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22 Issue

The Professional Magazine

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

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Introduction:

The Professional Magazine is a specialized publication issued by Ali Ibrahim Al-Nasser & Partners, Certified Public Accountants and Consultants. In this twenty-second issue, we discuss the initiative to cancel penalties and waive financial fines. This issue also highlights a number of common professional mistakes and practices, most notably the failure to consider the concept of the Principal headquarters' Location for foreign companies, which may result in such companies being subject to zakat or income tax in the Kingdom of Saudi Arabia.

Key Developments and Updates

1. Issuance of the Minister of Finance's decision to extend the initiative to cancel penalties and waive financial fines for taxpayers until 30 June 2026:

The Zakat, Tax and Customs Authority (ZATCA) announced the issuance of a decision by His Excellency the Minister of Finance to extend the application of the initiative to cancel penalties and waive financial fines for taxpayers subject to all tax laws for a period of six Gregorian months, starting from 1 January 2026.

The Authority clarified that the initiative includes exemption from penalties related to late registration under all tax laws, late payment, and late filing of tax returns under all tax laws, in addition to penalties for amending Value Added Tax (VAT) returns, penalties arising from field inspection violations related to the implementation of electronic invoicing provisions, and other general VAT provisions.

ZATCA further stated that, to benefit from the initiative, the taxpayer must be registered in the tax system, submit all tax returns required to be filed with the Authority, and settle the full principal amount of the tax debt related to the due tax returns. Taxpayers may also apply to the Authority for installment payment arrangements, provided that the application is submitted during the validity of the initiative and that all due installments are paid on their respective due dates in accordance with the installment plan approved by the Authority. The Authority emphasized that the initiative does not include penalties related to tax evasion violations, nor penalties that were paid prior to the effective date of this initiative.

2. The Saudi Organization for Chartered and Professional Accountants (SOCPA) Approves Amendments to International Accounting Standards and International Financial Reporting Standards:

With reference to the issuance by the International Accounting Standards Board (IASB) of an amendment to International Accounting Standard (IAS) 21, aimed at addressing a gap in the Standard relating to the procedures for translating financial statements when an entity's presentation currency is the currency of a hyperinflationary economy, while the entity's functional currency and the functional currency of the foreign operation are not currencies of a hyperinflationary economy. This amendment also introduces requirements applicable when both the entity's functional currency and presentation currency are currencies of a hyperinflationary economy, and the entity translates the results and financial position of a foreign operation whose functional currency is the currency of a non-hyperinflationary economy.

In addition, the IASB issued a set of amendments to International Financial Reporting Standard (IFRS) 19 with the aim of aligning the reduced disclosure requirements under that Standard with a number of amendments made to International Financial Reporting Standards during the period from February 2021 to May 2024. This alignment process included reducing the disclosure requirements under this standard in comparison with the disclosure requirements added during that period to several International Financial Reporting Standards, such as IFRS 7, IFRS 18, IAS 7, IAS 12, and IAS 21.

In accordance with the Rules of Procedure of the Accounting Standards Board of the Saudi Organization for Chartered and Professional Accountants, and as these amendments do not conflict with the local environment, the Board resolved on 04/07/1447H (corresponding to 24/12/2025G) to approve the application of these amendments to International Financial Reporting Standards in the Kingdom, with early application permitted.

3. The Saudi Organization for Chartered and Professional Accountants (SOCPA) Issues a Guidance Manual to Enhance Audit Quality and Detect Fraud Risks in Financial Statements:

The Saudi Organization for Chartered and Professional Accountants has issued a new professional guidance manual targeting certified public accountants and auditors. The guide focuses on assessing the risks of management override of controls and bias in accounting estimates, as these are among the most significant indicators of potential accounting fraud.

The guidance addresses the requirements of the auditing standard related to the auditor's responsibilities regarding fraud in an audit of financial statements, as well as the auditing standard relating to the audit of accounting estimates and related disclosures. It explains the integration between the two standards to establish a comprehensive audit approach that includes risk identification and the design of appropriate responses.

The guide discusses the risks associated with journal entries, particularly manual journal entries and entries recorded at the end of financial periods, as these are among the most common means used to override controls. Accordingly, such entries require focused audit testing. The guide also highlights that retrospective review is one of the most effective professional tools for identifying patterns of bias in accounting estimates by comparing prior accounting estimates with actual outcomes, thereby assisting in assessing the quality of the estimation process and management's objectivity in preparing financial statements.

Through this guidance, the authority emphasizes that high-quality audit work is achieved through the exercise of professional skepticism, the enhancement of professional judgment, thorough documentation of risks, and effective communication with those charged with governance. This, in turn, contributes to improved compliance with International Standards on Auditing and enhances confidence in financial reporting.

Initiative to Cancel Penalties and Waive Financial Fines

The initiative to cancel penalties and waive financial fines is one of the most significant incentive initiatives launched by the Zakat, Tax and Customs Authority (ZATCA) to support taxpayers' compliance and enhance their financial stability. The initiative has been extended from 1 January 2026 to 30 June 2026, in accordance with the ministerial decision issued by the Minister of Finance.

Overview of the Initiative and Its Objectives

The "Initiative to Cancel Penalties and Waive Financial Fines for Taxpayers" aims to reduce the financial burden resulting from tax penalties and to enable individuals and establishments to rectify their tax positions and return to compliance without incurring accumulated penalty costs.

The decision to extend the initiative for a period of six months, starting from 1 January 2026, provides taxpayers with an additional opportunity to benefit from the exemption, in light of prevailing economic and regulatory considerations, and based on the powers granted to the Minister of Finance to relaunch, extend, and determine the controls governing the initiative.

Scope of the Initiative and Covered Parties

The initiative applies to registered taxpayers, as well as those who proactively register, with the Zakat, Tax and Customs Authority under the various tax regimes, in particular:

- Income Tax
- Withholding Tax
- Value Added Tax (VAT)
- Excise Tax
- Real Estate Transaction Tax

The benefit of the initiative applies to penalties and financial fines associated with these tax regimes, provided that the specified conditions are met, for periods prior to the effective date of the initiative. The exemption is conditional upon the settlement of the principal tax amount or entering into an approved installment payment plan within the prescribed timeframes.

Penalties Covered by the Exemption and Conditions for Benefiting from the Initiative

The initiative is based on a fundamental principle whereby the exemption from penalties is conditional upon the taxpayer's serious commitment to settling the principal tax liabilities or scheduling them during the validity of the initiative, in addition to submitting all outstanding tax returns. The key penalties covered by the exemption may be summarized as follows:

1. Late Registration Penalty

A taxpayer registered with the Zakat, Tax and Customs Authority shall be exempt from the late registration penalty stipulated under the tax laws, subject to the following main conditions:

- Submission of all tax returns required to be filed during the period from 1 June 2022 until the end of the initiative.
- Full settlement of the principal amount of tax due under such returns within the same period, or submission of an installment payment request during the period from 1 June 2022 until the end of the initiative, with full compliance with the approved installment plan and without any delay in paying the due installments.

2. Late Payment and Late Submission of a Return Penalties

The exemption covers the following penalties under all tax laws, arising prior to 1 January 2026:

- Penalties for late payment of due tax.
- Penalties for late submission of tax returns.
- With respect to Value Added Tax (VAT), the exemption also includes penalties for amending tax returns related to returns required to be submitted with the Authority prior to 1 January 2026, whether such penalties resulted from an action taken by the taxpayer or from an assessment or reassessment conducted by the Authority.

To benefit from this exemption, the following conditions must be met:

- Full settlement of the principal tax amount related to the return from which the penalty arose during the period from 1 June 2022 until the end of the initiative, or submission of an installment payment request during the same period.
- Compliance with the installment plan approved by the Authority. In the event of non-compliance with the installment plan, late payment penalties shall be reinstated on the outstanding balances, as stipulated in the decision.

3. Financial Penalties under the VAT Law

Taxpayers shall be exempt from unpaid financial penalties stipulated in Article 45 of the Value Added Tax Law, related to field inspection violations as well as electronic invoicing, provided that:

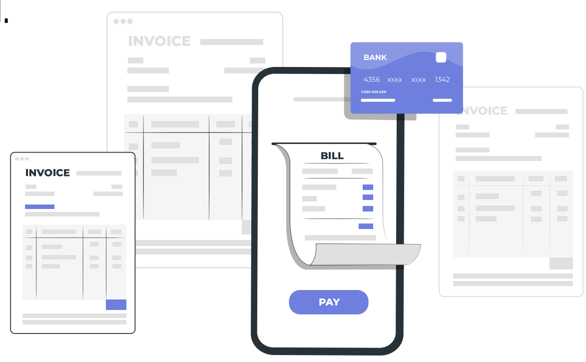
- Such penalties were imposed before 1 January 2026.
- The principal tax amount due on these penalties is settled during the period from 1 June 2022 until the end of the initiative, or a request for installment payment is submitted during this period, with full compliance with the approved installment plan.

4. Late Payment Penalties Related to Installment Plans

The scope of the exemption has been extended to include late payment penalties associated with the principal tax included in an approved installment plan, even if the installment due dates fall after the end of the initiative period, provided that the taxpayer complies with the installment plan during and after the initiative period. However, if the taxpayer fails to comply with the approved installment plan approved by the Authority during or after the initiative period, late payment penalties shall apply on the unpaid balances in accordance with the applicable laws.

5. Full Exemption upon Settlement of Principal Tax before 1 January 2026

The decision provides for full exemption from all unpaid penalties mentioned under the item of late payment and amendment penalties if the taxpayer has fully settled the principal tax related to such penalties before 1 January 2026. In other words, taxpayers who settled the principal tax before this date benefit from complete cancellation of penalties during the initiative period.



6. Penalties Excluded from the Exemption

The initiative does not extend to penalties that have already been settled before the effective date of the initiative, nor to penalties arising from tax returns required to be filed with the Authority after 31 December 2025.

The initiative also does not extend to penalties resulting from tax evasion violations, including those related to Income Tax, Value Added Tax (VAT), Excise Tax, or other taxes. The decision explicitly states that taxpayers are not exempt from penalties arising from tax evasion, including late registration, late payment, late submission of returns, and financial penalties under the VAT Law, as long as they are associated with tax evasion.

Initiative Period and How to Benefit

The initiative has been extended for six Gregorian months, starting from 1 January 2026 until 30 June 2026, in accordance with Ministerial Decision No. 653 dated 6 Rajab 1447H. To benefit from the initiative, taxpayers must take one of the following actions during the initiative period:

• Full settlement of all principal tax amounts due for previous periods that gave rise to penalties covered by the initiative, along with the submission of all required tax returns.

• Or submit a request for installment payments of these principal amounts during the period from 1 June 2022 until the end of the initiative, with full compliance with the installment plan approved by the Authority.

This timeframe means that taxpayers who promptly settle their positions during the six months of the initiative can clear the burden of accumulated penalties and start a fresh compliance record with the Authority.

Example of Applying the Initiative

Suppose an establishment has tax liabilities for two different periods:

Period 1: Refers to VAT returns for the years 2023 and 2024, where the establishment was late in submitting some returns and paying the tax due, resulting in late submission of a return and late payment penalties. All these violations occurred before 1 January 2026, and the penalties had not been settled by the start of the initiative. During the initiative period, the business submitted all missing returns and settled the principal tax due. In this case, the penalties associated with this period fall within the scope of the exemption initiative, and the late submission and late payment penalties are canceled in accordance with the rules.

Period 2: The business was late in submitting the January 2026 return, which resulted in late filing and late payment penalties after the company submitted the return. These penalties do not fall within the scope of the initiative, as they relate to returns required to be filed after 1 January 2026.

Regarding Value Added Tax (VAT), the last period covered by the current extension of the initiative is the third quarter of 2025 for taxpayers submitting quarterly returns, and November 2025 return for taxpayers submitting monthly returns. This means that, for VAT, the fourth quarter of 2025 and the December 2025 return are not included in the scope of this extension, as they are required to be submitted after 1 January 2026.

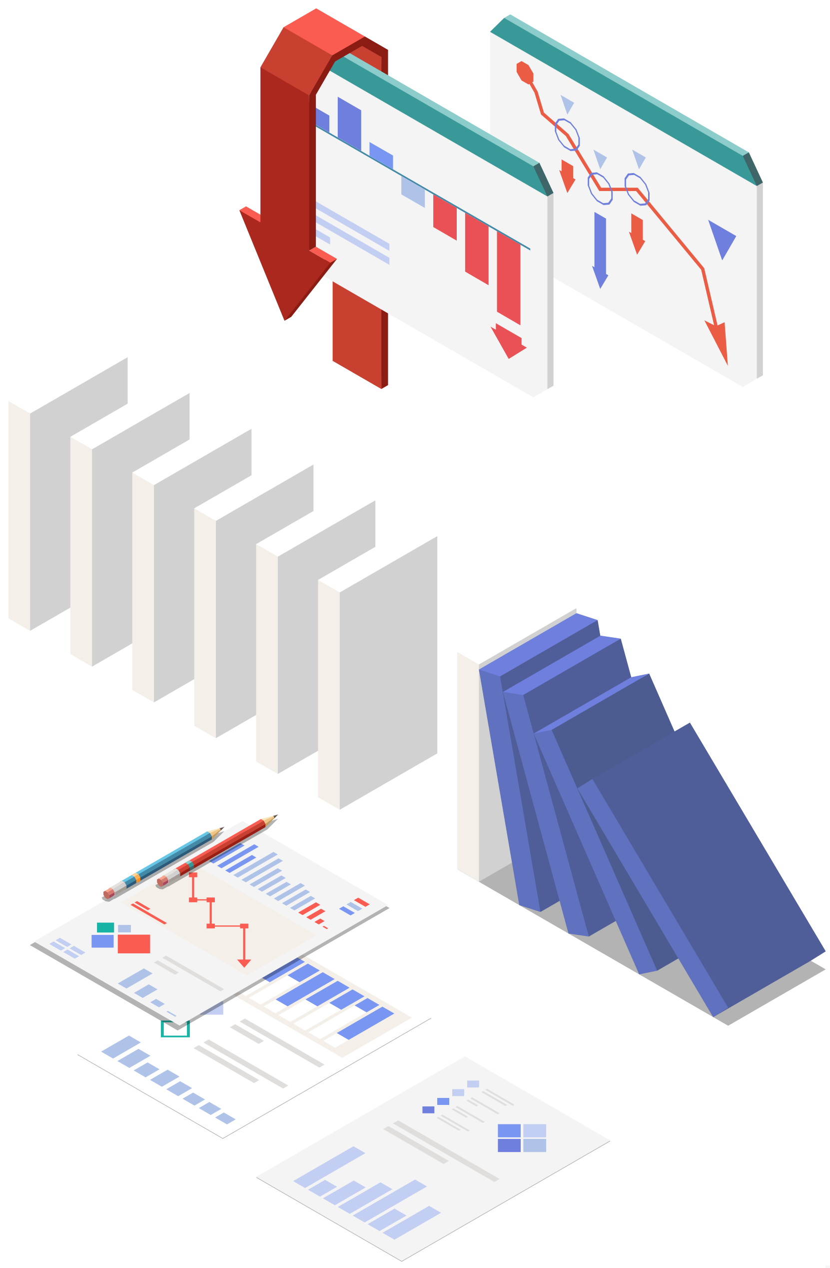
Conclusion

The initiative to cancel penalties and waive financial fines represents an exceptional opportunity for every taxpayer - whether an individual or an establishment - to regularize their tax position and reduce financial liabilities arising from penalties accumulated over the years due to late registration, submitting of returns, or the settlement of due amounts.

The key message of the initiative is clear: the Authority allows a wide scope for correction and settlement, in exchange for a genuine commitment to pay the principal tax or schedule it under transparent and publicly announced rules, with an explicit exclusion for cases of tax evasion, which remain subject to strict legal and regulatory enforcement.

It is in the taxpayer's best interest - especially at this stage, with the initiative extended until 30 June 2026 -not to postpone benefiting from the exemption. Taxpayers should proactively review their liabilities, identify outstanding penalties, and communicate with the Authority (or their tax advisor) to develop a comprehensive resolution plan before the deadline.

Every day that passes during the initiative period is an opportunity to reduce financial and legal risks for the taxpayer, and to build a positive, stable relationship with the Zakat, Tax and Customs Authority based on voluntary compliance, transparency, and sustainability.



Common Professional Mistakes and Practices

Common Mistake:

Failure to consider the concept of the principal headquarters for companies established outside the Kingdom.

Correct Procedure:

Verify whether the conditions of the principal headquarters apply to companies established outside the Kingdom, as the fulfillment of such conditions may result in the company being subject to zakat or income tax.

Explanation:

Article Five of the Implementing Regulations for Zakat Collection, together with Ministerial Resolution No. (2194) dated 12/7/1432H, defines the concept of the principal headquarters' location for the purposes of applying the provisions of the Income Tax Law. An establishment is considered to have its principal headquarters' location in the Kingdom if at least two of the following conditions are met:

1. The usual meeting of the Board of Directors is regularly held in the Kingdom, and during which the main policies and decisions related to the management of the establishment and the facilitation of its business are made.
2. The senior executive decisions related to the management of the establishment's functions are made inside the Kingdom, including: Decision made by the CEO and its deputies.
3. The establishment's businesses that generate the majority of its revenues are inside the Kingdom.

Accordingly, if two of the above conditions are met by any establishment established outside the Kingdom, it shall be considered a resident for the purposes of zakat and income tax provisions, which requires its registration with the Authority as a person subject to income tax or zakat, depending on the nationality of the owners.

Common Mistake:

Failure to benefit from the initiative to cancel penalties and waive financial fines.

Correct Procedure:

Taxpayers should take advantage of the penalty initiative by reviewing or amending previous tax returns or by settling any overdue tax amounts.

Explanation:

Such initiatives require taxable persons to benefit from them to the greatest extent possible, as applicable. The benefit from the initiative may take the following forms:

1. Correction of prior mistakes known to the taxpayer, in order to avoid penalties and mitigate the financial impact on taxpayer, in cases where the taxpayer is aware, or has reasonable grounds to believe, that previous mistakes exist.
2. Conducting a comprehensive review of previous tax returns for verification purposes and to mitigate the risk of subsequent audits that may be conducted by the Authority. This applies in cases where the taxpayer is not aware of specific mistakes in prior returns, as such reviews often result in the identification of mistakes or omissions requiring amendment, particularly when the review is conducted by a specialized tax advisory firm.
3. Reviewing ongoing disputes and objections with the Authority and considering the withdrawal of items or objections where the taxpayer's position is unlikely to succeed.
4. Settlement of any outstanding tax amounts due to the Authority in order to benefit from the waiver of penalties associated with such amounts.

In all cases, the underlying basis for the above options, or any other alternatives, is a cost-benefit analysis, taking into consideration the amount of tax involved and the costs of reviewing or verifying such amounts.

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