



# Tax/Zakat Update Adoption of IFRS in Saudi Arabia

6 November 2018



As you are aware that Saudi Organization for Certified Public Accountant (“SOCPA”) approved an International Financial Reporting Standards (IFRS) Convergence Plan, called the “SOCPA Project for Transition to International Accounting & Auditing Standards.”

Under this convergence plan, all listed companies were required to adopt IFRS for financial periods beginning on or after January 1, 2017 and all other entities for financial periods beginning on or after January 1, 2018.

The adoption of IFRS brings challenges not only for reporting purposes but also from a Tax and Zakat perspective.

### **Tax and Zakat implications of IFRS Conversion**

The transition to IFRS has an impact on the calculation and reporting of Zakat and income taxes for Saudi entities compared to reporting under the local accounting framework. There is greater emphasis on first-time adoption of IFRS which requires special attention from a Zakat and income tax perspective as no specific directives are issued by the GAZT in dealing with the changes in accounting arising out of first-time adoption.

The impact of transition to IFRS needs to be analysed carefully where changes in the accounting framework could result in:

- Double taxation;
- Non-taxation; or
- Double deduction.

With the adoption of IFRS, there may be additional items which could have an impact on Zakat and income tax calculation such as the classification of long term investments and deferred tax assets and liabilities. Furthermore, measures and adjustments should be considered in relation to liabilities that have already been settled for previous periods.

We expect that a number of companies will engage directly with the authorities and their advisors to understand in more detail the impact of IFRS conversion on the tax and zakat position.

KPMG Al Fozan & Partners tax specialists have extensive experience of tax accounting matters and would like to assist you in assessing the impact of IFRS conversion on the company’s tax and Zakat position.

For additional information, please contact:

**Wadih Abu Nasr**

Head of Tax, KSA  
T: +966 11 874 8500  
E: [wabunasr@kpmg.com](mailto:wabunasr@kpmg.com)

**Nick Soverall**

Head of Indirect Tax, Riyadh  
T: +966 11 874 8500  
E: [nsoverall@kpmg.com](mailto:nsoverall@kpmg.com)

**Kashif Jahangiri**

Head of International Tax  
T: +966 12 698 9595  
E: [kashifjahangiri@kpmg.com](mailto:kashifjahangiri@kpmg.com)

**Tareq Al-Sunaid**

Partner, Tax & Zakat  
T: +966 13 887 7241  
E: [talsunaid@kpmg.com](mailto:talsunaid@kpmg.com)



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