Doing business guide
Understanding Saudi Arabia’s tax position
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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 (2016)</td>
<td>28.1 million</td>
</tr>
<tr>
<td>GDP (2016)</td>
<td>US $1,731 trillion</td>
</tr>
<tr>
<td>GDP growth (2016)</td>
<td>1.2%</td>
</tr>
<tr>
<td>Inflation (2016)</td>
<td>4.4%</td>
</tr>
<tr>
<td>Industrial production growth rate (2016E)</td>
<td>0.6%</td>
</tr>
<tr>
<td>Labor force (2016E)</td>
<td>12.02 million</td>
</tr>
<tr>
<td>Key industries</td>
<td>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</td>
</tr>
</tbody>
</table>

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


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.

- 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.

- 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 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 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 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

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

Real estate, hospitality and construction are the key industries in terms of opportunities 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)
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 an ‘under-formation’ 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
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).

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SAGIA’s Investors Service Center (ISC) (https://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 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.

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

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

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 cooperated speedily with the vast majority of transactions.
Choice of business entity and setting up a company

Principal business entities
Limited liability company (LLC), 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>Number</th>
<th>License Type</th>
<th>Minimum acceptable capital (SR)</th>
<th>Minimum Saudi participation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Service</td>
<td>*</td>
<td>-</td>
</tr>
<tr>
<td>02</td>
<td>Industrial</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td>03</td>
<td>Commercial **</td>
<td>26,666,667. Foreign capital shareholding not less than SR20,000,000 and partnership not more than 75%</td>
<td>25</td>
</tr>
<tr>
<td>04</td>
<td>Agricultural</td>
<td>25,000,000</td>
<td>-</td>
</tr>
<tr>
<td>05</td>
<td>Communications</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>06</td>
<td>Communications value added</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>07</td>
<td>Insurance</td>
<td>100,000,000</td>
<td>40</td>
</tr>
<tr>
<td>08</td>
<td>Reinsurance</td>
<td>200,000,000</td>
<td>40</td>
</tr>
<tr>
<td>09</td>
<td>Real estate financing</td>
<td>200,000,000</td>
<td>40</td>
</tr>
<tr>
<td>10</td>
<td>Real estate development</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>11</td>
<td>Management of construction projects, detailed engineering design and EPC contracts</td>
<td>-</td>
<td>25</td>
</tr>
</tbody>
</table>


* It remains generally SR500,000 for foreign-owned companies. There is no express requirement for a specific minimum capital requirement for Saudi-owned companies.

** Trading activity - per the decision No. 377 dated 13 June, 2016 (the “CM Decision”), the Saudi Arabian Council of Ministers approved criteria for the licensing of foreign companies desiring to engage in retail and wholesale trading in Saudi Arabia through local corporate entities that they fully own. Previously, foreign investment in the trading sector was limited to 75%. According to the CM Decision:
1. Licensing applicants must have a presence in at least three different regional or international markets.
2. The cash capital of the entity to be established locally must not be less than SR30 million.
3. Licensing applicants must commit to invest at least SR200 million within five years from having obtained a foreign investment license from the SAGIA. The cash capital may be counted within such an amount.
4. Licensing applicants must commit to realize the Saudization proportions imposed by the Ministry of Labor and Social Development and must formulate a durable plan to place Saudi nationals in managerial positions within the first five years.
5. Licensing applicants must commit to train at least 30% of their Saudi Arabian personnel each year.
6. Licensing applicants must commit to fulfill at least one of the following objectives: (a) to manufacture locally at least 30% of all locally-distributed products, (b) to direct at least 5% of all sales revenues towards local research and development programs, and/or (c) to establish a local logistical and distribution center and to offer after-sale services. An exemption may be obtained in respect of this requirement for licensing applicants that commit to invest more than SR300 million within five years from having obtained a foreign investment license.

The CM Decision authorizes SAGIA’s Management Board to grant exemptions, provided that exemptions are granted pursuant to clear, general, and unbiased criteria.

The CM Decision also requires SAGIA to assess the effectiveness of the above requirements, within the coming five years, and to propose any recommendations.

It is worthwhile to note that recently a foreign investor received a trading license allowing 100% ownership.
Specialized activities which require approval by other government agencies

<table>
<thead>
<tr>
<th>Number</th>
<th>Government agency</th>
<th>Issue of license</th>
<th>Activity requiring approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Ministry of Health</td>
<td>After approval</td>
<td>• Management and operation of a hospital and all healthcare services except those included in the negative list</td>
</tr>
<tr>
<td>02</td>
<td>Ministry of Petroleum and Mineral Resources</td>
<td>After approval</td>
<td>• Mineral exploration licenses (services)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Mineral exploitation and production licenses (industrial)</td>
</tr>
<tr>
<td>03</td>
<td>General Authority of Civil Aviation (GACIA)</td>
<td>After approval</td>
<td>• Cargo air transport</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Airline companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Aircraft maintenance training centers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Aviation training centers</td>
</tr>
<tr>
<td>04</td>
<td>Ministry of Education</td>
<td>After approval</td>
<td>• Management and operation of elementary, intermediary and high secondary schools for teaching in Arabic or any other language (the activity is currently suspended by the decision of the Council of Ministers)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Management and operation of institutes, colleges or universities for teaching and issuance of graduation certificates in Arabic or any other language</td>
</tr>
<tr>
<td>05</td>
<td>Capital Market Authority (CMA)</td>
<td>After approval</td>
<td>• Financial activities, such as financial advice, custody or safekeeping and underwriting, etc.</td>
</tr>
<tr>
<td>06</td>
<td>Saudi Arabian Monetary Agency (SAMA)</td>
<td>After approval</td>
<td>• Insurance, finance, leasing, banking, etc.</td>
</tr>
<tr>
<td>07</td>
<td>Ministry of Interior (MOI)</td>
<td>After approval</td>
<td>• Manufacture of civil explosives (deleted from the negative list)</td>
</tr>
<tr>
<td>08</td>
<td>Ministry of Defense or any military agency or government institution</td>
<td>After approval</td>
<td>• Temporary licenses for the performance of time-limited contracts</td>
</tr>
<tr>
<td>09</td>
<td>Higher Economic Council</td>
<td>After approval</td>
<td>• For derogation of any of the activities of the negative list</td>
</tr>
<tr>
<td>10</td>
<td>Saudi Food &amp; Drug Authority (SFDA)</td>
<td>Before approval</td>
<td>• Manufacture of human and animal drugs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td>• Manufacture of cosmetics</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Scientific and technical offices</td>
</tr>
<tr>
<td>11</td>
<td>General Organization for Technical Education &amp; Vocational Training</td>
<td>Before approval</td>
<td>• Management of higher institutes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Transport</td>
<td>Before approval</td>
<td>• Maritime transport (shipping) intermediaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td>• Management and operation of vessel fleets flying the Saudi flag or foreign flags</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Service centers on the highways</td>
</tr>
<tr>
<td>13</td>
<td>Saudi Standards, Metrology and Quality Organization (SASO) &amp; Ministry of Trade and Industry</td>
<td>Before approval</td>
<td>• Quality assurance laboratories</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Ministry of Agriculture</td>
<td>Before approval</td>
<td>• Poultry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td>• Livestock breeding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Fish and shrimp farming</td>
</tr>
<tr>
<td>15</td>
<td>Supreme Commission for Tourism and Antiquities (SCTA)</td>
<td>Before approval</td>
<td>• Travel and tourism agencies, except for ticket issuance by GACIA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(restricted activity)</td>
<td>• Management and operation of hotels</td>
</tr>
</tbody>
</table>
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)
  - 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

- Saudi Organization for Certified Public Accountants (SOCPA) standards are being followed. If an issue is not covered by SOCPA standards, International Financial Reporting Standards (IFRS) are followed (and are used by banks). However, Saudi Arabia is transitioning to IFRS. Listed companies (other than banks and insurance companies) are required to adopt IFRS as of December 31, 2017, with January 1, 2016 being the transition date for IFRS convergence (the beginning of the earliest comparative year); other entities are required to adopt IFRS as of December 31, 2018, with January 1, 2017 being the transition date for IFRS convergence.

- 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.

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### Key differences between foreign branch, LLC and JSC

<table>
<thead>
<tr>
<th>Branch of foreign company</th>
<th>LLC</th>
<th>JSC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum capital requirement</strong></td>
<td>Normally SR500,000 (but can be lower or higher depending upon the nature of activity).</td>
<td>SR500,000.</td>
</tr>
<tr>
<td><strong>Minimum shareholder</strong></td>
<td>Not applicable.</td>
<td>One shareholder.</td>
</tr>
<tr>
<td>If losses exceed 50% of capital</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.</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>
</tr>
</tbody>
</table>
Saudi Arabia levies corporate income tax on non-resident share in a resident corporation; the share of Saudi and GCC nationals are subject only to a religious levy called Zakat.

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, 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 local regulations, the accounting treatment for Zakat and income tax in joint venture companies is unique. The balance of the retained earnings at the year-end cannot necessarily be apportioned to the shareholders in proportion to their shareholding. This is due to the provision of Zakat and income tax. Zakat is charged to the Saudi shareholder’s share of retained earnings, and income tax is charged to the foreign shareholder’s share of retained earnings, unless the partners formally decide otherwise.

Summary of the Saudi Arabian income tax law 2004

The Saudi tax regulations came into effect from July 30, 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.

The Saudi tax regulations came into effect from July 30, 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.

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.

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, or 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 derived by a non-resident party from a contract for supply of goods from abroad is not considered as a Saudi-source income unless it includes associated work in Saudi Arabia.
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, or
  - 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.
- 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 tax payer is a member of a group of companies or a branch of a foreign company that uses a different financial year.

**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
  - Finance records
  - Monthly payments summary

- 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

**Accelerated tax payment procedures**
- 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 SR20,000, 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.
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>

### 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>
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 also are 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

Saudi tax law does not contain any detailed transfer pricing regulations or guidelines. However, related party transactions and the applicability of the arm’s length principle are covered under...
certain general anti-avoidance provisions, and the GAZT may challenge any transaction as follows:

- Disregard a transaction that has no economic effect;
- Reclassify a transaction whose form does not reflect its substance;
- Reallocate income and expenses between related parties or parties under common control to reflect the income that would have resulted from a transaction between independent and unrelated parties; and
- Estimate the appropriate tax base and impose penalties.

The GAZT is presently working on transfer pricing legislation and as a first step to provide legal cover in article 10 (11) of the tax by-laws, which was amended in April 2014. We expect the transfer pricing rules to be in line with OECD principles and to be announced in due course.

**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, Syria, Romania, Czech Republic, Tunisia, Malta, Azerbaijan, Hungary, Kazakhstan, Luxembourg, Tajikistan, Algeria, Ethiopia, Macedonia, Portugal, Sweden, Venezuela, Kyrgyzstan, Turkmenistan and Egypt.

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 in KSA 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% 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 new 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 GAZT’s current practices are more or less compiled in the regulations.

**VAT**

The six member states of the GCC all intend to introduce VAT, at a rate of 5%, from January 1, 2018 onwards. This is to be governed by a Framework Agreement at the GCC level which applies to all GCC member states, and local VAT laws and regulations in each country.

The GCC Framework has been published, and GAZT issued the final VAT law on July 28, 2017. Some of the main features are as follows:

- VAT is applicable at the rate at 5% from January 1, 2018 on all supplies of goods and services in Saudi Arabia, and all imports of goods into Saudi Arabia from outside of the GCC – subject to limited exceptions.

- The GCC’s Framework Agreement set some mandatory areas for zero-rating in all six member states (such as exports of goods and services outside the GCC, medicines and investment metals). Individual countries are however able to elect whether exemptions or zero-rates apply in some other sectors. The regulations published by GAZT reflect that Saudi Arabia has chosen a broad tax base and VAT is to be applied to almost all supplies of goods or services, subject to limited exceptions. The VAT treatment of different type of supplies (signaled by the draft regulations and correct at the time of publication) are as follows:
  - Financial services – fee-based services are taxable and margin-based services are exempt
  - Insurance - all non-life insurance is taxable and life insurance is exempt
  - Food items - all taxable
  - Education - taxable
  - Health - taxable
  - Real estate - all real estate is taxable except residential rental which is exempt
  - Local transport - taxable

**Zakat**

Zakat is payable by Saudi (and GCC national) shareholders in their share of the Zakat base in a company.
VAT must be charged on supplies made after January 1, 2018 and tax invoices must be issued for all taxable supplies, showing a range of mandatory information.

If an invoice is issued or a payment is made before the implementation or registration date but the actual supply of the goods and services is on or after the implementation or registration date, the VAT will be considered to be due.

Any VAT deduction requires the purchaser to hold a copy of a valid tax invoice issued by the supplier.

Deductions of VAT will not be permitted for entertaining, catering, and purchase or expenditure on ‘restricted’ motor cars – i.e. those available for any private use.

Registration and VAT administration

The standard VAT registration threshold is an annual turnover of SR375,000; businesses with an annual turnover less than SR1,000,000 are however initially exempt from the mandatory registration requirement until January 1, 2019, giving the smallest businesses more time to become ready for the new rules.

Businesses who fail to apply for the registration within the specified period will be fined SR10,000.

Each business will need to calculate the net VAT due over monthly or quarterly tax periods, with electronic submission of the VAT return and the payment due for that period required by the end of the following month.

VAT reporting can be carried out on a ‘cash accounting’ basis for small businesses with turnover of less than SR5,000,000.

All businesses with annual turnover less than SR40,000,000 may use a quarterly filing period, significantly reducing the number of VAT returns required per year and extending the time for making payment of VAT.

A formal VAT assessment may be issued by GAZT at any time up to five full calendar years following any tax period. In certain cases, this can be extended to 20 years.

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 recently 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 duty increase is effective from January 2, 2017. The rate increase is significant, with new rates of up to 25% payable on the customs value.

A full list of impacted HS codes, description (in Arabic) and new duty rates can be found on the KSA Ministry of Finance website (https://www.customs.gov.sa/sites/sc/en/SCTTariffs).

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.

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
The 2017 Unified Customs Tariff has been finalized by the customs authorities of the GCC for the region. We understand from informal discussions with the customs authorities that the updated GCC Unified Customs Tariff has been in force since January 1, 2017. An official announcement has yet to be made, and is expected to take place in due course.

We understand the updated tariff includes amended product descriptions and additional HS codes. Importers should review their import product portfolio in relation to the updated tariff and ensure the new 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 law effective from June 11, 2017.

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Doing business guide | Understanding Saudi Arabia’s tax position

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.

<table>
<thead>
<tr>
<th></th>
<th>Annuity branch</th>
<th>Occupational hazards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer’s share</td>
<td>Employee’s share</td>
</tr>
<tr>
<td>Saudi nationals</td>
<td>22%</td>
<td>10%</td>
</tr>
<tr>
<td>Foreign employees</td>
<td>2%</td>
<td>-</td>
</tr>
</tbody>
</table>

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.

Labor relations and workforce

Visa and entry requirements

- All visitors require visas except for the following:
  - Nationals of the GCC countries.
  - 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 Arabian Ministry of Foreign Affairs.
  - Business visitors from countries outside the GCC must obtain a visitor’s visa. The visa is contingent on a letter of invitation from a Saudi business or an official body such as a regional chamber of commerce.
Presently the visa fee has been increased in all categories. The nationality-wide visitor’s fee is as follows:

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Single entry (SR)</th>
<th>Multiple entry for 6 months (SR)</th>
<th>Multiple entry for 1 year (SR)</th>
<th>Multiple entry for 2 years (SR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA (multiple entry for 5 years)</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>UK</td>
<td>510</td>
<td>510</td>
<td>1,950</td>
<td>1,950</td>
</tr>
<tr>
<td>Schengen countries</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Turkey</td>
<td>225</td>
<td>225</td>
<td>5,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Other nationalities</td>
<td>2,000</td>
<td>3,000</td>
<td>5,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

**Working hours**

As per the Saudi labor law amended in October 2015, an employee or worker in Saudi Arabia should not work more than eight hours in a single day, if the employer decides to readjust the working hours due to any reason then it should not exceed more than 48 hours in a week. During Ramadan, working hours for Muslims should not exceed six hours in a single day or 36 hours in a week. Government offices are closed all day Friday and Saturday. Overtime is typically paid at time and a half. The labor regulations outline provisions for overtime work.

**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 half a month of pay for each of the first five years of service, and one month's pay for each subsequent year. If the employee resigns, he 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.

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.

**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.

**Termination of employment**

- Saudi labor regulations permit dismissal at the employer’s discretion during a three-month probationary period. An employer who terminates an employee after three months of work should not meet any regulatory resistance if procedures are followed and the cause is legitimate.

- Contracts for specified periods may not be terminated unless there is cause, and an employee may challenge premature termination at the Labor Office. However, an employer should not encounter any difficulties in non-renewing employment of an employee at the end of a contract. An unspecified-term contract may be ended with 30 days’ notice for monthly workers and with 15 days’ notice for other workers.

- On termination, the employee is entitled to the termination benefit as per the labor law and a service certificate from the employer specifying the period of service and the salary.

**Employment of foreigners**

- Saudi Arabia is dependent on foreign labor. Nevertheless, the number of Saudis entering the labor force is increasing every year and the public sector’s traditional capacity to absorb them is eroding. Hence the government is increasingly determined to hire more Saudi nationals instead of foreign workers wherever possible.

- The Ministry of Labor developed a database to monitor the length of expatriate workers’ work permits and contracts to ensure that qualified Saudis have the option to apply for the post before an expatriate’s permit is renewed.

- The latest Saudization initiative was launched under the auspices of the Ministry of Labor (the Nitaqat program). Under the program, Saudi nationals comprise 30% of the workforce of every Saudi company which employs more than twenty (20) employees, subject to certain limited exceptions. The companies are categorized according to a basic color scheme: red, yellow, green and premium. In summary, companies classified as green or premium are fulfilling Ministry of Labor sanctioned Saudization requirements and will receive specified benefits. On the other hand, those companies classified as red or yellow are non-compliant and will be subject to various sanctions.

- Saudi employees in the private sector receiving salaries of SR1,500 are considered as “half-workers” in their companies’ Saudization records in the Nitaqat system, while Saudis receiving less than that amount are not included at all when calculating their firm’s Saudization percentage.

Saudi employees in the private sector receiving salaries of SR1,500 are considered as “half-workers” in their companies’ Saudization records in the Nitaqat system, while Saudis receiving less than that amount are not included at all when calculating their firm’s Saudization percentage.
However, in the recently announced 2017 fiscal budget, these amounts have been increased. For companies in which expats do not exceed the number of Saudi or GCC employees, the fee will no longer be waived, but will be charged at a discounted rate.

- The dependent levy of SR1,200 per annum for each expat dependent residing in the Kingdom is effect from July 2017. This amount would increase to SR2,400 per annum per dependent with effect from July 2018 and SR3,600 per annum per dependent with effect from July 2019 and SR4,800 per annum per dependent with effect from July 2020.

- To increase the cost of employing expatriate staff over Saudi nationals, the government has steadily raised the charge for work permits and other documentation. Work-permit fees (renewable every one to two years, for certain categories of employment, and payable by the employer) now stand at SR2,000 in addition to an extra fee of SR1,000 for any expatriate wanting to change jobs. Foreign workers must pay for exit and re-entry visa fees, at the rate of SR200 for the first two months and thereafter SR100 for each additional month.

- Expatriate workers need an entry work visa to work in Saudi Arabia. The prospective employer applies for the permit, which is issued by the Saudi embassy in the expatriate worker’s home country. This also serves as a residence permit for one month. To retain the employee, the employer must apply for a formal work permit before the end of the month. The formal permit is necessary to re-authorize the residence permit. The Ministry of Labor issues work permits, but the Ministry of Interior controls entry visas and residence permits. There are various private-sector “enabling” agencies that can complete formalities faster than firms can themselves.

- In the 2017 federal budget, the government plans to introduce an “expat levy” only if a company’s expat employees exceed the number of Saudi employees.

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Doing business guide | Understanding Saudi Arabia's tax position
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