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Saudi Arabia issues Zakat Implementing Regulations

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On 9 March 2017, the Saudi Arabian Tax Authority issued the Zakat Implementing Regulations under Ministerial Resolution No. 2082, dated 28 February 2017 (01/06/1438H).

The highlights of the regulations are:

- The regulations are effective from the date of their issuance on 28 February 2017. The regulations supersede all prior directives, resolutions, instructions and circulars issued by the Saudi Arabian General Authority for Zakat and Tax (GAZT).
- The regulations are applicable to all commercial activities established for profit and carried out by resident Saudi and Gulf Cooperation Council nationals. The Saudi Government's share in a commercial venture would also be subject to zakat.
- The regulations reconfirm the GAZT's earlier practices that the zakat base cannot be lower than the adjusted profit for the year.
- Zakat will be assessed at the rate of 2.5% of the assessable funds regardless of whether the zakat payer follows the Hijri or Gregorian calendar as their fiscal year.
- For companies subject to 100% zakat, the depreciation on fixed assets will be calculated based on the straight line method at the rate specified by GAZT. The fixed asset value to be deducted from the zakat base should be the net book value as per the financial statements adjusted by the depreciation differences.

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- Gain and loss from revaluation of financial securities at their market values shall be considered for zakat purposes (previously these were excluded for zakat purposes).
- Companies owned by the same continuing shareholders may submit a consolidated zakat return (without the requirement to disclose the legal holding company structure).
- In order to allow a deduction from the zakat base of partially owned foreign investments, zakat on such investments must be computed based on the audited and attested financial statements, and included in the zakat return of the zakat payer.
- The statutory deposit for banks and insurance companies with the Saudi Arabian Monetary Agency and others are not deductible for zakat purposes.
- Salaries and benefits of proprietors or partners registered with the General Organization for Social Insurance are deductible.
- Bad debts written off, arising from transactions with related parties, are not allowable expenses.
- Goods or services supplied by related parties at prices in excess of the market prices are not an allowable cost.
- Financing lease arrangements will be considered as a purchase by the lessee, via a loan from the lessor. Therefore, the lessee will be considered the owner of the assets and accordingly qualifies for the deduction of the leased assets from the zakat base.
- Capital companies will be subjected to zakat from the date of the capital deposit.
- GAZT has been empowered to initiate an arbitrary assessment of a company which fails to file its zakat return within the statutory deadline (120 days from the end of the financial year).
- The regulations are silent on the requirement to settle zakat on "undisputed items" as a condition for acceptance of an appeal "in form" at the Preliminary Appeal Committee level. However, such a requirement has been stated as a condition for acceptance of any appeal "in form" at the High Appeal Committee level.

While the regulations provide more clarity on the zakat assessment basis, they are effectively codifying the existing practices and procedures followed by the GAZT.

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