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KSA Tax Alert

Draft Domestic Minimum Tax/Pillar Two Law

Released for public consultation

November 2026

Executive Summary

The Zakat, Tax and Customs Authority (ZATCA) has released the Draft Domestic Minimum Tax (DMT) Law for public consultation, spanning 106 Articles, to implement a Qualified Domestic Minimum Top-up Tax (QDMTT) aligned with the OECD/G20 Inclusive Framework on BEPS Pillar Two (Globe Rules).

Designed to take effect for Fiscal Years beginning on or after **1 January 2027**, the Law ensures that in-scope Multinational Enterprise (MNE) Groups operating in the Kingdom of Saudi Arabia (KSA)—including Special Economic Zones (SEZs)—pay a minimum Effective Tax Rate (ETR) of 15% on jurisdictional profits.

MNE Group = a group with at least one Entity or Permanent Establishment (PE) outside the jurisdiction of the Ultimate Parent Entity (UPE). Purely domestic groups are not in scope.

By enacting a domestic top-up mechanism, KSA retains primary taxing rights over low-taxed Saudi profits that would otherwise be collected by foreign jurisdictions under an Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR).

Notably, the Law explicitly recognizes Saudi Zakat levied on companies as a Covered Tax (Article 42(1)(c)), alongside corporate income tax, while subjecting Zakat-paying and mixed-ownership groups to rigorous Pillar Two ETR testing. The draft introduces a domestic top-up tax only – there is no Saudi IIR or UTPR.

SCOPE, THRESHOLDS & EXCLUDED ENTITIES (ARTICLES 1–17)

In scope

- Constituent Entities located in the Kingdom, including **Special Economic Zones**
- MNE Groups with revenue of €750m or more in at least 2 of the 4 preceding fiscal years. An MNE Group has at least one Entity or PE outside the UPE's jurisdiction – purely domestic groups are not in scope
- Stateless Constituent Entities created under Saudi law
- Threshold is pro-rated for fiscal years other than 12 months
- **Sovereign wealth funds:** a fund meeting the Governmental Entity criteria is not treated as the UPE and is ignored; each entity in which it directly holds a Controlling Interest is deemed the UPE of its own group (relevant for PIF portfolio companies; the treatment of holdings through an intermediate holding vehicle is not addressed)

Excluded entities

- Governmental entities and international organizations
- Non-profit organizations and pension funds
- Investment funds and real estate investment vehicles that are the Ultimate Parent Entity
- Holding entities that are 95%+ owned by the above (85% in certain cases); ownership by Pension Services Entities is excluded from the look-through
- 95% test: the entity must hold assets/invest funds for, or carry out activity's ancillary to, the Excluded Entity; 85% test: substantially all income must be Excluded Dividends/Equity Gains
- The Filing Constituent Entity may elect (Five-Year Election) not to treat such an entity as excluded

COMPUTATION OF DMT INCOME or LOSS (ARTICLES 18–41)

Article	Adjustment / Rule	DMT Tax Treatment
Art. 18	Financial Accounting Base	Local Authorized Financial Accounting Standard is mandatory if conditions below are met.
Arts. 20–26	Key Exclusions	Excludes Covered Taxes, Dividends, Equity Gains, FX.
Art. 27	Policy Disallowed Expenses	Disallows bribes and fines ≥ €50,000.
Arts. 31 & 35	Transfer Pricing & Financing	Arm's length required; anti-arbitrage financing rule.
Arts. 30, 33, 36	Key 5-Year Elections	Stock compensation, realization basis, tax consolidation.
Arts. 39–41	Sector & Entity Allocations	International shipping excluded; PE/Flow-through rules.

- DMT Income or Loss starts with Financial Accounting Net Income or Loss determined under KSA's Authorized Financial Accounting Standard (i.e. IFRS as endorsed by SOCPA; the Law defines it generically as GAAP permitted by the Authorised Accounting Body) prior to consolidation eliminations. Its use is mandatory where all KSA Constituent Entities have accounts for the same fiscal year as the Consolidated Financial Statements and either (a) are required to keep them under the Income Tax Law or (b) are externally audited; if any one KSA CE has a different year-end (or neither condition is met), the rule fails for all KSA CEs and another standard applies per the Implementing Regulations – potentially a second set of calculations.

- Key mandatory adjustments include net taxes expense, excluded dividends (non-portfolio or held >=1 year), excluded equity gains/losses, asymmetric FX gains/losses, policy-disallowed expenses (illegal payments and fines/penalties >= EUR 50,000), Arm's Length Principal transfer pricing adjustments, and the International Shipping Income exclusion (with ancillary shipping capped at 50% of core shipping income).

COVERED TAXES, ZAKAT AND DEFERRED TAX RULES (ARTICLES 42-52)

Saudi Zakat Qualifies as a Covered Tax

Zakat levied on companies by KSA is explicitly recognized alongside corporate income tax in the ETR numerator.

- **Exclusions (Art. 42):** Top-up taxes under IIR, QDMTT, or UTPR are excluded. Art. 42(2) also excludes taxes paid by an insurance company in respect of returns to policyholders.
- **Deferred Tax Cap (Art. 49):** Deferred tax adjustments capped at the 15% Minimum Rate.
- **5-Year Recapture Rule:** Deferred tax liabilities (other than nine enumerated Recapture Exception Accruals such as tangible asset depreciation, R&D, and natural resource licenses) must be recaptured if unpaid within five subsequent Fiscal Years.
- **Post-Filing Changes (Art. 52):** A Filing Constituent Entity may make an Annual Election to treat an immaterial decrease in Covered Taxes (less than Euro 1 million) as an adjustment to Covered Taxes in the Fiscal Year in which the adjustment is made.
- **Zakat in the Transitional CbCR Safe Harbour (Art. 67(8)):** Zakat also counts in Simplified Covered Taxes ("income tax and Zakat expense") for the Transitional CbCR Safe Harbour.
- **ETR risk for Zakat payers:** Zakat is based on the Zakat base, not on profit, so the Zakat-based ETR can diverge from the 15% Minimum Rate – model it early.

STEP-BY-STEP DOMESTIC TOP-UP TAX COMPUTATION (ARTICLES 53–65)

Step 1 (Article 53)

KSA ETR = Adjusted Covered Taxes of all KSA Constituent Entities (CEs) ÷ Net DMT Income

Step 2 (Article 54)

Top Up % 15% Minimum Rate – KSA ETR

Step 3 (Article 55)

Excess Profit = Net DMT Income – SBIE Carve Out

Step 4 (Article 56)

KSA Top Up Tax
(Top Up % * Excess Profit) + Additional Current Top-Up Tax
(Article 63, e.g. Arts. 34, 49, 52)

Step 5 (Article 57) – Allocation of the top-up tax

KSA Top Up Tax allocated among KSA CEs pro rata to DMT Income

- **De minimis exclusion (Article 64):** Annual Election; zero tax if average revenue (current + two preceding fiscal years) is less than €10 million and average DMT income is a loss or less than €1 million. Not available for Stateless CEs or Investment Entities.
- **Minority-Owned Entities (Article 65):** entities 30% or less owned by the UPE – ETR/DTT is computed as a separate MNE Group for a Minority-Owned Subgroup, or on an entity basis otherwise (not for Investment Entities).
- **KSA ETR (Step 1):** excludes Investment Entities/Insurance Investment Entities, Minority-Owned CEs and Stateless CEs

SAFE HARBOURS & TRANSITIONAL PROVISIONS (ARTICLES 66–72, 103-105)

1 Transitional CbCR Safe Harbour (Articles 67–68)

Effectively a ONE-year relief: available only for the first fiscal year beginning in 2027. The Law applies to fiscal years beginning on or after 1 January 2027 and the Transition Period covers years beginning on or before 31 December 2027; 30 June 2029 is only the outer limit for that year's end. The MNE Group must meet one of three tests using a Qualified CbC Report: (1) De Minimis (CbCR revenue < EUR 10M and PBT < EUR 1M); (2) Simplified ETR >= 17% for FYs starting in 2027; or (3) Routine Profits (PBT <= SBIE). Once missed, the group cannot re-enter ('once out, always out') – including prior years under GloBE Rules abroad (Art. 68).

2 Permanent & Additional Safe Harbours (Articles 66, 69–71)

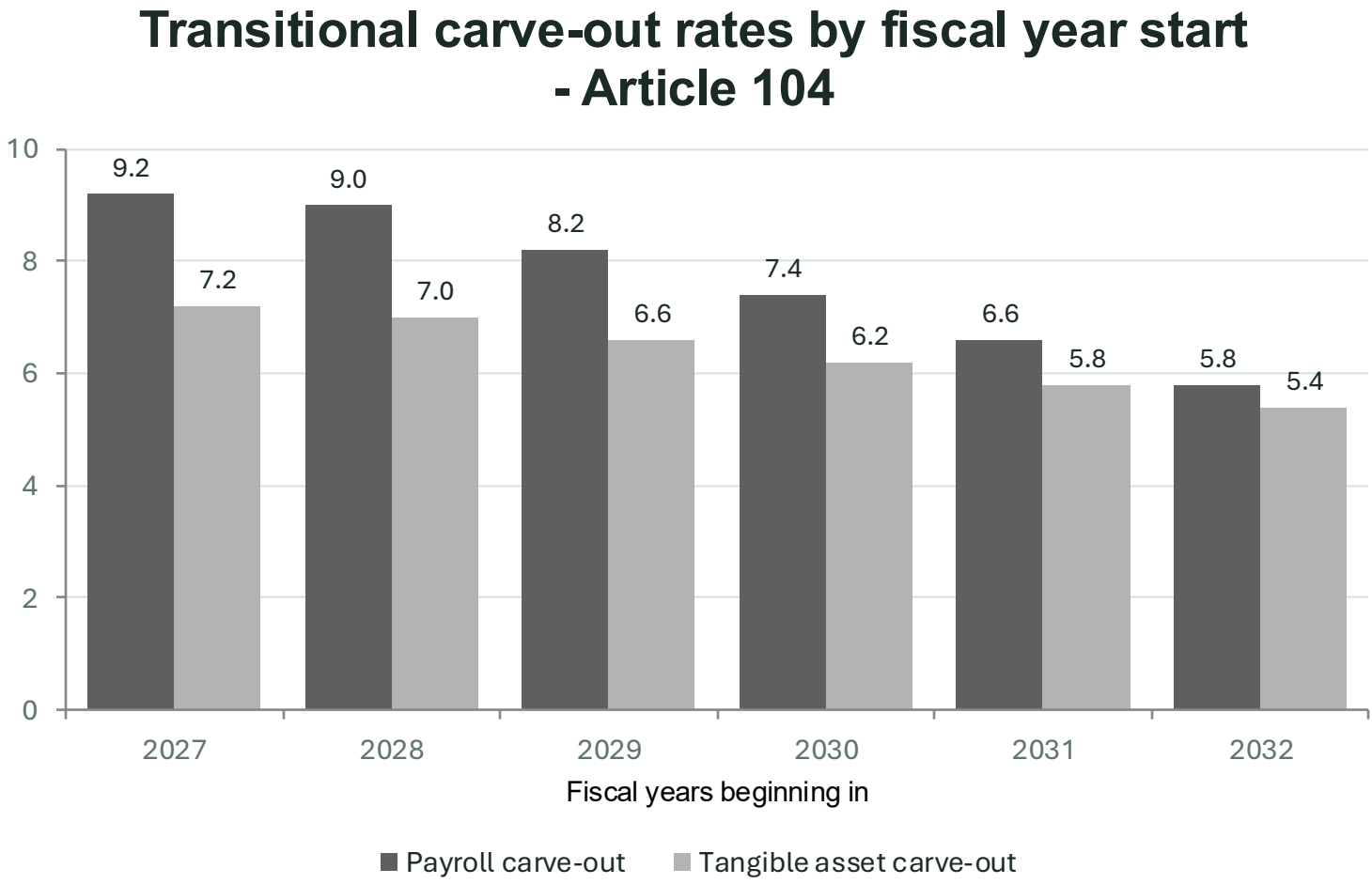
Provides frameworks for a Simplified ETR Safe Harbour, Non-Material Constituent Entity (NMCE) Simplified Calculations Safe Harbour, and Substance-Based Tax Incentive Safe Harbour (for Qualified Tax Incentives), subject to detailed Implementing Regulations. The Substance-Based Tax Incentive Safe Harbour only zeroes the top-up tax attributable to Qualified Tax Incentives, not all top-up tax. ZATCA may challenge safe-harbour eligibility within 36 months of filing; the group then has 6 months to show the facts did not materially affect eligibility.

3 Penalty Relief, Filing Relief & Transition Attributes (Arts. 72, 103, 105)

Filing-related penalties are waived during the Transition Period where the MNE Group demonstrates good faith and 'reasonable measures' (at ZATCA's discretion; relief for late payment is not explicit). Existing deferred tax assets/liabilities enter the Transition Year at the lower of the 15% Minimum Rate or the applicable domestic tax rate; a loss DTA may be recast at 15%, and DTAs from excluded items arising after 30 November 2021 are excluded. Intra-group asset transfers after 30 November 2021 and before the Transition Year (excluding inventory) must retain the transferor's carrying value.

Further, the Domestic Top-up Tax Return and the Globe Information Return shall be filed within 18 months after the last date of the fiscal year for the Transition Year

SBIE CARVE-OUT RATES (ARTICLES 59–60 & 104)



5%

Baseline Substance-Based Income Exclusion (SBIE) carve-out of eligible payroll and of tangible assets under the Law (Arts. 59–60), applying to fiscal years beginning in 2033 onwards

Higher transitional rates lower Excess Profit and so reduce top-up tax in early years.

RESTRUCTURINGS & SPECIAL REGIMES (ARTICLES 74–88)

1 M&A, demergers & reorganizations

Articles 74–77

- Aggregation rules for the €750m threshold on mergers and demergers.
- Allocation rules for entities joining or leaving a group mid-year.
- Tax-neutral asset carryover for qualifying DMT Reorganizations.

2 Joint ventures & multi-parented groups

Articles 78–83

- Joint Ventures (50%+ UPE ownership, equity-accounted) and their JV Subsidiaries are treated as a separate MNE Group.
- Stapled Structures and Dual-Listed Arrangements are combined into a single Multi-Parented MNE Group.
- Each KSA Joint Venture and JV Subsidiary is jointly liable for the JV Group's top-up tax.
- The JV definition (Art. 79) excludes UPEs subject to GloBE/this Law, Excluded Entities and certain entities held through Excluded Entities.

3 Flow-through UPEs & investment entities

Articles 84–88

- Income reduction for Flow-Through UPEs where owners are taxed at 15%+ within 12 months.
- Elections for Investment Entity Tax Transparency or the Taxable Distribution Method (Five-Year duration expected per OECD; not specified in the draft).

COMPLIANCE AND LIABILITY (ARTICLES 91, 92, 94, 95–102 AND 105)

Registration & Filing Timeline (Articles 91, 94, 105):

In-scope Taxpayers must register with ZATCA within **15 months** after the end of the first in-scope Fiscal Year – registration is not extended for the Transition Year – and must notify changes to registration data within 15 months of the relevant year-end. The Domestic Top-up Tax Return (with self-assessment) and the GloBE Information Return (GIR) are due within **15 months** after the end of the Fiscal Year, extended to **18 months** for the Transition Year only.

A **Designated Local Entity is mandatory** (not optional) where an MNE Group has more than one KSA Taxpayer – it registers and files the Domestic Top-up Tax Return and GIR for all.

Local GIR filing is waived if filed by a UPE or Designated Filing Entity in a jurisdiction with an active Qualifying Competent Authority Agreement (QCAA) with KSA, provided ZATCA is notified.

Payment due dates are not set in the Law – they are left to the Implementing Regulations.

Currency, Records, Enforcement & Liability (Articles 92, 95–102):

- Tax payments must be settled in SAR using the SAMA year-end exchange rate (while EUR thresholds use the ECB December average rate of the preceding FY).
- Commercial books and accounting records must be maintained in Arabic.
- ZATCA holds a 5-year assessment window, extended to 10 years for non-filing or for an incomplete/incorrect return filed with intent of tax evasion; refunds may be claimed within 5 years from the end of the overpaid year. Non-compliance carries penalties aligned with the KSA Income Tax Law (e.g. late filing: the higher of 1% of revenue capped at SAR 20,000 or 5–25% of unpaid tax; late payment: 1% of unpaid tax per 30 days), and its anti-avoidance rules also apply.
- **Joint liability:** all KSA Taxpayers of an MNE Group are jointly liable for the Domestic Top-up Tax; partners (other than limited partners) are jointly and severally liable; ZATCA may approve limiting the liability to one or more entities.

KEY DATES TO WATCH OUT

Issuance of Law + 180 days
Board issues the Implementing Regulations, which apply from the Law's effective date even if issued later.

1 January 2027
The Law applies to fiscal years beginning on or after this date.

First fiscal year beginning in 2027
Transition Period for the CbCR safe harbour and penalty relief effectively covers one year only; it must end by 30 June 2029.

15 / 18 months after year-end
Registration is always due 15 months after year-end; only the DMT return and the GloBE Information Return get 18 months for the Transition Year.

Example (calendar year): register by 31 Mar 2029; FY2027 return and GIR by 30 Jun 2029; FY2028 return and GIR by 31 Mar 2030.

Draft law: content and dates may change before the Law is issued.

OUR OBSERVATIONS ON THE DRAFT LAW

The draft largely follows the OECD GloBE Rules, but several points may be hard to apply in practice. **Clear Regulations are needed before the 2027 year-end.**

1

Zakat as a Covered Tax – but income tax mechanics

Zakat counts as a Covered Tax (Art. 42(1)(c)), but it is levied on the Zakat base (equity), not on profit. Several rules are written for income tax – e.g. Arts. 18(2)(a), 25, 46(1)(a), 49 and 77 – so Zakat payers and mixed-ownership entities may see unexpected results.

2

Saudi entity accounts and year-ends (Art. 18)

The calculation starts from the Saudi entities' own accounts only if every KSA Constituent Entity has the same fiscal year as the group. One entity with a different year-end defeats the rule for all, the fallback standard is left to the Regulations, and groups may need two separate calculations.

3

PIF ownership and joint liability (Arts. 10, 73)

PIF is ignored and each company it directly controls becomes the UPE of its own group; holdings through a holding vehicle are not addressed. KSA group Taxpayers are jointly liable for the group's DMT, and JV entities for their JV group's DMT – a real concern for JV partners, buyers and lenders.

4

Key rules left to the Regulations

Payment dates (Art. 97), safe harbour conditions (Arts. 69–71), allocation of Covered Taxes (Art. 48) and the fallback accounting standard are left to the Regulations, due 180 days after issuance although the Law applies from 1 January 2027. The CbCR safe harbour covers 2027 only, and ZATCA can review eligibility for 36 months.

5

Penalties and records (Arts. 91–92, 100–102)

Penalties are borrowed from the Income Tax Law and were designed for corporate tax, not a top-up tax – e.g. a late-filing fine based on revenue. Books and records must be kept in Arabic, although Pillar Two calculations are usually prepared in English by head office.

KEY CHALLENGES FOR BUSINESS

1

Zakat-based ETR volatility

Zakat is levied on the Zakat base, not profit, so Zakat payers, mixed-ownership groups and SEZ and RHQ incentive-rate entities may fall below the 15% ETR and face unexpected top-up tax.

2

Scoping and ownership mapping

Establishing the UPE, MNE Group status and the €750m test is complex: PIF-controlled companies may each be a separate UPE (indirect holdings unclear), and JVs, stateless and minority-owned entities need separate treatment.

3

Data, accounting and deferred tax

Audited local accounts for the same fiscal year (one KSA entity with a different year-end disqualifies all), Arabic records, GloBE adjustments (transfer pricing, FX, equity gains) and deferred tax tracking, including the 5-year recapture rule, will strain finance systems.

4

Tight timelines and evolving rules

The Law applies from 1 January 2027, yet the Implementing Regulations follow only 180 days after issuance; the CbCR safe harbor effectively covers one year only ('once out, always out').

5

Joint liability and enforcement exposure

All KSA Taxpayers in an MNE Group are jointly liable for the top-up tax, including for pre-acquisition years – relevant to buyers, JV partners and lenders; ZATCA can challenge safe-harbor eligibility within 36 months and has a 5- to 10-year assessment window.

ACTION POINTS FOR BUSINESS

1. Test the €750m threshold and MNE Group status; map Saudi entities, including SEZ and stateless entities, and sovereign wealth fund holdings (PIF-controlled companies may each be a separate UPE; check indirect holdings).

2. Model the Saudi ETR and top-up tax exposure after the payroll and tangible asset carve-outs, including Zakat-based ETR outcomes and the impact on SEZ reduced-rate entities.

3. Assess de minimis and Transitional CbCR safe harbor eligibility and prepare a Qualified CbC Report.

4. Review deferred tax assets and liabilities for the transition-year opening position.

5. Plan registration, the mandatory Designated Local Entity and filings; confirm local accounts readiness (audited, same fiscal year), Arabic books and records and the joint liability position; review SPA, JV and financing terms for joint liability; track the Regulations and submit consultation comments.



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