

الأمانة العامة للجان الزكوية والضريبية والجمركية
General Secretariat of Zakat, Tax and Customs Committees

Compendium of Principles Issued by the Decisions of the Tax Appeal committees for the Year 2025 (Zakat)

All Rights Reserved to the General Secretariat of Zakat, Tax and Customs Committees

1447 AH - 2026 AD

Compendium of Principles Issued by the Decisions of the Tax Appeal committees for the Year 2025 (Zakat)


بسم الله الرحمن الرحيم

Table of Contents

Subject	Page number
Introduction	8
Methodology	11
Principles Issued by the Decisions of the Zakat and Tax Appeal Circuits	12
Elements added back to the Base	**12**
Principle No. 1	13
Principle No. 2	17
Principle No. 3	21
Principle No. 4	25
Principle No. 5	28
Principle No. 6	35
Principle No. 7	41
Principle No. 8	44
Principle No. 9	48
Principle No. 10	54
Principle No. 11	59
Principle No. 12	59
Principle No. 13	59
Deduction Items from the Zakat Base	**73**
Principle No. 14	74
Principle No. 15	84
Principle No. 16	89
Principle No. 17	95
Principle No. 18	99

Principle No. 19 104
Principle No. 20 110
Principle No. 21 115
Principle No. 22 120
Principle No. 23 127
Principle No. 24 131
Principle No. 25 143
Principle No. 26 148
Principle No. 27 152
Principle No. 28 161
Principle No. 29 166
Principle No. 30 166
Principle No. 31 174
Principle No. 32 178
Principle No. 33 193
Principle No. 34 197
Principle No. 35 206
Principle No. 36 206
Amendments to the net profit 224
Principle No. 37 225
Principle No. 38 232
Principle No. 39 238
Principle No. 40 244
Principle No. 41 248
Principle No. 42 253

Principle No. 43 258

Principle No. 44 258

Principle No. 45 282

Principle No. 46 282

Principle No. 47 282

Estimated Assessment 292

Principle No. 48 293

Principle No. 49 296

Principle No. 50 299

Principle No. 51 304

Application of Zakat Collection Regulations 308

Principle No. 52 309

Principle No. 53 312

Principle No. 54 315

Principle No. 55 319

Principle No. 56 322

Principle No. 57 334

Principle No. 58 337

Principle No. 59 342

Principle No. 60 347

Detailed Index of Principles 350

Introduction

Praise be to Allah, the Lord of the Worlds, and prayers and peace be upon the most honorable messengers and the Last Prophet, our Prophet Muhammad, and upon his family, companions and followers; Therefore:

In recent time the efforts made by the courts and judicial committees in various parts of the Kingdom of Saudi Arabia, and the rulings and decisions issued by them, constitute a priceless jurisprudential and judicial wealth, and a result that should be given attention and care. Considering the commercial and industrial revolution that Saudi Arabia is experiencing under Saudi Vision 2030, many people are facing numerous challenges in zakat and tax cases.

From the perspective of social responsibility that the General Secretariat of the Zakat, Tax, and Customs Committees adopted, it has sought to establish a solid foundation and reference for committee members, appointees, and interested parties. This includes the publication of the "Compendium of Principles Derived from the Decisions of the Zakat and Tax Appeal Committees for the Year 2025," which effectively contributes to addressing zakat disputes, thereby reducing the prolongation of litigation; as these documents clarify what the appeal committees have settled on in their decisions. This will reflect on shortening the duration of litigation for concerned parties, easing the burden on the judge, and achieving the principle of transparency that the General Secretariat pursues, in addition to providing practical aspects for the relevant authorities in legal and regulatory research, especially academic and training institutions, among others.

The Secretariat was keen to identify the principles settled in the Zakat and Tax Appeals Committees in order to achieve the Secretariat's goals of reducing efforts and knowing the judicial precedents of the Appeals Committee, which will reduce the number of cases filed before it, if the parties to the case have previously informed the head of the Committee about the subject matter of the case they intend to file.

We ask Allah, the Almighty, to make our work purely for Him, and to support our efforts and endeavors for what is good, as He is indeed a gracious benefactor.

Speech of His Excellency the Secretary General of the Zakat, Tax and Customs Committees

Praise be to Allah alone. Therefore:

Based on the vision and values of the General Secretariat of the Zakat, Tax and Customs Committees, which has undertaken the commitment to excel in resolving zakat, tax, and customs disputes, adopting innovative and effective methods, promoting transparency and neutrality, fostering cooperation among the stakeholders of the zakat, tax, and customs ecosystem, and playing an active role in enhancing the efficiency of legal adjudication—contributing thereby to the realization of the goals of Saudi Vision 2030 through the promotion of swift procedures and efficient justice and the adoption of the values of transparency and innovation—by supporting the Zakat, Tax, and Customs Committees in the prompt adjudication of pending disputes, and providing support and assistance to the Committees at all stages through the conduct of studies and research, and by serving taxpayers through clarifying the applicable laws, regulations, and judicial precedents, and regularly updating them. Among these efforts is the Project on (Compendium of Principles Derived from the Decisions of the Zakat and Tax Appeal Committees for the Year 2025).

The General Secretariat has given special importance to the decisions issued by the Appeal Committees and the principles they encompass, as they reflect the essence of well-established judicial reasoning. These principles are distinguished by their capacity for ongoing development and adaptation in light of emerging realities, given that they are formulated with the objective of resolving disputes brought before the judicial committees. Moreover, awareness of these principles contributes to reducing conflicts and disputes, thereby serving as a form of preventive guidance and protection for stakeholders' positions and offering them support in their proceedings before the committees.

This prestigious status of the principles of the Zakat, Tax, and Customs Committees calls for working to extract and disseminate them to the Public; in order to achieve the principle of transparency, highlight the ongoing efforts, and enrich the scientific arena; to make it a fertile ground for scholars, specialists, and research centers.

What the Secretariat is doing - in accordance with its role by disseminating these principles - is an affirmation of its relentless endeavor to achieve all that would raise the level of justice as befits it,

thanks to the support and guidance of the blessed leadership, which spares no effort in its generous support for the legislative and regulatory framework.

In conclusion, I would like to thank the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and His Royal Highness Crown Prince Mohammed bin Salman bin Abdulaziz, Prime Minister, for their unlimited care and support for judicial activities in various fields. I would also like to thank the staff of the General Secretariat for their outstanding efforts in issuing this publication, which I hope will achieve its objectives and be a qualitative addition in the legal and accounting field.

Secretary-General

Abdullah bin Abdulrahman Alsuhaibani

Methodology

The Secretariat was keen to select the established principles among the committees, which have a general character that applies to many issues and not just opinions related to a specific case, and it was not a legislative text. Given the various facts and circumstances of zakat and tax claims, they have been organized and classified by topic.

The project entailed a careful plan and methodology to bring it out in an easy and approachable manner. It has been divided into several stages as follows:

- A thorough inventory of the final decisions of the Appellate Circuit.
- Distinguishing what is stated in the mentioned principles as a narrative from the parties to the lawsuit, and the principles that express the committee's opinion.
- Identifying the opinions of the committee often found in the reasons for the decision, which have a general nature, and express a rule that applies to similar cases.
- Registering the decision number of the appeal in which the principle was mentioned, even if it is repeated in multiple decisions.
- Merging the identical principles in their wording into one principle while mentioning the decisions that were included in them.
- Merging the principles that are identical in meaning and similar in formulation into one principle, while choosing the best, clearest, and broadest formulations, and merging the formulations in occasional instances.
- Tabulating principles by topics.
- Numbering the principles sequentially.
- Not to publish any principle that has currently been established in the applicable systems and any new circulars, unless there is a benefit in mentioning it.
- Facilitating understanding of the appellate decision, the decision of the Appeals Committee from which the principle was derived has been provided, by placing the Appellate Circuit's decision on the analytical template, which highlighted the document of the decision, the facts, the reasons, and the text of the decision.
- If there is more than one decision through which the principle was derived, it is sufficient to include one decision, indicating the number and details of similar decisions if they exist.
- Ensuring the deletion of all data indicating the parties to the lawsuit or other parties without affecting the decision.

Principles Issued by the Decisions of the Zakat and Tax Appeal Circuits

Elements added back to the Base

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR-2025-243681

Case No. Z-243681-2024

Principle No. 1

The taxpayer may offset advance payments against accounts of Retention receivables and accrued revenues, provided that they pertain to the same customer..

Facts

Consideration was given to the appeal submitted on 30/03/2023 AD by [...], holding National ID No. [...], was considered in his capacity as the proxy for the Appellant Company pursuant to Power of Attorney No. (...) dated 24/02/1444 AH, and Law Practice License No. (...); and the appeal submitted on 02/04/2023 AD by the Zakat, Tax and Customs Authority against the decision of the First Circuiut for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238450) issued in Case No. (Z-238450-2024) relating to the Zakat assessment for the year 2020 AD, in the lawsuit submitted by the taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

To amend the Defendant's decision regarding the item of 'advance payments from customers' for the year 2020 AD.

Whereas this decision was not accepted by either party, they both filed appeals against it, and this Committee issued its decision No. (IR-2024-191229) in Case No. (Z-191229-2023), ruling as follows:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ... Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2023-93135), issued in Case No. (Z-93135-2022) relating to the Zakat assessment for the year 2020 AD.

Second: On the Merits:

1. Accepting the Taxpayer's appeal and remanding the case back to the Adjudication Circuit to be considered on the merits regarding the item of 'other credit balances for the year 2020 AD'.

Consequently, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City issued its decision No. (IZD-2024-238450) in Case No. (Z-238450-2024), which ruled as follows:

To record the settlement of the dispute.

Whereas the case was remanded back to the Appeal Committee on 13/10/2024 AD, and the Committee, having reviewed the aforementioned Adjudication Circuit's decision, decided to remand the case back to it once again to re-draft the decision to encompass all items under dispute and to resubmit it to the Appeal Committee with all claims included for adjudication, as the Committee has not yet exhausted its jurisdiction to rule on all the Taxpayer's claims. Consequently, and pursuant to that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City issued its corrective decision No. (ID-2025-238450) in Case No. (Z-238450-2024) dated 28/07/2025 AD, which ruled as follows:

1. To amend the Defendant's decision regarding the item of advance payments from customers for the year 2020 AD.
2. To record the settlement of the dispute regarding the item of other credit balances for the year 2020 AD.

Whereas this decision was not accepted by the Taxpayer, the Taxpayer submitted an appeal brief which was reviewed by the Committee, the substance of which requested the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit. Similarly, this decision was not acceptable to the Authority, which submitted an appeal brief reviewed by the Committee, the substance of which requested the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit.

On Tuesday, 03/03/1447 AH, corresponding to 26/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, appeared [...], holding National ID No. (...), in his capacity as the proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 24/02/1444 AH, and Law Practice License No. (...). Also appeared the Authority's representative, [...], holding National ID No. (...), pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Upon questioning the Authority's representative as to whether she wished to add anything further, she stated that she maintains all previous submissions filed in this case. Upon presenting the same to the Taxpayer's proxy, he responded by maintaining all previous submissions filed in this case. When both parties were asked if they wished to add anything further, they resolved to rest their case on the

previously submitted arguments; accordingly, the Committee decided to adjourn the hearing for deliberation prior to rendering the decision.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, the Committee found that the conditions for reviewing the appeal procedurally have been met, in accordance with the conditions prescribed in the relevant regulations, bylaws, and decisions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by persons with standing and within the statutory period prescribed for filing them.

On the merits, and regarding the appeals of both the Taxpayer and the Authority concerning the item of 'advance payments from customers', and pursuant to Paragraph (2) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2216) dated 07/07/1440 AH, which stipulates that: 'The Zakat base for a taxpayer who maintains commercial books shall consist of all their funds subject to Zakat collection, including the following: ... 2. Revenues and advance payments made to the taxpayer at the beginning or the end of the year, whichever is lower.'; and whereas the core and crux of the dispute between both parties lies in the Taxpayer's claim to exclude the balance of advance payments after the offsetting, on the grounds that it did not satisfy the Zakat year (Al Hawl). Conversely, the Authority contends that the decision of the Adjudication Circuit to perform the offsetting is incorrect, as the Regulations do not provide for the possibility of offsetting debit balances against credit balances; and that, in the event that offsetting is applied, the account of retentions ('performance guarantees held by customers') must be excluded from the offsetting, given that it is an account subject to contractual terms and conditions and does not contain commercial transactions. Upon reviewing the case file and its contents, and regarding the Authority's appeal to exclude the account of retention receivables from the offsetting; the Committee found that the Authority's submission is not substantiated by any supported principle or treatment. Furthermore, since it has been established that the counterpart to the advance payments consists of an account of Retention receivables and accrued revenues pertaining to the same customer, the Taxpayer is entitled to offset both accounts; consequently, the Authority's appeal must be rejected. As for the Taxpayer's appeal, wherein it requests the exclusion of the amount after offsetting due to the non-satisfaction of the one-year holding period condition; upon referencing the financial statements and the detailed movement statement submitted by the Taxpayer, and having tracked the detailed movement statement of the advance payments account while taking into account the debit transactions executed on the account, it was revealed that the portion of the account that satisfied the Zakat year (Al Hawl) amounts to SAR (103,047,266). By applying the offsetting to the aforementioned amount through deducting the Retention receivables of SAR (25,797,941) and the accrued revenues from customers of SAR (23,065,764), it becomes evident that the amount that must be added back is SAR (54,183,561), which reflects a variance

of SAR (18,570) from what was decided by the Adjudication Circuit. Accordingly, this Committee concludes to reject the appeals of both parties, and to amend the decision of the Adjudication Circuit regarding this item by adding SAR (54,183,561) only to the Zakat base.

Based on the foregoing, and taking into consideration the aforementioned grounds, the Committee unanimously resolved as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ... Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238450) issued in Case No. (Z-238450-2024) relating to the Zakat assessment for the year 2020 AD.

Second: On the Merits:

To reject the appeals of both parties, and to amend the decision of the Adjudication Circuit regarding the item of 'advance payments from customers'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-238774

Case No. Z-238774-2024

Principle No. 2

If the partner's current account is classified under current liabilities, its addition to the Zakat base shall be within the limits of the deducted items.

Facts

The appeal submitted on 19/06/2024 AD by [...], holding National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to the Articles of Association, was considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-228125), issued in Case No. (Z-228125-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1. To reject the Plaintiff's objection regarding the item of cost of investments in an associate company for the year 2017 AD.

2. To reject the Plaintiff's objection regarding the item of partners current account for the year 2017 AD.

3. To reject the Plaintiff's objection regarding the item of additional capital for the year 2017 AD.

4. To record the settlement of the dispute regarding the item of advance payments for the year 2017 AD.

5. To reject the Plaintiff's objection regarding the item of debts and the like for the year 2017 AD.

Whereas this decision was not accepted by the Taxpayer, it submitted an appeal brief which was reviewed by the Committee, the substance of which is summarized as follows:

With respect to the Taxpayer's appeal against the decision of the Adjudication Circuit, and regarding the item of 'partners' current account', the Taxpayer requests the reversal of the Committee's decision concerning this item, on the grounds that the amounts due to partners are classified in the statement of financial position under current liabilities, which did not contribute to financing any deducted items; thus, they do not constitute an internal source of financing and shall not be calculated as an equity item. Furthermore, the Authority added the balance of current accounts—amounts due to partners amounting to SAR (11,349,940)—as a standalone item under 'other additions' to the base, without offsetting it against deductions from the base. The amount was not classified as an equity item or under other liabilities that

financed assets deducted from the base, but was rather classified under 'other additions'. Accordingly, the Taxpayer requests that the balance of the current accounts be added under the item of 'debts and the like', which are added within the limits of deductions from the Zakat base, as it constitutes an external source of financing.

Regarding the item of 'debts and the like for the year 2017 AD', the Taxpayer requests the reversal of the Committee's decision concerning this item, on the grounds that the Authority added the debts and the like based on the year-end balance appearing in the statement of financial position, amounting to SAR (48,343,451), without considering the date of inception of the debt. This resulted in inflating the amounts added to the Zakat base by treating the duration of all such debts as 365 days. Consequently, the analytical schedule of debts was provided to demonstrate the movement of debts in reconciliation with the financial statements; accordingly, the Taxpayer requests that debts and the like be added to the Zakat base in accordance with the dates of inception of the debts, in the amount of SAR (35,063,594).

Regarding the item of 'cost of investments in associate companies for the year 2017 AD' and the item of 'additional capital for the year 2017 AD', the Taxpayer requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit toward these items. Accordingly, the Taxpayer requests the overturning (reversal) of the decision of the Adjudication Circuit regarding the items subject to appeal for the aforementioned reasons.

On Wednesday, 15/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Having reviewed the appeal request, the briefs submitted, and the papers and documents contained in the case file, and after due deliberation; and whereas the case is ripe for adjudication in its current state, the Committee hereby decides to close the pleadings and reserve the case for judgment.

Grounds:

The appeal submitted on 19/06/2024 AD by [...], holding National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to the Articles of Association, was considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-228125), issued in Case No. (Z-228125-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1. To reject the Plaintiff's objection regarding the item of 'cost of investments in an associate company' for the year 2017 AD.

2. To reject the Plaintiff's objection regarding the item of 'partners' current account' for the year 2017 AD.

3. To reject the Plaintiff's objection regarding the item of 'additional capital' for the year 2017 AD.

4. To record the settlement of the dispute regarding the item of 'advance payments' for the year 2017 AD.

5. To reject the Plaintiff's objection regarding the item of 'debts and the like' for the year 2017 AD.

Whereas this decision was not accepted by the Taxpayer, it submitted an appeal brief which was reviewed by the Committee, the substance of which is summarized as follows:

With respect to the Taxpayer's appeal against the decision of the Adjudication Circuit, and regarding the item of 'partners' current account', the Taxpayer requests the reversal of the Committee's decision concerning this item, on the grounds that the amounts due to partners are classified in the statement of financial position under current liabilities, which did not contribute to financing any deducted items; thus, they do not constitute an internal source of financing and shall not be calculated as an equity item. Furthermore, the Authority added the balance of current accounts—amounts due to partners amounting to SAR (11,349,940)—as a standalone item under 'other additions' to the base, without offsetting it against deductions from the base. The amount was not classified as an equity item or under other liabilities that financed assets deducted from the base, but was rather classified under 'other additions'. Accordingly, the Taxpayer requests that the balance of the current accounts be added under the item of 'debts and the like', which are added within the limits of deductions from the Zakat base, as it constitutes an external source of financing.

Regarding the item of 'debts and the like for the year 2017 AD', the Taxpayer requests the reversal of the Committee's decision concerning this item, on the grounds that the Authority added the debts and the like based on the year-end balance appearing in the statement of financial position, amounting to SAR (48,343,451), without considering the date of inception of the debt. This resulted in inflating the amounts added to the Zakat base by treating the duration of all such debts as 365 days. Consequently, the analytical schedule of debts was provided to demonstrate the movement of debts in reconciliation with the financial statements; accordingly, the Taxpayer requests that debts and the like be added to the Zakat base in accordance with the dates of inception of the debts, in the amount of SAR (35,063,594).

Regarding the item of 'cost of investments in associate companies for the year 2017 AD' and the item of 'additional capital for the year 2017 AD', the Taxpayer requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit toward these items. Accordingly, the Taxpayer requests the overturning of the decision of the Adjudication Circuit regarding the items subject to appeal for the aforementioned reasons.

On Wednesday, 15/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Having reviewed the appeal request, the briefs submitted, and the papers and documents contained in the case file, and after due deliberation; and whereas the case is ripe for adjudication in its current state, the Committee hereby decides to close the pleadings and reserve the case for judgment.

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / ... Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-228125), issued in Case No. (Z-228125-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

1. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'cost of investments in associate companies for the year 2017 AD'.

2. Regarding the item of 'partners' current account for the year 2017 AD':

A. To record the settlement of the dispute by adding an amount of SAR (386,694) to the Zakat base within the limits of the deducted items.

B. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the remaining amount of SAR (10,963,246) by adding it to the Zakat base within the limits of the deducted items.

3. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'additional capital for the year 2017 AD'.

4. To amend the decision of the Adjudication Circuit regarding the item of 'debts and the like for the year 2017 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239341
Case No. Z-239341-2024

Principle No. 3

Additional financing in the investee companies shall be deducted from the Zakat base only to the extent of the taxpayer's actual share in equity. Any amount exceeding their share percentage shall be deemed financing or lending to the other partner and may not be deducted. This shall not be considered double Zakat taxation as long as the other partner's share has been subject to Zakat within the investee company, given its status as an independent financial entity.

Facts

The appeal submitted on 07/07/2024 AD by the Zakat, Tax and Customs Authority was considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-204555), issued in Case No. (Z-204555-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

To annul the decision of the Defendant / Zakat, Tax and Customs Authority, against the Plaintiff / ... Real Estate Investment Company, Taxpayer Identification Number (...), relating to the assessment subject to the lawsuit.

Whereby this decision was not acceptable to the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief which was reviewed by the Committee, and it included that with respect to the item of 'additional financing in the investee companies (... Company) for the year 2017 AD, the Authority requests the reversal of the Committee's decision regarding this item, on the grounds that it deducted the value of investments in accordance with their carrying value appearing in the financial statements, pursuant to Paragraph (4), Item (A) of Article (4), Item (Second) of the Implementing Regulations for Zakat Collection, following the acceptance of deducting the additional financing provided to the investee companies according to the ownership percentage based on the movement submitted by the Taxpayer. The Authority states that upon reviewing the financial statements of ... Company (the investee company), it was revealed that the amount the Taxpayer requests to deduct constitutes additional capital contributions within equity, and there is no clarification regarding the purpose of the contribution. Furthermore, in subsequent years,

this contribution was reduced without any clarification or disclosure regarding the reasons for such reduction.

Accordingly, the Authority's procedure in treating it as additional financing and deducting it based on the ownership percentage means deducting the share subject to double Zakat taxation (Zakat duplication), which was executed based on the movement submitted by the Taxpayer. It was revealed that the ownership of ... Company is held 90% by ... Real Estate Investment Company and 10% by ... Project Company. It was previously clarified to the Taxpayer that even if the entire amount of this financing was provided by ... Company, the company receiving the financing constitutes a separate legal entity and has two partners (two separate financial entities); therefore, the financing is deducted in accordance with the ownership percentage. This is because the lender and the borrower constitute a single financial entity to the extent of 90%, which is intended to avoid double Zakat taxation (Zakat duplication) for the financial entity of ... Real Estate Investment Company.

Regarding the Taxpayer's plea in its lawsuit brief submitted before the decision-issuing Committee, stating that ... Project Company did not recognize the investment or the additional financing in its financial statements from its incorporation in 2012 AD until liquidation in 2020 AD; the Authority responds that upon reviewing the financial statements of the investee company (...), the investment of ... Project Company is disclosed in the capital note. The non-recognition of the investment by ... Project Company in its financial statements for the year 2017 AD does not mean that the Taxpayer (... Real Estate Investment Company) is permitted to deduct the full amount of the additional financing. Furthermore, through the financial statements of ... Company, it was noted that losses are covered from the additional capital contributions, and through Note No. (11) in the financial statements of ... Company, it is evident that losses are covered pursuant to the partners' resolution. This contradicts the Taxpayer's claim that the financing amount was provided 100% by ... Real Estate Investment Company, as the coverage of the loss is borne by all partners and not by a single partner only.

Regarding the Taxpayer’s indication concerning the acquisition of ... Company and that it became owned by ... Company for the year 2019 AD, the Authority clarifies that the amendment was executed in a year subsequent to the year subject to the dispute, and such amendment neither affects nor alters the issued assessment. Regarding the Taxpayer’s indication concerning the additional cost amounting to SAR (10,592,226), which represents the variance in the purchase value of a 45% share of ... Company from ... Company, the Authority clarifies that upon reviewing the financial statements of ... Company, it was revealed that this amount was not recorded in ... Company under any possible item. Furthermore, the Taxpayer did not submit any document supporting the addition of this value to the investment value, except that it attached the General Assembly minutes of ... Company and the partners' resolution of ... Real Estate Company regarding the exit of a partner and the amendment of the Articles of Association, none of which reflects this value. Accordingly, the Authority affirms the correctness of its procedure in refusing to accept

its deduction due to the lack of supporting documentary evidence; consequently, the Authority requests the acceptance of its appeal and the overturning of the decision of the Adjudication Circuit.

On Sunday, 02/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:01 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Having reviewed the appeal request, the briefs submitted, and the papers and documents contained in the case file, and after due deliberation; and whereas the case is ripe for adjudication in its current state, the Committee hereby decides to close the pleadings and reserve the case for judgment.

Grounds:

Whereas, upon reviewing the case documents and the appeal brief submitted by the Authority, it was established to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, the appeal request is procedurally acceptable, as it was submitted by an authorized capacity and within the statutory period prescribed for its execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'additional financing in the investee companies (... Company) for the year 2017 AD'; whereas Paragraph (4/A), Item (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4- (A): Investments in entities within the Kingdom—in partnership with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base.' Based on the foregoing, it is evident that the decision of the Adjudication Circuit concluded to annul the Authority's procedure on the grounds that the additional investment is classified under equity within the investee company and that the Taxpayer is entitled to deduct it in full. Conversely, the Authority appeals the resolution decision, stating that it deducted the additional investment based on the Taxpayer's share of the total equity in the investee company as a financing item to avoid double Zakat taxation (Zakat duplication).

Upon referencing the case file, it is revealed that the variance subject to the dispute consists of an additional contribution made by the partner 'the Respondent' in excess of its ownership percentage of (90%). Whereas the Authority based its procedure on calculating the additional investment in accordance with the total equity appearing in the financial statements of the investee company, it becomes evident that the Taxpayer is entitled to deduct only the 90% portion, as executed by the Authority. Any amount exceeding its share represents a loan to the other partner whose share is 10%. This is further supported by the provisions of

Note No. (11) of the financial statements of the investee company (... Real Estate Company), which included that: 'The partners resolved to contribute to covering the loss of the year 2017 AD in the amount of SAR (41,827,935) to be deducted from the additional capital contributions (SAR 25,212,121 for the year 2016 AD).'

Therefore, the Authority's procedure in not deducting the variance subject to the dispute does not result in double Zakat taxation (Zakat duplication). This finding is not undermined by the Taxpayer's plea that the additional financing was fully paid by it, given that the investee company constitutes a separate legal entity with two partners, and that the portion subject to Zakat in the investee company at 10% represents the taxation of the other partner's share (... Company). Accordingly, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit.

Based on the foregoing, and taking into consideration the aforementioned grounds, the Committee unanimously resolved as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-204555), issued in Case No. (Z-204555-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

To accept the Authority's appeal and annul the decision of the Adjudication Circuit.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-240222
Case No. Z-240222-2024

Principle No. 4

If the taxpayer discloses a balance under equity or other liabilities in their Zakat return, it shall be added to the Zakat base at the prescribed value without any reduction.

Facts

The appeal submitted on 01/08/2024 AD by the Zakat, Tax and Customs Authority was considered; against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-227517), issued in Case No. (Z-227517-2023) relating to the Zakat assessment for the year 2021 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: Procedurally :

To accept the objection submitted by the Plaintiff / ... for Trading, Commercial Registration No. (...), against the decision of the Defendant / Zakat, Tax and Customs Authority.

Second: On the Merits:

To amend the Defendant's procedure regarding the item of adding the variance in the balance of 'due to related parties', in the amount of SAR (29,040,310.09) for the year 2021 AD.

Whereas this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief, the substance of which is summarized as follows:

In objecting to the contested Adjudication Circuit's decision, the Authority claims that, with respect to the item of 'adding the variance in the balance of due to related parties', the decision of the Adjudication Circuit ruled on more than what the Taxpayer had requested. The Taxpayer's requests were limited to canceling the adjustments amounting to SAR (430,082); however, the Committee's decision ruled to amend the Authority's decision regarding the related parties by adding the item up to an amount not exceeding the deducted items from the Zakat base, which is something the Taxpayer did not request. The Authority notes that the Zakat due resulting from the decision of the Adjudication Circuit leads to a judgment exceeding what the Taxpayer requested, and exceeding the adjustments included in the Authority's assessment. Accordingly, the Authority requests the overturning of the decision of the Adjudication Circuit, and to rule

that Zakat be calculated in accordance with the Taxpayer's return, with Zakat due amounting to SAR (555,471.19) as requested by it.

On Thursday, 20/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Having reviewed the appeal request, the briefs submitted, and the papers and documents contained in the case file, and after due deliberation; and whereas the case is ripe for adjudication in its current state, the Committee hereby decides to close the pleadings and reserve the case for judgment.

Grounds:

Whereas, upon reviewing the case documents and the appeal brief submitted by the Authority, it was established to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, the appeal request is procedurally acceptable, as it was submitted by an authorized capacity and within the statutory period prescribed for its execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'adding the variance in the balance of due to related parties'; whereas Paragraph (1) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The Zakat base for a taxpayer maintaining commercial books shall consist of all their funds subject to Zakat collection, including the following: Capital, as well as any increase thereto if the source of such increase is an equity component or if it constitutes financing for any of the deducted items from the Zakat base.'

Furthermore, Paragraph (3) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The Zakat base for a taxpayer maintaining commercial books shall consist of all their funds subject to Zakat collection, including the following: 3. Debts due from the taxpayer classified as long-term and the like among other components of the base, such as: government financing, commercial financing, creditors, notes payable, bank overdrafts, and loans from owners or partners (including their current accounts...).'

Upon the Committee's deliberation on the facts of the case, it is revealed that the dispute lies in the Authority's request to overturn the resolution decision, on the grounds that applying the decision would lead to Zakat due in an amount less than what was reported in the Taxpayer's Zakat return. Upon reviewing the summary of the Authority's assessment results within the documents attached to the case file—which reflects the variances between the Zakat calculation by the Authority and the Taxpayer's return—it is

evident that the Taxpayer disclosed an amount of SAR (23,485,063) under equity or other liabilities. Conversely, the decision of the Adjudication Circuit ruled to add the item up to an amount not exceeding the deducted items in accordance with the Taxpayer's return, making the total amount to be added SAR (14,875,414), which is less than the amount reported by the Taxpayer in its return. Given that the Authority indicated in its appeal the adoption of what was stated in the Taxpayer's return, this Committee concludes to accept the Authority's appeal and amend the decision of the Adjudication Circuit, so that the amount to be added to the base shall be SAR (23,485,063) in accordance with the return submitted by the Taxpayer.

Based on the foregoing, and taking into consideration the aforementioned grounds, the Committee unanimously resolved as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / Zakat, Tax and Customs Authority, against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-227517), issued in Case No. (Z-227517-2023) relating to the Zakat assessment for the year 2021 AD.

Second: On the Merits:

To accept the Authority's appeal and amend the decision of the Adjudication Circuit regarding the item of 'adding the variance in the balance of due to related parties', in accordance with the grounds and merits set forth in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-243161
Case No. Z-243161-2024

Principle No. 5

The suspension of the company's activities or the freezing of its services does not preclude the Zakat funds appearing in its financial statements from being subject to Zakat. Furthermore, the plea of non-liability to Zakat due to the non-exercise of activity shall not be accepted as long as the existence of outstanding Zakat balances is established, including the debit balances due from related parties that arose following the reduction of in-kind capital.

Facts

The appeal submitted on 26/09/2024 AD by ..., National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to the Commercial Registration and the Articles of Association; and the appeal submitted on 16/02/2023 AD by the Zakat, Tax and Customs Authority, were considered; against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-235927), issued in Case No. (Z-235927-2024) relating to the Zakat assessment for the years from 2012 AD to 2019 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: Acceptance of the objection procedurally submitted by the Plaintiff / ... Holding Company, Commercial Registration No. (...), against the decision of the Defendant / Zakat, Tax and Customs Authority.

Second: On the Merits:

To reject the plea regarding the statutory period for executing the Zakat assessment for the years from 2012 AD to 2015 AD, on the grounds of Res Judicata.

To reject the plea regarding the Authority's procedure in the notices of amendment (Zakat assessments) for the years from 2012 AD to 2018 AD, on the grounds of Res Judicata.

To reject the Plaintiff's objection regarding net fixed assets and debit balances due from related parties for the years from 2016 AD to 2019 AD.

Whereas the Adjudication Circuit issued its aforementioned decision, and the case was considered anew as a result of the decision of this Committee No. (IR-2024-178747), issued on 27/04/2024 AD, which

provided for remanding the case to the Adjudication Circuit to be considered on the merits, and which ruled as follows:

First: Acceptance of the appeal procedurally submitted by the Appellant / Zakat, Tax and Customs Authority, against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (...), issued in Case No. (...) relating to the Zakat assessment for the years from 2012 AD to 2019 AD.

Abandonment of litigation with respect to the Authority's appeal on the item of 'Expiration of the statutory period for the years from 2012 AD to 2015 AD' and its dependent items.

With respect to the Authority's appeal on the item of 'net fixed assets and debit balances due from related parties for the years from 2012 AD to 2019 AD':

A- Abandonment of litigation with respect to the Authority's appeal on the item of 'net fixed assets and debit balances due from related parties for the years from 2012 AD to 2015 AD'.

B- To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and remand the case to it to be considered on the merits regarding the item of 'net fixed assets and debit balances due from related parties for the years from 2016 AD to 2019 AD'.

Whereas the contested decision was not acceptable to the Taxpayer, it submitted an appeal brief which was reviewed by the Committee, the substance of which is that the Taxpayer requests the acceptance of its appeal and the overturning of the decision of the Adjudication Circuit regarding the item of 'net fixed assets and debit balances due from related parties for the years from 2016 AD to 2019 AD'.

Whereas this decision was also not acceptable to the Authority, it submitted an appeal brief which included, with respect to the item of 'statutory validity of issuing the assessment for the years from 2016 AD to 2019 AD', that prior to the assessment, the Authority prepared the draft assessment for the years from 2012 AD to 2019 AD and notified the Taxpayer on 04/07/2021 AD to express its opinion regarding the Authority's procedure in the assessment prepared by them, enclosing the rationale and any other supporting documents for the Authority's adjustment items. Note that this was executed via official electronic channels through email, and the Taxpayer replied to the aforementioned email on 05/07/2021 AD. Upon studying the objection, and since adjustments to the return are executed automatically, all adjustments to the return are clarified; whereby upon receiving the notice of amendment, the Taxpayer is required to log into the Authority's website and access its private account to review the return and the adjustments made thereto, in order to accept or object to them from the same return.

Accordingly, it is evident that the Taxpayer was aware of the Authority's procedure regarding the adjustments to the assessment, represented by refusing to deduct the item of 'debit balances due from related parties' from the Zakat base for the years from 2012 AD to 2019 AD. The Taxpayer expressed its

observations on the aforementioned item and attached certain documents; however, the Authority did not accept the submitted documents. The Authority bases its procedure on Paragraph (7) of Article (Twenty-One) of the Implementing Regulations for Zakat Collection. Furthermore, the Authority objects to the item of 'statutory validity of issuing the assessment for the years from 2012 AD to 2015 AD'. Consequently, the Authority requests the overturning of the decision of the Adjudication Circuit regarding the items subject to the appeal for the aforementioned reasons.

On Tuesday, 11/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:45 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as the attorney-in-fact for the Appellant pursuant to Power of Attorney No. (...) issued on 11/02/1446 AH, and Attorney License No. (...). There also appeared the representative of the Respondent, ..., National ID No. (...), pursuant to Authorization No. (...) issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs dated 19/03/1445 AH. Upon asking the Appellant's attorney-in-fact about what he wished to add, he stated that he adheres to all previous submissions in this case, and added that 'in-kind capital' is not subject to Zakat. Upon presenting this to the Respondent's representative, she replied adhering to all previous submissions in this case. Upon asking both parties about what they wished to add, they resolved to rest their case on the previous submissions. Accordingly, the Committee decided to adjourn the hearing of the case for further study and deliberation, provided that the next hearing, dated 18/02/2025 AD, shall be designated for pronouncing the decision.

On Tuesday, 18/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 10:30 AM, in the presence of its members whose names are recorded above, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as the attorney-in-fact for ... Holding Company pursuant to Power of Attorney No. (...) issued on 11/02/1446 AH and Attorney License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to Authorization No. (...) issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs dated 19/03/1445 AH. Accordingly, the Committee hereby decides to close the pleadings and reserve the case for judgment.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it was established to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by an authorized capacity and within the statutory period prescribed for their execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'statutory validity of issuing the assessment for the years from 2012 AD to 2015 AD'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'The litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed to that effect.' Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to recording the lawsuit, the substance of the lawsuit and the response must be recorded before documenting the agreement, taking into account that the original lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit, or part thereof, is included in what has been agreed upon.'

Based on the foregoing; and whereas it has been established to the Committee that the Authority waived its appeal in accordance with the provisions of the Authority's supplementary appeal brief in Case No. (IR-178747-2023), which included: 'First: With respect to the Expiration of the statutory period for the years from 2012 AD to 2015 AD, the Authority's viewpoint is as follows: The Authority informs your esteemed Committee of the waiver of its appeal specifically regarding the aforementioned item and any procedures resulting from the Authority's appeal for this item, in accordance with the merits concluded in the decision of the Adjudication Circuit.' Consequently, this Committee concludes Abandonment of litigation with respect to this item.

Whereas, regarding the Authority's appeal concerning the item of 'statutory validity of issuing the assessment for the years from 2016 AD to 2019 AD'; and whereas Article (7) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'If the Authority deems it necessary to adjust the taxpayer's return, it shall notify them of the adjustments made to their Zakat return, the reasons for such adjustments, the amount of Zakat due, their right to object, and the statutory period specified for filing an objection. The notification shall be made via registered mail or any other means establishing receipt of the notification, including notification via official electronic services.'

Based on the foregoing, the validity of the Notice of Amendments issued by the Authority for all years is established, given that the intended purpose of the Notice of Amendment is for the Taxpayer to be aware of the reasons for the adjustment. Furthermore, what establishes the Taxpayer's knowledge of the reasons for the adjustments is its submission of sufficient pleadings regarding the items subject to objection. Additionally, the Authority clarified its procedure through the email sent to the Taxpayer, and the Taxpayer did not plea against the correctness of what the Authority indicated. Moreover, the Notice of Amendment explicitly stated that the adjustments were executed by attaching the reasons for such adjustments. In addition, the Taxpayer did not submit any evidence indicating its non-receipt of the attachment stipulated in the Notice of Amendments. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding this item.

Whereas, regarding the Taxpayer's appeal concerning the item of 'net fixed assets and debit balances due from related parties for the years from 2016 AD to 2019 AD'; and whereas Paragraph (5), Item (Second) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 5. The debit current account of the owner or partner subject to Zakat, not exceeding their share in the retained earnings.'

Furthermore, Paragraph (First/1) of Article (4) of the same Regulations stipulates that: 'The Zakat base shall consist of all the taxpayer's funds subject to Zakat, including: 1. Capital that has Completed one Zakat year (Al-Hawl), as well as any increase thereto even if it has not completed the holding period, provided that the source of such increase is an equity component or constituted financing for a fixed asset deducted from the Zakat base.'

Moreover, Paragraph (A) of Article (Four) of the same Regulations stipulates that: 'In the event that the taxpayer's return includes both a credit current account and a debit current account, the net variance between them shall be taken. However, if a credit current account appears for one partner and a debit current account appears for another partner, no offset/reconciliation shall be made between them.'

Pursuant to Paragraph (4) of Article (Sixth) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, which stipulates that: 'The Zakat base shall be calculated by adding the items set forth in Article (Four) of the Regulations, deducting therefrom the items set forth in Article (Five) of the Regulations, in accordance with the following controls: 4. No netting or offset shall be conducted between the credit balances of owners or partners (including their current accounts) and the debit balances of other owners or partners (including their current accounts).

Based on the foregoing, and whereas the Taxpayer's appeal lies in its request to overturn the contested decision due to its failure to discuss the substantive pleadings—which state that the company's services were frozen and it did not exercise any commercial activity during the years subject to dispute, and that it

possesses no Zakat assets to be subject to Zakat; and whereas the Taxpayer also requests the deduction of the debit balance from the credit balance, which represents the in-kind capital, on the grounds that the amount due from related parties was generated following the reduction of capital after excluding the in-kind shares, and that the company was unable to officially reduce its capital due to the freezing of its services; conversely, the Authority pleaded that it did not deduct the debit balances due from related parties amounting to SAR (194,090,902) due to the absence of retained earnings, pursuant to Paragraph (Second/5) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH.

Upon reviewing the case file, it was revealed that the Taxpayer submitted the audited financial statements for the years from 2016 AD to 2019 AD, the decision of the Appeal Committee for Resolution of Securities Disputes No. (493) for the year 2012 AD / 1433 AH, and the letter of the Enforcement Judge at the General Court in Riyadh dated 02/06/1435 AH; whereby it was established that the company's services were frozen and it did not exercise activity during the years subject to dispute. However, such circumstances do not preclude the Zakat assets appearing in the company's financial statements—represented by the debit balance due from related parties that arose following the reduction of the in-kind capital—from being subject to Zakat, which demonstrates the invalidity of the Taxpayer's claim of non-liability to Zakat in the event of not exercising commercial activity.

Furthermore, regarding the Taxpayer's request to deduct the debit balance from the credit balance of the same party; upon reviewing the provisions of Paragraph (Second/5) of Article (4), it is evident that the partner's debit current account shall be deducted from the Zakat base within the limits of their share in the retained earnings, which does not apply to the Taxpayer's case due to the absence of retained earnings required to accept the deduction of the item subject to dispute.

Whereas the taxpayer's financial statements constitute the primary supporting option for calculating the Zakat base; and whereas the taxpayer's statement of financial position included an item designated as 'due from related parties' under non-current assets, which must be taken into account for the correct calculation of the Zakat base; and given that debit balances due from related parties are not among the permissible deductible items as clarified above, and no netting may be conducted between them and the in-kind capital as requested by the taxpayer;

Furthermore, the certified public accountant (CPA), in their report for the year 2018 AD, qualified the taxpayer's treatment of the item subject to dispute as follows: 'The Zakat provision was calculated by deducting the debit balance due from related parties in the amount of SAR (194,042,902), which was classified as a non-current asset, by deducting it from the Zakat base, and we were not satisfied with such treatment.' Additionally, the CPA issued a disclaimer of opinion for the year 2019 AD in accordance with the report in the attached financial statements, stating the following: 'Our examination revealed

weaknesses in the company's records and internal control system; therefore, we were not satisfied that all of the company's expenses, revenues, assets, and liabilities have been recorded, or that what has been recorded is correct. Accordingly, we were unable to determine whether any necessary adjustments were required for the recorded or unrecorded assets and liabilities, and the resulting impact on the statement of income, other comprehensive income, statement of changes in partners' equity, and statement of cash flows.' Which leads the Circuit to conclude to reject the taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding this item.

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant Taxpayer / ... Holding Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-235927), issued in Case No. (Z-235927-2024) relating to the Zakat assessment for the years from 2012 AD to 2019 AD.

Second: On the Merits:

Abandonment of litigation with respect to the Authority's appeal on the item of 'statutory validity of issuing the assessment for the years from 2012 AD to 2015 AD'.

To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'statutory validity of issuing the assessment for the years from 2016 AD to 2019 AD'.

To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'net fixed assets and debit balances due from related parties for the years from 2016 AD to 2019 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-244114
Case No. Z-244114-2024

Principle No. 6

Official import data shall prevail in the event of a conflict with the Zakat return, and the imports variance shall be added to the Zakat base unless the Taxpayer establishes the cause of the discrepancy or submits valid justifications and supporting documents.

Facts

The appeal submitted on 20/01/2021 AD by ... Company, Commercial Registration No. (...); and the appeal submitted on 19/01/2021 AD by the Zakat, Tax and Customs Authority, were considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2020-235), issued in Case No. (Z-10172-2019) relating to the Zakat assessment for the year 2016 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

Procedurally :

Acceptance of the lawsuit procedurally submitted by the Plaintiff (... Company), Commercial Registration No. (...), and Taxpayer Identification Number: (...).

On the Merits:

1- To record the settlement of the dispute regarding the item of 'investment losses' for the year 2016 AD.

2- To reject the Plaintiff's objection regarding the item of 'imports variance' for the year 2016 AD.

3- To record the settlement of the dispute regarding the item of 'long-term loans' for the year 2016 AD.

4- To record the settlement of the dispute regarding the item of 'investments' for the year 2016 AD.

5- To reject the Plaintiff's objection regarding the item of 'accounts payable' for the year 2016 AD.

6- To reject the Plaintiff's objection regarding the item of 'other accounts payable' for the year 2016 AD.

7- To reject the Plaintiff's objection regarding the item of 'cash margins for letters of credit and letters of guarantee' for the year 2016 AD.

8- To reject the Plaintiff's objection regarding the item of 'debit balances due from related parties' for the year 2016 AD.

9- To accept the Plaintiff's objection regarding the item of 'trade receivables' for the year 2016 AD.

10- To reject the Plaintiff's objection regarding the item of 'total revenues' for the year 2016 AD.

11- To record the settlement of the dispute regarding the item of 'total expenses' for the year 2016 AD.

Whereas this decision was not accepted by both parties, they submitted appeals against it, and this Committee issued its decision No. (IR-2023-34725) in Case No. (Z-34725-2021), which ruled as follows:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2020-235), issued in Case No. (Z-10172-2019) relating to the Zakat assessment for the year 2016 AD.

Second: On the Merits:

To remand the case to the Adjudication Circuit to be considered regarding the item of 'short-term loans for the year 2016 AD', in accordance with the grounds and merits set forth in this decision.

Consequently, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City considered [the case] and issued its decision No. (IZD-2023-10172), issued in Case No. (Z-10172-2019), wherein the decision of the Adjudication Circuit ruled as follows:

To record the settlement of the dispute regarding the item of 'short-term loans' for the year 2016 AD.

Whereas the case was referred back to the Appeal Committee on 19/10/2024 AD, and the Committee reviewed the aforementioned Adjudication Circuit's decision and decided to remand the case to it once again to re-draft the decision so as to incorporate all the items subject to the lawsuit, and to refer it back to the Appeal Committee including all requests for adjudication; as the Committee has not exhausted its jurisdiction to adjudicate all of the Taxpayer's requests. As a result of that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City issued its corrective decision No. (ID-2025-10172), issued in Case No. (Z-10172-2019) on 15/07/2025 AD, which ruled as follows:

Procedurally :

To procedurally accept the lawsuit submitted by the Plaintiff (... Company), Commercial Registration No. (...), and Taxpayer Identification Number: (...).

On the Merits:

1- To record the settlement of the dispute regarding the item of 'investment losses' for the year 2016 AD.

2- To reject the Plaintiff's objection regarding the item of 'imports variance' for the year 2016 AD.

3- To record the settlement of the dispute regarding the item of 'long-term loans' for the year 2016 AD.

4- To record the settlement of the dispute regarding the item of 'investments' for the year 2016 AD.

5- To reject the Plaintiff's objection regarding the item of 'accounts payable' for the year 2016 AD.

6- To reject the Plaintiff's objection regarding the item of 'other accounts payable' for the year 2016 AD.

7- To reject the Plaintiff's objection regarding the item of 'cash margins for letters of credit and letters of guarantee' for the year 2016 AD.

8- To reject the Plaintiff's objection regarding the item of 'debit balances due from related parties' for the year 2016 AD.

9- To accept the Plaintiff's objection regarding the item of 'trade receivables' for the year 2016 AD.

10- To reject the Plaintiff's objection regarding the item of 'total revenues' for the year 2016 AD.

11- To record the settlement of the dispute regarding the item of 'total expenses' for the year 2016 AD.

12- To record the settlement of the dispute regarding the item of 'short-term loans' for the year 2016 AD.

Whereas this decision was not accepted by both parties, the Taxpayer submitted an appeal brief which was reviewed by the Committee, the substance of which is that the Taxpayer requests the acceptance of its appeal and the overturning of the decision of the Adjudication Circuit regarding the items of: 'long-term loans', 'accounts payable', 'other accounts payable', 'cash margins for letters of credit and letters of guarantee for the year 2016 AD', 'debit balances due from related parties for the year 2016 AD', 'total revenues', and 'total expenses'. Furthermore, the Authority submitted an appeal brief which was reviewed by the Committee, containing its objection to the decision of the Adjudication Circuit regarding the item of 'imports variance for the year 2016 AD'. Its appeal lies in the existence of a typographical error in the operative part of the Committee's decision, which stated: 'To record the settlement of the dispute regarding the item of imports variance for the year 2016 AD.' The Authority requests only the correction thereof, on the grounds that the Committee's rationale within the merits of its decision upheld the Authority's procedure and rejectd the Taxpayer's request regarding the imports variance for the year 2016 AD; however, the operative part of the decision contradicted what was stated in its merits. The Authority also submitted an appeal against the item of 'trade receivables for the year 2016 AD'. Consequently, the Authority requests the overturning of the decision of the Adjudication Circuit regarding the items subject to the appeal for the aforementioned reasons.

On Tuesday, 03/03/1447 AH, corresponding to 26/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as the legal representative of the Taxpayer pursuant to the Articles of Association attached to the case file. There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to Authorization No. (...) issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs dated 19/03/1445 AH. Upon asking the Authority's representative about what she wished to add, she stated that she adheres to all previous submissions in this case. Upon presenting this to the Taxpayer's attorney-in-fact, he replied adhering to all previous submissions in this case. Upon asking both parties about what they wished to add, they resolved to rest their case on the previous submissions. Accordingly, the Committee decided to adjourn the hearing for deliberation prior to pronouncing the decision.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it was established to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by an authorized capacity and within the statutory period prescribed for their execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'imports variance for the year 2016 AD'; upon reviewing the case file and the contested decision, the Committee found that the merits of the decision rejectd the Taxpayer's request on the grounds that the item comprises two sections in the Zakat return—foreign purchases and domestic purchases—and the Taxpayer failed to fill out these two items in its returns. Upon reviewing the Authority's responsive memorandum submitted before the Adjudication Circuit, it was revealed that the Authority stated that after comparing the imports according to the returns with the imports according to the data received from the Authority, it became evident that the imports according to the customs declaration were greater than the Taxpayer's returns, and that the Taxpayer must be assessed on this variance by adding it to the Zakat base, whereas the Taxpayer failed to clarify the cause of the discrepancy. Accordingly, and whereas the Authority requests in its appeal the correction of the decision to align with the merits; therefore, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding this item.

Furthermore, regarding the Taxpayer's appeal concerning the item of 'long-term loans'; upon reviewing the case file and the contested decision, the Committee found that the Taxpayer's appeal against the item subject to dispute is based on the argument that the settlement of the dispute in the contested decision relied on what was previously submitted in the objection before the Authority, and that it objects to that because the submissions made in the objection contradict the accounts and the financial statements, as they were submitted by mistake, and fees and expenses were added to the loan balance, which violates the Sharia Zakat rules. The Taxpayer also requests the adoption of the long-term loans as recorded in the accounts and financial statements that have Completed one Zakat year (Al-Hawl). Upon reviewing the case file, and whereas the Authority, according to its responsive memorandum submitted before the Adjudication Circuit, stated its agreement to the Taxpayer's objection, and since the contested decision recorded the settlement of the dispute regarding this item; consequently, this Committee concludes to reject the Taxpayer's appeal with respect to this item. Whereas, with respect to the appeals submitted by both the Taxpayer and the Authority regarding the remaining items subject to the lawsuit; and whereas there is no objection for this Committee to adopt the grounds of the contested decision without adding thereto, whenever it deems that such grounds obviate the need to introduce anything new; as its upholding of the decision based on the grounds contained therein confirms that it found nothing in the challenges raised against the decision that warrants a response beyond what those grounds included. As this is the case, and since it is established that the contested decision regarding the dispute over the items subject to appeal was aligned with the sound and sufficient grounds upon which it was built to support its judgment—given that the issuing Committee examined the core of the dispute therein and concluded with respect thereto the result reached in its operative part—and since this Committee has not observed anything requiring rectification or commentary in light of the pleadings raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal, reject the Authority's appeal, and uphold the contested decision of the Adjudication Circuit regarding the result it concluded for the remaining items subject to the lawsuit, supported by its own grounds.

Based on the foregoing, and invoking the aforementioned grounds, the Committee hereby decides by majority as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ..., Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2023-10172), issued in Case No. (Z-10172-2019) relating to the Zakat assessment for the year 2016 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'imports variance for the year 2016 AD'.

2- To reject the Authority's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'trade receivables for the year 2016 AD'.

3- To reject the Taxpayer's appeal with respect to the item of 'long-term loans'.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'accounts payable'.

5- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'other accounts payable'.

6- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'cash margins for letters of credit and letters of guarantee for the year 2016 AD'.

7- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'debit balances due from related parties for the year 2016 AD'.

8- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'total revenues'.

9- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'total expenses'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -246469-2025
Case No. Z-246469-2024

Principle No. 7

To negate the exercise of activity, nothing shall be taken into account except for the dated statutory documents that cover the period subject to the Zakat assessment.

Facts

The appeal submitted on 03/12/2024 AD by the Zakat, Tax and Customs Authority was considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-239714), issued in Case No. (Z-239714-2024) relating to the Zakat assessment for the year 1444 AH, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

To annul the decision of the Defendant / Zakat, Tax and Customs Authority, against the Plaintiff / ... (Taxpayer Identification Number: ...) relating to the assessment subject to the lawsuit.

Whereas this decision was not accepted by the Appellant (Zakat, Tax and Customs Authority), it submitted an appeal brief, the summary of which is as follows:

As the Authority objects to the contested Adjudication Circuit's decision, it claims that with respect to the item of 'Zakat assessment for the year 1444 AH', the Authority clarifies that its decision was compliant with the provisions of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, and the Rules for Calculating Zakat on a Estimated Assessment Basis issued in this regard. It was established to the Authority that commercial registrations existed during the financial period, and it was further established that the Taxpayer maintained a workforce during the years subject to dispute under the commercial registrations as follows: there are 8 workers under Commercial Registration No. (...) relating to ... Establishment, and there is 1 worker under Commercial Registration No. (...) relating to ... Factory. Given the Taxpayer's failure to submit evidence proving the cancellation of the industrial license, cessation of production, or the non-commencement of production for the factories, coupled with the established validity of the commercial registrations upon which the Taxpayer was assessed during the year subject to dispute, in addition to the Authority's submission of evidence establishing the existence of a workforce registered under the Taxpayer; the Authority hereby asserts the invalidity of the Committee's conclusion that the Authority failed to prove the Taxpayer's exercise of activity. Consequently, the Authority

requests the overturning of the decision of the Adjudication Circuit regarding the items subject to the appeal for the aforementioned reasons.

On Monday, 02/06/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the litigants, there appeared the representative of the Appellant, ..., National ID No. (...), pursuant to Authorization No. (...) issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs dated 19/03/1445 AH. However, neither the Appellee nor his legal representative appeared, despite the established statutory notification of the date of this hearing. Upon asking the Appellant's representative about what she wished to add, she stated that she adheres to all previous submissions in this case.

Grounds:

Whereas, upon reviewing the case documents and the appeal brief submitted by the Authority, it was established to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, the appeal request is procedurally acceptable, as it was submitted by an authorized capacity and within the statutory period prescribed for its execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'Zakat assessment for the year 1444 AH'; based on the foregoing, and upon reviewing the appeal brief and the submissions made by the parties during the memorandum exchange phase; and whereas the Appellant adheres to the correctness of its procedure and pleads that the Appellee was exercising activity during the year subject to dispute, while the Appellee pleads that he ceased exercising activity in 2018 AD; and whereas the Appellee owns a number of establishments, and upon verifying the Taxpayer Identification Number via the Authority's website, it was revealed that the Taxpayer Identification Number stipulated in the assessment relates to the main commercial registration, which is ... Establishment (...).

Since the Appellee pleads the non-exercise of activity, he was requested to submit evidence proving the non-exercise of activity for Commercial Registration No. (...) linked to the Taxpayer Identification Number. He submitted a document indicating the deregistration of the commercial registration; however, this document is undated and therefore cannot be considered evidence of the non-exercise of activity for the year subject to dispute, as the commercial registration expires on 17/10/1445 AH. He also attached a certificate of non-existence of workforce, but it was dated subsequent thereto, specifically on 06/04/1446

AH. As for the decision of the Adjudication Circuit to annul the Authority's decision, it was based on the ground that the Authority failed to submit evidence proving the exercise of activity, especially since it has access to data enabling it to prove the exercise of activity.

However, since the Appellee submitted an undated deregistration document and did not dispute the date of the commercial registration's deregistration stated in the appeal brief submitted by the Authority, consequently, the date of deregistration of Commercial Registration No. (...) was on 26/06/1445 AH, and all documents submitted by him to prove the non-exercise of activity came at a date subsequent to the year subject to dispute (1444 AH). Accordingly, the correctness of the Authority's procedure in issuing the assessment for the year subject to dispute is established. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit.

Based on the foregoing, and invoking the aforementioned grounds, the Committee hereby decides unanimously as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-239714), issued in Case No. (Z-239714-2024) relating to the Zakat assessment for the year 1444 AH.

Second: On the Merits:

To accept the Authority's appeal and annul the decision of the Adjudication Circuit.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -246748-2025
Case No. Z-2024-246748

Principle No. 8

Short-term loans whose movement, origination dates, and repayment dates establish that they do not overlap across more than one Zakat year (Al Hawl), and are not renewed for the same purpose or with the same creditor, shall not be deemed revolving loans. Consequently, they shall not be added to the Zakat base, provided that the Taxpayer submits sufficient documents establishing their nature.

Facts

The appeal submitted on 25/12/2024 AD by ..., National ID No. (...), in his capacity as the attorney-in-fact for the Appellant Company pursuant to Power of Attorney No. (...) dated 17/06/1446 AH and Law Practice License No. (...), was considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-233970), issued in Case No. (Z-233970-2024) relating to the Zakat assessment for the years 2019 AD and 2020 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- To reject the Plaintiff's objection regarding the item of 'long-term loans' for the year 2020 AD.

2- To reject the Plaintiff's objection regarding the item of 'short-term loans' for the years 2019 AD and 2020 AD.

Whereas this decision was not accepted by the Taxpayer, it submitted an appeal brief which was reviewed by the Committee, the substance of which is that the Taxpayer requests the acceptance of its appeal and the overturning of the decision of the Adjudication Circuit.

On Sunday, 23/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:45 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the Taxpayer's request to withdraw the lawsuit pursuant to Ministerial Resolution No. (1007), and the submitted evidence of the

Authority's consent thereto; and after deliberation, and whereas the case is ripe for adjudication in its current state, the Committee hereby decides to close the pleadings and reserve the case for adjudication.

Grounds:

Whereas, upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it was established to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, the appeal request is procedurally acceptable, as it was submitted by an authorized capacity and within the statutory period prescribed for its execution.

On the Merits, and regarding the Taxpayer's appeal concerning the item of 'short-term loans amounting to SAR 183,219,146 for the year 2019 AD'; whereas Paragraph (3) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The Zakat base of a Taxpayer who maintains commercial books shall consist of all of his assets subject to Zakat collection, including the following: 3- Debts due from the Taxpayer classified as long-term and their equivalents among other components of the base, such as: government financing, commercial financing, creditors, notes payable, overdraft accounts, and loans from owners or partners (including their current accounts), provided that the following shall be taken into consideration:

A- If the debts due from the Taxpayer or other financing sources have a duration of three hundred and fifty-four (354) days or more overlapping during the Zakat year (Al Hawl) and the following year, they shall be added to the Zakat base for each year in proportion to the number of days of each Zakat year (Al Hawl).

B- The Zakat year (Al Hawl) for debts shall not be interrupted by their renewal or rescheduling with the same creditor, or by replacing such debts with other debts or financing sources that finance what those debts used to finance.

C- What is added from the items mentioned in this Paragraph shall not exceed the total amount deducted from the base in accordance with Article (Five) of the Regulations.'

Furthermore, Article (18) of the same Regulations stipulates that: '.... and the burden of proving the correctness of the items and any other data contained in the return shall rest upon the Taxpayer. In the event that the Taxpayer is unable to prove the correctness of what is contained in his return, the Authority may disallow the item whose correctness is not proven by the Taxpayer, or conduct an Estimated Assessment in accordance with the Authority's perspective in light of the circumstances and facts associated with the case and the information available to it.'

Based on the foregoing, and whereas the core of the dispute between the parties lies in the Authority's procedure of adding the short-term loans for the years 2019 AD and 2020 AD amounting to SAR 183,219,146 on the basis that they are revolving loans; whereas the decision of the Adjudication Circuit

ruled to uphold the Authority's procedure despite the Committee confirming that the loans are not revolving based on the presented detailed movement statement, yet the Committee deemed the documents submitted by the Taxpayer to be insufficient.

Upon reviewing the case file and its contents, it was revealed that the Taxpayer submitted the financial statements and credit facility agreements with the following banks: (... Bank, ... Bank, ... Bank, ... Bank, ... Bank, ... Bank, and ... Bank), alongside bank statements and repayment transactions, in addition to the detailed detailed movement statement of the short-term loans, each individually. By tracking the presented loans' movement and comparing the commencement and maturity dates of the loans for each bank, it became evident that the loans subject to dispute are not revolving loans, which is what the Adjudication Circuit confirmed in its decision. Accordingly, and whereas the dispute between the parties is to determine whether or not the short-term loans are revolving loans, and since it has been established to this Committee that they are not revolving loans; consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'short-term loans amounting to SAR 183,219,146 for the year 2019 AD'. Furthermore, regarding the Taxpayer's appeal concerning the Zakat assessment for the year 2020 AD; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed to that effect.' Moreover, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to recording the lawsuit, the substance of the claim and the response must be entered before recording the agreement, taking into account that the original lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit, or part thereof, is included in what has been agreed upon.' Based on the foregoing, and since the Taxpayer's request to withdraw the appeal has been established to this Committee, which states: 'The Company wishes to withdraw the lawsuit in order to apply Ministerial Resolution No. (1007) of the Zakat Regulations for the year 1445 AH to the Zakat return for the year 2020 AD'; therefore, the Committee must accept the Taxpayer's request for the discontinuance of the lawsuit pursuant to Ministerial Resolution No. (1007) for the year 2020 AD.

Based on the foregoing, and invoking the aforementioned grounds, the Committee hereby decides unanimously as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for

Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-233970), issued in Case No. (Z-233970-2024) relating to the Zakat assessment for the years 2019 AD and 2020 AD.

Second: On the Merits:

To accept the Taxpayer's request for the discontinuance of the lawsuit pursuant to Ministerial Resolution No. (1007) for the year 2020 AD.

To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'short-term loans amounting to SAR 183,219,146 for the year 2019 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-244216
Case No. Z-244216-2024

Principle No. 9

Short-term loans whose movement, origination dates, and repayment dates establish that they do not overlap across more than one Zakat year (Al Hawl), and are not renewed for the same purpose or with the same creditor, shall not be deemed revolving loans. Consequently, they shall not be added to the Zakat base, provided that the Taxpayer submits sufficient documents establishing their nature.

Facts

The appeal submitted on 21/10/2024 AD by ..., National ID No. (...), in his capacity as the Chairman of the Board of Directors of the Appellant Company, pursuant to the attached appointment resolution and in accordance with the powers stipulated in the Articles of Association; and the appeal submitted by the Zakat, Tax and Customs Authority on 22/10/2024 AD, were considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238112), issued in Case No. (Z-238112-2024) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- To reject the Plaintiff's objection regarding the item of 'addition of short-term loans'.

2- To reject the Plaintiff's objection regarding the item of 'additions of bank overdrafts'.

3- To reject the Plaintiff's objection regarding the item of 'addition of accounts payable and accrued expenses'.

4- To obligate the Defendant to amend its decision regarding the offsetting of the debit balance relating to the item of 'related parties' to become SAR 89,064,717.91.

Whereas this decision was not accepted by both parties, each of them submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically concerning the item of 'related parties'; its appeal lies in the argument that the subsidiary companies are 100% owned and have separate financial liabilities. The Taxpayer contends that the decision of the Adjudication Circuit violated the provisions of Paragraph (1) of Article (Eight) of the Zakat Collection Regulations No. (2082),

which obligated holding companies and their wholly-owned subsidiaries (whether directly or indirectly) to submit a consolidated Zakat return, on the basis that such companies constitute a single financial liability. This is further demonstrated in Paragraph (4) of the same Article, which obligated holding companies and their subsidiaries owned jointly with others to submit separate returns, given that each company possesses an independent legal personality and a separate financial status; meaning that 100% ownership of subsidiaries implies a single financial liability. Accordingly, the Taxpayer deems the basis upon which the Adjudication Circuit relied in rejecting the offsetting of debit and credit balances between the subsidiaries and the holding company to be incorrect.

The Taxpayer further states that the Committee violated the provisions of Article (Four), Item (Second), Paragraph (A), which dictates that if the Taxpayer's return includes both a credit current account and a debit current account, the net difference between them shall be taken. The Taxpayer had supported the losses incurred by the company in the investments of (... Company) and (... Company), resulting in a debit balance of SAR 162,046,000 pursuant to Note (9-B - Due from related parties) of the financial statements for the fiscal year ended December 31, 2017 AD (Appendix 2), which is deemed as investment financing. The Taxpayer notes that the Authority added the liability arising from bearing these losses to the Zakat base, and therefore requests the deduction of the debit balance from the Zakat base. Although the Adjudication Circuit agreed to the amendment of the Authority—which added the carried-forward balance of (...) Group of Companies amounting to SAR 89,064,717.91 to the Zakat base pursuant to the movement of the 'due to related parties' account in Note (9-A) of the audited financial statements for the year 2017 AD—the Taxpayer states that the Authority failed to take into account the debit balance actually borne by the Taxpayer, which appears as a debit balance for the same group pursuant to the movement of the 'due from related parties' account in Note (9-B) of the financial statements, amounting to SAR 162,046,000. The Taxpayer contends that the debit balance of the subsidiaries should be deducted from the Zakat base. Consequently, the Taxpayer requests the overturning of the decision of the Adjudication Circuit regarding the items subject to appeal for the aforementioned reasons.

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically concerning the item of 'related parties'; its appeal lies in the argument that the subsidiary companies are 100% owned and have separate financial liabilities. The Taxpayer contends that the decision of the Adjudication Circuit violated the provisions of Paragraph (1) of Article (Eight) of the Zakat Collection Regulations No. (2082), which obligated holding companies and their wholly-owned subsidiaries (whether directly or indirectly) to submit a consolidated Zakat return, on the basis that such companies constitute a single financial liability. This is further demonstrated in Paragraph (4) of the same Article, which obligated holding companies and their subsidiaries owned jointly with others to submit separate returns, given that each company possesses an independent legal personality and a separate financial status; meaning that 100% ownership of subsidiaries implies a single financial liability. Accordingly, the Taxpayer deems the basis upon which the

Adjudication Circuit relied in rejecting the offsetting of debit and credit balances between the subsidiaries and the holding company to be incorrect.

The Taxpayer further states that the Committee violated the provisions of Article (Four), Item (Second), Paragraph (A), which dictates that if the Taxpayer's return includes both a credit current account and a debit current account, the net difference between them shall be taken. The Taxpayer had supported the losses incurred by the company in the investments of (... Company) and (... Company), resulting in a debit balance of SAR 162,046,000 pursuant to Note (9-B - Due from related parties) of the financial statements for the fiscal year ended December 31, 2017 AD (Appendix 2), which is deemed as investment financing. The Taxpayer notes that the Authority added the liability arising from bearing these losses to the Zakat base, and therefore requests the deduction of the debit balance from the Zakat base.

Although the Adjudication Circuit agreed to the amendment of the Authority—which added the carried-forward balance of (...) Group of Companies amounting to SAR 89,064,717.91 to the Zakat base pursuant to the movement of the 'due to related parties' account in Note (9-A) of the audited financial statements for the year 2017 AD—the Taxpayer states that the Authority failed to take into account the debit balance actually borne by the Taxpayer, which appears as a debit balance for the same group pursuant to the movement of the 'due from related parties' account in Note (9-B) of the financial statements, amounting to SAR 162,046,000. The Taxpayer contends that the debit balance of the subsidiaries should be deducted from the Zakat base. Consequently, the Taxpayer requests the overturning of the decision of the Adjudication Circuit regarding the items subject to appeal for the aforementioned reasons.

Furthermore, the decision was not acceptable to the Zakat, Tax and Customs Authority; hence, it submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal lies in the argument—concerning the item of 'related parties'—that it added the balance that Completed one Zakat year (Al-Hawl) from the item of 'due to related parties' amounting to SAR 94,474,717.91, and did not accept the offsetting of the debit balance appearing in the financial statements for the same item. This is because the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, did not stipulate the deduction of debit balances due from related parties for non-partners from the Zakat base. Given that the Taxpayer's objection lies in conducting an offset between the debit and credit balances of (...) Group of Companies, which is wholly owned by the partners of the Company, the Authority deems that it became evident to it through the financial statements of (...) Company, specifically concerning the capital section, that the partners in the Company are (as indicated in the Authority's appeal brief). Additionally, among the companies that represent debit related parties are the following (as indicated in the Authority's appeal brief), none of which is a partner in the Company.

It became evident to the Authority from the text of the aforementioned Article that the term 'partner' expressed in the Article is not a general term under which every person acquiring the status of partnership falls; rather, the context of the Article requires limiting the application of its rule to the partner in the same company subject to Zakat. Consequently, if this partner holds multiple statuses—by being a partner in the same company subject to Zakat and holding the same status in another subsidiary company—the rule of the Article applies to him in his capacity as a partner in the company subject to Zakat, not in his capacity as a partner in other sister companies. Therefore, the rule of the referred Article does not apply to the partners' shares in sister companies, and accordingly, their shares in sister companies shall not be treated in the same manner as their shares in the company subject to Zakat.

For this reason, the Authority rejectd the Taxpayer's objection, as it verified the companies whose deductions were rejected and found that they are not partners in (...) Company. Furthermore, the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH did not provide for deducting the debit balances of related parties for non-partners from the Zakat base; therefore, the Authority adheres to the correctness and legality of its procedure.

On Tuesday, 14/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as the attorney-in-fact for ... Company (a closed joint-stock company), pursuant to Power of Attorney No. (...) issued on 28/02/1446 AH, and Law Practice License No. (...). There also appeared the representative of the Zakat, Tax and Customs Authority, ..., National ID No. (...), pursuant to Authorization No. (...) issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs dated 19/03/1445 AH. Upon asking the Authority's representative about what he wished to add, he stated that he adheres to all previous submissions in this case. Upon presenting this to the Taxpayer's attorney, he responded by adhering to his previous submissions in this case. Upon asking both parties if they wished to add anything further, they decided to rest their case on the previous submissions. Accordingly, the Committee decided to close the pleadings and reserve the case for adjudication.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it was established to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by an authorized capacity and within the statutory period prescribed for their execution.

On the Merits, and regarding the appeals submitted by both the Taxpayer and the Authority concerning the item of 'related parties'; whereas Sub-paragraph (Second) of Paragraph (5) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'Second: The following shall be deducted from the Zakat base: 5- The debit current account of the owner or partner subject to Zakat, not exceeding their share in the retained earnings.'

Based on the foregoing, and since the dispute between the parties lies in the addition of the balance due to related parties amounting to SAR 89,064,717; upon reviewing the case file and the pleadings and documents contained therein, it is revealed that the Taxpayer's appeal is confined to the item of adding the balance due to related parties amounting to SAR 89,064,717 to the Zakat base, on the grounds that the Authority failed to take into account the debit balance actually borne by the Company, which appears as a debit balance for the same group pursuant to the movement of the 'due from related parties' account amounting to SAR 162,046,000. By reference to the Taxpayer's financial statements 'Note (9/A)', it reveals the existence of a debit balance for (... Company). Meanwhile, the Authority indicated in its responsive memorandum and appeal brief that (... Companies) were treated as a single group rather than each company individually, as it was revealed that there is a balance due from a related party belonging to one of the group companies. Since the Taxpayer requests to conduct an offset against the credit balance added by the Authority, and whereas the sound Zakat treatment requires conducting an offset between the debit and credit balances if they belong to a single financial liability; therefore, this Committee deems correct what the Taxpayer requests regarding conducting the offset between the debit and credit balances for the accounts belonging to (...) Group. However, the offset must be carried out against the balance due from related parties at the beginning of the period, rather than the end of the period as requested by the Taxpayer, due to the Taxpayer's failure to submit what clarifies the nature of the debit movement that occurred during the year on the debit account due from (...) Group.

Consequently, this Committee concludes to partially accept the Taxpayer's appeal by conducting the offset through adding the balances that Completed one Zakat year (Al-Hawl) according to the Authority's calculation amounting to SAR 94,474,717, while deducting the balance due from related parties amounting to SAR 34,593,000—which represents the balances that Completed one Zakat year (Al-Hawl) for the current and non-current portions of (...) Group—so that the credit balance added to the Zakat base after conducting the offset shall be SAR 59,881.71, and to amend the decision of the Adjudication Circuit regarding this item. This conclusion is not prejudiced by the Authority's pleading regarding its rejection of conducting the offset between the debit and credit balances on the grounds that the related parties are not partners in the Company; as it is established that offsetting between debit and credit balances shall be carried out in adherence to the sound Zakat treatment, without requiring that the offset be exclusively between the debit and credit balances of partners.

Regarding the Authority's appeal, and since its appeal lies in its rejection of conducting the offset according to the Committee's calculation for the item subject to dispute—as the Authority contends that the related parties are not partners in the Company, and further pleads the incorrectness of the Committee's calculation concerning the exclusion of the closing credit balance of the related party (... Company) amounting to SAR 5,410.00; upon reviewing the case file and with respect to the Authority's pleading regarding the incorrectness of offsetting the debit and credit balances of related parties, the Committee has concluded in the Taxpayer's appeal the correctness of offsetting the debit and credit balances belonging to a single financial liability, in accordance with the grounds set forth above.

Furthermore, regarding the Authority's pleading concerning the incorrectness of the Committee's calculation of the amount added to the base after conducting the offset; the amount to be added to the Zakat base from the credit balances that Completed one Zakat year (Al-Hawl) is what has been recalculated—as illustrated in the Taxpayer's appeal above—amounting to SAR 59,881.71. Consequently, this Committee concludes to reject the Authority's appeal regarding this item.

Based on the foregoing, and invoking the aforementioned grounds, the Committee hereby decides unanimously as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238112), issued in Case No. (Z-238112-2024) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

To partially accept the Taxpayer's appeal, amend the decision of the Adjudication Circuit, and reject the Authority's appeal regarding the item of 'related parties'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-231328
Case No. ZI-231328-2024

Principle No. 10

The standard for adding credit accounts to the Zakat base shall be the closing balance according to the financial statements upon establishing that the Zakat holding period has been completed. No consideration shall be given to intermediary transactions or internal accounting treatments unless it is proven that the Zakat holding period was not satisfied for either the opening or closing balance, and the burden of proving such shall rest upon the Taxpayer.

Facts

The appeal submitted on 02/02/2024 AD by ..., Resident ID No. (...), in his capacity as a Member of the Board of Directors of the Company pursuant to his appointment resolution certified by the Ministry of Foreign Affairs and the Ministry of Justice; and the appeal submitted by the Zakat, Tax and Customs Authority on 01/02/2024 AD, were considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2023-196732), issued in Case No. (Z-196732-2023) relating to the Zakat and Tax assessment for the year 2016 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- To reject the Plaintiff's objection regarding the item of 'formal defects of the Zakat and Tax assessment' for the year 2016 AD.

2- To reject the Plaintiff's objection regarding the item of 'social insurance'.

3- To reject the Plaintiff's objection regarding the item of the 'non-Saudi partner's share of provisions'.

4- To reject the Plaintiff's objection regarding the item of 'related parties'.

5- To reject the objection regarding the item of 'accounts payable'.

6- To reject the Plaintiff's objection regarding the item of 'suppliers and subcontractors'.

7- To amend the Defendant's decision regarding the item of 'accruals and credit accounts'.

8- To reject the Plaintiff's objection regarding the item of 'accrued expenses'.

9- To establishing the settlement of the dispute regarding the item of 'non-deduction of the settled Zakat liability in the final assessment'.

Whereas this decision was not accepted by both parties, each of them submitted an appeal brief which was reviewed by the Committee, the summary of which is as follows:

The Taxpayer appeals against the items subject to objection that were rejectd by the Adjudication Circuit, and requests the acceptance of its appeal and the overturning of the decision of the Adjudication Circuit regarding the items subject to appeal for the aforementioned reasons.

Furthermore, the decision was not acceptable to the Zakat, Tax and Customs Authority; hence, it submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal lies—specifically concerning the item of 'accruals and credit accounts for the year 2016 AD'—in requesting the revocation of the Committee's decision regarding this item. This is on the basis that a detailed review of the detailed movement statement for each supplier individually reveals that the balance that Completed one Zakat year (Al-Hawl) is higher than the year-end balance. Based on what has been clarified, it is evident that the presented detailed movement statement cannot be relied upon, as the amount that Completed one Zakat year (Al-Hawl) is higher than the balance at the end of the period, in addition to the existence of an (immaterial) difference in the opening balance, which confirms the correctness of the Authority's procedure.

The Authority responds to the rationale of the Committee's decision by stating that it reviewed the statement submitted by the Taxpayer to the Committee that issued the decision, from which it became evident that there is an intermediary account within the attached statement concerning the inventory account (...) amounting to SAR 352 million, and the nature of the account is 'debit'. The Taxpayer did not clarify the nature of this account or why it was included under trade accounts payable in the Taxpayer's financial statements. The Authority further mentioned that there is a difference in the opening balance compared to the balance appearing in the approved financial statements. Based on what has been clarified, it is evident that the detailed movement statement submitted by the Taxpayer cannot be relied upon.

Alternatively, and as a matter of precaution, in the event that the Taxpayer's statement is adopted and the balances are recalculated, it becomes clear that the balance that Completed one Zakat year (Al-Hawl)—which must be added to the Zakat base after taking into account each supplier individually—would be higher than the closing balance added by the Authority at the time of the assessment, as the amount would be SAR 128,817,280, as illustrated in Appendix No. (2). Moreover, the Committee that issued the decision accepted the Taxpayer's request and amended the Authority's procedure by adding an amount of SAR 24 million, without it being clear how the Committee arrived at this amount, and the Taxpayer did not mention any amounts or calculation for the balance that Completed one Zakat year (Al-Hawl) in its brief, which renders the decision defective and subject to revocation.

On Monday, 06/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held via Video conferencing in accordance with the remote litigation procedures; and pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal, examining the contents of the case file, and after statutory deliberation; and whereas the Committee found nothing requiring the attendance of the parties to the appeal, the Committee decided to close the pleadings and reserve the case for adjudication.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it was established to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by an authorized capacity and within the statutory period prescribed for their execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'accruals and credit accounts for the year 2016 AD'; whereas Paragraph (5) of Item (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base consists of all of the Taxpayer's assets subject to Zakat, including: 5- Government and commercial loans and their equivalents among other financing sources, such as creditors, notes payable, and overdraft accounts due from the Taxpayer, in accordance with the following: A- What remains of them in cash and has Completed one Zakat year (Al-Hawl). B- What was used of them to finance assets acquired for ownership. C- What was used of them in trading assets and has Completed one Zakat year (Al-Hawl).'

Based on the foregoing, and since the dispute lies in the Authority's appeal against the decision of the Adjudication Circuit—which ruled to amend the Authority's procedure regarding the addition of the 'accruals and credit accounts' item to the Zakat base for the year subject to dispute; upon reviewing the case file and examining the attached documents, it was revealed that the Authority's initial procedure in its Zakat assessment was to add an amount of SAR 40,225,489, representing the opening or closing balance, whichever is lower, according to the financial statements for the year subject to dispute. Meanwhile, the decision of the Adjudication Circuit concluded to amend the Authority's procedure and add an amount of SAR 24,291,116 on the ground that it Completed one Zakat year (Al-Hawl) according to the detailed detailed movement statement submitted by the Taxpayer. Upon reviewing the Authority's appeal, it was revealed that it pleads its inability to ascertain how this amount was arrived at. By reference to the case file and examining the detailed detailed movement statement, it was revealed that it included an intermediary account concerning the inventory (...) with an opening balance of SAR 352.8 million, which led to a

reduction in both the opening and closing balances of the credit accounts. Upon reviewing the Taxpayer's response, it was revealed that he clarified the nature of the intermediary account and its accounting treatment. However, what the Taxpayer stated does not negate the principle of the Zakat holding period being completed on the opening balances according to the detailed detailed movement statement. Since the amount subject to dispute according to the Authority's assessment represented the closing balance according to the financial statements, consequently, the correctness of the Authority's procedure in adding the closing balance amounting to SAR 40,225,487 is established. Accordingly, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'accruals and credit accounts for the year 2016 AD'.

Whereas, regarding the Taxpayer's appeal concerning the remaining items subject matter of the lawsuit; and whereas no fault can be found with this Committee for adopting the grounds of the contested decision without further addition, whenever it deems that such grounds are sufficient to obviate the need to introduce any new reasoning, since its endorsement of those grounds confirms that it found nothing in the challenges raised against the decision that merits a response beyond what was already contained in those grounds; As the case may be, and since it is established that the contested decision regarding the dispute over the items subject to appeal was in compliance with the sound and adequate grounds upon which its judgment was built, given that the committee that issued it undertook the examination of the core of the dispute therein and concluded, in respect thereof, to the outcome reached in its operative part; and whereas this Committee has observed nothing that warrants any qualification or further comment in light of the pleadings raised before it; Consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to the outcome it reached regarding the remaining items subject matter of the lawsuit, predicated upon its own grounds.

Based on the foregoing, and invoking the counterfeited grounds, the Committee hereby decides unanimously as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2023-196732), issued in Case No. (Z-196732-2023) relating to the Zakat and Tax assessment for the year 2016 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'accruals and credit accounts' for the year 2016 AD.

2- To reject the Taxpayer's appeal regarding the item of 'formal defects of the Zakat and Tax assessment' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

3- To reject the Taxpayer's appeal regarding the item of 'social insurance' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

4- To reject the Taxpayer's appeal regarding the item of the 'non-Saudi partner's share of provisions' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

5- To reject the Taxpayer's appeal regarding the item of 'related parties' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

6- To reject the Taxpayer's appeal regarding the item of 'accounts payable' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

7- To reject the Taxpayer's appeal regarding the item of 'suppliers and subcontractors' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

8- To reject the Taxpayer's appeal regarding the item of 'accrued expenses' for the year 2016 AD, and uphold the decision of the Adjudication Circuit.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-246702
Case No. Z-246702-2024

Principle No. 11

Differences resulting from prior period error corrections that do not appear in the financial statements until the subsequent year shall be deemed non-Zakat-assessed differences in their prior year. They may be added to the Zakat base in the year they appear, provided that the Zakat impact shall take effect in the year of their appearance, not in the year of their origination.

Principle No. 12

Investments for which selling transactions are established shall be deemed investments held for trading and shall not be deducted from the Zakat base. Furthermore, foreign or domestic investments may not be deducted except after submitting the statutory documents that establish the nature of the investment, as well as the calculation and payment of its Zakat.

Principle No. 13

The provision for doubtful debts shall not be deemed a deductible expense except in cases excluded by law. The burden of proof shall rest upon the Taxpayer to submit clear documents and accounting disclosures in accordance with the applicable standards; and insufficiency of disclosure or failure to present evidence justifies adding the provision back to the adjusted net profit.

Facts

The appeal submitted on 23/12/2024 AD by ..., National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to the Commercial Registration and the Articles of Association; and the appeal submitted by the Zakat, Tax and Customs Authority on 26/12/2024 AD, were considered; against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-239975), issued in Case No. (Z-239975-2024) relating to the Zakat assessment for the years from 2008 AD to 2014 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows: 'The Committee lacks subject-matter jurisdiction to consider this lawsuit submitted by the Plaintiff.'

Whereas the decision of the Adjudication Circuit issued in Case No. (Z-9853-2019) dated 19/08/2020 AD was not acceptable to the Taxpayer, it submitted an appeal registered under No. (Z-2020-28200) dated 26/06/2022 AD, which concluded to remanding the case to the Adjudication Circuit to be considered on the merits.

Furthermore, whereas the decision of the Adjudication Circuit issued in Case No. (IZD-153168-2023) dated 10/04/2023 AD was not acceptable to the Authority, it submitted its appeal against it, and this Committee issued its decision to remand the case back to the Adjudication Circuit to be considered on the merits pursuant to Decision No. (IR-2024-196742) dated 25/07/2024 AD. Subsequently, the Adjudication Circuit issued Decision No. (IZD-2024-239975) dated 26/11/2024 AD, which stated: 'The Committee lacks subject-matter jurisdiction to consider this lawsuit submitted by the Plaintiff.'

Accordingly, this Committee decided to resume the consideration of the lawsuit, and the Taxpayer submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically concerning the item of 'Zakat assessment for the years from 2008 AD to 2014 AD'; the Taxpayer pleaded that upon reviewing the decision of the Adjudication Circuit—the operative part of which ruled that the Committee lacks subject-matter jurisdiction—the Company adheres to its lawsuit and supports the decision of the Adjudication Circuit No. (IZD-2023-153168) in revoking the Defendant's decision with respect to all items subject matter of the lawsuit. The Taxpayer adheres to its pleadings that the Authority issued the Zakat assessments for the years from 2008 AD to 2014 AD without clarifying the grounds for the assessment, or stating the Taxpayer's right to object and the statutory period for submitting an objection, thereby violating the provisions of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH. Consequently, the Taxpayer requests the rejection of the Authority's appeal and the upholding of the decision of the Adjudication Circuit No. (IZD-2023-153168).

Furthermore, the decision was not acceptable to the Zakat, Tax and Customs Authority; hence, it submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal lies—specifically concerning the item of 'expiration of the statutory period for the years from 2012 AD to 2014 AD'—in the following: The first Adjudication Circuit issued Decision No. (IZD-2023-153168) in Case No. (Z-153168-2022), the operative part of which concluded to annul the Authority's procedure regarding the item of 'failure to clarify the grounds and details of amendments to the items subject to objection and all items associated therewith.' Consequently, the Authority submitted its appeal, registered under No. (Z-2023-196742), against the decision issued by the Adjudication Circuit, and the Appeal Committee issued Decision No. (IR-2024-196742), the operative part of which concluded to accept the Authority's appeal,

annul the decision of the Adjudication Circuit, and remand the case back to it to be considered on the merits for the years from 2012 AD to 2014 AD.

Pursuant to the Appeal Committee's decision, the case was remanded back to the Adjudication Circuit to execute the Appeal Committee's decision by considering the lawsuit in accordance with the stated grounds. However, the Adjudication Circuit issued its second Decision No. (IZD-2024-239975) in Case No. (Z-239975-2024), the operative part of which concluded that the Adjudication Circuits lack subject-matter jurisdiction to consider the Plaintiff's lawsuit, as the Adjudication Circuit deemed that it had previously adjudicated the case procedurally and on the merits, relying therein on Article (Thirty-Seven) of the Rules of Operation for the Zakat, Tax, and Customs Committees. Accordingly, the Authority affirms the incorrectness of the Committee's conclusion and states that it explicitly and clearly violated the conclusion of the Appeal Committee's decision. The Authority pleaded that the principle of 'exhaustion of jurisdiction' means the termination of judicial jurisdiction over the judicial committee after exhausting its efforts on the substantive matter adjudicated by a definitive decision. It is understood therefrom that if the judicial committee has not exhausted its efforts on the matter presented, the lawsuit does not exit its jurisdiction; thus, the Appeal Committee has the right to remand the case back to the same decision-issuing committee if it finds what warrants reviewing the judgment and rectifying any error or inadequacy therein, so that it may reconsider its decision in light of the Appeal Committee's remarks. This is on one hand. On the other hand, the reasoning of the Appeal Committee's decision stated textually: '...It was established to the Committee the correctness of the Authority's procedure in re-assessment in terms of the Authority's right to conduct the assessment, as it became clear that the statutory text stipulates that the Authority has the right to conduct an assessment if it deems that the tax it previously accepted was incorrect. Furthermore, it was revealed to the Committee that the responsive memorandum submitted by the Respondent to the Authority's supplementary memorandum did not include any other interpretation of the text whose correctness is maintained by the Authority. It also became clear to the Committee that the new assessments are also reasoned by the Authority; consequently, this Committee concludes to accept the Authority's appeal, annul the decision of the Adjudication Circuit, and remand the case back to it to be considered on the merits. In light of the remarks provided by the Appeal Committee, it decided to remand the case back to the decision-issuing committee to reconsider its decision. Consequently, the Adjudication Circuit was required to execute the appellate decision—given that the Appeal Committee is a higher tier—and to adjudicate the merits of the lawsuit. On the other hand, when the Adjudication Circuit fails to rule on the items on the merits, as is the case in the contested decision, and if the Appeal Committee decides to rule on the item on the merits, this would result in a violation of the principle of two-tier litigation. This principle is one of the fundamental tenets of the judicial system that the Committee may not violate, and the litigants may not waive, and which the Committee must address sua sponte (of its own motion). Therefore, the contested decision prejudiced the Authority's right, since ruling on the reasoning does not constitute an

adjudication on the merits of the item. Had the appellate judiciary ruled on the item on the merits, the Authority would not have been granted the opportunity to have it reviewed again; this is what needed to be clarified to the Committee. As for what was stated in the rationale of the contested decision that it had adjudicated the merits of the lawsuit, it is incorrect; the reason being that the Adjudication Circuit, in its decision annuld by the Appeal Committee, ruled only on the procedural aspect and revoked the Authority's procedure on that basis. Regarding the item of 'advances received', the Authority clarifies that it added the item of 'advances from tenants' amounting to SAR 1,168,134 for the years 2013 AD and 2014 AD, respectively, to the Zakat base on the grounds that it Completed one Zakat year (Al-Hawl), according to the financial statements, based on the opening or closing balance, whichever is lower, due to the failure to submit the account detailed movement statement during the year, pursuant to Paragraph (4) of Article (Four) of the Implementing Regulations for Zakat Collection. Regarding the item of 'investments in shares within the portfolio of (...) Bank', the Authority did not accept the deduction of investments in shares within the portfolio of (...) Bank for the year 2012 AD amounting to SAR 58,033,793 from the Zakat base, as they are trading shares and because sales transactions occurred during the year, which means that the purpose of the investment is trading. Furthermore, the Taxpayer failed to submit what clarifies the nature of the investment or a resolution from the competent authority regarding the company's investment intent prior to making the decision. Regarding the item of 'provision for doubtful debts', the Authority adjusted net profit by the balance of the formed provision for doubtful debts for the years 2013 AD and 2014 AD, respectively, by an amount of SAR 2,058,752, because provisions are non-deductible expenses. The base was also adjusted by the carried-forward balance of the provision for the years 2013 AD and 2014 AD, respectively, by the amounts of SAR 4,115,492 and SAR 6,174,244, as it became clear that the Taxpayer forms a provision for doubtful debts at a rate of 20% of the total value of accounts receivable from the tenants of (...) Complex. A rate of 20% was also calculated for the year 2011 AD. It was further revealed through the Taxpayer's financial statements that there was insufficient disclosure regarding the item during the years 2013 AD and 2014 AD, due to the Taxpayer's failure to present the debtors and the provision for doubtful debts properly in accordance with the applicable standards. Consequently, reliance was placed on the note of the item for the year 2012 AD. Since the Taxpayer did not submit an analytical statement of the provisions' movement from the actual accounts, and because the financial statements did not display the debtors and provision items for both years properly, the same treatment stated in the 2012 AD financial statements was adopted, pursuant to Paragraph (9) of Article (Four) of the Implementing Regulations for Zakat Collection. Regarding the item of 'provision for End-of-Service Award', the Authority clarifies that it adjusted net profit by the balance of the formed provision for End-of-Service Award for the year 2013 AD by an amount of SAR 784,129, because provisions are non-deductible expenses. The Authority further notes that the Taxpayer did not submit any new documents in the lawsuit. While the dispute lies in the Authority's treatment of the item according to the provision's detailed movement statement, the Taxpayer maintains the correctness of the formed provision balance, which represents a balance of SAR 483,032. The Authority clarifies that upon

reference to the financial statements, it became evident that the amount of SAR 483,032 is the net movement during the year (additions - utilizations) as shown in the statement of cash flows. Moreover, the financial statements did not display any disclosure for this provision, and the Taxpayer did not provide any details or detailed movement statement in its statement of claim. Accordingly, the provision's opening balance can be compared with its closing balance to result in a difference of SAR 483,032; therefore, the Authority adheres to the correctness of its procedure, pursuant to Paragraph (9) of Article (Four) of the Implementing Regulations for Zakat Collection. Regarding the item of 'profits from investments in subsidiaries for the year 2013 AD', the Authority clarifies that it deducted profits from investments in subsidiaries for the year 2013 AD amounting to SAR 21,680,111.00 from the net Profit, which represents profits that have been Zakat-assessed in the investee companies. What the Taxpayer is requesting is the deduction of dividend income amounting to SAR 2,154,184, which represents investment profits in previously Zakat-assessed associate companies. Since the Authority correctly deducted the Taxpayer's share in the results of subsidiaries and related companies treated under the equity method, the dispute lies in the amount of SAR 2,154,184 of dividend income from investments accounted for under the cost method, which are available-for-sale investments. The dividends received therefrom are deemed revenues that appear in the Taxpayer's income statement in the year of receipt and are consequently subject to Zakat, unless they were part of the current year's profits of the investee company. Since the Taxpayer did not submit any documents proving that these are distributions from the current year's profits, the Authority adheres to the correctness and validity of its procedure, pursuant to Paragraph (4/A) of Article (Four) of the Implementing Regulations for Zakat Collection. Regarding the item of 'available-for-sale investments for the year 2014 AD', the Authority did not accept the deduction of available-for-sale investments for the year 2014 AD amounting to SAR 60,944,613 from the Zakat base, due to the existence of transactions on them during the year, which means that the purpose of the investment is trading. Furthermore, the Taxpayer did not submit a resolution from the competent authority regarding the company's investment intent prior to making the decision. The Authority notes that the Taxpayer did not submit any new documents in the lawsuit; therefore, the Authority adheres to the correctness and validity of its procedure, pursuant to Paragraph (4) of Article (Four) of the Implementing Regulations for Zakat Collection. Regarding the item of 'errors relating to prior years for the year 2014 AD', the Authority clarifies that it added the item of errors relating to prior years for 2014 AD back to the net Profit, which consists of adding the difference between the opening balance of retained earnings for the year 2014 AD and the closing balance for the year 2013 AD, amounting to SAR 3,877,355. The Authority states that upon reference to the financial statements for the year 2014 AD, it became evident that the opening balance of retained earnings for the year was SAR 836,785,663, whereas the closing balance of the account in the financial statements for the year 2013 AD amounted to SAR 832,908,308. Consequently, the difference was added back to the adjusted profit for the year 2013 AD and to the Zakat base in the year 2014 AD, as it pertains to a prior year. The Authority points out that the Taxpayer did not submit any new documents in the lawsuit, and that by treating this item, the

addition was made as a result of calculating the difference between the opening and closing balances of retained earnings for the years 2013 AD and 2014 AD due to an amendment in the financial statements for the year 2013 AD; therefore, the Authority affirms the correctness and statutory validity of its procedure. The Authority concluded by requesting the acceptance of the appeal and the revocation of the decision of the Adjudication Circuit.

On Monday, 30/06/2025 AD, at exactly 12:30 PM, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote litigation procedures; pursuant to the provisions of Paragraph (1) of Article (Fifteen) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the litigants, ... appeared, National ID No. (...), in her capacity as the attorney for the Taxpayer pursuant to Power of Attorney No. (...) issued on 25/04/1446 AH, and practicing legal license No. (...). The Authority's representative, ..., appeared, National ID No. (...), pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (...) dated 19/03/1445 AH. Upon reviewing the refusal of the decision-issuing Adjudication Circuit to execute the Appeal Committee's directive to reconsider the lawsuit and its adherence to its opinion; and pursuant to the text of Paragraph (3) of Article (Thirty-Seven) of the Rules of Operation for the Zakat, Tax, and Customs Committees; and upon reviewing the papers and documents contained in the case file, and after discussion and deliberation, the Committee decided to adjudicate the lawsuit directly de novo. Upon questioning the Taxpayer's attorney as to what she wished to add, she stated that she adheres to what was previously submitted in this lawsuit. Upon presenting this to the Authority's representative, he responded by adhering to what was previously submitted in this lawsuit. Upon questioning both parties as to what they wished to add, they decided to rest their cases on the previous submissions. Whereas the case is ripe for adjudication in its current state, and after closing the pleadings and conducting the final deliberation.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it was established to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions; accordingly, both appeal requests are procedurally acceptable, as they were submitted by an authorized capacity and within the statutory period prescribed for their execution.

On the Merits, and regarding the Authority's appeal concerning the item of 'expiration of the statutory period for the years from 2012 AD to 2014 AD'; and whereas the Adjudication Circuit issued Decision No. (IZD-2023-153168) dated 10/04/2023 AD in Case No. (Z-153168-2022) without the Adjudication Circuit

exhausting its full jurisdiction by ruling on all of the Plaintiff's claims, as it did not adjudicate the following items: 'current accounts of partners - credit balance', 'accounts payable', 'advances received', 'investments in shares within the portfolio of (...) Bank', 'provision for doubtful debts', 'provision for End-of-Service Award', 'profits from investments in subsidiaries', 'available-for-sale investments', and 'errors relating to prior years'. Since the Committee had not exhausted its jurisdiction, the First Appellate Circuit for Income Tax Violations and Disputes issued Decision No. (IR-2024-196742) dated 25/07/2024 AD in Case No. (Z-196742-2023), which ruled to accept the Authority's appeal, annul the decision of the Adjudication Circuit, and remand the case back to it to be considered on the merits for the years from 2012 AD to 2014 AD. Pursuant thereto, the Adjudication Circuit issued Decision No. (IZD-2024-239975) dated 26/11/2024 AD in Case No. (Z-239975-2024), which stated: 'The Committee lacks subject-matter jurisdiction to consider the Plaintiff's lawsuit.' Whereas the Authority submitted its appeal against this decision in Case No. (Z-246702-2024) dated 23/12/2024 AD; and whereas the decision of the Adjudication Circuit No. (IZD-2024-239975) dated 26/11/2024 AD in Case No. (Z-239975-2024) concluded that it lacks subject-matter jurisdiction to consider the lawsuit, which consequently required the issuance of a decision by the Adjudication Circuit that comprehensively covers all of the Authority's requests and adjudicates them on the merits, so that the Committee may exhaust its jurisdiction by issuing a decision encompassing all of the Authority's requests. Whereas Paragraph (3) of Article (Thirty-Seven) of the Rules of Operation for the Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH, stipulates that: '3- If the Appeal Committee decides to annul the decision of the Adjudication Circuit issued for lack of jurisdiction, or for accepting a secondary plea that resulted in barring the progression of the lawsuit, or for the inadmissibility of considering it due to prior adjudication, or for non-hearing due to the expiration of the statutory period, or for formal unacceptability, or for the unacceptability of the lawsuit due to lack of clarification; it shall remand the case back to the Adjudication Circuit that issued the decision to consider the merits, unless the circumstances of the case are ripe for adjudication, or the circumstances of the case necessitate an expedited adjudication, or its subject matter has been settled by decisions or principles of the Appeal Committees; in which cases it may be adjudicated without being remanded.' Based on the foregoing, and since the appealed decision concluded that the Committee lacks jurisdiction to consider the lawsuit, and whereas this instance falls within the provisions of the aforementioned Article, and since the circumstances of the case are ripe for adjudication, the Committee hereby decides to resume the consideration of the lawsuit. Accordingly, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'expiration of the statutory period for the years from 2012 AD to 2014 AD'.

Regarding the Authority's appeal concerning the item of 'advances received'; whereas Paragraph (4) of Item (First) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base consists of all of the

Taxpayer's assets subject to Zakat, including: 4- Deferred revenues that have Completed one Zakat year (Al-Hawl).'

Based on the foregoing, since the dispute between the two parties is confined to adding the item of 'advances from tenants' amounting to SAR 1,168,134 for the years 2013 AD and 2014 AD to the Zakat base on the ground that it Completed one Zakat year (Al-Hawl), according to the financial statements based on the lower balance, due to the Taxpayer's failure to submit the account detailed movement statement during the year; and whereas payments received in advance are deemed a financing source, and the portion thereof that Completed one Zakat year (Al-Hawl) shall be added to the Zakat base. Upon the Committee's examination of the case file, it was revealed that the Taxpayer submitted the financial statements for the year 2013 AD in Arabic and for the year 2014 AD in English, along with the detailed detailed movement statement for the year 2013 AD, without submitting any statements relating to the year 2014 AD. Whereas the Authority challenged the accuracy of the submitted detailed detailed movement statement on the ground that the closing balance matches the financial statements, while the opening balances do not match the financial statements. Since the Taxpayer failed to submit the detailed detailed movement statement for the year 2013 AD matching the financial statements, failed to submit any account detailed movement statement for the year 2014 AD, and did not submit the documents through which the accuracy of his claims regarding the non-completion of the Zakat holding period on those balances could be verified; consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'advances received'.

Regarding the Authority's appeal concerning the item of 'investments in shares within the portfolio of (...) Bank'; whereas Paragraph (4/A) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'Investments in entities inside the Kingdom—jointly with others—if those investments are subject to Zakat collection under these Regulations; however, if the investment in those entities is not subject to Zakat collection, it shall not be deducted from the base.' Based on the foregoing, since the dispute between the two parties is confined to the Authority's non-acceptance of deducting investments in shares within the portfolio of (...) Bank amounting to SAR 58,033,793 from the Zakat base, on the ground that they are trading shares and because sales transactions occurred during the year; whereas the Taxpayer pleads that they are long-term investments and the reduction movement that occurred therein was not a sale, but rather a valuation difference based on fair value. Upon the Committee's examination of the case file, it was revealed that the Taxpayer submitted the financial statements for the year subject to dispute without submitting a statement for the portfolio of (...) Bank. Upon reviewing the financial statements and their accompanying notes related to long-term investments, it became evident to the Committee that these investments represent securities (corporate shares) traded on the Saudi Stock Exchange. The Taxpayer failed to submit the portfolio detailed movement statement to prove the non-existence of sales transactions during the year. Furthermore, the

Taxpayer did not submit what clarifies the nature of the investment or a resolution from the competent authority regarding the company's investment intent. Due to the Taxpayer's failure to submit the supporting documents for its standpoint, consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments in shares within the portfolio of (...) Bank'.

Regarding the Authority's appeal concerning the item of 'provision for doubtful debts'; whereas Paragraph (6) of Article (Six) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, relating to non-deductible expenses, stipulates that: '6- All provisions, with the exception of: A- Provision for doubtful debts for banks, provided that the bank submits a certificate from its board of directors specifying the amount of doubtful debts, and that (...) Agency approves it. B- Unearned premium reserves, and outstanding claims reserves in insurance (and/or) reinsurance companies (technical reserves), provided that they are added back to the Zakat base in the subsequent Zakat year (Al Hawl) and that their determination is in accordance with the professional standards applicable in this activity. Pursuant to Paragraph (2) thereof, which stipulates: 'Expenses which the Taxpayer is unable to prove having incurred by virtue of supporting documents or other evidence of proof.' Based on the foregoing, the dispute lies in the Authority adding the balance of the provision for doubtful debts back to the adjusted net profit. The Taxpayer pleads that the provision has been fully utilized, whereas the Authority pleads that the formed provisions are deemed non-deductible expenses; therefore, it was added back to the adjusted net profit. Furthermore, it is revealed through the Taxpayer's financial statements that there was insufficient disclosure regarding the item during the years 2013 AD and 2014 AD, due to the Taxpayer's failure to present the debtors and the provision for doubtful debts properly in accordance with the applicable standards. Upon the Committee's examination of the case file, it was revealed that the Taxpayer submitted the financial statements for the year 2013 AD in Arabic and for the year 2014 AD in English. Regarding the accounts receivable, it was found that they did not clearly include the provision for doubtful debts within the notes. Since the Taxpayer failed to submit what supports the validity of its pleadings, consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'provision for doubtful debts'.

Regarding the Authority's appeal concerning the item of 'provision for End-of-Service Award'; whereas Paragraph (6) of Article (Six) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, relating to non-deductible expenses, stipulates that: '6- All provisions, with the exception of: A- Provision for doubtful debts for banks, provided that the bank submits a certificate from its board of directors specifying the amount of doubtful debts, and that (...) Agency approves it. B- Unearned premium reserves, and outstanding claims reserves in insurance (and/or) reinsurance companies (technical reserves), provided that they are added back to the Zakat base in the subsequent Zakat year (Al Hawl) and that their determination is in accordance with the professional

standards applicable in this activity. Based on the foregoing, the dispute lies in calculating the charged balance of the provision for End-of-Service Award at a higher value than what appears in the financial statements. The Taxpayer pleads that the correct calculation for the charged balance of the provision subject to dispute is SAR 483,032; whereas the Authority responded that the financial statements did not display any disclosure for this provision. Upon reviewing the statement of cash flows, it became evident to the Committee that the net movement during the year (additions - utilizations) amounts to SAR 483,032, and that the Taxpayer did not provide any details or detailed movement statement in its statement of claim. The Authority stated that should the Committee hold another opinion, the amount claimed by the Taxpayer of SAR 483,032 shall be added back to the net profit as a formed provision, and the provision's opening balance shall be added to the Zakat base in the amount of SAR 679,155. Upon the Committee's examination of the case file, it was revealed that there is no note relating to the item subject to dispute to verify its movement during the period. Furthermore, the Taxpayer did not submit a statement of the provision's movement to verify its pleading regarding the incorrectness of the calculation. Since the Taxpayer failed to submit the supporting documents for its standpoint, consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'provision for End-of-Service Award'.

Regarding the Authority's appeal concerning the item of 'profits from investments in subsidiaries for the year 2013 AD'; whereas Paragraph (4/A) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'Investments in entities inside the Kingdom—jointly with others—if those investments are subject to Zakat collection under these Regulations; however, if the investment in those entities is not subject to Zakat collection, it shall not be deducted from the base.' Based on the foregoing, the dispute lies in the Authority's non-deduction of dividend income amounting to SAR 2,154,184 for the year 2013 AD. The Taxpayer pleads that this amount represents investment profits in previously Zakat-assessed associate companies; whereas the Authority pleads that dividend income from investments accounted for under the cost method is deemed revenue that appears in the Taxpayer's income statement in the year of receipt, and is consequently subject to Zakat, unless it was part of the current year's profits of the investee company. Furthermore, the Taxpayer failed to submit any documents proving that these are distributions from the current year's profits. Upon the Committee's examination of the case file, it was revealed that it is impossible to verify the Taxpayer's plea that the item subject to dispute relates to dividend distributions from subsidiaries. Upon reference to the statement of cash flows, it became evident that dividend income received from subsidiaries was disclosed independently from the item subject to dispute and with a different value, which constitutes prima facie evidence (presumption) that the item subject to dispute does not relate to subsidiaries, in addition to the fact that the Taxpayer holds other available-for-sale investments. Regarding the Taxpayer's statement that the Authority deducted investment profits from associate companies amounting to SAR 21,680,111;

and upon reference to the financial statements, it became clear to the Committee that the amount mentioned by the Taxpayer relates to the Taxpayer's share in the results of subsidiaries and a related company, and not as received dividend distributions. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'profits from investments in subsidiaries for the year 2013 AD'.

Regarding the Authority's appeal concerning the item of 'available-for-sale investments for the year 2014 AD'; whereas Paragraph (4/A) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: Investments in entities inside the Kingdom—jointly with others—if those investments are subject to Zakat collection under these Regulations; however, if the investment in those entities is not subject to Zakat collection, it shall not be deducted from the base. Furthermore, Paragraph (4/B) thereof stipulates that: 'The following shall be deducted from the Zakat base: Investments in entities outside the Kingdom—jointly with others—provided that the Taxpayer calculates, within its Zakat return, the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remits it to the Authority, while attaching audited accounts by a certified public accountant approved in the country of investment and endorsed by the official authorities; however, if it fails to comply with calculating and remitting Zakat accordingly, they shall not be deducted from the Zakat base. Based on the foregoing, the dispute lies in the non-acceptance of deducting the full value of available-for-sale investments for the year 2014 AD amounting to SAR 60,944,613. The Taxpayer pleads that the item subject to dispute represents long-term investments held for use and not for trading; whereas the Authority indicated in its responsive memorandum that it did not accept the deduction of the available-for-sale investments due to the existence of selling transactions on them during the year, which means that the purpose of the investment is trading. Upon reviewing the financial statements and their accompanying notes, it became evident to the Committee that there were selling transactions on the investments listed on the financial market, which means they are held for trading and consequently shall not be deducted. Regarding the investments not listed on the financial market, it was revealed that they consist of investments in two foreign companies and one domestic company only. With respect to the foreign companies, it is clear that the Taxpayer failed to submit the financial statements certified by a public accountant and endorsed by the official authorities, as well as proof of Zakat calculation and payment thereof; therefore, they shall not be deducted. As for the domestic company, it was revealed that the Taxpayer failed to submit proof that it is a partner in the company and did not provide any details related to the investment. Since the Taxpayer did not submit the supporting documents to validate its pleadings, and failed to submit a statement showing the detailed movement statement and specifics of these investments and proof of satisfying all the aforementioned requirements; consequently, this Committee concludes to accept the Authority's appeal

and annul the decision of the Adjudication Circuit regarding the item of 'available-for-sale investments for the year 2014 AD'.

Regarding the Authority's appeal concerning the item of 'errors relating to prior years for the year 2014 AD'; the dispute lies in adding back errors relating to prior years of the investee companies. The Taxpayer objects to the Authority's procedure and clarifies that this item represents previously Zakat-assessed profits, which consist of an amendment to certain accounting errors of (...) Company; whereby the fixed assets purchased from the replacement and renewal provision were transferred to fixed assets and treated as asset additions, as stated in the financial statements and their accompanying notes of (...) Company for the year 2014 AD.

Conversely, the Authority pleads that it added the item of 'errors relating to prior years for 2014 AD' back to the net Profit, which consists of adding the difference between the opening balance of retained earnings for the year 2014 AD and the closing balance for the year 2013 AD, amounting to SAR 3,877,355. It also became evident upon reviewing the financial statements for the year 2014 AD that the opening balance of retained earnings for the year was SAR 836,785,663, whereas the closing balance of the account in the financial statements for the year 2013 AD amounted to SAR 832,908,308. Consequently, the difference was added back to the adjusted profit for the year 2013 AD and to the Zakat base in the year 2014 AD, as it pertains to a prior year. The Authority further notes that it does not object to transferring the addition of this difference and the amendment to the book net profit of the year 2013 AD instead of the year 2014 AD, because this contested difference of SAR 3,877,355 results from the discrepancy between the closing balance of retained earnings shown in the 2013 AD financial statements amounting to SAR 832,908,308 and the opening balance of retained earnings shown in the 2014 AD financial statements amounting to SAR 836,785,663; meaning it was not subject to Zakat in the year 2013 AD due to its non-appearance in the financial statements until the year 2014 AD. Upon the Committee's examination of the case file—which includes the financial statements for the year 2013 AD (in Arabic), the year 2014 AD (in English), the Zakat assessment statement submitted by the Taxpayer for the year subject to dispute, and the financial statements of (...) Company for the year 2014 AD—it became evident, by comparing the Taxpayer's financial statements, that there was an increase in the 2013 AD closing balance of retained earnings shown within the 2014 AD financial statements compared to the 2013 AD closing balance of retained earnings shown within the 2013 AD financial statements. The Authority's procedure came by calculating the difference and adding it to the net profit for the year 2014 AD because it was not subject to Zakat in the prior year. Whereas the impact of this difference will not be confined to increasing the base additions (retained earnings), but will also appear as an increase in the investment value in (...) Company held by the Plaintiff, which will affect the base deductions for the year subject to dispute. Since the general rule under accounting standards dictates that the effect of prior period error corrections is carried out by restating the opening balances in the financial statements of the current period, the Zakat impact of this difference shall accordingly take effect on the year subject to dispute (2014 AD) and not on the assessment of the prior year.

Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'errors relating to prior years for the year 2014 AD'.

Whereas, regarding the Taxpayer's appeal concerning the 'Zakat assessment for the years from 2008 AD to 2014 AD'; and upon the Committee's examination of the case file, it was revealed that the Authority abandoned its appeal under Appellate Decision No. (IR-2024-196742) for the years from 2008 AD to 2011 AD with respect to the item of 'revoking the Authority's procedure associated with the expiration of the statutory period for assessment for the years from 2008 AD to 2011 AD', wherein the decision concluded to accept the abandonment of litigation. Consequently, the Taxpayer's appeal for the years from 2008 AD to 2011 AD lacks merit; therefore, this Committee concludes to reject the Taxpayer's appeal regarding the years from 2008 AD to 2011 AD. Regarding the years from 2012 AD to 2014 AD, and since the Taxpayer's awareness of the grounds for adjustment has been established—given that the Authority submitted proof of the grounds for adjustment addressed to the Taxpayer and also attached its letter of objection to those items—this Committee consequently concludes to reject the Taxpayer's appeal.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer, ... Holding Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-239975), issued in Case No. (Z-239975-2024) relating to the Zakat assessment for the years from 2008 AD to 2014 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'expiration of the statutory period for the years from 2012 AD to 2014 AD'.

2- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'advances received'.

3- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments in shares within the portfolio of (...) Bank'.

4- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'provision for doubtful debts'.

5- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'provision for End-of-Service Award'.

6- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'profits from investments in subsidiaries for the year 2013 AD'.

7- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'available-for-sale investments for the year 2014 AD'.

8- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'errors relating to prior years for the year 2014 AD'.

9- To reject the Taxpayer's appeal regarding the item of 'Zakat assessment for the years from 2008 AD to 2014 AD'.

Deduction Items from the Zakat Base

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-233354
Case No. Z-233354-2024

Principle No. 14

The debit balance of related parties shall be deducted from the Zakat base if the investment is in entities inside the Kingdom subject to Zakat collection, and it is established that its Zakat has been assessed within the capital of the subsidiary; provided that the financial statements and their accompanying notes indicate that the transactions between the related parties are arm's-length, genuine commercial transactions comparable to transactions with external parties, and pursuant to actual contracts and payment certificates. The deduction shall be applied in accordance with the Taxpayer's ownership percentage.

Facts

Consideration was given to the appeal submitted on 13/03/2024 AD by ..., National ID No. (...), in her capacity as the attorney for the Appellant Company pursuant to Power of Attorney No. (...) dated 09/01/1444 AH, and practicing legal license Resolution No. (...); and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-34521), issued in Case No. (Z-34521-2021) relating to the Zakat assessment for the year 2016 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

Regarding the Plaintiff's objection to the item of 'non-deduction of other long-term debit assets for 2016 AD':

First: To reject the Plaintiff's objection to the item of 'prepaid rents to (...) Company'.

Second: To reject the Plaintiff's objection to the item of 'payments under investment account in (...)'.

Whereas the Adjudication Circuit issued its aforementioned decision and reconsidered the lawsuit de novo as a result of this Committee's Decision No. (IR-2023-161908); and on Monday, dated 02/12/2024 AD, the Committee held its hearing to consider the lawsuit. Upon reviewing the case, the Committee decided to remand the lawsuit back to the Adjudication Circuit to redraft the decision to encompass all items subject to the lawsuit, and to return it to the Appeal Committee encompassing all of the Plaintiff's claims for adjudication, since the Committee had not exhausted its jurisdiction by ruling on all of the Plaintiff's claims.

Consequent to that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate issued Decision No. (IZJ-2025-34521) in Case No. (Z-34521-2021), which ruled as follows:

First: To adjust the Defendant's procedure regarding the item of 'real estate investments under development for the year 2016 AD', in accordance with the merits of the decision.

Second: To accept the Plaintiff's objection regarding the item of 'investments for the year 2016 AD' and the item of 'investment in (...) Company for the year 2016 AD'.

Third: To reject the Plaintiff's objection to the item of 'investment in funds for the year 2016 AD'.

Fourth: To reject the Plaintiff's objection to the item of 'debit balance of related parties for the year 2016 AD'.

Fifth: Regarding the Plaintiff's objection to the item of 'non-deduction of other long-term debit assets for 2016 AD':

First: To reject the Plaintiff's objection to the item of 'prepaid rents to (...) Company'.

Second: To reject the Plaintiff's objection to the item of 'payments under investment account in (...)'.

As this decision did not meet the acceptance of either party, each of them submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and with respect to the item of 'investment in funds for the year 2016 AD', its appeal lies in that the investment in (...) Bank Fund for financing alternative opportunities consists of a partnership with (...) Bank, which is a limited liability company in the Cayman Islands. This investment was entered into for the purpose of utilizing long-term returns, as evidenced by the continuation of the investment for several years. The Taxpayer states that it attached the investment amount transfers and their accounts from the accounting system, and it is evident that the investment is outside the Kingdom. The Taxpayer believes that for the investment deduction from its Zakat base to be accepted, it is sufficient to declare it within its revenues regarding the profits resulting from entering into this investment. It further noted that the financial statements were prepared and certified by a Certified Public Accountant in the Kingdom. Nevertheless, it considers that the investment deserves deduction from the Zakat base because it has been discharged from its liability and was not in its possession at the end of the Zakat year (Al Hawl). The Taxpayer relied on an appellate decision that supported a taxpayer in deducting an investment even if the taxpayer did not submit a certificate from a public accountant proving that it had been Zakat-assessed in the country of investment, as long as it was among assets held for use and its profits were declared in the financial statements of the Taxpayer (the investor). The said decision provided that the non-existence of selling transactions on the investment confirms that it is a non-current investment held for use, and its Zakat shall be due on the profit rather than the investment principal; therefore, the failure to submit a public accountant's certificate to prove that it has been Zakat-

assessed in the country of investment has no impact. Consequently, the investment shall be deducted and restricted to subjecting its profits to Zakat. Furthermore, the investment in funds satisfies the conditions set by the Committee for accepting the investment deduction, as stated in the decision. The Taxpayer requests the Appeal Committee to issue a decision supporting the Taxpayer's right to deduct the full value of the investment in the fund for the year 2016 AD. Regarding the item of 'debit balance of related parties', the Taxpayer requests the revocation of the Committee's decision regarding this item on the grounds that it owns a 34% share in (...) Company and a 50% share in (...) Company, and the necessary financial support was provided to them to sustain their operations. It noted that there is no intention by the Taxpayer to demand the repayment of this support by the investee company within a specified period, nor does it receive any interest thereon. It appears in the Taxpayer's financial statements within non-current assets, which confirms that it is a long-term investment and not a loan required to be repaid. Moreover, it is added back to the Zakat base of the investee company, and it affirms that this item constitutes an additional investment that must be deducted from the Zakat base. Regarding the item of 'non-deduction of other long-term assets', the Taxpayer requests the deduction of the item's full value from the Zakat base. Accordingly, the Company submitted a detailed analysis of the item as recorded in the audited financial statements. Regarding the item of 'real estate investments under development', the Taxpayer appeals against the decision of the Adjudication Circuit, pointing out that it submitted a detailed analysis of the item extracted from the financial statements audited by a Certified Public Accountant in the Kingdom. It noted that the item is classified in the financial statements within non-current assets, which indicates the intent to retain the investment; had the purpose of the investment been trading, the public accountant would not have approved such classification, as accounting standards stipulate so. It further stated that the residential villas complex project on King Abdulaziz Road in (...) consists of constructing a residential villas complex on land leased under a long-term investment lease agreement among a number of partners. It noted that the purpose is to construct the villas, lease them out, and utilize their returns upon completion of construction. It also submitted the partners' resolution clarifying the Taxpayer's investment intent in these two projects. It stated that the investment lease agreement on which the two projects are established is registered under the name of one of the partners, namely the partner/ (...), who owns a 35% share in (...) Company. Due to the difficulty of transferring the ownership of the investment leasehold right to the Company, the partner provided a confirmation and declaration that the ownership of the investment leasehold right (the utilization of the leased land) and the entire investment belong to (...) Company, and are not owned by him personally; therefore, it requests the deduction of the full value of the investment. Regarding the item of 'investments', the Taxpayer appeals against the decision of the Adjudication Circuit, pointing out that it failed to state its grounds regarding the investment in (...) Company for the year 2016 AD amounting to SAR 35,460, which the Taxpayer requested to be accepted for deduction from the Zakat base, and for which it submitted its justifications and legal grounds.

Likewise, the decision did not meet the acceptance of the Zakat, Tax and Customs Authority; therefore, it submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal with respect to the item of 'real estate investments under development' lies in requesting the revocation of the Committee's decision regarding this item. This is on the grounds that the Authority reviewed the notes to the financial statements, from which it became evident that they do not indicate in any manner whatsoever that they are held for use. Furthermore, the Taxpayer failed to submit the land title deeds or the documents supporting its intent upon entering into these investments; accordingly, the Authority maintains the correctness and validity of its procedure. Upon reviewing the Committee's decision, it was found that it accepted the item on the assumption that the Taxpayer submitted the documents. The Authority clarifies that since the Taxpayer's objection initially lacked documentary evidence for the item subject to appeal, as well as clarification on how it was initially treated before the Authority, and proof of this item in a proper accounting manner along with the public accountant's detailed certification thereof; therefore, the Authority rejected the Respondent's objection pursuant to Paragraph (3) of Article (Twenty) of the Implementing Regulations for Zakat Collection. Regarding the item of 'investments' and the item of 'investment in (...) Company', the Authority requests the revocation of the Committee's decision regarding this item on the grounds that the Authority referred to the financial statements of those companies submitted to the Authority, from which it became evident that (...) Company does not own a share in the capital of these companies; hence, they cannot be deducted. Furthermore, the investment in (...) Company and (...) Company is not registered with the Authority; therefore, it shall not be deducted from the base, pursuant to Article (Four) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH. As for deducting the investment in (...) Company in the amount of SAR 12,180,000 instead of SAR 10,000,000 for the years from 2015 AD to 2017 AD, the Authority clarifies that the Respondent is entitled to deduct the investment in the amount of SAR 10,000,000 only, because this amount is the only one that was subject to Zakat in the investee company, pursuant to Article (Four) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH; and the Authority maintains the correctness and validity of its procedure. It added that the Committee issuing the contested decision accepted that item, reasoning that it reviewed the articles of association, which confirm the Company's ownership of these investments. The Authority responds thereto that the Taxpayer failed to submit the TINs of the companies registered with the Authority, and failed to submit proof that those investments have been Zakat-assessed. Accordingly, the Authority requests the acceptance of its appeal and the reversal of the Curcuit's decision.

On Monday, dated 21/07/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 08:45 AM, in the presence of its members whose names are recorded in the minutes, via Video

conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memorandums, and the documents and papers contained in the case file, and after due deliberation, and since the case is ripe for adjudication in its current state, the Committee decided to close the pleadings and reserve the case for judgment. Following the closure of pleadings and deliberation, the Committee unanimously decided: to reject the appeal request procedurally.

On Tuesday, dated 05/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:10 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. During this session, the Committee decided to annul its unanimously issued decision, which was pronounced in the minutes of the previous session dated 21/07/2025 AD, which stipulated: 'to reject the appeal request procedurally.' This reversal is due to the necessity of the parties' presence in compliance with Paragraph (2) of Article (Thirty-Seven) of the Rules of Operation of Zakat, Tax and Customs Committees.

On Tuesday, dated 02/09/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, ..., National ID No. (...), attended in his capacity as the attorney for the Taxpayer pursuant to Power of Attorney No. (...) dated 09/01/1444 AH, and practicing legal license No. (...). The Authority's representative, ..., National ID No. (...), also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH. Upon asking the Taxpayer's attorney if he wished to add anything, he stated that there are four related lawsuits that have been adjudicated, except for one lawsuit which was remanded back to the Adjudication Circuit, and we maintain what was previously submitted in this lawsuit. Upon presenting this to the Authority's representative, she responded by maintaining what was previously submitted in this lawsuit. When both parties were asked if they wished to add anything, they decided to rest their case on what was previously submitted. Thereupon, the pleadings were closed and deliberation ensued.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the

appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, both appeal requests are accepted procedurally, as they were submitted by persons with standings and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'debit balance of related parties for the year 2016 AD'; whereas Paragraph (4/A) of Clause (Second) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4-(A): Investments in entities inside the Kingdom—jointly with others—if those investments are subject to Zakat collection under these Regulations; however, if the investment in those entities is not subject to Zakat collection, it shall not be deducted from the base. Based on the foregoing, and upon the Committee's examination of the case file and the financial statements of (...) Company submitted by the Taxpayer, it became evident from Note No. (8) relating to the credit balance of related parties, the presence of (...) Company with a value of SAR 898,286. Upon reviewing Note No. (13-A) relating to the calculation of Sharia Zakat, it was revealed that the subsidiary included the amount of SAR 898,286 within the capital and its Zakat was assessed accordingly. Therefore, since it became evident that the debit balance of related parties has been Zakat-assessed in the subsidiary, this Committee consequently concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of '... Company for the year 2016 AD'. Furthermore, upon the Committee's examination of the financial statements of (...) Company, it was revealed through Note No. (9) relating to projects under execution (work in progress) that the following text is stated: 'Transactions with related parties are similar to commercial transactions with external parties, as the Company deals with (...) Company as an entirely independent company from (...) Company. The transactions binding the two companies are commercial transactions; therefore, commercial contracts are concluded between both parties, whether contracting agreements or project management contracts, whereby payment certificates are submitted to (...) Company at actual cost plus a specific management margin agreed upon for each contract individually.' Accordingly, since it became evident that the nature of the transactions between (...) Company and the subsidiary (...) Company is commercial transactions, this Committee consequently concludes to partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of '... for the year 2016 AD', by accepting the deduction of the debit balance of related parties concerning (...) Company in accordance with its ownership percentage.

Regarding the Taxpayer's appeal concerning the item of 'non-deduction of other long-term assets for the year 2016 AD'; whereas Paragraph (7) of Clause (Second) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4- Net pre-operating and Incorporation expenses, and similar capital expenditures, such as advertising campaigns.'

Based on the foregoing, the dispute between the parties lies in the Taxpayer's claim to deduct long-term assets. The Authority pleads that these represent rents paid to (...) Company for establishing a four-star hotel, and the lease is for a period of twenty-three years; whereas the Taxpayer requests the deduction of the item on the grounds that it is a long-term capital contract for utilizing the land owned to construct a commercial project. Upon the Committee's examination of the case file, it became evident that the item is classified within non-current assets and represents payments under a long-term lease agreement relating to subsequent years, and that it is for the purpose of leasing land to be utilized for constructing a commercial project. Upon the Committee's examination of the Authority's responsive memorandum, it was revealed that the date of the payment is 31/12/2013 AD, relating to the years 2017 AD and 2018 AD, whereas what the Taxpayer claimed is the payments for the year 2018 AD, which remain classified within non-current assets, amounting to a value of SAR 1,856,000. Consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'non-deduction of other long-term assets for the year 2016 AD'.

Regarding the Taxpayer's appeal concerning the item of 'real estate investments under development for the year 2016 AD (deduction of the residential villas complex project on King Abdulaziz Road 1 & 2 in the amount of SAR 8,211,087 for the year 2016 AD)'; whereas Paragraph (1) of Clause (Second) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 2- The Taxpayer's capital work-in-progress, which is constructed for the purpose of being used in the activity and not for the purpose of sale. Based on the foregoing, and upon the Committee's examination of the case file and the documents submitted by the Taxpayer—consisting of the audited financial statements for the year 2015 AD, a copy of the investment lease agreement, a copy of the joint venture lease agreement, an analysis of the payments expended on the investment for each project, a report on the status of the investment in the two projects up to 2020 AD, and the confirmation and declaration from the partner stating that work is underway to transfer the ownership of this project to (...) Company, wherein he stated his waiver of this project and that it is fully owned by the Company, along with the partners' resolution clarifying the Taxpayer's intent behind the investment in these two projects—and since the Taxpayer submitted all supporting documents for the real estate investments under development, and no selling or trading transactions were found regarding these investments during the year subject to dispute, this Committee consequently concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of the residential villas complex project on King Abdulaziz Road 1 & 2 in the amount of SAR 8,211,087 for the year 2016 AD'.

Regarding the Authority's appeal concerning the item of 'real estate investments under development for the year 2016 AD (the remaining investments based on what was accepted by the Authority in the amount of SAR 225,336,540 for the year 2016 AD)'; whereas Article (70) of the Law of Sharia Procedures, issued by

Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof. Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon. Based on the foregoing, and since it is established before this Committee that the Authority requested to abandon the appeal as per the letter issued by it in the supplementary memorandum, which stated: 'Based on the aforementioned, the Authority hereby intimates the withdrawal of its partial appeal and the acceptance of the Taxpayer's objection in accordance with what has been clarified above, and the Authority affirms the correctness and legality of its procedure...'; consequently, this Committee concludes to record the settlement of the dispute regarding the Authority's appeal with respect to the item of 'real estate investments under development for the year 2016 AD (the remaining investments based on what was accepted by the Authority in the amount of SAR 225,336,540 for the year 2016 AD)'.

Regarding the Authority's appeal concerning the item of 'investments in (..., ..., ... Company)'; whereas Paragraph (1/4) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'Investments in entities inside the Kingdom—jointly with others—if those investments are subject to Zakat collection under these Regulations; however, if the investment in those entities is not subject to Zakat collection, it shall not be deducted from the base. Based on the foregoing, and upon the Committee's examination of the case file and the defenses and documents contained therein; with respect to 'investments in (...)', it was revealed upon reviewing the audited financial statements of (...) Company that a qualified opinion exists as follows: 'The Company's management did not recognize the Company's share in the profits and losses of (...) Factory Company Limited (an associate company) resulting from the application of the equity method. Furthermore, the Company did not provide us with a copy of the certified financial statements of this company for the fiscal year ended 31 December 2016 AD. Consequently, we were unable to perform alternative audit procedures to verify the validity of the investment value in ... Factory Company, as well as the Company's share in the resulting profits or losses.' Accordingly, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments in (...)'. As for the item of 'investments in (...) Company', it became evident to the Committee that there is a shareholding in (...) Company through the investee company's articles of association, as amended in July 2015 AD, at a percentage of 13%, which is recognized in the Taxpayer's financial statements. However,

upon reviewing the financial statements of the investee company, it was revealed that they did not include any share for (...) Company within the capital note. Consequently, since the Zakat return is submitted based on the financial statements, it is evident that (...) Company did not assess or pay Zakat on the investment of (...) Company, due to its non-inclusion in its financial statements in the first place. Therefore, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments in (...) Company'. As for the item of 'investments in (...) Company', whereas the Taxpayer submitted the financial statements of the subsidiary and an entry indicating the investment of (...) Company in the hospital with a total of SAR 12,180,000; however, upon the Committee's examination of the articles of association and the audited financial statements of (...) Company, it was revealed that they indicated that the share of (...) Company in (...) Company amounts to SAR 10,000,000. Accordingly, since the audited financial statements of the subsidiary did not contain any qualified opinion regarding the capital, we conclude to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments' in ... Company, by deducting an amount of SAR 10,000,000 only, which is recognized in the subsidiary's statements and recognized in the partners' resolution relating to the capital increase.

Regarding the Taxpayer's appeal on the remaining items; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and

Disputes in Jeddah Governorate, No. (IZJ-2024-34521), issued in Case No. (Z-34521-2021) relating to the Zakat assessment for the year 2016 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'investment in funds for the year 2016 AD'.

2- Regarding the Taxpayer's appeal on the item of 'debit balance of related parties for the year 2016 AD':

A. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of '... Company for the year 2016 AD'.

B. To partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of '... Company for the year 2016 AD, by accepting the deduction of the debit balance of related parties concerning ... Company in accordance with its ownership percentage'.

3- To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'non-deduction of other long-term assets for the year 2016 AD'.

4- Regarding the both parties' appeal on the item of 'real estate investments under development for the year 2016 AD':

A. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of the residential villas complex project on King Abdulaziz Road 1 & 2 in the amount of SAR 8,211,087 for the year 2016 AD'.

B. To record the settlement of the dispute regarding the Authority's appeal with respect to 'the remaining investments based on what was accepted by the Authority in the amount of SAR 225,336,540 for the year 2016 AD'.

5- Regarding the both parties' appeal on the item of 'investments for the year 2016 AD':

A. To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investments in (..., ..., ... Company)'.

B. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of '(..., ...)'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-238560
Case No. Z-238560-2024

Principle No. 15

Fixed assets shall be deducted from the Zakat base once the intention to hold as a long-term investment is established for use in the Taxpayer's activity, and provided that no selling transactions occurred during the year subject to dispute. Selling transactions that took place in subsequent years shall not be considered a presumption of trading intent, as the criterion is the occurrence of the sale during the contested year, and there is no statutory basis for considering a subsequent year as revealing the intent retroactively.

Facts

Consideration was given to the appeal submitted on 10/06/2024 AD by ..., National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to the commercial registration attached to the case file, against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-204684), issued in Case No. (Z-204684-2023) relating to the Zakat assessment for the year 2018 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: Acceptance of the objection procedurally from the Plaintiff, (...) Company, Commercial Registration No. (...), against the decision of the Defendant, the Zakat, Tax and Customs Authority.

Second: On the Merits:

1- To reject the Plaintiff's objection regarding the item of 'the complement for calculating the 2018 AD Zakat under the new regulations' in the amount of SAR 6,599,594.

2- To record the settlement of the dispute regarding the item of 'advances received from customers for the year 2018 AD'.

3- To reject the Plaintiff's objection regarding the item of 'additional contribution from partners for the year 2018 AD' in the amount of SAR 172,935,188.

4- To reject the Plaintiff's objection regarding the item of 'bank facilities - a real estate company loan for the year 2018 AD' in the amount of SAR 76,948,766, by adding it back within the limits of the deductions.

A. To reject the Plaintiff's objection regarding the item of 'fixed assets for the year 2018 AD (Lands ... (1) and (2) in ... Neighborhood)' in the amount of SAR 243,550,085.

B. To amend the Defendant's decision by accepting the deduction of a group of 'buildings under construction' in the amount of SAR 78,361,718.

C. To record the settlement of the dispute regarding the item of 'lands for constructing buildings for lease' in a total amount of SAR 10,361,036.

D. To record the settlement of the dispute regarding the item of 'Land No. 24 - marble warehouse in Jeddah City used in the activity' in the amount of SAR 8,000,000.

E. To reject the Plaintiff's objection regarding the item of 'fixed assets for the year 2018 AD (a villa for lease in the amount of SAR 2,862,437)'.

F. To record the settlement of the dispute regarding the item of 'the manager's residential villa used in the activity' in the amount of SAR 1,150,000.

G. To reject the Plaintiff's objection regarding the item of 'fixed assets for the year 2018 AD (a group of apartments for lease in a total amount of SAR 11,914,936)'.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and with respect to the item of 'fixed assets for the year 2018 AD', its appeal concerning a group of 'buildings under construction' in the amount of SAR 85,316,218 lies in that five years have elapsed since the end of the fiscal year of the assessment year, and the real estate has remained within its assets throughout that period, which supports its view that it is a long-term asset and not for the purpose of sale. This is because the intent of sale differs from the intent of trading, and a link cannot be established between sale and trading at all times. Furthermore, the Zakat standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) states that trading intent requires the purpose of acquiring assets to trade therein; and the legally considered intent is that which is concurrent with the asset's entry into ownership. Thus, what is owned for the purpose of personal use—meaning operations in the case of an enterprise—shall not be subject to Zakat on trading assets, even if the intent changes to trading, unless it is actually sold and the conditions of Zakat (the Nisab and the uninterrupted year) are satisfied. Conversely, what is purchased for the purpose of trading, if designated for personal/operational use, loses its trading character. Regarding the 'villa for lease' in the amount of SAR 2,862,437, the Taxpayer attached a copy of the title deed demonstrating proof of leasing the villa and utilizing it in its commercial activity. Regarding the 'group of apartments for

lease' in the amount of SAR 11,914,936, the Taxpayer attached documentation demonstrating the leasing of the apartments and their use in its commercial activity. With respect to the item of 'the complement for calculating the 2018 AD Zakat under the new regulations', the item of 'additional contribution from partners' in the amount of SAR 172,935,188, and the item of 'bank facilities - a real estate company loan for the year 2018 AD', the Taxpayer requests the acceptance of its appeal regarding these items. Accordingly, the Taxpayer requests the reversal of the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

On Wednesday, dated 08/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memorandums, and the documents and papers contained in the case file, and after due deliberation, and since the case is ripe for adjudication in its current state, the Committee decided to close the pleadings and reserve the case for judgment.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person with standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'fixed assets for the year 2018 AD'; whereas Paragraph (1) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The net fixed assets and the like shall be deducted from the Zakat base, including—but not limited to—the following: A- Fixed assets acquired for the purpose of being used in the Taxpayer's activity, at the book value shown in the financial statements. B- Payments for purchasing fixed assets. C- Spare parts and materials not intended for sale. D- Assets financed for the lessee under financial lease contracts in Build-Operate-Transfer (BOT) projects, Build-Own-Operate (BOO) projects, Build-Own-Operate-Transfer (BOOT) projects, and other similar forms...' Pursuant to Article (18) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, which stipulates that: 'Without prejudice to the provisions of Article (Ten) of the Regulations, every taxpayer shall maintain—inside the Kingdom and in the Arabic language—the commercial books necessary to determine the Zakat base accurately, along with maintaining the documents proving their validity and the data and notes supporting them. The burden of proving the correctness of the items reported in the return and any other data shall rest upon the taxpayer.

In the event that the taxpayer is unable to prove the correctness of what is stated in its return, the Authority may disallow the item whose correctness has not been proven by the taxpayer, or perform an estimated assessment according to the Authority's perspective in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, and with respect to a group of 'buildings under construction' with a total value of SAR 6,954,500, a 'villa for lease' in the amount of SAR 2,862,437, and a 'group of apartments for lease' in the amount of SAR 11,914,936; and whereas two primary conditions must be satisfied for these items to be deemed permissible for deduction from the Zakat base—namely, a documented intent from the competent authority demonstrating the intent, and the absence of any selling transactions executed during the year—upon examining the case file and its contents, it is evident that the Authority disallowed the deduction of the item due to the existence of a selling transaction executed in the year following the year subject to dispute. The Authority argues that the subsequent year reveals the Taxpayer's intent in the contested year, and that the execution of the sale by the Taxpayer confirms such intent. Accordingly, it is clear that the Authority's perspective has no statutory basis under the Regulations, because the selling transaction must take place within the year subject to dispute. As presented by the Taxpayer, no disposal transaction occurred during the contested year 2018 AD. Furthermore, the Authority indicated in the Simplified Guide for Zakat Treatment of the Most Prominent Items Subject to Objection as follows: 'The Authority shall disallow the deduction of investments in the following cases... investments intended for trading, even if classified within long-term assets, if it is verified that buying and selling transactions occurred on the investment during the year.' This serves as a confirmation from the Authority that selling transactions must be within the contested year. Consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding (a group of buildings under construction with a total value of SAR 6,954,500, a villa for lease in the amount of SAR 2,862,437, and a group of apartments for lease in the amount of SAR 11,914,936).

Regarding the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-204684), issued in Case No. (Z-204684-2023) relating to the Zakat assessment for the year 2018 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'the complement for calculating the 2018 AD Zakat under the new regulations'.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'additional contribution from partners'.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'bank facilities - a real estate company loan for the year 2018 AD'.

4- Regarding the Taxpayer's appeal on the item of 'fixed assets for the year 2018 AD':

A. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding 'Lands ... (1) and (2)'.

B. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding 'a group of buildings under construction with a total value of SAR 6,954,500, a villa for lease in the amount of SAR 2,862,437, and a group of apartments for lease in the amount of SAR 11,914,936'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239067
Case No. Z-239067-2024

Principle No. 16

Trade payables shall be included as components of the Zakat base whenever they remain in possession for an uninterrupted year (one Hijri year) or are utilized to finance assets deducted from the base. Their exclusion shall not be accepted unless the Taxpayer submits a detailed ledger or an analytical statement proving that they have not Completed one Zakat year (Al-Hawl), and the burden of proof shall rest upon the Taxpayer.

Facts

Consideration was given to the appeal submitted on 30/06/2024 AD by ..., National ID No. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-231700), issued in Case No. (Z-231700-2024) relating to the Zakat assessment for the years 2014 AD and 2015 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To reject the Plaintiff's objection regarding the foreign import variances for the years 2014 AD and 2015 AD.

Second: To reject the Plaintiff's objection regarding the following items:

(A) To reject the Plaintiff's objection regarding Murabaha and Taysseer letters of credit for the years 2014 AD and 2015 AD.

(B) To reject the Plaintiff's objection regarding the accounts payable item for the years 2014 AD and 2015 AD.

(C) To reject the Plaintiff's objection regarding the withdrawn profits item for the years 2014 AD and 2015 AD.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the summary of which is that the Taxpayer requests the acceptance of its appeal

and the reversal of the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

On Tuesday, dated 25/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, ..., National ID No. (...), attended in his capacity as the Appellant. The Respondent's representative, ..., National ID No. (...), also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH. Upon asking the Appellant if he wished to add anything, he stated that he possesses an electronic statement issued by the Authority that differs in amount from the electronic statement attached by the Authority, and we do not know the reason for this discrepancy. Upon presenting this to the Respondent's representative, she responded by maintaining what she had previously submitted, and she confirmed the supplementary memorandum submitted by her, which intimates the partial acceptance of the Taxpayer's objection. Accordingly, the Committee decided to adjourn the hearing of the case for further study and deliberation, provided that the next session on 18/03/2025 AD shall be designated for the pronouncement of the decision.

On Tuesday, dated 18/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 01:55 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, the Appellant attended in person, ..., National ID No. (...). The Respondent's representative, ..., National ID No. (...), also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal and Compliance Affairs No. (...) dated 19/03/1445 AH. Whereas the pleadings have been closed and deliberation has ensued, and since this session is designated for the pronouncement of the decision.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person with standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits: A- Accounts payable for the year 2015 AD'; whereas

Paragraph (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base consists of all the Taxpayer's funds subject to Zakat, including: 5- Government and commercial loans, and similar other financing sources, such as creditors, notes payable, and bank overdrafts outstanding against the Taxpayer, in accordance with the following: A- Whatever remains thereof in cash and has Completed one Zakat year (Al-Hawl). B- Whatever is used thereof to finance what is held for use. C- Whatever is used thereof in trading assets and has Completed one Zakat year (Al-Hawl).' Furthermore, Paragraph (8) of Clause (First) of Article (4) of the same Regulations stipulates that: 'The Zakat base consists of all the Taxpayer's funds subject to Zakat, including: 8- The balance of retained earnings from previous years at the end of the year. Based on the foregoing, and whereas accounts payable are considered a component of the Zakat base regardless of their type, source, or classification, provided that they remain for an uninterrupted year or are utilized to finance assets deducted from the Zakat base without requiring the completion of an uninterrupted year. Upon examining the documents attached to the case file, it is revealed that the Taxpayer attached the (accounts payable general ledger for the year 2015 AD extracted from the system). Upon reviewing the submitted transactions ledger, it became evident that the opening and closing balances match the balances stated in the Authority's responsive memorandum. Furthermore, by analyzing the submitted transactions ledger, the correctness of the Taxpayer's defenses is verified regarding the non-completion of an uninterrupted year for the accounts payable opening balances for the year 2015 AD, given that the transactions during the year exceeded the opening balance. This conclusion is not undermined by the Authority's statement in its supplementary memorandum that it did not find Attachment No. (6) referenced by the Taxpayer, as the transactions ledger is attached within the document containing the Taxpayer's appeal brief. Consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'accounts payable for the year 2015 AD'.

Regarding the Taxpayer's appeal concerning the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits: B- Accounts payable for the year 2014 AD / D- Withdrawn profits for the years 2014 AD and 2015 AD'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof. Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon. Based on the foregoing,

and since it is established before this Committee that the dispute has been settled by virtue of the Authority's acceptance of the Taxpayer's requests as per the letter issued by it in the supplementary memorandum, which stated with respect to the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits: B- Accounts payable for the year 2014 AD': 'The Authority clarifies to the honorable Committee that upon reviewing the detailed transactions ledger for this item for the year 2014 AD only, as submitted in the case file, it was revealed that the balances match the financial statements. Furthermore, the opening balances did not remain for an uninterrupted year, given that the amount paid during the year exceeded the opening balance; accordingly, the Authority intimates that in the event the procedural plea clarified above is rejectd, it accepts the Taxpayer's objection for the year 2014 AD exclusively. Moreover, the supplementary memorandum stated with respect to the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits: D- Withdrawn profits for the years 2014 AD and 2015 AD': 'The Authority clarifies to the honorable Committee that upon reviewing the documents submitted in the case file—consisting of a bank statement and copies of transfer receipts—and in the event the procedural plea clarified above is rejectd, it accepts the Taxpayer's objection regarding this item, thereby rendering the dispute between the Authority and the Taxpayer settled in this regard. Accordingly, it is incumbent upon the Committee to record the settlement of the dispute regarding the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits: B- Accounts payable for the year 2014 AD / D- Withdrawn profits for the years 2014 AD and 2015 AD'.

Regarding the Taxpayer's appeal concerning the item of 'Murabaha and Taysseer letters of credit for the years 2014 AD and 2015 AD'; whereas Paragraph (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base consists of all the Taxpayer's funds subject to Zakat, including: 5- Government and commercial loans, and similar other financing sources, such as creditors, notes payable, and bank overdrafts outstanding against the Taxpayer, in accordance with the following: A- Whatever remains thereof in cash and has Completed one Zakat year (Al-Hawl). B- Whatever is used thereof to finance what is held for use. C- Whatever is used thereof in trading assets and has Completed one Zakat year (Al-Hawl).' Furthermore, Paragraph (8) of Clause (First) of Article (4) of the same Regulations stipulates that: 'The Zakat base consists of all the Taxpayer's funds subject to Zakat, including: 8- The balance of retained earnings from previous years at the end of the year. Based on the foregoing, it should be noted at the outset that the opening balance for the year 2014 AD stated in the Authority's responsive memorandum, amounting to SAR 13,727,805, pertains to the Taysseer and Murabaha facilities of (...) Bank and not (...) Bank. Since loans are considered a component of the Zakat base regardless of their type, source, or classification, provided that they remain for an uninterrupted year or are utilized to finance assets deducted from the Zakat base without requiring the completion of an uninterrupted year; upon examining the documents attached to the case file, it is revealed that the Taxpayer attached the (statement of account for

letters of credit and Murabaha facilities, which includes the opening balance, transactions during the year, and the closing balance for the years 2014 AD and 2015 AD extracted from the system). Upon reviewing the submitted transactions ledger, it became evident that the opening and closing balances match the balances stated in the Authority's responsive memorandum. However, by analyzing the transactions ledger, it was revealed that an uninterrupted year was completed for a portion of the loans' opening balances for the year 2014 AD with a total value of SAR 3,929,694. As for the year 2015 AD, upon studying and analyzing the statement attached by the Taxpayer, it was revealed that an uninterrupted year was completed for an amount of SAR 2,404,028. Accordingly, there is no validity to what was stated in the Taxpayer's appeal brief regarding the non-existence of amounts that Completed one Zakat year (Al-Hawl), as the examination of the attached transactions ledger revealed the contrary to the Committee. Consequently, this Committee concludes to reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of 'Murabaha and Taysseer letters of credit for the years 2014 AD and 2015 AD'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, ..., National ID No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-231700), issued in Case No. (Z-231700-2024) relating to the Zakat assessment for the years 2014 AD and 2015 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'foreign import variances in the amount of SAR 25,908 for the year 2014 AD and the amount of SAR 1,846,832.30 for the year 2015 AD'.

2- Regarding the Taxpayer's appeal on the item of 'Murabaha and Taysseer letters of credit, accounts payable, and withdrawn profits for the years 2014 AD and 2015 AD':

A. To reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of 'Murabaha and Taysseer letters of credit for the years 2014 AD and 2015 AD'.

B. To record the settlement of the dispute regarding the Taxpayer's appeal on the item of 'accounts payable for the year 2014 AD'.

C. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'accounts payable for the year 2015 AD'.

D. To record the settlement of the dispute regarding the Taxpayer's appeal on the item of 'withdrawn profits for the years 2014 AD and 2015 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239345
Case No. Z-239345-2024

Principle No. 17

Additional financing granted to an investee entity shall not be considered an investment permissible for deduction from the Zakat base, whenever it is established that it is classified within liabilities rather than equity in the investee company's financial statements. Furthermore, double Zakat taxation does not arise in this case as long as the additions and deductions are applied within the limits of what is stipulated in the Regulations.

Facts

Consideration was given to the appeal submitted on 07/07/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-226570), issued in Case No. (Z-226570-2023) relating to the Zakat assessment for the year 2019 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

To annul the decision of the Defendant, the Zakat, Tax and Customs Authority, issued against the Plaintiff, (...) Company, Taxpayer Identification Number (...), relating to the assessment subject to the lawsuit.

As this decision did not meet the acceptance of the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief, which this Committee reviewed and which stated that—with respect to the item of 'non-deduction of the domestic investment in ... Company'—the Authority requests the reversal of the Committee's decision regarding this item on the grounds that it excluded the deduction of the investment in (...) Company in the amount of SAR 31,525,050 because it constitutes additional financing and not investments, and consequently, it shall not be deducted from the base. The Authority's action is compliant with the text of Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH. Upon reviewing the Taxpayer's financial statements, it became evident that the Taxpayer accounts for the investment using the equity method; and upon reviewing the financial statements of the investee company, it became evident that the net equity consists of losses, as the accumulated losses exceed the capital value. Consequently, it is revealed that the investment value appearing in the Taxpayer's statements represents additional financing granted to the investee company and not additional capital as claimed by the Taxpayer, which is further confirmed by the

investee company's classification of this financing within current liabilities rather than equity. Furthermore, upon reviewing the Zakat return of the investee company, it is clear that what Completed one Zakat year (Al-Hawl) was added back to the Zakat base under other additions and not within internal financing, which confirms that the substance of this transaction is a loan granted to the subsidiary and not additional capital. Accordingly, the Authority's aforementioned action came in compliance with the text of Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH referenced above. Based on the foregoing, the Authority maintains the correctness and validity of its action in rejecting the Taxpayer's objection due to the facts and statutory grounds mentioned above, which confirm the correctness and validity of the Authority's action. With respect to the item of 'non-deduction of real estate investments in full and excluding them from the Zakat base', the Authority requests the reversal of the Committee's decision regarding this item on the grounds that it disallowed the deduction of the full investment properties and excluded those sold thereof in the year 2020 AD. The objection was rejected given that the real estate valued at SAR 17,214,300, which was excluded in the year 2020 AD, was intended for sale and trading and not for possession purposes, pursuant to Paragraph (1) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216). While the Taxpayer requests the deduction of the full investment value regardless of the sales realized in the subsequent year, the Authority excluded what was sold in the year 2020 AD from the value of the real estate investments in accordance with Note No. (9) of the Taxpayer's statements for the subsequent year. Since the subsequent year reveals the Taxpayer's intent in the contested year, the Taxpayer's execution of the sale of these investments confirms that the intent behind them was investments held for trading. This is further confirmed by the analysis submitted by the Taxpayer in the case file, which confirms the absence of any rental income from these investments, as demonstrated in Attachment No. (1). The Authority also clarifies that according to the financial statements, the investment properties represent land, a building, or both, held to earn rentals or for capital appreciation, and not for use in production, as demonstrated in Attachment No. (2), noting that the selling transaction in the year 2020 AD was executed with a related party and resulted in a loss, according to the statement of cash flows as demonstrated in Attachment No. (3). Accordingly, the Authority's action is compliant with the text of Paragraph (1) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216). Therefore, the Authority requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit.

On Sunday, dated 02/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:01 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted

memorandums, and the documents and papers contained in the case file, and after due deliberation, and since the case is ripe for adjudication in its current state, the Committee decides to close the pleadings and reserve the case for judgment.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person with standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'non-deduction of the domestic investment in ... Company'; whereas Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The following items shall be deducted from the Zakat base of the taxpayer who maintains commercial books: investments in an entity inside the Kingdom for non-trading purposes, if such entity is registered with the Authority and is subject to Zakat collection under the Regulations. However, assets leased under finance leases in the lessor's commercial books shall not be deemed an investment to be deducted from the Zakat base, regardless of their classification in the financial statements. Similarly, debit loans, subordinated financing, additional financing, and the like granted to the investee entity shall not be deemed an investment to be deducted from the Zakat base. Based on the foregoing, and whereas the core of the dispute lies in the Authority's disallowance of the deduction of the investment in (...) Company in the amount of SAR 31,525,050 on the grounds that it constitutes additional financing and not investments, while the decision of the Adjudication Circuit concluded to accept the Taxpayer's objection to prevent double Zakat taxation, as it was established to that committee that the investment was reported in the return of the investee company. By reference to the case file and its contents, it is evident that the investment value appearing in the Taxpayer's statements represents additional financing as indicated by the Authority. This is confirmed by the fact that the investee company classified the financing within current liabilities rather than equity. Whereas Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, affirmed that debit loans, subordinated financing, additional financing, and the like granted to an investee entity shall not be deemed an investment to be deducted from the Zakat base; therefore, the correctness of the Authority's perspective is established. As for the double taxation referenced by the Adjudication Circuit, the Taxpayer did not provide evidence proving the existence of double taxation upon the non-deduction of the investment from its base and its reporting in the investee company's return, particularly since the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, affirmed under Article Four

thereof that additions shall be within the limits of what is deducted, thereby eliminating double taxation. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'non-deduction of the domestic investment in ... Company'.

Furthermore, there is no defect in the Committee adopting the grounds of the contested decision without adding thereto, whenever it deems that such grounds render any new introduction redundant; for by endorsing it with the very grounds it carried, it confirms that it found nothing in the challenges leveled against the decision that warrants a response beyond what those grounds encompassed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed item came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Authority's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding this item, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-226570), issued in Case No. (Z-226570-2023) relating to the Zakat assessment for the year 2019 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'non-deduction of the domestic investment in ... Company'.

2- To reject the Authority's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'non-deduction of real estate investments in full and excluding them from the Zakat base'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239483
Case No. Z-239483-2024

Principle No. 18

Advance payments shall be included as components of the Zakat base whenever they remain in possession for an uninterrupted year (one Hijri year), and they may not be offset except against due and realized debit balances with the same entity. Letters of guarantee or unearned balances shall not be deemed claims eligible for offsetting.

Facts

Consideration was given to the appeal submitted on 11/07/2024 AD by ..., National ID No. (...), in his capacity as a proxy for the Appellant Company pursuant to the foreign power of attorney issued on 21/09/2023 AD and certified by the official authorities in the Kingdom of Saudi Arabia, and Attorney License No. (...); and the appeal submitted by the Zakat, Tax and Customs Authority on 10/07/2024 AD, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-216301), issued in Case No. (Z-216301-2023) relating to the tax assessment for the year 2017 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To annul the decision of the Defendant, the Zakat, Tax and Customs Authority, issued against the Plaintiff, (...) Company, Taxpayer Identification Number (...), relating to the item of 'advance payments on the contract' subject to the lawsuit.

Second: To reject all other objections raised by the Plaintiff, (...) Company, Taxpayer Identification Number (...), against the decision of the Defendant, the Zakat, Tax and Customs Authority, relating to the assessment subject to the lawsuit.

As this decision did not meet the acceptance of both parties, each of them submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, the Taxpayer submitted an appeal brief, which this Committee reviewed and which contained the Taxpayer's request to accept its

appeal and annul the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

Similarly, the decision did not meet the acceptance of the Zakat, Tax and Customs Authority, which submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal with respect to the item of 'advance payments' lies in its request to annul the Committee's decision regarding this item. The Authority clarifies that it added back the amounts that Completed one Zakat year (Al-Hawl) from the item of advance payments on the Ministry of Housing's contract. By reference to the statement submitted by the Taxpayer during the objection stage concerning debtors and guarantees, it is evident that the Ministry of Housing has a debit balance as debtors and guarantees. However, it is clear that there is no due and realized debit balance that Completed one Zakat year (Al-Hawl) pertaining to the Ministry of Housing to be offset against the amounts that Completed one Zakat year (Al-Hawl) from the credit advance payments. This is because guarantees do not represent amounts claimed from the Ministry of Housing like debtors; rather, they are retention monies to guarantee sound execution, which are recovered and the guarantee released upon the completion of the work. Accordingly, the Taxpayer's request cannot be executed, as the Authority added back the advance payments on a contract that Completed one Zakat year (Al-Hawl) in accordance with the submitted transactions ledger, whose balances match the financial statements, pursuant to Paragraph (4) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH. Furthermore, the committee that issued the decision deducted the Ministry of Housing's year-end debit balance amounting to SAR 5,298,305 according to the ledger, as well as deducted the Ministry of Housing's guarantee in the amount of SAR 14,261,182 from the amounts that Completed one Zakat year (Al-Hawl); consequently, there is no balance remaining for an uninterrupted year to be added to the Zakat base. Therefore, the Authority clarifies that, as a matter of principle, what the Taxpayer claims—and what was upheld by the committee that issued the decision by performing an offsetting between the debit balance and the letters of guarantee of the Ministry of Housing against the customers' advance payments balances—has no Sharia or statutory basis, as there is no statutory text permitting such offsetting. On the other hand, the Authority clarifies that the offsetting claimed by the Taxpayer can only be performed against debts that have the same maturities as the customers' advance payments. Performing the offsetting claimed by the Taxpayer would lead to considering that the debit balance and the letters of guarantee, which it claims to deduct with the Ministry of Housing, have fallen due and it was unable to collect them, which does not appear from the notes provided by the Taxpayer. Consequently, the Taxpayer cannot claim an offsetting for debts that have not fallen due and whose collection date has not matured against advance payments received for the purpose of completing future works. The Authority further clarifies that offsetting is a negative means that leads to the expiration

of two mutual obligations. The word 'mutual' means mutual to the same person and for the same maturity date, and it leads to a discharge of liability. Accordingly, the Taxpayer is claiming a discharge of liability from a debt whose maturity date has not fallen due upon the customer. Therefore, the two debts must be identical in kind, description, maturity, strength, and weakness, which does not apply to the Taxpayer's case, as the debit balance and the letter of guarantee have not reached maturity to claim an offsetting against customers' advance payments. Moreover, from the outset, the difficulty of collecting this debt has not been proven; on the contrary, the opening balance was collected in full during the year, in addition to collecting a portion of the dues that arose during the year, which confirms that they are debts owed by a solvent and willing debtor that will be collected whenever their maturity date arrives. Consequently, the Authority maintains the incorrectness of the Taxpayer's claim to perform the offsetting. The Authority also clarifies that the debit balances required to be offset arose during the year and are not subject to the provisions of long-term debts or those whose maturities fell due and were not collected. Furthermore, the Authority has previously allowed all costs and expenses corresponding to these revenues; hence, deducting them through offsetting from the base, while deducting their costs and expenses within the income statement, constitutes a double measure and a deduction of a revenue source that must be subject to Zakat. Regarding the action taken by the committee that issued the decision to annul the Authority's decision, deduct the letters of guarantee, and perform an offsetting therewith—implying their deduction from the Taxpayer's Zakat base—the Authority responds that the conclusion reached by the Committee is incorrect and erroneous, as there is no statutory text permitting this. Pursuant to the provisions of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) for the year 1438 AH, statutory deposits of banks and insurance companies with the (...) Agency and any statutory deposits required by other activities shall not be deducted from the Zakat base; hence, letters of guarantee may not be deducted as they are among the activity's requirements. Therefore, comparing the year-end debit balance to what Completed one Zakat year (Al-Hawl) from the credit balance is incorrect, given that the Authority performed the offsetting between the credit balance that Completed one Zakat year (Al-Hawl) and the debit balance, which resulted in the non-existence of a due debit balance that Completed one Zakat year (Al-Hawl) to be compared against what Completed one Zakat year (Al-Hawl) from the credit balance as follows (as indicated in the Authority's appeal). Furthermore, the guarantee does not represent amounts claimed from the Ministry of Housing like debtors; rather, they are retention monies to guarantee sound execution, which are recovered and the guarantee released upon the completion of the work. Accounting-wise, it is a percentage retained by the customer from the contractor out of the total project value for the purpose of ensuring seriousness and delivery as agreed upon; consequently, the contractor recovers this percentage later if it does not breach the agreement. On the other hand, the deduction of work retention is considered a compensation due to the customer in the event that the contractor breaches the agreement. Accordingly, the Authority maintains the correctness and validity of its action.

On Monday, dated 03/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 02:01 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memorandums, and the documents and papers contained in the case file, and after due deliberation, and since the case is ripe for adjudication in its current state, the Committee decides to close the pleadings and reserve the case for judgment.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons with standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'advance payments'; whereas Paragraph (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base consists of all the Taxpayer's funds subject to Zakat, including: 5- Government and commercial loans, and similar other financing sources, such as creditors, notes payable, and bank overdrafts outstanding against the Taxpayer, in accordance with the following: A- Whatever remains thereof in cash and has Completed one Zakat year (Al-Hawl). B- Whatever is used thereof to finance what is held for use. C- Whatever is used thereof in trading assets and has Completed one Zakat year (Al-Hawl). Based on the foregoing, whereas the dispute between the two parties is confined to advance payments, as the Authority requests the addition of the advance payments on the Ministry of Housing's contract since it is a component of the Zakat base, without performing an offsetting against its debit balance (contract debtors and guarantees). The Authority further states that there is no due debit balance that Completed one Zakat year (Al-Hawl) pertaining to the Ministry of Housing to be deducted from the amounts that Completed one Zakat year (Al-Hawl) from the advance payments, and that the conclusion reached by the Committee has no Sharia or statutory basis to perform the offsetting. On the other hand, the Taxpayer points out that the advance payments from the Ministry of Housing are matched by corresponding debit accounts that exceed the credit amount, which consist of outstanding invoices and guarantees, and that the debit and credit balances were separated in accordance with accounting considerations. Upon reviewing the case file and the defenses and documents contained therein, and whereas advance payments are considered a component of the Zakat base provided that they remain for an uninterrupted year or are utilized to finance assets deducted from the Zakat base; and since

the dispute lies in the offsetting between the debit and credit balances, and by reference to the documents and the detailed transactions ledger with respect to contract debtors, it is revealed that there is no debit balance to reduce the advance payments therewith. This is because the customers' opening balance = SAR 8,431,358, while the credit transactions during the year = SAR 9,027,998; and since the credit transactions during the year are greater than the opening balance, there is no debit balance to be reduced by the advance payments. With respect to letters of guarantee (other debit balances), they do not represent amounts claimed from the Ministry of Housing; rather, they are retention monies to guarantee sound execution, which are recovered and the guarantee released upon the completion of the work. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'advance payments'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-216301), issued in Case No. (Z-216301-2023) relating to the tax assessment for the year 2017 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'accounts payable'.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'the current portion from related parties and the non-current portion from related parties'.

3- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'advance payments'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239895
Case No. Z-239895-2024

Principle No. 19

It is required for the permissibility of deducting assets from the Zakat base to establish the documented intention to hold as a long-term investment and the absence of sales transactions during the year of dispute.

Facts

Consideration was given to the appeal submitted on 23/07/2024 AD by ..., National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to its articles of association; and the appeal submitted by the Zakat, Tax and Customs Authority on 01/08/2024 AD, against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-204682), issued in Case No. (Z-204682-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: Procedurally:

To accept the objection submitted by the Plaintiff, (...) Company (Commercial Registration: ...), against the decision of the Defendant, the Zakat, Tax and Customs Authority.

Second: On the Merits:

1- To annul the Defendant's decision regarding the item of 'the transitional adjustment for calculating the Zakat of the year 2017 AD under the new regulations' in the amount of SAR 2,248,124.

2-To amend the Defendant's decision regarding the item of 'related parties for the year 2017 AD' by adding it back in a manner not exceeding the aggregate of what is deducted from the Zakat base.

3- To reject the Plaintiff's objection regarding the item of 'bank facilities—real estate company loan for the year 2017 AD' in the amount of SAR 62,785,853.

4- To reject the Plaintiff's objection regarding the item of 'fixed assets for the year 2017 AD' in the amount of SAR 359,983,368.

As this decision did not meet the acceptance of both parties, each of them submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically with respect to the item of 'fixed assets', its appeal lies in that both lands satisfy the deduction conditions according to the Regulations, which are ownership and utilization for the company's purposes. It stated that the company owns two plots of land in ... Neighborhood in ..., and that the company entered into a credit facilities agreement to finance the purchase of the two plots of land. It also entered into an agreement with (...) Company to construct a five-star hotel and enter as a partner in the construction of the hotel. Furthermore, with respect to the inclusion of the two lands by (...) Company within its fixed assets and deducting them from its Zakat base, the Authority may refer back to it and inquire about the reasons for its deduction from the Zakat base, especially since the ownership of the two lands is for the benefit of (...) Company. It also noted that the Authority submitted a responsive memorandum in Case No. (Z-204684-2024) concerning the company's objection for the year 2018 AD, wherein the Authority agreed to deduct fixed assets valued at SAR 174,934,039; consequently, the company deems it is entitled to have its objection accepted. As for the item of 'bank facilities—real estate company loan for the year 2017 AD', the Taxpayer submitted an appeal brief against it, which this Committee reviewed and which included the Taxpayer's request to accept its appeal regarding these items. Accordingly, the Taxpayer requests the reversal of the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

Similarly, the decision did not meet the acceptance of the Zakat, Tax and Customs Authority, which submitted its appeal against the contested decision pursuant to an appeal brief, the summary of which is as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit, its appeal with respect to the item of 'the transitional adjustment for calculating the Zakat of the year 2017 AD under the new regulations' lies in its request to annul the Committee's decision regarding this item. The Authority clarifies that these amounts represent arithmetic reconciliation adjustments that appear through the adjustment of net profit; they are purely arithmetic operations, not liabilities, and do not represent any additional or new items against the Taxpayer. The Authority further notes that its adjustments pertain only to the ERAD system, attaching the approved assessments issued by the Authority, which do not include these balancing adjustments. The Authority stated that it provided in its responsive memorandum No. (2) attached via the portal a copy of the system printout and a copy of the assessment showing the consistency of Zakat

according to the details of the assessment sent to the Taxpayer through the ERAD system and the adjustment notice. The arithmetic balancing adjustment was added into the ERAD system due to the application of Regulations No. (2216) upon assessment at the Taxpayer's request. Accordingly, these amounts are balancing adjustments that appear through the adjustment of net profit in the return on the Authority's portal system as a result of applying the Implementing Regulations for Zakat Collection No. (2216) pursuant to Ministerial Resolution No. (13957); they are arithmetic operations and do not represent any additional or new items against the Taxpayer. Therefore, the Authority requests a judgment to annul the contested Committee's decision. With respect to the item of 'related parties', the Authority objects to the decision of the Adjudication Circuit regarding it. Consequently, the Authority requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit on the appealed items.

On Monday, dated 24/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 01:00 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the two appeal requests, the submitted memorandums, and the documents and papers contained in the case file, and after due deliberation, and since the case is ripe for adjudication in its current state, the Committee decides to close the pleadings and reserve the case for judgment.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons with standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'the transitional adjustment for calculating the Zakat of the year 2017 AD under the new regulations'; whereas Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The Authority shall issue the assessment including its acceptance of the return or its amendment thereto, stating the reasons for such amendment, and the taxpayer may object to the assessment in accordance with the provisions of Chapter (Seven) of the Regulations. Based on the foregoing, whereas the dispute lies in the arithmetic balancing adjustment amounting to SAR 2,248,124 resulting from the Authority's adjustment of the net profit, as the Taxpayer pleads that the Authority took this measure without clarifying how this amount was reached or the reasons for its addition; while the Authority stated in its appeal brief that these amounts are balancing adjustments that appear through the

adjustment of net profit, which are purely arithmetic operations, not liabilities, and do not represent any additional or new items. The Authority added that they resulted from the Taxpayer's application of the Implementing Regulations for Zakat Collection No. (2216) pursuant to Ministerial Resolution No. (13957), and attached a copy of the assessment, confirming the consistency of Zakat according to the details of the assessment sent to the Taxpayer through the ERAD system and the adjustment notice. It also attached a copy confirming that the Taxpayer was notified of the amendment, which included the transitional adjustment for calculating Zakat under the new regulations (2216). In light of the aforementioned, and since the Authority clarified in its appeal brief the action taken by it regarding this arithmetic balancing adjustment and substantiated its perspective, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'the transitional adjustment for calculating the Zakat of the year 2017 AD under the new regulations'.

Regarding the Authority's appeal concerning the item of 'related parties for the year 2017 AD'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof.' Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon. Based on the foregoing, and since the Authority's request to drop the appeal has been established before this Committee as per the letter issued by it in the supplementary memorandum, which stated: 'The Authority wishes to inform the honorable Committee that it is dropping its appeal specifically with respect to the above item and any procedures resulting from the Authority's appeal for this item, in accordance with the merits concluded in the decision of the Adjudication Circuit.' Consequently, this Committee concludes to accept the Authority's request to drop the litigation regarding the item of 'related parties for the year 2017 AD'.

Regarding the Taxpayer's appeal concerning the item of 'Fixed Assets-A: a group of apartments, buildings, and building lands under construction with an aggregate value of SAR 72,321,776', and the item of 'Fixed Assets-C: showrooms and warehouses totaling SAR 44,111,505'; whereas Paragraph (1) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The following items shall be deducted from the Zakat base of the taxpayer who maintains commercial books: 1- Net fixed assets and the like, including—but not limited to—the following: A- Fixed assets acquired for the purpose of being used in the taxpayer's activity, at the book value

appearing in the financial statements. B- Payments for the purchase of fixed assets. C- Spare parts and materials not intended for sale. D- Assets financed for the lessee under finance lease contracts in Build-Operate-Transfer (BOT) projects, Build-Own-Operate (BOO) projects, Build-Own-Operate-Transfer (BOOT) projects, and other similar structures. Based on the foregoing, whereas two essential conditions must be met for assets to be deemed permissible for deduction from the Zakat base: namely, a documented intent issued by the competent authority clarifying the intent, and the non-existence of any selling transactions executed during the year. Upon reviewing the case file and the documents contained therein, it became evident that the Authority's disallowance of the deduction of the above item is due to the real estate being held for sale, with no evidence proving its utilization in the activity and the absence of rental yields. However, this position has no supporting basis in the Regulations, since the selling transaction must take place during the contested year (2017 AD). Whereas according to the submissions of the Taxpayer, no derecognition or disposal transactions were executed during the contested year, and as the Authority pointed out in the Simplified Guide for Zakat Treatment of the Most Prominent Items Subject to Objection as follows: 'The Authority shall disallow the deduction of investments in the following cases... investments held for trading, even if classified under long-term assets, if it is verified that buying and selling transactions occurred on the investment during the year.' Consequently, this constitutes an confirmation by the Authority that the selling transactions must be within the disputed year. Furthermore, the Authority stated in its responsive memorandum that it accepts the deduction of the showrooms and warehouses according to the statement attached by the Taxpayer, totaling SAR 44,111,505. Therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'a group of apartments, buildings, and building lands under construction with an aggregate value of SAR 72,321,776', and record the settlement (expiration) of the dispute regarding the item of 'showrooms and warehouses totaling SAR 44,111,505'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the Third Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ITR-2024-204682), issued in Case No. (Z-204682-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'the transitional adjustment for calculating the Zakat of the year 2017 AD under the new regulations'.

2- To accept the Authority's request to drop the litigation regarding the item of 'related parties for the year 2017 AD'.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'bank facilities—real estate company loan for the year 2017 AD'.

4- With respect to the Taxpayer's appeal against the item of 'fixed assets':

A) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'lands... (1) (2) with an aggregate value of SAR 243,550,085'.

B) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'a group of apartments, buildings, and building lands under construction with an aggregate value of SAR 72,321,776'.

C) To record the settlement of the dispute regarding the item of 'showrooms and warehouses totaling SAR 44,111,505'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-242490
Case No. Z-242490-2024

Principle No. 20

For the deduction of fixed assets, consideration shall be given to the departure of their value from the Taxpayer's financial liability and their financing from equity or liabilities included in the base, whenever their utilization in the activity is established and the Taxpayer provides justification for the non-transfer of nominal ownership.

Facts

Consideration was given to the appeal submitted on 16/09/2024 AD by ..., National ID No. (...), in his capacity as a proxy for the Appellant Company pursuant to Power of Attorney No. (...) dated 20/07/1445 AH, and Attorney License No. (...), against the decision of the Second Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ISR-2024-234902), issued in Case No. (Z-234902-2024) relating to the Zakat assessment for the year 2019 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: Procedurally:

To accept the lawsuit submitted by the Plaintiff, (...) Holding Company, Commercial Registration No. (...), against the Defendant, the Zakat, Tax and Customs Authority.

Second: On the Merits:

1- To reject the lawsuit regarding the item of 'provision for impairment of investment' in the amount of SAR 550,092 for the year 2019 AD.

2- To reject the lawsuit regarding the item of 'unsubstantiated expenses' in the amount of SAR 3,797 for the year 2019 AD.

3- To reject the lawsuit regarding the item of 'provision for doubtful debts' in the amount of SAR 7,500 for the year 2019 AD.

4- To record the expiration of litigation regarding the item of 'addition of related parties', in accordance with the grounds.

5- To reject the lawsuit regarding the item of 'net fixed assets' in the amount of SAR 825,634 for the year 2019 AD.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and which contained a summary as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically with respect to the item of 'provision for impairment of investment', the Taxpayer appeals this item and pleads that the amount of SAR 550,092 resulted from a real, actual, and realized loss of the investee company. Furthermore, the company created this amount due to accounting considerations related to the presentation method of this realized loss in the financial statements. It was also created during the year, did not remain for an uninterrupted year, and was not carried forward from a prior year. The company presented the amount pursuant to the requirements of the accounting standards; otherwise, the reality of the matter is that these amounts are actual losses that reduced the investment value. With respect to what was stated in the decision of the Adjudication Circuit regarding the failure to provide documentation, the Taxpayer pointed out that the financial statements for the year 2019 AD and the provision's journal entries were submitted, which demonstrate that it represents an actual loss on the investment. As for the item of 'unsubstantiated expenses', the Taxpayer appeals this item, which totals SAR 3,797, and pleads that they are actual, paid expenses necessary for the activity, and satisfy all the deduction requirements mentioned in Article (Eight) of the Implementing Regulations for Zakat Collection. Accordingly, the Taxpayer requests the acceptance of their deduction. With respect to the item of 'provision for doubtful debts', the Taxpayer appeals the provision for doubtful debts totaling SAR 7,500, pleading that it is actually a valuation of the debit balances due to the company, and represents valuation differences of debit receivables pursuant to the requirements of the accounting standard, and not a matter of contingent expenses. With respect to the item of 'related parties', the Taxpayer states that the Committee recorded the expiration of litigation regarding a portion of the objection, wherein the Authority partially accepted the addition of the amount within the limits of deductions in the amount of SAR 4,426,157 to the base instead of SAR 11,019,544.34; hence, it maintains its objection to the portion rejected by the Authority in the amount of SAR 4,426,157 and does not accept the addition. This is based on the consideration that the Authority added back related parties in the amount of SAR 11,019,544.34, and the full amount was objected to, relying on the ground that the addition of debts is restricted only to debts classified as long-term, and furthermore, must not exceed the aggregate of what is deducted from the base. The Authority violated these two restrictions in this addition, as it added the liability despite its classification as a short-term liability, and also added the item in a manner exceeding the base deductions, which demonstrates that the Authority's action was erroneous and in explicit violation of the Regulations. Accordingly, the Authority stated during the hearing that it made

the amendment by partially accepting the related parties item through adding back the amount of SAR 4,426,157 instead of SAR 11,019,544.34, which does not exceed the deductions. The Taxpayer's proxy stated that he accepts the partial acceptance whereby the Authority waives the amount of SAR 6,593,387 while maintaining the objection to the remaining amount. However, the decision was issued recording the expiration of litigation, and the Taxpayer affirmed that the company objects to the remaining amount and does not accept the addition. With respect to the item of 'net fixed assets and the like', the Taxpayer appeals the decision of the Adjudication Circuit which concluded to uphold the Authority's action in disallowing the deduction of the amount of SAR 825,634 from the fixed assets deducted from the base, on the consideration that assets registered under the partners' names may be deducted from the Zakat base, provided that such assets are utilized in the activity and that evidence is provided demonstrating the justifications preventing the transfer of ownership to the company. Accordingly, the company objects to this action, as these assets are among the assets utilized in the company's activity and recorded in its financial statements. Furthermore, the Authority's disallowance of the deduction of the said assets results in these assets being subject to Zakat and indirectly added back to the Zakat base due to the addition of their financing source. Consequently, the Taxpayer requests the reversal of the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

On Monday, dated 19/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 10:36 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for the Appellant pursuant to Power of Attorney No. (...) issued on 19/04/1446 AH, and Attorney License No. (...). There also appeared the representative of the Respondent, ... (National ID No. ...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Following the closure of the pleadings and due deliberation,

and based on the foregoing and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'net fixed assets and the like'; whereas Paragraph (1) of Article (Five) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'The following items shall be deducted from the Zakat base of the taxpayer who maintains commercial books: 1- Net fixed assets and the like, including—but not limited to—the following: A- Fixed assets acquired for the purpose of being used in the taxpayer's activity, at the book value appearing in the financial statements. B- Payments for the purchase of fixed assets. C- Spare parts and materials not intended for sale. D- Assets financed for the lessee under finance lease contracts in Build-Operate-Transfer (BOT) projects, Build-Own-Operate (BOO) projects, Build-Own-Operate-Transfer (BOOT) projects, and other similar structures. Based on the foregoing, whereas assets registered under the partners' names may be deducted from the Zakat base, provided that such assets are utilized in the activity and that evidence is provided demonstrating the justifications preventing the transfer of ownership to the company; and whereas the dispute centers around the principle of ownership of these fixed assets to determine the permissibility of their deduction from the Zakat base, establishing that these assets are utilized in the activity, and proving that they are financed from equity or liabilities included in the Zakat base (financing sources); and whereas the criteria for deducting assets held for use from the Zakat base is the departure of the funds from the company's financial liability and not the transfer of legal title, and in fulfillment of the balance sheet equilibrium principle, as any asset appearing therein is financed by equity or liabilities included in the Zakat base; and upon the Committee's review of the Authority's responsive memorandum, it became evident from Annex No. (10) attached thereto that Note (5) stated: 'The aforementioned land is registered under the name of one of the partners, and there is an acknowledgment from the partner stating that the ownership of this land belongs to the company.' Consequently, the Committee concludes to allow the amount of SAR 660,800. As for the vehicles amounting to SAR 164,834, since the Taxpayer failed to provide evidence demonstrating the impossibility of transferring the ownership of this asset to the company, and also failed to provide evidence proving the utilization of this asset within the company's activity; consequently, the Committee concludes to disallow the amount of SAR 164,834. Therefore, this Committee is bound to partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of 'net fixed assets and the like' by allowing the amount of SAR 660,800 and disallowing the amount of SAR 164,834.

Regarding the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core

dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the Second Committee for Resolution of Income Tax Violations and Disputes in Riyadh City, No. (ISR-2024-234902), issued in Case No. (Z-234902-2024) relating to the Zakat assessment for the year 2019 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'provision for impairment of investment' in the amount of SAR 550,092 for the year 2019 AD.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'unsubstantiated expenses' in the amount of SAR 3,797.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'provision for doubtful debts' in the amount of SAR 7,500.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'related parties' in the amount of SAR 4,426,157.

5- To partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of 'net fixed assets and the like' by allowing the amount of SAR 660,800 and disallowing the amount of SAR 164,834.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-242981
Case No. Z-242981-2024

Principle No. 21

If an asset appearing in the financial statements is disallowed from deductions due to its lack of connection to the Taxpayer's activity, its financing source added back to the Zakat base must be excluded, in fulfillment of the balance sheet equilibrium principle.

Facts

Consideration was given to the appeal submitted on 19/09/2024 AD by ..., National ID No. (...), in his capacity as (...) Establishment, Commercial Registration No. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-237102), issued in Case No. (Z-237102-2024) relating to the Zakat assessment for the year 2019 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To reject the Plaintiff's objection regarding the item of 'partners' current account' for the year 2019 AD.

Second: To reject the Plaintiff's objection regarding the item of 'assets' for the year 2019 AD.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, the summary of which is as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically with respect to the item of 'owner's current account', the Taxpayer requests the reversal of the Committee's decision regarding this item on the grounds that the committee that issued the decision stated that the Plaintiff objects to the Defendant's action of adding back the owner's current account in the amount of SAR 23,612,239. The Committee explicitly noted that the Defendant did not submit its defense on the merits, yet it upheld the Authority's action based on Article (Eighteen) of the Implementing Regulations for Zakat Collection, stating that the Plaintiff failed to provide supporting documents for its lawsuit, such as the

financial statements. Accordingly, the Taxpayer attached from the outset the documents requested by the Committee. The Plaintiff's objection to the Authority's action is founded on a statutory principle, which is the violation of the provisions of the Zakat Regulations; therefore, it does not require providing a document to prove it, and it was incumbent upon the Committee to examine the Plaintiff's objection, review the Regulations, and determine whether or not the Defendant violated the texts of the Regulations, especially since the Defendant did not submit any responses to the Taxpayer's objections or provide any documents supporting its action in violation of the text. Pursuant to Article (4) of the Implementing Regulations for Zakat Collection, the owner's current account was classified in the financial statements under non-current (long-term) liabilities, and the aforementioned paragraph was applied when calculating Zakat and submitting the Zakat return. Thus, the Authority's action of adding back the owner's current account to the base without applying Paragraph (C) of the aforementioned clause is deemed a violation of the Law, the Regulations, and the Sharia fatwas, and lacks any basis. Nothing appeared within the owner's current account records in any of the branches indicating that the owner conducted any of these transactions with the Establishment, which renders the addition of his current account to the base as an internal financing source flawed with a violation of the Law, the Regulations, and accounting standards. For these reasons, the Taxpayer objects to adding back the current account balance in the amount of SAR 23,612,239 to the Zakat base without applying the text of Paragraph (3/C) of Article (4) of the Implementing Regulations for Zakat Collection issued by His Excellency the Minister of Finance's Resolution No. (2216) dated 07/07/1440 AH, which clarifies that owners' current accounts are among the long-term liabilities added back to the Zakat base within the limits of what was absorbed by the deducted assets. With respect to the Taxpayer's appeal concerning the item of 'deductions', the Taxpayer requests the reversal of the Committee's decision because the Authority adjusted the deductions by excluding an amount of SAR 6,200,000 due to its non-utilization in the activity, relying on the text of Article (5) of the Implementing Regulations for Zakat Collection. The Taxpayer objects to this because there are no assets in the financial statements without a corresponding liability, and all liabilities corresponding to the Zakat assets were added back to the base, where non-current assets appeared in the amount of SAR 23,423,708, and non-current liabilities and equity amounted to SAR 34,156,635, which means that the liabilities added back to the base are greater than the Zakat assets. The guidelines and the Zakat Collection Manual, all issued by the Defendant Authority, stated that the Authority utilizes the 'sources of funds method' in calculating the Zakat base, which relies on indirectly reaching the Zakat base by determining the internal and external financing sources absorbed in Zakat assets. However, the Authority failed to apply this when reversing its deduction of advance payments against the purchase of assets. The addition of the partners' current account in the amount of SAR 34,738,776, in addition to equity, must correspond to the assets deducted from the base, which include the amount of advance payments for purchasing assets. Therefore, if deductions are reduced, the corresponding liabilities that were absorbed therein must also be reduced.

On Monday, dated 21/04/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:03 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 15/02/1446 AH, and Attorney License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs and Compliance under No. (.....) dated 19/03/1445 AH. During this session, the Committee reviewed the supplementary memorandum submitted by the Authority, wherein it admits (concedes) the Taxpayer's appeal and requests to record the settlement of the dispute regarding the item of 'owner's current account'. Upon presenting this to the Taxpayer's proxy, he responded with no objection and maintained his previous submissions. When asking the Authority's representative if he wished to add anything, he stated that he maintains his previous submissions in this lawsuit. Following the closure of the pleadings and due deliberation.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period.

On the merits, and regarding the Taxpayer’s appeal concerning the item of 'owner's current account'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof.' Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon. Based on the foregoing, and since the settlement of the dispute has been established by virtue of the Authority’s acceptance of the Taxpayer's requests as per the letter issued by it in the supplementary memorandum, which stated: 'The Authority

informs the honorable Committee that it accepts the Taxpayer's objection to the above item (owner's current account) within the limits of what was absorbed by the deducted assets from the Zakat base in the amount of SAR 17,223,689, pursuant to the Taxpayer's demands, and the Authority requests the honorable Committee to record the settlement of the dispute accordingly.' Consequently, the Committee is bound to record the settlement of the dispute regarding the item of 'owner's current account'.

Regarding the Taxpayer's appeal concerning the item of 'deductions'; as the Taxpayer objects to the contested item on the grounds that there are no assets in the financial statements without a corresponding liability, and all liabilities corresponding to the Zakat assets were added back to the base, where non-current assets appeared in the amount of SAR 23,423,708, and non-current liabilities and equity amounted to SAR 34,156,635, which means that the liabilities added back to the base are greater than the Zakat assets. Based on the foregoing, it is evident that the core of the dispute centers around the deduction of lands from the Zakat base, as the Authority disallowed the deduction of the lands from the Zakat base on the grounds that they are agricultural lands and do not relate to the company's activity, whereas the Taxpayer demands the deduction of the lands because their financing source was added back to the Zakat base, and in the event that the deduction of the agricultural lands is not accepted, their financing source added back to the Zakat base must be excluded. Upon the Committee's review of the case file and the defenses and documents contained therein, it became evident that the Authority presented in its responsive memorandum that the land is agricultural and does not relate to the Taxpayer's activity, and was not deducted based on that; however, it failed to provide documented evidence demonstrating the non-eligibility of its deduction from the Zakat base despite the addition of its financing sources. Since the lands were recorded within the Taxpayer's assets in the financial statements, their financing source must be excluded to balance the equation pursuant to the balance sheet equilibrium principle. Given that the accounting equation indicates that Assets = Liabilities + Equity, when an asset in the financial statements is disallowed from deduction, its financing source must be excluded to balance the equation in accordance with the balance sheet equilibrium principle. Since the Authority did not prove the exclusion of the financing source of those disallowed assets, and since the Taxpayer requested in its appeal brief the reduction of the added liabilities that correspond to those lands; consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deductions'.

Decision:

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, ..., National ID No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for Adjudicating Income Tax

Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-237102), issued in Case No. (Z-237102-2024) relating to the Zakat assessment for the year 2019 AD.

Second: On the Merits:

1- To record the settlement of the dispute regarding the Taxpayer's appeal against the item of 'owner's current account'.

2- To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deductions'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-243116
Case No. Z-243116-2024

Principle No. 22

An investment shall not be deemed among the long-term investments permissible for deduction from the Zakat base unless there is a documented intent from the competent authority against selling, and the non-existence of any selling transactions during the contested year. In this regard, consideration shall be given to the intent of the investment established in the financial statements and their disclosures for the disputed year, without regard to any changes that may arise in subsequent years.

Facts

Consideration was given to the appeal submitted on 25/09/2024 AD by ..., National ID No. (...), in her capacity as a proxy for the Appellant Establishment pursuant to Power of Attorney No. (...) dated 23/01/1444 AH, and Attorney License No. (...); and the appeal submitted by the Zakat, Tax and Customs Authority on 26/09/2024 AD, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238071), issued in Case No. (Z-238071-2024) relating to the Zakat assessment for the year 2016 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

The Committee lacks subject-matter jurisdiction to consider the Plaintiff's lawsuit.

The Adjudication Circuit issued its aforementioned decision and reconsidered this lawsuit anew as a result of this Committee's decision No. (IR-2024-191036); accordingly, the Committee decided to resume the consideration of the lawsuit. As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which included that the Taxpayer requests the acceptance of its appeal and the upholding of the decision of the Adjudication Circuit No. (IZD-2023-143580) which ruled to annul the Authority's decision on all the items subject to the lawsuit for the year 2016 AD. Similarly, the decision did not meet the acceptance of the Authority, which submitted an appeal brief that this Committee reviewed and the substance of which included that the Authority requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit on the appealed items.

On Tuesday, dated 01/07/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:40 AM, in the presence of its members whose names are recorded in the minutes, via Video

conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 23/01/1444 AH, and Attorney License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AM. When asking the Taxpayer's proxy if he wished to add anything, he stated that he maintains his previous submissions in this lawsuit. Upon presenting this to the Authority's representative, he responded by maintaining his previous submissions in this lawsuit. When asking both parties if they wished to add anything, they decided to rest their case on their previous submissions. Following the closure of the pleadings and due deliberation, and since the lawsuit requires further study, the Committee decided to adjourn the consideration of the case to the session of Thursday, corresponding to 17/07/2025 AD, provided that the upcoming session shall be dedicated to pronouncing the decision.

On Thursday, dated 17/07/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 09:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 23/01/1444 AH, and Attorney License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Whereas the pleadings have been closed and due deliberation has taken place, and since this session is dedicated to pronouncing the decision.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'procedural defect (reasons for amendment for the year 2016 AD)'; upon the Committee's examination of the appeal, and whereas Paragraph (3) of Article (Thirty-Seven) of the Rules of Operation of Zakat, Tax and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH, stipulates that: '3- If the Appellate Circuit

decides to annul the decision of the Adjudication Circuit issued for lack of jurisdiction, or by accepting a secondary plea that resulted in barring the progression of the lawsuit, or for the impermissibility of considering it due to prior adjudication, or for the lapse of time, or for its non-acceptance procedurally, or for the non-acceptance of the lawsuit due to lack of specification (failure to draft), it shall remand the case to the Adjudication Circuit that issued the decision to consider the merits; unless the circumstances of the case are ripe for adjudication, or the circumstances of the case necessitate an expedited adjudication, or its subject matter has established decisions or principles by the Appellate Circuits, in which case it may be adjudicated without remand. Based on the foregoing, whereas the appealed decision concluded with lack of jurisdiction to consider the lawsuit, and since this case is among the cases stipulated under the provisions of the aforementioned Article, and whereas the circumstances of the case have become ripe for adjudication; consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'procedural defect (reasons for amendment for the year 2016 AD)'.

Regarding the Authority's appeal concerning the item of 'investment in securities for the year 2016 AD'; whereas Paragraph (Second/4) of Article (4) of the Implementing Regulations for Zakat, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4-(A): Investments in entities within the Kingdom—jointly with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base. (B): Investments in entities outside the Kingdom—jointly with others—provided that the taxpayer calculates, within its Zakat return, the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remits it to the Authority, while attaching audited accounts by a certified public accountant licensed in the country of investment and certified by the official authorities. If the taxpayer fails to comply with calculating and remitting the Zakat accordingly, it shall not be deducted from the Zakat base. Relying on Paragraph (3) of Article (20) of the same Regulations, which stipulates that: 'The burden of proving the correctness of the items and any other data stated in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the correctness of what is stated in its return, the Authority may disallow the item whose correctness is not proven by the taxpayer, or perform an estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, whereas the dispute between the parties centers around the Authority's action of disallowing the deduction of the investment in securities; and specifically with respect to '(A) investments held for trading in the amount of SAR 1,670,308'. Upon reviewing the case file and its contents, it became evident through the financial statements for the contested year, specifically Note No. (8), that the investments consist of available-for-sale investments in securities and are classified into (an investment fund, listed shares, and unlisted shares). It also became evident through Note (8-B) that there

was a selling turnover on the investments recorded under the 'realized gains' account. Upon reviewing the Authority's supplementary brief, it was found that it attached the turnover statement submitted by the Taxpayer during the objection stage, which demonstrates that the following investments, totaling SAR 1,670,308, represent investments upon which a selling transaction occurred during the year, namely: (..., ..., ...). Consequently, it is evident that the Taxpayer's plea regarding the non-existence of selling turnover is incorrect. Therefore, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding 'investments held for trading in the amount of SAR 1,670,308'.

Regarding '(B) investments in listed and unlisted shares in the amount of SAR 22,507,681'; whereas it became evident through the turnover statement submitted in the Authority's supplementary brief that no selling transactions were executed during the period, yet these investments represent investments in entities outside the Kingdom. Whereas Paragraph (Second/4) of Article (4) of the Implementing Regulations for Zakat stipulates that specific conditions must be met for accepting the deduction of foreign investments, and since the Taxpayer failed to comply with providing the financial statements of the investee companies and did not provide evidence proving that it calculated the Zakat due; consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding 'investments in listed and unlisted shares in the amount of SAR 22,507,681'.

Regarding '(C) investments in investment funds in the amount of SAR 81,557'; whereas it is clear that these investments represent investments in investment funds, and given that investment funds were not subject to Zakat collection and were not registered with the Authority during that period, and the Taxpayer did not calculate within its Zakat return the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remit it to the Authority; therefore, the investment in those funds is impermissible for deduction. Consequently, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding 'investments in investment funds in the amount of SAR 81,557'.

Regarding '(D) investments in shares of listed entities within the Kingdom in the amount of SAR 267,036'; whereas it became evident that the Authority accepts the Taxpayer's objection regarding them, as it was established to the Authority that there was no selling turnover during the year, and they represent investments in entities within the Kingdom (..... Bank, ... Company). Accordingly, and based on the foregoing, this Committee concludes to record the settlement of the dispute, given that it was proven to the Authority that there was no selling turnover during the year.

Regarding the Authority's appeal concerning the item of 'accrued expenses and other liabilities in the amount of SAR 5,475,901' and the item of 'trade payables in the amount of SAR 3,914,779'; whereas Paragraph (First/5) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base shall consist of all the

taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and the like from other financing sources, such as creditors, notes payable, and bank overdrafts outstanding against the taxpayer, in accordance with the following: A- What remains of them in cash and has Completed one Zakat year (Al-Hawl). B- What was used of them to finance assets held for use. C- What was used of them in trading assets and has Completed one Zakat year (Al-Hawl). Relying on Paragraph (3) of Article (20) of the same Regulations, which stipulates that: 'The burden of proving the correctness of the items and any other data stated in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the correctness of what is stated in its return, the Authority may disallow the item whose correctness is not proven by the taxpayer, or perform an estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, the balances of payables and accrued expenses constitute components of the Zakat base, provided that such balances remain for an uninterrupted year, or are used to finance assets deducted from the Zakat base without requiring them to remain for an uninterrupted year. Upon reviewing the case file and its contents, it became evident that the Taxpayer failed to submit any document through which the Authority's additions to the Zakat base could be annuld, as it merely contented itself with providing the financial statements and did not submit the detailed turnover statement demonstrating that the amounts did not remain for an uninterrupted year. This conclusion is not undermined by the Taxpayer's claim that the added amounts are not subject to the 1438 AH Zakat Regulations, given that the Regulations stipulated their subjection. Whereas the Authority stated that it reviewed the detailed turnover statement and added back the accounts within the limits of what Completed one Zakat year (Al-Hawl), and since the Taxpayer failed to prove otherwise; consequently, the Authority's action of adding back SAR 5,475,901 to the item of accrued expenses and other liabilities, and the value of SAR 3,914,779 to the item of trade payables, must be upheld. Therefore, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'accrued expenses and other liabilities in the amount of SAR 5,475,901'.

Regarding the Authority's appeal concerning the item of 'disallowance of the deduction of real estate investments in the amount of SAR 51,293,640'; whereas Paragraph (1) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 1- Fixed assets, which include the following: the net value of fixed assets (assets held for use), any payments for the purchase of fixed assets, and the value of spare parts not intended for sale, provided that these assets are owned by the taxpayer—unless there is an impediment preventing the transfer of ownership—and that they are utilized in the activity. Relying on Paragraph (3) of Article (20) of the same Regulations, which stipulates that: 'The burden of proving the correctness of the items and any other data stated in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the correctness of what is stated in

its return, the Authority may disallow the item whose correctness is not proven by the taxpayer, or perform an estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, whereas two essential conditions must be met for an investment to be deemed among the long-term investments permissible for deduction from the Zakat base: namely, a documented intent issued by the competent authority clarifying the investment intent, and the non-existence of any selling transactions executed on those investments during the year. Based on the above, it is evident that the dispute centers around the Taxpayer's demand to deduct real estate investments in the amount of SAR 51,293,640 on the grounds that the intent and purpose of these investments are not for sale. Upon reviewing the financial statements and their contents, it became evident that the contested investments are classified under current assets under the item 'real estate investments held for sale'. Furthermore, upon reviewing Note No. (7) relating to real estate investments, it was found to stipulate the following: 'According to management's intent, it is expected to retain the lands and the participation in a plot of land for the purpose of selling them in the short term within the company's ordinary course of business.' Consequently, it is clear that the company's documented intent is trading. With respect to what the Taxpayer pointed out in its brief that the investments were reclassified into fixed assets in the year 2018 AD, a review of the 2018 AD financial statements confirmed the correctness of the Taxpayer's statement. However, consideration regarding investments is given to the intent; since the intent during the contested year 2016 AD was documented as being held for sale and classified under current assets for the purpose of sale, it must therefore not be deducted due to the established intent. As for the Taxpayer's plea regarding the non-addition of the owner's current account corresponding to the real estate investments, the owner's current account was added back to the Zakat base because the account Completed one Zakat year (Al-Hawl). Therefore, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding 'disallowance of the deduction of real estate investments in the amount of SAR 51,293,640'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's

appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, ... Trading Establishment, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-238071), issued in Case No. (Z-238071-2024) relating to the Zakat assessment for the year 2016 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'procedural defect (reasons for amendment for the year 2016 AD)'.

2- With respect to the appeal submitted by both parties against the item of 'investment in securities for the year 2016 AD':

A) To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding 'investments held for trading in the amount of SAR 1,670,308'.

B) To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding 'investments in listed and unlisted shares in the amount of SAR 22,507,681'.

C) To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding 'investments in investment funds in the amount of SAR 81,557'.

D) To record the settlement of the dispute regarding 'investments in shares of listed entities within the Kingdom in the amount of SAR 267,036'.

3- To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding the item of 'accrued expenses and other liabilities in the amount of SAR 5,475,901'.

4- To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding the item of 'trade payables in the amount of SAR 3,914,779'.

5- To accept the Authority's appeal, annul the decision of the Adjudication Circuit, and reject the Taxpayer's appeal regarding the item of 'disallowance of the deduction of real estate investments in the amount of SAR 51,293,640'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-246131
Case No. Z-246131-2024

Principle No. 23

The criteria for deducting assets held for use from the Zakat base is the departure of the funds from the company's financial liability and not the transfer of legal title.

Facts

Consideration was given to the appeal submitted on 12/11/2024 AD by ..., National ID No. (...), in his capacity as a proxy for the Appellant Company pursuant to Power of Attorney No. (...) dated 21/11/2024 AD, and Attorney License No. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-238615), issued in Case No. (Z-238615-2024) relating to the Zakat assessment for the years from 2008 AD to 2014 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To record the settlement of the dispute of the Plaintiff, (...) Company, Taxpayer Identification Number (...), with the Defendant, the Zakat, Tax and Customs Authority, relating to the contested items for the years from 2008 AD to 2012 AD subject to the lawsuit, by virtue of the Defendant's acceptance of the Plaintiff's requests in this regard, as clarified in the grounds.

Second: To reject all other objections of the Plaintiff, (...) Company Branch - Temporary License (on behalf of ... Company Branch), Taxpayer Identification Number (...), against the Defendant's (the Zakat, Tax and Customs Authority) decisions subject to the lawsuit, as clarified in the grounds.

The Adjudication Circuit issued its aforementioned decision and reconsidered the lawsuit anew as a result of this Committee's decision No. (IR-2024-192016) issued on 11/06/2024 AD, which ruled to remand the case to the Adjudication Circuit to consider the merits, and which decided as follows:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2022-2398), issued in Case No. (Z-134178-2022) relating to the Zakat assessment for the years from 2008 AD to 2014 AD.

Second: On the Merits:

To accept the Taxpayer's appeal, annul the decision of the Adjudication Circuit, and remand the case to it to consider the merits.

Accordingly, the Committee decided to resume the consideration of the lawsuit. As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which included the following:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit, and specifically with respect to the item of 'net fixed assets for the years 2013 AD and 2014 AD', its appeal centers around the fact that these lands are classified under long-term non-current fixed assets as demonstrated in the company's financial statements, given that the company has retained them for more than a year; therefore, they constitute assets held for use that must be deducted from the Zakat base. Regarding the item of 'payables and other balances for the years 2013 AD and 2014 AD', the item of 'creditor banks for the years 2013 AD and 2014 AD', the item of 'short-term and long-term loans for the years 2013 AD and 2014 AD', and the item of 'partners' current account for the years 2013 AD and 2014 AD', the Taxpayer requests the acceptance of its appeal against these items. Consequently, the Taxpayer requests the reversal of the decision of the Adjudication Circuit regarding the appealed items for the aforementioned reasons.

On Tuesday, dated 11/09/1446 AH, corresponding to 11/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 02:10 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for the Appellant pursuant to Power of Attorney No. (...) issued on 10/05/1446 AH, and Attorney License No. (...). There also appeared the representative of the Respondent, ..., National ID No. (...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs and Compliance under No. (.....) dated 19/03/1445 AH. When asking the Appellant's proxy if he wished to add anything, he stated that he maintains his previous submissions in this lawsuit. Upon presenting this to the Respondent's representative, she responded by maintaining her previous submissions in this lawsuit. When asking both parties if they wished to add anything, they decided to rest their case on their previous submissions. Following the closure of the pleadings and due deliberation.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'net fixed assets in the amount of SAR 2,798,128 and SAR 2,658,128 for the years 2013 AD and 2014 AD'; whereas Paragraph (Second/1) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 1- Fixed assets, which include the following: the net value of fixed assets (assets held for use), any payments for the purchase of fixed assets, and the value of spare parts not intended for sale, provided that these assets are owned by the taxpayer—unless there is an impediment preventing the transfer of ownership—and that they are utilized in the activity. Based on the foregoing, and upon reviewing what was submitted by the parties to the lawsuit; whereas the criteria for deducting assets held for use from the Zakat base is the departure of the funds from the company's financial liability and not the transfer of legal title, and in fulfillment of the balance sheet equilibrium principle, as any asset appearing therein is financed by equity or liabilities included in the Zakat base; and upon reviewing the Authority's assessment, it became evident that all financing sources of the assets were added back; and since the lands are financed from the financing sources that were added back to the Zakat base, the Taxpayer is entitled to deduct them. Consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'net fixed assets in the amount of SAR 2,798,128 and SAR 2,658,128 for the years 2013 AD and 2014 AD'.

Regarding the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed

Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-238615), issued in Case No. (Z-238615-2024) relating to the Zakat assessment for the years from 2008 AD to 2014 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'payables and other credit balances' in the amounts of SAR 23,992,020 and SAR 20,689,807 for the years 2013 AD and 2014 AD, respectively.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'creditor banks' in the amounts of SAR 9,844,986 and SAR 8,858,280 for the years 2013 AD and 2014 AD, respectively.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'short-term and long-term loans' in the amounts of SAR 15,742,686 and SAR 13,214,425 for the years 2013 AD and 2014 AD, respectively.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'partners' current account' in the amounts of SAR 12,611,847 and SAR 12,611,847 for the years 2013 AD and 2014 AD, respectively.

5- To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'net fixed assets' in the amounts of SAR 2,798,128 and SAR 2,658,128 for the years 2013 AD and 2014 AD, respectively.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-234529
Case No. Z-234529-2024

Principle No. 24

Real estate investments under development shall be deducted from the Zakat base whenever it is proven that their construction was intended for use in the Taxpayer's activity and not for the purpose of sale, and no selling turnover or trading activity has been established regarding them during the contested year.

Facts

Consideration was given to the appeal submitted on 20/01/2022 AD by M/S ... Real Estate Company, and the appeal submitted on 23/01/2022 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2021-2316), issued in Case No. (Z-16637-2020) relating to the Zakat assessment for the years from 2013 AD to 2018 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To amend the procedure of the Defendant (the Zakat, Tax and Customs Authority) against the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), relating to the amounts due to related parties for the year 2014 AD, subject to the lawsuit, in accordance with what is clarified in the grounds.

Second: To annul the decision of the Defendant (the Zakat, Tax and Customs Authority) against the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), relating to the payables of real estate portfolio investors for the year 2018 AD, subject to the lawsuit.

Third: To reject the objection of the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), against the decision of the Defendant (the Zakat, Tax and Customs Authority) relating to available-for-sale investments for the years from 2013 AD to 2018 AD, subject to the lawsuit.

Fourth: To amend the procedure of the Defendant (the Zakat, Tax and Customs Authority) against the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), relating to the item of capital work-in-progress for the years from 2013 AD to 2018 AD, subject to the lawsuit, in accordance with what is clarified in the grounds.

Fifth: To amend the procedure of the Defendant (the Zakat, Tax and Customs Authority) against the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), relating to the item of investments in lands for the years from 2013 AD to 2018 AD, subject to the lawsuit, in accordance with what is clarified in the grounds.

Sixth: To amend the procedure of the Defendant (the Zakat, Tax and Customs Authority) against the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), relating to the item of capital increase, share premium, and related parties added back to the base for the year 2014 AD, subject to the lawsuit, in accordance with what is clarified in the grounds.

Seventh: To record the settlement of the dispute of the Plaintiff, M/S ... Real Estate Company, Taxpayer Identification Number (...), with the Defendant (the Zakat, Tax and Customs Authority) relating to the item of adding back gains from the change in ownership of a subsidiary for the year 2013 AD, subject to the lawsuit, by virtue of the Plaintiff's acceptance of the Defendant's procedure in this regard.

Eighth: To record the settlement of the dispute of the Plaintiff, M/S ... Real Estate Company, Taxpayer Identification Number (...), with the Defendant (the Zakat, Tax and Customs Authority) relating to the item of written-off amounts due from subsidiaries for the year 2015 AD, subject to the lawsuit, by virtue of the Plaintiff's acceptance of the Defendant's procedure in this regard.

Ninth: To record the settlement of the dispute of the Plaintiff, ... Real Estate Company, Taxpayer Identification Number (...), with the Defendant (the Zakat, Tax and Customs Authority) relating to the item of written-off amounts and the company's share in the losses of associates for the year 2015 AD, subject to the lawsuit, by virtue of the Plaintiff's acceptance of the Defendant's procedure in this regard.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which included that the Taxpayer requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit on the appealed items. Similarly, this decision did not meet the acceptance of the Authority, which submitted an appeal brief that this Committee reviewed and the substance of which included that the Authority requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit on the appealed items.

On Tuesday, dated 28/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:25 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as a proxy for ... Real Estate Company pursuant to Power of Attorney No. (...) issued on 07/03/1446 AH, and Attorney License No. (...). There also appeared the representative of the Zakat, Tax and Customs Authority, ..., National ID No. (...), pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. When asking the Authority's representative if she wished to add anything, she stated that she maintains her previous submissions in this lawsuit. Upon presenting this to the Taxpayer's proxy, he responded by maintaining his previous submissions in this lawsuit. When asking both parties if they wished to add anything, they decided to rest their case on their previous submissions. Following the closure of the pleadings and due deliberation.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'payables of real estate portfolio investors for the year 2018 AD', the item of 'capital work-in-progress for the years from 2013 AD to 2018 AD', and the item of 'investments in lands for the years from 2013 AD to 2018 AD'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof.' Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon. Based on the foregoing, and since it has been established to this Committee that the Authority requested to drop the appeal regarding these items, as per the letter issued by

it in the supplementary memorandum, which stated: 'The Authority wishes to inform the honorable Committee that it is dropping its appeal regarding the aforementioned item specifically, as well as any procedures resulting from the Authority's appeal for this item, in accordance with the findings and merits of the decision of the Adjudication Circuit.' Consequently, the Committee is bound to accept the abandonment of litigation with respect to the Authority's appeal regarding these items.

Regarding the Authority's appeal concerning the item of 'amounts due to related parties for the year 2014 AD'; whereas the Authority objects to the conclusion reached in the contested decision regarding the amendment of the Authority's decision by adding back the amounts due to related parties for the year 2014 AD that Completed one Zakat year (Al-Hawl) in the amount of SAR 8,757,554, despite the fact that the Authority stated in the supplementary responsive memorandum that it had amended the item to be the addition of what Completed one Zakat year (Al-Hawl) in the amount of SAR 906,875 in accordance with the turnover statement submitted by the Taxpayer. Upon reviewing the contested decision, a discrepancy is found in its reasoning, as it was mentioned at the beginning that it was established to the Committee that the dispute over this item had settled, but at the end of the reasoning, the opinion concluded to amend the Authority's procedure by adding back what Completed one Zakat year (Al-Hawl). Furthermore, the Authority's memorandum No. (1), upon which the contested decision relied, includes the amendment of the contested item by adding back what Completed one Zakat year (Al-Hawl) in the amount of SAR 8,757,554, which does not represent the definitive view held by the Authority. By referring to the Authority's supplementary memorandum No. (2) submitted before the Adjudication Circuit, it becomes evident that the Authority partially accepted the contested item by adding back what Completed one Zakat year (Al-Hawl) in the amount of SAR 906,875 to the Zakat base for the year 2014 AD. Whereas the Taxpayer indicated in the supplementary memorandum submitted before the Adjudication Circuit that the analytical statement submitted by it clarifies that the amount which Completed one Zakat year (Al-Hawl) is SAR 906,875, it becomes evident that the contested decision was incorrect in its grounds and operative part, as the Committee was required to amend the Authority's decision in accordance with what was stated in the Authority's responsive memorandum No. (2). Therefore, this Committee concludes to partially accept the Authority's appeal, amend the decision of the Adjudication Circuit, and add back the portion of this item that Completed one Zakat year (Al-Hawl) in the amount of SAR 906,875 to the Zakat base for the year 2014 AD.

Regarding the Authority's appeal concerning the item of 'capital increase, share premium, and related parties for the year 2014 AD'; whereas Paragraph (1) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base shall consist of all the taxpayer's funds subject to Zakat, including: 1- Capital that has Completed one Zakat year (Al-Hawl), as well as any increase therein, even if it has not Completed one Zakat year (Al-Hawl), if the source of such increase is an element of equity or was used to finance an

asset held for use deducted from the Zakat base. Based on the foregoing, whereas the Authority's objection to the contested decision centers around its acceptance of the Taxpayer's request not to add back the capital increase due to the lack of evidence proving its use in financing assets deducted from the Zakat base. Upon reviewing the case file and referring to the Appellant's responsive memorandum dated 26/01/1442 AH, corresponding to 14/09/2020 AD, wherein the Appellant presented the breakdown of the utilization of the IPO proceeds that generated the capital increase and share premium, it became evident that an amount of SAR 68,959,971 of the proceeds was utilized to settle financing installments. Upon reviewing Note No. (15) of the 2014 AD financial statements concerning term Murabaha financings, it is clear that the purpose of the financing was to purchase plots of land. Since the Taxpayer deducted the lands from the Zakat base, this necessitates adding back the amount utilized from the capital increase to settle the financing installments, in the amount of SAR 68,959,971. As for the Authority's plea regarding the contested decision's failure to clarify the financing sources for the asset additions valued at SAR 390 million; by referring to the Committee's decision, it was found that its grounds noted the existence of an agreement with M/S ..... Bank in the amount of SAR 199.9 million to finance ..... Center, whose value at the end of 2014 AD amounted to SAR 189.4 million, which is deemed among the additions to investments held for lease. The balance of that financing was added back within the loans added to the Zakat base, which amounted to SAR 321.3 million according to the 2014 AD Zakat return. Consequently, the total value of additions to assets amounting to SAR 390 million was financed from loans in the amount of SAR 321.3 million and from the capital increase in the amount of SAR 68.9 million. Therefore, this Committee concludes to partially accept the Authority's appeal and amend the decision of the Adjudication Circuit by adding back the portion utilized from the capital increase to settle the financing installments to the Zakat base, in the amount of SAR 68,959,971.

Regarding the Taxpayer's appeal concerning the item of 'disallowance of the deduction of available-for-sale investments for the years from 2013 AD to 2018 AD'; whereas Paragraph (4/A) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'Investments in entities within the Kingdom—jointly with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base.' Furthermore, Paragraph (4/B) of Clause (Second) of Article (4) of the same Regulations stipulates that: 'Investments in entities outside the Kingdom—jointly with others—provided that the taxpayer calculates, within its Zakat return, the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remits it to the Authority, while attaching audited accounts by a certified public accountant licensed in the country of investment and certified by the official authorities. If the taxpayer fails to comply with calculating and remitting the Zakat accordingly, it shall not be deducted from the Zakat base. With respect to the investments in ... Holding Company, and upon reviewing the supplementary memorandum submitted by the Authority before the Adjudication Circuit, which stated: 'Accordingly, the item will be partially accepted

by accepting the investment in M/S ... Holding Company for the years from 2013 AD to 2017 AD, as they represent investments in an entity within the Kingdom...'. It is thus evident that the Authority accepted the deduction of this investment for all the contested years except for the year 2018 AD without clarifying the reason behind it. Since the Authority acknowledged that this investment represents an investment in a company within the Kingdom, this entails the deduction of this investment from the Zakat base for the year 2018 AD. Therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investment in M/S ... Holding Company for the year 2018 AD'.

Regarding the 'investment in companies outside the Kingdom'; whereas the Taxpayer's appeal centers around objecting to the non-acceptance of deducting this investment from the Zakat base; and whereas the decision of the Adjudication Circuit relied, in its rejection of the objection, on the Taxpayer's failure to submit the financial statements of the companies to prove their subjection to Zakat collection; and whereas the Taxpayer has submitted the audited financial statements of the foreign investments for each of ..., ..., and ..., while presenting its Zakat calculation for those companies for all the contested years; and whereas the specific instructions concerning assessment on foreign investments provide for subjecting them to Zakat when they are not taxed in the country of investment; and whereas the Authority now possesses the documents with which it can calculate the Zakat on the Taxpayer regarding the investment in the aforementioned companies, thereby entitling the deduction of the foreign investment in the said companies, and that the Authority shall accordingly calculate the Zakat based on those financial statements and include in the assessment the Taxpayer's share of the Zakat of that company; therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investment in companies outside the Kingdom'.

Regarding the 'deduction of the investment in ... in the amount of SAR 33,000,000'; whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulates that: 'Litigants may request the court at any stage of the lawsuit to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed thereof.' Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Ministerial Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulates that: 'If the agreement is reached prior to entering the lawsuit into the record, the substance of the lawsuit and the response must be recorded before entering the agreement, taking into account that the core lawsuit must fall within the jurisdiction of the Committee, even if the substance of the agreement falls within the jurisdiction of another court or committee, provided that the subject matter of the lawsuit or part thereof is included in what was agreed upon.' Based on the foregoing, and since it has been established to this Committee that the Authority accepted the Taxpayer's appeal, as per the letter issued by it in the supplementary memorandum, which stated: '...Accordingly, the Authority notes the adoption of the

deduction of the investment in ... for the year 2018 AD in the amount of SAR 33,000,000...'. Consequently, the Committee is bound to record the settlement of the dispute with respect to the Taxpayer's appeal regarding the 'deduction of the investment in the Arab Income Fund in the amount of SAR 33,000,000'.

Regarding '... Fund for the year 2018 AD'; whereas the Taxpayer submitted a Zakat calculation for the fund along with the audited financial statements, and no Zakat due resulted from this calculation; therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding '... Fund for the year 2018 AD'.

Regarding the Taxpayer's appeal concerning the item of 'disallowance of the deduction of projects under development - B: deduction of ... project from the Zakat base for the year 2014 AD'; whereas Paragraph (2) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 2- The taxpayer's capital work-in-progress constructed with the objective of being utilized in the activity and not for the purpose of sale.' Based on the foregoing, and by referring to the financial statements for the year 2015 AD, it became evident through Note No. (9) concerning 'projects under construction and development' that there were transfers to the item of 'investments in lands' in the amount of SAR 13,579,750, which represents the land value of the project that the Taxpayer requests to deduct. By referring to Note No. (5) concerning investments in lands, it is found that lands held for sale are classified under current assets, whereas lands held for long-term investment are classified under non-current assets. Since the reclassification of the project to be within investments in lands occurred during the year 2015 AD, this constitutes a presumption that the Taxpayer's intent shifted from the purpose of possession to the purpose of sale in the year 2015 AD. Consequently, the Taxpayer is entitled to deduct the project value from the Zakat base for the year 2014 AD due to the lack of evidence proving a selling transaction in the year 2015 AD. Therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... project from the Zakat base for the year 2014 AD'.

Regarding the Taxpayer's appeal concerning the item of 'disallowance of the deduction of investments in lands'; whereas Article (4) of the Implementing Regulations for Zakat Collection stipulates that: 'The Zakat base for taxpayers maintaining regular books and records shall be calculated as follows: Second: The following shall be deducted from the Zakat base: 1- Fixed assets, which include the following: the net value of fixed assets (assets held for use), any payments for the purchase of fixed assets, and the value of spare parts not intended for sale, provided that these assets are owned by the taxpayer—unless there is an impediment preventing the transfer of ownership—and that they are utilized in the activity.'

With respect to the 'deduction of ... land from the Zakat base for the years 2015 AD and 2016 AD'; upon reviewing the case file and its enclosed documents, it became evident that the dispute over this item is

documentary. The contested decision relied, in its rejection of deducting this land, on the Taxpayer's failure to submit the land purchase contract. Whereas the Appellant attached the land purchase contract (Appendix 25) dated 28/02/2015 AD; consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land from the Zakat base for the years 2015 AD and 2016 AD'.

Regarding the 'deduction of ... land for the year 2013 AD'; upon reviewing the case file and its enclosed documents, it became evident that the core of the contested decision in rejecting the deduction of this land centers around the Taxpayer's failure to submit evidence proving that the land was held for the purpose of possession, and the exclusion of the land in the year 2014 AD. By referring to the documents attached to the case file, it was found that the Appellant attached the title deeds of ... lands, which prove that the ownership of the lands in ... neighborhood was transferred under the name of the Appellant Company on 26/12/1413 AH and 24/11/1438 AH. The Appellant also attached the financing agreement for purchasing the land, which entails accepting the deduction of ... land from the Zakat base for the year 2013 AD, given that evidence of land ownership was provided and that it was not excluded from the company's accounts in the year 2014 AD. Therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land for the year 2013 AD'.

Regarding the Taxpayer's appeal concerning the item of 'deduction of ... land - Al-Kharj for the years 2013 AD to 2018 AD'; whereas the decision of the Adjudication Circuit No. (IFR-2021-2316) dated 03/05/1443 AH was issued in Case No. (Z-16637-2020) without the Adjudication Circuit exhausting its full jurisdiction to rule on all the Plaintiff's requests, as it did not adjudicate the item of 'deduction of ... land - Al-Kharj for the years 2013 AD to 2018 AD'. Since the Committee did not exhaust its jurisdiction, the First Appellate Circuit for Income Tax Violations and Disputes issued its decision No. (IR-2023-91741) dated 22/05/1445 AH in Case No. (Z-91741-2022), which ruled to accept the Taxpayer's appeal and remand the case to the Adjudication Circuit to consider the item of '... neighborhood - Al-Kharj'. Accordingly, the Adjudication Circuit issued its decision No. (IFR-2024-16637) dated 08/08/1445 AH in Case No. (Z-16637-2020), which ruled 'to reject the objection of the Plaintiff, M/S ... Company, Taxpayer Identification Number ..., against the Defendant's (the Zakat, Tax and Customs Authority) decision relating to the item of deduction of investments in lands (... neighborhood - Al-Kharj) for the years from 2013 AD to 2018 AD in the amount of SAR 2,939,986 (two million nine hundred thirty-nine thousand nine hundred eighty-six Saudi Riyals)'.

Whereas the Taxpayer submitted its appeal against this decision in Case No. (Z-234529-2024) dated 28/07/1446 AH; and whereas the decision of the Adjudication Circuit No. (IFR-2024-16637) dated 08/08/1445 AH in Case No. (Z-16637-2020) was limited to ruling on the item in which the Adjudication Circuit had not initially completed its jurisdiction to consider and did not include the remaining requests of the Taxpayer, whereas it was required that a decision be issued by the Adjudication Circuit comprehensive of all the Taxpayer's requests so that the Committee would exhaust its jurisdiction over all the Plaintiff's

requests by issuing a decision encompassing all its requests. Accordingly, the Committee decided to resume the consideration of the lawsuit.

With respect to the Taxpayer's appeal concerning the item of 'deduction of ... land - Al-Kharj for the year 2015 AD'; whereas Article (4) of the Implementing Regulations for Zakat Collection stipulates that: 'The Zakat base for taxpayers maintaining regular books and records shall be calculated as follows: Second: The following shall be deducted from the Zakat base: 1- Fixed assets, which include the following: the net value of fixed assets (assets held for use), any payments for the purchase of fixed assets, and the value of spare parts not intended for sale, provided that these assets are owned by the taxpayer—unless there is an impediment preventing the transfer of ownership—and that they are utilized in the activity. Based on the foregoing, whereas the core of the contested decision in rejecting the deduction of this land (... land - Al-Kharj) centers around the Taxpayer's failure to submit documents proving land ownership and evidence that it was held for the purpose of possession. Upon reviewing the facts of the case, whereas the Authority's rejection to deduct the item consists of the Taxpayer's failure to provide evidence proving the purpose of the investment, while the Taxpayer pleads that the investment is classified as long-term and notes that Gharnata land was classified as non-current for the year 2015 AD, and subsequently these lands were transferred to current assets (inventory) during the following years. Upon reviewing the case file and its enclosed defenses and documents, and whereas it is also clear that the dispute regarding the Authority's non-acceptance of its deduction stems from the Taxpayer not providing evidence that it was held for the purpose of possession; by referring to the Taxpayer's appeal brief, it is evident that it admits that the investment in that land in the year 2015 AD was for the purpose of long-term investment, excluding the other years in which it transferred it to inventory, which clarifies that they are current lands held for trading. By referring to the land ledger movement in Appendix (8), it is evident that no selling transaction occurred during the year 2015 AD, whereas in the following years the Taxpayer transferred it to current assets (inventory). Furthermore, the general analysis of the lands' movement in Attachment (5) clarifies that the land was held for the purpose of possession only in the year 2015 AD. Therefore, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land - Al-Kharj for the year 2015 AD'.

Regarding the remaining years; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the remaining appealed years came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee

has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding 'deduction of ... land - Al-Kharj with respect to the remaining years'.

Regarding the Taxpayer's appeal concerning the item of 'adding back the capital increase, share premium, and related parties for the year 2014 AD'; whereas Paragraph (1) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base shall consist of all the taxpayer's funds subject to Zakat, including: 1- Capital that has Completed one Zakat year (Al-Hawl), as well as any increase therein, even if it has not Completed one Zakat year (Al-Hawl), if the source of such increase is an element of equity or was used to finance an asset held for use deducted from the Zakat base. Based on the foregoing, whereas it is clear that the Taxpayer's appeal centers around its demand not to add back the counterpart utilized for financing investments held for lease. By referring to item No. (5) of the Authority's appeal detailed above concerning this same item, the opinion concluded to amend the decision of the Adjudication Circuit upon reviewing the Appellant's responsive memorandum dated 26/01/1442 AH, corresponding to 14/09/2020 AD, wherein the details of utilizing the IPO proceeds that generated the capital increase and share premium were stated, making it evident that an amount of SAR 68,959,971 of the proceeds was utilized to settle financing installments. Upon reviewing Note No. (15) of the 2014 AD financial statements concerning term Murabaha financings, it is clear that the purpose of the financing was to purchase plots of land. Since the Taxpayer deducted the lands from the Zakat base, this necessitates adding back the amount utilized from the capital increase to settle the financing installments, in the amount of SAR 68,959,971. Accordingly, this Committee concludes to amend the decision of the Adjudication Circuit regarding the Taxpayer's appeal concerning 'adding back the capital increase, share premium, and related parties for the year 2014 AD'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the remaining appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining appealed items, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, M/S ... Real Estate Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2021-2316), issued in Case No. (Z-16637-2020) relating to the Zakat assessment for the years from 2013 AD to 2018 AD.

Second: On the Merits:

1- To partially accept the Authority's appeal and amend the decision of the Adjudication Circuit regarding the item of 'amounts due to related parties for the year 2014 AD'.

2- To accept the abandonment of litigation with respect to the Authority's appeal regarding the item of 'payables of real estate portfolio investors for the year 2018 AD'.

3- To accept the abandonment of litigation with respect to the Authority's appeal regarding the item of 'capital work-in-progress for the years from 2013 AD to 2018 AD'.

4- To accept the abandonment of litigation with respect to the Authority's appeal regarding the item of 'investments in lands for the years from 2013 AD to 2018 AD'.

5- To partially accept the Authority's appeal and amend the decision of the Adjudication Circuit regarding the item of 'capital increase, share premium, and related parties for the year 2014 AD'.

6- With respect to the Taxpayer's appeal against the item of 'disallowance of the deduction of available-for-sale investments for the years from 2013 AD to 2018 AD':

A) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investment in M/S ... Holding Company for the year 2018 AD'.

B) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'investment in companies outside the Kingdom'.

C) To record the settlement of the dispute with respect to the Taxpayer's appeal regarding the 'deduction of the investment in ... Fund in the amount of SAR 33,000,000'.

D) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding '... Fund for the year 2018 AD'.

E) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding 'other funds'.

7- With respect to the Taxpayer's appeal regarding the item of 'disallowance of the deduction of projects under development':

A) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding 'deduction of ... Tower project from the Zakat base for the year 2017 AD'.

B) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... project from the Zakat base for the year 2014 AD'.

8- With respect to the Taxpayer's appeal regarding the item of 'disallowance of the deduction of investments in lands':

A) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land from the Zakat base for the years 2015 AD and 2016 AD'.

B) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land for the year 2013 AD'.

C) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'deduction of ... neighborhood land for the years from 2015 AD to 2018 AD'.

D) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'deduction of ... land and ... land for the years from 2013 AD to 2018 AD'.

E) With respect to the Taxpayer's appeal regarding the item of 'deduction of ... land - Al-Kharj for the years 2013 AD to 2018 AD':

E-1) To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'deduction of ... land - Al-Kharj for the year 2015 AD'.

E-2) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding 'deduction of ... land - Al-Kharj with respect to the remaining years'.

9- To amend the decision of the Adjudication Circuit regarding the Taxpayer's appeal concerning the 'adding back of the capital increase, share premium, and related parties for the year 2014 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239339
Case No. Z-239339-2024

Principle No. 25

The Taxpayer's share in foreign investments may be deducted from the Zakat base whenever it is proven that audited financial statements of the investee companies outside the Kingdom have been submitted by a certified public accountant licensed in the country of investment, or the payment of the Zakat due on such investments has been established, for the purpose of calculating and remitting the Zakat thereon or verifying its payment, so as to ensure the prevention of double taxation of Zakat.

Facts

Consideration was given to the appeal submitted on 07/07/2024 AD by ..., National ID No. (...), in his capacity as a proxy for the Appellant Company pursuant to Power of Attorney No. (...) dated 22/06/2023 AD, and Attorney License No. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-222603), issued in Case No. (Z-222603-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- To reject the Plaintiff's objection regarding the item of current liabilities.

2- To reject the Plaintiff's objection regarding the item of investments in local companies.

3- To reject the Plaintiff's objection regarding the item of investments in subsidiaries.

4- With respect to the item of projects under development:

A) To annul the Defendant's decision relating to ... project in Al-Jubail.

B) To annul the Defendant's decision relating to ... Apartments project.

C) To reject the Plaintiff's objection relating to the construction of a residential villa belonging to one of the partners.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which is summarized as follows: With respect to the item of 'investments in local and foreign companies - B/ Foreign Companies', the Taxpayer clarified that the amounts represent equity investments in several companies as stated in Note No. (6) of the audited

financial statements for the year 2017 AD. The Taxpayer also noted that it submitted an analytical statement regarding available-for-sale investments inside and outside the Kingdom, expressing its disagreement with the Authority's procedure in disallowing the deduction of the aforementioned investments from the Zakat base. The Taxpayer argued that Paragraph (Third) of Ministerial Resolution No. (1005) stipulates that any other local or foreign investments in forward transactions, bonds representing debts, or securities shall not be deducted from the taxpayer's Zakat base, regardless of the issuing entity and irrespective of the investment holding period. This implies that all other investments are approved for deduction from the Zakat base, as the aforementioned Ministerial Resolution provided for an exception, which is that investments in forward transactions and bonds are not approved for deduction from the Zakat base. The Taxpayer noted that the Authority rejected the deduction of the aforementioned investments in foreign companies because they were disclosed as 'available-for-sale investments' under Note No. (6) in the audited financial statements for the year 2017 AD, whereby the Authority treated those investments as trading goods. The Taxpayer pointed out the Authority's misunderstanding of the purpose of the investments, explaining that it invested in shares from a long-term investment perspective, and that the phrase 'available-for-sale' mentioned above was a mandatory description under the accounting standard issued by the Saudi Organization for Certified Public Accountants (SOCPA), which the Taxpayer was required to comply with. This mandatory description covers both types of investments, i.e., those for long-term and short-term purposes or for trading purposes. Furthermore, long-term investments can also be sold after several years if there is a good price for them in the market; thus, the description 'available-for-sale' does not mean they constitute trading goods. The Taxpayer added that the Authority rejected the deduction of available-for-sale investments inside/outside the Kingdom under the pretext of failure to submit the financial statements for the year 2017 AD. In this regard, the Taxpayer indicated that it submitted a copy of the audited financial statements of the available-for-sale investments for each of ... Real Estate Finance Company, ..., and ... Fund, explaining that it is in the process of securing the audited financial statements for the remaining investments. Finally, the Taxpayer clarified that the aforementioned investments were made in securities unlisted on financial markets and were classified as 'available-for-sale investments' in accordance with the SOCPA standard. It also noted that the majority of the investments were still owned by it as of 31/12/2017 AD, which proves that they are investments aimed at long-term purposes and were not held for commercial purposes. The Taxpayer also objects to the item of 'current liabilities', the item of 'investments in subsidiaries', and the item of 'projects under development - ... Villa'. Consequently, the Taxpayer requests the reversal of the decision of the Adjudication Circuit regarding the appealed items for the aforementioned reasons.

On Wednesday, corresponding to 29/01/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 02:01 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was

stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memoranda, and the documents and evidence contained in the case file, and following due deliberation, and whereas the case is ripe for adjudication in its current state, the Committee decides to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'investments in local and foreign companies - B/ Foreign Companies'; its appeal centers around the argument that the amounts represent equity investments in several companies. The Taxpayer noted that it submitted an analytical statement regarding available-for-sale investments inside and outside the Kingdom, pointing out the Authority's misunderstanding of the purpose of the investments, and explaining that it invested in shares from a long-term investment perspective, and that the phrase 'available-for-sale' mentioned above was a mandatory description under the accounting standard issued by the Saudi Organization for Certified Public Accountants (SOCPA). Whereas Paragraph (4/B) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: Investments in entities outside the Kingdom—jointly with others—provided that the taxpayer calculates, within its Zakat return, the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remits it to the Authority, while attaching audited accounts by a certified public accountant licensed in the country of investment and certified by the official authorities. If the taxpayer fails to comply with calculating and remitting the Zakat accordingly, it shall not be deducted from the Zakat base. Furthermore, Paragraph (3) of Article (20) of the same Regulations stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it.' Additionally, Paragraph (4/A) of Article (4) of the same Regulations stipulates that: 'Investments in entities within the Kingdom—jointly with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to

collection, it shall not be deducted from the base. Based on the foregoing, the Taxpayer is entitled to deduct the foreign investment from its Zakat base provided that it complies with the requirements stipulated therein, which is to submit to the Authority audited accounts by a certified public accountant licensed in the country of investment, for the purpose of calculating the Zakat due on these investments and remitting it to the Authority, or to submit evidence proving the payment of Zakat thereon in the country of investment, whereby such investments are then deducted from the base of the investing company so as to ensure the prevention of double taxation of Zakat; otherwise, if what was referred to is not submitted, such investments shall not be deducted from its Zakat base. Whereas the dispute over this item is a documentary dispute; and upon this Committee's review of the submitted case documents, it became evident that the Taxpayer submitted the annual report of ... Real Estate Finance Company, which includes the financial data and the signed and certified financial statements through which Zakat can be calculated, thereby necessitating the acceptance of the Taxpayer's appeal regarding this company. As for ... Company, and upon reviewing the attachments, it is evident that the Taxpayer submitted a draft of the financial statements; since the Regulations explicitly stipulated that the financial statements must be certified, the Taxpayer's appeal regarding this company must be rejected. With respect to the remaining companies, it is evident that the Taxpayer did not submit the financial statements of the investee company outside the Kingdom issued by a certified public accountant, nor did it submit evidence proving the payment of Zakat on that investment. Consequently, the Committee concludes to partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of investments in foreign companies.

Regarding the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:"

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, M/S (...) Company, Commercial Registration No. (...), Taxpayer Identification Number (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-222603), issued in Case No. (Z-222603-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'current liabilities'.

2- With respect to the Taxpayer's appeal against the item of 'investments in local and foreign companies in the amount of SAR 31,535,387':

A) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'investments in local companies in the amount of SAR 2,890,355'.

B) To partially accept the Taxpayer's appeal and amend the decision of the Adjudication Circuit regarding the item of 'investments in foreign companies: (...) Company in the amount of SAR 291,000, M/S ... Real Estate Finance Company in the amount of SAR 12,267,660, (...) company in the amount of SAR 14,175,413, M/S ... Fund in the amount of SAR 321,051, and (...) Company in the amount of SAR 1,589,908'.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'investments in subsidiaries'.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'projects under development - ... Villa in the amount of SAR 19,597,246'."

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-239557
Case No. Z-239557-2024

Principle No. 26

Investments shall not be deemed assets held for use that are eligible for deduction from the Zakat base except upon the satisfaction of two concurrent conditions: a documented intent issued by the competent authority clarifying the purpose of the investment, and the absence of any selling transactions executed thereon during the year.

Facts

Consideration was given to the appeal submitted on 11/07/2024 AD by ..., National ID No. (...), in his capacity as the legal representative of the Appellant Company pursuant to its Articles of Association, and the appeal submitted by the Zakat, Tax and Customs Authority on 14/07/2024 AD, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-225444), issued in Case No. (Z-225444-2023) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- To reject the Plaintiff's objection regarding the item of adding back current liabilities.

2- To reject the Plaintiff's objection regarding the item of short-term loans.

3- With respect to the item of real estate investments:

A) To reject the Plaintiff's objection relating to the investment in ....

B) To reject the Plaintiff's objection relating to the investment in ....

C) To annul the Defendant's decision relating to the investments in ....

D) To record the settlement of the dispute relating to the investment in ....

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which included the Taxpayer's request to accept its appeal and annul the decision of the Adjudication Circuit on the appealed items for the aforementioned reasons.

Similarly, this decision did not meet the acceptance of the Zakat, Tax and Customs Authority, which submitted its appeal against the contested decision pursuant to an appeal brief, which this Committee reviewed and the substance of which is summarized as follows:

Regarding the Authority's appeal against the decision of the Adjudication Circuit; its appeal centers around the item of 'real estate investments for the year 2017 AD: A- Investment in (...)', arguing that the findings of the Adjudication Circuit in the merits of its decision were incorrect. The rationale behind this is that the Authority had submitted its supplementary memorandum No. (2) to the Committee prior to the issuance of the decision, wherein it clarified the erroneously calculated portion and the conditional acceptance of deducting the investment after recalculation. However, the Adjudication Circuit failed to consider the Authority's responsive memorandum. Furthermore, the investment in the portfolio was not deducted due to the impermissibility of deducting it from the Zakat base, as this portfolio was not subject to Zakat and the Taxpayer did not submit a Zakat calculation thereon. In addition, some of these investments represent investments in debts according to the disclosures of the financial statements (as detailed below). In support of this, the Authority relies on Article (4/Second/4/B, C) of the Implementing Regulations for Zakat Collection. Accordingly, the Authority requests the acceptance of its appeal and the reversal of the decision of the Adjudication Circuit on the appealed item for the matrix of reasons presented above.

On Wednesday, dated 05/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 08:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memoranda, and the documents and evidence contained in the case file, and following due deliberation, and whereas the case is ripe for adjudication in its current state, the Committee decides to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'real estate investments for the year 2017 AD: A- Investment in (...)'; whereas Paragraph (4/A) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4- (A): Investments

in entities within the Kingdom—jointly with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base.' Furthermore, pursuant to Paragraph (3) of Article (20) of the same Regulations, it stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, two fundamental conditions must be concurrently satisfied for investments to be deemed assets held for use and eligible for deduction from the Zakat base: a documented intent issued by the competent authority clarifying the purpose of the investment, and the absence of any selling transactions executed on those investments during the year. By referring to the case file and its enclosed documents, and whereas it became evident that the Authority stated during the resolution stage that the inaccuracy of the calculation submitted by the Taxpayer was established to it, based on which the Authority recalculated the Zakat correctly and noted that it accepts the deduction of the investment on the condition that the Taxpayer pays its share of the Zakat due on the fund in the amount of SAR 167,547. It also became evident that the Taxpayer stated within its responsive memorandum submitted during the resolution stage, in reply to the Authority, that it rejects the Authority's conditional acceptance tied to the payment of the Zakat due on the fund. Upon reviewing the calculation submitted by the Authority and the calculation submitted by the Taxpayer, it was found that the discrepancy lies in the amount of SAR 209,780,634, which the Authority disallowed for deduction on the grounds that it constitutes an investment in debts and was not subject to Zakat. By reviewing the financial statements of the investee company, the accuracy of the Authority's findings was established, as it was proven that the Taxpayer invested in a portfolio and failed to prove the payment of Zakat thereon. Accordingly, and since the Taxpayer did not accept the Authority's condition to pay the Zakat due on the fund, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the investment in (...).

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment

in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, M/S ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-225444), issued in Case No. (Z-225444-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'adding back current liabilities'.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'short-term loans for the year 2017 AD'.

3- With respect to the appeal submitted by both parties against the item of 'real estate investments for the year 2017 AD':

A) To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the investment in (...).

B) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the investment in (...) and the investment in (...).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-241472
Case No. Z-241472-2024

Principle No. 27

Shares of listed companies shall not be deducted from the Zakat base unless the taxpayer proves that they are long-term investments not held for trading, by submitting the portfolio ledger movement statement and indicia supporting the investment intent.

Facts

Consideration was given to the appeal submitted on 02/09/2024 AD by ..., National ID No. (...), in his capacity as the owner of the Appellant Establishment, and the appeal submitted on 04/09/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-234978), issued in Case No. (Z-234978-2024) relating to the Zakat assessment for the year 2017 AD, in the lawsuit submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

1- With respect to the item of disallowance of the deduction of investments in available-for-sale securities:

A) To annul the Defendant's decision relating to domestic investments.

B) To reject the Plaintiff's objection relating to foreign investments.

2- To reject the Plaintiff's objection relating to the item of accrued expenses payable.

3- To reject the Plaintiff's objection relating to the item of trade payables.

4- To reject the Plaintiff's objection relating to the item of service providers.

5- To reject the Plaintiff's objection relating to the item of related parties' balance.

6- To reject the Plaintiff's objection relating to the item of adjusting book profit by the social insurance expense.

7- With respect to the item of subjecting short-term loans and the like to Zakat:

A) To reject the Plaintiff's objection relating to subjecting short-term loans and the like (revolving loans) to Zakat.

B) To annul the Defendant's decision relating to subjecting short-term loans and the like (the added variance) to Zakat.

As this decision did not meet the acceptance of the Taxpayer, it submitted an appeal brief, which this Committee reviewed and the substance of which is summarized as follows:

Regarding the Taxpayer's appeal against the decision of the Adjudication Circuit; with respect to the item of 'accrued expenses payable', its appeal centers around the argument that these expenses are not governed by Article (4) of the Zakat Regulations of 1438 AH. Additionally, the item of accrued expenses was not listed among the items subject to Zakat, and the Authority's action in subjecting the unpaid balances to Zakat is deemed a rejection of the costs charged through these items in accordance with the accrual basis of accounting, which governs the issuance of financial statements and under which the Authority had previously approved those costs in full during those years. Consequently, the Taxpayer requests the cancellation of the Authority's action, given that these expenses do not constitute a source of financing. With respect to the item of 'trade payables', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that these expenses are not governed by Article (4) of the Zakat Regulations of 1438 AH, and that the Authority's action in subjecting the unpaid balances to Zakat is deemed a rejection of the costs charged through these items in accordance with the accrual basis of accounting, which governs the issuance of financial statements and under which the Authority had previously approved those costs in full during those years. Consequently, the Taxpayer requests the cancellation of the Authority's action, given that these expenses do not constitute a source of financing. With respect to the item of 'service providers', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that these expenses are not governed by Article (4) of the Zakat Regulations of 1438 AH, and that the Authority's action in subjecting the unpaid balances to Zakat is deemed a rejection of the costs charged through these items in accordance with the accrual basis of accounting, which governs the issuance of financial statements and under which the Authority had previously approved those costs in full during those years. Consequently, the Taxpayer requests the cancellation of the Authority's action, given that these expenses do not constitute a source of financing. With respect to the item of 'related parties' balance', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that these expenses are not governed by Article (4) of the Zakat Regulations of 1438 AH, and that the Authority's action in subjecting the unpaid balances to Zakat is deemed a rejection of the costs charged through these items in accordance with the accrual basis of accounting, which governs the issuance of financial statements and under which the Authority had previously approved those costs in full during those years. Consequently, the Taxpayer requests the cancellation of the Authority's action, given that these expenses do not constitute a source of financing. With respect to the item of 'adjusting book profit by the social insurance expense', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that it had previously submitted the detailed payroll sheets, which prove the actual cost of the item, as well as the

account statements from the accounting software. The Taxpayer notes that the benchmark for approving the salaries item is the employee actually receiving his salary and nothing else, and that this salary must have been determined through the concluded contract, regardless of the basic salary and housing allowance received by the employee. With respect to the item of 'disallowance of the deduction of investments in available-for-sale securities', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that these investments represent long-term investments and are not held for trading or speculation purposes; therefore, they are investments eligible for deduction from the Zakat base pursuant to Zakat regulations. The Taxpayer states that long-term investments are equivalent to production instruments, as they are primarily used to generate revenues, and thus must be treated as assets held for use that are not subject to Zakat. With respect to the item of 'subjecting short-term loans and the like to Zakat', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that it obtained these loans in order to finance working capital and the operating cycle to bridge the financing gap resulting from the time difference between the manufacturing and selling processes, especially since the Taxpayer's business consists of producing and selling cartons, and therefore it must maintain stable levels of goods inventory to meet its market demands. Consequently, it obtains those loans for operational purposes. The Taxpayer mentioned that it became clear to it that the Zakat treatment applied by the Authority to the loans item violates the substance of Paragraph (5) of Clause (First) of Article (4) of the Zakat Regulations.

As this decision did not meet the acceptance of the Authority, it submitted an appeal brief, which this Committee reviewed and the substance of which is summarized as follows:

Regarding the item of 'disallowance of the deduction of investments in available-for-sale securities', the committee that issued the contested decision annuld the Authority’s decision due to the classification of the item under non-current assets in the financial statements, in addition to the absence of trading activity on those investments. Accordingly, the Authority reviewed the statement of investment ledger movement submitted with the case file, which consists of investments in available-for-sale securities as follows: investment fund, listed shares, and unlisted shares. Whereas the General Secretariat accepted the domestic investments and rejected the remainder, the Authority clarifies that it reviewed the ledger movement statement of domestic investments and it became evident that the ending balance amounted to SAR 1,540,671, while in the financial statements for listed shares it amounted to SAR 327,344. Consequently, a discrepancy is revealed with the value of the item as shown in Note No. (8) of the financial statements. In response to the Taxpayer's statement that the movement contained in the financial statements resulted from investment profits and losses and the outcome of revaluation at market value, the Authority states that it had previously discussed this with the Taxpayer during the objection stage, requesting documents to verify the Taxpayer’s statement and to provide a detailed movement statement of the investments, clarify their nature, and attach all journal entries and documentation related to investment losses, profits,

revaluation, and the investment portfolio from Tadawul. However, the Taxpayer failed to submit what was requested from it during either the objection or the resolution stage. Accordingly, and as long as the dispute with the Taxpayer is documentary, and it failed to submit an analytical statement of the domestic investment portfolio that reconciles with the financial statements to verify the existence of any sale or disposal, this renders the decision of the Adjudication Circuit incorrect and subject to reversal. Regarding the item of 'subjecting short-term loans and the like to Zakat', the committee that issued the contested decision annuld that item on the basis that the added long-term loans exceeded those that had Completed one Zakat year (Al-Hawl). Accordingly, the Authority reviewed the loan ledger movement statement and the submissions of the Taxpayer, and it became evident that the variance resulted in SAR 940,512. Therefore, what the Authority added back consists of loans that have Completed one Zakat year (Al-Hawl) (long-term loans) and the Industrial Development Fund. Out of the long-term loans that have Completed one Zakat year (Al-Hawl), the amount added back totaled SAR 103,691,105.36. With respect to what was added back from the Saudi Industrial Development Fund (SIDF) loan, which has Completed one Zakat year (Al-Hawl), it is identical to the addition made by the Taxpayer in its Zakat return and reconciles with the financial statements according to Note No. (15) of the 2017 AD financial statements in the amount of SAR 17,877,000. Accordingly, it is evident that the variance amounting to SAR 940,512 was not part of the long-term loans as stated in the decision of the Adjudication Circuit; rather, the variance resulted from (long-term loans and the Industrial Development Fund) and what the Taxpayer added back in its return. The Authority's action was based on Article (4)/Paragraph (5/A, B) and Paragraph (13) of the Implementing Regulations for Zakat Collection issued in 1438 AH; therefore, the inaccuracy of the resolution decision is evident, which necessitates its reversal.

On Wednesday, dated 19/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal, examining the contents of the case file, and after due deliberation in accordance with the regulations; and whereas the Committee found no necessity for the attendance of the parties to the appeal, the Committee decided to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Taxpayer's appeal concerning the item of 'adjusting book profit by the social insurance expense for the year 2017 AD'; the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that it had previously submitted the detailed payroll sheets, which prove the actual cost of the item, as well as the account statements from the accounting software. The Taxpayer notes that the benchmark for approving the salaries item is the employee actually receiving his salary and nothing else, and that this salary must have been determined through the concluded contract, regardless of the basic salary and housing allowance received by the employee. Whereas Paragraph (2) of Article (6) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, concerning non-deductible expenses, stipulates that: 'Expenses that the taxpayer is unable to prove to have been incurred through supporting documents or other indicia of proof.' Furthermore, Paragraph (3) of Article (20) thereof stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, the certificate issued by the General Organization for (.....) is deemed one of the significant third-party neutral evidence used to verify the fairness of salaries, wages, and the like charged to the accounts, unless the taxpayer proves otherwise. Whereas the dispute between the two parties is a documentary dispute and centers around the excess social insurance expense charged; upon reviewing the documents attached to the case file, it becomes evident that the Taxpayer submitted the social insurance wage statement, the payroll summary for all affiliated establishments during the dispute period, and the payroll details, in addition to the social insurance certificate for each establishment issued by the General Organization for (.....). Upon reviewing the submitted documents, it became evident that the wages subject to social insurance in the statement reconcile with those stated in the social insurance certificate, in addition to the reconciliation of the amounts paid according to the certificate. The Taxpayer submitted a statement of the amounts paid to social insurance for each establishment individually and in total, whereby the total amounted to SAR 1,857,409, which is the amount reported in the Taxpayer's Zakat return. Consequently, this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'adjusting book profit by the social insurance expense for the year 2017 AD'.

Regarding the Authority's appeal concerning the item of 'adjusting book profit by the social insurance expense in the amount of SAR 362,454 for the year 2017 AD - domestic investments', wherein it argued that as long as the dispute with the Taxpayer is documentary, and it failed to submit an analytical statement of the domestic investment portfolio that reconciles with the financial statements to verify the existence of any sale or disposal, this renders the decision of the Adjudication Circuit incorrect and subject to reversal.

Whereas Paragraph (4) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The following shall be deducted from the Zakat base: 4- (A): Investments in entities within the Kingdom—jointly with others—if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base. (B): Investments in entities outside the Kingdom—jointly with others—provided that the taxpayer calculates, within its Zakat return, the Zakat due on these investments in accordance with the rules stipulated in these Regulations and remits it to the Authority, while attaching audited accounts by a certified public accountant licensed in the country of investment and certified by the official authorities. If the taxpayer fails to comply with calculating and remitting the Zakat accordingly, it shall not be deducted from the Zakat base. Furthermore, Paragraph (3) of Article (20) thereof stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, whereas the bulk of the Authority's defenses centers around the discrepancy between the submitted ledger movement statement and the financial statements regarding the ending balance, and noting that the Taxpayer argues that the movement executed during the year relates to investment profits and losses and the outcome of revaluation, yet failed to submit the portfolio from Tadawul for verification. Accordingly, upon reviewing the case file and its contents, and with respect to the Authority's defense regarding the mismatch of balances—wherein it indicated that the ending balance according to the submitted statement amounted to SAR 1,540,671, while in the financial statements for listed shares it amounted to SAR 327,344—and by tracking the submitted movement and comparing it with the financial statements, it became evident that the discrepancy between the movement statement and the financial statements is due to the fact that the submitted movement statement was restricted to domestic investments, whereas the financial statements comprised both domestic and foreign investments combined.

Regarding the existence of movement on these domestic investments, and upon reviewing the submitted movement statement, it became evident that there was movement on certain shares, and the Taxpayer failed to submit the supporting documents representing the portfolio movement statement from Tadawul website to prove that the movement constitutes a revaluation as it claims. Consequently, this Committee concludes to partially accept the Authority's appeal with respect to the shares that underwent movement during the year, reject its appeal regarding the shares that underwent no selling transactions during the dispute period, and amend the decision of the Adjudication Circuit regarding the item of 'domestic investments'.

Regarding the Authority's appeal concerning the item of 'subjecting short-term loans and the like to Zakat in the amount of SAR 940,512 for the year 2017 AD', wherein it argued that the variance amounting to SAR 940,512 was not part of the long-term loans as stated in the decision of the Adjudication Circuit; rather, the variance resulted from (long-term loans and the Industrial Development Fund) and what the Taxpayer added back in its return. The Authority's action was based on Article (4)/Paragraph (5/A, B) and Paragraph (13) of the Implementing Regulations for Zakat Collection issued in 1438 AH; therefore, the inaccuracy of the resolution decision is evident, which necessitates its reversal. Whereas Paragraph (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base shall consist of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and the like from other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: A) Whatever remains thereof in cash and has Completed one Zakat year (Al-Hawl). B) Whatever is utilized thereof to finance an asset held for use. C) Whatever is utilized thereof in trading goods and has Completed one Zakat year (Al-Hawl).' Furthermore, Paragraph (3) of Article (20) thereof stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, it became evident that the Authority indicated that the Taxpayer added back the long-term loans in full at the lower balance according to the financial statements, totaling SAR 120,627,593, whereas the Authority indicated that it recalculated the long-term loans and found that the portion that had Completed one Zakat year (Al-Hawl) amounted to SAR 103,691,105, in addition to the Industrial Fund loan which financed a deducted asset in the amount of SAR 17,877,000. Accordingly, it is clear that the variance amounting to SAR 940,512 resulted from the Authority's calculation compared to what the Taxpayer added back in its return, and that the variance arose after the Authority calculated the long-term loans and added them back by the amount that had Completed one Zakat year (Al-Hawl), and not as added back by the Taxpayer at the full balance, whichever is lower according to the financial statements. Consequently, this Committee concludes to accept the Authority's appeal with respect to the item of 'subjecting short-term loans to Zakat for the year 2017 AD' and annul the decision of the Adjudication Circuit regarding the 'amount of SAR 940,512'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is

established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, ... Group Establishment, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-234978), issued in Case No. (Z-234978-2024) relating to the Zakat assessment for the year 2017 AD.

Second: On the Merits:

1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'accrued expenses payable for the year 2017 AD'.

2- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'trade payables for the year 2017 AD'.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'service providers for the year 2017 AD'.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'related parties' balance for the year 2017 AD'.

5- To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of 'adjusting book profit by the social insurance expense for the year 2017 AD'.

6- With respect to the appeal submitted by both parties against the item of 'adjusting book profit by the social insurance expense in the amount of SAR 362,454 for the year 2017 AD':

A) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'foreign investments'.

B) To partially accept the Authority's appeal and amend the decision of the Adjudication Circuit regarding the item of 'domestic investments'.

7- With respect to the appeal submitted by both parties against the item of 'subjecting short-term loans and the like to Zakat in the amount of SAR 17,265,105 for the year 2017 AD':

A) To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the amount of SAR 940,512.

B) To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the amount of SAR 16,324,593.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-241494
Case No. Z-241494-2024

Principle No. 28

Loans constitute one of the components of the Zakat base regardless of their type, source, or classification, provided that they have Completed one Zakat year (Al-Hawl) or have been utilized to finance assets deducted from the Zakat base, without requiring that such loans remain for an uninterrupted year.

Facts

Consideration was given to the appeal submitted on 02/09/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-4117), issued in Case No. (Z-4117-2019) relating to the Zakat assessment for the year 2011 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

To obligate the Defendant, with respect to the loans item, to add back the amount of SAR 4,420,922 to the Zakat base.

Whereas the Adjudication Circuit issued its aforementioned decision and considered the lawsuit anew as a result of the decision of this Committee No. (IR-2023-59103) issued on 24/07/2023 AD, which involved remanding the case to the Adjudication Circuit to be considered on the merits regarding the item of long-term loans; accordingly, the Committee decided to resume consideration of the case. Whereas the contested decision did not meet the acceptance of the Zakat, Tax and Customs Authority, it submitted an appeal brief, which this Committee reviewed and which contained the following:

The Authority appeals the decision of the Adjudication Circuit and requests the reversal of the Committee's decision regarding the item of 'long-term loans in the amount of SAR 5,274,081'. The Authority pointed out that it had added back the balance of the appealed item after comparing the beginning balance with the ending balance according to the financial statements and their notes, adding back whichever was lower on the ground that it had Completed one Zakat year (Al-Hawl), due to the Taxpayer's failure to submit supporting documents for the ledger movements of the item under dispute. The committee that issued the contested decision obligated the Authority to add back the amount of SAR 4,420,922 to the Zakat base on the grounds that the Taxpayer submitted documents consisting of the agreement of ... Bank and ... Bank, alongside bank account statements. In response, the Authority argues that this is incorrect and erred. Upon

reviewing the submissions made by the Taxpayer within its statement of claim—which consisted of copies of bank agreements, including the agreement of ... Bank and ... Bank, and bank account statements—and upon reviewing and studying them, it was not clear to the Authority what portion thereof related to short-term loans and long-term loans. Furthermore, the Taxpayer did not submit a detailed ledger movement statement extracted from the accounting system for the long-term loans to track the movement of the loans and verify the settlements of the beginning balances during the year. After reviewing Note No. (9) in the financial statements under the item of 'long-term loans', the Authority clarifies that it added back the lower ending balance of the long-term loans item, amounting to SAR 5,274,081, whereas the contested decision ruled to add back the lower balance of the loan, represented by the ending balance after deducting the current portion therefrom, making the added amount SAR 4,420,922, without clarifying the justifications and reasons prompting this procedure. The current portion is part of the principal of the loan, and it is merely deducted from long-term loans for disclosure purposes. Moreover, it was impossible for the committee that issued the decision to track the movement of the long-term loan, as it did not clarify what amounts related to the long-term loan and the short-term loan; it also confirmed in its merits that the Taxpayer failed to submit the detailed ledger movement statement extracted from the accounting system supporting the loan movement. Consequently, what must be subject to Zakat is the full balance of the loan after comparing it with the beginning or ending balance, whichever is lower, to ensure it has Completed one Zakat year (Al-Hawl). Based on the foregoing, the Authority affirms the correctness and validity of its procedure in subjecting the long-term loans balance amounting to SAR 5,274,081, which is the lower balance, as it has Completed one Zakat year (Al-Hawl). With respect to the item of 'short-term loans', the Authority appeals the decision of the Adjudication Circuit on this item, pointing out that it added back the balance after comparing the beginning balance with the ending balance according to the financial statements and their notes, adding back whichever was lower on the ground that it had Completed one Zakat year (Al-Hawl). The Authority affirms that upon reviewing the submitted documents—which consisted of an analytical statement of the short-term loans movement and letters of credit only—it was unable to determine whether or not these loans financed a deducted asset due to the failure to submit the agreements concluded between the lending banks and the Company to ascertain their purpose. Furthermore, the loans statement did not reconcile with the financial statements, and no ledger movement statement was submitted to clarify whether these loans are revolving or not. Additionally, the statement of cash flows did not show any addition of assets except for a minor amount constituting approximately 5% of the amount of these loans, as shown in the financial statements.

On Tuesday, dated 22/07/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 10:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by

Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared the representative of the Appellant, ..., National ID No. (...), pursuant to the authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. There also appeared ..., National ID No. (...), in his capacity as the representative of the Appellee pursuant to the Articles of Association. Upon questioning the representative of the Appellee as to what he wished to add, he stated that he maintains all prior submissions made in this lawsuit, and further added a request to cancel the assessment on the grounds of the Expiration of the statutory period. Upon presenting this to the representative of the Appellant, she replied by maintaining all prior submissions made in this lawsuit. Upon asking both parties whether they wished to add anything further, they decided to rest their case on the prior submissions.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'long-term loans in the amount of SAR 5,274,081'; whereas Paragraph (First/5) of Article (Four) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulates that: 'The Zakat base shall consist of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and the like from other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: A) Whatever remains thereof in cash and has Completed one Zakat year (Al-Hawl). B) Whatever is utilized thereof to finance an asset held for use. C) Whatever is utilized thereof in trading goods and has Completed one Zakat year (Al-Hawl).' Furthermore, Paragraph (3) of Article (Twenty) thereof stipulates that: 'The burden of proof to substantiate the accuracy of the items and any other data included in the taxpayer's Zakat return shall rest upon the taxpayer. In the event that the taxpayer is unable to prove the accuracy of the content of its return, the Authority may disallow the item whose accuracy has not been proven by the taxpayer, or perform a estimated assessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it. Based on the foregoing, loans constitute one of the components of the Zakat base regardless of their type, source, or classification, provided that they have Completed one Zakat year (Al-Hawl) or have been utilized to finance assets deducted from the Zakat base, without requiring that such loans remain for an uninterrupted year. Whereas the appealed Adjudication Circuit's decision ruled to amend the Authority's action in accordance with the financial statements based on the beginning or ending

balance, whichever is lower; accordingly, the Authority appeals the resolution decision and requests the addition of the lower ending balance of the long-term loans item, amounting to SAR 5,274,081, due to the Taxpayer's failure to submit supporting documents for the ledger movements of the item under dispute. Upon this Committee's review of the case file, it became evident that the Taxpayer submitted the detailed ledger movement statement of the item and an account statement for five loans supporting the movement out of a total of eleven loans. It also became evident to the Committee that there was no completion of an uninterrupted year on the long-term loans, with the exception of the loan from ... Bank, which the Taxpayer conceded must be subjected to Zakat for financing fixed assets, as it was revealed that the loan was obtained during the year but was utilized to purchase vehicles, thereby necessitating its addition to the Zakat base. With respect to the loan from ... Bank for purchasing the machine, it was revealed from the description of the loan that it was utilized to purchase machinery, which consequently requires its addition to the Zakat base for financing a fixed asset, without requiring that it remain for an uninterrupted year. Accordingly, the total amount to be added back to the Zakat base is SAR 1,429,243. Since the Authority did not submit anything to contradict the ledger movement statement presented by the Taxpayer in its responsive memorandum, this Committee concludes to reject the Authority's appeal—wherein it requested the addition of the lower ending balance of the long-term loans item, amounting to SAR 5,274,081—and to amend the resolution decision by adding back SAR 1,429,243.

Regarding the Authority's appeal concerning the item of 'short-term loans'; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Authority's appeal and uphold the appealed Adjudication Circuit's decision regarding the item of 'short-term loans', supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant, the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in

Dammam City, No. (IZD-2024-4117), issued in Case No. (Z-4117-2019) relating to the Zakat assessment for the year 2011 AD.

Second: On the Merits:

1- To reject the Authority's appeal and amend the decision of the Adjudication Circuit regarding the item of 'long-term loans in the amount of SAR 5,274,081 for the year 2011 AD'.

2- To reject the Authority's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'short-term loans'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR -2025-246628
Case No. Z-246628-2024

Principle No. 29

The State's assumption of Zakat and the deduction of sukuk from the investor's base shall be strictly limited to sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals (SAR). This treatment shall not extend to sukuk issued in a foreign currency, even if they were purchased through a local bank or their value was recorded in Saudi Riyals within bank confirmations.

Principle No. 30

Disposals resulting from the partial redemption stipulated in the sukuk prospectus shall not be deemed trading, nor shall they alter the nature of the sukuk as a non-trading investment, provided that it is proven that the redemption was executed in accordance with the issuance mechanism and on a pro-rata basis by the issuer, and that the outflow of funds is established pursuant to certified bank statements.

Facts

Consideration was given to the appeal submitted on 17/12/2024 AD by ..., National ID No. (...), in his capacity as the proxy for the Appellant Company pursuant to Power of Attorney No. (...) dated 16/09/1445 AH, and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-241231), issued in Case No. (Z-241231-2024) relating to the Zakat assessment for the year 2020 AD, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To accept the lawsuit procedurally.

Second: On the Merits:

First: (A) Local Investment Sukuk:

A/1) To reject the Plaintiff's objection regarding the item of deduction of the investment balance in ... Company sukuk in the amount of SAR 19,208,659 for the year 2020 AD.

A/2) To accept the Plaintiff's objection regarding the item of deduction of the Ministry of Finance sukuk in the amount of SAR 5,903,432 for the year 2020 AD.

A/3 & 4) To establish the settlement of the dispute regarding the disallowance of the deduction of the investment balance in: (A - ... Company sukuk in the amount of SAR 2,973,061 for the year 2020 AD; B - ... Company sukuk in the amount of SAR 10,679,376 for the year 2020 AD).

A/5) To reject the Plaintiff's objection regarding the item of deduction of the investment balance in ... Company sukuk in the amount of SAR 2,947,760 for the year 2020 AD.

(B) Foreign Investment Sukuk: To reject the Plaintiff's objection regarding the item of deduction of the investment balance in foreign investment sukuk in the amount of SAR 45,082,266 for the year 2020 AD.

Second: To reject the Plaintiff's objection regarding the item of adding back the accumulated surplus from insurance operations in the amount of SAR 39,696 to the Zakat base for the year 2020 AD.

Third: To reject the Plaintiff's objection regarding the item of adding back the Zakat and income tax provision in the amount of SAR 2,969,630 to the Zakat base for the year 2020 AD.

Fourth: To reject the Plaintiff's objection regarding the item of adding back the balance of change in fair value of investments in the amount of SAR 3,496,687 to the Zakat base for the year 2020 AD.

As this decision did not meet the acceptance of both parties, each of them submitted an appeal brief, the substance of which is summarized as follows:

The Taxpayer appeals the decision of the Adjudication Circuit, and its appeal with respect to the item of '... Company sukuk in the amount of SAR 19,208,659 for the year 2020 AD' centers around requesting the reversal of the Committee's decision regarding this item. This is on the basis that the Taxpayer, in its capacity as an insurance company, is restricted in the investments it makes pursuant to the statutory provisions determined by the Saudi Arabian Monetary Authority (.....) and those determined by the Implementing Regulations of the Cooperative Insurance Companies Control Law. Under these regulations, the Taxpayer is not permitted to invest except in specified investments, despite the existence of a documented intent to invest for possession purposes rather than for trading purposes. The Taxpayer mentioned that pursuant to Clause (1) of Article (61) of the Implementing Regulations of the Cooperative Insurance Companies Control Law, insurance companies are obligated to ensure that the maturity period of the invested assets is parallel to the company's liabilities according to the issued policies. Furthermore, the Saudi Arabian Monetary Authority (.....) defines limited investment avenues that may not be bypassed, which is consequently deemed a restriction on the Taxpayer's freedom to invest in the avenues specified by the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH. Accordingly, the Taxpayer resorted to investing in sukuk with the intent to hold them in execution of statutory requirements. The Taxpayer pointed out that the investments in those sukuk were acquired with the intent of being held until maturity, constituting long-term investments financed from the capital and reserves that the Authority added back to the Zakat base. It also noted that the Taxpayer's intent

is to hold those investments for the purpose of obtaining their yields and not for trading purposes, and that the revenues realized therefrom were included in the financial statements. The Taxpayer clarifies the investment ledger movement in ... Company sukuk during the year 2020 AD as follows: beginning balance of SAR 21,623,237, disposals (redemption) of SAR 2,244,539, and ending balance of SAR 19,208,659. It mentioned that ... Company issued, in accordance with the sukuk prospectus dated 15/01/2013 AD, sukuk denominated in Saudi Riyals, with a sukuk par value of fifty thousand Riyals, and those sukuk mature on a final maturity date of 15/12/2028 AD. Furthermore, pursuant to the prospectus, the sukuk issuer (... Company) partially redeems the sukuk on a pro-rata basis according to their outstanding nominal value starting from 15/06/2018 AD. During the year 2020 AD, ... Company executed a partial redemption of the value of the Company's investments in the sukuk, which resulted in a decrease in the value of the investment portfolio in those sukuk. Hence, the argument that the disposals movement during the year in the investment—namely ... Company for Core Services sukuk—renders it an investment held for trading rather than possession is an argument that has erred. This is because the disposals movement is merely a partial redemption by the sukuk issuer, meaning it represents the maturity and redemption of those sukuk by their issuer, and the Taxpayer did not dispose of them for trading purposes. Consequently, the Taxpayer requests the approval of the deduction of the ... Company sukuk balance in the amount of SAR 19,208,659 and the reversal of the decision of the Adjudication Circuit. With respect to the item of '... Company sukuk in the amount of SAR 2,947,760 for the year 2020 AD', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that the Taxpayer is entitled to deduct its investments in local sukuk, relying on the provisions of Paragraph (3) of Article (Four) of the Implementing Regulations for the Zakat System issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH.

With respect to the item of 'foreign investment sukuk in the amount of SAR 45,082,266 for the year 2020 AD', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that the Taxpayer is entitled to deduct its investments in foreign sukuk, relying on the provisions of Paragraph (5) of Article (Five) of the Implementing Regulations for Zakat Collection. This is because the Taxpayer subjected the minimum Zakat base—which is its share of the net accounting profit reported in the financial statements of these investments—to Zakat; therefore, the Taxpayer has the right to deduct its foreign investments. Regarding the item of 'adding back the accumulated surplus from insurance operations in the amount of SAR 39,696 to the Zakat base for the year 2020 AD', the Taxpayer requests the reversal of the Committee's decision regarding this item on the basis that the surplus from insurance operations represents the remainder of the insurance premiums paid by the policyholders and their yields, after paying claims and expenses and setting aside reserves and provisions, which is owned by the policyholders. Consequently, the Taxpayer is not permitted to dispose of it, and accordingly argues against the permissibility of adding this balance to the Zakat base. Regarding the item of 'adding back the Zakat and income tax provision in the amount of SAR 2,969,630 to the Zakat base for the year 2020 AD', the Taxpayer requests the reversal of the

Committee's decision regarding this item on the basis that the Authority failed to take into account that the Zakat provision differs from other provisions, as the Zakat provision is created at the end of the year after reviewing the financial statements and is not charged to expenses. Hence, the Zakat provision is not subject to Zakat, because Zakat is not levied on Zakat itself.

Furthermore, the decision did not meet the acceptance of the Zakat, Tax and Customs Authority, which submitted its appeal against the contested decision pursuant to an appeal brief, the substance of which is summarized as follows:

The Authority appeals the decision of the Adjudication Circuit. With respect to the item of 'Ministry of Finance sukuk in the amount of SAR 5,903,432 for the year 2020 AD', the Authority states that it rejected the deduction of the investment in the sukuk as they are non-deductible under Article (Five) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, wherein the deductions from the Zakat base were listed exhaustively. In addition, according to the investment analysis, the sukuk were issued by several non-governmental entities and do not fall within the scope of Ministerial Resolution No. (2218) dated 07/07/1440 AH. As for the sukuk issued by the Ministry of Finance, and according to the purchase documents of the sukuk (...), it became evident that the sukuk was issued by the Ministry of Finance on the Dublin Stock Exchange, pursuant to Ministerial Resolution No. (1343) dated 28/03/1441 AH. On 04/06/2024 AD, a meeting was held with the Taxpayer's representatives, during which the Authority requested the submission of a statement of sukuk clarifying the full name of the fund, its source (domestic/foreign), and its movement during the year, in addition to the Taxpayer Identification Numbers of the local sukuk in the event that they were registered with the Authority. The Taxpayer submitted a statement of the sukuk movement. Pursuant to Paragraph (8) of Article (Six) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, the taxpayer is entitled to deduct the invested sukuk and bonds if they are held for non-trading purposes and have been subject to Zakat within the Zakat base of the issuing company. The Authority further notes that the Taxpayer stated during the field audit stage that the sukuk is traded on the Dublin Stock Exchange. Pursuant to Ministerial Resolution No. (2218) dated 07/07/1440 AH, as amended by Ministerial Resolution No. (1343) dated 28/03/1441 AH, the State assumes the Zakat and income tax arising from investing in sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals. Therefore, these sukuk do not fall under the scope of the said Resolution. Accordingly, the Authority affirms its rejection of the Taxpayer's objection and the disallowance of their deduction from the Zakat base.

On Tuesday, dated 20/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ...,

National ID No. (...), in his capacity as the proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 15/11/1446 AH, and Advocacy License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to the authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Upon questioning the Taxpayer's proxy as to what he wished to add, he stated that he maintains all prior submissions made in this lawsuit. Upon presenting this to the Authority's representative, she referred to the responsive memorandum she attached on 19/05/2025 AD under Ticket No. (.....), and requested the Committee to accept its inclusion in the case file. Upon presenting this to the Taxpayer's proxy, he requested a grace period to review the Authority's memorandum. Accordingly, the Committee decided to grant the Taxpayer a grace period ending on 01/06/2025 AD, and the Committee shall not accept any additional documents after the aforementioned date, provided that the next session, dated 24/06/2025 AD, shall be designated for the pronouncement of the decision.

On Tuesday, dated 24/06/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 12:20 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared ..., National ID No. (...), in his capacity as the proxy for the Taxpayer pursuant to Power of Attorney No. (...) issued on 15/11/1446 AH, and Advocacy License No. (...). There also appeared the representative of the Authority, ..., National ID No. (...), pursuant to the authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Whereas this session is designated for the pronouncement of the decision.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Committee that the requirements for considering the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the two appeal requests are accepted procedurally, as they were submitted by persons wth standing and within the prescribed statutory period for doing so.

On the merits, and regarding the Authority's appeal concerning the item of 'Ministry of Finance sukuk in the amount of SAR 5,903,432 for the year 2020 AD'; whereas Paragraph (4) of Article (Five) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates the following: 'Investments in an entity within the Kingdom held for non-trading purposes shall be deducted from the Zakat base, provided that such an entity is registered with the Authority and is subject to Zakat collection under the Regulations.' Furthermore, Paragraph (8) of Article (Six) thereof stipulates the

following: 'For Zakat purposes, the taxpayer may treat the sukuk and bonds it issues as equity, without regard to their classification in its financial statements. In this case, such sukuk and bonds shall be deducted from the Zakat base of the investors therein if they are held for non-trading purposes, and the issuing taxpayer may not rescind this treatment during the maturity period of the sukuk and bonds. Based on the foregoing, the dispute centers around the deduction of Ministry of Finance sukuk in the amount of SAR 5,903,432 from the Zakat base. The Authority's appeal is based on the argument that the Ministerial Resolution does not apply to the case of the aforementioned sukuk, as they were issued in US Dollars and not in Saudi Riyals, whereas the Taxpayer stated that its investment in those sukuk issued by the Ministry of Finance is subject to Zakat assumption by the Kingdom in accordance with the provisions of the prospectus. By reference to Ministerial Resolution No. (2218) dated 07/07/1440 AH, as amended by Ministerial Resolution No. (1343) dated 28/03/1441 AH, the State assumes the Zakat and income tax arising from investing in sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals until their maturity date. Upon this Committee's review of the case file and the submitted documents, it became evident that the Authority presented proof that the Ministry of Finance sukuk were issued in US Dollars and not in Saudi Riyals. Therefore, the sukuk under dispute do not fall under the scope of the aforementioned Ministerial Resolution. This conclusion is not prejudiced by the grounds relied upon in the contested decision which had accepted the Taxpayer's objection based on a copy of the sukuk issued by ... Bank (on behalf of the Ministry of Finance), through which it appeared to the Adjudication Circuit that the sukuk were issued by the Ministry of Finance in Saudi Riyals. Upon this Committee's review of the attachment titled 'Ministry of Finance Sukuk', it became evident that it represents a confirmation issued by ... Bank showing that the value of the Ministry of Finance sukuk purchase order amounted to SAR 5 million; however, such confirmation by itself does not constitute an indicia of proof that the sukuk issued by the Ministry of Finance were in Saudi Riyals. The Authority stated that it accepted the deduction of a sukuk in the assessment within the case file. By reference to the attachment titled 'Objection Audit Report - ... Company', it became evident that the Authority accepted the deduction of the investment in ... Bank sukuk in the amount of SAR 1,933,956, as it was issued locally by the Ministry of Finance in Saudi Riyals, pursuant to the application of the Ministerial Resolution. Accordingly, and whereas it is established that the sukuk issued by the Ministry of Finance in the amount of SAR 5,903,432 were in US Dollars and not in Saudi Riyals, this Committee concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'Ministry of Finance sukuk in the amount of SAR 5,903,432 for the year 2020 AD'.

With respect to the Taxpayer's appeal concerning the item of '... Company sukuk in the amount of SAR 19,208,659 for the year 2020 AD'; whereas Paragraph (4) of Article (Five) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates the following: 'Investments in an entity within the Kingdom held for non-trading purposes shall be deducted from the Zakat base, provided that such an entity is registered with the Authority and is subject to Zakat

collection under the Regulations.' Furthermore, Paragraph (8) of Article (Six) thereof stipulates the following: 'For Zakat purposes, the taxpayer may treat the sukuk and bonds it issues as equity, without regard to their classification in its financial statements. In this case, such sukuk and bonds shall be deducted from the Zakat base of the investors therein if they are held for non-trading purposes, and the issuing taxpayer may not rescind this treatment during the maturity period of the sukuk and bonds. Based on the foregoing, the dispute centers around the deduction of ... Company sukuk in the amount of SAR 19,208,659, wherein the Taxpayer requests the approval of the deduction of the ... Company sukuk balance, while the Authority's view, according to its responsive memorandum submitted before the Adjudication Circuit, was that these are investments held for trading purposes, given that the investment ledger movement revealed the existence of disposals. Upon this Committee's review of the case file and the documents contained therein, it became evident to the Committee that the disposals movement referred to by the Authority is very negligible and constitutes 10% of the total amount of the sukuk. It also became evident that the Taxpayer's defense regarding the partial redemption is correct; as by reference to the prospectus within the attachment titled (...) and upon reviewing page No. (64) of the prospectus, paragraph (6-8), it was found that it encompassed the partial redemption, stipulating that: 'On each Periodic Distribution Date, the Issuer shall partially redeem the Sukuk (on a pro-rata basis according to their outstanding nominal value) in an aggregate amount equal to the sum of (A) the Fixed Distribution Amounts (if any) and (B) the Early Distribution Amounts (if any). Accordingly, the correctness and validity of the Taxpayer's defenses became evident to the Committee, showing that the disposals movement does not constitute trading activity; rather, it is a partial redemption by the sukuk issuer. Since the Taxpayer submitted the sukuk prospectus and the bank account statement for ... Company within the attachment titled (...), alongside proof of the redemption of the sukuk amounts and coupons through ... Company within the attachment titled (.....), this Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of '... Company sukuk in the amount of SAR 19,208,659 for the year 2020 AD'.

Regarding the Taxpayer's appeal concerning the remaining items subject to the lawsuit; Whereas there is no preclusion for the Appellate Circuit to adopt the grounds of the appealed decision without addition, whenever it finds such grounds sufficient to obviate the need for new reasoning; since upholding the decision based on its own grounds affirms that the Circuit found no merit in the raised objections warranting a response beyond what those grounds already addressed. Since that is the case, and as it is established that the contested decision regarding the dispute over the appealed items came in line with the sound and sufficient grounds upon which its judgment was built—given that the committee that issued it undertook the scrutiny of the core dispute therein and concluded regarding it to the outcome reached in its operative part—and since this Committee has not noticed anything that requires amendment or comment in light of the defenses raised before it; consequently, this Committee concludes to reject the Taxpayer's

appeal and uphold the appealed Adjudication Circuit's decision as to its final outcome regarding the remaining items subject to the lawsuit, supported by its grounds.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Taxpayer, ... Company, Commercial Registration No. (...), Taxpayer Identification Number (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-241231), issued in Case No. (Z-241231-2024) relating to the Zakat assessment for the year 2020 AD.

Second: On the Merits:

1- To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the item of 'Ministry of Finance sukuk in the amount of SAR 5,903,432 for the year 2020 AD'.

2- To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the item of '... Company sukuk in the amount of SAR 19,208,659 for the year 2020 AD'.

3- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of '... sukuk in the amount of SAR 2,947,760 for the year 2020 AD'.

4- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'foreign investment sukuk in the amount of SAR 45,082,266 for the year 2020 AD'.

5- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'adding back the accumulated surplus from insurance operations in the amount of SAR 39,696 to the Zakat base for the year 2020 AD'.

6- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'adding back the Zakat and income tax provision in the amount of SAR 2,969,630 to the Zakat base for the year 2020 AD'.

7- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the item of 'adding back the balance of change in fair value of investments in the amount of SAR 3,496,687 to the Zakat base for the year 2020 AD'.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh

Decision No. IR 2024-242190
Case No. Z-242190-2024

Principle No. 31

Salaries shall not be deducted from the Zakat base except to the extent supported by documents or indicia of proof, and any unproven variance shall be added back to the Zakat base in accordance with bank statements.

Facts

Consideration was given to the appeal submitted on 12/09/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-233075), issued in Case No. (Z-233075-2024) relating to the Zakat assessment for the years from 1436 AH to 1439 AH, in the lawsuit submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the decision of the Adjudication Circuit ruled as follows:

First: To cancel the decision of the Defendant, the Zakat, Tax and Customs Authority, against the Plaintiff/ ... (Taxpayer Identification Number ...), concerning the item of 'salaries unsupported by documents' for the years from 1436 AH to 1438 AH.

Second: To reject the objection of the Plaintiff/ ... (Taxpayer Identification Number ...) against the decision of the Defendant, the Zakat, Tax and Customs Authority, concerning the item of 'imports not appearing in customs'.

Third: To reject the objection of the Plaintiff/ ... (Taxpayer Identification Number ...) against the decision of the Defendant, the Zakat, Tax and Customs Authority, concerning the item of 'salaries unsupported by documents' for the year 1439 AH.

Fourth: To establish the settlement of the Plaintiff's/ ... (Taxpayer Identification Number ...) dispute with the Defendant, the Zakat, Tax and Customs Authority, with respect to all other objections, in accordance with the content of the Defendant's memorandum submitted during this session.

As this decision did not meet the acceptance of the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief, the substance of which is summarized as follows:

As the Authority objects to the decision of the Adjudication Circuit subject of the appeal, the Authority claims that with respect to the item of 'salaries unsupported by documents for the years 1436 AH to 1438 AH', the Authority added back the item under dispute to the book net profit for the years under dispute. Based on the foregoing, the Authority clarifies that upon reviewing the submissions made by the Taxpayer in the appealed lawsuit—which consisted of certified bank statements from ... Bank for the years under dispute without submitting the General Organization for Social Insurance (GOSI) certificate for salaries and wages—the Authority studied the certified payroll bank statements from ... Bank, matching the Hijri dates with the Gregorian dates for each year. Accordingly, the Authority files a partial appeal regarding the unapproved amounts that were not clarified in the item's statement as approved actual expenses supported by documents. Consequently, a salary variance in the amount of SAR 5,689,529 for the year 1436 AH, and in the amount of SAR 9,838,086 for the year 1437 AH, must be added back due to the failure to submit supporting documents, pursuant to Paragraph (3) of Article (Twenty) of the Implementing Regulations governing Zakat Collection issued by Ministerial Resolution No. (2082) for the year 1438 AH. With reference to what was stated in the merits of the decision—that the absence of the document represented by the Social Insurance certificate has no effect, and that the Authority has access to data enabling it to directly and continuously refer to any information of direct relevance to the Taxpayer, thereby necessitating the cancellation of the Authority's action—the Authority responds that the Committee's decision is incorrect and erred. This is because the burden of proof to substantiate the accuracy of the contents of the return rests upon the Appellee, as it is the entity that recorded the amounts in its return, and thus it bears the burden of proving the accuracy of its return. Furthermore, the Authority requested the Taxpayer to submit the supporting documents that substantiate the correctness of its action, namely the Social Insurance certificate for the years under dispute, in order to verify the salaries of Saudi and non-Saudi employees paid for at Social Insurance. The Taxpayer has failed to submit the Social Insurance certificate containing the amount of salaries to date, and accordingly, its objection was rejected regarding the amounts unsupported by documents. Therefore, the Authority requests the reversal of the decision of the Adjudication Circuit regarding the appealed item for the aforementioned reasons.

On Monday, dated 28/04/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 02:45 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared the representative of the Appellant, ..., National ID No. (...), pursuant to the authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. There also appeared ..., National ID No. (...), in his personal capacity as the Appellee. Upon questioning the Appellee as to what he wished to add, he stated that he requests a grace period to submit a response by

way of a written memorandum, as certain parts of the lawsuit have been excluded and an amount remains from the year 1433 AH, given that the assessment levied upon us was higher than the amount presented in the financial statements. Upon presenting this to the Appellant's representative, she replied by maintaining all prior submissions made in this lawsuit relating to the years 1436 AH to 1438 AH concerning the item of 'salaries unsupported by documents'. Accordingly, the Committee decided to grant the Taxpayer a grace period of 10 days ending on 08/05/2025 AD, and to grant the Authority a grace period of 10 days to respond thereto ending on 19/05/2025 AD. After this date, the pleading phase shall be closed, and the case shall be submitted for deliberation and issuance of the decision. The Committee shall not accept any new documents or memoranda that were not submitted before the aforementioned date, provided that the next session, dated 26/05/2025 AD, shall be designated for the pronouncement of the decision.

On Monday, dated 26/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 09:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, there appeared the representative of the Appellant, ..., National ID No. (...), pursuant to the authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. There also appeared ..., National ID No. (...), in his personal capacity as the Appellee. Whereas the pleading phase was closed and deliberation has taken place, and since this session is designated for the pronouncement of the decision.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Committee that the requirements for considering the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant regulations, bylaws, and resolutions. Accordingly, the appeal request is accepted procedurally, as it was submitted by a person wth standing and within the prescribed statutory period for doing so.

On the merits, and with respect to the Authority's appeal concerning the item of 'salaries unsupported by documents'; whereas Paragraph (1) of Article (Five) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, stipulates that: 'All ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net Profit of the activity, provided that the following criteria are met: A) That they constitute actual expenses supported by supporting documents or other indicia that enable the Authority to verify their accuracy, even if they relate to previous years. B) That they are related to the activity and do not pertain to personal expenses or other activities. C) That they are not of a capital nature, and in the event that an expense of a

capital nature is included within the expenses, the result of the activity shall be adjusted thereby, and it shall be added to the fixed assets and depreciated in accordance with the statutory percentages. Furthermore, pursuant to Paragraph (2) of Article (Six) thereof, relating to non-deductible expenses, which stipulates: 'Expenses which the taxpayer is unable to prove their disbursement by virtue of supporting documents or other indicia of proof. Based on the foregoing, the dispute centers around the Authority's appeal regarding the unapproved amounts that were not clarified in the bank statement as approved actual expenses supported by documents. Consequently, a salary variance in the amount of SAR 5,689,529 for the year 1436 AH, and in the amount of SAR 9,838,086 for the year 1437 AH, must be added back due to the failure to submit supporting documents. Upon this Committee's review of the statements submitted by the Taxpayer and studying them alongside the Authority's calculation table as shown in the attachment titled 'Bank Statement Analysis', it becomes evident that the total amount according to the bank statement for the period from 17/07/2015 AD to 05/07/2016 AD amounts to SAR 21,972,650, and the variance unsupported by documents amounts to SAR 1,597,079, and not as stated by the Authority for the year 1436 AH in the amount of SAR 5,689,529. Moreover, the total amount according to the bank statement for the period from 06/07/2016 AD to 24/06/2017 AD amounts to SAR 20,792,381, and the variance unsupported by documents amounts to SAR 9,838,086, which is identical to what the Authority stated for the year 1437 AH. Accordingly, this Committee concludes to accept the Authority's appeal in part and amend the decision of the Adjudication Circuit regarding the item of 'salaries unsupported by documents', by adding back the variance in the amount of SAR 1,597,079 for the year 1436 AH, and adding back the variance in the amount of SAR 9,838,086 for the year 1437 AH.

Based on the foregoing, and by virtue of the aforementioned grounds, the Committee unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant, the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (IFR-2024-233075), issued in Case No. (Z-233075-2024) relating to the Zakat assessment for the years from 1436 AH to 1439 AH.

Second: On the Merits:

To accept the Authority's appeal in part and amend the decision of the Adjudication Circuit regarding the item of 'salaries unsupported by documents', by adding back the variance in the amount of SAR 1,597,079 for the year 1436 AH, and adding back the variance in the amount of SAR 9,838,086 for the year 1437 AH.

Appellate Committee for Tax Violations and Disputes
The First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-235830
Case No. ZI-235830-2024

Principle No. 32

Bad debts shall not be deductible unless the taxpayer submits a certificate from the certified public accountant (CPA) attesting to the write-off of such debts from the books of accounts pursuant to a decision issued by the competent authority, alongside the fulfillment of all other statutory requirements.

Facts

The appeal filed on 05/05/2024 AD by the Zakat, Tax and Customs Authority, and the appeal filed on 21/09/2022 AD by [...], holding National ID No. [...], in his capacity as the attorney-in-fact for the Appellant Company pursuant to Power of Attorney No. [...] dated 17/11/1441 AH and Legal Practicing License No. [...], were considered against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-36766) issued in Lawsuit No. (ZI-36766-2021) relating to the Zakat and Tax assessment for the financial periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD, in the case initiated by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the operative part of the Adjudication Circuit's decision ruled as follows:

To accept the Plaintiff's objection regarding the clause of (Foreign Taxes - Companies in the amount of SAR (2,603,421.83) for the financial year ending on September 30).

Whereas the Adjudication Circuit issued its aforementioned decision and reheard the case as a result of the decision of this Appeal Circuit No. (IR-2023-144698); and on Thursday, 05/12/2024 AD, this Circuit reviewed the Adjudication Circuit's decision No. (IZJ-2024-36766) and decided to remand the Case back to the Adjudication Circuit to redraft the decision to include all clauses subject to the case and to return it to the Appeal Circuit, incorporating all of the Plaintiff's requests for adjudication, given that this Circuit had not exhausted its jurisdiction to adjudicate all of the Plaintiff's requests.

Based on that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate issued its decision No. (IZJ-2025-36766) in Case No. (ZI-36766-2021), which ruled as follows:

First: To accept the Plaintiff's objection to the clause of (Foreign Taxes – Companies of 2016 AD.

Second: To reject the Plaintiff's objection to the clause of (Variance in Direct Salaries and Wages for the years 2015 AD and 2016 AD).

Third: To reject the Plaintiff's objection to the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the years 2015 AD and 2016 AD).

Fourth: To accept the Plaintiff's objection to the clause of (Deduction of Bad Debts from the tax base).

Fifth: To amend the Defendant's decision by adding the balances of the invoices in excess of the value of executed works that have remained outstanding for Zakat Year (Al Hawl), after deducting the related accounts receivable for the years 2015 AD and 2016 AD, in accordance with the merits and rationales of the decision.

Sixth: To amend the Defendant's decision by adding the balances of amounts due to related parties that have remained outstanding for Zakat Year (Al Hawl), after deducting the related debit balances for the years 2015 AD and 2016 AD, in accordance with the merits and rationales of the decision.

Seventh: To accept the Plaintiff's objection to the clause of the loan received from a related party to settle a loan for the year 2015 AD.

Eighth: To reject the Plaintiff's objection to the Clause of (Accrued Salaries, Wages, and Employee Benefits for the years 2015 AD and 2016 AD).

Ninth: To reject the Plaintiff's objection to the clause of (Accounts Payable" for the years 2015 AD and 2016 AD.

Tenth: To amend the Defendant's decision with respect to the clause of "Late payment penalty", in accordance with the conclusions set forth in this decision.

Eleventh: To accept the Plaintiff's objection regarding the clause of "Foreign Taxes - Companies" in the amount of SAR (2,603,421.83) for the financial year ending on September 30.

Whereas this decision was not accepted by either party, each of them filed an appeal brief, which included the following summary:

With regard to the Taxpayer's appeal against the decision of the Adjudication Circuit and Regarding the clause of (Excess Invoices Received and Submitted for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD), the Taxpayer appeals the Circuit's decision on this clause and argues that the Company adheres that even the net amount that has remained outstanding for a Zakat Year (Al Hawl)should not be subject to Zakat for all years. The Taxpayer contends that assessing excess invoices that completed 12 months does not mean that the funds remained in the business during this period when there are accounts receivable directly associated with the same project.

Regarding the clause of (Due to Related Parties for the periods ending on September 30, 2016, and September 30, 2017 AD), the Taxpayer appeals the Adjudication Circuit's decision and requests approval of the amounts that have remained outstanding for a Zakat Year (Al Hawl), as shown in the schedule attached to the appeal brief.

Regarding the clause of (Loan Received from a Related Party to Settle a Loan for the period ending on September 30, 2016 AD), the Taxpayer appeals the Adjudication Circuit's decision and argues that all legal grounds for its viewpoint for the year 2016 AD in which the Adjudication Circuit issued its decision accepting the Company's viewpoint, are identical to the grounds of the Company's viewpoint regarding the year 2015 AD. Accordingly, the Taxpayer requests the acceptance of its appeal regarding the year 2015 AD.

Regarding the clause of (Accrued Salaries, Wages, and Employee Benefits for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD, the Taxpayer appeals the Adjudication Circuit's decision and argues that the Company does not agree with the Authority's procedures in adding this clause, as these are accrued expenses rather than provisions. Since the Company's Zakat accounting is based on the accrual basis, the Company argues that these balances shall not be added to its Zakat base because they do not bear the nature of provisions or loans, which were explicitly stated as components of the Zakat base under the Implementing Regulations for Zakat Collection.

Regarding the clause of (Accounts Payable for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD), the Taxpayer appeals the Adjudication Circuit's decision and argues that the Company does not agree with the Authority's procedures in adding this clause, as they arise from the purchase of services and materials in the ordinary course of business and are settled to their owners during the same ordinary course of business. They did not arise from funds utilized for financing purposes so as to be equated by the Authority's ruling with short-term loans, and subjecting them to Zakat has no basis or reference.

Regarding the clause of (Advances from Customers for the period ending on September 30, 2015 AD, the Taxpayer appeals the Adjudication Circuit's decision and argues that it does not agree with the Authority's procedures in adding advances from customers, as the amount is immaterial and was settled in the following year.

Regarding the clause of (Salaries and Wages for the tax period ending on September 30, 2016 AD and the period ending on September 30, 2017 AD), the Taxpayer appeals the Adjudication Circuit's decision and stated that it submitted a variance analysis for the tax period under dispute, along with a detailed breakdown by employee for the elements contributing to such variances.

Regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD), the Taxpayer appeals the Adjudication Circuit's decision and states that the variances occurred in the tax returns due to an omission,

as the following expenses were included along with the social insurance amounts in the returns. The Company also submitted a detailed analysis of certain elements mentioned in the appeal brief and confirms that the social insurance expense was recorded in the Company's books. Furthermore, the Taxpayer asserts that the amounts declared by the Company as social insurance expenses in its returns for the years under dispute are necessary business expenses and are deductible.

Regarding the clause of (Late payment penalty), the Taxpayer appeals the Adjudication Circuit's decision and argues that Paragraph (A) of Article (68) of the Implementing Regulations of the Income Tax Law does not apply to the taxpayer's case because it settled the tax due under the tax return, and Paragraph (B) also does not apply since the Taxpayer is objecting to the Authority's assessment, which constitutes the basis for imposing the late payment penalty.

Likewise, the decision was not accepted by the Zakat, Tax and Customs Authority, which filed its appeal against the contested decision pursuant to an appeal brief that included the following summary:

Regarding the Authority's appeal against the Adjudication Circuit's decision on the clause of (Excess Invoices Received and Submitted for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD), the Authority clarifies that it added the amounts that remained outstanding for a Zakat Year (Al Hawl) to the Zakat base in accordance with the movement schedule submitted by the Taxpayer during the field audit phase. This was done after reviewing the related-party movement schedule submitted by the Taxpayer, which illustrates the opening balance, debit movement, credit movement, and closing balance, where it became evident that the amounts had remained outstanding for a Zakat Year (Al Hawl). During the objection phase, the Taxpayer submitted a movement schedule different from what was previously submitted, and accordingly, that clause was rejected pursuant to Article (4) of the Implementing Regulations for Zakat Collection.

Regarding the clause of (Due to Related Parties for the periods ending on September 30, 2016 AD and September 30, 2017 AD), the Authority appeals the Adjudication Circuit's decision and clarifies that it added what remained outstanding for a Zakat Year (Al Hawl) from related parties in accordance with the movement schedule submitted by the Taxpayer. The Authority compared the opening balance and the closing balance with the financial statements, through which the lapse of a Zakat Year (Al Hawl) on these balances became evident. The Authority bases its procedures on Article (4) of the Implementing Regulations for Zakat Collection.

Regarding the clause of (Loan Received from a Related Party to Settle a Loan for the period ending on September 30, 2015 AD), the Authority appeals the Adjudication Circuit's decision and clarifies that it added the loan proceeds, as shown in the cash flows, to the Zakat base, based on Note No. (15) in the Company's financial statements, indicating that the loan was obtained for the purpose of refinancing its outstanding debts. It appears in the statement of cash flows that the loan added by the Authority for the year 2015 AD

was collected from a related party, and the Taxpayer did not clarify the aspects of the loan's utilization. The Authority relies on Article (4) of the Implementing Regulations for Zakat Collection.

Regarding the clause of (Bad Debts for the period ending on September 30, 2016 AD and the period ending on September 30, 2017 AD, the Authority clarifies that during the assessment, it disallowed the utilized portion of doubtful debts for both years due to the non-fulfillment of the conditions for writing off bad debts set forth in Paragraph (3) of Article (9) of the Implementing Regulations of the Income Tax Law.

Regarding the clause of (Foreign Taxes - Companies for the period ending on September 30, 2015 AD and the period ending on September 30, 2017 AD), the Authority clarifies that it added the clause to the net profit based on the documentation submitted by the Taxpayer (the trial balance). The Authority had previously requested the Taxpayer to provide a clarification and analysis of those amounts; however, the Taxpayer did not initiate proof of its claim, given that the burden of proof rests upon the Taxpayer as provided in Paragraph (3) of Article (57) of the Implementing Regulations of the Income Tax Law.

Regarding the clause of (Late payment penalty), the Committee accepted the Penalty for the clauses on which the Taxpayer's objection was accepted. Since the Taxpayer appealed all of them, the Authority requests the re-imposition of the Penalty on all clauses in accordance with the Authority's responsive memorandum submitted to the Committee that issued the decision. Accordingly, the Authority requests the acceptance of its appeal and the reversal of the Adjudication Circuit's decision, and reserves its right to submit further responses and clarifications up until the closing of pleadings.

On Sunday, 24/08/2025 AD, the First Appellate Circuit Adjudicating Income Tax Violations and Disputes held its session at 10:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) 08/04/1445 AH. Upon calling upon the litigants, [...], holding National ID No. [...], attended in his capacity as the attorney-in-fact for the taxpayer pursuant to Power of Attorney No. [...] issued on 29/02/1444 AH and Legal Practicing License No. [...]. The Authority's representative, [...], holding National ID No. [...], also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. [...] dated 19/03/1445 AH. Upon questioning the taxpayer's attorney as to whether he wished to add anything, he stated that he adheres to all prior submissions in this Case and noted that a supplementary memorandum had been submitted. Upon presenting the same to the Authority's representative, she replied that she adheres to all prior submissions in this Case and requested a grace period to submit her responsive memorandum to the taxpayer's supplementary memorandum. Accordingly, the Circuit decided to grant the Authority a period of (10) days ending on 03/09/2025 AD to submit its memoranda, provided that the next hearing shall be held on 09/09/2025 AD.

On Tuesday, 09/09/2025 AD, the First Appellate Circuit Adjudicating Income Tax Violations and Disputes held its session at 09:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) 08/04/1445 AH. Upon calling upon the litigants, [...], holding National ID No. [...], attended in his capacity as the attorney-in-fact for the Taxpayer pursuant to Power of Attorney No. [...] issued on 29/02/1444 AH and Legal Practicing License No. [...]. The Authority's representative, [...], holding National ID No. [...], also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. [...] dated 19/03/1445 AH. Following discussion and deliberation, the Committee decided to adjourn the session of the lawsuit to the session of 16/09/2025 AD for further study.

On Tuesday, 16/09/2025 AD, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session at 10:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) 08/04/1445 AH. Upon calling upon the litigants, [...], holding National ID No. [...], attended in his capacity as the attorney-in-fact for the Taxpayer pursuant to Power of Attorney No. [...] issued on 29/02/1444 AH and Legal Practicing License No. [...]. The Authority's representative, [...], holding National ID No. [...], also attended pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. [...] dated 19/03/1445 AH. Following the closing of pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it has been established to this Circuit that the formal requirements for hearing the appeals have been satisfied in accordance with the conditions prescribed under the relevant laws, regulations, and decisions. Accordingly, both appeals are procedurally accepted, as they were submitted by duly authorized persons and within the prescribed statutory time limit.

On the merits, and whereas regarding the parties' appeals with respect to the following clauses (Excess Invoices Received and Submitted for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD; (Due to Related Parties for the periods ending on September 30, 2016 AD and September 30, 2017 AD; (Loan Received from a Related Party to Settle a Loan for the periods ending on September 30, 2015 AD and September 30, 2016 AD; (Accrued Salaries, Wages, and Employee Benefits for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD; (Accounts Payable for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and

September 30, 2017 AD; and (Advances from Customers for the period ending on September 30, 2015 AD; and whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that: "The litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the minutes of the case, and the court shall issue an deed to that effect," and Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Minister of Justice Decision No. (39933) dated 19/05/1435 AH, provides that: "If the agreement is reached prior to entering the case into the record, the substance of the case and the answer must be recorded before documenting the agreement, provided that the original case falls within the jurisdiction of the Circuit, even if the substance of the agreement falls within the jurisdiction of another court or Circuit, on the condition that the subject matter of the case or part thereof is included among what has been agreed upon."

Based on the foregoing, and whereas it has been established to this Circuit that the Taxpayer requested the withdrawal of its appeal pursuant to its Memorandum dated 08/07/2024 AD, which stated the following: "We kindly request your Honors to confirm that the current pending lawsuit for the financial years ending on September 30, 2015 AD through 2017 AD, registered under No. (ZI-2024-235830), is a case concerning tax clauses only, to the exclusion of Zakat clauses..." and the request for withdrawal of the appeal was accepted by the Authority pursuant to its appeal brief (2) dated 15/07/2024 AD, which stated: "Accordingly, the Authority wishes to notify the esteemed Committee of its consent to the Taxpayer's withdrawal of its appeal, and the Authority likewise withdraws its appeal specifically regarding the Zakat aspect, and requests to proceed with the examination of the clauses from the tax aspect, in view of the Taxpayer's request to apply Ministerial Decision No. (13957) dated 23/03/1444 AH, whereby the Authority confirms the Taxpayer's consent to the application of the Ministerial Decision, as the provisions of the Ministerial Decision shall be applied to the Taxpayer's financial years (subject matter of the appeal)." Consequently, the Circuit concludes to record the settlement and termination of the dispute with respect to the following clauses: (Excess Invoices Received and Submitted for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD; (Due to Related Parties for the periods ending on September 30, 2016 AD and September 30, 2017 AD; (Loan Received from a Related Party to Settle a Loan for the periods ending on September 30, 2015 AD and September 30, 2016 AD; (Accrued Salaries, Wages, and Employee Benefits for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD; (Accounts Payable for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD; and (Advances from Customers for the period ending on September 30, 2015 AD).

With respect to the Authority's appeal regarding the clause of (Bad Debts for the periods ending on September 30, 2016 AD and September 30, 2017 AD), and whereas Paragraph (3) of Article (9) of the Implementing Regulations of the Income Tax Law, issued by Ministerial Decision No. (1535) dated

11/06/1425 AH, provides that: "Bad debts are subject to the following controls: A- The bad debts must have been previously declared in the return within the taxpayer's revenues in the year the revenue became due. B- The bad debts must result from the sale of goods or the provision of services. C- The taxpayer must submit a certificate from its certified public accountant stating that these debts have been written off from the books pursuant to a decision issued by the competent authority. D- All legal procedures must have been taken to collect the debts, and the inability to collect them must be proven by convincing evidence, such as the issuance of a judicial judgment or proof of the debtor's bankruptcy. E- The debts must not be due from parties related to the taxpayer. F- The taxpayer must commit to declaring the debts within its income whenever they are collected.

Based on the foregoing, and whereas the dispute concerns the deduction of the bad debts provision for the periods ending on September 30, 2016 AD and September 30, 2017 AD, and upon this Circuit's review of the case file, it was found that the contested decision of the Adjudication Circuit held that the Taxpayer satisfied the conditions for deducting bad debts set forth in Paragraph (3) of Article (9) of the Implementing Regulations of the Income Tax Law referred to above, on the grounds that the Taxpayer declared them within its revenues in the year the revenue became due, that the bad debts resulted from the conduct of business, and that all written-off accounts receivable resulted from the Company's commercial transactions, and that the Company exerted its best efforts to collect the funds but failed. Furthermore, according to Paragraph (3) of Article (5), which specified the conditions for accepting the write-off of debts, it did not stipulate obtaining a judicial judgment prior to writing off the debts from the Company's books, and that they are not due from related parties, given that the only company owning more than (50%) of the Company's capital is [...] Company, and the Taxpayer submitted an analytical statement of the written-off debts, and there is no written-off amount belonging to [...] Industries Limited Company. The Company also confirms that it will declare those written-off debts within its income whenever they are collected.

Accordingly, and whereas the grounds submitted by the Taxpayer are deemed insufficient to substantiate the validity of its viewpoint, as it failed to provide a certificate from its certified public accountant attesting to the write-off of these debts from the books pursuant to a decision issued by the competent authority, and all legal procedures were not taken to collect the debts, nor was the inability to collect them proven by convincing evidence such as the issuance of a judicial judgment or proof of the debtor's bankruptcy; therefore, this Circuit concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit with respect to the clause of (Bad Debts for the periods ending on September 30, 2016 AD and September 30, 2017 AD).

With respect to the Authority's appeal regarding the clause of (Foreign Taxes - Companies for the periods ending on September 30, 2015 AD and September 30, 2017 AD), and whereas Paragraph (1) of Article (9) of the Implementing Regulations of the Income Tax Law, issued by Ministerial Decision No. (1535) dated 11/06/1425 AH, provides that "expenses deductible for determining taxable income are: 1- All ordinary and

necessary expenses incurred to realize taxable income, whether paid or accrued, provided that the following controls are met: A- They must be actual expenses supported by documentary evidence or other indicia of proof enabling the Authority to verify their authenticity. B- They must be associated with the realization of taxable income. C- They must relate to the tax year. D- They must not be of a capital nature." Furthermore, Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that"the litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the minutes of the case, and the court shall issue a deed to that effect," and Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Minister of Justice Decision No. (39933) dated 19/05/1435 AH, provides that"If the agreement is reached prior to entering the case into the record, the substance of the case and the answer must be recorded before documenting the agreement, provided that the original case falls within the jurisdiction of the Circuit, even if the substance of the agreement falls within the jurisdiction of another court or Circuit, on the condition that the subject matter of the case or part thereof is included among what has been agreed upon."

Based on the foregoing, with respect to the clause of (Foreign Taxes - Companies in the amount of SAR (2,603,421.83) for the period ending on September 30, 2015 AD, where the dispute concerns adding the foreign taxes for the period ending on September 30, 2015 AD, in the amount of SAR (2,603,421.83), to the net profit on the grounds of being a non-deductible expense for tax purposes; whereas the Authority indicated adding the clause to the net profit based on the trial balance submitted by the Taxpayer, and whereas the Taxpayer stated that the amount represents an adjustment to the provision for previous years and that the effect of such adjustment appears under the retained earnings balance in the statement of changes in partners' equity; and upon this Circuit's review of the audited financial statements of the Company and the notes thereto, it was found that the amount deducted from the retained earnings was SAR (854,875) only, which represents the expense formed during the year, and it did not appear that the adjusted foreign tax expense amount of SAR (2,603,421.83) was reflected as a reduction to the retained earnings in the statement of changes in partners' equity as claimed by the Taxpayer. Furthermore, the Taxpayer failed to submit a full trial balance extracted from the accounting system to verify the non-existence of the account referred to by the Authority in its responsive memorandum as being appearing within the expense accounts. This conclusion is not undermined by the Taxpayer's argument in clause "Fourth" of its responsive memorandum that the trial balance does not contain any account related to the disputed clause based on a trial balance that was not extracted from the accounting system; given that the Taxpayer submitted in the same responsive memorandum an illustration of the balance of (Corporate Taxes – Foreign) according to a trial balance extracted from the statutory books of the Company for the purpose of reconciling the account balance with the amount appearing in the financial statements, whereby the existence and validity of account No. [...] (Foreign Tax – Companies) was established, which is the account

referred to by the Authority in its supplementary responsive memorandum dated 09/10/2023 AD. Therefore, this Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Foreign Taxes – Companies) in the amount of SAR (2,603,421.83) for the period ending on September 30, 2015 AD. Whereas the Authority's request to withdraw the appeal has been established to this Circuit pursuant to the supplementary responsive memorandum submitted by the Authority dated 09/10/2023 AD, which stated the following: "The Authority wishes to notify the esteemed Circuit of the withdrawal of its appeal specifically regarding the aforementioned clause and any procedures resulting from the Authority's appeal for this clause, in accordance with the merits set forth in the Adjudication Circuit's decision..." Therefore, the Circuit concludes to accept the withdrawal of litigation with respect to the Authority's appeal on the clause of "Foreign Taxes - Companies" in the amount of SAR (2,269,794) for the period ending on September 30, 2017 AD.

With respect to the Taxpayer's appeal regarding the clause of (Salaries and Wages for the period ending on September 30, 2016 AD and the period ending on September 30, 2017 AD), and whereas Paragraph (1) of Article (9) of the Implementing Regulations of the Income Tax Law, issued by Ministerial Decision No. (1535) dated 11/06/1425 AH, provides that "expenses deductible for determining taxable income are: 1- All ordinary and necessary expenses incurred to realize taxable income, whether paid or accrued, provided that the following criteria are met: B- They must be associated with the realization of taxable income." and pursuant to Paragraph (3) of Article (57) of the same Regulations, which provides that"the burden of proof to substantiate the correctness of revenues, expenses, and any other data stated in the Taxpayer's return rests upon the Taxpayer. In the event that the Taxpayer is unable to substantiate the correctness of what is stated in its return, the Authority may, in addition to applying any other statutory penalties, disallow the expense that is not substantiated by the Taxpayer or perform an assessment based on estimation according to the Authority's viewpoint in light of the circumstances and facts associated with the case and the information available to the Authority." Furthermore, Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that "the litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the minutes of the lcase, and the court shall issue a deed to that effect." Based on the foregoing, with respect to the clause of (Salaries and Wages for the period ending on September 30, 2017 AD, in the amount of SAR (6,525,397), and upon this Circuit's review of the case file, it was found that the Taxpayer failed to submit sufficient documents to verify the variances between the total salaries according to the certificate and the salaries according to the Company's accounts. Therefore, this Committee concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Salaries and Wages for the period ending on September 30, 2017 AD, in the amount of SAR (6,525,397)). With respect to the clause of (Salaries and Wages for the period ending on September 30, 2016 AD, regarding the amount of SAR (15,763,657)), and upon this Committee's review of the case file and the documents submitted by both

parties, it was found that the Authority submitted a supplementary memorandum dated 03/09/2025 AD stating the following "accordingly, the Authority states its partial acceptance of the Taxpayer's objection by adjusting what is added to the net profit for the year 2015 AD to be SAR (371,901.52), representing the share of the tax aspect (49% x 371,901.52 = SAR 182,231.74) due to the Taxpayer's failure to submit supporting documents for the variances." Therefore, the Circuit concludes to record the settlement and termination of the dispute with respect to the Taxpayer's appeal regarding the amount of SAR (15,763,657). As for the amount of SAR (371,901), and whereas it has been established to this Circuit upon reviewing the case file that the Taxpayer failed to submit sufficient documents proving these variances, therefore, this Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the amount of SAR (371,901).

With respect to the Taxpayer's appeal regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD, and whereas Paragraph (1) of Article (9) of the Implementing Regulations of the Income Tax Law, issued by Ministerial Decision No. (1535) dated 11/06/1425 AH, provides that "expenses deductible for determining taxable income are: 1- All ordinary and necessary expenses incurred to realize taxable income, whether paid or accrued, provided that the following controls are met: B- They must be associated with the realization of taxable income." and pursuant to Paragraph (3) of Article (57) of the same Regulations, which provides that "the burden of proof to substantiate the correctness of revenues, expenses, and any other data stated in the Taxpayer's return rests upon the Taxpayer. In the event that the Taxpayer is unable to substantiate the correctness of what is stated in its return, the Authority may, in addition to applying any other statutory penalties, disallow the expense that is not substantiated by the Taxpayer or perform an assessment based on estimation according to the Authority's viewpoint in light of the circumstances and facts associated with the case and the information available to the Authority." Furthermore, Article (58) of the Income Tax Law, issued by Royal Decree No. (M/1) dated 15/01/1425 AH, pertaining to expenses related to books and records, provides that "the Authority shall have the right to disallow any expense if the Taxpayer fails, without a reasonable cause, to provide the specific document of the expense or the supporting evidence for the validity of the claim thereto." Moreover, Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that "the litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the minutes of the case, and the court shall issue a deed to that effect." Based on the foregoing, with respect to the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2015 AD, and whereas it has been established to this Committee upon reviewing the case file that the Taxpayer failed to submit sufficient and supporting documents to substantiate the validity of its viewpoint; therefore, this Circuit concludes to reject the Taxpayer's appeal

and uphold the Adjudication Circuit's decision regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2015 AD).

With respect to the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2016 AD, regarding the amount of SAR (3,739,965), and whereas it has been established to this Committee upon reviewing the case file that the Taxpayer failed to submit sufficient and supporting documents for the variances; therefore, this Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2016 AD, in the amount of SAR (3,739,965). With respect to the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2017 AD, regarding the amount of SAR (128,733), and upon this Circuit's review of the case file and the documents submitted by both parties, it was found that the Authority submitted a supplementary memorandum dated 03/09/2025 AD stating that "based on the foregoing, and upon reviewing the analysis submitted by the Taxpayer, the Authority states its partial acceptance of the Taxpayer's objection strictly with respect to the tax aspect, by reversing the variances for the non-deductible expense in accordance with the amended calculation above by its share of 49% due to the Taxpayer's failure to submit the documents..." Therefore, the Circuit concludes to record the settlement and termination of the dispute with respect to the Taxpayer's appeal on the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2017 AD, regarding the amount of SAR (128,733). As for the amount of SAR (193,880), and whereas it has been established to this Circuit upon reviewing the case file that the Taxpayer failed to submit sufficient and supporting documents for the variances; therefore, this Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2017 AD, regarding the amount of SAR (193,880).

With respect to the parties' appeals regarding the clause of (Late payment penalty), and whereas Paragraph (A) of Article (77) of the Income Tax Law, issued by Royal Decree No. (M/1) dated 15/01/1425 AH, provides that: "In addition to the Circuitties set forth in Article (76) of this Law and in Paragraph (B) of this Article, the taxpayer shall pay a late payment penalty at the rate of one percent (1%) of the unpaid tax for every thirty days of delay. This includes delay in paying the tax required to be withheld and advance payments, and shall be calculated from the tax due date until the date of payment. Based on the foregoing, and upon this Circuit's review of the case file and the defenses and documents contained therein, and whereas the late payment penalty is calculated from the date of expiration of the prescribed deadline for submitting the return until the date of payment of the tax due arising from the application of the provisions of the Law and the adjustments made by the Authority; accordingly, the correctness of the Authority's procedures in imposing the late payment penalty on the clause where the Taxpayer's appeal was rejected is established, and the late payment penalty shall lapse with respect to the clauses where the Authority's appeal was rejected and the

Taxpayer's appeal was accepted, due to the lapse of the principal tax assessment itself. Therefore, this Circuit concludes to amend the Adjudication Circuit's decision with respect to the parties' appeals regarding the clause of (Late payment penalty).

For these reasons, and adopting the reasons set forth herein, the Circuit has unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer/ [...] Company, Commercial Registration No. [...], Taxpayer Identification Number. [...], and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-36766) issued in Case No. (ZI-36766-2021) relating to the Zakat and Tax assessment for the years 2015 AD through 2017 AD.

Second: On the merits:

1. To record the settlement and termination of the dispute with respect to the parties' appeals on the clause of (Excess Invoices Received and Submitted for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD.

2. To record the settlement and termination of the dispute with respect to the parties' appeals on the clause of (Due to Related Parties for the periods ending on September 30, 2016 AD and September 30, 2017 AD.

3. With respect to the parties' appeals on the clause of (Loan Received from a Related Party to Settle a Loan for the periods ending on September 30, 2015 AD and September 30, 2016 AD).

A- To record the settlement and termination of the dispute with respect to the Authority's appeal on the clause of (Loan Received from a Related Party to Settle a Loan for the period ending on September 30, 2015 AD).

B- To record the settlement and termination of the dispute with respect to the Taxpayer's appeal on the clause of (Loan Received from a Related Party to Settle a Loan for the period ending on September 30, 2016 AD).

4. To record the settlement and termination of the dispute with respect to the Taxpayer's appeal on the clause of (Accrued Salaries, Wages, and Employee Benefits for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD).

5. To record the settlement and termination of the dispute with respect to the Taxpayer's appeal on the clause of (Accounts Payable for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD).

6. To record the settlement and termination of the dispute with respect to the Taxpayer's appeal on the clause of (Advances from Customers for the period ending on September 30, 2015 AD).

7. To accept the Authority's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Bad Debts for the period ending on September 30, 2016 AD and the period ending on September 30, 2017 AD).

8. With respect to the Authority's appeal on the clause of (Foreign Taxes - Companies for the period ending on September 30, 2015 AD and the period ending on September 30, 2017 AD):

A- To accept the Authority's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Foreign Taxes - Companies in the amount of SAR (2,603,421.83) for the period ending on September 30, 2015 AD).

B- To accept the withdrawal of litigation with respect to the Authority's appeal on the clause of (Foreign Taxes - Companies in the amount of SAR (2,269,794) for the period ending on September 30, 2017 AD).

9. With respect to the Taxpayer's appeal on the clause of (Salaries and Wages for the period ending on September 30, 2016 AD and the period ending on September 30, 2017 AD (Tax Aspect):

A- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Salaries and Wages for the period ending on September 30, 2017 AD, in the amount of SAR (6,525,397).

B- With respect to the Taxpayer's appeal on the clause of (Salaries and Wages for the period ending on September 30, 2016 AD):

B/1- To record the settlement and termination of the dispute with respect to the Taxpayer's appeal regarding the amount of SAR (15,763,657).

B/2- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the amount of SAR (371,901).

10. With respect to the Taxpayer's appeal on the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the periods ending on September 30, 2015 AD, September 30, 2016 AD, and September 30, 2017 AD):

A- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2015 AD).

B- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2016 AD, in the amount of SAR (3,739,965).

C- With respect to the Taxpayer's appeal on the clause of (Variance in Social Insurance for Saudis and Non-Saudis for the period ending on September 30, 2017 AD):

C/1- To record the settlement and termination of the dispute with respect to the Taxpayer's appeal regarding the amount of SAR (128,733).

C/2- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the amount of SAR (193,880).

11. To amend the Adjudication Circuit's decision with respect to the parties' appeals regarding the clause of (Late payment penalty).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes
In Riyadh City

Decision No. IR -2025-240670

Case No. Z-240670-2024

Principle No. 33

The exclusion of overdue accounts receivable from the Zakat base shall be disallowed unless the taxpayer substantiates, with statutory documentation, the total amount related to government entities, and proves that the inability to collect was due to reasons beyond its control.

Facts

The petition for reconsideration submitted on 14/08/2024 AD was examined; it was submitted by [...], holding National ID No. [...], in his capacity as the attorney-in-fact for the Petitioning Company pursuant to Power of Attorney No. [...] dated 05/03/1445 AH and Legal Practicing License No. [...], against the decision of the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes No. (IR-2024-171679) issued in Case No. (Z-171679-2023) relating to the Zakat assessment for the year 2017 AD, initiated by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Appeal Circuit's decision held as follows:

First: Procedurally**:**

1. To procedurally dismiss the appeal submitted by the Taxpayer/ [...] Company, Commercial Registration No. [...], Unique No. [...], against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (ISR-2022-1846) issued in Case No. (Z-42810-2021) relating to the Zakat assessment for the year 2017 AD, on the grounds of being submitted by an unauthorized person.

2- To procedurally accept the appeal submitted by the Zakat, Tax and Customs Authority against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City, No. (ISR-2022-1846) issued in Case No. (Z-42810-2021) relating to the Zakat assessment for the year 2017 AD.

Second: On the merits:

1. To accept the withdrawal of litigation with respect to the Authority's appeal on the clause of (Gratuities Included in Salaries and Wages).

2. To accept the Authority's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Accrued Revenues).

3. To accept the Authority's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Retained Insurances).

4. To accept the withdrawal of litigation with respect to the Authority's appeal on the clause of (Formed Provision for Potential Penalties).

5. To reject the Authority's appeal with respect to the clause of (Material Error in the Second Circuit's Decision Regarding Materials Inventory).

Whereas this decision was not accepted by the Taxpayer, the Taxpayer submitted a petition for reconsideration. The Circuit reviewed the petition, which included the Taxpayer's demand to overturn and annul the Appeal Circuit's decision.

On Sunday, 03/08/2025 AD, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session at 08:46 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) 08/04/1445 AH. Upon reviewing the petition, the submitted memoranda, and the files, documents, and records contained in the case file, and following deliberation, and whereas the lawsuit is ripe for adjudication in its current state, the Circuit decides to close the pleadings and reserve the case for adjudication

Grounds:

Upon reviewing the grounds set forth in the petition for reconsideration, and whereas it has been established to the Circuit that the Petitioner requests the reversal of the contested decision based on the fact that the brief was submitted on the attorney's official letterhead and attached prior to the closing of pleadings, and the General Secretariat replied acknowledging receipt of the memornadum and its filing in the case file; and whereas the Petitioner provided a copy of the email sent to the Secretariat and a copy of the Secretariat's responsive memorandum, and added that it objects to the clause of (Accrued Revenues) for the years 2017 AD and 2018 AD, as such revenues consist of outstanding debit balances due from government entities which the Company was unable to collect despite demanding payment; and whereas the Petitioner attached a statement of the accrued revenues account for the years 2017 AD and 2018 AD showing an analysis of the government entities indebted to the Company and the status of such amounts, which are confined to two categories: "Under Collection" and "Under Approval", meaning that the Company was not delinquent in submitting its claims, contrary to what was stated in the appeal decision; and whereas it also objects to the clause of (Retained Insurances) for the years 2017 AD and 2018 AD, arguing that the retained amounts represent a percentage of (10%) of the value of any project with government entities as

a performance bond, to be disbursed after the final handover of the project, and therefore, such amounts constitute retained accrued revenues;

And whereas Article (200) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that: "1- Any of the litigants may petition for reconsideration of final judgments in the following cases: A- If the judgment was based on documents that were proven to be forged after the rendering of the judgment, or based on testimony that a competent authority adjudged—after the rendering of the judgment—to be false testimony. B- If the petitioner, after the judgment, obtained conclusive documents in the Case that it was unable to produce before the judgment. C- If fraud was committed by the litigant which would affect the judgment. D- If the judgment awarded something not requested by the litigants or awarded more than what was requested. E- If the operative part of the judgment contradicts itself. F- If the judgment was rendered in absentia. G- If the judgment was rendered against a person who was not properly represented in the case. 2- Any person who is bound by the judgment, and who was not joined or did not intervene in the case, may petition for a review of final judgments."

And pursuant to Fatwa No. (23408) dated 18/11/1426 AH issued by the Permanent Committee for Scholarly Research and Ifta regarding debts due from government entities, which provides that: "Amounts due to a person from any government entity, if payment thereof is delayed for any reason by that debtor entity, even if the right-holder is aware of it, shall not be subject to Zakat until the right-holder receives them and a Zakat Year (Al Hawl) passes after their possession; pursuant to the words of the Almighty: 'So fear Allah as much as you are able,' and because Zakat is an act of financial solidarity, it is not obligatory upon a person who cannot possess the funds and holds nothing thereof in his hands."

Based on the foregoing, and whereas the dispute conerns the Taxpayer's request to deduct accrued revenues from the Zakat base, as the Taxpayer argues that the amounts due from government entities should not be subject to Zakat until they are received and a Zakat Year (Al Hawl) passes over them, given that these amounts were not in the Company's possession or under its control, and that the harm suffered by the Company resulted from the failure of government entities to settle the Company's dues, while the Authority disallowed the deduction of the clause due to the failure to provide documentary evidence;

And whereas it is evident from the Sharia Fatwa No. (23408) dated 18/11/1426 AH issued by the Permanent Committee for Scholarly Research and Ifta regarding the aforementioned debts due from government entities, that Zakat is not obligatory upon a creditor for its funds due from government entities which it is unable to collect due to a delay by the government entities, and not as a result of its own negligence or failure to comply with the specific standards and conditions set by the government entity; and whereas a fatwa issued by the competent authority in the Kingdom constitutes a legal principle that may not be violated as long as there is no statutory text governing the provisions contained therein; and whereas violating this fatwa constitutes one of the grounds requiring the overturning of the decision pursuant to the

provisions of Paragraph (1) of Article (193) of the Law of Sharia Procedures; and upon this Committee's review of the case file and its contents, it was found that the status of the Taxpayer (the creditor) aligns with the settled fatwas; therefore, this Circuit concludes to accept the petition for reconsideration, Annul the Appellate Circuit's decision with respect to the clauses of (Accrued Revenues) and (Retained Insurances), and remand the case to the Appellate Circuit for reconsideration.

Based on the foregoing, and adopting the reasons set forth herein, the Circuit has decided by majority vote as follows:

Decision:

First: To accept, in terms of form, the petition for reconsideration submitted by the Taxpayer/ [...] Company, Commercial Registration No. [...], Taxpayer Identification Number. [...], against the decision of the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes No. (IR-2024-171679) issued in Case No. (Z-171679-2023) relating to the Zakat assessment for the year 2017 AD.

Second: On the merits:

To accept the petition for reconsideration, annul the Appeal Circuit's decision with respect to the two clauses of (Accrued Revenues) and (Retained Insurances), and remand the case to the Appellate Circuit for reconsideration.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR -2025-234674
Case No. ZI-2024-23474

Principle No. 34

Allowable deductible expenses are those substantiated with supporting documentation.

Facts

The appeal filed on 26/01/2022 AD by [...] Company, Commercial Registration No. [...], and the appeal filed on 02/02/2022 AD by the Zakat, Tax and Customs Authority, were examined; both appeals were filed against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-14683) issued in Case No. (ZI-14683-2020) relating to the Zakat assessment for the years 2014 AD and 2016 AD, in the case initiated by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision held as follows:

1. To reject the Plaintiff's objection with respect to the clause of (Foreign Exchange Losses for the year 2014 AD).

2. To record the settlement and termination of the dispute with respect to the clause of (Spare Parts for the year 2014 AD).

3. To amend the Defendant's decision with respect to the clause of (Trade Accounts Payable, Amounts Due to Related Parties, and Other Creditors" for the years 2014 AD and 2016 AD).

4. To reject the Plaintiff's objection with respect to the clause of (Capital Gains for the year 2016 AD).

5. To record the settlement and termination of the dispute with respect to the clause of (Depreciation Variances for the year 2016 AD).

6. To amend the Defendant's decision with respect to the clause of (Late payment penaltys).

Whereas this decision was not accepted by either party, both parties filed appeals against it, and this Circuit issued its decision No. (IR-2023-92436) in Case No. (ZI-92436-2022), holding as follows:

First: To formally accept the appeal submitted by the Taxpayer/ [...] Company, Commercial Registration No. [...], Taxpayer Identification Number. [...], and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in

Dammam City, No. (IZD-2024-14683) issued in Case No. (ZI-14683-2020) relating to the Zakat assessment for the years 2014 AD and 2016 AD.

Second: On the merits:

To accept the parties' appeals and remand the case to the Adjudication Circuit to consider the clauses of (Short-Term Loans) and (Accrued Zakat).

Consequently, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City issued its decision No. (IZD-2024-14683) in Lawsuit No. (ZI-14683-2020), wherein the Adjudication Circuit's decision held as follows:

1. To reject the Plaintiff's objection with respect to the clause of adding short-term loans to the Zakat base for the year 2014 AD.

2. To reject the Plaintiff's objection with respect to the clause of adding accrued Zakat to the Zakat base for the year 2014 AD.

3. To declare the clause of adding short-term loans to the Zakat base for the year 2016 AD formally inadmissible.

4. To declare the clause of adding accrued Zakat to the Zakat base for the year 2016 AD formally inadmissible.

Whereas the case was returned to the Appellate Circuit on 04/04/2024 AD, the Circuit reviewed the aforementioned Adjudication Circuit's decision and decided to return the case to it to redraft the decision so as to include all clauses subject to the case, and to return it to the Appellate Circuit including all claims for adjudication; given that the lower Committee had not exhausted its jurisdiction in adjudicating all claims of the Taxpayer. In response to that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City issued its corrective decision No. (ID-2025-14683) in Case No. (ZI-14683-2020) dated 28/07/2025 AD, which ruled as follows:

1. To reject the Plaintiff's objection with respect to the clause of (Foreign Exchange Losses for the year 2014 AD).

2. To record the settlement and termination of the dispute with respect to the clause of (Spare Parts for the year 2014 AD).

3. To amend the Defendant's decision with respect to the clause of (Trade Accounts Payable, Amounts Due to Related Parties, and Other Creditors for the years 2014 AD and 2016 AD).

4. To reject the Plaintiff's objection with respect to the clause of (Capital Gains for the year 2016 AD).

5. To record the settlement and termination of the dispute with respect to the clause of (Depreciation Variances for the year 2016 AD).

6. To amend the Defendant's decision with respect to the clause of (Late payment penaltys).

7. To reject the Plaintiff's objection with respect to the clause of adding short-term loans to the Zakat base for the year 2014 AD.

8. To reject the Plaintiff's objection with respect to the clause of adding accrued Zakat to the Zakat base for the year 2014 AD.

9. To declare the clause of adding short-term loans to the Zakat base for the year 2016 AD formally inadmissible.

10. To declare the clause of adding accrued Zakat to the Zakat base for the year 2016 AD formally inadmissible.

Whereas this decision was not accepted by either party, each party submitted an appeal brief, a summary of which is as follows:

With respect to the Taxpayer's appeal against the Adjudication Circuit's decision; concerning the clause of (Late payment penalty), its appeal relies on the ground that no late payment penalty should be imposed on the additional income tax assessed, given the existence of a bona fide technical dispute between the Company and the Authority. Concerning the clause of (Disallowing the Realized Foreign Exchange Losses for the Year 2014 AD), its appeal relies on the ground that during the calculation of adjusted profits for the year 2014 AD, the Authority inadvertently disallowed the declared realized foreign exchange loss reported under the schedule of (Analysis of Direct Expenses) in the Tax/Zakat return for the year 2014 AD). Furthermore, the contested decision provided no basis supporting the Authority's treatment on account of failure to submit supporting documentation to prove that the dispute relates to realized losses, which is substantively irrelevant since the Authority never requested nor provided the Company with the opportunity to produce the documentation. The Taxpayer also filed an appeal against the clauses of (Amounts Due to Related Parties for the Year 2014 AD), (Trade Accounts Payable and Other Creditors for the Year 2014 AD), (Trade Accounts Payable and Other Creditors for the Year 2016 AD), (Capital Gains in the Amount of SAR 72,232,601 for the Year 2016 AD consisting of Capital Work-in-Progress relating to the Zakat side by 51%), (Short-Term Loans for the Year 2014 AD), and (Accrued Zakat to the Zakat Base for the Year 2014 AD). For the reasons stated above, the Taxpayer requests the overturning of the Adjudication Circuit's decision regarding the contested clauses.

With respect to the Authority's appeal against the Adjudication Circuit's decision; concerning the clause of (Trade Accounts Payable and Other Creditors for the Year 2016 AD), its appeal relies on the ground that the contested decision relied on documentation that the Taxpayer had not previously submitted during the examination and objection phases without a justifiable excuse; accordingly, the Authority requests that such documentation be deemed inadmissible, relying on Appeal Decision No. (1751) for the year 1438 AH,

which upheld the Authority's position to disallow new documentation. Concerning the clause of (Late payment penalty), its appeal relies on the ground that the Penalty is structurally linked to the contested clause, and therefore, the Authority affirms the validity and soundness of its procedure. The Authority also filed an appeal against the clauses of (Amounts Due to Related Parties for the Year 2014 AD) and (Trade Accounts Payable and Other Creditors for the Year 2014 AD), requesting the overturning of the Adjudication Circuit's decision regarding the contested clauses for the reasons stated above.

On Tuesday, 04/02/1447 AH, corresponding to 29/07/2025 AD, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session at 12:30 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, [...], holding National ID No. [...], appeared in his capacity as the attorney-in-fact for the Taxpayer pursuant to Power of Attorney No. [...] issued on 12/02/1444 AH and Legal Practicing License No. [...]. The Authority's representative, [...], holding National ID No. [...], also appeared pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. [...] dated 19/03/1445 AH. Upon inquiring of the Taxpayer's attorney as to whether he wished to add anything, he stated that he adheres to everything previously submitted in this case. Upon presenting this to the Authority's representative, she stated that an additional brief had been submitted yesterday under Ticket No. [...]. Upon presenting this to the Taxpayer's attorney, he requested a grace period to review and reply thereto; accordingly, the Circuit decided to grant the Taxpayer a grace period of (10) days to reply to the Authority's brief, ending on 08/08/2025 AD, and to grant a grace period to the Authority to reply to the Taxpayer's brief, ending on 18/08/2025 AD, and postponed the hearing of the lawsuit to the session of 26/08/2025 AD.

On Tuesday, 03/03/1447 AH, corresponding to 26/08/2025 AD, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session at 11:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; based on what was stated in item number (1) of Article fifteen of the rules of operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, [...], holding National ID No. [...], appeared in his capacity as the attorney-in-fact for the Taxpayer pursuant to Power of Attorney No. [...] issued on 12/02/1444 AH and Legal Practicing License No. [...]. The Authority's representative, [...], holding National ID No. [...], also appeared pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. [...] dated 19/03/1445 AH; whereupon the Circuit decided to adjourn the session for deliberation in preparation for issuing the decision.

Grounds:

Whereas upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it has been established to the Circuit that the conditions for procedurally hearing the appeals have been satisfied in accordance with the provisions set forth in the relevant regulations, rules, and decisions; accordingly, both appeal requests are formally accepted, given that they were submitted by authorized persons within the legally prescribed statutory period.

On the merits, Concerning the Authority's appeal regarding the clause of (Trade Accounts Payable and Other Creditors for the Year 2014 AD), whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that: "The litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue deed to that effect." Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Minister of Justice Decree No. (39933) dated 19/05/1435 AH, provides that: "If the agreement is reached prior to entering the case into the record, the substance of the claim and the answer must be recorded before entering the agreement, provided that the original claim falls within the jurisdiction of the Circuit, even if the substance of the agreement falls within the jurisdiction of another court or Circuit, on condition that the subject matter of the case or a part thereof is included among what has been agreed upon." Based on the foregoing, and whereas it has been proven to this Circuit that the Authority requested the withdrawal of the appeal according to its statement contained in the additional brief, which states: "The Authority wishes to inform the esteemed Circuit of the withdrawal of its appeal with respect to the year 2014 AD, in accordance with the findings and merits of the Adjudication Circuit's decision, by adding an amount of SAR 1,495,589 from the clause which represents the balances over which a Zakat Year (Al Hawl) has passed..."; therefore, the Circuit concludes to accept the Authority's request to withdraw the litigation regarding this clause.

Concerning the Authority's appeal regarding the clause of (Trade Accounts Payable and Other Creditors for the Year 2016 AD), whereas Paragraph (5) of clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, provides that: "The Zakat base shall consist of all the Taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts due from the Taxpayer, in accordance with the following: A- Whatever remains thereof in cash and a Zakat year (AL Hawl) has passed over it. B- Whatever has been used thereof to finance what is classified as a fixed asset (in possession). C- Whatever has been used thereof in trading assets and a Zakat Year (Al Hawl) has passed over it." Furthermore, Paragraph (3) of Article (20) thereof provides that: "The burden of proof to substantiate the validity of the clauses reported in the Taxpayer's Zakat return and any other data shall rest upon the Taxpayer. In the event that the Taxpayer is unable to substantiate the validity

of what is reported in its return, the Authority may disallow the clause whose validity is not proven by the Taxpayer, or carry out a reassessment according to the Authority's view in light of the circumstances and facts associated with the case and the information available to it." Based on the foregoing, and upon this Committee's review of the case file, it was found that the Taxpayer failed to submit the detailed schedule for the clause; accordingly, the Committee concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision regarding this clause.

Concerning the appeals submitted by both the Taxpayer and the Authority regarding the clause of (Late payment penalty), whereas Paragraph (A) of Article (77) of the Income Tax Law, issued by Royal Decree No. (M/1) dated 15/01/1425 AH, provides that: "In addition to the Circuitties set forth in Article 76 of this Law and in Paragraph (B) of this Article, the Taxpayer shall pay a late payment penalty at the rate of one percent (1%) of the unpaid tax for every thirty days of delay. This includes delay in paying the required withholding tax and accelerated payments, and shall be calculated from the tax due date to the date of payment." Furthermore, Paragraph (3) of Article (67) of the Implementing Regulations of the Income Tax Law provides that: "Unpaid tax means the difference between what the Taxpayer paid by the statutory due date and the tax due payable pursuant to the provisions of the Law, and includes adjustments made by the Directorate which have become final as set forth in Paragraph (2) of Article 71 of these Regulations, including contested cases where the Penalty shall be calculated from the statutory due date for filing the return and payment." Based on the foregoing, and whereas the Authority stated in its appeal brief that the decision to adjust the Penalty is structurally linked to the contested clauses, thereby affirming the soundness of its procedure; and upon this Committee's review of the Authority's appeal brief, it was found that its assertion regarding the correlation between the Penalty and the contested clauses is incorrect, given that the clauses subject to its appeal consist of (trade accounts payable, amounts due to related parties, and other creditors), which are Zakat clauses upon which no late payment penalty is imposed; thereby necessitating the rejection of the Authority's appeal. As for the Taxpayer's appeal: Whereas the dispute between the parties is a documentary dispute and did not arise from a valid variance in the interpretation of statutory texts; it is necessary to uphold the Authority's procedure in imposing the late payment penalty from the due date upon the clauses for which the Taxpayer's appeal was rejected, and the lapse of the late payment penalty upon the clauses for which the settlement and termination of the dispute was recorded and the Taxpayer's appeal was accepted due to the lapse of the principal tax imposition; accordingly, the Committee concludes to amend the Adjudication Circuit's decision with respect to the appeals of both parties regarding this clause.

Concerning the Taxpayer's appeal regarding the clause of (Capital Gains in the amount of SAR 72,232,601 for the Year 2016 AD, consisting of Capital Work-in-Progress relating to the Zakat side by 51%), whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that "the litigants may request the court, at any stage of the case, to record whatever acknowledgment, settlement, or otherwise they have agreed upon in the case minutes, and the court shall

issue a deed to that effect." Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Minister of Justice Decree No. (39933) dated 19/05/1435 AH, provides that"If the agreement is reached prior to entering the case into the record, the substance of the claim and the answer must be recorded before entering the agreement, provided that the original claim falls within the jurisdiction of the Circuit, even if the substance of the agreement falls within the jurisdiction of another court or committee, on condition that the subject matter of the Circuit or a part thereof is included among what has been agreed upon." Based on the foregoing, and whereas it has been proven to this Circuit that the Authority partially accepted the Taxpayer's objection according to its statement contained in the additional brief, which states: "...Accordingly, the Authority states that it partially accepts the Taxpayer's objection within the limits of deducting the Capital Work-in-Progress with respect to the Zakat side (51%) in the amount of SAR 72,232,601..." Furthermore, it has been proven to the Circuit that the Taxpayer requested to record the settlement and termination of the dispute accordingly, based on its statement in its statement of defense, which provides: "1. Based on the Authority's notes and its acceptance, the Company requests the esteemed Circuit to terminate the dispute and allow the deduction of Capital Work-in-Progress in the amount of Saudi Riyals 72,232,601 (i.e., the Zakat share at 51% of Saudi Riyals 141,632,551) from the Zakat base for the year 2016 AD."; accordingly, the Circuit concludes to record the settlement and termination of the dispute with respect to the Taxpayer's appeal regarding this clause.

Concerning the Taxpayer's appeal regarding the clause of (Disallowing the Realized Foreign Exchange Losses for the Year 2014 AD), whereas Paragraph (1) of Article (9) of the Implementing Regulations of the Income Tax Law, issued by the Minister of Finance Decree No. (1535) dated 11/06/1425 AH, provides that: "Allowable deductible expenses to determine the taxable income are: 1- All ordinary and necessary expenses incurred to realize taxable income, whether paid or accrued, provided that the following conditions are met: A- They must be actual expenses substantiated with supporting documentation or other corroborating evidence enabling the Authority to verify their validity. B- They must be connected to realizing taxable income. C- They must relate to the taxable year. D- They must not be of a capital nature." Furthermore, Article (12) of the same Regulations provides that "Subject to the specific rules governing foreign exchange conversions set forth in Article 30 of the Law, foreign exchange gains or losses resulting from revaluation shall not be recognized for tax purposes." Pursuant to Paragraph (1/A) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, which provides that "all ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net profits of the activity, provided that the following conditions are met: A- They must be actual expenses substantiated with supporting documentation or other evidence enabling the Authority to verify their validity, even if they relate to previous years." Based on the foregoing, and whereas allowable deductible expenses are those substantiated with proper documentation; and upon this Committee's review of what was submitted, it was found that the Taxpayer produced the audited

financial statements for the year under dispute, which clearly demonstrated that foreign exchange losses were reported in the amount of SAR 3,073,632 in the income statement for the year under dispute, consisting of a realized foreign exchange loss—subject of the dispute—amounting to SAR 1,905,052, and an unrealized foreign exchange loss amounting to SAR 1,168,580 which was added back to the profits according to the tax return. This was also declared in the return and certified by a Certified Public Accountant (CPA) based on the data entered and extracted from the Company's books and records; accordingly, whereas the Taxpayer has provided sufficient evidence to support its position and claims, the Circuit concludes to accept the Taxpayer's appeal and annul the Adjudication Circuit's decision regarding this clause.

Concerning the appeals submitted by the Taxpayer and the Authority regarding the remaining clauses subject to the case, whereas no fault can be found with this Circuit for adopting the grounds of the contested decision without adding further reasoning thereto, whenever it deems that such grounds obviate the need to introduce any new arguments; because by affirming and incorporating those grounds, it is confirmed that the Circuit found nothing in the challenges raised against the decision that warrants a response beyond what was already contained within those reasons. Since that is the case, and whereas it is established that the contested decision regarding the dispute over the remaining contested clauses was rendered in conformity with the sound and sufficient grounds upon which its judgment was built—given that the Circuit issuing it examined the core of the dispute therein and reached the conclusion set forth in its operative part—and whereas this Circuit has observed nothing requiring adjustment or comment in light of the defenses raised before it; therefore, this Circuit concludes to reject the Taxpayer's appeal and reject the Authority's appeal, and to uphold the contested Adjudication Circuit's decision as to its final outcome regarding the remaining clauses subject to the case, based upon its original grounds.

Based on the foregoing, and adopting the reasons set forth herein, the Circuit has decided by unanimous decided as follows:

Decision:

First: To formally accept the appeal submitted by the Taxpayer/ [...] Company, Commercial Registration No. [...], Taxpayer Identification Number. [...], and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City, No. (IZD-2024-14683) issued in Case No. (ZI-14683-2020) relating to the Zakat assessment for the years 2014 AD and 2016 AD.

Second: On the merits:

1. With regard to the appeals of both parties regarding the clause of (Adding Trade Accounts Payable, Amounts Due to Related Parties, and Other Creditors to the Zakat Base for the years 2014 AD and 2016 AD):

A- To reject the appeals of both parties and uphold the Adjudication Circuit's decision regarding the clause of (Amounts Due to Related Parties for the Year 2014 AD).

B- With respect to the appeals of both parties regarding the clause of (Trade Accounts Payable and Other Creditors for the years 2014 AD and 2016 AD):

B/1- To accept the withdrawal of litigation with respect to the Authority's appeal regarding the (Year 2014 AD).

B/2- To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the (Year 2014 AD).

B/3- To accept the Authority's appeal, annul the Adjudication Circuit's decision, and reject the Taxpayer's appeal regarding the (Year 2016 AD).

2. To amend the Adjudication Circuit's decision with respect to the appeals of both parties regarding the clause of (Late payment penalty).

3. To record the settlement and termination of the dispute with respect to the Taxpayer's appeal regarding the clause of (Capital Gains in the amount of (72,232,601) Saudi Riyals for the year 2016 AD, consisting of Capital Work-in-Progress relating to the Zakat side by 51%).

4. To accept the Taxpayer's appeal and annul the Adjudication Circuit's decision with respect to the clause of (Disallowing the Realized Foreign Exchange Losses for the Year 2014 AD).

5. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision with respect to the clause of (Short-Term Loans for the Year 2014 AD).

6. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision with respect to the clause of (Accrued Zakat to the Zakat Base for the Year 2014 AD).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR -2025-234387
Case No. Z-234387-2024

Principle No. 35

Deduction of damaged goods from the Zakat base shall not be allowed unless the Taxpayer submits supporting documentation or sufficient evidence enabling the verification of the actual occurrence of damage. The submission of internal statements unsupported by documentation shall not suffice; the burden of proof to substantiate the validity of the clause shall rest upon the Taxpayer, and the Authority may disallow it and carry out an estimated assessment.

Principle No. 36

The import return issued by the customs authority constitutes a fundamental presumption from a neutral third party to substantiate foreign purchases, and it shall be relied upon in the event of variances with what is reported in the Taxpayer's return. The Taxpayer's plea shall not be accepted unless supporting documentation is submitted.

Facts:

The appeal filed on 01/04/2024 AD by [...], National ID No. [...], in his capacity as the legal representative of the Appellant Company pursuant to the partners' Circuit for Adjudicating, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate, No. (IZJ-2024-32061) issued in Case No. (Z-32061-2020) relating to the Zakat assessments for the years from 2012 AD to 2014 AD, in the case initiated by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision held as follows:

First: To reject the Plaintiff's objection with respect to the clause of (Accrued Expenses and Other Payables for the years from 2012 AD until 2014 AD).

Second: To reject the Plaintiff's objection with respect to the clause of (Deferred Revenue for the years from 2012 AD until 2014 AD).

Whereas the Adjudication Circuit issued its aforementioned decision and reheard the case as a result of this Circuit's decision No. (IR-2023-115436), and upon reviewing the case, the Circuit decided to remand the case to the Adjudication Circuit to redraft the decision so as to include all clauses subject to the case, and to

return it to the Appellate Circuit including all claims of the Plaintiff for adjudication, given that the Circuit had not exhausted its jurisdiction in adjudicating all claims of the Plaintiff.

Based on that request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate issued its decision No. (IZJ-2025-32061) in Case No. (Z-32061-2020), which held as follows:

First: To reject the Plaintiff's objection to the clause of the statutory period (Expiration of the statutory period) for the years from 2012 AD to 2014 AD.

Second: To reject the Plaintiff's objection to the clause of (Promotional Expenses for the years from 2012 AD to 2014 AD).

Third: To reject the Plaintiff's objection to the clause of (Foreign Purchases for the years from 2012 AD to 2014 AD).

Fourth: To reject the Plaintiff's objection to the clause of (Travel Expenses for the years from 2012 AD to 2014 AD).

Fifth: To reject the Plaintiff's objection to the clause of (Losses on Sale of Assets for the years from 2012 AD to 2014 AD).

Sixth: To reject the Plaintiff's objection to the clause of (Other Expenses for the years from 2012 AD to 2014 AD).

Seventh: To reject the Plaintiff's objection to the clause of (Damaged Goods for the years from 2012 AD to 2014 AD).

Eighth: To reject the Plaintiff's objection to the clause of (Goods Cost Variance for the years from 2012 AD to 2014 AD).

Ninth: To reject the Plaintiff's objection to the clause of (Accounts Payable for the years from 2012 AD to 2014 AD).

Tenth: To reject the Plaintiff's objection to the clause of (Carried-Forward Provisions for the year 2014 AD).
Eleventh: To reject the Plaintiff's objection to the clause of (Partner's Current Account for the years from 2012 AD to 2014 AD).

Twelfth: To reject the Plaintiff's objection to the clause of (Paid Amounts Not Deducted or Erroneously Deducted for the years 2012 AD, 2013 AD, and 2014 AD).

Thirteenth: To reject the Plaintiff's objection with respect to the clause of (Accrued Expenses and Other Payables for the years from 2012 AD until 2014 AD).

Fourteenth: To reject the Plaintiff's objection with respect to the clause of (Deferred Revenue for the years from 2012 AD until 2014 AD).

Whereas this decision was not accepted by the Taxpayer, it submitted an appeal brief which was reviewed by the Circuit, a summary of which is as follows:

With respect to the Taxpayer's appeal against the Adjudication Circuit's decision; concerning the clause of "Expiration of the statutory periodfor the Year 2012 AD", the Taxpayer requests the reversal of the Circuit's decision regarding this clause, objecting to the Zakat assessment procedure for the year 2012 AD based on the provisions of Article (21) of the Implementing Regulations for Zakat Collection, for the years in which a period of five years has elapsed since filing their returns. The Taxpayer pleaded that the Authority failed to submit an answer to the statement of claim submitted by the Company, as evidenced by the text of the Circuit's decision: "Upon presenting the statement of claim to the Defendant, it answered that the case is inadmissible due to prior adjudication by the First Income Tax Committee in Riyadh." Furthermore, the Circuit did not question the Authority regarding the justifications for reopening the assessment with respect to this clause or the official documentation supporting it, and instead provided the justifications on behalf of the Authority. As for the justifications mentioned by the Committee, they are as follows: "Whereas it became evident that there are variances between the imports recorded in the Plaintiff's return and the customs return, the Plaintiff, under such circumstances, has submitted incorrect data." The Circuit considered this a justification for reopening the assessment despite the lapse of more than five years, whereas customs data is available to the Zakat, Tax and Customs Authority through the Information Center and can be accessed at any time. Consequently, the Authority's waiting for five years to review data available to it does not entitle it to reopen the assessment, nor does the existence of variances in import data mean that the Company submitted incorrect data, given that the Company's return was submitted based on regular books of account kept in accordance with the Law of Commercial Books, as well as audited financial statements certified by a licensed Certified Public Accountant authorized by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Concerning the following clauses (Promotional Expenses for the years from 2012 AD until 2014 AD), the clause of (Foreign Purchases for the years from 2012 AD until 2014 AD), the clause of (Travel Expenses for the years from 2012 AD until 2014 AD), the clause of (Losses on Sale of Assets for the years from 2012 AD until 2014 AD), the clause of (Other Expenses for the years from 2012 AD until 2014 AD), and the clause of (Damaged Goods for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding the aforementioned clauses, and objects to the Authority's procedure in adding the clause to the Zakat base, pursuant to the provisions of Paragraph (1/1) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, given that the Company possesses all supporting documentation which was previously submitted to the Authority; accordingly, the Company is fully prepared to submit them before the Appellate Circuit. In response to the Circuit's decision that the Taxpayer failed to submit the supporting invoices—based on which its objection was rejected—it was incumbent upon the Circuit to seek clarification, discuss the matter with the Taxpayer,

request the documentation and the reasons for non-submission, and hear its viewpoint, which is the core of judicial adjudication; therefore, the Taxpayer demands the reversal of the Circuit's decision.

Concerning the clause of (Goods Cost Variance for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, as the dispute relies on the variance in the cost of goods sold; hence, it was a technical rather than a documentary dispute. The Adjudication Circuit failed to consider the Taxpayer's objection stated in its objection brief, which explicitly provided: "The Authority added the variance of the cost of sales reported in the audited financial statements of the Company against certain data in the Company's Zakat returns, which are solely the beginning inventory, purchases during the year, and ending inventory, without considering the remaining analyses of the cost of sales, knowing that the cost of sales includes other clauses apart from inventory and purchases, as the cost of sales clauses are reclassified in accordance with the clauses specified in the Zakat return." It was incumbent upon the Circuit to examine the Company's objection as stated in its objection brief and discuss the matter with the Authority in this regard, particularly since the net profit in the Zakat returns matches the net profit according to the financial statements.

Concerning the clause of (Accounts Payable for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, as the Company objected to the Authority's failure to clarify the reasons for adding those clauses to the Zakat base, which constitutes a violation of the Implementing Regulations for Zakat Collection. However, the Circuit did not discuss this clause with the Authority's representative and merely stated that the Company failed to submit evidence that a Zakat Year (Al Hawl) had not passed, despite the lack of clarification regarding the reason for the addition—whether it was due to the passage of a Zakat year (AL Hawl) or another reason—so that the Company could object on objective grounds.

Concerning the clause of (Carried-Forward Provisions for the Year 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, as the Authority added carried-forward provisions in the year 2014 AD in the amount of SAR 5,595,237, whereas the correct amount is SAR 5,522,872, as detailed in the appeal brief, and pursuant to the provisions of Paragraph (9) of Article (4), which stipulates that provisions at the beginning of the year shall be added after deducting the utilized portion thereof during the year.

Concerning the clause of (Partner's Current Account for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, pleading that the Authority failed to deduct the partner's debit current account, which constitutes a violation of the provisions of Paragraph (5) of Article (4) of the Implementing Regulations for Zakat Collection. According to the audited financial statements, the debit current account of the partner, After Telecommunications Company, and its share of profits are as shown in the appeal brief. Furthermore, there is an amount of SAR 30,530,158

representing additional capital that was added to the Zakat base; therefore, the debit current account should have been fully excluded by way of offset against the additional capital.

Concerning the clause of (Paid Amounts Not Deducted or Erroneously Deducted for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, as the Circuit did not discuss the matter with the Authority to ascertain its viewpoint on this clause, noting that the Authority had agreed to the Company's objection, as evidenced by the Authority's deduction of Zakat variances for the years under dispute from the Company's bank account in the amount of SAR 2,144,200 after correcting the payment receipts in accordance with the Company's objection.

Concerning the clause of (Accrued Expenses and Other Payables for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, basing its claim on the detailed schedule of the accrued expenses and other payables clause, which demonstrates that a Zakat Year (Al Hawl) had not passed over the amounts added by the Authority, noting that this schedule was previously submitted to the Zakat, Tax and Customs Authority.

Concerning the clause of (Deferred Revenue for the years from 2012 AD until 2014 AD), the Taxpayer requests the reversal of the Circuit's decision regarding this clause, basing its claim on the detailed schedule of the deferred revenue clause, which demonstrates that a Zakat Year (Al Hawl) had not passed over the amounts added by the Authority, noting that this schedule was previously submitted to the Authority.

On Tuesday, 26/08/2025 AD, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session at 10:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the procedures for remote visual litigation; pursuant to the provisions of Paragraph No. (1) of Article 15 of the Rules of Operation of Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the litigants, Mr. /[...], National ID No. [...], appeared in his capacity as the attorney for the Taxpayer pursuant to Power of Attorney No. [...] issued on 15/09/1442 AH, and Law Practice License No. [...]. Additionally, the Authority's representative, Ms. /[...] (National ID No. [...]) appeared pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Upon questioning the Taxpayer's attorney as to whether he wished to add anything, he stated that he adheres to what was previously submitted in this Case. Upon presenting this to the Authority's representative, she requested a grace period to submit what she had at a future hearing. Accordingly, the Circuit decided to grant the Authority an grace period of (10) days to submit their documentation to the General Secretariat, expiring on 05/09/2025 AD, and to grant the Taxpayer a period of (10) days expiring on 15/09/2025 AD. Following this date, the pleading shall be closed, and the case will be referred for deliberation and issuance of the decision; the Circuit shall not accept any new documents or briefs not

submitted prior to the aforementioned date. The next hearing, scheduled for 07/10/2025 AD, shall be the session for pronouncing the decision.

On Tuesday, 07/10/2025 AD, at 09:20 AM, the First Appellate Circuit for Adjudicating Income Tax Violations and Disputes held its session, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the procedures for remote visual litigation; pursuant to the provisions of Paragraph No. (2) of Article 15 of the Rules of Operation of Circuits for Adjudicating Tax Violations and Disputes issued by Royal Decree No. (26040) dated 21/04/1441H. Upon calling upon the litigants, Mr. /[...], National ID No. [...], appeared in his capacity as the attorney for the Taxpayer pursuant to Power of Attorney No. [...] issued on 15/09/1442 AH, and Law Practice License No. [...]. Additionally, Ms. /[...] (National ID No. [...]) and Ms. /[...] (National ID No. [...]) appeared in their capacity as the representatives of the Zakat, Tax and Customs Authority pursuant to an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. Whereas the pleading has been closed and deliberation has taken place, and whereas this hearing is dedicated to pronouncing the decision.

Grounds:

Whereas, upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it has been established to the Circuit that the appeal satisfies the formal admissibility requirements in accordance with the conditions stipulated in the relevant laws, regulations, and decisions; accordingly, the appeal is procedurally acceptable, as it was submitted by an authorized capacity within the prescribed statutory deadline.

On the merits, and regarding the Taxpayer's appeal concerning the clause of (Expiration of the statutory periodfor the Year 2012 AD), whereas Paragraph No. (8) of Article (21) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: '8- The Authority has the right to make or amend an assessment at any time without being restricted by a time limit in the following cases: a- If the taxpayer agrees in writing to the making or amendment of the assessment. b- If the taxpayer does not submit his return. c- If it is found that the return contains incorrect information.' Pursuant to Paragraphs (10) and (11) of the aforementioned Article, which stipulate: '10- The Authority may correct errors in the application of the regulations and instructions within five years from the end of the deadline prescribed for filing the Zakat return for the Zakat year (Al Hawl), upon the request of the taxpayer, or if the error is discovered by the Authority or regulatory bodies. 11- If the Authority discovers any error relating to the taxpayer's Zakat after the expiry of the aforementioned periods, the taxpayer shall be notified thereof to clear his sharia obligation.'

Based on the foregoing, and whereas the dispute relies on the Taxpayer's objection to the Authority's Zakat assessment for the year 2012 AD, on the grounds that customs data is available to the Authority through the Information Center and that the Authority can access it at any time; whereby the Taxpayer argues that the Authority's waiting for five years to access data available to it does not grant it the right to reopen the assessment. Conversely, the Authority bases its action on the provisions of Paragraph (2) of Article (20) and Paragraph (8) of Article (21) of the Implementing Regulations for Zakat Collection issued by Ministerial Decree No. (2082) dated 01/06/1438H, and further argued that the Taxpayer did not submit the return within the statutory period, which renders it rejected, thereby granting the Authority the right to assess at any time. Upon reviewing the case file, the Committee found that the basis for rejecting the Taxpayer's objection stems from the existence of discrepancies between the customs statement and the imports statement submitted by the Taxpayer. This finding is not undermined by the Taxpayer's claim that customs data was available to the Authority, as such an allegation does not alter the fact that new information was discovered, allowing the Authority to reopen the assessment regardless of its source. Consequently, whereas the Taxpayer failed to provide the reasons for these discrepancies or submit supporting documentation, thereby establishing the Authority's right to make the assessment after the expiry of the prescribed statutory period, the Committee concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Expiration of the statutory period for the Year 2012 AD).

Regarding the Taxpayer's appeal concerning the clause of **(Promotional Expenses for the Years from 2012 AD to 2014 AD)**: Whereas Paragraph No. (1/a) of Article (Five) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438H, stipulates: 'All ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net activity result, provided that the following criteria are met: a- It must be an actual expense supported by documentary evidence or other presumptions that enable the Authority to verify its accuracy, even if it relates to previous years.' Pursuant to Paragraph (3) of Article (Twenty) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute centers on the Authority's action of not deducting promotional expenses from the adjusted profit for the disputed years; and upon the Committee's review of the case file, it was found that the Taxpayer only submitted two invoices relating to the year 2014 AD and a detailed statement. Accordingly, since the burden of proof falls upon the Taxpayer, and whereas he failed to provide sufficient documentation to annul the conclusion reached by the lower committee's decision, as

it was impossible to reconcile the submitted invoices with the provided statement to verify the validity of his claim, the Committee concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Promotional Expenses for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Foreign Purchases for the Years from 2012 AD to 2014 AD): Whereas Paragraph No. (1/a) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'All ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net activity result, provided that the following controls are met: a- It must be an actual expense supported by documentary evidence or other presumptions that enable the Authority to verify its accuracy, even if it relates to previous years.' Pursuant to Paragraph (3) of Article (20) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the import statement issued by the General Authority of Customs constitutes a primary presumption from a neutral third party, and whereas the dispute concerns the existence of variances between the foreign purchases reported in the company's return and the foreign purchases according to the Customs Authority's data; and upon the Committee's review of the case file, it was found that the Taxpayer did not provide supporting documentation for his point of view. This is not undermined by the Taxpayer's argument that he bore the landed costs of the goods to the company's warehouses or his mention that these purchases were recorded in the books, as the Taxpayer did not submit the supporting documentation. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Foreign Purchases for the Years from 2012 AD to 2014 AD).

With regard to the Taxpayer's appeal concerning the clause of (Travel Expenses for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (1/a) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates 'all ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net activity result, provided that the following controls are met: a- It must be an actual expense supported by documentary evidence or other presumptions that enable the Authority to verify its accuracy, even if it relates to previous years.' Pursuant to Paragraph (3) of Article (20) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what

is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute relies on the Authority's procedures of adding travel expenses to the Zakat base due to the Taxpayer's failure to provide documents supporting payment, where such expenses are considered deductible if proven to be an actual expense supported by documentary evidence; and upon the Circuit's review of the case file, it was found that the documents submitted by the Taxpayer are insufficient to allow the deduction of travel expenses, as the Taxpayer only submitted five forms related to travel expenses, and an Excel file cannot be accepted as sufficient evidence to allow the deduction of these expenses. Accordingly, since the Taxpayer failed to provide sufficient documentation to accept the clause under appeal and satisfy the deduction controls set forth in Paragraph (1/a) of Article (5) mentioned above, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Travel Expenses for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Losses on Sale of Assets for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (3) of Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute relies on the Authority's procedures of not deducting the losses on the sale of assets for the disputed years; and upon the Circuit's review of the case file, it was found that the Taxpayer failed to submit evidence proving these losses, the method of calculating them, and the accounting treatment of the impact resulting from the disposal of those assets. Accordingly, since the Taxpayer failed to submit what supports his point of view, what was stated by the Taxpayer in his appeal brief shall have no impact on this matter, as he did not present anything new that would allow reversing the conclusion reached by the Circuit's decision, but rather confined himself to repeating what had been previously raised. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Losses on Sale of Assets for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Other Expenses for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (1/a) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'All ordinary and necessary

expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net activity result, provided that the following controls are met: a- It must be an actual expense supported by documentary evidence or other presumptions that enable the Authority to verify its accuracy, even if it relates to previous years.' Pursuant to Paragraph (3) of Article (20) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute relies on the Authority's procedures of not deducting the miscellaneous other expenses; and upon the Circuit's review of the case file, it was found that the Taxpayer submitted a schedule of license invoices related to the year 2014 AD and seven license invoices. Whereas it became evident to the Circuit that the invoices submitted by the Taxpayer were denominated in US Dollars, making it impossible to reconcile the submitted invoices with the schedule provided in the case file; accordingly, and since the Taxpayer failed to submit evidence proving that the disputed expenses are actual business-related expenses eligible for deduction, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Other Expenses for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Damaged Goods for the Years from 2012 AD to 2014 AD): Whereas Paragraph No. (1/a) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'All ordinary and necessary expenses required for the activity, whether paid or accrued, shall be deducted to arrive at the net activity result, provided that the following controls are met: a- It must be an actual expense supported by documentary evidence or other presumptions that enable the Authority to verify its accuracy, even if it relates to previous years.' Pursuant to Paragraph (3) of Article (5) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute relies on the Authority's procedures of not deducting the aforementioned clause from the Zakat base; and upon the Circuit's review of the case file, it was found that the Taxpayer merely submitted an Excel spreadsheet for the provision for damaged goods related to the year 2013 AD. Accordingly, since the Taxpayer failed to submit supporting documentation for his point of view that would allow reversing the conclusion reached by the Circuit's decision, and failed to submit

evidence proving the damage of goods for the disputed years, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Damaged Goods for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Discrepancy in Cost of Goods for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (3) of Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The burden of proving the validity of the clauses and any other data included in the Taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute centers on the Authority's procedures of not deducting the discrepancy in the cost of sales for the disputed years; and upon the Circuit's review of the case file, it was found that the Taxpayer submitted an Excel spreadsheet for the cost of goods and the financial statements for the disputed years. By reconciling the amounts shown in the attached spreadsheet with the financial statements, the Circuit found discrepancies between the beginning balances in the financial statements and the attached spreadsheet. Accordingly, since the burden of proof falls upon the Taxpayer to substantiate these discrepancies, and whereas the Taxpayer's argument is merely an unsubstantiated claim and the documentation submitted by him does not constitute sufficient evidence to determine a deduction in the matter of the dispute, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Discrepancy in Cost of Goods for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Accounts Payable for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The Zakat base consists of all the Taxpayer's assets subject to Zakat, including: 5- Government and commercial loans and their equivalents from other financing sources, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- Whatever remains thereof in cash and has completed a Zakat Year (Al Hawl). b- Whatever was used thereof to finance fixed assets (assets in possession). c- Whatever was used thereof in trading assets and has completed a Zakat Year (Al Hawl).' Pursuant to Paragraph (3) of Article (20) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment

according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, and whereas the dispute relies on adding accounts payable to the Zakat base, and whereas trade accounts payable constitute one of the components of the Zakat base provided that they complete a Zakat Year (Al Hawl) or are used to finance assets deducted from the Zakat base; and upon the Circuit's review of the case file, it was found that the Taxpayer failed to submit the detailed movement statement of accounts payable to prove that they did not complete a Zakat Year (Al Hawl). Accordingly, since the Taxpayer failed to submit a detailed spreadsheet or an analytical statement showing the movement of these balances and proving that they did not complete a Zakat Year (Al Hawl), this is not undermined by the Taxpayer's mention that he was unaware of the reasons for adding the clause, given that the Authority stated that the Taxpayer failed to submit evidence proving that the clause did not complete a Zakat Year (Al Hawl), and the Adjudication Circuit's decision concluded to reject the Taxpayer's objection on the grounds that he did not submit documents proving that a Zakat Year (Al Hawl) had not elapsed. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Accounts Payable for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Carried-forward Provisions for the Year 2014 AD), whereas Paragraph No. (9) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The Zakat base consists of all the taxpayer's assets subject to Zakat, including: 9- Provisions at the beginning of the year (excluding provisions for doubtful debts for banks) after deducting the amount used thereof during the year.' Pursuant to Paragraph (3) of Article (20) of the aforementioned Regulations, which stipulates: 'The burden of proving the validity of the clauses and any other data included in the taxpayer's Zakat return falls upon the taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.' Pursuant to Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, which provides: 'The litigants may request the court, at any stage of the Case, to record whatever they have agreed upon by way of admission, settlement, or otherwise in the case minutes, and the court shall issue a deed to that effect.'

Based on the foregoing, with respect to the Taxpayer's appeal regarding the amount of SAR 5,528,923, it has been established to the Circuit that the Authority requested to record the partial settlement of the dispute, based on its Supplementary Statement of Defense No. (2) submitted by it and dated 31/08/2025 AD, which states: '...Accordingly, the Authority partially accepts the taxpayer's objection by adding the amount of (SAR 5,528,923) instead of the amount of (SAR 5,595,237).' Consequently, the Circuit concludes to record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR

5,528,923. As for the amount of SAR 6,051, and upon the Circuit's review of the case file, whereas it became evident that the beginning balance was fully closed through the balance used during the year, thereby rendering the Taxpayer's accounting treatment of the clause incorrect, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the Zakat provision in the amount of SAR 6,051.

Regarding the Taxpayer's appeal concerning the clause of (Partner's Current Account for the Years from 2012 AD to 2014 AD): Whereas Paragraph (5) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: '5- The debit current account of the owner or partner subject to Zakat, not exceeding their share in retained earnings.' Pursuant to Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, which provides: 'The litigants may request the court, at any stage of the case, to record whatever they have agreed upon by way of admission, settlement, or otherwise in the case minutes, and the court shall issue a deed to that effect.'

Based on the foregoing, with respect to the Taxpayer's appeal regarding the amount of SAR 5,528,923, it has been established to the Circuit that the Authority requested to record the partial settlement of the dispute, based on its Supplementary Statement of Defense No. (2) submitted by it and dated 31/08/2025 AD, which states: '...Accordingly, the Authority partially accepts the taxpayer's objection by deducting the clause within the limits of his share in retained earnings in the amount of (SAR 2,001,518) for the year 2013 AD and the amount of (SAR 6,189,056) for the year 2014 AD.' Consequently, the Circuit concludes to record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 2,001,518 and the amount of SAR 6,189,056 for the years 2013 AD and 2014 AD, respectively. As for what relates to the full exclusion of the debit current account by offsetting it against additional capital in the amount of SAR 30,530,158, whereas no provision in the Implementing Regulations for Zakat Collection allows for this, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the full exclusion of the debit current account by offsetting it against additional capital.

Regarding the Taxpayer's appeal concerning the clause of (Paid Amounts Not Deducted or Deducted by Error for the Years from 2012 AD to 2014 AD): Whereas Paragraph (3) of Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The burden of proving the validity of the clauses and any other data included in the Taxpayer's Zakat return falls upon the Taxpayer. In the event that he is unable to prove the validity of what is stated in his return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer or conduct an estimated assessment according to the Authority's perspective in light of the circumstances, facts associated with the case, and information available to it.'

Based on the foregoing, whereas the dispute between the two parties relies on the Authority's non-deduction of the paid amounts, where the Taxpayer's standpoint is that the Authority had agreed to the company's objection and deducted the Zakat discrepancies in the amount of SAR 2,144,200 after correcting the payment receipts in accordance with the company's objection, while the Authority stated that the Taxpayer did not provide payment receipts, supporting documentation, or proof of payment of the amounts; and upon the Circuit's review of the case file, it was found that the Taxpayer submitted a number of discount invoices but did not clarify their relation to the disputed amounts. Accordingly, since the burden of proof falls upon the Taxpayer, and whereas what he submitted does not constitute conclusive evidence to determine a deduction in the matter of the dispute, the Circuit concludes to reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Paid Amounts Not Deducted or Deducted by Error for the Years from 2012 AD to 2014 AD).

Regarding the Taxpayer's appeal concerning the clause of (Accrued Expenses and Other Accounts Payable for the Years from 2012 AD to 2014 AD), whereas Paragraph No. (5) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The Zakat base consists of all the taxpayer's assets subject to Zakat, including: 5- Government and commercial loans and their equivalents from other financing sources, such as creditors, notes payable, and bank overdrafts owed by the Taxpayer, in accordance with the following: a- Whatever remains thereof in cash and has completed a Zakat Year (Al Hawl). b- Whatever was used thereof to finance fixed assets (assets in possession). c- Whatever was used thereof in trading assets and has completed a Zakat Year (Al Hawl).' Pursuant to Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, which provides: 'The litigants may request the court, at any stage of the case, to record whatever they have agreed upon by way of admission, settlement, or otherwise in the case minutes, and the court shall issue a deed to that effect.'

Based on the foregoing, with respect to the Taxpayer's appeal regarding the amount of SAR 6,610,083, the amount of SAR 4,995,174, and the amount of SAR 3,747,202 for the years from 2012 AD to 2014 AD, it has been established to the Circuit that the Authority requested to record the partial settlement of the dispute, based on its Supplementary Statement of Defense submitted by it and dated 23/06/2025 AD, which states: '...Based on the foregoing and on the provided analysis, the Authority states its partial acceptance of the Taxpayer's objection by adding the clause in the amount of SAR 5,901,125.25, SAR 508,570.45, and SAR 232,851.51 due to completing a Zakat Year (Al Hawl), instead of the amount of SAR 6,610,083, SAR 4,995,174, and SAR 3,747,202, respectively.' Consequently, the Circuit concludes to record the settlement of the dispute regarding the amount of SAR 708,957.75, the amount of SAR 4,486,603.55, and the amount of SAR 3,514,350.49 for the years from 2012 AD to 2014 AD. As for what relates to the amount of SAR 5,901,125.25, the amount of SAR 508,570.45, and the amount of SAR 232,851.51 for the years from 2012 AD to 2014 AD, respectively, under the clause of accrued expenses and other accounts payable, and

whereas the Taxpayer initially argued that none of the accrued expenses and accounts payable balances had completed a Zakat Year (Al Hawl), and whereas it was proven to the Authority that there were balances that completed a Zakat Year (Al Hawl), the Circuit concludes to reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit by adding the amounts that completed a Zakat Year (Al Hawl) in the amount of SAR 5,901,125.25, SAR 508,570.45, and SAR 232,851.51 for the years from 2012 AD to 2014 AD, respectively, under the clause of accrued expenses and other accounts payable.

Regarding the Taxpayer's appeal concerning the clause of (Advanced Revenues for the Years from 2012 AD to 2014 AD), whereas Paragraph (4) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decree No. (2082) dated 01/06/1438 AH, stipulates: 'The Zakat base consists of all the taxpayer's assets subject to Zakat, including: 4- Advanced revenues that have completed a Zakat Year (Al Hawl).'

Based on the foregoing, with respect to the Taxpayer's appeal regarding the amount of SAR 2,781,282, the amount of SAR 3,597,189, and the amount of SAR 2,786,010 for the years from 2012 AD to 2014 AD, it has been established to the Circuit that the Authority requested to record the partial settlement of the dispute, based on its Supplementary Statement of Defense submitted by it and dated 23/06/2025 AD, which states: '...Based on the foregoing and on the provided analysis, the Authority states its partial acceptance of the taxpayer's objection by adding the clause in the amount of SAR 416,256, SAR 426,174, and SAR 406,720 due to completing a Zakat Year (Al Hawl), instead of the amount of SAR 2,781,282, SAR 3,597,189, and SAR 2,786,010, respectively.' Consequently, the Circuit concludes to record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 2,365,026, the amount of SAR 3,171,015, and the amount of SAR 2,379,290 for the years from 2012 AD to 2014 AD. As for what relates to the amount of SAR 416,256, the amount of SAR 426,174, and the amount of SAR 406,720 for the years from 2012 AD to 2014 AD, respectively, under the clause of advanced revenues, and whereas the Taxpayer initially argued that none of the advanced revenues balances had completed a Zakat Year (Al Hawl), and whereas it was proven to the Authority that there were balances that completed a Zakat Year (Al Hawl), the Circuit concludes to reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit by adding the amounts that completed a Zakat Year (Al Hawl) in the amount of SAR 416,256, SAR 426,174, and SAR 406,720 for the years from 2012 AD to 2014 AD, respectively, under the clause of advanced revenues.

Based on the foregoing, and in view of the stated grounds, the Committee unanimously decided the following:

Decision:

First: Acceptance of the appeal procedurally from the Taxpayer/ ... Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), filed against the decision of the First Circuit for Adjudicating

Income Tax Violations and Disputes in Jeddah Governorate, bearing No. (IZJ-2025-32061), issued in Case No. (Z-32061-2020) relating to Zakat assessments for the years from 2012 AD to 2014 AD.

Second: On the merits of the case:

1. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Expiration of the statutory period for the Year 2012 AD).
2. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Promotional/Display Expenses for the Years from 2012 AD to 2014 AD).
3. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Foreign Purchases for the Years from 2012 AD to 2014 AD).
4. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Travel Expenses for the Years from 2012 AD to 2014 AD).
5. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Losses on Disposal of Fixed Assets for the Years from 2012 AD to 2014 AD).
6. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Other Expenses for the Years from 2012 AD to 2014 AD).
7. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Damaged Goods for the Years from 2012 AD to 2014 AD).
8. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Discrepancy in Cost of Goods for the Years from 2012 to 2014 AD).
9. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Accounts Payable for the Years from 2012 AD to 2014 AD).
10. Regarding the clause of (Carried-forward Provisions for the Year 2014 AD):

    a- To record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 5,528,923.

b- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the Zakat provision in the amount of SAR 6,051.

11. Regarding the clause of **(Partner's Current Account for the Years from 2012 AD to 2014 AD)**:

a- To record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 2,001,518 and the amount of SAR 6,189,056 for the years 2013 AD and 2014 AD, respectively.

b- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the full exclusion of the debit current account by offsetting it against additional capital.

12. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Paid Amounts Not Deducted or Deducted by Error for the Years from 2012 AD to 2014 AD).

13. Regarding the clause of (Accrued Expenses and Other Accounts Payable for the Years from 2012 AD to 2014 AD):

a- To record the settlement of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 708,957.75, the amount of SAR 4,486,603.55, and the amount of SAR 3,514,350.49 for the years from 2012 AD to 2014 AD.

b- To reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit by adding the amounts that completed a Zakat Year (Al Hawl) in the amount of SAR 5,901,125.25, SAR 508,570.45, and SAR 232,851.51 for the years from 2012 AD to 2014 AD, respectively, under the clause of accrued expenses and other accounts payable.

14. Regarding the clause of (Advanced Revenues for the Years from 2012 AD to 2014 AD):

a- To record the settlement of the dispute regarding the appeal concerning the amount of SAR 2,365,026, the amount of SAR 3,171,015, and the amount of SAR 2,379,290 for the years from 2012 AD to 2014 AD.

b- To reject the Taxpayer's appeal and amend the decision of the Adjudication Circuit by adding the amounts that completed a Zakat Year (Al Hawl) in the amount of SAR 416,256,

SAR 426,174, and SAR 406,720 for the years from 2012 AD to 2014 AD, respectively, under the clause of advanced revenues.

Amendments to the net profit

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR -2025-233360

Case No. Z-233360-2024

Principle No. 37

For Zakat purposes, the adjusted net profit shall not be reduced by paid dividend distributions exceeding the beginning balance of retained earnings, as the adjusted net profit constitutes a minimum floor for the Zakat base and is subject to Zakat in full as a yield on capital. Its distribution prior to the completion of the Zakat Year (Al Hawl) shall have no bearing on the obligation of Zakat thereon.

Facts

The appeal filed on 13/03/2024 AD by / [...], National ID No. (...), in his capacity as the Chairman of the Board of Directors pursuant to the Articles of Association and the Commercial Registration, and the appeal submitted by the Zakat, Tax and Customs Authority, were considered against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2024-218482) issued in Case No. (Z-218482-2023) related to the Zakat assessment for the year 2017 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

1. To reject the Plaintiff's objection regarding the clause of assessment issuance procedures for the year 2017 AD.
2. To amend the Defendant's action regarding the clause of deducting the remaining value of paid dividend distributions exceeding the beginning balance of retained earnings, in accordance with the grounds of the decision.
3. To reject the Plaintiff's objection regarding the depreciation variances clause.
4. To reject the Plaintiff's objection regarding the social insurance variances clause.
5. **a-** To reject the Plaintiff's objection regarding the clause of other accrued expenses.

b- To reject the Plaintiff's objection regarding the accounts payable clause.

c- To reject the Plaintiff's objection regarding the clause of amounts due and other accounts payable, and record the settlement of the dispute in the amount of SAR 9,255,645.

d- To reject the Plaintiff's objection regarding the unearned revenues clause.

Whereas this decision was not accepted by either party, each filed an appeal brief, which included a summary of the following:

With respect to the Taxpayer's appeal against the decision of the Adjudication Circuit, and regarding the (Assessment Issuance Procedures) clause, the Taxpayer requests the Reversal of the Circuit's decision concerning this clause, contending that the Authority violated the provisions of Paragraph (7) of Article (21) of the Implementing Regulations for Zakat Collection, as the assessment issued by the Authority did not include the grounds for amendment.

Regarding the (Depreciation Variances) clause, the Taxpayer objects to the Adjudication Circuit's upholding of the Authority's procedures of disallowing the deduction of depreciation variances amounting to SAR 142,363,278, given that the Plaintiff applied the depreciation method provided for under Article (17) of the Tax Law, in accordance with the Authority's circulars.

Regarding the (Social Insurance Variancies) clause, the Taxpayer requests the reversal of the Circuit's decision concerning this clause for upholding the Authority's procedures of disallowing the deduction of social insurance variances; the Taxpayer pointed out that all social insurance expenses reported in the Zakat returns constitute ordinary and necessary expenses incurred by the Company, and therefore must be allowed as deductible expenses pursuant to Paragraph (1) of Article (5), contending that the paid amounts have left the Company's possession and thus cannot be subject to Zakat.

Regarding the (Current Liabilities) clause, the Taxpayer requests the reversal of the Circuit's decision concerning this clause, due to the Authority's addition of current liabilities to the Zakat base on the assumption that they remained for (12) months. The Taxpayer also indicates that the Authority made such addition without considering their nature, purpose, and classification as current liabilities in the financial statements, noting that these balances represent accounts payable due within the ordinary course of business.

Likewise, the decision was not accepted by the Zakat, Tax and Customs Authority; hence, it filed its appeal against the contested decision pursuant to an appeal brief, which summarized as follows:

With respect to the Authority's appeal against the decision of the Adjudication Circuit, its appeal concerns the clause of (deducting the remaining value of paid dividend distributions exceeding the beginning balance of retained earnings), as the Authority clarifies that it amended the Taxpayer's return by disallowing the deduction of dividend distributions from the adjusted profit of the year, as reported in the Taxpayer's return in the amount of SAR 49,449,938 for the year 2017 AD. It also became evident to the Authority that the

Taxpayer accounts on an accrual basis, noting that it allowed the deduction of dividend distributions from retained earnings within the limit of the beginning balance of retained earnings for the year; consequently, no retained earnings were added to the Zakat base. It is noted that the Zakat base in the Taxpayer's case falls upon the adjusted net profit (the minimum for the Zakat base), pursuant to Paragraph (t) of Article (4) of the Implementing Regulations for Zakat Collection.

The Authority further clarifies that full ownership exists with the Taxpayer because profits do not necessarily have to be entirely in cash to speak of full ownership. Companies rely on the accrual basis in calculating profits, meaning that revenues are recognized even if they have not been collected in cash, and accrued expenses are charged even if they have not been paid in cash. From this, it is evident that profit does not necessarily require the condition of full ownership to be realized in cash.

As for the Taxpayer's reference in its statement of claim regarding the applicability of Fatwa No. (23408) to the clause subject of the case, the Authority clarifies its non-applicability to the period subject of the case, given that the jurisprudential characterization of profits is that they constitute acquired wealth (Mal Mustafad) derived from the growth of the principal wealth, which is the capital. Growth may occur by the nature of the thing or through labor, making growth broader than profit. It is also referred to as the yield resulting from the exploitation of holdings, and these profits are annexed to their principal, sharing a single Zakat Year (Al Hawl), which is the Hawl of the principal. Accordingly, if the Hawl matures for the capital whose operation generated the profits, Zakat becomes obligatory on the profit. Therefore, the Authority requests the acceptance of its appeal procedurally and on merits, while reserving its right to submit further responses and clarifications prior to the closure of pleadings.

On Tuesday, 05/11/2024 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures, pursuant to the provisions of Clause No. (1) of Article...

Pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH; and upon calling upon the parties, there appeared / [...], National ID No. (...), in his capacity as a representative for the Taxpayer pursuant to Power of Attorney No. (...), and there appeared [...] (National ID No. ...), in her capacity as the representative of the Zakat, Tax and Customs Authority, pursuant to a delegation issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (...) dated 19/03/1445 AH. In this session, the Authority's representative stated that she requests the suspension of proceedings in the case due to recourse to settlement under No. (53148). Upon presenting this matter to the Taxpayer's representative, he expressed agreement to the Authority's request. Accordingly, the Circuit decided to suspend the proceedings in the case pursuant to Paragraph (1) of Article (8) of the Rules of Operation of

Zakat, Tax, and Customs Committees, which provides that: 'The Internal Committee may negotiate with the Taxpayer to settle their objection to the Authority's decision at any stage of the review of the case, and the commencement of negotiations with the Taxpayer shall result in the suspension of proceedings in the case.'

On Monday, 26/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 11:35 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the parties, there appeared / [...], National ID No. (...), in her capacity as a representative for the Taxpayer pursuant to Power of Attorney No. (...) issued on 24/11/1446 AH, and Law Practice License No. (...). And there appeared the Authority's representative / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. In this session, the Circuit directed a question to the parties to the case regarding the results of the settlement request, and the parties replied that the settlement request was rejected. The Circuit then directed a question to the Taxpayer's representative as to whether a request to resume proceedings in the case had been made, to which the Taxpayer's representative replied that a request to resume proceedings had been made by telephone to the General Secretariat three times. Upon asking the Authority's representative for her response, she stated that a supplementary memorandum under No. (GSTC-000007848) had been submitted prior to recourse to settlement. Accordingly, the Circuit decided to postpone the consideration of the case for further study until the session of Monday, corresponding to 23/06/2025 AD.

On Monday, 23/06/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 10:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the parties, there appeared / [...], National ID No. (...), in her capacity as a representative for the Taxpayer pursuant to Power of Attorney No. (...) issued on 24/11/1446 AH, and Law Practice License No. (...). And there appeared the Authority's representative [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....[3]) dated 19/03/1445 AH. In this session, the Circuit asked the Taxpayer's representative whether they had previously reviewed the Authority's supplementary memorandum, to which she answered in the negative and requested to review and respond to it. Upon asking the Authority's representative if she wished to add anything, she replied that she adheres to what was previously submitted. Accordingly, the Circuit decided to grant the Taxpayer a grace period of (10) days to respond to the Authority's memorandum, expiring on 03/07/2025 AD, and to postpone the consideration of the case until the session of Tuesday, corresponding to 08/07/2025 AD.

On Tuesday, 22/07/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 10:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the parties, there appeared / [...], National ID No. (...), in her capacity as a representative for the Taxpayer pursuant to Power of Attorney No. (...) issued on 24/11/1446 AH, and Law Practice License No. (...). And there appeared the Authority's representative / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. The Circuit decided to close the pleadings and deliberation.

Whereas the First Appellate Circuit for the Income Tax Violations and Disputes held its session to consider the appeal filed via video communication, based on paragraph (1) of Article (15) of the Rules of Operation of Zakat, Tax and Customs Committees, which stipulates that: "The procedures for hearing the case and pleading therein shall be in writing, and the Circuits may, of their own accord or at the request of one of the parties, hear statements and pleadings by remote pleading or in presence, at their discretion. The hearing, in the event that it is held remotely, shall be deemed to be held in presence, and all its effects shall be arranged, and the Circuit shall record this in the minutes of the hearing." The case file, memoranda and related documents were reviewed, and the decision of the Adjudication Circuit subject of appeal was reviewed. After discussion and deliberation, the Circuit decided to adjourn the session and issue the decision.

Grounds:

Whereas, upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it has been established to the Circuit that the formal requirements for reviewing both appeals have been satisfied in accordance with the conditions stipulated under the relevant laws, regulations, and decisions; accordingly, both appeal requests are procedurally accepted, as they were submitted by duly authorized parties within the legally prescribed statutory period.

On the merits, and with respect to the Authority's appeal concerning the clause of (deducting the remaining value of paid dividend distributions exceeding the beginning balance of retained earnings for the year 2017 AD), whereas Paragraph (8) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision of the Minister of Finance No. (2082) dated 01/06/1438 AH, provides that: 'The Zakat base shall consist of all the Taxpayer's funds subject to Zakat, including: the balance of retained earnings carried forward from prior years at the end of the year'; and pursuant to Paragraph (t) thereof, which provides that: 'When calculating the Taxpayer's Zakat base, it shall be taken

into account that the Taxpayer's Zakat base shall not be less than the adjusted net profit for Zakat purposes as a minimum.

Based on the foregoing, the dispute lies in the Authority's refusal to allow the reduction of the adjusted profit by the distributed dividends out of the current year's profit for the year under dispute. The Authority contends that Zakat must be imposed on the adjusted profit without reducing it by the paid dividend distributions that exceed the beginning balance of retained earnings, on the grounds that the Implementing Regulations for Zakat Collection explicitly stipulate that the adjusted net profit is one of the funds subject to Zakat, and further provide that the adjusted profit constitutes the minimum for the Zakat base. On the other hand, the Taxpayer claims its entitlement to deduct dividend distributions from the adjusted net profit, on the grounds that Sharia rules dictate that if the net profit is expended prior to the completion of the Zakat Year (Al Hawl), no Zakat shall be due thereon.

Whereas Clause (Second/9/t) of Article (4) of the aforementioned Implementing Implementing Regulations for Zakat Collection provides that the Zakat base must not be less than the adjusted profit as a minimum when calculating Zakat; and whereas the Taxpayer's request to deduct dividend distributions from the adjusted net profit would result in exempting the adjusted profit from the collection of Zakat, which directly conflicts with the provisions of the Implementing Regulations for Zakat Collection. Said Regulations subject the entirety of the adjusted net profit for the year to Sharia Zakat as a yield on capital, without consideration to the completion of a separate Hawl thereon and prior to any distribution therefrom, given that the Hawl of such profits follows the Hawl of their principal asset.

Accordingly, the Authority's procedures in disallowing the reduction of the adjusted profit by the distributed profit exceeding the beginning balance of retained earnings is established as correct. Consequently, the Circuit concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the clause of (deducting the remaining value of paid dividend distributions exceeding the beginning balance of retained earnings for the year 2017 AD).

Whereas, with respect to the Taxpayer's appeal concerning the remaining clauses subject of the case; and whereas the Circuit may, without fault, adopt the grounds of the contested decision without further addition, whenever it deems that such grounds obviate the need to introduce any new reasoning, as its upholding of the decision based on those grounds confirms that it found nothing in the challenges raised against the decision that warrants a response beyond what was already contained in those grounds;

And whereas it is established that the contested decision regarding the dispute over the appealed clauses was consistent with the sound and sufficient grounds upon which it was built to support its ruling, as the Circuit that issued it undertook a thorough examination of the core of the dispute therein and concluded with the outcome set forth in its operative part; and whereas this Circuit has not observed anything that requires rectification or further comment in light of the defenses raised before it.

Consequently, this Circuit concludes to reject the Taxpayer's appeal and uphold the appealed decision of the Adjudication Circuit regarding the outcome it reached for the remaining clauses subject of the lawsuit, based upon its own grounds.

Based on the foregoing, and adopting the reasons mentioned, the Committee has unanimously decided as follows

Decision:

"**First:** Acceptance of the appeal procedurally submitted by the Taxpayer / [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2024-218482) issued in Case No. (Z-218482-2023) related to the Zakat assessment for the year 2017 AD.

Second: On the merits:

1. To Accept the Authority's appeal and revoking the decision of the Adjudication Circuit regarding the clause of (deducting the remaining value of paid dividend distributions exceeding the beginning balance of retained earnings for the year 2017 AD).

2. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Zakat Assessment Procedures for the Year 2017 AD).

3. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Depreciation Variances).

4. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Social Insurance Variances).

5. With respect to the Taxpayer's appeal concerning the clause of (Current Liabilities for the Year 2017 AD): a- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding (Other Accrued Expenses). b- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding (Accounts Payable). c- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding (Unearned Revenues). d- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding (Accounts Payable and Other Accrued Expenses).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes

Decision No. IR -2025-242505

Case No. Z-242505-2024

Principle No. 38

Dividend distributions shall be deducted from the Zakat base once their actual exit from the Taxpayer's possession prior to the end of the financial year is established, even if they are recorded in the accounts of related parties, provided that such action is supported by correct accounting entries and bank statements proving the transfer. Their characterization as an accounting adjustment shall not be considered once the actual transfer of cash is established.

Facts

The appeal filed on 16/09/2024 AD by / [...], National ID No. (...), in his capacity as the Company's Manager pursuant to the Articles of Association, was considered against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City No. (ITR-2024-233407) issued in Case No. (Z-233407-2024) related to the Zakat assessment for the year 2020 AD, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

First: Acceptance of the objection procedurally submitted by the Plaintiff / [...] Holding Company, Commercial Registration No. (...), against the decision of the Defendant / the Zakat, Tax and Customs Authority.

Second: On the merits:

1. To reject the Plaintiff's objection regarding the clause of dividends received from investments in local companies for the year 2020 AD.
2. To reject the Plaintiff's objection regarding the clause of dividend distributions from retained earnings distributed during the year for the year 2020 AD.
3. To reject the Plaintiff's objection regarding the clause of current payable related parties for the year 2020 AD.

Whereas this decision was not accepted by the Taxpayer, it filed an appeal brief, which was reviewed by the Circuit, and summarized as follows:

With regard to the Taxpayer's appeal against the decision of the Adjudication Circuit, and regarding the (Dividends Received from Investments in Local Companies) clause, its appeal concerns that the Defendant, during the field audit of the approved and settled Zakat return for the previous year 2019 AD preceding the year under dispute 2020 AD, allowed the deduction of the full amount of dividend distributions from investments in securities without examining whether they were distributed out of the current year's profits or out of retained earnings. The Taxpayer added that the Authority enjoys full powers to review the investee companies; therefore, it requests that the deduction thereof be accepted.

Regarding the (Dividend Distributions from Retained Earnings Distributed During the Year) clause, the Taxpayer requests the reversal of the Circuit's decision concerning this clause on the grounds that the Authority relied on what was closed from retained earnings into the related parties' account, without examining the entire movement of the account during the year, and the Circuit that issued the decision followed the Authority's approach in that regard. As previously stated at the adjudication stage, those distributions were made to the partners pursuant to the approved resolution of the Board of Directors; hence, the statement clearly demonstrates the existence of transfers to related parties, and consequently, the exit of the dividend distributions amount of SAR 12,010,085 from the related parties before the end of the year, which confirms the correctness of what was stated regarding the deduction of dividend distributions from retained earnings distributed during the year, and that such funds had exited prior to the end of the year.

Regarding the (Current Payable Related Parties) clause, the Taxpayer's appeal concerns that the decision failed to differentiate between clauses classified as short-term and those classified as long-term, which constitutes a violation of the text of the Regulations and the principles issued by the management, as will be clarified. Furthermore, it appears from the reasoning of the decision that the core of the dispute was not comprehended. Here, the Taxpayer clarifies that the dispute between the Appellant and the Respondent concerns the treatment of the clause: a portion of the clause was considered as funding for deductible assets, a matter which is not disputed; whereas the other portion was treated by the Authority as an internal source of funding. Consequently, the dispute arises from the fact that the Authority added the related parties without limiting it to the deductible assets. Since the payable related parties clause is classified in the Company's approved financial statements as current liabilities, it shall be added to the Zakat base only to the extent of what funded the deductible assets, and the remainder of the amount due to current related parties shall be excluded from the Zakat base. Therefore, the Taxpayer requests that only the portion funding the deductible assets be added, and the remaining value of the amount due to current related parties be excluded from the Zakat base.

On Tuesday, 29/04/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 12:05 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause

No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the parties, there appeared / [...], National ID No. (...), in his capacity as a representative for the Appellant pursuant to Power of Attorney No. (...) issued on 26/12/1445 AH, and Law Practice License No. (...). And there appeared the representative of the Respondent / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH.

Upon asking the Appellant's representative if he wished to add anything, he stated that he stands by what was previously submitted in this case, noting that the Authority stated that the distribution process was carried out and remained under the same clause; however, it did not remain but rather exited to the (Shareholders) clause prior to the end of the year. Upon presenting this matter to the Respondent's representative, she replied that she adheres to what was previously submitted in this case, referring to her supplementary memorandum submitted under Ticket No. (GSTC-0000011454).

Upon presenting this to the Taxpayer's representative, he stated that he had not previously reviewed the Authority's supplementary memorandum and requested a grace period to review and respond to it. Accordingly, the Circuit decided to grant the Taxpayer a grace period of (10) days expiring on 09/05/2025 AD, and to grant the Authority a grace period of (10) days to respond thereto, expiring on 20/05/2025 AD. After this date, the pleadings shall be closed, and the case shall be submitted for deliberation and issuance of the decision; the Circuit shall not accept any new documents or memoranda that were not submitted prior to the aforementioned date. The next session, scheduled for 02/06/2025 AD, shall be designated for pronouncing the decision.

On Monday, 02/06/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 09:30 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the parties, there appeared / [...], National ID No. (...), in his capacity as a representative for the Appellant pursuant to Power of Attorney No. (...) issued on 26/12/1445 AH, and Law Practice License No. (...). And there appeared the representative of the Respondent / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH.

The pleadings and deliberation have been closed, and this session is designated for pronouncing the decision.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it has been established to the Circuit that the formal requirements for reviewing the appeal have been satisfied in accordance with the conditions stipulated under the relevant laws, regulations, and decisions; accordingly, the appeal request is procedurally accepted, as it was submitted by a duly authorized party within the legally prescribed statutory period.

On the merits, and with respect to the Taxpayer's appeal concerning the clause of (dividend distributions from retained earnings distributed during the year); whereas Paragraph No. (5) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision No. (2216) dated 07/07/1440 AH, provides that 'the Zakat base for a Taxpayer who maintains commercial books shall consist of all their funds subject to Zakat collection, including the following: 5- The balance of retained earnings carried forward from prior years'; and Paragraph (8) thereof further provides that: '8- Dividends under distribution, excluding dividends declared for distribution but not claimed by their owners; provided that they are deposited in a special account that the Taxpayer is not permitted to dispose of'.

Based on the foregoing, the dispute between the two parties concerns the refusal to allow the deduction of dividend distributions from the related parties' account. The Taxpayer contends that pursuant to the Board of Directors' resolution to distribute dividends, the dividends were distributed in the amount of SAR 12,010,085, as proven by the detailed movement statement which demonstrates that the distributed dividends closed into the related parties' account did not remain outstanding with the Company and had exited prior to the end of the year. The Taxpayer further states in its submitted supplementary memorandum that it proved the exit of the distributed funds from the Taxpayer's bank account into the account of the related party, as attached to its memorandum. Conversely, the Authority clarifies that the dividend distributions amount was closed into the credit side of the related parties' account according to the related parties' account statement, where the dividend distributions were closed in the credit movement within the related parties' account on 03/10/2020 AD, which confirms that the cash did not exit the Company's accounts, but was rather an accounting adjustment by transferring the same amount from the retained earnings clause to the credit side of the related parties' clause. The Authority also contends in its supplementary memorandum that it added the amount because the clause represents an amount transferred from the beginning balance of retained earnings to the related parties' account and did not exit the Taxpayer's possession.

Upon reviewing the case file, the underlying defenses, and the supporting documentation, and upon considering the facts of the case, it became evident to the Circuit that the Taxpayer transferred the dividends clause to the related parties and submitted documents proving the exit of the distributed funds to the related parties' accounts, which consisted of (journal entries for dividend distributions and the bank account

statement). Upon examining the submitted documents, it was established to the Circuit that the Taxpayer transferred the disputed amounts to the related party and that the funds had exited its possession, pursuant to the bank account statement and journal entries for the year under dispute, which establishes the correctness of the Taxpayer's defense. The Authority's argument that the clause constitutes a mere accounting adjustment does not undermine this finding, particularly as the Authority failed to submit a response to the facts and documents presented by the Taxpayer in its supplementary memorandum. Consequently, the Committee concludes to accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the clause of (dividend distributions from retained earnings distributed during the year).

With respect to the Taxpayer's appeal concerning the addition of the clause of (current payable related parties), whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that: 'the litigants may request the court, at any stage of the case, to record whatever acknowledgement, settlement, or otherwise they have agreed upon in the case minutes, and the court shall issue a deed to that effect'; and Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Decision of the Minister of Justice No. (39933) dated 19/05/1435 AH, provides that: 'If the agreement is reached prior to recording the case, the merits of the case and the answer must be recorded before documenting the agreement, provided that the original case falls within the jurisdiction of the Circuit, even if the merits of the agreement falls within the jurisdiction of another court or Circuit, on condition that the subject matter of the case, or part thereof, is included in the agreed terms.

Based on the foregoing, it has been established to the Circuit that the dispute between the parties has ended due to the Authority's acceptance of the Appellant's requests pursuant to its submitted statement of defense, which stated: '...Based on the text of the foregoing, and since the Authority has deducted the entire investment amount from the Zakat base in the sum of SAR 308,865,217, the Authority hereby states its partial acceptance of the Taxpayer's objection by adding what funded deductible assets in a total of SAR 34,430,646 to the Zakat base, and the value of dividend distributions from retained earnings amounting to SAR 12,010,085 to the Zakat base instead of the amount of SAR 302,175,301.26.' Consequently, the Circuit concludes to establish the termination of the dispute regarding the Taxpayer's appeal on the clause of (adding the current payable related parties clause).

With respect to the remaining clauses subject of the case; and whereas the Circuit may, without fault, adopt the grounds of the contested decision without further addition, whenever it deems that such grounds obviate the need to introduce any new reasoning, as its upholding of the decision based on those grounds confirms that it found nothing in the challenges raised against the decision that warrants a response beyond what was already contained in those grounds; and whereas it is established that the contested decision regarding the dispute over the appealed clauses was consistent with the sound and sufficient grounds upon

which it was built to support its ruling, as the Circuit that issued it undertook a thorough examination of the core of the dispute therein and concluded with the outcome set forth in its operative part; and whereas this Penal has not observed anything that requires rectification or further comment in light of the defenses raised before it.

Consequently, this Penal concludes to reject the Taxpayer's appeal and uphold the appealed decision of the Adjudication Circuit regarding the outcome it reached for the remaining clauses subject of the case, based upon its own grounds.

Based on the foregoing, and adopting the reasons mentioned, the Committee has unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant (the Taxpayer) / [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City No. (ITR-2024-233407) issued in Case No. (Z-233407-2024) related to the Zakat assessment for the year 2020 AD.

Second: On the merits:

1. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (dividends received from investments in local companies).

2. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the clause of (dividend distributions from retained earnings distributed during the year).

3. To establish the termination of the dispute regarding the Taxpayer's appeal on the clause of (adding the current payable related parties clause).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2024- 242652
Case No. Z-242652-2024

Principle No. 39

Investments in subsidiaries shall be deducted up to the Taxpayer's share of equity in accordance with the financial statements of the investee companies, provided that it is established that they are accounted for using the equity method. Claims to deduct the full book value or prior loss differences shall not be considered unless it is legally and accounting-wise established, through clear and supporting documentation, that the investment is recorded using the cost method.

Facts

The appeal filed on 17/09/2024 AD by the Zakat, Tax and Customs Authority was considered against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City No. (ITR-2024-227969) issued in Case No. (Z-227969-2024) related to the Zakat assessment for the year 2020 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

First: To accept the objection submitted by the Plaintiff / [...] Holding Company, Commercial Registration No. (...), against the decision of the Defendant / the Zakat, Tax and Customs Authority, in terms of form.

Second: On the merits:

1. To reject the Plaintiff's objection regarding the clause of deficiency in reasoning.
2. To accept the Plaintiff's objection regarding the investments clause in the amount of SAR 28,699,719 for the year 2020 AD, and annul the Defendant's decision.

Whereas this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it filed an appeal brief, which was summarized as follows:

As the Authority objects to the contested decision of the Adjudication Circuit, it contends with respect to the (Investments in Subsidiaries) clause, that the Circuit which issued the appealed decision amended the Authority's procedure by recognizing the validity of the Plaintiff's claim to deduct the additional funding, on the grounds that it was fully added to the investee companies and classified within their equity, in order to prevent double Zakat taxation.

The Authority responds that the conclusion reached by the Circuit is incorrect, as the Authority did not deduct the value of investments based on the Taxpayer's audited financial statements after reviewing the investment movement. The financial statements stated that the basis for accounting for these investments in subsidiaries is carried out using the equity method. Upon verifying the submitted movement, it was revealed that certain investments were accounted for using the cost method, while others were via the equity method. Consequently, the Authority requested the Taxpayer to provide a letter from the certified public accountant explaining how the investment was calculated, the method utilized (cost vs. equity), and the accounting standard relied upon in the calculation mechanism; however, the required letter was not provided, and the Taxpayer stated that 'it was financially burdensome'.

Accordingly, the Authority reviewed the audited financial statements of the subsidiaries, and the Company's share in the capital of the investee companies was calculated based on the equity method by taking the total shareholders' equity as per the subsidiaries' statements multiplied by the investment percentage, pursuant to Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision No. (2216) dated 07/07/1440 AH.

It became evident to the Authority that the Taxpayer deducted investments in its submitted Zakat return in the amount of SAR 60,276,097 in accordance with the ending balance in the Taxpayer's audited financial statements. Upon reviewing the Taxpayer's financial statements, the Authority found on page 12 (the Company's Accounting Policies) that investments in subsidiaries are accounted for using the equity method. The core of this method dictates that the investment is initially recorded at cost, and then the investment account is adjusted during subsequent periods by adding profits or losses in proportion to the investment percentage, up to the cost of the investment. When the investing company's share in the losses of the investee companies equals the book value of the investment in the subsidiary, the parent company ceases to recognize its share and forms a provision for such investments.

In response to the Taxpayer's assertion that the Authority's calculation is correct but failed to capture the impact of investment losses on the net Zakat profit for previous years, and that such losses should have been considered to adjust the net Zakat profit (loss); the Authority counters that under the equity method, as previously stated, profits and losses are reflected in the value of the investment at the end of each financial year. By reference to the audited financial statements, the investment movement reveals the parent company's share in the results of the year for the investee companies. Since the financial statements explicitly provided that these investments are accounted for using the equity method, and the Taxpayer confirmed the same, a reconciliation is performed between the value of the investments in the Taxpayer's financial statements and the financial statements of the investee companies. This is conducted to verify that

its share (95%) in the equity of these investments equals the amount recorded in its own financial statements; consequently, they are not deducted from the Zakat base because their equity is negative.

In addition to the foregoing, the equity method requires that the investment be initially recorded at cost and subsequently adjusted by adding profits or losses in proportion to the investment percentage, up to the investment cost. When the investing company's share in the losses of the investee companies equals the book value of the investment in the subsidiary, the parent company ceases to recognize its share and forms a provision for such investments. The Authority further asserts that the burden of proving otherwise rests upon the Taxpayer, pursuant to Article (5) and Article (18) of the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2216) dated 07/07/1440 AH. Therefore, the Authority requests the reversal of the Adjudication Circuit's decision regarding the appealed clauses based on the aforementioned grounds.

On Monday, 05/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 02:10 PM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the parties, there appeared the representative of the Appellant / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. And there appeared / [...], National ID No. (...), in his capacity as the representative of the Respondent, pursuant to the Articles of Association attached to the case file.

Upon asking the Respondent's representative if he wished to add anything, he adhered to what was previously submitted in this lawsuit. Upon presenting this matter to the Appellant's representative, she replied that she adhered to what was previously submitted in this case, referring to the Authority's supplementary memorandum attached on 19/09/2024 AD under Ticket No. (GSTC-0000005784), noting that it was not attached to the case file, and requested the Circuit to allow its attachment to the case file. Upon presenting this to the Respondent's representative, he requested a grace period to review and respond to the aforementioned Authority's memorandum. Accordingly, the Circuit decided to approve the Authority's request to attach the supplementary memorandum to the case file, and to grant the Taxpayer a grace period of (10) days expiring on 15/05/2025 AD to respond thereto. After this date, the pleadings shall be closed, and the case shall be submitted for deliberation and issuance of the decision; the Circuit shall not accept any new documents or memoranda that were not submitted prior to the aforementioned date. The next session, scheduled for 26/05/2025 AD, shall be designated for pronouncing the decision.

On Monday, 26/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 10:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling upon the parties, there appeared the representative of the Appellant / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. There also appeared / [...], National ID No. (...), in his capacity as the representative of the Respondent pursuant to the Articles of Association No. (...). Whereas the pleadings and deliberation have been closed, and whereas this session is designated for pronouncing the decision.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it has been established to the Circuit that the formal requirements for reviewing the appeal have been satisfied in accordance with the conditions stipulated under the relevant laws, regulations, and decisions; accordingly, the appeal request is procedurally accepted, as it was submitted by a duly authorized party within the legally prescribed statutory period.

On the merits, and with respect to the Authority's appeal concerning the clause of (Investments in Subsidiaries), whereas Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision No. (2216) dated 07/07/1440 AH, provides that: 'Investments in an entity inside the Kingdom for non-trading purposes, provided that such entity is registered with the Authority and is subject to Zakat collection under the Regulations. Financed leased assets in the commercial books of the lessor shall not be deemed an investment to be deducted from the Zakat base, regardless of their classification in the financial statements; likewise, debit loans, subordinate or additional funding, and the like granted to the investee entity shall not be deemed an investment to be deducted from the Zakat base'; And pursuant to Paragraph (10) —Equity Method— of International Accounting Standard (IAS) 28, which provides that: 'under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of possession. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other

comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in the investor's other comprehensive income.

Based on the foregoing, the dispute concerns the Authority's procedures in disallowing the deduction of investments at the amounts appearing in the closing balance of the Taxpayer's financial statements in the sum of SAR 60,276,097. The Authority instead deducted the investments based on the Taxpayer's share of equity according to the financial statements of the subsidiaries, multiplied by the investment percentage, totaling an aggregate amount of SAR 31,576,377. Conversely, the Taxpayer requests the deduction of the disputed difference on the grounds that it represents prior years' losses for investments previously recorded under the cost method, whose impact was not captured in the equity of the holding company (the Taxpayer).

Upon reviewing the Authority's appeal brief, it became evident to the Circuit that the Authority requested the Taxpayer to submit a certificate from the certified public accountant clarifying the mechanism for calculating the investment and the method utilized in accounting for it (the Cost Method vs. the Equity Method). The Circuit further observed that the Taxpayer did submit a certificate from the certified public accountant, which stated that the investments in subsidiaries recorded in the Taxpayer's financial statements were recognized in accordance with the equity method; consequently, the certified public accountant's certificate contains nothing to support the Taxpayer's point of view regarding the investments being recorded under the cost method. Furthermore, by reference to the Taxpayer's financial statements, it is evident from Note No. (4) regarding investments in which the Company has a share in the results of the year, which indicates that the investments are accounted for using the equity method.

Accordingly, and whereas the Taxpayer failed to submit supporting documentation to substantiate its opinion regarding the recognition of investments under the cost method, the Authority's action in calculating the investments based on the Taxpayer's share of equity in the investee companies is established as correct. Consequently, the Circuit concludes to accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the clause of (Investments in Subsidiaries).

Based on the foregoing, and adopting the reasons mentioned, the Circuit has unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant (the Zakat, Tax and Customs Authority), against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh City No. (ITR-2024-227969) issued in Case No. (Z-227969-2024) related to the Zakat assessment for the year 2020 AD.

Second: On the merits:

To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the clause of (Investments in Subsidiaries).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025- 242983

Case No. Z-242983-2024

Principle No. 40

Zakat shall not be due on accounts receivable due from government entities whenever their collection is rendered impossible because of the government entity's delay in payment and not due to negligence on the part of the Taxpayer. Such accounts receivable shall not be subject to Zakat until they are actually collected and a Zakat Year (Al Hawl) has elapsed thereon. Their deduction from the Zakat base shall be accepted if it is established that they are not under the Taxpayer's control or that the Taxpayer is unable to utilize them.

Facts

The petition for reconsideration filed on 19/09/2024 AD by / [...], National ID No. (...), in his capacity as a representative for the Petitioning Company pursuant to Power of Attorney No. (...) dated 12/04/1444 AH, and Law Practice License No. (...), was considered against the decision of the First Appellate Circuit for Income Tax Violations and Disputes No. (IR-2024-198872) issued in Case No. (Z-198872-2023) related to the Zakat assessment for the year 2016 AD, submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Appellate Circuit ruled as follows:

First: Acceptance of the appeal procedurally submitted by the Appellant (the Taxpayer) / [...] Holding Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2023-152984) issued in Case No. (Z-152984-2022) related to the Zakat assessment for the year 2016 AD.

Second: On the merits:

1. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (the Company's Share in Social Insurance).
2. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Profits from Disposal of Property and Equipment).
3. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Dividend Income).
4. To establish the termination of the dispute regarding the Taxpayer's appeal on the clause of (Trade Payables and Accrued Expenses Added to the Zakat Base).

5. To accept the Taxpayer's appeal and annul the decision of the Adjudication Circuit regarding the clause of (Disallowing the Deduction of the Full Investment in [...] Company).
6. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Accumulated Losses).
7. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the clause of (Long-Term Government Accounts Receivable).

Whereas this decision was not accepted by the Taxpayer, it filed a petition brief for reconsideration, which was reviewed by the Committee, and contained its request to reverse and annul the Appellate Circuits's decision.

On Tuesday, 12/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 09:00 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the petition for reconsideration, the submitted memoranda, and the papers and documents contained in the case file, and after due deliberation, and since the case is ready for adjudication in its current status, the Circuit hereby decides to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the grounds contained in the petition for reconsideration, it has become evident to the Appellate Circuit that the Taxpayer requests the acceptance of its petition regarding the (Long-Term Government Accounts Receivable) clause, relying on the provisions of Paragraph (b/1) of Article (200) of the Law of Sharia Procedures. The Taxpayer argues that the nature of the due government receivables accepted for the years 2017 AD and 2018 AD is identical to those for which the Circuit issued a decision disallowing their deduction from the Zakat base for the year 2016 AD. The Taxpayer pointed out the Authority's acceptance to deduct government debts related to the Ministry of Health, classified as long-term receivables from the Zakat base, which have not been collected for more than a year, based on the following: the contract executed with the Ministry of Health, an analytical statement of the receivables, and the classification of the long-term government accounts receivable as due for more than one year in the audited financial statements. This classification serves as a clear confirmation that these long-term receivables remained outstanding for a period exceeding one year. Furthermore, the Company disclosed the revenues related thereto and subjected them to Zakat in the year of sale, as they were subjected to Zakat as part of the opening balance of retained earnings in subsequent years. The Taxpayer added that the Company followed up with the Ministry of Health to collect the receivables by sending several reminder

letters and holding meetings with the Ministry of Health's representative, submitting a copy of such correspondence.

Since the Circuit previously dismissed in its decision the deduction of the (Long-Term Government Accounts Receivable) clause from the base due to the failure to submit supporting documents proving that it exercised due diligence and claimed the debts, the Taxpayer accordingly submitted a copy of the supplementary memorandum, which was previously submitted before the Appellate Circuit. The Taxpayer also relied on Article (32) of the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (1007) dated 19/08/1445 AH, and Fatwa No. (23408) dated 18/11/1426 AH issued by the Permanent Committee for Scholarly Research and Ifta.

Whereas Paragraph (b/1) of Article (200) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, provides that: '1- Any of the litigants shall have the right to petition for reconsideration of final judgments in the following cases: b- If the petitioner obtains, after the judgment, conclusive papers in the case that it was unable to produce prior to the judgment.' And pursuant to Fatwa No. (23408) dated 18/11/1426 AH issued by the Permanent Committee for Scholarly Research and Ifta regarding debts due from government entities, which stated: 'Amounts due to a person from any government entity, if their payment is delayed for any reason by that demanded entity, even if the right holder is aware of it, no Zakat shall be due thereon until they are received and a Zakat Year (Al Hawl) elapses thereon after their collection, in accordance with the Almighty's saying: (So fear Allah as much as you are able); and because Zakat is a consolation, thus it is not obligatory upon a person who cannot collect it and holds nothing of it in their hand.'

Based on the foregoing, and since the dispute concerns the Taxpayer's claim to deduct the long-term government accounts receivable clause in the amount of SAR 245,916,499 from the Zakat base for the year 2016 AD, where the Taxpayer argues that amounts due from government entities must not be subject to Zakat until they are received and a Zakat Year (Al Hawl) elapses thereon, given that these amounts were neither in the Taxpayer's possession nor under its control, and the harm suffered by the Taxpayer was a result of the government entities' failure to commit to paying the Company's dues. Whereas the Authority did not accept the deduction of the clause because it is not among the deductible clauses stipulated in Article (4) of the Implementing Regulations for Zakat Collection.

Upon the Circuit's review of the case file and attached documentation, it became evident that the Taxpayer had submitted a number of letters to the Ministry of Health, requesting the disbursement of its statutory dues, which demonstrates that the reason for not collecting the amounts is attributed to the Ministry of Health's delay, and not as a result of the Taxpayer's negligence or non-compliance with the specified standard and requirements. Whereas the provisions of the Sharia Fatwa No. (23408) dated 18/11/1426 AH issued by the Permanent Committee for Scholarly Research and Ifta mentioned above stipulated that Zakat

is not due on the creditor for its funds due from government entities that it cannot collect due to a delay from the government entities, and not as a result of its negligence or non-compliance with the standard and requirements specified by the government entity.

Upon the Circuit's review of the case file and its contents, it became evident that the status of the Taxpayer (the creditor) aligns with what the Fatwas have settled upon. Accordingly, since these balances are neither in the hands of the Taxpayer nor under its control, preventing it from utilizing them; consequently, the Circuit concludes to accept the petition for reconsideration, annul the decision of the Appellate Circuit, and remand the case to it regarding the (Long-Term Government Accounts Receivable) clause.

Based on the foregoing, and adopting the reasons mentioned, the Committee has decided by majority as follows:

Decision:

First: Acceptance of the petition for reconsideration procedurally submitted by the Petitioner (the Taxpayer) / [...] Holding Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the First Appellate Circuit for Income Tax Violations and Disputes No. (IR-2024-198872) issued in Case No. (Z-198872-2023) related to the Zakat assessment for the year 2016 AD.

Second: On the merits:

To accept the petition for reconsideration, annul the decision of the Appellate Circuit, and remand the case to it regarding the clause of (Long-Term Accounts Receivable), in accordance with the grounds and merits set forth in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-243757

Case No. Z-243757-2024

Principle No. 41

Debts shall be added to the Zakat base in proportion to the number of days for each installment during the year, taking into account the percentage of completion. It is impermissible to calculate the ending balance without specifying the procedural methodology or taking into account the deduction of the corresponding assets.

Facts

The appeal filed on 14/10/2024 AD by / [...], National ID No. (...), in his capacity as a representative for the Appellant Company pursuant to Power of Attorney No. (...) dated 13/04/1446 AH, was considered against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City No. (IZD-2024-236206) issued in Case No. (Z-236206-2024) related to the Zakat assessment for the years 2015 AD and 2016 AD, submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

1. To reject the Plaintiff's objection regarding the (Due to/from Partners) clause for the year 2016 AD.
2. To reject the Plaintiff's objection regarding the short-term balances of **[...]** Bank loans clause in the amount of SAR 45,712,045 for the year 2015 AD and SAR 32,338,282 for the year 2016 AD.
3. To reject the Plaintiff's objection regarding the (Advance Payments) clause in the amount of SAR 133,500 for the year 2015 AD and SAR 12,869,775 for the year 2016 AD, and the (Deferred Revenue) clause in the amount of SAR 407,334 for the year 2015 AD.

Whereas this decision was not accepted by the Taxpayer, it filed an appeal brief, which was reviewed by the Circuit, and summarized as follows:

With respect to the Taxpayer's appeal regarding the (Due to/from Partners for the Year 2016 AD) clause, the Taxpayer requests the reversal of the Circuit's decision regarding this clause on the grounds that it does not conform with the Authority's procedure concerning those balances, since these amounts were injected by the partners and represent loans from the partners owed by the Company, which are repaid by the Company pursuant to a loan agreement executed between the partners and the Company providing for an annual interest rate of (1%).

With respect to the Taxpayer's appeal regarding the (Debts and the Like for the Years 2015 AD and 2016 AD) clause, the Taxpayer requests the reversal of the Circuit's decision based on the following grounds: A- [...] Bank Loan for the years 2015 AD and 2016 AD: The Taxpayer requests that the loan be added in accordance with the dates of the installments up to the limit of the deducted amount, and submitted a loan analysis and the agreement executed with the bank, which demonstrates that the financing percentage of the extracts stands at (70%) after meeting the required conditions, and in accordance with the controls stipulated in the provisions of the Implementing Regulations for Zakat Collection. By applying the regulatory control to the disputed years 2015 AD and 2016 AD, it becomes evident that the amount to be added to the base is SAR 10,346,909 for the year 2015 AD, and SAR 49,799,060 for the year 2016 AD. B- [...] Loans / Short-Term [...] Bank Loans for the years 2015 AD and 2016 AD: The Taxpayer indicated its adherence to the control stipulated in the provisions of the Implementing Regulations for Zakat Collection, supported by documentation consisting of loan account statements and bank agreements. It requests the reversal of the Authority's procedure, which added them to the property loans for the years 2015 AD and 2016 AD in accordance with the percentage of completion, despite not deducting what they financed from the Zakat base.

With respect to the Taxpayer's appeal regarding the (Advance Payments for the Years 2015 AD and 2016 AD and Deferred Revenue for the Year 2015 AD) clause, the Taxpayer requests the reversal of the Circuit's decision regarding this clause, on the grounds that these amounts financed both completed real estate units and units under construction. It is evident from this that these amounts have already been subject to Zakat within what they devolved into as current assets that were not deducted from the Company's Zakat base. Therefore, the Authority's action involves double Zakat taxation, which is prohibited Sharia-wise and legally, and with which the correct Sharia Zakat equation for Zakat collection cannot stand.

On Tuesday, 06/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 11:15 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Clause No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling upon the parties, there appeared / [...], National ID No. (...), in his capacity as a representative for the Appellant pursuant to Power of Attorney No. (...) issued on 13/04/1446 AH, and Law Practice License No. (...). There also appeared the representative of the Respondent / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH.

Upon asking the Respondent's representative if she wished to add anything, she stated that she adheres to what was previously submitted in this case. Upon presenting this matter to the Appellant's representative,

he replied that he adheres to what was previously submitted in this case. Upon asking both parties if they wished to add anything further, they decided to build their case on what had been previously submitted. Whereupon the pleadings and deliberation were closed.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it has been established to the Circuit that the formal requirements for reviewing the appeal have been satisfied in accordance with the conditions stipulated under the relevant laws, regulations, and decisions; accordingly, the appeal request is procedurally accepted, as it was submitted by a duly authorized party within the legally prescribed statutory period.

On the merits, and with respect to the Taxpayer's appeal concerning the clause of (Debts and the Like for the Year 2016 AD regarding Amlak International Loan); pursuant to Paragraph (3) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision No. (2216) dated 07/07/1440 AH, which provides that: 'The Zakat base for a taxpayer who keeps commercial books shall consist of all its assets subject to Zakat collection, including the following: 3- Debts due from the taxpayer classified as long-term and the like among other components of the base, such as: government financing, commercial financing, creditors, notes payable, overdraft accounts, and loans from owners or partners (including their current accounts), provided that the following is taken into account: a- If the debts owed by the taxpayer or other sources of financing have a duration of three hundred and fifty-four (354) days or more overlapping during the Zakat year (Al Hawl) and the year following it, they shall be added to the Zakat base in proportion to what pertains to each year based on the number of days of each Zakat year. b- The Zakat year (Al Hawl) for debts shall not be interrupted by renewing them or rescheduling them with the same creditor, or by replacing these debts with other debts or sources of financing that finance what these debts used to finance. c- What is added from what is mentioned in this paragraph shall not exceed the aggregate of what is deducted from the base in accordance with Article (5) of the Regulations.' Based on the foregoing, since it became evident that the Authority's procedures was based on taking the ending balance without clarifying its procedure regarding the deduction of the corresponding assets, and since its action differed from the previous year without clarifying the reasons leading to its methodology; consequently, the Circuit concludes to amend the Adjudication Circuit's decision regarding the clause of (Debts and the Like for the Year 2016 AD regarding Amlak International Loan) by adding it in proportion to the number of days for each installment received in accordance with the percentage of completion.

With respect to the Taxpayer's appeal concerning the clause of (Advance Payments for the Years 2015 AD and 2016 AD and Deferred Revenue for the Year 2015 AD), pursuant to Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, which provides that: 'Litigants may request the court at any stage of the case to record whatever they have agreed upon, whether an admission,

settlement, or otherwise, in the minutes of the case, and the court shall issue a deed to that effect.' And pursuant to Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by the Minister of Justice's Decision No. (39933) dated 19/05/1435 AH, which provides that: 'If the agreement is reached before recording the case, the substance of the case and the response must be recorded before documenting the agreement, provided that the original case falls within the jurisdiction of the Circuit, even if the subject matter of the agreement falls within the jurisdiction of another court or Circuit, on the condition that the subject matter of the case or part thereof is included among what is agreed upon.' Based on the foregoing, it has been established to the Circuit that the dispute has terminated between the parties due to the Authority's acceptance of the Taxpayer's appeal in accordance with the supplementary memorandum, which contained the following: 'The Authority informs the esteemed Circuit that it accepts the Taxpayer's appeal specifically regarding the above clause (Advance Payments for the Years 2015 AD and 2016 AD and Deferred Revenue for the Year 2015 AD) and requests establishing the termination of the dispute accordingly.' Consequently, the Circuit concludes to establish the termination of the dispute regarding the Taxpayer's appeal on the clause of (Advance Payments for the Years 2015 AD and 2016 AD and Deferred Revenue for the Year 2015 AD).

With respect to the Taxpayer's appeal regarding the remaining clauses; whereas the Circuit cannot be faulted for adopting the grounds of the contested decision without adding thereto whenever it deems that such grounds obviate the need to introduce anything new; because its upholding of the decision based on the rationale therein confirms that it did not find any of the challenges directed at the decision worthy of a response beyond what was contained in those grounds. Since the contested decision regarding the dispute over the appealed clauses was conformed with the sound grounds upon which it was built, which are sufficient to support its ruling, as the Circuit that issued it examined the core of the dispute therein and concluded with the result reached in its operative part; and whereas this Circuit did not notice anything that requires rectification or commentary in light of the arguments raised before it; consequently, this Circuit concludes to reject the Taxpayer's appeal and uphold the appealed decision of the Adjudication Circuit with respect to the result it reached regarding the clauses of the case, based on its underlying grounds.

Based on the foregoing, and adopting the reasons mentioned, the Committee has unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant (the Taxpayer) / [...] Group, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City No. (IZD-2024-236206) issued in Case No. (Z-236206-2024) related to the Zakat assessment for the years 2015 AD and 2016 AD.

Second: On the merits:

1. To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the (Due to/from Partners) clause for the year 2016 AD.

2. With respect to the Taxpayer's appeal concerning the (Debts and the Like for the Years 2015 AD and 2016 AD) clause:

A- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the (Debts and the Like for the Years 2015 AD and 2016 AD regarding [...] Bank Loan) clause.

B- With respect to the Taxpayer's appeal concerning the (Debts and the Like regarding [...] Loan) clause:

B-1- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the year 2015 AD.

B-2- To amend the decision of the Adjudication Circuit regarding the (Debts and the Like for the Year 2016 AD regarding [...] Loan) clause, by adding it in proportion to the number of days for each installment received in accordance with the percentage of completion.

C- To reject the Taxpayer's appeal and uphold the decision of the Adjudication Circuit regarding the (Debts and the Like for the Years 2015 AD and 2016 AD regarding [...] Bank Loan) clause.

3. To record the termination of the dispute regarding the Taxpayer's appeal on the (Advance Payments for the Years 2015 AD and 2016 AD and Deferred Revenue for the Year 2015 AD) clause.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes

Decision No. IR-2025-246656

Case No. Z-246656-2024

Principle No. 42

For Zakat purposes, the balance to be considered for carried-forward losses shall be the lower balance between those adjusted in accordance with the requirements of the Zakat regulations or the carried-forward losses listed in the financial statements.

Facts

The appeal filed on 18/12/2024 AD by the Zakat, Tax and Customs Authority was considered against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City No. (IZD-2024-240903) issued in Case No. (Z-240903-2024) related to the Zakat assessment for the year 2020 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

1. To record the termination of the dispute regarding the (Due to Related Parties) clause.
2. To annul the Respondent's decision regarding the clause of (Deduction of Carried-Forward Losses Adjusted in Accordance with the Financial Statements).

Whereas this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it filed an appeal brief, which was summarized as follows:

As the Authority objects to the contested decision of the Adjudication Circuit, it claims that with respect to the clause of (Deduction of Carried-Forward Losses Adjusted in Accordance with the Financial Statements), the Authority adjusted the adjusted carried-forward losses pursuant to Paragraph (8) of Article (5) and Article (30) of the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2216) dated 07/07/1440 AH. Whereas the disputed year is 2020 AD and there is no Zakat assessment issued for the year 2019 AD to rely on the carried-forward losses balance approved according to the Authority's assessment, it accordingly relied on the carried-forward losses balance approved pursuant to its assessment for the year 2018 AD. Consequently, the treatment becomes: (Balance of approved carried-forward losses according to the last year assessed (2018 AD) + profits/losses for the year 2018 AD + profits/losses for the year 2019 Ad] as shown below in the calculation table for carried-forward losses, taking into account the adjustments to net profit.

The Authority clarifies that the dispute between the Taxpayer's claim and its assessment is attributed to the Taxpayer's calculation of the Zakat provision, noting that it adopted the book net profit in calculating the carried-forward losses, and no effect of the Zakat component appears therein. Furthermore, in its assessment for the year 2018 AD, it did not add back the Zakat provision to the adjusted net profit for the Taxpayer to request its addition to the carried-forward losses requested for deduction; rather, only the formed provision for doubtful debts and the formed provision for End-of-Service Award were added back, as follows. Accordingly, the Authority confirms the correctness and validity of its procedure in calculating the carried-forward losses for the year 2020 AD in the amount of SAR 4,423,686 in accordance with the table above, pursuant to Paragraph (8) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2216) dated 07/07/1440 AH.

Upon reviewing the merits of the appealed Circuit's decision, it became evident that it failed to verify the calculation of the carried-forward losses attached to the statement of defense submitted by the Authority and enclosed in the case file, and instead sufficed with what was stated in the statement of claim submitted by the Taxpayer, which relied on a photocopy from the 'ERAD' system according to the return submitted by the Taxpayer, which does not clarify the Authority's procedure upon assessment as demonstrated. Whereas the Taxpayer requests in its objection filed before the Authority to add the amount of the Zakat provision for the years 2018 AD and 2019 AD to the carried-forward losses, while the Authority did not make an adjustment therewith to the book net profit, because Zakat expense is non-deductible pursuant to Paragraph (3) of Article (9) of the Implementing Regulations for Zakat Collection issued by Ministerial Decision No. (2216) dated 07/07/1440 AH. Consequently, if the carried-forward losses are adjusted by this provision, it would be deemed as accepting the item as an expense, thereby violating the provisions of the aforementioned Article.

Given that the Authority, upon the assessment in the year 2018 AD, relied on the book net profit before Zakat amounting to SAR 218,138, the net profit was adjusted solely by adding back the End-of-Service Award provision and the provision for doubtful debts, and it did not make any adjustment for the Zakat provision as claimed by the Taxpayer, which appears as demonstrated below. Since the disputed year is 2020 AD and there is no Zakat assessment issued for the year 2019 AD, the carried-forward losses were determined based on the approved carried-forward losses balance according to the Authority's latest assessment issued for the year 2018 AD; therefore, the approved carried-forward losses in the year 2020 AD are as follows: (the balance of approved carried-forward losses in the assessment of the last year assessed (2018), less [the adjusted profits for the year 2018 AD in accordance with the Authority's assessment, plus the book profits for the year 2019 AD]). As for what was stated in the merits of the Circuit's decision, the Authority responds that it is incorrect and inaccurate, and the Authority clarifies—as previously detailed in the loss calculation table referred to in Appendix No. (2) below—that the previous provisions were added back and the book net profit was adjusted therewith to arrive at the approved

carried-forward losses. Furthermore, the deduction of the adjusted profits of the year for 2018 AD based on the Authority's assessment and the book profits for 2019 AD in accordance with the audited financial statements was accepted, because the approved carried-forward losses must be in accordance with the Authority's assessments, as required by the Regulations in Paragraph (8) of Article (5) of the aforementioned Implementing Regulations.

On Monday, 14/11/1446 AH, corresponding to 12/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 10:16 AM, in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with remote visual litigation procedures; pursuant to the provisions of Item No. (1) of Article (15) of the Rules of Operation of Zakat, Tax, and Customs Committees, issued by Royal Decree No. (25711) dated 08/04/144AH. Upon calling upon the parties, there appeared the representative of the Appellant / [...] (National ID No. ...), pursuant to a delegation issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH. No one appeared to represent the Respondent, despite proof of being legally notified of the date of this session. Upon presenting this matter to the Appellant's representative, she replied that she adheres to what was previously submitted in this case; the Circuit decides to close the pleadings and reserve the case for adjudication

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it has been established to the Circuit that the formal requirements for reviewing the appeal have been satisfied in accordance with the conditions stipulated under the relevant laws, regulations, and decisions; accordingly, the appeal request is procedurally accepted, as it was submitted by a duly authorized party within the legally prescribed statutory period.

On the merits, and with respect to the Authority's appeal concerning the clause of (Deduction of Carried-Forward Losses Adjusted in Accordance with the Financial Statements), pursuant to Paragraph (8) of Article (5) of the Implementing Regulations for Zakat Collection, issued by Ministerial Decision No. (2216) dated 07/07/1440 AH, which provides that: 'The following clauses shall be deducted from the Zakat base of a taxpayer who keeps commercial books: 8- The net adjusted carried-forward loss for Zakat collection purposes in accordance with the provisions of the Regulations, after adding back the provisions by which the loss was previously reduced in the year of their formation, or the carried-forward losses according to the taxpayer's commercial books, whichever is lower.' Based on the foregoing, and whereas the audited financial statements constitute one of the most critical elements of presumption that can be relied upon and represent the primary supporting option for calculating the Zakat base; and since the carried-forward losses among the clauses allowed to be deducted from the Zakat base are those losses adjusted in accordance with the assessments issued by the Authority after adding back the provisions and reserves by which the loss was

previously reduced in the year of their formation, or the carried-forward losses according to the taxpayer's commercial books, whichever is lower, in order to prevent double Zakat taxation; consequently, the balance to be considered for carried-forward losses for Zakat purposes shall be the lower balance between those adjusted in accordance with the requirements of the Zakat regulations or the carried-forward losses listed in the financial statements.

Whereas it has become evident that the core of the dispute centers around the Authority's non-inclusion (not adding back) of the formed Zakat provision into the carried-forward losses for the years 2017 AD and 2018 AD, and the Taxpayer requests the calculation of the carried-forward losses for the year 2020 AD in the amount of SAR 4,631,724; and whereas the Authority stated that it did not add back the provision to the carried-forward losses due to its non-inclusion of the provision into the adjusted net profit in the year of its formation. By reference to the Zakat return for the year 2018 AD, it became evident that the adjusted net profit in the amount of SAR 224,205 consists of the book net profit after Zakat in the amount of SAR 50,180 and the provisions (including the Zakat provision) in the amount of SAR 174,025.

Upon reviewing the Authority's calculation in its supplementary appeal brief, it became evident that it calculated the profit before Zakat in the amount of SAR 138,218, and the component of the provision for doubtful debts and the component of the End-of-Service Award provision were added back in the amounts of SAR 12,000 and SAR 73,987, respectively; therefore, there is no Zakat provision to be added back. Accordingly, the correctness of the Authority's calculation is established pursuant to Paragraph (8) of Article Five, whereby the approved carried-forward losses for the year 2020 AD stand at SAR 4,423,686, after comparing them against the financial statements to adopt the lower thereof, in accordance with the Authority's attached calculation. Consequently, the Circuit concludes to accept the Authority's appeal and annul the Circuit's decision.

For these reasons , and adopting the reasons mentioned, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant / Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam City No. (IZD-2024-240903) issued in Case No. (Z-240903-2024) related to the Zakat assessment for the year 2020 AD.

Second: On the merits:

To accept the Authority's appeal and annul the decision of the Adjudication Circuit regarding the clause of (Deduction of Carried-Forward Losses Adjusted in Accordance with the Financial Statements), in accordance with the grounds and merits set forth in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-226101
Case No. ZI-226101-2023

Principle No. 43

The deduction of unrealized gains or losses from the Zakat base shall not be accepted unless the taxpayer proves the nature of the investments associated therewith, and the acceptance or rejection of the deduction is not linked to the asset.

Principle No. 44

Amounts withheld in letters of guarantee and letters of credit shall be deemed Zakat-subject funds in which Zakat is obligatory, since a letter of guarantee does not entail the transfer of ownership of the funds to the beneficiary prior to execution, but rather serves as a guarantee for what becomes due upon a breach of obligation. Furthermore, the restriction of funds for the purpose of their growth does not preclude the taxpayer's complete ownership thereof or the obligatoriness of Zakat thereon, so long as the funds remain within his ownership.

Facts

The appeal filed on 07/11/2023 AD by / [...], National ID No. (...), in his capacity as a representative for the Appellant Company pursuant to Power of Attorney No. (...) dated 14/03/1444 AH, and the appeal submitted by the Zakat, Tax and Customs Authority on 08/11/2023 AD, were considered against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2023-173116) issued in Case No. (ZI-173116-2023) related to the Zakat and Tax assessment for the year 2018 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, in which the decision of the Adjudication Circuit ruled as follows:

First: To accept the Plaintiff's objection regarding the clause of not deducting unrealized investment gains from the book net profit.

Second: To reject the Plaintiff's objection regarding the clause of not deducting the Company's share in the investment profits in [...] Company from the adjusted net profit (loss) for the year 2018 AD.

Third: To reject the Plaintiff's objection regarding the clause of not deducting the non-Saudi partner's share in the carried-forward losses from the tax base for the year 2018 AD.

Fourth: To reject the Plaintiff's objection regarding the clause of not accepting the deduction of the utilized provision for doubtful debts for the Zakat and tax aspect for the year 2018 AD.

Fifth: To reject the Plaintiff's objection regarding the clause of deducting the utilized provisions within the adjustments to the net profit instead of the Zakat base for the year 2018 AD.

Sixth: To reject the Plaintiff's objection regarding the clause of the Authority's non-approval of deducting accumulated losses differences.

Seventh: To record the termination of the dispute regarding the clause of adding the Saudi partner's share in loans that financed fixed assets.

Eighth: To reject the Plaintiff's objection regarding the clause of adding the Saudi partner's share in accrued expenses.

Ninth: To record the termination of the dispute regarding the clause of adding the Saudi partner's share in credit balances.

Tenth: To amend the Respondent's decision regarding the clause of investments in local entities, to become as follows:

A- To accept the Plaintiff's objection regarding the clause of investments in [...] Company for the year 2018 AD.

B- To record the termination of the dispute regarding the clause of investments in [...] Company.

C- To reject the Plaintiff's objection regarding the clause of investments in [...] Company.

D- To amend the Respondent's procedure regarding the clause of investments in [...] Fund, by recording the termination of the dispute by the Respondent's acceptance of the Plaintiff's objection regarding the amount of SAR 108,864, and dismissing the Plaintiff's objection regarding the remaining amount of SAR 18,601,212.

Eleventh: To reject the Plaintiff's objection regarding the clause of not deducting the Saudi partner's share in foreign investments for the year 2018 AD.

Twelfth: To record the termination of the dispute regarding the clause of not deducting the Saudi partner's share in long-term balances due from subsidiary companies (debit advances) from the Zakat base.

Thirteenth: To reject the Plaintiff's objection regarding the clause of not deducting the balance of advance payments for purchasing investments from the Zakat base.

Fourteenth: To reject the Plaintiff's objection regarding the clause of not deducting prepaid expenses from the Zakat base for the year 2018 AD.

Fifteenth: To reject the Plaintiff's objection regarding the clause of not deducting the Saudi partner's share in the balance of employee advances from the Zakat base for the year 2018 AD.

Sixteenth: To reject the Plaintiff's objection regarding the clause of deducting the Saudi partner's share in a cash deposit against a bank guarantee from the Zakat base for the year 2018G.

Seventeenth: To reject the Plaintiff's objection regarding the clause of not deducting the Saudi partner's share in unbilled revenues within the debit balances.

Eighteenth: To reject the Plaintiff's objection regarding the clause of not deducting taxes from the Zakat base.

Nineteenth: To reject the Plaintiff's objection regarding the clause of not deducting withholding taxes paid on behalf of 100% owned subsidiary companies.

Twentieth: To amend the Respondent's procedure regarding the late payment penalty clause, in accordance with what this decision has concluded

Whereas this decision was not accepted by both parties, each of them filed an appeal brief summarizing the following:

With respect to the Taxpayer's appeal against the decision of the Adjudication Circuit:

Regarding the clause of (Not deducting the Company's share in the investment profits in [...] Company), the Taxpayer pointed out that the Adjudication Circuit addressed the clause from a single perspective, which is the Zakat aspect, ignoring the impact of the clause on the Company's tax aspect (tax base). Accordingly, the Taxpayer confirms the settlement of the dispute from the Zakat aspect by accepting the deduction of the ending balance for the investment in [...] Company in accordance with the merits of the decision for clause (10-A). As for the tax aspect, the Taxpayer requests the cancellation of the effect of its share in the profits of [...] Company, which were disclosed (as a profit) within the Company's revenues in its audited financial statements according to the income statement. These were declared within the Company's revenues in the audited financial statements regarding the Company's share in profits deductible for income tax purposes, in accordance with the text of Article (1) of the Implementing Regulations of the Income Tax Law and subsequent amendments thereto.

Regarding the clause of (Not deducting the non-Saudi partner's share in the adjusted carried-forward losses from the tax base), the Taxpayer requests the reversal of the Circuit's decision regarding this clause based on the Taxpayer's objection to the Authority's procedure represented in not deducting the non-Saudi partner's share in the carried-forward losses from the tax base for the year 2018 AD. The Taxpayer asserts its right to deduct the non-Saudi partner's share from the carried-forward losses in accordance with the

provisions of Article (21) of the Tax Law. Accordingly, the Taxpayer requests the deduction of the carried-forward losses at a rate of 25% of the final adjusted net profit from the tax base for the year 2018 AD.

Regarding the clause of (Not deducting the utilized provision for doubtful debts), the Taxpayer requests reversing the Circuit's decision regarding this clause based on the non-allowance of deducting the utilized provision for doubtful debts from the net profit for both the Zakat and tax aspects for the year 2018 AD. The Taxpayer argues that statutory controls were fulfilled before writing off the debt, and they were declared as revenues in previous years. Furthermore, the bad debts resulted from the provision of services and were recorded pursuant to statutory accounts audited by a certified public accountant licensed in the Kingdom, and the Company believes its audited accounts serve as an alternative to the certified accountant's certificate. The Taxpayer also indicated the proportionality of the bad debt amount to the volume of revenues and the high cost of collecting them compared to their amount, as they lack relative materiality compared to revenues, and that the statutory controls for deducting the utilized provision for doubtful debts apply. The Taxpayer clarifies that revenue recognition is linked to accounting standards and principles, particularly regarding revenue realization, which reflects the actual collection of those revenues, as the process of writing off debts is the only means to reflect the reality of collectability to arrive at the Company's actual cash revenues.

Regarding the clause of (Deducting the utilized balance of provisions from the net profit instead of the Zakat base): The Taxpayer requests revoking the Circuit's decision regarding this clause based on deducting the utilized provisions from the adjustments to the net profit. The utilized portion of these provisions (End-of-Service Award provision and provision for doubtful debts) represents actual Zakat-deductible expenses incurred by the Taxpayer; therefore, it is permissible to allow their deduction from the Zakat base within the adjustments to the book net profit, especially since they were not approved as statutory expenses when charged to the Company's accounts as provisions rather than actual expenses, and they were subject to Zakat. Accordingly, the utilized provisions must be taken into consideration when determining the Zakat-subject base to avoid double Zakat taxation.

Regarding the clause of (Not deducting accumulated losses differences), the Taxpayer requests reversing the Circuit's decision regarding this clause based on the Authority's initial non-approval of deducting the accumulated losses differences. The decision of the Adjudication Circuit did not record the Authority's partial approval of the Company's objection, in accordance with what was stated in the Authority's statement of defense. Upon reviewing the Adjudication Circuit's decision, it approved the amounts stated in the Authority's assessment, which the Authority had amended based on its perspective, constituting a ruling for more than what the Authority requested. Accordingly, the Company requests that a partial acceptance of the appealed clause be made so that the differences are as clarified in the Authority's statement of defense. As for the Company's appeal regarding the Authority's inaccurate calculation of accumulated losses, the Taxpayer upholds its viewpoint stated in its reply to the Authority's statement of

defense, so that the correct calculation of the accumulated losses to be deducted from the Zakat base for the year 2018 AD is as attached to the appeal brief. Accordingly, the Taxpayer requests accepting its appeal, revoking the Circuit's decision, and approving the deduction of the accumulated losses differences.

Regarding the clause of (Adding the Saudi partner's share in accrued expenses to the Zakat base), the Taxpayer requests reversal the Circuit's decision regarding this clause based on the Authority adding the Saudi partner's share from the accrued expenses clause to the Zakat base in the amount of SAR 799,520 for the completion of the Zakat year (Al Hawl), based on the movement submitted by the Taxpayer. The Taxpayer argues that these amounts are not deemed loans and should not be subject to Zakat even if the Zakat year (Al Hawl) has elapsed, nor did they finance additions to acquired fixed assets, and the most critical conditions for Zakat subjection do not apply to these amounts.

Regarding the clause of (Investments in local entities), the Taxpayer requests reversing the Circuit's decision regarding this clause based on its objection to the Authority's non-deduction of the investment in [...] Company and the investment in [...] Fund. The Authority did not clarify the reasons and grounds upon which it relied in that calculation. Accordingly, the Taxpayer reserves the right to cancel the assessment due to the Authority's failure to notify the Company of the details and reasons for rejection, having relied in its opinion on Paragraph (7) of Article (21) of the Implementing Regulations for Zakat Collection. Although the Taxpayer communicated with the Authority to clarify the clause details and reasons for the difference, the Authority did not provide a clear response. The Taxpayer indicated that the deducted investments are attached to the statement of appeal, demonstrating that all are resident entities in the Kingdom of Saudi Arabia, registered with the Zakat, Tax and Customs Authority, and obligated to file their returns. Therefore, these investments must be deducted from the Zakat base as long-term investments.

Regarding the clause of (Not deducting foreign investments from the Zakat base), the Taxpayer requests reversal of the Circuit's decision regarding this clause based on its claim to deduct the Saudi partner's share in foreign investments from the Zakat base in the amount of SAR 44,160,384 for the year 2018 AD. The Taxpayer indicated that the Company's intent is to hold this investment as acquired fixed assets to achieve an investment return, and that Zakat for this type is due only on the yield and not the principal, relying on Fatwa No. (18690) issued by the Council of Senior Scholars. The Taxpayer based its Zakat treatment on what was stated in Authority Circular No. (1/2/8443/2) issued in 1392 AH, asserting its right to deduct the foreign investment without the condition of subjecting the amounts to Zakat in the country of investment. The Taxpayer requests the deduction of its available-for-sale foreign investments for the year 2018 AD.

Regarding the clause of (Deducting advance payments for purchasing an investment from the Zakat base), the Taxpayer requests reversal of the Circuit's decision regarding this clause for not allowing the deduction of the balance of advance payments for purchasing investments amounting to SAR 1,631,250 from the Zakat base for the year 2018 AD. The Taxpayer indicated that the disputed amounts represent advance

payments to finance an investment in [...] Company; therefore, they may not be subjected to Zakat pursuant to Article (5) of the Implementing Regulations for Zakat Collection, which states that payments to purchase fixed assets are considered negative components of the Zakat base. Accordingly, the Taxpayer requests the deduction of the advance payments for purchasing the aforementioned investment from the Zakat base.

Regarding the clause of (Deducting prepaid expenses from the Zakat base for the year 2018 AD), the Taxpayer requests reversal of the Circuit's decision regarding this clause, and requests the deduction of the Saudi partner's share from the prepaid payment balances, as these expenses are capital in nature and related to subsequent years. Furthermore, the financial statements audited by a certified public accountant for the year 2018 AD constitute sufficient evidence to prove that these expenses are indeed related to subsequent years, and that the nature of these prepaid expenses is subject to the same rule applied to the deferred expenses because they relate to indirect expenses spanning more than one financial year.

Regarding the clause of (Loans to employees from the Zakat base), the Taxpayer requests reversal of the Circuit's decision regarding this clause, and requests permission to deduct the Saudi partner's share in the employee advances balance amounting to SAR 1,284,323 for the year 2018 AD. The Taxpayer indicated that these balances represent amounts the Company was forced to lend to its employees in accordance with business requirements and as a commitment to its employees. Thus, they are restricted, unutilized funds not used as trading assets, and a Zakat year has not elapsed upon them while in the Company's possession; therefore, these funds cannot be deemed utilized loans subject to Zakat.

Regarding the clause of (Deducting guarantee deposits from the Zakat base), the Taxpayer requests reversal of the Circuit's decision regarding this clause, and requests permission to deduct the Saudi partner's share in a cash deposit against a bank guarantee amounting to SAR 461,079 from the Zakat base for the year 2018 AD. The Taxpayer indicated that these amounts represent a cash margin balance against a bank guarantee, representing funds withheld at the dealing banks. Moreover, not deducting the security deposit from the Zakat base violates Sharia principles, which affirm subjecting funds in the taxpayer's possession to Zakat once a Zakat Year (Al Hawl) has elapsed. Therefore, it is impermissible to subject the cash deposit placed in a bank to Zakat, as the Company does not possess the right to dispose of it through investment or utilization in activity, and its ruling is that of a statutory deposit with banks, which is allowable for deduction under the Regulations.

Regarding the clause of (Deducting unbilled revenues within receivables), the Taxpayer requests revoking the Circuit's decision regarding this clause, and requests permission to deduct the Saudi partner's share in unbilled revenues within debit balances amounting to SAR 2,515,955. The Taxpayer noted in its appeal brief that these accrued revenues represent rights of the Company that have not yet been received; therefore, they should not be subject to Zakat until the Company receives them and a new Zakat Year (Al Hawl) begins for them, which is supported by Fatwa No. (20452/Kha).

Regarding the clause of (Deducting taxes from the Zakat base), the Taxpayer requests reversal of the Circuit's decision, and requests permission to deduct the Saudi partner's share in taxes from the Zakat base amounting to SAR 702,021 for the year 2018 AD. The Taxpayer indicated that these expenses represent amounts that departed from the Company's liability before the completion of the Zakat Year (Al Hawl), and it is impermissible under Sharia to subject them to Zakat. Furthermore, the default rule in treating expenses is permissibility, and as long as there is no specific text stipulating the impermissibility of deducting the expense, the disputed withholding tax expense is deductible. Moreover, the provisions of Article (Thirteen) of the Income Tax Law concerning non-deductible expenses do not apply to Zakat payers.

Regarding the clause of (Adding the Saudi partner's share from credit balances), the Taxpayer requests reversal of the Circuit's decision, arguing that these amounts are not deemed loans and should not be subject to Zakat even if the Zakat Year (Al Hawl) elapses, especially since they did not finance additions to fixed assets, nor do the primary conditions for Zakat subjection apply to them. The provisions of the Sharia Zakat Collection Law issued by Royal Decree No. (8634) of 1370 AH, as amended by Royal Decree No. (577) of 1376 AH, dictates that Sharia Zakat be collected in accordance with the provisions of Islamic Sharia. Therefore, adding these accounts to the Zakat base for the aforementioned years contradicts the Sharia and statutory texts stating that debt prevents Zakat, as such amounts and receivables are used to finance working capital and represent obligations owed by the Company to third parties. If these amounts are deemed loans—which contradicts reality—the Taxpayer requests adopting the Sharia Fatwas confirming that Zakat falls on the lender and not the borrower, provided the borrower is solvent and not procrastinating, and since these amounts were used in trading assets (working capital). Therefore, the obligation to pay Zakat on those funds falls on the lending party, and the same funds may not be subjected to Zakat twice. Accordingly, the Taxpayer requests adopting its viewpoint above when issuing the amended assessment by not adding accrued expenses in the amount of SAR 799,520.

Regarding the clause of (Not deducting the Saudi partner's share in long-term balances due from subsidiary companies [debit advances] from the Zakat base), the Taxpayer requests reversal of the Circuit's decision, arguing that these balances due from subsidiary and associate companies represent debit advances provided to these subsidiary companies, which are subject to Zakat collection in the Kingdom. Consequently, not deducting these amounts from the Company's Zakat base will result in double Zakat taxation, which is impermissible under Sharia. Thus, it is evident that balances due from subsidiary companies must be deducted from the Zakat base to prevent double taxation.

Regarding the clause of (Late payment penalty), the Taxpayer requests reversal of the late payment penalty.

Furthermore, as the decision was not accepted by the Zakat, Tax and Customs Authority, it filed an appeal against the objected decision pursuant to an appeal brief summarizing the following:

With respect to the Authority's appeal against the decision of the Adjudication Circuit:

Regarding the clause of (Not deducting unrealized investment gains from the book net profit), the Authority states that it did not accept the deduction of unrealized investment gains from the book net profit in the amount of SAR 18,738,913 due to the Taxpayer's failure to provide supporting documentation for the unrealized investment gains. Moreover, during the objection phase, a meeting was held with the Taxpayer's representatives, and the Authority requested the calculation method for the unrealized investment gains amounting to SAR 18,738,913 and how they were declared in the financial statements. The Company replied that the unrealized investment gains amounting to SAR 18,738,913 represent a fair value adjustment to the financial statements, and the amount of SAR 18,913,544 is net of the fair value reserve of SAR 174,630 pursuant to the statement of changes in equity. As for what the Taxpayer indicated in its objection brief regarding the Zakat aspect—that these gains do not represent funds in the Company's possession and that the gains resulted from the revaluation of investments—and regarding the tax aspect, where the Taxpayer states that any revenues resulting from revaluation are not recognized, and regarding its argument about the Authority's acceptance of the clause for the year 2012 AD, the Authority responds that the Taxpayer was unresponsive and failed to provide supporting documentation for the gains for the year 2018 AD. Consequently, what was stated in the statement of claim cannot be relied upon. Furthermore, the Taxpayer reduced the adjusted net profit by the amount of SAR 18,738,913 without providing an explanatory document showing the type of investment. If the investment is in funds, the Taxpayer is not entitled to deduct it from the net profit or the Zakat base. By referring to the financial statements and data submitted by the Taxpayer, it became evident that they represent gains resulting from the fair value revaluation of investment funds and shares in (foreign) funds, and are not actual realized gains resulting from a sale. Additionally, this type of investment (funds and shares) is not among the items deductible from the Zakat base. Accordingly, the Taxpayer's objection was dismissed, and the Authority affirms the correctness and statutory compliance of its procedure by not adjusting the year's profits for this clause, as its impact on the year's income was unclear, in addition to the fact that the investments related thereto are not allowable for deduction from the Zakat base, and Paragraph (Second/H) of Article (4) does not apply.

Regarding the clause of (Adding the Saudi partner's share from credit balances), the Authority states that the decision was made to record the termination of the dispute regarding the aforementioned clause based on the Authority's acceptance of the Plaintiff's objection in accordance with the Authority's Statement of Defense No. (1). In this regard, the Authority asserts that the decision erred in its conclusion; the Authority accepted the Taxpayer's objection partially, not entirely. The Authority added the Saudi partner's share in credit balances to the Zakat base in the amount of SAR 937,392 respectively due to the completion of a Zakat Year (Al Hawl) based on the movement submitted by the Taxpayer, where creditors at the beginning or end of the period, whichever is lower, were added because the balance of the submitted statement did not match the balances of the financial statements, based on Paragraph (5/First) of Article (4) of the Implementing Regulations for Zakat Collection.

Regarding the clause of (Investments in local entities), the Authority clarifies that the Appellee Company owns a 49% share, and the equity according to the financial statements of [...] Company for the year 2018 AD amounts to SAR 161,428,929, of which the objected Company's share and the Saudi partner's share represent the portion subjected to Zakat in the Company. Accordingly, the Authority's procedure is correct in deducting investments only to the extent of what was subjected to Zakat in the investee company [...]. The Authority deducted the Company's share in the investment in [...] Company from the Zakat base in the amount of SAR 47,623,309.33, with a difference of SAR 30,919,640 from what was stated in the Taxpayer's return for the year 2018 AD. Upon studying the objection, the Taxpayer's objection was rejected, considering that the Company owns a 49% share, and the equity according to the financial statements of [...] Company for 2018 AD is SAR 161,428,929, of which the objected Company's share is SAR 79,100,175 (i.e., 49% of equity), in addition to the Saudi partner's share thereof (60%), amounting to SAR 47,460,105, which represents the portion subjected to Zakat in the Company. Consequently, investments were deducted to the extent of what was subjected to Zakat in the investee company [...]. Furthermore, the Authority reviewed the case documents, and it was not evident that the Taxpayer submitted any supporting documentation for that clause. Moreover, the Authority reviewed the certified public accountant's report included within the special purpose consolidated financial statements for the year 2018 AD, which contained a qualification regarding the value invested in this company, as the Authority audited the statements of [...] Company, of which [...] owns 49%, and it became evident that the invested amount is less than declared. As for the Circuit's grounds, the Authority responds that they are incorrect and contrary to statutory requirements, affirming the correctness and soundness of the Authority's procedure.

Regarding the clause of (Not deducting the Saudi partner's share in long-term balances due from subsidiary companies [debit advances] from the Zakat base), the Authority states that the decision concluded to record the termination of the dispute regarding the aforementioned clause based on the Authority's acceptance of the Plaintiff's objection in accordance with the Authority's Statement of Defense No. (1). In this regard, the Authority asserts that the decision erred in its conclusion; the Authority accepted the Taxpayer's objection regarding this clause by deducting investments to the extent of the Company's share percentage in what was subjected to Zakat in the investee companies. The Circuit did not clarify in its decision the details of the dispute's termination between the Taxpayer and the Authority, relying only on what was stated in the Authority's memorandum, which may cause confusion between the case parties in interpreting the Circuit's judicial conclusion regarding the clause.

Regarding the clause of (Late payment penalty), the Authority states that the Circuit issuing the appealed decision accepted the Taxpayer's objection to the delay penalty clause and waived it as a consequential result of the clauses appealed above. Since the Authority has appealed these clauses, it requests the imposition of the late payment penalty on the tax differences unpaid by the statutory deadline, pursuant to Article (77), Paragraph (A) of the Income Tax Law, and Article (68), Paragraph (1/B) of the Implementing

Regulations of the Income Tax Law. Accordingly, the Authority requests the acceptance of its appeal and the revocation of the Adjudication Circuit's decision, while reserving its right to submit further responses and clarifications prior to the closing of pleadings.

On Wednesday, 02/10/2024 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the procedures for remote visual litigation, pursuant to Item No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the request to suspend the proceedings filed in the case file by the parties, the Circuit decided to suspend the case proceedings in accordance with Article (43) of the Rules of Operation for the Zakat, Tax, and Customs Committees, which stipulates the suspension of proceedings for a period not exceeding (one hundred and eighty) days.

On 06/04/2025 AD, the Authority submitted a request to resume the case proceedings.

On Tuesday, 02/09/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at exactly 12:30 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the procedures for remote visual litigation, pursuant to Item No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the litigants, the Authority's representative / [...] (National ID No. [...]) attended pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH, while no representative for the Taxpayer attended despite being statutorily notified of this hearing date. Upon asking the Authority's representative if she wished to add anything, she stated that she adheres to what was previously submitted in this case. Accordingly, the Circuit decided to adjourn the consideration of the case for further study to the hearing on Tuesday, 09/09/2025 AD.

On Tuesday, 09/09/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at exactly 11:30 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the procedures for remote visual litigation, pursuant to Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax, and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling the litigants, the Authority's representative / [...] (National ID No. [...]) attended pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (.....) dated 19/03/1445 AH, while no representative for the Taxpayer attended despite being statutorily notified of this hearing date. Following the closing of pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Circuit that the conditions for considering the appeal formally have been met, in accordance with the conditions stipulated in the relevant laws, regulations, and decisions. Thus, both appeal requests are procedurally accepted, as they were submitted by parties with the proper capacity and within the statutory period prescribed for their submission.

On the Merits:

Regarding the Authority's appeal concerning the clause of (Not deducting unrealized investment gains from the book net profit), and whereas Paragraph No. (4) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated "the following shall be deducted from the Zakat base: 4-(A): Investments in entities inside the Kingdom - in partnership with others - if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base." Moreover, Paragraph (H) of the same Article stipulated: "H- For Zakat purposes, the results of revaluing securities, whether profit or loss, shall be taken into consideration according to the market value." For these reasons, and since the provisions of the aforementioned Implementing Implementing Regulations for Zakat Collection stipulated taking into consideration the results of revaluing securities investments according to the fair value shown in the financial statements; and whereas the dispute lies in the non-deduction of the value of unrealized gains amounting to SAR 18,738,913, where the Authority argues that the Taxpayer failed to provide sufficient documents clarifying the nature of the investments; and since the acceptance or non-acceptance of deducting profits or losses is not linked to the principal; therefore, the Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the clause of (Not deducting unrealized investment gains from the book net profit).

Regarding the Authority's appeal concerning the clause of (Investments in local entities - [...] Company), whereas Paragraph No. (4/A) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated "the following shall be deducted from the Zakat base: 4-(A): Investments in entities inside the Kingdom - in partnership with others - if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base." For these reasons, and whereas the dispute concerns the Authority's claim to deduct the Company's share in the investment in [...] Company in the amount of SAR 47,460,105 from the Zakat base, which represents the Saudi partner's share of 60% of the Company's total share in the investee company amounting to SAR 79,100,175, which in turn represents 49% of the capital of [...] Company (the investee). Since the general principle for investments in Saudi companies registered with the Authority—which file their returns with

the Authority and pay Zakat accordingly—is that they are fully deducted; and since the Taxpayer owns 49% of the capital of [...] Company, for which [...] Company paid Zakat in accordance with the Zakat returns and financial statements of [...] Company (the investee), through which it became evident that Zakat was fully paid on these investments and the investing Company's (Taxpayer's) share was subject to Zakat; therefore, the Circuit concludes to reject the Authority's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Investments in local entities - [...] Company).

Regarding the Taxpayer's appeal concerning the clause of (Not deducting the Company's share in the investment profits in [...] Company), based on Ministerial Resolution No. (3294) issued on 15/11/1431 AH, which includes: "A- Regarding the income realized from its investments in another capital company resident inside the Kingdom, to avoid a double taxation burden, this income shall be excluded from tax subjection provided the following controls are met: 1- This income has previously been subject to tax in the Kingdom. 2- The contribution percentage in the investee company is not less than 10%. 3- The holding period of the shares is not less than one year." For these reasons, and whereas the dispute concerns the Authority's procedure of not accepting the deduction of the Company's share in the investment profits in [...] Company from the adjusted net profit in the amount of SAR 494,848, due to realizing losses in the year's result for [...] Company for the year 2018 AD. Upon the Circuit's review of the case file, it became evident from the financial statements of [...] Company (the statement of profit or loss and the statement of comprehensive income) that it realized losses during the year, not profits; consequently, there are no profits that were subjected to Zakat. Furthermore, the investments subject to Zakat were fully deducted, which include the year's profits. Thus, deducting them from the year's profit would result in a double deduction, once within the investment balance and again within the adjusted profits for the year. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the Company's share in the investment profits in [...] Company).

Regarding the Taxpayer's appeal concerning the clause of (Not deducting the non-Saudi partner's share in the adjusted carried-forward losses from the tax base), whereas Paragraph (1) of Article (11) of the Implementing Regulations of the Income Tax Law issued by Ministerial Resolution No. (1535) dated 11/06/1425 AH stipulated that "the taxpayer has the right to carry forward adjusted operational losses, subject to the controls of the Law and these Regulations for tax purposes, to the tax years following the loss year by reducing the profits of subsequent years until the accumulated operational losses are fully recovered, without being bound by a specific period, provided that the maximum limit allowed for deduction in each tax year does not exceed 25% of the annual profit according to the taxpayer's return." And based on Paragraphs (A, B) of Article (21) of the Income Tax Law issued by Royal Decree No. (M/1) dated 15/01/1425 AH concerning carrying forward losses, which stipulated the following: "A- Net operational losses may be carried forward to the tax year following the year in which the loss was realized, and the carried-forward loss shall be deducted from the tax base of the subsequent tax years until the

accumulated loss is fully recovered. The Regulations shall determine the maximum limits allowed to be deducted annually. B- The net operational loss is the allowable deductions pursuant to this chapter that exceed the taxable income in the tax year." For these reasons, since the dispute concerns the Authority's non-acceptance to deduct the non-Saudi partner's share in the adjusted losses from the tax base for the year 2018 AD not exceeding 25%, as the Authority argues that the Taxpayer did not deduct any losses within the return for the years 2017 AD and 2018 AD within the limit of 25% of the adjusted return net profit, whereas the Taxpayer asserts its right to deduct the non-Saudi partner's share from the carried-forward losses in accordance with the text of Article (21) of the Tax Law. Upon the Circuit's review of the case file and the defenses and documents it contained, it became evident that the Taxpayer declared a profit of SAR 329,091 in its return for the year 2018 AD, and whereas the Authority partially accepted the Taxpayer's objection by deducting the carried-forward losses at a rate of 25%, amounting to SAR 82,273 from the profit declared in the Taxpayer's return. Since the Taxpayer did not submit any new defenses and merely repeated what was previously stated before the Adjudication Circuit, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the non-Saudi partner's share in the adjusted carried-forward losses from the tax base.

Regarding the Taxpayer's appeal concerning the clause of (Not deducting the utilized amount from the provision for doubtful debts), whereas Paragraph (3) of Article (9) of the Implementing Regulations of the Income Tax Law issued by Ministerial Resolution No. (1535) dated 11/06/1425 AH stipulated that: "The expenses that may be deducted to determine the taxable income are: 3- Bad debts subject to the following controls: a- The bad debts must have been previously declared in the return within the taxpayer's income in the year the income was realized. b- The bad debts must result from the sale of goods or provision of services. c- The taxpayer must submit a certificate from its certified public accountant stating that these debts have been written off the books pursuant to a decision by the authorized person. d- All legal procedures must have been taken to collect the debts, and the impossibility of collection must be proven by convincing evidence, such as the issuance of a judicial ruling or proving the debtor's bankruptcy. e- The debts must not be owed by parties related to the taxpayer. f- The taxpayer commits to declaring the debts within its income when collected." Furthermore, based on Paragraph (3) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, which stipulated: "Bad debts are considered deductible expenses subject to the following controls: a- They must have been previously declared within the taxpayer's income in the year the income was realized. b- The bad debts must result from the practice of the activity. c- The taxpayer must submit a certificate from its certified public accountant stating that these debts have been written off the books pursuant to a decision by the authorized person. d- The debts must not be owed by parties related to the taxpayer. e- The taxpayer commits to declaring the debts within its income when collected." For these reasons, and whereas the dispute concerns the non-deduction of the utilized amount from the provision for doubtful debts from the

net profit for both tax and Zakat aspects in the amount of **SAR 24,798** for the year 2018 AD; where the Authority argues that the Taxpayer failed to submit the documents stipulated in the provisions of the Implementing Regulations for Zakat Collection and the Implementing Regulations of the Income Tax Law referred to above to prove the debt write-off; while the Taxpayer argues that the statutory controls were met before writing off the debt, they were declared as revenues in previous years, the bad debts resulted from providing services, and added that the write-off was based on statutory accounts audited by a licensed certified public accountant in the Kingdom, which, in its view, serves as an alternative to the certified public accountant's certificate. Upon the Circuit's review of the case file, it became evident that the Taxpayer did not submit the documents stipulated in the provisions of the Implementing Regulations for Zakat Collection and the Implementing Regulations of the Income Tax Law referred to above. Consequently, the Taxpayer did not meet the statutory controls for the Zakat and tax aspects, and merely repeated the same defenses previously submitted before the Adjudication Circuit. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the utilized amount from the provision for doubtful debts).

Regarding the Taxpayer's appeal concerning the clause of (Deducting the utilized balance of provisions from the net profit instead of the Zakat base), whereas Paragraph (9) of Clause (First) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated"The Zakat base consists of all the taxpayer's funds subject to Zakat, including: 9- Provisions at the beginning of the year (excluding the provision for doubtful debts for banks) after deducting the utilized amount thereof during the year." For these reasons, and whereas the dispute concerns the Taxpayer's claim to deduct the utilized provisions from the adjustments to the net profit, considering them as actual allowable deductible Zakat expenses, while the Authority argued that it did not accept the deduction of the utilized provisions amounting to SAR 685,825 from the Zakat base for the year 2018 AD, as they were deducted within the provisions movement. Upon the Circuit's review of the provisions movement attached to the Authority's memorandum, it became evident that it adjusted the deduction of the utilized provisions as stated in the attached statement of provisions movement, since the Taxpayer did not provide the provisions movement. Since the Zakat treatment for the utilized provisions entails deducting them from the beginning balance of provisions, and since the Authority applied the Zakat treatment to the Saudi partner's share in the provisions clause through the beginning balance of provisions; and considering that the provision for doubtful debts was adjudicated in the clause relating to (Not deducting the utilized amount from the provision for doubtful debts), wherein the Circuit's decision concluded to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision; therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting the utilized balance of provisions from the net profit instead of the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Not deducting differences of accumulated losses), whereas Paragraph (9) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated that: "The following shall be deducted from the Zakat base: 9- The adjusted carried-forward net loss according to the Authority's assessments, only after adding back the provisions or reserves by which the loss was previously reduced in the year of their formation." And whereas Article (70) of the Law of Shari'a Procedure issued by Royal Decree No. (M/1) dated 22/01/1435 AH stipulated that "litigants may, at any stage of the case, request the court to record their agreed-upon acknowledgment, settlement, or otherwise in the case minutes, and the court must issue a deed to that effect." Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Shari'a Procedure issued by the Minister of Justice's Decision No. (39933) dated 19/05/1435 AH stipulated that "if an agreement is reached before recording the case, the substance of the case and the response must be recorded before documenting the agreement, provided that the original case falls within the Circuit's jurisdiction, even if the substance of the agreement falls under the jurisdiction of another court or Circuit, on the condition that the subject matter of the case or part thereof is among the agreed-upon matters." For these resons, and since the carried-forward losses that are allowable to be deducted from the Zakat base are the adjusted losses according to the assessments issued by the Authority after adding back the provisions by which the loss was previously reduced in the year of their formation; and whereas the Adjudication Circuit's appealed decision concluded to reject the Taxpayer's objection and approve the loss amount of SAR 32,751,267 prior to the Authority's partial acceptance to deduct the amount of SAR 45,486,980.40. Given that the Taxpayer's claim aims to record the partial acceptance of the clause in accordance with the Authority's memorandum as follows: "...Accordingly, the Company primarily requests the recording of the Authority's partial acceptance of the Company's objection..."; thus, the Circuit concludes to record the termination of the dispute regarding the Taxpayer's appeal in relation to the amount of SAR 45,486,980.40. As for the Taxpayer's appeal regarding the amount of SAR 11,717,618.60, which represents the difference between what was stated in the Zakat return amounting to SAR 57,204,599 and what was accepted by the Authority and the dispute recorded as terminated at the amount of SAR 45,486,980.40; since what is considered in carried-forward losses for Zakat purposes is what has been adjusted according to the requirements of the Zakat Law, not the carried-forward losses listed in the financial statements; and since it became evident that the Authority deducted the adjusted carried-forward losses according to its assessment after adjusting them with the provisions that were added back in the year of their formation, which demonstrates the correctness of the Authority's procedure. Therefore, the Circuit concludes to reject the Taxpayer's appeal and amend the Adjudication Circuit's decision regarding the amount of SAR 11,717,618.60 instead of SAR 24,453,332.

Regarding the Taxpayer's appeal concerning the clause of (Adding the Saudi partner's share of accrued expenses to the Zakat base), whereas Paragraph (5) of Article (4) of the Implementing Regulations for Zakat

Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated: "5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- What remains of them in cash and has completed a Zakat Year (Al Hawl). b- What has been used of them to finance assets in possession. d- What has been used of them in trading assets and has completed a Zakat Year (Al Hawl)." For these reasons, accrued expenses are considered one of the components of the Zakat base regardless of their type, source, or classification, provided that they complete a Zakat Year (Al Hawl) or are used to finance assets deducted from the base without requiring a Zakat Year (Al Hawl) to elapse. Whereas it became evident that the Authority calculated the lapse of a Zakat Year (Al Hawl) based on the movement submitted by the Taxpayer, in accordance with the provisions of Paragraph (5) of Article (4) of the Implementing Regulations for Zakat Collection; and upon the Circuit's review of the case file, it became evident that the Taxpayer failed to submit the detailed movement statement of accrued expenses matching the financial statements to verify that a Zakat Year (Al Hawl) had not elapsed. This is not undermined by the Taxpayer's indication that these debts are used to finance working capital, as these debts are subject to Zakat even when used to finance the company's working capital. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Adding the Saudi partner's share of accrued expenses to the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Adding investments in local entities), whereas Paragraph (4/A) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated "Investments in entities inside the Kingdom - in partnership with others - if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base." And based on Paragraph (3) of Article (20) of the same Regulations, which stipulated "taxpayer shll bear the burden of proof regarding the validity of the clauses listed in the taxpayer's Zakat return and any other data. In the event that the taxpayer is unable to prove the validity of what is stated in its return, the Authority may disallow the clause whose validity is not proven by the taxpayer, or perform an estimated assessment according to the Authority's view in light of the circumstances, facts associated with the case, and information available to it." For these reasons, two essential conditions must be met to consider investments as capital assets (assets in possession) that may be deducted from the Zakat base: a declared and proven intention from the authorized person clarifying the purpose of the investment, and the absence of any sale transactions thereon during the year. The dispute between the two parties concerns the investments in [...] Company and investments in [...] Fund. Since funds are characterized by pooling amounts from various sources to invest them in diverse fields, and the fund has an independent financial liability from the investment entity that issued it, and is based on turning over funds and trading them through buying and selling rather than possession; therefore, investing in these funds is deemed in the

ruling of trading assets and may not be deducted from the Zakat base. This is not altered by the investment duration in the fund; rather, the consideration is given to the nature of the investment, since they are trading funds rather than possession funds. As for the investment in [...] Company, the Authority stated that [...] Company was registered with the Authority at a date following the date of the amended Articles of Association dated 24/04/2019 AD; thus, the investment share was not subject to Zakat in the year 2018 AD, and the Taxpayer did not provide proof of its subjection to Zakat. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Adding investments in local entities).

Regarding the Taxpayer's appeal concerning the clause of (Not deducting foreign investments from the Zakat base), whereas Paragraph (4/B) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated "investments in entities outside the Kingdom - in partnership with others - provided that the taxpayer calculates within its Zakat return the Zakat due on these investments according to the rules stipulated in these Regulations and pays it to the Authority, while attaching audited accounts from a certified public accountant approved in the country of investment and authenticated by the official authorities. If the taxpayer does not commit to calculating and paying Zakat accordingly, they shall not be deducted from the Zakat base." And based on Paragraph (3) of Article (20) of the same Regulations, which stipulated " The burden of proof regarding the validity of the clauses listed in the taxpayer's Zakat return and any other data shall rest on the Taxpayer ..." For these reasons, where the dispute between the two parties concerns the Authority's non-deduction of the Saudi partner's share in foreign investments amounting to SAR 44,160,384 from the Zakat base, as the Authority argues that the Taxpayer did not calculate within its Zakat return for the year 2018 AD the Zakat due on these investments, nor did it submit the financial statements thereof audited by an approved external auditor, nor did it provide proof of paying Zakat thereon; whereas the Taxpayer argues that the intention is possession for the purpose of generating returns, hence these investments were classified under non-current assets, and that Zakat for this type of investment is due on its yield rather than its principal. Upon the Circuit's review of the case file and the defenses and documents it contained, it became evident that the Taxpayer failed to submit the financial statements audited by an approved certified public accountant for the investee companies outside the Kingdom, nor did it submit a document proving the payment of the Zakat due on this investment. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting foreign investments from the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Deducting advance payments to purchase an investment from the Zakat base), whereas Paragraph (4/A) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, and Paragraph (3) of Article (20) of the same Regulations, for these resons, the dispute between the two parties concerns the

Authority's non-deduction of advance payments to purchase an investment amounting to SAR 1,631,250 from the Zakat base for the year 2018 AD; where the Authority argues that this amount is among the non-deductible items according to the provisions of the Implementing Regulations for Zakat Collection. In contrast, the Taxpayer argues that the advance payments are meant to finance an investment in [...] Company, and therefore may not be subjected to Zakat pursuant to Article (5) of the Implementing Regulations for Zakat Collection. Upon the Circuit's review of the financial statements and their disclosures, it became evident that this company paid an advance to [...] Company, and this paid amount relates to a potential project. Upon the Circuit's review of the case file, it became evident that the Taxpayer failed to submit supporting documentation clarifying the nature of this potential project and the extent to which it is subject to Zakat collection. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting advance payments to purchase an investment from the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Deducting prepaid expenses from the Zakat base for the year 2018 AD), whereas Paragraph (3) of Article (20) of the Implementing Regulations for Zakat Collection, based on the foregoing, the dispute between the two parties concerns the Authority's non-deduction of prepaid expenses amounting to SAR 378,953 from the Zakat base for the year 2018 AD. Upon the Circuit's review of the case file, it became evident that the Taxpayer failed to submit supporting documentation for these expenses to verify their nature and whether they are of a capital or revenue nature and related to subsequent periods. Since the Taxpayer did not submit any new defenses requiring review or comment, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting prepaid expenses from the Zakat base for the year 2018 AD).

Regarding the Taxpayer's appeal concerning the clause of (Employee loans from the Zakat base), whereas Paragraph (1/First) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated "the Zakat base consists of all the taxpayer's funds subject to Zakat, including: 1- Capital that has completed a Zakat Year (Al Hawl), as well as any increase therein even if it has not completed a Zakat Year (Al Hawl) if the source of this increase is one of the equity components or was financing for an asset in possession deducted from the Zakat base." For these reasons, where the dispute between the two parties concerns the Authority's non-deduction of loans extended to employees amounting to SAR 1,284,323 from the Zakat base for the year 2018 AD, as the Taxpayer argues that these amounts represent funds it loaned to its employees in accordance with business requirements and the company's commitment toward its employees; whereas the Authority argues that they are not among the deductible items. Upon the Circuit's review of the case file, it became evident that the clause under appeal represents debit balances (employee advances), and is considered an internal source of funds subject to Zakat within the capital in accordance with the Implementing Regulations. Regarding the Taxpayer's defense that these are restricted, unutilized funds, it is not a valid defense, given that employees

are contractually related parties to the Taxpayer, and the Taxpayer can collect these receivables. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Employee loans from the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Deducting security deposits from the Zakat base), whereas Paragraph (1/First) of Article (4) of the Implementing Regulations for Zakat Collection for theses reasons, the dispute between the two parties concerns the Authority's non-deduction of security deposits against a bank guarantee amounting to SAR 461,079 from the Zakat base for the year 2018 AD, as the Authority argues that it is not among the deductible items, while the Taxpayer argues that cash collateral deposited with a bank may not be subjected to Zakat since the company does not possess the right to dispose of it through investment or use in the activity, and its status is similar to banks' statutory deposits. Upon the Circuit's review of the case file, it became evident that the Taxpayer's activity consists of management, underwriting, managing investment funds, and managing clients' portfolios. Whereas a letter of guarantee is in reality a guarantee contract provided by the company to the bank, meaning it appears as a debit balance, and its purpose is to guarantee the commitment to fulfill a debt, and it is presented to the beneficiary to ensure that the bank guarantees the applicant's commitment to a specific action. In the event of non-compliance, the value of the letter is liquidated in favor of those entities. Because the letter of guarantee possesses specific characteristics, this does not remove it from this reality. Therefore, a guarantee with respect to the beneficiary does not entail ownership of the funds prior to performance; rather, it is a document through which fulfillment is sought upon maturity. Since a guarantee is a guarantee for what will be owed, and not a guarantee for something that is already owed by the client; and since funds in letters of guarantee and documentary letters of credit are considered Zakat-eligible funds subject to Zakat, and the amounts restricted by the Taxpayer in the letter of guarantee were restricted for the benefit of its growth, which does not prevent its full ownership and the obligatoriness of Zakat therein as long as the money remains within its ownership. As the Taxpayer did not submit any new influential defenses, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting security deposits from the Zakat base)

Regarding the Taxpayer's appeal concerning the clause of (Deducting unbilled revenues within trade receivables), the dispute between the two parties concerns the Authority's non-deduction of unbilled revenues within debit balances amounting to SAR 2,515,955 from the Zakat base for the year 2018 AD. The Taxpayer argues that these are accrued revenues not yet received by the Company and should not be subjected to Zakat until they are collected; whereas the Authority argues that these items are not among the deductible items pursuant to the provisions of Article (4) of the Implementing Regulations for Zakat Collection. Upon the Circuit's review of the case file, and since all revenues recognized in the income statement resulting from the application of accounting policies—including the accrual basis of accounting—are subject to Zakat collection in the year they are recognized in the financial statements,

whether billed or unbilled, according to accounting accrual principles. These are represented by the unbilled revenues clause within current assets in the audited financial statements. Consequently, whereas the clause under appeal was not among the Zakat base deduction clauses, and since the Taxpayer did not submit any new influential defenses and merely repeated what was previously stated before the Adjudication Circuit; therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting unbilled revenues within trade receivables).

Regarding the Taxpayer's appeal concerning the clause of (Deducting taxes from the Zakat base), whereas Paragraph (3) of Article (20) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated "The burden of proof regarding the validity of the clauses listed in the taxpayer's Zakat return and any other data shall rest on the Taxpayer..." For these reasons, the dispute between the two parties concerns the Authority's non-deduction of paid tax expenses concerning the foreign partner's share, where the Taxpayer requests the deduction of the Saudi partner's share of the paid tax expense, while the Authority argues that it is not among the deductible items pursuant to the provisions of Article (4) of the Implementing Regulations for Zakat Collection. Upon the Circuit's review of the case file and the defenses and documents it contained, and since the calculation of the tax expense is based solely on the foreign partner's share after making adjustments to the accounting net profit, the Zakat base of the Saudi partner will not be affected by the paid expense. Furthermore, as there is no statutory text permitting such deduction, and since the Taxpayer did not submit any new influential defenses and merely repeated what was previously stated before the Adjudication Circuit; therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting taxes from the Zakat base).

Regarding the Taxpayer's appeal concerning the clause of (Not deducting withholding taxes paid on 100% owned subsidiaries), whereas Paragraph (3) of Article (57) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated"the burden of proof regarding the validity of the revenues, expenses, and any other data listed in the taxpayer's return shall rest on the Taxpayer..." For these reasons, the dispute between the two parties concerns the Taxpayer's claim to deduct withholding taxes paid on 100% owned subsidiaries amounting to SAR 9,661,329, given that the Authority did not approve the withholding taxes paid to the Authority and included in the Company's base as advance payments (payments on account), whereas the Authority argues that the Taxpayer failed to submit the required documents. Upon the Circuit's review of the case file, it became evident that the Taxpayer failed to submit the documents requested by the Authority, namely: an analytical statement of revenues, a detailed breakdown at the branches level, and proof of payment of withholding taxes on the amounts paid to the head office. Since the Taxpayer did not submit any new influential defenses and merely repeated what was previously stated before the Adjudication Circuit; therefore, the

Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting withholding taxes paid on 100% owned subsidiaries).

Regarding the appeal of both parties concerning the clause of (Adding the Saudi partner's share of credit balances), whereas Paragraph (5/First) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated that"The Zakat base consists of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- What remains of them in cash and has completed a Zakat Year (Al Hawl). b- What has been used of them to finance assets in possession. c- What has been used of them in trading assets and has completed a Zakat Year (Al Hawl)." For these reasons, credit balances are considered one of the components of the Zakat base regardless of their type, source, or classification, provided that they complete a Zakat Year (Al Hawl) or are used to finance assets deducted from the Zakat base without requiring a Zakat Year (Al Hawl) to elapse. Upon the Circuit's review of the case file, it became evident that the Taxpayer submitted the detailed movement statement of the credit balances item and the approved financial statements, through which it was revealed that the balance of the submitted statement matches the balances of the financial statements. It was found that the amount that completed a Zakat Year (Al Hawl) stands at SAR 175,802, and the portion concerning the Saudi partner's share amounts to SAR 105,481. This is not undermined by the Taxpayer's indication that these debts are used to finance working capital, as they are subject to Zakat even if used to finance the company's working capital. Therefore, the Circuit concludes to reject the appeal of both parties and amend the Adjudication Circuit's decision regarding the clause of (Adding the Saudi partner's share of credit balances) by adding the credit balances that completed a Zakat Year (Al Hawl) according to the submitted movement and in proportion to the Saudi partner's share, amounting to SAR 105,481.

Regarding the appeal of both parties concerning the clause of (Not deducting the Saudi partner's share in long-term receivables from subsidiaries (debit advances) from the Zakat base), whereas Paragraph (4/A) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH stipulated"Investments in entities inside the Kingdom - in partnership with others - if such investments are subject to Zakat collection under these Regulations; however, if the investment in such entities is not subject to collection, it shall not be deducted from the base.

For these reasons, the dispute concerns the Authority's appeal against the Adjudication Circuit's decision, which concluded to record the termination of the dispute based on the Authority's acceptance of the Taxpayer's objection. The Authority asserts that the deduction of investments was accepted within the limit of the Company's share in what was subjected to Zakat in the investee companies, amounting to SAR 16,001,619, whereas the Taxpayer claims the deduction of the entire clause from the Zakat base. Upon the Circuit's review of the case file, it became evident that the Taxpayer submitted the financial statements of

[...] Company, through which it was revealed that it is classified under liabilities. Consequently, the Taxpayer has the right to deduct a portion of the loans from its Zakat base proportionate to its ownership percentage in the investee company, amounting to SAR 16,100,619. Therefore, the Circuit concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision, and reject the Taxpayer's appeal regarding the clause of (Not deducting the Saudi partner's share in long-term receivables from subsidiaries (debit advances) from the Zakat base).

Regarding the appeal of both parties concerning the clause of (Late payment penalty), whereas Paragraph (a) of Article (77) of the Income Tax Law issued by Royal Decree No. (M/1) dated 15/01/1425 AH stipulated that"in addition to the Circuitties provided for in Article (76) of this Law and in Paragraph (b) of this Article, the taxpayer shall pay a late payment penalty of one percent (1%) of the unpaid tax for every thirty days of delay. This includes the delay in payment of the required withholding tax and advance payments, calculated from the due date of the tax until the date of payment." And based on Paragraph (1) of Article (68) of the Implementing Regulations of the Income Tax Law issued by Ministerial Resolution No. (1535) dated 11/06/1425 AH, which stipulated "a penalty of 1% of the unpaid tax for every thirty days of delay shall be added to the Circuitties stipulated in the preceding Article in the following cases: b- Delay in paying the tax due under the Authority's assessment." Furthermore, Paragraph (3) of Article (67) of the same Regulations stipulated: "Unpaid tax means the difference between what the taxpayer paid on the statutory due date and the tax due for payment under the provisions of the Law. This includes the adjustments made by the Authority that have become final as stated in Paragraph (2) of Article (71) of these Regulations, including disputed cases, where the Penalty is calculated from the statutory due date for filing the return and payment." For these reasons, and upon the Circuit's review of the case file and the defenses and documents it contained, since the late payment penalty is calculated from the end of the specified period for filing the return until the date of paying the due tax arising under the application of the Law's provisions and the adjustments made by the Authority; and since the dispute between the two parties is a documentary dispute and did not arise from a valid difference in the interpretation of statutory texts. Accordingly, the correctness of the Authority's procedure in imposing the late payment penalty from the due date on the clauses where the Taxpayer's appeal was dismissed becomes evident, while the late payment penalty is dropped on the clauses where the Authority's appeal was rejected due to the dropping of the principal tax imposed. Therefore, the Circuit concludes to amend the Adjudication Circuit's decision regarding the appeal of both parties concerning the clause of the (Late payment penalty).

For these reasons and adopting the aforementioned reasons, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and

Customs Authority against the decision of the First Circuit for Income Tax Adjudicating Violations and Disputes in Jeddah No. (IZJ-2023-173116) issued in case No. (ZI-173116-2023) concerning the Zakat and tax assessment for the year 2018G.

Second: on the Merits:

1. To accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the clause of (Not deducting unrealized investment profits from the book net profit).
2. To reject the Authority's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Investments in local entities ([...] Company)).
3. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the Company's share in the investment profits in [...] Company).
4. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the non-Saudi partner's share in the adjusted carried-forward losses from the tax base).
5. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting the utilized amount from the provision for doubtful debts).
6. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting the utilized balance of provisions from the net profit instead of the Zakat base).
7. Regarding the Taxpayer's appeal concerning the clause of (Not deducting differences of accumulated losses):

   A- To record the termination of the dispute regarding the Taxpayer's appeal concerning the amount of SAR 45,486,980.40.

   B- To reject the Taxpayer's appeal and amend the Adjudication Circuit's decision regarding the amount of SAR 11,717,618.60.
8. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Adding the Saudi partner's share of accrued expenses to the Zakat base).
9. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Investments in local entities).
10. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting foreign investments from the Zakat base).
11. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting advance payments to purchase an investment from the Zakat base).

12. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting prepaid expenses from the Zakat base for the year 2018G).
13. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Employee loans from the Zakat base).
14. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting security deposits from the Zakat base).
15. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting unbilled revenues within trade receivables).
16. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deducting taxes from the Zakat base).
17. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not deducting withholding taxes paid on 100% owned subsidiaries).
18. To reject the appeal of both parties and amend the Adjudication Circuit's decision regarding the clause of (Adding the Saudi partner's share of credit balances).
19. To accept the Authority's appeal, annul the Adjudication Circuit's decision, and reject the Taxpayer's appeal regarding the clause of (Not deducting the Saudi partner's share in long-term receivables from subsidiaries (debit advances) from the Zakat base).
20. To amend the Adjudication Circuit's decision regarding the appeal of both parties concerning the clause of (Late payment penalty).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR -2025-246482

Case No. Z-246482-2024

Principle No. 45

Donations classified under accounts payable are funds subject to Zakat as long as they remain at the disposal of the taxpayer and have not been actually paid. Zakat becomes due on them upon the completion of a Zakat Year (Al Hawl), and this is not altered by their characterization as amounts allocated for charitable causes or by being maintained in a separate account.

Principle No. 46

Long-term provisions are among the components of the Zakat base, provided that they complete a Zakat Year (Al Hawl) and remain as a liability of the taxpayer, and they shall not be exempted there from merely for being allocated to cover future costs.

Principle No. 47

The deduction of the provision for impairment in value from the Zakat base is not accepted unless the taxpayer submits approved documents and financial statements proving that the provision is actually associated with the reduction in the value of capital works. Submitting analytical statements without proof of the actual impact of the provision is insufficient.

Facts:

The appeal filed on 03/12/2024 AD by [...], National ID No. (...), in his capacity as the authorized representative of the appellant Company under Power of Attorney No. (...) dated 04/07/1445 AH, and corporate representation license No. (...), and the appeal submitted by the Zakat, Tax and Customs Authority on 27/01/2022 AD, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah No. (IZJ-2024-240416) issued in case No. (Z-240416-2024) concerning the Zakat assessment for the year 2014 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, were reviewed:

First: To reject the Plaintiff's objection regarding the clause of assets held for disposal for the year 2014 AD.

Second: To reject the Plaintiff's objection regarding the clause of the balance of long-term provisions for the year 2014 AD.

Third: To reject the Plaintiff's objection regarding the clause of other adjustments for the year 2014 AD.

Whereas the Adjudication Circuit issued its aforementioned decision and reheard the case as a result of this Circuit's decision No. (IR-2024-92386), the Circuit reviewed the Adjudication Circuit's decision No. (IZJ-2024-240416) and decided to remand the case to the Adjudication Circuit to redraft the decision to include all clauses subject of the case and return it to the Appellate Circuit inclusive of all the Plaintiff's requests for adjudication, as the Circuit had not exhausted its judicial jurisdiction in resolving all the Plaintiff's requests.

As a result of this request, the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah issued its decision No. (IZJ-2025-239265) in case No. (Z-239265-2024), which ruled the following:

First: To amend the Defendant's procedure regarding the long-term loans clause, in accordance with the decision's reasoning.

Second: To reject the Plaintiff's objection regarding the provision for impairment in value clause.

Third: To reject the Plaintiff's objection regarding the donations clause.

Fourth: To reject the Plaintiff's objection regarding the creditors clause.

Fifth: To reject the Plaintiff's objection regarding the deferred contribution clause.

Sixth: To record the termination of the dispute regarding the paid Zakat clause.

Seventh: To record the termination of the dispute regarding the 'other' clause.

Eighth: To reject the Plaintiff's objection regarding the clause of assets held for disposal for the year 2014 AD.

Ninth: To reject the Plaintiff's objection regarding the clause of the balance of long-term provisions for the year 2014 AD.

Tenth: To reject the Plaintiff's objection regarding the clause of other adjustments for the year 2014 AD.

Since this decision was not accepted by both parties, each of them submitted an appeal brief summarizing the following:

Regarding the Taxpayer's appeal against the Adjudication Circuit's decision, concerning the clause of (Not allowing the deduction of assets held for disposal amounting to SAR 101,250,000 from the Zakat base for 2014 AD): The Taxpayer requests the annulment of the Circuit's decision regarding this clause, arguing that the appellant Company purchased turbines to generate electricity for King Abdullah Economic City. The purpose of these assets was generating electricity and generating income for the Company. However, the

Company later concluded a contract with the Saudi Electricity Company to supply it with electricity, which resulted in halting the use of these assets; accordingly, they were classified as assets held for sale. Thus, these assets were not purchased with the intention of selling them, but due to changing circumstances, the Company had to make the decision to sell them. Furthermore, the appellant Company is not in the trade (i.e., buying and selling) of electricity generation turbines. Consequently, these assets should be considered as fixed assets owned by the Company and must be allowed to be deducted from the Zakat base, as had the Company not purchased these assets, it would have used the funds to purchase other assets that aid in generating Zakat-eligible revenues.

Concerning the clause of (Adding the balance of long-term provisions amounting to SAR 5,099,000 to the Zakat base for 2014 AD), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, arguing that the appellant Company contracted with residential unit clients to provide property and city maintenance services. The costs of providing these services over the useful life of the residential unit for its clients are higher than the fees or costs charged by the Company to its clients. Therefore, the Company allocated this amount to cover the excess costs it may incur in the future.

Concerning the clause of (Other adjustments amounting to SAR 780), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, arguing that the difference between the Zakat liability—taking into account the various adjustments made by the Authority as part of its Zakat assessment—and the Zakat liability according to the assessment notice is (19.23), i.e., approximately (780) Riyals. Although the assessment is immaterial, it is important for the Company to be aware of it in the future.

Concerning the clause of (Donations), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, stating that these amounts represent a deposit in a bank based on a Board of Directors' decision to donate the amount earned from the founding shareholders' share in the capital, which was deposited in fixed deposits at a bank. The commission earned from this deposit was added to the amount donated for charitable purposes. The Taxpayer added that the Company did not use the funds deposited in the account and has no intention to use the funds for business purposes. Furthermore, the Company's management has no access to the bank account; only the Board of Directors has the authority to make decisions regarding the use of the funds. Accordingly, the funds are not in the Company's possession, and therefore, the Taxpayer requests the annulment of the Authority's procedure and not to add the donations balance to the Zakat base.

Concerning the clause of (Deferred contributions), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, stating that these amounts were received from clients regarding infrastructure assets and land, which were recognized as a liability to allow access to the sold properties. Moreover, this liability is amortized over the useful life of the infrastructure assets, and the amortization related to this matter is deducted from the depreciation of those infrastructure assets for that period.

Consequently, these funds are held for specific purposes in accordance with the Company's policy and cannot be settled with normal liabilities for Zakat purposes.

Concerning the clause of (Long-term loans), the Taxpayer requests the annulment of the Circuit's decision regarding this clause and objects to the Authority's procedure of adding long-term loans used to finance fixed assets amounting to (50) million Riyals related to Bank (...).

Concerning the clause of (Provision for impairment in value), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, stating that the provision arose from the impairment in the value of capital works in progress declared under the (Property, Plant, and Equipment) item. The Taxpayer mentioned requesting the deduction of capital works in progress on a net basis from the Zakat base (i.e., the closing value minus the provision for impairment in value).

Concerning the clause of (Trade creditors), the Taxpayer requests the annulment of the Circuit's decision regarding this clause, arguing that the balances of trade creditors consist of multiple current accounts, and that if the Authority were to aggregate the accounts of the creditor entities, there would be a lower liability. The Taxpayer also stated that the movement of trade creditors was submitted through the objection letter.

Regarding the Authority's appeal against the Adjudication Circuit's decision, the Authority's appeal concerns the clause of (Long-term loans). The Authority states that during the assessment, it added (750) million Riyals to the Zakat base due to the completion of a Zakat Year (Al Hawl) on the amount and the financing of additions to fixed assets. Accordingly, the Authority requests the acceptance of its appeal and the annulment of the Adjudication Circuit's decision, and it reserves the right to submit further responses and clarifications before the closing of pleadings.

On Tuesday, 26/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 01:00 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the litigants, [...] attended, National ID No. (...), in his capacity as the authorized representative of the Taxpayer under Power of Attorney No. (...) issued on 01/06/1446 AH, and legal practice license No. (...). The Authority's representative, [...] (National ID No. ...), also attended under an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (...) dated 19/03/1445 AD. Upon asking the Taxpayer's representative if he wished to add anything, he stated that he adheres to what was previously submitted in this case. When this was presented to the Authority's representative, she referred to the supplementary memorandum in the original case, and also referred to the supplementary memorandum submitted via the system yesterday evening. Upon presenting this to the Taxpayer's representative, he requested time to review and respond. Accordingly, the Circuit decided to grant the Taxpayer a grace period of 10 days to submit what they have

to the General Secretariat, ending on 05/09/2025 AD. After this date, the pleadings will be closed, and the case will be raised for deliberation and the issuance of a decision, and the Circuit will not accept any new documents or memoranda not submitted before the aforementioned date. The next session will be on 16/09/2025 AD, for the pronouncement of the decision.

On Tuesday, 16/09/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 09:00 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the litigants, [...] attended, National ID No. (...), in his capacity as the authorized representative of the Taxpayer under Power of Attorney No. (...) issued on 01/06/1446 AH, and legal practice license No. (...). The Authority's representative, [...] (National ID No. ...), also attended under an authorization issued by the Vice Governor of the Zakat, Tax and Customs Authority for Legal Affairs under No. (...) dated 19/03/1445 AH after the closing of pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by both the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Circuit that the requirements for reviewing the appeals procedurally have been satisfied pursuant to the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, both appeal requests are accepted procedurally, as they were submitted by qualified parties and within the prescribed statutory time limit.

On the merits:

Concerning the Taxpayer's appeal regarding the clause of (Not allowing the deduction of assets held for disposal amounting to SAR 101,250,000 from the Zakat base for the year 2014 AD), whereas Paragraph (1) of Clause (Second) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated "the following shall be deducted from the Zakat base: 1- Fixed assets, which include: the net value of fixed assets (assets in possession) and any payments for purchasing fixed assets, and the value of spare parts not intended for sale, provided that these assets are owned by the Taxpayer—unless there is an impediment preventing the transfer of ownership—and that they are used in the activity." Furthermore, Paragraph (3) of Article (20) of the same Regulations stipulated " The burden of proof regarding the validity of the items listed in the taxpayer's Zakat return and any other data shall rest on the Taxpayer. In the event that the taxpayer is unable to prove the validity of what is stated in their return, the Authority may disallow the clause whose validity has not been proven by the Taxpayer, or perform an estimated assessment according to the Authority's point of view in light of the circumstances and facts associated with the case and the information available to it." For these reasons, the dispute

concerns the Taxpayer's request to deduct assets held for disposal amounting to SAR 101,250,000 from the Zakat base for the year 2014 AD; and upon the Circuit's review of the case file, it became evident that these assets represent power generators that the Taxpayer decided to sell during the disputed year due to halting their use. Accordingly, it is evident that these assets are not considered assets in possession (fixed assets) and may not be deducted from the Zakat base pursuant to the provisions of Paragraph (1) of Article (4) of the aforementioned Implementing Implementing Regulations for Zakat Collection. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not allowing the deduction of assets held for disposal amounting to SAR 101,250,000 from the Zakat base for the year 2014 AD).

Concerning the Taxpayer's appeal regarding the clause of (Adding the balance of long-term provisions amounting to SAR 5,099,000 to the Zakat base for the year 2014G), whereas Paragraph (9) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated: "First: The Zakat base consists of all the taxpayer's funds subject to Zakat, including: 9- Provisions at the beginning of the year (except for doubtful debts provisions for banks) after deducting the utilized portion during the year." Furthermore, Paragraph (3) of Article (20) of the same Regulations stipulated that the burden of proof shll rest on the Txpayer. Based on the foregoing, whereas provisions are considered among the components of the Zakat base if they complete a Zakat Year (Al Hawl); and upon reviewing the appeal brief submitted by the Taxpayer, it became evident that the Taxpayer did not dispute the completion of a Zakat Year (Al Hawl) on these amounts, but merely argued that they are amounts allocated to cover costs. Whereas these allocated amounts have completed a Zakat Year (Al Hawl)—totaling SAR 5,099,000—and remain as a liability of the Taxpayer, it is evident that Zakat is due on them. Accordingly, since the Taxpayer failed to introduce any new arguments in its appeal brief, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Adding the balance of long-term provisions amounting to SAR 5,099,000 to the Zakat base for the year 2014 AD).

Concerning the Taxpayer's appeal regarding the clause of (Other adjustments amounting to SAR 780): Whereas Paragraph (3) of Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated that the taxpayer shll bear the burden of proof. For these reasons, whereas the decision of the Circuit under appeal concluded to reject the clause due to the Taxpayer's failure to submit proof of filing an initial grievance before the Authority; and upon the Circuit's review of the Taxpayer's appeal brief, it was found to be devoid of any substantive defenses, as the Taxpayer merely referenced the objection to the amount of SAR 780. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Other adjustments amounting to SAR 780).

Concerning the Taxpayer's appeal regarding the clause of (Donations), whereas Paragraph (5/First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated "the Zakat base consists of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- What remains of them in cash and has completed a Zakat Year (Al Hawl). b- What has been used of them to finance assets in possession. c- What has been used of them in trading assets and has completed a Zakat Year (Al Hawl)." Furthermore, Paragraph (3) of Article (20) of the same Regulations stipulated that the burden of proof shall rest on the Taxpayer. For these reasons, where the dispute concernsthe Taxpayer's request not to add the accrued donations to the Zakat base on the grounds that they do not fall under the clauses stipulated in Paragraph (5/First) of Article (4) of the aforementioned Implementing Implementing Regulations for Zakat Collection; and upon the Circuit's review of the case file and the documents submitted by the Taxpayer, it became evident that the amounts are not held in a bank account that the Company cannot utilize, as the clause is classified under accounts payable and thus cannot be deemed non-disposable funds. This was confirmed by the Taxpayer in its supplementary memorandum, noting that the disputed amounts are in a separate account, held in trust, and are disbursed for charitable causes as required. Consequently, Zakat is due on these amounts once they complete a Zakat Year (Al Hawl). This is not undermined by the Taxpayer's mention that these amounts are paid to the poor and to support schools, as the Authority's procedure consisted of adding the opening balance minus the amounts actually paid or settled against those donations. Therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit’s decision regarding the clause of (Donations)

Concerning the Taxpayer’s appeal regarding the clause of (Deferred contributions), whereas Paragraph (5/First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated"the Zakat base consists of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- What remains of them in cash and has completed a Zakat Year (Al Hawl). b- What has been used of them to finance assets in possession. c- What has been used of them in trading assets and has completed a Zakat Year (Al Hawl)." Furthermore, Paragraph (3) of Article (20) of the same Regulations stipulated that the burden of proof regarding the validity of the clauses listed in the taxpayer's Zakat return and any other data shall rest on the Taxpayer, and in the event that the taxpayer is unable to prove the validity of what is stated in their return, the Authority may disallow the item whose validity has not been proven, or perform an estimated assessment. For theses reasons, whereas deferred contributions are considered among the components of the Zakat base provided that they complete a Zakat Year (Al Hawl); and whereas the Authority’s procedure consisted of adding the portion of the disputed clause that completed a Zakat Year

(Al Hawl); and whereas the Taxpayer submitted an appeal brief that merely reiterated what had already been raised before the Adjudication Circuit during its consideration of the dispute regarding this clause; and whereas there is no fault in adopting the conclusion reached by the decision under appeal with respect to the clause under consideration, and since we found nothing that requires any amendment or comment on the conclusion reached by that decision regarding the objection to the clause under consideration; therefore, the Circuit concludes to reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deferred contributions).

Concerning the appeal of both parties regarding the clause of (Long-term loans), whereas Article (70) of the Law of Sharia Procedures, issued by Royal Decree No. (M/1) dated 22/01/1435 AH, stipulated that"the litigants may request the court, at any stage of the case, to record whatever they have agreed upon by way of an admission, a settlement, or otherwise in the minutes of the lawsuit, and the court must issue a deed to that effect." Furthermore, Paragraph (1) of Article (70) of the Implementing Regulations of the Law of Sharia Procedures, issued by Resolution of the Minister of Justice No. (39933) dated 19/05/1435 AH, stipulated that"If the agreement is reached before the case is recorded in the minutes, the substance of the case and the response must be recorded before entering the agreement, taking into account that the core of the case must fall within the jurisdiction of the Circuit, even if the substance of the agreement falls within the jurisdiction of another court or Circuit, provided that the subject matter of the case, or part thereof, is included in what has been agreed upon." For these reasons, whereas it has been proven to this Circuit that the Authority accepted the Taxpayer's objection regarding this clause pursuant to its supplementary statement of defense dated 25/08/2025 AD, which stated"the Authority informs your esteemed Circuit that, after study and verification, it accepts the Taxpayer's objection regarding this clause, and accordingly, the dispute between the Authority and the Taxpayer in this regard is deemed resolved." Moreover, the Taxpayer submitted a supplementary memorandum dated 09/09/2025 AD, which included the following: "as clarified in the aforementioned Articles of the Authority, the Authority thankfully stated that, after study and verification, it accepts the Company's objection regarding the long-term loans clause, and therefore, the dispute over this clause is considered resolved between the Company and the Authority." Accordingly, the Circuit must establish the settlement of the dispute with respect to the appeal of both parties concerning (Long-term loans).

Concerning the Taxpayer's appeal regarding the clause of (Provision for impairment in value): Whereas Paragraph (3) of Article (20) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AD, stipulated that the the taxpayer shll bear the burden of proof regarding the validity of the clauses listed in the taxpayer's Zakat return and any other data, and in the event that the taxpayer is unable to prove the validity of what is stated in their return, the Authority may disallow the item whose validity has not been proven, or perform an estimated assessment.

For these reasons, and upon the Circuit's review of the case file, it became evident that the Authority accepted the deduction of the amounts associated with the impairment in value of capital works as disclosed in the financial statements for the year 2013 AD. As for the remaining amount, whereas the Taxpayer submitted the financial statements for the years from 2011 AD to 2013 AD, through which it did not become clear that these provisions are actually related to capital works; and whereas the Taxpayer failed to submit the financial statements for the year 2010 AD—which is the year of the provision's formation and through which the reduction of the amount could be verified—and merely submitted an analysis of the movement of the impairment provision; therefore, it is not possible to verify through the statement alone that the capital works were reduced by the provisions rejected by the Authority. Accordingly, the Circuit must dismiss the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Provision for impairment in value).

Concerning the Taxpayer's appeal regarding the clause of (Trade creditors), whereas Paragraph (5/First) of Article (4) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated"The Zakat base consists of all the taxpayer's funds subject to Zakat, including: 5- Government and commercial loans and similar other sources of financing, such as creditors, notes payable, and bank overdrafts owed by the taxpayer, in accordance with the following: a- What remains of them in cash and has completed a Zakat Year (Al Hawl). b- What has been used of them to finance assets in possession. c- What has been used of them in trading assets and has completed a Zakat Year (Al Hawl)." For these reasons, where the dispute concerns adding the portion of credit balances that completed a Zakat Year (Al Hawl), and the Taxpayer requests the addition of the portion that completed a Zakat Year (Al Hawl) out of those balances in accordance with the movement statement submitted by it; and upon the Circuit's review of the case file, it became evident that the Taxpayer argues that the amounts that completed a Zakat Year (Al Hawl) are less than what the Authority added. Furthermore, the document submitted by the Taxpayer is a statement that was not extracted from the system, and the validity of the amounts listed therein cannot be verified, nor can it be reconciled with the financial statements to verify the accuracy of those balances. Accordingly, whereas the dispute is a documentary dispute, and the Taxpayer has not introduced any new arguments other than what was presented before the Adjudication Circuit; therefore, the Circuit must reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Trade creditors).

For these reasons, and adopting the abovementioned reasons, the Circuit unanimously decided the following:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer/ [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and

Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah No. (IZJ-2025-239265) issued in Case No. (Z-239265-2024) concerning the Zakat assessment for the year 2014G.

Second: on the Merits:

1. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Not allowing the deduction of assets held for disposal amounting to SAR 101,250,000 from the Zakat base for the year 2014 AD).
2. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Adding the balance of long-term provisions amounting to SAR 5,099,000 to the Zakat base for the year 2014 AD).
3. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Other adjustments amounting to SAR 780).
4. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Donations).
5. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Deferred contributions).
6. To record the settlement of the dispute with respect to the appeal of both parties concerning (Long-term loans).
7. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Provision for impairment in value).
8. To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding the clause of (Trade creditors).

Estimated Assessment

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-246581

Case No. Z-246581-2024

Principle No. 48

The estimated assessment must take into account the nature of the taxpayer's activity and the data available to the administrative entity, and it shall not lead to charging the taxpayer with more than what is due. Such an overcharge constitutes a violation of public policy that is neither cured by the expiration of the objection period nor by the issuance of a prior decision, and the assessment shall be annulled whenever it is flawed by a defect in estimating revenues.

Facts

The appeal filed on 13/12/2024 AD by [...], National ID No. (...), in his capacity as the owner of the appellant Establishment, against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-240847) issued in Case No. (Z-240847-2024) concerning the estimated Zakat assessment for the year 1444 AH, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

Non-admissibility of the case submitted by the Plaintiff/ [...], National ID No. (...), owner of [...], Commercial Registration No. (...), against the Defendant / Zakat, Tax and Customs Authority, in accordance with what is stated in the reasoning.

Since this decision was not accepted by the Taxpayer, he submitted an appeal brief, which the Circuit reviewed, and it included the following summary:

Regarding the Taxpayer's appeal against the Adjudication Circuit's decision, concerning the estimated Zakat assessment for the year 1444 AH, the Taxpayer argued that he was not notified of the statutory time limit for objection, as he was notified of the decision on 10/10/2023 AD, but did not receive a notice of the objection deadline, nor was the legal period for objection clarified. He added that he was not notified of the session date before the Circuit that issued the decision.

Substantively, he argued that the Authority should have taken into consideration that reinvested capital is not considered a Zakat-eligible gain. Rather, the profit generated from purchasing and selling fuel is a simple gain through which the capital is periodically recycled, meaning it does not warrant full Zakat as it was calculated. Consequently, calculating Zakat on the total account without taking into account the difference

between the capital and the gains is a gross legal violation and is unfair to his legitimate commercial practices. He noted that the gains realized from selling fuel are marginal gains and cannot be burdened with a tax in the same manner as Zakat is imposed on a fixed and large income. Accordingly, the Taxpayer requests the annulment of the Adjudication Circuit's decision.

On Wednesday, 14/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 11:01 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. After reviewing the appeal request, the submitted memoranda, and the papers and documents contained in the case file, and after deliberation; and whereas the case is ready for adjudication in its current state, the Circuit decides to close the pleadings and reserve the case for judgment, after the closing of pleadings and deliberation:

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits,Concerning the Taxpayer's appeal regarding the estimated Zakat assessment for the year 1444 AH, and based on Paragraph (4) of Article (10) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, which stipulated that"4- The Authority may be guided by the taxpayer's data available to it when calculating their Zakat using the estimated method." Furthermore, Paragraph (6) of the same Article stipulated the following "6- The Authority may set minimum and maximum limits for the components of estimating the Zakat base for a taxpayer assessed using the estimated method, based on the differences in cities, seasons, events, and any circumstance affecting the estimation." For these reasons, and upon the Circuit's review of the case file and the documents submitted by both parties, it became evident, upon reviewing the Taxpayer's Commercial Registration, that the Company's activity is selling fuel. Whereas fuel is considered a subsidized commodity, and therefore, the selling and buying prices are statutorily determined and fixed. Since the Authority did not take into consideration the nature of the Taxpayer's activity when performing the estimated assessment—noting that this information is available to the administrative entity—consequently, the Taxpayer has been charged with more than what is duly owed by the Authority, which contradicts public policy.

Whereas, according to Sharia and statutory rules, it is impermissible to charge a person more than what is due, and the Authority's performance of an estimated assessment against him does not alter these rules. Likewise, the issuance of the Adjudication Circuit's decision regarding the expiration of the statutory time limit for objection does not alter these rules. The subject matter of the case must be consistent with public policy; hence, the Authority, when performing the estimated assessment on the Taxpayer, should have taken into consideration the Taxpayer's activity so that the assessment amount is appropriate for his activity.

Whereas the Authority's decision was flawed by a defect in estimating the Taxpayer's revenues, resulting in charging him with more than what is due; therefore, the Circuit concludes to accept the Taxpayer's appeal, annul the Adjudication Circuit's decision, and annul the Authority's procedure.

For these reasons, and adopting the reasons stated above, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer/ [...], Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-240847) issued in Case No. (Z-240847-2024) concerning the estimated Zakat assessment for the year 1444 AH.

Second: On the merits:

To accept the Taxpayer's appeal, annul the Adjudication Circuit's decision, and annul the Authority's procedure.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-240132
Case No. Z-240132-2024

Principle No. 49

Amounts appearing in Value Added Tax (VAT) returns shall not be deemed actual revenue for the taxpayer whenever it is proven that such amounts were collected or paid on behalf of other parties. The Zakat base shall be calculated based on the actual revenue generated from the taxpayer's real activity, and VAT returns shall not be relied upon if they do not reflect the actual reality of the nature of the activity.

Facts

The appeal filed on 30/07/2024 AD by [...], National ID No. (...), in his capacity as the owner of the appellant Company, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2024-230473) issued in Case No. (Z-230473-2024) concerning the estimated Zakat assessment for the year 1444 AH, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

1. To record the settlement of the dispute with respect to the amount of SAR 282,938.20.
2. To reject the Plaintiff's objection with respect to the amount of SAR 143,126.27.

Since this decision was not accepted by the Taxpayer, he submitted an appeal brief which the Circuit reviewed, and its summary concerning the estimated Zakat assessment for the year 1444 AH is as follows:

The Authority calculated the value of the Zakat base and the Zakat due for payment on the basis of the sales declared by the Taxpayer in his Value Added Tax (VAT) returns. Substantively, the Taxpayer argues that the Zakat base does not correspond to the reality of his activity, as the nature of his activity is exclusively limited to the transportation of petroleum products. Accordingly, the Taxpayer requests the reversal of the Adjudication Circuit's decision regarding the clauses under appeal for the aforementioned reasons.

On Thursday, 13/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 08:00 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal

Decree No. (25711) dated 08/04/1445 AH. After reviewing the appeal request, the submitted memoranda, and the papers and documents contained in the case file, and after deliberation; and whereas the case is ready for adjudication in its current state, the Circuit decides to the Circuit decides to close the pleadings and reserve the case for adjudication

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is accepted procedurally , as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits, Concerning the Taxpayer's appeal regarding the estimated Zakat assessment for the year 1444 AH, and whereas Paragraph (3) of the Rules for Calculating Zakat for Taxpayers Subject to the Estimated Assessment, issued by Ministerial Resolution No. (852) dated 28/02/1441 AH stipulated that:

"The Zakat base for a taxpayer subject to these rules shall be estimated by determining a capital that corresponds to the volume of the taxpayer's activity in accordance with the following formula: (Sales / 8) + (Sales × 15%), and provided that it is not less than the capital stated in the Commercial Registration, the licenses required for the activity, or any other documents through which the Authority can determine the capital." Whereas it has been established that the Taxpayer's activity is exclusively limited to the transportation of petroleum products, and he submitted the supporting documentations to that effect; and whereas the sales declared and disclosed by the Taxpayer within the submitted tax returns—which the Authority relied upon as a basis for calculating the value of the Zakat base and the Zakat due for payment—are not considered fully actual revenues, since it became evident that the company's revenue is restricted to the fees of petroleum products operations only, which represent sales to (...); and whereas the Appellant submitted proof that the amounts appearing in the Value Added Tax (VAT) returns do not relate to his own revenues. Consequently, the Zakat base must be calculated based on the documents submitted by him that clarify the nature of his activity, which is limited to the transportation of petroleum products, given that the VAT returns do not reflect the Taxpayer's actual reality. This is because, according to accounting and legal principles, sales represent the value of what the taxpayer owns, and what he collects and pays on behalf of other parties shall not be included within his sales. Therefore, the Circuit concludes to accept the Taxpayer's appeal and annul the Adjudication Circuit's decision.

For these reasons, and adopting the reasons stated above, the Circuit has unanimously decided the following:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer/ [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2024-230473) issued in Case No. (Z-230473-2024) concerning the estimated Zakat assessment for the year 1444 AH.

Second: On the merits:

To accept the Taxpayer's appeal and annul the Adjudication Circuit's decision, in accordance with the reasons and findings set forth in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-240757

Case No. Z-240757-2024

Principle No. 50

The Authority shall have the right to assess the taxpayer using the estimated method whenever it is proven that the taxpayer has failed to maintain regular statutory accounts.

Facts

The appeal filed on 18/08/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-8980) issued in Case No. (Z-8980-2019) concerning the Zakat assessment for the years from 1431 AH to 1437 AH, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

Reversal of the Defendant's procedure regarding the Zakat assessment for the years from 1431 AH to 1438 AH.

Since this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief which included the following summary:

The Authority objects to the appealed Adjudication Circuit's decision. Regarding the clause of (Importers), the Authority requests the reversal of the Circuit's decision on this clause on the grounds that the decision was flawed by a defect, as it is not based on a sound ground and contradicts the actual reality and the due Zakat. The Authority clarifies that the Taxpayer has imports, and the Authority assessed him based on the import base during the years in dispute. The Authority clarifies that its decision was consistent with the provisions of Article (13), as the calculation was based on the import base related to the periods in dispute. Furthermore, the Taxpayer did not submit evidence proving that his activity is based solely on receiving a commission against sales, nor did he deny the existence of imports related to his activity. Instead, he confirmed their existence through the memorandum submitted to the General Secretariat, wherein he attached the customs statement, which, after verification, matched the incoming imports statement.

The Authority stated that the procedure is as follows:

A/ The appeal for the years 1431 AH to 1434 AH, the Authority stated that the recalculation based on the imports pertaining to the financial year (each year respectively) resulted in a higher Zakat than the

Authority's initial calculation, contrary to what was stated in the Taxpayer's memorandum. Therefore, the Authority affirms the validity of its previous procedure.

B/ The partial appeal according to the calculation clarified in the table attached to the brief for the years 1435 AH to 1437 AH, the Authority also notes that the Taxpayer did not object to the year 1438 AH according to his brief, and it is fully paid. Consequently, it is evident that the Circuit's decision ruled for more than what the Taxpayer claimed (a copy of the requests stated in the statement of claim is provided below).

Accordingly, the Authority exercised its powers granted under the laws and regulations, which authorize it to assess the Taxpayer according to the information and data obtained. The Authority is also entitled, according to its statutorily granted powers, to refer to this information to calculate the Zakat base that fairly reflects the reality of the Taxpayer's activity in light of the circumstances and facts associated with the case and the information available about the Taxpayer at the Authority. This is done either through the documented evidence and presumptions submitted by the Taxpayer, or by directly and continuously referring to any information directly related to the Taxpayer retained by a third party, which shows the volume of his imports, contracts, labor, and the loans and subsidies obtained. Accordingly, the Authority affirms that its appealed decision is based on valid statutory grounds set forth in its reasoning.

On Wednesday, 05/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 02:46 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon reviewing the appeal request, the submitted memoranda, and the papers and documents contained in the case file, and after discussion and deliberation, the Circuit deemed it important for the parties to attend an in-person session, the date of which shall be scheduled according to the Circuit's agenda. The session was adjourned at 04:45 PM.

On Thursday, 17/04/2025 AH, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 11:00 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling the litigants, the representative of the Appellant (ZATCA), [...], National ID No. (...), attended by virtue of an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs and Compliance No. (...) dated 19/03/1445 AH. Also present was [...], National ID No. (...), in her capacity as the agent for the Appellee, by virtue of Power of Attorney No. (...) issued on 17/12/1445 AH, and Law Practice License No. (...).

When the Appellant's representative was asked if she had anything to add, she stated that she upholds what has previously been submitted in this case. When this was presented to the Appellee's agent, she responded that she adhered to what had been previously submitted in this case. Upon asking both parties if they had anything further to add, they stated that they were satisfied with what had previously been submitted. So, the Circuit decided to close the pleadings and deliberate.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits:

Concerning the Authority's appeal regarding the clause of (Importers), wherein the Authority clarifies that its decision was consistent with the provisions of Article (13), as the calculation was based on the import base related to the periods in dispute; and the Authority stated that the procedure is as follows:

A/ The appeal for the years 1431 AH to 1434 AH, the Authority stated that the recalculation based on the imports pertaining to the financial year (each year respectively) resulted in a higher Zakat than the Authority's initial calculation, contrary to what was stated in the Taxpayer's memorandum; therefore, the Authority affirms the validity of its previous procedure.

B/ The partial appeal, according to the calculation clarified in the table attached to the brief for the years 1435 AH to 1437 AH.

And based on Paragraph (5/f) of Article (13) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, which stipulated that"the Authority shall have the right to assess taxpayers using the estimated method in order to compel them to comply with statutory requirements in the following cases: f- Concealing essential information in the return, such as concealing revenues, including fictitious expenses, or registering assets not owned by the taxpayer." Furthermore, Paragraph (10) of Article (13) of the Implementing Regulations for Zakat Collection, issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, stipulated that"10- With due regard to the provisions of Paragraph (6) above, the Zakat base may be determined using the estimated assessment for the following categories of other than small taxpayers as follows: First: Importers: **2-** Capital for the years following the first five years shall be determined as follows: the taxpayer's domestic and foreign purchases for the last five years, the last of which is the assessment year, shall be aggregated, and the total shall be divided by five to derive the average imports. Then, the average imports shall be divided by eight to derive the capital in the

assessment year. **3-** The annual net import profit shall be estimated by multiplying the total annual imports by the percentage specified for each category of imports, which is three and a half percent (3.5%) for importers of livestock, fresh fish, vegetables, and fruits; seven percent (7%) for staple commodities (wheat, corn, flour, barley, millet, rice, sugar, beans, lentils, ghee, coffee, oils); and ten percent (10%) for others. Net profit shall also be estimated at 15% for domestic purchases. **4-** If it becomes evident that the taxpayer has no domestic or foreign purchases in any of the years, the purchases for that year shall be deemed zero and taken into account when deriving the average. **5-** The Zakat base for an importing taxpayer shall be the sum of the capital and the net profit determined in this Article. **6-** When calculating the Zakat base for an importing taxpayer, the following shall be taken into account: **a-** If the importation is against a specific commission, the assessment shall be made on such commission, and the owner of the goods for whom the importation was made shall be assessed for these imports by adding them to their purchases and taking them into account when estimating their capital and profits. **b-** Taxpayers who have supply contracts with the State shall have their Zakat estimated by adding the profits of the supply contracts or the profits of purchases—whichever is greater—to the taxpayer's capital in the assessment year. **c-** Any person whose imports are restricted to raw materials, fixed assets, or spare parts thereof for use in their activity shall not be subject to this rule, as they shall be assessed on their final product in accordance with the rules applicable to industrial activity. Likewise, this rule shall not apply to an occasional, one-time importation, where assessment shall be made on the taxpayer's profits only, according to the profit percentage of each category of imports. **d-** Importers of currencies and gold bullion shall not be subject to this rule; rather, they shall be assessed on the basis of their capital proven with (.....), and profits shall be estimated by guiding from similar cases of those who maintain regular books and records." For these reasons, and whereas the dispute concerns the non-acceptance of the estimated assessment for the years from 1431 AH to 1437 AH, as the Taxpayer argues against the validity of the Authority's calculation of Zakat based on the import base, while the Authority indicated in its appeal brief that it exercised its powers to perform the assessment based on the import base; and upon reviewing the case file, whereas it was found that the Taxpayer does not maintain accounts, the Authority has the right to assess him using the estimated method in accordance with the aforementioned import base as follows:

a- For the years 1431 AH, 1432 AH, and 1434 AH, upon the Circuit's review of the attachment containing the imports of [...] Company, it became evident that the value of imports amounts to SAR 75,803,906 for the year 1431 AH, SAR 129,964,313 for the year 1432 AH, and SAR 167,664,785 for the year 1434 AH, and not as stated in the Authority's appeal brief. Accordingly, whereas the validity of the Authority's procedure in assessing the Taxpayer using the estimated assessment based on the value of imports stated in the customs statement has been established, the Circuit concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision regarding (the years 1431 AH, 1432 AH, and 1434 AH), and amend the Authority's procedure by calculating the value of imports in accordance with the imports statement

attached by the Taxpayer. b- For the years 1433 AH, 1435 AH, and 1436 AH, upon reviewing the case file, it became evident to the Circuit that the value of imports according to the imports statement is higher than the value of imports proven in the Authority's appeal brief. Therefore, the Authority's calculation regarding these years must be upheld, as a recalculation might result in an outcome higher than the original assessment. Accordingly, the Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision regarding (the years 1433 AH, 1435 AH, and 1436 AH). c- For the year 1437 AH, where it became evident to the Circuit upon reviewing the Company's imports that there were imports valued at SAR 2,999,819, whereas the Authority had calculated the Zakat base at an amount of SAR 19,988,566 as an estimated capital on the assumption that there were no imports. Accordingly, whereas the existence of imports for the year 1437 AH has been established, the Circuit concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision regarding (the year 1437 AH), and amend the Authority's procedure by adjusting the value of the calculated estimated capital for the year in dispute, through calculating the Zakat base after taking into account the imports related to the year 1437 AH.

For these reasons, and adopting the abovementioned reasons, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Zakat, Tax and Customs Authority, against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-8980) issued in Case No. (Z-8980-2019) concerning the Zakat assessment for the years from 1430H to 1437H.

Second: On the merits :

1. Concerning the Authority's appeal regarding the clause of (Importers):

   a- To accept the Authority's appeal and to annul the Adjudication Circuit's decision regarding (the years 1431 AH, 1432 AH, and 1434 AH).

   b- To accept the Authority's appeal and annul the Adjudication Circuit's decision regarding (the years 1433 AH, 1435 AH, and 1436 AH).

   c- To Accept the Authority's appeal and to annul the Adjudication Circuit's decision regarding (the year 1437H).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-240757

Case No. Z-240757-2024

Principle No. 51

The basic principle is that the Commercial Registration remains active and the exercise of the activity is ongoing, unless proven otherwise by documents dated and corresponding to the year in dispute. Documents subsequent to the year in dispute shall not be relied upon to prove the non-exercise of the activity.

Facts

The appeal filed on 03/12/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (IFR-2024-239713) issued in Case No. (Z-239713-2024) concerning the Zakat assessment for the year 1441 AH, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

Reversal of the decision of the Defendant / Zakat, Tax and Customs Authority, against the Plaintiff / [...] (Taxpayer Identification Number....), concerning the assessment in dispute.

Since this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief which included the following summary:

As the Authority objects to the appealed Adjudication Circuit's decision, it claims that regarding the clause of (Zakat assessment for the year 1441 AH), its decision was consistent with the provisions of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, and the Rules for Calculating Zakat for Taxpayers Subject to the Estimated Assessment issued in this regard. It was proven to the Authority that Commercial Registrations existed during the financial period, and it was also proven that the Taxpayer had labor during the years in dispute under the

Commercial Registrations as follows: There are 8 workers under Commercial Registration No. (...) related to the Decor Establishment, and 1 worker under Commercial Registration No. (...) related to the [...] Factory.

Due to the Taxpayer's failure to submit proof of the cancellation of the industrial license, the cessation of production, or the non-commencement of production for the factories, alongside the proven validity of the Commercial Registrations upon which the Taxpayer was assessed during the year in dispute, in addition to the Authority submitting proof of the existence of labor subordinate to the Taxpayer; the Authority consequently affirms the invalidity of the Circuit's conclusion that the Authority failed to prove the Taxpayer's exercise of the activity. Accordingly, the Authority requests the reversal of the Adjudication Circuit's decision regarding the clauses under appeal for the aforementioned reasons.

On Monday, 02/06/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 12:00 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling the litigants, the representative of the Appellant, [...] (National ID No. ...), attended by virtue of an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH. The Appellee, or his statutory representative, did not attend despite the proven statutory notification to him of the date of this hearing. When the Appellant's representative was asked if she had anything to add, she stated that she adhered to what had previously been submitted in this case.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits:

Concerning the Authority's appeal regarding the clause of the Zakat assessment for the year 1441 AH, for these reasons, and upon the Circuit's review of the appeal brief and what the parties submitted during the exchange of memoranda phase; whereas the Appellant upholds the validity of its procedure and argues that the Appellee was exercising the activity during the year in dispute, while the Appellee argues that he ceased exercising the activity in 2018 AD. Whereas the Appellee owns a number of establishments, and upon verifying the Taxpayer Identification Number via the Authority's website, it was found that the Taxpayer Identification Number stipulated in the assessment relates to the main record, which is [...] company (...).

Since the Appellee argues the non-exercise of the activity, he was requested to provide proof of the non-exercise of the activity for Commercial Registration No. (...) linked to the Taxpayer Identification Number. He submitted a document indicating the cancellation of the Commercial Registration; however, this document is undated and therefore cannot be considered evidence of the non-exercise of the activity for the year in dispute, as the Registration expires on 17/10/1445 AH. He also attached a certificate proving the absence of labor, but it is dated on a subsequent date, specifically 06/04/1446 AH.

As for the Adjudication Circuit's decision ruling to annul the Authority's decision, it was based on the premise that the Authority did not submit proof of the exercise of the activity, especially since it has access to data enabling it to prove the exercise of the activity. Whereas the Appellee submitted an undated cancellation document and did not dispute the date of cancellation of the Commercial Registration stated in the appeal brief submitted by the Authority; consequently, the date of cancellation of Commercial Registration No. (...) is 26/06/1445 AH, and all the documents he submitted to prove the non-exercise of the activity were issued on a date subsequent to the year in dispute (1441 AH).

Therefore, the validity of the Authority's procedure in performing the assessment for the year in dispute is established. Accordingly, the Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision.

For these reasons, and adopting the reasons stated above, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in

Riyadh No. (IFR-2024-239713) issued in Case No. (Z-239713-2024) concerning the Zakat assessment for the year 1441 AH.

Second: On the merits:

To Accept the Authority's appeal and annul the Adjudication Circuit's decision.

Application of Zakat Collection Regulations

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-246206

Case No. ZIW-246206-2024

Principle No. 52

It is not permissible to apply the Rules of Operation for the Zakat, Tax and Customs Committees retroactively to an assessment issued prior to their entry into force, and the decision shall be annulled whenever it is based on a subsequent application that violates the principle of non-retroactivity of laws.

Facts

The appeal filed on 20/02/2024 AD by [...], National ID No. (...), in his capacity as the owner of [...] Company, Commercial Registration No. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2024-240340) issued in Case No. (ZIW-240340-2024) concerning the estimated Zakat assessment for the year 1439 AH, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

Inadmissibility of the case procedurally.

Since this decision was not accepted by the Taxpayer, he submitted an appeal brief, which the Circuit reviewed, and it included the following summary:

Regarding the Taxpayer's appeal against the Adjudication Circuit's decision, he argued that the Commercial Registration subject to the assessment is a cancelled record and has no registered labor. He added that the Taxpayer was not notified of the estimated Zakat assessment for the year 1439 AH by the Authority until after the Commercial Registration was cancelled.

On Monday, 26/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 12:00 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Item No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling the litigants, the representative of the Appellee, [...], National ID No. (...), attended by virtue of an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH. The Appellant, or his statutory representative, did not attend despite the proven statutory notification to him of the date of this hearing. When the Appellee's representative was asked if she had anything to add, she stated that she adhered to what had previously been submitted in this case. After closing the pleadings and deliberating, whereas the Circuit recorded the absence of the Appellant or his representative, and based on the provisions of Paragraph (1) of Article (28) of the Implementing Regulations for Methods of Objection to Judgments, which stipulates: "If the appellant fails to attend any of the pleading sessions and sixty (60) days pass from the date of the session without requesting the resumption of the case during this period, the court shall rule that his right to appeal has lapsed." Based on the text of that paragraph, the proceedings are stayed, and the Appellant may request the resumption of the proceedings within sixty days from the date of this session; otherwise, his right to appeal shall lapse. Accordingly, the Circuit unanimously decided as follows: Temporarily stay the proceedings of the lawsuit.
On 21/07/2025 AD, the Taxpayer submitted a request to resume the proceedings of the case.
On Tuesday, 05/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 12:17 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.
Upon calling the litigants, the Appellant attended in person, [...], National ID No. (...), and the representative of the Appellee, [...], National ID No. (...), attended by virtue of the authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH.
Whereas the case is ready for adjudication in its current state, the Circuit decided to close the pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits:

Upon the Circuit's review of the case file, the Adjudication Circuit based its decision on the inadmissibility of the case procedurally on Article (6) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Whereas the assessment subject of the case was issued to the Taxpayer on 28/04/1441 AH, which is a date prior to the effective date of the Rules of Operation for the Zakat, Tax and Customs Committees. Consequently, the appealed decision, under the current stated circumstances, has applied the statutory text retroactively.

Therefore, and based on the principle of non-retroactivity of laws, the Circuit concludes to accept the Taxpayer's appeal, annul the Adjudication Circuit's decision, and remand the case to it to be reviewed on the merits.

For these reasons, and adopting the reasons stated above, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Taxpayer / [...], National ID No. (...), Taxpayer Identification Number. (...), against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Jeddah Governorate No. (IZJ-2024-240340) issued in Case No. (ZIW-240340-2024) concerning the estimated Zakat assessment for the year 1439 AH.

Second: on the merits:

Accept the Taxpayer's appeal, annul the Adjudication Circuit's decision, and remand the case to it to be reviewed on the merits.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-240228

Case No. Z-240228-2024

Principle No. 53

It is not permissible to review a case that has been previously adjudicated by a final judicial judgment, except by way of cassation or a petition for reconsideration in accordance with the Law. The force of res judicata entails preventing the re-examination of the same dispute whenever the unity of parties, subject matter, and cause of action are satisfied.

Facts

The appeal filed on 01/08/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-234530) issued in Case No. (Z-234530-2024) concerning the Zakat assessment for the years from 1434 AH to 1440 AH, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled as follows, was reviewed:

Inadmissibility of the petition for reconsideration procedurally.

Since this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief which the Circuit reviewed, and its outcome included that the Authority requests the acceptance of its appeal and the reversal of the Adjudication Circuit's decision.

On Thursday, 20/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Item No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon reviewing the appeal request, the submitted memorandums, and the papers and documents contained in the case file, and after deliberation, the case is ready for adjudication in its current state, the Circuit decided to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits:

Regarding the Authority's appeal concerning the (Zakat assessment for the years from 1434 AH to 1440 AH), since examining the jurisdiction to hear this case is considered a preliminary matter to be addressed before reviewing its merits, and the Circuit is obligated to determine the extent of its jurisdiction to hear it; whenever it becomes evident that it falls outside its jurisdiction, it must, sua sponte, rule that the case is inadmissible. Whereas Article (76) of the Law of Sharia Procedures stipulates that: "...the plea of inadmissibility of a lawsuit due to it being previously adjudicated may be raised at any stage of the case, and the court shall rule thereon on its own motion..." Since it is established that the subject matter of this case was previously adjudicated by the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh pursuant to Decision No. (IFR-2023-202462) issued in Case No. (Z-202462-2023) for the years from 1434 AH to 1440 AH. Whereas it is well-established in jurisprudence and judicial practice that it is not permissible to review a case that has been previously adjudicated by a final judgment, except after its reversal or reconsideration in accordance with the Law; as this would lead to the wastage of the force of judicial judgments, destabilize them, create an endless sequence of litigation, and weaken the standing of the judiciary before the public, in addition to the disruption it causes during execution and discrepancies in application. Consequently, the inadmissibility of a case due to it being previously adjudicated is merely the negative effect resulting from the force of res judicata, which prohibits the re-examination of the same dispute that has been settled by a final judicial judgment before any other court via a new case in which the same dispute is raised, provided that the unity of parties, subject matter, and cause of action is satisfied in both the previous and subsequent cases. Accordingly, the Circuit concludes to annul the Adjudication Circuit's decision and rule that the matter has been previously adjudicated.

For these reasons, and adopting the reasons stated above, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Zakat, Tax and Customs Authority, against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-234530) issued in Case No. (Z-234530-2024) concerning the Zakat assessment for the years from 1434 AH to 1440 AH.

Second: On the merits:

To accept the Authority's appeal, annul the Adjudication Circuit's decision, and rule that the case is inadmissible due to it being previously adjudicated, in accordance with the reasons and grounds stated in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-239623

Case No. Z-239623-2024

Principle No. 54

The procedural validity of the assessment decision is established when it is proven that the Taxpayer was aware of the reasons for the adjustment through the Adjustment Notice or from the Taxpayer's submitted objection and the discussion of the clauses contained therein. A specific formal template is not required, provided that the purpose of the notice has been achieved through statutory means.

Facts

The appeal filed on 14/07/2024 AD by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2024-28810) issued in Case No. (Z-28810-2020) concerning the Zakat assessment for the years from 2012 AD to 2015 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was considered:

Reversal of the Appellee's decision regarding the Zakat assessment for the year 2015 AD.

Whereas the Adjudication Circuit issued its aforementioned decision and reviewed the case as a result of the decision of this Circuit No. (IR-2023-94765) issued on 11/12/2023 AD, which included remanding the case to the Adjudication Circuit to be reviewed on the merits, and which ruled the following:

First: Acceptance of the appeal procedurally submitted by the Zakat, Tax and Customs Authority against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2022-40) issued in Case No. (Z-28810-2020) concerning the Zakat assessment for the years from 2012 AD to 2015 AD.

Second: On the merits:

To accept the Authority's appeal and remand the case to the Adjudication Circuit to review the clauses regarding (the reversal of the Appellee's decision concerning the clause of depreciation variances in [...] Company; the clause of provisions charged to the period's account in [...] Company; the clause of social insurance variance and employee compensation expenses; the clause of capital expenditures; the clause of balances that have completed a Zakat Year (Al Hawl) " accounts payable" and amounts due and other additions; and the clause of the company's share of the Zakat base in [...] "Professional Company" for the year 2015 AD).

Accordingly, the Circuit decided to continue reviewing the case. Since the decision subject to appeal was not accepted by the Authority, it submitted an appeal brief, which the Circuit reviewed, and it included a summary stating that the Adjudication Circuit's conclusion regarding the assessment's failure to meet the mandatory procedural requirements is incorrect, as the Taxpayer was aware of the adjustments and their reasons. Furthermore, the Appellate Circuit had limited the scope of clauses to be reviewed upon remand, and therefore, it is not permissible to review clauses beyond that scope. Additionally, the Taxpayer did not raise this plea within the statutory period. Therefore, the Authority requests the acceptance of its appeal and the reversal of the appealed Adjudication Circuit's decision.

On Wednesday, 05/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held at 08:00 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures, based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon reviewing the appeal request, the submitted memoranda, and the documents contained in the case file, and after deliberation; whereas the case is ready for adjudication in its current state, the Circuit decides to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a competent party and within the prescribed statutory time limit.

On the merits:

Upon the Circuit's review of the case file and the documents contained therein, whereas the Authority challenges the Adjudication Circuit's decision ruling the reversal of the Authority's assessment for the year 2015 AD on the grounds that the Authority's decision was defective and marred by a procedural defect, thereby stripping it of its status as a valid administrative decision. By reference to the appealed Circuit's decision and upon examining the grounds on which the Adjudication Circuit based its decision leading to this outcome, it becomes clear that they do not align with the mandatory provisions of the Implementing Regulations for Zakat Collection. The Adjustment Notice letter issued on 22/06/2020 AD detailed within its contents that the adjustment was due to an audit case. Furthermore, the objection brief submitted by the Taxpayer before the Adjudication Circuit—which designated the document description as "a copy of the primary objection previously submitted to the Authority"—included the disputed clauses, the reasons for the procedure, and the responses thereto, thereby establishing the Taxpayer's actual awareness of the assessment grounds. This conclusion is not undermined by the Adjudication Circuit's decision ruling the invalidity of the Authority's decision on the basis of a procedural defect. Moreover, the Taxpayer was properly notified of the reasons for the adjustments made by the Authority to its Zakat return. The notification shall be via registered mail or any other means proving its receipt, including notification through electronic services; and since the Authority conducted the assessment against the Taxpayer via statutory means. This is in compliance with the requirements of Paragraph (7) of Article (21) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082), which stipulates that: "If the Authority deems it necessary to adjust the Taxpayer's return, it shall notify the Taxpayer of the adjustments made to its Zakat return... Such notification shall be via registered mail or any other means proving receipt of the notice, including notification through the official electronic services." Accordingly, the validity of the Authority's procedure is established from a statutory aspect. Therefore, and to enable the parties to the case to exercise their right to a two-tier litigation process, the Circuit concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision, and remand the case to it to be reviewed on the merits.

For these reasons, and adopting the reasons stated above, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in

Dammam No. (IZD-2024-28810) issued in Case No. (Z-28810-2020) concerning the Zakat assessment for the years from 2012 AD to 2015 AD.

Second: on the merits

To accept the Authority's appeal, annul the Adjudication Circuit's decision, and remand the case to it to be reviewed on the merits.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-242376
Case No. Z-242376-2024

Principle No. 55

It is a prerequisite for the admissibility of an appeal that the subject matter of the case be a final and existing administrative decision that is statutorily effective at the time the case is reviewed. If the administrative authority withdraws the appealed decision prior to the filing or the review of the case, the subject matter of the case ceases to exist, the effects of the decision are negated, and the case must be ruled inadmissible due to the non-existence of the decision.

Facts

The appeal filed on 15/09/2024 AD by /..., National ID No. (...), in her capacity as an authorized representative pursuant to Power of Attorney No. (...) dated 06/11/2023 AD and Law Practice License No. (...), against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-234477) issued in Case No. (Z-234477-2024) concerning the estimated Zakat assessment for the year 2013 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, was reviewed:

Dismissal of the case due to the non-existence of its subject matter.

Since this decision was not accepted by the Taxpayer, it submitted an appeal brief, which the Circuit reviewed, and its outcome included that the Taxpayer requests the acceptance of its appeal and the reversal of the Adjudication Circuit's decision.

On Sunday, 23/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 02:30 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures; based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AD. Upon calling the parties, /..., National ID No. (...), attended in her capacity as an authorized representative of the Appellant pursuant to Power of Attorney No. (...) issued

on 22/04/1445 AH, and Law Practice License No. (...). Also in attendance was the representative of the Appellee /... (National ID No. ...), pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (.....) dated 19/03/1445 AH.

During this hearing, the Circuit decided to annul its unanimously issued decision, which was pronounced in the minutes of the previous hearing dated 18/03/2025 AD, and which stated "accepting the appeal request procedurally, and regarding the subject matter, accepting the Taxpayer's appeal, reversing the Adjudication Circuit's decision, and remanding the case to it to be reviewed on the merits." This is based on the provisions of Paragraph (3) of Article (29) of the Rules of Operation for the Zakat, Tax and Customs Committees. Accordingly.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits, Upon the Circuit's review of the appeal, whereas it is well-established in challenges against administrative decisions issued by government entities that the subject matter of the challenge must be an administrative decision issued by a national administrative authority, and that such decision must be final and affecting the legal positions either by creation, revocation, or amendment, and that the decision must be existing at the time the lawsuit is reviewed, producing its statutory effects. Whereas it is established from the facts that the Authority issued its decision (the Amended Assessment) dated September 07, 2023 AD, after which the Taxpayer objected to the said amended assessment decision. Thereafter, the Authority withdrew its decision (the Amended Assessment) for recalculation purposes and notified the Taxpayer via email on February 01, 2024 AD, noting that this occurred prior to the review of the case by the Adjudication Circuit, as the lawsuit was filed on February 04, 2024 AD. Consequently, the subject matter of the case—namely, the decision (the Amended Assessment)—ceases to exist as it has become non-existent, and its statutory effects have been negated. Thus, there is no merit in reviewing the case due to the non-existence of an active decision issued by the Authority. Accordingly, the Taxpayer's appeal must be dismissed, and the

Adjudication Circuit's decision to reject the case due to the non-existence of its subject matter must be upheld.

For these reasons, and adopting the reasons stated above, the Circuit has unanimously decided the following:

Decision:

First: Acceptance of the appeal procedurally submitted by the Appellant/ the Taxpayer, [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-234477) issued in Case No. (Z-234477-2024) concerning the estimated Zakat assessment for the year 2013 AD.

Second: On the merits:

To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision, in accordance with the reasons and grounds stated in this decision.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-243136

Case No. Z-243136-2024

Principle No. 56

A clause that was not previously objected to before the Authority is not admissible for review, and the scope of the Committees' review is restricted to the clauses explicitly included in the Taxpayer's objection.

Facts

The appeal filed on 26/09/2024 AD by /..., National ID No. (...), in his capacity as an authorized representative of the Appellant Company pursuant to Power of Attorney No. (...) dated 25/12/2023 AD and Law Practice License No. (...), and the appeal submitted by the Zakat, Tax and Customs Authority on 29/09/2024 AD, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (IFR-2024-132494) issued in Case No. (Z-132494-2022) concerning the Zakat assessment for the year 2019 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, wherein the Adjudication Circuit's decision ruled the following, were reviewed:

First: Amendment of the procedure of the Appellee/ Zakat, Tax and Customs Authority against the Appellant/ [...] Company (Taxpayer Identification Number. ...) regarding the disputed Loans clause, in accordance with what is clarified in the reasons.

Second: Amendment of the procedure of the Appellee/ Zakat, Tax and Customs Authority against the Appellant/ [...] Company (Taxpayer Identification Number ...) regarding the disputed Lease Liabilities item, in accordance with what is clarified in the reasons.

Third: Amendment of the procedure of the Appellee/ Zakat, Tax and Customs Authority against the Appellant/ [...] Company (Taxpayer Identification Number. ...) regarding the disputed Contract Liabilities item, in accordance with what is clarified in the reasons.

Fourth: Amendment of the procedure of the Appellee/ Zakat, Tax and Customs Authority against the Appellant/ [...] Company (Taxpayer Identification Number ...) regarding the disputed Dividends Payable clause, in accordance with what is clarified in the reasons.

Fifth: Annulment of the decision of the Appellee/ Zakat, Tax and Customs Authority against the Appellant/ [...] Company (Taxpayer Identification Number. ...) regarding the Projects in Progress item for the year 2019G, in the amount of (321,042,540) Three Hundred Twenty-One Million, Forty-Two Thousand, Five Hundred Forty Riyals.

Since this decision was not accepted by the Taxpayer, it submitted an appeal brief which the Circuit reviewed, summarizing the following:

Regarding the (Loans) clause, these loans (Islamic Sukuk / Islamic Murabaha) did not finance Zakat-deductible clauses (non-current assets) and do not fall under Paragraph (10) of Article (4). Second, Paragraph (3) of Article (4) requires the fulfillment of Sub-paragraphs (A, B, and C) for the entire clause amount or a part thereof to be added to the positive components of the Zakat base. These loans do not meet the requirements of Paragraph (3-C) as they did not finance a Zakat-deductible clause (non-current assets), nor did they finance assets financed by previous loans. Therefore, the provisions of Article (4) regarding the addition of these loans to the Zakat base do not apply to this clause. Regarding the (Dividends Payable) clause, the Taxpayer appeals the Adjudication Circuit's decision regarding this clause, which upheld the Authority's addition of a portion of the dividends payable to the additions of the Zakat base. It clarifies that the Authority's reasoning—and the decision to reject the clause due to failure to provide evidence of the independence of these accounts from the company's disposal, based on Article (4), Paragraph (8) of the 1440 AH Regulations—was based on an assessment of the type of evidentiary tool, rather than whether the purpose, restriction, or condition specified by the same Article of the Regulations for accepting or dismissing the clause was met through any evidentiary tool provided by the company. Achieving the purpose of the statutory rule through any means or tool is sufficient for compliance. Paragraph (8) of Article (4) of the Zakat Regulations defined this condition as: "...the Taxpayer is not permitted to dispose of it." This is fulfilled in the company's case, confirmed by its status as a listed joint-stock company on the financial market, subject to the procedures of the Capital Market Authority and the Ministry of Commerce under relevant regulations that ensure the independence of profits in the accounts and the company's inability to dispose of them. Regarding the (Contract Liabilities) item, the Taxpayer requests the reversal of the Circuit's decision on this clause on the basis that it does not represent payments received by the company and did

not enter its funding sources. It is linked to the Ministry of Municipal and Rural Affairs and Housing's program (Off-Plan Sales "Wafi") and is supervised by the Ministry under the off-plan sales conditions issued by Cabinet Resolution No. (536) dated 04/12/1437 AH. The debit entry in the accounting record is the real estate escrow account, and the credit entry is contract liabilities. Therefore, the Taxpayer requests acceptance of its appeal and the reversal of the Adjudication Circuit's decision regarding the appealed clauses for the aforementioned reasons.

The decision was also not accepted by the Zakat, Tax and Customs Authority, which submitted an appeal against the objected decision pursuant to an appeal brief which the Circuit reviewed, summarizing the following:

Regarding the (Loans) clause, the Authority requests the reversal of the Circuit's decision regarding this clause, asserting the validity and legality of its procedure. The Authority clarifies that it requested the Taxpayer to provide an analytical breakdown of the loans alongside bank agreements. Based on the submissions, it became evident that the loans comprise long-term loans from local banks in addition to long-term Islamic Sukuk. The cash flow statement also revealed a cash deficit during the year, confirming that the loans received during the year were used to finance fixed assets. Accordingly, the Authority added the ending balance of the loans pursuant to the provisions of Paragraphs (3) and (10) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH. Consequently, the Taxpayer's objection was rejected because the loans added by the Authority are classified in the audited financial statements as long-term loans. Regarding the (Dividends Payable) clause, the Authority requests the reversal of the Circuit's decision regarding this clause, asserting the validity and legality of its procedure. The Authority clarifies that during the assessment phase, it inquired whether the dividends payable was deposited in independent bank accounts. The Taxpayer stated that "the Company wishes to inform the esteemed Authority that the unpaid distributed dividends are retained within the Company's own account to facilitate the management of dividend payment claims." Accordingly, this clause was rejected because the Authority requested the Taxpayer to submit a certificate from the banks where the dividends were deposited, confirming the dividend amounts, their balances at the end of the years under objection, and the numbers of the accounts in which the dividends were deposited, thereby proving that these accounts are independent of the Company's accounts and that the Company cannot dispose of them. At that time, the Taxpayer submitted a certificate only from [...] Bank, showing the dividend account number, but without clarifying the balance of this account. Furthermore, the Taxpayer failed to

submit certificates related to the other accounts to confirm their balances and show that they are independent of the Company's accounts. Consequently, the objection was rejected. Regarding the "Projects in Progress" clause, the Authority requests the reversal of the Circuit's decision on this clause and asserts the validity and legality of its procedure. The Authority clarifies that the appealed decision stated in its grounds projects that were not subject to dispute, namely, the [...] Project and invested land projects, where the decision stipulated "for these reasons, the dispute between the two parties concerns the non-acceptance of deducting projects in progress ([...] Project - [...] Project - invested land projects) from the Zakat base."

Meanwhile, the operative part of the decision ruled the reversal of the Authority's decision concerning the projects in progress clause for the year 2019 AD in the amount of SAR 321,042,540. Upon reviewing the project statement, it became evident that the amounts accepted under the appealed decision relate to the [...] Project according to the statement submitted by the Taxpayer. Accordingly, it was not clear to the Authority why the Adjudication Circuit discussed the [...] Project and invested land projects, while the operative part of the decision concluded with amounts relating to the [...] Project. The Authority reiterates that what was previously clarified is that the Taxpayer's objection was confined to the amounts stated in its objection letter submitted to the Authority as detailed above. The Authority also clarifies that the operative part of the decision concluded by accepting amounts relating to the [...] Project that were not included in the Taxpayer's objection filed before the Authority, namely, the amount of SAR 321,042,450 and the amount of SAR 334,979,172. As previously clarified, the Taxpayer's objection letter submitted to the Authority explicitly stated the contested amounts of the clause, leaving no room for interpretation. Therefore, the Authority's responsive memorandum submitted before the decision-issuing Circuit were restricted only to the contested amounts. The Authority further emphasizes that the amount stated in the Taxpayer's objection letter was fully accepted during the objection phase for the year 2019 AD. Consequently, the amounts accepted in the Adjudication Circuit's decision include amounts that were not mentioned in the Taxpayer's objection letter. Therefore, the Authority maintains the validity and soundness of its procedure in rejecting the objection from a procedural aspect, as they were not included in its objection letter submitted to the Authority, and the Authority did not rule on them during the objection phase, pursuant to Paragraph (2) of Article (25) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, which stipulates "1- The Working Rules of the Resolution and Appeal Committees for Tax Violations and Disputes, contained in Royal Decree No. (M/113) dated 02/11/1438 AH, shall apply to objections submitted against assessments or decisions issued by the Authority. A grievance case against the Authority's decisions must be preceded by the Taxpayer filing

an objection with the Authority within sixty (60) days from the date of being notified of the decision. The Authority must decide on the objection within ninety (90) days from its submission date. In the event that the Authority dismisses the objection, or if the said ninety (90) day period elapses without a decision, the plaintiff may file a case before the Adjudication Circuit within thirty (30) days from the date of notification of the Authority's dismissal or the expiration of the ninety (90) day period without a decision. The Authority's decision shall become final if it is not objected to before it or if a grievance is not filed before the Adjudication Circuit within the specified periods referred to in this Article. Accordingly, the Authority maintains the validity and correctness of its procedure in accordance with the statutory requirements. Furthermore, regarding the disputed amount valued at SAR 289,249,787, the Authority clarifies to the esteemed Circuit that it rejected the deduction of this portion of the [...] Project due to the received advance payments related to it exceeding the 25% percentage threshold stipulated in Paragraph (9) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440H, which states "the following clauses shall be deducted from the Zakat base of a Taxpayer who maintains commercial books: 9- The value of real estate under development intended for sale, which is classified as non-current assets in the financial statements and is intended to be sold after completion of its development, unless it is offered for sale in its current condition or the total sales and advance payments received from customers exceed twenty-five percent (25%) of its value appearing in the financial statements for the Zakat year (Al Hawl) subject of the return. The Authority may review and adjust this percentage according to market conditions and circumstances." The Authority clarifies that, according to the statements submitted by the Taxpayer, it was revealed that the ratio of advance payments to the project value represents 26%, thereby exceeding the permitted percentage. Furthermore, the decision-issuing Circuit emphasized in its grounds that two essential conditions must be met to consider projects in progress as capital assets eligible for deduction from the Zakat base: a proven intent from the authorized body clarifying the investment intent, and the absence of any sales transactions carried out during the year on those investments. Upon the Circuit's review of the case file, it became evident from the financial statements of the disputed year that there were sales transactions and additions during the year on these projects. This reveals a contradiction in the Circuit's grounds and its ultimate conclusion; while the Circuit asserted that a condition for deducting projects is the absence of any sales transactions and confirmed that according to the financial statements there were sales transactions on the projects, it nevertheless concluded in its decision to accept the Taxpayer's objection, which conflicts with its own reasons. With reference to what was stated in the decision's grounds that the text of Paragraph (9) of Article (5) of the Implementing

Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH did not specify that advance payments must be in cash or exempt payments received via guarantee, and that the Taxpayer submitted along with its objection documents showing that the lands are suspended according to the spatial portal website of the City of Riyadh belonging to the Municipality of Riyadh Region, and that the funds are restricted rather than received payments; the Authority clarifies that while the decision-issuing Circuit confirmed that the text of Paragraph Nine of Article (5) did not specify that advance payments must be in cash or exempt payments via guarantee, the Circuit nevertheless concluded that the funds are not received payments. In this regard, we refer to clause (Third) of Decision No. (IFR-2024-132494) and Clause (Seventh) of Decision No. (IFR-2024-132495), which clarified and confirmed that the advance payments clause "Contract Liabilities" represents advance payments. Upon reviewing the project suspension documents referred to by the Circuit in its decision, the Authority clarifies that they consist of Royal Decree No. (39141) dated 24/06/1443 AH (corresponding to 27/01/2022 AD), as shown in Attachment No. (1). As demonstrated, the Royal Decree was issued after the years subject to the appeal; thus, the Adjudication Circuit retroactively applied the effect of the Royal Decree to extend its impact to years prior to the date of the order, considering that the projects were suspended in the year of the dispute. The Authority clarifies that for Zakat calculation purposes, what is taken into account is the status and condition of the Taxpayer on the date of the financial year in which Zakat is due. Furthermore, it is not clear what deeds were covered by the Royal Decree or their relation to the [...] Project.

The Authority also emphasizes that the documents submitted by the Taxpayer to the Authority, as well as its annual reports published on Tadawul, confirm that the [...] Project was not suspended during the disputed year; according to the breakdown submitted by the Taxpayer, there were units sold off plan during the year. Moreover, the Board of Directors' report for the year 2019 AD published on Tadawul confirmed that 90% of Zone 4/B of the [...] Project was sold, which refutes the claim that the project was suspended during the disputed year. Additionally, the escrow accounts in which advance payments are deposited experienced transactions during the year; thus, the receipt of advance payments negates the claim that the projects were suspended during the disputed year. In response to what was stated in the grounds of the appealed decision that the advance payments constitute restricted funds and not received payments, the Authority replies that this is incorrect and inaccurate. By reference to Note No. (14/A) of the notes to the financial statements for the disputed year, which confirmed that the nature of the clause consists of advance payments, it explicitly states that "contract liabilities consist of advance payments received under contracts with customers, binding on both parties to sell them real estate according to agreed-upon terms, and these

real estate properties remain in uncompleted stages according to those agreed-upon terms." The Authority further clarifies that the payments received and deposited in restricted bank accounts are solely for statutory procedures to regulate the off-plan sale of real estate units in accordance with the regulations issued by the Ministry of Housing, which are supervised and monitored through the "Wafi" platform affiliated with the Ministry of Housing. These rules mandated the real estate developer to create an escrow account for each project, and the escrow account is managed in light of the systems of [...] Bank. Furthermore, disbursements are made from the escrow account for the construction of the project in accordance with the controls specified by the working rules regulating escrow accounts. The Authority also clarifies that the working rules regulating escrow accounts restricted the real estate developer from receiving any amounts from depositors, requiring that they be deposited directly by them into the escrow account. Consequently, there are no advance payments received against the sale of real estate units except through escrow accounts. The Authority also refers to the escrow account agreements concluded between the Taxpayer and [...] Financial Group, submitted by the Taxpayer as a sample during the objection phase, and attached therewith, for example, the escrow account agreement for the [...] Project, Plot 23/A/5 dated 09/02/2020 AD, where Paragraph (4) clarified the controls for operating the escrow account, and Sub-paragraph (H) confirmed that the remainder of the escrow account is made available for disbursement for construction purposes. From a Zakat perspective, the existence of certain statutory procedures does not alter the nature of the received amounts, which represent advance payments against the off-plan sale of units, and the presence of regulatory restrictions on the disbursement of received amounts does not mean they constitute restricted funds. For these reasons, the Circuit's decision in this appealed case is statutorily incorrect and is undoubtedly worthy of judicial annulment. Therefore, the Authority requests the acceptance of its appeal and the annulment of the Adjudication Circuit's decision regarding the clauses subject to its appeal.

On Tuesday, 11/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:00 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures; based on the provisions of clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the parties, /..., National ID No. (...), and Law Practice License No. (...), attended in his capacity as an authorized representative of [...] Company pursuant to Power of Attorney No. (...) issued on 12/06/1445H. Also in attendance was the Authority's representative, /... (National ID No. ...), pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (.....) dated 19/03/1445 AH.

Upon asking the Taxpayer's representative if he wished to add anything, he stated that he adheres to what was previously submitted in this case. Upon asking the Authority's representative if she wished to add anything, she stated that she requests a grace period to submit her brief in a future hearing for the reasons clarified in Request No. (GSTC-0000011247). Due to the Circuit's conviction regarding those reasons, the Circuit decided to grant the Authority a period of (14) fourteen days to submit its brief, ending on 25/02/2025 AD, and to grant the Taxpayer a period of (14) fourteen days to respond thereto, ending on 11/03/2025 AD. After this date, the pleadings will be closed, and the case will be submitted for deliberation and issuance of the decision; the Circuit will not accept any new documents or memoranda that were not submitted before the aforementioned date. The upcoming hearing on 24/03/2025 AD shall be designated for pronouncing the decision.

On Monday, 24/03/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 03:15 PM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures; based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the parties, /..., National ID No. (...), attended in his capacity as an authorized representative of the Taxpayer pursuant to Power of Attorney No. (...) issued on 12/06/1445 AH and Law Practice License No. (...) and in attendance was /... (National ID No. ...), in her capacity as the representative of the Zakat, Tax and Customs Authority pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs and Compliance No. (.....) dated 19/03/1445 AH. The pleadings and deliberation have been closed, and whereas this hearing is designated for pronouncing the decision.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Circuit that the requirements for reviewing the appeal have procedurally been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, both appeal requests are procedurally accepted, as they were submitted by qualified parties and within the prescribed statutory time limit.

On the merits:

As for the Authority's appeal regarding the (Loans) Clause, whereas Paragraph (3) of Article (4) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440H stipulated that "the Zakat base of a Taxpayer who maintains commercial books consists of all its funds subject to Zakat collection, including the following: 3- Debts due on the Taxpayer classified as long-term and their equivalent from other base components, such as: government financing, commercial financing, creditors, notes payable, overdraft accounts, and owners' or partners' loans (including their current accounts), provided that the following is observed: a- If the debts owed by the Taxpayer or other funding sources have a duration of three hundred and fifty-four (354) days or more overlapping during the Zakat year (Al Hawl) and the following year, they shall be added to the Zakat base in respect of each year in proportion to the number of days in each Zakat year (Al Hawl). b- The Zakat year for debts is not interrupted by their renewal or rescheduling with the same creditor, or by replacing these debts with other debts or funding sources that finance what these debts were financing. c- What is added from what is mentioned in this paragraph shall not exceed the total of what is deducted from the base in accordance with Article (5) of the Regulations."

For these reasons, and upon reviewing the case file, it is evident that the Authority's appeal is confined to the Islamic Murabaha loans from [...] Bank [and] from [...] Bank, which the Adjudication Circuit's decision concluded to add to the Zakat base on a pro-rata basis as they were added during the year. The Authority appeals the contested decision and considers that the disputed loans represent long-term (renewed) loans, as they have a beginning balance, and there are additions and repayments during the year of the same or approximate value; therefore, they should not be added on a pro-rata basis.

Upon reviewing the loan statement provided by the Taxpayer, it reveals the existence of a beginning balance, an ending balance, additions, and repayments during the year; however, the statement is aggregated and does not clarify the dates of the addition and repayment transactions. Furthermore, the Authority indicated in its appeal brief that the Company's annual report states that short-term loans are used to finance long-term capital requirements. Accordingly, the Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the (Islamic Murabaha loans from [...] Bank [and] from [...] Bank).

As for the Authority's appeal regarding the (Projects in Progress) Clause, the Authority's appeal concerns the fact that the Taxpayer's objection before it was confined to the "[...] Project" clause in the amount of SAR (2,064,026,471) for the disputed year, which had already been fully accepted during the objection phase.

Upon reviewing the case file, it is evident that the disputed amount represents short-term developmental real estate, which the Authority excluded when making the assessment, and the Taxpayer did not object to it before the Authority, as clarified in its attached objection memorandum. Consequently, the validity of the Authority's argument regarding the Taxpayer's failure to initially object to the disputed amount before the Authority becomes evident. Accordingly, the Circuit concludes to accept the Authority's appeal and annuls the Adjudication Circuit's decision regarding the (Projects in Progress) clause.

As for the Taxpayer's appeal regarding the (Contract Liabilities) clause, specifically adding the amount of SAR (50,038,326), whereas Article (18) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH stipulated that "without prejudice to the provisions of Article (10) of the Regulations, every Taxpayer must maintain—within the Kingdom and in the Arabic language—the commercial books necessary to accurately determine the Zakat base, while maintaining the documents that prove their authenticity and the data and clarifications supporting them. The burden of proving the correctness of the clauses and any other data included in the return falls on the Taxpayer. In the event of its inability to prove the correctness of what is stated in its return, the Authority may disallow the clause whose correctness the Taxpayer failed to prove, or make an estimated assessment according to the Authority's viewpoint in light of the circumstances and facts related to the case and the information available to it." For these reasons, whereas the Taxpayer's primary appeal concerns requesting not to add the contract liabilities balance to the Zakat base, asserting that they are amounts deposited in the real estate escrow account supervised by the Ministry of Municipal and Rural Affairs and Housing under the off-plan sales system, and that it is a statutory deposit over which the Company has no control and does not enter into the funding sources of any of its activities. Meanwhile, the Authority argues that the statement submitted by the Taxpayer does not match the financial statements; thus, justifying the Authority's procedure of adding the beginning or ending balance, whichever is lower. Upon reviewing the case and its contained defenses and documents, and upon reviewing the project contracts referred to by the Taxpayer in the attachments (Attachments 1 to 5), it is evident that they consist of letters from "Wafi" for off-plan sales or leasing, which granted the Company the right to sell off-plan on 03/06/2020 AD. The letter also stated, "In the Secretariat's keenness to enable the developer to commence advertising, marketing, selling, and receiving payments, you may begin by considering this letter an initial approval, noting that the account escrow agent has been addressed to activate the project's escrow account."

Upon reviewing the agreements signed between the Taxpayer and [...] Financial Group in its capacity as the escrow agent, it is evident that the agreement was dated 09/02/2020 AD. Since the dispute was for the year 2019 AD, and all contracts and agreements related to setting aside a portion of the payments in the escrow agent's account all took effect in the year 2020 AD, there is no validity to the Taxpayer's argument regarding the year 2019 AD that these are amounts it cannot dispose of. Additionally, it failed to provide any other documents related to the disputed year. Accordingly, it cannot be ascertained whether the contract liabilities collected in 2019 AD were received by the Taxpayer or were deposited in an independent account that cannot be disposed of. Whereas the burden of proof falls on the Taxpayer, it did not provide sufficient documents.

As for the Taxpayer's alternative defense regarding adopting the submitted detailed transaction movement and calculating the lapse of a Zakat Year (Al Hawl) at the level of each account balance, making the amount to be added to the base SAR (50,038,326): Upon reviewing the Authority's supplementary memorandum, it is evident that the Authority adopted the submitted transaction movement and amended the amount to be added to the base to become SAR (54,656,511.30) instead of SAR (69,361,000). Upon reviewing the transaction movement submitted by the Taxpayer, it is evident that the amounts over which a Zakat Year (Al Hawl) has lapsed at the level of each customer are exactly as requested by the Taxpayer SAR (50,038,326). Accordingly, the Circuit concludes to partially accept the Taxpayer's appeal and amend the Adjudication Circuit's decision regarding the (Contract Liabilities) item, specifically by adding the amount of SAR (50,038,326).

Regarding the appeal of the Taxpayer and the Authority concerning the remaining disputed clauses in the lawsuit, there is no legal error on the part of the Circuit in adopting the grounds of the appealed decision without any additions, whenever it deems that those grounds are sufficient without the need to introduce anything new. By upholding the decision based on those grounds, the Circuit affirms that it did not find any of the challenges directed at the decision to warrant a response beyond what is already contained in those grounds. And whereas this is the case, and it is established that the appealed decision concerning the dispute over the contested clauses aligns with the sound grounds upon which it was based, which are sufficient to uphold its ruling, as the issuing Circuit thoroughly scrutinized the core of the dispute and reached the conclusion stated in its operative part. And whereas this Circuit has not noted anything that necessitates correction or further commentary in light of the defenses raised before it; accordingly, this Circuit concludes

to reject the appeals of both the Taxpayer and the Authority, and to uphold the appealed decision of the Adjudication Circuit regarding its conclusion on the remaining disputed items, supported by its grounds.

For these reasons, and adopting the aforementioned reasons, the Circuit has unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally from the Taxpayer/ [...] Company, Commercial Register (...), Taxpayer Identification Number. (...), and the appeal submitted by the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (IFR-2024-132494) issued in Case No. (Z-132494-2022) concerning the Zakat assessment for the year 2019 AD.

Second: On the merits:

1- Regarding the appeal of both parties concerning the (Loans) clause:

A/ To accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the (Islamic Murabaha loans from [...] Bank [and] from [...] Bank).

B/ To reject the Taxpayer's appeal and uphold the Adjudication Circuit's decision regarding (Loans).

2- To reject the appeal of both parties and uphold the Adjudication Circuit's decision regarding the (Dividends Payable) clause.

3- To accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the (Projects in Progress) clause.

4- To partially accept the Taxpayer's appeal and amend the Adjudication Circuit's decision regarding the (Contract Liabilities) item, specifically by adding the amount of SAR (50,038,326).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-243422

Case No. Z-243422-2024

Principle No. 57

If the Taxpayer agrees in writing to extend the Authority's right to audit or amend the assessment, the Authority may issue the assessment without being restricted by the statutory period, in accordance with the Regulations in force for the year subject to the assessment. The application of subsequent Regulations shall only apply to the financial years beginning after their effective date.

Facts

The appeal filed on 06/10/2024 AD by the Zakat, Tax and Customs Authority against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-238389) issued in Case No. (Z-238389-2024) concerning the Zakat assessment for the year 2017 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, was reviewed. The decision of the Adjudication Circuit ruled the following:

Accepting the objection of the Plaintiff/ [...] Company, Commercial Register No. (...), against the decision of the Defendant/ the Zakat, Tax and Customs Authority procedurally, and reversing the Defendant's decision subject matter of the case.

Whereas this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief which the Circuit reviewed, summarizing that regarding the (Expiration of the statutory period) clause, the Taxpayer submitted a letter agreeing to extend the Authority's right to make the assessment until the date [...]G. Furthermore, the reliance of the Adjudication Circuit is incorrect because the regulator did not specify or exempt the application of the Regulations in procedural aspects. Moreover, the Taxpayer submitted its return (after) the statutory deadline; therefore, the Authority has the right to issue the assessment within (ten) years from the date the Taxpayer submitted the return, based on Paragraph (1) of Article (22) of the Zakat Collection Regulations issued in the year 1440 AH.

Regarding the remaining clauses related to the Expiration of the statutory period, the decision-issuing Circuit annulled all clauses due to their connection with the first item mentioned above. Since the Authority has appealed this, it requests the reversal of what the Adjudication Circuit concluded and remanding the case to be reviewed on its merits for the reasons clarified above. Accordingly, the Authority requests the acceptance of its appeal and the reversal of the Adjudication Circuit's decision.

On Tuesday, 04/02/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 10:30 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures; based on the provisions of Item No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon calling the parties, the Appellant's representative, /... (National ID No. ...), attended pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (.....) dated 19/03/1445 AH. Also, in attendance was /..., National ID No. (...), in his capacity as the authorized representative of the Appellee pursuant to Power of Attorney No. (...) issued on 14/10/1445 AH, and Law Practice License No. (...).

Upon asking the Appellee's representative if he wished to add anything, he stated that he adhered to what was previously submitted in this case. Upon presenting this to the Appellant's representative, she replied that she adhered to what was previously submitted in this case. Upon asking both parties if they wished to add anything, they decided to suffice with what had already been submitted after closing the pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory time limit.

On the merits: with respect to the Authority's appeal, and upon referring to the case documents, what the Authority submitted in its appeal brief, and the Appellee's responsive memorandum, the Authority, during the assessment period, requested the Taxpayer to provide additional documents. The Taxpayer requested a

grace period to submit the required data and documents, and submitted its consent granting the Authority the right to audit and make the assessment on the return for the disputed year until the date of 31/12/2023 AD.

Whereas the disputed year is 2017 AD, therefore, the 1438 AH Regulations apply to the Taxpayer based on Paragraph (A) of Clause (8) of Article (21) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH, which stipulates that "8- The Authority has the right to make or amend the assessment at any time without being restricted by a time limit in the following cases: a- If the Taxpayer agrees in writing to make or amend the assessment."

Meanwhile, the Circuit that issued the appealed decision annulled the Authority's decision, reasoning that the Zakat Collection Regulations issued in the year 1440 AH replace the previous Regulations regarding procedural matters. However, the 1440 AH Regulations contained the following text: "these Regulations shall replace the previous Regulations issued by His Excellency the Minister of Finance's Resolution No. (2216) dated 07/07/1440 AH, and its amendments, as well as all previous resolutions, instructions, and circulars related to Zakat collection, and shall repeal any provisions that conflict therewith—according to the details stated in the Ministerial Resolution—and their application shall take effect on financial years starting after the date of 01/01/2019 AD." The legislator did not specify or exempt matters related to procedural aspects. Accordingly, the Circuit concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision, and remand the lawsuit to the Adjudication Circuit to be reviewed on its merits.

For these reasons, and adopting the aforementioned reasons, the Circuit unanimously decided the as follows:

Decision:

First: Acceptance of the appeal procedurally from its applicant/ the Zakat, Tax and Customs Authority, against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-238389), issued in Case No. (Z-238389-2024) concerning the Zakat assessment for the year 2017 AD.

Second: On the merits:

To accept the Authority's appeal, annul the Adjudication Circuit's decision, and remand the case to the Adjudication Circuit to be reviewed on its merits.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-246516

Case No. Z-246516-2024

Principle No. 58

When the financial year of the Taxpayer differs from the financial year of the investment fund, the investment Zakat shall be calculated based on the fund's financial statements for its closest financial year or the one ending within the Taxpayer's financial year.

Facts

The appeal filed on 05/12/2024 AD by the Zakat, Tax and Customs Authority against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2024-239419) issued in Case No. (Z-239419-2024) concerning the Zakat assessment for the year 2020 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, was considered. The decision of the Adjudication Circuit ruled the following:

1. Regarding the clause of disallowing the deduction of the cost of held financial investments amounting to SAR (13,729,413) from the Zakat base:

   A- Obligating the Defendant to recalculate the investment Zakat for the following funds: ([...] Fund, [...] Fund, [...] Fund) in accordance with a certificate of the Certified Public Accountant.

   B- Dismissing the Plaintiff's objection regarding the disallowance of deducting the investment balance in [...] Company.

   C- Reversing the Defendant's decision regarding the disallowance of deducting the Plaintiff's share in the investment in [...] Company.
2. Dismissing the Plaintiff's objection regarding the clause of disallowing the deduction of dividends received during the year from domestic investments.
3. Recording the settlement of the dispute regarding the item of amounts due to partners (related parties).

Whereas this decision was not accepted by the Appellant (the Zakat, Tax and Customs Authority), it submitted an appeal brief summarizing as follows:

As the Authority objects to the contested decision of the Adjudication Circuit, it claims that regarding the clause of (disallowing the deduction of the cost of held financial investments from the Zakat base), the Authority had requested the Taxpayer during the objection phase to provide supporting documentation. The Taxpayer completed the documents, which only included the CPA's attestation on the calculation of the funds' Zakat. The Taxpayer then requested a grace period from the Authority to complete the remaining required documents, but they were not submitted. Accordingly, the Authority studied the objection, and it became clear that the investments in the funds also include internal investments within each fund, making it difficult to verify the correctness of the calculation. Upon reviewing the financial statements for the year 2021 AD, it was revealed that all investments were disposed of during 2021 AD, which confirms that these investments were held for trading. Therefore, the objection was rejected because these investments were for trading purposes rather than capital possession and thus cannot be deducted from the Zakat base, pursuant to Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH. The Authority also pointed out that the Circuit that issued the appealed decision obligated the Authority to recalculate the investment Zakat for the following funds: ([...] Fund, [...] Fund, [...] Fund), reasoning that the Appellee submitted the Zakat calculation for those funds in accordance with the Certified Public Accountant certificate. Based on this, the Authority reviewed the certificate submitted by the Certified Public Accountant office of /... Certified Public Accountants and Auditors, License No. (...), which states that the Company's calculation of the investment Zakat for [...] Fund, [...] Fund, and [...] Fund was properly prepared in all material respects and in accordance with the relevant guidelines, as shown in Attachment No. (1) below. However, it became evident that the submitted calculation was based on the financial statements of the funds whose financial years ended on 31/03/2020 AD, whereas the appealed Taxpayer's financial year ended on 31/12/2020 AD. Consequently, the Taxpayer was required to submit the calculation based on the financial statements of the funds ending on 31/03/2021 AD, while applying the calculation mechanism stipulated in the approved judicial principles established for treating investment funds issued under No. (Z-22-14) dated November 14, 2022 AD. Therefore, the Authority abides by the correctness and validity of its procedure in accordance with the statutory requirements.

On Tuesday, 20/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its hearing at 11:01 AM in the presence of its members whose names are recorded in the minutes, via Video conferencing in accordance with the remote visual litigation procedures; based on the provisions of Clause No. (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal

Decree No. (25711) dated 08/04/1445 AH. Upon calling the parties, the Appellant's representative, /... (National ID No. ...), attended pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (.....) dated 19/03/1445 AH and in the presence of ..., National ID No. (...), in his capacity as the authorized representative of the Appellee pursuant to Power of Attorney No. (...) issued on 11/04/1445 AH, and Law Practice License No. (...). Upon asking the Appellee's representative if he wished to add anything, he stated that he adhered to what was previously submitted in this case. Upon presenting this to the Appellant's representative, she replied that she adhered to what was previously submitted in this case. Upon asking both parties if they wished to add anything, they decided to suffice with what had already been submitted, and after closing the pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Authority, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory period for its execution.

On the merits, concerning the Authority's appeal on the clause of (obligating the Authority to recalculate the investment Zakat for the following funds: (... Fund - ... Fund - ... Fund) in accordance with the Certified Public Accountant's certificate), and based on Paragraph (4) of Article (5) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2216) dated 07/07/1440 AH, which stipulated that "the following clauses shall be deducted from the Zakat base of the Taxpayer who keeps commercial books: 4- Investments in an entity inside the Kingdom for non-trading purposes, provided that such entity is registered with the Authority and is subject to Zakat collection under the Regulations. Assets leased under a finance lease in the commercial books of the lessor shall not be considered an investment deducted from the Zakat base, regardless of their classification in the financial statements. Likewise, debit loans, subordinated or additional financing, and the like granted to the investee entity shall not be considered an investment deducted from the Zakat base," For these reasons, the Authority appeals the contested decision and stated that after reviewing the Certified Public Accountant's certificate, which confirms that the Company's calculation of the investment Zakat for the disputed funds (... Fund - ... Fund - ... Fund) was prepared properly in all material respects and in accordance with the relevant controls, it became evident

that the submitted calculation was based on the financial statements of the funds whose financial years ended on 31/03/2020 AD, whereas the appealed Taxpayer's year ends on 31/12/2020 AD. The Authority argues that the Zakat of those funds must be calculated based on the funds' financial statements for the financial year ending on 31/03/2021 AD, not 31/03/2020 AD. Upon the Circuit's review of the case file and the defenses and documents it contained, the validity of the Authority's argument became evident to the Circuit, as the Taxpayer was required to submit the Zakat calculation for the funds based on the financial statements of the funds ending on 31/03/2021 AD, being the closest to the Taxpayer's financial year. This is not prejudiced by the Taxpayer's argument in its responsive memorandum that the fund's approved statements on 31/03/2020 AD are the closest financial statements for calculating the fund's Zakat rather than the approved financial statements on 31/03/2021 AD; as this argument is incorrect given that the Taxpayer's financial year begins on 01/01/2020 AD and ends on 31/12/2020 AD. Consequently, the Authority's argument regarding the necessity of calculating Zakat according to the fund's statements ending on 31/03/2021 AD is considered a valid argument, and it also aligns with the text of the Guideline on Zakat Collection Rules for Investors in Investment Funds, which states that "Difference between the investor's financial year and the fund's financial year: When the financial year of the investment fund differs from the financial year of the investment unit holders, the end of the fund's financial year shall be adopted." Accordingly, the Circuit concludes to accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the item of (obligating the Authority to recalculate the investment Zakat for the following funds: (... Fund - ... Fund - ... Fund) in accordance with the Certified Public Accountant's certificate).

For these reasons, adopting the aforementioned reasons, the Circuit unanimously decided as follows:

Decision:

First: Acceptance of the appeal procedurally from its applicant/ the Zakat, Tax and Customs Authority, against the decision of the First Circuit for Adjudicating Income Tax Violations and Disputes in Dammam No. (IZD-2024-239419) issued in Lawsuit No. (Z-239419-2024) concerning the Zakat assessment for the year 2020 AD.

Second: On the merits:

To accept the Authority's appeal and annul the Adjudication Circuit's decision regarding the clause of (obligating the Authority to recalculate the investment Zakat for the following funds: [... Fund - ... Fund - ... Fund] in accordance with the Certified Public Accountant's certificate).

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-238523

Case No. Z-238523-2024

Principle No. 59

The transfer of the business activity or commercial registers from the liability of the Taxpayer to the liability of another person shall not be established except by an official document issued by the competent authority specifying the transfer of ownership and its effective date. The financial statements alone shall not be considered evidence of the transfer of registers or business activity.

Facts

The appeal filed on 10/06/2024 AD by /... (National ID No. ...), in his capacity as the owner of [...] Company, Commercial Registration No. (...), and the appeal submitted by the Zakat, Tax and Customs Authority on 11/06/2024 AD against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-205172) issued in Case No. (Z-205172-2023) concerning the presumptive Zakat assessment for the years 1989 D to 2007 AD, in the case submitted by the Taxpayer against the Zakat, Tax and Customs Authority, were reviewed. The Adjudication Circuit's decision ruled the following:

First: Acceptance of the objection procedurally from the Plaintiff /... (National ID No. ...), owner of [... Company], Commercial Registration No. (...), against the decision of the Defendant / Zakat, Tax and Customs Authority.

Second: On the merits: To amend the Authority's decision to exclude the branches sold by the Plaintiff from the imports base, effective from the date of sale on 06/03/1419 AH, corresponding to 30/06/1998 AD.

Whereas this decision was not accepted by either party, both parties submitted appeal briefs, the summaries of which are as follows:

Regarding the Taxpayer's appeal against the Adjudication Circuit's decision, he argues that the amount required to be paid was not specified; therefore, the Taxpayer requests a clarification of the amount and the

original reports issued by Saudi Customs upon which the Zakat amount for the years subject to the case was calculated.

The Zakat, Tax and Customs Authority also did not accept the decision and submitted its appeal against the contested decision through an appeal brief summarizing the following:

Regarding the Authority's appeal against the Adjudication Circuit's decision, the Authority appeals the decision to amend the Authority's procedure in the clause, based on the Taxpayer's submission of commercial registers related to the aforementioned branches after their transfer to [...] Company. The Taxpayer also provided a confirmation letter from [...] – [...] Company Branch, stating that the imports made after the date of purchasing the branches pertain only to [...] Company and that it is responsible for them. The Authority responds that the Circuit's amendment to the item is incorrect, as the Zakat base was calculated based on imports received by the Authority that were not declared by the Taxpayer during his returns during the years subject to the dispute. The imports rule was applied in accordance with Zakat circulars and instructions. Furthermore, the contract submitted by the Taxpayer, concluded with [...] Company, took place in 1419 AH, not at the beginning of the years in dispute. The Taxpayer did not provide evidence of the official transfer of ownership of the registers at the Ministry of Commerce. According to the comprehensive search data to verify the ownership of the commercial registers, it was shown that the registers belonged to the Taxpayer until the date of their cancellation, and there is no evidence of the transfer of their ownership to [...] Company. The number of registers referred to in the contract is (8), while the Taxpayer owns (16) registers according to the Zakat certificate obtained from the Authority, covering various activities as mentioned above. The Taxpayer did not provide evidence of including those registers in the company's financial statements during the years in dispute. Upon reviewing the financial statements available to the Authority for [...] Company for the year 2015 AD (i.e., after the years in dispute), it was found that the branches mentioned in the Taxpayer's letter were not included. For these reasons, the Authority confirms the correctness of its procedure taken against the Taxpayer regarding imports, due to the failure to submit documentation the transfer of commercial registers, including the Ministry of Commerce letter and a certificate from a Certified Public Accountant stating that the imports belong to [...] Company. Furthermore, the Taxpayer did not provide the financial statements of [...] Company for the years in dispute to verify the return of these registers. The Authority further clarifies that there appears in the Taxpayer's file a letter issued by [...] Company No. 2168/AM dated 27/11/1422 AH, corresponding to 11/02/2002 AD, stating [...] Company's acknowledgment of purchasing branches of the Taxpayer's registers and including

the imports in its financial statements, but it does not contain data for these registers. The Authority attached the statement of the Taxpayer's imports from the hard-copy file to the appeal brief; therefore, the Authority requests that its appeal be accepted and the Adjudication Circuit's decision be annulled, while reserving its right to submit further responses and clarifications prior to the closing of pleadings.

On Monday, 28/04/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 04:20 PM in the presence of its members whose names are recorded in the minutes, via remote Video conferencing in accordance with the remote visual litigation procedures; based on Clause (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH. Upon calling the parties, the Authority's representative /... (National ID No. ...) attended pursuant to an authorization issued by the Deputy Governor of the Zakat, Tax and Customs Authority for Legal Affairs No. (...) dated 19/03/1445 AH. No representative for the Taxpayer attended despite the proof of his formal notification of the hearing date. Upon asking the Authority's representative if she wished to add anything, she replied that she adheres to what was previously submitted in this lawsuit. Since the lawsuit is not ready for adjudication in its current state, the Circuit decided to postpone the consideration of the case for further study, with the next hearing scheduled for 19/05/2025 AD.

On Monday, 19/05/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 12:20 PM in the presence of its members... via remote Video conferencing... Upon calling the parties, /... (National ID No. ...), in his capacity as the Taxpayer's authorized representative pursuant to Power of Attorney No. (...) issued on 03/01/1446 AH, and the Authority's representative /... (National ID No. ...) attended. At this hearing, the Authority's representative proposed the Taxpayer's recourse to settlement. Upon presenting this to the Taxpayer's representative, he agreed to it. Accordingly, the Circuit decided to stay the proceedings of the case in accordance with Paragraph (1) of Article (8) of the Rules of Operation for the Zakat, Tax and Customs Committees, which states that "The internal committee may negotiate with the Taxpayer to settle his objection to the Authority's decision at any stage of the lawsuit, and the commencement of negotiations with the Taxpayer shall result in a stay of the proceedings."

On 17/09/2025 AD, the parties to the case submitted a request to resume the proceedings.

On Tuesday, 07/10/2025 AD, at 11:50 AM, the First Appellate Circuit for Income Tax Violations and Disputes held its session... via remote Video conferencing... Upon calling the parties, [...] and [...] (National ID Nos. ...) attended as representatives of the Zakat, Tax and Customs Authority... The Taxpayer or his

representative did not attend despite proof of his formal notification of the hearing date. Upon asking the Zakat, Tax and Customs Authority's representative about the appeal, she responded with information that does not deviate from what was previously mentioned in the objection memorandum filed with the General Secretariat of Zakat, Tax and Customs Committees, and that she suffices with what was stated therein. So, the Circuit decided to close the pleadings and deliberation.

Grounds:

Upon reviewing the case documents and the appeal briefs submitted by the Taxpayer and the Zakat, Tax and Customs Authority, it became evident to the Circuit that the requirements for reviewing the appeals procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, both appeal requests are procedurally accepted, as they were submitted by qualified parties and within the prescribed statutory period for their execution.

On the merits, concerning the appeals of both parties against the Adjudication Circuit's decision, upon the Circuit's review of the case file, it noted that the Adjudication Circuit accepted the case procedurally based on the premise that the Taxpayer is not subject to Zakat, as he sold some branches of his establishment on 06/03/1419 AH, in accordance with the provisions of Article (2) of the Implementing Regulations for Zakat Collection issued by Ministerial Resolution No. (2082) dated 01/06/1438 AH. Therefore, the Circuit concludes that the reasoning for accepting the case procedurally is legally flawed due to the application of the principle of non-retroactivity of laws, as the Adjudication Circuit relied on Ministerial Resolution No. (2082) dated 01/06/1438 AH, which was not effective at that time. The regulations, circulars, and Zakat fatwas applicable to the years in dispute should have been applied. Consequently, the Authority's argument regarding inadmissibility procedurally and its reliance on the Working Rules of the Committees are also considered invalid, as there is no provision restricting the procedural admissibility of the Adjudication Circuit's decision concerning periods prior to the issuance of the Implementing Regulations for Zakat Collection under Ministerial Resolution No. (2082) dated 01/06/1438 AH. As for the Taxpayer's argument during the adjudication phase regarding the sale of some of his branches, upon the Circuit's review of the evidence submitted by the Taxpayer at that stage, it was not proven that the ownership of the commercial registers was transferred. Furthermore, he did not provide a statement from the Ministry of Commerce to enumerate the commercial registration numbers transferred to [...] Company and their transfer date. Whereas the Adjudication Circuit's decision to amend the Authority's decision and exclude the registers was not based

on an official instrument evidencing the transfer of the registers and the effective date of such transfer, and concluded that the exclusion was based on financial statements not issued by a competent authority; and whereas financial statements are considered mere circumstantial evidence from which it cannot be definitively concluded that the activity has been transferred from the Taxpayer's liability to another person's liability. The Circuit, therefore, concludes to accept the Authority's appeal, annul the Adjudication Circuit's decision, and dismiss the Taxpayer's appeal.

For these reasons, and in conjunction with the aforementioned reasons, the Circuit has unanimously decided the following:

Decision:

First: Acceptance of the appeal procedurally, both from the Taxpayer /... (National ID No. ..., Taxpayer Identification Number. ...) and from the Zakat, Tax and Customs Authority, against the decision of the Third Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ITR-2024-205172) issued in Lawsuit No. (Z-2023-205172) concerning the presumptive Zakat assessment for the years 1989 AD to 2007 AD.

Second: On the merits:

To accept the Authority's appeal, annul the Adjudication Circuit's decision, and reject the Taxpayer's appeal.

Appellate Committee for Tax Violations and Disputes
First Appellate Circuit for Income Tax Violations and Disputes in Riyadh City

Decision No. IR-2025-245959

Case No. Z-245959-2024

Principle No. 60

The decision issued in a case must include a ruling on all of the Taxpayer's requests. A decision that omits certain clauses is considered legally defective and requires correction. It is not permissible to fragment the adjudication by issuing multiple decisions in a single case before the Adjudication Circuit has fully exhausted its jurisdiction, as doing so constitutes a violation of the requirements to rule on all requests and to exhaust judicial authority.

Facts

The appeal filed on 07/11/2024 AD by /... (National ID No. ...), in his capacity as the manager of the Appellant company pursuant to the Commercial Registration and the independent company management contract, against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-238261) issued on 08/10/2024 AD in Case No. (Z-238261-2024) concerning the Zakat assessment for the year 2012 AD, in the case submitted by the Appellant against the Zakat, Tax and Customs Authority, was considered. The Adjudication Circuit's decision ruled the following:

First: To annul the Defendant's procedure regarding the item of deducting shareholders' salaries as an allowable expense without adhering to the limits registered with the General Organization for Social Insurance (GOSI) for the year 2012 AD, in accordance with the reasons provided.

Second: To reject the Plaintiff's objection regarding the clause of disallowing the deduction of available-for-sale investments amounting to SAR 40,201,610 for the year 2012 AD.

Whereas the Adjudication Circuit issued the aforementioned decision and reviewed the case de novo as a result of the decision of this Circuit No. (IR-2024-190891) issued on 05/06/2024 AD, which included remanding the case to the Adjudication Circuit for substantive review. Accordingly, the Circuit decided to

complete the review of the case. Whereas the contested decision was not accepted by the Taxpayer, he submitted an appeal brief which the Circuit reviewed, and which summarized the Taxpayer's request to accept his appeal and overturn the contested Adjudication Circuit's decision.

On Monday, 04/08/2025 AD, the First Appellate Circuit for Income Tax Violations and Disputes held its session at 10:45 AM in the presence of its members whose names are recorded in the minutes, via remote Video conferencing in accordance with the remote visual litigation procedures; based on Clause (1) of Article (15) of the Rules of Operation for the Zakat, Tax and Customs Committees issued by Royal Decree No. (25711) dated 08/04/1445 AH.

Upon reviewing the appeal request, the submitted memoranda, and the documents contained in the case file, and after deliberation, and since the lawsuit is ripe for adjudication in its current state, the Circuit decides to close the pleadings and reserve the case for adjudication.

Grounds:

Upon reviewing the case documents and the appeal brief submitted by the Taxpayer, it became evident to the Circuit that the requirements for reviewing the appeal procedurally have been satisfied in accordance with the conditions stipulated in the relevant laws, regulations, and resolutions. Accordingly, the appeal request is procedurally accepted, as it was submitted by a qualified party and within the prescribed statutory period for its execution.

On the merits, and after the Circuit's review of the appeal, it became evident that Decision No. (ISR-2024-238261) was issued without covering all the clauses subject to the case. Consequently, this decision is legally incorrect and conflicts with the principles and rules of case investigation and the drafting of decisions. It is also considered relatively void, requiring correction by ruling on the omitted clause—for which the Adjudication Circuit has not fully exhausted its legal and statutory jurisdiction—in addition to including all of the Taxpayer's requests. This is necessary to ensure the decision is issued correctly and encompasses all the Taxpayer's requests in its operative part, in application of Article (166) of the Law of Civil Procedure; otherwise, the decision would be considered absolutely void. This was not achieved in the aforementioned decision, as it did not include all of the Taxpayer's requests. Furthermore, it is inconceivable to issue, in the same lawsuit, one decision regarding some clauses and another decision regarding other clauses for which the Adjudication Circuit has not exhausted its jurisdiction. This contradicts the principles

of legal drafting for decisions and judgments and raises legal complexities regarding appeals against such decisions and their execution. Moreover, ruling on some clauses remanded for the exhaustion of jurisdiction may affect other items for which the Adjudication Circuit had already exhausted its jurisdiction in the previous decision. This necessitates that the Appeal Circuit refrain from ruling on all of the Taxpayer's requests until the Adjudication Circuit has fully exhausted its jurisdiction by ruling on all of them. Accordingly, the Adjudication Circuit must, after exhausting its jurisdiction on the omitted clause, issue a comprehensive decision in its reasoning and operative part covering all clauses subject to the lawsuit, not merely the omitted clause. The importance of issuing decisions in accordance with the principles and rules of legal drafting is highlighted by the need to preserve the rights of the case's parties to obtain a decision that is comprehensive of all their requests and clear, so as not to raise any issues in its execution or interpretation, as well as preserving their legal and statutory right to litigation across two degrees. Therefore, it is necessary to annul the Adjudication Circuit's decisions No. (ISR-2024-238261) and (ISR-2023-134556) and remand the case to it to issue a decision including all of the Taxpayer's requests.

Based on the foregoing, adopting the aforementioned reasons, the Circuit has decided by majority the following:

Decision:

First: Acceptance of the appeal procedurally from the Appellant, [...] Company, Commercial Registration No. (...), Taxpayer Identification Number. (...), against the decision of the Second Circuit for Adjudicating Income Tax Violations and Disputes in Riyadh No. (ISR-2024-238261) in Case No. (Z-238261-2024) concerning the Zakat assessment for the year 2012 AD.

Second: on the merits:

To annul the Adjudication Circuit's decisions No. (ISR-2024-238261) and No. (ISR-2023-134556), and remand the case to it to issue a decision including all of the Taxpayer's requests.

Detailed Index of Principles

The Index

Principle number	Subject	The principle
Zakat		
Items to be added to the Zakat base		
1	Offsetting of Balances	The Taxpayer may offset advance payments against the accounts of attachments under execution and accrued revenues, provided that they belong to the same customer.
2	Partner's Current Account	If the partner's c urrent account is classified under current liabilities, it shall be added to the Zakat base up to the limit of the deducted amount.
3	Additional Financing in Investee Companies	Additional financing in investee companies shall be deducted from the Zakat base only to the extent of the Taxpayer's actual share in equity. Any amount exceeding this percentage shall be deemed financing or lending to the other partner and may not be deducted. This shall not be considered double Zakat taxation as long as the other partner's share is subject to Zakat within the investee company, given that it constitutes an independent financial entity.
4	Taxpayer's Disclosure of the Balance	If the Taxpayer discloses a balance under equity or other liabilities in its Zakat return, such balance must be added to the Zakat base at the assessed value without reduction.
5	Cessation of Company Activity and Zakat Liability	The company's cessation of activity or the suspension of its services does not preclude the Zakat-liable funds appearing in its financial statements from being subject to Zakat. A defense of non-liability due to the non-exercise of activity shall not be accepted as long as the existence of outstanding Zakat-liable balances is proven, including debit balances of related parties that arose after the reduction of in-kind capital.
6	Import Variances	Official import data shall be relied upon in the event of a conflict with the Zakat return. The import variance shall be added to the Zakat base if the Taxpayer fails to prove the cause of the discrepancy or provide supporting justifications and documents.

6	Withholding tax on airline tickets or sea freight	The imposition of withholding tax on amounts paid to non-resident entities is triggered upon the occurrence of actual payment or its equivalent, such as settlements, offsets, or any other method.
7	Exercise of Activity	No claim of non-exercise of activity shall be considered unless supported by dated statutory documents covering the period subject to the Zakat assessment.
8	Short-Term Loans	Short-term loans whose movement, inception dates, and settlement dates prove that they do not overlap across more than one Zakat year, and are not renewed for the same purpose or with the same creditor, shall not be deemed revolving loans. Such loans shall not be added to the Zakat base, provided that the Taxpayer submits sufficient documents proving their nature.
9	Offsetting of Related Parties	Zakat offsetting between debit and credit balances shall be conducted provided they belong to a single financial entity. The offsetting shall be calculated against the outstanding balance from related parties using the opening balance of the period, not the closing balance, unless the Taxpayer submits evidence proving the nature of the debit movements during the year and justifies the deviation from the opening balance.
10	Payables and Credit Accounts Due	The criterion for adding accounts payable to the Zakat base shall be the closing balance in accordance with the financial statements upon the proven completion of the one-year possession period. Intermediary movements or internal accounting adjustments shall not be considered unless they prove the non-completion of the possession period for the opening or closing balance, and the burden of proof rests on the Taxpayer.
11	Errors Relating to Prior Years	Variances resulting from the correction of prior-period errors that do not appear in the financial statements until the subsequent year shall be deemed un-Zakat-taxed variances in their respective prior year. They may be added to the Zakat base in the year they appeared, provided that the Zakat impact is recognized in the year of appearance, not in the year of inception.

12	Available-for-Sale Investments	Investments for which selling movements are proven shall be deemed investments held for trading and may not be deducted from the Zakat base. Furthermore, foreign or domestic investments may not be deducted unless statutory documents proving the nature of the investment, as well as the calculation and payment of Zakat, are submitted.
13	Doubtful Debts	The provision for doubtful debts shall not be deemed an allowable expense except in cases excluded by law. The burden of proof to submit clear documents and accounting disclosures in accordance with the applicable standards shall rest on the Taxpayer. Inadequate disclosure or failure to provide supporting evidence shall justify adding the provision back to the adjusted net profit.
Items to be deducted from the Zakat base		
14	Debit Related Parties	The debit balance of related parties shall be deducted from the Zakat base if the investment is in entities within the Kingdom that are subject to Zakat assessment, and it is proven that it was taxed for Zakat as part of the capital of the subsidiary, provided that the financial statements and disclosures indicate that the transactions between the related parties are genuine commercial transactions identical to transactions with external parties and are pursuant to actual contracts and payment certificates. The deduction shall be based on the Taxpayer's ownership percentage.
15	Fixed Assets	Fixed assets shall be deducted from the Zakat base whenever the intention of possession for use in the Taxpayer's activity is proven, and there are no sales transactions during the year of dispute. Sales transactions that occurred in subsequent years shall not be considered as evidence of trading intention, as the criterion is the occurrence of the sale during the year of dispute. There is no statutory basis for considering a subsequent year as revealing the intention retroactively.
16	Accounts Payable	Trade accounts payable shall be deemed components of the Zakat base whenever a Zakat Year (Al Hawl) has elapsed, or if they were used to finance assets deducted from the base. Their exclusion shall not be accepted unless the Taxpayer submits a detailed ledger or an analytical

		statement proving that a Zakat Year (Al Hawl) period has not elapsed, and the burden of proof shall rest on the Taxpayer.
17	Additional Financing	Additional financing granted to an investee company shall not be deemed a deductible investment from the Zakat base whenever it is proven to be classified within the financial statements of the investee company under liabilities, not equity. Double Zakat taxation does not occur in this case as long as additions and deductions are applied within the limits stipulated in the Regulations.
18	Advance Payments	Advance payments shall be deemed components of the Zakat base whenever a Zakat Year (Al Hawl) has elapsed, and they may not be offset except against current and realized debit balances belonging to the same entity. Letters of guarantee or unearned balances shall not be deemed claims eligible for offsetting.
19	Deduction of Assets	To qualify for deducting assets from the Zakat base, it is required to prove the intention of possession and the absence of any sales transactions during the year of dispute.
20	Net Fixed Assets	Reliance for the deduction of fixed assets shall be placed on the exit of their value from the Taxpayer's possession and their financing from equity or liabilities included in the Zakat base, provided that their use in the activity is proven and the Taxpayer submits justification for the non-transfer of nominal ownership.
21	Deductions	If an asset appearing in the financial statements is excluded from deductions due to its lack of connection to the Taxpayer's activity, its financing source added to the Zakat base must correspondingly be excluded to achieve the principle of balance sheet equilibrium.
22	Long-Term Real Estate Investments	An investment shall not be deemed among the long-term investments eligible for deduction from the Zakat base except upon the availability of a proven intention from the authorized person not to sell, and the absence of sales transactions during the year of dispute. The criterion in this regard shall be the investment intention established in the financial statements

		and their disclosures for the year of dispute, without regard to what may occur to them in subsequent years.
23	Deduction of Assets in possession	The criterion for deducting assets in posession from the Zakat base is the exit of funds from the company's possession, not the formal transfer of ownership.
24	Real Estate Investments Under Development	Real estate investments under development shall be deducted from the Zakat base whenever it is proven that their construction was undertaken for the purpose of use in the Taxpayer's activity and not for the purpose of sale, and that no sales or trading movements were proven during the year subject to dispute.
25	Deduction of Foreign Investments	The Taxpayer's share in foreign investments may be deducted from the Zakat base provided that they prove the submission of audited financial statements for the investee companies outside the Kingdom by a certified public accountant in the country of investment, or prove the payment of the Zakat due on those investments. This is required to calculate and remit Zakat on them or verify their payment, in a manner that achieves the prevention of double Zakat taxation.
26	Deduction of Investments from the Base	Investments shall not be deemed assets in possession eligible for deduction from the Zakat base unless two combined conditions are met: a proven intention from the authorized person clarifying the investment's intent, and the non-execution of sales transactions on them during the year.
27	Investment in Shares	Shares of publicly traded companies shall not be deducted from the Zakat base unless the Taxpayer proves that they are long-term investments not intended for trading, by submitting the portfolio movement and evidence of the investment intention.
28	Long-Term Loans	Loans are deemed a component of the Zakat base, regardless of their type, source, or classification, provided that a Zakat Year (Al Hawl) has elapsed, or if they are used to finance assets deducted from the Zakat base without the requirement of the lapse of a Zakat Year (Al Hawl).

29	Ministry of Finance Sukuk	The State's bearing of Zakat and the deduction of Sukuk from the investor's base are restricted to Sukuk and bonds issued locally by the Ministry of Finance in Saudi Riyals. This does not extend to Sukuk issued in a foreign currency, even if they were purchased through a local bank or their value was recorded in Riyals in bank confirmations.
30	Deduction of Sukuk	Exclusions resulting from the partial redemption stipulated in the Sukuk issuance prospectus are not deemed trading, nor do they alter the nature of the Sukuk as a non-trading investment, provided it is proven that the redemption occurred in accordance with the issuance mechanism and on a pro-rata basis by the issuer, and the outflow of funds is proven by certified bank statements.
31	Unsupported Salaries	Salaries shall not be deducted from the Zakat base except to the extent supported by documents or evidentiary proof. The variance that is not factually proven in accordance with bank statements shall be added to the base.
32	Bad Debts	The deduction of bad debts shall not be accepted unless the Taxpayer submits a certificate from a certified public accountant stating that they have been written off the books by a decision of the authorized person, along with the fulfillment of the remaining statutory conditions.
33	Overdue Receivables	The exclusion of overdue receivables from the Zakat base shall not be accepted unless the Taxpayer proves, with statutory documents, the limitation of the exact total amount related to government entities, and that the inability to collect was due to reasons beyond their control.
34	Deduction of Expenses	Expenses that may be deducted are those that are documentarily proven.
35	Damaged Goods	The deduction of damaged goods from the Zakat base shall not be accepted unless the Taxpayer submits supporting documentation or sufficient evidence enabling the verification of the actual occurrence of the damage. Submitting internal records unsupported by documents is insufficient. The burden of proving the validity of the clause shall rest on the Txpayer, and the Authority may disallow it and conduct an estimated assessment.

36	Foreign Purchases	The import statement issued by the customs authority is deemed primary evidence from a neutral third party in proving foreign purchases. It shall be relied upon in the event of variances with what is stated in the Taxpayer's return, and the Taxpayer's defense shall not be accepted unless they submit supporting documentation.
Amendments to Net Profits		
37	Dividends	The adjusted net profit for Zakat purposes may not be reduced by paid dividends exceeding the opening balance of retained earnings, as the adjusted net profit is deemed a minimum limit for the Zakat base and is subject to Zakat in full, being a yield on capital. Its distribution prior to the completion of Zakat Year (Al Hawl) does not affect its subjection to Zakat.
38	Dividend Distributions	Dividends shall be deducted from the Zakat base whenever their actual exit from the Taxpayer's possession prior to the end of the year is proven, even if recorded in the account of related parties, provided this is supported by correct accounting entries and bank statements proving the transfer. They shall not be deemed an accounting adjustment when the actual transfer of cash is proven.
39	Investments in Subsidiaries	Investment in subsidiaries shall be deducted up to the limit of the Taxpayer's share in equity in accordance with the financial statements of the investee companies, whenever accounting for them under the equity method is proven. The claim to deduct the full book balance or prior loss variances shall not be considered unless it is statutorily and accounting-wise proven that the investment is recorded under the cost method with clear and supporting documentation.
40	Deduction of Government Receivables	Zakat is not obligatory on receivables due from government entities when their collection is unattainable due to the government entity's delay in payment and not due to negligence by the Taxpayer. They shall not be subject to Zakat until after their collection and the completion of a Zakat Year (Al Hawl) over them. Their deduction from the Zakat base is accepted if it is proven that they are not subject to the Taxpayer's control or ability to benefit from them.

41	Debts	Debts shall be added to the Zakat base in proportion to the number of days for each payment during the year, taking into consideration the percentage of completion. It is not permissible to calculate the closing balance without demonstrating the procedural methodology or considering the deduction of corresponding assets.
42	Carried-Forward Losses	The criterion for carried-forward losses for Zakat purposes is the lower balance between what has been adjusted in accordance with the requirements of the Zakat regulations and the carried-forward losses listed in the financial statements.
43	Unrealized Profits	The deduction of unrealized profits or losses from the Zakat base shall not be accepted unless the Taxpayer proves the nature of the investments associated with them, and the acceptance or rejection of the deduction is not contingent on the asset.
44	Deduction of Guarantee Deposits from the Zakat Base	Amounts held in letters of guarantee and letters of credit are deemed Zakat-liable funds subject to Zakat, as a letter of guarantee does not entail the transfer of ownership of the funds to the beneficiary prior to execution; rather, it is deemed a guarantee for what will be due upon breach of an obligation. The retention of funds for the benefit of their growth does not preclude the Taxpayer's complete ownership thereof and the obligation of Zakat thereon as long as the funds remain in their ownership.
45	Donations	Donations classified under accounts payable are deemed funds subject to Zakat whenever they are at the Taxpayer's disposal and have not been actually paid. Zakat is obligatory upon them upon the completion of a Zakat Year (Al Hawl). Their description as amounts allocated for charitable works or their placement in a separate account does not alter this.
46	Long-Term Provisions	Long-term provisions are deemed components of the Zakat base whenever a Zakat Year (Al Hawl) has elapsed, and they remain in the Taxpayer's liability. They are not exempt from Zakat merely due to being allocated to cover future costs.

47	Provision for Impairment in Value	The deduction of the provision for impairment in value from the Zakat base shall not be accepted unless the Taxpayer submits certified documents and financial statements proving the actual linkage of the provision to the reduction in the value of capital works. The submission of analytical statements without proving the actual impact of the provision is insufficient.
Estimated Assessment		
48	Estimated Assessment in Regulated Pricing Activities	The estimated assessment must consider the nature of the Taxpayer's activity and the data available to the administrative authority. It may not lead to burdening the Taxpayer with more than what is due. Such an outcome is deemed a violation of public order, which is not rectified by the lapse of the objection period nor by the issuance of a prior decision. The assessment shall be annuld whenever it is vitiated by a defect in the estimation of revenues.
49	Zakat Base	Amounts appearing in Value Added Tax (VAT) returns shall not be deemed actual revenue for the Taxpayer whenever it is proven that they are amounts collected or paid on behalf of other parties. The Zakat base shall be calculated on the basis of the actual revenue resulting from the Taxpayer's actual activity. VAT returns shall not be relied upon if they do not reflect the actual reality of the nature of the activity.
50	Keeping Books of Accounts	The Authority has the right to assess the Taxpayer on an estimated basis whenever it is proven that the Taxpayer fails to keep statutory accounts.
51	Exercise of Activity	The criterion is that the Commercial Registration remains valid and the exercise of activity continues unless proven otherwise by dated documents corresponding to the year of dispute. Subsequent documents to the year subject to dispute shall not be considered to prove the non-exercise of activity.
52	Non-Retroactivity of Laws	The Rules of Operation for the Zakat, Tax, and Customs Committees may not be applied retroactively to an assessment issued prior to their entry into force. The decision shall be annuld whenever it is based on a subsequent application that violates the principle of the non-retroactivity of laws.

53	Res Judicata	It is impermissible to hear a case that has been previously adjudicated by a final judicial judgment, except by way of cassation or a petition for reconsideration in accordance with the Law. The doctrine of res judicata entails barring the re-examination of the same dispute whenever the identity of the parties, subject matter, and cause of action are satisfied.
54	Zakat Adjustment	The formal validity of the assessment decision is established whenever the Taxpayer's awareness of the grounds for adjustment is proven through the adjustment notice or via the substance of their submitted objection and its containing discussion of the clauses. No specific formal format is required as long as the purpose of the notice is achieved through statutory means.
Application of Zakat Collection Regulations		
55	Withdrawal of Administrative Decision and Its Impact on the Admissibility of the Case	To accept an appeal, it is required that the subject matter of the case be a final administrative decision that is existing and is effective at the time the case is heard. Therefore, if the administrative authority withdraws the contested decision prior to the registration or hearing of the case, the subject matter of the case ceases to exist, and its effects are nullified, and it shall be ruled inadmissible due to the non-existence of the decision.
56	Objection Procedures	It is impermissible to hear a subject matter that has not been previously objected to before the Authority. The scope of the Committees' review shall be restricted to the clauses explicitly covered by the Taxpayer's objection.
57	Taxpayer's Written Consent to Conducting or Amending the Assessment	If the Taxpayer consents in writing to extending the Authority's right to conduct a field audit or amend the assessment, the Authority may conduct the assessment without being bound by the statutory period in accordance with the Regulations in force during the year of dispute. The subsequent Regulations shall not apply except to financial years beginning after their effective date.
58	Variance in the Financial Year	In the event of a variance between the Taxpayer's financial year and the investment fund's financial year, the Zakat on the investment shall be calculated based on the fund's financial statements for its closest financial year or the financial year ending within the Taxpayer's year.

59	Proof of Ownership of Registrations	The transfer of activity or Commercial Registrations from the Taxpayer's possession to another person's possession shall not be recorded except by an official instrument issued by the competent authority specifying the transfer of ownership and its effective date. Financial statements alone shall not be relied upon as evidence of the transfer of registrations or activity.
60	Exhaustion of Jurisdiction	The decision issued in a case must include the adjudication of all of the Taxpayer's requests. A decision that omits certain clauses shall be deemed a statutorily defective decision requiring correction. It is impermissible to fragment the adjudication by issuing more than one decision in a single case prior to the Adjudication Circuit completely exhausting its jurisdiction, as this constitutes a violation of the fundamentals of drafting decisions and raises complications in appeal and execution.

