusted net profit and net book profit	2,000 SAR
Total Addition Items	158,428 SAR
Deduction Items	
(-) Deduction Items	110,000 SAR
Total Deduction Items	110,000 SAR
Zakat Base	48,428 SAR

Fifth: Comparison of Base Limits and Calculation of Zakat Due

Calculating the Minimum limit of the Base		Calculating the Maximum limit of the Base	
Un-deducted Assets	65,000 SAR	Equity	80,000 SAR
(+) Difference between adjusted net profit and net book profit	2,000 SAR	(+) Difference between adjusted net profit and net book profit	2,000 SAR
Total	67,000 SAR	Total	82,000 SAR
Adjusted net profit	9,000 SAR		
The results above are compared, and the minimum base is the lower amount; therefore, the minimum limit is 9,000 SAR .		Therefore, the maximum limit of the base is 82,000 SAR .	

And since the calculated Zakat base of (48,428 SAR) does not exceed the maximum limit, the Zakat base for the company is the amount of **(48,428 SAR)**.



Sixth: Calculation of Zakat:

Since the company's year is Gregorian with 366 days, the Zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 366 \text{ Days} = 2.5847\%$$

$$\begin{aligned} \text{Zakat} &= \text{Zakat Base} \times \text{Zakat percentage} \\ &= 48,428 \text{ SAR} \times 2.5847\% = \mathbf{1,251.72 \text{ SAR}} \end{aligned}$$



Example (95)

The following are the financial statements of a company at the end of 2024:

Statement of Financial Position			
Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash and equivalents	100,000 SAR	Bank facilities	150,000 SAR
Inventory	200,000 SAR	Other current liabilities	90,000 SAR
Murabaha Deposits	400,000 SAR	Zakat Provision	60,000 SAR
Total	700,000 SAR	Total	300,000 SAR
Non-current Assets		Non-current Liabilities	
Property and equipment	210,000 SAR	Loans	200,000 SAR
Investment in Subsidiaries	130,000 SAR	Employee benefit Liabilities	70,000 SAR
Due from Related Parties	320,000 SAR	Other Non-current Liabilities	130,000 SAR
Total	660,000 SAR	Total	400,000 SAR
		Equity	
		Capital	320,000 SAR
		Statutory reserve	80,000 SAR
		Retained earnings	260,000 SAR
		Total	660,000 SAR
Total	1,360,000 SAR	Total	1,360,000 SAR



- The inventory includes an amount of 110,000 SAR, representing spare parts not intended for sale.
- The subsidiary is subject to Zakat collection in the Kingdom.
- The "Due from Related Parties" item represents a loan on the subsidiary, which has been treated as a liability in the Zakat base for the subsidiary.
- The "Other current liabilities " item includes a provision for lawsuits amounting to 30,000 SAR.
- The "Other Non-current Liabilities" represent long-term government loans.

Income Statement	
Revenues	560.000 SAR
Cost of Revenues	260.000 SAR
Gross Profit	300.000 SAR
General and Administrative Expenses	120.000 SAR
Selling and Distribution Expenses	95.000 SAR
Profit Before Zakat	85.000 SAR
Zakat	27,000 SAR
Net Book Profit	58,000 SAR

- The cost of revenues include owners' salaries amounting to 70,000 SAR, which are not registered with social insurance.
- The general and administrative expenses include tuition fees for the children of the company's employees, paid to schools outside the Kingdom, amounting to 20,000 SAR.

Required: Calculate the company's zakat.



The Solution:

First: Adjusted net Profit

Item	Amount (SAR)
Net book profit	58,000 SAR
(+) Owners' salaries not registered with social insurance.	70,000 SAR
(+) Tuition fees paid to schools outside the Kingdom	20,000 SAR
Zakat adjustments	90,000 SAR
Adjusted net profit	148,000 SAR

Second: Addition items to the Zakat base:

Equity and its equivalents:

Item	Amount (SAR)
Capital	320,000 SAR
Statutory reserve	80,000 SAR
Retained earnings	260,000 SAR
Zakat Provision	60,000 SAR
Provision for Lawsuits	30,000 SAR
Total Equity items	750,000 SAR



Liabilities:

Item	Amount (SAR)
Loans	200,000 SAR
Employee benefit Liabilities	70,000 SAR
Other Liabilities	130,000 SAR
Total liabilities items before placement	400,000 SAR
Correction of current liabilities additions against the deduction of raw materials	32,999.4 SAR
Correction of additions to non-current liabilities against the non-deduction of amounts due from related parties.	(193,936 SAR)
Total liabilities items after placement	239,063.4 SAR

The correction amount for the Raw Materials was calculated as follows: -

Reason for placement	Percentage	Type of correction	Correction amount
Deduction of current asset (Raw Materials)	$\frac{\text{Raw Materials}}{\text{Current assets}}$	Add a portion of the current liabilities not added	$210,000 \times 15,714\% =$ 32.999.4 SAR
	$700,000 / 110,000 =$ 15.714 %		

It is noted that items reclassified to equity have been excluded from current liabilities when applying the equation.



The correction amount related to the un-deducted "Due from Related Parties" has been calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (Due from Related Parties)	Due from Related Parties Non-current asset	Exclusion of part of the added non-current liabilities	400,000 * 48.484% = 193,936 SAR
	$320,000 / 660,000 = 48.484\%$		

It is noted that the correction amount was calculated based on the value of liabilities added to the base before placement.

Third: Deduction Items from the Zakat Base:

Item	Amount (SAR)
Property and equipment	210,000 SAR
Intangible assets	130,000 SAR
Raw Materials	110,000 SAR
Total Deduction Items	450,000 SAR



Fourth: Composition of the Base

Item	Amount (SAR)
Total Addition Items	
(+) Equity and its equivalents	750,000 SAR
(+) Liabilities within the limits of deducted assets	239,063.4
(+) Difference between adjusted net profit and net book profit	90,000
Total Addition Items	1,079,063
Deduction Items	
(-) Deduction Items	450,000
Total Deduction Items	450,000
Zakat Base	629,063.4

Fifth: Comparison of Base Limits and Calculation of Zakat Due

Calculating the Minimum limit of the Base	Calculating the Maximum limit of the Base	
Since the resulting base is greater than the adjusted net profit, the minimum limit is not considered.	Equity	750,000 SAR
	(+) Difference between adjusted net profit and net book profit	90,000 SAR
	Total	840,000 SAR
	Therefore, the maximum limit of the base is 840,000 SAR .	

And since the calculated Zakat base of (629,063.4 SAR) does not exceed the maximum limit, the Zakat base for the company is the amount of **(629,063.4 SAR)**.



Sixth: Calculation of Zakat:

Since the company's year is Gregorian with 365 days, the Zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 365 \text{ Days} = 2.5777\%$$

Zakat = Zakat Base × Zakat Percentage

$$= 629,063.4 \text{ SAR} \times 2.5777\% = \mathbf{16,215.37 \text{ SAR}}$$



Example (96)

The following statements are for a limited liability company at the end of the year 2024:

Statement of Financial Position					
Assets			Liabilities and Equity		
	2024 AD	2023 AD		2024 AD	2023 AD
Current Assets			Current Liabilities		
Cash and Cash Equivalents	4,000,000 SAR	4,300,000 SAR	Long-term Loans (Current Portion)	3,700,000 SAR	4,700,000 SAR
Debtors	3,000,000 SAR	4,000,000 SAR	Due to Related Parties	8,000,000 SAR	7,500,000 SAR
Inventory	6,000,000 SAR	5,000,000 SAR	Lease liabilities	1,000,000 SAR	2,000,000 SAR
Murabahas	5,000,000 SAR	3,500,000 SAR	Advances from customers	2,000,000 SAR	3,730,000 SAR
Contract Costs	4,500,000 SAR	5,500,000 SAR	Zakat Provision	450,000 SAR	320,000 SAR
Prepaid Expenses	4,000,000 SAR	6,000,000 SAR	Vacation Provision	320,000 SAR	250,000 SAR
			Accrued Expenses	5,200,000 SAR	7,200,000 SAR
Total	26,500,000 SAR	28,300,000 SAR	Total	20,670,000 SAR	25,700,000 SAR
Non-current Assets			Non-current Liabilities		
Property and Equipment	6,000,000 SAR	6,200,000 SAR	Long-term Loans	7,000,000 SAR	4,000,000 SAR
Intangible Assets	1,500,000 SAR	1,700,000 SAR	Lease liabilities	9,000,000 SAR	9,500,000 SAR
Right-of-use Assets	4,000,000 SAR	6,000,000 SAR	Advances from customers	3,000,000 SAR	4,500,000 SAR
Investment Properties	5,000,000 SAR	6,100,000 SAR	Asset Retirement Provision	1,150,000 SAR	1,610,000 SAR
Contract Costs	1,470,000 SAR	2,620,000 SAR	Employee Benefits Liabilities	200,000 SAR	190,000 SAR
Investments	3,000,000 SAR	3,000,000 SAR			
Total	20,970,000 SAR	25,620,000 SAR	Total	20,350,000 SAR	19,800,000 SAR



			Equity		
			Capital	1,000,000 SAR	1,000,000 SAR
			Statutory Reserve	300,000 SAR	290,000 SAR
			Other Reserves	150,000 SAR	130,000 SAR
			Retained Earnings	5,000,000 SAR	7,000,000 SAR
			Total	6,450,000 SAR	8,420,000 SAR
Total	47,470,000 SAR	53,920,000 SAR	Total	47,470,000 SAR	53,920,000 SAR

- The Debtors item includes an amount of 2,000,000 SAR, representing delayed government dues, and the company has evidence that the delay in settling these receivables is due to the government entity.
- The investments item includes an amount of 2,000,000 SAR in investments in companies outside the Kingdom, and the company does not intend to pay its share of the Zakat for the foreign company, as well as an amount of 1,000,000 SAR invested in companies within the Kingdom, which are registered with the authority.
- The "Due to Related Parties" item represents an amount due to one of the partners, with no contracts in place or specified funding revenues for this amount.

Income Statement		
	2024 AD	2023 AD
Revenues	25,000,000 SAR	27,000,000 SAR
Cost of Revenues	12,000,000 SAR	9,700,000 SAR
Gross Profit	13,000,000 SAR	17,300,000 SAR
General and Administrative Expenses	4,000,000 SAR	3,200,000 SAR
Selling and Distribution Expenses	2,000,000 SAR	4,000,000 SAR
Profit Before Zakat	7,000,000 SAR	10,100,000 SAR
Zakat	350,000 SAR	290,000 SAR
Net Book Profit	6,650,000 SAR	9,810,000 SAR



- The cost of revenues includes an over-recorded cost of services, as it was found that the related invoice amounts to 2,000,000 SAR, while it was recorded at 3,000,000 SAR.
- The general and administrative expenses include provisions formed in the amount of 3,500,000 SAR.

Required: Calculate the company's zakat.

The Solution:

First: Adjusted net Profit

Item	Amount (SAR)
Net book profit	6,650,000 SAR
(+) Invoices for over-recorded costs	1,000,000 SAR
Zakat adjustments	1,000,000 SAR
Adjusted net profit	7,650,000 SAR

Second: Addition items to the Zakat base:

Equity and its equivalents:

Item	Amount (SAR)
Capital	1,000,000 SAR
Statutory reserve	300,000 SAR
Other reserves	150,000 SAR
Retained earnings	5,000,000 SAR
Zakat Provision	450,000 SAR
Asset Retirement Provision	1,150,000 SAR
Due to Related Parties	8,000,000 SAR
Total Equity items	16,050,000 SAR



Liabilities:

Item	Amount (SAR)
Long-term Loans (Non-current Portion)	7,000,000 SAR
Lease liabilities - Non-current	9,000,000 SAR
Advances from customers	3,000,000 SAR
Employee Benefits Liabilities	200,000 SAR
Total liabilities items before placement	19,200,000 SAR
Correction of current liabilities additions against the deduction of Delayed government dues	922,610 SAR
Correction of non-current liabilities additions against the non-deduction of Foreign investments	(1,831,680 SAR)
Total liabilities items after placement	18,290,930 SAR

It is noted that the total un-deducted assets from the base is greater than the total liabilities not added to the base; therefore, no differences related to this were added.

The correction amount for the deducted Delayed government dues was calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Deducted current asset (Delayed government dues)	$\frac{\text{Delayed government dues}}{\text{Current assets}}$	Add a portion of the current liabilities not added	$12,220,000 \times 7.55\% = 922,610 \text{ SAR}$
	$2,000,0000 / 26,500,000 = 7.55 \%$		



It is noted that items reclassified to equity have been excluded from current liabilities when applying the equation.

The correction amount related to the un-deducted " Foreign investments " has been calculated as follows:

Reason for placement	Percentage	Type of correction	Correction amount
Un-deducted non-current asset (Investments for which zakat has not been paid)	$\frac{\text{Investments for which zakat has not been paid}}{\text{Current assets}}$	Deduction of part of the added non-current liabilities	19,200,000 * 9.54% = 1,831,680 SAR
	$2,000,000 / 20,970,000 = 9.54\%$		

It is noted that the correction amount was calculated based on the value of liabilities added to the base before placement.

Third: Deduction Items from the Zakat Base:

Item	Amount (SAR)
Property and equipment	6,000,000 SAR
Intangible assets	1,500,000 SAR
Right-of-use assets	4,000,000 SAR
Investment property	5,000,000 SAR
Contract costs	1,470,000 SAR
Investments in companies within the kingdom registered with the authority	1,000,000 SAR
Delayed government dues	2,000,000 SAR
Total Deduction Items	20,970,000 SAR



Fourth: Composition of the Base

Item	Amount (SAR)
Addition Items	
(+) Equity and its equivalents	16,050,000 SAR
(+) Liabilities within the limits of deducted assets	18,290,930 SAR
(+) Difference between adjusted net profit and net book profit	1,000,000 SAR
Total Addition Items	35,340,930 SAR
Deduction Items	
(-) Deduction Items	20,970,000 SAR
Total Deduction Items	20,970,000 SAR
Zakat Base	14,370,930 SAR

Fifth: Comparison of Base Limits and Calculation of Zakat Due

Calculating the Minimum limit of the Base	Calculating the Maximum limit of the Base	
Since the resulting base is greater than the adjusted net profit, the minimum limit is not considered. SAR	Equity	16,050,000 SAR
	(+) Difference between adjusted net profit and net book profit	1,000,000 SAR
	Total	17,050,000 SAR
	Therefore, the maximum limit of the base is 17,050,000 SAR.	



And since the calculated Zakat base of (14,370,930 SAR) does not exceed the maximum limit, the Zakat base for the company is the amount of **(14,370,930 SAR)**.

Sixth: Calculation of Zakat:

Since the company's year is Gregorian with 365 days, the Zakat percentage should be calculated as follows:

$$\frac{2.5\%}{354 \text{ days}} \times \text{Number of Actual Days in the Financial Year, The result is as follows} = \frac{2.5\%}{354 \text{ days}} \times 366 \text{ Days} = 2.5847\%$$

Zakat = Zakat Base × Zakat Percentage

= 14,370,930 SAR × 2.5847% = **371,445.43 SAR**



6. Zakat Payer's Rights and Obligations Towards the Authority

6.1 Introduction

Chapter Four of the regulation outlines the Zakat Payer's Rights and Obligations. It includes a number of controls, conditions, and considerations related to these rights and obligations.

The rights and obligations of the Zakat payer have been placed in a separate chapter due to their importance in safeguarding the Zakat payer's rights and clarifying their obligations, which supports compliance with Zakat commitment.

6.2 Rights of the Zakat Payer

6.2.1 Commencement of Zakat Collection

In some cases, the start date of the zakat year for the Zakat payer, as mentioned in Article 10 of the regulation, may not reflect the actual start of the Zakat payer's activities that necessitate the commencement of zakat collection. This could be due to regulatory obstacles that prevent the Zakat payer from starting activities or disposing of his funds. In such cases, the Zakat payer may determine the actual start date of the activities, provided that they submit supporting documents proving this, and that the authority accepts these documents and confirm the actual start date of the activities.

While Article 10 of the regulation specifies the commencement date of the zakat year for the Zakat payer, as clarified in paragraph 3.6 of this guide, Article 92 of the regulation gives the Zakat payer the right to determine a different start date for their activities after submitting documentary evidence that justifies the determination of this date, provided that the authority accepts the documents submitted by the Zakat payer.



Based on the above, if the Zakat payer does not specify another start date for their activities, or if the authority does not accept the documents submitted by them in this regard, the commencement of Zakat collection from the Zakat payer will be determined according to the earlier of the following:

- a. The date of issuing the establishment's commercial register.
- b. The date of acquiring the first of the licenses necessary to practice the Activity in accordance with the relevant laws and regulations applicable in the Kingdom.
- c. The date of depositing the capital in accordance with the relevant laws.

6.2.2 Amending Zakat Declaration

One of the rights granted to the Zakat payer by the regulation is the right to request an amendment to the Zakat declaration. Amending the Zakat declaration refers to the Zakat payer's ability to modify the information provided in the submitted declaration. This right applies in situations where the Zakat payer identifies an error or omission in the submitted declaration, which may result in an increase or decrease in the amount of Zakat owed.

Examples of such errors include the following:

- Declaring revenues in the declaration higher than the actual revenues.
- Failing to adjust the net profit for one of the non-accepted expenses.
- Failing to declare one of the addition or deduction items.
- Declaring an incorrect value for one of the addition or deduction items.



The request to amend the declaration is one of the Zakat payer's preserved rights, taking into consideration the related controls and conditions. The regulation, in Article 93, allows the Zakat payer to request an amendment to the Zakat declaration in accordance with the procedures and considerations specified in Article 103, which will be detailed in the provisions of the declaration, outlined in paragraph 6.2.2 of this guide.

6.2.3 Zakat Dues Instalment

The Zakat payer has the right to request approval for instalment payment of the Zakat dues in cases where they are unable to pay the full Zakat dues in a single payment, provided that the conditions and regulations related to this are observed. " Zakat Dues Instalment" refers to the Zakat payer paying the due amounts in specified instalments of fixed amounts and durations. An example of this is when zakat dues result from assessments for several past years, which may make it difficult to pay the full amount at once. Another example is when liquidity constraints prevent the Zakat payer from paying the Zakat due in one payment when submitting the Zakat declaration. In such cases, the Zakat payer may request approval for instalment payment of the Zakat dues.

It is important to note that the request for instalments is subject to the authority's approval based on the instalment justification provided by the Zakat payer. Article 94 of the regulations grants the Zakat payer the right to pay Zakat dues in instalments by the submission of a request to approve instalment payments for the Zakat dues. Article 118 of the regulation outlines the criteria related to this, which will be detailed in the collection rules mentioned in paragraph 6.5.2 of this guide.



6.2.4 Recovering surplus amounts

One of the Zakat payer's rights guaranteed by the regulations is the right to recover amounts paid in excess. This refers to amounts paid by the Zakat payer that exceed the zakat due. Common examples of excess zakat dues payments include when the Zakat payer amends their declaration containing excess zakat dues, as mentioned in paragraph 5.2.2 of this guide, and the authority accepts these amendments, resulting in excess payments due to the excess payment of zakat declaration. Another example is when the Zakat payer disputes a zakat assessment and pays part of the disputed amount to submit the objection, and the objection is subsequently ruled in the Zakat payer's favor. In such cases, the Zakat payer will have paid excess amounts, represented by the portion of the disputed amount paid for which a decision was issued in favor of the Zakat payer.

Article 95 of the regulations outlines the Zakat payer's right to recover amounts proven to be paid in excess of Zakat dues. Article 107 specifies the procedures and controls related to this, which are as follows:

1. If it is discovered that a Zakat Payer has paid amounts in excess of Zakat dues according to Regulations, then, such amounts in excess are treated as an advance payment for subsequent Zakat years and credited to the Zakat Payer's account for subsequent Zakat years, unless the Zakat Payer requests the recovery of such amount in excess within five (5) years from the regular payment date of the amount, provided that in calculating this period, it should be taken into account that if a Zakat assessment is conducted to the Zakat Payer and the Zakat Payer objects to it, the calculation of the remainder of the period shall be resumed after a final decision is issued confirming that the Zakat Payer is entitled to such amounts.



2. The Authority shall check the Zakat Payer's request, confirm the amounts paid in excess, and finalize the matter within (30) thirty days from the date of establishing the Zakat Payer's right to recovery, and after the Zakat Payer's request for it.
3. If there are still Zakat declarations not been submitted to the Authority, or in cases of objection or appeal, no request to return amounts paid in excess shall be considered except after the final ruling is issued confirming the Zakat Payer's entitlement to such amounts, and the excess amounts shall be returned to the Zakat Payer's after the final ruling is issued in favor of the Zakat Payer's.
4. The Zakat Payer may request the carry forward the amounts paid in excess to pay any Zakat or tax dues to the authority, and the date of the Zakat Payer's request for carrying forward shall be considered the date proving the fact of payment of such dues.



Example (97)

A Zakat payer submitted the Zakat declaration for the year 2024, and the amount due according to the declaration was 1,200,000 SAR, and the Zakat payer paid the amount based on the result of the declaration. It was then found, after the authority conducted the zakat assessment, that the amount due was less than the declaration value, which was 1,000,000 SAR.

At the end of 2025, the Zakat payer submitted a request to the authority for recovery amounts paid in excess. Is the Zakat payer allowed to submit a request to recover amounts paid in excess in this case?

The solution:

Since the Zakat payer submitted the recovery request for amounts paid in excess within 5 years from the official due date for payment, the request is valid. The authority must check the Zakat payer's request, verify if there are excess amounts paid, and finalize the matter within 30 days from the date the Zakat payer's right to a recovery is confirmed.

Example (98)

A Zakat payer paid an additional amount of 100,000 SAR over the Zakat declaration for the year 2024. During the year 2025, the authority examined the declaration and conducted the zakat assessment, which included additional zakat dues over the declaration amounting to 130,000 SAR. The Zakat payer paid the amount and then filed an objection to the assessment issued by the authority.

In the appeal stage, and before the final decision on the submitted objection is issued, the Zakat payer submitted a request for a recovery of the excess amount paid. Is the Zakat payer allowed to submit a request to recover amounts paid in excess in this case?

The solution:

The Zakat payer's request for a recovery of the excess amounts will not be considered in this case, as the objection is still in the appeal stage.



6.2.5 Maintain the confidentiality of information

The authority commits to maintaining the confidentiality of the information related to the Zakat payer, whether provided by the Zakat payer or by other persons. Article 96 of the regulations includes the Zakat payer's right to confidentiality of the information they submit to the authority. This article obliges the authority to safeguard the confidentiality of the information provided to it. However, Article 108 specifies the cases in which the authority is allowed to disclose the information provided to it, without compromising confidentiality, as follows:

- Disclosure is required by relevant laws and regulations, or under a court ruling.
- Disclosure is required by the regulatory authorities relevant to implementing the provisions of the regulation.
- Disclosure is required by an official entity in a foreign country in compliance with any treaty or agreement to which the Kingdom is a party.
- Disclosure is based on written approval from the Zakat Payer.

Additionally, Article 109 outlines the conditions that must be considered when disclosing information in light of the above mentioned cases, as follows:

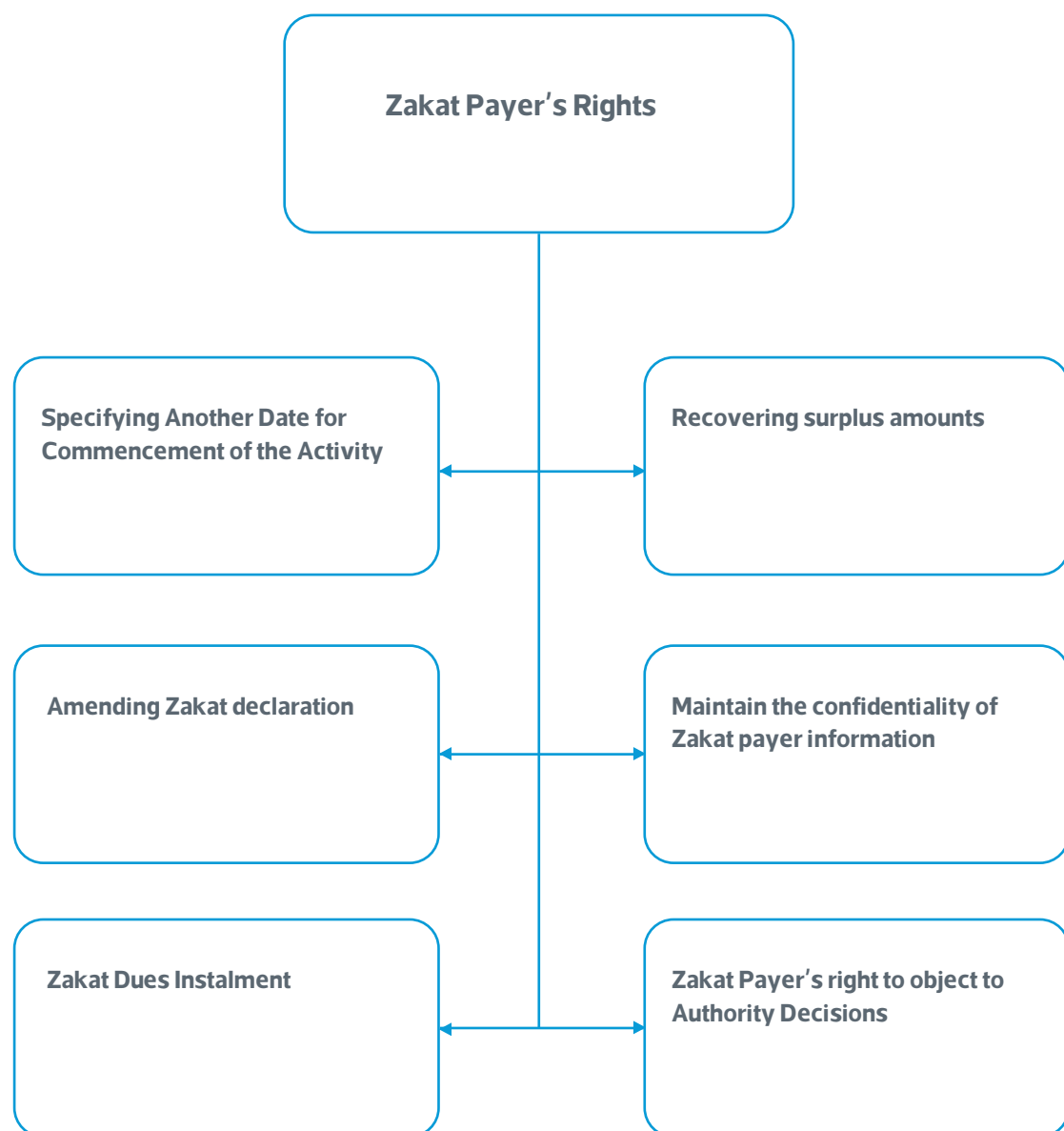
1. The disclosure shall be officially mandated by the Authority.
2. The disclosure must not exceed the intended purpose and should be limited to the extent necessary to achieve the purpose of the disclosure.
3. All procedures must be taken to ensure the protection of the confidential data disclosed by the Zakat payer, preventing its loss, damage, or unlawful circulation.
4. Before proceeding with the disclosure, it must be ensured that the person to whom the information is being disclosed is fully aware of its confidentiality and the related confidentiality requirements.



6.2.6 Zakat Payer's right to object to Authority Decisions

If the Zakat payer disagrees with the decision issued by the authority, they have the right to formally object to the decision. Article 97 of the regulations includes the Zakat Payer's right to object to the Authority's Decisions to the Authority itself or submit a settlement request to the Authority's internal committee, before initiating grievance procedures to the Dispute Resolution Department.

Submitting a zakat objection also requires adherence to the provisions set out in the procedural rules for the Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445H. For example, the objection must be filed by an authorized person within the legally specified timeframes. Article 116 of the regulations outlines the rules of objection, which will be detailed in the zakat assessment rules under paragraph 6.3.3 of this guide.





6.3 Zakat Payer Obligations

6.3.1. Registration with the Authority, Submission of Zakat Declaration, and Payment of Zakat Dues

Article 98 of the regulations outlines the Zakat payer's obligations, which include registering with the authority, submitting zakat declarations, and paying the amounts due, as follows:

1. Register with the Authority before the conclusion of its initial fiscal year.

When registering, the Zakat payer must provide accurate information. Registration with the authority is the primary obligation, which enables the submission of zakat declarations and the payment of any amounts due.

2. Submit the Zakat declaration along with the supporting documentation on which documents it depended in determining the Zakat base, as per the regulations, provided that the required documents shall be specified according to the Authority's forms and procedures.

The Zakat payer must comply with the statutory deadlines for submitting the Zakat declaration and ensure the zakat period covered by the declaration.

3. Submit any requested documents or clarifications the Authority requires during checking and reviewing the Zakat declaration, and enable the Authority to access them in accordance with the relevant laws and legal procedures.

The Zakat payer bears the burden of proving the accuracy of the information provided in their zakat declaration, which requires the Zakat payer to submit all documents supporting the information in their declaration when requested by the authority.

4. Pay Zakat dues to the Authority - except in cases where the Zakat Payer is exempted from compliance - in accordance with Regulations provisions.

Paying the zakat dues is one of the most important obligations of Zakat payers, and the zakat must be paid within the statutory period. It is permissible to pay zakat dues in instalments as per the declaration of paragraph 5.2.3 of the guide.





Example (99)

A Zakat payer's initial fiscal year ends at the end of 2024. What is the zakat obligation concerning the timing of registration with the authority?

The solution:

The Zakat payer must register with the Authority before the conclusion of his initial fiscal year.

6.3.2 Language and Forms of Documents Submitted by the Zakat Payer

Article 99 of the regulations requires Zakat Payer to provide all supporting documents and clarifications for the declarations it submits in Arabic. It also stipulates that the documents must be presented by an authorized person in order to be accepted. The authority may request for documents as per the following controls:

- a. The authority shall explain the reasons for requesting the document, and this shall be only within the scope of the purpose for which it was requested.
- b. The Authority shall consider the appropriate period of time for the Zakat Payer to submit the requested document, provided that the timeframe shall not be less than ten working days.

The regulations also allow the authority to request documentation without following the rules outlined above, If it is proven that the Zakat Payer has submitted incorrect documents or information with the intention of Zakat evasion.

The Authority shall take into account all official papers issued by competent government bodies and the Authority shall bear the burden of proving its incorrectness. Examples of this include court rulings issued by competent courts, statements from the General Organization for Social Insurance, and similar documents.



Example (100)

The authority requested certain documents and explanations supporting the zakat declaration submitted by a Zakat payer for the year 2024 for zakat examination purposes. The Zakat payer submitted the documents through a person who does not have official authorization, and provided the explanations from their accounting system in English, as their system does not support other languages. Has the Zakat payer fulfilled the document submission requirements according to the regulations?

The solution:

In this case, the Zakat payer has not fulfilled their obligations under the regulations, as the documents must be submitted in Arabic, and they must be submitted by an authorized person.

6.3.3 Reporting Business Activity Cessation

Article 100 of the regulations requires the Zakat payer to notify the authority upon permanently cessation of business activity. Article 11 of the regulations outlines the rules related to the cessation of a Zakat payer's activity, provided that a written request is submitted to the authority within (60) days from the date of cessation. As detailed in paragraph 3.7 of this guide. Failure to notify the authority by the Zakat payer accordingly may result in the Authority continuing to impose Zakat on the Zakat Payer.

The importance of this lies in the fact that permanent cessation of business activity is one of the reasons for stopping zakat collection, requiring the Zakat payer to report such instances. Zakat collection will only stop if the Zakat payer submits a written request within the specified period; otherwise, zakat imposing will continue until the request is submitted. Additionally, the authority may determine a different date for the cessation of business activity if evidence supporting it is provided.



Example (101)

A Zakat payer ceased their business activity but did not notify the authority. Does the failure to notify the authority constitute a breach of the Zakat payer's Zakat obligations?

The solution:

Yes, the Zakat payer is considered to have breached their obligations outlined in the regulations, as they did not notify the authority upon cessation of their business activity. Consequently, the Authority may continue to impose Zakat on the Zakat Payer.

6.3.4 Approved Communication Channels

Communications and notifications from the authority to the Zakat payer will have legal effects if they are made through the means approved by the authority, as article 101 of the regulation considers the communications between Zakat Payers and the Authority will have legal effects, including but not limited to: The Authority's automated system, text messages, emails, correspondence made to the Zakat Payer's national address, or any other methods approved or accepted by the Authority.

This also obliges every Zakat payer to ensure that their contact information with the authority is promptly updated in case of any changes, to avoid any communication or notification issues.



7. Zakat Collection Procedures

7.1 Introduction

Chapter five of the regulations outlines the procedures for zakat collection, providing clarity on the rules and processes of collection, ensuring that these procedures are transparent for Zakat payers while maintaining the authority's role in safeguarding the funds for zakat beneficiaries.

7.2 Zakat Declaration Provisions

7.2.1 Submission of Zakat Declaration

Submitting the zakat declaration within the statutory period is one of the most important obligations for Zakat payers. This is done through the designated form available on the authority's portal. Article 102 of the regulations clarifies the maturity term of the zakat declaration, its submission mechanism, and payment, as follows:

- Zakat payer holding statutory accounts shall submit its Zakat declaration and pay Zakat dues based on it to the Authority within a period not exceeding one hundred and twenty (120) days as of the end of the Zakat year. If such a period concludes on an official holiday, the deadline extends to the first working day following the holiday.
- Zakat payer holding statutory accounts shall submit the Zakat declaration according to the Zakat declaration form of the Zakat payer holding statutory accounts in the Authority's electronic system, attaching to it the documents related to the data contained in the Zakat declaration according to the Zakat declaration form for the account of the Zakat payer holding statutory accounts in the Authority's electronic system.
- Paying Zakat dues shall be through a bank transfer via the "Sadad" system or any other means accepted by the Authority.



Failure to submit the zakat declaration within the specified statutory deadline will result in a different statute of limitations period during which the authority is entitled to issue, reissue, or correct assessments. In the case of delayed submission of the zakat declaration, the period is 10 years from the expiration of the period for submitting the declaration, as explained in paragraph 6.2.4 of this guide. Furthermore, failure to submit the zakat declaration grants the authority the right to assume the zakat dues in accordance with the zakat assumption rules outlined in paragraph 6.4 of this guide.

Example (102)

A Zakat payer ceased their business activity but did not notify the authority. Does the failure to notify the authority constitute a breach of the Zakat payer's Zakat obligations?

The Solution:

Since the company's fiscal year ends on 31/12/2024, the zakat declaration and payment of zakat dues must be submitted to the authority within 120 days from this date. Therefore, the zakat declaration must be submitted after end of the year but no later than 30/04/2025.

7.2.2 Amending Zakat Declaration

Article 103 of the regulations grants the Zakat payer the right to amend the Zakat declaration according to the following guidelines:

- If a Zakat payer holding statutory accounts finds an error in its Zakat declaration, it is entitled to request amending it from the Authority.
- Upon approval of the amendment request by the Authority, the Zakat payer holding statutory accounts shall revise the Zakat declaration within a period not exceeding thirty (30) days, provided that failure to comply with such deadline the Zakat Payer shall reapply to the Authority for the amendment.



Additionally, Article 104 of the regulations outlines the criteria for amending the zakat declaration as follows:

1. The submission of an amendment request for the Zakat declaration shall be conducted through the Authority's electronic system.
2. Documents and justifications accepted by the Authority shall be attached.
3. The amended declaration shall be submitted within the specified time frame.
4. If the Zakat Payer's request for amendment is due to an under-declaration, the following conditions shall be added to the above controls:
 - a. The amendment request for the Zakat declaration shall be submitted before conducting 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 (One Hundred and Six) of the Regulations shall be calculated as of the date of amending the declaration.

It is clear from the above that amending the zakat declaration requires the authority's approval to proceed with the amendment. Additionally, the authority's approval requires the amendment to be made within a period not exceeding thirty (30) days. This aims to regulate the process of amending zakat declarations and to consider the justifications for such amendments based on the documents and explanations provided by the Zakat payer.

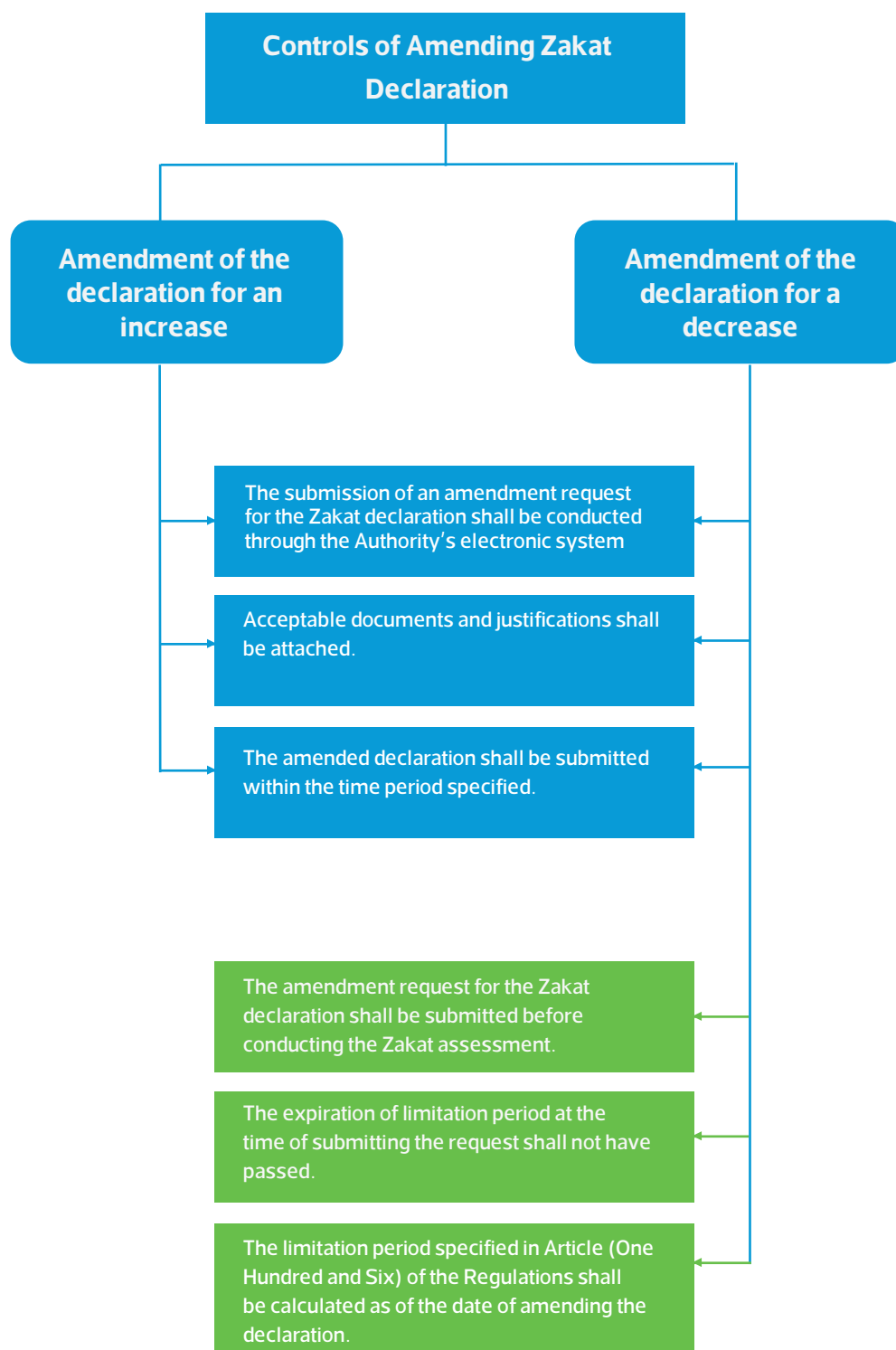


Example (103)

A Zakat payer submitted his Zakat declaration for the year 2024 on statutory time and paid the Zakat due. However, after submitting the declaration, he discovered that he had not included an item that should have been added to the zakat base according to the provisions of the regulations, which would result in an increase in the zakat amount due. How can the Zakat payer amend his declaration?

The Solution:

Since the amendment will result in an increase in the zakat due, the Zakat payer must submit a request to the authority to amend the zakat declaration. If the authority approves the request, the Zakat payer can amend the declaration within 30 days from the date of approval. The Zakat payer must submit the amendment request through the authority's electronic system and attach supporting documents for the amendment.





7.2.3 Zakat Declaration Examination

The Zakat Declaration Examination refers to the process by which the Authority audits and examines the declaration submitted by the Zakat payer to ensure its accuracy. To regulate and organize the zakat examination process, Article 105 specifies the provisions for Zakat Declaration Examination as follows:

- The Authority examines the Zakat declaration at the Zakat Payer's premises, the Authority's premises, or any other location designated by the Authority.
- The Authority may request the required clarifications and documents it needs, within the scope of relevant regulations and procedures. It may authorize any of its employees or representatives to attend the Zakat payer holding statutory accounts' premises for examination purposes.
- The field examination shall be documented in a report signed by the Authority's representative and the Zakat payer holding statutory accounts' duly authorized representative. If the Zakat payer holding statutory accounts' duly authorized representative is absent or refuses to sign the report, it shall be noted in the report, and in all cases, the report shall be evidence against the Zakat payer holding statutory accounts regarding the established facts therein.

The regulations also specify the statutory deadline for the Zakat payer to provide the required documents, within a period not exceeding twenty (20) working days from the date of the Authority's request. If the Zakat payer holding statutory accounts fails to provide the information within this period, the Authority may either regenerate or conduct the Zakat assessment, assuming Zakat dues based on the controls set in Article 115, which will be explained in paragraph 6.4 of this guide.



Example (104)

A Zakat payer submitted his Zakat declaration for the year 2025 within the statutory deadline. In 2026, the Authority initiated the procedures to examine the declaration, and the Zakat payer received a notification requesting specific information for the examination process. The Zakat payer failed to provide the required information within the statutory deadline of 20 business days. What actions can be taken against the Zakat payer after the mentioned period has expired?

The Solution:

In this case, the Authority has the right to either regenerate the deadline for submitting the documents or conduct the Zakat assessment, assuming Zakat dues based on the controls set in Article 115 of the regulation.



7.2.4 Zakat Declaration Correction

The Authority has the right to correct the Zakat declaration based on the Zakat declaration examination in cases where it is necessary. This occurs when there is a deficiency or error in the declaration submitted by the Zakat payer. Article 106 of the regulations outlines the provisions for correcting the zakat declaration, including the cases in which the Authority has the right to conduct the Zakat assessment, reassessment, or error correction within a period of 5 years from the deadline for submitting the zakat declaration, the cases where the Authority has the right to conduct the Zakat assessment, reassessment, or error correction within 10 years from the deadline for submitting the zakat declaration, and the cases where the Authority has the right to conduct the Zakat assessment, reassessment, or error correction without being bound by a specific time limit, as follows:

1. The Authority has the right to conduct the Zakat assessment, reassessment, or error correction within a period of five (5) years from the deadline for submitting the Zakat declaration in the following cases:
 - a. Zakat assessment, reassessment, or error correction concerning the application of any provisions of the regulations or relevant laws.
 - b. Assessment, reassessment if the Authority discovers that the Zakat Payer's declaration is incorrect based on information available to it during the statutory assessment period or based on information obtainable by it during such period.
2. The Authority has the right to conduct the Zakat assessment, reassessment, or error correction within a period of ten (10) years from the deadline for submitting the Zakat declaration in the following cases:
 - a. Submitting the Zakat declaration after the statutory deadline of 120 days from the end of the Zakat year.
 - b. Submitting an incomplete declaration or non-compliant with forms approved by the Authority.
 - c. Failure to pay Zakat dues according to the Zakat declaration within the statutory period.
 - d. Failure to submit the declaration and calculate Zakat according to the Zakat assumption specified in Articles 114 and 115 of the Regulations, as will be explained in paragraph 6.4 of this guide.

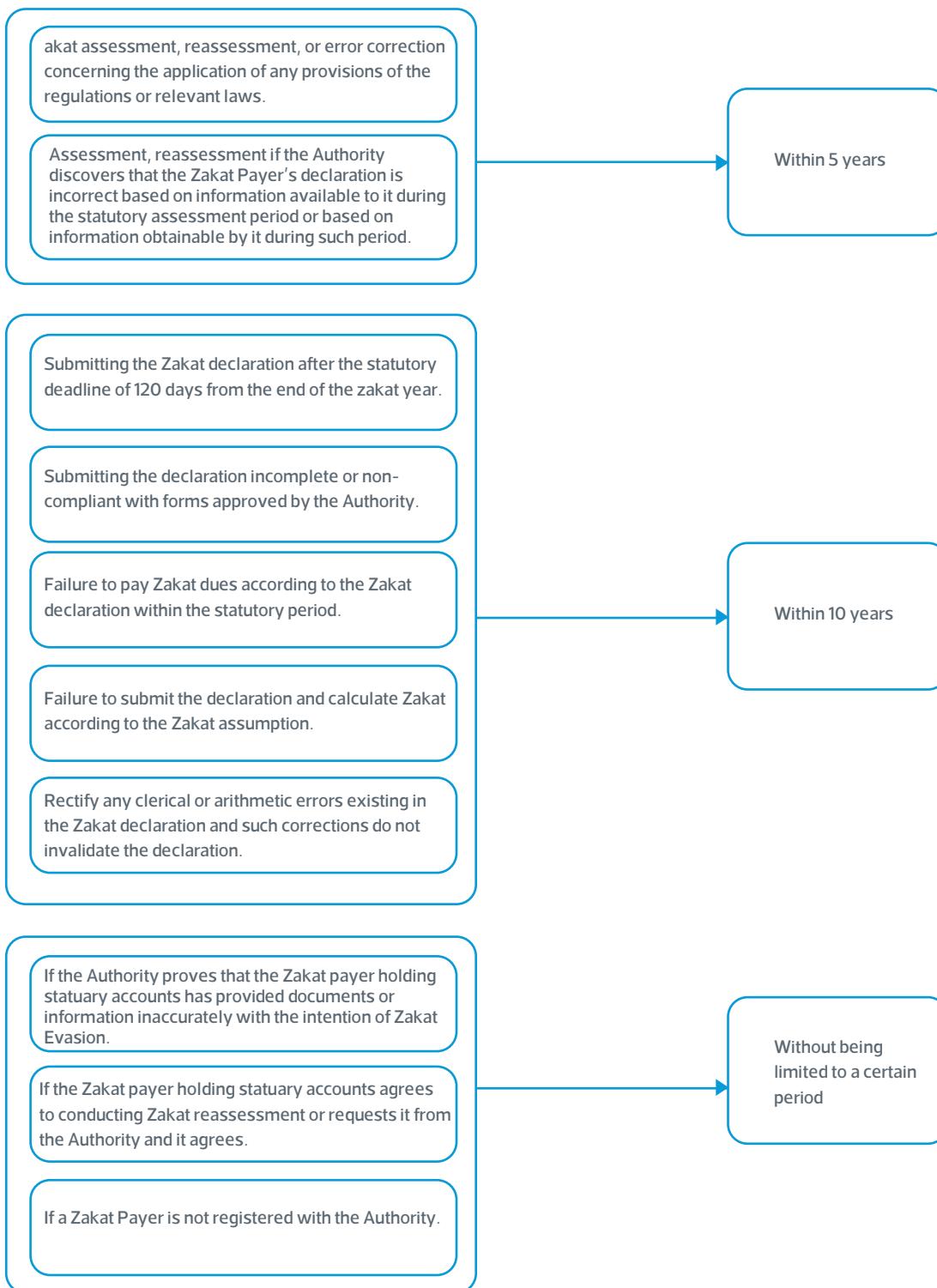


3. The Authority may conduct Zakat reassessment without being limited to a certain period in the following cases:
 - a. If the Authority proves that the Zakat payer holding statutory accounts has provided documents or information inaccurately with the intention of Zakat Evasion.
 - b. If the Zakat payer holding statutory accounts agrees to conduct Zakat reassessment or requests it from the Authority and it agrees.
 - c. If a Zakat Payer is not registered with the Authority.
4. The Authority may rectify any clerical or arithmetic errors existing in the Zakat declaration, and such corrections, made within a period of (10) ten years from the deadline for submitting the Zakat declaration, do not invalidate the Zakat declaration.
5. The Authority may refer anyone who submits incorrect or deceptive documents or information to the competent authorities for legal action.
6. The Authority shall have the right to register a Zakat Payer who is not registered with it and to conduct a Zakat assessment on such Zakat Payer without being limited by a specific time period, as outlined in Section (3) of this Article.

The purpose of establishing the mentioned time limits is to define the limitation periods within which the Authority has the right to conduct the Zakat assessment, reassessment, or error correction. The aim is to support the stability of Zakat payers' economic transactions, allowing the Zakat payer to anticipate the time frames during which an assessment can be made on the submitted zakat declarations, thereby enabling them to account for potential zakat discrepancies.



The period of assessment, reassessment, or error correction





Example (105)

A company submitted its zakat declaration for the year ending on 31/12/2024 on 07/05/2025 and paid the due zakat amount on the same date as the submission. What is the period during which the Authority has the right to assess the company in this case?

The Solution:

Since the company submitted its zakat declaration after the statutory deadline of 120 days from the end of the zakat year, the Authority has the right to assess the company within a period of ten (10) years from the end of the deadline for submitting the declaration. .

Example (106)

A company submitted its zakat declaration for the year ending on 31/12/2024 on 02/03/2025 and paid the due zakat amount on the same date as the submission. Upon examining the Zakat payer's declaration, the Authority found an error in applying the provisions of the regulations concerning additions to the Zakat base. What is the period during which the Authority has the right to assess the company in this case?

The Solution:

Since the company submitted its zakat declaration and paid the due zakat within the statutory deadline, and since the reason for the assessment is an error in applying the provisions of the regulations, the Authority has the right to assess the company within a period of five (5) years from the end of the deadline for submitting the zakat declaration.



7.2.5 Retention of Zakat Declaration Documents

Article 110 of the regulations requires Zakat payers to retain the documents relied upon in submitting the zakat declaration for a period of no less than ten (10) years.

The article also grants the Authority the right to request data or clarifications to verify the accuracy of any data or clarifications relied upon in calculating the zakat dues, provided that this does not exceed ten (10) years from the date of submitting the zakat declaration.

Additionally, the Authority may obtain any data or documents held by any third party, without referring to the Zakat payer; this includes direct access to data and documents in general, as long as it does not conflict with relevant laws and procedures.

The following are examples of records that must be retained and provided to the Authority upon request:

- Accounting books
- Bank statements and any financial records
- Import and export documents
- Contracts related to sales and expenses
- Invoices issued or received by the Zakat payer
- Accounting balance analyses

7.2.6 Zakat declaration proof of accuracy

The Zakat payer holding statutory accounts shall be responsible for proving the accuracy of the Zakat declaration's contents, as stipulated in Article 111. This requires Zakat payers to ensure that all items in the declaration are verified and that they possess all supporting documents.

The article also states that if the Zakat payer holding statutory accounts is unable to prove the accuracy of what is claimed in the Zakat declaration, the Authority may refuse to accept the item whose accuracy has not been proven by the Zakat Payer, or Zakat assessment with the assumption of Zakat dues according to the controls mentioned in Article 115, which will be explained in paragraph 6.4 of this guide.



7.3 Zakat Assessment

7.3.1 Issuing the Zakat assessment

Article 1 of the regulations defines the zakat assessment as a decision issued by the Authority disclosed its acceptance of the zakat declaration or its amendment, or identifying the Zakat amount payable by the Zakat payer assessed on an arbitrary basis, or the zakat payer holding statutory accounts, in accordance with the information available and procedures adopted by the Authority.

According to Article 112, the Authority conducts the Zakat assessment based on the Zakat declaration and other information available to it. The Authority also has the right to amend the zakat assessment and explain the grounds for the amendment. In certain cases, the Authority may resort to the zakat assumption according to the controls outlined in Article 115, which will be explained in paragraph 6.4 of this guide.

In accordance with what is mentioned in Article 57 of the regulation, the Authority may, upon detecting a discrepancy of information, conduct a Zakat re-assessment on the Zakat payer holding statutory accounts, according to the following remedies:

1. In case such discrepancy affects any of the equity elements and their equivalents, the discrepancy shall then be added to the Zakat base.
2. In case such discrepancy affects any of the non-current liabilities elements, it shall be remedied as follows:
 - a. In case the non-current liabilities are equal or more than the total of deduction elements, what has been stipulated in the Zakat declaration shall be considered, and the discrepancy then shall not be added to the Zakat base.
 - b. In case the non-current liabilities are less than the total of deduction elements, the discrepancy then shall be added to the Zakat base, provided that the total of additions may not exceed the total of deduction elements.

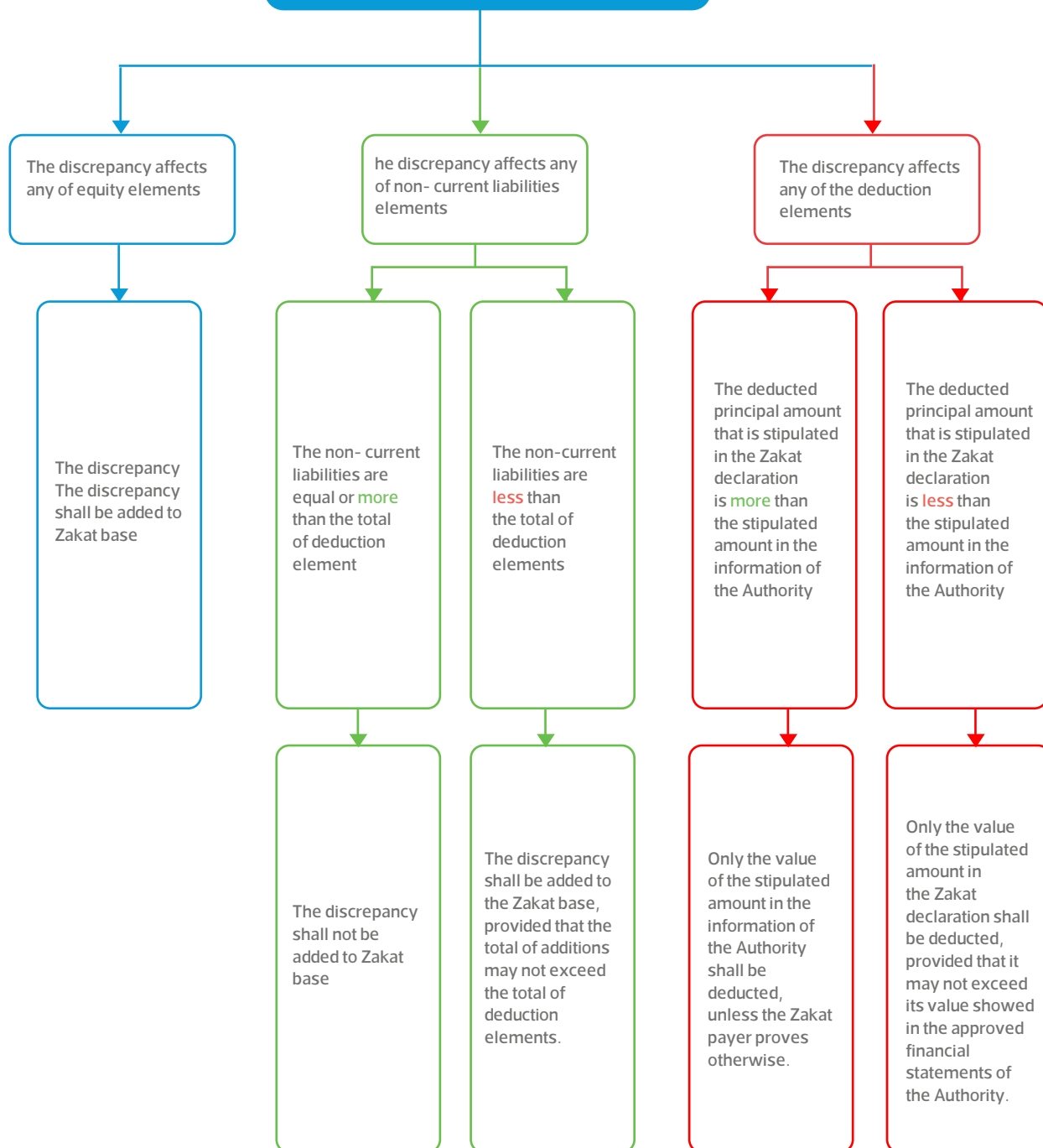


3. In case such discrepancy affects any of the deduction elements, it shall be remedied as follows:
 - a. In case the deducted principal amount that is stipulated in the Zakat declaration is more than the stipulated amount in the information of the Authority, only the value of the stipulated amount in the information of the Authority shall be deducted, unless the Zakat payer proves otherwise.
 - b. In case the deducted principal amount that is stipulated in the Zakat declaration is less than the stipulated amount in the information of the Authority, only the value of the stipulated amount in the Zakat declaration shall be deducted, provided that it may not exceed its value shown in the approved financial statements of the Authority.
4. In case the value of the deducted elements increases as a result of a final resolution, the non-current liabilities shall be added to the base according to the placement provisions of Article (25) of the Regulations, Which are detailed in paragraph 4.2.3.3 of this guide.



Remedies of Zakat re-assessment

Upon detecting discrepancy of information





7.3.2 Notifying Zakat assessment

If the Authority conducts a zakat assessment, it must notify the Zakat payer of the assessment according to Article 113 of the regulations. The notification should include the following:

1. The basis and justification for calculating the Zakat assessment.
2. The amount of Zakat dues assessed.
3. The date when Zakat dues shall be paid assessed.
4. The Zakat Payer's right to object to the Zakat assessment.

The purpose of this is to ensure that the Zakat payer receives all necessary clarifications regarding the Zakat assessment, allowing them to understand the reasons for the assessment and to make the appropriate decision regarding whether to object to the Zakat or not. Additionally, it enables the Zakat payer to discuss and clarify in case of an objection based on the reasons and calculations provided by the Authority.

7.3.3 Objection to the Zakat Assessment

The Zakat payer has the right to object to the Zakat assessment issued by the Authority within 60 days from the date of issuance of the zakat assessment. Article 116 outlines the provisions related to submitting an objection. Anyone subject to an Authority decision shall have the right to file an objection against it in accordance with the procedural rules of the Committee for Resolution of Zakat, Tax, and Customs, as stipulated in Royal Decree No. (25711) dated 08/04/1445 H, and any subsequent amendments thereto.

The article also specifies that for the objection to be accepted in form, the Zakat payer must:

1. Pay all Zakat dues related to the items on which there is no objection.
2. pay a minimum of 10% and a maximum of 25% of the Zakat amounts for the objected items, or submit a financial guarantee for the same. The Authority, then, has the right to establish regulatory controls in this regard.



Objection to Zakat declarations is one of the preserved rights of Zakat payers. The Zakat payer may object to decisions issued by the Authority, including but not limited to:

- Zakat assessment
- Zakat assumption
- Rejection of a request for exemption from zakat collection

The Zakat payer's objection must be in accordance with the provisions outlined in the procedural rules of the Committee for Resolution of Zakat, Tax, and Customs Violations and Disputes, as stipulated in Royal Decree No. (25711) dated 08/04/1445 H, and any subsequent amendments thereto, as well as the provisions related to objections in the regulations.

In practice, the objection can be resolved at one of the following three stages:

- During the Authority's review of the objection after it has been submitted.
- By the internal Committee for Resolution of Zakat, Tax, and Customs Violations and Disputes within the Authority.
- By the Committee for Zakat, Tax, and Customs Disputes

Where the Zakat payer submits an objection to the authority initially, and if the authority rejects the objection, the Zakat payer may then propose a settlement to the internal committee or file a grievance with the Committees for Zakat, Tax, and Customs Disputes.

The authority has established the Committee for Resolution of Zakat, Tax, and Customs Violations and Disputes, which are internal committees aimed at facilitating the resolution of Zakat and tax disputes. These committees provide solutions as an alternative to filing a formal grievance with the Zakat, Tax, and Customs Dispute Committees. The Zakat payer is allowed to submit their case to the settlement committees to review the authority's decision. The Zakat payer may submit to the settlement committees after their objection to the authority has been rejected, and they may also apply while the case is being heard by the Zakat, Tax, and Customs Dispute Committees.



As for the Zakat, Tax, and Customs Dispute Committees, they are considered the competent judicial authority that the Zakat payer may appeal to regarding the authority's decisions, after submitting an objection to the authority and having it rejected. These are two committees separate from the authority (Committee for Resolution and the Appeal Committee). A Zakat payer wishing to appeal the final decisions issued by the authority must submit the grievance directly to the First Resolution Committee within 30 days from the day following the date of rejection of their submitted objection, or if 90 days have passed since the objection was submitted without the authority making a decision. This is in accordance with the details and provisions outlined in the rules governing the work of the Zakat, Tax, and Customs Committees.

Example (107)

Al Amal Company submitted its Zakat declaration for the year 2024 on statutory time. The authority conducted an examination of the company and reviewed the data provided. It became clear to the authority that the company did not include the provision for lawsuits shown under current liabilities. What procedure can the authority take regarding the Zakat base of the Zakat payer?

The Solution:

Since the discovered item is considered one of the equity elements or its equivalents, the action that the authority can take is to add the amount of the provision to the Zakat base under the equity elements.



Example (108)

The authority examined the Zakat declaration submitted by Al Noor Company for the year 2025 and found that the company did not include long-term loans classified under non-current liabilities in the financial statements within the Zakat base. The authority had the following information available:

- Long-term loans not added to the Zakat base amount to 100,000 SAR.
- Non-current liabilities added to the Zakat base amount to 130,000 SAR.
- The amount of deductible items deducted from the Zakat base amounts to 150,000 SAR.

What procedure can the authority take regarding the Zakat payer's base?

The Solution:

Since the amount not added to the Zakat base represents non-current liabilities (loans), it should be added to the base only within the limit of the deducted amount. As the amount deducted from the base is 150,000 SAR, and the company has already added 130,000 SAR in its submitted declaration, an additional 20,000 SAR can be added to the non-current liabilities item so that the liabilities added to the base do not exceed the deducted assets from it.



Example (109)

Al Taawun Company submitted its Zakat declaration for the year 2024, and after examining the declaration, the authority found that the company deducted intangible assets from the base in the amount of 200,000 SAR. However, the information available to the authority shows that the final balance of the intangible assets is 150,000 SAR. What procedure can the authority take regarding the Zakat payer's base?

The Solution:

Since the amount of the deducted asset in the Zakat declaration is greater than the amount recorded in the authority's available information, the authority can deduct the asset based on the fixed information it holds, in the amount of 150,000 SAR, unless the Zakat payer proves otherwise.



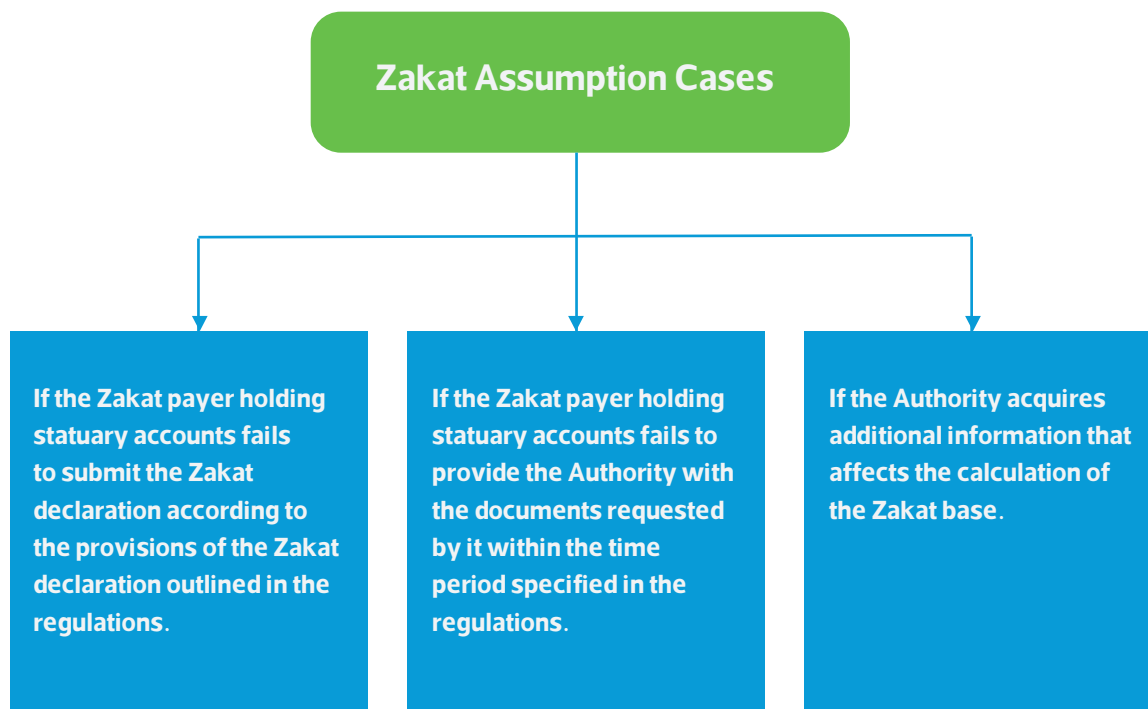
7.4 Zakat Assumption

Article 1 of the regulations defines the zakat assumption as the Authority's determination of a Zakat base or some of its items for a Zakat payer, in accordance with Articles (114) and (115) of the Regulations.

Article 114 of the regulations states that the Authority may assume Zakat dues in the following cases:

1. If the Zakat payer holding statutory accounts fails to submit the Zakat declaration according to what is specified in Section I of Chapter One of the regulations, which is detailed in paragraph 6.2.1 of this guide, relates to the submission of the zakat declaration.
2. If the Zakat payer holding statutory accounts fails to provide the Authority with the documents requested by it within the time period specified in Article 105.
3. If the Authority acquires additional information that affects the calculation of the Zakat base.

It is clear from the above that the zakat assumption is a procedure carried out by the authority in cases where the Zakat payer does not provide the legal requirements related to submitting the zakat declaration or the required information, or when the authority obtains additional information that affects the calculation of the zakat base. The zakat assumption differs from the zakat assessment in that the zakat assessment is based on the information available to the authority, upon which the authority either accepts or amends the zakat declaration. This contrasts with the zakat assumption, which is made by the authority due to a lack of or failure to provide information.



7.4.1 Zakat Assumption Controls

Upon the fulfillment of the cases for the Zakat assumption, the authority shall comply with the provisions outlined in Article 115, which are as follows:

1. The Zakat assumption shall apply only after sending a warning to the Zakat Payer holding statutory accounts and the elapse of at least sixty (60) days from the date of the warning.
2. This action shall be based on the information and data available to the Authority.

7.4.2 Objection to Zakat Assumption

Objections to the zakat assumption are made according to what is clarified in section 6.3.3 of this guide.



Example (110)

A Zakat payer did not submit his zakat declaration for the year 2024. Is the authority entitled to assume the zakat dues for the Zakat payer in this case?

The Solution:

Yes, the authority is entitled to assume the zakat dues for the Zakat payer in this case, as the Zakat payer did not submit the zakat declaration according to the provisions of zakat declaration outlined in the regulations. This can be done after sending a warning to the Zakat Payer and the elapse of at least sixty (60) days from the date of the warning.

Example (111)

A Zakat payer holding statutory accounts received a notification from the authority to begin examining his Zakat declaration for the year 2024, and a 20-day period was set to submit the examination requirements. However, the Zakat payer did not respond to the authority and did not submit the required supporting documents for his submitted declaration within the specified period. Is the authority entitled to assume the zakat dues for the Zakat payer in this case?

The Solution:

Yes, the authority is entitled to assume the zakat dues for the Zakat payer in this case, as the Zakat payer did not provide the required documents within the legally specified period. This can be done after sending a warning to the Zakat Payer and the elapse of at least sixty (60) days from the date of the warning.



7.5 Collection of Zakat Dues

7.5.1 Zakat Dues Payment

The Zakat payer must pay the amounts due based on the submitted Zakat declaration or the assessments issued by the Authority, in cases where these dues are final. Article 117 includes the cases in which Zakat due shall be considered final and payable for the Zakat Payer in the following cases:

1. Zakat Payer's acceptance of the Zakat assessment, expiry of (60) days from its date with no objection being filed by Zakat Payer to ZATCA, or once the lawsuit raised against ZATCA in the Resolution of Disputes Committees is rejected, like it never was, for the reasons mentioned in the rules governing the work of these committees.
2. Zakat Payer submission of the declaration and the expiry of (120) days from the end of the Zakat year without paying Zakat due as per declaration.
3. Upon amendments to the declaration as per articles (103) and (104), explained in paragraph 5.2.2 of this guide.
4. Resolution of Disputes or appellate departments issuing final decisions in the Zakat, tax, and customs committees In the Zakat, Tax, and Customs Committees or the Departments of the Appellate Committee for Zakat, Tax, and Customs Violations and Disputes in the Zakat, tax, and customs committees.
5. If the Zakat Payer did not file a lawsuit before the Departments for Resolution of Disputes, did not object against ZATCA's decision before the internal committee for reconciliation within (30) days of the date of ZATCA's rejection of the Zakat Payer objection, or the expiry of the (90) days from the date of Zakat Payer objection to the Authority without a solution. The internal committee has been defined in the regulation as " ZATCA's internal committee which is responsible for the settlement of disputes arising between the Authority and Zakat payers regarding ZATCA's decisions."



6. Expiry of the (30) days from the date of reconciliation rejection by the internal committee without filing the lawsuits before the Department for Dispute Resolution.
7. Notifying the Zakat Payer in written of the cancellation of the instalment.
8. Issuance of dispute resolution decision by the internal committee.



Zakat due shall be considered final in these cases

Zakat Payer's acceptance of the Zakat assessment, expiry of (60) days from its date with no objection being filed by Zakat Payer to ZATCA, or once the lawsuit raised against ZATCA in the Resolution of Disputes Committees is rejected, like it never was.

Zakat Payer submission of the declaration and the expiry of (120) days from the end of the Zakat year without paying Zakat due as per declaration.

Upon amendments to the declaration as per articles (103) and (104).

Resolution of Disputes or appellate departments issuing final decisions in the Zakat, tax, and customs committees In the Zakat, Tax, and Customs Committees or the Departments of the Appellate Committee for Zakat, Tax, and Customs Violations and Disputes in the Zakat, tax, and customs committees.

Expiry of the (30) days from the date of reconciliation rejection by the internal committee without filing the lawsuits before the Department for Dispute Resolution.

If the Zakat Payer did not file a lawsuit before the Departments for Resolution of Disputes, did not objects against ZATCA's decision before the internal committee for reconciliation within (30) days of the date of ZATCA's rejection of the Zakat Payer objection, or the expiry of the (90) days from the date of Zakat Payer objection to the Authority without a solution.

Notifying the Zakat Payer in written of the cancellation of the instalment.

Issuance of dispute resolution decision by the internal committee.



7.5.2 Instalment of Zakat dues and cancellation of the instalment request.

Article 118 of the regulation permits Zakat Payer to request approval for instalment payment of the Zakat dues, subject to the following criteria:

- a. A request shall be filed with the Authority showing the payable Zakat dues, relevant fiscal years, and the reasons why it cannot be settled on the due date, together with supporting documents. The request shall state the number of instalments proposed, the amount of each instalment, and advanced payments.
- b. The Authority shall review and answer the request of the Zakat payer within thirty days of the completion of the requirements, considering the Zakat Payer's solvency, volume of business, its nature, and market conditions.
- c. The instalment period shall not exceed the number of years for which the liability is due. The Authority may increase the instalment period to no more than double the number of liability years.

The Authority may determine the instalment schedule, the amount of each instalment, and the

cancellation of the instalment payment whenever it is revealed that Zakat dues are losable.

It is evident from the above that the request for instalment payments is a right of the Zakat payer, provided that the authority approves the justifications for the request, which demonstrate the Zakat payer's inability to pay the Zakat dues on the specified dates. The Zakat payer must adhere to the specified instalments and their payment deadlines in case the authority approves the request. Article 119 includes the authority's right to cancel the instalment plan and consider the Zakat dues as immediately payable, by issuing a written notification to the Zakat payer in any of the following cases:

- If the Zakat payer fails to pay two consecutive instalments.
- If the Zakat payer fails to pay three non-consecutive instalments within the approval instalment period.
- If the authority finds that the Zakat dues may not be paid.



Example (112)

A Zakat payer submitted the Zakat declaration for the year 2024 and wishes to submit an instalment request to the authority for the Zakat declaration dues. What is the instalment period allowed for the Zakat payer to pay the dues?

The Solution:

Since the obligation period is for only one year (2024), the allowed instalment period for the Zakat payer is one year. The authority has the right to extend this period by no more than an additional year.

Example (113)

A Zakat payer submitted the Zakat declaration for the year 2025 and submitted a request to the authority to pay the Zakat dues in instalments, which was accepted. Subsequently, the Zakat payer failed to pay the third and fourth instalments consecutively. What action can the authority take according to the provisions of the regulations?

The Solution:

Since the Zakat payer failed to pay two consecutive instalments, the authority has the right to cancel the instalment plan and consider the Zakat dues as immediately payable.



Example (114)

A Zakat payer submitted the Zakat declaration for the year 2024 and submitted a request to the authority to pay the Zakat dues in instalments, which was accepted. The Zakat payer failed to pay the second, fourth, and sixth instalments. What action can the authority take according to the provisions of the regulations?

The Solution:

Since the Zakat payer failed to pay three non-consecutive instalments during the instalment period, the authority has the right to cancel the instalment plan and consider the Zakat dues as immediately payable.

7.5.3 Delaying on Zakat Dues Payment

Article 120 outlines the necessary procedures for following up on the payment of Zakat dues in the event that the Zakat payer delays payment, as follows:

1. If the Zakat Payer delays the payment of the Zakat dues as per the deadline specified in the Regulations, the Authority shall send a notice to the Zakat Payer of a first demand for payment within (30) days from the date of demand for payment. If the Zakat Payer does not pay the due amount, the Authority shall send a second demand for payment within the next 30 days. If the Zakat Payer does not pay the due amount, the Authority shall send a third demand for payment within (30) days.
2. In case no response is received from the Zakat Payer to the first, second, and third demands for payment, the Authority may take all the legal procedures to oblige the Zakat Payer to pay Zakat dues, and notify the Zakat Payer with all the procedures taken against it.
3. In case Zakat Payer fails to settle Zakat payable on the due date, the Authority may seize Zakat Payer's movable and immovable assets legally subject to seizure, according to the following procedures:



- Writing letters to the Saudi Central Bank (SAMA) and Capital Market Authority (CMA) and other competent authorities to block Zakat Payer's assets and funds with local banks within the limits of Zakat amount due and transfer the same to the Authority's account when requested.
- Writing a letter to the Ministry of Finance ("MOF") requesting MOF to seize any amounts due to Zakat Payer, to the limit of Zakat due.
- Writing a letter to the Ministry of Justice ("MOJ") requesting MOJ to block Zakat Payer's disposal of any immovable assets.
- Seizing the Zakat Payer's imports to the limit of the Zakat amount due.
- Requesting the seizure of any amount that any third party owes to the Zakat Payer.

Article 124 also outlined the criteria for seizing the assets as follows:

- No seizure shall be enforced on the Zakat Payer expenses due to its employees and third parties, including subsidies required under any other applicable laws, regulations, and rules. Such expenses shall be determined in accordance with the information available to the Authority.
- Once the seizure has been enforced, the seizure-enforcing party shall transfer to the Authority the assets seized when requested to do so. The obligation to transfer to the Authority the assets seized shall include any amounts due to Zakat Payer from the seizure enforcing party on the date the notice to seize is given or and date of the request to deliver the seized assets.
- Seizure shall be enforced on the debtor's assets due from third parties to the limit of Zakat due. The same shall be applicable to a natural person where such a natural person is a partner in a partnership or in an equity partnership. However, Zakat Payer's tools used in conducting their activity, and personal necessities to a maximum of 300,000 SAR (Saudi Riyals three hundred thousand) shall be excluded from seizure.



Article 125 of the regulation also states that the authority may request the execution against the debtor's Zakat payer assets owed to the authority, the assets sold to the extent adequate to settle the Zakat due once seizure procedures are completed after the expiry of notice deadline, in accordance with statutory procedures, subject to the following:

- The assets seized shall be sold by the Authority or competent authority.
- Zakat Payer shall be allowed by the Authority to provide a list of the assets the Zakat Payer wishes to exclude from sale where the sale amount of other assets adequately covers the Zakat due.
- Seizure and selling expenses shall be paid out of sale proceeds, after which Zakat due shall be settled and the remaining balance returned to Zakat Payer.
- The selling of Zakat Payer's assets shall be suspended during administrative or judicial review of assessment on the basis of which the seizure is enforced except, however, such assets are liable to damage and those assets the Zakat Payer may request the Authority to sell.

If the Zakat Payer has final dues, the Authority -per Royal Order No. 16145 dated 01.04.1437 AH and any amendments thereto- may collaborate with relevant authorities to deny the Zakat Payer the right to participate in government tenders, foreign recruit of labor, and also to deny Zakat Payer the right to have commercial registration, licenses and work permit issued/renewed that enable him to carry out the business activity.

7.5.4 Zakat Dues on the Zakat Payer After Death

Article 121 of the regulation clarifies that when the owner of a sole proprietorship with outstanding Zakat has deceased the Zakat due shall be collected before distributing the estate. Otherwise the heirs shall be required to settle Zakat due proportionately with their respective shares of the estate and without exceeding the total amount of the estate.



7.6 The Closing Provisions

7.6.1 Guidelines

Article 126 stipulates that the authority shall raise awareness among Zakat Payers, strengthen their voluntary compliance, and issue required guidelines or Zakat brochures to help them to fulfill their obligations.

7.6.2 Detailed Resolutions

Article 127 of the regulation includes provisions related to detailed resolutions as follows:

1. The Authority -at its own discretion- may issue a detailed resolution to indicate the Zakat treatment for any transaction as per the Regulation provisions, through a detailed resolution issued to the applicant or published to all. The detailed resolution shows the period applied for and it is also based on the provisions and procedures determined by the Authority.
2. The Authority shall comply with the provided explanations content in the guidelines, Zakat brochures, or the detailed resolutions upon applying the provisions of the Regulations to the periods following the issuance, publishing, or amendment of these guidelines, Zakat brochures, or the detailed resolutions, without extending to previous periods of issuing, publishing, or amending it.
3. The Authority shall comply with the provisions of the Regulations upon issuing the detailed resolutions.
4. The provision of paragraph (2) of this article may not be valid in the following cases:
 - a. Difference in facts, activities, or actual transactions from the determined in the guidelines, tax brochures, or detailed resolutions.
 - b. Omission or misrepresentation of essential facts.
 - c. Transactions do not meet assumptions or requirements included in the guidelines, tax brochures, or detailed resolutions.



9. 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.

10. 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**.



11. Frequently Asked Questions

1. **If the Zakat payer's fiscal year is based on the Hijri calendar, but the financial period was either shorter or longer, what Zakat percentage is used for calculating Zakat?**

According to Article 15 of the regulation, the percentage is based on the actual number of days, using the equation outlined in the article, which is as follows:

Zakat percentage = $(2.5\% \div \text{number of days in the Hijri year}) \times \text{number of days in the Zakat payer's fiscal year}$.

2. **Can a holding company submit a consolidated Zakat declaration if the wholly-owned company is located outside the Kingdom?**

Yes, according to Article 16 of the regulation, a consolidated Zakat declaration can be submitted whether the wholly-owned company is located inside or outside the Kingdom.

3. **If profits from the current year are distributed, can these distributed profits be decreased from the base if the base is at the minimum limit?**

No, profit distributions are not decreased from the minimum base, including the adjusted net profit, as stated in Article 27 of the regulation.

4. **Is the leave provision classified as current liabilities added to the base?**

No, current liabilities, including provisions treated as liabilities, are not added to the base except in the specific cases outlined in Article 29 of the regulation.

5. **Is the addition to the capital added to the Zakat base in its full value?**

According to Article 17 of the regulation, the Zakat payer holding statutory accounts relies on the financial statement items for both additions and deductions based on the value shown in the statement of financial position at the end of the Zakat payer's Zakat year, which means that it is added at the end-of-year balance, including all transactions that occurred during the year.



6. If partners' credit loans are classified in the financial statements as equity, can they be classified as liabilities if other conditions mentioned in Article 30 are met?

If partners' loans are classified under equity in the statement of financial position, they cannot be treated as liabilities, according to Article 30 of the regulation.

7. Is value-added tax (VAT) expense incurred by the Zakat payer considered as accepted expenses for Zakat purposes?

value-added tax (VAT) expense incurred by the Zakat payer is considered as accepted expenses for Zakat purposes if the tax is a necessary cost for the Zakat payer and is not deductible in the value-added tax (VAT) declaration.

8. Is the withholding tax incurred by the Zakat payer considered an accepted expense for Zakat purposes?

Withholding tax incurred by the Zakat payer is considered an accepted expense for Zakat purposes if it is paid and related to the Zakat payer's activities.

9. Are investment funds required to submit a Zakat declaration and pay Zakat accordingly?

According to Article 76, the fund submits an information declaration for disclosure purposes and is not required to pay Zakat. The responsibility falls on the unit owners, with the exception of financing funds.

10. In what cases can instruments and bonds be deducted?

They can be deducted if they are not for trading purposes and if the issuer has declared, through any document acceptable to the authority, that they should be treated as capital in the Zakat declaration.



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