Deloitte.

Doing business guide 2021

Understanding Saudi Arabia's tax position

In the Middle East
since 1926

Contents

About the Kingdom of Saudi Arabia

> "The Kingdom of Saudi Arabia is the largest oil-producing country in the world"

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.

Government type	Monarchy
Population (2019)	34.2 million
GDP (2019)	US$ 793 billion
GDP growth (2019)	0.33%
Inflation (2019)	-2.09%
Labor force (2019)	14.38 million
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: World Bank, General Authority of Statistics

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 17 percent of the world's total proven petroleum reserves.

- 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. The Council members 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.

Government	
Government type	Monarchy
Chief of State	King Salman Bin Abdul-Aziz Al Saud
Head of Government	King Salman Bin Abdul-Aziz Al Saud
Legal system	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.
Administrative divisions	13 provinces (mintaqat, singular - mintaqah); Al Bahah, Al Hudud ash Shamaliyah (Northern Border), Al Jawf, Al Madinah (Medina), Al Qasim, Ar Riyad (Riyadh), Ash Sharqiyah (Eastern), 'Asir, Ha'il, Jazan, Makkah (Mecca), Najran, Tabuk.

Source: Central Intelligence Agency Factbook, the Economist Intelligence Unit

"The country is divided into 13 provinces, with a governor and deputy governor in each one."

- 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.

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 has been 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 raise 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 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 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

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

Industries of opportunity

> "Government is also focusing on developing economic cities, industrial hubs and healthcare facilitates that offer investment and business opportunities."

- 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.

Doing business in Saudi Arabia

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.

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)

Procedures for starting a business in Saudi Arabia

Number	Procedure	Minimum time to complete	Associated cost
01	Reserve the company name and submit articles of association	5 days on average	No charge
02	Notarize the articles of association with the Notary Public	1 days	No charge
03	Pay company registration fees	Less than one day (online procedure)	SR1,200 for commercial registration + SR2,000 fee to become member of Chamber of Commerce + SR 500 e-magazine publication fee
04	Open a bank account	1 day	No charge
05	Obtain a business location license from the Municipality	4 days	SR 1,000
06	Register with the Ministry of Labor	1 day	No charge
07	Register with the post office 'Wasel'	Less than one day (online procedure)	SR500
08	Make a company seal	1 day	SR50
09	Register with the General Organization for Social Insurance (GOSI)	1 day	No charge
10	Register with the General Authority of Zakat and Tax (GAZT)	3 days	No charge
11	Register with in the Qiwa portal	1 day	Varies
12	Register with the Mudad Business Portal	1 day	Standard account: No charges. Advanced Account: Annual fees SAR. 460-920

Source: Doing Business Report Saudi Arabia, World Bank Group

Any 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.

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).

"SAGIA's primary goal is to facilitate and encourage investment (both local and foreign)."

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. However, SAGIA's primary goal is to facilitate and encourage investment (both local and foreign) wherever possible.
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 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 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.

"Fully foreign-owned companies still remain the exception rather than the norm."

> "There is a series of labor regulations that require foreign companies operating in the Kingdom to employ and train Saudi nationals."

Tax rules for Special Integrated Logistics Zone issued by the General Authority of Civil Aviation (GACA)
The Zone is located adjacent to the Riyadh international airport that offers certain incentives for prescribed activities to entities operating in the Zone.

The following Incentives are offered to the zone entities:

- 50 years tax holiday; including VAT and customs suspension
- No requirement to withhold tax from payments to non-residents subject to certain conditions
- 100% foreign ownership is allowed
- 100% suspension of customs and import restrictions
- No restrictions on capital repatriation
- Non-residents undertaking activities in the Zone would not create taxable presence (permanent establishment) in KSA

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.

"Saudi Arabian Monetary Authority (SAMA – the central bank) closely monitors foreign exchange transactions to deter speculation, fraud and money-laundering."

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

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

*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.
Source: sagia.gov.sa/media/1100/sagia-investment-manual-7th-edition-jan-2019-final.pdf

Restrictions on licenses

No,	Activity	Restrictions
01	Trading licenses (With a Saudi partner)	• Train 30% of Saudis • Not to open more than one shop per district
02	Industrial licenses	• The licensee must apply to the Ministry of Industry and Mineral Resources to obtain an industrial license along with the General Presidency of Meteorology and Environmental Protection to acquire environmental approval
03	Scientific and technical office	• The office may study the markets regarding the activity type of the company and prepare reports on any such study for the headquarters. The office shall submit to the Ministry of Investment annual summary on its activity • Office may not implement any contracts nor carry out any commercial or investment activity directly or indirectly in the Kingdom nor may it charge any fees for training the Saudi technicians • The 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 • The Ministry of Investment has the right to terminate or not renew the license whenever it is deemed that the role of the office is outside the purpose for which it is authorized
04	Consulting license for technical & economic communication offices	• The office may study markets and prepare reports of this study for concerned bodies in the countries that want to have a license. The office shall submit an annual summary of its businesses to the Ministry of Investment • The office is prohibited to execute any contracts, businesses, or investments in the Kingdom, directly or indirectly • The Ministry of Investment has the right to revoke the license or not to renew it whenever it deems that the office's role is beyond the authorized purpose
05	Activities of holding companies	• Obtaining the prior approval of the Ministry of Investment for each project to be established and any investment in it.
06	Real estate license	• Obtaining the prior approval of the Ministry of Investment on any property to be owned or invested in so that the cost of any project is not less than 30 million riyals for the land and building, provided that they are not within the boundaries of the cities of Mecca or Medina
07	General restrictions and conditions to be followed by the investor after receiving the license	The License Applicant(s) / Entity shall be committed to the following: • Obtaining the required post- Ministry of Investment license's governmental documents within 3 months of issuance of the Ministry of Investment license and obtaining the necessary documents or licenses from related government agencies - where required- before or after obtaining a Ministry of Investment license and the Ministry of Investment should be notified by the investor if difficulties are faced in doing so not less than 3 months from the project's scheduled start of operation. • Operating within the licensed field/ industry. • Implementing the project within the timeframe indicated in the application and within the licensed location or branch. • Using the licensed name - as per the Ministry of Investment and investment licensein in all government documents. • Renewing the Ministry of Investment license annually on time. • Receiving the Ministry of Investment follow-up officers, cooperating with them and furnishing all required documents and proof requested during the visit. • Not marketing or selling any non-licensed items inside the Kingdom of Saudi Arabia. • Respecting the intellectual property rights of others. • Taking all necessary measures to protect the environment. • Respecting all local laws and regulations issued by Saudi ministries/ agencies for the entity and its employees. • Notifying the Ministry of Investment of any change in contact address, P.O Box, email or phone and fax numbers within (10) working days of the change using Ministry of Investment designed forms no (13.01) from this manual. • Being aware of the Ministry's entitlement to licensing fees, and the financial compensation for subscription to the services of the Investor Relations

No,	Activity	Restrictions
07	General restrictions and conditions to be followed by the investor after receiving the license	Centers, for the entire period required for the license, and the inability to claim a refund for it or part of it when the facility's activity stops or the license is canceled before the end of its term for any reason. The Investor(s) acknowledges and undertakes: - To abide by all rules and regulation stated 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 the licensee shall be using the license issued by the Ministry of Investment only for the purpose for which the license issued. The Saudi Arabian Government and Ministry of Investment 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, the Ministry of Investment reserves the right to revoke the license at any time if the licensee is convicted of any illegal acts or is deemed to pose a national threat. - 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 the 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 license 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 Ministry of Investment will not directly or indirectly assume any liability towards third parties whether inside or outside the Kingdom of Saudi Arabia for any non-statuary 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/their legal representative and the signature of the letter is considered as his/theirs.

Source: https://misa.gov.sa/media/1302/misa-service-manual-v3-8th-edition-en-v10.pdf

> "The procedure for setting up a branch of a foreign company or LLC normally takes three to six months."

New Saudi Company Law

- The Saudi Arabian Ministry of Commerce and Investment (MOCI) introduced a new Company Law, effectiveMay 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)
- 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 a 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.

Key differences between foreign branch, LLC and JSC

	Branch of foreign company	LLC	JSC
Minimum capital requirement	Normally SR500,000 (but can be lower or higher depending upon the nature of activity)	SR500,000	SR500,000 or SR5,000,000 (in case of single shareholder)
Minimum shareholder	Not applicable	One shareholder If the number of shareholders exceeds 50, the company has to be converted into a JSC within a year. If the company is not converted into a JSC, the LLC will be dissolved by operation of law with certain conditions.	Two shareholders Single shareholder is allowed with a minimum capital of SR5,000,000 and certain other conditions.
Losses exceed 50% of capital	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.	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.	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.
Maintenance of statutory reserve	Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.	Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.	Transfer 10% of net profit to statutory reserve until it reaches 30% of share capital.

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 shareholder is subject to income tax and the Saudi shareholder'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: 20% 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 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.

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 Zakat payers following the Hijri year.

For Zakat payers following the Gregorian year, the rate applicable to the Zakat base is 2.577683% (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. The GAZT will always lift the veil of incorporation to determine the nationality of the shareholders. They will go up the chain of ownership to the last level.
In addition to corporate income tax and Zakat, WHT is levied on payment to non-residents from an "in-Kingdom source". WHT, on the other hand, ranges from 5% to 20%, depending on the nature of payment, place of performing services and relationship with the non-resident.

Residence

- The 2004 tax law also introduced the concept of residency for individuals and corporations, which is of particular importance in assessing liability to WHT.
- A natural person is considered resident if he has a permanent residence (defined) and is available in the Kingdom for a period that in total is not less than 30 consecutive/non-consecutive days in a tax year. Additionally, a natural person is considered resident if he resides in the Kingdom for a period not less than 183 consecutive/non-consecutive days in a tax year, even if he does not have a permanent residence.

- For a company, residency in a tax year is considered if the company is established in accordance with the companies' regulations or is headquartered in the Kingdom.

> "There is no WHT on payments made to non-residents for the import of goods."

Related party

The tax law has introduced the concept of related party. Thus, for companies, ownership or control of 50% or more by the same persons or related persons shall be considered to be companies under one common control.

Source of income

There are extensive rules; however, in summary, income is considered to be realized in the Kingdom if it arises from an activity occurring in the Kingdom; if it is dividends or management fees and a manager's fee paid by a resident company; amounts paid by a resident for services rendered in the Kingdom either fully or partly; or an amount paid by a resident company to its head office or a related company for services rendered, etc. (the detailed list is included in the tax law).

Supply of goods

There is no WHT on payments made to non-residents for the import of goods. Income derived by a non-resident party from a contract for supply of goods from abroad is not considered as a Saudi-source income (i.e. not subject to tax in Saudi Arabia) unless it includes associated work in Saudi Arabia, such as transportation, installation, training or other similar work. In such a case, only associated work is considered to be derived from an activity performed in Saudi Arabia and is liable to tax.

In case of delivery of goods from abroad with "in-Kingdom associated work", where value is not separately specified in the contract for the "in-Kingdom associated work", income for each associated work shall be estimated at 10% of the total gross value of the contract for tax purposes.

Income tax

Tax rate

20% generally applicable, 20% for exploitation of natural gas and ranges 50% to 85% for production of oil and hydrocarbons materials depending on capital investment.
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.

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 an 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 of 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.

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.

The minimum deemed profit rates on various activities range from 80% (for management fees) to 10% (for construction work contracts).

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 taxpayer 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:

- Tax Violation and Dispute Resolution Committee (TVDRC)
- Tax Violation and Dispute Appeal Committee (TVDAC)

Income exempt from tax

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 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 WHT 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:

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

"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."

Statutory compliance deadlines

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

Statutory compliance requirements	Deadline
Filing of annual tax/Zakat return	120 days from year-end (60 days for consortium)
Filing of monthly WHT return	10 days from the end of month in which payment was made
Filing of annual WHT return	120 days from year-end
Contract Information Form (CIF)	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
Filing of accelerated tax payment	To pay advance income tax in 3 equal instalments calculated at 25% of the immediately preceding year's tax liability (SR2 million or more), if due, by the sixth, ninth and twelfth month of the year
Filing of audited financial statements with the MOC	Within 4 months of year-end

> "Capital gains tax is assessed at 20% on the disposal of shares by the foreign shareholder in a resident company."

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 of 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 are generally consistent with Organization for Economic Co-operation and Development (OECD) TP guidelines and apply to all income tax paying entities. 100% Zakat payers are not subject to the TP regulations, with the exception of country-by-country reporting. Although the TP regulations do not apply to 100% Zakat paying entities, the Zakat regulations require that related party transactions should be conducted in line with the arm's length principle.

The table below provides a summary of the TP requirements.

S/n	TP documentation requirements	Threshold	Applicability	
			Income tax paying entity	Zakat paying entity
1	TP Disclosure Form and affidavit	No monetary threshold	✓	✓*
2	Local File	Related party transactions exceeding SAR6 million**	✓	x
3	Master File	Related party transactions exceeding SAR6 million**	✓	x
4	Country-by-Country Report	Consolidated revenue of the group exceeding SAR3.2 billion	✓***	✓
5	Country-by-Country Notification	Consolidated revenue of the group exceeding SAR3.2 billion	✓	✓

*CbCR notification only.
** In certain cases, the tax authority may at its discretion direct any taxpayer to prepare and maintain TP documentation. The burden of proof is on the taxpayer to maintain robust documentation to support that the arm's length value of transactions is less than the threshold of SAR 6million.
*** The secondary filing of a country-by-country report is required only in certain cases.

The TP regulations in KSA have an extended related party definition, due to the introduction of effective control criteria. This is in addition to the ownership and common control criteria already present in the Income Tax law.

The TP disclosure form is to be submitted along with the annual tax return and should include details of the related party transactions, the applicable TP method and a confirmation that the TP documentation is maintained in accordance with the TP regulations. Together with the TP disclosure form, taxpayers are also required to submit an affidavit issued by a licensed auditor in KSA, certifying that the related party transactions are consistent with the TP policy.

The TP local file has certain additional requirements above the OECD standard local file, including the requirement to include an industry analysis and specific requirements for a comparability analysis. It is recommended that TP documentation, including the TP master file, is maintained at the time of filing the tax return and should be submitted to the tax authority within 30 days from the date of request.

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, Kyrgystan Turkmenistan, Egypt, Hong Kong, Jordan, Mexico, Albania, Bulgaria, Cyprus, Georgia, Syria and United Arab Emirates.

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 the Gregorian year and paying Zakat on the 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 were published on the GAZT's website on 14 March 2019 and are effective for the accounting period commencing on or after 1 January 2019 by replacing the existing Zakat regulations that were 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. The Ministerial Resolution has been issued providing the framework that the State will bear the Zakat and Tax on Sukuks and Bonds issued by Ministry of Finance locally in Saudi Riyals.

Value Added Tax (VAT)

VAT was introduced in Saudi Arabia on 1 January 2018 at a standard rate of 5% on most goods and services. With effect from 1 July 2020 the standard VAT rate increased to 15%. Transitional rules allow the application of the 5% rate until 1 July 2021 under strict conditions.

Taxable transactions

VAT applies to almost all supplies of services and goods (including imports), subject to limited exceptions. Exempt supplies include margin-based financial services, life insurance, residential property rental and since 4 October 2020 the supply for residential and commercial real estate property. Education and healthcare services provided to Saudi citizens are not subject to VAT.

Rates

The current standard rate of VAT is 15%. 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 to outside KSA, and the supply of qualifying medicines, medical goods and investment metals).

Registration

The standard mandatory VAT registration threshold is having an annual turnover of SAR 375,000 for residents.

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. Non-residents providing taxable supplies to non-taxable customers in Saudi Arabia must generally 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 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 VAT obligations go together with strict documentation requirements (in Arabic).

The GAZT is very active in identifying businesses that have failed to comply with the VAT law, and issues assessments and often significant penalties accordingly. To avoid penalties, businesses should ensure they are compliant from a VAT perspective. A strong indirect tax control framework is desirable.

General overview

When goods are imported into KSA, an import declaration should be submitted. As of 20 June 2020, the Saudi government decided to raise the Customs duty rates applied on a range of products. The list of impacted HTS codes on which the higher duty rate applies can be found on the Saudi Customs official site. Unless there is a duty exemption or duty relief in place, most goods are normally subject to Customs duty at a rate between 0% to 20%. Customs duty is calculated on the CIF value of imports when goods are 'sold for export', and payable in cash or by a certified check drawn on a local bank.

KSA is part of the GCC Customs Union. As such goods in free circulation in the GCC or of GCC origin would normally not be subject to duty upon import into KSA. However, when goods move into KSA from another GCC country, Customs reporting has to be done. The nature of the Customs reporting depends on whether these goods have been Customs cleared at another GCC country, such that duties and import clearance would have been done at 'first point of entry' in the GCC, in which case no Customs import clearance is necessary when goods arrive in KSA. Given the higher rates of duty that apply in KSA on certain products, the key point to note here is that depending on the regime under which the goods move and the nature of the goods, a duty differential payment may be due when goods enter KSA.

Usually the importer of record and/or the declarant is the entity that declares the goods for import or export purposes when goods are declared at the Saudi border for movement into or out of the country. Even if a Customs broker is in place, subject to contractual arrangements, the owner of the goods and/or consignee may be held liable for the duty and related compliance obligations. As such, careful consideration should be given to the broker selection and contracting process.

The documents required for all commercial shipments to KSA, 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, and whether goods are restricted or require a specific import permit, a specific approval, a separate notification and approval process from the relevant ministry may be necessary.

GCC Unified Customs Tariff 2017

Importers should review their import product portfolio in relation to the Unified Customs Tariff and ensure the HTS 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. Saudi Customs Authorities have added four additional digits to the eight digit codes provided by the Gulf Cooperation Council creating the new Integrated Customs Tariff system based on twelve digit tariff codes.

Understanding the fundamental Customs drivers

In addition to complying with Customs reporting and notification requirements, to understand the level of Customs duty exposure, it is important to understand the following three areas:
- Classification of goods. How goods are classified and whether HTS codes used for Customs declaration are in order;
- Origin of goods. Where are the goods imported from and if any free trade agreement bene
- Valuation of goods. What is the value of the goods being imported? This will therefore form the basis of the duty bill calculation.

Some consideration should also be given to operational and regulatory issues that arise from non-fiscal Customs affairs – particularly export controls, trade embargoes affecting movement of goods among other things. There has been a significant focus in the KSA on introduction of renewed and revised regulatory framework, particularly in light of Vision 2030, to bolster and implement such non-fiscal measures in respect of trade control.

Key Customs trends and areas of focus in KSA

- There appears to be a significant onslaught of **post clearance audits (PCAs)** initiated by Saudi Customs in recent years. The focus of these audits tends to be around accurate documentation to support duty reliefs sought, validation of valuation methodologies used for Customs declaration purposes, among others.

- Saudi Customs has been promoting the **Authorized Economic Operator (AEO)** certification. AEO is a trade securitization program aimed at enhancing the relationship between Customs authorities and businesses. AEO certified businesses reap several benefits including faster clearance times, reduced guarantees, etc. among others.

- In recent time, we have noticed that data and information between government bodies in respect of taxpayer information may be shared. There are several cases, where **information exchange between the GAZT and Saudi Customs** has resulted in audits being initiated.

- Many businesses and facilities continue to apply for the **industrial exemption program,** which allows the duty free import of goods when the importer has an industrial exemption in place. Obtaining such an exemption and ongoing compliance in this respect continues to be an area of focus for both businesses and Saudi Customs.

Excise duty

In June 2017, Saudi Arabia introduced excise tax, another GCC harmonized initiative within the GCC Framework Agreement. Some of the key points are listed below:

- Excise tax is chargeable on the importation or production of certain 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 selling price of the goods, or a list price which will be determined and published by the authorities.

- The categories of excise goods are, broadly, soft carbonated drinks and sugar sweetened beverages (50% rate), energy drinks (100% rate), and tobacco products, including electronic devices and liquids used for smoking (100% rate).

- All those holding excise goods valued in excess of SR60,000 were required to submit a one-off transitional return and pay excise due within 45 days of the implementation of the tax. This means many shops and other businesses were liable to pay tax on stocks on hand.

- In addition to any transitional return, excise tax licensees must submit returns reporting their total excise tax 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 a tax suspension arrangement will be required to pay excise tax upon importation to the Customs authorities.

Real estate transfer tax (RETT)

RETT was introduced in Saudi Arabia with effect from 4 October 2020. Unless specifically exempted, RETT applies to all sales, assignments, transfers and similar of land and property as well as rights thereto. All RETT transactions (including those exempted) must be reported. No threshold applies. The liability for RETT is with the transferor, albeit that the transferee is jointly liable. Although in general the levy of RETT corresponds with an exemption from VAT, there are transactions that (intentionally) may be subject to both RETT and VAT.

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.

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.

"The liability for RETT is with the transferor, albeit that the transferee is jointly liable."

Social security, pension

The General Organization for Social Insurance (GOSI) is a government institute which aims to ensure compliance of businesses in the private sector with the social security rules. It sets a mandatory fixed contribution share of employee's contributory wage (basic salary and housing allowance) which is required to be paid by employer, employee or both on a monthly basis. These shares are collected for the purposes of employees' annuity, unemployment and/or occupational hazards. (See GOSI breakdown table).

	Annuity			Occupational hazards
	Total	Employer's share	Employee's share	Employee's share
Saudi nationals	22%	10%	10%	2%
Foreign employees (expatriates)	2%	–	–	2%

GOSI sets a specific range of the contributory wage for Saudi and resident foreign national employees, respectively, as well as an age limit.

The minimum monthly contributory wage for Saudi national employees is SR1,500, SR400 for foreign national employee, and the and maximum contributory wage for all employees is SR45,000.

Retirement benefits (Annuity) are payable to insured Saudi national employees at the age 60, while there is no Annuity contribution for expatriate employees.

The purpose of having Employer's Occupational Hazard contribution is to ensure that if any employee undergoes an incident during business hours/assignment, they are compensated for (i.e. percentage of their wage) until a final medical report is issued with a health status (i.e. recovery or disability). Any further decision will be made by GOSI accordingly.

GOSI sets specific measures for the employee's total disability, partial disability and/or death.

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

Visa entry and requirements

• All visitors are required to obtain a visa prior to travel to Saudi Arabia except:
- Nationals of GCC countries
- Transit passengers with valid onward tickets
- Holders of re-entry permits, and landing permits issued by the Saudi Ministry of Foreign Affairs

Saudi Arabia does offer e-visas and visas on arrival; however, these visas are only issued for tourist purposes and cannot be used for business travel.

Foreign nationals who wish to take short-term trips to Saudi Arabia to conduct business activities may obtain a Business Visit Visa. The Business Visit Visa is the new unified business visa that replaced the Businessmen Visit Visa, Commercial Visit Visa, and Work Visit Visa. In addition to the unified visa, the Saudi Ministry of Foreign Affairs has also started issuing a new format of letter of invitation, which no longer states the purpose of the visit (for example, a work visit).

Foreign nationals who hold a Business Visit Visa are not considered residents of Saudi Arabia and cannot obtain a Residence Permit or sponsor their dependents for Family Visas. Business visitors are not permitted to open a bank account or lease a house. However, business visitors are authorized to lease a car when using an international driver's license.

Permissible business activities

The Saudi Ministry of Foreign Affairs has advised that, until further guidance is issued, there are no changes in terms of the permissible activities under the Business Visit Visa. The permitted activities depend on the activities and job title mentioned in the letter of invitation.

The following are examples of activities permissible for applicants with managerial job titles and above (e.g. Business Development Manager, Sales Manager, Finance Manager):

• Attending business meetings or discussions
• Receiving hands-on technical training
• Buying goods for sale outside the country
• Negotiating contracts
• Attending and participating in a trade show
• Visiting facilities and plants
• Attending seminars or conferences

The following are examples of activities permissible for applicants with technical job titles (e.g., Engineer, Consultant, Technician, Foreman, Surveyor):

• Technical repairs and maintenance
• Facilitating technical training
• Technical oversight
• Systems installation
• Auditing
• Consulting
• Market integration
• Preparing inventory for evaluation

Visa validity

• Single entry – valid for 90 days upon issuance
•Multiple Entry Visa – US and UK nationals are eligible for visas for up to 5 years; French and Japanese for up to 4 years; other nationalities can obtain a maximum of up to 1 year

General requirements to obtain business visa

• Valid passport or travel document with at least six months' validity
• Valid health insurance approved by the authorities in Saudi Arabia
• Commercial registration from the inviting company in Saudi Arabia

• Letter of invitation 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.

Temporary work visa
Saudi Arabia has introduced a short-term work visa called a temporary work visa.

The visa is multi-entry and allows foreign nationals to work in the kingdom for 6 months from the date of entry and can then be extended for an additional 6 months. The temporary work visa is valid for one year from issuance.

The application is a two-step process whereby employers obtain a visa quota and foreign nationals obtain the visa from the Saudi consulate before traveling to the country.

Employers can obtain quotas for the new visas through Qiwa online portal. In order to be eligible for a quota, employers must:

- Have a Nitaqat status of medium green or higher
- Ensure that all foreign workers have valid work permits

Eligible employers can purchase quotas in packages of one, five, 10 or 50. One visa quota costs 1,000 SAR (approx. USD$267); a package of 50 costs 45,000 SAR.

Employment of foreign nationals
Foreign nationals intending to engage in active, productive work in Saudi Arabia must obtain a work visa which will be converted to a work permit and residency permit (Iqama) upon completion of the in-country processes in Saudi Arabia. The Iqama is required to lawfully work and reside in Saudi Arabia. For Saudi companies to be eligible to employ foreign nationals, they must have or obtain a Block Visa approval and have a High Green or Platinum Nitaqat Saudization rating (see below).

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 Human Resources and Social Development (MHRSD) in the form of a Block Visa (or quota) through the Qiwa Portal. At a central level, these are overseen by the Ministry to regulate 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 to a Block Visa is the first step in obtaining a Work Visa, following which there is a consular application 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 MHRSD 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.

A shared visa quota for block visas and in-country transfers has been introduced recently. Employers are now required, more than ever, to focus efforts on maintaining and/or increasing their Saudization rate.

New entities have the option of obtaining an establishment visa quota and purchasing visa packages.

Ajeer and third-party sponsorship
Companies can also temporarily engage foreign national employees from dedicated and licensed manpower companies or from other local companies in Saudi Arabia through a regulated system called Ajeer. Maintaining a mid-green Saudization rate or higher is required for companies seeking secondment options.

Saudization
The Saudi Nationalization scheme (Nitaqat) was developed by the Saudi Ministry of Labor, officially named the Ministry of Human Resource and Social Development (MHRSD), to increase the employment rate of Saudi nationals in the private sector. Each company is rated based on the number of Saudi nationals it employs as part of its overall headcount and depending on the sector. Each company is ranked according to a color coded system that rewards (or penalizes) companies for meeting Saudization targets.

While the market is open for foreign nationals, some professions are reserved for Saudi nationals only, while others have special Saudization targets assigned to them to ensure equal opportunities.

Gulf Cooperation Council nationals are treated the same as Saudi nationals under an agreement between the countries.

The Nitaqat threshold impacts the ability of the company to hire expatiate employees overseas and in-country transfer of expatriate employees as well as other factors as identified in the table below.

Red	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 a new employee). The Commercial Registration will be blocked until the company moves to a Green category.
Low green	Not able to apply for Block Visas or transfer sponsorship of more than one employee.
Medium green	Not able to apply for Block Visas; eligible to receive a transferred foreign employee and renew a foreign employee's visa without limitations.
High green	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.
Platinum	Fast-track services at MHRSD; 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.

Parallel Saudization
As an alternative to maintaining Saudization by hiring Saudi employees, the authorities have introduced a scheme called Parallel Saudization wherein a monthly fee that equates to 'Saudization credits' 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. As it is intended to 'top up' Saudization rather than replace it, the fees become higher the more one relies on this scheme as opposed to hiring Saudi nationals.

Employment of GCC nationals
Nationals of the Gulf Cooperation Council (GCC) may work and reside in Saudi Arabia without a work authorization. These countries include Bahrain, Kuwait, Oman the United Arab Emirates and Qatar. The Saudi Nationalization Scheme (Nitaqat) regulations rules apply to GCC nationals while GOSI rules apply to them based on mutual country-to-country Social Security Agreements.

Training and development
Training of 12% of the total Saudi national population is mandatory for companies with 50 or more employees.

Student training program
All companies based in Saudi Arabia with 25 or more employees are mandated to train Saudi national students as interns under the 'Saifi' Summer Training Program. The internship can take place anytime during the summer break. The targets for companies are determined based on the total number employees in the company.

Headcount	Number of students to be trained
25 - 500	4% of total headcount
501 - 3000	3% of total headcount
3001 and higher	2% of total headcount

Companies can comply with this requirement by either:

• Offering Internship opportunities to students within the company for summer training, or
• Offering training opportunities through an external certified training provider.

Wages and benefits
Salaries in the private sector are determined by the market based on the job category, the sector, and the internal compensation plan of a company. Wages are broken down to basic salary, housing allowance and transportation allowance, other allowances could be applied too. Unskilled workers may be provided with accommodation in lieu of a housing allowance.

In addition to wages, there are other mandatory employee benefits to be paid by the employer and include the following:

• Annual paid vacation (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, s/he will be entitled to 30 days paid annual vacation), compassionate leaves, study leaves, and sick leaves.
• Fully paid Maternity leave: A pregnant woman is entitled to one-month maternity leave before the delivery and six weeks after. An employer may not terminate a contract of a sick female employee during pregnancy or during her maternity leave.
• End of service benefits are due upon termination of the contract: the employee will be entitled to half a month's pay for each of the first five years of service, and one month's pay for each subsequent year. If the employee resigns, they will be entitled to (i) one-third of the end of service benefit if they spend a minimum of two years and up to five years in service, (ii) two-thirds of the end of service benefit if they spend five to ten years in service and (iii) the full end of service benefit if they spend more than ten years in service.
• Medical Insurance for employees and their dependents residing in Saudi Arabia (in accordance with the rules of the Council of Cooperative Health Insurance (CCHI)).
• Compensation packages for expatriate employees generally include provisions for annual leave tickets.

There is no compulsory annual bonus, but a bonus is paid by most companies.

"All companies based in Saudi Arabia with 25 or more employees are mandated to train Saudi national students as interns under the 'Saifi' Summer Training Program."

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 "authorized 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.

Payroll compliance
In 2013, the Ministry of Human Resources and Social Development (MHRSD) launched the Wage Protection System (WPS) as a mandatory requirement for all businesses in the private sector. This has now been incorporated into the "Mudad Business" platform. The system monitors payment of salaries to employees to ensure they are paid the amounts due and on time.

In addition, the MHRSD has incorporated broader regulation to include monitoring of:

• GOSI: to ensure that the salaries (e.g. basic and housing subject to GOSI contribution) reported to GOSI match the employment contract.
• GAZT: to use this information for tax purposes and compare the salaries as reported in WPS versus in tax returns.

Contract Authentication
Employers in Saudi Arabia are required to upload and update employment contracts through the contracts authentication service via Mudad Business portal to ensure compliance with labor regulations and avoid legal implications.

Labor Reforms Initiative (LRI)
On 14 March 2021, the Saudi Ministry of Human Resources and Social Development (MHRSD) implemented a series of labor reforms.

The reforms increase expatriate employee mobility by removing the requirement to obtain an employer consent and so making it easier for employees to transfer their employment from one company to another.

The reforms also allow expatiate employees to apply for and obtain exit/re-entry permits and the final exit permit, with a notification sent to the employer which does not require the employer's consent.

" On 14 March 2021, the Saudi Ministry of Human Resources and Social Development (MHRSD) implemented a series of labor reforms. "

These changes will require employers to revisit their strategies around compliance, retention, recruitment and policies relevant to managing the impacts of these reforms on their workforce.

It should be noted that these reforms are part of the National Transformation Program that is aimed at reforming the Saudi labor market in line with Vision 2030, and so further reforms are to be expected around visas and labor law.

Deloitte in Saudi Arabia – How can you benefit?

Deloitte Middle East (DME) is committed to providing client insight and delivering thought leadership to help our clients keep abreast of key developments in the tax landscape. Having been established in 1926, Deloitte Middle East is the longest standing professional services firm in the region. Deloitte's experts are dedicated to providing confidence in markets and finding innovative solutions that contribute to a stronger economy and healthier society. Enabled by a team of local experts based in KSA and a global network of valued services – built on decades of insight and experience – we can solve tough problems, advise you on the local market and assist you in establishing your business in KSA while providing a full suite of services and end-to-end solutions. The high quality and efficiency of Deloitte and Touche & Co. - Chartered Accountants' services have helped shape the business landscape of the Kingdom in the last half century.

Deloitte's Middle East practice has been awarded a Tier One ranking in tax services since 2010 by the International Tax Review's World Tax Awards. Top tier rankings are provided to firms that have "an international network and leading reputation" which is "reflected in the size and quality of transactions" in the relevant jurisdiction.

We would welcome the opportunity to discuss your needs further and provide you with a better understanding of the issues discussed in this material. Please do not hesitate to contact one of our specialists.

Want to do business in Saudi Arabia?

We are here to help.
Deloitte and Touche & Co. – Chartered Accountants

Al Khobar
ABT Building
Al Khobar, Saudi Arabia
Phone: +966 (0) 13 668 5700
Fax: +966 (0) 13 887 3931

Jeddah
40th Floor, The Headquarters Business
Park Tower
Corniche Road
Jeddah, Saudi Arabia
Phone: +966 (0) 12 578 1000
Fax: +966 (0) 12 578 1002

Riyadh
Prince Turki Bin Abdullah
Al-Saud Street, Sulaimania Area
Riyadh, Saudi Arabia
Phone: +966 (0) 11 282 8400
Fax: +966 (0) 11 282 8428

We welcome the opportunity to discuss your needs further and provide you with a better understanding of the issues discussed in this material. Please do not hesitate to contact one of our specialists.

The 'Doing business guide' series is supplemented by the Middle East Tax Handbook, which provides a summary of basic tax information in a country-by-country snapshot.

Your KSA Tax contacts

ME Tax Leader

Nauman Ahmed
nahmed@deloitte.com

Business Tax

Nasser AlSagga
nalsagga@deloitte.com

Farhan Farouk
ffarouk@deloitte.com

Kashif Jahangiri
kjahangiri@deloitte.com

Aamir Majeed
aamajeed@deloitte.com

Issa Ayash
iayash@deloitte.com

Syed M. Naqvi
smnaqvi@deloitte.com

Sajjadullah Khan
sajkhan@deloitte.com

Dinesh Khator
dikhator@deloitte.com

Mahmoud Azouz
mazouz@deloitte.com

Indirect Tax

Michael Camburn
mcamburn@deloitte.com

Maarten Schreuder
maaschreuder@deloitte.com

Owen Griffiths
ogriffiths@deloitte.com

Customs and Global Trade Advisory

Fernand Rutten
frutten@deloitte.com

Tax Management Consulting

Marjolein van Delft
marvandelft@deloitte.com

International and M&A Tax

Alex Law
alexlaw@deloitte.com

Vishal Sharma
vishalsharma@@deloitte.com

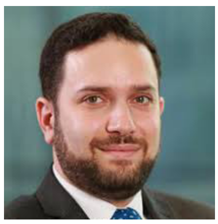
Business Process Solutions

Basit Hussain
bhussain@deloitte.com

Transfer Pricing

Mohamed Serokh
mserokh@deloitte.com

Global Employer Services



Hadi Allawi
hallawi@deloitte.com