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KSA Tax Alert –

ZATCA Policies and Procedures: Key Zakat, Tax and Customs Dispute Items — Fourth Edition

September 2026

Executive Summary

The Zakat, Tax and Customs Authority (ZATCA) has published the fourth edition of its booklet on the policies and procedures it applies to the most prominent zakat, tax and customs dispute items.

The fourth edition contains policies, each with a policy number and approval date. The booklet does not amend any provision of the rules in force.

Key points at a glance:

- Policies covering zakat, income tax, withholding tax, VAT, real estate transaction tax and customs
- Applies to cases for which no final decision has been issued

SCOPE
AND EFFECT

Open Cases Only

The policies apply to cases for which no final decision has been issued. They set out how the Authority applies the rules in force and do not amend any provision of those rules.

Effect of Updates

Where an explanation is revised without a change to the underlying law, the updated treatment applies to transactions taking place after the revised edition is published.

Key Policies

Part 1 of 2

Dispute item	ZATCA position
Fixed assets in a partner's name	Deductible from the zakat base, capped at the funding source added to the base, where there is an impediment to transferring title, the asset is used in the company's activity, or it is an in-kind share in capital. Otherwise not deductible.
Deemed profits and withholding tax	Deemed profits are not subject to withholding tax except in eight listed cases — among them proven payment or set-off with a non-resident head office or parent, no books, no return filed, no bank accounts in the Kingdom, and evasion or avoidance.
Salaries above the General Organization for Social Insurance (GOSI) certificate	The excess salary and wage expense is deductible where supported by evidence such as monthly payroll, bank statements, the approved work regulations, and an auditor's certificate splitting General Organization for Social Insurance (GOSI)-subject from non-subject pay.
Late issuance of financial statements	Late issuance is not by itself evidence that accounting books do not exist. The default is assessment on the approved financial statements, and departing from it requires justification.
Leave allowance and travel tickets	Deductible in the income statement once the general expense conditions are met; if classified as a provision it follows the provisions treatment. For the zakat base, the opening balance is added after deducting amounts utilized during the year.
Debit loans	Zakat years up to 2018: deductible at the taxpayer's shareholding percentage, subject to seven conditions. From 2019: not deductible under Article 5 of the 1440 regulations, except amounts classified within equity in the investee.
Life insurance expense	A deductible expense for both zakat and income tax, subject to the general expense conditions in the zakat regulations and the income tax law.
Contracts subject to zero-rated VAT	Contracts concluded before 30 May 2017 are zero-rated subject to six conditions.
Court judgment for bad debts	The income tax regulations do not require a court judgment. Any convincing evidence that appropriate legal steps were taken and that the debt cannot be collected is sufficient, once the Article 9(3) conditions are met.
Build-Operate-Own-Transfer (BOOT) contracts at the lessor	The Saudi partner's share of the net investment is deducted from the non-current balance only. Where the investment is entirely current, the non-deductible part is the portion due in the following year. The full funding source is added to the base in all cases.
Assessment and reassessment after five years	Zakat: an incorrect return discovered from information already available is not a legitimate reason to reopen after five years; evasion follows Article 21(8) of the 1438 regulations or Article 23 of the 1440 regulations. Tax: ten years only where no return was filed or evasion applies.
Real estate under development	1438 regulations: intention is tested by the movement of the item in the following year. 1440 regulations: deductible where classified as non-current and intended for sale after development, unless offered for sale as-is or sales and advances exceed 25% of carrying value.
The 60-day objection period	The statutory 60 days for objecting to ZATCA decisions runs from the day following notification of the decision to the taxpayer.
Investment in investment funds	Non-trading fund investments are deductible where the taxpayer computes its share of the fund's zakat under a certificate prepared per ministerial resolution 29791 and certified by a licensed accountant, or provides a computation with the fund's financial statements.
Provisions utilised	Where the base exceeds adjusted net profit, amounts utilised are deducted from the base. Where adjusted profit exceeds the base, they are deducted from adjusted profit as a deductible expense. The Net profit is compared after deducting the utilization from the tax base (i.e., eliminating the impact of the utilization from the provision) and the higher of the two amounts is taken

Key Policies

Part 2 of 2

Dispute item	ZATCA position
Adjusted profit as a minimum base	Adjusted net profit is not a minimum for the zakat base for years before the 1438 regulations, provided the zakat computed is not less than that declared in the taxpayer's returns.
Import differences	ZATCA must first request a reconciliation. If it is not provided, excess declared foreign purchases are excluded; where the return shows less than the customs declaration, deemed profit is added at 15% (tax and mixed companies), 10% (full-zakat payers up to 2018) or the year's gross profit rate with a 15% floor (2019 onwards).
Dividends out of the year's profit	Where the base is not the minimum, dividends are deducted even if they exceed opening retained earnings, provided the funds left the taxpayer and payment is evidenced. They are not deducted from the base of the recipient.
Food purchases incurred outside urban areas	Input VAT on employee catering at companies and projects outside the urban boundary is deductible where the taxpayer proves a legal obligation to provide it and the cost is incurred in the course of taxable economic activity.
Independence of pension funds	Independence is assessed separately from the managing or owning company, and the review is limited to the conditions in the article. What matters is that the amounts left the taxpayer, are an actual expense, and are not recoverable by it.
Carried-forward losses	Tax: adjusted losses per ZATCA's assessments, capped at 25% of the profit per the taxpayer's return. Unassessed years follow the filed returns.
Employee bonuses and incentives	Deductible for zakat and tax where supported by evidence such as payroll linked to bank transfers, employment contracts providing for the bonus, profits earned in the year, and a signed management decision. Not deductible where manipulation is established.
Invoicing from Arab free zones	An invoice issued by an Arab intermediary in an Arab free zone for goods coming from an Arab state qualifies for the exemption under the Arab trade facilitation agreement, subject to the related rules and procedures.
Unrealized results for the year	Unrealized fair value changes on revaluation of assets are accepted, whether gains or losses, and regardless of whether the asset itself is deductible, provided unrealized losses are supported by documentation.
Re-imported goods for repair	The exemption applies to goods exported and re-imported for repair and maintenance where the work did not change the customs tariff classification, subject to the conditions In the list of items exempt from customs duties for civil aviation purposes.
Hospitality and entertainment	Hospitality and entertainment are deductible for zakat, and hospitality only for tax, where documented and related to the activity.
Depreciation	Each group is treated separately. The remaining 50% of the year's compensation is compared with the group balance after depreciation and before the repair excess.
Proportional deduction	Interest on bank deposits, investment returns and dividends, and the sale of shares held for investment do not affect the proportional deduction formula, unless most of the taxpayer's main activity consists of those transactions.

RECOMMENDED ACTION ITEMS

1

Map Open Cases

Review objections, appeals and unsettled assessments against the published policies and identify positions now supported by the Authority’s stated treatment.

2

Revisit Recent Items

Focus on the items most recently added or revised, where the Authority’s stated treatment may differ from the position previously taken.

3

Build the File

Where a policy requires supporting evidence such as payroll records, agreements or certificates, confirm the documents are in place.

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