



Guideline

**For the Rules of Zakat Collection
from Investors in the Investment
Funds**



The Zakat, Tax and Customs Authority (ZATCA) issued this Guideline with the purpose of clarifying some of the treatments related to the application of the statutory provisions in force at the date of its issuance. This Guideline shall not be considered as an amendment to any of the provisions of the laws and regulations applicable in the Kingdom.

ZATCA shall apply the explanatory treatments stated in this Guideline - wherever applicable - considering the relevant legal texts. In the event that any clarification or content herein is amended - to an unamended legal text - then the updated clarification treatment shall apply to transactions that take place after the date of publishing the updated version of the Guideline on ZATCA's website.



Table of contents

1. Introduction	05
1.1. About Zakat	05
1.2 Zakat Collection	05
1.3 Zakat Collection in the Kingdom of Saudi Arabia	05
1.4 The Zakat, Tax and Customs Authority (ZATCA)	07
1.5 ZATCA's Responsibilities	07
1.6 About the Guideline for the Rules of Zakat Collection from the Investors in the Investment Funds	08
2. Collection of Zakat from the Investors in the Investment Funds	09
2.1 Introduction to the Rules for the Collection of Zakat from the Investors in the Investment Funds	09
2.2 Definitions and Terms of the Investment Funds	09
2.3. Investors in investment funds subject to Zakat	14
2.4. Registration of investment funds with ZATCA	19
2.5. Obligations of investment funds and investment unit owners	20
2.6. Conditions for the deduction of the investment value of the investment funds for Zakat payers/ investment unit holders who are subject to the rules and who maintained statutory accounts	23
2.7. General framework of accounting for Zakat of investing in investment funds	36



Table of contents

2.7.1. Introduction	36
2.7.2. Zakat of investing in investments funds	39
2.8 Components of Zakat base for investment funds	44
2.8.1. Items to be added to the Zakat base	44
2.8.2. Items to be deducted from Zakat base	58
2.8.3. Other Conditions for Deduction	59
2.8.4. Requests and other issues	72
3. Practical examples	76
4. Appendix: FAQ	92



1. INTRODUCTION

1.1. About Zakat

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

1.2. Zakat Collection

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 spend it on those entitled, by assigning some personnel (Zakat employees) to visit the owners of funds throughout the Islamic State, calculate the amount of their Zakat, then collect it from them, and supervise the disbursement and distribution of it to the beneficiaries.

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

1.3. Zakat Collection in the Kingdom of Saudi Arabia

The collection of Zakat and its disbursement to those entitled is one of the basic tasks of the State, as stipulated in the Basic Law of Governance in Article 21, which reads as follows: (Zakat shall be collected and disbursed in its disbursement channels). Article 7 set forth evidence of the State's attention to the duties of Sharia and its commitment thereto in general, which includes collecting Zakat and disbursing it to the beneficiaries. It stipulates as follows: (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 foregoing, during the reign of the Founder King Abdul-Aziz -may Allah have mercy on him- Royal Decree No. ((863417/2/28/) dated 291370/6 AH corresponding to (6 April 1951), was issued with the order to collect Zakat. The said Royal Decree was followed by many royal decrees confirming the same as well as implementing ministerial resolutions, in addition to the regulations and circulars, including Royal Decree No. (M/40) dated 21405/7 AH, and the Zakat implementing regulations issued by Ministerial Resolution No. (2082) dated 11438/6 AH, Corresponding to (28 February 2017) and the Zakat implementing regulations issued by Ministerial Resolution No. (2216) dated 71440 7/ AH corresponding to (14 March 2019), which applies to the Zakat years starting from January 1, 2019 for all Zakat payers, except for those who are accounted for by the discretionary method according to the chapter 4 of the regulations, whereas the regulations apply to their declarations submitted after 31 December 2019. Therefore, the Zakat implementing regulations issued on 71440 /7/ AH do not apply to the fiscal years prior to this date, and those years are treated in accordance with the regulations and instructions prior to this date.

The Zakat implementing regulations has been particularly concerned with clarifying the provisions for Zakat collection on commercial and professional activities, and alike, besides other Zakat funds, the requirements for submitting the Zakat declaration, procedures of the assessment, examination and payment, and their respective terms.

The Zakat proceeds collected by ZATCA are received and deposited in the Social Security Account, which is responsible for disbursement to the poor and needy in accordance with Royal Decree No. (161/5/) Dated 05 / 01 / 1383 AH corresponding to (28 May 1963), wherein Paragraph (1) provides for: "Zakat shall be collected in full of all joint stock companies, and others, and individuals who are subject to Zakat." In addition, Paragraph (2) stipulates: "All amounts collected shall be returned to the Social Security Fund."



1.4. The Zakat, Tax and Customs Authority (ZATCA)

ZACTA is a Saudi government authority that was established pursuant to the Council of Ministers' Resolution dated 23 Ramadan 1442 AH corresponding to (4 May 2021), following the Resolution to merge (previously named) The General Zakat and Income Authority with the General Customs Authority to be one entity named the Zakat, Tax and Customs Authority.

1.5. ZATCA's Responsibilities

The Statute of ZATCA defines the tasks of ZATCA in Article (3) thereof, and it includes the following:

1. Collecting Zakat, taxes, and customs fees from Zakat payers according to the relevant laws, regulations, and instructions.
2. Providing high quality services to the Zakat payers and help them meet their obligations.
3. Follow up with the Zakat payers, and take the required procedures to ensure collection of dues
4. Raising awareness amongst Zakat payers, strengthen their voluntary commitment and ensure their commitment to the instructions and controls issued by ZATCA under its mandates.
5. Leveraging modern technology in implementing, monitoring and facilitating ZATCA's operation, and in enhancing the security role in combating customs smuggling.
6. Cooperating with the private sector in the implementation and management of some supportive works.
7. Developing the necessary plans to organize, manage and invest in the customs port facilities, in coordination with the relevant authorities.
8. Setting standards for following up on the performance indicators for ZATCA's works and plans, which ensure the development of its performance and services. ZATCA may coordinate in this regard with whomever it deems relevant to its mandates.



9. Cooperating and exchanging experiences with regional and international bodies and organizations, and specialized consultancy firms inside and outside the Kingdom, within the limits of ZATCA's mandate.
10. Representing the Kingdom in regional and international organizations, bodies, forums and conferences related to ZATCA's mandate.

1.6. About the Guideline For the Rules Zakat Collection from the Investors in the Investment Funds

This Guideline provides instructions and basic information on the collection of Zakat from investors in the investment funds. This Guideline shall assist in creating a clear vision and provide guidance regarding practical applications for Zakat assessments on investment funds.

This Guideline represents ZATCA's understanding and interpretation regarding the application of Zakat implementing regulations issued pursuant to the Ministerial Resolution No. (2216) dated 7 Rajab 1440 AH, and the rules for the collection of Zakat from the investors in the investment funds issued pursuant to the Ministerial Resolution No. (29791) dated 9 Jumada al-Awwal 1444 AH.

In order to obtain guidance on any special transaction, please visit ZATCA's official website (ZATCA.gov.sa), which offers a wide range of tools and information that have been developed specifically to assist the Zakat payer, including visual guidance materials, all relevant data, as well as answers to the most FAQs.



2. Zakat Collection from the Investors in the Investment Funds

2.1 Introduction to the Rules for the Collection of Zakat from the Investors in the Investment Funds

The investments in investment funds were not allowed as a deduction prior to Ministerial Resolution No. (29791) issued on Jumada Al-Awwal 9, 1444 AH, that approved the Rules for the Collection of Zakat from the Investors in the Investment Funds, since these funds were not registered with ZATCA, whereas such registration is one of the conditions for deduction. These rules confirm and clarify the treatment of investments in investment funds for Zakat purposes in the books of the Zakat payers who voluntarily wish to declare and treat such items as deductions from the Zakat base in their declarations, provided that the conditions for deduction contained in the regulations and rules are met.

Accordingly, these rules came to regulate the mechanism for the collection of Zakat on these investments for the Zakat payers who are unit holders in the investment funds according to the controls and conditions of the rules coupled with the relevant provisions of the regulations.

In this Guideline, the mechanism, conditions and controls for calculating the Zakat on these investments will be discussed in detail when applying the deduction conditions for the Zakat payers who own the investments, since these funds were not registered with ZATCA, whereas such registration is one of the conditions for the deduction of the units in investment funds, in addition to other statutory requirements.

2.2 Definitions and terms in relation to the investment funds

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

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

Resolution: The Ministerial Resolution No. (29791) issued on Jumada Al-Awwal 9, 1444 AH, that approved the rules for the Collection of Zakat from the Investors in the Investment Funds



Capital Market: A licensed Capital Market- in accordance with the provisions of the Capital Market Law - to trade in securities in the Kingdom

Rules: The rules for the Collection of Zakat from the Investors in the Investment Funds that were issued pursuant to Ministerial Resolution No. (29791) issued on Jumada Al-Awwal 9, 1444 AH

Transfer Pricing Bylaws: The transfer pricing bylaws and the subsequent amendments thereto issued under the decision of BoD of ZATCA No. 619-1- dated Jumada Al-Awwal 25 1440 AH, corresponding to 31 January 2019 AD

Central Bank: Saudi Central Bank

Kingdom: Kingdom of Saudi Arabia

Zakat payer: A natural or legal person who carries out an activity that is subject to Zakat in accordance with the provisions of Article 2 of the Regulations, whether it is a sole proprietorship or a company, or who carries out the activity under a license issued by a competent authority in the Kingdom

Zakatable activity: Any business intended to make a profit, whether it is a commercial, service, industrial, or other business.

Fund: An investment fund or a real estate investment fund, incorporated in the Kingdom, and the fund manager may offer the fund's units to investors in the Kingdom in accordance with the relevant laws and regulations that are applicable in the Kingdom

Equity funds: Funds that invest mainly in the shares of companies that are listed in capital markets, whether local, international or regional

Unit holder: The Zakat payer who owns a unit in the fund that represents a common share in the net assets of the fund

Fund manager: the capital market authority that manages the assets of an investment fund or real estate investment fund, manages its business, and offers its units in accordance with the provisions of the relevant laws and regulations that are applicable in the Kingdom



Custodian: A person authorized under the regulations of the Capital Market Authority (CMA) to carry out the custody activities for securities

Special Purpose Establishment: An establishment that is incorporated and licensed under the rules that regulates the special purpose establishments

Investment funds that take the form of a special purpose establishment: It is an incorporated establishment that is licensed by CMA to issue debt instruments or to issue investment units from the according to the rules for the special purpose establishments. Moreover, this establishment has financial autonomy and an independent legal personality, and the establishment shall end by achieving the purpose for which it was established, all under of which the provisions issued by the CMA

Fund management fees: The compensation, expenses and fees paid to the fund manager against the advisory services

Custody Fees: The compensation, expenses and fees against the custody services fund's asset

Subscription's processes: amounts paid by investors for the subscriptions to the investment funds

Refund processes: Investors' refund amount for their units' value in the investment fund.

Sale Process: In the case of equity funds, it means selling the fund's assets from equity investments over a certain period

Purchase process: In the case of equity funds, it means purchasing assets from equity investments over a certain period

Fund terms and conditions: Contracts that include the data and terms required by the provisions of the Investment Funds Regulations and the Real Estate Investment Funds Regulations, and which are signed between the fund manager and the unit holders

Zakat year: The fiscal year for the Zakat payer or the fund, whether it is Hijri or Gregorian, short or long, at the opening or the closing of the activity



Traded: Any asset or receivable that is expected to be realized, redeemed or settled within a period not exceeding (365) days after the end of the Zakat year, or any asset held by the fund, mainly for trading purposes

Persons related to the fund: They are natural or legal persons who effectively control the fund, or who are effectively controlled by the fund, or who are effectively controlled by the same person controlling the fund

Transactions between persons related to the fund: Any transaction between persons related to the fund, including formal and nominal transactions, and any exchange of value between them, to the extent that such transactions have a financial or legal effect

Zakat declaration: A statement submitted by the Zakat payer according to the ZATCA's forms, including the financial items related to the Zakat account, and showing the Zakat due on the Zakat payer under the regulation

Information declaration: A form prepared by ZATCA that includes several elements and items, and it must be filled out and submitted by every Zakat payer. The purpose of the declaration and its submission is to indicate the amount of the Zakat base without settling the due Zakat after submitting it ZATCA, as Zakat is due on the Zakat payers who own the units of the fund - except for the direct or indirect finance fund -. This form is generally used and submitted to ZATCA for information disclosure purposes only

Licensed Chartered Accountant: A chartered accountant licensed in the Kingdom to practice the auditing profession regulated by the SOCPA

Chartered Accountant Certificate: A certificate approved by a licensed chartered accountant confirming the calculation of Zakat for the investments in investment funds

Net profit (loss): The result of the fund's business in terms of carrying profit or loss as is in the income statement for a specific financial period

Adjusted net profit (Loss) for Zakat purposes: Net book profit (loss) after being adjusted with items in accordance with Articles 8 and 9 of the Regulation



Activity Result: Net carrying profit (loss)

Direct financing fund: An investment fund established for the purpose of engaging in direct financing activity for legal persons and investment funds

Indirect financing fund: An investment fund established for the purpose of purchasing financing portfolios established from entities that are subject to the supervision of the Saudi Central Bank. The fund can invest with financing companies licensed by the Saudi Central Bank, whereas the financing companies make the decision to grant credit

Open investment fund: An investment fund with a changing capital, which units increase by offering new units or decrease through unites holders' redemption of some or all their units according to their net value on the trading dates shown in the terms and conditions of the fund and under the Investment Funds Regulations

Trading investment fund: An investment fund whose units are traded in the Main Market or the Parallel Market

Fund's End date: The date on which the fund is closed according to the term or event specified in the terms and conditions of the fund, including the stage of selling the assets and the distribution of the unitholders' dues

Financial Reports of Investment Funds

The financial reports are one of the key indicators on the investment fund's performance. The fund should issue financial statements for this purpose, as requested by another set of regulatory requests by the CMA:

- “Annual”: Including the audited financial statements
- “Semi-annual”: If the fund is obligated to issue semi-annual financial statements



2.3. Investors in investment funds who are subject to Zakat's provisions

The rules aim to regulate the mechanism for computing and collecting the due Zakat on investors in investment funds in order for the Zakat payers who are subject to the regulations to include their investment units owned in these funds as deductions from the Zakat base in their Zakat declarations, provided that the conditions for deduction under the regulations and other controls mentioned in the rules were met.

It should be noted that these rules are a mechanism for regulating the collection of Zakat from investors in investment funds only if the Zakat payer subject to the rules chooses to include these investments within the deductions from the Zakat base in his declaration. Therefore, the application of these rules is optional and not mandatory, as follows:

Zakat payer's action in terms of deducting the investment in the units of the investment funds	Enforceability of the Rules
The zakat payer deducts its investment in its Zakat declaration if the deduction conditions mentioned in the regulations apply	Mandatory
<ul style="list-style-type: none">• The Zakat payer deducted the investment from the Zakat base in the Zakat declaration (If the deduction conditions mentioned in the regulation were met).• The Zakat payer did not deduct the investment from the Zakat base in the Zakat declaration (If the deduction conditions mentioned in the regulation were met).	Not Mandatory



Before explaining and clarifying the rules for the computation of Zakat on investments in investment funds, Zakat payers who are subject to the provisions of these rules should be identified as stipulated in the provisions of Article 2 of the regulations, and they are those who practice any Zakatable activity of the following:

- 1. Saudi natural persons residing in the Kingdom, and those who are treated as citizens of GCC.**

For clarification, natural persons mean: Zakat payers who carry out an activity that is subject to Zakat through an entity - an establishment / company / ... - established in the Kingdom and have obtained licenses from the official authorities to practice the activity, and since those who engage in commercial activity are subject to the regulations, they shall be also subject to the rules.

On the other hand, natural persons or individuals who do not practice Zakatable activities as described above are not subject to the regulations and therefore are not subject to the Rules. In addition, the Zakat payers who are subject to Zakat and their Zakat assessment is computed on deemed bases in accordance with the rules for computing the deemed Zakat are not subject to these rules.

- 2. Companies residing in the Kingdom on behalf of the shares of Saudi partners and those who are treated as citizens of CCG, and everyone who practices the activity based on a license issued by a competent governmental or administrative authority in accordance with the controls set by ZATCA.**

3. Shares of non-Saudi partners in companies residing in the Kingdom listed on the Saudi Capital Market, including non-founders and their representatives according to the Memorandum of Association or the legal documents, and the shares of Saudi government agencies and institutions.

- 4. A permanent establishment owned by non-resident Saudis and those who are treated like non-resident Saudis, if the senior management conditions are applied to the permanent establishment.**



Except the following:

- a. Resident capital companies representing the shares owned directly or indirectly by persons working in the production of oil and hydrocarbon materials, whether they were natural or legal persons, residents or non-residents, except for the shares owned directly or indirectly by persons working in the production of oil and hydrocarbons in the listed capital companies in the Saudi Capital Market, and the shares of these companies owned directly or indirectly in the capital companies.
- b. The Zakat payer in respect of whom ZATCA issued a decision to exempt him from Zakat.

Example:

Below are the persons who are unit holders in investment funds:

1. A capital company residing in the Kingdom owned-in full by natural persons who hold the nationality of one of the CCG states.
2. A Saudi resident natural person who carries out Zakatable activity in the Kingdom.
3. An unlisted company working in the field of extracting oil and hydrocarbons and not owned -in full by a listed company.
4. A company that has obtained the ZATCA's approval not to be subject to Zakat.
5. A company working in the field of telecommunications and its shares are fully listed in the capital market in the Kingdom.
6. An individual - a natural person - who does not engage in any Zakatable activity and does not fulfill the definition of a Zakat payer in accordance with the regulations.
7. A person subject to the provisions of the Regulations and accountable for Zakat in accordance with the deemed method stipulated in the regulations.



Person	Enforceability of the Rules
A capital company residing in the Kingdom owned-in full by natural persons who hold the nationality of one of the CCG states	Applicable
A Saudi resident natural person who carries out Zakatable activity in the Kingdom	Applicable
A company working in the field of extracting oil and hydrocarbons	NA
A company that has obtained the ZATCA's approval not to be subject to Zakat	NA
A company working in the field of telecommunications and its shares are fully listed in the capital market in the Kingdom	Applicable
An individual - a natural person - who does not engage in any Zakatable activity and does not fulfill the definition of a Zakat payer in accordance with the regulation	NA
A person subject to the provisions of the Regulations and accountable for Zakat in accordance with the deemed method stipulated in the regulations	NA

To complement the above, the rules have added the following exceptions in terms of being subject to these rules, and they are as follows:

- **Investment unitholder in the financing fund**

Direct financing funds are defined as the funds that are established in accordance with the regulations of the CMA in the Kingdom of Saudi Arabia to carry out financing activities for legal persons and investment funds.

Accordingly, the rules stipulate, according to paragraph (a) of Article 2, that unit holders in these funds are excluded from being subject to the rules. Thus, the investor in these funds is not subject to the provisions of these rules.

ZATCA will later clarify the mechanism for collecting Zakat on investments in these funds in detail.



- **A unit holder who owns the fund in full, directly or indirectly, and has submitted a consolidated Zakat declaration for the fund**

This means the cases whereby the Zakat payer owns all the units of the fund, directly or indirectly, and therefore has the optional right to submit a consolidated Zakat declaration including the results of the fund's operations according to consolidated financial statements under Article (15) of the regulations.

This topic will be covered in detail in this Guideline (please see Section 8.2).



2.4. The registration of investment funds with ZATCA

Funds approved to be established after the effective date of the resolution

Article 3 of the rules stipulates that all investment funds approved to be established by the CMA after the effective date of the resolution (1st January 2023 AD), must register with ZATCA for Zakat purposes before the end of the first fiscal year from the date of the approval on their establishment.

Example

The establishment of an investment fund was approved by the CMA on 1st July 2023.

Subject to the terms and conditions of the fund, the first fiscal year starts on the date of incorporation until the end of 31 December 2024 (a long fiscal year).

Based on the above, when the fund should be registered with ZATCA for Zakat purposes?

Based on the above information, the investment fund must be registered before the end of its first fiscal year, 31 December 2024.

Example

The establishment of the Real Estate Fund (REIT) was approved by the CMA on 1st April 2023. According to the fund's founding regulations, the first fiscal year starts from the date of incorporation until the end of 31 December 2023 (a short fiscal year).

Based on the above, when the fund should be registered with ZATCA for Zakat purposes?

Based on the above information, the Real Estate Fund (REIT) must be registered before the end of its first fiscal year, 31 December 2023.

Funds approved to be established before the effective date of the resolution

The ministerial resolution stipulated in Clause 2 that the investment funds that CMA approved their establishment before the effective date of the resolution must register with ZATCA for Zakat purposes before the end of their existing fiscal year when the decision becomes effective.



Example

Referring to the previous example and assuming that the establishment of the fund was approved during the 2019 AD, i.e., before the issuance of the rules, while keeping the assumption that the fund's fiscal year begins on 1st January and ends on 31 December yearly.

When the fund should be registered with ZATCA for Zakat purposes?

Subject to the rules, the fund is obliged to register with ZATCA for Zakat purposes before the end of the fund's fiscal year when the decision takes effect, and accordingly, the fund must register by or before 31 December 2023.

Example

An investment fund established under the rules and regulations of CMA during 2020. The fund's fiscal year begins on 1st July and ends on 30 June of the following year.

When the fund should be registered with ZATCA for Zakat purposes in accordance with the resolution and the rules?

According to the resolution, the fund should register with ZATCA for Zakat purposes before the end of the fund's fiscal year when the resolution becomes effective, i.e., before 30 June 2023.

2.5. Obligations of investment funds and investment unit owners

Registration applications with ZATCA

The investment fund must register with ZATCA within the regulatory dates stipulated in the rules and that were described in the previous section (2.4) and obtain the assignment number according to the registration certificate approved by ZATCA.

The Fund shall also update its data in the case of any change in its legal form.

First, the registration of the investment fund with ZATCA requires the following information - at least:

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



Noting that these applications change periodically, based on ZATCA discretion. Thus, please refer to ZATCA's website and review the required documents.

Disclosure requests - after registration -

Article 4 of the rules stipulates that investment funds are required to disclose the following information to ZATCA:

- To submit the information declaration within one hundred and twenty (120) days from the date of the end of the Fund's fiscal year for every fiscal year separately.

Filing and depositing the information declaration with ZATCA does not require the fund to pay any Zakat dues to ZATCA, whereas the Zakat payers-holders of the investment units and that are subject to these rules are liable to settle the Zakat payments, which will be explained later in this Manual. The information declaration submitted by the investment fund should include the disclosure of the financial data reported in the financial report/statement of the investment fund. If the fund computed the Zakat on these investments and presents it to the Zakat payers/unit holder, then the Zakat payer can use the same. However, the obligation of computation and settling Zakat shall remain on the Zakat payer/the holder of investment unit.

- Besides the information declaration, other information and reports related to the declaration that must be submitted to ZATCA are divided into two sections:
 - a. Information provided during the submission of the information declaration
 - The financial statements and reports of the investment fund
 - A record of the investment fund's transactions with related persons through the related transaction disclosure form attached to the information declaration, in accordance with the Transfer Pricing Bylaws and the amendments thereto issued under the decision of ZATCA's BoD No. (619-1-) dated 25 Jumada Al-Awwal 1440 AH corresponding to 31 January 2019 AD. Whereas the disclosure of transactions with related parties should be carried out in accordance with Transfer Pricing Guidelines as follows - for example but not limited to:
 1. The name of the related party
 2. The nature of the transaction
 3. The transaction volume
 4. The transfer pricing method



- Bearing in mind that the fund should be treated similarly to the rest of the Zakat payers with regard to requests for other transfer pricing mentioned in the Transfer Pricing Bylaws, including, for example: both files, the local file and the master file, and others, if applicable
 - Any additional data that ZATCA may request from the Fund during the stage of submitting the declaration and may include any financial reports supporting the data that were reported in the Fund's financial statements, and ZATCA may identify these requests later, if needed
- b. Information that ZATCA may request from the fund or the investment units' holder after submitting the information declaration or during the examination process, including but not limited to:
- The list of investment unit holders "Zakat payer" during the fiscal year
 - Any other data that ZATCA may require, for example: additional details of the results of the Fund's business, including revenues, expenses, and its financial position, such as details of assets, payables, equities, etc., that assist ZATCA during the examination process and verify the validity of the declaration in accordance with the relevant provisions of the regulations.



Responsibility for registering the investment fund and providing ZATCA with information

The fund manager shall be responsible for the registration of the fund, submitting the information declaration, and providing ZATCA with the relevant data in the declaration during and after submitting the declaration. Thus, the fund manager must provide ZATCA with the following :

1. All the information referred to in the above disclosure requests, whether the funds fiscal year is long or short, at the beginning of its establishment or upon its liquidation.
2. The fund manager and the investment unit holder must provide ZATCA with the necessary information required by ZATCA for examination and revision purposes within twenty (20) days from the date that ZATCA sends the request. ZATCA is entitled to extend the above period or carry out the assessment according to the information available to ZATCA, in the event of failing to provide the information required for examination purposes.

2.6. Conditions for the deduction of the investment value in investment funds in the Zakat declarations for Zakat payers/ investment unitholders who are subject to the rules and who maintain statutory accounts

Article 5 of the rules stipulated that those who are subject to these rules are entitled to deduct the value of their investments in investment funds, provided that the following conditions are met:

The First Condition: That the Zakat payers investment in the fund is held for non-trading purposes.

The Zakat implementing regulations, in its fourth and fifth paragraphs of Article 5, stated the Zakat treatment for such investments as follows:

"The following items shall be deducted from the zakat base of a Zakat Payer who maintains Commercial Records:



1. Investments in an entity in the Kingdom for purposes other than trade, if the entity invested in is registered with the Authority and is subject to Zakat according to these Regulations. Assets that are the object of a financial lease and are booked as such in the lessor's Commercial Records shall not be a deductible investment from Zakat Base regardless of its classification in the financial statements. Loans, receivable, subordinate loans, supplemental financing and similar items granted to the entity invested are not a zakat-deductible investment.

2. Investments in an entity outside the Kingdom for purposes other than trade, provided that the Zakat Payer pays and remits Zakat on such investments to the Authority pursuant to a certificate prepared in accordance with the provisions of these Regulations and certified by a chartered accountant licensed in the Kingdom, and provided that the minimum Zakat base of such investments is the Zakat Payer's share of the net profit reported in the financial statements of such investments regardless of whether or not profits are distributed. If the Zakat Payer does not calculate and pay the Zakat accordingly, such investments is not deductible from the Zakat base".

The concept of trading is one of the most important issues that should be considered and understood when applying the rules for the collection of Zakat from investors in investment funds, and the related provisions in the Zakat implementing regulations. This is due to the effect of realizing the meaning of trading in investments in general or the failure to do so on the Zakat treatment of these investments - including the investment in investment units-.

In general, holding investment units for the purpose of trading is connected to events or decisions related to the management of the Zakat payer (the holder of the investment unit) regarding these units, including:

- Where the company purchases these assets and holds them for a short period, usually less than a year.
- Where the investing company expects an increase in the value of the investments in the same year and intends to sell the investments in order to realize the profits resulting from the turnover of the investment.



- The concept of trading is linked to other financial terms that are used in management agreements, and the like: such as the concept of speculation (Mudarabah), which means buying and selling securities, or investments for the purpose of making a profit within a short period.
- Such portfolios or investments are usually subject to frequent changes during the year and calls for additional buying or selling.
- Investments are usually classified within the current assets in the financial statements according to the company's method of managing its financial assets, or according to the business model of the company based on the management's objective for holding investments.

Accordingly: The general concept of trading in investments - including investment units - can be summarized with the following: It is the process of buying and selling securities for the purpose of achieving profits represented in the difference between the purchase and sale prices, and this is assuming that the investing company's expectations of the value of the investment in the following periods are correct.

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

The rules for the collection of Zakat from investors in investment funds referred to the concepts of "trading," "non-trading," and "not intended for sale" in more than one place, and some treatments were restricted based on the applicability of this concept. Such references may be summarized and divided into 2 levels, as follows:

The first level: Investing in investment units: Which means to identify the unit holder's aim from investing in the units of the investment fund, as stated in Article 5 of the rules for the collection of Zakat from investors in investment funds that stated: "The unit holder may deduct his investment in the fund from his Zakat base, provided that the following conditions are met:



"**1**- That his investment in the fund is intended for non-trading purposes." Hence, this level is the concerned level in this paragraph.

The second level: The investments of the investment fund: This level is intended to identify the fund manager's purpose for investing in the fund's assets, and the effect of the fund's management method on the Zakat treatment or the assets of the investment portfolio. The provisions of Article 6 of the rules are related to this level, including the following paragraphs:

2/c: The fund's investment for non-trading purposes shall be treated as foreign investments...

2/d: The percentage of non-trading investments for equity funds is set according to the following...

2/e: Long-term investment properties that are not intended for sale are considered to be fixed assets.

In sum: This paragraph of this Guideline is not intended to cover this level, as it is related to the stock funds, and such will be discussed in Paragraph No. (8.2).

Accordingly, the purpose of this paragraph is to clarify the methodology of classifying the investing in the fund's units as for trading or non-trading purposes. This is made through the following:

Investing in investment funds is for non-trading purposes. i.e., it can be independently deducted after calculating its Zakat. Nevertheless, achieving this depends on determining the investment policy of the investor in the fund, investor's management method, fund's structure, fund's investment method, etc. This is conducted according to the following:

1. If the investing in investment fund's units is classified by the Zakat payer (investment unit holder) within the current assets, then it is considered for trading purposes, and shall not be deducted from the Zakat base.
2. If the nature of the Zakat payer's (investment unit holder) activity is for Mudarabah in the investment's units, the investment in the units is considered for trading purposes and shall not be deducted from Zakat base.



3. If the decision of investing in investment units is managed by another person not affiliated with the Zakat payer (investment unit holder), the investment is considered for trading purposes and shall not be deducted from the Zakat base. This control means that if the Zakat payer has contracted with a financial institution or alike to manage its investments in investment funds' units, these managed investments are for trading purposes. However, if it invests directly in an investment fund, this is not obliged to be for trading purposes.

Example (1):

Zakat payer, Ali, has contracted with another party to manage his investments. The investment portfolio included investment funds' units. What is the Zakat treatment according to the provisions of rules for the zakat collection from the investors in the investment funds?

This investment is for trading purposes as there is an independent party managing this investment.

Example (2):

Zakat payer, Waleed, has invested in the units of Al-Rasheed Fund for Saudi Stocks. Al-Rasheed financial institution manages this fund. According to the provisions of rules for the collection of Zakat from the investors in the investment funds, what is the Zakat treatment?

Since Zakat payer, Waleed, has invested in investment fund's units without agreeing with an independent party to manage his investments, therefore the investment may not be for trading purposes.

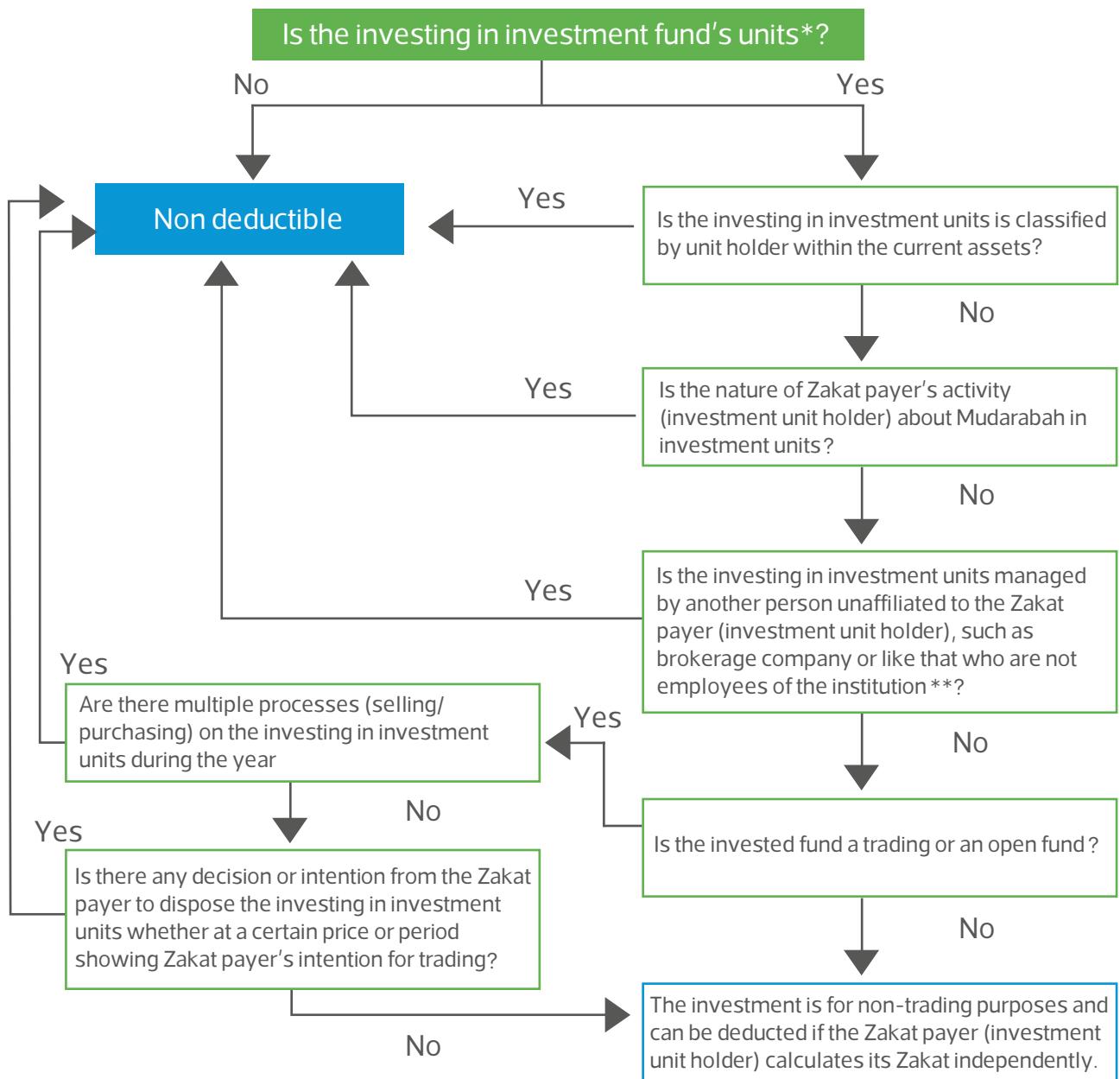


4. If the invested fund is a trading fund, e.g. Real Estates Investment Trusts (REITS), or if the invested fund is an open fund and multiple reverse processes were found -selling and purchasing- on the investment in the units of these funds, or there is a decision or intention from the Zakat payer (investment unit holder) to dispose the investment in these units when they reach to a certain price or on a certain date. Therefore, this investment is considered for trading purposes and shall be treated as listed companies.
5. If the invested fund is neither a trading nor an open fund, the existence of multiple selling or purchasing processes or a decision or intension from the Zakat payer (investment unit holder) to dispose the investment in units when it reaches a certain price or on a certain date; this does not require for the investment to be transformed to trading intention. The Zakat payer (investment unit holder) can calculate Zakat for this investment independently and deduct it from its Zakat base.



Diagram

The below diagram shows the cases of classifying investing in investment units for trading or non-trading purposes



*This transaction is applicable to all investment funds, including financing funds. Nevertheless, deducting investment value in financing funds is not limited to calculating its Zakat independently and its payment. This transaction is not applicable to other investment bases such as portfolios, investment deposits, and like.



**(Managed: i.e., it owns the decision of selling or purchasing)

Condition Two: Zakat payer shall calculate the Zakat due from its investment in the investment funds and pay it to the ZATCA according to the audited financial statements of the investor or a certificate prepared as for the provisions of the rules and the Implementing Regulation that are certified by an external auditor licensed in the kingdom.

In the event the Zakat payer subject to the provisions of these rules has declared its investments in the funds as deductions from the Zakat base in its Zakat declaration, this obligates the calculation and payment of the due Zakat on these investments pursuant to the following controls stated in Article (2) and (3) of the rules, which state the following:

Zakat payer's (investment units' holder's) audited financial statements to which a licensed chartered accountant's report is attached, taking into consideration the following controls:

1. Financial statements of unitholder (the investor) in the notes to the financial statements shall disclose the mechanism of calculating Zakat for its share in the Zakat base of the investment fund.

Below is an illustrative example of the disclosure process of Zakat calculation of investing in investment funds in the audited financial statements for the Zakat payer subject to the rules:

(Note number) Zakat calculation of investing in investment funds listed as deductions from the Zakat base.

The company has declared its investing in the investment fund/s as deductions from Zakat base within Zakat general calculation showing in Note No. (--).

According to rules for the collection of Zakat from the investors in the investment funds issued by Ministerial Decision No. 29791 dated 9 Jumada Al-Ola 1444AH, the Company is obliged to calculate its share in the Zakat base of this fund/s; therefore, paying the Zakat accordingly.



Based on data submitted from investment fund/s to ZATCA which the management was able to obtain, Zakat on these investments has been calculated as below:

Particulars	**/**/****
Additions to the Zakat base:	SAR
Difference between the adjusted profit for Zakat purposes and accounting profit	****
Net assets for units' holders as at the year end	****
Debts/ loans and equivalents	****
Debts financed a deductible	****
Provisions	****
Other additions	****
Total additions (1)	****
Deductions from Zakat base:	****
Net fixed assets and equivalents	****
Investment properties	****
Capital constructions	****



Non-tangible assets	****
Real estates under development	****
Non-trading investments	****
Other deductions	****
Total deductions (2)	****
Output = additions deductions (3)	****
Compared with:	****
Net adjusted profit for Zakat purposes (4)	****
Investment fund's Zakat base as per data submitted to ZATCA (5=3 or 4 whichever is greater)	****
Company's share in the Zakat base of the investment fund = company share * 5 (6)	****
Company's share in Zakat ($7 = 6 * (2.5\% \div 354) * \text{Zakat payer's financial year days}$)	****



Without prejudice to (1) above, the Zakat of units' holder in the funds shall be calculated and paid according to a licensed chartered accountant certificate. Likewise, the certificate shall include unit's holder Zakat calculation through fund's Zakat base calculation and number of owned units, and lastly, the calculation of Zakat due on units' holder investments. Below is a suggested illustrative form of a licensed chartered accountant certificate regarding calculating Zakat for investments in investment funds:

[suggested illustrative form for a limited assurance report to certify Zakat calculation]

**A limited assurance report regarding Zakat calculation from investing in investment funds
To Messrs. Shareholders in (company's name)**

We have implemented a limited assurance engagement to indicate whether our consideration was brought to a matter that made us think that what was detailed in the subject paragraph below (subject) was not prepared properly in all material aspects according to the relevant controls below.

Subject:

The subject of the limited assurance engagement is related to Appendix (1) that is prepared by the management of (company's name) regarding Zakat calculation from investing in investment funds for non-trading purposes for the year ended on 31 December 20**. (The table) which was prepared pursuant to the assurance that the table is conform with Zakat Implementing Regulation issued by Ministerial

Resolution No. 2216 dated 7 Rajab 1440AH (the Regulation) and rules for the collection of Zakat from the investors in the investment funds issued by Ministerial Resolution No. 29791 dated 9 Jumada Al-Ula 1444AH (the Rules) as per management's interpretation.

Management's interpretations are stating under the assumptions stated in the table.



Relevant controls:

1. Articles 6 and 7 of Zakat Collecting Rules which determine controls of additions and deductions from Zakat base of the fund.
2. Articles: 4: Zakat base, 5: Allowed deductions, 6: Zakat base other considerations, 8: Allowed expenses, 9: Non-deductible expenses, and 14: Zakat rates from the Regulation as per management's interpretation. Management's interpretations are stated under assumptions stated in the table.
3. Audited financial statements for the investment fund *** which is consisted of financial position statement and comprehensive income statement.

Management's responsibility

Management is responsible for preparing and presenting information stated in the subject paragraph above according to the relevant controls, it also responsible for choosing those controls application methods. Moreover, management is responsible for the application of internal monitoring systems which it finds necessary to prepare and present the information stated in the subject paragraph above and make sure it is free of any material misstatement whether it was resulted from a fraud or mistake, selecting and implementing the suitable controls and keeping sufficient records, and preparing a reasonable estimation according to the relevant events and conditions.

Our responsibility

Our responsibility is to submit a limited assurance conclusion regarding the above subject based on the assurance engagement we have made as per the International Standard on Assurance Engagements (3000) "other assurance engagements other than review or examination processes of historical financial information" that are adopted in KSA, conditions, and provisions related to this engagement agreed with company's management.

Our procedures were designed to obtain a determined level of assurance sufficient to provide a base to provide our conclusion. Therefore, we have not obtained all evidences required to provide a reasonable level of assurance. The implemented procedures depend on our professional judgment including risks of material misstatements in the subject resulted from



a fraud or mistake. We also took into consideration the effectiveness of internal monitoring systems upon determining the nature and range of our procedures. Our engagement was not prepared to submit an assurance regarding the effectiveness of those systems.

Independency and quality control

We have complied with independency and other requests of code of conduct and professional ethics adopted in KSA that was based on main principals of integrity, subjectivity, professional competence, due diligence, confidentiality, and professional behavior.

We also apply the International Standard for Quality Control (1). Therefore, we maintain a comprehensive system to monitor the quality, including certified policies and procedures regarding complying with ethical requests, professional standards, and applicable statutory and regulatory requests.

Implemented procedures summary

Procedures applied in the limited assurance engagement differ in their nature and timing and their range is less than those applied in reasonable assurance engagement. Thus, the level of the obtained assurance in the assurance engagement is much less than the assurance that may be obtained if a reasonable assurance engagement has been conducted.

Our implemented procedures included - but not limited to - the following:

- We have compared the items individually in the table with the initial financial statements of the investment fund***.
- We have examined the items individually in the table based on the Regulation as interpreted by the management. Management's interpretations are stated under assumptions stated in the table.
- We have checked the accounting accuracy of the table.



Limited assurance result

Based on the limited assurance procedures we had performed and the obtained evidences, nothing brought our consideration to make us think that the detailed in the subject paragraph above was not prepared properly in all material aspects according to the relevant controls.

Other matters:

We have stamped the attached Appendix No. (X) for identification purposes only.

Chartered Accountant Name

License number

[date]

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

2.7. General framework of accounting for Zakat of investing in investment funds

2.7.1. Introduction

Overview of investments in investment units' funds from accounting perspective

It is worth mentioning that investing in the fund's units meets the definition of the financial instrument as stipulated in International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that are applicable in KSA along with other standards and interpretations issued by The Saudi Organization for Chartered and Professional Accountants (SOCPA).

The financial instrument is defined as "any contract arising a financial asset for an entity and a financial liability or equity instrument to another entity".



Examples of financial instruments: cash, accounts receivable, shares, payables and receivables, deeds and bonds, deposit certificates, investing in mutual funds, and other.

Generally, regarding investment funds, they contain a group of financial papers that are selected according to the determined standard to achieve the benefit of variety which leads to reduce the total level of investment risks.

According to the International Financial Reporting Standards "IFRS" and those adopted in KSA, the unit in investment fund may not meet the definition of equity instrument as stipulated in the relevant accounting standards, rather it may be considered as a liability (debt instrument).

On the other hand, relevant accounting standards state that the above classification does not prevent the use of a description such as "net value of assets attributed to units' holders" and "change in net value of assets attributed to units' holders" in the financial statements of the entity that does not have shares like some funds.

Considering fund's work nature being a mutual base collecting capitals from investors to invest them in various assets according to fund's type and activity against revenues earned by the investor, the ownership of the unit in the investment fund may not meet the definition of equity instrument as defined in the relevant accounting standards defining it as: a contract between the remaining share in certain entity's assets after deducting all its liabilities (i.e., equity = assets - liabilities).

Examples of equity instrument: ordinary and preferred shares that cannot be returned to the issuing party by its holder. In contrast, whereas owning the unit in the investment funds will be refundable by its holder either by fund's life cycle or upon closing/ liquidating the fund, the unit in the investment funds does not meet the definition of an equity instrument.

On the other hand, whereas investments funds recognize the equity in their financial statements because this meets the definition pursuant to accounting standards as their assets less their liabilities are considered the net equity of investment units' holders.



Recognizing investments in investments funds at the investing entity's books

Depending on whether units acquired in a mutual fund meet the definition of equity or liability, investor in the fund's units prove the investments in its financial statements in line with IFRS as adopted in KSA.

Investment classification	Classification criteria	Asset classification at the investor's books
Investments in fair value through profit or loss	Remaining measurement category for equity and debt instruments	Usually classified as current assets
Amortized cost	Two conditions shall be met to follow amortized cost measurement standards	Current or non-current
Investments at fair value through other comprehensive income.	<ul style="list-style-type: none">As for debt instruments two conditions shall be met to follow fair value standards through other comprehensive income.As for equity instrument if it was not kept for trading, the entity can make irreversible selection upon the initial recognizing of its measurement at fair value through other comprehensive income.	Current or non-current based on contractual accrual for debt instruments. Equity instrument based on classification standards.
Equity method	Upon practicing an important effect	Non-current asset
Financial statements consolidation	Upon practicing a control	Non-current asset

Financial statements for the investment fund

According to the relevant regulations at the Capital Market Authority, the investment fund shall prepare the financial statements according to accounting standards adopted by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Therefore, investment fund shall prepare mid-year and yearly financial statements as an obligatory request as per investments funds regulations issued by the Capital Market Authority in the Kingdom. Those regulations oblige fund's manager to prepare financial statements for the investment fund pursuant to the currently adopted standards in the Kingdom which are IFRS.



Presentation of financial statements for investment funds

IFRS adopted in the Kingdom determine presentation requests of current and non-current assets and liabilities according to certain criteria unless when the presentation depending on the liquidity offers trusted and more suitable information.

When this exception is applicable, the mutual fund shall present all assets and liabilities at liquidity order. These standards also require fund's disclosure (of any used presentation method) of the amount expected to be refunded or settled after more than 12 months for each item of assets and liabilities that combine between amounts expected to be refunded or settled:

- A. Not more than 12 months after reporting period.
- B. More than 12 months after reporting period.

However, a general note that: the funds present their assets and liabilities based on the liquidity. According to the fund's nature, presenting assets and liabilities with the classification on current and non-current may be selected.

2.7.2. Zakat of investing in investments funds

According to the conditions stated in paragraph No. 2.6, if the Zakat payers chose the rules' provisions by including their investments in investments funds units (kept for non-trading purposes) as deductions from Zakat base in their declarations after verifying the fulfillment of the remaining deduction's requests and controls stated in the regulation and the rules, then the calculation and settlement of the Zakat for these investments by Zakat payers must be done according to the following equation:

Calculation of Zakat of investing in investments funds:

Zakat base of the investment fund * ownership percentage of investment units' holder * Zakat percentage stated in the regulation*



*Zakat percentage

According to Article 14 of the Regulation, Zakat percentage is adopted as follows:

- (2.5%) from Hijri year base.
- In the event the Zakat year of the fund differs from the Hijri year, Zakat percentage shall be calculated based on days number as per the following equation:

$$\frac{\text{No. of days of fund's Zakat year}}{\text{No. of days of Hijri year}} * 2.5\%$$

- Therefore, the above equation shall be applied for Zakat calculation purposes with the exception of what was stated in the Regulation by applying the said equation whether the Zakat was calculated on the base or on net adjusted profit for Zakat purposes for the investment fund.

Example

Arabia Financial Company owns units in an investment fund forming a percentage of (5%) of fund's total units. The Company is keeping these investments for long-term investments purposes. Thus, these investments are classified to be for non-trading purposes in company's books. Company's financial year starts on 1 January and ends on 31 December on the same year. At the end of 2023, while preparing and submitting Zakat declaration, the Company chose to include these investments in the fund within deductions from the Zakat base and obtained the financial information and statements for the fund, including information declaration to calculate the Company's share in fund's Zakat base.

Fund's information declaration showed the following data:

- Fund's financial year starts on 1 January and ends on 31 December each year.
- Additions' components less deductions: SAR (40) million
- Adjusted profit for Zakat purposes: SAR (15) million
- There is no difference between net accounting profit and amended profit for Zakat purposes.



Request: Calculate the Zakat of Arabia Financial Company's investment in the fund

Solution:

First, it is noted that additions' components less deductions are higher than net adjusted profit for Zakat purposes. Therefore, considering the above inputs, fund's Zakat base is SAR (40) million.

Upon implementing the above equation, the Zakat of company's investments in fund's units shall be calculated as follows:

Equation for calculating the Zakat of investing in investment funds

$40,000,000 * 5\% * (2.5\% * 365 \text{ days of Gregorian year} / 354 \text{ days of Hijri year}) = \text{SAR } 51,554$

Example

United Trading Company owns investments in investment funds forming a percentage of (5%) of fund's total units. The Company keeps these investments for relatively long-term investment purposes. Therefore, these investments are classified to be for non-trading purposes in company's books.

At the end of year 2023, while preparing and submitting the Zakat declaration, the Company chose to include these investments in the fund within deductions from Zakat base. The Company also obtained the financial information and statements of the fund including information declaration to calculate the Company's share in fund's Zakat investments.

The fund's information declaration showed the following data:

- Fund's financial year starts on 1 January and ends on 31 December each year.
- Fund's Zakat base: SAR (2) million
- Adjusted profit for Zakat purposes: SAR (10) million
- There is no difference between net accounting profit and the adjusted profit for Zakat purposes.



Request: Calculate the Zakat of United Trading Company's investments in the fund?

Solution:

First, it is noted that additions' components less deductions are less than net adjusted profit for Zakat purposes. Therefore, upon referring to the above inputs, Zakat base of the fund is SAR (10) million being the minimum limit of investment fund's base.

Therefore, Zakat of investing in investment funds' units shall be calculated by the Zakat payer as follows:

Equation of calculating Zakat of investing in investment funds

$$10,000,000 * 5\% * (2.5\% * 365 \text{ days of Gregorian year} / 354 \text{ days of Hijri year}) = \text{SAR } 12,888$$

Example

Arabia Financial Company owns units in investment funds forming a percentage of (5%) of fund's total units. The Company keeps these investments for relatively long-term investment purposes. Therefore, these investments are classified to be for non-trading purposes in Company's books.

Upon the end of 2023, while preparing and submitting the Zakat declaration, the Company chose to include these investments in the fund within the deductions from Zakat base. The Company also obtained fund's financial information and statements including information declaration for calculating the Company's share in the Zakat of fund's investments.

Fund's information declaration showed the following data:

- Fund's financial year starts on 1 January and ends on 31 December each year.
- Fund's Zakat base: SAR (40) million
- Accounting profit: SAR (14) million
- Adjusted profit for Zakat purposes: SAR (15) million
- The difference between the adjusted profit for Zakat purposes and the accounting profit (items amending activity's result according to the Regulation) amounted to SAR 1 million.

**Request: Calculate the Zakat of Arabia Financial Company's investments in the fund****Solution:**

First, it is noted that additions' components less deductions are greater than net adjusted profit for Zakat purposes. Therefore, upon referring to the above inputs, fund's Zakat base is SAR (40) million.

By implementing the said equation, the Zakat of Company's investments in investment fund's units shall be calculated as follows:

Particulars	Account details	Amount (SAR)
Calculating fund's Zakat on Zakat base	$(40,000,000) * 5\% * (2.5\% * 365 \text{ days of Gregorian year} / 354 \text{ days of Hijri year})$	51,554 approximately



2.8. Components of Zakat base for investment funds

Introduction

The calculation method of Zakat base of investing in investment funds is based on determining sources of funds subject to Zakat pursuant to the Regulation and other controls stated in the rules that mainly depend on provisions of additions stated in Article 4 of the Regulation (additions to the Zakat base) taking into consideration deducting the deductible items according to the provisions of Article 5 of the Regulations (deductions from the Zakat base).

2.8.1. Items to be added to the Zakat base

First: Net assets attributed to units' holders at the value at the end of financial year

Mainly comprise of internal funds sources for the fund that are attributed to units' holders represented by what is known in accounting as equity elements or net value of assets attributed to investment units' holder in the fund.

In general, net assets attributed to funds' units' holders are mainly consisting of the following items:

- Net value of assets attributed to units' holders as in the beginning of the year (equity at the beginning of the year)
- Comprehensive income (loss) of the year.
- Dividends during the year.

Any other item shall be recognized in equity statement to achieve the net value of assets attributed to units' holders as at the end of the year.

It is noted from the nature of these elements that they meet core composition and structure of investment funds activity as they are investment bases to collect capitals in order to purchase and invest in assets mainly amended with year's profits or losses as a result of practicing its investment activity during the year and any other items affecting these assets such as dividends, any subscriptions processes or refunds that may occur during the year.



From the Zakat side and for the purposes of calculating the Zakat base of the fund, Article 6 (2/A) stated the addition of net assets attributed to units' holders at the value shown at the end of the financial year.

Example

Statement of changes in net assets attributed to units' holders (equity statement) that is attached to the financial statements at the end of 2024 of the real estate fund showed the following data:

Net value of assets attributed to units' holders at the beginning of the year	2,000,000
Add: Net loss (income) of the year	150,000
Less: Dividends during the year	(100,000)
Subscriptions in fund's units during the year	500,000
Refunds for funds units during the year	(400,000)
Total net value of assets attributed to units' holders as at the end of the year	2,150,000

Therefore, according to Article 6 (2/A) of the Rules, an amount of SAR 2 million and SAR 150 thousand shall be added to the Zakat base, these amounts are represented in net value of assets attributed to units' holders as at the end of the year.



Second: Debts due on investment fund as stipulated in Article 4 (3) and (10) of the Regulation.

Represented in external funds sources, including:

- Loans and other long-term liabilities
- Liabilities known to be financing a deducted from the Zakat base even if they are short term.
- Other liabilities that provisions of the above-mentioned articles in the Regulation stated by adding the following items including, but not limited to, the additions to the Zakat base as follows:
 1. "due debts on the Zakat payer that are classified as long-term debts and their equivalents of other base components such as governmental financing, commercial financing, creditors, notes payable, overdraft account, and shareholders' or partners' loans (including their current accounts) **provided that the following is considered:**
 - A. If the period of loans on the Zakat payer or other financing resources is 345 days or more overlapping during the Zakat year and its following year, they shall be added to the Zakat base in proportion to the number of days for each Zakat year.
 - B. Debts' Zakat year is not interrupted with their renewable or rescheduling with the creditor itself or upon referral of these debts with other debts or financing resources that finance what these debts were financing.
 - C. What is added from what is mentioned in this paragraph shall not exceed the total of what is deducted from the base according to Article 5 of the Regulation".



Example

An investment fund obtained a long-term loan amounting to SAR 1 million on 20 August 2023. Noting that the fund's financial year end is 31 December 2023. The fund also has a short-term loan which period is eight months amounting to SAR 2 million which it obtained on 1 January 2023, and it was rescheduled for a period of another six months. How does the added to the Zakat base of loans is determined?

As for long-term loan, it is being added to the base based on the days of Zakat year as follows:

Number of days remaining till the financial year end	*	Debt value	=	***
(Days of the year (365				
133	*	1,000,000	=	364,384
365				

Short-term debt is fully added to the base if the debt is scheduled with the creditor itself, then it will be treated as long-term loan for Zakat purposes and it shall be added to the base as external fund sources subject to Zakat. Therefore, an amount of SAR 2 million is fully added to the base.



Example

An investment fund obtained a loan amounting to two million Saudi Riyals on 20 February 2023. The loan became due on 31 January 2024. Noting that the end of the financial year is on 31 December 2023. How does the added to the base is determined?

This is a short-term loan that shall not be added to the Zakat base unless it is known that it financed a deductible.

Example

An investment fund obtained short-term loans. It was agreed to pay these loans during less than 345 days as follows:

1. SAR 3 million were used to finance purchase of land classified as long-term investment properties. This amount was deducted from the Zakat base.
2. SAR 1 million was used to finance purchase of services.
3. SAR 1 million was used to meet several liabilities in the activity.

What is the amount to be added to the Zakat base in each case?

1. The amount of SAR 3 million shall be fully added to Zakat base as it was used in financing a deductible.
2. The amount of SAR 2 million shall not be added since it is a short-term loan not financing a deductible.
3. The amount of SAR 1 million shall not be added as it is a short-term loan used in several liabilities in the activity and did not include financing a deductible.



Third: Difference between net adjusted profit (loss) and net carrying profit (loss) is added to the Zakat base since it determines net amended profit (loss) of the fund as stipulated in Articles 8 and 9 of the Regulations.

The above means determining the items amending activity's result from non-deductible expenses and other items amending activity's result (if any) according to what was stated in the provisions of Articles 8 and 9 of the Regulation to reach the total amended items to add them to Zakat base of the investment fund.

Example

Income statement of an investment fund showed net accounting profit amounting to SAR 1 million; however, the adjusted profit for Zakat calculation purposes of the fund was SAR 1 million and two hundred thousand.

Based on the above, the difference between net carrying profit (loss) and net adjusted profit (loss) for Zakat purposes shall be added to the Zakat base as follows:

$$1,200,000 - 1,000,000 = \text{SAR } 200,000$$



Example

Comprehensive income statement for an investment fund showed net accounting (loss) amounting to SAR 175 million and 533 thousand for the year ended 31 December 2023:

Income	2023
Net income of rent from investment properties	130,000,000
Total income	130,000,000
Expenses	
Investment properties depreciation	(29,000,000)
Custody fees	(2,000,000)
Management fees	(17,000,000)
Professional fees - auditor's fees	(500,000)
Sharia committee services fees	(750,000)
Publishing fees	(250,000)
Benefit of fund's independent board of directors	(200,000)
Subscriptions and refunds fees	(300,000)
VAT nonrefundable expenses	(3,000,000)
Expected credit losses provision	(10,000,000)
Total expenses	(63,000,000)
Operations' profit	67,000,000
Finance cost	(21,000,000)



Income	2023
Other revenues	5,000,000
Income from investments included at fair value through profit or loss	467,000
Year's profit before impairment	51,467,000
Impairment of investment properties	(227,000,000)
carrying profit (loss)	(175,533,000)

In light of the above works consequences, an anticipated amount of the provision for credit losses should be added to the Zakat base of the investment fund of SAR 10 million being an adjusted item for the activity's result - non-deductible expenses - in accordance with Article 9 (5) of the Regulations, and regarding the remaining expenses, its assumed that they are deductible expenses and that they apply to deduction conditions indicated in the Regulations.

Fourth: Adding short-term debts if the current assets were deducted from Zakat base of the fund in certain cases regarding certain items, some assets may be categorized as current assets according to a statutory request or an accounting standard request. However, the substance of this item in terms of Zakat may retain such assets for a long time, allowing the Zakat Payer to include this item within deductions' items from the Zakat base. Therefore, for the Rules purposes, and in such cases where the current asset deduction is generated, when calculating the Zakat base of the fund, it's necessary to add the corresponding short-term debt item.

Among such cases are, Zakat Payers who are practicing real estate activities that retain within their assets; real estates under development. The Regulations treated this item in Article 5(9).



The mentioned article stipulated among several conditions that such items shall be categorized as non-current assets as a condition for deduction. However, such categorization undergone certain amendments due to the full transition to the International Accounting Standards in the Kingdom for the Zakat Payers starting from 2017. Hence, some of these items should be categorized within the current assets.

In terms of Zakat, the Zakat Payer shall deduct non-Zakat assets categorized within the current assets through the following conditions:

- Applicability of the remaining conditions included in the Regulations.
- Addition of the current liabilities - if any - up to the value of deducted assets.
- The upper limit for addition of debts naturally rises due to deduction of these current assets.

(For further information please refer to the Guideline for Estate Real Activities Sector)

Example

The following financial data are for one of the investment funds as of 31 December 2023

Financial Position Statement			
Assets		Liabilities and Equity	
SAR		SAR	
Cash	1,000,000	Short-term liabilities	2,000,000
Properties under development	6,000,000	Long-term liabilities	7,000,000
Long-term assets	5,000,000	Net assets attributed to the units' holders	3,000,000
Total	12,000,000	Total	12,000,000



The properties under development amounting to SAR 6 million were reclassified as short-term properties as requested by the International Accounting Standards approved in the Kingdom as an effect of transition from the previous local accounting standards.

In light of viewing the data above, it's indicated that the value amounted to SAR 4 million meets the remaining deduction criteria from the Zakat base as per the Regulations.

Request:

Calculate the Zakat base of the fund for the year ended 31 December 2023.

Solution:

Item	SAR
Net assets attributed to the units' holders	3,000,000
Short-term liabilities - up to the deducted current asset	2,000,000
Long-term liabilities	7,000,000
Total additions (1)	12,000,000
Less:	
Properties under development	(4,000,000)
Long-term assets	(5,000,000)
Total deductions (2)	(9,000,000)
Zakat base (21-)	3,000,000

It's noted that current liabilities were added entirely to the base, the long-term liabilities have also been added entirely given that the upper limit of the additions to the Zakat base of the liabilities became - the long-term - deducted assets plus the properties under development deducted from the Zakat base.



Fifth: Other additions to the Zakat base of the investment fund - if applied -

When calculating the Zakat base of the fund, other items may be involved as per the fund activity's nature, they should be examined and treated within the additions - if necessary -

The following are examples of these funds, included but not limited to:

1. Revenues and advance payments at the beginning or end of the year, whichever is lower.
2. The opening balance of reserves carried forward from previous years.
3. Provisions balance at the beginning of the period after deduction of the amount utilized during the Zakat year, for example, provision for credit losses.
4. Change in the fair value whether it is considered part of the activity's result or an item within equity items.
5. Any item of the liabilities and equity used to finance deducted items from the Zakat base.



Example

The financial statements of REIT investment fund showed the following financial statements for the year ended 31 December 2023

Financial Position Statement	2023	2022
Assets		
Balance at bank	6,000,000	3,000,000
Investment properties	510,552,000	339,015,000
Debtors	20,000,000	10,000,000
Total assets	536,552,000	352,015,000
Liabilities		
Payable management fees	52,000	15,000
Advance Payments from clients	500,000	1,000,000
Loans from banks	15,000,000	4,000,000
Total liabilities	15,552,000	5,015,000
Equity		
Net refundable assets attributed to the units' holders	521,000,000	347,000,000
Total liabilities and equity	536,552,000	352,015,000



Other information

- Movement of provisions during the year was as follows:

Particulars	Opening balance (1)	Provision formed during the year (2)	Provision utilized during the year (3)	Closing balance (3-2+1=4)
Provision for credit losses	1,000,000	500,000	0	1,500,000

- Movement of loans was as follows:

Particulars	Opening balance (1)	Additions during the year (2)	Settled during the year (3)	Closing balance (3-2+1=4)
Loans from bank	4,000,000	12,000,000	1,000,000	15,000,000

Noting that the value amounting to SAR (12) million considered as an additional withdrawal from the loans dated 30 June 2023 and shall be settled by 31 July 2025.

Request:

Determine the items that shall be added to the Zakat base of the fund for the year ended 31 December 2023

Solution:

The following shall be added to the Zakat base of the fund:



Particulars	Amount
Net refundable assets attributed to the units' holders - as of the end of the year -	521,000,000
Advance payments - opening or closing balance whichever is lower -	500,000
Provision for credit losses - opening balance less the utilized provision during the year -	1,000,000
Long-term loans - opening balance less the paid during the year -	3,000,000
Additions to loans during the year ($184 \times 12,000,000 / 365$ days)	6,049,315
Items amending the activity's result: provision for credit losses (Provision formed during the year)	500,000
Total additions to the Zakat base	532,049,315



2.8.2. Items to be deducted from Zakat base

After calculating the items that shall be added to the Zakat base of the investment fund, the deductible items from Zakat base need to be confined, as referred to by the Rules that they are the items contained in the Regulations.

Particularly, the items contained in the provisions of Article (5) of the Regulations shall be deductible (for example but not limited to):

Item	Amount
Net fixed assets and their equivalents	(xx)
Capital constructions	(xx)
Intangible assets	(xx)
Non- trading investments in entities inside and outside the Kingdom including investments in other funds pursuant to the terms and conditions mentioned in the Regulations and Rules.	(xx)
Net loss of the Zakat year adjusted for Zakat purposes	(xx)
Net adjusted loss carried forward for Zakat collection purposes in accordance with the below provisions of the Regulations	(xx)
Net properties under development intended for sale in accordance with the below provisions of the Regulations	(xx)
Long-term properties investments not intended for sale	(xx)

For further explanation regarding the deductible items from Zakat base, please refer to the Zakat General Guideline.



2.8.3. Other Conditions for Deduction

Fund's investments in other investment funds

The Rules indicated under Article 6(2\c) that if the fund has investments in other funds, hence what is applied on investments in outside entities shall be applied thereon, as per the Regulations. Accordingly, what is mentioned in this regard of deduction conditions included in Article 5(5) of the Regulations - referred to previously within this guideline - shall also be applied under the following conditions:

1. Such investments shall be retained for non- trading purposes.
2. To calculate the Zakat of investments in such funds and pay Zakat pursuant to a chartered accountant certificate licensed in the Kingdom.
3. The Zakat base of such investments shall not be lower than the net carrying profit pursuant to the audited financial statements.

The Zakat Payer (Investment Units Holder) shall adhere to calculate and pay the Zakat of such investments separately through his Zakat declaration; being Zakat of foreign investments. In such case, the Zakat Payer who invested in investments funds that invest in other funds shall be allowed to provide one chartered accountant certificate including Zakat calculation of his investment in the fund and other funds invested therein.

Deduction of Current Assets

As explained in section (2.8.1), in cases where assets and liabilities of the fund are presented on a current and non-current basis in the financial statements of the fund, and upon calculating the Zakat base, the fund listed a current asset within the deductibles from Zakat base under the Regulations and Rules, then an equivalent value of the current liabilities must be added.



Deduction of investments from Zakat base of equity funds.

Equity funds known as funds that invest in the shares of local or international listed companies or both. In other words: the vast majority of these funds' assets are from the shares of companies that form a principal source of the investments returns belonging to the investment units' holders. Usually, these funds' assets don't categorize their investments in shares on a current and non-current basis, they might just categorize them within assets. This is due to the fact that the management process of such investments and make a decision to retain and manage the same is strongly associated with the refund process that may occur during the year by investors, making the sale and purchase forecast of the investments in companies' shares by the equity funds unforeseeable at earlier time.

Accordingly, when calculating the Zakat base of equity fund, determining the non-trading investment rate of equity funds shall be considered and the following steps shall also be applied:

First step: Apply the following equation for each month during the financial year of the equity fund whichever is higher

1. Monthly purchases (-) Monthly subscriptions
2. Monthly sales (-) Monthly refunds
3. The higher output of (1) and (2) shall be taken and divided by the value of investments in shares as of the end of the month.

Noting that the information above might be obtained through disclosures made by the fund's director.

4. The former equation shall be made for each month of the financial year of the fund and the higher monthly output shall be taken.

Second step: To find net investments value in shares retained for non-trading purposes for the year through the following equation:

Completing the previous equation:

5. $(4) \times \text{investments value in shares as of the end of the financial year} = \text{Investments retained for trade.}$
6. $\text{Investments value in shares as of the end of the year} - \text{equation output of (5)} = \text{Investments retained for non-trading purposes.}$



Hypothetical Example

During the year ended 31 December 2023, the following processes occurred to the equity fund, which is a fund that invests its sources entirely in shares for local listed companies in the Kingdom of Saudi Arabia:

- Total subscriptions during the year amounted to SAR 3 million
- Total refunds during the year amounted to SAR 10 million
- The value of investments as of the end of the year amounted to SAR (40) million (at fair value)
- The financial reports of the fund showed the movement of the fund's units, and monthly sales and purchases of the shares as follows:

Month - 2023	Monthly Purchases of Investments (1)	Monthly Subscriptions (2)	Monthly Sales of Investments (3)	Monthly Refunds (4)	Face Value of Monthly Investments in the Financial statements of the Fund (5)
January	500,000	400,000	900,000	800,000	30,000,000
February	620,000	500,000	1,000,000	900,000	29,500,000
March	250,000	200,000	520,000	500,000	31,000,000
April	150,000	50,000	750,000	700,000	30,500,000
May	220,000	200,000	700,000	600,000	30,500,000
June	100,000	-	800,000	650,000	29,000,000
July	300,000	250,000	1,200,000	1,000,000	31,000,000
August	250,000	200,000	1,500,000	950,000	35,000,000
September	210,000	180,000	900,000	850,000	33,000,000
October	550,000	300,000	1,400,000	1,100,000	34,000,000
November	400,000	350,000	1,330,000	1,000,000	37,000,000
December	450,000	370,000	1,000,000	950,000	40,000,000



Request: Calculate the investments value retained for other than trade based on the information above.

Solution:

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

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



Second Step: calculate the difference between monthly sales and monthly refunds (3 - 4)

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

Third Step: The higher output from the above (6) and (7) is taken for each month, and it shall be divided by the monthly investments value

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



From the above calculation, it is noted that the higher output of the equation is what was calculated for August 2023.

Fourth step: Calculate investments value in shares for other than trade as follows:

$$1.57\% \times 4,000,000 = SR\ 628,000$$

Fifth step: Calculate investments value in shares for other than trade

Based on the foregoing, the investments value retained for other than trade is = $4,000,000 - 628,000 = SR\ 39,372,000$

Hypothetical Example

During the year ended 31 December 2023, the following operations occurred to the stock fund, which is a fund that invests its sources entirely in shares of local companies in the Kingdom of Saudi Arabia:

- Total subscriptions during the year amounted to SR 3 million and (800) thousand.
- Total refunds during the year amounted to SR 8 million and (100) thousand.
- The face value of investments as of the end of the year amounted to SR 4 million (valued at fair value).
- The financial reports of the fund showed the movement in the fund's units and monthly sales, and purchases of the shares as follows:



Month-2023	Monthly Purchases of Investments (1)	Monthly Subscriptions (2)	Monthly Sales of Investments (3)	Monthly Refunds (4)	Face Value of Monthly Investments in the Financial statements of the Fund (5)
January	500,000	400,000	600,000	400,000	3,000,000
February	100,000	-	900,000	800,000	2,950,000
March	400,000	-	500,000	-	3,100,000
April	500,000	600,000	750,000	700,000	3,050,000
May	220,000	200,000	450,000	600,000	3,050,000
June	500,000	600,000	800,000	650,000	2,900,000
July	300,000	-	120,000	100,000	3,100,000
August	250,000	1,000,000	150,000	950,000	3,500,000
September	210,000	350,000	900,000	850,000	3,300,000
October	550,000	-	1,400,000	1,100,000	3,400,000
November	400,000	150,000	1,330,000	1,000,000	3,700,000
December	450,000	500,000	1,000,000	950,000	4,000,000

Request: Calculate the investments value retained for other than trade based on the information above.

Solution:

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



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

Second Step: calculate the difference between monthly sales and monthly refunds (3 - 4)

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



Third Step: The higher output from the above is taken for each month, and it shall be divided by the monthly investments value

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

From the above calculation, it is noted that the higher output of the equation is what was calculated for October 2023.

Fourth step: Calculate investments value in shares for other than trade as follows:

$$16.18\% \times 4,000,000 = SR\ 647,200$$

Fifth step: Calculate investments value in shares for other than trade

Based on the foregoing, the investments value retained for other than trade is = $4,000,000 - 647,200 = SR\ 3,352,800$



Hypothetical Example

During the year ended 31 December 2023, the following operations occurred to the stock fund, which is a fund that invests its sources entirely in shares of foreign non-resident companies (listed international shares):

- Total subscriptions during the year amounted to SR 5 million and (450) thousand.
- Total refunds during the year amounted to SR 11 million and (200) thousand.
- The face value of investments as of the end of the year amounted to SR 4 million and (950) thousand (valued at fair value).
- The financial reports of the fund showed the movement on the fund's units and monthly sales, and purchases of the shares as follows:

Month-2023	Monthly Purchases of Investments (1)	Monthly Subscriptions (2)	Monthly Sales of Investments (3)	Monthly Refunds (4)	Face Value of Monthly Investments in the Financial statements of the Fund(5)
January	800,000	650,000	1,150,000	900,000	5,000,000
February	820,000	700,000	1,250,000	1,00,000	5,150,000
March	450,000	400,000	770,000	600,000	4,750,000
April	350,000	250,000	1,000,000	800,000	4,000,000
May	420,000	400,000	950,000	700,000	4,200,000
June	300,000	200,000	1,050,000	750,000	4,300,000
July	500,000	450,000	1,450,000	1,100,000	4,125,000
August	450,000	400,000	1,750,000	1,050,000	4,750,000
September	410,000	380,000	1,150,000	950,000	4,720,000
October	750,000	500,000	1,650,000	1,200,000	4,800,000
November	600,000	550,000	1,580,000	1,100,000	4,900,000
December	650,000	570,000	1,250,000	1,050,000	4,950,000



Request: Calculate the investments value retained for other than trade based on the information above.

Solution:

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

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



Second Step: calculate the difference between monthly sales and monthly redemptions (3 - 4)

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

Third Step: The higher output from the above is taken for each month, and it shall be divided by the monthly investments value

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



From the above calculation, it is noted that the higher output of the equation is what was calculated for August 2023.

Fourth step: Calculate investments value in shares for other than trade as follows:

$$14.74\% \times 4,950,000 = SR 729,474$$

Fifth step: Calculate investments value in shares for other than trade

Based on the foregoing, the investments value retained for other than trade is = $4,950,000 - 729,474 = SR 4,220,526$

Additional note: It's worth noting here that in case the fund listed such investments for other than trade purpose and hence listed them within deductions from the Zakat base, this requires to calculate the Zakat of such foreign investments and pay the Zakat due thereon according to the provision of Article 5(5) of the Regulations, where the burden of calculation and payment of the Zakat of such investments rests with the Zakat Payers; Investments units' holders if they select to deduct their units in the funds within the Zakat base in their declarations.

In light of the examples above and the mechanism for calculating the investments percentage in shares retained for trade, and hence finding the investments value in the shares retained for other than trade. Thus, the reasoning of such mechanism in calculation is for fundamental purpose lies in finding the moving ratio of the shares.



2.8.4. Requests and other issues

Investment funds in the form of a special purpose entity

The Ministerial Resolution No. (29791) dated 9 Jumada Al-Awwal 1444H stated that investment funds including funds in the form of a special purpose entity are not subject to collection of Zakat as per the Regulations.

With respect to the funds in the form of a special purpose entity, the Resolution stipulated that they shouldn't be subject to collection of Zakat, hence what is applied on other investment funds shall apply to such funds according to the Rules no economic or investment activity not stipulated under the Articles of Association, or the conditions and provisions related to such investment funds shall be exercised.

Minimum Zakat base of the investment fund

Pursuant to the provisions of the Regulations, Article 7 of the Rules stipulated that the minimum base of the Zakat Payer; the investment unit holder, is its share of the adjusted net profit of the fund whether the fund distributed the dividends during the year or not.

Example

The information declaration of an investment fund for 2023 has demonstrated an adjusted net profit for Zakat purposes amounted to SR 1,200,000, while the Zakat base of the fund amounted to SR 1,000,000 for the same year.

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

Given that the Zakat base is lower than the adjusted profit, the Zakat of investments in the fund shall be calculated based on the adjusted profit for Zakat purposes being the minimum, assuming that a unit holder owns (5%) of the fund's total units, Zakat shall be calculated as follows:

Fund Zakat base (adjusted profit in this case) × unit holder ownership percentage in the fund × Zakat rate included in the Regulations = payable Zakat amount:

$$1,200,000 \times 5\% \times 2.5\% \times 365 \text{ Calendar year days number} \setminus \text{Hijri calendar days number} = \text{SR } 1,547$$



Consolidated Declaration

In accordance with Article 2(2\b), the units' holder who entirely owns the fund whether directly or indirectly shall be excluded from the provisions of the Rules.

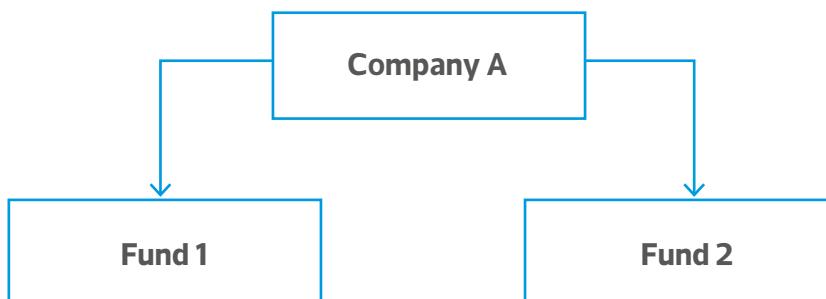
This exclusion was according to what was stipulated by the provisions of Article (15) of the Regulations, which allows the companies owned by the shareholders themselves or the holding company and their wholly owned subsidiaries inside or outside the Kingdom, whether directly or indirectly owned, to submit consolidated accounts and a consolidated Zakat declaration, and they shall be held accountable based on what their results show in a consolidated Zakat base.

In light of the above, the investment unit holder who owns the fund at (100%) whether direct or indirect ownership, and who issued a consolidated financial statement with the fund, the provisions of Article (15) of the Regulations shall apply to him. In such case, the Zakat of Zakat Payer's (the unit holder) investments in the fund, will be carried out based on the consolidated financial statements of the unit holder and the fund, and any investments in subsidiaries or other funds to which the provisions of the said article apply.

In the event that the Zakat Payer wishes to submit a consolidated Zakat declaration, he should submit a request to ZATCA, then the investment funds should submit an information declaration for each fund separately, at the statutory deadlines specified for submitting the declarations as per Article 4 of the Rules.

Example

Company (A) owns the below two funds (1) and (2), and they are registered with ZATCA. Company (A) issues the consolidated financial statements with the investment funds. Upon reviewing its ownership, it was noted that the ownership structure is as follows:



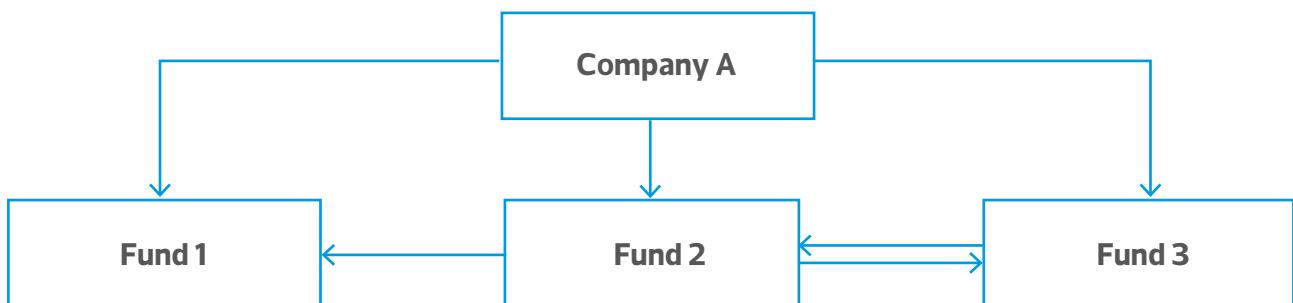


As company (A) owns (100%) of each of the funds (1) and (2). Does the principle of submitting the consolidated declaration apply to them?

Upon referring to the structure contained in the above example, we noted that company (A) directly owns both funds (1) and (2) at a percentage of (100%), which means that they have the right to submit a consolidated Zakat declaration and consolidated accounts.

Example

Company (A) and the investment funds from (1) to (3) below are all registered with ZATCA. Moreover, the company issues the consolidated financial statements. Upon reviewing its ownership, it was noted that the ownership structure is as follows:



As company (A) owns (99%) of each of the funds, fund (3) owns (1%) of fund (2), and fund (2) owns (1%) in each of funds (1) and (3). Does the principle of submitting the consolidated declaration apply to company (A) and the investment funds from (1) to (3)?

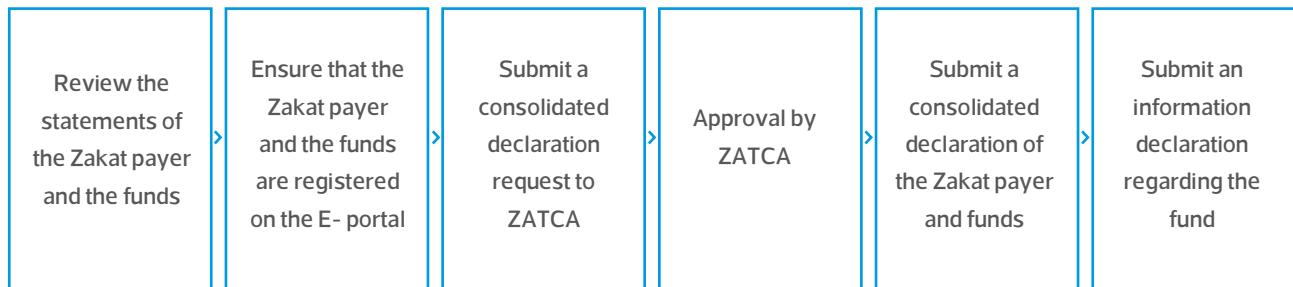
Upon referring to the structure contained in the above example, we noted that company (A) directly or indirectly owns all funds at a percentage of (100%), which means that they have the right to submit a consolidated Zakat declaration and consolidated accounts.

In case the conditions of the consolidated Zakat declaration apply to the Zakat payer, the owner of the investment funds, and the Zakat payer desires to be accounted for in accordance with the consolidated accounts and the consolidated Zakat declaration, the Zakat payer shall submit an application to ZATCA to submit a consolidated declaration that includes all funds wholly owned, directly or indirectly.

After submission, ZATCA shall review the above-mentioned statements, while taking into consideration that the Zakat payer and the investment funds shall register on ZATCA's website "ERAD" and update its data correctly.



The figure below represents a summary of the steps that shall be followed in order to submit a consolidated Zakat declaration:



The difference between the investor's financial year and the fund's financial year

When the financial year of the investment fund and the financial year of the investment units' holders differ, the end of the fund's financial year shall be taken into consideration.

Example

The financial year of the real estate fund (REIT) ends on 31 December of each year, while the financial year of the investment units' holder (Arab Trading Company) ends on 30 June of each year.

The Arab Trading Company submits its Zakat declaration for the year ending on 30 June 2024, calculates the Zakat of the investment units for the period, and pays the Zakat due thereon.

Required: How will the calculation of Zakat on investment units be approved for the declaration period for the year ending on 30 June 2024?

The Arab Trading Company shall approve the latest financial statements issued for the fund in order to pay Zakat on its investment in the investment fund, i.e. on 31 December 2023.



3. Practical examples

Practical example (1)

The financial statements of the investment fund (real estate) showed the following financial data for the year ending on 31 December 2023:

Statement of Financial Position for the Year Ending on 31 December 2023	2023	2022
Assets		
Current assets		
Cash and cash equivalent	0	125,000
Rental income receivable	29,000,000	40,000,000
Investments listed at fair value through profit or loss	66,000,000	64,000,000
Advance payment regarding investments listed at fair value through profit or loss	0	946,000
Contract assets	4,000,000	8,000,000
Prepaid expenses and other assets	7,000,000	3,000,000
Total current assets	106,000,000	116,071,000
Non-current assets		
Investment properties	1,955,000,000	2,208,000,000
Total assets	2,061,000,000	2,324,071,000



Liabilities		
Current liabilities		
Accrued expenses and other liabilities	7,000,000	8,000,000
Due administrative fees	4,000,000	71,000
Loans - current portion	13,000,000	158,000,000
Total current liabilities	24,000,000	166,071,000
Non-current liabilities		
Loans - current portion	791,000,000	646,000,000
Total liabilities	815,000,000	812,071,000
Equity		
Net assets attributable to units' holders	1,246,000,000	1,512,000,000
Total liabilities and equity	2,061,000,000	2,324,071,000
Issued units (numbered)	162,000,000	162,000,000



Statement of Comprehensive Income of the Investment Fund as at 31 December 2023	2023	2022
Income		
Rental income from investment properties , net	130,000,000	169,000,000
Total income	130,000,000	169,000,000
Expenses		
Depreciation of real estate investments	(29,000,000)	(29,000,000)
Administrative fees	(17,000,000)	(18,000,000)
Provision for expected credit losses	(10,000,000)	(13,000,000)
Other expenses	(7,000,000)	(6,000,000)
Total expenses	(63,000,000)	(66,000,000)
Operating profit	67,000,000	103,000,000
Financing Cost	(21,000,000)	(27,000,000)
Other revenues	5,000,000	301,000
Income from investments listed at fair value through profit or loss	467,000	1,210,000
Year profit before impairment	51,467,000	77,511,000
Impairment of investment properties	(227,000,000)	(65,000,000)
Profit (loss) for the year	(175,533,000)	12,511,000

**Other information:**

4. The movement of loans during the year was as follows:

Particulars	Saudi Riyals
Beginning of the year	804,000,000
Withdrawals during the year	-
Payments during the year	-
Loans balance at the end of the year	804,000,000

5. The movement of the credit losses provision during the year was as follows:

Particulars	Saudi Riyals
Provision at the beginning of the year	17,000,000
Charged on the year	10,000,000
Utilized during the year	-
The balance of the provision at the end of year	27,000,000

6. All expenses recorded in the income statement meet the deduction conditions stipulated in Article (8) of the Regulation, except for the charged provisions (the provision of credit losses amounting to ten million Saudi riyals).

7. (There are no other provisions recorded by the fund in the books).

Request: To calculate the Zakat base and the Zakat for the investment fund for the year 2023.

Solution:



First step: Determine what is added to the fund's Zakat base:

Particulars	Saudi Riyals
Net assets attributable to the unit holders as at the end of the year	1,246,000,000
Long-term loans	804,000,000
Provisions (beginning of the year less the utilized amount)	17,000,000
Difference between adjusted profit (loss) and net book profit (loss)*	10,000,000
Total amount added to the fund's Zakat base	2,077,000,000

* **Adjusted net profit (loss) for Zakat purposes**

Particulars	Saudi Riyals
Book profit (loss)	(175,533,000)
Provisions charged to accounts	10,000,000
Adjusted profit (loss) for Zakat purposes	(165,533,000)

Second step: Determine the items that may be deducted from the fund's Zakat base.

Particulars	Saudi Riyals
Investment properties	(1,955,000,000)

In light of the foregoing, the total components of additions and deductions amounting to SR 122,000,000 (2,077,000,000 - 1,955,000,000 = 122,000,000).



Third step: Compare the total of additions and deductions with the adjusted profit (loss) for Zakat purposes and calculate the Zakat.

Particulars	Saudi Riyals
Total additions (less) deductions from the Zakat base (1)	122,000,000
Adjusted profit (loss) for Zakat purposes* (2)	(165,533,000)
Zakat base (whichever is higher 1 or 2)	122,000,000
Zakat:	
The remaining part of the base = (122,000,000) x (2.5) % x (365 days of the Gregorian year / days of the Hijri year)	3,144,774



Practical example (2)

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

Statement of Financial Position	2023	2022
Assets		
Cash and cash equivalent	95,000	2,000
Investments listed at fair value through profit or loss	248,000,000	193,000,000
Total assets	248,095,000	193,002,000
Liabilities		
Accrued expenses and other liabilities	74,000	59,000
Total liabilities	74,000	59,000
Net asset value (equity) attributable to units' holders	248,021,000	192,943,000
Total liabilities and equity	248,095,000	193,002,000
Units issued (numbered)	1,300,000	1,200,000



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

Other information:

- There are no provisions allocated against future liabilities on the fund. All expenses recorded in the books of the fund are deductible expenses in accordance with the provisions of the regulations. Accordingly, there is no difference between book profit and profit for Zakat purposes.
- There are no loan balances or other credit balances that are treated as sources of funds subject to Zakat (long-term loans), or these sources were used, even if they were short-term to finance the deductions from the Zakat base during the year.
- The investments are listed at fair value through profit or loss by investments in other investment funds incorporated in the Kingdom of Saudi Arabia. Upon examining the fund's assets, it was found from the fund's business model that it keeps these investments for the purpose of trading.



Request: To calculate the Zakat base and the Zakat on these investments.

Solution:

First step: Calculate the adjusted net profit (loss) for Zakat purposes.

Particulars	Saudi Riyals
Book profit (loss).	30,764,000
Amendments on the result of the activity	N/A
Adjusted profit (loss) for Zakat purposes	30,764,000

Second step: Determine what is added to the fund's Zakat base:

Particulars	Saudi Riyals
Net assets attributable to the units holders as at the end of the year	248,021,000
Total amount added to the fund's Zakat base	248,021,000

Third step: Determine the items that may be deducted from the fund's Zakat base.

Particulars	Saudi Riyals
N/A	-

Forth step: Calculate the fund's Zakat base.

Based on the above, the fund's Zakat base is amounting to SR 248,021,000 as follows.

Particulars	Saudi Riyals
Additions to the Zakat base (second step)	248,021,000
Deductions from the Zakat base (third step)	-
Zakat base	248,021,000



Based on the above, the Zakat base is amounting to SR 248,021,000.

Fifth step: Compare the total of additions and deductions with the book profit (loss) based on the financial statements and calculate the Zakat due.

Whichever is Higher	Saudi Riyals
Total additions (less) deductions from the Zakat base (1)	248,021,000
Adjusted net profit (loss) for Zakat purposes = accounting profit (loss)* (2)	30,764,000
Zakat base (whichever is higher 1 or 2) = (1)	248,021,000
Zakat due = (1) $365 \times 2.5\% \times$ days of the Gregorian year / 354 days of the Hijri year)	6,393,197



Practical example (3)

The financial statements of the investment fund showed the following financial data for the year ending on 31 December 2023:

Statement of Financial Position for the Year Ending on 31 December 2023	2023	2022
Assets		
Current assets		
Cash and cash equivalent	50,000,000	35,000,000
Rental receivables, net	5,000,000	12,000,000
Prepaid expenses and other assets	4,000,000	5,000,000
Total current assets	59,000,000	52,000,000
Non-current assets		
Net usufruct contract	5,000,000	7,000,000
Right of use assets	4,000,000	5,000,000
Projects in progress	24,000,000	14,000,000
Investments Properties	560,000,000	590,000,000
Total non-current assets	593,000,000	616,000,000
Total assets	652,000,000	668,000,000



Liabilities		
Current liabilities		
Accrued expenses and other liabilities	28,000,000	9,000,000
Unearned rental income	12,000,000	17,000,000
Accrued fund management fees and others	1,000,000	1,000,000
Right of use liabilities - current portion	400,000	550,000
Total current liabilities	41,400,000	27,550,000
Non-current liabilities		
Right of use liabilities	4,000,000	4,500,000
Islamic facilities	75,000,000	85,000,000
Total non-current liabilities	79,000,000	89,500,000
Total liabilities	120,400,000	117,050,000
Net assets value (equity)	531,600,000	550,950,000



Statement of Comprehensive Income for the year ended 31 December 2023	2023
Rental income	50,000,000
Murabaha income	100,000
Total income / (loss)	50,100,000
Depreciation of right of use assets	(1,000,000)
Properties management expenses	(4,000,000)
Fund management fees and others	(3,000,000)
Custody fees	(300,000)
Financing expenses	(2,500,000)
Properties management fees	(2,000,000)
Expected credit losses expenses	(800,000)
Other expenses	(1,500,000)
Total expenses	(15,100,000)
Total income from operations	35,000,000
Depreciation of investment properties	(14,000,000)
Amortization of usufruct contracts	(1,000,000)
Net change in provision for impairment of investment properties and benefits	(12,000,000)
Net income / (loss) for the year	8,000,000



Other information:

- Except for the formed portion of the provision for credit losses; all expenses in the income statement meet the deduction controls stipulated in the regulation.
- The movement of the credit losses provision was as follows:

Opening Balance	Formed during the Year	Reversed during the Year	Closing Balance
12,000,000	800,000	200,000	12,600,000

- The movement of the credit facilities during the year 2023 was as follows:

Opening Balance	Additions during the Year	Reversed during the Year	Closing Balance
85,000,000	*10,000,000	20,000,000	75,000,000

- *Loan additions during the year amounting to ten million Saudi riyals, represent additional bank facilities to finance projects in progress.
- Unearned rental income represents advance payments made by customers for lease of investment properties and usufruct contracts.



Request: To calculate the fund's Zakat base

First step: Calculate the adjusted net profit (loss) for Zakat purposes.

Opening Balance	Formed during the Year
Book profit (loss)	8,000,000
Amendments on the result of the activity	
Add: Formed of the credit losses provision	800,000
Adjusted profit (loss) for Zakat purposes	8,800,000

Second step: Determine what is added to the fund's Zakat base:

Particulars	2023
Net assets attributable to the unit holders as at the end of year	531,600,000
Difference between the book profit (loss) and adjusted profit for Zakat purposes	800,000
Right of use liabilities	4,400,000
Unearned rental income	12,000,000
Bank facilities during the year in order to finance the projects in progress (fully added - used for deducted financing)	10,000,000
Long-term Islamic facilities (beginning of the year less what was paid during the year)	65,000,000
Provisions (provision for credit losses at the beginning of the year less what is reversed during the year)	11,800,000
Total amount added to the fund's Zakat base	635,600,000



Third step: Determine the items that may be deducted from the fund's Zakat base.

Particulars	Saudi Riyals
Net usufruct contracts	5,000,000
Right of use assets	4,000,000
Projects in progress	24,000,000
Property investments	560,000,000
Total amount deducted from the fund's Zakat base	593,000,000

Forth step: Calculate the fund's Zakat base.

Based on the above, the fund's Zakat base is amounting to SR 42,600,000 as follows.

Particulars	Saudi Riyals
Additions to the Zakat base (second step)	635,600,000
Deductions from the Zakat base (third step)	593,000,000
Zakat base	42,600,000

Fifth step: Compare the total of additions and deductions with the book profit (loss) as per the financial statements and calculate the Zakat due.

Particulars	Saudi Riyals
Total additions (less) deductions from the Zakat base (1)	42,600,000
Adjusted net profit (loss) for Zakat purposes	8,800,000
Zakat base (whichever is higher 1 or 2) = (1)	42,600,000
Zakat due on the Zakat base:	
Zakat base X Zakat rate based on the number of days of the fund's financial year = (42,600,000) 365 X 2.5% X days of the Gregorian year / 354 days of the Hijri year)	1,098,093



4. Appendix: FAQ

1. When does the application of these rules begin?

The implementation of these rules begins from the financial years that starts on or after 1 January 2023.

Therefore, all investment funds whose incorporation was approved under the Regulations and Laws of the Capital Market Authority in the Kingdom, prior to the above-mentioned date, shall register with ZATCA before the end of its current financial year, on the effective date of the rules (i.e. 1 January 2023).

Whereas the funds whose incorporation was approved after the effective date, shall register before the end of the fund's first financial year.

2. To what extent are the Zakat payers bound to pay Zakat on investments in the investment funds units?

It is originally optional. If the Zakat payer chooses to deduct the investment in the investment funds from its Zakat base, then this requires calculating and paying Zakat on investment in the investment funds in accordance with the rules outlined in these Guidelines.

On the other hand, if the Zakat payer chooses not to deduct the investment in the investment funds from its Zakat base, the Zakat payer is not required to calculate and pay Zakat on these investments.

3. Is the investment fund obligated to calculate and pay the Zakat due?

No, in accordance with the decision and the rules, the investment funds including the investment funds that take the form of a special purpose entity and licensed by the Capital Market Authority, are not subject to Zakat collection; however Zakat is collected from Zakat payers that are subject to the rules of the units' holders in the investment funds.

However, the investment funds shall abide by the disclosure requirements stated in the rules, such as submitting the information declaration and other disclosures to ZATCA within the statutory period.



4. What is the percentage of Zakat used in accordance with the Zakat Collection Regulations from Investing in Investment Funds?

In accordance with the Regulations, the percentage of Zakat for the Zakat payer depends on the classification of the financial year of the Zakat payer, so if it is a Gregorian year, the Zakat is calculated by dividing two and a half percent (2.5%) by the number of days of the Hijri year multiplied by the number of days of the financial year of the Zakat year approved by the Zakat payer and ZATCA. With taking into consideration that the percentage of Zakat is in accordance with above-mentioned formula, shall be applied whether the Zakat is calculated on the Zakat base or the minimum (adjusted net profit for Zakat purposes).

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

In accordance with the rules, Zakat payers that are subject to the provisions of these rules, who owns the investment units in the funds, shall calculate and pay the Zakat on these investments. With the exception of direct and indirect financing funds from the above rule.

6. If a company owns (100%) of the units of an investment fund, and it was chosen to submit a consolidated Zakat declaration, is it necessary to submit an information declaration for the fund as well?

If a consolidated Zakat declaration is submitted by the Zakat payer, the fund shall submit an information declaration for the purpose of information and data within (120) days from the end of the fund's financial year, regardless of whether the consolidation took place for the purpose of Zakat or not.

7. How is the fund's investments Zakat calculated by the Zakat payer in case the fund's financial year differs from the financial year of the unit's holder?

In accordance with Article (4) of Paragraph (4), if the financial year of the unit's holder differs from the fund's financial year, the Zakat payer, who owns the investment unit, shall rely on the latest audited financial statement of the fund and the details of the Zakat base calculation as per the information declaration submitted and in the light of the above-mentioned financial statements.



8. If the fund's Zakat base is the minimum (adjusted net profit), and the fund distributes the profit during the year to the units' holders; in this case, should a due Zakat be calculated?

Yes, in accordance with Article (7) of the rules, the minimum is the adjusted net profit, whether the profit is distributed or not. Therefore, in this case, Zakat shall be calculated at the rate of (2.5%), regardless of the period of the financial year.

9. Is there any other statutory requests that the fund shall comply with under the relevant provisions regarding the provisions of the Income Tax Law or Transfer Pricing Guidelines currently in force in the Kingdom?

Unless otherwise provided by the Law or the rules, whereas anything implemented on the rest of the Zakat payers in respect of any other statutory requests were stated in the above-mentioned Laws, shall apply to the fund.

10. In the case of a fund whose assets are invested in other funds, is it permissible to deduct the fund's investments in these funds when calculating the Zakat base?

The fund's investments in these funds are treated as foreign investments in accordance with the provisions of Article (5) of Paragraph (5) of the Regulations while taking into consideration that the burden of calculating and paying the fund's investments Zakat in these funds is on the Zakat payer, the holder of the investment unit, and not on the fund.

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

The unit holder who has chosen to include its investments in the fund shall calculate its share in the fund's Zakat base and pay the Zakat due based on the information and disclosures provided by the fund.



12. Should the Zakat payer, the holder of the investment unit, calculate the Zakat on its investments in the funds as per disclosure in the financial statements or as per a certificate of a chartered accountant?

In this case, the rules have given the Zakat payer the choice to calculate the Zakat on its investments in the funds by one of the two methods mentioned above.

13. If the investment fund's base was negative and made losses for the year, is the Zakat payer, the unit holder, entitled to deduct its investments in its Zakat declaration?

If the fund has submitted an information declaration in accordance with the rules, that does not prevent the unit holder to include the investments among the deductions, provided that the deduction rules that are stated in the regulations and rules are adhered to, even if the fund's base is negative and the Zakat is not due on these investments.

14. What is the procedure that should be taken if the Zakat payer has deducted its investments in the fund from its Zakat base, while the fund did not register with ZATCA in accordance with the rules?

The decision and rules have obliged all investment funds covered by the decision to register with ZATCA for Zakat purposes. Accordingly, all these funds shall comply with all registration and disclosure requirements which are stated in the rules.

However, if it was proven that the fund was not registered for Zakat purposes, then the Zakat payer is not entitled to deduct its investment from its Zakat base unless it is found that the fund is registered with ZATCA, and it submitted the information declaration for the last financial year, while taking into consideration the Zakat payer's commitment to the rest of the conditions and controls stipulated in the rules.

15. Are the Zakat payers, unit holders in foreign funds, which are established outside the Kingdom subject to the rules?

The rules apply to the investment funds registered under the Regulations and Laws of the Capital Market Authority in the Kingdom. Accordingly, Zakat payers, unit holders in foreign funds, which are established outside the Kingdom are not subject to these rules.



However, such investments are dealt with in the books of the Zakat payers as foreign investments in accordance with the provisions of Article (5) of Paragraph (5) of the Regulations.

16. Are the nature of the fund's activity and the assets structure considered to determine the Zakat payer's right to deduct its investments in units from the Zakat payer's Zakat base?

The principle is to deal with these investments in the books of the Zakat payer in terms of the intention to keep them, and the way they manage the financial assets, including the units in investment funds (for trading or not), regardless of nature of the fund's activity.

17. To what extent do the rules apply to those individuals (natural persons) investing in the investment funds' units?

It is noted that the decision and the rules apply to the Zakat payers mentioned in Article (2) of the Regulations, including (Saudi natural persons and those who are treated as citizens of the Gulf Cooperation Council countries).

Accordingly, the rules apply to Zakat payers only if they carry out an activity subject to Zakat as stipulated in the regulations.

In practice, those individuals mentioned in the provision of the above Article carry out a subjected activity by establishing an individual entity (or an individual establishment) whose establishment requires a statutory license issued by the Ministry of Commerce in the Kingdom and/or any other related authorized entity.

Otherwise, the other individuals, as they do not practice an activity which is subjected to Zakat collocation, where the definition of the Zakat payer does not apply to them as per the regulations; therefore, the rules do not apply to them.

Moreover, the person who is subjected to the rules (Zakat payer) is not subject to the rules in cases in which the regulations allowed those Zakat payers to be held accountable on an estimated basis in accordance with Article (10) of the Regulations.



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