

Aldar Audit Bureau
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Doing Business in Saudi Arabia

The 2026 Business & Tax Guide



From the Chief Executive Officer

Saudi Arabia is no longer simply an oil economy in transition it is a deeply reformed, rapidly diversifying investment destination that is reshaping what it means to do business in the Middle East. The pace of regulatory change since Vision 2030 was launched in 2016 has been remarkable, and by 2026, the Kingdom presents a fundamentally different legal, fiscal, and commercial environment from even five years ago.

New investment laws have removed the historic requirement for foreign investor licences and enshrined equal treatment between local and international investors in statute. Four Special Economic Zones are fully operational with their own tax, customs, and regulatory regimes. More than 600 multinational companies have established Regional Headquarters in Riyadh. ZATCA, the Kingdom's tax authority, has become one of the most technologically sophisticated revenue administrations in the region, with mandatory e-invoicing, active transfer pricing enforcement, and a new Advance Pricing Agreement programme. The real estate market has been opened to foreign ownership. And the Kingdom has committed USD 14.9 billion in artificial intelligence investment, positioning itself as the MENA region's digital economy anchor.

This guide is designed to give investors, advisers, and corporate decision makers a comprehensive and accurate picture of what operating in Saudi Arabia entails in 2026. It covers the country's economic and regulatory context, the mechanics of establishing a business presence, the full tax and zakat framework, employment law, financial reporting requirements, and the strategic considerations that experienced practitioners know matter as much as the formal rules.

It is written to be read not merely consulted. Our aim is that someone coming to the Kingdom's regulatory environment for the first time, and someone who has operated here for years, can both find value in its pages.

Abdullah Al Basri

Chief Executive Officer

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Saudi Arabia: Country and Context

Geography, economy, demography, and governance

The Kingdom of Saudi Arabia occupies the heart of the Arabian Peninsula, covering 2.149 million square kilometres roughly the size of Western Europe. It borders Jordan and Iraq to the north, Kuwait, Qatar, Bahrain, and the UAE to the east, Yemen and Oman to the south, and the Red Sea to the west. It is the only country in the world with coastlines on both the Persian Gulf and the Red Sea, a geographic advantage that underpins its role as one of the world's most important logistics and trade corridors.^[1]

35.3M

Population

2.15M km²

Land Area

~USD 1.1 T

GDP (2024 est.)

SAR

Official Currency

UTC+3

Time Zone

Since 1999

G20 Member

Population and Demographics

Saudi Arabia's population stood at approximately 35.3 million in 2025, of whom around 55.6 percent (19.6 million) are Saudi nationals and 44.4 percent (15.7 million) are non-Saudi residents.^[2] This demographic structure with a very large expatriate workforce concentrated in the private sector is one of the defining characteristics of the Saudi labour market and has shaped the Kingdom's Saudisation (Nitaqat) policy, discussed in detail in Section 14. The median age of the Saudi national population is approximately 30 years, reflecting a young, increasingly educated, and digitally fluent workforce that Vision 2030 is designed to absorb into a diversified private economy.

Arabic is the official language of the Kingdom. English is widely used in business, legal, and financial contexts, and is the working language of most multinational operations in the country. French and other European languages have limited commercial penetration. Government correspondence and legal documentation are conducted in Arabic, and all tax filings must be submitted in Arabic a practical consideration for foreign investors that underscores the importance of qualified local representation.

Major Cities and Commercial Geography

Riyadh, the capital, is the Kingdom's political, financial, and administrative centre. It is home to the vast majority of government ministries, the Saudi Exchange (Tadawul), the country's principal financial institutions, and an increasing concentration of multinational regional headquarters. The Regional Headquarters programme, discussed in Section 13, has made Riyadh one of the fastest growing corporate hub cities in the world.

Jeddah, on the Red Sea coast, is Saudi Arabia's primary commercial and trade gateway and the Kingdom's most cosmopolitan city. It houses the King Abdulaziz International Airport, one of the busiest in the region, and serves as the entry point for the millions of pilgrims who travel to Mecca and Medina each year a religiously and commercially significant flow. Jeddah is also the traditional home of many of Saudi Arabia's oldest and largest family business groups.

Dammam and Al Khobar in the Eastern Province anchor the Kingdom's hydrocarbon industry, hosting Saudi Aramco's headquarters and a dense ecosystem of energy sector contractors, engineering firms, and industrial suppliers. The Eastern Province is also home to Ras Al-Khair and Jubail, two of the Kingdom's major industrial cities. Mecca and Medina, the two holiest sites in Islam, hold profound religious significance and are centres of the Kingdom's growing religious tourism economy the Hajj and Umrah sectors represent one of the fastest growing verticals under Vision 2030.

Legal System

Saudi Arabia is an Islamic state. Its legal system is founded on Shari'ah Islamic law derived from the Holy Quran and the Sunnah which serves as the supreme source of legislation for both civil and criminal matters. Shari'ah is supplemented by Royal Decrees, Council of Ministers resolutions, and ministerial regulations, which govern commercial, labour, tax, and investment matters in considerable technical detail.

The court system comprises three principal elements. The Shari'ah Courts handle the majority of civil and criminal cases and are organised into Courts of First Instance, Courts of Appeal, and the Supreme Court. The Board of Grievances (Diwan Al-Mazalim) hears cases involving government entities and administrative disputes and is the principal forum for commercial disputes with government counterparties. Specialist committees within government ministries adjudicate sector specific disputes including ZATCA's Tax Disputes and Violation Resolution Committee (TDVRC) for tax matters, and the Ministry of Human Resources for labour disputes.

For foreign investors, the practical implication of this system is that contract enforceability, dispute resolution, and the treatment of specific transaction structures will all be assessed through a Shari'ah lens. Interest (riba) is not recognised as such in the Shari'ah courts, and financing structures typically need to be Shari'ah compliant most commonly structured as Murabahah, Ijara, or Sukuk instruments rather than conventional interest bearing loans. International arbitration, governed by the Saudi Centre for Commercial Arbitration (SCCA), is increasingly available and recognised for commercial disputes.

Government Structure

Saudi Arabia is an absolute monarchy. The King serves simultaneously as Head of State, Prime Minister, and Supreme Commander of the Armed Forces. The Crown Prince is Deputy Prime Minister. The Council of Ministers (the Cabinet) is the principal executive body, comprising the Prime Minister, Deputy Prime Minister, and ministers with portfolio, and is responsible for drafting and overseeing all major policy areas including finance, economy, and foreign affairs. The Council meets weekly and its decisions are binding when agreed by majority vote.

The Majlis Al-Shura (Consultative Council) is a 150member legislative advisory body whose members are appointed by the King for fouryear renewable terms. While it does not have the power to legislate independently, its mandate was expanded in 2004 to include proposing new legislation and amending existing laws. The Council operates through twelve specialist committees covering finance, economy, health, education, foreign affairs, and other key domains. Saudi Arabia is administratively divided into 13 provinces, each governed by an appointed governor who chairs a provincial council responsible for regional development planning.



The Vision 2030 Transformation

Reform context, investment climate, and 2025–2026 regulatory highlights

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Vision 2030 is not simply a diversification strategy it is the most ambitious programme of economic and social reform ever attempted in the Arab world."

Announced in 2016 by Crown Prince Mohammed bin Salman, Vision 2030 set the Kingdom on a trajectory of deep structural reform.^[4] Its three pillars a vibrant society, a thriving economy, and an ambitious nation have driven changes that touch every dimension of doing business in Saudi Arabia, from the tax code to the labour market, from foreign ownership rules to the regulation of technology and data.

The fiscal driver of Vision 2030 is straightforward: Saudi Arabia needs to replace hydrocarbon revenues with a diversified, sustainable tax base, attract foreign direct investment, and build a private sector capable of employing an increasingly educated young population. By 2026, the results are measurable. Non-oil GDP growth has outpaced oil GDP growth for three consecutive years. The private sector's contribution to GDP has risen substantially. Tourist arrivals have reached record levels. And the regulatory environment while still complex has been reformed at a pace that has surprised even optimistic observers.

The 2025–2026 Regulatory Landscape

For businesses entering or operating in Saudi Arabia in 2026, the following developments are the most consequential. Each is discussed in depth in the relevant section of this guide.

New Investment Law (Effective Early 2025)

The Investment Law, enacted in early 2025, represents the most significant reform to foreign investment regulation in a generation.^[5] It abolished the requirement for foreign investors to hold a separate investment licence a cumbersome prerequisite that had long been identified as a barrier to entry and replaced it with a simplified commercial registration process. The law codifies in statute the principles of equal treatment between Saudi and foreign investors, the rule of law, the freedom to transfer funds without delay, and protection against arbitrary expropriation. Dedicated one stop investor service centres have been established to consolidate and accelerate the registration process. Together, these changes make Saudi Arabia materially easier to enter as a foreign business in 2026 than it was even three years ago.

New Foreign Real Estate Ownership Law (Effective January 2026)

Published in July 2025, the Law of Real Estate Ownership by non-Saudis replaced the prior 2000 framework and significantly expanded the rights of foreign individuals and entities to own real estate in the Kingdom within designated geographic zones.^[6] Foreign companies must register with the relevant authority before acquiring real estate rights. non-Saudi owners disposing of real estate rights are subject to a disposal fee of up to 5%, in addition to any applicable taxes. The law aligns with the Premium Residency Permit programme and is expected to stimulate significant additional investment in the Saudi real estate market.

Special Economic Zone Regulations (Effective April 2026)

The regulations governing Saudi Arabia's four Special Economic Zones King Abdullah Economic City, Jazan, Ras Al-Khair, and the Cloud Computing SEZ were published in January 2026 and took effect in April 2026.^[7] These regulations are significant because they provide the detailed legal framework for the tax, customs, Saudisation, and operational incentives available within each zone. Companies operating in SEZs benefit from exemptions from the Saudi Companies Law and the Commercial Register Law, tailored VAT and customs arrangements, and fiscal incentives specifically designed for the priority industries of each zone. Section 12 sets out the full picture.

Regional Headquarters Programme Milestones

By the end of 2025, the RHQ programme had licensed more than 600 multinational companies to establish regional headquarters in Riyadh exceeding the programme's original targets ahead of schedule.^[8] In September 2025, the Ministry of Investment issued updated public consultation rules clarifying the licensing requirements, compliance obligations, supervisory mechanisms, and scope of activities for RHQs. The Ministry also began conducting desktop audits of licensed RHQs, including physical inspections, to verify that entities genuinely meet the economic substance requirements required to benefit from the 0% corporate income tax and withholding tax incentives.

ZATCA Enforcement Maturation

ZATCA has progressively strengthened its enforcement capability since its rebranding and consolidation of tax and customs functions in 2021. By 2026, it operates one of the most digitally sophisticated tax administrations in the GCC, with mandatory e-invoicing (Fatoora) now covering a large majority of VAT-registered businesses, active transfer pricing audits, an Advance Pricing Agreement programme, and increasingly assertive assessment activity across corporate income tax, zakat, VAT, and real estate transaction tax. Taxpayers operating in Saudi Arabia must now treat ZATCA as a highly capable counterparty and invest correspondingly in the quality of their tax compliance and documentation.

Digital Transformation and AI Investment

Saudi Arabia announced over USD 14.9 billion in new artificial intelligence and digital infrastructure investment at the LEAP 2025 conference in Riyadh, including partnerships with leading global technology companies.^[9] The Communications, Space and Technology Commission (CST) issued a draft Global AI Hub Law in 2025 proposing three categories of AI hub effectively data centre structures that would allow foreign entities to host data, applications, and services in Saudi Arabia under the laws of their home jurisdiction. If enacted in its proposed form, this law could significantly alter the legal framework for crossborder technology operations in the Kingdom. These initiatives sit within the National Strategy for Data and AI, which targets positioning Saudi Arabia as the largest digital economy in the MENA region.^[10]

Tax Amnesty Extension (to 30 June 2026)

The Cancellation of Fines and Exemption of Financial Penalties initiative a tax amnesty programme first introduced in 2022 and extended multiple times since was extended for a further six months from 1 January 2026 to 30 June 2026.^[11] The amnesty provides relief from late filing penalties and related fines for taxpayers and zakat payers who meet ZATCA's qualifying conditions. Businesses with historic compliance gaps or unfiled periods should assess their eligibility before the programme closes.

Establishing a Business Presence

Entity structures, registration, and strategic considerations

Choosing the right business structure is one of the most consequential early decisions for any investor entering Saudi Arabia. The choice affects tax exposure, liability, governance requirements, Saudisation obligations, the ability to bid for government contracts, and the speed and cost of establishment. The 2025 Investment Law reforms have materially simplified the process for foreign investors, but the range of options and their respective implications remain substantial.

Business Structures

Limited Liability Company (LLC)

The LLC is by far the most widely used vehicle for foreign direct investment in Saudi Arabia and is the structure most businesses should start with as their default analysis. It offers limited liability for shareholders, full access to government contracts, the ability to sponsor work visas for employees, access to Saudi Arabia's double tax treaty network, and following the 2025 Investment Law reforms can be 100% foreign owned across most sectors without a Saudi partner. A minimum of two shareholders is required under the standard LLC structure. Minimum paid up capital requirements are set by MISA on a sector by sector basis and vary considerably, from nominal amounts in some professional service sectors to SAR 500,000 or more in others.

An LLC requires the appointment of one or more managers (who may be foreign nationals), must maintain a registered office in the Kingdom, and must file audited financial statements annually. For LLCs with more than 20 shareholders, a supervisory board of at least three members is required. Shareholder agreements are enforceable provided they comply with Shari'ah and the Companies Law; care is needed in drafting provisions relating to dispute resolution, exit mechanisms, and profit distribution to ensure Shari'ah compliance.

JointStock Company (JSC)

The JSC structure is appropriate for larger enterprises, particularly those with aspirations to list on the Saudi Exchange (Tadawul), the largest capital market in the MENA region. Capital is divided into equal, negotiable shares; shareholder liability is limited to the value of their holding. JSCs require a minimum of two shareholders and a board of directors. In June 2019, the Capital Market Authority removed the 49% foreign ownership limit for strategic investors in Tadawul listed companies, allowing foreign investors to hold controlling stakes in listed entities for the first time.^[12]

Branch Office

A branch of a foreign company is not a separate legal entity the parent company bears unlimited liability for the branch's obligations. Branches require registration with both MISA and MOC, and their activities are typically limited to those specified in the branch licence. Branches cannot sponsor certain categories of work visa and may be restricted from bidding on specific government contracts. Income attributable to a Saudi branch of a non-resident company is subject to corporate income tax at 20% (or at hydrocarbon rates where applicable). Interest paid by a branch to its head office is not deductible for tax purposes, which is an important structural consideration.

Technical and Scientific Office

A restricted licence that permits a foreign entity to conduct market research, product studies, and technical support activities in Saudi Arabia on behalf of its parent company. The critical limitation is that such offices are prohibited from directly or indirectly engaging in any commercial activity in the Kingdom they cannot generate revenue in Saudi Arabia. This structure is therefore suited to preparatory market exploration rather than active business operations.

Temporary Commercial Registration (TCR)

A TCR enables an investor to perform a specific Saudi government contract in the Kingdom for a fixed period without establishing a permanent entity. Registration is similar to a branch in procedural terms but requires no minimum capital investment, and the registration automatically expires when the contract concludes. TCRs are not suitable for commercial activities beyond the scope of the specified government contract.

Commercial Agency Agreement

A foreign company may appoint a registered Saudi commercial agent to represent and distribute its products in the Kingdom under the Commercial Agencies Law. The agent acts as the local principal and the arrangement is governed by a registered agency agreement. This structure avoids the need to establish a legal entity in Saudi Arabia but significantly restricts control over commercial activities, and the Commercial Agencies Law affords considerable protection to Saudi agents in the event of contract termination.

Practical note: Following the 2025 Investment Law reforms, the principal advantage of maintaining a local partner arrangement (beyond genuinely restricted sectors) has significantly diminished. Most investors should now default to a 100% foreign owned LLC analysis unless there is a specific strategic or commercial reason for a joint venture structure.

Registration Process

Under the 2025 Investment Law, foreign investors register through a simplified process administered by MISA rather than applying for a separate foreign investment licence. The core steps for establishing a 100% foreign owned LLC are as follows:

- 01** Submit an application to MISA with supporting documents in Arabic, including a board resolution from the parent company authorising the Saudi incorporation this must be notarised and attested by the Saudi Embassy or consulate in the country of issuance;
- 02** Provide audited financial statements for the foreign investor entity for the preceding three years, demonstrating financial standing and relevant sector experience;
- 03** Submit notarised and at tested copies of the parent company's constitutional documents (articles of association, memorandum of association, or equivalent);
- 04** Provide a copy of trade name confirmation and a power of attorney appointing a local representative to manage the incorporation process;
- 05** Following MISA approval, register sequentially with the Ministry of Commerce (MOC) for a Commercial Registration, the Chamber of Commerce, the relevant Municipality, the General Organisation for Social Insurance (GOSI), and ZATCA for tax and zakat registration purposes.

All documents submitted to government authorities must be in Arabic. Where original documents are in a foreign language, certified Arabic translations are required. The total timeline for establishing an LLC from initial MISA submission to the issue of a Commercial Registration typically ranges from four to eight weeks depending on sector, document completeness, and current processing volumes.

Restricted Sectors

Certain activities remain reserved for Saudi nationals or GCC residents and are not open to full foreign ownership regardless of the Investment Law reforms. These include oil and gas exploration and drilling (equity interest in which is reserved for Saudi Aramco and its designees), security and detective services, real estate investment in Mecca and Medina, and certain media and publishing activities. MISA maintains a Negative List on its portal that specifies all restricted activities.

The IKTVA Programme for Saudi Aramco Suppliers

Businesses intending to supply goods or services to Saudi Aramco must engage with the In Kingdom Total Value Add (IKTVA) programme. IKTVA assigns an annual score to each contractor and supplier that measures the local economic content of their operations including Saudi employment, local procurement, research and development, and investment. Scores are calculated annually through an independent survey of all KSA operations and revenue. A minimum IKTVA score is required to be eligible to tender for Saudi Aramco contracts, and higher scores confer competitive advantages in the tendering process. Businesses entering the Saudi energy supply chain should factor IKTVA compliance into their operational and staffing planning from the outset.

The Saudi Tax System: An Overview

Architecture, residency, and permanent establishments

Saudi Arabia operates a distinctive direct tax system that differs fundamentally from most international frameworks. Rather than a single corporate tax applying uniformly to all businesses, the Kingdom operates a dual system of corporate income tax and zakat that applies depending on the nationality and ownership structure of the entity. Understanding this architecture is the essential foundation for all tax planning in the Kingdom.

ZATCA: The Tax Authority

The Zakat, Tax and Customs Authority (ZATCA) formed in 2021 from the merger of the General Authority for Zakat and Tax (GAZT) and the General Customs Authority administers all direct and indirect taxes in Saudi Arabia. ZATCA operates under the Ministry of Finance and is responsible for corporate income tax, zakat, withholding tax, VAT, excise tax, real estate transaction tax, and customs duties.

ZATCA has developed into a sophisticated, data driven revenue authority. It takes a substance over form approach in dealing with tax matters, actively scrutinises transactions it views as motivated by non-commercial tax objectives, and has progressively expanded its enforcement toolkit including mandatory e-invoicing, transfer pricing documentation requirements, Country by Country Reporting, and an active audit programme across all tax heads. Disputes with ZATCA are heard before the Tax Disputes and Violation Resolution Committee (TDVRC) at first instance and the Tax Disputes and Violation Appeal Committee (TDVAC) on appeal. Taxpayers may also seek to resolve disputes through ZATCA's internal settlement committee prior to formal proceedings.

The Dual Tax System

Saudi Arabia's direct tax system applies across three distinct scenarios depending on the beneficial ownership of the entity:

- Saudi/GCC only ownership:** Resident companies wholly owned directly or indirectly by Saudi or GCC nationals (residents of Bahrain, Kuwait, Oman, Qatar, or the UAE) with no nonGCC entity in the ownership chain are subject to zakat only. No corporate income tax applies.
- Non-Saudi/non-GCC ownership:** Resident companies wholly owned directly or indirectly by non-Saudi or non-GCC nationals are subject to corporate income tax only. No zakat applies.
- Mixed ownership:** Companies with both Saudi/GCC and non-Saudi/non-GCC shareholders are subject to zakat on the Saudi/GCC owned proportion and to corporate income tax on the foreign owned proportion. In practice, this requires a careful allocation of the tax base between the two regimes.



There is an important exception to these rules: all non-resident entities that conduct business in Saudi Arabia through a permanent establishment (PE) or branch are subject to corporate income tax on income attributable to the Saudi PE or branch, regardless of the nationality of their owners. Non-residents that provide services in Saudi Arabia without a PE are subject to withholding tax at source.

Tax Residency

Natural Persons

A natural person is considered a tax resident in Saudi Arabia if they have a permanent place of residence in the Kingdom and reside there for at least 30 days in a tax year, or if they reside in the Kingdom for at least 183 days in a tax year regardless of whether they have a permanent place of residence. Saudi Arabia does not impose personal income tax on wages or salaries; this is one of its historically significant attractions for expatriate employees. Social insurance contributions do apply, as discussed in Section 11.

Companies

A company is treated as resident in Saudi Arabia if it is incorporated under Saudi Arabian Companies Law, or if its central management is located in Saudi Arabia. The central management test is important for structures involving holding companies or entities whose directors and senior management are based in the Kingdom even if the entity is incorporated elsewhere. ZATCA may look through formal legal structures to assess where effective management and control genuinely resides.

Permanent Establishments

The concept of a permanent establishment (PE) is central to the Saudi tax system because it determines whether a non-resident is subject to corporate income tax in the Kingdom or merely withholding tax. A PE is defined as a permanent place of a non-resident's business activity through which it carries out business in full or in part, including business carried out through a dependent agent.

An agent is considered a dependent agent of a non-resident in Saudi Arabia if it has the authority to negotiate contracts, conclude contracts, or maintain stock of goods owned by the non-resident for supply to customers on the non-resident's behalf. The Saudi Income Tax Law also provides an inclusive definition of PE that encompasses construction sites and assembly facilities, installations used for natural resource surveying or extraction, fixed bases of non-resident natural persons, licensed branches of non-resident companies, and places from which non-residents carry out insurance or reinsurance activity through an agent.

ZATCA has indicated on its website that no PE is triggered for contracts of less than three months' duration, provided there is no fixed place of business and no dependent agent in Saudi Arabia. However, there is no statutory minimum duration test in the Income Tax Law itself; the three-month guidance is an administrative position that ZATCA could revise. Businesses engaged in extended project work in the Kingdom without a formal entity should carefully assess their PE exposure.

Activities that do not constitute a PE include: storage, display, or delivery of goods belonging to the non-resident; maintaining stock of goods for processing by a third party; and activities of a preparatory or auxiliary nature for the non-resident's business. These exclusions broadly follow the OECD model but are applied within ZATCA's substance over form framework.

Zakat

Religious levy, regulatory framework, and the 2024 regulations

Zakat is one of the five pillars of Islam, an obligatory annual contribution required of Muslims who meet the conditions of the nisab (minimum wealth threshold). In most Muslim countries, zakat collection is left to individuals as a matter of private religious observance. Saudi Arabia is unusual in that the collection of corporate zakat is regulated by law and administered by ZATCA as a statutory obligation, with enforcement mechanisms equivalent to those applicable to corporate income tax.

Scope of Corporate Zakat

Zakat applies to Saudi and GCC nationals and to resident companies that are wholly owned directly or indirectly by such individuals or entities. In a mixed ownership company, zakat applies proportionally to the Saudi/GCC owned share of the entity. Resident companies are not subject to zakat on shares owned by residents or non-residents engaged in the production of oil and hydrocarbons; that portion of income and capital is instead subject to the hydrocarbon income tax regime.

The 2024 Zakat Regulations

On 21 March 2024, the Ministry of Finance approved new Zakat Implementing Regulations^[18] that replaced the prior 2019 framework. The 2024 regulations apply to fiscal years beginning on or after 1 January 2024, with an option to request retrospective application to prior years subject to ZATCA approval. For businesses with Saudi or GCC ownership, these regulations represent the most significant change to the zakat calculation methodology in several years and warrant careful review of historic zakat positions.

The Zakat Rate

Zakat is levied at 2.5% of the zakat base for a Hijri year, which equates to 2.578% for entities following a Gregorian fiscal year (reflecting the difference in calendar length). The rate itself is established by Shari'ah and has not changed; what the 2024 regulations materially reformed is the calculation of the zakat base.



The Zakat Base

The zakat base is calculated as the sum of the entity's equity and non-current liabilities (current liabilities are included in certain prescribed circumstances), reduced by specified deductible items. The key features of the 2024 framework are:

Yearend balance approach:	The zakat base calculation relies on the company's yearend closing balances as reported in its financial statements, rather than average balances during the year. This simplifies the calculation but means yearend balance sheet management becomes more significant.
Deductible items include:	fixed assets (net book value), intangible assets, advances paid for fixed assets, capital work in progress (CWIP), government debt instruments, investments in qualifying funds, raw materials inventories, and qualifying off plan real estate projects each subject to specific conditions and documentation requirements.
Profit adjustment:	The difference between the adjusted zakat profit/loss and the accounting profit/loss (after zakat and tax) is added to the zakat base a mechanism designed to prevent permanent mismatches between the tax and accounting treatments.
Floor and ceiling:	The 2024 regulations introduce minimum and maximum zakat base limits as an alternative to the standard additions and deductions calculation, providing a degree of certainty for taxpayers whose standard calculation produces extreme results.
Foreign investments:	Alternative calculation methods are available for foreign investments held through the zakatpaying entity, recognising the practical difficulty of applying standard Saudi zakat methodology to overseas assets.
Offplan real estate:	The 2024 regulations clarify the zakat treatment of off plan real estate projects, which had been an area of uncertainty under the prior framework.

Appeal Rights and Related Party Adjustments

A zakat payer wishing to appeal a ZATCA assessment must first pay the undisputed portion of the zakat liability. For an appeal to be accepted, the payer must also pay or provide a bank guarantee for between 10% and 25% of the assessed zakat liability. ZATCA retains the right to make arm's length adjustments to related party transactions under the transfer pricing framework, which now applies to zakat payers as well as income taxpayers for fiscal years from 1 January 2024.

Compliance and Filing

Zakat payers must file an annual zakat return in Arabic within 120 days of the end of the fiscal year. Returns with foreign shareholding must be certified by a Saudi Certified Public Accountant (CPA). Extensions are not available. The zakat return may be amended following ZATCA approval, with the amended return to be submitted within 30 days of receiving such approval. The Disclosure Form for Controlled Transactions (DFCT) must also be filed alongside the zakat return for entities with related party transactions, accompanied by an affidavit from a licensed auditor.

Corporate Income Tax

Rate, taxable income, deductions, losses, compliance, and penalties

Saudi Arabia's corporate income tax (CIT) regime is governed by the Income Tax Law that came into force in 2004 and its implementing bylaws.^[13] For non-Saudi investors, CIT is the primary direct tax on business profits. Understanding what is taxable, what is deductible, how losses are treated, and how compliance works is essential for any foreign investor or their advisers.

Rate and Scope

The standard CIT rate is 20% on taxable income. This rate applies to the non-Saudi/non-GCC ownership interest in resident companies, to non-resident entities operating through a PE or branch in Saudi Arabia, and to non-resident entities with Saudi sourced income without a PE (subject to withholding tax at rates discussed in Section 07). Different rates apply to hydrocarbon activities:

Activity	CIT Rate
Standard commercial and industrial activities	20%
Natural gas investment	20%
Oil and hydrocarbon production	50% to 85% (based on investment level)

Taxable Income

Taxable income is gross income less allowable deductions. Gross income comprises all income, profits, gains, and payments of any type arising from business activity including capital gains and incidental income with limited exceptions for specifically exempt categories.

Key Exempt Income Items

Tadawul-listed securities gains:	Capital gains from the disposal of securities listed on the Saudi Exchange (Tadawul) are exempt from CIT, provided the disposal is carried out in accordance with the Capital Market Law and the securities did not exist prior to 30 July 2004.
Qualifying dividends:	Dividends received from resident or non-resident companies are exempt from CIT where the recipient holds at least 10% of the investee company for the years covered by the distribution, and that 10% ownership continues for at least one year during the distribution period. This participation exemption is important for holding company structures.

IntraGroup Asset Transfers

No gain or loss is recognised on the transfer of assets between wholly owned group companies directly or indirectly under the same parent provided the asset remains within the group for at least two years following the transfer. This group rollover relief is significant for corporate restructuring but must be carefully managed: if the asset leaves the group within two years, the deferred gain becomes immediately taxable.

Allowable Deductions and Key Limitations

Interest Expense Limitation

Saudi Arabia applies a specific interest deductibility limitation that is distinct from the thin capitalisation rules common in other jurisdictions. There is no statutory debt to equity ratio an entity can in theory be funded almost entirely by debt. However, the deductible interest expense for any tax year is limited to the lower of:

- The total loan charges actually incurred during the year; or
- Interest income earned by the taxpayer during the fiscal year, plus 50% of the amount by which taxable income (excluding loan charge income) exceeds allowable expenses (excluding loan charges).

Interest on loans used to finance capital assets, incurred during the asset establishment period, is excluded from this limitation threshold it can instead be capitalised. The limitation does not apply to banks. Interest paid by a branch to its head office is specifically non-deductible, except in the case of a bank branch.

General Deductibility Principles

Expenses are deductible if they are genuinely incurred for the purpose of generating taxable income and are not of a capital nature (capital expenditure is recovered through depreciation). Salaries, wages, and benefits paid to shareholders, their relatives, or partners are not deductible with the exception of stockholders in joint stock companies. Management fees paid to related parties must meet the arm's length standard under the transfer pricing rules.

Tax Losses

Capital companies may carry forward tax losses indefinitely there is no time limit on loss carryforward in Saudi Arabia, which is a significant advantage compared to many other jurisdictions. However, the amount of carried forward losses that may be deducted in any single year is capped at 25% of that year's taxable income. Certain losses cannot be carried forward: losses incurred during a tax holiday period, and losses from exempt activities where the entity also has taxable activities, are excluded. Losses from natural gas investment cannot offset the hydrocarbon tax base, and vice versa.

Advance Tax Payments

Taxpayers must make advance payments of CIT for the current year in three instalments, due by the end of the sixth, ninth, and twelfth months of the fiscal year. Each instalment equals 25% of the prior year's tax liability (reduced by withholding tax deducted at source during the prior period). Advance tax is not required where the calculated instalment is less than SAR 500,000. The advance payment mechanism means that cash flow planning for CIT obligations must account for payments well before the annual return is filed.

Capital Gains Tax on Non-Residents

A non-resident entity without a PE in Saudi Arabia is subject to capital gains tax on gains from the disposal of fixed or traded assets located in the Kingdom, or from the disposal of shares in a Saudi resident company unless the disposal relates to Tadawul-listed securities that qualify for the exemption described above. The applicable rate is 20%.

Compliance: Filing, Assessment, and Penalties

Annual CIT returns must be filed in Arabic within 120 days of the end of the fiscal year. Returns involving foreign shareholders must be certified by a Saudi CPA. Extensions are not available. Returns may be amended following ZATCA approval, with the amended return filed within 30 days of receiving approval.

ZATCA may raise an additional tax assessment within five years of the statutory filing deadline to correct regulatory errors. Where a declaration has not been filed, or is found to be incomplete or incorrect with an intention to evade tax, ZATCA may raise an assessment within ten years. A declaration is deemed accepted if five years elapse from the filing date without ZATCA requesting additional information.

Violation	Penalty
Late filing up to 30 days	5% of unpaid tax (or 1% of gross revenue, max SAR 20,000, whichever is higher)
Late filing 30 to 90 days	10% of unpaid tax
Late filing 90 to 365 days	20% of unpaid tax
Late filing over 365 days	25% of unpaid tax
Late payment of tax / advance tax / WHT	1% of outstanding amount per 30day period
Tax evasion (intentional concealment)	25% flat penalty on additional tax assessed

Withholding Tax and Tax Treaties

WHT rates, treaty network, treaty benefit claims, and the force of attraction rule

For non-resident businesses providing services or receiving income from Saudi Arabia without a local PE, withholding tax (WHT) is the primary tax cost. Understanding the rates, the treaty network that can reduce them, and the procedural requirements for claiming treaty benefits is essential for any cross border service or royalty arrangement with a Saudi payer.

Who is Subject to WHT?

Non-resident entities without a PE in Saudi Arabia are subject to WHT on payments from Saudi residents and Saudi PEs of non-residents, where those payments are sourced from the Kingdom. Saudi resident payers and non-resident PEs paying non-resident parties are responsible for deducting the applicable WHT and remitting it to ZATCA. Monthly WHT returns must be filed within ten days of the end of the month in which the payment is made. Failure to settle WHT on time attracts a delay fine of 1% of outstanding WHT per 30day period. An annual WHT return is also required within 120 days of the fiscal year end (60 days for proprietorships).

For related party transactions settled through intercompany accounts rather than cash payments, the date the transaction is recorded in the accounts is treated as the date of payment for WHT purposes meaning WHT obligations can arise even where no cash has actually been transferred between group companies.

WHT Rates

Payment Category	WHT Rate
Management fees	20%
Royalties	15%
Any other payments not otherwise specified	5%
Dividends	5%
Technical and consulting services (related and unrelated parties)	5%
International telecommunication services	5%
Rent	5%
Interest on loans	5%
Insurance and reinsurance premiums	5%
Air tickets, air freight, maritime freight (international, departing KSA)	5%

Software Payments: WHT or CIT?

In January 2024, ZATCA issued specific guidance on the tax treatment of software ^[22]payments made by Saudi residents or non-resident PEs to non-residents. The guidance addresses whether such payments constitute royalties (subject to 15% WHT), business profits (subject to CIT if a PE exists, or exempt if no PE), or technical services fees (subject to 5% WHT). The classification depends on the nature of what is being acquired a licence to use copyrighted software (likely royalty), a shrink wrap software purchase (likely business profit), or a customised software development service (likely technical service). Businesses making material software payments to non-residents should review their treatment in light of this guidance.

Tax Treaties

Saudi Arabia has 59 tax treaties currently in force, covering a broad range of its ^[19]key trading and investment partners. Further treaties with Croatia, Iraq, Mauritania, Oman, and Qatar have been signed but are not yet in force. The treaty network is important because treaties typically reduce or eliminate WHT on dividends, interest, royalties, and technical service fees potentially significantly reducing the cost of cross border payments to non-residents.

Key treaty partners include: the United Kingdom, France, Germany, Ireland, China, India, Japan, Singapore, South Korea, the UAE, Turkey, Malaysia, and South Africa. Saudi Arabia is also a signatory to the OECD/G20 Multilateral Instrument (MLI), which entered into force for the Kingdom on 1 May 2020 and modifies the application of its bilateral ^[20]treaties to incorporate BEPS anti abuse measures.

Claiming Treaty Benefits: The 2025 Guidance

In January 2025, ZATCA publish edata x bulletin clarifying the procedures for claiming ^[21]double tax treaty benefits. Two routes are available:

At source reduction:	The non-resident claimant applies to ZATCA before the payment is made to have WHT deducted at the reduced treaty rate. This requires specific documentation including a tax residency certificate issued by the relevant foreign tax authority, attested by the Saudi Embassy or with an Apostille. Applications are submitted through ZATCA's portal, and taxpayers have up to five years from the date of payment to submit such claims.
Refund route:	WHT is deducted at the standard domestic rate and the non-resident claimant subsequently applies for a refund of the overpaid tax, again with appropriate documentation and attestation

The at source route is generally preferable from a cash flow perspective but requires advance planning and documentation. The five year refund window provides a useful safety net for historic payments where treaty benefits were not claimed at the time.

The Force of Attraction Rule

Saudi Arabia applies a Force of Attraction (FOA) rule that broadens the taxable income of non-residents with a PE in the Kingdom beyond income directly attributable to the PE. Under the FOA rule, a non-resident with a Saudi PE is also taxable in Saudi Arabia on: (i) income from sales in Saudi Arabia of goods of the same or similar kind as those sold through the PE; and (ii) income from services of the same or similar nature to those performed through the PE even if those sales or services are carried out by the parent entity directly, not through the PE.

In April 2021, ZATCA published a circular clarifying how the FOA rule interacts with Saudi Arabia's tax treaties. Where a treaty is in force that does not include a FOA rule, only income directly attributable to the PE is taxable in Saudi Arabia. Where a treaty includes a FOA rule (or no treaty exists), the full FOA applies. This distinction is material for multinational businesses that route some Saudi activities through a PE and others through the parent entity.

Transfer Pricing

By laws, documentation requirements, APAs, and the extension to zakat payers

Transfer pricing has become one of the most active areas of ZATCA enforcement. The Kingdom's TP framework, introduced in 2019 and significantly expanded in 2023, now applies to both corporate income taxpayers and from 2024 to zakat payers. Businesses with Saudi operations that engage in transactions with related parties must treat TP compliance as a material risk management priority, not a secondary documentation exercise.

The TP Framework

ZATCA issued the Transfer Pricing Bylaws in January 2019, applicable to taxable persons for fiscal years beginning on or after 1 January 2018.^[14] The Bylaws require all controlled transactions any transaction between related parties to be priced at arm's length. ZATCA applies the OECD Transfer Pricing Guidelines as its interpretive framework and has adopted the standard OECD definition of related parties for this purpose.

Amendments approved in March 2023 made two major changes: they extended the TP Bylaws to zakat payers (for fiscal years from 1 January 2024), and they introduced an Advance Pricing Agreement programme.^[15] The extension to zakat payers is significant because it means that purely Saudi owned family businesses and GCC-owned groups which were previously outside the TP regime must now assess their related party transactions for TP compliance purposes.

Approved TP Methods

The following methods are approved for determining arm's length prices:

- Comparable Uncontrolled Price method (CUP)
- Cost Plus method (CPM)
- Resale Price method (RPM)
- Transactional Net Margin method (TNMM) the most widely used in practice
- Profit Split method (PSM)

An alternative method may be applied where the taxpayer can demonstrate that none of the above methods produces a reliable arm's length result under the specific facts and circumstances. The selection of method must be documented and justified in the Local File.

Documentation Requirements

ZATCA has adopted the OECD three tier documentation architecture. The three components and their respective requirements are:

Master File

A Master File must be prepared by each taxpayer (or zakat payer, from 2024), containing information on the global business operations of the multinational group. Required content includes the group's organisational and ownership structure, geographic locations of operating entities, a description of the group's business including key intercompany agreements and financing arrangements, a list of the group's intangibles and their legal ownership, and details of any existing unilateral, bilateral, or multilateral APAs or other tax rulings relevant to related party pricing. The Master File must be made available to ZATCA upon request, with at least 30 days' notice given.

Local File

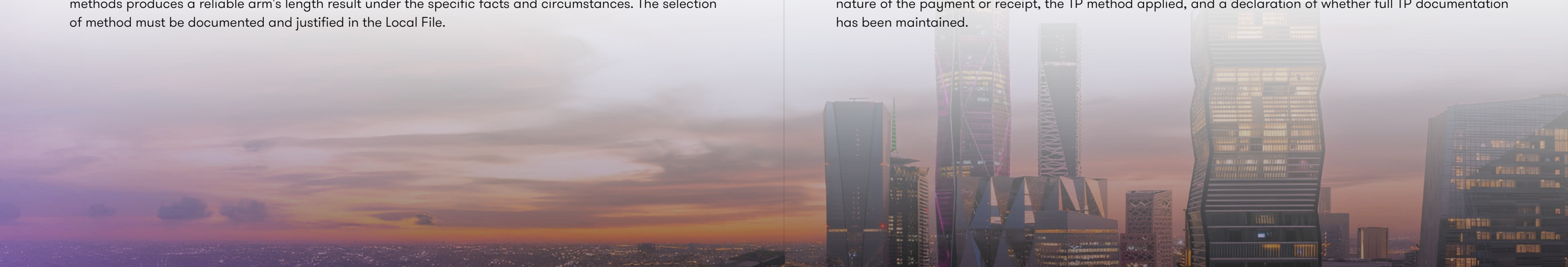
The Local File provides a detailed, transaction by transaction analysis of the entity's controlled transactions, including a functional analysis (functions performed, assets used, risks assumed), a comparability analysis, the basis for selecting the applied TP method, and an economic analysis demonstrating arm's length compliance. It must include the amounts of intragroup payments and receipts, details of the related parties involved, and copies of material intercompany agreements. The Local File must be updated annually and be available for ZATCA review within 30 days of request.

Country-by-Country Report (CbCR)

CbCR and a Country-by-Country Notification (CbCN) are required for members of ^[33]multinational groups whose consolidated revenue exceeds SAR 3.2 billion as reported in the group's consolidated financial statements. Both must be submitted through ZATCA's Automatic Exchange of Information (AEOI) portal. The CbCR must be filed within twelve months of the reporting entity's fiscal year end; the CbCN within 120 days.

Disclosure Form for Controlled Transactions (DFCT)

Every taxpayer and zakat payer that is party to a controlled transaction must file a DFCT alongside their annual tax or zakat return, regardless of the value of the transactions. The DFCT must be accompanied by an affidavit from a licensed auditor certifying that the entity's transfer pricing policy is consistently applied. The DFCT captures the key features of each controlled transaction category including aggregate amounts, the nature of the payment or receipt, the TP method applied, and a declaration of whether full TP documentation has been maintained.



Documentation Thresholds

Phase / Period	Documentation Threshold
Phase 1: FY 2024–2026 (mandatory)	Aggregated related party transactions exceeding SAR 100 million
Phase 1: FY 2024–2026 (optional)	Transactions between SAR 48 million and SAR 100 million
Phase 2: FY 2027 onwards (mandatory)	Aggregated related party transactions exceeding SAR 48 million
Investment funds	Exempt from documentation requirements during Phase 1

Advance Pricing Agreements

ZATCA began accepting APA applications in 2024. APAs are available for complex intercompany transactions or any intercompany transactions exceeding SAR 100 million annually and are expected to be valid for three to five years with a possible rollback option covering prior years. Currently, only unilateral APAs between the taxpayer and ZATCA are being accepted; bilateral and multilateral APAs (involving foreign tax authorities) are anticipated but not yet available.

The APA process begins with a preliminary meeting with ZATCA to assess feasibility, followed by a formal submission through the ERAD portal including business details, a functional and economic analysis, and the proposed TP methodology. ZATCA reviews the submission, which may include site visits, before entering into negotiations. Once signed, the APA is binding and requires annual compliance reporting confirming adherence to the agreed assumptions and pricing methodology.

Strategic observation: For businesses with significant and recurring related party transactions in Saudi Arabia particularly management fees, royalties, and intercompany financing an APA can provide material certainty and substantially reduce the risk and cost of ZATCA disputes. The programme is new and the first cohort of APAs will set important precedents for how ZATCA prices common transaction types. Early engagement is advisable.

Value Added Tax

Rate, scope, exemptions, e-invoicing, and ZATCA enforcement

VAT was introduced in Saudi Arabia on 1 January 2018 at a rate of 5%, making the Kingdom one of the last major economies to adopt a broad based consumption tax.^[16] The rate was tripled to 15% on 1 July 2020 as part of the fiscal response to the combined impact of the COVID19 pandemic and oil price collapse.^[17] At 15%, Saudi Arabia's VAT rate is now in line with the upper end of the GCC standard rate trajectory and is among the higher VAT rates globally, though the broad range of zero rated and exempt supplies provides meaningful relief in specific sectors.

Legal Framework

The VAT system is based on three overlapping instruments: the GCC VAT Framework Agreement (which sets common principles across all six GCC member states), the Saudi VAT Law, and the Saudi VAT Implementing Regulations (most recently amended in April 2025). ZATCA has also published several dozen sectorspecific VAT guides covering financial services, real estate, healthcare, professional services, and others, and actively issues private rulings to taxpayers seeking clarification on specific transactions.

Registration and Filing

All taxable persons making taxable supplies above the mandatory VAT registration threshold must register with ZATCA. VAT returns are filed monthly for businesses with annual taxable turnover of SAR 40 million or more, and quarterly for businesses below that threshold. Returns are due by the end of the month following the relevant tax period. The return captures summary level output tax on taxable supplies and input tax on taxable purchases, with the net amount either payable to ZATCA or refundable.

Zero Rated and Exempt Supplies

The distinction between zero rating and exemption is important: zero rated supplies allow the supplier to recover input VAT on related costs; exempt supplies do not creating an irrecoverable VAT cost that must be factored into pricing and business models. Key categories:

ZeroRated	Exempt
<ul style="list-style-type: none"> • Export of goods and services outside the GCC • International transport of passengers and goods (departing Saudi Arabia) • Qualifying medicines, medical equipment, and medical goods • Certain qualifying financial services (narrowly defined) • Supplies within and between Special Economic Zones (under the 2025 regulatory amendments) 	<ul style="list-style-type: none"> • Residential property leasing and supply of bare land • Qualifying educational services to Saudi nationals • Qualifying healthcare services to Saudi nationals • Qualifying financial services (those not zero-rated)



The April 2025 VAT Implementing Regulations Amendments

ZATCA approved significant amendments to the VAT Implementing Regulations effective ^[23]18 April 2025 (with one article deferred). The key changes are:

VAT grouping:	Stricter conditions for forming VAT groups were introduced, including enhanced economic, organisational, and financial link tests. Existing VAT groups should review their qualifying conditions in light of these changes.
Scope of taxable services:	The definition of taxable services supplied in Saudi Arabia was clarified, with implications for non-resident service providers who supply services to Saudi customers.
SEZ zero rating expansion:	Zero rate provisions for transactions within and between SEZs and customs areas were expanded, enhancing the VAT attractiveness of SEZ based operations.
Online marketplace liability:	VAT obligations were extended to online marketplace operators acting as intermediaries for resident suppliers who are not themselves registered for VAT a significant development for e-commerce platforms.

E-Invoicing (Fatoora)

E-invoicing was introduced in two phases. Phase 1 (generation, enforced December 2021) ^[24] requires all VAT registered taxpayers to issue and store invoices using ZATCA compliant e-invoicing systems. Phase 2 (integration) requires technical integration with ZATCA's Fatoora platform, enabling near real time sharing of invoice data with the authority. Phase 2 is being rolled out in waves based on taxable revenue thresholds:

Wave 1:	Taxpayers with taxable revenue exceeding SAR 3 billion (2021) integrated by January 2024
Wave 2+ (latest):	Taxpayers with taxable revenue exceeding SAR 375,000 in 2022, 2023, or 2024 ^[38] required to integrate by 30 June 2026

By June 2026, e-invoicing integration effectively covers the entire materially commercial taxpayer population. Businesses that have not yet completed Fatoora integration face both compliance risk and the practical challenge of system implementation under time pressure.

ZATCA Enforcement and Disputes

ZATCA has been increasingly active in VAT audits, assessments, and enforcement. It has challenged the VAT treatment of a wide range of transactions including intercompany services, financial instruments, partial exemption calculations, and the scope of zero rating on services. Most disputed cases have to date been resolved in ZATCA's favour at committee level, reflecting both the relative immaturity of Saudi VAT jurisprudence and the practical challenges of technical VAT litigation in a new system. Businesses in complex sectors retail and corporate banking, asset management, insurance, telecommunications, and real estate development should treat proactive VAT review and private ruling applications as essential risk management tools.

Real Estate Transaction Tax

Scope, the April 2025 law, exemptions, and interaction with VAT

The Real Estate Transaction Tax (RETT) was introduced in October 2020 as part of ^[25]the fiscal reform package that also saw VAT trebled to 15%. At a flat rate of 5% on all qualifying real estate transactions, it replaced the historic VAT treatment of real estate disposals with a dedicated single-stage levy. A formal RETT Law was published in October 2024 and took effect in April 2025, accompanied by updated Implementing Regulations the most significant overhaul of the RETT framework since its introduction. ^[26]

What is Subject to RETT?

RETT applies to all individuals and organisations involved in real estate disposals in Saudi Arabia natural persons, legal entities, corporations, and government agencies alike. There is no registration threshold: all transactions are subject to RETT unless specifically exempt. Transactions in scope include:

- Transfer of ownership of commercial, residential, or agricultural real estate
- Sale of developed and undeveloped land
- Transactions structured as gifting, inheritance (subject to exemptions), financial leasing, long term usufruct contracts exceeding 50 years, lease to own arrangements, and Islamic Murabahah

Real Estate Companies: Share Transfers in Scope

The April 2025 Implementing Regulations introduced a formal definition of a "real estate company" as any company, fund, or entity that owns real estate in Saudi Arabia directly or indirectly with the aim of generating revenue through selling or leasing, subject to specific conditions. As a consequence, a transfer of shares in a qualifying real estate company can now trigger RETT on the underlying real estate value where certain conditions are met. This is a material change that affects M&A; transactions involving Saudi real estate assets, requiring careful structuring analysis.

Exemptions

The RETT framework includes an extensive list of exemptions. Key categories include:

- Transfer of real estate by inheritance
- Compulsory disposal for public benefit (expropriation)
- Temporary transfers used as financial or credit guarantees
- Firsthome purchase by Saudi nationals: the government meets the RETT cost on purchases up to SAR 1 million, provided a certificate of exemption from the Ministry of Housing is obtained

Interaction with VAT

All real estate transactions (including sales) are exempt from VAT RETT is the applicable levy on disposals. The exception is commercial leasing and short stay hotel accommodation, which remain subject to VAT at 15%. This creates an important asymmetry for real estate developers: construction costs are subject to VAT at 15%, but the onward sale of completed property is exempt from VAT, meaning the developer cannot ordinarily recover the input VAT incurred on construction. ZATCA has published qualification rules permitting eligible real estate developers to apply for recovery of this input VAT a potentially material cash benefit that developers should proactively pursue.

Compliance

RETT must be declared and paid by the seller before or during the process of conveyance authentication with the competent authorities. This means the tax must be paid as a precondition to legal completion of the transaction it cannot be deferred post completion. ZATCA is responsible for managing and collecting RETT.

Other Taxes and Levies

Excise tax, white land and vacant real estate tax, customs, and social insurance

Excise Tax

Excise tax was introduced in June 2017 under the GCC Unified Agreement for Excise Taxes ^[27] and applies to goods deemed harmful to health or the environment. Businesses that import, ^[28] produce, or acquire excisable goods under a duty suspension arrangement must register with ZATCA for excise tax purposes. December 2025 amendments to the Excise Tax Implementing Regulations introduced differentiated calculation methodologies:

Category	Rate
Energy drinks	100% of retail sales price
Tobacco products	100% of retail sales price
Electronic smoking devices and liquids	100% of retail sales price
Sweetened beverages (including soft drinks)	Tiered: SAR 0 to SAR 1.09 per litre based on sugar concentration

The December 2025 tiered approach for sweetened beverages represents a significant structural change from the previous flat percentage rate, incentivising manufacturers and importers to reduce sugar content. Businesses in the food and beverage sector should assess the impact on their product portfolio and pricing structure.

White Land and Vacant Real Estate Tax

The White Land Tax Law, originally enacted in 2016, was substantially amended by Royal ^[29] Decree No. M/244 in May 2025. The reform is designed to accelerate housing supply, combat land hoarding, and promote active development of urban land. The key changes are:

Expanded scope:	The law now covers not only undeveloped white land within urban limits suitable for development, but also vacant real estate extending the tax to unoccupied built properties for the first time.
Increased white land rate:	The annual tax on white land increases from the historic 2.5% to tiered rates of up to 10% of land value, based on urban development priority classifications set out in the Implementing Regulations published in August 2025.
New vacant real estate tax:	An annual tax of up to 5% of estimated rental value applies to vacant properties, extendable to 10% on recommendation by the Ministerial Committee. Implementing Regulations for the vacant real estate tax remain pending publication as at April 2026.

The practical implications of these changes are significant for property holders, real estate developers, and investors: holding undeveloped or unoccupied property in Saudi Arabia has become materially more expensive, increasing the pressure to develop or dispose of assets in a timely manner.

Customs Duties

Saudi Arabia is a member of the GCC Customs Union, which imposes unified customs duties ^[31] at the first point of entry into the GCC. Duty paid goods then move freely between GCC member states without further customs assessment. In December 2024, the GCC Customs Union Authority issued the first edition of the GCC Integrated Customs Tariff, ^[30] effective from 1 January 2025, which standardised the tariff classification system across all six GCC states at a twelve digit HS code level replacing the prior eight digit system used by most member states and the twelve digit system previously used by Saudi Arabia alone.

Customs duties are assessed on an ad valorem basis (percentage of the cost, insurance, and freight value) or on a specific basis (per unit). The standard rate is 5% CIF. Higher rates of 12% or 20% apply to goods with a significant domestic production base. Certain goods are prohibited from import entirely, including weapons, alcohol, narcotics, and pornographic material.

Saudi Arabia operates an Authorised Economic Operator (AEO) programme that provides benefits to qualifying importers and exporters including dedicated fast track customs clearance, a reduced physical inspection rate, priority processing of customs requests, and a dedicated Saudi Customs account manager. Businesses with significant import or export volumes should consider whether AEO status is commercially beneficial.

Social Insurance (GOSI)

The General Organisation for Social Insurance (GOSI) collects social insurance ^[40] contributions from all registered employers in Saudi Arabia. Contributions are calculated on basic salary and housing allowance, subject to a minimum contributable salary of SAR 1,500 for Saudi employees and SAR 400 for non-Saudi employees, and a maximum of SAR 45,000 for both categories.

Category	Rate
Saudi national employees total contribution	22% (employer: 12%, employee: 10%)
non-Saudi (expatriate) employees total contribution	2% (employer only)
Occupational hazard insurance (all employees)	Additional 2% (employer only, included in above)

GOSI contributions represent a significant employment cost for businesses with large Saudi national workforces, and must be factored into HR budgeting. End of service gratuity obligations (discussed in Section 14) are a separate liability that must also be accrued throughout the employment relationship.

Special Economic Zones

Four zones, January 2026 regulations, and sector specific incentives

Saudi Arabia's four Special Economic Zones represent one of the most significant structural additions to the Kingdom's investment landscape under Vision 2030. Announced in April 2023 and now fully operational under regulations published ^[39]in January 2026 (effective April 2026), the SEZs offer a distinct regulatory, tax, and customs environment designed to attract investment in specific priority industries that the Kingdom has identified as central to its economic diversification.

The Four Zones

SEZ	Priority Sectors and Strategic Purpose
King Abdullah Economic City (KAEC)	Logistics, light manufacturing, industrial production, and cross-GCC trade. Located on the Red Sea coast near Rabigh, KAEC is the Kingdom's most established economic city and benefits from a deep-water port and direct rail connectivity.
Jazan SEZ	Green hydrogen production, industrial manufacturing, food processing and storage, and mining. Located in the south of the Kingdom, Jazan benefits from proximity to Africa and Yemen, and the Kingdom's significant renewable energy potential.
Ras Al-Khair SEZ	Maritime industries, metals processing, and mining. Located on the Arabian Gulf coast adjacent to the world's largest phosphate and bauxite reserves, Ras Al-Khair targets the maritime and mining supply chain.
Cloud Computing SEZ	Technology, cloud infrastructure, digital services, and AI. A unique structure that permits foreign technology companies to host data, applications, and infrastructure in Saudi Arabia within a regulatory framework that includes elements of the operator's home jurisdiction law.

The January 2026 Regulations: Key Provisions

The regulations published in January 2026 and effective April 2026 provide the detailed legal framework that converts the SEZ concept from a policy announcement into an operational investment vehicle. Key provisions include:

Corporate Law Exemptions	Companies licensed to operate within the SEZs are exempt from the Saudi Companies Law and the Commercial Register and Trade Names Laws. This means SEZ entities operate under the specific SEZ regulatory framework rather than the standard Saudi corporate law framework a significant flexibility that allows for more tailored governance and ownership structures.
Tax and Customs Incentives	The regulations set out the specific application of income tax, withholding tax, VAT, and customs duties for each zone. While the detailed parameters vary by zone and activity, the general framework provides for favourable direct and indirect tax treatment for qualifying activities within the zones. VAT zero rating is expanded for transactions within and between SEZs and with designated customs areas, significantly reducing the VAT cost of supply chains that run through the SEZ network.
Saudisation Flexibility	Saudisation requirements within the SEZs are tailored to the economic activities of each zone rather than applying the standard Nitaqat quotas. This reflects the reality that some SEZ sectors particularly in technology, maritime, and minerals processing require specialised skills that the current Saudi workforce may not yet supply in sufficient depth, and that Nitaqat compliance at standard rates would impede competitiveness.

Investment consideration: For businesses in logistics, technology, advanced manufacturing, green energy, or maritime industries, establishing within an SEZ rather than under the standard Saudi corporate framework may offer meaningful operational and fiscal advantages. However, the SEZ regulations are new and their detailed interaction with the broader Saudi tax and regulatory system is still being interpreted. Early professional advice is strongly recommended before committing to an SEZ structure.

Regional Headquarters Programme

RHQ rules, tax incentives, economic substance, and the compliance reality

The Regional Headquarters programme is the most high profile element of Saudi Arabia's strategy to position Riyadh as the preeminent corporate hub of the MENA region. Its commercial appeal is clear: zero corporate income tax and zero withholding tax on eligible activities for 30 years. But the programme also comes with substantive economic substance requirements that are now being actively enforced and the gap between a compliant and non compliant RHO is material.

What is an RHO?

An RHO is a business unit of a multinational company established under Saudi Arabian law, with the primary purpose of providing strategic direction, management support, administrative guidance, and internal business support to the group's affiliates and branches across the MENA region. The MENA region for RHO purposes encompasses the UAE, Qatar, Kuwait, Oman, Bahrain, Yemen, Iraq, Jordan, Palestine, Lebanon, Syria, Egypt, Libya, Tunisia, Algeria, Mauritania, and Morocco.

The RHO must be a distinct legal entity a Saudi incorporated company and cannot simply be an internal designation applied to an existing entity. It must have its own employees, offices, and operational substance in the Kingdom.

Tax Incentives

ZATCA introduced the Regional Headquarters Tax Rules on 4 February 2024. The ^[32]headline incentives for qualifying RHOs are:

- 0% corporate income tax on income from eligible RHO activities
- 0% withholding tax on dividends paid by the RHO, payments to related persons, and payments to third parties for services essential to RHO operations provided the payments relate to eligible activities
- 30year duration for the tax incentives, subject to renewal

Eligible Activities

The 0% rates apply only to income from "eligible activities" broadly, activities that constitute genuine regional management and coordination functions for the group's MENA operations. Income from activities that are commercial or revenue generating in nature as opposed to internal group support functions is not eligible for the 0% rate and is taxed at the standard 20% CIT rate. The boundary between eligible and ineligible activities is an important area of ongoing regulatory interpretation and should be assessed carefully in the context of each group's specific operations.



Economic Substance Requirements

RHQs must comply with economic substance requirements, transfer pricing regulations, and must maintain books and records in Saudi Arabia. Economic substance means genuine presence: adequate physical office space, a meaningful number of employees with appropriate qualifications and seniority, and evidence that the RHQ actually exercises its stated functions in Saudi Arabia rather than simply holding a licence.

The Ministry of Investment has commenced conducting desktop audits of licensed RHQs, including physical inspections of RHQ premises, to verify that registered entities genuinely meet the economic substance requirements. This is not a theoretical risk: RHQs that cannot demonstrate real substance in the Kingdom face the withdrawal of their licence and retroactive CIT and WHT liability on previously exempt income. Groups that established an RHQ primarily for its tax incentives without building genuine substance should treat the audit programme as an urgent prompt to review their position.

Regulatory Update: September 2025 Rules

In September 2025, the Ministry of Investment issued updated rules for public consultation that clarify RHQ licensing requirements, compliance obligations, supervisory mechanisms, and the scope of permitted activities. These rules also introduce clearer guidance on the distinction between eligible and ineligible activities for the purpose of the 0% incentive rates. Businesses with existing RHQ licences should review their operations against the updated guidance.

Employment and Saudisation

Labour law, Nitaqat, workforce management, and practical considerations

The Saudi labour market is one of the most distinctive in the world. A large expatriate workforce, a government mandated Saudisation programme, a mandatory digital wage protection system, and significant gender related workforce regulations create an operating environment that requires careful management from the earliest stages of planning a Saudi operation. This section provides a practical overview of the framework and its key operational implications.

The Labour Law Framework

Saudi Arabia's Labour Law applies to all employees working in the Kingdom Saudi and non-Saudi alike with limited exceptions for domestic workers and certain categories of agricultural workers. Key structural features include:

Employment Contracts

Employment contracts may be for a fixed term or an indefinite period. Fixed term ^[37]contracts have a maximum duration of four years; upon the third renewal, a fixed term contract automatically converts to an indefinite contract. The probationary period can be up to 180 days, during which either party may terminate without the standard notice and end of service gratuity requirements applying.

End of Service Gratuity

All employees are entitled to an end of service gratuity on termination, calculated as half a month's salary for each of the first five years of service and one month's salary for each subsequent year. Employers should accrue this liability throughout the employment relationship and treat it as a balance sheet obligation, not merely a contingent liability. Non accrual can create significant cash flow surprises and accounting restatement requirements.

Working Hours and Leave

The standard working week is 48 hours (eight hours per day, six days per week). During Ramadan, the maximum is reduced to six hours per day for Muslim employees. Annual leave entitlement is 21 days for employees with fewer than five years of service and 30 days thereafter. Employees are entitled to paid leave for marriage, bereavement, and other specified events.

Nitaqat: The Saudisation Programme

Nitaqat is the cornerstone of Saudi Arabia's workforce nationalisation policy, administered by the Ministry of Human Resources and Social Development (MHRSD). The programme classifies every registered employer into one of four performance bands based on the percentage of Saudi nationals in its workforce:

Band	Implications
Platinum / Premium	Maximum flexibility in hiring and transferring expatriate employees; preferential access to government services
Green (High / Mid / Low)	Standard operating status; access to expatriate visas and permit renewals
Yellow	Restricted from hiring new expatriate employees; limited access to certain government services
Red	Prohibited from hiring new expatriate employees; risk of existing permits not being renewed; potential government service suspension

The Nitaqat quota for each employer is calibrated to its sector, size, and geographic ^[36]location. A restaurant in Riyadh will have different Nitaqat requirements from an engineering firm in the Eastern Province. At a headline level, the Labour Law requires that 75% of a workforce be Saudi nationals, but in practice Nitaqat applies nuanced sector specific percentages that vary considerably. Every registered business must employ at least one Saudi national regardless of size.

Immigration: Sponsorship and Work Permits

Saudi Arabia operates a sponsorship (kafala) system under which expatriate employees are sponsored by their employer. Non-Saudi nationals may work in the Kingdom only if they hold a valid work permit (issued by MHRSD) and a residency visa (iqama), both tied to their sponsoring employer. Changing employers requires the agreement of the existing sponsor though reforms introduced since 2021 have given workers greater mobility rights in certain circumstances, including after two years of service. All sponsoring employers are responsible for ensuring their expatriate employees' permits and residency status remain valid.

The Wage Protection System

The Wage Protection System (WPS), administered by MHRSD, requires all registered employers to disburse salaries electronically through approved banking channels using a standardised payroll file format. The employer submits a completed payroll file to its bank and a copy to MHRSD, creating a verifiable digital record of salary payment. Non compliance with WPS results in Nitaqat classification penalties and can trigger restrictions on government services and permit renewals. The WPS has effectively eliminated cash salary payments in the formal economy and created a comprehensive dataset of employment and compensation information that ZATCA and MHRSD actively use.

Female Workforce Participation

Female workforce participation has increased significantly under Vision 2030 and the social reforms of recent years. Women are now permitted to work across most sectors and roles, with restrictions limited to genuinely hazardous roles as defined by MHRSD. Many previous sector specific gender segregation requirements have been relaxed or removed. Nitaqat assigns specific female Saudisation targets in qualifying sectors meaning hiring female Saudi nationals can contribute meaningfully to Nitaqat compliance. Employers should maintain separate, appropriately configured facilities for female employees in certain regulated contexts.

Training Requirements

Employers with 50 or more employees must provide technical, vocational, administrative, and professional training to at least 12% of their Saudi national employees each year, with the stated objective of progressively replacing non-Saudi employees in those roles. Records of training programmes and the Saudi nationals who have replaced non-Saudi counterparts must be maintained. This obligation is both a Nitaqat compliance mechanism and an investment in the long term Saudi talent pipeline.

Whistleblowing Provisions

The Labour Law provides a financial reward of up to 25% of any fine imposed on an employer for individuals who assist MHRSD inspectors by reporting violations of labour regulations. This creates a meaningful incentive for employees including expatriates to report employer non compliance, and underscores the importance of maintaining robust HR compliance practices.

Accounting and Financial Reporting

IFRS, SOCPA, audit requirements, books of account, and international information exchange

Saudi Arabia adopted International Financial Reporting Standards (IFRS) as its mandatory financial reporting framework for all companies with effect from 2018. The adoption was managed through the Saudi Organisation for Certified Public Accountants (SOCPA), which also issues supplementary guidance on matters specific to the Saudi context including the treatment of zakat obligations in financial statements. Understanding the financial reporting framework and its regulatory obligations is important both for compliance and for maintaining the quality of information ZATCA relies upon in its assessments.

Financial Reporting Standards

All companies registered in Saudi Arabia must prepare annual financial statements in ^[34]accordance with IFRS as adopted by SOCPA. Saudi banks and insurance companies transitioned to IFRS at an earlier stage and have been reporting under the framework since before the 2018 general adoption. Financial statements must be submitted electronically through the Qawaem platform administered by the Ministry of Commerce (MOC). The required components of a complete set of financial statements are:

- Independent auditor's report
- Balance sheet (statement of financial position)
- Income statement (statement of profit or loss and other comprehensive income)
- Statement of cash flows
- Statement of changes in shareholders' equity
- Notes to the financial statements, including significant accounting policies

Audit Requirements

Companies are required to have annual independent external audits. Joint stock companies and limited liability partnerships must appoint at least one independent auditor. Banks are required to appoint a certified public accountant who is a member of SOCPA and holds a MOC licence. All auditors conducting statutory audits in Saudi Arabia must be licensed by SOCPA a meaningful quality control barrier that foreign audit firms must navigate, typically through their local member firm.

Books and Records

MOC requires all companies and establishments with capital exceeding SAR 100,000 to maintain formal books of account in Arabic within Saudi Arabia. The three required books are a daily journal, a general ledger, and an inventory book. ZATCA's tax and zakat regulations separately require all taxpayers and zakat payers to maintain Arabic language commercial books and accounting records locally in the Kingdom in sufficient detail to support their tax declarations. The practical implication is that relying entirely on accounting records maintained outside Saudi Arabia even in Arabic will not satisfy these requirements.



Filing with MOC

All publicly held and limited liability companies must file copies of the board of directors' annual report and audited financial statements with MOC within six months of their financial year end. This deadline is independent of the ZATCA filing deadline (120 days) and must be tracked separately. Failure to file with MOC can result in administrative penalties and complications with company renewal and government service access.

Contract Reporting

Under the Income Tax Law, all natural and legal persons and government agencies must provide ZATCA with information on contracts entered into with private sector counterparties where the contract value exceeds SAR 100,000. This obligation creates a significant data trail available to ZATCA for crossreferencing against tax declarations and identifying potential undeclared income or unexplained transactions.

International Tax Information Exchange: CRS and FATCA

Saudi Arabia is an active participant in international tax information exchange frameworks. The Kingdom has signed a Foreign Account Tax Compliance Act (FATCA) Intergovernmental Agreement (Model 1) with the United States, under which Saudi financial institutions annually report information on financial accounts held by US specified persons to ZATCA for onward transmission to the IRS. This agreement is non reciprocal: the US does not exchange equivalent information with Saudi Arabia.

Under the OECD's Common Reporting Standard (CRS), Saudi Arabia has concluded a broad range of reciprocal exchange agreements with participating jurisdictions. Saudi financial institutions conduct client due diligence to identify tax residency and report relevant financial account information to ZATCA, which is then exchanged with the relevant foreign tax authorities on an annual basis. ZATCA issued CRS Guidance Notes in April 2021^[35] to assist Saudi financial institutions with implementation. For foreign investors, the practical implication is that financial account information relating to their Saudi operations is likely being reported to their home jurisdiction's tax authority consistent engagement with home country compliance obligations is therefore essential.

Grant Thornton in Saudi Arabia

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