Doing business guide
Understanding Saudi Arabia’s tax position
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Saudi Arabia

A country located in the Arabian Peninsula, the Kingdom of Saudi Arabia (KSA, Saudi Arabia or The Kingdom) is the largest oil-producing country in the world.

Throughout this guide, we have provided our comments with respect to KSA, unless noted otherwise.

<table>
<thead>
<tr>
<th>Government type</th>
<th>Monarchy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (2018)</td>
<td>33.7 million</td>
</tr>
<tr>
<td>GDP (2018)</td>
<td>US$ 782.48 billion</td>
</tr>
<tr>
<td>GDP growth (2018)</td>
<td>2.215%</td>
</tr>
<tr>
<td>Inflation (2018)</td>
<td>2.466%</td>
</tr>
<tr>
<td>Labor force (2018)</td>
<td>14.37 million</td>
</tr>
</tbody>
</table>

Key industries: Crude oil production, petroleum refining, basic petrochemicals, ammonia, industrial gases, sodium hydroxide (caustic soda), cement, fertilizer, plastics, metals, commercial ship repair, commercial aircraft repair, construction

Source: The Economist Intelligence unit, World Bank, Central Intelligence Agency FactBook
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Market overview

- Saudi Arabia is an oil-based economy with the largest proven crude oil reserves in the world. According to OPEC, Saudi Arabia is also the largest exporter of petroleum and possesses around 18 percent of the world’s total proven petroleum reserves.

- The Saudi Arabian economy reported strong growth until 2014, primarily due to high oil prices, strong private sector activity, increased government spending and the implementation of several domestic reform initiatives. Since 2014, lower oil prices have put pressure on the economy and Saudi Arabia has sought to diversify its revenue base to protect itself from oil price fluctuations.

- The non-oil sectors, especially construction, real estate, healthcare and education, still offer business opportunities although most businesses are currently more conservative in their plans compared to the past.

- Saudi Arabia holds membership of several councils and international organizations, such as:
  - United Nations (UN)
  - World Trade Organization (WTO)
  - Organization of Petroleum Exporting Countries (OPEC)
  - Gulf Cooperation Council (GCC)
  - Arab League
  - Organization of Islamic Cooperation (OIC)
  - G20

Government

- Saudi Arabia is a monarchy based on Islam. The government is headed by the King, who is also the commander in chief of the military. On January 23, 2015, King Salman Bin Abdul-Aziz Al Saud was declared as the King and Supreme Leader of the country following the death of the late King Abdullah Bin Abdul-Aziz Al Saud.

- The King governs with the help of the Council of Ministers, also called the Cabinet. There are 23 government ministries that are part of the cabinet. Each ministry specializes in a different part of the government, such as foreign affairs, education and finance.

- The King is also advised by a legislative body called the Consultative Council (Majlis Al-Shura). The Council proposes new laws and amends existing ones. It consists of 150 members who are appointed by the King for four-year terms that can be renewed.

- The country is divided into 13 provinces, with a governor and deputy governor in each one. Each province has its own council that advises the governor and deals with the development of the province.

Saudi Arabia is an oil-based economy with the largest proven crude oil reserves in the world.

- As Saudi Arabia is an Islamic state, its judicial system is based on Islamic law (Sharia). The King acts as the final court of appeal and can issue pardons. There are also courts in the Kingdom. The largest are the Sharia courts, which hear most cases in the Saudi legal system.

- In recent years, conscious efforts have been made by the government to reduce bureaucracy at all levels and transform government departments by introducing online services and increasing automation in several ministries.

- King Salman chairs the Saudi Supreme Economic Council, which is in charge of overseeing the formulation of economic policy and encouraging foreign investment.

<table>
<thead>
<tr>
<th>Government</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government type</td>
<td>Monarchy</td>
</tr>
<tr>
<td>Chief of State</td>
<td>King Salman Bin Abdul-Aziz Al Saud</td>
</tr>
<tr>
<td>Head of Government</td>
<td>King Salman Bin Abdul-Aziz Al Saud</td>
</tr>
<tr>
<td>Legal system</td>
<td>Islamic (Sharia) legal system with some elements of Egyptian, French, and customary law; note - several secular codes have been introduced; commercial disputes are handled by special committees.</td>
</tr>
<tr>
<td>Administrative divisions</td>
<td>13 provinces (mintaqat, singular - mintaqah): Al Bahah, Al Hudud ash Shamalyah (Northern Border), Al Jawf, Al Madinah (Medina), Al Qasim, Ar Riyad (Riyadh), Ash Sharqiyah (Eastern), ‘Asir, Hail, Jazan, Makkah (Mecca), Najran, Tabuk.</td>
</tr>
</tbody>
</table>

Source: Central Intelligence Agency Factbook, The Economist Intelligence Unit
Economy – overview

• The economy of Saudi Arabia is primarily dependent on revenues from the oil and gas sector. Rising oil prices in the last decade (until 2014) fueled the Kingdom’s growth and resulted in the lowering of government debt and an increase of fiscal surpluses. However, post summer 2014, the economy is under the impact of declining oil prices.

• In order to reduce its reliance on the oil and gas sector, the government aims to diversify its economy by continuously utilizing the revenues from the oil and gas sector to support the growth of non-oil sectors, such as infrastructure, construction, education, tourism and manufacturing.

• Saudi Arabia is also working on improving the business climate and increasing access to finance, especially for small and medium enterprises.

• The construction of “economic cities” is central to development plans. The government has launched projects to establish new cities at different locations across the country. These cities are planned as hubs for petrochemicals, mining and logistics industries as well as for a knowledge-based economy.

Vision 2030

The Council of Ministers has approved Vision 2030, and the salient features are as follows:

• To increase the non-profit sector’s contribution to GDP from less than 1% to 5%

• To increase household savings from 6% to 10% of total household income

• To raise ranking on the E-Government Survey Index from the current position of 36 to be among the top 5 nations

• To raise ranking in the Government Effectiveness Index, from 80 to 20

• To increase non-oil government revenue from SR163 billion to SR1 trillion

• To raise the share of non-oil exports in non-oil GDP from 16% to 50% 

• To raise global ranking in the Logistics Performance Index from 49 to 25 and ensure the Kingdom is a regional leader

• To increase the private sector’s contribution from 40% to 65% of GDP

• To increase foreign direct investment from 3.8% to the international level of 5.7% of GDP

• To rise from the current position of 25 to the top 10 countries on the Global Competitiveness Index

• To increase the Public Investment Fund’s assets, from SR600 billion to over SR7 trillion

• To increase the localization of oil and gas sectors from 40% to 75%

• To move from the current position as the 19th largest economy in the world into the top 15

• To increase women’s participation in the workforce from 22% to 30%

• To increase SME contribution to GDP from 20% to 35%

• To lower the rate of unemployment from 11.6% to 7%

• To have three Saudi cities be recognized in the top-ranked 100 cities in the world.
Industries of opportunity

The official language is Arabic, therefore all documents are first required to be translated into Arabic by an official translator and thereafter submitted to the relevant government authority.

- Real estate, hospitality and construction are the key industries in terms of opportunities in Saudi Arabia. A growing population, increasing urbanization, inflow of religious tourism, ease of doing business, and a focus on economic diversification have all paved the way for increased investment potential in the country.

- The government plans to construct multiple schools and hospitals in the Kingdom in the next 5 years. Moreover, the government is also focusing on developing economic cities, industrial hubs and healthcare facilitates that offer investment and business opportunities.

The summary of procedures is as follows:

- Obtain the investment license from the Saudi Arabian General Investment Authority (SAGIA)
- Open a bank account with a local bank in KSA for depositing the initial capital
- Obtain a commercial registration (CR) from the Ministry of Commerce and Industry (MOCI)
- Register with the Chamber of Commerce
- Register with the Customs department
- Obtain a municipality license
- Register with the Ministry of Labor
- Register with the General Organization for Social Insurance (GOSI)
- Register with the General Authority of Zakat and Tax (GAZT)
The non-resident who intends to set up a branch or an LLC in KSA is required to obtain the investment license from Saudi Arabian General Investment Authority (SAGIA) before starting the above procedures. Given that all the required documents should be translated into Arabic language for filing with the authorities, it may take approximately 3 to 4 months to obtain the Commercial Registration (CR) from the Ministry of Commerce and Industry.

### Procedures for starting a business in Saudi Arabia

<table>
<thead>
<tr>
<th>Number</th>
<th>Procedure</th>
<th>Minimum time to complete</th>
<th>Associated cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Reserve the company name and submit Articles of Association</td>
<td>5 days on average</td>
<td>No charge</td>
</tr>
<tr>
<td>02</td>
<td>Notarize the Articles of Association with the Notary Public</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>03</td>
<td>Pay company registration fees</td>
<td>Less than one day (online procedure)</td>
<td>SR1,200 for commercial registration + SR2,000 a fee to become member of Chamber of Commerce + SR 500 e-magazine publication fee</td>
</tr>
<tr>
<td>04</td>
<td>Open a bank account</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>05</td>
<td>Obtain a business location license from the Municipality</td>
<td>4 days</td>
<td>SR 1,000</td>
</tr>
<tr>
<td>06</td>
<td>Register with the Ministry of Labor</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>07</td>
<td>Register with the post office ‘Wasel’</td>
<td>Less than one day (online procedure)</td>
<td>SR500</td>
</tr>
<tr>
<td>08</td>
<td>Make a company seal</td>
<td>1 day</td>
<td>SR50</td>
</tr>
<tr>
<td>09</td>
<td>Register with the General Organization for Social Insurance (GOSI)</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>10</td>
<td>Register with the General Authority of Zakat and Tax (GAZT)</td>
<td>3 days</td>
<td>No charge</td>
</tr>
</tbody>
</table>

Source: Doing Business report Saudi Arabia, World Bank Group
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Entering the market

Doing business in Saudi Arabia
Foreign investment incentives and restrictions

In April 2000, the Supreme Economic Council enacted the Foreign Investment Act (FIA), which is a broad framework within which non-Saudis are permitted to invest in the Kingdom in minority, majority or 100%-foreign-owned ventures. In February 2001, Saudi Arabia’s Supreme Economic Council approved a “negative list” of economic sectors barred to majority-foreign-owned firms, thus clarifying the issue of where in the economy foreigners may invest. The list was published as secondary legislation to the FIA and was earmarked for annual revision. It is also, in the words of the government, to be interpreted “flexibly”. By default, those sectors not included on the list should be regarded as legally open to majority-foreign-owned companies.

In August 2002, a new, shorter list consisting of 15 areas of the economy restricted from foreign investment replaced the original negative list of 22 areas. The present negative list includes oil exploration, drilling and production; real estate brokerage; and land and air transport. Foreign investment is now officially permitted in insurance, power transmission and distribution, education and pipelines.

The FIA aims to provide equal treatment for non-Saudi firms, stating in Article 5 of the Implementing Regulations for the Foreign Investment Law that a foreign venture “shall enjoy all the benefits, incentives and guarantees enjoyed by a national project”. The FIA includes guarantees on the free repatriation of profits and capital, and it provides a clause that foreign-owned assets may be expropriated only in exceptional circumstances, in return for full compensation. It offers the right to buy property and allows ventures to sponsor their own employees (previously denied to 100%-foreign-owned ventures).

In April 2000, the Supreme Economic Council enacted the Foreign Investment Act (FIA), which is a broad framework within which non-Saudis are permitted to invest in the Kingdom in minority, majority or 100%-foreign-owned ventures.

SAGIA’s Investors Service Center (ISC) (www.sagia.gov.sa/en/) serves as a one-stop shop to facilitate the investment process for foreign companies, minimizing the number of bureaucratic steps required before investment can take place. The ISC comprises of three divisions, each focused on particular steps in the investment process:

• The investors service unit – ensures that initial approval forms are completed and that documentation is handled properly.

• The license follow-up unit – rechecks investment applications, notifies the investor of any omissions, collects the appropriate application fees and then registers the new venture.

• The government relations unit – helps investors to establish contacts with other government agencies to eliminate obstacles hindering the licensing of a project. Nine ministries are represented at the ISC.

The FIA established SAGIA, an entity with sole responsibility for approving foreign-investment projects. This includes a mandate to regulate the investments made by foreign entities to ensure consistency with national interests. SAGIA also has responsibility for developing more detailed legislation to flesh out the framework established by the FIA.

The government has courted foreign companies willing to invest in the petrochemicals business (which is not included on the negative list), especially around the industrial cities of Jubail and Yanbu. The substantial incentives it has
made available have already attracted a number of firms to the sector. However, the foreign investors that have been most successful in petrochemicals have typically been those seeking joint ventures with Saudi Arabian Basic Industries Corporation (SABIC), the majority-state-owned industrial giant. The government has looked most favorably on joint ventures with Saudi partners in other sectors as well. Prior to the passage of the FIA, operations that were 100%-foreign-owned could not gain access to the same tax treatment, funding and other incentives available to joint ventures. Fully foreign-owned companies still remain the exception rather than the norm.

SAGIA’s Investors Service Center (ISC) serves as a one-stop shop to facilitate the investment process for foreign companies.
There is a series of labor regulations that require foreign companies operating in the Kingdom to employ and train Saudi nationals. All investment schemes must show that they meet requirements on employing and training Saudi nationals. After the commencement of the project, depending upon the nature of its work, an entity should, on a continuing basis, maintain its Saudization ratio; a failure to do so may lead to problems with authorities in renewals. Labor-intensive projects receive preferential treatment since the government seeks to combat rising local unemployment. Priority is given to high-technology projects which offer significant skills transfer. These requirements have been in place for some time but are being enforced with increasing rigor, and the licensing process offers officials a good opportunity to ensure that standards are being met.

100% foreign ownership is now allowed in trading activity on a case-by-case basis.

**Tax incentives**
The government has granted 10-year tax concessions to six underdeveloped provinces in the Kingdom, with the intention of attracting more investment on the start of any project. Investors will be granted a tax credit against the annual tax payable in respect of certain costs incurred on Saudi employees.

The tax credits will be offered in the following regions:
- Ha'il
- Jazan
- Najran
- Al-Baha
- Al-Jouf
- Northern territory

In early 2019 the GAZT published a draft Special Economic Cloud Zone Law for general comments. The purpose of this Law is to make Saudi Arabia a hub for new digital services, including cloud computing, through attracting investments in informational technology and digital-based services and Cloud Computing Services and Related Activity by offering tax and non-tax based incentives to prospective investors. However, the law has not been formally introduced as yet.

**Financial incentives**
- The ability to carry forward tax losses on balance sheets indefinitely (subject to change of ownership and performing same activity rules).
- Foreign investors have access to generous regional and international financial programs, including:
  - Arab Fund for Economic and Social Development (AFESD) - participates in financing economic and social development projects in Arab countries.
  - Arab Monetary Fund - promotes the development of Arab financial markets and trade among member states; advises member states on investment of resources.
  - Arab Trade Financing Program - provides medium and long-term loans to individuals and organizations for private and commercial trade.
  - Inter-Arab Investment Guarantee Corporation - provides insurance coverage for inter-Arab investments and export credits against commercial and non-commercial risks.
  - Islamic Development Bank (IDB) - participates in equity capital and grants loans for productive projects and enterprises. It accepts deposits to mobilize financial resources through Sharia'-compatible avenues.

**Exchange controls**
There are no significant restrictions on the inward or outward movement of funds by companies. Transfer operations are increasingly sophisticated and rapid, although occasional constraints on working hours or working days may cause a delay of one or two days in implementing orders.
Although there are no restrictions, the Saudi Arabian Monetary Authority (SAMA – the central bank) closely monitors foreign exchange transactions to deter speculation, fraud and money-laundering. Banks must report the export of riyal bank notes to SAMA and gain approval prior to the participation of foreign banks in riyal-denominated syndicated loans or foreign-currency syndicated transactions arranged for non-residents. SAMA has shown considerable flexibility in its approach to such arrangements, however, and has co-operated speedily with the vast majority of transactions.

Choice of business entity and setting up a company

Principal business entities

Limited liability company (LCC), joint stock company (JSC) and branch of a foreign entity.

Types of licenses, minimum capital requirements and percentage of Saudi partnership

<table>
<thead>
<tr>
<th>No.</th>
<th>License type</th>
<th>Minimum capital (SR)</th>
<th>Minimum Saudi participation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Commercial with Saudi partner</td>
<td>26,666,667</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Foreign capital shareholding not less than twenty million (SR 20,000,000) and partnership not more than 75%.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100% Foreign commercial</td>
<td>30,000,000</td>
<td>–</td>
</tr>
<tr>
<td>02</td>
<td>Communications</td>
<td>–</td>
<td>40%</td>
</tr>
<tr>
<td>03</td>
<td>Communications value added</td>
<td>–</td>
<td>30%</td>
</tr>
<tr>
<td>04</td>
<td>Insurance</td>
<td>–</td>
<td>40%</td>
</tr>
<tr>
<td>05</td>
<td>Reinsurance</td>
<td>–</td>
<td>40%</td>
</tr>
<tr>
<td>06</td>
<td>Property financing</td>
<td>–</td>
<td>40%</td>
</tr>
<tr>
<td>07</td>
<td>Property investment</td>
<td>The value of each project is not less than 30,000,000 (covering land and construction); the land and building will be outside the perimeter of the two holy mosques</td>
<td>–</td>
</tr>
<tr>
<td>08</td>
<td>Management of construction projects, detailed engineering design and EPC contracts</td>
<td>–</td>
<td>25%</td>
</tr>
<tr>
<td>09</td>
<td>Public transport (bus transportation within cities)</td>
<td>500,000</td>
<td>30%</td>
</tr>
<tr>
<td>10</td>
<td>Public transport (metro transportation within cities)</td>
<td>500,000</td>
<td>20%</td>
</tr>
<tr>
<td>11</td>
<td>Joint stock company</td>
<td>500,000</td>
<td>–</td>
</tr>
<tr>
<td>12</td>
<td>Practice other transports activities</td>
<td>10,000,000</td>
<td>–</td>
</tr>
</tbody>
</table>

*Related to the limit of the cost of a single project to be constructed. There is no minimum limit for the capital of property development projects.

# Restrictions on licenses

<table>
<thead>
<tr>
<th>Number</th>
<th>Activity</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Information Technology</td>
<td>• It is not allowed to open a shop</td>
</tr>
</tbody>
</table>
| 02     | Trading licenses (Foreign 100%) | • Train 15% of Saudis  
• Not to open more than a shop per district |
| 03     | Industrial licenses | • It is not allowed to open shopping centers for products without obtaining the SAIGA approval |
| 04     | Scientific and technical office | • Number of technical employees in the office shall be (50) and this number can only increase after the prior consent of the SAIGA  
• Office may study the markets regarding the activity type of the company and prepare reports on such study to the headquarters. Office shall submit to the SAIGA annual summary on its activity  
• Office may neither implement any contracts nor carry out any commercial or investment activity directly or indirectly in the Kingdom as well as it may not charge any fees for training the Saudi technicians  
• Company shall comply with all regulations and instructions applicable in the Kingdom of Saudi Arabia and this license will be withdrawn if the company has breached its terms and the relevant official entities will be so notified |
| 05     | Contractions | • It is not allowed to carry on any consultancy activities and design |
| 06     | Activities of holding companies | • Obtaining the prior approval of the General Authority for Investment for each project to be established and investment in it |
| 07     | Real estate license | • Obtaining the prior approval of the General Authority for Investment on any property to be owned or invested so that the cost of any project is not less than 30 million riyals land and building, provided that they are not within the boundaries of the cities of Mecca or Medina |
| 08     | General restrictions and conditions to be followed by the investor after receiving the license | License Applicant(s)/Entity shall be committed to the following:  
1. Obtaining the required post-SAIGA license's governmental documents within 3 months of issuance of the SAIGA license and obtaining the necessary documents or licenses from related government agencies – where required- before or after obtaining SAIGA's investment license and SAIGA should be notified by the investor if difficulties are faced in doing so not less than 3 months from the projects schedules start of operation  
2. Operating within the licensed field/industry  
3. Implementing the project within the time-frame indicated in this application and within licensed location or branch  
4. Using licensed name-as per SAIGA's investment license- in all government documents  
5. Renewing SAIGA's investment license annually on time  
6. Receiving SAIGA's follow-up officers, cooperating with them and furnishing all required documents and proofs requested during the visit  
7. Not marketing or selling any non-licensed inside the kingdom of Saudi Arabia  
8. Respecting intellectual property rights of others  
9. Taking all necessary measures to protect the environment  
10. Respecting all local laws and regulations issued by Saudi ministries/agencies for the entity and its employees  
11. Notify SAIGA of any change in contact address, P.O Box, email or phones and fax numbers within (10) working days of the change using SAIGA designed forms no (13.01) from this manual |
Investor(s) acknowledges and undertakes:

• To abide by all rules and regulation started in the Foreign Investment act issued under the Royal Decree No (M/1) dated (15/01/1421 H) and all of its corresponding Executive Rules and guarantee the authenticity of the documents, information and data presented herein with this application.

• That licensee shall be use the license issued by the Saudi Arabian General Investment Authority (SAGIA) only for the purpose for which the license issued. The Saudi Arabian Government and SAGIA will not be held responsible towards any part for any acts of misconduct committed, directly or indirectly, by the licensee, whether inside or outside Saudi Arabia, in violation of any laws of Saudi Arabia or elsewhere. Furthermore, SAGIA reserves the right to revoke the license at any time if the license is convicted of any illegal acts or is deemed to pose national.

• That the purposes of this application is to obtain an investment license to start legitimate investment activity/activities. The investment license is revocable if at any time the data and information presented are found false or inaccurate.

• That no final ruling/verdicts have been issued against the investor in violation of Foreign Investment Act.

• That no ruling/verdicts have been issued against the investor in monetary or commercial related violations whether inside or outside the kingdom of Saudi Arabia.

• That the investor(s) will transfer the capital declared in this application to a local bank once the investment licensed is issued.

• That the investor(s) is not currently resident within the Kingdom of Saudi Arabia and that the investor(s) was not resident within the Kingdom of Saudi Arabia during the last 3 years.

• That the applicant who has obtained the investment license shall use it for the licensed purposes and that the Saudi Government and the Saudi Arabian General Investment Authority will not directly or indirectly assume any liability towards third parties whether inside or outside the Kingdom of Saudi Arabia for any non-statutory action.

• That the investor(s) have read and understood the above terms and conditions, commitments, obligations and undertakings and have agreed to them.

• That the name(s) and signature(s) on this application belong to him/them or his/her legal representative and the signature of the letter is considered as his/hers.

New Saudi Company Law
• The Saudi Arabian MOCI introduced a new Company Law, effective May 2, 2016. Some of the key changes compared to the old Company Law are as follows:
  - The ability for a LLC to be formed by one shareholder rather than a minimum of two as required previously
  - Reducing the minimum share capital for JSCs (SR500,000 instead of SR2,000,000)
  - Reducing the minimum number of shareholders in JSCs to become two shareholders instead of the previous minimum requirement of five shareholders
  - Enforcing the need for an audit committee to monitor the company’s business
  - Prohibition on the role of the chairman of the board and any other executive role in a company being combined
  - Dictating the “accumulated voting” methodology in electing the board of directors (i.e. each shareholder has voting rights equivalent to the number of shares it holds, which can be used for one nominee, or divided between nominees, without any duplication of votes. This system tends to favor minority shareholders)
  - Shareholders in an LLC can no longer be held personally liable for a company’s debts if losses exceed 50% of the company’s capital. Instead the company is dissolved by operation of law unless the shareholders resolve otherwise
  - The MOCI is responsible for supervising and regulating matters relating to all types of companies under the new regulation, except for “listed companies” as these will be the specialty of the Capital Market Authority (CMA)

There is special treatment for family companies and a legal framework specifically for holding companies.

- Special treatment for family companies and a legal framework specifically for holding companies
- Introduction of provisions relating to the issuance of debt instruments and sukuk financing by “listed companies” in accordance with the regulations of the capital markets
- Allowing companies to mortgage their shares and the shareholders of listed companies to participate in annual general meetings and vote on the decisions via modern technology (i.e. no need for physical presence)
- Requirement for companies to value their in-kind share capital contribution by a certified valuer
- Reduction from 50% to 30% of the statutory reserve which needs to be put aside each year by the company

• Following are the different types of business structure provided under the regulations for companies:
  - Branches of foreign company - commonly used for foreign investors
  - LLC - commonly used for foreign investors
  - JSC
  - Limited partnership
  - Joint ventures
  - General partnership

• The procedure for setting up a branch of a foreign company or LLC normally takes three to six months.
### Accounting principles/financial statements

- All the Financial statements from 2018 are now prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA)
- The audited financial statements are required to be uploaded within four months from the end of the financial year on the MOCI's web portal.

### Taxation in Saudi Arabia

#### Overview

- Like most other states in the GCC, Saudi Arabia levies corporate income tax on the non-resident's share in a resident corporation; the share of Saudi and GCC nationals is subject only to a religious levy called Zakat, which is levied on net equity. If a company is a joint venture between a Saudi/GCC shareholder and a foreign shareholder, the portion of taxable income attributable to the foreign party is subject to income tax and the Saudi party's share of net equity is subject to Zakat.

- Corporate tax rates for foreign companies vary widely among GCC states. The Saudi cabinet approved a new tax law on 12 January 2004. The executive by-laws covering the new corporate tax law were published in August 2004. The tax regulations provide the income tax flat rate of 20%, effective for accounting years commencing on or after 30 July 2004. Investments in certain strategic resources are still taxed at higher rates: 30% for gas and at rates ranging from 50% to 85% depending on the capital investments for taxpayers engaged in the production of oil and hydrocarbons materials. The tax structure offers some benefits to companies choosing to invest in LLCs or JSCs in Saudi Arabia. Such companies are free to establish branches throughout the kingdom and only need to file one combined return, provided they are branches of only one legal entity. The GAZT often scrutinizes the reported expenses and charges of a branch.

#### The general tax burden of a Saudi entity owned by foreign companies

- The share of taxable profit owned by the non-Saudi/non-GCC shareholder will be subject to 20% corporate income tax in

<table>
<thead>
<tr>
<th>Key differences between foreign branch, LLC and JSC</th>
<th>Branch of foreign company</th>
<th>LLC</th>
<th>JSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum capital requirement</td>
<td>Normally SR500,000 (but can be lower or higher depending upon the nature of activity)</td>
<td>SR500,000</td>
<td>SR500,000 or SR5,000,000 (in case of single shareholder)</td>
</tr>
<tr>
<td>Minimum shareholder</td>
<td>Not applicable</td>
<td>One shareholder</td>
<td>Two shareholders</td>
</tr>
<tr>
<td>Losses exceed 50% of capital</td>
<td>In case of a foreign branch, the HO's liability may not be restricted to the extent of the branch's capital. If losses exceed 50% of capital, the shareholders must meet within 90 days and decide whether to dissolve or continue the business.</td>
<td>If losses exceed 50% of capital, the shareholders will not be held personally liable for company debts. Shareholders must meet within 90 days and decide whether to dissolve or continue the business and publish their decision. The company will be deemed to dissolve by operation of law if no decision is made.</td>
<td>If losses exceed 50% of capital, the shareholders will not be held personally liable for company debts. Shareholders, once aware, must meet within 45 days in an extraordinary general meeting and decide whether to dissolve or increase share capital. If the increase in share capital is not materialized, the company will be deemed to dissolve by operation of law.</td>
</tr>
<tr>
<td>Maintenance of statutory reserve</td>
<td>Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.</td>
<td>Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.</td>
<td>Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.</td>
</tr>
</tbody>
</table>
addition to 5% withholding tax (WHT) applicable on the distribution of dividends to the non-resident (including non-resident GCC) shareholders. However, the Saudi/GCC shareholder will be subject to Zakat, a fixed-rate tax of 2.5% levied on the higher of taxable income or what is sometimes referred to as the “balance sheet” basis. A simple calculation of the balance sheet basis includes the Saudi shareholder’s share of equity plus long-term liabilities less fixed assets.

- As per the domestic regulations, the accounting treatment for Zakat and income tax in joint venture companies is charged to the Company’s income statement.

Summary of the Saudi Arabian income tax law 2004

The Saudi tax regulations came into effect from 30 July 2004, which has introduced certain new concepts and/or modified existing practices. The taxation system in the past was much less codified and a significant portion of the tax system had evolved over a number of years through various practices. However, the law is still subject to significant interpretation. The final treatment of any particular section of the law will ultimately be dependent upon the practices developed by the GAZT and how the particular appeals play out in the courts.

As per the domestic regulations, the accounting treatment for Zakat and income tax in joint venture companies is charged to the Company’s income statement.
Income tax

**Tax rate**
- 20% applicable to all, except 30% for exploitation of natural gas and ranges 50% to 85% for production of oil and hydrocarbons materials depending on capital investment.

**Levied on**
- The resident corporation – on the share of the non-Saudi shareholders.
- The resident, natural, non-Saudi person who conducts activities in the Kingdom.
- The non-resident person who conducts activities in the kingdom through a permanent enterprise.
- The non-resident person that has other taxable income from in-kingdom source without having permanent establishment.

**Income exempt from tax**
- Capital gains realized from the disposal of financial instruments traded in the Kingdom's stock exchange acquired after implementation of the new tax law and gains resulting from the disposal of assets that are not part of the activity.
- Capital gains realized from the disposal of securities traded on a stock exchange outside the Kingdom provided the securities also are traded on the Saudi stock exchange (Tadawul), irrespective whether the disposal occurred through a stock exchange or through any other means.
- Cash or in-kind dividends received from investments made by a Saudi resident capital company in a Saudi resident or non-resident company provided the dividend recipient owns at least 10% of the investee company and for a period of at least one year.

**Allowable expenses**
- Ordinary expenses necessary for the realization of taxable income.
- Expenses such as bad debt write-offs, interest deduction, depreciation, expense repairs and maintenance, etc. are subject to certain rules.

**Thin capitalization**
- There are no specific thin capitalization rules. However, there is a rule limiting the deductibility of interest expense to the lesser of the following:
  - The actual interest expense.
  - Interest income, plus 50% of taxable income (excluding interest income and interest expense).

**Tax losses**
- Carry forward is allowed indefinitely. The maximum limit allowed to be deducted in each year must not exceed 25% of the annual taxable profit.
- Capital companies will be allowed to carry forward losses, irrespective of whether there has been a change in ownership or control, provided they continue to perform the same activity.

**Currency translation**
- No consideration is given to unrealized currency translation gains or losses arising from revaluation for tax purposes.

**Estimated taxes (deemed profit tax)**
- The GAZT may assess the tax for activities associated with worldwide expenses on an estimated basis, when local expenses for practicing such activities are mixed with worldwide expenses and it is difficult to separate these expenses related to activity in the Kingdom accurately and hence it is impossible to submit actual accounts for the local activity.

**Taxable year**
- In general, the tax year is the state’s fiscal year.
- A different year can be used in the following circumstances:
  - If it is approved by the GAZT prior to the effective date of law.
  - If it is a Gregorian year.
  - If the tax payer is a member of a group of companies or a branch of a foreign company that uses a different financial year.

**Registration**
- Each taxpayer must register his activity prior to the end of his first tax year, otherwise a penalty may be imposed ranging from SR1,000 to SR10,000, depending upon the classification of the taxpayer.
- It is now mandatory for all taxpayers to be registered on the GAZT online portal and all filings with the GAZT are required to be made through the online system.

**Books and records**
- All taxpayers (except non-residents who do not have a permanent establishment in the Kingdom) are required to keep the necessary books in the Kingdom in the Arabic language. They must at least include the following:
  - Daily journal
  - General ledger
  - Inventory book

- For computerized records, the computer should be located in the Kingdom.

- For taxpayers operating through a permanent establishment that has a central computer system abroad, the local terminal must be in the Kingdom to generate all statements, transactions, etc.

**Assessment and appeal procedures**
- Detailed guidelines have been laid out in the tax regulations. Following are the two appellate committees:
  - Settlement Committee of Tax for Conflict and Dispute
  - Higher Committee of Tax for Conflict and Dispute

**New stream of Settlement**
- An independent Internal Settlement Committee (ISC) is formed in the GAZT to assess open disputes between taxpayers and the GAZT for both direct and Indirect taxes to reach to an amicable settlement.

**Accelerated tax payment**
- Accelerated tax payment procedures have been introduced based on a formula. If the prior year’s tax liability is SR2 million or more, the taxpayer is required to settle accelerated tax payments in 3 equal installments.

**Non-submittal and delay penalties**
- Penalties for non-submittal of the tax return by the due date are the higher of 1% of the total revenues up to a maximum of SR 20,000, or they range from 5% of the unsettled tax for a delay not exceeding 30 days to 25% of the unsettled tax if the delay exceeds 365 days.

- Penalties for delay in settlement amount to 1% of the unsettled tax for each 30 days of delay. This includes the delay in the WH and accelerated tax payments.

- A financial penalty amounting to 25% will be imposed on the tax differences resulting from submitting incorrect information or fraud.
WHT
The non-resident, on any amount received from any sources in the Kingdom, shall be subject to WHT deductible from the gross amount according to the following rates:

<table>
<thead>
<tr>
<th>Nature of payment</th>
<th>WHT rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management fee</td>
<td>20</td>
</tr>
<tr>
<td>Royalties, payments against technical or consultancy services, or services for international telephone calls paid to the head office or any other related entities</td>
<td>15</td>
</tr>
<tr>
<td>Dividends distributed</td>
<td>5</td>
</tr>
<tr>
<td>Rent, return on loans (interest) &amp; insurance (including related parties)</td>
<td>5</td>
</tr>
<tr>
<td>Technical &amp; consulting services</td>
<td>5</td>
</tr>
<tr>
<td>Airline tickets/air or sea freight</td>
<td>5</td>
</tr>
<tr>
<td>Insurance &amp; reinsurance premiums</td>
<td>5</td>
</tr>
<tr>
<td>International telecommunication services</td>
<td>5</td>
</tr>
<tr>
<td>In-Kingdom land transportation</td>
<td>15</td>
</tr>
<tr>
<td>Any other payments</td>
<td>15</td>
</tr>
<tr>
<td>Delay penalty</td>
<td>1% of unsettled tax for every 30 days of delay</td>
</tr>
<tr>
<td>Responsibility for payment</td>
<td>The party making a payment to a non-resident is required to withhold tax</td>
</tr>
</tbody>
</table>

Capital companies will be allowed to carry forward losses, irrespective of whether there has been a change in ownership or control, provided they continue to perform the same activity.

Statutory compliance deadlines
A Saudi entity is required to comply with the following main filing requirements by law:

<table>
<thead>
<tr>
<th>Statutory compliance requirements</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing of annual tax/Zakat return</td>
<td>120 days from year-end (60 days for consortium)</td>
</tr>
<tr>
<td>Filing of monthly WHT return</td>
<td>10 days from the end of month in which payment was made</td>
</tr>
<tr>
<td>Filing of annual WHT return</td>
<td>120 days from year-end</td>
</tr>
<tr>
<td>Contract Information Form (CIF)</td>
<td>Within 3 months of signing the contract or amendments to the contracts signed with suppliers (services or materials) if value is SR100,000 or more</td>
</tr>
<tr>
<td>Filing of accelerated tax payment</td>
<td>To pay advance income tax in 3 equal instalments calculated at 25% of immediately preceding year’s tax liability (SR2 million or more), if due, by the sixth, ninth and twelfth month of the year</td>
</tr>
<tr>
<td>Filing of audited financial statements with the MOC</td>
<td>Within 4 months of year-end</td>
</tr>
</tbody>
</table>
The GAZT in recent years has issued internal guidance recommending a stronger position on service permanent establishments.

**Capital gains**
- Capital gains tax is assessed at 20% on the disposal of shares by the foreign shareholder in a resident company. Capital gains on the disposal of shares traded on the Saudi stock exchange (Tadawul) are tax exempt if the shares were acquired after 30 July 2004. Capital gains realized from the disposal of securities traded on a stock exchange outside the Kingdom will be exempt from tax, provided the securities are also traded on Tadawul, irrespective whether the disposal occurred through a stock exchange or through any other means.
- No gain or loss will be computed on transfers of assets between group companies, provided:
  - The companies are wholly owned (directly or indirectly) within the group; and
  - The assets are owned within the group for two years from the date of transfer.

**Transfer pricing**
The transfer pricing (TP) regulations apply to all taxpayers whose deadline for submitting the tax declaration is on or after 1 January, 2019 and generally are consistent with Organization for Economic Co-operation and Development (OECD) TP guidelines with the additional requirement to prepare industry analysis in TP local file and specific requirements for comparability analysis. The regulations apply to all taxpayers however entities or persons that are subject only to zakat (i.e. 100% zakat payer) are not subject to the TP regulations (with the exception of country-by-country reporting). In TP regulations, related party definition is extended with the introduction of effective control criteria which is in addition to ownership and common control criteria already present in Income Tax law.

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. TP documentation including TP master file shall be submitted to Tax authority within 30 days from the date of request, subject to de minimis threshold i.e. aggregate arm’s length value of related party transactions in a year including domestic and capital transactions equals or exceed SAR 6 million equivalent to US$ 1.6 million.

**Foreign income and tax treaties**
Saudi Arabia has signed treaties with France, China, India, Pakistan, Malaysia, Austria, Italy, Ireland, Greece, Japan, Korea, Poland, Bangladesh, Vietnam, Ukraine, Netherlands, Russia, Singapore, South Africa, Spain, Turkey, United Kingdom, Uzbekistan, Belarus, Romania, Czech Republic, Tunisia, Malta, Azerbaijan, Hungary, Kazakhstan, Luxembourg, Tajikistan, Algeria, Ethiopia, Macedonia, Portugal, Sweden, Venezuela, Kyrgyzstan Turkmenistan, Egypt, Hong Kong, Jordan, Mexico and United Arab Emirates (effective for withholding tax on payments be made on or after 1 January 2020)

The GAZT in recent years has issued internal guidance recommending a stronger position on service permanent establishments (PEs). The guidance states that if a non-resident provides services for a period exceeding the agreed services PE duration under an applicable tax treaty (i.e. 183 days in a 12-month period), the non-resident will be deemed to have a PE in KSA, regardless of whether the services were physically rendered in KSA. Consequently, a foreign service provider rendering services in KSA for more than
183 days may create a PE even if it does not have any personnel or employees actually in KSA.

Zakat
Zakat is payable by Saudi (and GCC national) shareholders in their share of the Zakat base in a company. The rate is 2.5% (This 2.5% could be changed to 2.577683% for the zakat payer following Gregorian year and paying zakat on zakat base) and is calculated on the higher of the Saudi's share in the adjusted net income or his share on the “balance sheet” basis.

The Zakat regulations effective from 1.6.1438H (February 28, 2017) replace all previous resolutions, circulars and instructions relating to Zakat collection from the date of this resolution.

The 2019 Zakat regulations was published on the GAZT’s website on 14 March 2019 and will be effective for the accounting period commencing on or after 1 January 2019 by replacing the existing Zakat regulations that was issued in early 2017. The GAZT’s current practices are more or less compiled in the Zakat regulations. The GAZT also published rules for computing Zakat on banks and finance companies licensed by SAMA. Also issued the Ministerial Resolution providing the framework that the State will bear the Zakat and Tax on Sukuks and Bonds be issued by Ministry of Finance locally in SR.

Turnover and other indirect taxes and stamp duties
Presently there are no sales or consumption taxes or stamp duties in Saudi Arabia.

Value Added Tax (VAT)
VAT was introduced in Saudi Arabia on 1 January 2018 and is currently charged at a standard rate of 5% on most goods and services.

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 an annual turnover of less than SAR 40 million may use a quarterly filing period. The GAZT have been very active in identifying businesses that have failed to comply with the VAT law, and have issued assessments and often significant penalties accordingly. To avoid penalties, businesses should ensure they are compliant from a VAT perspective.

Customs duties
• Most of the consumer products are duty free, e.g., rice, tea, corn, livestock and meat (fresh or frozen).
• Customs duties at 20% are imposed on some commodities for the purposes of protecting Saudi industries.
• Import duty on other items ranges between 5% to 20% ad valorem on the cost, insurance and freight (CIF) value.
• A limited number of items are subject to customs duties calculated on the basis of metric weight or capacity, rather than ad valorem. However, the rates for these items are fairly low.
• The government has decided to raise the customs duty rates applied to 193 products, from 5% to 25%.
• The Ministry of Finance has increased customs duty rates applicable to a wide range of highly consumed products, with almost 600 harmonized system (HS) codes impacted. The rate increase is significant, with new rates of up to 25%.
Customs duty is calculated on the CIF value of imports, which is converted to Saudi Riyals at the exchange rates published by SAMA applicable on the date of the declaration. Customs duty is payable in cash or by a certified check drawn on a local bank.

The documents required for all commercial shipments to the Kingdom, irrespective of value or mode of transportation, are:
- Commercial invoice
- Certificate of origin
- Bill of lading (or airway bill)
- Steamship (airlines) company certificate
- Insurance certificate (if goods are insured by the exporter)
- Packing list
- Evidence of payment to non-resident vendor or bank guarantee

Depending on the nature of goods being shipped, or upon certain requests from the Saudi importer or clauses in a contractual document, specific certificates may also be required.

**GCC Unified Customs Tariff 2017**
Importers should review their import product portfolio in relation to the GCC Unified Customs Tariff and ensure the HS codes/product descriptions are followed. Incorrect classification of goods on import may lead to action by the customs authorities, even where no duty rate increase results.

**Excise duty**
In June 2017, Saudi Arabia introduced excise tax, another GCC harmonized initiative with the GCC Framework Agreement in place, and with domestic law effective from June 11, 2017. Some of the key points are listed below:
- Excise tax is chargeable on the importation or production of excise goods released for consumption in KSA on or after June 11, 2017.
- The excise tax is, ordinarily, chargeable by reference to the “tax base” of the goods concerned. The tax base is the higher of either the retail price of the goods or a list price which will be determined and published by the authorities.
- The definitions of excise goods are, broadly, soft carbonated drinks (50% rate), energy drinks (100% rate), and tobacco products (100% rate).
- Since then, the GCC has decided to broaden the scope of excise products to all sugary drinks (i.e. also non carbonated drinks) at 50% and electronic cigarettes and liquids for electronic cigarettes, both at 100%. The excise on electronic cigarettes came into force in June 2019 and the implementation of the excise on sugar sweetened drinks has been postponed until December 1st, 2019.
- All those holding excise goods valued in excess of SR60,000 (whether or not otherwise registered or registrable) are required to submit a one-off transitional return and pay excise due within 45 days of the implementation of the tax.
- In addition to any transitional return, excise tax registrants must submit returns reporting their total excise liabilities on a bi-monthly basis (i.e. one return every two calendar months). Returns must be submitted together with payment within 15 days of the end of the tax period.
- Importers of excise goods that are not entered into an approved warehousing arrangement will be required to pay excise tax upon importation to the customs authorities.

**Land tax**
The Council of Ministers issued the white land tax law and its implementation regulations in June 2016 and levied 2.5% ‘land tax’ on all undeveloped residential and residential/commercial plots within urban boundaries. The land valuation is performed by the Ministry of Housing and is applicable to individuals and private sector legal entities.

All those holding excise goods valued in excess of SR60,000 (whether or not otherwise registered or registrable) are required to submit a one-off transitional return and pay excise due within 45 days of the implementation of the tax.

**Personal taxation**
- Presently, there is no employment tax in Saudi Arabia.
- In the 2017 federal budget, the government announced its intention to levy 6% tax on the remittance of salary by expatriate individuals working in Saudi Arabia, however this has not been introduced as yet.

**Social security, pension**
- The GOSI (social insurance) is paid for the employees who are on a residential permit (iqama) of a Saudi entity. The GOSI contributions are computed on basic salary, housing allowance and commission payments, if any. These contributions are required to be settled at the following rates:
• The minimum and maximum monthly levels of contributory wage for Saudi employees are SR1,500 and SR45,000 respectively. For non-Saudi employees, the minimum and maximum levels are SR400 and SR45,000 respectively.

• GOSI is not applicable on individuals visiting Saudi Arabia on a temporary, Business or a Visit Visa.

• Retirement benefits are payable to insured Saudi workers at 60 Hijri years (58 Gregorian years). No annuities contribution exists for expatriate workers.

• Capital companies are allowed to deduct their contribution to a retirement, social insurance or any other fund established for the purpose of settling employees’ end-of-service benefits or medical expenses, provided:
  - The allowable deduction does not exceed the unfunded liabilities relating to the fund that are due at the beginning of the financial year for which a deduction is being claimed; and
  - The fund has an independent legal status, regardless of whether it is established inside or outside Saudi Arabia.

**Visa entry and requirements**

All visitors require obtaining a visa prior to travel to Saudi Arabia except:
- Nationals of the GCC countries (barring Qatari nationals)
- Holders of re-entry permits and landing permits issued by the Saudi Arabia Ministry of Foreign Affairs

Foreign nationals who wish to take short-term trips to Saudi Arabia to conduct business activities may obtain a Commercial Visitor Visa or Business Visitor Visa. The two types of visa permit different activities and are dependent on the job position. A summary of the two visa types follows:

**Type of visa and applicability**

<table>
<thead>
<tr>
<th>Commercial Visitor Visa</th>
<th>Permitted activities</th>
<th>Visa validity</th>
<th>Permitted duration of stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typically granted to individuals in senior-level positions (e.g., President, Vice President, General Manager, HR Manager, Marketing Manager, Operations Manager, and Director). Foreign nationals holding a commercial visitor is not allowed to perform any hands on work activities.</td>
<td>• Attending business meetings or discussions; • Receiving hands-on training; • Buying goods for sale outside of the country; • Negotiating contracts; • Attending and participating in a trade show; • Visiting facilities and plants; • Attending seminars or conferences</td>
<td>Single entry - valid for 90 days upon issuance</td>
<td>Single entry visa – 90 days allowed duration of stay</td>
</tr>
<tr>
<td>Business Visitor Visa</td>
<td>- Technical repairs and maintenance; - Facilitating technical training; - Technical oversight; - Systems installation; - Auditing; - Consulting; - Buying goods for sale inside the country; - Market integration; - Preparing inventory for evaluation.</td>
<td>Single entry - valid for 90 days upon issuance</td>
<td>1 years, 2 years multiple entry visa – 30 or 90 days allowed duration of stay</td>
</tr>
</tbody>
</table>

| Multiple entry visa – US nationals gets 5 years multiple entry visa; UK nationals can get up to 5 years visa validity; French nationals can get up to 4 years visa validity, other nationality can obtain maximum 2 years multiple entry visa | 4 years, 5 years multiple entry visa – 180 days allowed duration of stay |

**Annuity branch**

<table>
<thead>
<tr>
<th>Annuity branch</th>
<th>Employer’s share</th>
<th>Employee’s share</th>
<th>Employer’s share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Employers share</td>
<td>Employee’s share</td>
<td>Employer’s share</td>
</tr>
<tr>
<td>Saudi nationals</td>
<td>22%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Foreign employees (expatriates)</td>
<td>2%</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**Occupational hazards**

- Transit passengers who intend to continue their journey by the same or first connecting aircraft within 18 hours, provided they possess onward or return documentation, do not leave the airport and make no further landing in Saudi Arabia (except nationals of Burkina Faso, Mali, Niger and Nigeria who always require a Transit Visa).
- Holders of re-entry permits and landing permits issued by the Saudi Arabia Ministry of Foreign Affairs.

Foreign nationals possessing either a Commercial Visitor Visa or a Business Visitor Visa are not considered residents of Saudi Arabia and cannot obtain a Residence Permit or sponsor their dependents for Family Visa. Business
visitors are not permitted to open a bank account or lease a house. However, business visitors are authorized to lease a car with an international driver’s license.

**General requirements to obtain Business Visa**
- Valid passport or travel document with at least six months’ validity
- Health insurance from Saudi Arabia
- Commercial registration from the inviting company in Saudi Arabia
- Letter of invitation/support from a Saudi company, and,
- Letter of introduction from the visitor company that contains the applicant’s job title and purpose of visit

There may be additional requirements depending on the country of residence or nationality.

**Employment of GCC nationals**
National citizens of the Gulf Cooperation Council (GCC) may work and reside in Saudi Arabia without work authorization. These countries include Bahrain, Kuwait, Oman and the United Arab Emirates. Currently, Qatari nationals are not eligible for this exemption. However, GCC citizens must declare their GOSI (social insurance) in their home country and have a valid Country Smart ID.

**Employment of Foreign Nationals**
Foreign nationals intending to engage in active, productive work that cannot be undertaken under a Work Visit Visa must obtain work authorization. For long-term stays, a Saudi Work Visa and Work Permit are required. Additionally, a Residence Permit is required to lawfully work and reside in Saudi Arabia. However, in order to sponsor a foreign national for a work authorization, the Saudi company must have or obtain a Block Visa approval and have a High Green or Platinum Saudization rating.

**Block Visa/quota**
To employ any foreign national in Saudi Arabia on a Work Visa, the intended employer must obtain approval from the Ministry of Labor in the form of a Block Visa (or quota). At a central level, these are regulated by the ministry to oversee how many foreign nationals are coming into the country, from which country and what work activities they will be engaged in.

The requirement to obtain a Block Visa is the first step in obtaining a Work Visa, following which there is a consular process that is typically initiated in the country of citizenship of the foreign national. The application for a Block Visa must contain a specific job title for the foreign employee to be sponsored, which corresponds to the foreign employee’s professional qualifications. When filing a Block Visa application, the company must know in advance the exact position to be filled. The MOL strictly enforces the activities performed by the foreign national according to the job title. The profession of an employee must relate to the activities stated in the Commercial Registration of the company.

**Saudization**
Over the past few years, the country has implemented an increasingly regulated Saudization policy, tightening the employment of foreign nationals, to increase the proportion of Saudi in the workforce of companies operating in the country. The scheme, known as Nitaqat, applies to all private sector companies with six or more employees, and applies standards differing on the size of the company and sector in which it operates. With these two factors set, each company is then rated based on the thresholds set by the Ministry of Labor for the proportion of Saudis it employs. In addition, certain jobs are reserved only for local nationals, including HR and secretarial positions.

Foreign nationals intending to engage in active, productive work that cannot be undertaken under a Work Visit Visa must obtain work authorization.
The Nitaqat ratings impact the ability of the company when it comes to hiring additional staff as well as other factors as identified in the table below.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Restrictions/Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red</td>
<td>Not able to renew Work Permits, apply for residence permits, apply for new Block Visas, hire non-Saudi nationals, or transfer sponsorship (can only transfer employees to a company with higher Nitaqat category but cannot receive new employee). Commercial Registration will be blocked until company moves to a Green category.</td>
</tr>
<tr>
<td>Yellow</td>
<td>Not able to apply for Block Visas, transfer of sponsorship, or hire non-Saudis (can only transfer employees to a company with higher Nitaqat category but cannot receive new employee). Companies will be given one-month to correct their Saudization before their Commercial Registration is blocked; no government contract granted. Cannot renew Work Permits of employees who have completed two years of service.</td>
</tr>
<tr>
<td>Low green</td>
<td>Not able to apply for Block Visas or transfer sponsorship of more than one employee.</td>
</tr>
<tr>
<td>Medium green</td>
<td>Not able to apply for Block Visas; government contracts granted if promise to increase Saudization; eligible to receive a transferred foreign employee and renew a foreign employee's visa without limitations.</td>
</tr>
<tr>
<td>High green</td>
<td>Able to apply for Block Visas, preferred by government in awarding a business contract if competing against low-Saudization companies in a bid, eligible to receive a transferred foreign employee and renew a foreign employee's visa without limitations.</td>
</tr>
<tr>
<td>Platinum</td>
<td>Fast-track services at MOL; adequate number of Block Visas granted; given preference as suppliers for government projects and bids; eligible to receive a transferred foreign employee and renew a foreign employee's visa without limitations.</td>
</tr>
</tbody>
</table>

**Parallel saudization**
As an alternative to hiring Saudi employees, the authorities have introduced a monthly fee that equates to ‘Saudization credits’ that can boost a company’s Saudization rate. The fee is based on how many Saudi employees are under employment as well as how many credits are required. This scheme is used to fund a national program to train Saudi citizens.

**Student training Program**
All Saudi companies with 25 or more employees must hire and train Saudi nationals as interns under the ‘Saifi program’. The duration of the internship is generally four weeks long. Interns must be paid a minimum salary of SAR 1,500 (about US$ 400) per month and can work up to 40 hours per week. Companies may choose either of two payment options to comply with the program:
- They may employ students internally within the company for summer training and pay the minimum salary of 1500 riyals per month directly to the intern, or
- They may choose to pay for the intern's summer training outside the company and pay the minimum monthly salary of 1500 riyals to an authorized training center plus 500 riyals to the student.

As an alternative to hiring Saudi employees, the authorities have introduced a monthly fee that equates to ‘Saudization credits’ that can boost a company’s Saudization rate.

The number of interns a company must train depends on the size of the company:

<table>
<thead>
<tr>
<th>Headcount</th>
<th>Number of students to be trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 - 500</td>
<td>4% of total headcount</td>
</tr>
<tr>
<td>501 - 3000</td>
<td>3% of total headcount</td>
</tr>
<tr>
<td>3001 and higher</td>
<td>2% of total headcount</td>
</tr>
</tbody>
</table>
Ajeer, transfers and third party sponsorship
Companies can also temporarily engage foreign national employees from another firm in Saudi Arabia through a regulated system called Ajeer, and can also engage employees through dedicated and licensed manpower companies. In both instances, the requirement to obtain a block is not required. The same is true where an existing employee of another firm in Saudi Arabia transfers their employment.

Wages and benefits
A unified system for salaries and wages based on experience and qualifications is applied in the government sector. Salaries in the private sector are determined by the market but are generally higher to reflect the increased risk associated with working in Saudi Arabia.

Other mandatory employee benefits to be paid by the employer include the following:
- Annual paid vacation of 21 days is due after one year of service and up to five years. If the employee is with the same employer for more than five years, he will be entitled to 30 days paid annual vacation.
- End of service benefit is due upon the term or termination of the contract: the employee will be entitled to (i) one-third of the end of service benefit if he spends a minimum of two years and up to five years in service, (ii) two-thirds of the end of service benefit if he spends five to ten years in service and (iii) the full end of service benefit if he spends more than ten years in service.
- Workers are allowed sick leave with full pay for the first 30 days and three-quarters pay for the next 60 days.
- There is no compulsory annual bonus, but a bonus is paid by most companies.

A pregnant woman is entitled to one month maternity leave before the delivery and six weeks after the birth. Employers bear the cost of medical check-ups, treatment and birth expenses and may not terminate a female worker during pregnancy or during her time off after the birth.

The Ministry of Labor launched the Wages Protection System (WPS) from March 1, 2014. The aim of this system is for the Ministry of Labor to have a timely and accurate record of bank account payments made between an employer and employee.

Expatriate packages for skilled workers generally include provisions for housing, schooling, annual leave tickets, and rest and recreation trips. Unskilled workers require accommodation and transport paid to and from the Kingdom.

Employee share plans
Before April 2018, when an organisation issued its KSA resident employees with shares (or other equity awards) in a non-Saudi entity as part of an employee incentive arrangement or otherwise, it would have had to comply with certain legal requirements, for example, the award had to be made through an “authorised person”.

New legislation introduced from April 2018 has removed many of the administrative and reporting requirements. The key requirement remaining is that the relevant regulatory authority should be notified when shares (or other equity awards) are awarded to KSA resident employees by the end of the relevant quarter. Certain information in relation to the award also needs to be disclosed.

Wages protection system
The Ministry of Labor launched the Wages Protection System (WPS) from March 1, 2014. The aim of this system is for the Ministry of Labor to have a timely and accurate record of bank account payments made between an employer and employee. This applies to Saudi citizens and Saudi expatriates in the private sector.

By implementing the above system, not only is the Ministry of Labor maintaining the salaries record and ensuring the payment of salaries to employees in Saudi bank accounts, but other revenue authorities are also monitoring, such as:
- GOSI department will ensure that the salaries (e.g. basic and housing subject to GOSI contribution) reported to the GOSI department also match the employment contract.
- GAZT may use this information for tax purposes and start comparing the salaries as reported in WPS and as reported in the tax returns, and may disallow any unreconciled differences.

There could also be implications for companies using the services of payroll providers or paying directly to employee’s bank accounts outside KSA.
Deloitte in Saudi Arabia –
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