Recent developments:
For the latest tax developments relating to Saudi Arabia, see Deloitte tax@hand.

Investment basics:
Currency – Saudi Riyal (SAR)
Foreign exchange control – No
Accounting principles/financial statements – For accounting periods that began before 1 January 2018, Saudi Organization of Certified Public Accountants (SOCPA) standards generally were used. If an issue was not covered by SOCPA standards, IFRS was applied. Banks and insurance companies use IFRS. Listed companies were required to adopt IFRS from the financial period beginning from 1 January 2017, with 1 January 2016 being the transition date for IFRS convergence (the beginning of the earliest comparable year). All other entities are required to adopt IFRS from the financial period beginning from 1 January 2018, with 1 January 2017 being the transition date for IFRS convergence.

Principal business entities – These are the limited liability company (LLC), joint stock company and branch of a foreign entity.

Corporate taxation:
Residence – A corporation (defined in Saudi law as a public company, limited liability company or partnership limited by shares) is resident in Saudi Arabia if it is registered in accordance with the regulations for companies in Saudi Arabia or if it is headquartered in Saudi Arabia.
Basis – A resident corporation is taxed on income arising in Saudi Arabia. A nonresident carrying out activities in Saudi Arabia through a permanent establishment (PE) is taxed on income arising from or related to the PE.

Taxable income – Income tax generally is levied on a non-Saudi’s share in a resident corporation, unless the corporation is traded on the Saudi stock exchange, in which case zakat is levied; zakat also is levied on a Saudi’s share. Citizens of Gulf Cooperation Council countries (GCC) are treated as Saudis.

The tax base for a resident corporation is the non-Saudi’s share of income subject to tax from any activity in Saudi Arabia, less allowable expenses. The tax base for a nonresident carrying out activities in Saudi Arabia through a PE is the income arising from the activities of the PE, less allowable expenses.

The tax base of a corporation is determined independently from its shareholders, partners or subsidiaries, irrespective of whether the corporation is consolidated for accounting purposes.

The tax base of persons engaged in the production of oil and hydrocarbon materials is their taxable income, less expenses allowed in accordance with the tax legislation. The tax base of persons engaged in the exploitation of natural gas is their taxable income, less expenses allowed in accordance with the tax legislation. This tax base is considered independently from the tax base for other activities.
**Taxation of dividends** – Dividends received are taxed as income.

An exemption is available for cash or in-kind dividends received by a Saudi resident corporation from resident and nonresident companies where the recipient company owns at least 10% of the payer company for at least one year.

**Capital gains** – A 20% capital gains tax is imposed on the disposal of shares in a resident company by a nonresident shareholder. Capital gains arising on the disposal of securities traded on a foreign stock exchange are exempt from capital gains tax provided the securities also are traded on the Saudi stock exchange, irrespective of whether the disposal was made via a stock exchange or through other means.

No gain or loss arises on the transfer of assets between group companies if the companies are wholly owned directly or indirectly within the group and the assets are not disposed of outside the group for at least two years from the date of transfer.

**Losses** – Tax losses may be carried forward indefinitely, subject to a maximum offset each year of 25% of the annual taxable profits, as reported on the tax return. Corporations are able to carry forward losses, irrespective of whether there has been a change in ownership or control, provided they continue to perform the same activity. A transfer of assets within a group of companies is not considered as a change in ownership or control. Losses may not be carried back.

**Rate** – The corporate income tax rate is 20% on a non-Saudi’s share in a resident corporation and on income derived by a nonresident from a PE in Saudi Arabia. The rate for taxpayers working in the exploitation of natural gas sector is 20%. The tax rate for taxpayers engaged in the production of oil and hydrocarbons is determined on the basis of the company’s capital investment, as follows: 85% for capital investment of USD 60 billion or less; 75% for capital investment between USD 60 billion and USD 80 billion; 65% for capital investment between USD 80 billion and USD 100 billion; and 50% for capital investment exceeding USD 100 billion.

Capital investment is defined as the total cumulative value of fixed assets, whether tangible (e.g. equipment, machinery, etc.) or intangible, including exploration, drilling and development expenses.

For financial years commencing on or after 1 January 2019, zakat is assessed at 2.5% on the higher of the zakat base (balance sheet basis) and the net adjusted profit of a Saudi or GCC shareholder following the Hijri year. For zakat payers following the Gregorian year, the rate applicable to the zakat base is 2.578% (balance sheet basis).

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No

**Holding company regime** – The profits of a Saudi resident subsidiary remitted to its Saudi resident holding company will not be taxed, provided: (i) there is a minimum holding of 10% and (ii) the investment is held for at least one year. Limited rules also exist for groups wholly subject to zakat.

**Incentives** – The government grants 10-year tax incentives on investments in the following six underdeveloped provinces: Hail, Jizan, Abha, Northern Border, Najran and Al-Jouf. Investors are granted a tax credit against the annual tax payable in respect of certain costs incurred on Saudi employees.

**Withholding tax:**

**Dividends** – A 5% withholding tax is levied on dividends paid to a nonresident, unless the rate is reduced under a tax treaty.

**Interest** – A 5% withholding tax is levied on interest paid to a nonresident, unless the rate is reduced under a tax treaty.

**Royalties** – A 15% withholding tax is levied on royalties paid to a nonresident, unless the rate is reduced under a tax treaty.

**Technical service fees** – A 5% withholding tax is levied on technical service fees paid to a nonresident third party, unless the rate is reduced under a tax treaty; a 15% withholding tax rate applies to technical service fees paid to related parties, unless the rate is reduced under a tax treaty.

**Branch remittance tax** – A 5% withholding tax is imposed on the remittance of profits abroad.

**Other taxes on corporations:**

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – No, but a 2.5% land tax applies on all undeveloped land within urban boundaries.

**Social security** – For Saudi employees, the employer must contribute 12% of the employee’s salary to the General Organization for Social Insurance (GOSI), and the employee contributes 10%. The employer also pays accident insurance equal to 2% of the salaries paid for non-Saudi employees.
Stamp duty – No
Transfer tax – No

Excise duty – Excise tax is chargeable on the importation or production of excisable goods released for consumption in Saudi Arabia. The excise duty rate is 50% on soft drinks and 100% on energy drinks and tobacco products. Any person intending to import, produce or hold (under a suspension arrangement) any excisable goods in Saudi Arabia must register for excise tax. Any person holding excisable goods valued in excess of SAR 60,000 (whether or not otherwise registered or required to register) must submit a one-off transitional return and pay the excise tax due within 45 days. Thereafter, those registered for excise tax must submit returns reporting their total excise liabilities on a bimonthly basis (i.e. one return every two calendar months) together with payment within 15 days of the end of the tax period.

Anti-avoidance rules:

Transfer pricing – Transfer pricing regulations apply for reporting periods ending on or after 31 December 2018 and generally are consistent with OECD guidelines. The regulations apply to all taxpayers and cover any transaction between related persons or persons under common control, as defined in the regulations, subject to certain de minimis thresholds. The choice of transfer pricing method is aligned with OECD guidance, with five prescribed methods: comparable uncontrolled price, resale price, cost plus, transactional net margin and transactional profit split.

Thin capitalization – Saudi Arabia does not have specific thin capitalization rules, but there is a rule limiting the deductibility of interest expense to the lesser of: (i) the actual interest expense, or (ii) interest income, plus 50% of taxable income (excluding interest income and interest expense).

Controlled foreign companies – No

Disclosure requirements – A disclosure form providing various details for transfer pricing purposes must be submitted together with the annual income tax return due 120 days after the financial year-end. It must be accompanied by an affidavit from an auditor licensed to operate within Saudi Arabia certifying that the transfer pricing policy of the multinational enterprise is consistently applied by and in relation to the taxpayer with regard to its intragroup transactions.

Saudi Arabian entities that are members of groups with turnover exceeding SAR 3.2 billion (approximately USD 850 million) are subject to country-by-country (CbC) reporting and notification requirements. A master file and local file also would be required in line with OECD BEPS action 13.

The deadline for submission of the CbC report notification for ultimate parent entities (UPEs) not based in Saudi Arabia is 120 days after the fiscal year-end. The CbC report for Saudi Arabia-based UPEs should be submitted 12 months after the fiscal year-end.

For calendar year 2019, extensions are granted for the submission of the master file and/or local file, providing taxpayers with a minimum of 210 days after their fiscal year-end to prepare and submit the documentation (assuming the tax authorities request the master and/or local file 120 days after the fiscal year-end).

Other – There is a general anti-avoidance provision (GAAR) in the tax law.

Compliance for corporations:

Tax year – The tax year is the state’s fiscal year (1 January to 31 December). The taxable year of a taxpayer starts from the date it obtains a commercial registration or license, unless other documents support a different date.

A taxpayer may use a different tax year in the following circumstances: (i) the different year was approved by the Directorate before the effective date of the income tax regulations; (ii) the taxpayer uses a Gregorian financial year; or (iii) the taxpayer is a member of a group of companies or a branch of a foreign company that uses a different financial year.

Consolidated returns – Consolidated returns must be filed for zakat and in the case of wholly owned subsidiaries. However, zakat returns of the subsidiaries are filed for information purposes. Consolidated returns are not permitted for income tax purposes.

Filing requirements – Tax returns for a corporation must be filed online with the tax authorities within 120 days from the fiscal year-end. A taxpayer whose taxable income exceeds SAR 1 million before the deduction of expenses must have the accuracy of the return certified by a licensed certified accountant. Additionally, audited financial statements must be filed with the Ministry of Commerce within 120 days of the year-end.

Penalties – The penalties for failure to file a tax return are the higher of 1% of revenue (up to a maximum of SAR 20,000), or between 5% and 25% of the unpaid tax, depending on the length of the delay. In addition, there is a fine of 1% of the unpaid tax for every 30 days' delay in settlement.

Rulings – No
Personal taxation:

**Basis** – There is no personal income tax (employment tax) in Saudi Arabia; however, nonresidents conducting business in the Kingdom or deriving income from a PE in Saudi Arabia are taxed as described above under “Corporate taxation.”

**Residence** – An individual is resident in Saudi Arabia for a tax year if he/she: (i) has a permanent residence in Saudi Arabia and is present in Saudi Arabia for at least 30 days in total in the tax year (1 January to 31 December) or (ii) is present in Saudi Arabia for at least 183 days in the tax year.

**Filing status** – Only individuals that carry on a business or profession are required to file a tax return.

**Taxable income** – The concept of taxable income only is applicable for individuals that carry on a business or profession, who are subject to the same rules as companies.

**Capital gains** – A 20% capital gains tax is imposed on the disposal of shares in a resident company. Capital gains on the disposal of shares traded on the Saudi stock exchange are tax exempt if the shares were acquired after 2004.

**Deductions and allowances** – No, except for individuals that carry on a business or profession.

**Rates** – Individuals carrying on a business or profession are taxed at the same rate as companies, i.e. 20%.

Other taxes on individuals:

- **Capital duty** – No
- **Stamp duty** – No
- **Capital acquisitions tax** – No
- **Real property tax** – No
- **Inheritance/estate tax** – No
- **Net wealth/net worth tax** – Zakat is levied on the registered businesses of Saudis.
- **Social security** – Saudi employees must contribute 10% of salary to the GOSI; the employer contributes 12%.
- **Expatriate levy** – An annual dependent levy applies per expat dependent residing in Saudi Arabia. The amount is SAR 2,400 as from 1 July 2018, increasing to SAR 3,600 from 1 July 2019 and SAR 4,800 from 1 July 2020.

Compliance for individuals:

- **Tax year** – No
- **Filing and payment** – No
- **Penalties** – No

Value added tax:

**Taxable transactions** – VAT applies to almost all supplies of goods or services, subject to limited exceptions. Exempt supplies include margin-based financial services, life insurance and residential property rental. Education and healthcare services provided to Saudi citizens are exempt. Saudi citizens also may claim relief from paying VAT on the first purchase of a private residence (for the first SAR 850,000) through a special scheme run by the Ministry of Housing.

**Rates** – The standard rate of VAT is 5%. Certain goods and services are zero-rated in accordance with the GCC’s Framework Agreement, which specifies some mandatory areas for zero-rating in all six GCC Member States (including exports of goods and services outside the GCC, and the supply of qualifying medicines, medical goods and investment metals).

**Registration** – The standard mandatory VAT registration threshold is annual turnover of SAR 375,000. A fine of SAR 10,000 is imposed for failure to register by the required deadline. Businesses also may apply to register voluntarily if they have annual turnover of at least SAR 187,500. Nonresidents providing taxable supplies to non-taxable customers in Saudi Arabia must register through tax representatives within 30 days from the first such supply.

**Filing and payment** – VAT tax periods may be monthly or quarterly. Taxpayers must calculate the net VAT for the period and submit the VAT return electronically by the end of the following month, together with the payment required. VAT reporting can be carried out on a “cash accounting” basis for small businesses with turnover of less than SAR 5 million. Businesses with annual turnover of less than SAR 40 million may use a quarterly filing period.

**Source of tax law:** Income Tax Regulations (Muharram 1425H March 2004) and Value Added Tax Law H1438/11/4 (28 July 2017)

**Tax treaties:** Saudi Arabia has concluded 53 tax treaties and signed the OECD MLI on 18 September 2018. For further information on Saudi Arabia’s tax treaty network, visit Deloitte International Tax Source.

**Tax authorities:** General Authority of Zakat and Tax (GAZT)

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