Doing Business in the Kingdom of Saudi Arabia

PKF

Contents

"With its rich heritage, vibrant culture and pivotal geographic location, Saudi Arabia has emerged as a key hub for international business and investment. Over recent years, the Kingdom has accelerated its economic evolution, guided by the ambitious Vision 2030 initiative. This forward-looking strategy aims to diversify the national economy through sweeping reforms – streamlining regulations, attracting foreign capital and advancing privatisation efforts. These initiatives are reshaping industries and unlocking new opportunities across the board.

This guide is designed to equip investors, entrepreneurs and business leaders with practical insights into the Saudi business environment. Whether you're exploring new ventures or expanding existing operations, we hope this resource proves both informative and actionable. Our team of experts is here to support you every step of the way."

Ibrahim Al-Bassam
Managing Partner

Welcome to Saudi Arabia

PKF Al Bassam Chartered Accountants is a leading audit and financial consulting firm in the Kingdom, and part of the global PKF network, which operates in over 150 countries. The firm offers a wide range of services, including audit and assurance, advisory, internal audit and risk management, zakat and income tax, IT audit and consulting, and deals, in addition to providing tailored solutions for businesses across various sectors.

PKF member firms serve clients across a range of industries, offering services tailored to meet the specific needs of each sector. With a commitment to excellence, the PKF network adheres to high standards of professional practice and ethical conduct. The network's global reach allows it to deliver local expertise with the added benefit of international insights, making it a trusted advisor for businesses and organisations of all sizes.

PKF's client base includes both large multinational corporations and small to medium-sized enterprises, and the network's firms are known for their strong relationships with clients, personalised service and ability to help businesses navigate complex financial and regulatory environments.

The network's members are united by shared values, a collaborative approach and a commitment to helping clients succeed in an increasingly globalised and competitive marketplace. With a firm focus on innovation, PKF continuously adapts to changes in the business environment to meet evolving client needs.

Economic and Demographic Overview

Overview

Saudi Arabia is named after the ruling Al Saud family, which emerged as the ruling dynasty in the 18th century and continues to hold a monopoly of power.

Saudi Arabia has been the world's leading oil producer and exporter and its 267 billion barrels of proven reserves (nearly 16% of the world's reserves at year end 2015) are sufficient for 61 years' production at about 12 million barrels per day. As a result of the dominant oil sector, economic performance has been dictated by the fortunes of the oil market. In the 1990s, oil prices and government revenues collapsed, but then a combination of high oil prices and rising production and exports led to a surge in revenues, especially from 2003. The Saudi Arabian economy came close to a recession again in 2009 due to the global financial crisis but then grew by about 7% per year from 2010 to 2012. The economy has slowed since due to plunging oil prices from June 2014 and the implementation of fiscal austerity. Inflation has been traditionally low but increased to more than 4% in 2007 and then 11% in mid-2008, amid concerns surrounding the impact of the currency peg to the US dollar and rapidly rising rents and food prices. The fall in rental rates in 2019 caused deflation, but the tripling of VAT (first introduced in 2018) to 15% in 2020 pushed inflation back into positive territory.

Economic Structure

The economy in Saudi Arabia is dominated by the oil sector, which accounts for about 40% of GDP, 90% of government revenue and more than 80% of exports. Fiscal discipline is slipping and failing to embrace new technologies. The government budget balance in relation to GDP remained in deficit in 2024 at approximately 2.84%, following a deficit of 2% in 2023. Although lower oil prices will continue to put some pressure on the government balance, increasing non-oil sources and improving efficiencies in tax collection will help boost government revenues. We think Saudi Arabia will continue to use higher revenues to replenish government funds after years in deficit, rather than to boost spending. But failure to embrace new fiscal technologies, such as e-invoicing, could limit additional revenue generation and the success of meeting the Vision 2030 targets.

New OPEC+ Agreements

The OPEC+ alliance's production cuts were extended by a further one million barrels per day until the end of December 2024 to shore up prices in response to expected weaker global demand. Any new agreement to boost oil supply at a rate faster than previously agreed could put spending plans, including those to support Vision 2030-related projects, under pressure if prices fall significantly.

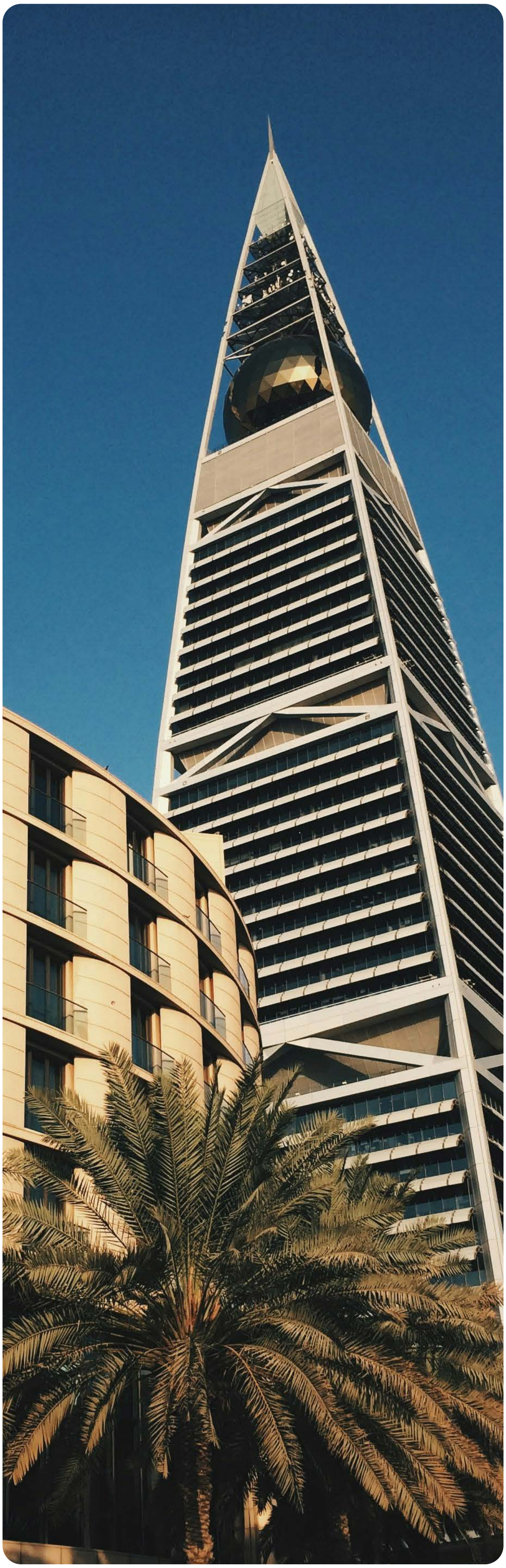
Economic Diversification and Structural Reforms

The working-age population is growing by 400,000 people a year, and the traditional engine of job creation – the public sector – won't be able to absorb the bulk of young Saudis entering the labour force. Difficult decisions will need to be taken to encourage private sector firms to hire Saudis and to incentivise locals to compete with expat workers for jobs.

Industrial sector development has been based on the ample availability of hydrocarbon resources and strongly influenced by developments in the oil industry, with petroleum refining accounting for 30% of manufacturing output. The petrochemicals sector relies on gas for its feedstock, most of which is still associated with crude oil output. Oil revenue has been used to develop agriculture and other industries, including iron and steel, construction materials, food processing, engineering and chemicals.

Economic Policy

The plunge in oil prices from US$115 per barrel in June 2014 and the prospect of oil prices staying at much lower levels of US$40–$70 per barrel on a prolonged basis has increased the urgency for the authorities to accelerate post-oil plans to implement genuine diversification as well as fiscal consolidation. Vision 2030 represents the Kingdom's plans to do this. The plans are comprehensive and ambitious. They include transforming the state oil producer, Saudi Aramco, into a global industrial conglomerate; the creation of a new sovereign wealth fund, which is likely to become the largest in the world; raising the private sector contribution to GDP from 40% to 65% (including implementing a comprehensive privatisation programme) by 2030; developing the mining, non-oil manufacturing, tourism and defence industries; increasing foreign direct investment; increasing the role of SMEs; orientating education and vocational training towards skills needed by the private sector; and increasing women's participation in the workforce. The challenges are substantial, covering economic, political, social and institutional hurdles. One notable challenge is to ensure that non-oil exports are competitive, raising the issue of whether to maintain the dollar peg at SAR 3.75, which has served the country well in providing monetary policy credibility and delivering low inflation and low inflation volatility.



Investment Policies Overview

With a rapidly growing economy and significant investments in its development, Saudi Arabia is drawing substantial foreign investments. The country has also actively promoted itself as an open and business-friendly destination.

Foreign Direct Investment

Saudi Arabia is the leading destination for foreign direct investment (FDI) in the Arab world. It attracted SAR 22.2 billion ($5.9 billion) in net FDI in Q1 2025, up from SAR 15.5 billion the previous year. This represents a 44% year-on-year increase, driven by substantial inward flows and a sharp decline in outward capital investments. Inward FDI climbed 24% year-on-year to SAR 24 billion and outward FDI dropped 54%, signalling a renewed domestic focus. While quarter-on-quarter FDI dipped 7%, the broader trend shows increasing foreign investor confidence. This performance places Saudi Arabia firmly in the global spotlight, ranking 13th on Kearney's 2025 FDI Confidence Index. The United States and China are the primary sources of FDI in the country.

Several interlocking forces have converged to make Saudi Arabia a more attractive destination for foreign capital in 2025:

- **Vision 2030 strategy execution:** At the core lies Vision 2030, Saudi Arabia's ambitious blueprint to diversify away from oil dependency. FDI plays a central role in funding megaprojects and scaling new sectors such as tourism (e.g. Red Sea Project, Diriyah Gate), entertainment (e.g. Riyadh Season, Qiddiya) and technology and AI (e.g. investments into Humain, NEOM Tech).
- **Policy reforms that favour investors:** Saudi regulators have introduced sweeping changes to attract and retain foreign businesses, including:
  - Regional headquarters mandate: Multinationals seeking government contracts must now establish regional headquarters within the Kingdom.
  - Legal reforms: Updates to investment and company laws have simplified structuring and ownership rules.
  - Sectoral incentives: Long-term tax exemptions, land grants and funding access in priority industries.

In general, foreign investment is allowed across all sectors of the Saudi economy, with only a few exceptions listed on a 'negative list' outlined in the Foreign Investment Law and its executive rules.

Foreign Investment Incentives and Restrictions

Since the enactment of the Foreign Investment Act (FIA) in April 2000 by the Supreme Economic Council, Saudi Arabia has created a broad framework that allows foreign investors to engage in ventures within the Kingdom, including minority, majority or fully foreign-owned businesses. In February 2001, the Council introduced a 'negative list' that identified sectors where majority foreign ownership is restricted, thus clarifying the areas where foreign investment is allowed. This list, as secondary legislation to the FIA, is revised annually and is intended to be interpreted with flexibility. By default, sectors not on the list are open to majority foreign ownership.

In August 2002, the original list was replaced by a shorter, revised list of 15 sectors that are restricted from foreign investment, down from the initial 22. This list includes industries such as oil exploration, drilling and production, as well as real estate brokerage and land and air transport. On the other hand, sectors like insurance, power transmission and distribution, education and pipelines are now open to foreign investment.

The FIA is designed to treat foreign businesses equitably, guaranteeing that foreign ventures will benefit from the same incentives and protections as domestic ones. According to article 5 of the FIA's implementing regulations, foreign businesses are entitled to full repatriation of profits and capital. Additionally, assets owned by foreign investors can only be expropriated under exceptional circumstances, and only with full compensation. The FIA also permits foreign ventures to buy property and sponsor their own employees, a privilege that was previously unavailable to fully foreign-owned companies.

The FIA established the Ministry of Investment of Saudi Arabia (MISA), which is responsible for approving foreign investment projects. MISA's role includes regulating these investments to ensure they align with Saudi Arabia's national interests and creating detailed legislation to implement the FIA's framework. MISA's main focus is to facilitate and encourage investment, both local and foreign.

MISA's **Investors Service Centre (ISC)** serves as a centralised platform to streamline the investment process, reducing bureaucratic steps. The ISC is divided into three units:

- **Investors Service Unit:** Ensures that all initial approval forms are completed and that documentation is properly managed.
- **Licence Follow-up Unit:** Reviews investment applications, addresses any deficiencies, collects required fees and registers new ventures.
- **Government Relations Unit:** Assists investors by facilitating connections with other government entities to remove obstacles that could hinder the licensing process. The ISC collaborates with representatives from nine government ministries.

In the petrochemicals sector, which is not on the negative list, the Saudi government has actively sought foreign investment, particularly in industrial cities such as Jubail and Yanbu. The Kingdom offers substantial incentives to foreign companies willing to invest in this sector. However, before the enactment of the FIA, fully foreign-owned operations did not have access to the same tax benefits, funding and incentives that joint ventures did. Despite improvements under the FIA, fully foreign-owned companies remain less common in Saudi Arabia.

Financial Incentives

Investors have the ability to carry forward tax losses indefinitely on their balance sheets, subject to rules on ownership changes and maintaining the same business activity.

Foreign investors can benefit from a variety of financial support programmes, including:

- **Arab Fund for Economic and Social Development (AFESD):** Provides financing for economic and social development projects across Arab countries.
- **Arab Monetary Fund:** Supports the development of Arab financial markets, facilitates trade among member states and offers investment advice to its members.
- **Arab Trade Financing Programme:** Offers medium and long-term loans for individuals and organisations involved in private and commercial trade.

- **Inter-Arab Investment Guarantee Corporation:** Provides insurance coverage for investments and export credits, protecting against both commercial and non-commercial risks.
- **Islamic Development Bank (IDB):** Participates in equity capital investments and grants loans for productive projects, while also accepting deposits to mobilise financial resources through Shari'a-compliant means.
- **Saudi Industrial Development Fund (SIDF):** Supports industrial and economic development in Saudi Arabia by providing financing aligned with national strategies.

Regional Incentive Policies

Members of the GCC (Gulf Cooperation Council) enjoy various privileges in terms of trade and investment within the region. Saudi Arabia has entered numerous trade and economic agreements with GCC and Arab League countries, including the integrated statutes regulating foreign investment in the GCC. However, to qualify for these privileges, a company must be considered a GCC national entity, meaning that it must be fully owned (100%) by GCC nationals.

Anti-Trust/Competition Laws

Saudi Arabia enforces strict competition laws that businesses should consider when setting pricing policies. The country's Competition Law was established by Royal Decree No. M/25 on 4/5/1425H (Hijri calendar) (22 June 2004 in the Gregorian calendar).

The Competition Law has a broad application, covering all plants, establishments, companies and associations involved in commercial, agricultural, industrial or service activities, as well as buying and selling goods or services in the Saudi markets (referred to as 'Establishments'), regardless of whether they are physically based in Saudi Arabia. However, it is important to note that the Competition Law does not apply to public corporations or fully state-owned corporations.

The law created an independent entity called the Council of Competition Protection (the 'Competition Council'), which is responsible for overseeing and implementing the law. The Council's duties include reviewing and approving mergers, acquisitions or any consolidation of management that could lead to a dominant market position.

The Competition Law prohibits any practices, agreements or contracts – whether written, verbal, express or implied – between competing or potentially competing Establishments, where the intent or effect is to restrict trade or reduce competition. Additionally, any Establishment or group of Establishments with the ability to influence the market price of a product or service through control of a significant portion of the market demand is prohibited from engaging in practices that limit competition.

Entering the Saudi Market

Entering the Saudi Arabian market can be an attractive opportunity for businesses due to the Kingdom's large economy, strategic location and ambitious plans for diversification under Vision 2030. However, it's important to understand the key steps and considerations when establishing a presence in the Kingdom.

Forms of Business Organisations

Limited Liability Company

A Saudi limited liability company (LLC) is a private business structure requiring at least two partners (shareholders), with a maximum of 50 allowed. Each partner's financial liability is limited to their invested capital. The minimum required capital is SAR 500,000, divided into equal value shares that cannot be issued as negotiable warrants. However, the Saudi Arabian General Investment Authority (SAGIA) may impose higher capital thresholds for foreign investors based on the industry.

Ownership rules vary by sector: foreign investors can fully own certain businesses (like services) but may face restrictions in others (e.g. trading companies, capped at 75% foreign ownership). Management can include one or more directors, with no Saudi nationality requirement.

Additionally, shareholder agreements are valid if they comply with Shari'a law and the Companies Law. If the LLC has over 20 shareholders, a supervisory board of at least three members is mandatory. Transferring shares requires approval from SAGIA and the Ministry of Commerce and Industry (MOCI), and existing partners must be given priority over third-party buyers.

Joint Stock Company

A joint stock company (JSC) must have five or more shareholders, with each liable only up to the value of their shares. The company's capital is divided into equal, negotiable shares, each with a minimum par value of SAR 10. The required capital is at least SAR 2 million, but this rises to SAR 10 million if shares are offered to the public. At incorporation, the paid-up capital must be at least half of the authorised capital.

Certain industries such as mining, public utilities, banking and finance require royal decree approval before establishment.

The company is managed by a board of directors, appointed by shareholders, with at least three members. Each director must hold a minimum of 200 shares in the company.

Branches of Foreign Corporations

Branch offices in Saudi Arabia allow foreign companies to conduct trading activities, with the parent company bearing full liability for all operations. The minimum capital requirement for such branches is SAR 500,000, though temporary branches, set up for government projects, are exempt from this requirement.

Establishing a branch requires a licence from SAGIA, and the office must comply with the Foreign Investment Law and MOCI regulations.

This structure enables foreign businesses to operate in Saudi Arabia while ensuring legal and financial accountability rests with the parent company.

Partnerships

A partnership in Saudi Arabia can be either a general partnership or a limited partnership. In a general partnership, all partners have unlimited liability, whereas in a limited partnership, liability is limited for certain partners. Partnerships are more commonly used for smaller, less complex businesses.

Starting a Business

The MOCI in Saudi Arabia has streamlined the process of starting a business as part of the 2020 National Transformation Program and the Kingdom's Vision 2030. Investors looking to start a business in Saudi Arabia must follow these four steps:

1. **Submit the corporate founding contract: I**nvestors must electronically submit their corporate founding contract to the notary public (no in-person involvement is required), except for joint stock companies.
2. **Authenticate the corporate founding contract:** The notary public, without requiring a prior appointment, or an authorised authenticator will authenticate the corporate founding contract. Payment for the full bill (including commercial registration (CR), Chamber of Commerce subscription and the electronic publishing fee for the contract) must be made through the SADAD e-payment system. After payment, the electronic CR, Chamber of Commerce subscription, Ministry of Labour file opening, zakat registration and general authority for zakat and income registration will all be completed in one step via a consolidated e-portal, with no human intervention. Finally, the corporate contract will be published in the 'Amali' e-newspaper.
3. **Obtain an instant electronic licence:** An immediate electronic licence will be issued through the 'Baladi' e-portal, which is managed by the Ministry of Municipal and Rural Affairs. Registration with the national postal system (Wasel) will also be completed automatically. Electronic services can be accessed on the business e-portal.
4. **For non-residents:** Any non-resident wishing to establish a branch or LLC in Saudi Arabia must first obtain an investment licence from the Ministry of Investment of Saudi Arabia (MISA) before proceeding with the above steps.

The entire process may take approximately three to four months to obtain the CR from the MOCI.

Official Language

The official language of Saudi Arabia is Arabic. Therefore, all documents must first be translated into Arabic by a certified translator before being submitted to the relevant government authorities. This is a crucial step for ensuring compliance with local regulations and for the processing of any official paperwork.

Accounting Principles/Financial Statements

Since 2018, all financial statements in Saudi Arabia are prepared in accordance with international financial reporting standards (IFRS), as adopted in the country, along with other relevant standards and pronouncements endorsed by the Saudi Organisation for Certified Public Accountants (SOCPA).

Audited financial statements must be submitted to the MOCI through their web portal within four months following the end of the financial year.

Saudi Arabia's Tax System: A Snapshot

Much like its Gulf neighbours, Saudi Arabia taxes only the foreign portion of a company's profits. When a foreign shareholder holds equity in a Saudi resident business, their share of income is taxed under the corporate income tax regime. On the other hand, Saudi and GCC nationals are exempt from income tax and are instead subject to zakat – a religious-based contribution calculated on net equity.

In partnerships that involve both local/GCC and foreign stakeholders, tax treatment is split: foreign investors pay income tax, while Saudi/GCC partners contribute zakat on their ownership share.

Key Developments and Tax Rates

Saudi Arabia introduced a standard 20% corporate income tax rate through legislation passed on 12 January 2004, with accompanying executive regulations released in August of the same year. These rules apply to fiscal years starting on or after 30 July 2004.

However, not all industries are taxed equally. Specific sectors – especially those linked to natural resources – face elevated tax burdens:

- Natural gas activities are taxed at a flat 20%.
- Oil and hydrocarbon operations are taxed at progressive rates, from 50% to 85%, depending on capital intensity.

Benefits for LLCs and JSCs

Companies formed as limited liability companies (LLCs) or joint stock companies (JSCs) gain several operational advantages:

- They can establish multiple branches across the Kingdom.
- Filing is simplified with a single unified tax return, assuming all branches are part of the same legal entity.

Still, it's worth noting that the Zakat, Tax and Customs Authority (ZATCA) pays close attention to internal charges and reported expenses for these entities – particularly in the case of foreign-owned branches.

Tax Treatment for Foreign Ownership

Foreign investors in Saudi-based entities should expect:

- a 20% corporate income tax on their share of taxable profits; and
- an additional 5% withholding tax (WHT) on dividends paid to non-resident shareholders, including those from other GCC states.

Meanwhile, Saudi and GCC shareholders are not taxed on income, but instead pay zakat.

Since 1 January 2019, zakat has been calculated at a rate of 2.5%, applied to the greater of:

- the zakat base (determined using the balance sheet method); or
- net adjusted profit, using the Hijri calendar year.

For companies that follow the Gregorian calendar, the applicable zakat rate on the zakat base is 2.577683%. The zakat base is generally calculated using a balance sheet approach, which includes:

- the Saudi shareholder's share of equity; plus
- long-term liabilities; minus
- fixed assets.

Overview of Saudi Arabia's 2004 Income Tax Law

Saudi Arabia's modern tax framework was officially enacted on 30 July 2004, introducing clearer guidelines and codifying many previous informal practices. Prior to this law, the tax landscape was largely shaped by precedent and administrative practices rather than a structured code.

Though more formalised, the current law still allows for significant interpretation, and final determinations often depend on ZATCA's internal practices and how disputes are handled in court.

Notably, ZATCA takes a 'substance-over-form' approach, meaning it can look beyond legal ownership structures to identify the ultimate beneficial owners by tracing the full chain of ownership.

Withholding Tax

In addition to corporate income tax and zakat, Saudi Arabia applies withholding tax (WHT) on certain payments made to non-residents from Saudi-based (in-Kingdom) sources. The WHT rates vary depending on:

- the type of payment;
- where the service is performed; and
- the nature of the relationship with the non-resident.

WHT rates range from 5% to 20%.

Non-residents are subject to WHT on any amounts received from sources within the Kingdom. The WHT is deducted from the gross amount at the following rates:

Nature of payment	WHT rate
Management fees	20%
Royalties	15%
Dividends	5%
Technical and consulting services and international telecommunication services (related and unrelated parties)	5%
Air tickets, air freight and maritime freight for international travel departing from Saudi Arabia	5%
Rent	5%
Interest on loans, insurance and reinsurance premiums	5%
Any other payments	15%

Residency Rules (Introduced in 2004)

The 2004 law also introduced clear residency criteria, which are essential for determining tax obligations, especially for WHT purposes.

For Individuals

A person is considered resident if they either:

- have a permanent home in Saudi Arabia and are physically present for at least 30 days (in total, even non-consecutively) during the tax year; or
- stay in the Kingdom for 183 days or more (consecutively or not) within a tax year, even without a permanent residence.

For Companies

A company is treated as resident if:

- it is incorporated under Saudi company law; or
- it has its head office or central management in the Kingdom.

Related Party Concept

The law defines 'related parties' for tax purposes, establishing that entities under common ownership or control (50% or more) are treated as related. This is crucial for determining transfer pricing and tax liability.

The transfer pricing (TP) regulations further broaden this definition by incorporating 'effective control', expanding the scope beyond just ownership and formal control.

Determining Source of Income

Income is classified as Saudi-sourced if it originates from:

- business operations conducted within Saudi Arabia;
- management or consulting fees paid by Saudi resident companies;
- service payments made by Saudi entities, regardless of whether services were rendered fully or partially in the Kingdom; or
- intra-group service payments from a Saudi entity to a foreign head office or affiliate.

A full list of qualifying income types is outlined in the tax law.

Import of Goods and Associated Work

- Payments to non-residents for importing goods alone are not subject to WHT, as this income is not considered Saudi-sourced.
- However, if the import contract includes services performed within the Kingdom – such as installation, training or transport – that part is treated as Saudi-sourced and is taxable.

If the contract doesn't specify the value of in-Kingdom services separately, then for tax purposes, 10% of the total contract value is presumed to relate to the associated work and taxed accordingly.

Income Tax

Tax Rate

The general tax rate is 20%, with the following specific rates:

- 20% for natural gas exploitation; and
- between 50% and 85% for oil and hydrocarbon production, based on capital investment.

Starting from 1 January 2020, a 20% tax rate applies for five years to the tax base from oil and hydrocarbon downstream activities. However, during this period, taxpayers must separate their downstream activities; failure to do so will subject them to tax based on their capital investment.

Taxable Entities

- Resident corporations, on the share of non-Saudi shareholders.
- Resident natural non-Saudi individuals conducting activities within the Kingdom.
- Non-residents conducting activities in the Kingdom through a permanent establishment.
- Non-residents with taxable income from in-Kingdom sources without a permanent establishment.

Holding Company Regime

Profits from a subsidiary sent to a Saudi resident holding company will not be taxed if:

- there is a minimum holding of 10%; and
- the investment is held for at least one year.

Income Exempt from Tax

- Capital gains from the sale of financial instruments traded on the Kingdom's stock exchange, acquired after 30 July 2004, and gains from selling assets not part of the business activity.
- Capital gains from the sale of securities traded on foreign stock exchanges, provided these securities are also traded on the Saudi stock exchange (Tadawul), regardless of the method of sale.
- Dividends received from investments made by a Saudi resident capital company in a Saudi or non-resident company, provided the recipient owns at least 10% of the investee company and has held the investment for at least one year.

Allowable Expenses

Expenses are allowable if they are ordinary expenses, necessary for generating taxable income. These include bad debt write-offs, interest deductions, depreciation, repairs and maintenance, subject to specific rules.

Thin Capitalisation

There are no specific rules for thin capitalisation. However, interest expense deductions are limited to the lower of:

- the actual interest expense (capitalised interest related to capital assets is excluded); and
- interest income plus 50% of taxable income (excluding interest income and expense).

Tax Losses

Tax losses can be carried forward indefinitely. However, the amount deducted each year cannot exceed 25% of the annual taxable profit. Capital companies can carry forward losses even if there is a change in ownership or control, as long as they continue the same activity.

Currency Translation

Unrealised currency translation gains or losses from revaluation are not considered for tax purposes.

Estimated Taxes (Deemed Profit Tax)

ZATCA may assess tax on worldwide expenses if it's difficult to separate local expenses. Deemed profit tax rates range from 80% (for management fees) to 10% (for construction contracts).

Taxable Year

Generally, the tax year aligns with the state's fiscal year, but a different year may be used in certain cases, such as with ZATCA approval, a Gregorian year or if the taxpayer is part of a corporate group with a different financial year.

Registration

Taxpayers must register their activity before the end of their first tax year. Failure to do so may result in penalties ranging from SAR 1,000 to SAR 10,000, depending on taxpayer classification. Registration must be done via the ZATCA online portal.

Books and Records

- Taxpayers (excluding non-residents without a permanent establishment in the Kingdom) must maintain necessary books in Arabic, including:
  - daily journal;
  - general ledger; and
  - inventory book.
- Computerised records must be stored on a central computer located in the Kingdom.

Assessment and Appeal

- Tax regulations provide detailed assessment and appeal procedures, including two appellate committees:
  - Tax Violation and Dispute Resolution Committee (TVDRC); and
  - Tax Violation and Dispute Appeal Committee (TVDAC).

Alternative Dispute Resolution

- An Internal Settlement Committee (ISC) within ZATCA is available to help resolve disputes between taxpayers and ZATCA for both direct and indirect taxes.

Accelerated Tax Payments

- Taxpayers with a prior year tax liability of SAR 2 million or more must make accelerated tax payments in three equal instalments.

Penalties for Non-submission and Delays

- Penalties for late tax return submission are the higher of 1% of total revenue (up to SAR 20,000) or between 5% and 25% of the unsettled tax, depending on the delay.
- A penalty of 1% per 30 days applies for delayed tax settlement, including WHT and accelerated payments.
- A 25% penalty is imposed on tax differences resulting from incorrect submissions.

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 three months of signing the contract or amendments to the contracts signed with supplier (services or materials) if value is SAR 100,000 or more
Filing accelerated tax payment	To pay advance income tax in three equal instalments calculated at 25% of the immediately preceding year's tax liability (SAR 2 million or more), if due, by the sixth, ninth and 12th months of the year
Filing of audited financial statements with the MOCI	Within four months of year end

Capital Gains

- Capital gains tax is levied at 20% on the sale of shares by a foreign shareholder in a resident company.
- Capital gains from the sale of shares traded on the Saudi stock exchange (Tadawul) are exempt from tax, provided the shares were acquired after 30 July 2004.
- Capital gains from the sale of securities traded on stock exchanges outside the Kingdom are also exempt, as long as the securities are also traded on Tadawul, regardless of whether the sale was conducted through a stock exchange or another method.
- No gain or loss will be recognised on the transfer of assets between group companies, provided that:
  - the companies are wholly owned (either directly or indirectly) within the group; and
  - the assets remain within the group for at least two years from the date of transfer.

Transfer Pricing in KSA

The Kingdom of Saudi Arabia introduced transfer pricing (TP) by-laws in February 2019, which apply to financial years ending on or after 31 December 2018. However, ZATCA has been enforcing these regulations retrospectively through TP audits, relying on general anti-avoidance provisions in the income tax law.

The Saudi Arabia TP by-laws and transfer pricing guidelines align with the OECD TP guidelines and apply to entities that are subject to income tax. In March 2023, an amendment by ZATCA expanded the applicability of the TP by-laws to include 100% zakat-paying entities. This expansion took effect for fiscal years beginning on or after 1 January 2024.

Foreign Income and Tax Treaties in Saudi Arabia

Saudi Arabia has signed tax treaties with numerous countries to avoid double taxation and promote cross-border trade and investment. Treaties are in place with the following countries:

France, China, India, Pakistan, Malaysia, Austria, Italy, Ireland, Greece, Japan, Korea, Poland, Bangladesh, Vietnam, Ukraine, Netherlands, Russia, Singapore, South Africa, Spain, Turkey, United Kingdom and Northern Ireland, Uzbekistan, Belarus, Romania, Czech Republic, Tunisia, Malta, Azerbaijan, Hungary, Kazakhstan, Luxembourg, Tajikistan, Algeria, Ethiopia, Macedonia, Portugal, Sweden, Venezuela, Kyrgyzstan, Turkmenistan, Egypt, Hong Kong, Jordan, Mexico, Albania, Bulgaria, Cyprus, Georgia, Syria, Kosovo, Gabon, Switzerland, United Arab Emirates and Slovakia.

In recent guidance, ZATCA has emphasised a stronger position on service permanent establishments (PEs). According to this guidance, if a non-resident provides services in Saudi Arabia for more than the period specified in an applicable tax treaty (usually 183 days within a 12-month period), the non-resident will be deemed to have a PE in Saudi Arabia. This applies even if the services are rendered outside the Kingdom, and no physical presence is established in the country. As a result, foreign service providers working in Saudi Arabia for more than 183 days may create a PE, even if they have no employees or personnel physically located in the country.

However, recently ZATCA has clarified its position by abandoning the concept of a virtual PE. Through a circular, ZATCA aligned its stance with internationally accepted interpretations, asserting that a service PE can only be established if:

1. The enterprise provides services through its employees;
2. The employees are physically present in Saudi Arabia; and
3. The duration of their presence in Saudi Arabia exceeds the threshold period set in the relevant double taxation agreement (DTA).

This clarification limits the creation of a PE to instances where the foreign provider's personnel are physically in the Kingdom for an extended period, ensuring a clearer framework for determining PE status.

Zakat in Saudi Arabia

Zakat is a religious tax payable by Saudi and GCC national shareholders based on their share of the zakat base in a company. The standard zakat rate is 2.5%. However, for zakat payers who follow the Gregorian calendar and calculate zakat on the zakat base, this rate could be adjusted to 2.577683%. Zakat is calculated on the higher of the following two bases:

1. The Saudi shareholder's share in the adjusted net income; and
2. The shareholder's share calculated on a balance sheet basis.

The zakat regulations, effective from 1/6/1438H (Hijri calendar, corresponding to 28 February 2017 in the Gregorian calendar), replaced all previous resolutions, circulars and instructions regarding zakat collection from that date.

The 2019 zakat regulations were published by ZATCA on 14 March 2019, and came into effect for accounting periods starting on or after 1 January 2019, replacing the earlier zakat regulations issued in 2017. ZATCA's current practices are largely consolidated in these updated zakat regulations.

Additionally, ZATCA has published specific rules for computing zakat for banks and finance companies that are licensed by the Saudi Arabian Monetary Authority (SAMA).

A ministerial resolution has also been issued, specifying that the state will bear the zakat and tax on sukuks and bonds issued by the Ministry of Finance, when these are issued locally in Saudi riyals.

Value Added Tax (VAT) in Saudi Arabia

VAT was introduced in Saudi Arabia on 1 January 2018 at a standard rate of 5% on most goods and services. However, with effect from 1 July 2020, the VAT rate was increased to 15%.

Taxable Transactions

VAT applies to nearly all supplies of goods and services, including imports, with a few exceptions. Exempt supplies include:

- margin-based financial services;
- life insurance;
- residential property rental;
- supplies related to residential and commercial real estate property; and
- education and healthcare services provided to Saudi citizens (which are not subject to VAT).

Rates

- The current standard VAT rate is 15%.
- Certain goods and services are zero-rated in line with the GCC's Framework Agreement. These include:
  - exports of goods and services outside Saudi Arabia;
  - supply of qualifying medicines and medical goods; and
  - investment metals.

Registration

- The mandatory VAT registration threshold for residents is an annual turnover of SAR 375,000. If businesses fail to register by the required deadline, a fine of SAR 10,000 is imposed.
- Businesses with an annual turnover of at least SAR 187,500 may voluntarily register for VAT.
- Non-residents who provide taxable supplies to non-taxable customers in Saudi Arabia must generally register within 30 days from their first supply, and they must do so through a tax representative.

This VAT system ensures that the majority of goods and services are subject to tax, with specific exemptions and zero-rated categories to support key sectors like healthcare, education and exports.

Filing and Payment of VAT in Saudi Arabia

VAT tax periods in Saudi Arabia can be either monthly or quarterly. Taxpayers are required to submit their VAT return electronically by the end of the month following the end of the tax period, along with the required payment.

- Small businesses with a turnover of less than SAR 5 million can file VAT returns on a cash accounting basis.
- Businesses with an annual turnover of less than SAR 40 million may opt for quarterly filing instead of monthly.

There are strict documentation requirements for VAT filings, and all records must be maintained in Arabic.

ZATCA is very active in monitoring VAT compliance. Businesses that fail to comply with VAT regulations may face assessments and significant penalties.

To avoid these penalties, businesses should ensure they are fully compliant with VAT laws and maintain a strong indirect tax control framework. This will help ensure that they meet all VAT obligations and avoid any issues with ZATCA.

Excise Duty in Saudi Arabia

In June 2017, Saudi Arabia introduced an excise tax as part of a broader GCC harmonised initiative under the GCC Framework Agreement. The key points regarding the excise tax are set out below.

- **Taxable goods:** Excise tax is applied to the importation or production of certain goods that are released for consumption in Saudi Arabia on or after 11 June 2017.
- **Tax base:** The excise tax is charged based on the tax base of the goods, which is defined as the higher of:
  - the retail selling price of the goods; and
  - a list price determined and published by the authorities.
- **Excise goods and rates:** The excise tax applies to specific categories of goods at the following rates:
  - carbonated soft drinks and sugar-sweetened beverages: 50% rate;
  - energy drinks: 100% rate; and
  - tobacco products, including electronic devices and liquids used for smoking: 100% rate.
- **Transitional return:** Businesses holding excise goods valued over SAR 60,000 were required to submit a one-off transitional return and pay the excise tax within 45 days of the tax's implementation. This meant that businesses had to pay excise tax on stock held at the time the tax was introduced.
- **Regular reporting:** After the transitional period, excise tax licensees are required to submit returns every two calendar months (bimonthly), reporting their total excise tax liabilities. These returns must be filed along with payment within 15 days of the end of the tax period.
- **Importers:** Importers of excise goods that are not placed into a tax suspension arrangement will be required to pay excise tax upon importation to the customs authorities.

This excise tax framework targets specific products like sugary drinks, energy drinks and tobacco, and ensures that businesses involved in the importation and production of these goods remain compliant with reporting and payment requirements.

Real Estate Transfer Tax

Introduced in Saudi Arabia with effect from 4 October 2020, real estate transfer tax (RETT) applies to most transactions involving land and property. This includes:

- sales;
- assignments;
- transfers;
- related rights; and
- transfers of shares in real estate companies.

Key points to note:

- RETT applies unless a specific exemption is available.
- All transactions – including exempt ones – must be reported; no minimum threshold applies.
- The transferor is primarily liable for the tax; however, the transferee is jointly liable.
- While RETT generally replaces VAT on applicable transactions, there are certain cases where both RETT and VAT may apply simultaneously.

Land Tax (White Land Tax)

In June 2016, the Council of Ministers enacted the White Land Tax Law to curb land speculation and encourage development.

- A 2.5% tax is levied on the value of all undeveloped residential and mixed-use residential/commercial plots located within urban boundaries.
- The Ministry of Housing is responsible for determining land values.
- This tax applies to both individuals and private sector legal entities that own such plots.

Personal Taxation

- Currently, there is no personal income or employment tax on individuals working in Saudi Arabia.
- In the 2017 federal budget, the government proposed a 6% remittance tax on salaries transferred abroad by expatriate workers. However, this tax has not yet been implemented.

Human Resources and Employment Law in Saudi Arabia

Labour and employment matters in the Kingdom of Saudi Arabia are governed by the Labour Law, originally issued by royal decree in 2005. This legislation regulates employment relationships, contractual obligations and workers' rights and responsibilities across the country.

Employment Contracts

- Employment contracts must be prepared in duplicate, with one copy retained by the employer and the other provided to the employee.
- Each contract should clearly include the following details:
  - employer's name, address and place of business;
  - employee's name, nationality and identification number;
  - salary terms; and
  - the nature and location of the job.
- For non-Saudi employees, contracts must be in writing and must specify the duration of employment.
- As per Saudi labour regulations, the employer is responsible for covering the costs associated with:
  - immigration and residency procedures (including Iqama, a residency permit);
  - work permits and their renewals;
  - any fines or penalties arising from delays in processing; and
  - re-entry visas and final exit travel costs.

Wages and Working Hours

- There is no statutory minimum wage stipulated in the Labour Law for the private sector, except for specific Saudisation (the policy which requires businesses to employ a certain level of Saudi nationals) and social security purposes.
- Standard working time regulations are as follows:
  - a maximum of eight hours per day if applying a daily schedule; or
  - a maximum of 48 hours per week if applying a weekly schedule.
- During the holy month of Ramadan, working hours for Muslim employees must be reduced to:
  - six hours per day; or
  - 36 hours per week.

Wage Protection System

The Saudi Ministry of Human Resources and Social Development (MHRSD) has implemented the wage protection system (WPS) to enhance transparency and protect employees' rights in the private sector.

Under this system, qualified employers – defined based on workforce size – are mandated to process salary payments through Saudi banks. The WPS enables the MHRSD to monitor timely and accurate payment of wages, and non-compliance may result in penalties or restrictions on the employer's operations.

Immigration and Visa Requirements

Foreign nationals travelling to Saudi Arabia are generally required to obtain a valid visa prior to entry, with certain exceptions.

Visa Exemptions

The following individuals may enter Saudi Arabia without a visa:

- Citizens of GCC countries: Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.
- Transit passengers meeting the following criteria (although note that nationals of Burkina Faso, Mali, Niger and Nigeria require a visa even for transit):
  - continuing their journey within 18 hours;
  - holding valid onward or return documentation;
  - remaining within the transit area of the airport; and
  - not making additional landings in Saudi Arabia.
- Holders of valid re-entry permits or landing permits issued by the Saudi Ministry of Foreign Affairs.

Business Visit Visas

Business visit visas are commonly issued for consultants, short-term project personnel and other individuals entering Saudi Arabia for temporary assignments. Business visit visas:

- are not valid for formal employment or local salary payments in Saudi Arabia;
- are typically issued as single-entry visas, though multiple-entry variants are available in specific cases; and
- have validity ranges from 14 days to six months.

Application Requirements

To obtain a business visit visa, applicants must typically provide:

- a completed application form submitted to the Saudi consulate or embassy;
  a letter of invitation from the Saudi host company, endorsed by the Saudi Arabia Chamber of Commerce (original and copy); and
- a supporting letter from the applicant's employer or home country organisation.

Work Visas for Expatriates

Securing employment visas for foreign nationals working in Saudi Arabia is often a complex and time-consuming process. Employers should initiate the visa application well in advance of the intended start date. The process involves coordination with various Saudi government authorities and is subject to strict compliance with Saudisation policies, quota systems and documentation requirements.

Contact Us in Saudi Arabia

PKF Al-Bassam Chartered Accountants

Intersection Prince Mohammed Bin Abdulaziz Street (Al Tahlia Street) with Prince Abdul Aziz Ibn Musaed Street (Al Dhabab Street)
Riyadh
11557
Saudi Arabia

Tel: +966 11 206 5333
Email: info.sa@pkf.com
Website: http://www.pkfalbassam.com/

Our Team

Ibrahim Al-Bassam
Managing Partner
Ibrahim.albassam@pkf.com

Ahmed Mohandis
Partner
Ahmed.mohandis@pkf.com

Sulaiman Dhafer Al-Hussain
Partner
Sulaiman.alhussain@pkf.com

Abdulellah Al-Bassam
Partner
Abdulellah.albassam@pkf.com

Fahad Alhathal
Partner
Fahad.alhathal@pkf.com

Ebraheim Hajjarah
Senior director
Ehajjara@pkf.com

Mohammed Omer Qazi
Senior director
Omer.qazi@pkf.com

Mohamad Adel
Senior director
Mohamed.adel@pkf.com

Mohamed Gamal Soliman
Senior director
Mohamed.gamal@pkf.com

Khaled Shaaban
Senior director
Khaled.shaaban@pkf.com

Appendix

Useful Links and Reference Websites

Saudi Arabian General Investment Authority (SAGIA)	https://www.weforum.org/organizations/saudi-arabian-general-investment-authority-sagia/
Ministry of Investment of Saudi Arabia (MISA)	https://misa.gov.sa
Arab Fund for Economic and Social Development (AFESD)	https://www.arabfund.org
Arab Monetary Fund	https://www.amf.org.ae/en
Arab Trade Financing Programme	https://atfp.org.ae
Islamic Development Bank (IDB)	https://www.isdb.org
Saudi Industrial Development Fund (SIDF)	https://www.sidf.gov.sa/en/Pages/Home.aspx
Ministry of Commerce and Industry (MOCI)	https://mc.gov.sa/en/Pages/default.aspx
Saudi Organisation for Certified Public Accountants (SOCPA)	https://socpa.org.sa/socpa/home.aspx?lang=en-us
Zakat, Tax and Customs Authority (ZATCA)	https://zatca.gov.sa/en/Pages/default.aspx
Saudi Arabian Monetary Authority (SAMA)	https://www.sama.gov.sa/en-US/Pages/default.aspx
Ministry of Finance	https://mof.gov.sa/en/Pages/default.aspx
Ministry of Human Resources and Social Development (MHRSD)	https://www.hrsd.gov.sa/en
Ministry of Foreign Affairs	https://www.mofa.gov.sa/en/Pages/default.aspx

PKF Global
15 Westferry Circus,
London, E14 4HD,
United Kingdom

Tel: +44 20 3691 2500

pkf.com

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