

SOCPA's perspective – Presentation of Zakat expense

Reference to: Tentative Agenda Decision on
Presentation of Taxes or Other Charges that are Not
Income Taxes within the Scope of IAS 12 Income
Taxes (IFRS 18)

Why this matter is relevant to Accounting Standards Advisory Forum (ASAF)?



- The issue forms part of the IASB Consistent Application Activities agenda (Agenda Paper 12B, Oct 2025) on presentation of non-income taxes.



- The IASB asked the IFRS Interpretations Committee to consider whether, under IFRS 18, taxes/charges outside IAS 12 can be presented in the income tax line item/category in the statement of profit and loss.



- The outcome matters for jurisdictions with tax-substitute regimes (e.g., Zakat), affecting clarity and comparability of IFRS 18 subtotals.

Tentative Agenda Decision (TAD):



IFRS 18 requires:

- a line item “income tax expense or income”
- an income taxes category in the statement of profit or loss



Question: can taxes / charges outside IAS 12 be presented:

in the income tax line item; or
within the income taxes category?

TAD's Conclusion:



- **Staff view:** No, IFRS 18 provides adequate basis for such matter; thus — an entity is not permitted to present non-IAS 12 taxes/charges
in “income tax expense or income”; or
in the income taxes category



- **Reason:** the income taxes category is linked to IAS 12 scope (and related FX where relevant)

Why Presentation significantly matters to users?



IFRS 18 subtotals (especially operating) drive:

- margins, KPIs, covenants, peer comparison



A large statutory charge that fully substitutes income taxes moved into operating can:

- change operating profit without operational change
- reduce comparability across entities and across periods

SOCPA's perspective about TAD:



SOCPA:

- a) understands the staff reading (IAS 12-linked category)
- b) disagrees that the outcome is adequate for all fact patterns.



Concern: SOCPA believes the TAD, as drafted, contradicts the core principle of preparing principle-based standards by effectively ignoring comprehensive tax-substitute regimes outside IAS 12 but with substance similar to income taxes.

SOCPA's Accounting Standards Board conclusion during IFRS 18 endorsement:

During the endorsement of IFRS 18, SOCPA (through its Accounting Standards Board) examined how to present Zakat expense:

1. together with income tax expense; or
2. in another category (e.g., operating)

The Board considered:

1. presentation/disclosure requirements of IFRS 18 and IAS 12,
2. SOCPA Zakat Standard (Revised),
3. IAS 8 (no IFRS specifically applicable to Zakat),
4. similarity between Zakat and income taxes, including how Zakat is calculated and paid,
5. primary role of financial statements introduced in IFRS 18; to provide a "useful structured summary" to help users understand performance and compare entities.

The Board's Conclusion: present Zakat within the "income taxes category", provided that:

1. subheading: "Profit before income tax and Zakat";
2. Zakat presented distinctively separate from income tax.

Saudi context: two taxation systems:



Saudi Arabia operates two corporate taxation systems based on ownership:

- Zakat applies to Saudi/GCC ownership portion;
- Income tax (IAS 12 type) applies to non-Saudi portion.



Mixed entities may incur both proportionately

- Both systems have alike formal processes (registration, filing, assessment, appeal) and are administered by the same authority

Saudi context (continued):



Zakat is:

- statutory and mandatory to all companies
- calculated on a base linked to profit/equity-type measures
- analysed by users as part of the entity's overall statutory tax burden

Users typically assess results on a pre-tax / post-tax basis where Zakat is viewed as a tax charge

International acknowledgement: Zakat treated like a tax burden:



International tax context supports the view that Zakat is treated similarly to income taxes:

- Double tax treaties concluded by Saudi Arabia include Zakat in the definition of “Taxes Covered”
 - enabling relief from double taxation
- The OECD global minimum tax framework (Pillar Two (Global Minimum Tax)) treats Zakat as a covered tax for GloBE Rules
- OECD report statement: “Zakat could be considered as an alternative to corporate income tax levied on a different basis”

Implication: Zakat’s effect is monitored by users of financial statements similarly to income taxes when assessing performance.

Why tonnage / royalty precedents don't fit Zakat?

Prior “non-income tax” examples (tonnage taxes, production-based royalties) are linked to specific activity bases.

Zakat is:



- not tied to a specific operating activity;
- imposed on an entity's broader base (wealth / overall base) and can be benchmarked, in certain cases, to adjusted profits

If Zakat is placed in operating, it would appear like an operating cost. This could be **so misleading** that it conflicts with the objective of financial statements set out in the Conceptual Framework for Financial Reporting.

SOCPA's request:

The staff recommendation not to add a standard-setting project was reached without performing outreach activities (Staff paper, Sep. 2025 "ap8-initial-consideration, para. 23")

SOCPA Request: before finalising the agenda decision, perform targeted outreach to understand implications for jurisdictions with comprehensive tax-substitute regimes, particularly Saudi Arabia

- mixed-ownership structures (Zakat + IAS 12 income tax proportionately)
- tax treaty treatment (Zakat within "Taxes Covered")
- Pillar Two / GloBE treatment (Zakat treated as a "covered tax")
- presentation volatility driven by ownership changes (statutory burden moves location)

Why narrow-scope standard-setting is warranted?

SOCPA is **not persuaded** by staff's conclusion that standard-setting criteria are not met
In SOCPA's view, **Due Process Handbook 5.16 criteria are met** because:

- 1. the matter is widespread in the jurisdiction and affects the usefulness of IFRS 18 subtotals
- 2. divergent / potentially misleading presentation outcomes are likely (operating distortion; fragmented tax story)
- 3. addressing the issue would improve comparability and decision-usefulness without undermining IAS 12

Therefore, a **recommendation for narrow-scope standard-setting** is warranted

Recommended outcome: narrow-scope standard-setting



SOCPA Request: recommend a narrow-scope standard-setting project to amend IFRS 18 to accommodate:

- comprehensive tax-substitute regimes outside IAS 12
- but with substance similar to income taxes



Objective: preserve decision usefulness and comparability without undermining IAS 12

Examples highlighting distortion that will be caused by presenting Zakat outside income tax category:

Example 1: a comparison between a Zakat only entity and an Income Tax only entity (applying TAD)



Statement of profit or loss for the year ended 31 December 20XX

Income Tax only entity		Zakat only entity (Zakat presented within operating category applying TAD)	
Revenue	1000	Revenue	1000
Operating expenses	(800)	Operating expenses (including Zakat)	(830)
Operating profit	200	Operating profit	170
Income Tax expense	(30)	Income Tax expense	(0)
Net Profit	170	Net profit	170

Key point: Both entities have the same performance. However, the presentation shows:

- Income Tax entity has a better operating profit.
- Zakat entity has no "tax burden".

Example 2: Mixed ownership (split “tax story”)



Statutory burdens:

- Zakat (Saudi/GCC portion): 15
- IAS 12 income tax (non-Saudi portion): 15
- Total statutory tax-type burden users care about: 30



Statement of profit or loss for the year ended 31 December 20XX

ABC entity (Zakat presented in Income Tax category)		XYZ (Zakat presented outside Income Tax category applying TAD)	
Revenue	1000	Revenue	1000
Operating expenses	(800)	Operating expenses (including Zakat)	(815)
Operating profit (profit before Zakat and Income Tax)	200	Operating profit (before Income Tax)	185
Zakat expense	(15)		
Income Tax expense	(15)	Income Tax expense	(15)
Net profit (loss)	170	Net profit (loss)	170

Total tax burden equals 30

Key point: Both entities have the same performance. However, the presentation shows:

- ABC entity has a better operating profit but showing a higher “tax burden”.
- XYZ entity has a worse operating profit but showing a lower “tax burden”.

Example 3: Ownership change causes artificial operating improvement

Same underlying business activities both years:

- Revenue: 1,000
- Operating expenses: (800)
- Pre-tax-type operating profit: 200
- Year 1: Saudi Ownership
- Year 2: Saudi shareholders sell all their shares to non-Saudi



Statement of profit or loss for the year ended 31 December 20XX (applying TAD)

	Year 1 Saudi ownership	Year 2 Saudi shareholders sell to non- Saudi
Revenue	1000	1000
Operating expenses	(830)	(800)
Operating profit (profit before Income Tax)	170	200
Income Tax expense	(0)	(30)
Net profit (loss)	170	170

Including
Zakat
expense

Key point: entity has the same performance in both years. However, the presentation shows the entity has a:

- a. better operating profit in year 2.
- b. "tax burden" in year 2.

Based on the previous examples:

Presenting Zakat outside the income tax category:



- Distorts operating subtotals/ratios (e.g. “margins”, KPIs, covenants, peer comparison);
- weakens comparability with entities subject to income tax in Saudi or in other jurisdictions;
- undermines usefulness of IFRS 18 structured summary

This clearly supports the need for a narrow-scope amendment to IFRS 18 for tax-substitute regimes such as Zakat.

Summary

01

Zakat is a comprehensive tax-substitute regime and analysed by users as part of the overall statutory tax burden.

03

SOCPA requests targeted outreach and a narrow-scope amendment to IFRS 18 to accommodate such Zakat regime.

05

Our recommendations are anchored to IFRS 18's objective that primary financial statements provide a useful structured summary for users.

02

Applying the TAD outcome would distort operating measures, fragment the tax story, and create artificial volatility (see Examples 1–3).

04

Recommended presentation: 'Profit before income tax and Zakat' and Zakat as a separate line item within the tax category (Example 4).

Thank you