

# Zakat and Tax

## Topic 1-2

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No	List of Topics
<b>PART I: Taxation in the Kingdom of Saudi Arabia</b>	
1	-Income Taxes in KSA – The Bylaws, Rules and Legal Cod <sup>1</sup>
2	-Income Taxes in KSA -Basic Concepts and Definitions
3	-Income Taxes in KSA-The Administration and Procedures (Advanced payment +losses)
4	-Income Taxes in KSA- Calculation of income Tax
5	-Income Taxes in KSA -Cases (capital + partnerships)
6	Withholding Tax -Theory & Practice
7	Excise Tax- Theory & Practice
8	Value Added Tax-Theory & Practice
<b>PART II: Zakat in the Kingdom of Saudi Arabia</b>	
9	The Bylaws and Rules of Zakat in KSA: Definitions, Objectives, and Main Types <sup>2</sup>
10	Zakat: Adjusting Net Income for Zakat Purpose
11	Calculation of Zakat Base based on the company's balance sheet
12	Calculation of Zakat amount
13	Zakat in KSA-Cases and Practical issues

## MODULE 1: TAXES

### Topic1: Persons Subject to tax and tax rates

**Definition of Tax:** Taxes are compulsory fees charged on individuals or corporations and enforced by a government entity in order to finance its activities.

#### I-Definitions of concepts

##### \*Concept of Residency (Article 3):

- ✓ **A natural person** is considered a resident in the Kingdom for a taxable year if he meets any of the two following conditions:
  1. He has a **permanent place of residence** (مسكن دائم) in the Kingdom and resides in the Kingdom for a total period of **not less than thirty (30) days in the taxable year**.
  2. He has not a permanent place of residence and resides in the Kingdom **for a period of not less than one hundred eighty-three (183) days in the taxable year**.

■ **A company** is considered resident in the Kingdom during the taxable year if it meets any of the following conditions:

- (1) It is formed in accordance with the Companies Law.
- (2) Its central management is located in the Kingdom.

\* **Permanent Establishment= منشأة دائمة** (Article 4): A permanent establishment of a nonresident in the Kingdom consists of the permanent place of the nonresident's activity through which it carries out business, in full or in part, including business carried out through its agent (وكيل).

#### II/ Persons Subject to Taxation and Tax Rates (Article 2+ Articles 7) [\*Person= Natural person or corporation]

Resident Persons	Non-Resident Persons
<ol style="list-style-type: none"> <li>1. A resident capital company with respect to shares of non-Saudi partners* (resident or non-resident/ natural person or corporation): <b>20%</b></li> <li>2. A resident non Saudi natural person who conducts business in the Kingdom: <b>20%</b></li> </ol>	<ol style="list-style-type: none"> <li>1. A nonresident (Saudi or non-Saudi/natural person or corporation) who conducts business in the Kingdom through a permanent establishment: <b>20%</b></li> <li>2. A nonresident with other taxable income from sources within the Kingdom Withholding Tax= ضريبة إستقطاع 5%; 15%; 20%</li> </ol>
<b>Whoever</b>	
<ol style="list-style-type: none"> <li>1. A person engaged in the field of natural <b>gas</b> investment: <b>20%</b></li> <li>2. * A person engaged in the field of <b>oil</b> and <b>hydrocarbons</b> production: <b>50%</b></li> </ol>	

النوع	الخاضع للضريبة	#
1- (50%) خمسون بالمائة للمكلف الذي يبلغ إجمالي استثماراته الرأسمالية في المملكة مبلغاً يزيد على ثلاثة وخمسة وسبعين مليار ريال.	الشخص الذي يعمل في إنتاج الزيت والماء البارد وكرتونية*	5
2- (65%) خمسة وسبعين بالمائة للمكلف الذي يبلغ إجمالي استثماراته الرأسمالية في المملكة مبلغاً يزيد على ثلاثة ملليارات ريال حتى مبلغ ثلاثة وخمسة وسبعين مليار ريال.		
3- (75%) خمسة وسبعين بالمائة للمكلف الذي يبلغ إجمالي استثماراته الرأسمالية في المملكة مبلغاً يزيد على مائتين وخمسة وعشرين مليار ريال حتى مبلغ ثلاثة ملليارات ريال.		
4- (85%) خمسة وثمانون بالمائة للمكلف الذي يبلغ إجمالي استثماراته الرأسمالية في المملكة مبلغاً لا يزيد على مائتين وخمسة وعشرين مليار ريال.		

- تكون الضريبة المستحقة على الشخص الذي يعمل في المملكة في مجال إنتاج الزيت والماء البارد وكرتونية و مجال استثمار الغاز الطبيعي معاً هي مجموع الضريبة المستحقة على وعائلي ضريبة هذا الشخص.

▪ **Exercises 1: Persons Subject to tax and tax rates**

**Instruction:** Precise the person's subject to tax in each of the following situation with justification.

➤ **Q1:** A limited liability company and its subsidiaries are based in Riyadh, established in accordance with the Saudi Companies Law while its partners live in Cairo: 50% Saudis, 50% Non-Saudis.

➤ **R1:**

➤ **Q2:** Individual Company owned by a Kuwaiti resident in the Kingdom achieved income of 200,000 SR and there is no adjustment to the net accounting profit.

➤ **R2:**

➤ **Q3:** A Kuwaiti shareholding company (non-resident) has contracted with one of the companies residing in the Kingdom to provide consultancy services for them.

➤ **R3:**

➤ **Q4:** The company (A) is considered as a resident capital company in the Kingdom, 50% of the company (A) is owned by the company (B) which is a resident company and 50% of (A) is owned by the company (C). The partners in both companies are 50% Saudi and 50% Non-Saudi.

➤ **R4:**

- **Q5:** A resident limited partnership (شركة توصية بسيطة) \*in the Kingdom, 30% are Egyptian limited partners (شركاء موصون), 20% Emirati limited partners (شركاء متضامنون) and 10% a Lebanon partner (شركاء متضامنون). All partners live in the Kingdom. The company achieved SR10,000,000 from the activity in the Kingdom.
- **R5:**

## MODULE 1: TAXES

### Topic2: Tax Base (الوعاء الضريبي) (Article 6)

- ✓ The tax base is calculated based on the accounting Income.
- ✓ Some adjustments must be made to the net accounting income to determine the tax base and then the tax income.
- ✓ Accounting permits to provide the Net Income that is equal to:

**Accounting Income = Gross Revenue – Gross Expenses**

1/ With regard to taxation, some recorded incomes are exempted (مداخيل معفاة من الضريبة) In this manner, Taxable Income is equal to:

[Gross revenue - exempted revenue]



Taxable revenue

➤ **Taxable Income:** is the **gross income** including all revenues, profits and gains of any type and of any form of payment resulting from carrying out an activity, including capital gains and any incidental revenues, **minus exempted income**. (Article 8)

2/ With regard to expenses, some expenses are **non-deductible** (مصاريف غير جائزه الجسم) so we must reintegrate them when calculating the Tax Base (Article 13):

**Tax Base = [Gross revenue - Exempted revenue] - Gross Expenses + Non deductible expenses**

$$\begin{array}{c}
 \text{Tax Base} = \text{Accounting Income} - \text{Exempted revenue} + \text{Non-deductible} \\
 \swarrow \qquad \qquad \qquad \searrow
 \end{array}$$

▪ **Exercises 2: Calculation of the Tax Base**

➤ **Q1/**A company accountant recorded a purchase invoice for SR 50,000 twice in error, while he did not record an invoice of sales for SR 10,000.

What is the adjustment to be made to net accounting income to determine the net income tax?

➤ **R1:**

➤ **Q2/** The accounting income of an entity was for SR 100,000; including SR 8,000 exempted revenue and SR 10,000 expenses which are not allowed to be deducted (non deductible). It did not include taxable revenues for SR 15,000 and deductible expenses for SR 2,000.

What is the adjustment to be made to net accounting income to determine the net income tax?

➤ **R2:**

➤ Q3/ XYZ Company reported the \$120,000 as the net income for 2017

What is the adjustment to be made to net accounting income to determine the net income tax if have the following information:

Non deductible expenses: \$6,250

Deductible expenses: \$2,000

Taxable Revenue: \$13,000

Exempted Revenue: \$500

Note: all information above were NOT recorded in income statement.

➤ R3:

➤ Q4/ A company showed a net profit of SR10,000,000 in 2016. The net profit did not include exempted revenues for SR10,000,000. The net profit included deductible expenses related to insurance for SR600,000.

What is the adjustment to be made to net accounting income to determine the net income tax?

➤ R4: