

Kingdom of Saudi Arabia

Annual Tax & Zakat Handbook

TAX, ZAKAT AND WITHHOLDING TAX HANDBOOK

With Practitioner Commentary on Value Added Tax (VAT)
and the Real Estate Transaction Tax (RETT)

2026

Acquisory Advisors LLC
Tax & Compliance — Middle East and GCC

This handbook reflects the Income Tax Law, the Zakat Implementing Regulations, the Real Estate Transaction Tax Law and the Value Added Tax Law as administered by the Zakat, Tax and Customs Authority (ZATCA), current as of September 2026. It is intended as a technical reference for practitioners and does not constitute legal or tax advice on any specific transaction

About This Handbook



About This Handbook

This handbook was prepared as a technical reference for practitioners advising on Saudi Arabian tax, Zakat and withholding tax matters, structured to mirror the depth and format of Acquisory Advisors LLC's companion UAE Corporate Tax Handbook. It reflects the Income Tax Law, the 1445H Zakat Implementing Regulations and subsequent amendments, the Real Estate Transaction Tax Law and Implementing Regulations, the VAT Law and Implementing Regulations, the Transfer Pricing Bylaws, the Tax Rules for Regional Headquarters, and the latest ZATCA guidance identified in Appendix C. This edition was reviewed and updated for the position available as of 1 October 2026.

Scope and Limitations

VAT and RETT are addressed at commentary depth by deliberate editorial choice, reflecting this handbook's core focus on direct taxation, Zakat and withholding tax; readers requiring exhaustive VAT or RETT technical coverage should treat the related chapters as a signpost into the underlying ZATCA regulations and guidance rather than as a complete standalone treatment. Rates, thresholds and procedural deadlines cited throughout reflect the position understood at the time of preparation and are presented for general technical orientation.

Saudi tax, Zakat and customs law — as this handbook repeatedly notes — has moved faster over the past five years than almost any other tax system in the region, and several areas flagged explicitly in the text (Pillar Two/DMTT status, the precise loss carry forward utilisation cap, individual treaty rates, and Fatoorah wave thresholds in particular) warrant direct verification against current ZATCA guidance or primary legislation before being relied upon in a specific client matter. Article numbers and citations should always be checked against the official Arabic legislative text, which remains authoritative over any English summary, translation, or paraphrase — including the summaries in this handbook.

Feedback and Updates

Given the pace of Saudi tax reform documented throughout this handbook, periodic revision is anticipated. Practitioners identifying a change in law, rate, or ZATCA practice that affects the content of this handbook are encouraged to flag it for incorporation into the next edition.

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Introduction

Acquisory, incorporated in 2010, is a boutique advisory firm founded by highly experienced professionals specializing in M&A Advisory, Due Diligence, Operations & Risk Consulting, Asset Management, Financial Reporting & Compliance, Audit, and Process Re-engineering.

Acquisory Advisors LLC provides end to end tax advisory and compliance services across the Middle East and GCC, covering Corporate Tax, Zakat, VAT, Transfer Pricing, tax structuring, regulatory compliance, audits, litigation support, cross-border transactions, and e-invoicing implementation support.

With a leadership team comprising 11+ Partners and Directors from BIG 4 and other leading firms, Acquisory combines practical business insights with strong regulatory expertise to deliver customized and effective solutions across industries including Infrastructure, Telecom, Real Estate, Manufacturing, IT & Its, Logistics, and Education.

The firm operates from offices in Dubai, Delhi, Mumbai, and Bengaluru with a team of 200+ professionals, including CAs, CPAs, MBAs, CIAs, CISAs, Engineers, and IT specialists. Acquisory has established strong relationships with over 500 listed private companies, as well as leading global Private Equity institutions.

Acquisory is also a pioneer in asset management services for Private Equity investors in India and currently manages approximately USD 400 million in real estate assets across various asset classes.



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Executive Summary

This handbook is structured to take a reader from the foundational architecture of the Saudi tax and Zakat system through to the specific technical mechanics most frequently encountered in advisory and compliance work, closing with full treatment of VAT and RETT, a dedicated Special Economic Zones chapter, and a set of practical reference appendices. It is written to be usable by three different audiences without requiring three different documents.

Saudi Arabia in Plain Terms

At its simplest: if a business operates in Saudi Arabia, part of its profit may be assessed to Zakat (a religious levy on Saudi/GCC ownership, based broadly on net worth) and part may be assessed to Corporate Income Tax (a 20% charge on non-Saudi ownership, based on net profit). On top of that sits VAT (15%, like a sales tax collected on most goods and services), a Real Estate Transaction Tax (5% on property transfers), and Withholding Tax (a deduction at source when money is sent abroad). One government authority, ZATCA, administers all of it. That is the whole system in outline — everything else in this handbook is detail on how each piece works and interacts

The Five Ideas Worth Holding in Mind Throughout

Saudi Arabia does not have a single corporate tax rate. Liability is split between Zakat (2.5% of a net-worth base, borne by Saudi/GCC ownership) and Corporate Income Tax (20% of a net-profit base, borne by non-Saudi ownership) — the two must be modelled separately, not blended into a single assumed rate.

Transfer pricing now applies to Zakat payers, not only income taxpayers. Since 2024, a wholly Saudi-owned group (or GCC) with no foreign shareholding at all can still be squarely within the transfer pricing documentation regime once its related-party transaction volumes cross the applicable threshold.

There is no formal tax consolidation. Unlike the UAE, Saudi Arabia assesses each resident entity on a standalone basis — a group cannot simply net one entity's losses against another's profits through a group election.

The RHQ 0% incentive is powerful but narrow. It shelters only a licensed RHQ's own eligible regional-management activities for 30 years, not a group's wider Saudi trading footprint, and depends on maintained economic substance throughout the term.

Chapter 1:

Introduction to the Saudi Tax, Zakat and Customs Framework



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Introduction to the Saudi Tax, Zakat and Customs Framework

Overview

The Kingdom of Saudi Arabia operates a dual fiscal regime that is unusual among major economies: entities are taxed differently depending on the nationality of their ownership. Saudi and GCC-national shareholders contribute Zakat, a religious levy rooted in Islamic law, while non-Saudi shareholders are subject to Corporate Income Tax under the Income Tax Law. A single company with mixed ownership is therefore commonly split into a Zakat base (apportioned to Saudi/GCC ownership) and a tax base (apportioned to non-Saudi ownership), each computed under its own set of rules but generally starting from the same audited financial statements.

This dual structure sits alongside an increasingly sophisticated indirect tax and compliance architecture: Value Added Tax (VAT) at a standard rate of 15%, a standalone Real Estate Transaction Tax (RETT) at 5%, Withholding Tax (WHT) on outbound payments to non-residents, Excise Tax on selected goods, transfer pricing rules that now apply to both taxpayers and Zakat payers, and a mandatory e-invoicing regime (Fatoorah) that is being rolled out in waves across the business population.

All these regimes are administered by a single authority, the Zakat, Tax and Customs Authority (ZATCA), formed through the merger of the former General Authority of Zakat and Tax (GAZT) and the Customs Authority. ZATCA issues implementing regulations, guidelines, circulars and rulings that supplement the primary legislation and materially affect how the law is applied in practice.

Legislative Architecture

Key instruments: the Income Tax Law (Royal Decree No. M/1 of 1425H, as amended) and its Implementing Regulations; the Implementing Regulations for Zakat Collection (Ministerial Resolution No. 1007, 1445H, replacing the earlier 2019 regulations for fiscal years beginning on or after 1 January 2024); the VAT Law and its Implementing Regulations; the Real Estate Transaction Tax Law (Royal Decree No. M/84, effective 10 April 2025) and its Implementing Regulations; and the Transfer Pricing Bylaws issued under the Income Tax Law and extended to Zakat payers with effect from financial years beginning on or after 1 January 2024.

PRIMARY LAW — Royal Decrees (e.g. Income Tax Law, RETT Law, VAT Law)

IMPLEMENTING REGULATIONS — issued by Ministerial Resolution

BYLAWS / SPECIAL RULES — e.g. Transfer Pricing Bylaws, RHQ Tax Rules

ZATCA GUIDES & CIRCULARS — administrative guidance, not binding law

Businesses should also monitor ZATCA circulars, public clarifications and the latest ZATCA guidance. As of October 2026, this includes the 2025 Zakat General Guideline under the 1445H Regulations, the Second Version of the General Guideline for Withholding Tax (May 2026), Version 6 of the Detailed RETT Guideline (May 2026), the May 2026 VAT guidance updates, the Phase 2 e-invoicing wave notices and technical specifications, the RHQ guidance and annual disclosure requirements, and the 2026 SEZ economic-substance framework. These materials explain ZATCA's administrative interpretation but do not replace the underlying law or regulations.

Vision 2030 Context

The pace of reform in the Saudi tax system since 2020 — the VAT rate increase from 5% to 15%, the introduction of RETT, the phased mandatory rollout of e-invoicing, the extension of transfer pricing rules to Zakat payers, and the 30-year Regional Headquarters tax incentive — reflects the Kingdom's Vision 2030 objective of diversifying government revenue away from hydrocarbons while simultaneously competing for foreign direct investment and multinational regional presence. Practitioners advising on Saudi structures should treat the regulatory landscape as materially more dynamic than the more settled frameworks found elsewhere in the GCC.

A Brief Reform Timeline

Year	Milestone
2018	VAT introduced across the GCC; Saudi Arabia among the first to implement, at 5%
2020	VAT rate tripled to 15% (1 July); RETT introduced (4 October)
2021	GAZT and Customs merge to form ZATCA
2024	Transfer pricing extended to Zakat payers; RHQ Tax Rules published; new Zakat Implementing Regulations (MR 1007)
2025	Reformed RETT Law in force (10 April); WHT/DTA Tax Circular issued (January)
2026	SEZ governance frameworks in force (16 April); e-invoicing Wave 25 announced

Figure 1.B — Key reform milestones

Year	Milestone
2018	VAT introduced at a standard rate of 5%, the Kingdom's first broad-based indirect tax
2020	VAT rate tripled to 15% (1 July); original RETT framework introduced (October) at 5%, replacing VAT on most real estate sales
2021	Fatoorah e-invoicing Phase 1 (generation) becomes mandatory for VAT-registered businesses (4 December)
2023	Fatoora Phase 2 (integration/clearance) rollout begins in waves; technical services WHT clarification extended to related head-office payments (15 September)
2023–24	RHQ 30-year tax incentive announced (December 2023) and detailed Tax Rules published (16 February 2024); government contracting rule takes effect (1 January 2024)
2024	Transfer pricing rules extended to Zakat payers and APA mechanism introduced, for financial years beginning on or after 1 January 2024; new Zakat Implementing Regulations (MR 1007) take effect.
2025	New RETT Law and Implementing Regulations take effect (10 April), expanding exemptions; Zakat transition election window closes (31 August, following successive extensions)
2025–26	Continued phased Fatoorah Phase 2 wave rollout; Bahrain–Saudi Arabia double tax treaty signed (December 2025, not yet in force at the time of writing)

ZATCA's Institutional Structure

ZATCA was formed in 2021 through the merger of the General Authority of Zakat and Tax (GAZT) with the Saudi Customs Authority, consolidating what had previously been separate direct tax/Zakat administration and customs administration under a single authority. This consolidation is one reason Saudi tax compliance increasingly operates as an integrated data ecosystem — Fatoorah invoice data, customs import/export data, and Zakat/tax filings are progressively cross-referenced within the same authority, rather than sitting in separate agency silos as in many other jurisdictions. For a business, this means an inconsistency in one filing stream (for example, customs import values that do not reconcile to VAT input claims) is now more readily visible to ZATCA across its other filing streams than it would have been under the pre-2021 structure.

Figure 1.C — Formation of ZATCA

Predecessor	Function
General Authority of Zakat and Tax (GAZT)	Zakat, income tax and VAT administration
General Authority of Customs	Customs administration
Merged (2021) → Zakat, Tax and Customs Authority (ZATCA)	Single authority administering Zakat, direct tax, VAT, RETT, excise and customs

History and Establishment Dates

Date	Milestone
1355H (1936G)	The Zakat and Income Bureau are established, the earliest predecessor body responsible for Zakat and income collection.
1370H	The Bureau is reconstituted as the Zakat and Income Authority, still operating under the Ministry of Finance.
30/7/1437H (7 May 2016G)	Royal Decree No. A/133 converts the Zakat and Income Authority into the General Authority of Zakat and Tax (GAZT), chaired by the Minister of Finance and granted enhanced administrative and regulatory autonomy
23 Ramadan 1442H (4 May 2021G)	A Council of Ministers resolution merges GAZT with the General Authority of Customs to form the Zakat, Tax and Customs Authority (ZATCA), consolidating direct tax/Zakat administration and customs administration under one authority
2021 onward	ZATCA launches the Zakat, Tax and Customs Academy and progressively rolls out the Fatoorah e-invoicing programme, the 2024 Zakat regulations, the RHQ Tax Rules, the extension of transfer pricing to Zakat payers, and the current RETT framework, described throughout this handbook

ZATCA retains a public legal personality with financial and administrative independence, is organisationally affiliated with the Minister of Finance, and is headquartered in Riyadh with the authority to establish branches domestically and abroad.

Practical Illustration — Reading a mixed-ownership structure

A limited liability company is owned 60% by a Saudi national and 40% by a foreign investor. On the same audited net income, 60% of the result is reported to ZATCA on a Zakat return and assessed at 2.5% of the Zakat base, while 40% is reported on an income tax return and assessed at 20% of the tax base. The two bases are not identical in mechanics even though they derive from the same financial statements — Zakat base is fundamentally a net-worth (balance sheet) concept, while the tax base is a net-income (profit and loss) concept — which is why the chapters that follow treat them separately before returning to how they interact in a single mixed-ownership filing.

Figure 1.D — Headline Rates at a Glance



Chapter 2:

Taxable Persons and Zakat Payers: Scope of Application



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Taxable Persons and Zakat Payers: Scope of Application

Overview

Liability in the Saudi system turns on two questions asked of every entity and every individual earning Saudi-source income: who owns the capital and is the person resident or non-resident. The answers determine whether Zakat, Corporate Income Tax, both, or neither apply

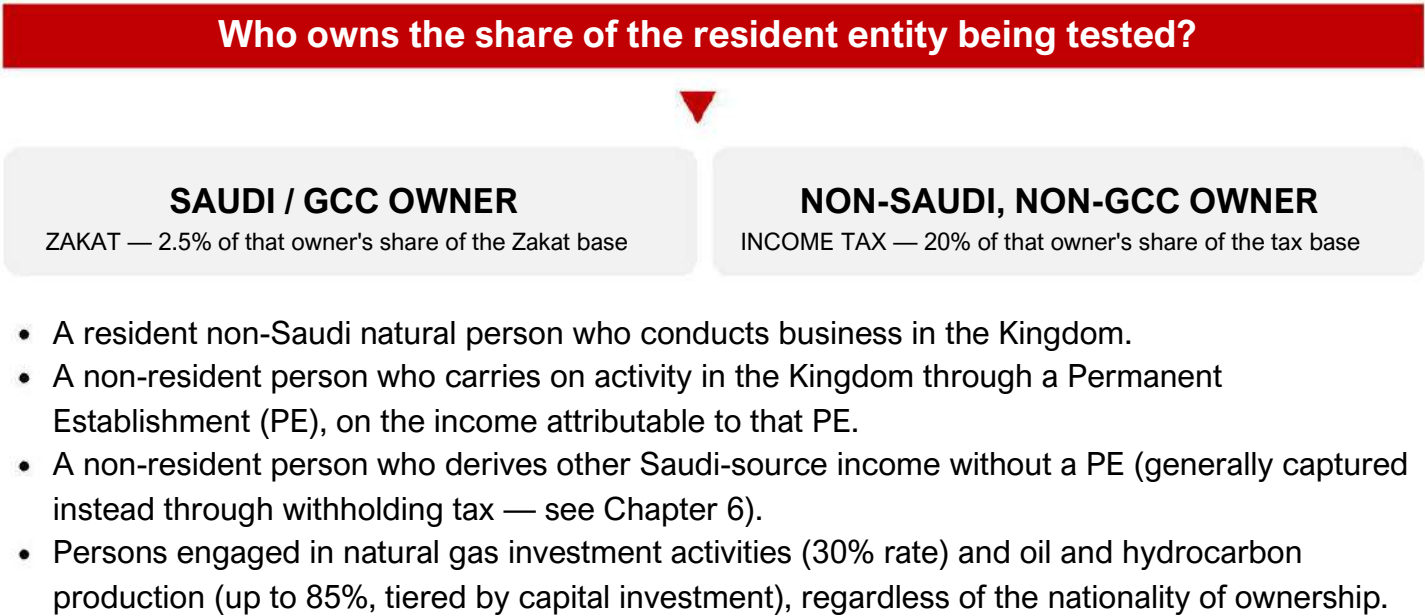
Who Pays Zakat

- Saudi nationals and GCC nationals (treated as Saudi nationals for Zakat purposes) holding shares in a resident capital company, to the extent of their ownership.
- Wholly Saudi/GCC-owned resident companies, on their full Zakat base.
- Sole proprietorships and unincorporated businesses owned by Saudi/GCC individuals.

Who Pays Income Tax

- Non-Saudi, non-GCC shareholders in a resident capital company, to the extent of their ownership.

Figure 2.A — Zakat or Income Tax: the ownership test



Who Pays Income Tax

Where a resident capital company has both Saudi/GCC and foreign shareholders, the company computes a single set of adjusted results and then apportions the Zakat base and the tax base pro rata to the respective ownership percentages at year end. Indirect ownership is generally traced up to the second level (i.e., through one intermediary shareholder) for this purpose. Complex holding structure (e.g.) private equity or multi-tiered offshore SPVs often require more detailed analysis to ascertain whether income Tax or Zakat is applicable.

Figure 2.C — Mixed ownership: apportionment example

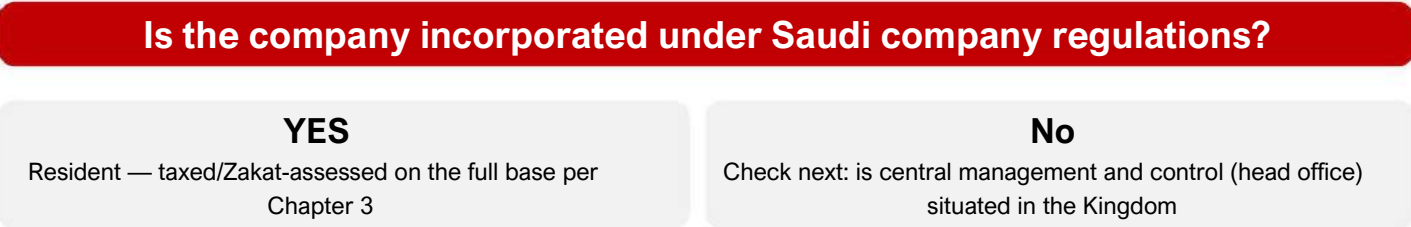
Saudi/GCC share (Zakat)		65%
Foreign share (Income Tax)		35%

Illustrative 65%/35% split: the company computes one set of adjusted results, then apportions the Zakat base and the tax base pro rata to each ownership percentage at year end — see the full worked example in Chapter 3.

Residence

A company is resident in Saudi Arabia if it is incorporated under Saudi company regulations, or if its central management and control (head office) is situated in the Kingdom. A natural person is resident if present in the Kingdom for 183 days or more in a 12-month period, or has a permanent place of abode and is present for at least 30 days in the year, among other tests set out in the Implementing Regulations

Figure 2.B — Corporate residence test



Income Tax Law, Article 2 (scope of taxable persons) and Article 3 (residence); Implementing Regulations for Zakat Collection (MR 1007, 1445H), Article 1 (definitions) and subsequent articles on the composition of Zakat payers

Figure 2.1 — Determining Zakat vs Income Tax liability for a resident entity

Ownership of the Resident Entity	Fiscal Treatment of That Ownership Share
Saudi national or GCC national shareholder	ZAKAT — 2.5% of that owner's share of the Zakat base
Non-Saudi, non-GCC shareholder	INCOME TAX — 20% of that owner's share of the tax base
Mixed ownership (both categories present)	Apportion the Zakat base and the tax base pro rata to each owner's percentage — see worked example, Chapter 3

Indirect and Second-Level Ownership

one or more intermediary entities, ZATCA generally traces ownership up to the second level — i.e., through one intermediary shareholder — to determine the ultimate Saudi/GCC versus foreign split. Beyond the second level, practice and specific guidance should be checked, as structures with several holding layers (common in private equity and multinational group structures) can create genuine uncertainty about how far ZATCA will look through the chain, and groups should not assume the apportionment automatically follows the ultimate beneficial owner without verifying the position with ZATCA or a Saudi tax adviser.

Natural Persons

Individuals are treated differently from companies. A Saudi or GCC national conducting business as a sole proprietor is a Zakat payer on that business activity. A non-Saudi, non-GCC individual who is tax-resident in the Kingdom and conducts business (as opposed to simply earning Saudi employment income, which is not subject to any Saudi personal income tax — see Chapter 4) is taxed at 20% on the business's taxable income. An expatriate employee drawing only a salary from a Saudi employer has no Saudi income tax filing obligation at all in respect of that salary

GCC Nationals: Treated as Saudi

For both Zakat and broader investment-law purposes, nationals of other GCC states (Bahrain, Kuwait, Oman, Qatar and the UAE) holding shares in a Saudi resident company are generally treated in the same way as Saudi nationals — i.e., their ownership share falls within the Zakat base rather than the tax base. This is a frequent point of confusion for GCC-based groups structuring a Saudi subsidiary, who sometimes assume — incorrectly — that any foreign shareholder, GCC or otherwise, triggers income tax exposure.

Common Pitfalls

- Assuming a GCC national shareholder is treated as "foreign" for Zakat/tax splitting purposes — GCC nationals sit on the Zakat side of the line.
- Overlooking that indirect ownership through a foreign holding company can still bring a Saudi entity's ultimate beneficial owner within the Zakat base, or vice versa, depending on how the intermediate layers are structured and how far ZATCA looks through the chain.
- Treating a branch of a foreign company as automatically outside the Zakat system — a foreign company's Saudi branch is a non-resident PE and is squarely within the income tax net at 20%, not Zakat, since there is no Saudi/GCC ownership to speak of in a branch structure.
- Failing to apply the correct ownership-change rule. For a resident company subject to Zakat, a change in ownership during the Zakat year generally does not interrupt the company's Zakat year; under Article 13 of the 1445H Zakat Regulations, the ownership at the end of the Zakat year is relevant. This should not be confused with the special pro-rata rules that can apply to a sole proprietorship on a complete transfer of ownership.

Comparison notes — UAE vs KSA: the UAE's federal Corporate Tax applies a single 9% standard rate to all resident taxable persons regardless of the nationality of ownership, with no Zakat overlay. Saudi Arabia's dual Zakat/tax system, by contrast, means the effective blended rate for any given Saudi entity depends entirely on its ownership mix — a wholly Saudi-owned company effectively pays 2.5% of net worth rather than a percentage of profit, which can produce a materially different and less profit-sensitive fiscal outcome than the UAE model, particularly for asset-heavy, lower-margin businesses.

Example — A Saudi-foreign joint venture

Saudi Co LLC is 70% owned by a Saudi family office and 30% by a European strategic investor. At year end, Saudi Co reports net adjusted profit of SAR 40 million and a Zakat base (net worth for Zakat purposes) of SAR 120 million. The Saudi shareholder's 70% share of the Zakat base (SAR 84 million) is assessed to Zakat at 2.5%; the foreign shareholder's 30% share of taxable income (SAR 12 million) is assessed to Corporate Income Tax at 20%. The two liabilities are computed, and generally filed, together as a single combined Zakat/tax return within 120 days of the financial year end.

Example- A three-tier holding structure

A Cayman fund holds 100% of a UAE holding company, which in turn holds 45% of a Saudi operating company (with the remaining 55% held directly by a Saudi family). Tracing ownership to the second level (fund → UAE Holdco → Saudi OpCo), the 45% interest is treated as foreign owned because the immediate and first intermediary owner (the UAE Holdco) is non-Saudi, regardless of the ultimate Cayman fund's own investor base. The Saudi family's direct 55% sits in the Zakat base. The structure should be reviewed against current ZATCA guidance before finalizing, since second-level tracing rules are applied by ZATCA on the specific facts.

Splitting the Base in a Mixed-Ownership Company

A Saudi-incorporated manufacturing company is 65% owned by Saudi/GCC shareholders and 35% owned by a foreign shareholder. The company's net income for the year is SAR 8,000,000, allocated pro-rata to ownership

Item	Amount (SAR)
Net income for the year	8,000,000
Saudi/GCC-owned share (65%) — subject to Zakat	5,200,000
Foreign-owned share (35%) — subject to income tax at 20%	2,800,000
Total (illustrative) income tax on foreign share	560,000

Zakat is separately assessed on the Zakat base attributable to the 65% Saudi/GCC interest, using net-worth principles rather than the SAR 5,200,000 income figure shown above — the income split here only fixes the ownership proportions used to apportion each base.

Figure 2.E — Which Regime Applies?

100% Saudi/GCC-owned



Zakat only

Chapter 3:

Determination of the Tax Base and the Zakat Base



Chapter 3:

Determination of the Tax Base and the Zakat Base

The Tax Base

The tax base is gross income less allowable deductions. Gross income captures all income, profits and gains arising from carrying on an activity, including capital gains, and — for a resident capital company — extends to income derived from operations both inside and outside the Kingdom, including through branches. Deductible expenses must generally be wholly and exclusively incurred in the production of income, properly substantiated, and not otherwise disallowed under the Law (for example, most entertainment expenses, fines and penalties, and Zakat/income tax itself are non-deductible).

Interest Deductibility

Saudi Arabia does not apply formal thin-capitalisation debt-to-equity ratios, but interest expense deductibility is capped: the deductible amount is the lower of (i) actual net interest expense, or (ii) interest income plus 50% of taxable income before interest income and interest expense (broadly an EBITDA-linked test). There are no controlled foreign company rules and no general anti-hybrid mismatch rules under the current Law.

Depreciation

Depreciation is computed on prescribed pooled rates by asset category set out in the Implementing Regulations rather than on a straight-line, asset-by-asset basis for most categories, which is a frequent source of book-to-tax difference for groups accustomed to IFRS depreciation policies. Assets are grouped into pools (broadly: buildings, plant and equipment by category, intangibles, and so on), and a prescribed percentage is applied to the pool's written-down value each year — meaning individual assets do not need to be tracked to a nil tax written-down value, but a group also cannot accelerate or decelerate depreciation on a single asset independently of its pool.

Provisions and Reserves

General and specific provisions are treated differently. A specific, evidenced bad debt provision (for example, against a named receivable with objective evidence of impairment) is generally deductible when written off; a general provision computed as a percentage of the receivables book, of the kind commonly booked under IFRS 9 expected credit loss modelling, is typically not deductible until the underlying debt is actually written off. This is one of the most common book-to-tax adjustments practitioners encounter when reconciling an IFRS 9-compliant set of financial statements to the tax base.

Figure 3.2 — Tax base computation waterfall, from gross income to tax payable

Step	Description
1. Start	Gross income (all income, profits & gains, including capital gains)
2. Deduct	Expenses wholly and exclusively incurred in producing income
3. Adjust	Interest cap (EBITDA-linked), non-deductibles added back, prescribed pooled depreciation
4. Subtotal	= Adjusted Taxable Income (Tax Base)
5. Deduct	Brought-forward losses (subject to the annual utilisation cap)
6. Result	Final Tax Base × 20% (standard rate) = Tax Payable

Practical Example — Calculating the Income Tax Payable

Foreign Co LLC is 40% owned by a non-Saudi shareholder. The table below walks through the tax base computation for the foreign-owned share, step by step, using illustrative figures.

Line	Amount (SAR)	Note
IFRS net profit before tax (100%)	18,000,000	Starting point per audited financial statements
Add back: entertainment expenses (non-deductible)	450,000	
Add back: general (unevidenced) bad debt provision	1,200,000	Only specific, evidenced provisions are deductible
Add back: excess interest expense over the EBITDA-linked cap	600,000	See "Interest Deductibility" above
Deduct: additional pooled tax depreciation over book depreciation	(900,000)	Book vs. pooled-rate tax depreciation difference
Adjusted taxable income (100%)	19,350,000	= Tax Base before ownership apportionment
Foreign ownership share (40%)	7,740,000	Apportioned tax base
Income tax payable (20% × 7,740,000)	1,548,000	Due within 120 days of year end

The Zakat Base

The Zakat base is fundamentally a net-worth concept rather than a profit concept. In broad terms it starts from shareholders' equity (share capital, reserves, retained earnings) as adjusted for opening balances, and adds back certain long-term liabilities and provisions financing non-current (fixed) assets, then deducts non-current(fixed) assets, investments in other entities' Zakat bases, and certain other statutorily permitted deductions. The 2024 overhaul of the Zakat regulations (MR 1007, 1445H) moved the starting point closer to the audited balance sheet as reported, reducing — though not eliminating — the separate Zakat-specific adjustment layer that previously diverged from the financial statements.

Figure 3.A — Zakat base vs Tax base: different starting points

ZAKATBASE	TAX BASE
Net-worth concept: equity+ long-term liabilities – fixed assets/investments, capped at year-end equity	Net-income concept: accounting profit adjusted for non-deductible items, exemptions and allowances

Statutory Floor and Ceiling

Articles 27 and 28 of the 1445H Zakat Regulations introduce two limits on the computed Zakat base. Article 27 applies where the computed base is below adjusted net profit and is the minimum limit. The minimum limit applies where the computed base is below adjusted net profit and net book profit, plus the difference between adjusted net profit and net book profit at year end, and (ii) adjusted net profit based on equity and its equivalents at year end, plus the difference between adjusted net profit or loss and net book profit or loss. Liabilities added to the base are also subject to the regulatory placement rules and may not exceed the deductible items of the Zakat base.

Off-Plan Real Estate Projects

Ministerial Resolution No. 1248 dated 3 April 2025 amended Article 73 of the 1445H Zakat Regulations for real estate projects under construction and off-plan sales projects. Real estate under construction intended for sale upon completion is deductible where the regulatory conditions are met, including non-current classification and a project-by-project sales-cost ratio test. Broadly, the cost-to-sales ratio is calculated as sales cost divided by beginning inventory plus additions during the year; the project is not deductible under the special rule where its current condition for sale in its current condition is not met, including where it is offered for sale on a translated sales-cost ratio exceeding 25%. Each project must be tested separately, and current asset classification does not automatically prevent the deduction where the Article 73 conditions are satisfied, subject to the related current-liability treatment.

Related-Party and Group Investments

A Zakat payer's investment in the Zakat base of another Zakat-paying entity within the same ownership structure is deductible from its own Zakat base, preventing the same underlying net worth from being taxed twice as it is consolidated up through a holding chain of wholly or partly Saudi/GCC-owned entities. This Note: The final sentence is cut off in the image, and some wording in the first two sections is slightly unclear due to the image angle and resolution.

Figure 3.1 — Zakat base computation waterfall, from shareholders' equity to Zakat payable

Step	Description
1. Start	Shareholders' equity (per audited financial statements)
2. Add	Long-term liabilities financing non-current assets, plus certain provisions
3. Deduct	Non-current (fixed) assets and investments in other entities' Zakat bases
4. Subtotal	Computed Zakat Base
5. Apply	Statutory floor (adjusted net profit) and ceiling (equity) — see Chapter 3
6. Result	Final Zakat Base × 2.5% = Zakat Payable

Practical Example — Calculating the Zakat Payable

Saudi Co LLC is 100% owned by Saudi nationals. The table below walks through the Zakat base computation step by step, using illustrative figures.

Line	Amount (SAR)	Note
Shareholders' equity at year end	80,000,000	Per audited financial statements
Add: long-term liabilities financing fixed assets	15,000,000	Financing tied to non-current assets

Line	Amount (SAR)	Note
Add: provisions financing non-current assets	2,000,000	Per the Implementing Regulations
Deduct: net book value of fixed assets	(35,0 00,00 0)	Non-current assets excluded from the base
Deduct: investment in a related Zakat- paying entity	(6,00 0,000	Avoids double-counting within the group
Computed Zakat base	56,000, 000	Before floor/ceiling check
Statutory ceiling check (year-end equity)	80,000, 000	Computed base (56m) is below the ceiling — no adjustment needed
Final Zakat base	56,000, 000	
Zakat payable (2.5% × 56,000,000)	1,400,000	Due within 120days of year end

Timing: Opening vs Closing Balances

The 2024 Zakat regulations placed renewed emphasis on the treatment of opening balance adjustments — corrections carried into a new fiscal year from prior-year Zakat computations — requiring these to be handled through the current year's return under prescribed mechanics rather than through informal restatement. Groups transitioning from the pre-2024 regulations (many of which had an extended election window, ultimately closed on 31 August 2025 following successive extensions under MR 947 and MR 1463) should retain clear documentation of which regulatory regime applied to which fiscal year, since the two frameworks compute the base differently enough that a mismatched opening balance can distort several years of Zakat filings if not carefully bridged.

Concept	Zakat Base	Tax Base
Starting point	Balance sheet (equity)	Profit & loss (net income)
Core adjustment	Add long-term liabilities financing fixed assets; deduct fixed assets & investments	Add back non-deductible expenses; deduct allowable items
Statutory limits	Floor (adjusted net profit) and ceiling (equity)	no equivalent floor/ceiling — driven by actual results
		20% (standard)

Example - Zakat base ceiling in practice

A wholly Saudi-owned trading company has year-end equity of SAR 50 million but, after adding back long-term liabilities financing its warehouse and deducting the warehouse itself, its raw computed Zakat base would be SAR 58 million. Because the statutory ceiling caps the base at the (adjusted) equity figure, the company's Zakat base for the year is capped at SAR 50 million rather than the higher computed figure.

Example Book-to-tax bridge on a bad debt provision

A distribution company books a general expected-credit-loss provision of SAR 3 million under IFRS 9 against its trade receivables book, alongside a specific, evidenced provision of SAR 800,000 against a single customer now in liquidation. For tax purposes, only the SAR 800,000 specific provision is deductible in the current year; the SAR 3 million general provision is added back to taxable income and will only become deductible, receivable by receivable, if and when those specific amounts are individually written off in a future year — creating a timing difference that a group's tax team should track outside the general ledger.

Worked Example 3.B — From Accounting Profit to Tax Base

A company reports the following reconciling items when moving from IFRS accounting profit to the income tax base for the year.

Item	Amount (SAR)
Accounting profit before tax	4,500,000
Add: entertainment expenses (disallowed)	120,000
Add: provision for doubtful debts (unrealised)	95,000
Less: dividend income (exempt, already taxed at source)	(200,000)
Total tax base	4,515,000

Reconciling items typically move the tax base away from the accounting profit figure in both directions — practitioners should not assume the two figures are interchangeable.

Figure 3.C — From Accounting Profit to Taxable Income



Chapter 4:

Tax Rates, Zakat Rate and Sector-Specific Regimes



Chapter 4: Tax Rates, Zakat Rate and Sector-Specific Regimes

Regime	Rate	Applies to
Zakat	2.5%	Zakat base, Saudi/GCC ownership
Corporate Income Tax — standard	20%	Tax base, non-Saudi ownership; resident non-Saudi natural persons; PEs of non-residents
Natural gas investment activities	30%	Regardless of ownership
Oil and hydrocarbon production	50%–85%, tiered by cumulative capital investment	Regardless of ownership
Capital Gains Tax	20% (non-resident share disposals); Zakat/20% (Resident, depending on status)	Disposals of shares/business assets
	5%, in addition to the 20% branch profits tax	resident's PE, on profits after tax
	0%	Regional Headquarters, for 30 years (see Chapter 10)

Note on the 2.5% Zakat rate: 2.5% is the correct headline rate for a Zakat year that follows the Hijri calendar. Where a Zakat payer's fiscal year follows the Gregorian calendar (as most do for accounting purposes), ZATCA requires a day-count adjustment to reflect the longer Gregorian year, producing an effective rate of approximately 2.5778% rather than a flat 2.5%. This handbook states the rate as "2.5%" throughout for simplicity; readers computing an actual Zakat liability for a Gregorian fiscal year should apply the day-count-adjusted rate confirmed in ZATCA's Zakat General Guideline, section 2.4.8, or verify the current adjustment factor with ZATCA at the time of filing.

EXAMPLE — Zakat payable for a Hijri versus a Gregorian fiscal year

Najd Holding Co has a Zakat base of SAR 40,000,000 for the year and files on a standard Gregorian (12-month) fiscal year ending 31 December, as most Saudi companies do for accounting purposes. At the simple headline rate of 2.5% (the correct rate for a 354-day Hijri Zakat year), Zakat payable would appear to be $\text{SAR } 40,000,000 \times 2.5\% = \text{SAR } 1,000,000$.

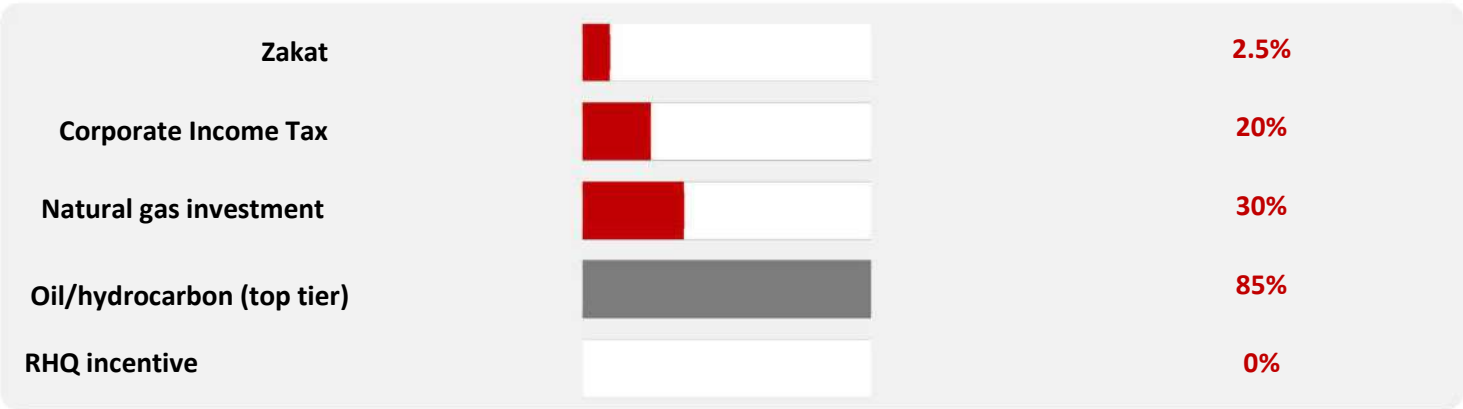
Applying ZATCA's day-count adjustment for a longer Gregorian year instead gives an effective rate of approximately 2.5778%, so the Zakat payable is $\text{SAR } 40,000,000 \times 2.5778\% = \text{SAR } 1,031,120$ — SAR 31,120 more than the unadjusted 2.5% figure suggests.

The gap is modest in percentage terms (about 3.1% of the Zakat liability) but is exactly the kind of rounding error that recurs every year for a Gregorian-year filer and should be built into the computation model as a standing adjustment factor, not treated as an occasional correction.

Oil and Hydrocarbon Tiering

Rates for hydrocarbon production are tied to the scale of cumulative capital investment rather than a flat rate: broadly 85% for investment up to USD 60 billion, tapering through 75%, 65% and down to 50% for investment exceeding USD 100 billion, reflecting the Kingdom's historical reliance on production-sharing style economics for its national champions in the sector. A separate, time-limited 20% rate applies to downstream hydrocarbon activities for five years, provided the taxpayer ring-fences its downstream operations.

Figure 4.A — Headline rates across the Saudi system (%)



No Personal Income Tax

Saudi Arabia does not levy personal income tax on employment income of individuals, Saudi or expatriate. Individuals are instead exposed to tax through business activity (as a resident non-Saudi natural person conducting business), Zakat (as a Saudi/GCC national with a Zakat-bearing interest), capital gains on share disposals, and — for employers — the General Organisation for Social Insurance (GOSI) contribution regime, which sits outside ZATCA's remit.

Figure 4.C — Two parallel systems, not one blended rate

ZAKAT SYSTEM	INCOME TAX SYSTEM
Applies to Saudi/GCC ownership — 2.5% of a net-worth base, payable even in a loss year if the balance sheet is equity-positive	Applies to non-Saudi ownership— 20% of a net-profit base, following ordinary profit/loss

Example Sector rate stacking for an integrated hydrocarbon investor

A foreign-owned investor holds interests spanning an upstream hydrocarbon production joint venture, a midstream natural gas processing entity, and a downstream petrochemicals plant within the same group. Each activity is assessed under its own applicable rate — the upstream interest potentially at a tiered rate up to 85% depending on cumulative capital investment, the natural gas processing entity at the flat 30% natural gas investment rate, and the downstream petrochemicals plant, if properly ring-fenced as a separate downstream activity, at the time-limited 20% rate for its first five years. Structuring and ring-fencing each activity correctly — including maintaining separate books and a defensible allocation of shared costs — is essential, since a failure to ring-fence, downstream activities can cause ZATCA to assess them instead at the much higher capital- investment-tiered upstream rate.

Reliefs

- There is no general Saudi small Business relief regime equivalent to the UAE Small Business Relief. Any simplified or Sector-specific treatment should be tested against the applicable Saudi Zakat, income tax, VAT or other statutory rules and current ZATCA guidance.
- Group relief for intra-group asset transfers (see Chapter 9).
- The 30-year 0% RHQ incentive for eligible activities (Chapter 10).
- Sector and free-zone-style incentives administered outside the core Income Tax Law (e.g., special economic zone incentives at NEOM and other giga-projects), which should be assessed on a case-by-case basis as they typically arise from bespoke Cabinet or ministerial decisions rather than the general Law.

The Blended Effective Rate: A Worked Illustration

Because Zakat and income tax use fundamentally different bases (net worth versus net profit), the two cannot simply be added together as if they were two slices of the same profit-based rate. The table below illustrates how the same underlying ownership split and reported profit can nonetheless produce a materially different blended “effective rate on profit” purely as a function of the company's balance sheet intensity.

Figure 4.B — Blended effective rate: what drives it

A company's blended effective rate is NOT one fixed number — it depends on:



OWNERSHIP MIX	BALANCE SHEET INTENSITY
Higher Saudi/GCC ownership shifts more of the base to Zakat (net-worth) rather than CT (net-profit)	A capital/equity-heavy Saudi-owned entity can face a Zakat charge even in a loss year

Scenario	Ownership Split	Net Profit	Zakat Base (70% share)	Tax Base (30% share)	Total Liability	Effective Rate on Profit
Asset-light services co.	70% Saudi / 30% foreign	SAR 20m	SAR 15m → SAR 375k Zakat	SAR 6m → SAR 1.2m tax	SAR 1.575m	≈7.9%
Asset-heavy manufacturer	70% Saudi / 30% foreign	SAR 20m	SAR 90m → SAR 2.25m Zakat	SAR 6m → SAR 1.2m tax	SAR 3.45m	≈17.3%

Common Pitfalls

The manufacturer's higher fixed-asset and equity base drives a materially higher Zakat charge relative to profit than the services company, even though both have identical reported profit and identical ownership splits — a structural feature of the Saudi system worth building into effective tax rate modelling, particularly for Pillar Two ETR purposes (Chapter 15) and when comparing a Saudi structure against a UAE alternative taxed purely on profit.

- Modelling Saudi tax cost purely as "20% of profit" for a mixed-ownership or wholly Saudi-owned entity, ignoring the Zakat charge on the Saudi/GCC-owned share, which is driven by net worth rather than profit and can dominate the total liability for capital-intensive businesses.
- Assuming the RHQ 0% rate extends automatically to a group's wider Saudi trading activity rather than only the RHQ's licensed eligible activities (see Chapter 10).
- Overlooking the 5% branch remittance tax layered on top of the 20% branch profits tax when modelling the total cost of operating through a Saudi branch rather than a locally incorporated subsidiary.

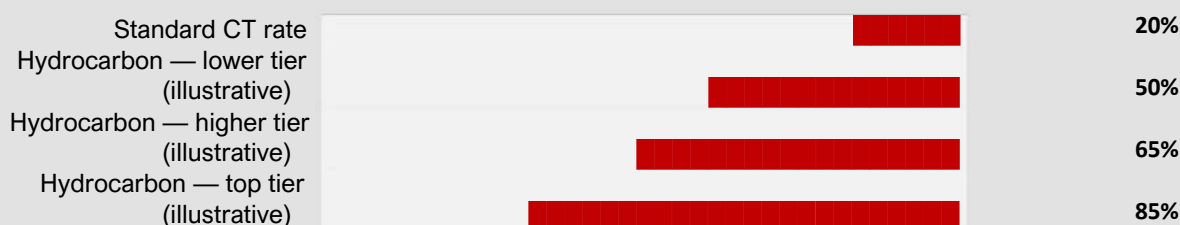
Worked Example 4.D — Tiered Rate on Oil and Hydrocarbon Production

Oil and hydrocarbon producers are taxed on a tiered scale linked to capital investment returns rather than the flat 20% rate. A simplified illustration for a producer crossing two tiers:

Item	Amount (SAR)
Taxable income in lower tier band	3,000,000
Tax at lower-tier rate (illustrative 50%)	1,500,000
Taxable income in higher tier band	2,000,000
Tax at higher-tier rate (illustrative 65%)	1,300,000
Total tax across both bands	2,800,000

The applicable tier depends on the investor's cumulative rate of return, not on income alone — always confirm the current tier thresholds before modelling a hydrocarbon investment.

Figure 4.E — Illustrative Tiered Hydrocarbon Rates vs the Standard 20% CT Rate



Chapter 5:

Losses and Group Relief



Chapter 5: Losses and Group Relief

Utilization of Tax Losses

Losses computed under the Income Tax Law may generally be carried forward indefinitely and offset against future taxable income, subject to an annual cap of 25% of the taxable income for the year, per ZATCA's return guidance on carried-forward adjusted losses — so a loss-making history cannot be used to eliminate an entire year's liability at once, and a taxpayer with a large accumulated loss balance will typically need several profitable years to fully utilise it. The 25% cap applies to the adjusted loss carried forward, not to gross accounting losses, and should still be re-confirmed against the current Implementing Regulations at the time of filing in case of subsequent amendment. Losses attributable to a change of activity or change of more than 50% in direct or indirect ownership can be restricted, a rule aimed at preventing loss trafficking through corporate acquisitions.

Figure 9.A — Utilising a loss carries forward under the 25% annual cap

Year	Taxable income before loss relief	Loss relief used ($\leq$ 25% cap)	Tax base after relief
Year 1	SAR 10,000,000	SAR 2,500,000	SAR 7,500,000
Year 2	SAR 10,000,000	SAR 2,500,000	SAR 7,500,000
Year 3	SAR 10,000,000	SAR 2,500,000 (pool exhausted)	SAR 8,500,000

Illustrative SAR 7,000,000 accumulated loss pool absorbed over three profitable years because only 25% of each year's taxable income can be sheltered — cash tax is still payable in every year despite the available loss balance.

No Carry-Back

Saudi Arabia does not permit losses to be carried back against a prior profitable year — relief is strictly forward-looking. A group that has a strong profitable year followed by a loss-making year cannot amend the prior year's return to claim relief for the later loss; the loss simply carries forward, subject to the annual utilisation cap, until absorbed against future profits.

Losses in a PE

A non-resident's Saudi PE (Chapter 7) computes and carries forward its own losses on a standalone PE basis; PE losses cannot be surrendered to, or offset against, profits of the non-resident's head office or other group entities located outside the Kingdom, consistent with the PE's treatment as a distinct taxable presence.

Figure 9.C — When can carried-forward losses be restricted?

Has the loss-making entity had a change of activity, or a change of more than 50% in direct or indirect ownership?



YES	NO
Carried-forward losses can be restricted — review before pricing an acquisition of a loss-making target	Ordinary carry forward continues, subject to the 25% annual cap (Figure 9.A)

No Formal Tax Consolidation

Unlike the UAE's Tax Group regime, Saudi Arabia does not offer formal consolidated Zakat or tax group filing that allows one group member's losses to directly offset another member's profits in a combined return. Each resident entity generally files, and is assessed, on a standalone basis. Group relief in the Saudi system operates narrowly— principally through the intra-group asset transfer relief on non-depreciating assets described in Chapter 5 — rather than through loss pooling.

Figure 9.B — Group relief: UAE vs Saudi Arabia

UAE	SAUDI ARABIA
Qualifying wholly owned resident groups may elect Tax Group status — losses automatically absorbed across the group in a single combined return	No formal consolidation— each resident entity files and is assessed standalone; group relief limited to intra-group asset-transfer relief (Chapter 5)

Comparison notes — UAE vs KSA: the UAE's Corporate Tax Law allows qualifying wholly-owned resident groups to elect Tax Group status, filing and being assessed as a single taxable person, with losses automatically absorbed across the group. A multinational restructuring its GCC footprint around a single regional holding pattern should not assume the UAE's group-relief mechanics transpose to Saudi Arabia — a Saudi group with a loss-making subsidiary and a profitable sister company will generally need bespoke intra-group pricing, financing or restructuring arrangements (each independently subject to transfer pricing scrutiny under Chapter 8) to achieve an economically similar outcome, since there is no election that lets losses flow directly between entities.

Zakat and "Losses"

Because the Zakat base is a net-worth rather than a net-income concept, a company can be loss-making for the year on a P&L basis and still carry a positive Zakat base (and therefore a Zakat liability) if its balance sheet remains net-worth-positive after the prescribed adjustments — a structural point that often surprises groups accustomed to loss carry forwards eliminating liability entirely in a bad year. There is no equivalent concept of a "Zakat loss carried forward" in the way a tax loss is carried forward; each year's Zakat base is computed fresh from that year's balance sheet.

- Assuming a wholly Saudi-owned group with a loss-making subsidiary can simply net that subsidiary's result against a profitable sister company's result for Zakat purposes — Zakat is assessed entity by entity on net worth, and pooling is not available.
- Overlooking the 50%-plus ownership change restriction on carried-forward losses when planning an acquisition of a loss-making Saudi target — the acquirer may find that some or all of the target's historical losses are no longer usable post-acquisition, which should be reflected in the transaction's tax due diligence and pricing.
- Forgetting that the annual utilisation cap means a large historical loss pool cannot be used to shelter an unusually profitable single year entirely — cash tax/Zakat can still be payable even where cumulative lifetime losses exceed cumulative lifetime profits, purely as a function of timing.

Practical Illustration — A loss year with a Zakat liability

A Saudi-owned services company records a P&L loss for the year due to a one-off restructuring charge, but its balance sheet retains substantial retained earnings from prior profitable years. Although there is no tax base and no income tax to assess (the company is wholly Saudi-owned), the company's Zakat base remains materially positive because Zakat is assessed on accumulated net worth, not on the current year's result — so a Zakat liability still arises despite the loss-making year.

Practical Illustration — Losses surviving a change of control

A foreign private equity buyer acquires 100% of a loss-making Saudi manufacturing company that has SAR 30 million of carried-forward tax losses, intending to fold it into an existing Saudi platform business. Because the acquisition represents a change of more than 50% of direct ownership, and is accompanied by a change in the target's core business activity as it is integrated into the buyer's existing operations, ZATCA may restrict the carried-forward losses' availability post-acquisition. The buyer's due diligence and purchase price model should treat the SAR 30 million loss pool as at risk rather than as a certain future tax shield, pending confirmation of the post-acquisition position.

Practical Example — Applying the Annual Loss Utilisation Cap

Line	Amount (SAR)
Brought-forward tax losses at the start of the year	40,000,000
Current-year taxable income before loss relief	12,000,000
Illustrative annual utilisation cap (25% of current-year taxable income)	3,000,000
Loss relief claimed this year	3,000,000
Taxable income after loss relief Income	9,000,000
tax payable (20% × 9,000,000) Losses	1,800,000
remaining to carry forward	37,000,000

Worked Example 9.D — Four-Year Loss Carry forward Under the 25% Cap

A company carries forwarder 6,000,000 tax loss. Each subsequent year's taxable income before loss relief is shown, with utilisation capped at 25% of that year's income.

Item	Amount (SAR)
Loss balance brought forward	6,000,000
Year 1 income before relief: 2,000,000 — utilised (25%)	500,000
Year 2 income before relief: 3,200,000 — utilised (25%)	800,000
Year 3 income before relief: 4,800,000 — utilised (25%)	1,200,000
Loss balance still available after Year 3	3,500,000

Even with strong recovery in profitability, the 25% annual cap means a large loss balance can take many years to fully absorb.

Figure 9.E — Loss Balance Remaining After Each Year

Start	6,000,000
After Yr 1	5,500,000
After Yr 2	4,700,000
After Yr 3	3,500,000

Chapter 6:

Exemptions: Consolidated Overview



Chapter 6: Exemptions: Consolidated Overview

- Capital gains on Tadawul-listed shares acquired after 30 June 2004, when sold through the exchange or a compliant off-market transfer.

Figure 11.A — Exemptions by tax type

Tax	Key exemption examples
Income Tax	Listed shares (post-2004); qualifying dividends (10%/1yr test); intra-group asset transfers; RHQ eligible income
Zakat	Investment in other Zakat payers (double-count relief); off-plan developer deduction (Art. 73); year-end equity ceiling
Excise	Goods held for genuinely exempt onward/suspended use
VAT / RETT	See Chapters 17–18 (deliberately narrower commentary treatment in this handbook)

- Qualifying dividend income received by a resident company meeting the 10% ownership / one- year holding participation test.
- Gains and losses on qualifying intra-group transfers of non-depreciating assets held within the group for at least two years.
- Income of the government and specified government-owned entities, subject to conditions. Income from eligible RHQ activities for 30 years under the RHQ Tax Rules (Chapter 10).

Zakat-Specific Reliefs

- Deduction of the Zakat payer's investment in the Zakat base of other Zakat-paying entities, to avoid double-counting within a wholly Saudi-owned group.
- The bespoke off-plan real estate developer deduction under Article 73 (as amended by MR 1248).
- The statutory ceiling capping the Zakat base at year-end equity, discussed in Chapter 3.

Excise Tax Exemptions

Although outside the core scope of this handbook, entities holding goods for genuinely exempt onward use (for example, licensed manufacturers holding excise goods for further processing in a tax-suspended warehouse regime) may access excise tax exemptions or deferrals administered by ZATCA — relevant to groups whose Saudi operations touch tobacco, sweetened beverages, or energy/soft drinks in the supply chain, even where the group's principal activity is unrelated.

Figure 11.C — Is this excise/VAT/RETT exemption question in scope of this handbook?

Does the question concern Income Tax or Zakat exemptions?	
<p>YES</p> <p>Covered in full above (this chapter)</p>	<p>NO</p> <p>VAT/RETT exemptions: see Chapters 17–18 commentary; Excise: consult ZATCA's dedicated excise guidance</p>

VAT and RETT Exemptions

These are addressed in the commentary chapters at the end of this handbook (Chapters 17 and 18), given the deliberately narrower treatment of VAT and RETT in this edition.

Reading Exemptions Together: A Worked Structuring Example

Exemptions are rarely evaluated in isolation in practice — a single transaction often needs to be checked against several of the exemptions above simultaneously. Consider a Saudi holding company restructuring to move a 15%-owned investment in a Tadawul-listed operating subsidiary into a newly formed intermediate holding entity, ahead of an anticipated future listing of that intermediate entity itself. The restructuring step would need to be separately checked against: (i) whether the transfer of listed shares itself qualifies for the listed-shares capital gains exemption (Chapter 5); (ii) whether the future dividend flow from the operating subsidiary up through the new intermediate holding entity meets the 10%-ownership, one-year-holding dividend exemption test (Chapter 5) — noting the test resets on a change of holding structure; and (iii) whether any underlying real estate held by the operating subsidiary triggers RETT on an indirect share-transfer basis (Chapter 18) if the 30%-or-more threshold for share disposals in a real-estate company is crossed. None of the three exemptions is automatically consistent with the others, and a structuring step optimised for one can inadvertently reset or break the conditions for another.

Figure 11.B — Checking a restructuring step against multiple exemptions at once



A Word of Caution

Exemptions in the Saudi system are almost invariably conditional rather than absolute — a minimum holding period, a listing requirement, a substance test, or a licensing condition typically sits behind each relief listed above. Practitioners should treat this chapter as a signpost to the relevant chapter's detailed conditions rather than as a standalone basis for a filing position.

Worked Example 11.D — Irrecoverable Input VAT Cost on an Exempt Supply

A real estate lessor makes exempt residential leasing supplies and incurs input VAT on related costs that cannot be recovered.

Item	Amount (SAR)
Input VAT incurred on maintenance and management costs	180,000
Input VAT incurred on capital improvements	310,000
Total input VAT for the period	490,000
Input VAT recoverable (exempt supply — nil)	0
Net irrecoverable VAT cost absorbed by the lessor	490,0 00

Because residential leasing is VAT-exempt rather than zero-rated, the lessor cannot recover this input VAT—it becomes a real cost embedded in the rental economics.

Figure 11.E — Five Exemption Regimes briefly



Chapter 7:

Withholding Tax



Chapter 7: Withholding Tax

Overview

Withholding tax applies to Saudi-source payments made by a resident (or a non-resident's PE) to a non- resident who has no PE in the Kingdom in respect of that income. The payer — the withholding agent — is legally responsible for deducting the tax at source and remitting it to ZATCA; liability for an under- withheld amount falls first on the payer, not the non-resident recipient, which makes WHT one of the most operationally sensitive areas of Saudi tax for any business making cross-border payments. ZATCA issued the Second Version of its General Guideline for Withholding Tax in May 2026. The updated guidance provides additional classification detail, including the distinction between royalties and software-related services, the treatment of technical and advisory services, management fees, services provided to resident companies or head offices, and the scope of payments treated as Saudi-source income. Practitioners should use the May 2026 guidance when classifying mixed software/service arrangements and other cross-border payments, rather than relying on the payment label in the contract alone.

Domestic Rates under Article 68

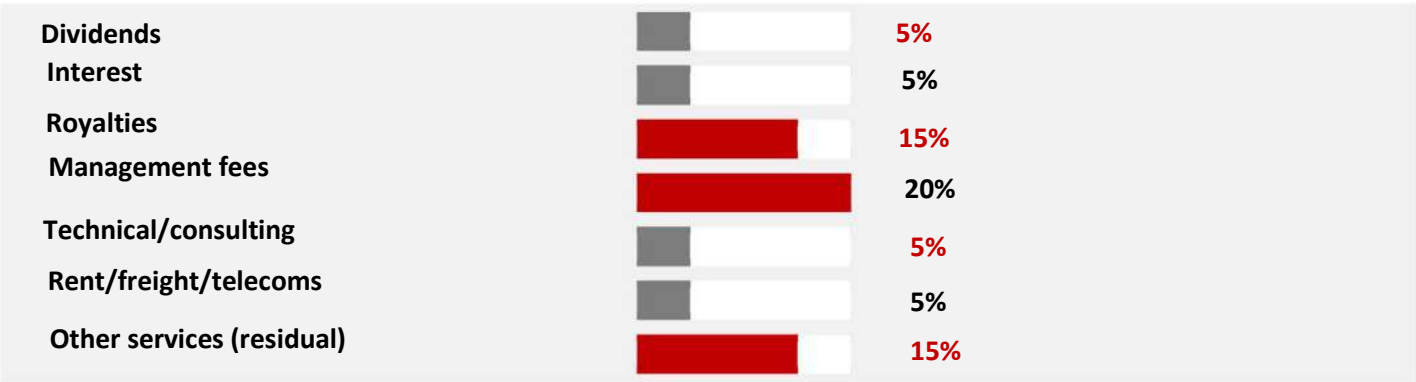


Figure 6.A — Domestic WHT rate by payment type (%)

Payment Category	Domestic WHT Rate
Dividends	5%
Interest / loan charges	5%
Royalties (including software, IP, know-how) Management fees	15%
Technical and consulting services	5% (applies since 15 September 2023 even when paid to a related head office or group company)
Rent, air/sea freight, international telecommunications	5%
Insurance and reinsurance premiums	5%

Payment Category	Domestic WHT Rate
Other payments for services not otherwise specified	15%
Deemed dividend on liquidation proceeds exceeding invested capital	5% (no separate exit tax otherwise applies)

Figure 6.1 — Withholding tax: from payment classification to monthly filing

Step	Action
1. Trigger	Resident payer makes a payment to a non-resident with no Saudi PE
2. Classify	Identify the payment category (dividend, interest, royalty, services, management fee, etc.)
3. Determine rate	Apply the Article 68 domestic rate, or a lower treaty rate if conditions are met
4. Withhold	Deduct WHT at source from the gross (or grossed up) payment
5. Remit & file	Pay ZATCA and file the WHT return by the 10th of the following month
If missed	The payer — not the non-resident payee — bears primary exposure, plus penalties and interest

Filing and Payment

Withheld amounts must be remitted to ZATCA by the 10th day of the month following the month of payment, together with the corresponding WHT return. Persistent late or non-remittance exposes the withholding agent — not only the non-resident payee — to penalties, interest and potential disallowance of the underlying expense for income tax purposes.

Grossing-Up

Where a contract obliges the Saudi payer to deliver a fixed net amount to the non-resident (a "net of tax" or grossed-up arrangement, common in financing and some services agreements), WHT is computed on the grossed-up gross equivalent rather than on the stated net figure — meaning the payer's real cash cost of the WHT is higher than a simple percentage of the contract price would suggest. Contract drafting should make explicit whether pricing is stated gross or net of Saudi WHT, as this is a frequent source of dispute between contracting parties who read the same clause differently.

Treaty Relief

Saudi Arabia has an expanding treaty network (including, among others, the UK, France, most of the EU, China, India, South Korea and Malaysia). A treaty signed with Bahrain in December 2025 had not yet entered into force at the time of writing; separately, during 2026 treaties with Qatar, Mauritania, Iceland and Croatia entered into force, further extending the in-force network beyond the Bahrain signature alone. Treaty rates generally follow the OECD Model and typically reduce WHT on dividends (often to 5% where a minimum shareholding threshold, commonly 20% or 25%, is met, and 10–15% otherwise), interest (often 0–10%) and royalties (typically 5–10%, sometimes with a separate, higher rate for technical/managerial services fees bundled into a royalty definition). Each treaty must be read individually — the general pattern above is a starting point, not a substitute for checking the specific article and confirming current in-force status against ZATCA's treaty pages.

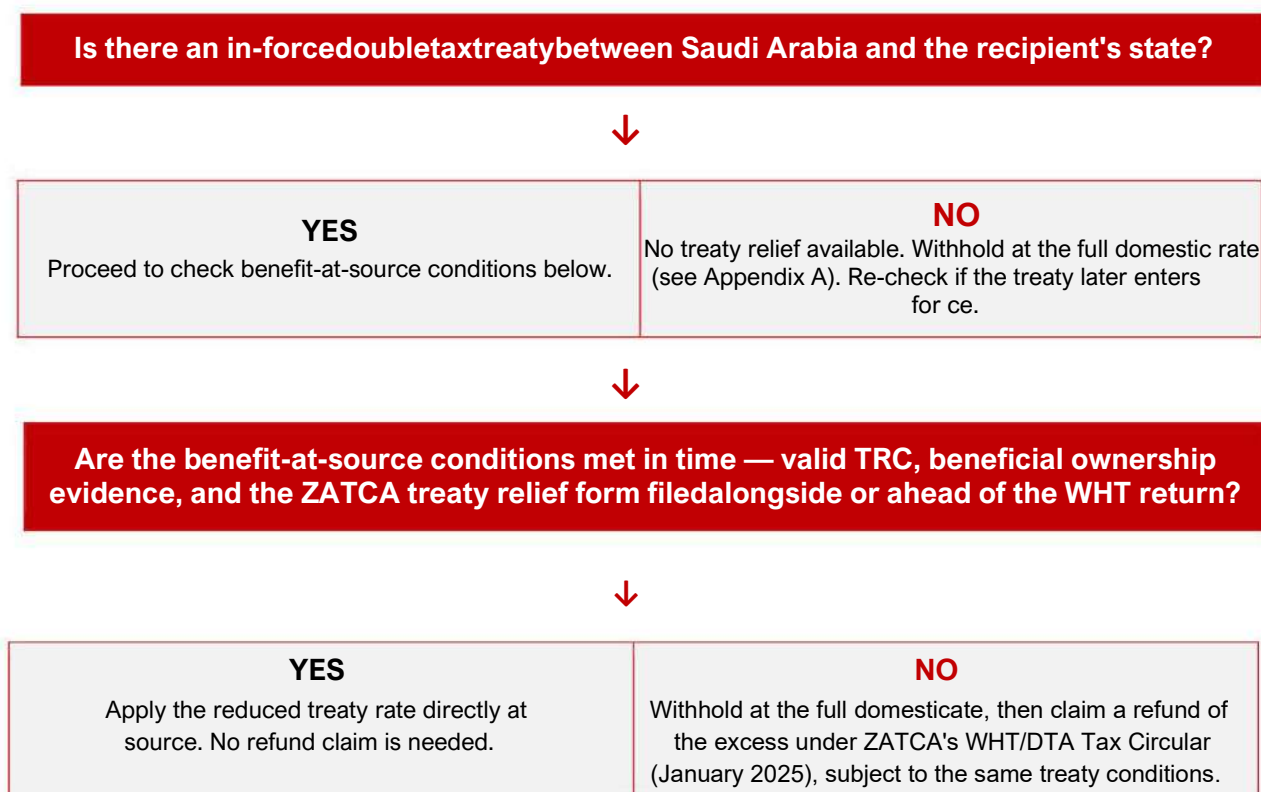
Figure — Saudi treaty network: recent milestones

Date	Milestone
1 April 2019	Saudi-UAE double tax treaty enters into force (signed 23 May 2018)
December	Saudi-Bahrain double tax treaty signed — not yet in force at the time of writing
2025 2026	Treaties with Qatar, Mauritania, Iceland and Croatia enter into force

Procedural Requirements for Claiming Treaty Relief

- A valid Tax Residency Certificate from the recipient's home tax authority, covering the relevant fiscal period.
- Evidence that the recipient is the beneficial owner of the income (not merely a conduit), particularly relevant for interest, royalty and dividend flows through holding or financing intermediaries.
- Compliance with any treaty-specific limitation-on-benefits or principal-purpose-test style anti-abuse provisions, where the treaty in question includes them.
- Timely submission of the relevant ZATCA treaty relief form alongside, or in advance of, the WHT return where the taxpayer wishes to apply the treaty rate at source. Where those benefit-at-source requirements are not met in time, ZATCA's WHT/DTA Tax Circular (issued January 2025) confirms a second route: the Saudi payer withholds at the full domestic rate as normal, and the recipient subsequently applies for a refund of the excess under the prescribed refund procedure, subject to the same underlying treaty conditions and evidentiary requirements. Relief is therefore available either at source or, failing that, by refund — but not simply by unilateral assumption that the treaty rate applies without following one of these two routes.

Figure—Claiming treaty WHT relief: at source or by refund



Treaty WHT Rate Snapshot

The table below illustrates typical treaty-reduced WHT rates for a sample of Saudi Arabia's treaty partners, for general orientation only. Treaty rates are frequently tiered by shareholding percentage (for dividends) or by the nature of the underlying asset/service (for royalties), so the figures below should be read as illustrative starting points, not as a substitute for reading the specific treaty article that applies to a given payment.

Treaty Partner (illustrative)	Dividends	Interest	Royalties
United Kingdom	5% ($\geq 25\%$ holding) / 15%	0%	5% / 8%
France	5% ($\geq 25\%$ holding) / 15%	0% / 10%	5% / 10%
China	5% ($\geq 25\%$ holding) / 10%	10%	10%
India	5% ($\geq 10\%$ holding) / 10%	10%	10%
South Korea	5% ($\geq 25\%$ holding) / 10%	5%	5% / 10%
Malaysia	5% ($\geq 10\%$ holding) / 10%	5% / 10%	8%
Ireland	0% / 5%	0%	5% / 8%

These figures are illustrative and simplified for orientation purposes; always confirm the exact rate, shareholding threshold and any anti-abuse conditions against the specific treaty text and its protocol before applying a reduced rate.

GCC Payments

A common misconception is that payments to GCC-resident recipients are automatically outside WHT. They are not: WHT applies based on tax residence and PE status under Saudi domestic law, not nationality or GCC Unified Economic Agreement status, so a payment to a GCC-resident entity without a Saudi PE remains subject to WHT unless a specific treaty (where one exists) or exemption applies. The UAE illustrates the opposite risk of the same misconception: Saudi Arabia and the UAE signed a double tax treaty on 23 May 2018, which entered into force on 1 April 2019, so UAE-resident recipients may in fact be able to claim treaty relief on Saudi-source payments, subject to the treaty's specific terms and ZATCA's procedural requirements — a benefit that is easy to miss if a GCC counterparty is wrongly assumed to be automatically outside the WHT net rather than potentially entitled to a specific treaty rate. Bahrain, by contrast, illustrates the first version of the misconception: at the time of writing its treaty with Saudi Arabia (signed December 2025) had not yet entered into force, so Bahrain-resident recipients could not yet rely on any treaty relief at all. The lesson in both directions is the same — GCC membership predicts nothing about WHT treatment; the only reliable test is the in-force treaty position for that specific counterparty state, checked individually.

EXAMPLE — Royalty WHT: an in-force treaty versus a signed-but-not-yet-in-force treaty

A Saudi manufacturing licensee pays SAR 2,000,000 in annual royalties to its parent company for the use of registered technology, under two alternative scenarios.

Scenario A — UAE parent: because the Saudi-UAE treaty has been in force since 1 April 2019, the UAE parent may claim the treaty-reduced royalty rate (illustrative rate of 10%, subject to confirming the actual figure against the specific treaty article), provided the benefit-at-source conditions are met. WHT payable: $\text{SAR } 2,000,000 \times 10\% = \text{SAR } 200,000$, a saving of SAR 100,000 against the full domestic rate.

Scenario B — Bahrain parent: because the Saudi-Bahrain treaty (signed December 2025) had not yet entered into force at the time of writing, no treaty relief is available at all. WHT payable is the full domestic royalty rate of 15% (see Appendix A): $\text{SAR } 2,000,000 \times 15\% = \text{SAR } 300,000$.

Same GCC region, same royalty amount, same commercial relationship — a SAR 100,000 difference in WHT purely because of each counterparty state's individual treaty status. This is the numerical illustration of the point made above: GCC membership itself decides nothing.

WHT and VAT Interaction

A payment to a non-resident service provider can simultaneously trigger WHT (on the payment itself) and a reverse-charge VAT obligation for the Saudi recipient (self-accounting for VAT on imported services), particularly for management fees, technical services and royalty payments. These are two entirely separate obligations administered under two different articles of two different laws, and satisfying one does not discharge the other — a frequent compliance gap in groups that route all cross-border payment analysis through either their WHT process or their VAT process, but not both in parallel.

Practical Illustration — Technical services fee to a related head office

A Saudi branch of a multinational engineering group pays SAR 10 million to its foreign head office for centrally provided technical support. Even though the payment is intra-entity rather than to an unrelated third party, the 5% technical services WHT rate applies (following the September 2023 clarification extending the rate to payments to a related head office), giving rise to SAR 500,000 of WHT that the Saudi branch must withhold and remit by the 10th of the following month.

Practical Illustration — A net-of-tax financing arrangement

A Saudi project company borrows from a foreign lender under a facility agreement requiring interest to be paid "free and clear of all Saudi withholding taxes." On a SAR 4 million annual interest payment, the borrower must gross up so the lender still receives SAR 4 million net of the 5% WHT — meaning the borrower's actual cash cost is approximately SAR 4.21 million ($\text{SAR } 4 \text{ million} \div 0.95$), with the additional SAR 210,526 withheld and remitted to ZATCA. The project company's financial model should reflect this grossed-up cost from the outset rather than discovering it only when the first interest payment falls due.

Practical Example — Computing WHT Across a Multi-Payment Month

Payment	Gross Amount (SAR)	Rate	WHT Withheld (SAR)
Dividend to a foreign shareholder (no treaty claimed)	10,000,000	5%	500,00 0
Loan interest to a foreign lender	2,000,000	5%	100,00 0
Software licence royalty to a foreign vendor	1,500,000	15%	225,00 0
Management fee to a foreign parent	3,000,000	20%	600,00 0
Technical services fee to a related party	4,000,000	5%	200,00 0
Total WHT due by the 10th of the following month	—	—	1,625,000

Worked Example 6.B — Gross-Up on a Contractual Net-of-Tax Dividend Payment

A Saudi company agrees to pay a foreign shareholder a dividend of SAR 950,000 net of withholding tax, with the payer contractually bearing the WHT cost.

Item	Amount (SAR)
Net amount contractually due to shareholder	950,000
Domestic WHT rate on dividends	5%
Grossed-up gross payment ($950,000 \div 0.95$)	1,000,000
WHT borne by the payer ($1,000,000 - 950,000$)	50,000

Gross-up clauses increase the payer's effective cost above the headline WHT rate applied to the stated contract price — always check whether a contract is silent, net-of-tax, or gross.

Figure 6.C — Domestic WHT Rates by Payment Type

Dividends		5%
Interest		5%
Royalties		15%

Management fees		20%
Technical/consulting services		5%
Rent/freight/telecoms		5%

Figure 6.C — Domestic WHT Rates by Payment Type

Chapter 8:

Capital Gains



Chapter 8: Capital Gains

Overview

Capital gains are not a separate schedular tax in the Saudi system in the way VAT or RETT are; they are, in principle, included in gross income and taxed (or Zakat-assessed) at the normal rate applicable to the taxpayer. In practice, however, share disposals by non-residents are commonly discussed as a distinct "Capital Gains Tax" because of how they are reported and because a flat 20% outcome results regardless of the seller's broader tax profile.

Disposals of Shares in a Resident Company

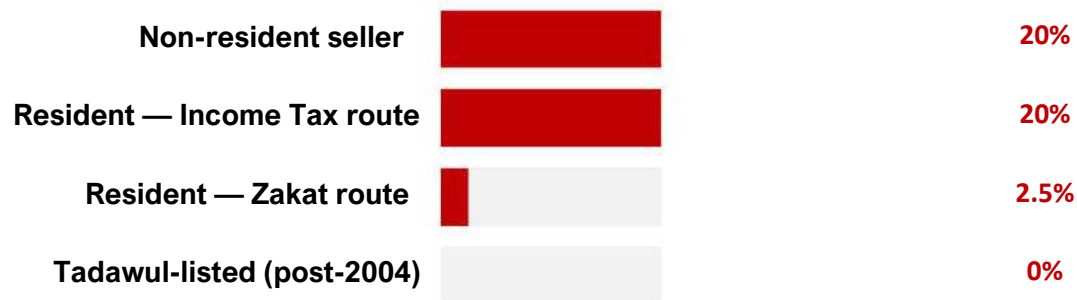


Figure 5.A — Capital gains tax outcome by seller and asset type (%)

Seller	Treatment
Non-resident shareholder	20% on the gain (sale price less cost base), reportable to ZATCA regardless of whether the non-resident otherwise files in the Kingdom
Resident Saudi/GCC shareholder	2.5% Zakat on the relevant base, or 20% income tax on the gain, depending on the shareholder's own tax status and how the shareholding is held
Shares listed on Tadawul and acquired after 30 June 2004	Exempt when sold through the Saudi exchange or via an off-market transfer complying with Capital Market Authority rules

Valuation and Reporting

The consideration for a share disposal is generally valued at the highest of the contract price, market value, or book value, to prevent understatement through non-arm's-length pricing. A change of ownership in a resident company must be notified to ZATCA within 60 days of the transaction, and both buyer and seller can be held jointly responsible for non-compliance — a point that is frequently overlooked in cross-border share purchase agreements where the buyer assumes the seller alone carries the filing obligation.

Intra-Group Transfers

Transfers of non-depreciating assets, including shares, between wholly owned group companies do not trigger a gain or loss, provided the asset remains within the group for at least two years following the transfer. ZATCA restricts this relief to transfers among Saudi-resident group companies; it does not extend to cross-border intra-group transfers involving a non-resident group member.

Dividends

Dividend income received by a resident company is generally exempt from income tax where the recipient holds at least 10% of the paying entity for at least one year (a participation-exemption-style test); dividends that do not meet this test are taxed at the normal 20% rate. Dividends paid to a non-resident is subject to 5% dividend withholding tax, subject to any applicable treaty reduction (see Chapter 6).

Asset Disposals vs Share Disposals

Where a business is sold as an asset deal rather than a share deal, any gain on the disposal of business assets are taxed (or Zakat-assessed) as ordinary income/base rather than under the share-disposal-specific rules above. Practically, this means an asset deal exposes the seller to tax on the full gain at its normal blended rate — including any Zakat-base exposure on the Saudi-owned portion — with none of the listed-share exemption Orinta-group relief routes potentially available on a share deal, so the choice between an asset deal and a share deal is rarely tax-neutral in Saudi Arabia and should be modelled early in any transaction.

Figure 5.C — Asset deal vs share deal: total tax cost

SHARE DEAL	ASSET DEAL
Gain taxed under Chapter 5 rules; possible intra-group relief; RETT generally avoided unless the RETT share-transfer threshold is crossed	Gain taxed as ordinary income/base at the normal blended rate; underlying real estate transfer separately triggers RETT at 5% (Chapter 18)

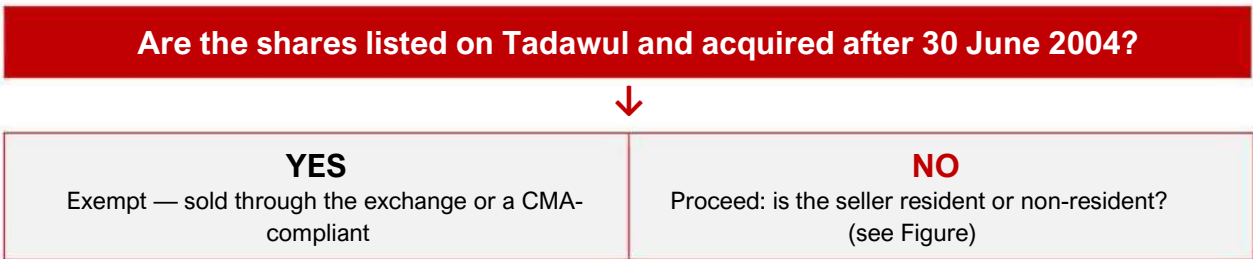
Cost Base and Currency

The cost base for a share disposal is generally the original acquisition cost (including qualifying capitalised acquisition expenses), adjusted for any subsequent capital contributions or capital returns. Where the original investment was made in a foreign currency, ZATCA's practice is to work in Saudi Riyal terms using the exchange rate prevailing at the relevant transaction dates — foreign-currency translation gains embedded in a US Dollar or Euro-denominated investment (the Riyal has been pegged to the US Dollar since 1986, which mutes but does not eliminate this effect against other currencies) should be identified early, as they can materially affect the computed Riyal-denominated gain independently of the underlying commercial return.

Losses on Share Disposals

A capital loss on a share disposal is, in principle, available to offset against other taxable income/base in the same way as an operating loss, subject to the general loss carry forward rules in Chapter 9 — but a loss realised on a disposal that would have been exempt had it been a gain (for example, a loss on qualifying listed shares) is correspondingly not deductible, mirroring the exemption rather than creating an asymmetric one-way relief.

Figure 5.B — Share disposal: which treatment applies?



Practical Illustration — Exiting a joint venture

A European private equity fund sells its 35% stake in an unlisted Saudi manufacturing company for SAR 200 million, having invested SAR 120 million four years earlier. The SAR 80 million gain is taxed at 20% (SAR 16 million), reportable and payable to ZATCA within the statutory window, and the change of ownership must be notified within 60 days of completion — both the fund and the Saudi buyer share exposure if the notification is missed.

Practical Illustration — Choosing between an asset deal and a share deal

A wholly Saudi-owned family group is negotiating the sale of a logistics business. Structured as a share sale, the gain (subject to the family's own Zakat/tax status) benefits from the possibility of intra-group relief if sold to a related buyer within the same wider group, and RETT exposure on any underlying real estate is generally avoided (Chapter 18) unless the share transfer itself crosses the RETT real estate-company share-transfer threshold. Structured instead as an asset sale of the trucks, warehouse and goodwill, the warehouse transfer would separately trigger RETT at 5% of its value, on top of ordinary income/Zakat treatment of the overall gain — materially changing the total tax cost of the same underlying commercial transaction depending purely on how it is structured.

Practical Example — Computing Capital Gains Tax on a Share Sale

Line	Amount (SAR)
Sale proceeds (non-resident seller)	45,000,000
Original cost base (acquisition cost + capitalised expenses)	(28,000,000)
Taxable gain	17,000,000
Capital Gains Tax payable (20% × 17,000,000)	3,400,000
Ownership-change notification deadline	60 days from completion

Worked Example 5.D — Computing a Gain on a Share Disposal

A foreign investor sells its shares in a Saudi resident company. Cost base and proceeds are translated at the applicable exchange rates.

Item	Amount (SAR)
Disposal proceeds	12,000, 000
Original cost base (at acquisition FX rate)	(7,500,000)
Capital gain	4,500,000
Tax at 20%	900,00 0

Where the cost base was fixed in a foreign currency, the SAR translation on both acquisition and disposal dates can materially change the taxable gain even if the foreign-currency price is unchanged.

Figure 5.E — Asset Disposal vs Share Disposal



Chapter 9:

Transfer Pricing



Chapter 9: Transfer Pricing

Overview

Saudi Arabia's Transfer Pricing Bylaws, issued under the Income Tax Law and broadly aligned with the OECD Transfer Pricing Guidelines and BEPS Action 13, require related-party transactions to be priced on an arm's-length basis. A defining feature of the Saudi regime — and a frequent point of confusion for groups used to other GCC jurisdictions — is that, since financial years beginning on or after 1 January 2024, the rules apply not only to income taxpayers but also to Zakat payers, including wholly Saudi-owned groups that have no foreign shareholding at all.

Documentation: The Three-Tier Model

Document	Threshold
Controlled Transactions Disclosure Form	Any related-party transaction — no minimum
Master File / Local File (taxpayers)	> SAR 6 million
Local File (Zakat payers) Country-by-	> SAR 100m (2024–26); > SAR 48m (2027+)
Country Report	Consolidated group revenue > SAR 3.2 billion >
Advance Pricing Agreement (optional)	SAR 100 million/year

Figure 8.A — Transfer pricing documentation thresholds (SAR)

Document	Who Must Prepare	Trigger / Threshold	Deadline
Controlled Transactions Disclosure Form (C TDF)	All taxpayers/Zakat payers with controlled transactions	Any related-party transaction (no minimum)	Filed with the annual return, within 120 days of year end
Master File	Taxpayers	Related-party transactions exceeding SAR 6 million in the year	Not filed proactively — provided to ZATCA within 30 days of request
Local File	Taxpayers; Zakat payers (phased)	Taxpayers: same SAR 6m trigger. Zakat payers: SAR 100 million (2024–2026), falling to SAR 48 million from 2027	Within 30 days of ZATCA's request
Country-by-Country Report (CyBC)	Saudi-headquartered ultimate parents of MNE groups (plus notification by	Consolidated group revenue exceeding SAR 3.2 billion	Within 12 months of year end

Document	Who Must Prepare	Trigger / Threshold	Deadline
	constituent entities of foreign-headquartered groups)		

Figure 8.1 — Transfer pricing documentation triage by taxpayer type and threshold

Trigger	Who	Required Documentation
Any related party (controlled) transaction, any amount	All taxpayers and Zakat payers	Controlled Transactions Disclosure Form (CTDF) + auditor affidavit, filed with the return
Related-party transactions > SAR6 million	Taxpayers (income tax)	Master File + Local File, provided to ZATCA within 30 days of request
Related-party transactions > SAR 100m (2024–26) / > SAR 48m (2027+)	Zakat payers	Local File, provided to ZATCA within 30 days of request
Consolidated group revenue > SAR 3.2 billion	Saudi-headquartered MNE parents (+ notification by constituent entities of foreign parents)	Country-by-Country Report (CbCR), filed within 12 months of year end
Related-party transactions > SAR 100 million/year	Taxpayers and Zakat payers (optional)	May apply for an Advance Pricing Agreement (APA) — binding for 3 years

Methods and Audit Practice

ZATCA recognises the five OECD-endorsed methods — Comparable Uncontrolled Price, Resale Price, Cost Plus, Transactional Net Margin Method and Profit Split — without imposing a strict hierarchy, so the taxpayer selects the most appropriate method given the transaction and available comparable data. ZATCA conducts risk-based audits, with heightened scrutiny on hydrocarbons, petrochemicals, financial services, technology/IP, pharmaceuticals and construction. Understatement penalties of up to 25% can apply on top of the primary tax adjustment where pricing is found not to be at arm's length.

Figure 8.B — The five OECD-endorsed TP methods

Method	Typical use
Comparable Uncontrolled Price (CUP)	Direct market price comparison
Resale Price Method	Distribution/resale margin testing
Cost Plus	Manufacturing/contract service margins

Method	Typical use
Transactional Net Margin Method (TNMM)	Most common — net margin benchmarking, ZATCA prefers local/GCC comparables
Profit Split	Highly integrated or unique/valuable contributions by both parties

Comparability and Local Benchmarking

ZATCA's guidance expresses a preference for local (Saudi or, failing sufficient local data, regional Middle East/GCC) comparables over pan-European or global comparable sets where a taxpayer applies the Transactional Net Margin Method, reflecting a broader trend among developing-market tax authorities toward market-specific benchmarking. Groups that rely on centrally prepared, Europe-benchmarked transfer pricing studies for their Saudi entity risk a documentation gap on enquiry if the study does not address why non-local comparables were used or does not attempt a local/regional search first.

Who Counts as "Related"

The Bylaws define associated persons broadly: direct or indirect ownership or control of at least 50% of capital or voting rights, or the ability to otherwise effectively control the management or operating policies of another entity, brings two parties within scope — deliberately wider than a simple majority-shareholding test, and capable of catching contractual or de facto control relationships (for example, a dominant long-term supply or distribution arrangement) that do not involve any equity ownership at all.

Advance Pricing Agreements

Saudi Arabia introduced an APA mechanism, available to both taxpayers and Zakat payers, for related-party transactions exceeding SAR 100 million annually. An application must be filed at least 12 months before the first covered year, and an agreed APA is binding for a three-year period during which ZATCA cannot challenge the agreed method provided the underlying assumptions and conditions continue to hold. Unilateral APAs (agreed between the taxpayer and ZATCA alone) are the most established route in practice; bilateral and multilateral APAs (involving a treaty partner's competent authority) are procedurally available but remain a comparatively new and less-tested mechanism given the youth of the Saudi APA programme.

- If because a wholly Saudi-owned group has no income tax exposure, transfer pricing simply does not apply — since 2024, Zakat payers are squarely in scope once their related-party transaction volumes cross the applicable threshold.
- Treating the CTDF as a low-stakes formality — it must be accompanied by a licensed Saudi auditor's affidavit certifying consistent application of the group's transfer pricing policy, which requires the auditor to have reviewed the underlying position, not merely to countersign a management representation.
- Preparing a Master File centrally at group level without a Saudi-specific Local File that ties the group's global policy to the actual Saudi entity's functions, assets and risks — ZATCA reviews the Local File as the primary evidentiary document for the Saudi entity specifically.
- Missing the phased Zakat-payer Local File threshold step-down from SAR 100 million to SAR 48 million from 2027 — a wholly Saudi-owned group comfortably below today's threshold may find itself in scope within the current multi-year planning horizon without a change in its actual transaction volumes.

Practical Illustration — A wholly Saudi-owned group under transfer pricing scope

A wholly Saudi-owned retail group with no foreign shareholding transacts SAR 150 million annually with a related logistics company under common ownership. Even though the group pays Zakat only and has no income tax exposure, the SAR 150 million of related-party transactions exceeds the SAR 100 million Local File threshold for Zakat payers, obliging the group to prepare a Local File and file a Controlled Transactions Disclosure Form with its Zakat return — an obligation many wholly Saudi-owned groups still overlook.

Practical Illustration — Benchmarking a management fee with local comparables

A multinational's Saudi subsidiary pays a 4% of revenue management fee to its European head office, benchmarked in the group's centrally prepared transfer pricing study against a pan-European set of comparable management service providers. On a ZATCA enquiry, the subsidiary is asked to justify why the benchmarking did not first attempt a Saudi or GCC-region comparable search. Re-running the analysis using a regional comparable set (where sufficient data exists) — or, where it does not, documenting a clear, reasoned explanation for defaulting to a wider comparable set — materially strengthens the subsidiary's position and is best done proactively as part of the annual Local File update rather than reactively once an enquiry has begun.

Practical Example — Benchmarking a Related-Party Service Fee

Line	Amount / Result
Saudi entity's revenue	SAR 200,000,000
Management fee paid to foreign parent (4% of revenue)	SAR 8,000,000
Arm's-length range from local/regional comparable set (net cost-plus mark-up)	5%–8% mark-up on cost
Actual mark-up implied by the 4%-of revenue fee	≈14% mark-up on cost — outside the arm's-length range
Likely ZATCA outcome absent adjustment	Primary adjustment to bring the fee within range, plus up to 25% understatement penalty on the adjustment

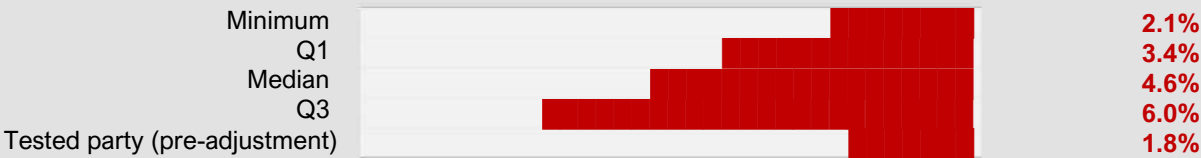
Worked Example 8.C — Adjusting to the Interquartile Range

A benchmarking study of comparable service providers produces the following operating margins. The tested party’s margin falls below the interquartile range (IQR) and is adjusted to the median.

Item	Amount (SAR)
Comparable set — minimum margin	2.1%
Comparable set — Q1 (25th percentile)	3.4%
Comparable set — median	4.6%
Comparable set — Q3 (75th percentile)	6.0%
Tested party's actual margin (below Q1)	1.8%
Adjusted margin applied (median)	4.6%

ZATCA audit practice commonly adjusts an out-of-range result to the median rather than to the nearer edge of the interquartile range — confirm the expected adjustment point before negotiating.

Figure 8.D — Comparable Set Range vs Tested Party



Chapter 10:

Permanent Establishment



Chapter 10: Permanent Establishment

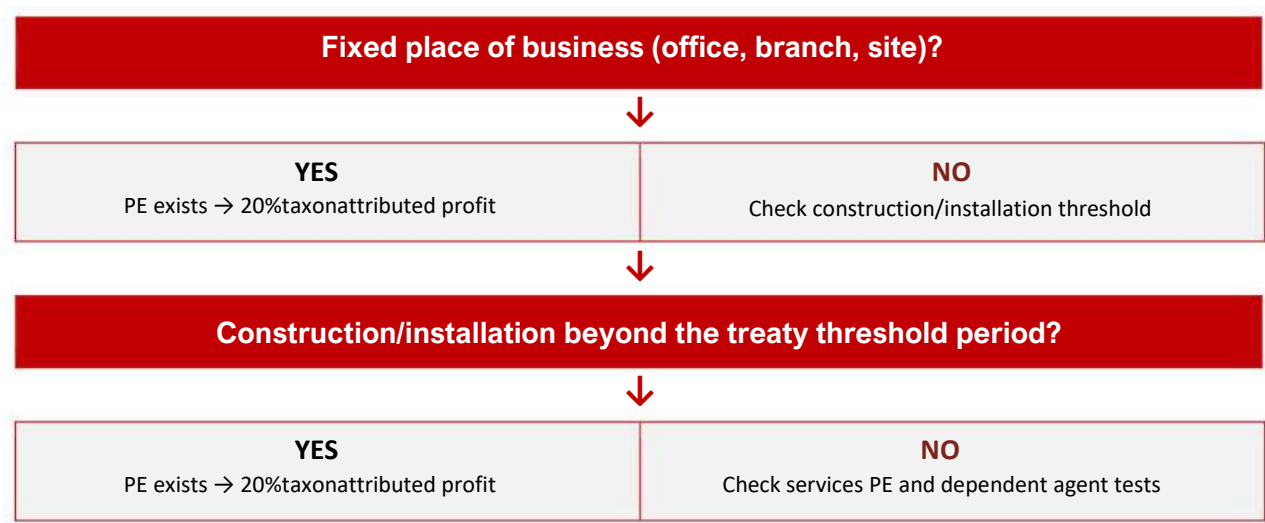
Overview

Anon-resident is drawn into the Saudi income tax net, outside the withholding tax mechanism, only where its activity in the Kingdom rises to the level of a Permanent Establishment (PE). Absent a PE, Saudi-source income of a non-resident is instead addressed through WHT (Chapter 6) rather than a full income tax filing on net profit.

Domestic PE Concept

The Income Tax Law defines PE broadly to include a fixed place of business through which the non-resident's activity is wholly or partly conducted — branches, offices, factories, workshops, and places of extraction of natural resources — Aswell as construction, assembly and installation projects lasting beyond a threshold period (generally taken as any duration under domestic law, though treaties typically impose a minimum period, commonly six or twelve months, before a PE arises). An agent who habitually concludes contracts in the Kingdom on behalf of a non-resident, other than an independent agent acting in the ordinary courtesousness, can also constitute a dependent agent PE.

Figure 7.A — PE decision chain



Services PE

Saudi domestic law and many fits treaties also capture a services PE, where personnel of the non-resident furnish services interkingdom (including through employees or other engaged personnel) for a specified aggregate period within a 12-month period. This is a frequent trigger in practice for foreign contractors and consultants engaged on Saudi projects who assume, incorrectly, that WHT deducted by the Saudi client fully discharges their Saudi exposure.

Figure 7.B — No PE vs PE: how the non-resident is taxed

NO PE	PE EXISTS
Gross-basis Withholding Tax on Saudi-source payments (Chapter 6) — no full return required	Net-basis 20% Corporate Income Tax on profit attributed to the PE — full registration and annual return required

Figure 7.1 — Permanent establishment decision tree for a non-resident's Saudi activity

Test	If Yes	If No
Fixed place of business (office, branch, site)?	PE exists → 20% tax on profit attributed to the PE	Go to next test
Construction/installation project beyond the treaty threshold period?	PE exists → 20% tax on profit attributed to the PE	Go to next test
Personnel providing services in KSA beyond the 12-month aggregate threshold?	PE exists → 20% tax on profit attributed to the PE	Go to next test
Dependent agent habitually concluding contracts in KSA?	PE exists → 20% tax on profit attributed to the PE	No PE → WHT regime applies instead (Chapter 6)

Preparatory and Auxiliary Activities

Consistent with the OECD-style approach, a fixed place of business used solely for preparatory or auxiliary activities — for example, storage or display of goods, purchasing of goods for the enterprise, or collection of information — does not, on its own, create a PE, even where the activity has a physical, fixed presence in the Kingdom. The line between "preparatory/auxiliary" and genuine core business activity is a question of fact and is an area where ZATCA and treaty partners' revenue authorities can, and do, reach different conclusions on similar fact patterns, so this exclusion should not be relied upon mechanically for anything beyond genuinely ancillary functions.

Attribution of Profit

Where a PE exists, the non-resident is taxed at the standard 20% rate on the profit attributable to the PE, computed broadly as if the PE were a distinct and separate enterprise dealing at arm's length with its head office and other related parties — bringing transfer pricing principles directly to bear on PE profit attribution (see Chapter 8). In practice this requires a functional and factual analysis of what the PE actually does (functions performed, assets used, risks assumed) rather than a simple pro-rata allocation of global group profit, and PE are expected to maintain PE-specific books and records sufficient to support the attributed result on enquiry.

Registration Once a PE Arises

- Treating a short-term project as automatically PE-free without checking the applicable domestic and treaty duration tests. Construction/installation and services PE thresholds differ by the applicable legal instrument, and treaty provisions must be reviewed whenever treaty relief is available.
- The PE must file an annual income tax return within 120 days of the PE's financial year end, supported by financial statements specific to the PE's Saudi activity.
- Ongoing obligations then mirror those of a resident taxpayer — WHT agent obligations on the PE's own outbound payments, transfer pricing documentation on dealings with the head office and other related parties, and exposure to the same penalty and dispute regime described in Chapters 12 to 14.

Common Pitfalls

- Treating a short-term project as automatically PE-free because it is under the domestic law's headline threshold, without checking whether the applicable treaty's own threshold (which can differ from, and in some respects be more generous or less generous than, the domestic law position) applies.
- Aggregating time incorrectly for a services PE — the 12-month lookback is typically assessed on a rolling basis across the aggregate presence of all personnel engaged on connected projects, not simply the tenure of any one individual engineer or consultant.

- Assuming WHT deducted by the Saudi counterparty on a services contract fully discharges the non-resident's Saudi obligations — if a services PE has in fact arisen, the non-resident has a separate obligation to register and file on a net-profit basis, and WHT already suffered is, at best, potentially creditable against that liability rather than a substitute for it.

Practical Illustration — A twelve-month installation contract

A German equipment manufacturer sends engineers to Saudi Arabia for an eight-month installation project under a supply-and-install contract. Depending on the applicable treaty's PE threshold, this may or may not create a PE; if it does, the manufacturer must register, file an income tax return on the profit attributable to the installation activity, and maintain contemporaneous records supporting that attribution — a materially heavier compliance burden than the WHT-only exposure that would apply if no PE arose.

Practical Illustration — Rolling services PE exposure across a project team

An IT consultancy rotates a team of consultants through a Saudi client site over an 18-month digital transformation programme. No single consultant is present for more than four months at a time, but the cumulative, aggregated presence of the team on the connected engagement exceeds the 12-month services PE threshold under the relevant treaty. Because the threshold is assessed on the aggregate project presence rather than any individual's personal tenure, the consultancy has likely created a services PE from the point the cumulative threshold is crossed, notwithstanding that no individual consultant ever triggered it alone.

Practical Example — Profit Attribution to a PE

Line	Amount (SAR)
Contract revenue attributable to the Saudi installation project	22,000,000
Directly attributable costs (labour, materials, site overhead)	(15,500,000)
Allocated head-office overhead (arm's-length attribution)	(1,800,000)
Profit attributed to the PE	4,700,000
Income tax payable (20% × 4,700,000)	940,000

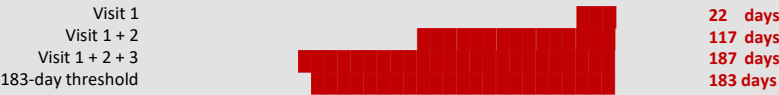
Worked Example 7.C — Testing the 183-Day Services PE Threshold

A foreign contractor's personnel work on a Saudi project across three separate visits within a 12-month period.

Item	Amount (SAR)
Visit 1 — site survey	22 days
Visit 2 — installation phase	95 days
Visit 3 — commissioning	70 days
Cumulative days in the 12-month period	187 days

Because the cumulative presence (187 days) exceeds the 183-day threshold, a Services PE is triggered even though no single visit alone crossed the line.

Figure 7.D — Cumulative Days Present vs the 183-Day Threshold



Chapter 11:

Interaction with International Tax Frameworks



Chapter 11: Interaction with International Tax Frameworks

Double Tax Treaties

Saudi Arabia's treaty network has expanded significantly over the past decade and generally follows the OECD Model Convention, with country-specific variations on permanent establishment thresholds, withholding tax caps (Chapter 6) and mutual agreement procedures. Treaty relief is not automatic in the way a domestic exemption might be — claimants are typically required to produce a tax residency certificate and comply with beneficial ownership and other anti-abuse tests written into the individual treaty and ZATCA's administrative practice.

Using a Treaty in Practice

The practical sequence for relying on a treaty is: (i) confirm the counterparty's country has an in-force treaty with Saudi Arabia (signed but not yet ratified/in force treaties, such as the December 2025 Bahrain treaty noted below, cannot yet be relied upon); (ii) identify the specific article covering the income type in question, since treaties are not uniform and a favourable dividend article does not imply an equally favourable royalty or technical services article; (iii) confirm the recipient meets the treaty's residence and beneficial ownership tests, generally evidenced by a Tax Residency Certificate; and (iv) follow ZATCA's procedural route for claiming the reduced rate — either at source, by filing the treaty relief form in time, or, where that window is missed, by withholding at the full domestic rate and subsequently claiming a refund under ZATCA's WHT/DTA Tax Circular (January 2025), which formalises both routes (see Chapter 6).A Saudi payer should not apply the treaty rate unilaterally without documentation on file underroof these two routes.

Figure 15.C — Using a treaty: the four-step sequence

Step	Action
1	Confirm an in-force treaty exists with the counterparty's state
2	Identify the specific article covering this income type
3	Confirm residence and beneficial ownership (TRC)
4	Follow ZATCA's route: at source, or refund (Chapter 6)

BEPS and Transfer Pricing Alignment

Saudi Arabia is a member of the OECD/G20 Inclusive Framework on BEPS and has implemented the three-tier transfer pricing documentation model (Action 13) described in Chapter 8, together with Country-by-Country Reporting for large multinational groups. The Kingdom has also signed the Multilateral Instrument (MLI) to modify its existing treaty network to incorporate BEPS-related treaty measures — including principal purpose test-style anti-abuse provisions — across covered treaties, meaning treaty benefits claimed under an MLI-modified treaty should additionally be tested against the MLI's anti-abuse standard, not only the original bilateral treaty text.

Pillar Two — Global Minimum Tax

As of the date of this handbook, Saudi Arabia has not enacted a Qualified Domestic Minimum Top-up Tax (QDMTT) or otherwise implemented the OECD Pillar Two Globe rules domestically, in contrast to several GCC neighbours (the UAE's DMTT took effect from 1 January 2025 for in-scope groups with consolidated revenue exceeding EUR 750 million). This is a fast-moving area of GCC tax policy, and Saudi-headquartered groups, as well as foreign groups with material Saudi operations, should monitor the Kingdom's position closely: even without a Saudi DMTT, a low effective Saudi tax rate (for example, driven by the RHQ 0% incentive) can still expose a multinational group to a top-up tax charge in another jurisdiction that has adopted the Income Inclusion Rule, unless and until Saudi Arabia introduces its own qualifying domestic top-up tax to claim first-taxing rights.

Figure 15.A — GCC Pillar Two / DMTT positioning (indicative)

UAE	SAUDI ARABIA
DMTT in effect from 1 January 2025 for in-scope groups (>EUR 750m revenue)	No DMTT enacted as of this handbook — monitor for change

Even without Saudi DMTT, a low Saudi effective rate (e.g. RHQ 0% income) can still trigger a top-up tax charge in another jurisdiction that has adopted the Income Inclusion Rule.

Why This Matters for Saudi-Blended Structures

Because the Saudi Zakat/tax system produces an effective rate on profit that varies with balance sheet intensity (Chapter 4) rather than a flat rate, and because RHQ-eligible income can sit at 0%, a Saudi jurisdictional blended effective tax rate for Globe purposes is genuinely harder to forecast than in a single-flat-rate jurisdiction. A group modelling its global Pillar Two exposure should build a Saudi-specific ETR bridge that separately tracks the Zakat-paying and tax-paying portions of its Saudi entities, plus any RHQ-sheltered income, rather than applying a single assumed "Saudi rate" across its whole Kingdom footprint — a simplification that can materially misstate the group's actual top-up tax exposure in either direction.

Practitioners note this is one of the fastest-changing areas of GCC tax policy at the time of writing. Confirm Saudi Arabia's current Pillar Two / DMTT position directly with ZATCA guidance or current professional literature before advising on any structure sensitive to a 15% effective rate floor.

Mutual Agreement Procedure and Exchange of Information

Saudi Arabia participates in the OECD's multilateral exchange of information frameworks (including Common Reporting Standard exchange and CbCR exchange under its treaty network and the Multilateral Competent Authority Agreement), and treaty MAP articles provide a mechanism to resolve double taxation disputes between ZATCA and a treaty partner's competent authority, distinct from the domestic objection routeing Chapter 14.

Figure 15.B — Two routes to resolving cross-border double taxation

DOMESTIC OBJECTION ROUTE	TREATY MAP ROUTE
ZATCA objection → Disputes Committee → Appellate Committee → Board of Grievances (Chapter 14)	Mutual Agreement Procedure between ZATCA and the treaty partner's competent authority — a separate, parallel mechanism

GCC Regional Comparison: Pillar Two Positioning

Jurisdiction	DMTT / Pillar Two Status (indicative)
United Arab Emirates	DMTT in effect from 1 January 2025 for in-scope groups (>EUR 750m consolidated revenue)
Saudi Arabia	No DMTT enacted as of this handbook; monitor for developments
Qatar	Regional peers moving at different paces — confirm status before relying on any position
Bahrain	Regional peers moving at different paces — confirm status before relying on any position

This table is deliberately conservative on the non-UAE, non-KSA entries: GCC Pillar Two implementation is genuinely in motion across the region at the time of writing, and a comparative table risks going stale within months. Treat the UAE and Saudi Arabia rows as the two positions most relevant to this handbook's core structures and verify the remaining jurisdictions' status directly before relying on them.

Practical Example — Treaty WHT Relief on a Dividend

Line	Without Treaty Relief	With Treaty Relief (UK, ≥25% holding)
Dividend paid to foreign parent	SAR 20,000,000	SAR 20,000,000
Applicable WHT rate	5% (domestic Article 68 rate)	5% (treaty rate — no change in this example, as the UK treaty dividend rate matches the domestic rate at this holding level)
WHT withheld	SAR 1,000,000	SAR 1,000,000
Note	—	For treaty partners with a lower rate than the domestic 5% (rare for dividends, more common for interest/royalties), the saving is the rate differential, but only once a valid Tax Residency Certificate and beneficial ownership evidence is on file before payment

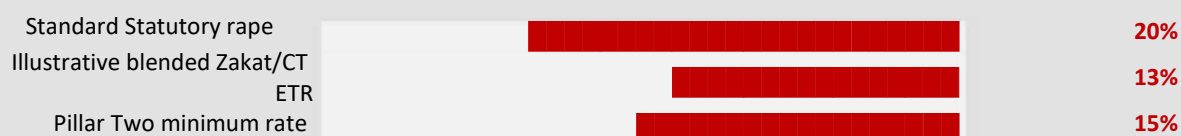
Worked Example 15.D — Simplified Pillar Two Top-Up Tax Check

A Saudi constituent entity within a large multinational group reports the following for its Globe effective tax rate (ETR) computation.

Item	Amount (SAR)
Globe income for the jurisdiction	40,000,000
Covered taxes paid (Zakat/CT combined, adjusted)	5,200,000
Jurisdictional ETR (5,200,000 ÷ 40,000,000)	13%
Pillar Two minimum rate	15%
Top-up tax required (2% × 40,000,000)	800,000

A blended Zakat/CT ETR below 15% can trigger top-up tax under Pillar Two even where the domestic 20% statutory CT rate would suggest otherwise — the Globe base and the domestic tax base are not the same computation.

Figure 15.E — Statutory Rate vs Illustrative Blended ETR vs Pillar Two Minimum



Chapter 12:

Regional Headquarters (RHQ) Tax Incentive Program



Chapter 12: Regional Headquarters (RHQ) Tax Incentive Program

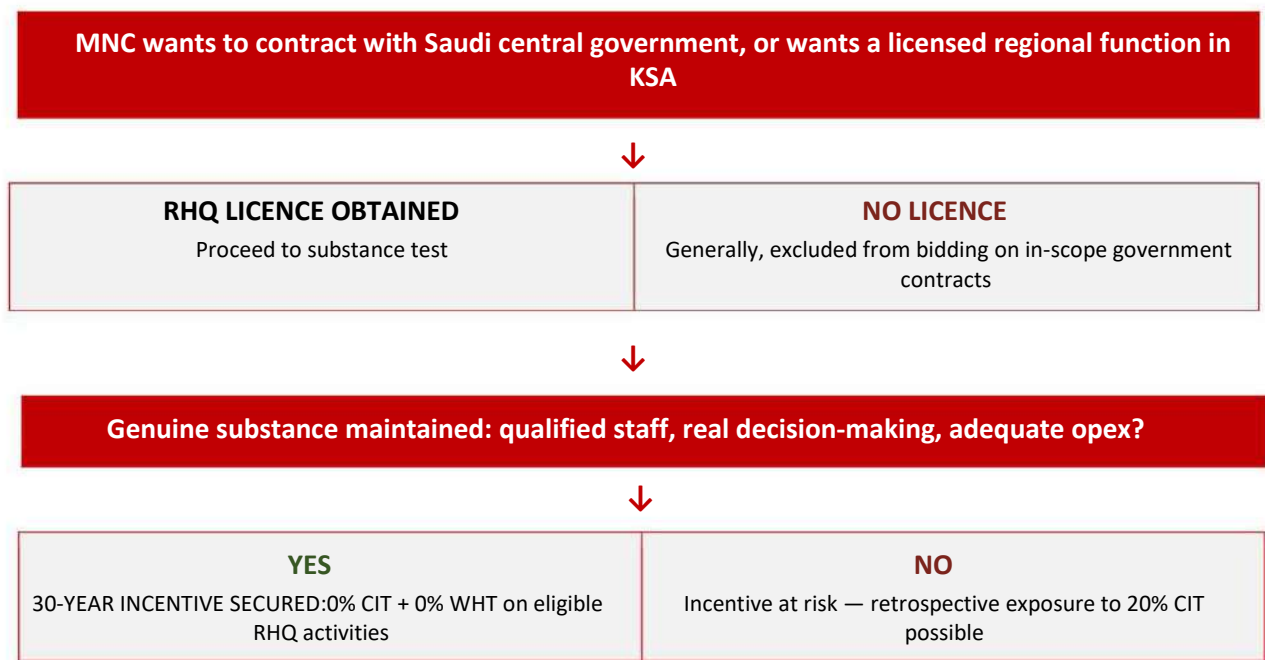
Background

Since 1 January 2024, multinational groups seeking to contract with most Saudi central government entities must hold a Regional Headquarters (RHQ) licence issued jointly by the Ministry of Investment (MISA) and the Royal Commission for Riyadh City, unless a specific exemption applies (for example, contracts below a de minimis value). This procurement rule is reinforced by one of the most generous tax incentive packages in the region, set out in the Tax Rules for Regional Headquarters published on 16 February 2024.

The Incentive

- 0% Corporate Income Tax on income derived from the RHQ's eligible activities, for 30 years, renewable, running from the date the RHQ licence is granted.

Figure 10.A — RHQ licensing and incentive pathway



- 0% Withholding Tax on specified outbound payments made by the RHQ — dividends, payments to related persons, and payments to unrelated persons for services necessary to the RHQ's activities.
- Additional operational reliefs administered outside the tax rules, including Saudization exemptions and streamlined visa processes for RHQ staff.

Scope: "Eligible Activities"

The relief is not a blanket exemption for every activity a multinational conducts in the Kingdom — it is confined to the RHQ's approved regional management, strategic direction and support functions for the group's operations across the region (for example, regional strategy, coordination, financial management, HR and business development support for other group entities), as defined in the RHQ licence. Trading or operational revenue earned by other group entities in Saudi Arabia outside the RHQ's licensed scope remains taxed under the ordinary rules.

Figure 10.1 — RHQ licensing and incentive pathway

Step	Condition	Outcome
1	MNC wishes to contract with Saudi central government, or wants a licensed regional function in KSA	Proceed to RHQ licensing
2	RHQ licence obtained from MISA / Royal Commission for Riyadh City?	No → generally excluded from bidding on in-scope government contracts. Yes → proceed to substance test
3	Genuine substance maintained: qualified staff, real decision-making, adequate opex?	No → incentive at risk; retrospective exposure to 20% possible. Yes → incentive secured
4	Result if both conditions met	30-YEAR INCENTIVE: 0% CIT + 0% WHT on income from eligible RHQ activities only (renewable; other Saudi activities taxed normally)

Substance and Compliance

ZATCA released an Annual Disclosure Form for Regional Headquarters in August 2026. Licensed RHQs should incorporate the annual disclosure into their compliance calendar and maintain evidence supporting their licensing, eligible activities and substance position. This is in addition to the underlying RHQ tax-rule and transfer-pricing obligations.

Further in October 2026 ZATCA released the User Guide for the Annual Disclosure Form. The said Form covers locations of RHQ entities, governance, executive management, activities and financial disclosure

ZATCA requires genuine economic substance from RHQ entities — real decision-making functions, adequate qualified staff and operating expenditure commensurate with the licensed activities — before granting or maintaining the incentive. RHQs remain within the scope of the transfer pricing rules on their dealings with other group entities, and loss of RHQ licence status (for example, through failure to maintain substance) can result in retrospective exposure to the standard 20% rate.

The RHQ programme is now well established and operational, reflecting both the pull of the tax incentive and the practical necessity of RHQ status for groups with meaningful Saudi government-contracting exposure; readers needing a current adoption figure should consult MISA's published RHQ statistics directly, since licensing volumes continue to grow and any figure stated here would date quickly.

Figure 10.B — RHQ eligible activities vs standard Saudi rate (%)



Government-Contracting Rule: Practical Exceptions

The RHQ licensing requirement for government contracting applies primarily to central government entities and is not universal — contracts below a de minimis threshold, and dealings with certain categories of counterparty outside the strict central-government definition, fall outside the rule. Multinationals should map their actual Saudi government-contract exposure (value, counterparty type, and whether contracts are direct or through a distributor/agent) before concluding that an RHQ is commercially necessary, since establishing and maintaining a compliant RHQ carries its own real cost in staff, governance and substance that should be weighed against the specific procurement exposure it is meant to protect.

RHQ vs a Standard Saudi Subsidiary: A Comparison

Feature	Standard Saudi Subsidiary	Licensed RHQ
Corporate income Tax Rate	20% on non-Saudi-owned share	0% on eligible RHQ activities, for 30 Years
Withholding tax on Outbound Payments	Standard Article 68 Rates apply	0% on qualifying payments related to RHQ activities
Eligible for Saudi Government Central Contracting	No, unless otherwise Exempt	Yes, subject to licence conditions
Substance requirement	Ordinary PE/ Company substance Expectations	Elevated — real decision-making qualified staff, and opex commensurate with licensed scope actively monitored
Scope of relief	N/A	Confined to eligible activities only — other Saudi trading income taxed normally

Common Pitfalls

- Assuming RHQ status shelters a group's entire Saudi footprint — the 0% rate applies only to income from the RHQ's own licensed eligible activities, not to trading subsidiaries or other group entities operating alongside it in the Kingdom.
- Under-investing in substance once the licence is granted — ZATCA's ongoing monitoring means the incentive is not a one-time approval but a continuing compliance obligation, and cost-cutting on RHQ headcount or decision-making authority can jeopardise 30 years of relief.
- Overlooking that RHQ-to-affiliate service and management fee flows remain fully within the transfer pricing rules (Chapter 8) — the WHT exemption on outbound RHQ payments does not exempt the underlying pricing from arm's-length scrutiny.
- Failing to consider Pillar Two interaction (Chapter 15) — a 0% Saudi rate on RHQ income can shift, rather than eliminate, the group's minimum tax exposure to another jurisdiction's Income Inclusion Rule until Saudi Arabia adopts its own qualifying domestic top-up tax.

Practical Illustration — Scoping an RHQ

A global consumer goods group establishes a Riyadh RHQ providing regional finance, HR and strategic oversight for its Middle East and North Africa operating subsidiaries, while its Saudi retail subsidiary continues to sell products directly to Saudi consumers. The RHQ's management fee income from group affiliates for its licensed regional functions benefits from the 0% rate; the retail subsidiary's trading profit does not and continues to be taxed (or Zakat-assessed) under the ordinary rules according to its own ownership structure.

Practical Illustration — Substance erosion risk

A technology group's Riyadh RHQ is licensed based on a 25-person regional leadership team with genuine budget and strategic authority over MENA operations. Two years later, following a global reorganisation, most substantive decision-making has quietly migrated back to the group's European head office, and the Riyadh team has shrunk to five largely administrative staff. On a ZATCA substance review, the RHQ risks losing its licence and, with it, retrospective exposure to the standard 20% rate on income previously sheltered at 0% — underscoring that the 30-year incentive is conditional throughout its term, not secured permanently at the point of licensing.

Practical Example — Value of the RHQ Incentive Over Time

Year	RHQ Eligible-Activity Income (SAR)	Tax at Standard 20%	Tax at RHQ 0%	Annual Saving
Year 1	15,000,000	3,000,000	0	3,000,000
Year 5	22,000,000	4,400,000	0	4,400,000
Year 15	40,000,000 ≈	8,000,000	0	8,000,000
Cumulative over 30 years (illustrative, flat growth)	750,000,000	≈ 150,000,000	0	≈ 150,000,000

Worked Example 10.C — Five-Year Tax Cost: RHQ Incentive vs Standard Subsidiary

A regional headquarters generates SAR 5,000,000 of eligible profit each year for five years, compared with a standard Saudi subsidiary taxed at the ordinary 20% rate.

Item	Amount (SAR)
Annual eligible profit	5,000,000
Standard subsidiary — annual CT at 20%	1,000,000
Standard subsidiary — 5-year cumulative CT	5,000,000
RHQ — annual CT at the 0% incentive rate	0
Cumulative tax saved over 5 years under the RHQ incentive	5,000,000

The saving compounds with the incentive's duration (currently 30 years from qualification) — modelling only single year materially understates the incentive's value.

Figure 10.D — Cumulative Tax Cost Over 5 Years: RHQ vs Standard Subsidiary



Chapter 13:

Special Economic Zones (SEZs)



Chapter 13: Special Economic Zones (SEZs)

Overview

Alongside the general tax, Zakat, VAT and RETT framework described in this handbook, and separately from the RHQ programme (Chapter 10), Saudi Arabia operates a network of Special Economic Zones (SEZs) offering their own bespoke fiscal incentive packages to licensed entrants. SEZs are regulated and supervised by the Economic Cities and Special Zones Authority (ECZA), which acts as the umbrella regulator for both the current SEZ programme and the Kingdom's longer-standing economic cities and industrial cities. The four sector-focused zones (KAEC, Jazan, Ras Al-Khair and Cloud Computing) were originally launched in April 2023, but operated for some years on a largely promotional basis; a detailed governance and incentive framework for those four zones was only approved by Council of Ministers Resolution No. 468/1447 (published in the Official Gazette on 16 January 2026) and entered into force 90 days later, on 16 April 2026 — a significant 2026 milestone that moved the programme from a high-level investment initiative toward a fully articulated legal and regulatory regime, including specific exemptions from the Companies Law, Commercial Register Law and Trade Names Law for licensed zone entities. Where a group's activity fits a specific SEZ's targeted sector focus, the SEZ route can offer materially better economics than either the standard 20%/2.5% regime or the RHQ incentive — but, as with RHQ, the benefit is narrowly confined to licensed zone activities and is subject to its own substance and compliance conditions.

The Five Current SEZs

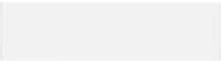
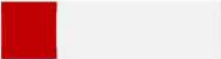
Zone	Location	Sector Focus	Launched
Special Integrated Logistics Zone (SILZ)	Riyadh (King Salman International Airport)	Logistics: storage, maintenance, repair, re-export, light/simple manufacturing	2022 (as ILBZ); re-launched under current framework 2023–24
King Abdullah Economic City (KAEC) SEZ	Western Region (Red Sea coast)	Advanced manufacturing, automotive, consumer goods, ICT, pharmaceuticals, MedTech, logistics	13 April 2023 (Governance framework in force 16 April 2026)
Jazan Special Economic Zone	Southwest (Jazan)	Food processing, metals conversion, logistics — gateway to African markets	13 April 2023 (Governance framework in force 16 April 2026)
Ras Al-Khair Special Economic Zone	Northeast (Ras Al-Khair)	Maritime industries: shipbuilding, rig platforms, MRO services	13 April 2023 (Governance 2026 framework in force 16 April)

Zone	Location	Sector Focus	Launched
Cloud Computing Special Economic Zone	Riyadh (within KACST)	Cloud computing and data services — a "virtual" zone without a single physical site requirement in the same sense as the others	13 April 2023 (Governance framework in force 16 April 2026)

Headline Incentives

Incentive packages differ meaningfully between SILZ and the other four zones, reflecting SILZ's narrower logistics/light-manufacturing focus versus the broader industrial and technology focus of the other four — and, following the January 2026 governance frameworks for KAEC, Jazan, Ras Al-Khair and Cloud Computing, incentives for those four zones are best understood as zone-specific rather than a single uniform package: the frequently cited "5% for 20 years" figure is the headline used in ECZA investment materials rather than a flat rate stated in the primary legal text of the approved frameworks themselves, so the table below should be read as indicative of the general shape of the incentive, with the exact terms for a given zone and activity confirmed against that zone's specific governance framework and licence conditions.

Figure — Headline corporate income tax rate by regime (%)

Standard CT		20%
RHQ (eligible activities)		0%
SEZ — KAEC/Jazan/RAK/Cloud (indicative)		5%
SILZ (eligible zone activity)		0%

RHQ and SILZ both show 0%, but neither is a blanket exemption: RHQ shelters only a licensed RHQ's own eligible regional-management activities for 30 years (Chapter 10), and SILZ's 0% applies only to eligible zone logistics activity for 50 years. The 5% SEZ figure is commonly cited in ECZA materials but, as noted above, is not a flat rate fixed in the primary legal text — always confirm the exact structure for the specific zone and activity.

Feature	SILZ	KAEC / Jazan / Ras Al-Khair / Cloud Computing
Corporate income tax	0% for 50 years on eligible zone activity income (a full tax holiday)	Reduced rate — commonly cited at around 5%, for up to 20 years, subject to renewal (materially below the standard 20%)
Withholding tax	Exemption on certain payments to non-residents during the tax holiday period	Zero withholding tax on repatriation of profits abroad

Feature	SILZ	KAEC / Jazan / Ras Al-Khair / Cloud Computing
VAT / Customs	Suspension of VAT and customs duties on goods related to zone activities	Customs duty relief on capital equipment and inputs; goods traded and stored within the zone generally customs-free
Foreign ownership	100% foreign ownership permitted, bypassing the standard local partner requirement	100% foreign ownership permitted
Employment	Streamlined visa and labour processes for zone employees	Streamlined visa and labour processes for zone employees

Economic Substance Requirements

Consistent with the substance-conditioned approach seen throughout this handbook (compare Chapter 10 on RHQ), the SEZ governance frameworks approved in January 2026 — together with ECZA's published guidance — embed substance-style conditions directly into the statutory zone rules for KAEC, Jazan, Ras Al-Khair and Cloud Computing: a licensed zone entity is expected to demonstrate genuine core income-generating activity conducted within the zone, adequate qualified staff and premises, and management commensurate with its licensed scope, rather than functioning as a shell arrangement routing income through the zone without real local substance. Readers should distinguish this statutory, zone-specific substance conditionality — now grounded in the approved governance frameworks — from the broader "Economic Substance Requirements" (ESR) terminology sometimes used more loosely in commentary; the current authoritative source for a given zone's substance conditions is that zone's own governance framework and any further ECZA implementing guidance, not a single unified ESR instrument. Practitioners should treat substance compliance as a continuing obligation, monitored on an ongoing basis, in the same way RHQ substance is monitored — not a one-time condition satisfied at the point of licensing.

Figure 19.A — SILZ vs the other four zones

SILZ	KAEC / JAZAN / RAS AL-KHAIR / CLOUD COMPUTING
0% for 50 years on eligible zone logistics/light-manufacturing activity — a full tax holiday, narrower sector scope	Reduced rate, commonly cited ~5%, for up to 20 years, renewable — broader industrial/technology scope, zone-specific under the Jan 2026 frameworks

Interaction with the Rest of This Handbook

- SEZ incentives and the RHQ incentive (Chapter 10) are separate regimes serving different purposes — RHQ targets regional management and government-contracting eligibility, while SEZs target specific licensed operational activities (manufacturing, logistics, cloud services) physically or functionally located within a zone. A multinational group can, in principle, use both: an RHQ for regional headquarters functions and a separate SEZ-licensed entity for zone-eligible operations, each independently satisfying its own substance test.

Figure 19.B — 2026 SEZ governance framework timeline

Date	Milestone
30 December 2025	Council of Ministers approves governance frameworks (Resolution No. 468/1447)
16 January 2026	Published in the Official Gazette (Umm Al-Qura)
April 2026	Frameworks enter into force (90 days after publication)

- Transfer pricing rules (Chapter 8) apply in full to transactions between an SEZ entity and other group entities — the SEZ's favourable rate does not relax the arm's-length pricing obligation on intra-group flows into or out of the zone.
- VAT and customs suspension within a zone does not necessarily extend to goods or services moving between the zone and the rest of the Kingdom ("mainland" Saudi Arabia) — such movements are typically treated as a separate importation/exportation event for VAT and customs purposes and should be mapped explicitly in any zone entity's supply chain design (see Chapter 17).
- A Zakat-paying, wholly Saudi-owned group operating through an SEZ entity remains a Zakat payer on its SEZ activity in the same way as outside a zone, unless the specific zone's incentive framework displaces the standard Zakat treatment — this should be confirmed zone by zone rather than assumed to follow the RHQ or standard-regime pattern.

Common Pitfalls

- Assuming all five SEZs offer the same incentive package, or that the other four zones (KAEC, Jazan, Ras Al-Khair and Cloud Computing) share one identical package — SILZ's 50-year full tax holiday is materially more generous, but narrower in scope, than the incentives available in the other four zones, and those four zones are themselves governed by separate, zone-specific frameworks approved in January 2026 rather than a single common regime, so the commonly cited "5%, 20 years" figure should be treated as indicative rather than definitive for any particular zone.
- Treating SEZ and RHQ incentives as mutually exclusive or interchangeable — they address different needs and can, with correct structuring, be used together within the same group.
- Overlooking the zone-to-mainland movement of goods and services as a discrete VAT/customs event, which can erode the expected benefit of zone-based operations if not planned for from the outset.
- Under-resourcing zone-level substance in the same way some groups under-resource RHQ substance (Chapter 10) — ESR compliance is monitored on an ongoing basis, not confirmed once at licensing.

Practical Illustration — Choosing between SILZ and a standard Saudi subsidiary for a logistics operation

A global e-commerce group is deciding where to locate a new Saudi fulfilment and re-export hub. A standard Saudi subsidiary would be taxed at 20% on the non-Saudi-owned share of profit (Chapter 4); a SILZ-licensed entity performing the same storage, light processing and re-export activity can instead access a 0% income tax rate for 50 years, together with VAT and customs suspension on the goods moving through the zone, provided the activity is confined to SILZ's licensed scope and genuine operational substance (warehousing staff, management presence, and real decision-making over zone operations) is maintained in the zone. The group's total effective cost comparison should include not only the headline rate difference but also the zone's suspension of customs duties on the high volumes of imported goods passing through a logistics hub — often the more commercially significant benefit for this type of business.

Practical Illustration — An SEZ entity's related-party pricing under enquiry

A KAEC-licensed manufacturing entity, benefiting from the zone's approximately 5% reduced rate, sells finished goods to its Saudi-mainland sister company at a price the group set primarily to maximise the profit recognised within the lower-taxed zone entity. On a ZATCA transfer pricing review (Chapter 8), the intra-group transfer price is benchmarked against arm's-length comparables and found to sit above what an unrelated Saudi mainland buyer would pay for equivalent goods. The resulting primary adjustment shifts profit back to the mainland entity — taxed at the standard 20% rate — eroding much of the SEZ rate benefit the structure was designed to capture and illustrating that an SEZ's headline rate advantage is only as durable as the transfer pricing position supporting the profit split between the zone entity and the rest of the group.

Worked Example 19.C — Five-Year Cumulative Tax Cost: SEZ vs Mainland

A qualifying manufacturer generates SAR 6,000,000 of eligible annual profit for five years, comparing a Special Economic Zone location against an otherwise identical mainland operation.

Item	Amount (SAR)
Annual eligible profit	6,000,000
Mainland — annual CT at 20%	1,200,000
Mainland — 5-year cumulative CT	6,000,000
SEZ — annual CT at the incentive rate (illustrative 0%)	0
Cumulative tax saved over 5 years by locating in the SEZ	6,000,000

The saving is contingent on meeting the SEZ's economic substance requirements every year — losing qualifying status part-way through can claw back the benefit.

Figure 19.D — SEZ vs RHQ: Which Incentive Fits?

Regional headquarters functions



RHQ incentive (Chapter 10)

Chapter 14:

Value Added Tax (VAT)



Chapter 14: Value Added Tax (VAT)

Overview:

Value Added Tax was introduced across the GCC in a coordinated framework, and Saudi Arabia was among the first member states to implement it, effective 1 January 2018 at an initial standard rate of 5%. Effective 1 July 2020, the Kingdom unilaterally tripled its standard rate to 15% — a rate materially higher than any other GCC state and one of the more significant fiscal policy shifts in the region's recent history — as part of a package of measures responding to the fiscal pressure of the COVID-19 period and reinforcing the Vision 2030 revenue-diversification objective introduced in Chapter 1. VAT is administered by ZATCA under the VAT Law and its Implementing Regulations, both of which have been amended repeatedly since 2018 and should always be checked in their current form.

Figure 17.A — Saudi VAT rate history

Date	Standard rate
1 January 2018	5% (initial GCC-coordinated rate)
1 July 2020	15% (unilateral increase — highest in the GCC)

Key Parameters

- Standard rate: 15%, since 1 July 2020 (increased from the original 5% introduced in 2018).

Figure 17.B — VAT registration and filing thresholds (SAR)

Voluntary registration		187500
Mandatory registration		375000
Monthly filing trigger		40000000

Monthly filing applies where annual taxable supplies exceed SAR 40 million; quarterly filing applies otherwise.

- Mandatory registration threshold: annual taxable supplies exceeding SAR 375,000; voluntary registration available from SAR 187,500.
- Filing frequency: monthly where annual taxable supplies exceed SAR 40 million; quarterly otherwise.
- Zero-rating applies to qualifying exports and certain international transport and medicine/medical equipment categories; exemption (rather than zero-rating) applies to specified financial services and, since the introduction of RETT, to most real estate sales (see Chapter 18).

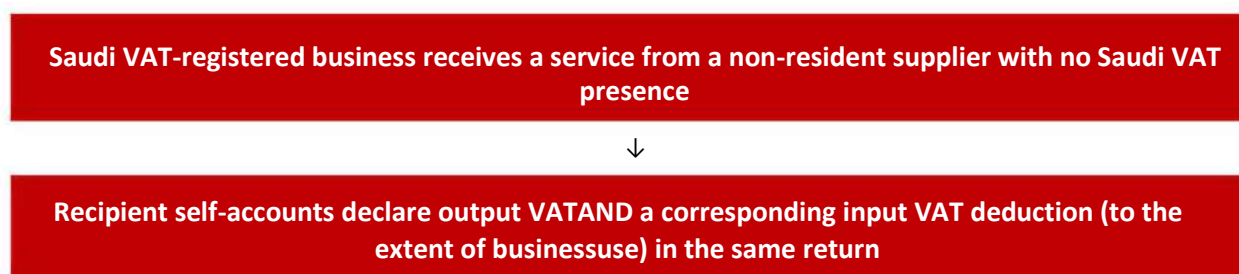
Scope and the Place-of-Supply Rules

VAT applies to the supply of goods and services made in Saudi Arabia by a taxable person in the course of carrying on an economic activity, as well as to imports of goods and, via the reverse-charge mechanism, imports of services from abroad. Determining where a supply is treated as made — the place-of-supply rules — is central to almost every cross-border VAT question: goods are generally taxed where movement begins (subject to specific export and GCC-transfer rules), while services follow a more layered set of general and specific rules depending on the nature of the service and whether the recipient is a business (B2B) or a consumer (B2C). Getting the place-of-supply analysis wrong is one of the most common sources of VAT under- or over-charging in practice, particularly for digital services, consulting, and other services capable of being supplied remotely.

Reverse Charge on Imported Services

Where a Saudi VAT-registered business receives a service from a non-resident supplier with no Saudi VAT presence, the Saudi recipient must self-account for VAT under the reverse-charge mechanism — declaring both output VAT (as if it had made the supply to itself) and, to the extent the underlying cost supports business use, a corresponding input VAT deduction in the same return. As flagged in Chapter 6, this reverse-charge obligation is entirely independent of any WHT due on the same payment; a business that only tracks WHT on a cross-border services payment, without separately considering the reverse charge, will typically understate its VAT position.

Figure 17.C — Reverse charge on imported services



Input VAT Recovery

Input VAT recovery generally follows a direct-attribution principle: VAT on costs directly attributable to taxable (standard-rated or zero-rated) supplies is recoverable, VAT on costs attributable to exempt supplies is not, and VAT on costs attributable to both (overhead-type costs) is apportioned on a reasonable basis, commonly a revenue-based method absent a more accurate alternative. Businesses with a mix of taxable and exempt activity — for example, a group with both a trading business and an exempt financial services or real estate leasing arm — should maintain a documented apportionment methodology rather than defaulting to an ad hoc annual estimate, since ZATCA reviews apportionment methodology as a standard feature of a VAT audit.

Blocked and Restricted Input VAT

Certain categories of input VAT are blocked from recovery regardless of the underlying business purpose, most notably VAT on the purchase, lease, or running costs of motor vehicles available for personal use, and VAT on entertainment, hospitality, and similar employee-benefit-adjacent expenditure.

These restrictions mirror the non-deductibility of comparable costs for direct tax purposes (Chapter 3), and businesses should apply a consistent blocked-cost policy across both regimes rather than maintaining separate, potentially inconsistent VAT and direct-tax expense classifications.

The Capital Assets Scheme

VAT incurred on the acquisition or construction of significant capital assets (real estate above a prescribed value threshold, and other capital assets meeting the regulations' criteria) is subject to a multi-year adjustment mechanism rather than a one-off recovery decision at the point of purchase. Where the asset's actual taxable-use ratio changes over the adjustment period (commonly modelled over 6 or 10 years depending on asset type) relative to the ratio applied at acquisition, the business must make an annual adjustment to input VAT previously claimed — a mechanism aimed at large, long-lived assets whose use profile can shift materially over their economic life, such as a mixed-use commercial building that changes its balance of exempt and taxable tenants over time.

Group VAT Registration

Saudi Arabia permits VAT group registration for closely related resident entities meeting prescribed common-control conditions, allowing intra-group supplies between the grouped entities to fall outside the scope of VAT and a single consolidated VAT return to be filed for the group. This can simplify compliance and improve cash flow for groups with significant intra-group trading, but it is an election with conditions (including joint and several liability among group members for the group's VAT position) that should be weighed against the administrative simplification it offers. A VAT group is a wholly separate election from the RHQ, SEZ, or any direct-tax grouping concept — there being no formal direct-tax consolidation in Saudi Arabia at all (Chapter 9) — so VAT grouping should not be assumed to carry any direct-tax consequence, and vice versa.

Refunds

A business in a net input VAT (repayable) position — common for exporters, zero-rated suppliers, and businesses in a capital investment phase — may apply for a VAT refund from ZATCA rather than only carrying the credit forward. Refund claims are subject to their own review process and documentary standards, and delays in refund processing are a frequently cited cash-flow concern for capital-intensive and export-oriented businesses; maintaining an audit-ready VAT file (in the same spirit as the Chapter 13 direct-tax file) materially shortens refund review timelines in practice.

Common Pitfalls

- Applying the WHT analysis to a cross-border payment without separately considering the reverse-charge VAT obligation — the two regimes are independent, and both apply in parallel where relevant.
- Treating VAT group registration as a pure compliance simplification without weighing the joint and several liability it creates among group members for the group's entire VAT position.
- Missing the Capital Assets Scheme's multi-year adjustment obligation on significant real estate or capital asset acquisitions, particularly where a property's tenant mix shifts between VAT- exempt and taxable use over time.
- Assuming all real estate transactions are automatically outside VAT following the introduction of RETT — real estate-adjacent services (agency fees, certain leasing and management arrangements) can remain within VAT even where the underlying property transfer itself is not (see Chapter 18).

Practical Example — A Full VAT Return Computation

Line	Amount (SAR)
Output VAT on standard-rated domestic sales ($15\% \times 40,000,000$)	6,000,000
Output VAT on zero-rated exports	0
Output VAT self-accounted under reverse charge on imported services ($15\% \times 2,000,000$)	300,000
Total output VAT	6,300,000
Input VAT on directly attributable taxable-supply costs	(2,800,000)
Input VAT on reverse-charge imported services (recoverable in the same return)	(300,000)
Input VAT on apportioned overheads (80% recovery ratio, mixed taxable/exempt activity)	(640,000)
Net VAT payable to ZATCA for the period	2,560,000

Practical Illustration — Reverse charge and WHT applying together

A Saudi manufacturer pays SAR 5,000,000 to a foreign engineering consultancy for design services, with no Saudi PE created by the consultancy. Two separate obligations arise on the same payment: a 5% technical services WHT of SAR 250,000 (Chapter 6), withheld and remitted by the Saudi payer; and a reverse-charge VAT self-assessment of 15% (SAR 750,000), declared as both output and input VAT in the manufacturer's own VAT return (net cash VAT impact of nil if the input VAT is fully recoverable, but the output VAT declaration itself is still a mandatory compliance step, and a mismatch between what a business declares for WHT purposes and what it declares for VAT purposes on the same payment is a common ZATCA cross-check flag).

Practical Illustration — The Capital Assets Scheme in a changing-use building

A developer completes a mixed-use tower, recovering input VAT at acquisition based on an estimated 70% taxable (retail/office) and 30% exempt (residential leasing) use split. Three years later, following a change in leasing strategy, the actual use has shifted to 50% taxable and 50% exempt. Under the Capital Assets Scheme, the developer must make an annual adjustment reflecting the change in use ratio for the remainder of the asset's adjustment period, repaying a portion of the input VAT originally recovered — a consequence that is easy to overlook when the original recovery position was calculated once at acquisition and not revisited annually thereafter.

Frequently Asked Questions

Is there a VAT registration threshold exemption for a foreign business with no Saudi establishment making taxable supplies in the Kingdom? Generally, no — a non-resident making taxable supplies in Saudi Arabia with no other Saudi-resident party liable to self-account (e.g., no reverse charge applies because the recipient is not VAT-registered) is typically required to register for VAT regardless of the value of supplies, since the SAR 375,000 threshold exemption is generally reserved for resident businesses.

Can a VAT group include entities with different Zakat/tax ownership profiles (e.g., one wholly Saudi- owned entity and one mixed-ownership entity)? VAT grouping conditions turn on common control for

VAT purposes, which is a separate test from the Zakat/tax ownership analysis in Chapter 2 — entities with different Zakat/tax profiles can, in principle, still meet the VAT group's common-control test, but each entity's own Zakat/tax position continues to be assessed entirely separately from the VAT group election.

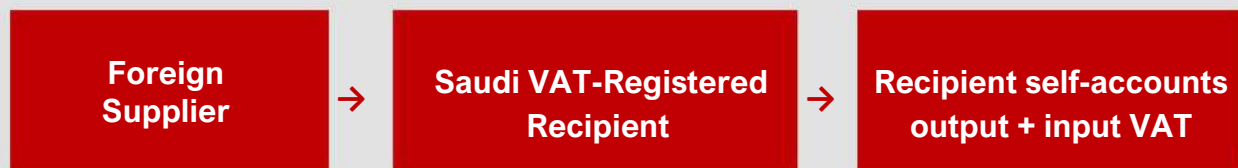
Worked Example 17.D — Reverse Charge on an Imported Service

A Saudi VAT-registered business receives a consulting service from a non-resident supplier with no Saudi establishment, valued at SAR500,000.

Item	Amount (SAR)
Value of imported service	500,000
Output VAT self-accounted by the recipient (15%)	75,000
Input VAT recovered in the same return (fully taxable use)	(75,000)
Net VAT cash cost to the recipient	0

Where the recipient has full input VAT recovery, the reverse charge is cash-flow neutral within the same return — the net cost only arises where recovery is restricted.

Figure 17.E — Reverse Charge Mechanism



Chapter 15:

Real Estate Transaction Tax (RETT)



Chapter 15: Real Estate Transaction Tax (RETT)

Overview

RETT is a standalone tax on transfers of Saudi real estate, introduced on 4 October 2020 to fill the gap left when most real estate sales were carved out of VAT. It has since been substantially reformed: the current Real Estate Transactional (Royal Decree No. M/84, dated 19/3/1446H / 22 September 2024G, published 8/4/1446H/11 October 2024G) and its Implementing Regulations, effective 10 April 2025 following a public consultation period that began 15 February 2025, replaced the original 2020 framework with a materially expanded set of exemptions, updated definitions, and reduced penalties. RETT sits outside this handbook's Zakat/tax/WHT focus but is treated as a full chapter given how routinely real estate transfers a rise in the corporate transactions — asset deals, group reorganisations, RHQ and SEZ property acquisitions—covered elsewhere in this handbook.

Figure 18.A—RETT vs VAT: which applies?



Key Parameters

- Rate: a flat 5% of the transaction value, applied on the higher of the contract value and fair market value.
- Current legal basis: the Real Estate Transaction Tax Law (Royal Decree No. M/84), with Implementing Regulations effective 10 April 2025, superseding the original 2020 RETT framework.
- Scope: sales, ownership transfers, non-exempt gifts, certain lease-to-own and Murabaha-style financing arrangements, and usufruct rights exceeding 50 years; transfers of shares in companies whose value derive substantially from Saudi real estate can also fall within scope under conditions set out in the Implementing Regulations.
- Liable person: The assignor (typically the seller, donor, waiver or, or grantor) is the person responsible for RETT payment and registration. A contractual agreement may require the assignee/buyer to bear the economic cost or make the payment, but such an agreement does not release the assignor from liability to ZATCA. The assignee can become jointly liable where the conditions specified in the Law and Implementing Regulations are met.
- Assessment / transitional limitation: The current RETT guidance contains specific three-year rules for certain transactions predating the effective date of the reformed Law, including disclosed and undisclosed transactions. Practitioners should not treat this as a blanket three-year statute for every current RETT transaction; the applicable limitation and assessment provisions should be checked against the Law and Implementing Regulations for the transaction in question.

Figure 18.1 — Distinguishing RETT and VAT treatment for a real estate transaction

Question	If Yes	If No
Transfer of ownership / usufruct > 50 years / qualifying share transfer?	RETT: 5% of the higher of contract value / fair market value (VAT generally exempt)	Go to next question
Real estate-adjacent service (agency, leasing, management)?	VAT: 15% on the service fee, in the normal way	Neither RETT nor VAT applies (confirm case-by-case)

Exemption Categories immediately

The current RETT framework sets out a substantially expanded exemption list relative to the original 2020 regime — reported at up to 21 specific exempt scenarios in the implementing framework. The principal categories, each subject to detailed conditions in the Implementing Regulations, are:

ZATCA's Detailed Guideline for RETT is now Version 6 (May 2026). The latest guidance confirms detailed rules on the tax base, indirect transfers of interests in real estate companies, payment timing, assignor/assignee responsibilities, exemptions and transitional cases. The 2026 version should be used for transaction-level analysis rather than relying on the 2025 implementation summary alone.

Date	Milestone
4 October 2020	RETT introduced, filling the gap left when real estate was carved out of VAT
22 September 2024	Reformed RETT Law (Royal Decree No. M/84) issued
10 April 2025	Reformed Implementing Regulations in force — expanded exemptions, updated definitions, reduced penalties

Figure 18.B — RETT reform timeline

- First-home relief: exemption on the first SAR 1 million of purchase price for a qualifying Saudi national's first home, subject to a Ministry of Housing certificate.
- Family transfers: transfers between spouses and relatives up to the third degree (including grandparents and grandchildren), and inheritance distributions, generally exempt on proof of the family relationship.
- Mergers and acquisitions: real estate transferred as part of a qualifying merger (consideration limited to shares in the merging/surviving entity, with the resulting shareholders retaining those shares for at least five years) or acquisition (consideration exclusively in shares of the acquiring entity, again subject to a five-year retention condition) is exempt — but the exemption is retrospectively clawed back if the retention condition is later breached.
- Listed securities, IPOs and investment funds: indirect real estate disposals arising from public subscriptions, trading of listed securities, and trading of units in investment funds are exempt; trading of unlisted real estate fund units is likewise generally outside RETT unless a person or group disposes of 50% or more of the fund's units through related transactions within three years.

- Charitable and government transfers: transfers to or from a licensed charitable organisation for no consideration, and qualifying government/public-benefit entity transfers (subject to conditions preventing the exemption being used for ordinary commercial activity), are exempt.
- Forced sales: real estate transactions arising from a court-ordered forced sale, including in bankruptcy and administrative liquidation, are exempt.
- Off-plan sales: Off-plan real estate sales are not automatically outside RETT. The current RETT framework contains specific rules and timing for off-plan transactions, and the RETT payment is generally due by the notarisation/transfer timing specified in the Implementing Regulations. The Zakat treatment of qualifying under-construction/off-plan projects is a separate issue and should not be used to infer a RETT exemption.
- Expropriation replacement relief: purchase of replacement real estate following compulsory expropriation for a public-interest project (relevant to Vision 2030 giga-project-related land acquisitions) can qualify for relief.

Share Transfers in Real Estate Companies

A defining and often-overlooked feature of the current regime is that RETT can apply indirectly: where a person, or a group of persons acting under an agreement, disposes of 30% or more of the shares of a company meeting the definition of a "real estate company" (broadly, an entity that directly or indirectly owns Saudi real estate with the objective of generating income from its sale or lease) through one or more related transactions within a three-year window, the share disposal itself can trigger RETT — layered on top of, not instead of, any capital gains tax otherwise due on the same disposal under Chapter 5. This indirect-transfer rule is a frequent trap in private M&A and group reorganisations where the target's real estate holding is incidental to the deal's commercial rationale, and it should be screened for in every Saudi share transaction involving a target with a property-heavy balance sheet.

Interaction with VAT

The introduction of RETT removed most real estate sales from the scope of the 15% VAT (real estate sales were exempted from VAT and brought within RETT instead), which is why a 2,000,000 SAR villa sale today generally attracts 100,000 SAR of RETT rather than 300,000 SAR of VAT. VAT can, however, still apply to real estate-adjacent services (agency fees, certain leasing arrangements) that fall outside RETT's transfer-of-ownership scope, so mixed real estate transactions require careful unbundling between the two regimes.

Relevance to Corporate Structuring

Because RETT can apply to indirect transfers (share deals in real-estate-heavy companies) as well as direct property sales, corporate reorganisations, RHQ property acquisitions, and even certain intra-group transfers that are relieved from capital gains under Chapter 5 should be separately screened for RETT exposure — the two regimes' relief conditions are not aligned, and a transaction relieved from capital gains tax can still trigger a RETT liability.

Practical Illustration — The 30% indirect transfer threshold in an M&A deal

A logistics group is acquired by a strategic buyer in a share deal. The target holds a portfolio of warehouses that, while not the buyer's primary commercial interest, is substantial enough that the target meets the "real estate company" definition. Because the transaction transfers 100% of the target's shares — well above the 30% threshold — RETT applies to the underlying real estate value at 5%, in addition to the deal's ordinary capital gains treatment for the sellers. A buyer that only models stamp-duty-equivalent transaction costs on the share price, without separately identifying and valuing the RETT-exposed real estate component, will understate the deal's total tax cost.

Practical Example — Computing RETT on a Property Sale

Line	Amount (SAR)
Contract sale price	18,000,000
Independent fair market valuation	19,500,000
RETT base (higher of the two) RETT	19,500,000
payable (5% × 19,500,000)	975,000
Due	At the time of notarisation of the transfer

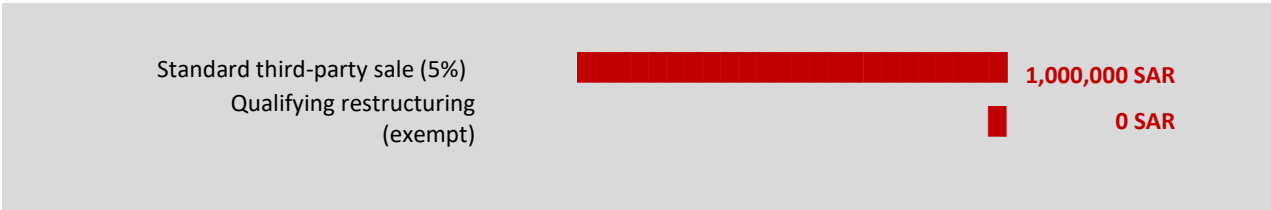
Worked Example 18.C — RETT Saved Through an Exempt Corporate Restructuring

Real estate with a market value of SAR 20,000,000 is transferred as part of qualifying internal corporate restructuring rather than sold to a third party.

Item	Amount (SAR)
Market value of the real estate	20,000, 000
RETT at the standard 5% rate (base case, no exemption)	1,000,000
RETT due under the qualifying restructuring exemption	0
RETT saved through the exemption	1,000,000

The exemption depends on meeting the specific structuring conditions (e.g., common ownership continuity) — a transfer that looks similar but fails a condition reverts to the full 5% charge.

Figure 18.D — RETT Outcome: Standard Sale vs Qualifying Restructuring



Chapter 16:

E-Invoicing (Fatoorah)



Chapter 16: E-Invoicing (Fatoorah)

Overview

Fatoorah is ZATCA's mandatory electronic invoicing system and is widely regarded as the most mature e- invoicing regime in the GCC. It applies in two phases.

Phase 1 — Generation

Effective from 4 December 2021, all taxable persons subject to VAT (and third parties issuing tax invoices on their behalf) were required to generate, store and stamp invoices electronically using compliant invoicing solutions, ending the acceptance of hand-written or unstructured invoices for VAT purposes.

Figure 16.A — Fatoorah timeline

Date	Milestone
4 December 2021	Phase 1 (Generation) effective — electronic invoice generation and storage mandatory
2023 onward	Phase 2 (Integration) rolled out in successive revenue-based waves
24 July 2026	Wave 25 announced — threshold falls to SAR 187,500 (any of 2022–2025)
1 February 2027	Wave 25 integration deadline

Phase 2 — Integration

Phase 2 introduces a clearance (for B2B/B2G standard tax invoices) and reporting (for B2C simplified tax invoices) model: invoices must be transmitted to ZATCA's platform for cryptographic stamping and validation before — or, for simplified invoices, shortly after — being issued to the customer. ZATCA has rolled out Phase 2 in successive waves, grouping taxpayers by annual revenue, with the largest businesses onboarded first and progressively smaller thresholds brought into scope over time; by 2026 most large and mid-sized Saudi businesses are live on Phase 2 or have a confirmed integration date. Most recently, ZATCA announced Wave 25 on 24 July 2026, bringing into scope taxpayers whose VAT-subject revenues exceeded SAR 187,500 in any of the 2022–2025 calendar years, with integration required by 1 February 2027 — illustrating how far the revenue threshold has now fallen from the initial waves targeted at the largest taxpayers, and a reminder that businesses should check the current wave schedule rather than assume they remain out of scope indefinitely.

Figure 16.B — Clearance vs reporting model

STANDARD TAX INVOICES(B2B/B2G)	SIMPLIFIED TAX INVOICES (B2C)
CLEARANCE model —transmitted to ZATCA for cryptographic stamping BEFORE issuance to the customer	REPORTING model—transmitted to ZATCA shortly AFTER issuance to the customer

EXAMPLE — Checking Wave 25 eligibility

Hijaz Retail Supplies Co reviews its VAT-subject revenue for the four years used in the Wave 25 test: SAR 165,000 (2022), SAR 172,000 (2023), SAR 195,000 (2024), and SAR 201,000 (2025). Because the SAR 187,500 threshold is tested against ‘any of’ 2022–2025 rather than a single reference year, the 2024 figure alone (SAR 195,000) is enough to bring the company into Wave 25 scope, even though its 2022 and 2023 revenue sat below the threshold. The company must therefore complete its Phase 2 integration by 1 February 2027. A comparable business whose revenue stayed below SAR 187,500 in all four years would remain outside Wave 25 for now — but should still monitor future waves, since ZATCA has consistently lowered the qualifying threshold with each successive wave since Phase 2 began.

Practical Consequences

An invoice issued without a valid ZATCA clearance stamp is not legally valid, and input VAT recovery by the recipient can be denied on a non-compliant invoice.

Figure 16.C — Non-compliance consequences

ISSUER	RECIPIENT
Penalties per Chapter14, escalating for repeat non- compliance	Input VAT recovery condensed on a non-compliant invoice — a shared commercial risk, not just the issuer's

E-invoicing solutions must meet ZATCA's technical and security specifications (including tamper-resistance and QR code requirements) — off-the-shelf accounting software is not automatically compliant without appropriate configuration or a certified middleware integration. Non-compliance (missing invoices, incorrect fields, failure to integrate by the applicable wave date) is subject to escalating penalties described in Chapter 14.

Interaction with the Wider Compliance Stack

Because Fatoorah-cleared invoice data feeds ZATCA's own systems in near real time, e-invoicing has become a de facto audit trail that materially strengthens ZATCA's ability to cross-check VAT returns, WHT positions and, increasingly, transfer pricing disclosures against actual transaction-level data — a dynamic that practitioners should factor into compliance risk assessments across every other chapter of this handbook.

Technical Requirements Snapshot

- Invoices generated in a structured XML format (UBL 2.1-based), not merely a PDF that looks like a compliant invoice.
- A QR code embedded on every invoice, machine-readable and containing prescribed fields (seller details, VAT registration number, timestamp, invoice total, VAT total, and — for Phase 2 — a cryptographic stamp).
- A tamper-resistant, sequential invoice numbering and hash-chaining mechanism, so that any retrospective alteration of a previously issued invoice is technically detectable.
- Integration with ZATCA's platform via an approved e-invoicing solution provider or an in-house solution that has passed ZATCA's onboarding and compliance checks.

Common Pitfalls

- Assuming a globally deployed group ERP/accounting system is automatically Fatoorah-compliant out of the box — most require a certified local add-on, middleware, or configuration layer specific to the Saudi regulatory technical specification.
- Treating e-invoicing onboarding as a one-off IT project rather than an ongoing compliance function — ZATCA periodically updates its technical specifications, and a solution compliant at go-live can drift out of compliance if not actively maintained.
- Failing to align credit note and debit note issuance with the original cleared invoice reference — a disconnected credit note (as illustrated in the Chapter 14 case study) is one of the most common sources of VAT-to-e-invoicing reconciliation breaks.
- Overlooking that a non-compliant invoice is not merely a fine risk for the issuer — it can also block the recipient's own input VAT recovery, making e-invoicing compliance a shared commercial concern between counterparties, not solely the issuer's internal problem.

Practical Illustration — Phase 2 wave onboarding for a mid-market group

A mid-market Saudi retail group with SAR 180 million in annual revenue receives its ZATCA Phase 2 integration notification roughly six months ahead of its mandatory go-live date. The group's existing point-of-sale and ERP systems were not designed for real-time clearance, requiring a middleware integration project spanning IT, finance and external solution-provider resources. Groups that treat the six-month notification period as ample lead time without immediately scoping the technical integration often find themselves compressed into a last-minute rollout, increasing the risk of go-live disruption (invoices failing clearance, sales processes stalling at the till) precisely when the business can least afford it.

Practical Example — Anatomy of a Compliant Cleared Invoice

Field	Example Value
Invoice type	Standard tax invoice (B2B) — clearance model
Seller VAT registration number	3XXXXXXXXXXXX03
Invoice sequence and hash of previous invoice	Sequential number + cryptographic hash chain to the prior invoice
QR code	Embedded, containing seller name, VAT number, timestamp, invoice total, VAT total, and cryptographic stamp
ZATCA clearance status	Cleared before issuance to the buyer (contrast: B2C simplified invoices are reported shortly after issuance)
Format	Structured XML (UBL 2.1-based) — not a PDF image of an invoice

Figure 16.D — How the Wave Rollout Logic Works

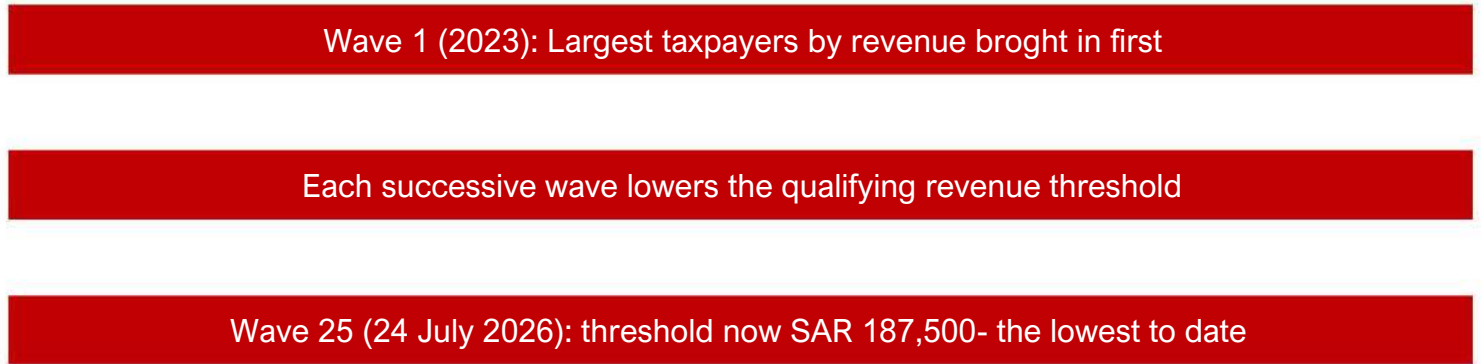


Figure 16.E — Invoice Clearance Process (Phase 2)



Chapter 17:

Registration, Filing and Administrative Procedures



Chapter 17: Registration, Filing and Administrative Procedures

Companies commence a Zakat/income tax registration with ZATCA shortly after commercial registration, generally as part of the broader business set-up process alongside Ministry of Commerce and, where relevant, MISA licensing. VAT registration is separately mandatory once annual taxable supplies exceed SAR 375,000, and voluntary between SAR 187,500 and SAR 375,000.

Annual Zakat / Income Tax Return

- Due with in120 days of the financial yearend (for a 31 December year end, typically by end of April).

Figure 12.A — Illustrative recurring compliance calendar

Obligation	Deadline
Zakat/income tax return & payment	120 days from financial year end
WHT return & payment	10th of the month following payment
VAT return	Monthly (>SAR 40m) or quarterly
Share ownership change notification	60 days from the transaction
TP documentation on request	30 days from ZATCA's request

- The final amount of Zakat and/or tax due is payable by the same 120-day deadline; instalment arrangements exist for certain categories of taxpayer.
- Companies with any Saudi ownership are generally required, under Saudi company and accounting rules, to have their financial statements audited by a Saudi-licensed auditor — but audited financial statements are not, as a general rule, required to be uploaded together with the Zakat/income tax return itself; ZATCA's current FAQ confirms that establishments are not generally obligated to file financial statements with the return, although ZATCA may request them separately (for example, during a field audit or desk review). Taxpayers should still retain the audited statements as part of their compliance file, ready to produce on request, and should distinguish the statutory audit obligation from the narrower set of documents uploaded at the point of filing (see Chapter 13).

Figure — Three distinct concepts, often conflated

Concept	What it requires
Statutory audit obligation	Saudi/GCC-owned companies must have financial statements audited by a SOCPA-licensed auditor — a Saudi company-law and accounting obligation, independent of ZATCA filing
Documents retained for ZATCA Concept	The audited statements should be kept on file, reconciled to the return, and ready to produce on request — including during a field audit or desk review
Documents uploaded with the return	ZATCA's current FAQ confirms audited statements are not generally required to be uploaded together with the Zakat/income tax return

- The Controlled Transactions Disclosure Form and TP affidavit (Chapter 8) are filed alongside the return where the taxpayer has related-party transactions.

VAT Returns

VAT returns are filed monthly where annual taxable supplies exceed SAR 40 million, and quarterly otherwise, with payment due alongside each return.

Withholding Tax Returns

Monthly, due by the 10th day of the month following the month in which the payment subject to WHT was made (Chapter 6).

Fatoorah E-Invoicing Compliance

Businesses within their applicable Phase 2 integration wave (see Chapter 16) must generate, clear and archive e-invoices through ZATCA's platform as an operational precondition to a valid, deductible invoice — this is now a day-to-day compliance workstream, distinct from the periodic return cycle.

ZATCA's Digital Channels

Registration, return filing, payment, and correspondence with ZATCA are conducted primarily through ZATCA's online portal (and, for larger and more complex taxpayers, dedicated relationship-management channels), reflecting the authority's broader push toward digitised tax administration alongside the e- invoicing rollout.

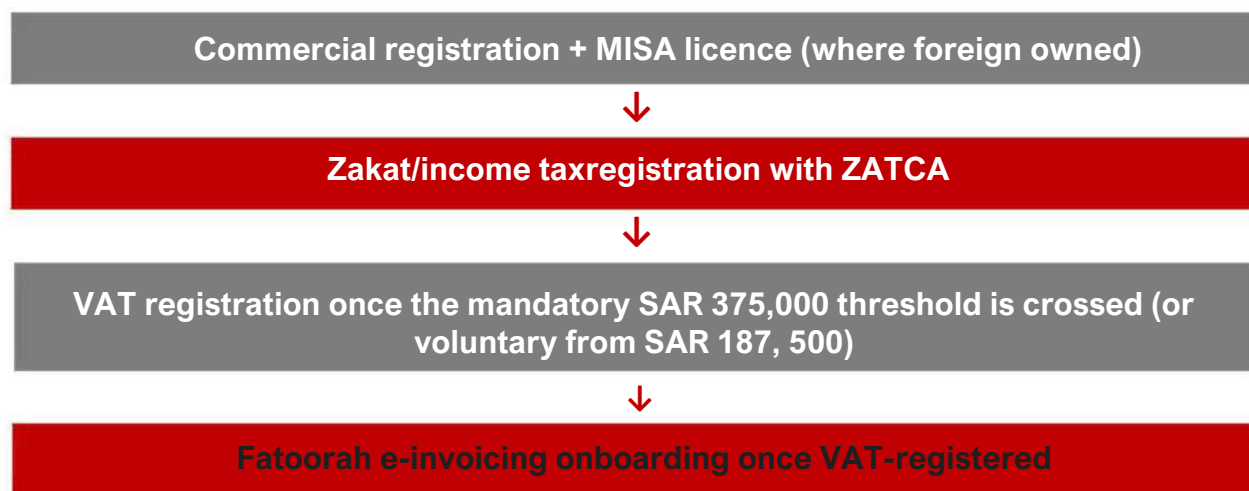
Figure 12.1 — Illustrative recurring compliance calendar across ZATCA's regimes

Deadline	Obligation
Day 10 of each month	WHT return and payment for the prior month's payments (Chapter 6)
Monthly / quarterly	VAT return and payment, depending on annual taxable supplies (Chapter 17)
Continuous	Fatoorah e-invoice clearance for entities in an applicable Phase 2 wave (Chapter 16)
Day 60	Notify ZATCA of any change in share ownership (Chapters 5, 12)
Day 120 from year end	Zakat / income tax return, audited financial statements, and CTDF filed and paid (Chapters 12, 13)
Day 30 of a ZATCA request	Master File / Local File produced to ZATCA if requested (Chapter 8)

New Business Set-Up: Sequencing

A newly incorporated foreign-invested entity typically works through registration in roughly the following order, each step generally a precondition for the next: (i) MISA foreign investment licence; (ii) Ministry of Commerce commercial registration; (iii) municipality and, where relevant, sector-specific regulator licensing; (iv) ZATCA Zakat/income tax registration; (v) GOSI registration for social insurance once employees are hired; (vi) VAT registration once the taxable supplies threshold is reached or expected to be reached; and (vii) Fatoorah e-invoicing onboarding once the entity falls within an applicable Phase 2 wave. Groups often underestimate the elapsed time this sequence can take, particularly where a licensed activity requires sector-specific regulatory approval ahead of MISA licensing.

Figure 12.B — New business set-up: sequencing



Payment Methods and Instalments

ZATCA payments are made through its own online payment gateway or via SADAD, the Kingdom's national electronic bill-payment system integrated with Saudi banks. Instalment arrangements for Zakat/income tax liabilities are available in defined circumstances (generally requiring a formal request and, in some cases, an accepted bank guarantee or similar security) rather than as an automatic right, and interest/penalty accrual on the deferred balance should be factored into any instalment request.

Common Pitfalls

- Treating the 120-day Zakat/income tax return deadline as the trigger to begin preparing the audited financial statements, rather than as the deadline for completion — the statutory Saudi audit process itself, run by a SOCPA-licensed firm, needs to be scheduled well within the 120-day window, not started at day 100.
- Under-resourcing the WHT monthly cycle relative to the annual return cycle — because WHT is filed monthly with a short (10-day) deadline, it is often the compliance obligation most prone to being missed amid other priorities, even though its penalty exposure compounds every 30 days of delay.
- Assuming e-invoicing, VAT and Zakat/tax compliance can be handled by entirely separate teams without cross-checks — because Fatoorah invoice data increasingly feeds ZATCA's own cross-checking systems (Chapter 16), inconsistencies between the three streams are now more visible to ZATCA than in the past.

Practical Example — Building a Compliance Timeline for a 31 December Year End

Date	Action
10 January	January WHT return and payment (December payments)
Late January	Q4 VAT return and payment (if quarterly filer)
February–March	Statutory audit fieldwork; draft Zakat/tax base computation prepared March
10 March Mid-	WHT return and payment
April	Audited financial statements finalised and signed
30 April (day 120)	Zakat/income tax return, CTDF, and payment filed — the statutory deadline

Worked Example 12.C — Cost of Registering Late for VAT

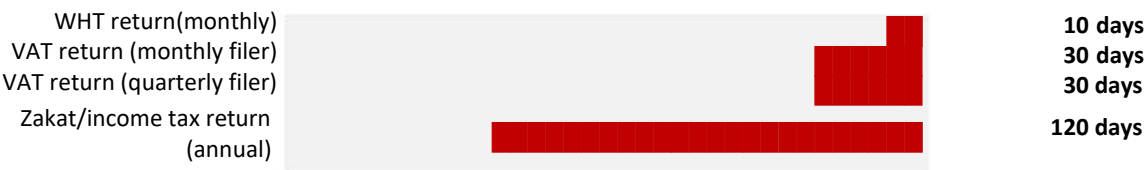
A business crosses the mandatory SAR 375,000 VAT registration threshold but only registers three months later, after ZATCA identifies the delay on a routine review.

Item	Amount (SAR)
VAT-able supplies made during the 3-month delay	600,000
Output VAT that should have been charged and remitted (15%)	90,000
Late-registration penalty (illustrative, per month of delay)	15,000
Total exposure once ZATCA identifies the delay	105,000

Because the output VAT is assessed regardless of whether it was collected from customers after

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Figure 12.D — Filing Frequency and Deadline Window by Tax Type



Chapter 18:

Audited Financial Statements and Record Keeping



Chapter 18: Audited Financial Statements and Record Keeping

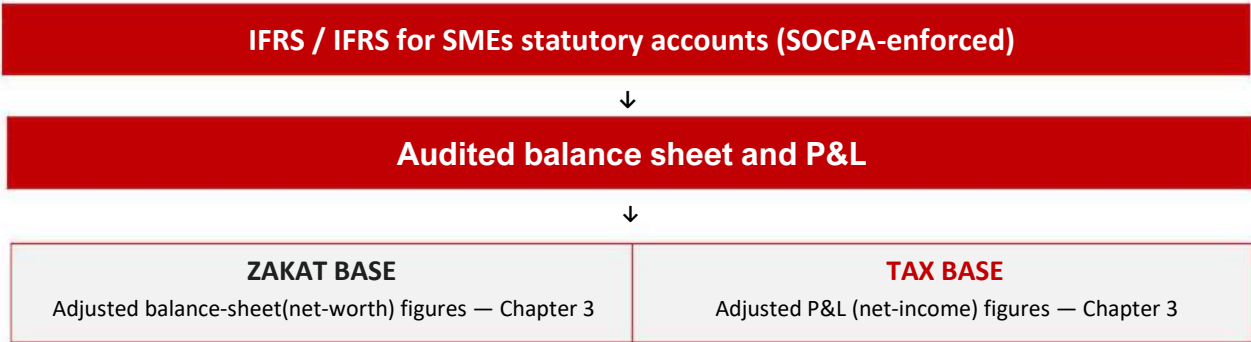
Audit Requirement

Companies with any Saudi or GCC ownership must generally have their financial statements audited by a Saudi Organization for Chartered and Professional Accountants (SOCPA)-licensed auditor, and ZATCA treats the audited financial statements as the primary evidentiary basis for both the Zakat base and the tax base computation, consistent with the 2024 Zakat regulations' emphasis on starting from reported balance sheet figures. This is a statutory audit obligation, not necessarily an upload requirement: as discussed in Chapter 12, taxpayers are not generally required to submit the audited statements together with the annual return itself, though ZATCA may request them at any time, including during a field audit or desk review, and a taxpayer should always have them ready and reconciled to the filed return.

Accounting Standards

Saudi Arabia has adopted IFRS (and IFRS for SMEs, where applicable) as the basis for statutory financial reporting, administered and enforced through SOCPA. This alignment is what allows ZATCA's 2024 Zakat reforms to lean more heavily on the audited balance sheet as filed, reducing (though not eliminating) the historical divergence between book equity and the computed Zakat base.

Figure 13.C — Accounting standards feeding the Zakat/tax base



Record Retention

- General books and records: retained for a minimum period set by the Implementing Regulations (commonly ten years, and longer for real estate and certain other asset classes) to support both direct tax and VAT positions.

Figure 13.A — Record retention periods by category

Record type	Retention
General books and records	Commonly 10 years (longer for real estate/certain assets)
Transfer pricing documentation	Contemporaneous; produced within 30 days of request
E-invoicing records	Structured electronic format per Fatoorah regulations

- Transfer pricing documentation: prepared contemporaneously (i.e., at or before the time of the transaction, not reconstructed retrospectively) and produced to ZATCA within 30 days of a formal request.
- E-invoicing records: archived in the structured electronic format required under the Fatoorah regulations, not merely as PDF or paper copies.

Audit and Enquiry Risk

ZATCA's field audit and desk review activity has intensified materially alongside the VAT, e-invoicing and transfer pricing rollouts described elsewhere in this handbook; robust, contemporaneous documentation — not only compliant filings — has become the practical determinant of how an enquiry resolves.

Figure 13.B — What makes a file audit-ready

AUDITED FINANCIAL STATEMENTS	SUPPORTING SCHEDULES
SOCPA-licensed audit or sign-off, reconciled to the filed Zakat/tax return	TP documentation, WHT records, e-invoicing archive — all cross-referenced to the same figures

Building an Audit-Ready File

Practitioners preparing a Saudi entity for its annual filing — or anticipating a ZATCA enquiry — typically assemble a structured file covering, at minimum: the audited financial statements and underlying trial balance; a documented Zakat base and/or tax base computation bridging from the audited numbers, with every adjustment cross-referenced to its legal basis; the Controlled Transactions Disclosure Form and supporting transfer pricing Local File; WHT working papers for the year, reconciled to the payments ledger; and a summary schedule of any positions taken that rely on judgement (for example, a PE analysis, a services classification for WHT purposes, or an exemption claim) together with the reasoning and authority relied upon. Building this file contemporaneously, as part of the normal year-end close, is materially less costly than reconstructing it retroactively once ZATCA has opened an enquiry.

Interaction with Group Reporting

Multinational groups preparing Saudi entity financial statements as part of a wider IFRS group consolidation should be alert to a structural tension: consolidation-level adjustments (fair value uplifts on acquisition, group-level impairment testing, intercompany eliminations) do not automatically flow through to the Saudi entity's own statutory, SOCPA-audited standalone financial statements in the same way — and it is the standalone statutory financial statements, not the group consolidation package, that form the basis for the Zakat/tax computation. A common practical error is basing a Saudi Zakat/tax provision estimate on group reporting numbers that have not been reconciled to the entity's actual standalone statutory position.

Practical Example — Audit-Ready File Checklist with Retention Periods

Record	Minimum Retention	Basis
Audited financial statements and trial balance	10 years	General record-keeping rule
Zakat base / tax base computation and bridging schedules	10 years	General record-keeping rule
Transfer pricing Local File and CTDF working papers	10 years (prepared contemporaneously)	TP Bylaws, Chapter 8
WHT working papers and payment evidence	10 years	General record-keeping rule
Real estate transaction records (for RETT purposes)	Longer — aligned to the 3-year RETT assessment window and general retention rule	RETT Law, Chapter 18
Fatoorah e-invoicing records	10 years, in the structured electronic format required	E-Invoicing Regulations, Chapter 16

Figure 13.D — Building an Audit-Ready File: The Process



Worked Example 13.E — Sizing an Audit-Ready Document Set

An illustrative count of the core document categories a mid-sized taxpayer should keep readily accessible for a single fiscal year, to gauge the scale of an audit-ready file.

Item	Amount (SAR)
Sales invoices and credit notes	≈ 1,200 documents
Purchase invoices and import documents	≈ 850 documents
Payroll and WHT remittance records	≈ 60 documents
Contracts, TP documentation and board minutes	≈ 40 documents

The volume alone makes an organised, indexed retrieval system essential—an audit response windows rarely long enough to assemble records from scratch.

Chapter 19:

Penalties, Assessments and Disputes



Chapter 19: Penalties, Assessments and Disputes

Breach	Penalty
Late filing (Zakat/income tax return)	1% of gross income per 30 days (capped), min. penalty
Late payment (Zakat/tax/WHT/VAT)	1% of unpaid amount per 30 days
TP understatement	Up to 25% of the additional tax assessed

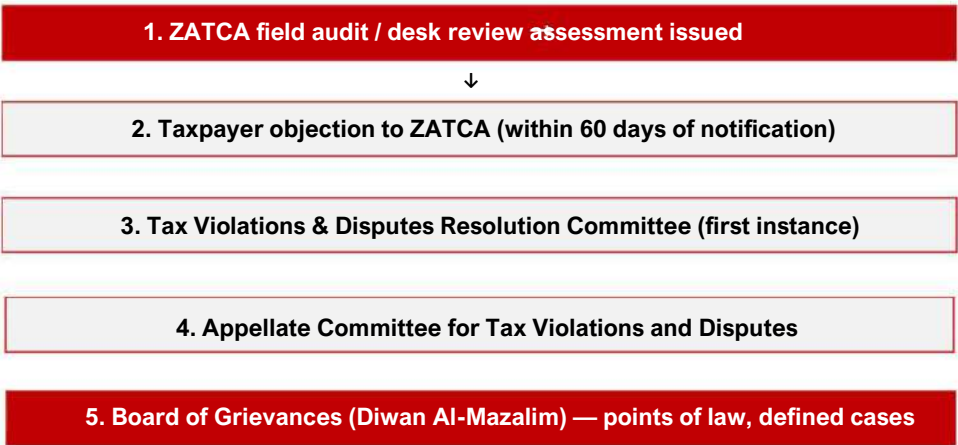
Figure 14.B — Penalty rates by breach type

Breach	Penalty
Late filing of Zakat/income tax return	1% of gross income per 30 days of delay (capped), subject to a minimum penalty
Late payment of Zakat/tax/WHT/VAT	1% of the unpaid amount for every 30 days (or part thereof) of delay
Understatement of tax due to non-arm's-length transfer pricing	Up to 25% of the additional tax assessed, on top of the primary adjustment
Failure to maintain or provide transfer pricing documentation on request	Fixed administrative penalty, in addition to any resulting tax adjustment
Non-compliant e-invoicing (missing, non-cleared, or improperly archived invoices)	Fixed and percentage-based penalties per violation, escalating for repeat non-compliance

Assessment Process

ZATCA reviews filed returns and may issue a field audit or desk assessment adjusting the reported Zakat base, tax base, VAT position or WHT liability. Assessments are typically notified with a stated basis for adjustment, giving the taxpayer an opportunity to respond before the assessment is finalised.

Figure 14.A — Escalation ladder for a contested ZATCA assessment



Field Audit vs Desk Review

A desk review is typically a documentary, correspondence-based check of a filed return against supporting schedules, often triggered by an inconsistency ZATCA's systems flag automatically (for example, a mismatch between Fatoorah invoice data and a VAT return, or a Zakat base that moves sharply against the prior year without an obvious balance-sheet explanation). A field audit is a more comprehensive, often on-site examination covering multiple years and tax types, and is more likely for larger taxpayers, higher-risk sectors (Chapter 8), or where a desk review has already surfaced unresolved questions. The evidentiary standard and the taxpayer's practical negotiating position differ meaningfully between the two, and a business's response strategy — how much to volunteer, how quickly to escalate to specialist advisers — should be calibrated accordingly.

Figure 14.1 — Escalation ladder for a contested ZATCA assessment

Stage	Forum / Action
1	ZATCA field audit / desk review → assessment issued
2	Taxpayer objection to ZATCA (within 60 days of notification)
3	Tax Violations & Disputes Resolution Committee (first instance)
4	Appellate Committee for Tax Violations and Disputes (appeal on merits/law)
5	Board of Grievances (Diwan Al-Maazim) — points of law, in defined cases

Objections and Disputes

- A taxpayer disagreeing with a ZATCA assessment may lodge an objection with ZATCA within the statutory window (generally 60 days of notification of the assessment).
- Unresolved objections proceed to the General Secretariat of Tax Committees, which administers the Tax Violations and Disputes Resolution Committee (first instance) and the Appellate Committee for Tax Violations and Disputes (appeal).
- Further appeal on points of law may, in defined circumstances, proceed to the Board of Grievances (Diwan Al-Maazim) as the administrative judiciary.
- Payment of the disputed amount, or provision of an accepted guarantee, is generally a precondition to proceeding with certain stages of the dispute process — a practical point that affects cashflow planning during a contested assessment.

Statute of Limitations

ZATCA's ability to reopen and assess a prior year is not unlimited — a statutory limitation period applies (varying by tax type and by whether a return was filed at all; RETT, for example, carries an explicit three- year limit from the transaction date, or from ZATCA's knowledge of an unnotarized or undisclosed transaction). Taxpayers should retain records for at least the full limitation period relevant to each tax type, which in practice, combined with the general record-retention rules in Chapter 13, argues for a conservative, longer retention policy across the board rather than tax-type-specific retention schedules that are easy to misapply.

Voluntary Disclosure and Penalty Relief

ZATCA has periodically offered penalty waiver or amnesty initiatives (most notably in connection with VAT and e-invoicing transition periods) encouraging voluntary correction of historical non-compliance; taxpayers should confirm whether any such initiative is currently in force before assuming standard penalty exposure applies to a historical exposure being remediated.

- Missing the 60-day objection window while internally debating whether to contest an assessment — the window runs from notification regardless of how long a considered internal response takes to prepare, so a protective objection is often filed while substantive analysis continues in parallel.
- Underestimating the cash-flow impact of the "pay to dispute" mechanics at certain stages of the process — a large, contested assessment can tie up significant working capital (or require a bank guarantee facility) for the duration of a multi-year dispute, which should be factored into a group's broader treasury planning once a material assessment is received.
- Treating a ZATCA penalty notice as final and unappealable — many penalties (as distinct from the underlying tax adjustment) are themselves capable of being separately contested or mitigated, particularly where a reasonable-cause or voluntary-disclosure argument is available.

Practical Illustration — Responding to a desk review flag

ZATCA's systems flag a mismatch between a distribution company's Fatoorah-cleared invoice totals for the year and the output VAT reported on its quarterly VAT returns, triggering a desk review. On investigation, the discrepancy traces to a batch of credit notes issued for returned goods that were correctly reflected in the company's accounting system but not consistently linked back to the original cleared invoices in the e-invoicing platform. Because the company can demonstrate the underlying commercial substance and provide a clear reconciliation, the desk review closes without escalating to a field audit — illustrating both the increased visibility ZATCA now has through Fatoorah data (Chapter 16) and the value of maintaining a reconciliation process between e-invoicing and VAT reporting as a routine control, not a one-off exercise.

Practical Example — Calculating a Late-Payment Penalty

Line	Amount / Result
Zakat/income tax liability paid late	SAR 2,000,000
Original due date	30 April
Actual payment date	20 July (81 days late)
Penalty periods (1% per 30 days or part thereof)	3 periods (1–30, 31–60, 61–81 days)
Penalty payable (3 × 1% × SAR 2,000,000)	SAR 60,000

Worked Example 14.C — Stacked Penalty for a Late and Under-Declared Return

A return is filed 90 days late (three 30-day periods) and under-declares tax due by SAR 200,000, applying the 1%-per-30-days late-payment penalty and the maximum 25% under-declaration penalty described earlier in this chapter.

Item	Amount (SAR)
Tax under-declared and unpaid	200,000
Late-payment penalty: $1\% \times 200,000 \times 3$ periods	6,000
Under-declaration penalty at the maximum 25% of additional tax assessed	50,000
Total penalties on top of the tax itself	56,000

Late-payment and under-declaration penalties can apply concurrently on the same return — they are not mutually exclusive, and the under-declaration penalty alone can dwarf the late-payment charge.

Figure 14.D — Late-Payment Penalty Growth on a SAR 100,000 Unpaid Balance (1% per 30 Days)



Appendix A -

Glossary of Key Terms



Appendix A — Glossary of Key Terms

APA — Advance Pricing Agreement — a binding agreement with ZATCA on the transfer pricing method for specified related-party transactions.

CbCR — Country-by-Country Report — BEPS Action 13 disclosure of a multinational group's global income, tax and activity by jurisdiction.

CTDF — Controlled Transactions Disclosure Form — the annual disclosure of related-party transactions filed with a Zakat/tax return.

DMTT — Domestic Minimum Top-up Tax — a jurisdiction's own mechanism for collecting Pillar Two top-up tax on low-taxed local profits.

Fatoorah — ZATCA's mandatory electronic invoicing (e-invoicing) system.

Globe — Global Anti-Base Erosion rules — the OECD Pillar Two framework imposing a 15% global minimum effective tax rate.

GOSI — General Organisation for Social Insurance — administers Saudi social insurance contributions, outside ZATCA's remit.

IIR — Income Inclusion Rule — the Pillar Two mechanism allowing a parent jurisdiction to collect top-up tax on a low-taxed subsidiary.

Local File — Transfer pricing documentation detailing a specific entity's controlled transactions, functional analysis and pricing support.

Master File — Transfer pricing documentation providing a group-wide overview of the MNE's global business, structure and TP policies.

MISA — Ministry of Investment of Saudi Arabia — issues foreign investment and RHQ licences.

PE — Permanent Establishment — the threshold of activity that brings a non-resident within the Saudi income tax net on a net-profit basis.

QDMTT — Qualified Domestic Minimum Top-up Tax — a DMTT meeting the OECD's qualifying standard for Pillar Two purposes.

RETT — Real Estate Transaction Tax — a standalone 5% tax on Saudi real estate transfers.

RHQ — Regional Headquarters — a licensed regional management entity eligible for the 30-year 0% tax incentive.

SOCPA — Saudi Organization for Chartered and Professional Accountants — licenses auditors and sets accounting/audit standards.

Tadawul — The Saudi Exchange — the Kingdom's main securities exchange.

TNMM — Transactional Net Margin Method — one of the five OECD-endorsed transfer pricing methods.

WHT — Withholding Tax — tax deducted at source by a Saudi payer on specified payments to non- residents.

ZATCA — Zakat, Tax and Customs Authority — the single authority administering Zakat, income tax, VAT, RETT, excise tax and customs.

Appendix B -

Index of Principle Legal Instruments



Appendix B — Index of Principal Legal Instruments

The following instruments are referenced throughout this handbook. Article numbers and citations should always be verified against the current, officially published Arabic text, which remains the authoritative version in the event of any discrepancy with an English translation or summary.

Zakat General Guideline (2025); 1425H Regulations; General Guideline for Withholding Tax; Second Version (May 2026); Detailed Guideline for RETT, Version 6 (May 2026); VAT Guideline on Tax Groups, Third Version (May 2026); VAT Guideline on Imports and Exports, Second Edition (May 2026); VAT Guideline on amendments to the Implementing Regulation; ZATCA's 2026 e-Invoicing Wave 25 announcement and applicable Phase 2 technical specifications; Annual Disclosure Form for Regional Headquarters released in August 2026; and the 2026 SEZ economic-substance framework.

- Income Tax Law, Royal Decree No. M/1 (1425H), as amended, and its Implementing Regulations.
- Implementing Regulations for Zakat Collection, Ministerial Resolution No. 1007 (1445H), applicable to fiscal years beginning on or after 1 January 2024.
- Ministerial Resolution No. 947 and Ministerial Resolution No. 1463, extending the transitional election window for the 2024 Zakat regulations (window closed 31 August 2025).
- Ministerial Resolution No. 1248 (June 2025), amending Article 73 of the Zakat regulations for off plan real estate developers.
- Transfer Pricing Bylaws, issued under Administrative Decision No. 6-1-19 (1440H), and subsequent amendments extending the regime to Zakat payers and introducing APAs.
- Real Estate Transaction Tax Law, Royal Decree No. M/84 (1446H), and its Implementing Regulations, effective 10 April 2025.
- VAT Law and its Implementing Regulations, as amended, including the rate increase to 15% effective 1 July 2020.
- Tax Rules for Regional Headquarters published 16 February 2024, and related MISA/Royal Commission for Riyadh City licensing regulations (Cabinet Resolution No. 366, effective 1 January 2024).
- E-Invoicing (Fatoorah) Regulations and associated ZATCA technical specifications, Phase 1 effective 4 December 2021, Phase 2 rolled out in successive waves from 2023.

Appendix C -

GCC Comparative Snapshot



Appendix C — GCC Comparative Snapshot

Given this handbook's companion focus on comparative GCC tax analysis, this appendix positions the Saudi system alongside its principal Gulf neighbours across the headline parameters most frequently compared by practitioners advising regionally structured groups. Figures are indicative and simplified; each jurisdiction's own detailed rules — thresholds, sector variations and current legislative status — should always be separately confirmed, particularly given the pace of change noted throughout this handbook.

Parameter	Saudi Arabia	UAE	Qatar	Bahrain	Oman	Kuwait
Headline Corporate Tax	20% (non-Saudi share) +2.5% Zakat (Saudi/GCC share)	9% federal Corporate Tax	10% (generally)	No general CIT (0%); hydrocarbon sector taxed separately	15% (generally)	15% (on foreign corporate bodies' Kuwait source income); Zakat/NLST on Kuwait/GCC entities
Standard VAT rate	15%		Implemented at time of writing—monitor for introduction	10%	5%	Not Implemented
Headline dividend WHT	5%	0% (no federal WHT)	Generally, 0% on qualifying WHT regime Distribution	No general	10% (May Vary)	No General WHT on dividends
DMTT/Pillar Two statutes	Not enacted at time of writing	In effect from 1 Jan 2025 (>EUR 750m groups)	Monitor for status	Monitor for status	Monitor for status	Monitor for status
30-year-style 0% RHQ equivalent incentive	Yes – RHQ Tax Rules (Ch.10)	No direct equivalent; free zone QFZP regime instead	No direct equivalent; Identified	No direct equivalent; Identified	No direct equivalent; Identified	No direct equivalent; Identified

Parameter	Saudi Arabia	UAE	Qatar	Bahrain	Oman	Kuwait
Formal tax grouping/ consolidation	No general income-Tax grouping; consolidation Zakat returns May be Available for wholly owned subsidiaries subject to the 2024 Zakat Regulations and Zatca Procedures, standalone filing only (Ch.9)	Yes – Tax Group Election Available	Varies Confirm Current Rules	Varies Confirm Current Rules	Varies Confirm Current Rules	Varies Confirm Current Rules

The most structurally distinctive feature of the Saudi system within this regional comparison is the dual Zakat/tax split itself (Chapter 2) — no other GCC state currently operates an ownership-nationality-based bifurcation of its corporate tax base in the same way, which is why a Saudi entity's total fiscal cost cannot be benchmarked against a UAE, Qatari or Bahraini equivalent using a single headline rate comparison alone.

Appendix D -

Full Worked Example: A Mixed-Ownership Manufacturing Company



Appendix D — Full Worked Example: A Mixed-Ownership Manufacturing Company

This appendix walks through a single, connected numerical example across several of this handbook's core mechanics, to illustrate how the individual chapter-level computations fit together into one annual filing.

Facts

- Gulf Manufacturing Co. is a Saudi limited liability company, 65% owned by a Saudi family holding company and 35% owned by a German industrial group.
- For the year, Gulf Manufacturing reports IFRS net profit before tax of SAR 28,000,000.
- Year-end shareholders' equity is SAR 210,000,000; long-term liabilities financing fixed assets are SAR 40,000,000; net book value of fixed assets and qualifying investments is SAR 95,000,000.
- The company pays a SAR 6,000,000 annual technical services fee to its German parent, and SAR 3,000,000 of royalties to an unrelated Japanese licensor for production technology (no applicable treaty relief claimed on the Japanese royalty in this example).
- Adjusted net income for tax-base purposes (after adding back non-deductible items and applying the interest cap) is SAR 30,500,000.
- Related-party transactions (the technical services fee, plus SAR 45,000,000 of intra-group raw material purchases from a German sister company) total SAR 51,000,000 for the year.

Step 1 — Zakat Base and Zakat Payable (65% Saudi Share)

Line	Amount (SAR)
Shareholders' equity	210,000,000
Add: long-term liabilities financing fixed assets	40,000,000
Deduct: fixed assets and qualifying investments	(95,000,000)
Computed Zakat base (100%)	155,000,000
Saudi ownership share (65%)	100,750,000
Zakat payable ($2.5\% \times 100,750,000$): Hijri-Year illustration	2,518,750

Step 2 — Tax Base and Income Tax Payable (35% Foreign Share)

Line	Amount (SAR)
Adjusted net income for tax purposes (100%)	30,500,000
Foreign ownership share (35%)	10,675,000
Income tax payable ($20\% \times 10,675,000$)	2,135,000

Step 3 — Withholding Tax on Outbound Payments

Payment	Rate	WHT (SAR)
Technical services fee to German parent (SAR 6,000,000)	5%	300,000
Royalty to Japanese licensor (SAR 3,000,000)	15% (no treaty relief claimed in this example)	450,000

These WHT amounts are separate monthly obligations (Chapter 6), due by the 10th of the month following each payment and are not netted against the annual Zakat/income tax liabilities computed in Steps 1 and 2.

Step 4 — Transfer Pricing Documentation Trigger

Gulf Manufacturing's related-party transactions for the year total SAR 51,000,000 (the SAR 6,000,000 technical services fee plus SAR 45,000,000 of intra-group purchases) — comfortably above the SAR 6,000,000 taxpayer Local File threshold (Chapter 8). Because the company has a foreign (German) ownership share and is therefore an income taxpayer as well as a Zakat payer, the taxpayer-side threshold, not the higher Zakat-payer-side threshold, applies. Gulf Manufacturing must accordingly prepare a Master File and Local File (available to ZATCA within 30 days of request) and file a Controlled Transactions Disclosure Form with its annual return.

Step 5 — Consolidated Annual Position

Liability	Amount (SAR)	Filing Deadline
Zakat (65% Saudi share; 2.5% Hijri-year illustration)	2,518,750	120 days from year end, with the combined return
Income tax (35% foreign share)	2,135,000	120 days from year end, with the combined return
WHT — technical services fee (per occurrence)	300,000	10th of month following payment
WHT — royalty (per occurrence)	450,000	10th of month following payment
Total annual Zakat + tax liability	4,653,750	—

Note that the total Zakat + tax liability of SAR 4,653,750 in this simplified illustration uses the 2.5% Hijri-year headline Zakat rate. If the company's Zakat year follows a Gregorian fiscal year, the day-count-adjusted rate should be used instead (approximately 2.5778% for a full 365-day year), and the Zakat and total liability figures should be recalculated accordingly. The WHT amounts are separate monthly obligations and represent a further cash cost in a full cross-border tax-cost analysis.



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