29 Issue

The Professional Magazine

A monthly publication prepared by the Professional Research Team at Ali Al Nasser & Partners Certified Public Accountants and Consultants

Wednesday, September 30, 2026, 19 Rabi' al-Akhir, 1448.

Introduction:

The Professional Magazine is a professional publication issued by Ali Ibrahim Al Nasser & Partners Certified Public Accountants and Consultants. In this 29th issue, we discuss Cessation of Activity and Change of Ownership for Zakat Purposes. We also review some common professional mistakes and practices, most notably delaying the transfer of a Zakat payer for Zakat assessment on an arbitrary basis to statutory accounts for Zakat purposes until the end of the year.

Key Updates and Developments

1- Zakat, Tax and Customs Authority Launches Updated Version of the Zakat, Tax and Customs Glossary:

The Zakat, Tax and Customs Authority (ZATCA) has launched the updated version of the "Zakat, Tax and Customs Glossary," featuring significant additions, including new translations, making the glossary available in four languages: Arabic, English, French, and Chinese.

The Zakat, Tax and Customs Glossary contains interactive links that facilitate browsing by providing direct access to terms and their meanings. The glossary has also been organized alphabetically in Arabic and includes all terms and definitions related to Zakat, tax, and customs in the four languages: Arabic, English, French, and Chinese.

The Authority emphasized that the glossary aims to standardize concepts and terminology and facilitate their understanding, while confirming that the relevant laws and regulations remain the official and authoritative reference.

Cessation of Activity and Change of Ownership for Zakat Purposes

The cessation of an entity's activity, change in its ownership, or change in its legal form are common and recurring practices in business operations. They are also significant events for Zakat purposes, as they may have Zakat implications relating to the continuation of Zakat liability, cessation of Zakat collection, or determination of the period for which the Zakat return must be filed.

These cases should not be viewed solely from a procedural or regulatory perspective; they should also be considered in terms of their impact on the Zakat Payer's obligations toward the Zakat, Tax and Customs Authority (ZATCA). An entity may actually cease its activities, enter into liquidation procedures, transfer its ownership to a new owner, or change from one legal form to another. Nevertheless, the Zakat treatment varies depending on the nature of the event and whether the activity continues or ceases.

The Implementing Regulations for Zakat Collection address these cases in Articles 11, 12, and 13, distinguishing between permanent cessation, temporary cessation, cessation for liquidation purposes, and changes in ownership or legal form while the activity continues. In this issue, we will discuss the key provisions related to these cases.

First: Cessation of Activity under Article 11

Article 11 of the Implementing Regulations establishes an important rule: Zakat collection ceases when the Zakat Payer permanently ceases to practice its activity. However, such cessation does not produce Zakat implications merely by virtue of an internal decision or an undocumented actual cessation. The Zakat Payer must submit a written application to the Authority within the prescribed period, which Article 11 sets at 60 days from the date of cessation.

The significance of this provision lies in the requirement that the cessation of activity be permanent rather than temporary. If the Zakat Payer ceases its activity for a specified period due to operational or organizational circumstances or to restructure its business, this does not mean that its Zakat liability ceases. However, if the cessation is final, it must be documented and the Authority must be notified in accordance with the applicable procedures.

The Article also addresses partial cessation, which occurs when the Zakat Payer ceases some of its activities while maintaining others. In this case, Zakat collection does not cease entirely for the Zakat Payer; rather, collection continues with respect to the activities that remain ongoing.

One example would be a company engaged in several activities, such as commercial, service, and industrial activities, that decides to cease its industrial activity only while maintaining its commercial and service activities. In this case, the company is not considered to have ceased its activity for Zakat purposes and must continue filing its Zakat returns and paying the Zakat due on its ongoing activities.

However, if the entity ceases all of its activities, cancels its commercial registration, and submits an application to the Authority to cease its activity within the prescribed period, it will be treated as having ceased its activity for Zakat purposes as of the date of cessation accepted in accordance with the applicable regulations.

Accordingly, Article 11 does not merely require an actual cessation of activity; rather, it links the Zakat implications to the occurrence of permanent cessation, submission of the application, and compliance with the prescribed period. It also gives the Authority the right to determine a different cessation date where the Zakat Payer provides evidence supporting such date.

Second: Cessation for Liquidation Purposes under Article 12

Article 12 addresses a specific case of cessation, namely, cessation of activity for liquidation purposes. A Zakat Payer shall be deemed to have ceased the activity for liquidation purposes as soon as liquidation procedures are initiated in accordance with the relevant laws.

This case differs from ordinary cessation because liquidation is not merely a decision to discontinue the activity. Rather, it is a legal procedure aimed at winding up the entity's affairs, determining its rights and obligations, selling its assets, settling its creditors' claims, and ultimately terminating its legal existence upon completion of the procedures under the applicable framework of the Bankruptcy Law.

Accordingly, the Regulations impose an obligation on the liquidator, bankruptcy trustee, or Bankruptcy Committee, as applicable, to notify the Authority in writing upon commencement of the liquidation procedures, for the purpose of ceasing Zakat collection from the Zakat Payer in cases of formal liquidation.

With respect to other bankruptcy procedures—other than liquidation—such as financial reorganization, Zakat collection does not cease. Rather, the Zakat Payer must continue filing the Zakat returns due, paying any amounts arising therefrom, and submitting its financial statements within the prescribed deadlines.

For example, if a court issues a ruling to commence liquidation procedures for a company and a bankruptcy trustee is appointed, the company is considered to have ceased its activity for liquidation purposes as of the date the procedures commence. The bankruptcy trustee must notify the Authority accordingly, and as a result, the activity is considered ceased and Zakat collection from the Zakat Payer ceases.

Third: Change of Ownership or Legal Form under Article 13

Article 13 addresses cases where the ownership or legal form of a Zakat Payer changes while it continues to practice its activity. The general rule under this Article is that Zakat collection is not affected merely by a change in ownership, transfer of ownership interests, or change in legal form, provided that the Zakat Payer continues to practice its activity.

This situation commonly arises in practical reality, such as when a new partner joins, an existing partner exits, ownership interests are transferred to heirs, a sole proprietorship is sold, or a company changes from a limited liability company to a joint stock company. Although such changes may be significant from a commercial or regulatory perspective, they do not necessarily mean that the activity has ceased or that the Zakat obligation has ended.

If one of the partners transfers their ownership interest to a new partner during the Zakat year while the company continues its activity, the company is assessed for the entire Zakat year. The change in partner does not result in dividing the year or ceasing Zakat collection.

For example, if a company is owned by two partners and one of them transfers their ownership interest to a new partner midway through the year, the company's Zakat status remains unchanged, and it is assessed for the entire Zakat year as long as it continues its activity.

Likewise, if ownership of a sole proprietorship is transferred from one owner to another during the year, the general rule is that the establishment is assessed for the entire Zakat year, provided that the activity continues and the conditions for Zakat liability are met. However, the treatment may differ if ownership is transferred to a person who is not subject to Zakat collection, such as where the establishment is transferred to a non-Saudi owner. In such a case, it is not subject to the same Zakat treatment at the end of the year; rather, at year-end, it is subject to the provisions of the Income Tax Law and not the Zakat Collection Regulations. In addition, the short period at the beginning of the year is not subject to Zakat collection.

As for a change in legal form, such as the conversion of a limited liability company into a joint stock company, the change itself does not result in the cessation of Zakat liability as long as the entity continues its activity. The legal form may change, while the activity and economic entity continue; therefore, the entity is assessed for the entire Zakat year in accordance with the provisions of the Regulations.

The importance of this Article lies in preventing confusion between a change in ownership or legal form, on the one hand, and cessation of activity, on the other. A change in ownership or structure does not, in itself, constitute cessation of activity unless it is accompanied by an actual and permanent cessation in accordance with the applicable regulatory provisions.

The following are some examples and practical cases illustrating the provisions discussed above:

- If a company ceases one of its activities only while continuing its other activities, it is not considered to have ceased its activity for Zakat purposes, and Zakat collection continues with respect to its ongoing activities.
- If a company permanently ceases its activity, cancels its commercial registration, and submits a written application to the Authority within the prescribed period, it is treated as having ceased its activity as of the date accepted based on the supporting documents.
- If a company enters into liquidation procedures under the Bankruptcy Law, it is considered to have ceased its activity for Zakat purposes as of the date the proceedings commence, provided that the bankruptcy trustee notifies the Authority accordingly.
- If one of the partners changes or a new owner joins while the company continues to practice its activity, the company is assessed for the entire Zakat year, and the change in ownership does not affect the continuation of Zakat collection.

Based on the foregoing, Articles 11, 12, and 13 of the Implementing Regulations for Zakat Collection establish the regulatory framework for addressing three important practical cases: cessation of activity, cessation for liquidation purposes, and changes in ownership or legal form.

The general rule is that Zakat collection continues as long as the Zakat Payer continues its activity, even if its ownership or legal form changes. Zakat collection ceases only when permanent cessation of activity occurs in accordance with the applicable regulatory requirements, or when liquidation procedures under the Bankruptcy Law are commenced.

Accordingly, managing these cases requires proactive professional care, proper documentation, and formal communication with the Authority to avoid any inaccurate understanding of the Zakat implications of cessation or change, missing the applicable deadlines and regulatory requirements, or losing the Zakat Payer's rights and an adverse impact on its Zakat obligations.

Common Professional Mistakes and Practices

Common Mistake:

Delaying the transfer to accounting based on statutory accounts for Zakat purposes until the end of the year.

Correct Procedure:

Reviewing the status of Zakat payer for Zakat assessment on an arbitrary basis before the end of the Zakat year and assessing whether transferring to accounting based on statutory accounts as a Zakat payer holding legal accounts would be appropriate, then submitting the application to ZATCA within the prescribed timeframe where the transfer is in the Zakat Payer's interest.

Explanation:

Some Zakat Payers may be subject to Zakat assessment on an arbitrary basis; however, the nature of their activities, the size of their business, or their financial data may make it more appropriate for them to transfer to accounting based on statutory accounts as Zakat payers holding legal accounts.

This is particularly important in cases where accounting based on statutory accounts results in a more accurate Zakat treatment than accounting based on Zakat assessment on an arbitrary basis. A common mistake is for the Zakat payer to postpone considering this option or submitting an application for the transfer until after the end of the year, resulting in the Zakat payer losing the right to transfer for that year, as Article 88 of the Regulations stipulates that an application for transfer must be submitted before the end of the Zakat year.

Accordingly, Zakat payers for Zakat assessment on an arbitrary basis should review their Zakat status sufficiently in advance of the end of the Zakat year, study the impact of transferring to accounting as zakat payers holding legal accounts, ensure compliance with the applicable regulatory requirements, and submit the application on time, in order to avoid missing the statutory deadline and losing the opportunity to transfer to treatment based on statutory accounts.

Common Mistake:

Failing to charge Value Added Tax (VAT) on services ancillary to residential leasing.

Correct Procedure:

Distinguishing between the exempt supply of residential real estate and ancillary or additional services that may constitute separate supplies subject to VAT, particularly where they are provided for separate consideration or are not an integral part of the right to use or enjoy the residential real estate.

Explanation:

Some taxpayers may lease residential real estate while providing certain additional services related to the real estate to the lessee, such as cleaning services, specialized maintenance, management services, or separate parking spaces. Nevertheless, the entire amount is treated as exempt residential leasing for VAT purposes.

This is considered a common mistake, as the exemption applies to the supply of residential real estate by way of leasing, including appurtenances that form part of the real estate, but does not extend to other services that are separate from the leasing of residential real estate.

Accordingly, taxpayers should review residential lease contracts and the related invoices and distinguish between the consideration for exempt residential rent and any other ancillary or additional services that may be subject to tax, while clearly documenting the tax treatment in the contracts and invoices.

ANS
شركة
علي الناصر
وشركاؤه محاسبون قانونيون ومستشارون

Contact information:

+966 11 293 1220 +966 55 201 2007

info@ans-cpa.com https://www.ans-cpa.com/

الرياض - حي اشبيلية - طريق الصحابة | جدة - حي الشراع - طريق الأمير نايف
.Riyadh - Ishbiliyah - Al Sahaba Rd. | Jeddah -Al shera'a - Prince Naif Rd