



Guideline for

Zakat Transactions in Different Activities

In accordance with the Implementing Regulations for Zakat Collection, issued in
1440 H.



The Zakat, Tax and Customs Authority («ZATCA» or «Authority») has issued this guideline to elucidate certain treatments and procedures related to the application of the statutory provisions and regulations in effect as of the date of its publication. The contents of this guideline do not constitute an amendment to any of the applicable laws and regulations in the Kingdom.

Additionally, it should be noted that the indicative treatments outlined in this guideline shall be carried out by the Authority in accordance with the applicable regulations. Where any clarification, explanation, or information given in this guideline is amended but the statutory text or regulation remains the same, the updated indicative treatment shall then be applicable prospectively to transactions completed after the publication date of the guideline on the Authority's website.



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1. Introduction

1.1 About Zakat

Zakat is the third pillar of Islam and one of the most important financial acts of worship. It is mentioned repeatedly in the Quran and is paired with prayer in more than eighty verses. Zakat distinguishes the Muslim community from others and represents a superior aspect of Islamic legislation by being an effective means of combating poverty and alleviating the suffering of the needy, thereby achieving social solidarity..

1.2 Collection of Zakat

The significant status of Zakat in Islam is evidenced by the state's responsibility to manage and supervise its collection. The state is authorized to collect Zakat from apparent wealth and distribute it to those who deserve it. This is carried out by appointing Zakat officers to visit asset owners throughout the Islamic state, calculate and collect their Zakat dues, and oversee the dues distribution to eligible recipients.

The Zakat, Tax and Customs Authority is tasked with the collection of Zakat, handling all related procedures: from the registration of taxpayers to calculating the amount of Zakat due. This includes overseeing the submission of Zakat declarations and payment procedures, examining submitted data, verifying the data through the Authority's human resources, and ultimately issuing the final Zakat certificate. The Authority also handles objections of the Zakat payers to its Zakat assessments.



1.3 Application of Zakat Collection in the Kingdom of Saudi Arabia

The collection and distribution of Zakat to eligible recipients is a fundamental duty of the state, as stipulated in Article 21 of the Basic Law of Governance: «Zakat shall be collected and disbursed as prescribed by Sharia.» Article 7 also reflects the state's commitment to Sharia duties, including the collection and distribution of Zakat, stating: «Governance in the Kingdom of Saudi Arabia derives its authority from the Quran and the Sunna of the Prophet (peace be upon him). The Quran and Sunna shall govern this Law and all the laws of the State.»

Supporting this, the founder King Abdulaziz issued Royal Decree No. (17/2/28/8634) on 29/6/1370 H. April 6, 1951 ordering the collection of Zakat. This was followed by numerous reinforcing royal decrees, ministerial resolutions, explanatory and interpretive regulations, and circulars. These include Royal Decree No. (M/40) dated 2/7/1405 H. (October 31, 1884), the implementing regulations for Zakat collection issued by Ministerial Resolution No. (2082) dated 1/6/1438 H. (February 28, 2017), and the implementing regulations for Zakat collection issued by Ministerial Resolution No. (2216) dated 7/7/1440 H. (March 14, 2019), which apply to the Zakat years starting from January 1, 2019 for all Zakat payers, except those assessed by the presumptive method under Chapter 4 of the Regulations, which applies to their declarations submitted after December 31, 2019. Thus, the implementing regulations for Zakat collection dated 7/7/1440 H. do not apply to fiscal years before this date, as these years are governed by previous regulations and instructions.

The implementing regulations for Zakat collection specifically address Zakat rules in commercial activities, the requirements for submitting Zakat declarations, and the processes for assessment, examination and payment as well as their respective timelines. The Zakat revenue collected by the Zakat, Tax and Customs Authority is deposited into the Social Security account, which handles its disbursement to the poor and needy in accordance with Royal Decree No. (16/5/1) dated 5/1/1383 H. (28 May 1963). Paragraph (1) of the decree states: «Zakat shall be fully collected from all joint stock and others companies as well as individuals subject to Zakat,» and paragraph (2) states: «All the amounts collected shall be deposited into the Social Security Fund.»



1.4 Zakat, Tax and Customs Authority

1. The Zakat, Tax and Customs Authority is the body authorized to collect Zakat in the Kingdom of Saudi Arabia. It is tasked with collection activities in execution of Royal Decree No. (17/2/28/8634) dated 29/6/1370 H., which mandates the collection of Zakat from Saudi nationals.
2. The Authority was established by Ministerial Resolution No. (394) dated 7/8/1370 H. as a governmental body, under the Ministry of Finance, with the responsibility of collecting Zakat.
3. Royal Decree No. (61) dated 5/1/1383 H. mandated the collection of Zakat in full and the transfer or payment of it to the Social Security Agency. Subsequent royal decrees and ministerial resolutions regulating Zakat collection activities were issued thereafter, including Royal Decree No. (M/40) dated 2/7/1405 H., which included the order to collect Zakat in full from all companies, institutions and other organizations as well as individuals who are subject to Zakat. Later, the implementing regulations of the Royal Decree (M/40) were issued under Ministerial Resolution No. (2082) dated 11/6/1438 H. (July 29, 2017).
4. On 20/7/1438 H. (April 17, 2017), the Zakat, Tax and Customs Authority was formed by Council of Ministers Resolution No. (465) approving the Authority's organization.
5. The implementing regulations for Zakat collection were issued by Ministerial Resolution No. (2216) dated 7/7/1440 H., applicable from 1 January 2019.



Royal Decree dated
29/6/1370 H.

which mandates the collection
of Zakat from Saudi nationals



Ministerial Resolution No.
(394) dated 7/8/1370 H.

to establish the Authority as a
governmental body



Royal Decree No. (M/40)
dated 2/7/1405 H.

which included the order to collect
Zakat in full from all companies,
institutions and other organizations
as well as individuals who are
subject to Zakat.

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By Ministerial Resolution
No. (2216) dated
7/7/1440 H.

the implementing regulations
for Zakat collection were
issued applicable from 1
January 2019



On 20/7/1438 H.

the Zakat, Tax and Customs
Authority was formed by Council
of Ministers Resolution No. (465)
approving the Authority's
organization.



The implementing
regulations of the Royal
Decree (M/40)

were issued under Ministerial
Resolution No. (2082) dated
11/6/1438 H.

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1.5 Functions of the Zakat, Tax and Customs Authority

ZATCA's Regulations defined the tasks of ZATCA in Article (3) thereof, which include the following:

1. Collecting Zakat and taxes from the Zakat payer in accordance with the relevant regulations, rules and instructions.
2. Providing high quality services to the Zakat payer to help Zakat payers fulfill their duties.
3. Following up with the Zakat payer and taking the necessary actions to ensure collection of the payable amounts.
4. Working to raise awareness of the Zakat payer, strengthening the degree of voluntary commitment, and ensuring his compliance with the instructions and guidelines issued by the Authority in its jurisdiction.
5. Cooperating and exchanging expertise with regional and international bodies and organizations, as well as specialized expertise organizations inside and outside the Kingdom, within the limits of the Authority's jurisdiction.
6. Representing the Kingdom at regional and international organizations, bodies, forums and conferences that are related to the Authority's jurisdiction.



Collecting Zakat and taxes



Providing high quality services to the Zakat payer to help him



Following up with the Zakat payer to ensure collection of the payable amounts



Raising awareness of the Zakat payer, strengthening the degree of commitment, and ensuring his compliance with the instructions and guidelines issued by ZATCA

Cooperating and exchanging experience with regional and international organizations

Representing the Kingdom at regional and international organizations, bodies, forums and conferences that are related to ZATCA's jurisdiction



1.6 Overview of the General Zakat Guidebook

This Guideline provides guidance and basic information on the requirements of Zakat collection, the procedures of its application, and the obligations of persons subject to Zakat (Zakat payers) in other sectors, except for financing activities and insurance companies' sectors, for both of which the Authority has issued special guidebooks. This guideline sheds light and provides guidelines on the practical application of Zakat collection in Saudi Arabia.

For instructions on any specific transaction, you can visit the official website of the Authority (zatca.gov.sa), which offers a wide range of tools and information tailored to assist Zakat payers, including visual guidance materials, all relevant data, and FAQs.



2. Zakat Concepts, Terminology and Calculation Methods

The Regulations

The implementing regulations for Zakat collection issued under Ministerial Resolution No. (2216), dated 7/7/1440 H.

A. Collection of Zakat:

The State shall calculate the Zakat of funds subject to Zakat, collect such funds from the Zakat payers subject to it, and transfer them to the Social Security Agency for disbursement to the beneficiaries of social security.

Zakat collection is the state's duty. The Prophet (peace and blessings of Allah be upon him) used to send messengers every year to collect Zakat from all Muslims. At this time, it is carried out by the Zakat, Tax and Customs Authority on behalf of the state, in accordance with the relevant laws, regulations and rules. The Authority has issued regulations and rules governing Zakat collection and has provided high-quality services to the Zakat payers to help them fulfill their duties.

B. Taxpayer (Zakat payer):

A natural or legal person who carries out an activity (business) subject to the collection of Zakat under the Regulations, whether it is a sole proprietorship, a company, or whoever carries out business activity under a license issued by a competent authority.

C. Zakat payer not subject to Collocetion of Zakat:

A Zakat payer that has acquired a certificate not to be subject to the collection of Zakat, in accordance with the Authority's procedures.

D. Resident:

A natural or legal person to whom the residency requirements specified in Article (3) of the Regulations apply.



E. Non-resident:

Any person who does not qualify as a resident.

F. The Zakat year:

The fiscal year of the Zakat payer, whether Hijri or Gregorian, short or long, at the beginning or end of activity.

Example (1):

A company was incorporated on 10/12/2018 (the date of issuance of the Commercial Registration). According to the Articles of Association, the first financial year of the company starts from the date of issuance of the Commercial Registration and ends on 31/12/2019.

Hence, the first financial year of the company shall be from 10/12/2018 to 31/12/2019.

G. Calculating the completion of the Hijri year (Al-Hawl):

Twelve lunar months (354) days have passed since attaining the zakatable fund (Nisab)		
2.5% _____ Number of Hijri year days (354)	X	The number of actual days of the Zakat year for the Zakat payer



Example (2):

The financial year of the company (S) for grains starts on 1/1/2019 and ends on 31/12/2019 in the same year (Gregorian year). The Zakat base of the company for the year was SAR 2,500,000, including an adjusted profit for Zakat of SAR 900,000.

The Zakat is calculated according to the Zakat base as follows:

<u>2.5 %</u> <u>Number of Hijri days</u>	X	Number of actual days of the Zakat year for the taxpayer	X	Base value excluding adjusted profit	=	****
$354 \div 2.5\%$	X	365	X	1,600,000	X	41,242.9
Zakat Profit	X	2.5%	X	900,000	X	22,500
Total				2,500,000		63,742.9

H. Business activities:

All forms of business, whether commercial, service, or other work intended to generate profit. Commercial activities include real estate, commodity trading, provision of service, securities, finance, insurance and all banking activities.

The Shariah imposes Zakat on all forms of commercial activities according to the hadith of Jabir bin Samurah (may Allah be pleased with him) who narrated: "**The Messenger of Allah (peace be upon him) ordered us to pay Zakat against what we prepare for sale.**"



I. Terms of obligations and their impact on Zakat:

Zakat-related obligations are divided into two parts:

1. Obligations of the Zakat payer

They are loans, creditors, notes payable, government and commercial financing, etc...

In general, Zakat payer's obligations reduces the Zakat base of the Zakat payer as they are not added to the base, according to the method adopted by the Authority. However, there is a difference in the accounting treatment between short-term and long-term liabilities.

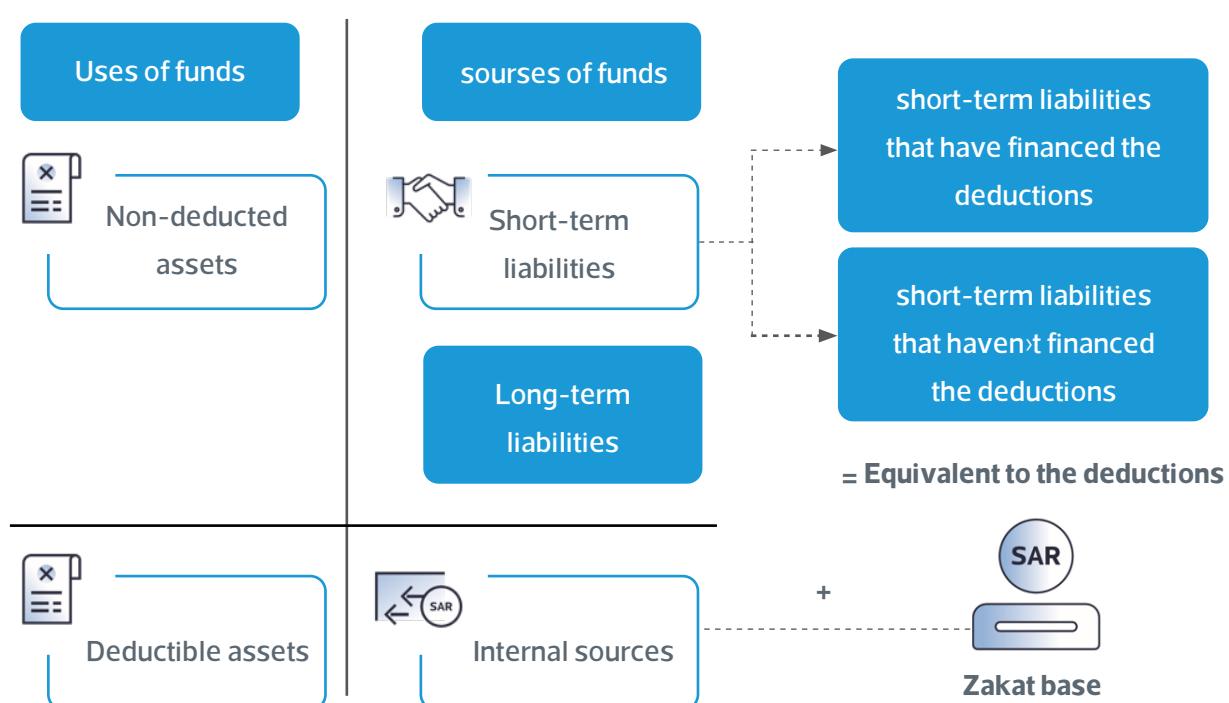
Short-term liabilities that have financed a deductible asset will be added to the Zakat base components, unlike those that have not financed a deductible asset, which will not be added to the base. Long-term liabilities are added to the components of the base, provided that the total liabilities may not exceed the amount of the deductible assets. This is adopted in order to ensure that the Zakat funds may not be utilized in debt. The debts are secured by fixed assets and equivalent deductible assets even if it did not finance such assets to fulfill the balance, maintain justice, and avoid double deduction. Accordingly, the long-term liabilities reduce the Zakat base of the excess amount.



Zakat Payer liabilities (External Financing Sources)

Short-term liabilities utilized in financing deductible assets.

Long-term liabilities.





2. Obligations for the Zakat payer:

They include accounts receivable, notes receivables, advances, and so on. Zakat is paid on what is funded by an internal source of funding.

J. Zakat declaration:

It is a form prepared by the Zakat, Tax and Customs Authority and contains a number of elements and items. It must be filled out and submitted by each Zakat payer. The purpose of the declaration and its submission is to indicate the amount of the Zakat base of the entity and enable the Authority to make the assessment in accordance with the declaration data. The types of declaration are:

First type: A declaration for the taxpayer who maintains commercial books and regular accounts and issues financial statements that comply with the legal requirements.

Second type: A declaration of the Zakat payer who is accounted for on deemed basis and does not maintain commercial books and statutory accounts.

Third type: Information declaration for the Zakat payers exempted from the collection of Zakat or a subsidiary that was consolidated and Zakat was paid per the holding company's consolidated declaration or consortium consortia. Such a Zakat payer must provide a declaration that includes the disclosure of the data.

K. Assessment:

A decision by the Authority indicating its acceptance or amendment of the declaration, in accordance with the information available to it at the time.

L. Commercial books:

A set of commercial books maintained by the Zakat payer which record all commercial transactions, as described by the commercial books law issued by Royal Decree No. (M/61) dated 17/12/1409 H., its implementing regulations, and any amendments thereto.



M. Methods of Zakat calculation for companies:

Zakat for existing companies is calculated in one of two methods:

1. Direct method (net of zakatable assets method).
2. Indirect method (sources of funds method).

The procedures of each of the methods differ and the items used for the purposes of calculating Zakat as well, but both match in the result (Zakat base). Both methods reach the same result if they are applied correctly and use the same standards and criteria. Following is a summary of the two methods:

- **Direct method (net of zakatable assets method).**

This method is based on two basic procedures:

1. Addition of all zakatable assets of the entity, including accounts receivables for the Zakat payer.
2. Deduction of the value of the obligations that funded the Zakat assets. The result of this formula is the Zakat base of the Zakat payer.

$$\text{Zakat base} = \text{All zakatable assets} - \text{All obligations financed}$$

- **Indirect method (sources of funds method):**

Addition:

- A. Sources of external funds utilized for the component deductible from the base, which include long-term liabilities and obligations that are known to have financed deductible assets. Such liabilities are added to the limit without exceeding the deductible assets.
- B. All sources of internal funds of the entity (capital, retained earnings, etc.).
- C. Adjusted net profit for the year subject to the audit.



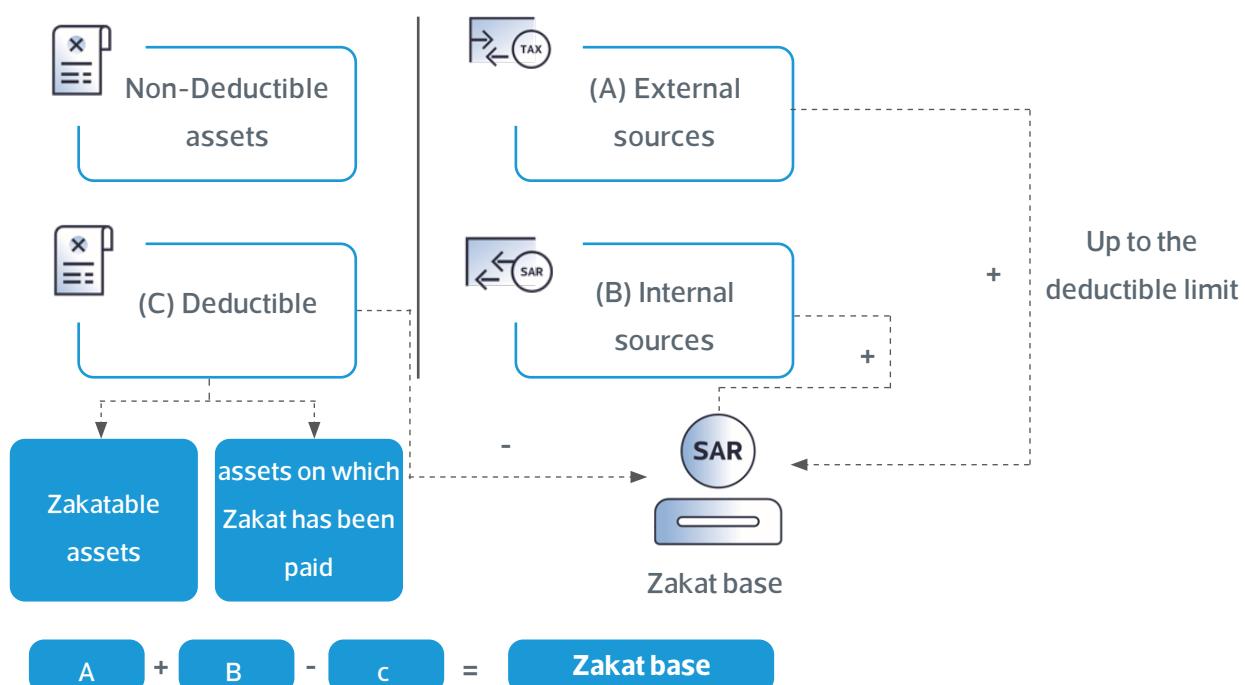
Deduction:

- A. The value of non-zakatable assets of the entity to be deducted in accordance with the conditions of the Regulations.
- B. The value of the zakatable assets in other entities, such as: investment in the shares of Saudi companies.

The result of this formula is the Zakat base for the Zakat payer. This method is followed by the Authority.

Fixed assets registered in the name of the partner, financed from the partners' rights or the partner's current account, and included in the financial statements shall be deducted from the Zakat base, by an amount that does not exceed the source of their financing added to the Zakat base, in any of the following cases:

- There is an obstacle preventing the transfer of ownership of the asset to the company's name.
- It is used in the company's activity.
- It is an in-kind share in the capital.
- Except for the cases mentioned above, assets may not be deducted from the Zakat base.





Example (3):

The following data is for a company as at the end of the fiscal year:

Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current assets	9,000	Current liabilities	6,000
Long-term assets (property and equipment)	8,000	Long-term liabilities	7,000
		Equity	4,000
Total	17,000	Total	17,000

A. Indirect calculation of the base:

Item	SAR
Long-term liabilities	7,000
Equity	4,000
Minus: long-term assets	8,000
Total	3,000

External sources of funding are added to the base first to cover the deductions, without exceeding the total value of the deductions. Afterward, internal sources of funding are added. Therefore, in the example above, long-term liabilities for the entire base were added because they were less than the deductions, followed by the addition of equity.



B. Direct calculation of the base:

Item	SAR
Current assets	9,000
Minus: current liabilities	6,000
Total	3,000

N. Deemed calculation:

Deemed calculation is a method used by the Authority to account for the Zakat payer who does not maintain commercial books and statutory accounts. The origin of the Zakat base of the Zakat payer is that it is based on its statutory records containing the data through which the base can be identified. However, when this is not achieved, the Authority shall form a Zakat base according to the available information in order for the Zakat base to be estimated as closely as possible.

The Authority resorts to the deemed method when the Zakat payer does not comply with the deadlines set for filing the declaration or when there are problems related to the confidence of the Authority in the accuracy of the data provided by the Zakat payer, according to the zakat payer records. The method is used in order to calculate, as close as possible, his correct base.

O. The basis of Zakat calculation:

The calculation of the Zakat of existing companies is generally based on the overall accounting principles and standards. This is because the concepts of the accounting standards applicable to Zakat can be applied to companies that prepare financial statements according to the accounting principles observed in Saudi Arabia. At the same time, it can be verified that the Zakat payer complies with the standard of presentation as well as disclosures and the accuracy of such disclosures, such as the distinction between fixed assets and current assets. Additionally, it can be established if the Zakat payer complies with certain requirements relating to increased disclosure of the entity, such as the type of investments owned by the entity and whether or not they are subject to Zakat, as they do not appear in the financial statements but are necessary for the purpose of forming the Zakat base.



3. Identifying Zakat Base for Zakat Payer Maintaining Commercial Books

The Zakat base for the Zakat payer who maintains commercial books shall be determined according to the method of the Authority in collecting Zakat which is explained in Section 2 of this guide. According to this method, the internal sources of the Zakat payer's funds and the part of his external sources of funds utilized in financing deductible assets shall be added to the Zakat base (additions), whereas the non-zakatable assets are deducted from the Zakat base (deductions).

3.1 Components of Zakat Base (Additions)

The additions to the Zakat base, for the Zakat payer who maintains business books, consists of internal sources of funds (equity) and external sources of funds that have financed deductible assets.

Reasons for adding to the Zakat base:

- Offsetting the deductible assets against the obligations thereto.
- Determine zakatable assets financed from internal sources of funds.



Example (4):

The following data is for a company as at the end of the fiscal year:

Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current assets	10,000	Current liabilities	8,000
Long-term assets (property and equipment)	5,000	Long-term liabilities	2,000
		Equity	5,000
Total	15,000	Total	15,000

A. Calculation of the base:

Item	SAR
Long-term liabilities	2,000
Equity	5,000
Minus: long-term assets	5,000
Zakat base	2,000

External sources of funding are added to the base first, to meet them with deduction, and then internal sources of funding are added. In the above example, long-term liabilities for the entire base were added, and then equity was added.

Reasons for inclusion in additions to the Zakat base

Define zakatable assets financed from internal sources of funds	Meeting deductible assets, including the obligations it utilized
-----------------------------------------------------------------	------------------------------------------------------------------



3.1.1 Concepts Related to Additions

The Authority's method of calculating the Zakat base is based on identifying all sources of internal funds and what has financed deductible assets from the sources of external funds.

Zakat base calculation:

When building the Zakat base, the obligations of the Zakat payer (external sources of finance) should be added first, assuming their priority in financing the deductible items before the internal sources of funding, in the following order:

Reasons for adding to the Zakat base:

- Sources of external funds (maximum limit is the value of deductible assets):

Reasons for adding to the Zakat base:

1. Obligations that are known to have financed deductible assets, such as (loans for the purchase of a fixed asset).
2. Long-term liabilities (given debt term), such as (loans with a term longer than 354 days).

Example (5):

The following data is for a company as at the end of the fiscal year:

Statement of Financial Position			
Assets		Liabilities and Equity	
SAR		SAR	
Current assets	8,000	Current liabilities	3,000
Long-term assets (property and equipment)	6,000	Long-term liabilities	7,000
		Equity	4,000
Total	14,000	Total	14,000



A. Calculation of the base:

Item	SAR
Long-term liabilities (not to exceed deductions)	6,000
Equity	4,000
Minus: long-term assets	6,000
Zakat base	4,000

External sources are added to the base first, but they must not exceed the total value of deductible assets, and then internal sources of funding are added. In the above example, long-term liabilities for the base were added up to the value of deductible assets, and then equity was added.

Internal sources of funds:

1. Equity, such as (capital, reserves, retained earnings).
2. Accumulated provisions after deduction of what was used during the year, such as (end-of-service provision after deduction of what was used during the year).



3.1.2 Additions to the Zakat Base

Below are examples of items to be added to the Zakat base, with some guidelines mentioned in the next section along with some examples for further clarification:

Group	Item	Amount
Equity and equivalent	Capital at the beginning of the year	****
	Increase in capital during the year	****
	Reserves carried forward from previous years	****
	Retained earnings from previous years	****
	Adjusted net profit for Zakat collection purposes	****
	Change in fair value resulting from revaluation	****
Provisions	Opening provisions after deducting the used part during the year	****
	Creditors	****
	Notes payable	****
	Loans and equivalents + current installments of loans	****
	Partners or owners' loans	****
	Retained amounts from contractors (performance bonds)	****
	Amounts due to related parties	****
	Profits under distribution	****



3.1.3. Items to Be Excluded from the Zakat Base

The following are examples of items that are not to be added to the Zakat base:

Group	Item	Amount
Obligations of the Zakat payer classified as short-term and equivalent, unless it is known that they were used for financing deductible assets	Loans	****
	Creditors	****
	Accrued expenses	****
	Notes payable	****
	Overdraft account	****
	Retention payable	****
	Amount due to related parties	****

3.1.4. Guidelines for Additions to the Zakat Base

- The capital shall be added to the Zakat base according to the following guidelines:
 1. The opening balance shall be added.
 2. The increase in the capital during the year shall be added in full if its source is internal (equity).
 3. The capital increase during the whole year shall be added if it finances any of the deductible items from the Zakat base.
 4. The increase in capital shall be added if it has not financed a deductible asset from the base in proportion with the number of days of the zakatable year. It shall be treated as a finance source referred to in Article 4, paragraph (3/a), of the implementing regulations.

Full opening balance	
The capital is added to the Zakat base	
Increase during the year in full in two cases:	The addition that has not financed a deducted item shall be added.
<ul style="list-style-type: none">• In case of internal source• If financed a deducted item	



Example (6):

A company increased its capital during the year by SR 10,000,000 as of 01/7/20XX, as follows:

1. SAR 3,000,000 transfer from the general reserve.
2. SAR 7,000,000 increment in the capital contributed by one of the partners, of which SAR 5,000,000 was used to purchase a new production line and SAR 2,000,000 to finance the purchase of goods and raw materials.

What is the amount that should be added to the Zakat base?

1. The amount of SAR 3,000,000, which is the increase taken from the general reserve, shall be added to the Zakat base as it is an internal transfer from an element of the equity.
2. The amount of SAR 5,000,000, which is the increase made to finance the purchase of a new production line, shall be added to the Zakat base because it financed a deductible asset.
3. The amount of the increase made to finance the purchase of goods and raw materials (SAR 2,000,000) shall be added by the number of days, as it is a source of other financing. It is treated as an obligation of the Zakat payer. Consequently, an amount of SAR 1,000,000 is added as calculated below, with the obligations not exceeding the deductible amount from the base, as follows:

Number of days left remaining until the end of the fiscal year (365)	X	The increase value	=	****
Number of the year days				
183	X	2,000,000	=	1,000,000
365				

Reserves:

1. The balance of the first period shall be added if the balance remains until the end of the year, but if it is disposed of during the year, such as cash and other distributions, the portion disposed of may not be added to the Zakat base
2. If the reserves are transferred to an equity account, they shall be added to the base for the full term within the equity.



Example (7):

A company has a general reserve balance of SAR 10,000,000 of which SAR 5,000,000 has been used for capital increase and SAR 2,000,000 has been withdrawn. How much should be added to the base?

SAR 5,000,000 of the reserves used to increase the capital shall be added to the base, in addition to the remaining balance of the reserves, after deducting the withdrawn from the reserve balance as follows: Opening balance of the year minus the amount withdrawn from the reserve balance during the year: $5,000,000 + 3,000,000 (5,000,000 - 2,000,000) = \text{SAR } 8,000,000$.

Guidelines for adding reserves to the Zakat base
1. Add to the base reserve at the beginning of the period if the balance exists at the year end.
2. If reserves are transferred to one of the equity accounts, they shall be added to the base for the whole period within equity.
3. If the balance is disposed by year end, it will not be added to the base.

Retained earnings:

- They shall be added to the Zakat base at the opening balance of the period, minus dividends paid during the Zakat year.
- Distributions not claimed by owners, and which have been provided in separate bank accounts, will be considered as dividends paid to partners.

Guidelines for adding reserves to the Zakat base

They shall be added to the Zakat base at the opening balance of the period, minus dividends paid during the Zakat year.
Distributions not claimed by owners, and which have been provided in separate bank accounts, will be considered as dividends paid to partners.



Obligations of the Zakat payer:

Obligations of the Zakat payer and equivalents referred to in the additions above shall be added to the Zakat base in accordance with the following guidelines:

- Obligations of (354) days and more, as well as obligations that are (354) days and overlap more than one zakatable year, shall be added to the base proportionally with the number of days of the Zakat year.
- Short-term obligations that financed deductible assets are added.
- The Hijri year (Al Hawl) may not be interrupted by the renewal or replacement of obligations by other obligations or sources of financing that finance what have been financed by these obligations, nor by the rescheduling of the obligations with the same creditor.
- The total amount of the obligations added to the Zakat base as stated in the above items may not exceed the total deductions from the base.

Note that the obligations on the Zakat payer that are classified as short-term are not added to the Zakat base unless they are to finance the assets deducted from the base.

For more details, please refer to the Zakat Guidebook for the Debts of Taxpayers who Maintain Regular Accounts, published on the Authority's website.

Obligations of the Zakat payer and equivalents referred to in the additions above shall be added to the Zakat base in accordance with the following guidelines

Obligations of (354) days and more, as well as obligations that are (354) days and overlap more than one zakatable year, shall be added to the base proportionally with the number of days of the Zakat year.	Short-term obligations that financed deductible assets are added.
The Hijri year (Al Hawl) may not be interrupted by the renewal or replacement of obligations by other obligations or sources of financing that finance what have been financed by these obligations, nor by the rescheduling of the obligations with the same creditor.	The total amount of the obligations added to the Zakat base as stated in the above items may not exceed the total deductions from the base.



Example (8):

A company has secured a long-term loan amounting to SAR 1,000,000 on 20/8/2019. The end of the financial year of the company is 31/12/2019. The company has a short-term six-month loan of SAR 2,000,000 acquired on 1/1/2019. and rescheduled for another six months. How does it determine what loans to add to the base?

The long-term loan shall be added to the base based on the number of days of the Zakat year, as follows:

Number of days left until the end of the fiscal year	X	The increase value	=	****
Number of the year days				
13	X	1,000,000	=	364,384
365				

The short-term loan shall be added to the base entirely on the basis that the year is not interrupted by rescheduling the debt with the same creditor. Accordingly, an additional full amount of SAR 2,000,000 is added to the base.



Example (9):

A company acquired a loan of SAR 2,000,000 on 10/2/2019 which is repayable on 1/2/2020. Knowing that the end of the fiscal year is 31/1/2020 , how does it determine what to add to the base?

The short-term loan shall be added to the base based on the number of days of the Zakat year, as follows:

Number of days left until the end of the fiscal year	X	The increase value	=	****
Number of the year days (365)				
355	X	2,000,000	=	1,945,205
365				

The short-term loan was added because it lasts more than (354 days) and overlaps with more than one Zakat year, pursuant to paragraph (A/3) of Article (4) of the implementing regulations for the collection of Zakat.



Example (10):

A company acquired short-term loans (less than 354 days) as follows:

1. SAR 3,000,000 used to finance the purchase of a plot of land.
2. SAR 2,000,000 used to finance the purchase of goods.
3. SAR 1,000,000 used to meet multiple commitments in the business.

What amount should be added to the base in each case?

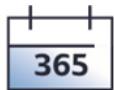
1. The amount of SAR 3,000,000 shall be added to the Zakat base where it was used to finance a deductible asset (fixed asset).
2. The amount of SAR 2,000,000 may not be added being a short-term loan and has not financed a deductible item (fixed asset).
3. The amount of SAR 1,000,000 may not be added being a short-term loan and has been used in multiple commitments in the business and does not include financing of a deductible item.

Provisions

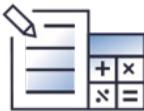
- The provision set aside during the Zakat year shall be (added to /deducted from) the (profit/loss)
- The opening balance shall be added to the base less the used amount during the year.
- If the Zakat base is the minimum limit (adjusted profits), the used amount is deducted from the adjusted net profit as a deductible expense, provided that the net profit is compared to the base after the deduction has been made (upon reversing the effect of the used amount on the base provision) and the greater of the two is considered.



The provision set aside during the Zakat year shall be (added to / deducted from) the (profit/loss).



The opening balance shall be added to the base less the used amount during the year.



If the Zakat base is the minimum limit (adjusted profits), the used amount is deducted from the adjusted net profit as a deductible expense, provided that the net profit is compared to the base after the deduction has been made (upon reversing the effect of the used amount on the base provision) and the greater of the two is considered.



Example (11):

The table below shows the movement of provisions during the year:

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
End-of-Service Benefits	2,000,000	500,000	300,000	2,200,000
Provision for Doubtful Obligations	1,000,000	200,000	--	1,200,000
Total	3,000,000	700,000	300,000	3,400,000

What amount should be added to the base?

Item	Amount
Amount of Provisions provided during the year	700,000

What amount should be added to the base?

Item	Amount
Opening balance of provisions	3,000,000
The utilized amount of provisions during the year to be deducted	300,000
Provisions balance which should be added to the base	2,700,000

The change in the fair value calculated in accordance with paragraph (6) of Article VI of the Regulation shall be added to the components of the Zakat base.



3.2 Items of Zakat Base (Deductibles)

The deductible items consist of the Zakat base for the Zakat payer who maintains commercial books of non-zakatable assets, such as fixed assets, assets subject to collect of Zakat in another base such as investments in the capital of companies subject to Zakat in the Kingdom, or which the Zakat payer has paid their Zakat independently, and some other assets specified in the Regulation.

3.2.1. Concepts Related to Deductions

The Authority's method of calculating Zakat base includes deduction of all non-zakatable assets, assets which have their Zakat paid independently and certain other items.

The main deductible items consist of the following:

- 1.** Non-Zakatable assets, including fixed assets, such as buildings, machinery and equipment, furniture, intangible assets, etc.
- 2.** Zakatable assets, including investment in shares of Saudi companies or foreign companies subjected to Zakat independently in accordance with the rules specified in the Regulations.

Deducted items from the Zakat base:



In general, the main deducted items are:

Non-Zakatable assets

Include fixed assets (e.g. buildings, machines and equipment, furniture, intangible assets, etc)



Intangible Assets

Furniture

Machine and Equipment

Buildings

Zakatable assets

Include investment in Saudi or foreign companies subjected to Zakat independently in accordance with the guidelines of the Implementing Regulations



Investment
in shares



3.2.2 Items to be Deducted from the Base

The following table shows examples of items that shall be deducted from the base:

Item	SAR
Net fixed assets and equivalents	****
Capital work in progress	****
Intangible assets	****
Investments in entities inside and outside the Kingdom for non-trading in accordance with the rules mentioned below	****
Net incorporation and pre-operating expenses and equivalent capital expenses	****
Adjusted net loss in the Zakat year adjusted for Zakat purposes	****
Adjusted net accumulated loss for Zakat collection purposes in accordance with the guidelines specified below	****
Net value of properties under development for sale in accordance with the guidelines specified below	****
Statutory deposit of insurance and reinsurance companies	****
Inventories of agricultural inputs purchased for use in production	****

3.2.3 Guidelines for Deduction from the Zakat Base

Fixed assets and equivalent shall be deducted at net value recognized in the accounts provided that they are used in the Zakat payer's activity. The assets include the following:

- Spare parts and materials not intended for sale.
- Payments for the purchase of fixed assets.
- Assets financed for the lessee in the financing lease contracts in Build-Operate-Transfer (BOT), Build-Own-Operate (BOO), Build-Own-Operate-Transfer Contracts (BOOT) contracts and other similar form of contracts.



Example (12):

A company contracted with the General Authority of Civil Aviation to construct an airport in Al-Jouf. The contract was in the form of Build-Own-Operate-Transfer Contracts (BOOT) contracts, so that the company builds and owns the airport for a period of ten years during which the airport is operated in favor of the company. At the end of the contract term (ten years) the ownership will be transferred to the General Authority of Civil Aviation. The company spent in the first year SAR 24,000,000 to build the project.

The company has the right to deduct the cost of the project (SAR 24,000,000) from the Zakat base for this year.

Example (13):

A company contracted with the Electricity Company to establish a power station in the Taif region. The contract was in the form of construct-Build-Operate and Transfer (BOT). In the first year, the company spent SAR 50,000,000 on the project.

The company has the right to deduct what it spent on the project (SAR 50,000,000) from the Zakat base for this year.

Example (14):

A company contracted with the Development Authority to build a hotel in Riyadh. The contract was in the form of Build-Own and Operate (BOO), so that the company builds, owns and operates the hotel in its favor. The company has spent SR 100,000,000 to build the hotel.

1. The company has the right to deduct the cost of establishing the hotel (SAR 100,000,000) from the Zakat base for this year
2. Capital constructions and projects underway that are established for use in the business activity and not for sale shall be deducted from the Zakat base.



3. Long-term non-trading investments in establishments within the Kingdom shall be deducted if they are represented in the shares of companies subject to the provisions of Zakat collect, i.e. they represent Zakat assets with the investees.

Investments in establishments outside the Kingdom are deducted as follows:

- Investments shall be in non-trading companies' shares
- The Zakat payer shall pay the Zakat of these investments to the Authority according as certified by a public accountant registered in the Kingdom.
- The minimum Zakat base for these investments shall equal, at least, Zakat payer's share of accounting profit reported in the financial statements.

Employee Stock Ownership Program: The employee stock ownership program that appears within equity, and is a reduction of equity under the name of "treasury shares" allocated to the company's employees, is added negatively when the following conditions are met:

- a. Approval of the extraordinary general assembly for the share purchase process and its purpose.
- b. The company's policy stipulates a stock option program, or the employee bonus regulations approved by the Ministry of Human Resources, or any regulatory document proving this.

As for the employee stock ownership program that appears within non-current assets under the name of "accounts receivable" or other non-current assets, it is not permissible to deduct and is considered a long-term investment in the name of the Zakat payer for the benefit of the program. This requires the zakat of the funds allocated to this portfolio.



4. The net loss carried forward according to the Authority's link is after adding the provisions that previously reduced the loss in the year of their formation, or the losses carried forward according to the taxpayer's commercial books, whichever is less. Note that the carried forward losses and the losses for the year should be included by the accountant as negative additions within the elements of equity due to their nature, and not within the items of deductions from the base.

Investments in establishments outside the Kingdom are deducted as follows:

Investments shall be in non-trading companies' shares

The Zakat payer shall pay the Zakat of these investments to the Authority according as certified by a public accountant registered in the Kingdom.

The minimum Zakat base for these investments shall equal, at least, Zakat payer's share of accounting profit reported in the financial statements.



Example (15):

The following data are for a company as of 31/12/2020

- Share Capital; SAR 2,000,000.
- Statutory reserve: SAR 500,000.
- Accumulated losses according to the assessment: SAR 900,000.
- Accumulated losses as per books: SAR 750,000.
- Adjusted loss for the year: SAR 450,000.
- Fixed Assets: SAR 800,000

How are the above items added to the Zakat base?

Item	SAR
Additions	
Capital	2,000,000
Statutory reserve	500,000
Total additions to the base	2,500,000
Deductions	
Fixed assets	800,000
Accumulated losses	750,000
Adjusted losses for the year	450,000
Total deductions	2,000,000
Zakat base	500,000



5. Properties under development for sale are deducted according to the following:

- They are classified as non-current assets in the financial statements.
- They are intended for sale once development is completed.
- They are not available for sale in their current state.
- The total sale amount and customer advances received do not exceed twenty-five percent (25%) of their value reflected in the financial statements for the respective year. This is determined by considering the value of exclusions (sales) at cost in relation to the total value of the project shown in the financial statements. The Authority may revise this percentage depending on market conditions, taking into account the value of the exclusions (sales) at cost in relation to the total value of the project shown in the financial statements.

Properties under development for sale are deducted according to the following

Properties under development for sale are deducted according to the following:
They are classified as non-current assets in the financial statements.
They are intended for sale once development is completed.
They are not available for sale in their current state.
The total sale amount and customer advances received do not exceed twenty-five percent (25%) of their value reflected in the financial statements for the respective year. This is determined by considering the value of exclusions (sales) at cost in relation to the total value of the project shown in the financial statements. The Authority may revise this percentage depending on market conditions.



Example (16):

A company operating in the field of real estate investment, where the balance of projects under development classified under non-current assets amounted to SAR 1,000,000, and the value of sales excluded at cost from the balance of properties under development was equivalent to 20% of the balance of real estate projects under development.

Due to the fact that the projects are classified as non-current assets and the value of sales excluded at cost made from the projects during the year is less than 25%, therefore, the total amount of SAR 1,000,000 shall be deducted from the Zakat base.

6. Agricultural inputs (in stock) purchased for use in production purposes shall be deducted, as they are subject to Zakat in agricultural activities



3.2.4 Items That Are Not Deducted from the Zakat Base

Below are examples of items that are not deductible from the Zakat base:

Group	Item	Amount
Non-deductible assets	Cash and cash equivalents	****
	Inventory	****
	Obligations of the Zakat payer, whatever their duration or nature	****
	Investments in Sukuk and Bonds	****
	Investments in companies outside the Kingdom unless Zakat is paid	****
	Investments in properties under development that do not meet the conditions specified in the Regulations	****
	Spare parts held for sale	****
	Intangible assets purchased for trading	****
	Investment in deposits or forward transactions	****
	Statutory deposits excluding statutory deposits of insurance and reinsurance companies	****
	Investments for trading	****

The Zakat payer's obligations include:
Notes Receivable
Advance payments receivable
Receivables
Receivables from government
Dues from related parties



3.2.5 Other General Guidelines Regarding Zakat Base

1. Zakat base may not be less than the net profit adjusted for the purpose of Zakat collection.

Example (17):

Zakat base of one of the Zakat payers was SAR 1,000,000 and the adjusted profit was SAR 1,100,000 for the period from 1/1/20XX to 31/12/20XX of the same year.

What is the Zakat base of the Company?

Since Zakat is less than the adjusted profit, Zakat should be calculated based on the adjusted profit.

Adjusted profit × 2.5% = Zakat amount due

$$1,100,000 \times 2.5\% = \text{SAR } 27,500$$

2. The Zakat payer shall be held accountable for Zakat of the entire Zakat year in which one of the partners died or waived his share and the entry of others to replace him, whether heirs or others, if the Zakat payer continues activity.

Example (18):

A joint venture company whose financial year ends on 31/12/2019. On 1/7/2019, one partner assigned its stake in the company to another partner.

How should the company be accountable for Zakat this year?

As long as the activity continues, the Zakat base is not affected by the entry or exit of a partner. Accordingly, the Company is accountable for the entire Zakat year in accordance with the Regulation and the continuation of business.

3. A sole proprietorship entity shall be accounted for the Zakat year during which ownership is fully transferred to other owners in proportion to the financial period, whether transfer of ownership was by sale, assignment or otherwise.



Example (19):

A sole proprietorship entity transferred to a new owner on 1/7/2019 noting that the financial year ends on 31/12/2019.

How will the entity be charged this year on the assumption that the calculated Zakat base was SAR 10,000,000?

The old owner shall be charged proportionally from the beginning of the year until the date of transfer of ownership on 30/6/2019.

The new owner shall be charged proportionally from the date of transfer of ownership (1/7/2019) to the end of the year (31/9/2019).

Calculation of the Zakat base for both the old and the new owners:

Number of days before and after ownership transfer	X	Zakat base	=	****
Days of the year (365)				
183	X	10,000,000	=	5,000,000
365				



4. In the event that the Zakat payer is converted from one legal form to another in any way, the accounting may not be applied in a pro rata basis other than what is mentioned in paragraph (3) above.

The table below shows the Zakat treatment in cases of conversion from one legal entity to another as follows:

Conversion of the legal entity		Zakat Transaction
From	To	
Finance Company/Persons	Sole proprietorship	Zakat transaction is not affected
Sole proprietorship	Finance Company/Persons	Zakat transaction is not affected
Finance Company/Persons	Finance Company/Persons	Zakat transaction is not affected
Sole proprietorship	Sole proprietorship	The period between the old owner and the new owner is divided on a pro rata basis and is charged accordingly

5. There shall be no clearing or settlement between the payable balances of owners or partners (including their current accounts) and debits to other owners or partners (including their current accounts). Clearing or settlement may be made between the balances of owner and the same owner (or the balances of the partner or the same partner).
6. For Zakat purposes, the revaluation results are taken into account in accordance with the fair value shown in the financial statements.



Example (20):

Al-Bahr Company owns shares in Al-Salam Company (a Saudi joint stock company listed on the Exchange) and is classified as long-term investment.

The fair value of investments in Al-Salam Company amounted to SAR 1,000,000 at the beginning of the Zakat year. However, the fair value increased to SAR 1,500,000 at the end of the year. The increase in fair value (SAR 500,000) is included in the other overall income statement.

How the investment in Al-Salam Company is treated in the Zakat Declaration?

Item	Amount (SAR)
Value of the investment deducted from the Zakat base	1,500,000
Change in fair value added to Zakat base	500,000



3.2.6 Practical Examples

The data below are for a company as at 31/12/2019; Zakat calculation is required accordingly.

Balance Sheet (Statement of Financial Position) As of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	400,000	350,000
Investments recognized at fair value through profit or loss	2,000,000	1,600,000
Trade and other receivables	2,000,000	2,300,000
Inventory	6,100,000	6,200,000
Prepaid expenses and other receivables	500,000	650,000
Total current assets	11,000,000	11,100,000
Non-current assets		
Receivable from Related Parties	4,000,000	3,800,000
Projects under construction	3,000,000	2,400,000
Investments in subsidiaries	5,500,000	5,300,000
Real estate investments	5,000,000	5,000,000
Property, plant and equipment	9,000,000	8,700,000
Goodwill and intangible assets	4,000,000	4,000,000
Other long-term assets	1,000,000	1,000,000
Total non-current assets	31,500,000	30,200,000
Total assets	42,500,000	41,300,000



Liabilities and Shareholders' Equity	2019	2018
Current liabilities	SAR	SAR
Due to banks	500,000	700,000
Accounts payable	500,000	600,000
Accrued expenses and other credit balances	800,000	700,000
Deferred revenue	1,500,000	1,200,000
Advances from customers	1,300,000	1,800,000
Dividend payable	3,500,000	-
Provision for Zakat	225,000	-
Obligations under a capital lease	500,000	600,000
Current portion of term loan	400,000	500,000
Total Current Liabilities	9,225,000	6,100,000
Non - current liabilities		
Provision for end-of-service benefits	2,000,000	1,800,000
Term loan	3,400,000	-
Due from related parties	6,100,000	10,500,000
Obligations under a capital lease	3,000,000	3,100,000
Total Liabilities	23,725,000	21,500,000
Shareholders' equity		
Capital	10,000,000	10,000,000
Statutory reserve	5,000,000	5,000,000
Retained earnings	3,775,000	4,800,000
Total shareholders' equity	18,775,000	19,800,000
Total liabilities and shareholders' equity	42,500,000	41,300,000



Income Statement

For the period ending on January 01 2019 to 31 December 2019

2019	
	SAR
Revenues	50,000,000
Cost of revenues	(45,000,000)
Gross profit	5,000,000
General, administrative and marketing expenses	(2,000,000)
Share in (losses) of subsidiaries	(500,000)
Share in results of invested companies by equity method	800,000
Other loss, net	(300,000)
Income from operations	3,000,000
Finance charges, net	(300,000)
Profit before Zakat and income tax	2,700,000
Zakat	(225,000)
Profit for the year	2,475,000



Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
End-of-Service Benefits	1,800,000	400,000	200,000	2,000,000
Provision for Doubtful Obligations	300,000	300,000	-	600,000
Total	2,100,000	700,000	200,000	2,600,000

Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat	2,700,000
Add: Provision for end-of-service provided during the year	400,000
Add: Provision for doubtful liabilities provided during the year	300,000
Total adjustment to activity result	3,400,000



Additions to the Base	
Equity	SAR
Capital	10,000,000
Statutory reserve	5,000,000
Retained earnings less dividends	1,300,000
Adjusted profit for the year	3,400,000
Dividend payable	3,500,000
Provision for doubtful obligations at the beginning of the year	300,000
Obligations on the Zakat payer	
Deferred revenue	1,200,000
Advances from customers	1,300,000
Loans (obtained on 1/7/2019) (3653,800,000 * 183/365)	1,905,206
Due from related parties	6,100,000
Obligations under a capital lease	3,500,000
Provision for end-of-service - Opening balance minus the utilized amount	1,600,000
Total additions to the base	39,105,206



Deductions from Zakat Base	
	SAR
Projects under construction (assets)	3,000,000
Investments in local subsidiaries after excluding shares in profit and loss	5,200,000
Real Estate Investments (residential compounds for rent)	5,000,000
Property, plant and equipment	9,000,000
Goodwill and intangible assets	4,000,000
Total assets deducted	26,500,000
Zakat base	12,605,206
Due Zakat	
Zakat at 2.578% of the Zakat base without the adjusted profit for the year	237,310
Adjusted profit	3,400,000
Zakat at 2.5% of the adjusted profit	322,310
Total Zakat	322,310



4. Adjustment to the Result of Business Activity

Adjustment shall be made to the result of business (book profit or book loss) to reach the adjusted net profit for the following purposes:

Item	Amount
Net book profit or book loss for the year	XXX
Add: Non-deductible expenses	XXX
Net profit or loss adjusted for the purpose of Zakat	XXX

4.1 Expenses that may be deducted

Item	Conditions that must be met in the expense
Normal and necessary expenses necessary for the business	The expense shall be actual and supported by documents and evidence accepted by the Authority, and verifiable, even if it relates to previous years.
	The expenses shall be related to the business of the Zakat payer and may not relate to personal expenses or other activities not related to the Zakat payer.
	They should not be of a capital nature. If capital expenditure is included in the expenses, it shall be adjusted as a result of the business activity and included in the fixed assets and depreciated within the depreciation of the asset.
Salaries and allowances of the owner or the partner	Salaries and allowances paid to the owner and partner may be declared if either is registered with the General Organization for Social Insurance.
Remuneration paid to the Chairman, Deputy Chairman and members of the Board from the owners or partners	May be deducted within the limits of remuneration paid to independent persons.



Bad debt	Should have been previously reported as revenue in the year the revenue had been derived.
	The Zakat payer shall provide a certificate from a chartered public accountant licensed in the Kingdom confirming that cancellation of such obligations has been made by a decision of the competent authority upon request by the Authority.
	Obligations may not be due from related parties.
	The Zakat payer shall report the debts written off as revenue where such debts are recovered.
Annual installment depreciation on fixed assets	The assets shall be owned.
	The assets are intended for use in the business, as determined by the Zakat payer's business books.
	The installment depreciation shall be reasonable and not exaggerated
Donations	Donations must be paid to those authorized to receive donations inside the Kingdom and supported by relevant documents.
Provision for unearned premium and the existing risk reserve in the insurance companies (and /or) reinsurance companies (for further details refer to the insurance business manual)	Shall be returned to Zakat base during the following year.
	Shall be determined in accordance with the professional standards followed for this type of business, and in accordance with the prevailing regulations, bylaws and rules related to this type of business
School expenses paid to the children of the employees	Should have paid to an educational institution licensed in the Kingdom.
	Should be explicitly stated in the contract of employment or company's by-laws.
	Such expenses shall be capable of being evidenced by supporting payment documents acceptable to the Authority.



Guidelines of Some Expenses That May Be Deducted

Normal and Necessary Expenses for the Business
<ul style="list-style-type: none">• The expense shall be actual and supported by documents and evidence accepted by the Authority, and verifiable, even if it relates to previous years.• The expenses shall be related to the business of the Zakat payer and may not be related to personal expenses or other activities not related to the Zakat payer.• They should not be of a capital nature. If capital expenditure is included in the expenses, it shall be adjusted as part of the business activity, included in the fixed assets, and depreciated within the depreciation of the asset.
Bad Debt
<ul style="list-style-type: none">• Bad debt should have been previously reported as revenue in the year the revenue was delivered.• The Zakat payer shall provide a certificate from a chartered public accountant licensed in the Kingdom, confirming that the cancellation of such obligations has been made by a decision of the competent authority upon request by the Authority.• The obligations should not be owed to parties related to the Zakat payer• The Zakat payer shall report the debts written off as revenue if such debts are recovered.
Annual Installment Depreciation on Fixed Assets
<ul style="list-style-type: none">• The assets must be owned.• The assets are intended for use in the business, as determined by the Zakat payer's business books.• The installment depreciation shall be reasonable and not exaggerated.
Donations
<ul style="list-style-type: none">• Must be paid to those authorized to receive donations inside the Kingdom and supported by relevant documents



4.2 Non-deductible Expenses

The following expenses may not be deducted to determine the result of the business for the purposes of Zakat:

1. Expenses and costs not associated with the Zakat payer business, including the following:
 - Expenses of a capital nature.
 - Salaries, wages and equivalents paid to the owner, partner or any member of his family other than what is registered with the social insurance.
 - Personal expenses related to partners.
2. Expenses not supported by documents or evidence acceptable to the Authority.
3. Zakat or tax, payable or paid, except for VAT incurred by the Zakat payer.
4. Contribution of workers to pension and savings funds.
5. Provisions and reserves formed during the year.

Import differences and how to address them

During the inspection stage, the Authority verifies the value of the import based on the customs declaration and compares it with the value declared by the Zakat payer. This will be done after deducting any imports added to the fixed assets during the Zakat year and any other imports identified by the Authority based on available information. The Zakat payer will then be asked to explain any differences that arise. Some of these differences could be attributed to various factors, including timing and registration differences, currency valuation, and imports through other companies or related parties. To resolve these discrepancies, supporting documents will be required for study and verification purposes.



In the event of import differences not supported by documentation, the difference is handled as follows:

- If the value of the Zakat payer's import stated in the declaration is greater than its value stated in the customs declaration, the difference shall be added to the net result of the activity.
- If the value of the Zakat payer's import stated in the declaration is less than its value stated in the customs declaration, a profit is calculated for this difference according to the procedures specified in the regulations, at a rate of 15% of the total profit of the declaration to the activity revenues. The activity result is then adjusted accordingly.

Example A:

The import value of one of the companies as at 31 December 2019 amounted to SAR 80,000,000 according to the company's books, whereas the import, as per the customs declaration, was SAR 100,000,000, assuming that the percentage established by the Authority not less than the ratio of the total profit of the declaration to the revenues of the activity is 15%.

How to address the difference?

Status of import differences resulting from added fixed assets:

- a. In the previous example, the taxpayer provided a statement of the added fixed assets during the Zakat year, along with invoices for the asset purchases. The additions of the assets are verified in the financial statements, and the purchase invoices are matched with the customs declaration. Therefore, no import differences are calculated.
- b. In the case of unsupported differences amounting to SAR 20,000,000 , a profit for this difference is calculated at the rate determined by the Authority, which is not less than the gross profit percentage of the declaration to the activity's revenues. The activity result is adjusted as follows:

Import difference × 15% (not less than the gross profit percentage of the declaration to the activity's revenues): $20,000,000 \times 15\% = 3,000,000$ Riyals



Imports on the items of the financial position or the items of the income statement:

- a. In the previous example, the taxpayer matched the balance of the last period of the inventory in the declaration with the financial statements, and it was found that a portion of his purchases is added to the production stages, which appear within the inventory items in the statement of financial position; therefore, no import differences are calculated (with the right of the Authority to request the necessary samples to verify the validity of these differences).
- b. In the case of unsupported differences amounting to SAR 20,000,000, a profit for this difference is calculated at the rate determined by the Authority, which is not less than the gross profit percentage of the declaration to the activity's revenues. The activity result is adjusted as follows:

Import difference \times 15% (not less than the gross profit percentage of the declaration to the activity's revenues): $20,000,000 \times 15\% = 3,000,000$ Riyals

Import on behalf of other companies:

- a. In the previous example, after the review, the company submitted a statement of these differences, which is its import to a subsidiary company, which was then requested to provide the Authority with the names of the companies and their endorsements of these balances, and the review and verification are conducted to ensure that these companies included the imports within its statements and declarations.
- b. In the event that differences are not supported by documentation, this difference (amounting to SAR 20,000,000), a profit for this difference shall be calculated in the percentage established by the Authority at a rate not less than the ratio of the total profit of the declaration to the revenues of the activity, and the result of the activity shall be adjusted as follows:

Import difference \times the percentage established by the Authority not less than the ratio of the total profit of the declaration to the revenues of the activity $\times 2.5\% =$ Zakat value: $20,000,000 \times 15\% \times 2.5\% =$ SAR 75,000.



Timing and registration difference:

In the previous example, the taxpayer submitted a statement of imports that were registered with customs at the end of the year but appeared in the company's books for the following year. The taxpayer provided the Authority with invoices and registration records from the books for the following year. The Authority then verifies the authenticity of the submitted documents, and since the invoices for purchases match the customs declaration, no import differences are calculated.

Example B:

The import value of one of the companies as at 31 December 2019 amounted to SAR 100,000,000 according to the company's books, whereas the import according to the customs declaration was SAR 80,000,000. How to address the difference?

Other companies importing on behalf of the company:

In the previous example, after the review, the company submitted a statement of these differences, indicating that another company imports on its behalf. The company is requested to provide the Authority with the names of these companies and their endorsements of these balances. A review and verification are conducted to ensure that these companies did not include these imports in their statements and declarations.

In the event that there are differences that are not supported by documentation, this difference (amounting to SAR 20,000,000) shall be refunded and added to the net profit.

Another case of timing and registration difference:

In the previous example, the taxpayer submitted a statement of imports that were registered with customs at the beginning of the following year but appeared in the company's books for this year. The taxpayer provided the Authority with invoices and registration records from the books for this year. The Authority then verifies the authenticity of the submitted documents, and since the invoices for purchases match the customs declaration, no import differences are calculated.



The following expenses may not be deducted to determine the result of the business for the purposes of Zakat:

Expenses and costs not associated with the Zakat payer business, including the following:



Expenses of a capital nature.



Entertainment expenses.



Salaries, wages and equivalent paid to the owner partner or any member of his family other than what is registered with the social insurance.



Personal expenses related to partners

- Expenses not supported by documents or evidence acceptable to the Authority.
- Zakat or tax payable or paid, except for VAT incurred by the Zakat payer.
- Contributions of workers to pension and savings funds.
- Provisions and reserves formed during the year.
- Increase in material/service prices or rates provided/rendered by related parties or other parties having direct/indirect influence on the Zakat payer's acts/decisions, compared to such prices or rates used by independent parties in accordance with applicable regulations, bylaws, and rules.



Example (21):

The net profit of a company as at 31/12/20XXG is SAR 10,000,000. If you know that the net profit includes the following expenses:

1. Expenses that the taxpayer could not substantiate with documentation, amounting to SAR 40,000.
2. Salaries paid to a partner not registered with social insurance SAR 400,000.
3. Personal expenses related to one of the partners of SAR 30,000,
4. End of service provision of SAR 100,000.
5. Zakat amount of SAR 50,000.
6. Commodity was purchased from related party in the amount of SAR 120,000. Note that the market value of this commodity is SAR 100,000.

The non-deductible expenses are returned to the net profit to reach the adjusted net profit, as follows:

Item	SAR
Net profit	10,000,000
Add:	
Expenses that the taxpayer could not substantiate with documentation	40,000
Salaries of partners not subject to social insurance	400,000
Personal expenses related to partners	30,000
End of service provision	100,000
Zakat expenses	50,000
Difference in the value of goods from a related party	20,000
Adjusted gross profit	10,640,000



Example (22):

The following table shows the movement of provisions for a company as at 31/12/20XX:

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end of service	1,000,000	300,000	200,000	1,100,000
Provision for doubtful obligations	2,000,000	500,000	800,000	1,700,000
Provision for obsolete and slow-moving inventory	500,000	100,000	-	600,000
Total	3,500,00	900,000	1,000,000	3,400,000

If the profit for the year amounted to SAR 8,000,000, calculate the adjusted profit for Zakat purposes as follows:

Item	20XX
	SAR
Net profit for the year	8,000,000
Add:	
Provision for end-of-service component during the year	300,000
Provision for doubtful liabilities component during the year	500,000
Provision for obsolete and slow-moving inventory	100,000
Adjusted net profit	8,900,000



5. Arts, Leisure and Entertainment Sector

5.1 Definition of the Sector

This sector encompasses a wide range of activities that cater to the diverse cultural and recreational needs of the public, including the arts, creative activities, museum operations, and sports and leisure activities.

This sector includes:

- Creative, arts, and entertainment activities.
- Activities of libraries, archives, museums, and other cultural activities.
- Sports, leisure, and entertainment activities.

The Most Important Items in the Statement of Financial Position for Arts, Leisure and Entertainment Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Non-current assets			
Advertising boards and equipment	Representing fixed assets used for advertising purposes	Deductible assets	Deductible from the base as they are non-zakatable assets
Printing machinery and equipment	Representing fixed assets used for advertising purposes	Deductible assets	Deductible from the base as they are non-zakatable assets
Intangible assets - Names of publications	Representing intangible assets relating to proprietary names of publications	Deductible assets	Deductible from the base as they are non-zakatable assets



Intangible assets - Visual content, websites and copyright project	Representing intangible assets related to the visual content, websites and copyright project	Deductible assets	Deductible from the base as they are non-zakatable assets
Books, stationery, video and other materials	Representing fixed assets used in the arts, leisure and entertainment sector	Deductible assets	Deductible from the base as they are non-zakatable assets
Raw materials and maintenance supplies for road signs (advertising)	Raw materials and maintenance supplies for road signs (advertising)	Deductible assets	Deductible from the base as they are non-zakatable assets.
Video games, smartphones, electronics and smart TVs	Representing fixed assets used in the arts, leisure and entertainment sector	Deductible assets	Deductible from the base as they are non-zakatable assets
Current liabilities			
Deferred revenues - current portion	Representing rental income received for operating leases	External sources of funds not utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Non-current liabilities			
Deferred revenues - noncurrent portion	Representing rental income received for operating leases	External sources of funds not utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Client collaterals	Representing the recovered insurance	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets



5.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	2,300,000	2,220,000
Trade receivables	800,000	950,000
Inventory	1,550,000	1,650,000
Prepayments	500,000	450,000
Total current assets	5,150,000	5,270,000
Non-current assets		
Property and equipment	7,610,000	6,930,000
Intangible assets	3,000,000	3,000,000
Right of assets	1,000,000	1,200,000
Total non-current assets	11,610,000	11,130,000
Total assets	16,760,000	16,400,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Murabaha financing and long-term loans - current portion	400,000	400,000
Trade payables	800,000	800,000
Accruals and other current liabilities	600,000	500,000
Deferred revenues - current portion	300,000	300,000
Total non-current liabilities	2,100,000	2,000,000
Non - current liabilities		
Murabaha financing and long-term loans - non-current portion	2,000,000	2,400,000
Provision for end-of-service benefits	1,400,000	1,300,000
Deferred revenues - non-current portion	2,000,000	2,300,000
Client collaterals	500,000	600,000
Deferred government grants	3,000,000	3,000,000
Total non-current liabilities	8,900,000	9,600,000
Total liabilities	11,000,000	11,600,000
Shareholders' equity		
Capital	2,000,000	2,000,000
Statutory reserve	1,000,000	1,000,000
Retained earnings	2,760,000	1,800,000
Total shareholders' equity	5,760,000	4,800,000
Total liabilities and shareholders' equity	16,760,000	16,400,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

2019	
	SAR
Revenues	20,000,000
Cost of revenues	(15,000,000)
Gross profit	5,000,000
General and administrative expenses	(2,000,000)
Income from operations	3,000,000
Financing charges	(160,000)
Profit before Zakat and income tax	2,840,000
Zakat	(80,000)
Profit for the year	2,760,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,300,000	400,000	(300,000)	1,400,000
Total	1,300,000	400,000	(300,000)	1,400,000

Note: The balance of retained earnings was distributed throughout the year.



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net Profit before Zakat and income tax	2,840,000
Add: Provision for end-of-service provided during the year	400,000
Total adjustment to activity result	3,240,000

Additions to the Base	
Shareholders' equity	SAR
Capital	2,000,000
Statutory reserve	1,000,000
Retained earnings	1,800,000
Dividend distribution during the year	(1,800,000)
Total	3,000,000
Liabilities on the Zakat payer	
Long-term loans	2,400,000
Deferred revenues	2,000,000
Client collaterals	500,000
Deferred government grants	3,000,000
Provision for end-of-service (opening balance minus the amount utilized during the year)	1,000,000
Total external sources of funds subject to Zakat	8,900,000
Total additions to the base	11,900,000



Deduction from Zakat Base	
	SAR
Property, plant and equipment	7,610,000
Intangible assets	3,000,000
Right of assets	1,000,000
Total deductible assets	11,610,000
Zakat base without the adjusted profit for the year	290,000
Zakat at 2.578% of the Zakat base without the adjusted profit	7,476
Adjusted profit	3,240,000
Zakat at 2.5% of the adjusted profit	81,000
Total Zakat	88,476



6. Mining and Quarrying Sector

6.1 Definition of the Sector

The mining sector is defined as the extraction of minerals that are naturally present as solids (e.g., coal), liquids (e.g., oil), or gases (e.g., natural gas). Extraction can be carried out in various ways, such as underground or surface mining, well operations, or seabed mining.

This sector also includes:

- Coal mining
- Extraction of crude oil and natural gas (taxable and non-zakatable)
- Mining support services activities

Zakat issues pertaining to the sector

Spare parts

Spare parts are parts that are used for the maintenance of machinery and equipment that are not intended for sale and are used in the activity.

Spare parts are considered non-zakatable assets and are deductible from the Zakat base as they are not intended for sale in their current state, according to the Implementing Regulations.

Example:

A company operating in the extraction of minerals has a balance of spare parts shown in the financial statements as of December 31, 2019, amounting to SAR 1,000,000.

What is the amount to be deducted from the Zakat base?

The balance of spare parts inventory, shown in the financial statements as of December 31, 2019 and amounting to SAR 1,000,000, is fully deducted from the Zakat base, since spare parts are considered non-zakatable assets. They are not intended for sale in their current condition.



The Most Important Items in the Statement of Financial Position for Mining and Quarrying Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Due from a joint venture partner	Representing the receivable balance from the partner	Non-deductible assets	Not deductible from the Zakat base because they are Zakatable assets
Non-current assets			
Capital projects in progress	Representing projects under development	Deductible assets	Deductible from the Zakat base because they are non-Zakatable assets
Mine / site closure costs	Representing costs incurred when the mine is depleted	Deductible assets	Deductible from the Zakat base because they are non-Zakatable assets
Sea port facilities	Representing costs of seaport infrastructure and facilities	Deductible assets	Deductible from the Zakat base because they are non-Zakatable assets



Current liabilities			
Concession fees payable	Amounts due for payment against the right of exploitation	External sources of funds utilized in financing deductible asset	Not added to the Zakat base unless its maturity is more than 354 days
Current portion of an obligation under a finance lease	The amount of the obligation under the finance lease contract which is due within less than one year	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Non-current liabilities			
Due to a joint venture partner	Representing the payable balance to the partner	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Provision for mine closure obligations, removal, site restoration, plant dismantling, waste treatment and disposal	The amount of liabilities that are expected to arise from the restoration of the site and the dismantling of the plant	Internal funding sources	Added to the Zakat base to arrive at the Zakatable assets
Non-current portion of an obligation under a finance lease	The amount of the liabilities under the finance lease contract that is due for payment within more than one year	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets



6.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Non-current assets		
Mining properties	5,700,000	5,700,000
Property, plant and equipment	5,000,000	5,400,000
Intangible assets	2,000,000	1,000,000
Deferred revenue expenses	2,000,000	2,300,000
Other non-current assets	600,000	800,000
Total non-current assets	16,600,000	15,200,000
Current Assets		
Inventory	400,000	350,000
Trade receivables	800,000	600,000
Prepaid expenses and other receivables	2,000,000	2,300,000
Due from a joint venture partner	6,200,000	6,100,000
Time deposits	1,000,000	1,200,000
Cash in hand and at banks	500,000	650,000
Total current assets	11,000,000	11,100,000
Total assets	26,200,000	27,600,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
General reserve	300,000	300,000
Issue premium	500,000	500,000
Retained earnings	6,375,000	3,800,000
Total shareholders' equity	16,175,000	13,600,000
Non-current liabilities		
Medium and Long-term loans	2,200,000	2,600,000
Due to a joint venture partner	400,000	300,000
Provision for end-of-service benefits	3,300,000	3,500,000
Provision for removal, site restoration and dismantling obligation	1,100,000	1,200,000
Non-current portion of an obligation under a finance lease	1,000,000	1,100,000
Financial derivative	300,000	500,000
Project liabilities and trade and other liabilities	400,000	300,000
Total non-current liabilities	8,700,000	9,500,000



Current liabilities		
Current portion of medium and long-term loans	400,000	500,000
Project liabilities and trade and other liabilities	700,000	800,000
Dividends payable	500,000	500,000
Current portion of an obligation under a finance lease	100,000	100,000
Accrued Zakat	325,000	300,000
Accrued concession fees	700,000	900,000
Total current liabilities	2,725,000	3,100,000
Total liabilities and shareholders' equity	27,600,000	26,200,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

2019	
	SAR
Revenues	60,000,000
Cost of revenues	47,000,000
Gross profit	13,000,000
General and administrative expenses	4,000,000
Selling and distribution expenses	2,000,000
Income from operations	7,000,000
Financing charges	300,000
Profit before Zakat and income tax	6,700,000
Zakat	325,000
Profit for the year	6,375,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	3,300,000	400,000	(200,000)	3,500,000
Provision for liabilities for removal, site restoration and dismantling	1,200,000	-	(100,000)	1,100,000
Total	4,500,000	400,000	(300,000)	4,600,000



Zakat Calculation

Item	2018
Adjustment to activity result	SAR
Net profit before Zakat	6,700,000
Add: Provision for end-of-service provided during the year	400,000
Total adjustment to activity result	7,100,000

Additions to the Base	
Equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
General reserve	300,000
Issue premium	500,000
Retained earnings	3,800,000
Less Dividend distribution	(3,800,000)
Provision for removal, site restoration and dismantling obligation	1,100,000
Total	10,900,000

Obligations on the Zakat payer	
Medium and Long-term loans	2,600,000
Due to joint venture partner	400,000
Non-current portion of an obligation under finance lease	1,100,000
Financial derivatives	300,000



Project liabilities and trade and other payable	400,000
Provision for end-of-service (opening balance less amount utilized amount during the year)	3,100,000
Total external sources of funds subject to Zakat	7,900,000
Total additions to the base	18,800,000

Deduction from Zakat Base	
	SAR
Mining properties	7,000,000
Properties, plant and equipment	5,000,000
Intangible assets	2,000,000
Deferred revenue expenses	2,000,000
Total deductible assets	16,000,000
Zakat base without the adjusted profit for the year	2,800,000
Zakat at 2.578% of the Zakat base without the adjusted profit	72,184
Adjusted profit	7,100,000
Zakat at 2.5% of the adjusted profit	177,500
Total Zakat	249,684



7. Education Sector

7.1 Definition of the Sector

This sector includes educational activities at all levels and for all professions, delivered both orally and in writing, as well as through radio, television, and other means of communication. It encompasses education in various institutions within the general education system at all levels, as well as adult education, literacy programs, and similar initiatives. The sector also includes schools, military academies, prison schools, and other similar institutions, depending on their respective levels. It covers general education, special education, and specialized education for students with physical and intellectual disabilities. Additionally, this sector includes education focused on sports and recreational activities.

The Most Important Items in the Statement of Financial Position for Mining and Quarrying Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Due students' tuition installments and returned checks	Representing receivables from the provision of educational services	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Checks under collection and payment notes	Representing receivables due for collection and payment notes	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Non-current assets			
Books and stationery	Representing fixed assets used in the education sector	Deductible assets	Deductible from the base as they are non-zakatable assets.
Roads and land improvements	Representing capitalization of roads improvement in the workplace	Deductible assets	Deductible from the base as they are non-zakatable assets.



7.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current assets		
Cash in hand and at banks	1,250,000	1,120,000
Inventory	350,000	250,000
Trade receivables	300,000	250,000
Due students' tuition installments and returned checks	200,000	250,000
Checks under collection and payment notes	300,000	350,000
Prepayments	100,000	150,000
Total current assets	2,500,000	2,370,000
Non-current assets		
Property and equipment	1,260,000	1,600,000
Projects under construction	900,000	1,000,000
Intangible assets	350,000	300,000
Total non-current assets	2,510,000	2,900,000
Total assets	5,010,000	5,270,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Long-term loans - Current portion	200,000	200,000
Prepaid revenue	300,000	350,000
Trade payables	900,000	970,000
Accruals and other current liabilities	700,000	670,000
Total current liabilities	2,100,000	2,190,000
Non-current liabilities		
Long-term loans - Non-current portion	1,000,000	1,200,000
Provision for end-of-service benefits	210,000	200,000
Total non-current liabilities	1,210,000	1,400,000
Shareholders' equity		
Capital	1,000,000	1,000,000
Statutory reserve	500,000	500,000
Retained earnings	200,000	180,000
Total shareholders' equity	1,700,000	1,680,000
Total liabilities and shareholders' equity	5,010,000	5,270,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

2019	
	SAR
Revenue	2,000,000
Cost of revenues	(1,500,000)
Gross profit	500,000
General and administrative expenses	(200,000)
Income from operations	300,000
Financing charges	(80,000)
Profit before Zakat and income tax	220,000
Zakat	(20,000)
Profit for the year	200,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	200,000	40,000	(30,000)	210,000
Total	200,000	40,000	(30,000)	210,000

Note: The balance of retained earnings was distributed throughout the year.



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	220,000
Add: Provision for end-of-service provided during the year	40,000
Total adjustment to activity result	260,000

Additions to the Base	
Shareholders' equity	SAR
Capital	1,000,000
Statutory reserve	500,000
Retained earnings	180,000
Dividend distribution during the year	(180,000)
Total	1,500,000
Liabilities on the Zakat payer	
Long-term loans	1,200,000
Provision for end-of-service benefits - opening balance minus the amount utilized during the year	170,000
Total external sources of funds subject to Zakat	1,370,000
Total additions to the base	2,870,000



Deduction from Zakat Base	
	SAR
Property and equipment	1,260,000
Projects under construction	900,000
Intangible assets	350,000
Total deductible assets	2,510,000
Zakat base without the adjusted profit for the year	360,000
Adjusted profit	260,000
Zakat at 2.5% of the adjusted profit	6,500
Total Zakat	15,780



8. Administrative and Support Services Sector

8.1 Definition of the Sector

This sector includes a range of activities that support general business operations. The sector encompasses the following activities:

- Rental activities (provision of operational leasing services)
- Usage activities
- Travel agencies, tour operators, booking services, and related activities
- Security activities
- Service delivery activities for buildings and landscaping
- Office administrative activities, office support activities, and other business support activities

The Most Important Items in the Statement of Financial Position for the Administrative and Support Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Receivables from trading works support contracts	Representing the amount payable by customers	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Current liabilities			
Payable installments current portion	Representing obligations for the purchase of assets by installments	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Non-current liabilities			
Payable installments - Noncurrent portion	Representing obligations for the purchase of assets by installments	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets



8.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current assets		
Cash in hand and at banks	690,000	590,000
Receivables from trading works support contracts	200,000	250,000
Inventory	450,000	310,000
Prepayments	50,000	80,000
Total current assets	1,390,000	1,230,000
Non-current assets		
Fixed assets	950,000	850,000
Intangible assets	150,000	200,000
Total non-current assets	1,100,000	1,050,000
Total assets	2,490,000	2,280,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Payable installments - Current portion	40,000	40,000
Accruals and other current liabilities	20,000	90,000
Total current liabilities	60,000	130,000
Non-current liabilities		
Payable installments - Non-current portion	90,000	130,000
Provision for end-of-service benefits	310,000	300,000
Total non-current liabilities	400,000	430,000
Total liabilities	460,000	560,000
Shareholders' equity		
Capital	500,000	500,000
Statutory reserve	250,000	250,000
Retained earnings	1,280,000	970,000
Total shareholders' equity	2,030,000	1,720,000
Total liabilities and shareholders' equity	2,490,000	2,280,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

2019	
	SAR
Revenues from provision of business and lease services	7,000,000
Cost of revenues	(5,000,000)
Gross profit	2,000,000
General and administrative expenses	(800,000)
Income from operations	1,200,000
Other revenues	100,000
Profit before Zakat and income tax	1,300,000
Zakat	(20,000)
Profit for the year	1,280,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	300,000	70,000	(60,000)	310,000
Total	300,000	70,000	(60,000)	310,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	1,300,000
Add: Provision for end-of-service benefits	70,000
Total adjustment to activity result	1,370,000

Additions to the Base	
Shareholders' equity	SAR
Capital	500,000
Statutory reserve	250,000
Retained earnings	970,000
Dividends distributed during the year	(970,000)
Total	750,000
Liabilities on the Zakat payer	
Payable installments	130,000
Provision for end-of-service (opening balance minus the amount utilized during the year)	240,000
Total external sources of funds subject to Zakat	370,000
Total additions to the base	1,120,000



Deduction from Zakat Base	
	SAR
Fixed assets	950,000
Intangible assets	150,000
Total deductible assets	1,100,000
Zakat base without the adjusted profit for the year	20,000
Zakat at 2.578% of the Zakat base without the adjusted profit	516
Adjusted profit	1,370,000
Zakat at 2.5% of the adjusted profit	34,250
Total Zakat	34,766



9. Agriculture, Forestry and Fishing Sector

9.1 Definition of the Sector

This sector is defined as the exploitation of natural plant and animal resources and consists of crop cultivation, animal breeding, and the collection of timber, other plants, animals, or animal products from a farm or its natural habitats.

This sector also includes:

- Crop production, livestock production, hunting, and related services.
- Forestry and logging.
- Fishing and aquaculture.

Zakat issues pertaining to the sector

Agricultural inputs:

Agricultural inputs are defined as the materials used in agricultural production, including raw materials such as seeds, fertilizers, and pesticides, which are stored and purchased for use in production by the Zakat payer engaged in agricultural activity. Agricultural inputs are non-zakatable assets that can be deducted from the Zakat base because they are not intended for sale but for use in agricultural activity.



Biological assets:

Biological assets include agricultural and animal biological assets, as well as aquaculture:

- a. Agricultural biological assets are not cultivated or sold as they are, but provide additional associated benefits while they survive, such as fruit trees and trees from which heating wood is harvested while maintaining the tree itself. These carrying biological assets are not agricultural crops but are self-growing assets.
- b. Animal biological assets are not sold as they are, but provide additional associated benefits while they survive, such as live animals that produce milk or laying hens. These carrying assets are self-growing assets, not for sale or direct consumption.
- c. Aquaculture refers to fish farming, the operation of hatchery ponds, and ornamental fish farming.

Example:

A company engaged in agricultural production has the following balances of agricultural and animal biological assets, as shown in the financial statements as of December 31, 2019:

- Agricultural biological assets: SAR 1,000,000
- Animal biological assets: SAR 1,200,000

What is the amount to be deducted from the Zakat base?

Agricultural and animal biological assets are deducted by SAR 1,000,000 and SAR 1,200,000, respectively, from the Zakat base because they are non-zakatable assets. These assets are fixed assets and are not intended for sale but for use in the business activity.



The Most Important Items in the Statement of Financial Position for the Administrative and Support Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Inventories of fish and shrimp products and food products (vegetables, fruits and trees)	Representing an inventory for sale	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Inventories of Biological assets held for sale	Representing goods for sale	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Non-current assets			
Agricultural land	Representing an inventory for sale	Non-deductible assets	Not deductible from the base as they are Zakatable assets.
	Representing land that can be plowed and used for growing crops	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Wells and irrigation systems	Representing land irrigation and well drilling systems for the development of agricultural wealth	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Silos	Representing fixed assets of buildings equipped for storage, loading and unloading of grain prior to sale or use	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets



Agricultural machinery and equipment	Representing machines used in agricultural or farmland to speed up work and improve production	Deductible assets	Deductible from the Zakat base because they are non zakatable assets
Boats and fishing equipment	Representing fixed assets used for fishing in various water surfaces	Deductible assets	Deductible from the Zakat base because they are non zakatable assets
Fruit trees and plants (mature)	<ul style="list-style-type: none">• Used in the production or supply of agricultural products• Expected to fruit more than once during the period• Have a remote possibility of being sold as an agricultural product	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Biological assets	Representing livestock, agricultural crops and biological assets used in production	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Apiaries	Representing biological assets used to produce honey	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets



9.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	300,000	150,000
Trade and other receivables	2,100,000	2,300,000
Inventories (fish and shrimp products)	5,100,000	6,200,000
Biological assets (feed/fodder and agricultural crops)	1,800,000	700,000
Biological assets held for sale	1,000,000	1,500,000
Prepaid expenses and other debit balances	1,500,000	850,000
Total current assets	11,800,000	11,700,000
Non-current assets		
Property, plant, equipment and trees	3,600,000	7,000,000
Government subsidies	2,000,000	2,000,000
Biological assets	13,400,000	5,000,000
Other long-term assets	2,400,000	1,000,000
Total assets	33,200,000	26,700,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Due to banks	600,000	400,000
Accounts payable	400,000	1,100,000
Accrued expenses and other credit balances	800,000	1,000,000
Dividend payable	3,500,000	-
Provision for Zakat	225,000	-
Current portion of term loan	200,000	-
Total current liabilities	5,725,000	2,500,000
Non-current assets		
Provision for end-of-service benefits	2,000,000	1,800,000
Term loan	3,600,000	-
Due to related parties	3,100,000	2,600,000
Total non-current liabilities	14,425,000	6,900,000
Shareholders' equity		
Capital	10,000,000	10,000,000
Statutory reserve	5,000,000	5,000,000
Retained earnings	3,775,000	4,800,000
Total shareholders' equity	18,775,000	19,800,000
Total liabilities and shareholders' equity	33,200,000	26,700,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Sales	53,000,000
Cost of sales	(45,000,000)
Cost of farms	(1,000,000)
Gross profit	7,000,000
Selling and distribution expenses	(500,000)
General and administrative expenses	(2,800,000)
Difference in crop inventories valuation at harvest point	(400,000)
Other loss (net)	(300,000)
Income from operations	3,000,000
Finance charges (net)	(300,000)
Profit before Zakat	2,700,000
Zakat	(225,000)
Profit for the year	2,475,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,800,000	300,000	100,000	2,000,000
Total	1,800,000	300,000	100,000	2,000,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	2,700,000
Add: Provision for end-of-service benefits	300,000
Total adjustment to activity result	3,000,000

Additions to the Base	
Equity	SAR
Capital	10,000,000
Statutory reserve	5,000,000
Retained earnings less dividends	1,300,000
Dividend payable	3,500,000
Total	19,800,000
Obligations on the Zakat payer	
Loans (obtained on 1 September 2018) (365 /120 * 3,800,000)	1,249,315
Due to related parties	3,100,000
Provision for end-of-service (opening balance minus the amount utilized during the year).	1,700,000
Total external sources of funds subject to Zakat	6,049,315
Total additions to the base	25,849,315



Deduction from Zakat Base	
	SAR
Property, plant, equipment and trees	3,600,000
Biological assets	13,400,000
Total assets deducted	17,000,000
Zakat base without adjusted year profit	8,849,315
Zakat at 2,578% of the zakat base without adjusted profit	228,135
Adjusted profit	3,000,000
Zakat at 2,5% of the adjusted profit	75,000
Total Zakat	303,135



10. Manufacturing Industries Sector

10.1 Definition of the Sector

This sector is defined as the process of the natural or chemical conversion of materials or components into new products. The materials or components being converted are raw materials that represent products from agriculture, forestry, fishing, mining, or quarrying, as well as products from other manufacturing activities. Material change, refurbishment, or restructuring of goods is generally considered part of the manufacturing industry.

The output of the manufacturing process may be a finished product, in the sense that it is ready for use or consumption, or it may be a semi-finished product, in the sense that it serves as an input to another industrial process.

This sector also includes:

- Processing of food products.
- Manufacturing of drinks.
- Manufacturing of textiles.
- Manufacturing of clothing.
- Manufacturing of leather and related products.
- Manufacturing of timber, wood products, and cork (except furniture).
- Manufacturing of paper and paper products.
- Printing and reproducing recorded media.
- Manufacturing of coke and refined petroleum products.
- Manufacturing of chemicals and chemical products.
- Manufacturing of basic pharmaceutical products and pharmaceuticals.
- Manufacturing of rubber and polymer products.
- Manufacturing of other non-metallic mineral products.
- Production of base metals.
- Manufacturing of fabricated metal products (except machinery and equipment).



- Manufacturing of computers, electronic, and optical products.
- Manufacturing of electrical equipment.
- Manufacturing of machinery and equipment not specified in other categories.
- Manufacturing of motor vehicles, trailers, and semi-trailers.
- Manufacturing of other transport equipment.
- Manufacturing of furniture.
- Repair and installation of machinery and equipment.

Zakat issues pertaining to the sector

Spare parts

Spare parts are parts that are used for the maintenance of machinery and equipment and are not intended for sale. Spare parts are considered non-zakatable assets and are deductible from the Zakat base as they are not intended for sale in their current state, according to the Implementing Regulations.

Example:

A company operating in the production of iron has spare parts with a balance of SAR 3,000,000 shown in the financial statements as of December 31, 2019. What is the amount to be deducted from the Zakat base?

The balance of spare parts inventory shown in the financial statements as of 31 December 2019, amounting to SAR 3,000,000, is fully deductible from the Zakat base, as spare parts are considered non-zakatable assets because they are not intended for sale in their current condition.



The Most Important Items in the Statement of Financial Position for the Manufacturing Industries Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Industrial plant and equipment	The cost of assets is calculated according to their production capacity based on the method of production units on proven and probable recoverable reserves	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Platin	Representing assets used in production that are not depreciated as it is a precious metal and its value is not reduced by use	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Non-current assets			
Liabilities directly related to transformation of fixed assets	The amount of liabilities against acquisition of assets classified as property and equipment	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Liabilities for the costs of dismantling and removing property, plant and equipment	The amount of liabilities arising from site restoration and the dismantling of property, plant and equipment	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Concession fees	Representing prescribed fees at 52% of the net annual income of each mining license or as determined by Law	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets



10.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Current Assets		
Inventory	400,000	350,000
Trade receivables	800,000	600,000
Prepaid expenses and other debit balance	2,000,000	2300000
Short-term investments	6,100,000	6,200,000
Time deposits	1,200,000	1,000,000
Cash in hand and at banks	500,000	650,000
Total current assets	11,000,000	11,100,000
Non-current assets		
Due from related parties	3,000,000	3,800,000
Mining properties	8,000,000	9,000,000
Intangible assets	2,000,000	1,000,000
Investments in associates and joint ventures	4,400,000	3,400,000
Investments held to maturity	4,000,000	4,000,000
Employees' loans	500,000	600,000
Other non-current assets	600,000	700,000
Total non-current assets	28,500,000	28,100,000
Total assets	39,500,000	39,200,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Current portion of medium and Long-term loans	2,400,000	2,400,000
Short-term loans	800,000	0
Trade payables	500,000	700,000
Dividends payable	800,000	900,000
Accruals and other current liabilities	400,000	500,000
Accrued Zakat	425,000	300,000
Accrued concession fees	700,000	900,000
Total current liabilities	6,025,000	5,700,000
Non-current assets		
Medium and Long-term loans	10,200,000	12,600,000
Liabilities directly related to assets classified as held for sale	1,300,000	1,000,000
Obligation regarding the costs of dismantling and removing property, plant and equipment	1,200,000	1,100,000
Sukuk	1,000,000	800,000
Provision for end-of-service benefits	3,500,000	3,300,000
Other non-current liabilities	400,000	300,000
Total non-current liabilities	17,600,000	19,100,000



Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
General reserve	600,000	600,000
Retained earnings	6,275,000	4,800,000
Total shareholders' equity	15,875,000	14,400,000
Total liabilities and shareholders' equity	39,500,000	39,200,000

Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	60,000,000
Cost of revenues	(48,000,000)
Gross profit	12,000,000
General and administrative expenses	(4,000,000)
Selling and distribution expenses	(2,000,000)
Income from operations	6,000,000
Share in results of associates and joint ventures	1,000,000
Financing charges	(300,000)
Profit before Zakat and income tax	6,700,000
Zakat	(425,000)
Profit for the year	6,275,000



Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	3,300,000	400,000	(200,000)	3,500,000
Total	3,300,000	400,000	(200,000)	3,500,000

Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Add: Net profit before Zakat	6,700,000
Add: Provision for end-of-service provided during the year	400,000
Total adjusted profit	7,100,000

Additions to the Base	
Equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
General reserve	600,000
Retained earnings	4,800,000
Less Dividend distribution	(4,800,000)
Total	9,600,000



Obligations on the Zakat payer	
Medium and Long-term loans	12,600,000
Liabilities directly related to assets classified as held for sale	1,300,000
Obligation regarding the costs of dismantling and removing property, plant and equipment	1,200,000
Sukuk	1,000,000
Other non-current liabilities	400,000
Provision for end-of-service (opening balance less amount utilized amount during the year)	3,100,000
Total external sources of funds subject to Zakat	19,600,000
Total additions to the base	29,200,000

Deduction from Zakat Base	
	SAR
Mining properties	8,000,000
Property, plant and equipment	6,000,000
Intangible assets	2,000,000
Investments in associates and joint ventures	4,400,000
Investments held until maturity	4,000,000
Total deductible assets	24,400,000
Zakat base without the adjusted profit for the year	4,800,000
Zakat at 2.578% of the Zakat base without the adjusted profit	123,744
Adjusted profit	7,100,000
Zakat at 2.5% of the adjusted profit	177,500
Total Zakat	301,244



11. Transport and Storage Sector

11.1 Definition of the Sector

This sector is defined as the sector specializing in the provision of passenger or freight transport, whether scheduled or not, by railways, pipelines, road, water, or air, along with related activities such as airport facilities, parking, cargo handling, storage, etc. This sector also includes the rental of transport equipment with a driver or operator. It further encompasses postal and courier activities. However, the maintenance and repair of motor vehicles and other transport equipment; construction, maintenance, and repair of roads, railways, seaports, and airports; as well as the rental of transport equipment without a driver or operator, are excluded from this sector.

This sector includes the following activities:

- Land transportation and pipeline transport.
- Water transport.
- Air transport.
- Warehousing and support activities for transportation.
- Postal and courier activities.

Zakat issues pertaining to the sector

Spare parts

Spare parts are parts that are used for the maintenance of transport and shipment/cargo machinery, vehicles, and equipment within this sector and are not intended for sale.

Spare parts are considered non-zakatable assets and are deductible from the Zakat base as they are not intended for sale in their current state, according to the Implementing Regulations.



Example:

A company operating in air transport has a balance of spare parts shown in the financial statements as of 31 December 2019, amounting to SAR 30,000,000. What is the amount of spare parts to be deducted from the Zakat base?

The balance of spare parts inventory shown in the financial statements as of 31 December 2019, amounting to SAR 30,000,000, is fully deductible from the Zakat base as spare parts are considered non-zakatable assets because they are not intended for sale in their current state.

The Most Important Items in the Statement of Financial Position for the Transportation and Storage Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Non-current assets			
Vehicles and transport equipment (ships, aircraft, etc.)	Represent fixed assets used in the transportation and storage sector	Deductible assets	Deductible from the base as they are non-zakatable assets
Locomotives, trailers and refrigeration units	Represent fixed assets used in the transportation and storage sector	Deductible assets	Deductible from the base as they are non-zakatable assets
Transport vehicles and tankers	Represent means of transport for the products of the entity and its storage operations	Deductible assets	Deductible from the base as they are non-zakatable assets



11.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	500,000	500,000
Unbilled account receivables and other receivables	3,000,000	3,300,000
Inventory	1,500,000	1,200,000
Prepayments	700,000	900,000
Total current assets	5,700,000	5,900,000
Non-current assets		
Property and machinery	4,600,000	3,050,000
Intangible assets	1,500,000	1,200,000
Vehicles, transport and shipment equipment	6,500,000	7,250,000
Unbilled account receivables - Non-current portion	5,400,000	5,400,000
Total non-current assets	18,000,000	16,900,000
Total assets	23,700,000	22,800,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Current liabilities		
Loans - Current portion	1,600,000	1,200,000
Trade payables	900,000	550,000
Accruals and other current liabilities	700,000	850,000
Total liabilities	3,200,000	2,600,000
Non-current assets		
Loans - Non-current portion	5,000,000	5,400,000
Provision for end-of-service benefits	1,100,000	1,000,000
Obligations against a finance lease contract	1,900,000	2,500,000
Total non-current liabilities	8,000,000	8,900,000
Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
Agreement reserve	500,000	500,000
Retained earnings	3,000,000	1,800,000
Total shareholders' equity	12,500,000	11,300,000
Total liabilities and shareholders' equity	23,700,000	22,800,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	100,000,000
Cost of revenues	(80,000,000)
Gross profit	20,000,000
General and administrative expenses	(9,000,000)
Marketing expenses	(7,000,000)
Income from operations	4,000,000
Financing charges	(800,000)
Profit before Zakat and income tax	3,200,000
Zakat	(200,000)
Profit for the year	3,000,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,000,000	400,000	(300,000)	1,100,000
Total	1,000,000	400,000	(300,000)	1,100,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat	3,200,000
Add: Provision for end-of-service provided during the year	400,000
Total adjustment to activity result	3,600,000

Additions to the Base	
Shareholders' equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
Agreement reserve	500,000
Retained earnings	1,800,000
Dividend distribution during the year	(1,800,000)
Total	9,500,000
Liabilities on the Zakat payer	
Loans	6,600,000
Obligations against a finance lease contract	1,900,000
Provision for end-of-service benefits (opening balance minus the amount utilized during the year)	700,000
Total external sources of funds subject to Zakat	9,200,000
Total additions to the base	18,700,000



Deduction from Zakat Base	
	SAR
Property and machinery	4,600,000
Intangible assets	1,500,000
Vehicles, transport and shipment equipment	6,500,000
Total deductible assets	12,600,000
Zakat base without the adjusted profit for the year	6,100,000
Zakat at 2.578% of the Zakat base without the adjusted profit	157,258
Adjusted profit	3,600,000
Zakat at 2.5% of the adjusted profit	90,000
Total Zakat	247,258



12. Electricity, Gas, Steam and Air Conditioning Supply Sector

12.1 Definition of the Sector

This sector is defined as the activity related to the connection of electricity, natural gas, steam, hot water, etc., through permanent infrastructure (pipeline network), main connections, and pipelines. The distribution of electricity, gas, steam, hot water, etc., in industrial complexes or residential buildings is also included in this sector.

Zakat issues pertaining to the sector

Spare parts

Spare parts that are used for the maintenance of machinery and equipment and are not intended for sale. Spare parts are non-zakatable assets deductible from the Zakat base as they are not intended for sale in their current condition, according to the Implementing Regulations.

Example:

The balance of spare parts shown in the financial statements of an electricity company as of December 31, 2019 is SAR 20,000,000. What is the amount to be deducted from the Zakat base?

The balance of spare parts inventory shown in the financial statements as of 31 December 2019, amounting to SAR 20,000,000, is fully deductible from the Zakat base, as spare parts are considered non-zakatable assets because they are not intended for sale in their current condition.



The Most Important Items in the Statement of Financial Position for the Transportation and Storage Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Non-current assets			
Transmission and distribution network	Representing the fixed assets of the transmission and distribution sector	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Current liability			
Recoverable subscribers' insurance	Representing the amounts paid by subscribers	External sources of funds not utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Payments received from subscribers	Representing payments received from subscribers to connect the service	External sources of funds not utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Non-current liability			
Government loans	Representing grants whereby the government transfers cash to the entity under certain condition	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Long-term deferred revenue	Representing balances earned for service performance that are amortized over the average useful lives of used equipment	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Provisions for obligations and other fees	Representing provisions and obligations for expropriation cases for the public use	Internal funding sources	Added to the Zakat base to arrive at Zakatable assets



12.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Inventory	1,900,000	1,350,000
Trade receivables	4,000,000	4,600,000
Loans and advances	800,000	950,000
Prepayments	1,500,000	1,700,000
Cash in hand and at banks	2,500,000	2,650,000
Total current assets	10,700,000	11,250,000
Non-current assets		
Property, plant and equipment	9,000,000	8,000,000
Transmission and distribution network	8,000,000	6,600,000
Intangible assets	6,000,000	6,400,000
Deferred tax assets	500,000	500,000
Total non-current assets	23,500,000	21,500,000
Total assets	34,200,000	32,750,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Current portion of medium and long-term loans	500,000	500,000
Trade payables	900,000	750,000
Accruals and other current liabilities	700,000	650,000
Provision for obligations and other fees	200,000	300,000
Refundable subscribers' deposits	100,000	150,000
Government payables	200,000	250,000
Payments from subscribers	550,000	750,000
Short-term deferred revenues	850,000	1,000,000
Total current liabilities	4,000,000	4,350,000
Non-current assets		
Long-term loans	4,000,000	4,500,000
Sukuk	2,000,000	1,800,000
Provision for end-of-service benefits	1,000,000	1,100,000
Long-term deferred revenues	2,000,000	1,700,000
Government grants	3,000,000	2,300,000
Liabilities relating to disposal of assets	2,500,000	2,400,000
Deferred tax liabilities	2,000,000	1,600,000
Total non-current liabilities	16,500,000	15,400,000



Shareholders' equity		
Capital	5,000,000	5,000,000
Statutory reserve	2,500,000	2,500,000
General reserve	500,000	500,000
Other reserves	200,000	200,000
Retained earnings	5,500,000	4,800,000
Total shareholders' equity	13,700,000	13,000,000
Total liabilities and shareholders' equity	34,200,000	32,750,000

Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	100,000,000
Cost of revenues	(80,000,000)
Gross profit	20,000,000
General and administrative expenses	(10,000,000)
Selling and distribution expenses	(4,000,000)
Income from operations	6,000,000
Financing charges	(200,000)
Profit before Zakat and income tax	5,800,000
Zakat	(300,000)
Profit for the year	5,500,000



Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,000,000	400,000	(300,000)	1,100,000
Provision for obligations and other fees	300,000	0	(100,000)	200,000
Total	1,300,000	400,000	(400,000)	1,300,000

Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	5,800,000
Add: Provision for end-of-service provided during the year	400,000
Total adjustment to activity result	6,200,000



Additions to the Base	
Equity	SAR
Capital	5,000,000
Statutory reserve	2,500,000
General reserve	500,000
Other reserves	200,000
Retained earnings	4,800,000
Dividend distribution during the year	-4,800,000
Provision for obligations and other fees	200,000
Total	8,400,000
Obligations on the Zakat payer	
Long-term loans	4,500,000
Sukuk	2,000,000
Deferred revenues	2,000,000
Government grants	3,000,000
Liabilities relating to disposal of assets	2,500,000
Deferred tax liabilities	2,000,000
Provision for end-of-service (opening balance minus the amount utilized during the year)	700,000
Total external sources of funds subject to Zakat	16,700,000
Total additions to the base	25,100,000



Deduction from Zakat Base	
	SAR
Property, plant and equipment	9,000,000
Transmission and distribution network	8,000,000
Intangible assets	6,000,000
Deferred tax assets	500,000
Total deductible assets	23,500,000
Zakat base without the adjusted profit for the year	1,600,000
Zakat at 2.578% of the Zakat base without the adjusted profit	41,248
Adjusted profit	6,200,000
Zakat at 2.5% of the adjusted profit	155,000
Total Zakat	196,248



13. Water Supply, Sewage Drainage and Waste Management and Treatment Sector

13.1 Sector Definition

This sector includes activities related to the management of various types of waste (including collection, treatment, and disposal/drainage), such as industrial and domestic waste, both solid and non-solid, as well as contaminated sites. The output may be waste or sewage treatment, disposal, or use as inputs into other production processes. This sector also includes water supply activities, which are usually carried out in conjunction with sewage treatment or through units that also handle sewage treatment.

This sector also includes the following businesses:

- Water collection, treatment, and delivery.
- Sewage.
- Waste collection, treatment, and disposal activities, and material recovery.
- Treatment activities and other waste management services.

Zakat issues pertaining to the sector

Spare Parts

Spare parts that are used for the maintenance of machinery and equipment and are not intended for sale. Spare parts are non-zakatable assets deductible from the base as they are not intended for sale in their current condition, according to the Implementing Regulations.



Example:

A company operating in waste recycling has a balance of spare parts shown in the financial statements as of December 31, 2019 amounting to SAR 10,000,000. What is the amount to be deducted from the Zakat base?

The balance of spare parts inventory shown in the financial statements as of 31 December 2019 is fully deductible, amounting to SAR 10,000,000, from the Zakat base, as spare parts are considered non-zakatable assets because they are not intended for sale in their current condition.

The Most Important Items in the Statement of Financial Position for the Water Supply, Sewage Drainage and Waste Management and Treatment Supply Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Spare parts inventory	Represent spare parts used for equipment maintenance	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Non-current assets			
Water treatment plants	Represent plants for treatment of water	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets
Water reservoirs	Represent water reservoirs for water storage	Deductible assets	Deductible from the Zakat base because they are non-zakatable assets



13.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
Assets	SAR	SAR
Current Assets		
Cash in hand and at banks	3,600,000	2,850,000
Trade receivables	2,500,000	2,600,000
Spare parts inventory	400,000	200,000
Inventories held for sale	1,300,000	1,500,000
Inventory, other materials	2,100,000	2,350,000
Loans and advances	500,000	650,000
Prepayments	900,000	700,000
Total current assets	11,300,000	10,850,000
Non-current assets		
Property, plant and equipment	8,000,000	8,500,000
Water treatment plants	5,000,000	4,000,000
Water basins (reservoirs)	3,000,000	2,500,000
Real Estates (properties)	6,000,000	6,400,000
Intangible assets	500,000	500,000
Total non-current assets	22,500,000	21,900,000
Total assets	33,800,000	32,750,000



Liabilities and Shareholders' Equity	2019	2018
Current liabilities	SAR	SAR
Current portion of medium and long-term loans	500,000	500,000
Trade payables	900,000	750,000
Accruals and other current liabilities	700,000	650,000
Provision for obligations and other fees	200,000	300,000
Refundable subscribers' deposits	100,000	150,000
Government payables	200,000	250,000
Payments from subscribers	900,000	750,000
Short-term deferred revenues	850,000	1,000,000
Total current liabilities	4,350,000	4,350,000
Non-current assets		
Long-term loans	11,600,000	10,400,000
Provision for end-of-service benefits	1,000,000	1,100,000
Liabilities relating to disposal of assets	2,600,000	2,400,000
Total non-current liabilities	15,200,000	13,900,000
Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
General reserve	500,000	500,000
Other reserves	200,000	200,000
Retained earnings	4,550,000	4,800,000
Total shareholders' equity	14,500,000	14,250,000
Total liabilities and shareholders' equity	33,800,000	32,750,000



Balance Sheet (Statement of Financial Position) as of 31/12/2019

Item	2019
	SAR
Revenues	120,000,000
Cost of revenues	(100,000,000)
Gross profit	20,000,000
General and administrative expenses	(12,000,000)
Selling and distribution expenses	(3,000,000)
Income from operations	5,000,000
Financing charges	(300,000)
Profit before Zakat and income tax	4,700,000
Zakat	(150,000)
Profit for the year	4,550,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,100,000	200,000	(300,000)	1,000,000
Provision for obligations and other fees	300,000	-	(100,000)	200,000
Total	1,400,000	200,000	(400,000)	1,200,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat	4,700,000
Add: Provision for end-of-service provided during the year	200,000
Total adjustment to activity result	4,900,000

Additions to the Base	
Shareholders' equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
General reserve	500,000
Other reserves	200,000
Retained earnings	4,800,000
Dividend distribution during the year	(4,800,000)
Provision for obligations and other fees	200,000
Total	3,000,000
Liabilities on the Zakat payer	
Long-term loan	12,100,000
Liabilities relating to disposal of assets	2,600,000
Provision for end-of-service benefits - opening balance minus the amount utilized during the year	800,000
Total external sources of funds subject to Zakat	15,500,000
Total additions to the base	25,400,000



Deduction from Zakat Base	
	SAR
Property, plant and equipment	8,000,000
Water treatment plants	5,000,000
Water basins (reservoirs)	3,000,000
Real Estates (properties)	6,000,000
Spare parts inventory	400,000
Total deductible assets	22,900,000
Zakat base without the adjusted profit for the year	2,500,000
Zakat at 2.578% of the Zakat base without the adjusted profit	64,450
Adjusted profit	4,900,000
Zakat at 2.5% of the adjusted profit	122,500
Total Zakat	186,950



14. Other Service Activities Sector

14.1 Definition of the Sector

This sector includes (as a residual category) the activities of membership organizations, the repair of computers, personal and household appliances, and a variety of personal services not covered in other sectors.

This sector also includes:

- Activities of membership organizations.
- Repair of computers, personal, and household goods.
- Other personal service activities.

14.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	260,000	130,000
Trade receivables	1,250,000	1,200,000
Prepayments	40,000	60,000
Total current assets	1,550,000	1,390,000
Non-current assets		
Fixed assets	600,000	450,000
Total non-current assets	600,000	450,000
Total assets	2,150,000	1,840,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Accruals and other current liabilities	810,000	620,000
Total liabilities	810,000	620,000
Non-current assets		
Provision for end-of-service benefits	710,000	700,000
Total non-current liabilities	710,000	700,000
Shareholders' equity		
Capital	100,000	100,000
Statutory reserve	50,000	50,000
Retained earnings	480,000	370,000
Total shareholders' equity	630,000	520,000
Total liabilities and shareholders' equity	2,150,000	1,840,000

Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	5,700,000
Cost of revenues	(4,500,000)
Gross profit	1,200,000
General and administrative expenses	(700,000)
Profit before Zakat and income tax	500,000
Zakat	(20,000)
Profit for the year	480,000



Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	700,000	90,000	(80,000)	710,000
Total	700,000	90,000	(80,000)	710,000

Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat	500,000
Add: Provision for end-of-service benefits	90,000
Total adjustment to activity result	590,000

Additions to the Base

Shareholders' equity	SAR
Capital	100,000
Statutory reserve	50,000
Retained earnings	370,000
Dividend distribution during the year	(370,000)
Total	150,000



Liabilities on the Zakat payer	
Provision for end-of-service (opening balance minus the amount utilized during the year)	620,000
Total external sources of funds subject to Zakat (to the limits of total deductibles)	600,000
Total additions to the base	750,000

Deduction from Zakat Base	
	SAR
Fixed assets	600,000
Total deductible assets	600,000
Zakat base without adjusted year profit	150,000
Zakat at 2,578% of the zakat base without adjusted profit	3,867
Adjusted profit	590,000
Zakat at 2,5% of the adjusted profit	14,750
Total Zakat	18,617



15. Information and Communication Services Sector

15.1 Definition of the Sector

This sector encompasses the production and distribution of information and cultural products, as well as the provision and means of transport and distribution of such products. It also includes the transmission and distribution of data, information and communications technology activities, data processing, and other information service activities.

The sector includes the following activities:

- Publishing activities.
- Production of films, videos, television programs, sound recordings, and music publishing.
- Programming and broadcasting activities.
- Telecommunications.
- Computer programming, consultancy, and related activities.
- Information service activities.

The Most Important Items in the Statement of Financial Position for the Information and Communication Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Non-current assets			
Contract costs	Representing costs incurred to meet contracts when conditions are met	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Production of audiovisual materials	Representing rights to produce audiovisual materials and recordings	Deductible assets	Deductible from the base as they are non-zakatable assets



Contract assets	Representing assets in exchange for transferring goods or services to customers prior to payment of the compensation or before maturity Represent assets in exchange for transferring goods or services to customers prior to payment of the compensation or before maturity	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Communication networks and equipment	Representing the equipment necessary to operate telecommunication services	Deductible assets	Deductible from the base as they are non-zakatable assets
IT systems and servers	Representing the equipment necessary to operate telecommunication related services	Deductible assets	Deductible from the base as they are non-zakatable assets
Intangible Assets - Telecommunication License	Representing a telecommunications license to operate in a particular area	Deductible assets	Deductible from the base as they are non-zakatable assets
Intangible assets - Irrevocable use rights	Is the right to use part of the terrestrial transmission cable	Deductible assets	Deductible from the base as they are non-zakatable assets
Telephones and equipment at the customer's site	Representing the equipment at the customer's premises to provide the service while the ownership is for the company	Deductible assets	Deductible from the base as they are non-zakatable assets



Prepaid cards and recharge	Representing prepaid and recharge cards ready for sale to customers	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Restricted in-kind assets associated with government grants	Representing the value of properties and equipment related to restricted government grants	Deductible assets	Deductible from the base as they are non-zakatable assets
Telecom licenses	Representing the cost of operating licenses and service charges	Deductible assets	Deductible from the base as they are non-zakatable assets
Non-current liabilities			
Deferred revenue from government grants	Representing the current portion of conditional government grants	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Other financial obligations	Representing miscellaneous liabilities	External sources of funding utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Non-current liabilities			
Deferred government grant revenues	Representing the non-current portion of conditional government grants	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets
Contract obligations	Representing deferred services revenue	External sources of funds utilized in financing deductible asset	Added to the Zakat base to meet deductible assets



15.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	300,000	150,000
Inventory	650,000	400,000
Trade receivables	950,000	700,000
Derivative financial instruments	400,000	250,000
Short-term Murabaha	500,000	350,000
Financial assets	300,000	250,000
Prepayments	200,000	150,000
Total current assets	3,300,000	2,250,000
Non-current assets		
Property and equipment	8,300,000	9,500,000
Goodwill and intangible assets	4,000,000	4,200,000
Contract costs	2,000,000	1,800,000
Trade receivables - non-current portion	2,500,000	2,700,000
Financial assets	1,500,000	1,300,000
Investment properties	2,500,000	2,200,000
Acquisition fees and licenses	3,000,000	3,500,000
Production of audiovisual materials	3,500,000	3,000,000
Total non-current assets	27,300,000	28,200,000
Total assets	30,600,000	30,450,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Liabilities		
Current liabilities		
Long-term loans - current portion	400,000	400,000
Advances from customers	200,000	250,000
Unrealized revenue	400,000	450,000
Trade and other payables	1,500,000	1,700,000
Short-term loans	1,900,000	1,200,000
Deferred revenue	700,000	800,000
Other financial obligations	350,000	600,000
Other current liabilities	300,000	400,000
Total current liabilities	5,750,000	5,800,000
Non-current assets		
Long-term loans - Non-current portion	4,000,000	4,400,000
Provision for end-of-service benefits	1,100,000	1,000,000
Notes payable	1,000,000	800,000
Accelerated revenues	1,100,000	800,000
Deferred government grant revenue	1,200,000	1,100,000
Deferred revenues	900,000	1,600,000
Contract obligations	800,000	850,000
Other financial obligations	1,000,000	1,000,000
Other non-current liabilities	500,000	600,000
Total non-current liabilities	11,700,000	12,150,000
Total liabilities	17,450,000	19,950,000



Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
Hedge reserve	500,000	500,000
Foreign currency translation reserve	500,000	500,000
Retained earnings	3,150,000	2,500,000
Total shareholders' equity	13,150,000	12,500,000
Total liabilities and shareholders' equity	30,600,000	30,450,000

Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenue from service fees	20,000,000
Cost of revenues	(15,000,000)
Gross profit	5,000,000
General and administrative expenses	(2,000,000)
Income from operations	3,000,000
Financing charges	(160,000)
Profit before Zakat and income tax	2,840,000
Zakat	(80,000)
Profit for the year	2,760,000



Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,000,000	200,000	(100,000)	1,100,000
Total	1,000,000	200,000	(100,000)	1,100,000

Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	3,250,000
Add: Provision for end-of-service provided during the year	200,000
Total adjustment to activity result	3,450,000

Additions to the Base

Shareholders' equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
Hedge reserve	500,000
Foreign currency translation reserve	500,000
Retained earnings	2,500,000
Dividend distribution during the year	(2,500,000)
Total	10,000,000



Liabilities on the Zakat payer	
Long-term loans	4,400,000
Payment notes	1,000,000
Accelerated revenues	1,100,000
Deferred government grant revenue	1,200,000
Deferred revenues	900,000
Contract obligations	800,000
Other financial obligations	1,100,000
Other non-current liabilities	500,000
Provision for end-of-service benefits - opening balance minus the amount utilized during the year	900,000
Total external sources of funds subject to Zakat	11,900,000
Total additions to the base	21,900,000



Deduction from Zakat Base	
	SAR
Property and equipment	8,300,000
Goodwill and intangible assets	4,000,000
Investment properties	2,500,000
Acquisition fees and licenses	3,000,000
Production of audiovisual materials	3,500,000
Total deductible assets	21,300,000
Zakat base without adjusted year profit	600,000
Zakat at 2,578% of the zakat base without adjusted profit	15,468
Adjusted profit	3,450,000
Zakat at 2,5% of the adjusted profit	86,250
Total Zakat	101,718



16. Human Health and Social Work Sector

16.1 Definition of the Sector

This sector includes the provision of health and social care. It encompasses a wide range of activities, from healthcare provided by trained doctors in hospitals and other facilities, to home care involving a high degree of healthcare activities, and social work activities without any intervention from healthcare professionals.

The sector includes:

- Activities in the field of human health.
- Care activities with accommodation.
- Social activities without accommodation.

The Most Important Items in the Statement of Financial Position for the Information and Communication Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Receivables from contracts with customers	Representing receivables (revenues) from contracts with customers	Non-deductible assets	Not deductible from the base as they are Zakatable assets
Contractual assets	Representing any earned conditional compensations for contracts	Nondeductible assets	Not deductible from the base as they are Zakatable assets



Non-current assets			
Medical Equipment	Representing medical equipment used in the business	Deductible assets	Deductible from the base as they are non-zakatable assets.
Intangible assets - product licenses and product manufacturing	Representing the right of license for production and manufacturing medical equipment	Deductible assets	Deductible from the base as they are non-zakatable assets
Current liabilities			
Obligations for client contracts	Representing obligations based on contracts with customers	External sources of funds utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Outstanding bookings	Representing obligations for outstanding customer bookings	External sources of funds utilized in financing deductible asset	Not added to the Zakat base unless they mature after more than 354 days
Return obligations	Representing contractual obligations arising from failure to realize some of these conditions	External sources of funds utilized in financing deductible asset	Added to the Zakat base



16.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	2,600,000	2,650,000
Trade receivables	2,500,000	2,600,000
Assets of contracts with the clients	800,000	750,000
Medicines stock	800,000	900,000
Materials stock	100,000	350,000
Contractual assets	500,000	650,000
Prepayments	800,000	700,000
Total current assets	8,100,000	8,600,000
Non-current assets		
Property, plant and equipment	11,000,000	11,350,000
Intangible assets, goodwill	2,000,000	2,200,000
Intangible assets	500,000	500,000
Total non-current assets	13,500,000	13,850,000
Total assets	21,600,000	22,450,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Trade payables	900,000	750,000
Accruals and other current liabilities	700,000	650,000
Obligations for client contracts	100,000	150,000
Return obligations	850,000	1,000,000
Long-term loans - Current portion	500,000	500,000
Total current liabilities	3,050,000	3,050,000
Non-current assets		
Long-term loans - Non-current portion	4,000,000	4,500,000
Provision for end-of-service benefits	1,000,000	1,100,000
Total non-current liabilities	5,000,000	5,600,000
Total liabilities	8,050,000	8,650,000
Shareholders' equity		
Capital	6,000,000	6,000,000
Statutory reserve	3,000,000	3,000,000
Retained earnings	4,550,000	4,800,000
Total shareholders' equity	13,550,000	13,800,000
Total liabilities and shareholders' equity	21,600,000	22,450,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	120,000,000
Operating cost	(100,000,000)
Gross profit	20,000,000
General and administrative expenses	(15,000,000)
Income from operations	5,000,000
Financing charges	(300,000)
Profit before Zakat and income tax	4,700,000
Zakat	(150,000)
Profit for the year	4,550,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end-of-service benefits	1,100,000	200,000	(300,000)	1,000,000
Total	1,100,000	200,000	(300,000)	1,000,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat and income tax	4,700,000
Add: Provision for end-of-service benefits provided during the year	200,000
Total adjustment to activity result	4,900,000

Additions to the Base	
Shareholders' equity	SAR
Capital	6,000,000
Statutory reserve	3,000,000
Retained earnings	4,800,000
Dividend distribution during the year	(4,800,000)
Total	9,000,000
Liabilities on the Zakat payer	
Long-term loans	4,500,000
Provision for end-of-service benefits - opening balance minus the amount utilized during the year	800,000
Total external sources of funds subject to Zakat	5,300,000
Total additions to the base	14,300,000



Deduction from Zakat Base	
	SAR
Property, plant and equipment	11,000,000
Intangible assets and goodwill	2,000,000
Intangible assets	500,000
Total deductible assets	13,500,000
Zakat base without the adjusted profit for the year	800,000
Zakat at 2,578% of the zakat base without adjusted profit	20,624
Adjusted profit	4,900,000
Zakat at 2,5% of the adjusted profit	122,500
Total Zakat	143,124



17. Lodging and Food Services Sector

17.1 Definition of the Sector

This sector is defined as the sector specialized in providing short-term lodging services to visitors and other travelers, as well as offering full meals and drinks for fast consumption. It does not include the provision of long-term accommodation services as a main dwelling, which are classified under real estate activities. Additionally, it does not include the operation of food and beverage services that do not meet the criteria for rapid consumption or are sold through independent distribution channels.

This sector includes the following activities:

- Hotels.
- Resorts.
- Providing lodging and accommodation services, including campsites and recreational parks that offer spaces for cars and trailers.
- Other accommodation facilities that provide temporary or longer-term accommodation.
- Restaurants and mobile food service activities.
- Event catering and other activities based on temporary contractual arrangements and contractor services.

The Most Important Items in the Statement of Financial Position for the Information and Communication Sector and Their Zakat Treatment

Item	Item Nature	Zakat Treatment	Judgment
Current assets			
Food and beverage inventories	Representing materials used in the lodging and catering services sector	Non-deductible assets	Not deductible from the base as they are Zakatable assets



17.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	4,290,000	4,190,000
Trade receivables	250,000	300,000
Inventory	1,300,000	1,200,000
Prepayments	150,000	100,000
Total current assets	5,990,000	5,790,000
Non-current assets		
Fixed assets	4,600,000	4,300,000
Intangible assets	900,000	950,000
Total non-current assets	5,500,000	5,250,000
Total assets	11,490,000	11,040,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Current portion of long-term loans	400,000	400,000
Trade payables	1,500,000	1,600,000
Accruals and other current liabilities	700,000	670,000
Total current liabilities	2,600,000	3,670,000
Non-current assets		
Long-term loans	4,000,000	4,400,000
Provision for end-of-service benefits	510,000	500,000
Total non-current liabilities	4,510,000	4,900,000
Shareholders' equity		
Capital	1,000,000	1,000,000
Statutory reserve	500,000	500,000
Retained earnings	2,880,000	1,970,000
Total shareholders' equity	4,380,000	3,470,000
Total liabilities and shareholders' equity	11,490,000	11,040,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	20,000,000
Cost of revenues	(15,000,000)
Gross profit	5,000,000
General and administrative expenses	(2,000,000)
Income from operations	3,000,000
Financing charges	(100,000)
Profit before Zakat and income tax	2,900,000
Zakat	(20,000)
Profit for the year	2,880,000

Movement of Provisions

Description	Opening Balance	Provided During the Year	Utilized During the Year	Closing Balance
	SAR	SAR	SAR	SAR
Provision for end of service	500,000	140,000	(130,000)	510,000
Total	500,000	140,000	(130,000)	510,000



Zakat Calculation

Item	Amount
Adjustment to activity result	SAR
Net profit before Zakat	2,900,000
Add: Provision for end-of-service provided during the year	140,000
Total adjustment to activity result	3,040,000

Additions to the Base	
Shareholders' equity	SAR
Capital	1,000,000
Statutory reserve	500,000
Retained earnings	1,970,000
Dividend distribution during the year	(1,970,000)
Total	1,500,000
Liabilities on the Zakat payer	
Long-term loans	4,400,000
Provision for end-of-service benefits - Opening balance less amount utilized during the year	370,000
Total external sources of funds subject to Zakat	4,770,000
Total additions to the base	6,270,000



Deduction from Zakat Base	
	SAR
Fixed assets	4,600,000
Intangible assets	900,000
Total deductible assets	5,500,000
Zakat base without the adjusted profit for the year	770,000
Zakat at 2,578% of the zakat base without adjusted profit	19,851
Adjusted profit	3,040,000
Zakat at 2,5% of the adjusted profit	76,000
Total Zakat	95,851



18. Household Activities

18.1 Definition of the Sector

This sector is defined as the activities of households that employ individuals to produce nondiscretionary goods and services for their own use.

This sector includes:

- Activities of households employing individuals for domestic work (excluding the provision of services by independent service providers).
- Non-discretionary activities for the production of goods and services by private households for their own use.

18.2 Practical Examples

Balance Sheet (Statement of Financial Position) as of 31/12/2019

Assets	2019	2018
	SAR	SAR
Assets		
Current Assets		
Cash in hand and at banks	20,000	10,000
Trade receivables	50,000	60,000
Inventory	100,000	90,000
Prepayments	20,000	15,000
Total current assets	190,000	175,000
Non-current assets		
Fixed assets	510,000	500,000
Total non-current assets	510,000	500,000
Total assets	700,000	675,000



Liabilities and Shareholders' Equity	2019	2018
	SAR	SAR
Current liabilities		
Trading and other payables	159,000	130,000
Accruals and other current liabilities	50,000	30,000
Total current liabilities	209,000	160,000
Non-current assets		
Provision for end-of-service benefits	131,000	130,000
Total non-current liabilities	131,000	130,000
Total liabilities	340,000	290,000
Shareholders' equity		
Capital	50,000	50,000
Retained earnings	310,000	335,000
Total shareholders' equity	360,000	385,000
Total liabilities and shareholders' equity	700,000	675,000



Income Statement for the Period from 1/1/2019 to 31/12/2019

Item	2019
	SAR
Revenues	1,000,000
Cost of revenues	(600,000)
Gross profit	400,000
General and administrative expenses	(80,000)
Income from operations	320,000
Other revenues	10,000
Profit before Zakat and income tax	330,000
Zakat	(20,000)
Profit for the year	310,000



Movement of Provisions

Deduction from Zakat Base	
	SAR
Property, plant and equipment	11,000,000
Intangible assets and goodwill	2,000,000
Intangible assets	500,000
Total deductible assets	13,500,000
Zakat base without the adjusted profit for the year	800,000
Zakat at 2,578% of the zakat base without adjusted profit	20,624
Adjusted profit	4,900,000
Zakat at 2,5% of the adjusted profit	122,500
Total Zakat	143,124



Zakat Calculation

Additions to the Base	
Shareholders' equity	SAR
Capital	50,000
Retained earnings	335,000
Dividend distribution during the year	(335,000)
Total	50,000
Liabilities on the Zakat payer	
Provision for end of Service (opening balance minus the amount utilized during the year)	70,000
Liabilities on the Zakat payer	
Total Additions to the base	120,000

Deduction from Zakat Base	
	SAR
Fixed assets	510,000
Zakat base without the adjusted profit for the year	(390,000)
Zakat at 2,578% of the zakat base without adjusted profit	-
Adjusted profit	400,000
Zakat at 2,5% of the adjusted profit	10,000
Total Zakat	10,000



Appendix: Frequently Asked Questions (FAQ)

FAQ Pertaining to the Zakat Base

1. Is it permissible for an entity to deduct the employees' share in regular pension funds, such as retirement pensions, social insurance, or saving funds, from the Zakat base?

The employees' share in such funds may not be deducted from the Zakat base.

2. What are the expenses that may be deducted from the Zakat base?

All ordinary and necessary expenses required for the business activity, whether paid or due, are deductible to calculate the net result of the business activity, provided that the following guidelines are met:

- They must be actual expenses evidenced by supporting documents or other proof that enables the Authority to verify their validity, even if they relate to previous years.
- They must correspond to the business activity and not be related to personal expenses or other activities.
- They must not be of a capital nature. If an expense of a capital nature is included, the result of the business activity will be adjusted accordingly and the expense will be added to the fixed assets and depreciated in accordance with statutory ratios.

3. Is it permissible for an entity to deduct bad debts from the Zakat base? What are the guidelines for that?

Bad debts are considered expenses that may be deducted according to the following guidelines:

- They must have been previously reported as revenue for the entity in the year they became due.
- Bad debts should have arisen from engagement in business activities, provided that:
 - a. The entity provides a certificate from a certified public accountant confirming that bad debts have been written off from the books by a competent officer's decision.
 - b. The debts written off should not be owed by parties related to the Zakat payer.
 - c. The Zakat payer must report the debts that have been written off as revenue once the debts are recovered.



4. Is it permissible for the owner of the entity to deduct his salary and allowances from the Zakat base?

The salaries and allowances of the business owner, whether a sole proprietorship, a capital company, or a company of persons, as well as the remuneration paid to the chairman of the board of directors, his deputy, and board members, shall be considered expenses that may be deducted, provided that:

- The salaries and allowances of the owner are registered with social insurance.
- The remuneration should not exceed what is paid to independent persons.

5. How is the capital increase calculated when it is unknown whether it financed a deductible asset?

The capital increase, when it is unknown whether it financed a deductible asset or not, will be added as a source of other funding based on the number of days. It will be treated as an obligation on the Zakat payer and therefore shall be added, as long as it does not exceed the amount of deductions from the base.

6. How is the Zakat calculated if the fiscal year is longer than the Hijri year (354 days)?

Zakat is calculated based on the actual number of days in the year by applying two and a half percent (2.5%) to the number of days in the Hijri year (354 days), multiplied by the number of actual days in the zakatable year. The adjusted net profit shall be subject to Zakat at two and a half percent (2.5%) for the year.



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