Doing Business in Saudi Arabia

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Saudi Arabia.

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Background

Country overview

The Kingdom of Saudi Arabia ("KSA") was founded in 1932 and is a sovereign Arab state in Western Asia constituting the bulk of the Arabian Peninsula.

With a land area of approximately 2,150,000 square kilometers.

Saudi Arabia is geographically the fifth-largest state in Asia.

The population of the KSA is approximately 33 million people. The legal system of KSA is based on Shari 'a, Islamic law derived from Quran and the Sunnah.

Arabic is the first language in the kingdom, English is widely spoken and used in business. Any correspondence with the governments bodies, should be in Arabic such as agreements and contracts.

Economic overview

The KSA is consider to be Middle East's leading business centre, because it has a very dynamic economy with consistent growth in all sectors, however it is dependent oil revenues with about 75 - 85% of its revenues being derived from oil.

Saudi Arabia is desperate to diversify its economy away from oil. That's why, last year, it launched a series of reforms and initiatives it dubbed the National Transformation Program 2020.

Just over a year after launching the plan, Saudi Arabia is going to redraft it by "stripping out some areas earmarked for change and extending the timeline of other targets," as well as "change existing initiatives and add new ones," according to the Financial Times (paywall). Apparently, the rethink is because Crown Prince Mohammed bin Salman's plans were overly ambitious.

Sitting atop some 20% of the world's petroleum reserves, the oil and gas sector accounts for nearly half of Saudi Arabia's GDP. It is the country's golden goose for exports, accounting for 85% of earnings, according to OPEC.

In 2014, when the price of energy decrease, uneven economy is dangerous, crude oil dropping from over $100 per barrel to nearly $50 today. This has blown a hole in Saudi's budget, forcing it to burn through its reserves and borrow billions to finance its deficit. This year, Saudi Arabia's GDP growth is set to be "close to zero," according to the IMF. Meanwhile, renewable energy is steadily becoming more competitive with fossil fuels.

Transport infrastructure

Transport sector considers by the Kingdom as one of the solutions to supportable development and an essential economic support that depends on availability of infrastructure of road and multi means of transports.

The Kingdom's national transport plan is consistent with the development strategy of the Ministry of Economy and Planning. It aims at developing the transport sector and harnessing its absorptive capacity to meet all the requirements needed.

The Ministry of Transportation completed the work on over 66,000 km and planned with international standards to get on to major cities, with the probability of expansion in the future to serve possible heavy traffic.

The Ministry of Transport focuses on plan for the improvement of public transport in the cities of the Kingdom to give comfort and welfare for the people.

Many studies and researches were conducted to find the best and the advanced public transport systems around the world. The Council of Ministers supports the Ministry of Transport plans by issuing several decrees, like:

- Implement the public transport project in Riyadh and high density of population cities.
- Implement the public transport project in the city of Makkah (trains and buses).
- Approve the public transport project in Jeddah province with all its components, and ratify the financial costs necessary for its implementation.

The kingdom also has a strong network of regional airports shown as follow:

Airports	No.
International Airports	7
Regional Airports	5
Domestic Airports	14
Total	**26**

Business environment

The Kingdom established the Saudi Arabian General Investment Authority (“SAGA”) to assist foreign investors in the approval process for operating in KSA.

Obtain a licence and labour visas and conduct other business affairs under one Umbrella .

According to the World bank, it takes just 18 days to set up a business in the KSA now it is easy to set up a new company with a number of incentives to attract investors to set business in KSA Such as:

- No restrictions on repatriation of the capital.
- Lower minimum capital requirements.
- The 100% foreign ownership of property and companies in certain industries.

Choice of Legal Form

Legal and regulatory framework

Business associations are governed by the Regulations for Companies (issued in 1982, and amended in 1992). (42) The utmost attractive to foreign investors, wherein joint stock companies and limited liability partnerships is the Regulations list Business Structures and Forms

Companies law

The Regulations define a company as a joint undertaking to participate in an enterprise with a view to profit. Thus, a registered company is deemed to be a commercial entity, whatever its objectives may be. Upon registration, the company acquires legal personality. If it is not fully owned by Saudis it may not enjoy certain rights but would still be regarded as a Saudi company.

Every industrial or commercial establishment must be registered in the Commercial Register.

Participation of Saudi national ion foreign companies and branches must obtain the approval of the Foreign Investment Committee before registration.

The management is composed of a board of directors. This board, appointed by the shareholders, must have a minimum of three members. Directors must own at least 200 shares of the joint stock company.

The sole proprietorship

The Sole Proprietorship is a single-partner Company.

Number of partners: One single person.

Capital (max/min): No minimum capital required.

Shareholders and liability:

The owner is liable for all business debts and personal assets can be taken.

Limited liability company

As a limited liability company which involves a privately owned company used to establish industrial, agricultural, contracting or services projects having Saudi and a foreign participation. However, it is not being allowed to conduct operations such as; banking, insurance or savings as these type of entities might not be able to offer subscriptions to raise capital to the public and without partners common consent, both their interest cannot be transferred.

Under the Regulations for companies this must be registered also in the foreign capital investment regulatory of regime. A minimum capital of SR 500,000 is needed for the establishment of a partnership limited by shares. Stipulations of contribution and other mandatory information must be registered to the Ministry of Commerce.

General partnership

An alliance of more than two persons is called a general partnership who are both liable for the debts of the partnerships to the extent of their personal fortunes. It can manage business in its own name as a split up legal entity.

Partners are not allowed to transfer interest without the common consent of the other partners. No minimum capital is required, partnership agreement with concerns to contribution terms must be registered with the Ministry of Commerce.

Limited partnership

It is composed of general partners who are accountable for the partnership's debts to the extent of their personal fortunes and limited partners who are accountable for partnership's debts only to the extent of their investments.

In partnership management joined by limited partner may open up to joint individual liability with general partners. Requirements on registration are the same with general partnerships.

At least one of general partner's name should be incorporated in the name of limited partner, this partnership must avoid inclusion of their names in the firm liability reasons.

Professional partnership

A foreign "free professionals' like for instance a lawyers, engineers and medical practitioners can establish joint practices with partnerships that are licensed locally as of 1991. The Ministry of Commerce needs approval for this partnership, that also regulates conditions relative to the foreign firms reputation, interest's transfer and minimum participation of Saudi partners of 25 percent.

Likewise, foreign partners profits from this partnerships shall be most probably be taxable, not like professionals earned salaries that works in a local firm.

Joint venture

In joint ventures of foreign investment with Saudi partners has advantages. Whereas foreign partners in a joint venture may holds the equity of 100 percent in selected Gulf Cooperation Council (GCC) countries, having a local Saudi partner has an advantages that holds 50 percent of the equity or above.

For instance, if a Saudi owns an equity of 50 percent in a joint venture company it qualifies the firm to achieve a loan which is interest-free for up to 50 percent of the cost of the projec, that over a period of ten years repayable. Also, it is entitled to preference after wholly Saudi-owned companies in the allotment of government contracts for majority Saudi-owned joint ventures.

Activities like trading and marketing aimed at Saudi individuals or wholly Saudi-owned companies. However, are forbidden to mix Saudi-foreign joint ventures as per Royal Decree M/11 of 1962.

Joint stock company

It is owned by five or more individuals or entities. An apportioned capital is negotiable into shares of an equal amount, and shareholders are liable to the extent of the value of their holdings.

Two Million Saudi Riyals (SAR 2,000,000) or no less than Ten Million Saudi Riyals (SAR 10,000,000) is the required minimum capital if its shares are offered for public subscription.

Must not be less than Ten Riyals (SAR 10) the par value of each share , and upon incorporation, must be no less than one-half of authorized capital should be the issued paid-up capital.

Branch office

To establish a branch in the Kingdom, may apply for a license to the Foreign Capital Investment Committee for a foreign companies conducting industrial or contracting works, the company may complete its registration process under the Regulation.

It may be remarked that, a foreign entity's branch is not eligible to a tax holiday unlike a limited joint venture.

On the other hand, the idea of branches has been stretched out to deal with firms that are not engaged in contracting and industrial works in a recent years, although such licenses are rarely granted.

Saudi service agent

It requires the foreign companies to obtain temporary commercial registration that will be operating exclusively for the purpose of government contracts implementation. This is only intended to contractors that operates in the public sector. But, if a foreign contractor is engaged in a governmental contract and does not have a Saudi partner, it must engage a Saudi national as an agent. However, an exception to this general rule may sometimes be made in cases of certain military contracts.

Not exceeding to 5 percent of the contract value may receive by the agents as compensation. And within 30 days of signing the contract, the agreement in the agency must be presented with the application for impermanent or temporary commercial registration to the Ministry of Commerce.

Trust

A trust is an arrangement whereby a person holds property as its nominal owner for the benefits of one or more beneficiaries.

The trust arrangement may be held for public proposes such as a private family.

Private family trust is usually designed to help a high net worth individual preserve assets and facilitate the transfer of assets to future generation.

In spite of the Saudi law permits to do business in Saudi Arabia through eight forms of business entity structure but the most common forms for the foreign investors through the following entities :

- Joint Stock Companies
- Limited Liability Companies
- Foreign Office Branch
- Commercial Agencies
- Technical and Scientific Offices (Representative Offices).

Audit Requirements

Companies are required to have annual independent audits.

Joint stock companies and limited liability partnerships must appoint at least one independent auditor, and banks are required to have two independent joint auditors.

Other companies, however, such as partnerships are not required to do so which will have an impact from Zakat / tax prospective.

The appointed auditor must be a certified public accountant member of the Saudi Organization for Certified Public Accountants "SOCPA" and licensed within KSA from.

Such licences are only given to KSA nationals.

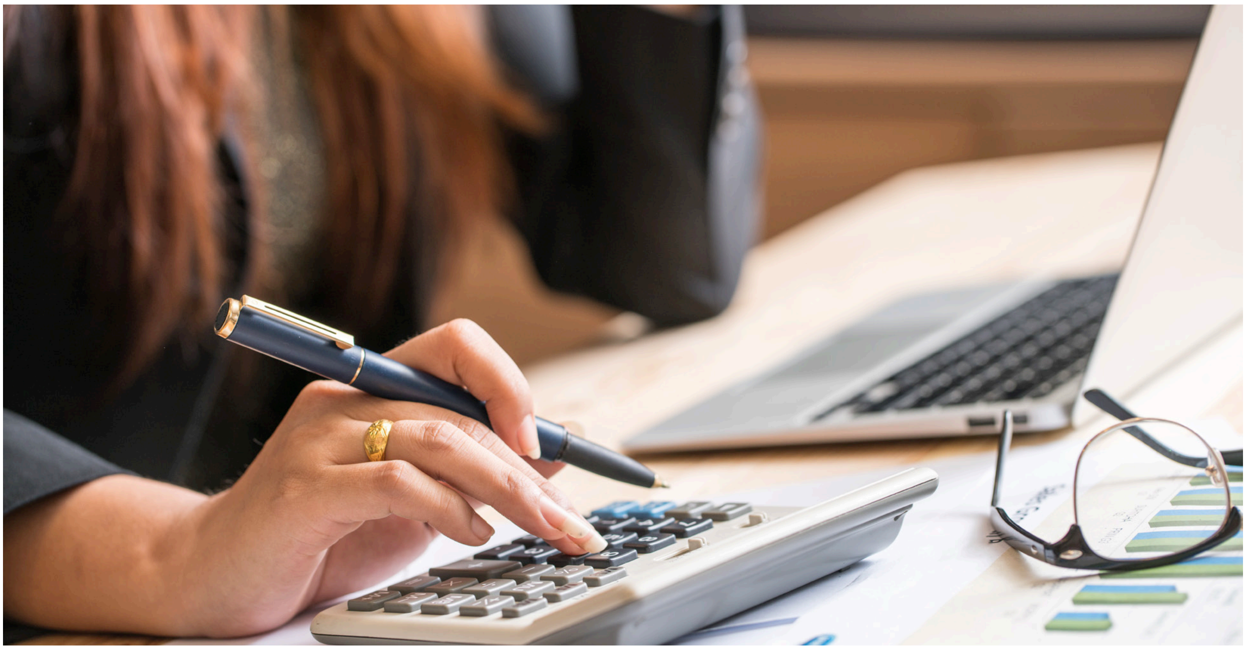
Accounts have to be prepared as per International financial reporting standard (IFRS).

All listed companies are required to adopt IFRS for financial periods beginning on or after January 1, 2017, and all other entities for financial periods beginning on or after January 1, 2018.

Unlisted entities may opt for an early adoption of IFRS from January 1, 2017.

SOCPA is in the process of adopting IFRS for small- and medium-sized entities (SMEs) to be effective in 2018 for use by non-publicly accountable entities.

Taxation



Income tax

All companies doing business in Saudi Arabia are required to submit Income Tax and Zakat to the Department of Zakat and Income Tax (DZIT) on an annual basis and obtain a tax or Zakat clearance certificate. Non – Saudi Arabian and non GCC companies pay income tax and the rates on taxable net income as follows:

Explanation	Rate
Non Saudi (foreign shareholders) flat rate	20%
Gas investment business	30%
Production of oil and other hydrocarbons	85%

An audit financial statements with a certain supporting schedules as required by DZIT forms must be submitted with the tax returns to DZIT.

Companies subject to tax in Kingdom are as follows:

- A company engaged in oil and other hydrocarbons products.
- A company engaged in Natural gas investment fields.
- A Non- Resident company who has other income subject to tax from sources within KSA.
- A Non- Resident company who carried out activities in KSA through a permanent Establishment.
- A Resident company non-KSA natural person who conducts business activates.
- Resident capital co. to the extent of its non-KSA shareholding.

Tax incentives

In the process of developing a number of economic cities in several areas all around the kingdom such as (HAIL , JAZAN,NAJRAN, AL ABHA, AL JOUF and NORTHERN TERRITORY may be able to benefit from certain tax incentives.

Moreover dedication are granted if the investment capital for any project excesses one Million.

Furthermore an exemption from customs duties is available on machinery and raw materials that are required for approval projects, provided that they aren't available in the local market.

Such exemptions should be applied for prior to their importation and are subject to a certain terms.

Applicable tax penalties

The tax due must be paid within 120 days after the taxpayer's year end. The system is one self assessment.

1% for of the unpaid tax for each 30 days of delay payment.

Value added tax

Along with its partners across the GCC, the Kingdom of Saudi Arabia has chosen to implement a standard VAT tax rate of 5%. This is one of the lowest rates in the world. See the examples below of standard VAT rates in other countries.

In line with GCC Supreme Council Resolution made in its session No. 36 on authorizing the Financial and Economic Committee to complete the necessary requirements of "GCC VAT Unified Agreement", KSA approved the Agreement with a Royal Decree No. M/51 dated on 1438/5/3 H. Also, KSA issued its National VAT Law with a Royal Decree No. M113 dated on 1438/11/2 H and published its Implementing Regulations issued by GAZT Board of Directors Resolution No.3839 dated on 1438/12/14 H based on the provisions in the Agreement.

When a VAT-registered business sells a good or service, it charges – assuming a standard case – an extra 5% of VAT on top of the sales price. The business will account for that 5% from all eligible sales separately from its revenue in order to later remit a portion of it to the government. The VAT that a business collects on its sales is called Output VAT. That same business will also pay 5%VAT on top of the goods or services purchased from other taxable businesses.

The VAT that a business pays to its suppliers is called Input VAT. In order to calculate how much they owe to GAZT, each business will note how much VAT it has collected from customers and subtract from it the total VAT it paid in the same period.

VAT's impact on prices Overall, businesses will not pay higher pre-tax prices for input goods and services. Costs should not change because businesses are able to deduct their input VAT from their output VAT. The end-consumer, however, will not collect or be able to deduct any VAT.

Therefore, end-consumers will initially experience a 5% price increase; compared to the price before tax implementation.

Goods and services in scope of VAT

Taxable businesses All businesses whose taxable sales in the past twelve months or expected taxable sales in the next twelve months exceed SAR 375,000 are required to register for, collect, and remit VAT. In 2018, only businesses whose taxable sales in the past twelve months or expected taxable sales in the next twelve months exceed SAR 1,000,000 are required to register for, collect, and remit VAT.

Additionally, there are two groups for whom the VAT is optional:

1. Firms with taxable sales of SAR 187,500-375,000: Companies with taxable sales in thepast twelve months or expected taxable sales in the next twelve months between SAR 187,500 and SAR 375,000 can choose to register for the VAT or not.

2. Firms with taxable sales above SAR 375,000 who sell exclusively “zero-rated” products: Goods and services such as certain medical products, international transportation, and exports to non-GCC countries are all “zero-rated,” meaning zero VAT will be charged (Zero-rated supplies are described in detail in section 5). If a firm has VAT-eligible sales above SAR 375,000, but its revenue is exclusively from zero-rated goods or services, it has the option to register for VAT or not.

VAT registration deadlines

The deadline for VAT registration depends on the business's annual taxable sales:

- Businesses with annual taxable sales over SAR 1,000,000 must register by December 20, 2017
- Businesses with annual taxable sales under SAR 1,000,000 must register by December 20, 2018.

Registration of non-KSA residents

Non-KSA residents who make VAT-eligible sales and purchases in the Kingdom are required to register for and pay VAT.

In order to register for VAT, non-resident businesses have to appoint a tax representative based in KSA.

That representative, once approved by GAZT, is able to submit VAT returns and payment to GAZT and correspond with the Authority on the taxpayer's behalf.

The representative will be held jointly and severally liable for the VAT the business owes to GAZT.

Which means that if the establishment neglects to pay tax for a prolonged period of time, the tax representative shall be held accountable for the remaining balance.

Transfer pricing rules

The Department of Zakat and Income Tax has been drafting guidelines on the application of the transfer pricing with related parties in the future.

The tax law provides the DZIT With the power to re-allocate Revenues and Expenses in the financial transaction between related party transaction.

Property tax

Recently the KSA Tax authority will issues new legislation is not clear to practice imposing certain Zakat charges on KSA nationals owning land property that is not in use.

Capital gains tax

A non – resident investor paid the capital gains tax in KSA at the rate of 20% for the sale of shares in KSA .

Stamp tax

There is no stamped taxes levied in the kingdom.

Zakat

Zakat is based on Islamic concepts and applicable on KSA / GCC ownership of the higher of net income or net worth in KSA company, Zakat is assessed at 2.5% compared to a higher amount for Income Tax.

The Department of Zakat and Income Tax which is part of the Saudi Ministry of Finance consider a administrators and collectors Zakat and Tax liabilities.

Allowances

Depreciation

The allowances depreciation expenses is based on the depreciation rates and the fixed assets guidelines from the Department of Zakat and Income Tax.

Tax credits

The foreign investment enjoy 10 years tax credits for a 10 years which is equal to 15% of the paid up - capital of industrial projects.

Employment

Social security

With respect to Saudi Arabian employees , an employer is required to pay an amount equal to 9% Of the employee's salary and withhold 9% of the employee 'salary for social security contributions, these funds are pooled together with the Saudi Government's subsidies to support the grant of old age pensions, marriage grants and death grants.

The employer is also required to pay 2% of Saudi Arabian and foreign workers' salaries for occupational hazards insurance. This insurance programme covers private sector.

Employment of foreign personnel

Saudi Arabia has a system called sponsorship , which means that with the permission of the sponsor, the foreign nationals or expatriate workers can only enter work and leave the Kingdom of Saudi Arabia.

The Saudi Laws prohibits foreign employees to work without a work permit or for a person other than their sponsor/employer.

Healthcare

The Saudi Arabia government has provided high importance to the improvement of health care services in primary, secondary and tertiary levels.

As a consequence, the health of the Saudi population has greatly improved in recent decades. However, a number of issues pose challenges to the health care system, such a shortage of Saudi health professionals, the health ministry's (105) numerous roles, varying patterns of illnesses, inadequate financial resources, elevated demand that leads to free services, health care facilities poor accessibility, national crisis management policy absence, the potential of electronic health strategies underutilization and unavailability of a national health information system.

This paper reviews the current structure and historical development of Saudi Arabia's health care system with specific emphasis on the public health sector and the chances, opportunities and challenges dealing the Saudi health care system.

Withholding Taxes

Service payments made from a resident party or permanent establishment of a non – resident are subject to withholding taxes should be paid within the first 10 days of the month following during which the payment was made.

The rates of tax vary as follows:

Explanation	Rate
Dividend, Interest, etc	5%
Royalty and Related Party, etc	15%
Management Fees	20%

This document is provided by Saleh Al-Naim as a general overview of matters to be considered when setting up an overseas business in Saudi Arabia. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

If you are setting up a business in Saudi Arabia, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in Saudi Arabia please see overleaf.

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