Kingdom of Saudi Arabia (KSA)

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Zakat vs Corporate Income Tax (CIT)

Regulatory Overview

Zakat

Zakat Base:

Total Zakat Base x Saudi / GCC Ownership %

The total Zakat Base of the entity can be computed using two methods.

Direct Method
(Wealth Uses Method, Net Current Assets Method, etc..)

Indirect Method
(Finance Sources method, Source of Invested Funds Method, etc..)

CIT

CIT Taxable Income:
Adjusted Net Income x Non Saudi / GCC Ownership %

Single Standardized Method, unlike Zakat

Key Principle:
Separate computations are performed. There is no blending of Zakat Base &Taxable Income.

Mixed Ownership Entity

A Saudi-registered company with both Saudi/GCC and non-GCC shareholders.

2.5% of Zakat base
Saudi/GCC

20% of Net Income
Non-GCC

Both Zakat and CIT can apply simultaneously to a legal entity.

Comparative Insights

Parameter	Zakat	CIT
Nature	Religious Levy **(Shar'iah)**	Statutory Levy introduced by Royal Decree
Applies to	Saudi / GCC Ownership	Non Saudi / GCC Ownership
Base of Calculation	Zakat base derived from equity, adjusted for deductible assets and liabilities	Adjusted Taxable Income
Standard Rate	**2.5%**	**20%**
Governing Authority	Zakat, Tax and Customs Authority **(ZATCA)**	ZATCA
Return Filing	**120 days** from Fiscal Year **(FY)** end	**120 days** from Fiscal Year **(FY)** end
Loss Treatment	No concept of loss carry forward	Losses can be carried forward, subject to conditions
Group Consolidation	Consolidation is possible, but only under specific conditions	No consolidation is possible

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Calculation Methods – Zakat and CIT

Particulars	Zakat (Direct Method)	Zakat (Indirect Method)	CIT
Base	**All Zakatable Assets – Zakatable Assets Liabilities**	**Internal Wealth + External Wealth used in Deducted Assets – Non Zakatable Assets - Zakatable Assets**	Starts with **Net Profit** as per financial statements.
Adjustments	• Additions **(Cash Assets, Trading Securities, etc.)** • Deductions **(Short Term Liabilities, Loans, etc.)**	• Additions **(Capital, Reserves, profits, external wealth sources etc)** • Deductions (**Fixed assets, investments in shares of Saudi companies**)	• Add back **Non – Deductible** Expenses • **Deduct** the Allowable Expenses & Exemptions
Payment	Zakat is only paid **once** a year.		Tax can be paid in **instalments**.
Suitability	Suitable for Individuals and Institutions who **voluntarily** pay Zakat due on their Wealth.	Suitable for all authorities who are required to pay Zakat on their wealth **obligatorily**.	It follows a single standardized approach, there are no multiple approaches like Zakat.

Conditions for Zakat and CIT

ز Zakat

1 **Islam (Religious levy):**
Zakat is obligatory on Muslim individuals and entities in Saudi/GCC-owned organizations *(subject to conditions)*.

2 **Absolute Ownership:**
Absolute ownership is about stable, value-generating wealth where the economic benefits remain with the owner, even without full control or disposal rights *(subject to conditions)*.

3 **Hawl (One Lunar Year):**
Wealth must be held for one full Hijri (lunar) year, unless exceptions apply **(~354 Days).**

Key Principle
All three conditions must be met for zakat to be obligatory on the entity or individual.

C CIT

Persons Subject to Corporate Taxation

1. A resident capital company with respect to the shares of non-Saudi partners.
2. A natural person who is a resident non-Saudi conducting Business in the Kingdom.
3. A non resident who conducts Business in the Kingdom through a permanent establishment.
4. A non resident with other taxable income from sources within the Kingdom.
5. A person engaged in the field of Natural Gas Investment.
6. A person engaged in the production of Oil and Hydrocarbons.

Residential Status (Natural Persons & Companies)

1. A Natural Person who has a permanent place of residence in KSA and resides for not less than **30 days**, or else a Natural Person who resides for not less than **183 days**.
2. A company formed as per the Company Laws, or its central management is located in KSA.