هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

BOOK SUMMARY

ZAKAH COLLECTION

IN THE KINGDOM OF SAUDI ARABIA
A FIQH-BASED PERSPECTIVE

PREPARED BY:

ZAKAT, TAX AND CUSTOMS AUTHORITY

SECOND EDITION

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Overview of the Summary

Nature of this summary: It is the second scholarly publication of Zakat, Tax and Customs Authority.

Author: Prepared by Zakat, Tax and Customs Authority (ZATCA).

Summary: Research & Zakat Advisory Deputyship has prepared a methodology for summarizing this publication.

The Book: *"Zakâh Collection in the Kingdom of Saudi Arabia"* is an awareness-raising publication issued by Zakat, Tax and Customs Authority. It is concerned with defining the concept of *Zakâh*, its status and impacts, the Kingdom's role in its collection, the Authority's method of calculating *Zakâh*, and the bases for *Zakâh* calculation method at ZATCA, referring to the Fiqh selections in that regard.

Foreword

H.E. Sheikh Dr. Abdullah Bin Mohammed Al-Mutlaq

All praise is due to Allah, the Lord of the worlds, and may the blessings and peace of Allah be upon our Prophet Muhammad, his household and all of his companions.

Zakâh is one of the most significant and great rituals of Islam, and one of its five pillars. Many frequent texts of the Qur'an and Prophetic Sunnah confirm its great status and virtue, state its relevant provisions, define the characteristics of those entitled to it, and warn against abandoning and neglecting it. Being of such a great importance, it is always mentioned in the Qur'an along with *Salâh* (i.e. Prayer), and the Prophet (peace and blessings of Allah be upon him) himself took care of determining its shares, as he took charge of establishing *Jumu`ahs* (i.e. Friday Prayers) and congregational Prayers.

One of the actions by which the purposes of Shari'ah behind the obligation of *Zakâh* are realized is to collect *Zakâh* by the ruler, or his delegates. The Prophet (peace and blessings of Allah be upon him) used to take charge of collecting *Zakâh*, and to send collectors to various regions of the Muslim country to collect it, asking people to be kind with them, and people used to pay *Zakâh* to the Prophet's delegates (*Zakâh* collectors).

The rightly-guided Caliphs and the Muslim rulers after them followed this Prophetic Sunnah, and the Muslim scholars kept on advising Caliphs and rulers to establish and maintain this Prophetic Sunnah. Following this tradition, *Zakâh* can be collected fairly and accurately, and it becomes easier for the owners of wealth to calculate the *Zakâh* due on their wealth and pay it to those entitled to it, so as to discharge their liabilities of the obligation thereof.

The noble royal decrees in the Kingdom of Saudi Arabia, and the relevant statutes, among which is the statute issued by the Council of Ministers Resolution No. (465) on 20/7/1438 AH, decided that "Zakat, Tax and Customs Authority (ZATCA)" is the entity responsible for all the works of collecting *Zakâh*. The Authority pays much attention to the issuance of regulations, rules, guides, and awareness-raising publications which promotes the role of *Zakâh* in the society, and fulfils the Shari'ah purposes through paying it to cover the needs of those entitled to it.

Among the awareness-raising publications issued by "Zakat, Tax and Customs Authority": *"Jibâyat Az-Zakâh Fî Al-Mamlakah Al-`Arabiyyah As-Su`ûdiyyah" (i.e. Zakâh Collection in the Kingdom of Saudi Arabia)*, which is a Shari'ah-based guide concerned with introducing the *Zakâh*-related rulings and purposes, as well as its methods of calculation in the Authority, and the Shari'ah basis for this method, referring to Fiqh selections, fatwas of and relevant resolutions of collective *Ijtihâd* institutions.

I have read the guide, and I am very pleased that it elaborates on a number of *Zakâh* issues which are of great importance to researchers in the Shari'ah, regulatory and accounting fields related to the Fiqh and accounting of *Zakâh*. I believe that this guide provides the *Zakâh* payers with the clear and adequate Shari'ah information necessary for fulfilling such an obligation, and contributes to covering the Shari'ah library's need for a specialized reference in the Fiqh of *Zakâh* and the methods of its calculation. This will result in developing the field of Shari'ah research in these issues, which will be reflected in the development of the applications of *Zakâh* Collection.

Introducing this Guide, Zakat, Tax and Customs Authority hopes that Allah will make it acceptable, beneficial to specialists and concerned people, explanatory to important issues in *Zakâh*, and answering to some practical problems, which increases the degree of payer's voluntary commitment to *Zakâh*.

I ask Allah (alone) to guide us to that which He loves and is pleased with, and may Allah's peace and blessings be upon our Prophet Mu<u>h</u>ammad, his household and all of his companions. Verily, Allah is the Grantor of success.

Why This Book?

Collecting and disbursing *Zakâh* to those entitled thereto are among the Kingdom's basic tasks stated in the Basic Law of Governance in the Kingdom of Saudi Arabia, issued under the Royal Decree No. (A/90), dated 27/8/1412 AH, where Article (21) states:

"Zakat shall be collected and spent for legitimate expenses."

Research & Zakat Advisory Deputyship of ZATCA has prepared this book for the purpose of providing clear Shari'ah information about the general concept of *Zakâh* in the Authority. It is a Shari'ah-Based Guide concerned with introducing the *Zakâh*-related rulings and purposes, as well as its method of calculation in the Authority, the Shari'ah and accounting bases for this method and statutory documents founded thereon, referring to the Fiqh selections in that regard, which contributes to covering the Shari'ah library's need for a specialized reference in the Fiqh of *Zakâh* on commercial entities and the methods of its calculation. This will result in developing the field of Shari'ah research in these issues, contribute to raising awareness of the Fiqh of calculating *Zakâh*, and help raise voluntary commitment to it which will be reflected in the development of the applications of *Zakâh*.

Zakâh: Concept, Status and Impacts

Zakâh is used linguistically to suggest several meanings, including: *Tahârah* (i.e. purification), *Namâ'* (i.e. growth), uprightness (by doing righteous good deeds) and prosperity. All these meanings are implied in the ritual of *Zakâh*, as it results in the growth of wealth, as the Prophet (peace and blessings of Allah be upon him) said:

"Sadaqah (i.e. Giving in charity) does not diminish wealth."

By giving it away, *Zakâh* payer is purified from the filth of sin and the evils of soul, such as selfishness and miserliness, as Allah, the Almighty, says:

{"Take, (O, Muhammad), from their wealth a Sadaqah (i.e. Zakâh) by which you purify them and cause them increase, and invoke [Allah's blessings] upon them ..."}

In Shari'ah convention, *Zakâh* is defined as:

"A Shari'ah-estimated share paid out of a specific wealth, for particular categories (of people), in a particular way."

Zakatable wealth are of four types:

- Gold and silver, and any other kind of cash.
- Goods stocked for trade.
- Livestock.
- Products of land.

The categories of people entitled to receive *Zakâh* are eight, as mentioned in this Quranic Verse:

{"Indeed, Sadaqât (i.e. Zakâh) are only (to be given) to the poor and the needy, and to those who employed to collect it, and to those whose hearts have been (recently) reconciled (to Islam), and to (free) those in bondage, and to those in debt (the debt-ridden), and for the cause of Allah, and to the wayfarer. (This is) an obligation (enjoined) by Allah. And Allah is All-Knowing, All-Wise."}

Shari'ah purposes and economic impacts of *Zakâh*:

Zakâh has many Shari'ah purposes and economic impacts, including the following:

Purification of both wealth and *Zakâh* payer:

In this regard, Allah, the Almighty, says:

{"Take, (O, Muhammad), from their wealth a Sadaqah (Zakâh) by which you purify them and cause them increase, ..."}

Promoting *Muwâsâh* and solidarity among people:

It shows kindness and *Muwâsâh* (i.e. charity and support which does not cause hardship to the owner and is sufficient for the poor) to the poor, provides the essential needs of the needy, and aids the debtors who are unable to repay their debts, which ensure stability and security for all members of the society. This why *Zakâh* is a reason for kindness and showing mercy among people.

- **Growth of the payer's wealth:**

Allah, the Almighty, says:

{"Allah destroys Ribâ (i.e. usurious transactions) and gives increase for Sadaqât (deeds of charity, alms, etc.)..."}; which means to grow and multiply it.

- **Economic growth:**

It helps developing the economy through the circulation of wealth among the members of the society without monopolizing it among the rich. In this regard, Allah, the Almighty, says:

{"... so that it will not be a perpetual distribution among the rich from among you."}

The circulation of wealth among most of the society's members enables the poor to consume, and this leads to an increase in demand for products and services, which in turn causes an increase in production and job opportunities for the labor force in these areas.

- **Exploiting economic resources:**

It helps exploiting the economic resources, through motivating merchants to exchange their wealth so as not to diminish by *Zakâh* over time.

Conditions for *Zakâh* Obligation:

- **Islam:**

Allah, Exalted be He, says:

{"Take, (O, Muhammad), from their wealth a Sadaqah (Zakâh) by which you purify them and cause them increase..."}

Allah has commanded the Prophet (peace and blessings of Allah be upon him) to take *Zakâh* from Muslims.

- **Absolute ownership:**

Allah, Exalted be He, says:

{"Take, (O, Muhammad), from their wealth a Sadaqah (Zakâh) by which you purify them and cause them increase..."}

Attaching wealth to them indicates the establishment of absolute ownership.

Absolute ownership means stability of the owned wealth with the ability to grow it, even if it is not under the owner's control or he is unable to dispose of it in all forms.

Accordingly, the fulfilment of the condition of absolute ownership is contingent on three characteristics, which are:

First: The specificity of the wealth owner (i.e. the wealth shall be owned by a specific person or group).

Second: The establishment and stability of original ownership (i.e. the cause of ownership shall be established and stable).

Third: The ability to grow the wealth.

If these three characteristics are fulfilled, the wealth is to be considered absolutely owned, and the condition for *Zakâh* obligation is fulfilled thereon.

To observe this condition, Implementing Regulation for Zakat Collection has stipulated that *Zakâh* is due on shares obtained for trade, while *Zakâh* is not due on regulatory deposit.

Reaching the *Nisâb*:

Nisâb is the minimum amount determining a person's zakatability. This condition is evidenced by the statement of the Prophet (peace and blessings of Allah be upon him):

"No (obligatory) Sadaqah (i.e. Zakâh) is payable on less than five Wasqs…"

Accordingly, *Zakâh* is not due unless the wealth reaches a certain threshold (i.e. the minimum amount), which is the *Nisâb* upon which *Zakâh* becomes due.

Elapse of a full lunar year (*Hawl*):

It is the passing of a full lunar year (354 days) since the stability of wealth ownership for the *Zakâh* payer, and since the wealth has reached the *Nisâb*. If the ownership is ended during the *Hawl*, then *Zakâh* is not to be due, even if the ownership has been retained afterwards. Likewise, if the wealth owned during the *Hawl* has fallen below the *Nisâb*. The elapse of a full lunar year (i.e. *Hawl*) is one of the conditions of *Zakâh* unanimously agreed upon among the scholars of Fiqh, based on the hadith stating:

"No Zakâh (is to be paid) for a wealth until Hawl (i.e. Zakâh year) has passed."

If there is an increase resulting from the growth of the wealth itself, such as the profit generated from trade, or the product of grazing livestock, then it is unanimously agreed upon by the scholars of Fiqh that the *Hawl* of this increase is the *Hawl* for its principal. The same ruling applies to acquired wealth, as it is to be combined together with the principal of wealth in the *Hawl* as well, if it is of the same kind, such as the increase in the capital.

Impact of collecting *Zakâh* on the condition of the elapse of a full lunar year (*Hawl*):

Public interest that does not contradict with the Shari'ah rulings of *Zakâh* shall be taken into consideration when collecting *Zakâh*, so that the process of collection does not inflict any harm or hardship upon the general public or upon the collectors as to complying with the rulings thereof.

To explain the consequences of collection and the difference in conditions and circumstances of people, the scholars of Fiqh states that it is permissible to delay *Zakâh* or pay it in advance to coincide with the time of dispatching the collectors by the ruler.

This represents an easy kind approach regarding applying the condition of the elapse of a full lunar year (*Hawl*), acting on the basis of public interest resulting from the State's responsibility for collecting *Zakâh*.

Role of the State in Collecting *Zakâh*

Authority to collect *Zakâh*:

The collection of *Zakâh* is a Shari'ah mandate that is aimed at collecting *Zakâh* in a just and disciplined manner, as a means of facilitation for the owners of wealth. The Prophet (peace and blessings of Allah be upon him) and his rightly-guided Caliphs have assumed the responsibility of collecting *Zakâh*. The people used to pay it to the Prophet's delegates (i.e. *Zakâh* collectors), as agreed upon by the entire Muslim nation. Then the rulers assumed such a responsibility, and the Muslim scholars kept on advising Caliphs and rulers to establish and maintain this Prophetic Sunnah.

Accordingly, the collection of *Zakâh* has been apparently established among the people to fulfill the interests, goals and purposes for which *Zakâh* has been prescribed, and it is the responsibility of the ruler, which he shall fulfill in order to achieve the interest of the general public.

The reasons why *Zakâh* is to be collected by the State include the following:

[1] Protecting the ritual of *Zakâh*.

[2] Helping people to pay *Zakâh*.

[3] Glorifying the ritual of *Zakâh*.

[4] Achieving justice among *Zakâh* payers.

The Obligation to pay *Zakâh*:

Since it is established that the collection of *Zakâh* is the responsibility of the ruler, then people shall obey him in this regard. They shall commit to pay it so as to achieve the purpose of the Shari'ah in imposing *Zakâh*. The Prophet (peace and blessings of Allah be upon him) used to obligate the rich to pay *Zakâh* to the collectors, as being the right of the poor.

Indication that Muslims shall pay *Zakâh* to the ruler when being required to do so is included in the following Verse:

{"Take, (O, Muhammad), from their wealth a Sadaqah (i.e. Zakâh) by which you purify them and cause them increase, ..."}

Accordingly, the ruler shall collect *Zakâh*, and this can only be achieved through paying *Zakâh* to him.

Fulfilment of the obligation by paying *Zakâh* to the State:

If a Muslim pays the *Zakâh* due on his wealth to the State, his liability is to be discharged of the obligation, for he has paid *Zakâh* as required from him. This is because the State is the representative of the beneficiaries, and acts on their behalf. The proof that the obligation of *Zakâh* is to be fulfilled when *Zakâh* is paid to the State is based on the hadith in which a person said (to the Prophet):

"If I pay Zakâh to your delegate, will I be discharged from it before Allah and His Messenger? The Prophet (peace and blessings of Allah be upon him) said, 'Yes, if you give it to my delegate, then you will be discharged from it.'"

The Permanent Committee for Scholarly Research and Ifta' states:

"…If the ruler levies it; it is permissible to hand it over by means of fulfilling the pledge of hearing and obedience in *Ma`rûf* (that which is judged as good, beneficial, or fitting by Islamic law and Muslims of sound intellect). Accordingly, a person is acquitted of the obligation."

Punishment for withholding *Zakâh*:

In His Noble Book, Allah threatens those who withhold the *Zakâh* due on their wealth with severe punishment, as He, the Almighty, says:

{"… and those who hoard gold and silver and spend it not in the way of Allah, give them tidings of a painful punishment. The Day when it will be heated in the fire of Hell and seared therewith will be their foreheads, their flanks, and their backs, (it will be said), 'This is what you hoarded for yourselves, so taste what you used to hoard.'"}

Hoard here means to withhold the *Zakâh* due on wealth, for this is the afterlife punishment for those who abandon the payment of *Zakâh*.

As for the worldly divine punishment, the Prophet (peace and blessings of Allah be upon him) explained it, saying:

"…They do not withhold the Zakâh of their wealth, but rain will be withheld from the sky, and were it not for the animals, no rain would fall on them..."

Also, the Prophet (peace and blessings of Allah be upon him) imposed a penalty on those who abstained from paying *Zakâh*, so as to deter people from falling short in the matter of this ritual, saying:

"…Whoever gives it (willingly) seeking reward (from Allah) will be rewarded for it. Whoever withholds it, we will take it along with half of his camels (as a punishment), [in another narration] *'... along with half of his wealth (as a punishment)'], as one of the rights of our Lord."*

Hence, the Prophet (peace and blessings of Allah be upon him) decided to impose penalty (fine) on the person withholding *Zakâh*.

Zakâh Calculation Method at Zakat, Tax and Customs Authority

Corporate *Zakâh* is calculated and their *Zakâh* base is determined in accordance with one of two ways, as follows:

1- Direct method of calculating *Zakâh*

This method has many names, such as wealth uses method, net working capital method, net current assets method, and net assets method.

The idea of direct method for calculating *Zakâh* is based on direct access to the *Zakâh* base, through counting the zakatable assets, and then deducting the liabilities that decrease the *Zakâh* base. This method relies on two major procedures to determine the *Zakâh* base:

First: Adding all the institution's zakatable assets, such as cash assets, which are easy to convert into cash during a financial period that does not exceed a year, such as trading securities, etc.

Second: Deduction of zakatable assets liabilities, such as short-term liabilities to be paid within a financial period that does not exceed a year, such as loans.

The direct method for calculating *Zakâh* can be described in this equation:

[*Zakâh* Base = All Zakatable Assets - Zakatable Assets Liabilities]

This method of calculating *Zakâh* is suitable for individuals and institutions who voluntarily pay *Zakâh* due on their wealth, since it is easy and clear, and because it helps access to the *Zakâh* base directly. However, it is not suitable for entities collecting *Zakâh* obligatorily.

2- Indirect method of calculating *Zakâh*

This method has many names, such as finance sources method, and sources of invested funds method.

Indirect method of calculating *Zakâh* is based on indirect access to the *Zakâh* base through determining the equity used in the zakatable assets. This is done by adding wealth sources, and then deducting the non-zakatable assets, so that the wealth sources used in the zakatable assets remains in the *Zakâh* base.

Accounting speaking, this method is based on adding specific elements to the *Zakâh* base, and deducting other elements according to the following:

First: Additions

[1] All internal wealth sources for the institution, such as capital, periodic profits, reserves, and others.

[2] External wealth sources, in addition to long-term liabilities, taking into account that they shall not exceed the value of deducted assets, and short-term liabilities if it is known that they finance one of the deducted assets.

[3] The annual adjusted net profit.

Second: Deductions

[1] Non-zakatable assets of the institution, such as fixed assets.

[2] Zakatable assets of other institutions, such as investment in the shares of Saudi companies.

The indirect method for calculating *Zakâh* can be described in this equation:

[*Zakâh* Base = Internal Wealth Sources + External Wealth Sources As Much As Used in Deducted Assets - Non-Zakatable Assets - Zakatable Assets]

This is the method applied in the Kingdom of Saudi Arabia according to the Implementing Regulation for Zakat Collection. It is suitable for all authorities that collect *Zakâh* obligatorily since it enables the collection authority to verify the accuracy of the data provided, track them, and recognize the mechanism of using them, and thus reduces the chances of *Zakâh* evasion.

Bases for *Zakâh* calculation method at Zakat, Tax and Customs Authority:

The method of calculating *Zakâh* at Zakat, Tax and Customs Authority (ZATCA) takes into account the following rules:

Annual basis rule:

It means that *Zakâh* shall be paid once a year. This rule affects *Zakâh* accounting through valuating *Zakâh* on a daily basis. The benefit of this rule emerges in several forms, including when the fiscal year differs from the Hijri year, and when fiscal years differ in length. Then, based on the application of this rule, accounting is carried out by dividing the due amount of *Zakâh* (2.5%) on the number of days of the Hijri year, multiplied by the number of actual days of the payer's *Zakâh* year.

Access to zakatable assets rule:

It is where a distinction is made between the concept of the components of the *Zakâh* base, and the concept of the assets subject to *Zakâh*. Not all elements added to the *Zakâh* base are subject to *Zakâh*, but the purpose of addition is to reach the zakatable assets. If the wealth sources (elements of addition) are added, and the non-zakatable assets are deducted from them, then the zakatable assets financed by equity will be reached.

This rule helps to form the *Zakâh* base precisely, to reach the liabilities used in the elements of deduction, and adding internal finance sources to reach the net zakatable assets.

The accurate application of this rule refutes any problems related to it. That is, not all elements added to the *Zakâh* base are subject to *Zakâh*, but they are added to match the deductions of non-zakatable assets

Independence of *Zakâh* years rule:

The rule of the independence of *Zakâh* years is related to the annual basis rule. It means that each *Zakâh* year is to be considered independently from other years with regard to *Zakâh* accounting. The employment of this rule includes the cases in which the *Zakâh* due on the *Zakâh* payer is calculated on the basis of a short or long fiscal year, then the calculation for the following year shall be separate from that of the current one.

The benefit of this rule appears in several items, including the provisions for *Zakâh*, for example, which is added to the *Zakâh* payer's base and becomes subject to *Zakâh*, since the zakatbale wealth of the following year is separate from the *Zakâh* payable for the previous year, and is not to be calculated accordingly.

Estimation in *Zakâh* accounting rule:

The nature of preparing the financial statements and the requirements for their auditing and approval call for considering estimation and measurement as well as using *Zakâh* accounting in accordance with the approved standards. This is because the accounting of commercial institutions is based in many of its items on estimation and general assumptions, such as relying on book value in calculating *Zakâh*, rates of consumption, valuation data, and provisions that are not added to the *Zakâh* payer's base, such as the end of service benefits, and the acceptance of the accrual principle that requires recognition of expenses and revenues, and their impact on the items of the financial statements pertaining to the accounting period without waiting for or requiring payment or receipt of the amounts due.

The importance of this rule is clear according to the fact that the calculation of the *Zakâh* due on contemporary companies is based on the accounting principles in general, in addition to the requirements necessary for the formation of the *Zakâh* base.

Essential Concepts

First: Wealth Sources

(a) Non-current liabilities:

They are long-term liabilities, which will become due after one year from the date of preparing the balance sheet.

Examples of non-current liabilities items include: (Loans, Long-term payment papers, Pension liabilities, Lease contract liabilities).

(b) Current liabilities

They are short-term liabilities, which will become due within one year or less from the date of preparing the balance sheet.

Examples of current liabilities items include: (Short-term payment papers., Payable salaries, Accrued expenses. Due rents).

(c) Equity:

Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities, which means that it is always equal to net assets.

Examples of Equity include: (Capital, Retained Profits, Reserves).

Second: Wealth Uses

(a) Current assets:

It is cash, and assets expected to be converted into cash within a year or within the operating period, whichever is longer, or will be used during this period, including: (Inventory, Debtors, Receipt papers, Prepaid expenses).

(b) Non-current assets:

They are the assets not expected to be converted into cash within a year, including:

- **Fixed assets:** They are the assets with a long-term useful life and which are acquired for the purpose of use.
- **Intangible assets:** They are non-physical assets owned by the entity, and it has the right to use them in its business, such as trademarks, trade names, patents, etc.
- **Non-trading long-term investments,** which include the entity's investments in the shares and stocks of other companies, as well as its investments in long-term assets that are neither used nor utilized in the entity's activity.

The statement of financial position appears as follows:

<table>
<tr><th colspan="2">Assets</th><th>Value</th><th colspan="2">Liabilities and Equity</th><th>Value</th></tr>
<tr><td>Current Assets</td><td>Inventory</td><td>6</td><td>Short-Term Liabilities</td><td>Finance Used in Zakatable Assets</td><td>5</td></tr>
<tr><td>Fixed Assets</td><td>Production Machinery</td><td>7</td><td rowspan="2">Long-Term Liabilities</td><td>Bill of Exchange for Purchasing Machinery</td><td>3</td></tr>
<tr><td rowspan="2">Long-Term Investments</td><td>Investment in Saudi’s Companies (Zakatable)</td><td>9</td><td>Long-Term Finance</td><td>10</td></tr>
<tr><td>Investment in Companies Outside Saudi Arabia (Non-Zakatable)</td><td>3</td><td>Equity</td><td>Capital</td><td>7</td></tr>
<tr><td colspan="2">Total Assets</td><td>25</td><td colspan="2">Total Liabilities and Equity</td><td>25</td></tr>
</table>

Through these apparent data, required, for being considered, to be prepared according to the standards issued by the concerned authorities, *Zakâh* can be calculated to get the *Zakâh* base accurately, according to the Implementing Regulation for Zakat Collection, where *Zakâh* base is determined according to the following equation:

Zakâh Base = Added Items - Deducted Items

It is clear through this equation that the *Zakâh* base is based on the classification of items in terms of addition and deduction. Therefore, the entity’s financial items listed on the statement of financial position are classified in terms of *Zakâh* into four categories, which are:

[1] **Items added to the base,** which represent the column of liabilities to which the addition conditions and equity apply.

[2] **Items not added to the base,** which represent the column of liabilities in which the addition conditions are not fulfilled.

[3] **Deducted items,** which represent the column of fixed assets, long-term investments, and others items classified under non-current assets.

[4] **Undeducted items,** which represent the column of current assets in which the conditions for being considered as deductible items have not been realized.

Bases for *Zakâh* Calculation Method at Zakat, Tax and Customs Authority

Adopting accounting data in calculating *Zakâh*:

The calculation of contemporary corporate *Zakâh* is generally based on financial statements prepared in accordance with the accounting principles and standards in general. This is with regard to the extent of the *Zakâh* payer's commitment to the standard of presentation and general disclosure and the accuracy of the stated clarifications, such as distinguishing between fixed assets and current assets, as they are necessary for the purposes of forming the *Zakâh* base.

The Authority approves the statement of financial position to determine the *Zakâh* base of the *Zakâh* payer, which is the statement that expresses the financial position of the entity and its balances. This is because it gives a list of accurate information about the company's assets and liabilities at the end of the fiscal year.

The most important characteristics of the accounting data are the following:

[1] It shows all assets and liabilities of the company, in a manner appropriate to the operations of calculating *Zakâh*.

[2] When preparing it, it requires a commitment to realism, and so it reflects all the costs incurred in return for owning its fixed and current assets.

[3] It expresses reality as it is.

The availability of these characteristics in the financial statements, and the statement of financial position in particular, allows reliance on them in calculating *Zakâh*, which comes in agreement with the resolutions of a number of the institutions of collective *Ijtihâd*, including recommendation of the 7th symposium on *"Contemporary Zakâh Issues"*, and the Shari'ah Standard on *Zakâh* issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Shari'ah bases for the adoption of accounting data in calculating *Zakâh*:

[1] The statement of financial position aims at disclosing assets and liabilities, and it is not limited to disclosing income and what is related to revenues and expenses, which achieves the requirements of determining the *Zakâh* on goods stocked for trade.

[2] The statement of financial position is based on the ownership of the *Zakâh* payer, and the sources of such an ownership, and it is not concerned with revealing the level of achieving profits and incurring losses. In this sense, it is consistent with the theory of *Zakâh*, since *Zakâh* is a consequent of owning the *Nisâb* (i.e. minimum amount determining a person's zakatability) of zakatable wealth, whether it results in profit or loss.

[3] The possibility of verifying the fulfillment of conditions for *Zakâh* obligation on the entity through considering its financial position. This includes, for example, the condition of the intention to trade with regard to the *Zakâh* on goods stocked for trade; because one of the purposes of classification of the statement of financial position is to distinguish between whether or not assets are intended for sale.

These Shari'ah bases require the acceptance of *Zakâh* calculation according to the data listed in the statement of financial position.

Considering all activities subject to *Zakâh* as being goods stocked for trade:

The Zakat, Tax and Customs Authority (ZATCA) considers all activities intended for profit, such as investing wealth or efforts, as being activities subject to *Zakâh*, be they trading in goods or services, or be they banking or financing activities. Article (1) of the Implementing Regulation for Zakat Collection defines the meaning of the activity subject to *Zakâh* as:

"A work aimed at generating profits, be it commercial, industrial, service, or other."

Vehicle rental companies, or hotel business fall under the same ruling as goods stocked for trade in terms of their being subject to *Zakâh*. The same applies to professional entities, such as medical clinics, law and accounting firms, and so on.

This means: The *Zakâh* due on these activities is to be calculated in accordance with their assets, pursuant to the Shari'ah ruling stating that paying *Zakâh* is obligatory for goods stocked for trade and the profits thereof, as well as the income of lease and self-employment, but it is not payable for properties obtained for *Qunyah* (i.e. acquisition and personal use).

The proofs that all activities subject to *Zakâh* are to be considered as being goods stocked for trade are general rulings indicating the obligation of *Zakâh*, such as Allah's saying:

{"O you who believe! Spend of the good things which you have (legally) earned,..."}

The Verse states that *Zakâh* is obligatory on all types of wealth subject to profit and growth, and all commercial activities in which this meaning is realized.

Also, the consensus of the scholars of Fiqh that *Zakâh* is due on wealth intended for trade upon the elapse of *Hawl* (i.e. *Zakâh* year). This indicates that *Zakâh* is obligatory on commercial activities, including activities based on selling goods, renting assets, or efforts.

Calculating the amount of *Zakâh* on a daily basis:

This principle means: To calculate the amount the *Zakâh* payer is to pay at the end of the *Zakâh* year (*Hawl*) in accordance with the number of the *Zakâh* payer's actual activity days of the year.

The Implementing Regulation for Zakat Collection states:

"If the fiscal year of the *Zakâh* payer differs from the Hijri year (i.e. lunar year), then *Zakâh* is to be calculated in days, through dividing two and a half percent (2.5%) by the number of days of the Hijri year, multiplied by the number of actual days of the payer's *Zakâh* year."

The implementation of this principle in calculating *Zakâh* becomes clear in the example where a company starts its activity on 1/7 adopting a short fiscal year, then its first fiscal year will end on 31/12. According to the Authority's method of calculating *Zakâh*, the percentage of the due amount of *Zakâh* is to be reached through dividing (2.5%) by the number of days of the Hijri year (i.e. 354 days), multiplied by the number of actual days of the payer's *Zakâh* year (i.e. 183 days).

In this treatment, justice is achieved through maintaining balance, taking into account the difference in the number of days between the Gregorian calendar (i.e. solar year) and the Hijri calendar (i.e. lunar year), which is determined by a number of collective *Ijtihâd*. It also includes establishing justice through balancing between the rights of the poor to the *Zakâh* wealth, and the *Zakâh* payer's right to be able to grow the wealth.

Further, it facilitates the collection of *Zakâh*, which is one of the purposes of Shari'ah behind this ritual. One of the manifestations of this facilitation is related to the condition of the elapse of a full lunar year

(*Hawl*). Some precepts of Fiqh state that it is permissible to make the collection of the *Zakâh* due on livestock contingent on the rising of the Pleiades, which is based on the Gregorian calendar (i.e. solar year). This is because this achieves the public interest, even if it leads to one year (*Hawl*) being dropped from every thirty-three years due to the increase in the days of the solar year over the Hijri (lunar) year.

Impact of debts on *Zakâh* base:

The method of Zakat, Tax and Customs Authority in dealing with liabilities of the *Zakâh* payer is based on paying attention to the differences among the types of these obligations through two considerations:

- **First:** The term of debt.
- **Second:** The use of debt.

Short-term liabilities financing deducted assets are to be added to the *Zakâh* base, unlike those that do not finance deducted assets, which are not to be added to the *Zakâh* base.

As for long-term liabilities, they are to be added to the components of the *Zakâh* base, provided that the total items added shall not exceed the amount of the deduced items. This is to protect the *Zakâh* base through refraining from adding debts to it, and because these debts are secured by fixed assets and its equivalents of deducted assets, even though they do not finance them. This is to establish balance and justice, and to avoid duplicated deduction.

This can be illustrated by the following example:

Assets	Value	Liabilities and Equity	Value
Cash	1100	Short-Term Debts	400
Fixed Assets	400	Long-Term Debts	500
		Equity	600
Total Assets	1500	Total Liabilities and Equity	1500

[Zakâh Base = Long-Term Debts (Maximum Amount of Deducted Items) + Equity - Deducted Items]

Zakâh Base = 400 + 600 - 400 = 600

This example clarifies as follows:

[1] (400) of the value of long-term debts have been added as a counterpart to the deducted assets, while the remaining value has not been added, as it exceeds the value of the items to be deducted.

[2] The value of equity has been added to the base (600).

[3] The value of short-term debts (400) has not been added, because this debt had not financed any of the items to be deducted.

So, the total additions have become (1000).

[4] The value of the fixed assets has been deducted as being one of the non-zakatable assets.

The output of the *Zakâh* base is: (600).

This example clarifies that the purpose of adding debts owed by the *Zakâh* payer is not to pay *Zakâh* on them, but to prevent the impact of the deducted assets financed by this debt on the *Zakâh* base, so that the base is to be only the equities used in the zakatable assets.

This course of action adopted by the Authority regarding the impact of debt on the base requires, from an accounting point of view: Employing balance of budget principle through matching between wealth source and wealth use, so that none of wealth sources (liabilities) is to be added before determining the use thereof. Accordingly, the *Zakâh* base, after adding liabilities and deducting non-zakatable assets, becomes free of debts and their impacts. This is unlike the case when liabilities are added without considering their use, which will lead to debts being included in the *Zakâh* base, and the case when assets financed by debts are deducted without adding these debts, as the impact of debt will be doubled.

Shari'ah basis for matching debts with non-zakatable assets:

First: If the *Zakâh* payer owns goods in excess of his basic needs that can be matched with the debt and thus he owns zakatable wealth, then he is to be regarded as owning a *Niṣâb* that is surplus to his basic needs and payment of his debt. Hence, he has to pay *Zakâh*, as if he has no debts due on him.

Second: Lacking the matching between debts and properties obtained for *Qunyah* (i.e. acquisition and personal use) in excess of the basic needs leads to withholding *Zakâh* or reducing its amount for the rich who invest their wealth in properties obtained for *Qunyah*, exploited assets, or other types of wealth for which *Zakâh* is not obligatory.

Third: Deducting debts without matching them with properties obtained for *Qunyah* leads to duplicated deduction. This is because deducting these debts, even though they are used in items for which *Zakâh* is not due, such as fixed assets and the like, results in deducting them twice.

Setting minimum limit for *Zakâh* base:

The minimum limit of *Zakâh* base is a base presumed by the Authority in the event that the base resulting from the Authority's calculation (addition items - deduction items) is less than the adjusted net profit.

The minimum limit of *Zakâh* base is estimated as the adjusted net profit for *Zakâh* purposes, which shall not be less than the adjusted net profit for the purposes of collecting *Zakâh* in accordance with the provisions of the regulation.

If the *Zakâh* base for a *Zakâh* payer amounts to SAR 1,000.000, and the adjusted net profit is SAR 1,100.000, then the *Zakâh* base for this *Zakâh* payer will be less than the adjusted profit for *Zakâh*. According to the procedures of the Zakat, Tax and Customs Authority, *Zakâh* is to be calculated based on the adjusted profit, thus the amount of the *Zakâh* due is SAR 27.500.

Cases of considering the minimum limit for *Zakâh* base:

The net profit is to be considered as a minimum limit for the *Zakâh* base in cases where the *Zakâh* base is less than the profits achieved during the year, such as when the *Zakâh* base is less than the adjusted net profit for the *Zakâh* year, or when the *Zakâh* base is negative.

Method for reaching the minimum limit of *Zakâh* base:

Adjusted net profit can be reached through adjusting the expenses and revenues according to the following:

[1] Net book profit or loss for the year is to be added to the *Zakâh* base.

[2] Non-deductible expenses are to be added to the *Zakâh* base.

[3] Shares in the profits of local companies invested in and disclosed through equity method are to be excluded.

[4] The result is the adjusted net profit or loss for *Zakâh* purposes.

Shari'ah basis for setting minimum limit for *Zakâh* base:

Setting a minimum limit for the *Zakâh* base is considered a Shari'ah policy, and one of the powers of the *Zakâh* collection Authority with regard to controlling the people subject to *Zakâh*. Accordingly, accepting the adjusted profit as a minimum limit for the *Zakâh* base is related to the competence of the ruler to perform the task of collection, and just as the Shari'ah policy responds to issues of transactions, it also responds to issues of worship, particularly when worship-related matters are delegated to the ruler. This is evidenced by the practice of `Umar Ibnul-Khattâb when he approbated collecting *Zakâh* on horses and slaves. This is because the Prophet (peace and blessings of Allah be upon him) exempted horses and slaves from *Zakâh* when Muslims were in need therefor and there were few of them, but when `Umar was appointed as Caliph and the wealth increased, Muslims traded in horses and kept them as wealth, so `Umar approbated to impose *Zakâh* on horses, as they had fallen under the ruling of livestock.

Assumptions of *Zakâh* accounting:

Since the Authority's method depends on the balance of budget principle, this necessitates the process of making assumptions to achieve balance between the zakatable asset and liabilities of the *Zakâh* payer, in order to control the items to be added, as well as the items to be deducted. These assumptions used by the Authority to calculate *Zakâh* are due to the nature of the wealth uses at commercial entities.

These assumptions are as follows:

(a) Matching short liabilities with current assets.

(b) Matching long liabilities with non-current assets.

(c) Equity completes the shortfall in the source of financing non-current assets, and then current assets.

(d) Connection is to be made with payability not with chronological sequence.

Shari'ah basis for assumptions of *Zakâh* accounting:

It can be attached to what has been decided in Shari'ah maxims with regard to considering the opinion of experts in *Zakâh* and other Shari'ah estimates. Scholars of Fiqh adopted the views of experts in some areas of *Zakâh*, including: *Kharṣ* (i.e. assessment), valuation of goods stocked for trade, as the opinions of experts are to be adopted with regard to them.

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