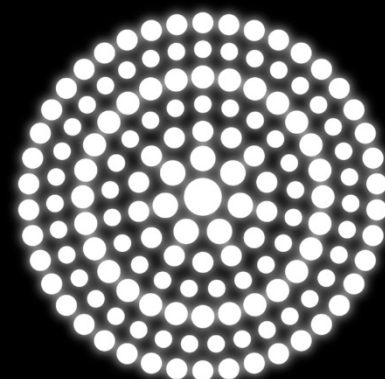


International Tax Saudi Arabia Highlights 2020

Updated January 2020



Recent developments:

For the latest tax developments relating to Saudi Arabia, see [Deloitte tax@hand](#).

Investment basics:

Currency – Saudi Riyal (SAR)

Foreign exchange control – There is no foreign exchange control.

Accounting principles/financial statements – IFRS

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

Corporate taxation:

Rates

Corporate income tax rate	20% (standard rate)
Branch tax rate	20%, plus 5% branch remittance tax
Capital gains tax rate	20%

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. Branches are taxed in the same way as subsidiaries.

The definition of a resident corporation that is subject to tax includes a company with shares owned directly or indirectly by persons engaged in the production of oil and hydrocarbon materials; with the effect that the state-owned oil company and its Saudi subsidiaries engaged in the production of oil and hydrocarbon materials are subject to tax. Indirect ownership includes ownership up to the second level (i.e., through one intermediary shareholder).

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 on the shares held solely for trading; zakat also is levied on a Saudi's share. Citizens of Gulf Cooperation Council (GCC) countries 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, or 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.

Rate – The standard 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 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. As from 1 January 2020, a tax rate of 20% applies for five years on the tax base from oil and hydrocarbon downstream activities; however, the taxpayer must separate its downstream activities during the five-year period or otherwise will be subject to tax based on capital investment amounts as outlined above. 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.

The rate for taxpayers working in the exploitation of natural gas sector is 20%.

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 2.577683% (balance sheet basis).

Surtax – There is no surtax.

Alternative minimum tax – There is no alternative minimum tax.

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 may 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.

Foreign tax relief – There is no foreign tax relief.

Participation exemption – There is no participation exemption.

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.

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 tax authorities 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 may 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 and payment – Tax returns for a corporation must be filed online with the tax authorities within 120 days from the fiscal year-end, together with the tax payment due as per the return. 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 – Taxpayers may request rulings; however, the rulings are non-binding on the tax authorities.

Individual taxation:

There is no individual income tax on employment income in Saudi Arabia. Nonresident individuals conducting business in Saudi Arabia or deriving income from a PE in Saudi Arabia are subject to corporate income tax.

Withholding tax:

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	0%	5%	5%
Interest	0%	0%	5%	5%
Royalties	0%	0%	15%	15%
Fees for technical services	0%	0%	5%/15%	5%/15%

Dividends – A 5% withholding tax applies on dividends paid to a nonresident, unless the rate is reduced under a tax treaty. No withholding tax is imposed on dividends paid to a resident.

Interest – A 5% withholding tax applies on interest paid to a nonresident, unless the rate is reduced under a tax treaty. No withholding tax is imposed on interest paid to a resident.

Royalties – A 15% withholding tax applies on royalties paid to a nonresident, unless the rate is reduced under a tax treaty. No withholding tax is imposed on royalties paid to a resident.

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

Branch remittance tax – A 5% withholding tax applies on the remittance of profits abroad.

Anti-avoidance rules:

Transfer pricing – Transfer pricing regulations apply and generally are consistent with OECD guidelines. The regulations apply to all taxpayers (as defined for income tax purposes) and cover transactions between related persons or persons under common control. The concept of “effective control” has been introduced, which broadens the definition of “related party” for transfer pricing purposes.

Interest deduction limitations – 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 – There are no controlled foreign company rules.

Hybrids – There are no anti-hybrid rules.

Economic substance requirements – There are no economic substance requirements.

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

Saudi Arabian entities that are members of groups with turnover exceeding SAR 3.2 billion are subject to country-by-country (CbC) reporting and notification requirements. CbC reports should be submitted 12 months after the fiscal year-end. Notifications regarding ultimate parent entities not based in Saudi Arabia

should be submitted 120 days after the fiscal year-end (as part of the disclosure form due with the annual income tax return).

If the aggregate arm's length value of related party transactions exceeds SAR 6 million, the taxpayer should maintain transfer pricing documentation (master file and local file) contemporaneous to the time the income tax return is filed and must submit such documentation within 30 days of a request by the tax authorities.

Exit tax – There is no exit tax; however, amounts in excess of the share capital invested remitted to a nonresident at the time of liquidation are treated as a dividend subject to a 5% dividend withholding tax.

General anti-avoidance rule – There is a general anti-avoidance rule in the tax law.

Value added tax:

Rates

Standard rate	5%
Reduced rate	0%

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 nontaxable customers in Saudi Arabia must register 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.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions – For Saudi employees, the employer must contribute 12% of the employee's salary to the General Organization for Social Insurance and the employee contributes 10%. The employer also pays accident insurance equal to 2% of the salaries paid for non-Saudi employees.

Payroll tax – There is no payroll tax.

Capital duty – There is no capital duty.

Real property tax – A 2.5% white land tax applies on all undeveloped land within urban boundaries.

Transfer tax – There is no transfer tax.

Stamp duty – There is no stamp duty.

Net wealth/worth tax – Zakat is levied on the registered businesses of Saudi individuals.

Inheritance/estate tax – There is no inheritance/estate tax.

Other

Excise tax

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 sweetened drinks, and 100% on energy drinks and tobacco products (including electronic devices and liquids used for smoking or vaping). Any person intending to import, produce, or hold (under a suspension arrangement) any excisable goods in Saudi Arabia must register for excise tax and submit returns reporting their total excise tax 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.

Expatriate levy

An annual dependent levy applies per expat dependent residing in Saudi Arabia. The amount is SAR 3,600 as from 1 July 2019, increasing to SAR 4,800 as from 1 July 2020.

Tax treaties: Saudi Arabia has concluded around 50 tax treaties. Saudi Arabia has signed the OECD multilateral instrument (MLI) and deposited its instrument of ratification with the OECD on 23 January 2020. The MLI will enter into force for Saudi Arabia on 1 May 2020. For 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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