

# Doing Business in Saudi Arabia





# Contents

Economic Overview	4
Legal	6
Labour Law Background	7
Custom Duty in Saudi Arabia	8
Tax Regime	9
Broad Features of Entity in KSA & Dubai	10
Company Registrations, Policies & Procedures	11
About IMC	14





# Economic Overview



Saudi Arabia, officially known as the Kingdom of Saudi Arabia, is the largest Arab state in Western Asia. It is bordered by Jordan and Iraq on the north, Kuwait, Qatar, Bahrain and the United Arab Emirates on the east, Oman and Yemen on the south. With a total area of 2,149,690 sq. km accounting for 80 per cent of the Arabian Peninsula, the Kingdom of Saudi Arabia (KSA) is the largest Arab state in Western Asia, with a population of 30.6 million in 2014. The country has a very youthful demographic profile with a median age of 26.4 years.

The country's land mass is approximately 2.25 million square kilometers with an estimated population of 27 million people. The official language is Arabic while English language is getting more popular through media. 97% of the population is Muslim. Saudi Arabia geography is mostly dominated by the Arabian Desert with almost no rivers or lakes and has very little fertile land.

## The Growth story

The growth story of the KSA economy began in the early 1970s with the initiation of its five-year plans that, over the years, have provided the country with a highly developed infrastructure, free public education and health care facilities, and extensive social service programmes. For most of the last five decades, the KSA economy has been heavily dependent on oil prices. The world's largest producer and exporter of oil, petroleum is an integral part of its economy, accounting for 80 per cent of budget revenues, 45 per cent of gross domestic product (GDP), and 90 per cent of export earnings. KSA is focusing on diversification of its economy to produce and export a wider variety of industrial goods and evolve into a regional and global economic powerhouse

# Economic Overview

## Economy

- The KSA economy is driven by enormous revenues from its oil export
- The KSA's five year plans are focused on economic diversification by increasing the share of private participants in order to reduce dependence on hydrocarbon revenues

## Agriculture

- Agriculture contributes a negligible portion to the KSA GDP
- It employs 6.7 percent of labour force
- Wheat, barley, tomatoes, melons, dates, citrus are some of the major agricultural products

2 percent

## Industry

- The establishment of SABIC has aided the rapid expansion of manufacturing
- There has been a focus on non-oil industries to enable economic diversification.
- The industrial sector employs about 21.4 per cent of labour force.

62.5 percent

## Services

- The Service sector in KSA engages almost two-thirds of the workers
- It accounts for 35.5% of GDP
- Civil administration, defence, hospitality and tourism are some of the key sectors in services

35.5 percent

# Legal



The King of Saudi Arabia maintains control of its traditional judicial system without any separation of powers. Saudi Arabia's legal system is founded on Sharia, which is Islamic law that stems from the Qu'ran and Sunnah, or Muhammad's traditions.

In 2010, Sharia was put into codes and regulations to cover modern issues such as intellectual property and corporate law. In 1932, King Abdul Aziz fostered the court system. The system is comprised of general and summary Sharia courts along with administrators to regulate and enforce the criminal procedure code, which was set up in 2001. Although the court system maintains codes, little progress has been made to restructure the judicial system.



# Labour Law Background

The main Saudi Arabian statute governing employer-employee relationships is the Labour Regulation, which entered into force on 26th April 2006 superseding the earlier Labour and Workmen Regulation.

- Since 18th June 2011 the Ministry of Labour has begun to implement a new Saudisation programme known as Nitaqat. The concept is that, based on the percentage of Saudi Arabian employees, businesses are classified as Excellent, Green, Yellow or Red, and that the employer will receive privileges or be subject to sanctions connected with the employment of foreign staff depending on the category it falls into.

- A workers' compensation plan exists under the direction of the General Organization for Health and Social Security (GOSI). For both Saudi employees and expatriate employees, employers must contribute an amount equal to 2% of their salary towards a workers' compensation and disability plan administered by GOSI. Contributions on behalf of Saudi employees equal 18% of an employee's wages, with the employer contributing 9% and the employee contributing 9%.

- While there is no government health plan, medical and hospital care is free for Saudi citizens. For all non-Saudi employees, and for Saudi employees who want to be covered, health benefits are required to be provided by the employer depending on the number of employees in a particular geographic area.

- The Regulation sets out provisions concerning end-of-service awards, to which most employees are entitled in principle unless they are dismissed for cause. Pursuant to Article 84, when a fixed term employment agreement comes to an end, or when an employer terminates an indefinite term agreement other than for cause, the employee is entitled to one-half of one month's wages for each of the first five years of employment and a full month's wages for each year of employment thereafter, in both cases pro-rated for part of a year's service. An employee who resigns during the term of a contract receives no end-of-service award for the first two years of employment. There are further detailed rules concerning the end-of-service award payable to an employee who resigns in the course of a contract for periods exceeding two years.



# Custom Duty in Saudi Arabia

Import duty and taxes are due when importing goods into Saudi Arabia by a commercial entity on the total shipping value. The valuation method is CIF (Cost, Insurance and Freight), which means that the import duty and taxes payable are calculated on the complete shipping value, which includes the cost of the imported goods, the cost of freight, and the cost of insurance.

## Duty Rates

Duty rates in Saudi Arabia on industrial products like pumps and compressor is 5 %. There is no minimum threshold in Saudi Arabia; therefore duty is always levied on imports regardless of their value.

## Sales Tax.

0% sales tax is applicable in Saudi Arabia





# Tax Regime

There is no personal income tax on income earned by individual and employees. However, there are three type of taxes levied on the Companies based on the shareholding structures:

(i)Corporate Tax: on all registered entities including companies or branch having foreign ownership.

(ii)Withholding tax : on entities making payment to non-residents, such as for rent, royalties and management fees

(iii)Zakat (Islamic wealth tax): Zakat, a religious levy, is charged on the company's Zakat base at 2%. Saudi citizen investors (and citizens of the GCC countries, who are considered to be Saudi citizens for Saudi tax purposes) are liable for Zakat.

Where a company is owned by both Saudi and non-Saudi interests, the portion of taxable income attributable to the non-Saudi interest is subject to Corporate tax, and the Saudi share goes into the basis on which Zakat is assessed.

## Corporate Tax Rate for unlisted Company is 20%

### Basis for Corporate Taxation:

- Tax is on the net adjusted profits
- The share of profits attributable to interests owned by non-Saudi / non-GCC nationals is subject to income tax.
- The share of profits attributable to interests owned by Saudi / GCC nationals is subject to Zakat (religious levy).

### Withholding tax rates

- Rent ..... 5%
- Royalty or proceeds ..... 15%
- Management fees ..... 20%
- Payments for airline tickets, air or maritime freight ..... 5%
- Payments for international telecommunications services ..... 5%

# Broad Features of Entity in KSA

## LLC Company in Kingdom of Saudi Arabia Tax.

It is the largest Arab state in Western by land area and the second-largest in the Arab World. It is recognized as a powerhouse of the Middle East. Currently it's poised to become one among the world's top 10 most competitive nations and with that, one of the most profitable markets for strategic investment

### A) Foreign Investment Restrictions:

100% foreign investment allowed in service sector. However, trading and retail activities is reserved for Saudi National and Saudi owned entity only.

### B) Minimum paid up Capital – LLC

\* SAGIA may prescribe additional requirements

- Services: NA but recommended to maintain \$0.13m
- Industrial: SAR 1m (\$0.27m)
- Trading: SAR 20m (\$5.33m)
- Agriculture: SAR 25m (\$6.67m)
- Real estate: SAR 30m (\$8m)

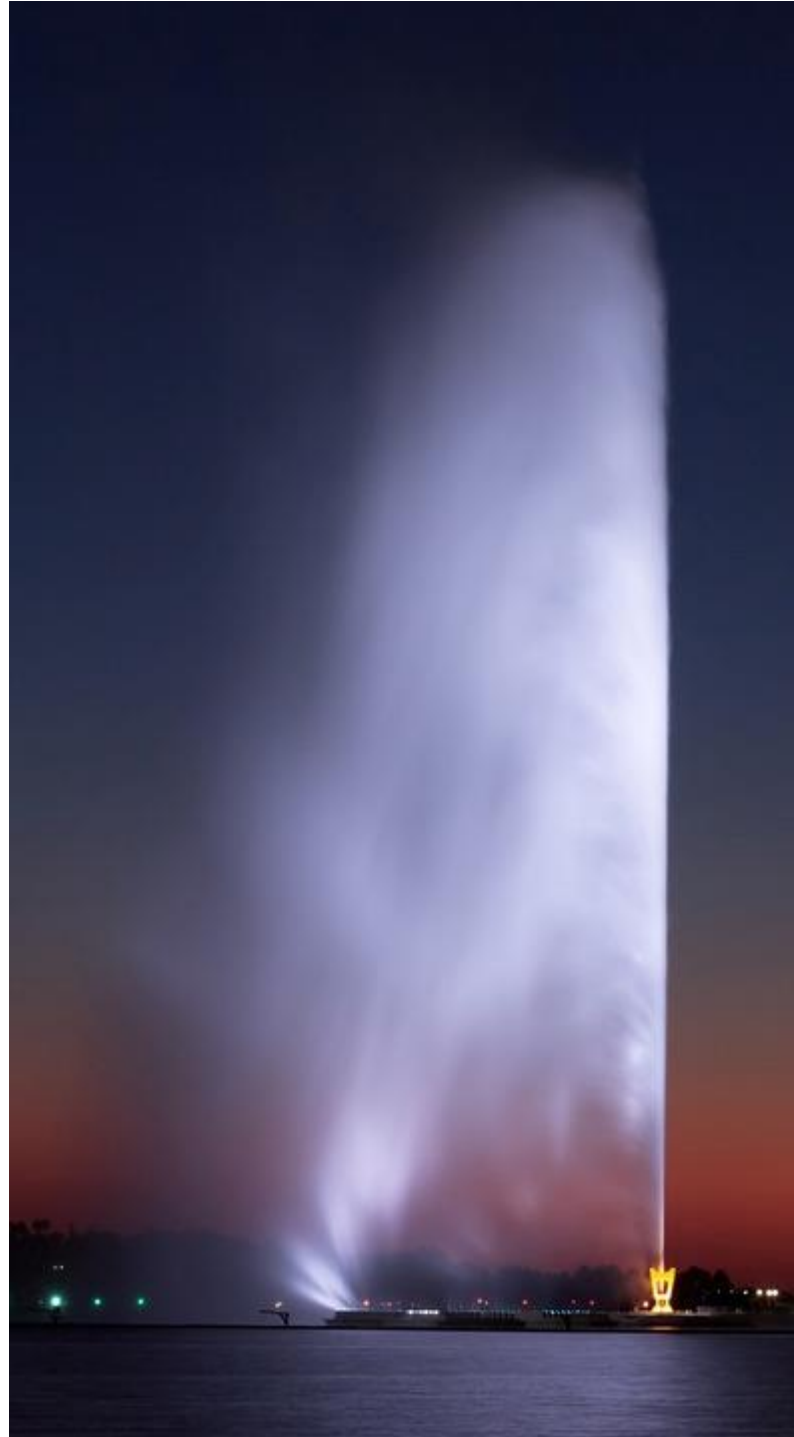
### C) Time frame for Company Set up:

After submission of requisite documents with SAGIA business set up process can be completed within 15-18 weeks.

### D) Corporate tax:

Service Company taxed @20%

Saudi Owned Local companies taxed @2%



# Company Registration, Policies and Procedures

## Foreign Investment Regulation

The KSA has introduced its new foreign investment regulation act in 2000. The Government of the KSA also established the Saudi Arabian General Investment Authority (SAGIA) in 2000 to attract, encourage, and provide license for investment in the country to the both local and the foreign participants.

Initially only nationals are privileged to do business in the KSA. With the formation of the SAGIA, foreign investors are getting permission to invest in the country, as well.

The main documents required for foreign investment in the country are:

- A completely filled up licence application for with the applicant's signature. The form should be include an authenticated declaration that the applicant has reviewed the Foreign Investment Regulation act 2000 and its Implementing Rules
- An authenticated resolution of the applicant's board of directors to incorporate a limited liability company in the KSA
- A copy of certificate of incorporation and articles of association of the applicant's company
- An authenticated copy of the last two to three years' balance sheet of the applicant.
- A copy of passport of the proposed manager of the company with four passport-size photographs of the said person
- Copies of passports of all the people mentioned in the articles of association of the applicant company

After getting approval of the draft articles of association from the Ministry of Commerce and Industry, the shareholders or their authorized representatives have to submit articles of association before a notary public, for which they would require the following documents:

1. A letter from the Ministry of Commerce and Industry Directorate of Companies, which should be addressed to the notary public, authorizing the notarization of the articles of association.
2. Original articles of association, which should be approved by the Ministry of Commerce and Industry Directorate of Companies. The approved articles of association should be signed by the shareholders or their representatives.
3. A copy of the certificate of incorporation and articles of association of each shareholder
4. A copy of investment licence of the SAGIA
5. Identification cards of the at least two witnesses

Thereafter, the summary of the articles of association is required to be published in the Official Gazette.

After going through the above-mentioned procedures, a bank account in any bank in the KSA should be opened by the shareholders or their authorized representatives. They have to deposit their company's capital to that bank account.



# Company Registration, Policies and Procedures

The last and the final step would be to acquire the commercial registration (CR) certificate. To obtain a CR certificate, the shareholders have to submit the following documents to the Ministry of Commerce and Industry:

1. An authenticated board resolution mentioning the name of the board members
2. Two copies of the articles of association approved from the notary public
3. Confirmation certificate for payment of the capital from the bank
4. A copy of investment licence issued by the SAGIA
5. A copy of document of office lease

## Procedure involved in obtaining company Licenses

In recent years, the KSA has been actively focused on attracting investment, both local and foreign, to enable sustained economic development of the nation. The primary objectives of attracting investment include:

- Diversification of sources of income within the KSA
- Export promotion
- Increased indigenization
- Development of human resources
- Increasing competitiveness of the KSA's products and services locally and globally.
- Promotion of environment-friendly economic development
- Encouragement of uniform development of all the regions within the KSA

The SAGIA is an institution, which takes care of the investment of the KSA including foreign investment.

As per the company's law norms, the documents required for granting of license to operate in the KSA include the following:

1. Submission of electronic investment license application
2. Copies of commercial registration and the enterprise's Memorandum of Association in its country, duly attested by the competent authorities and the Consulate of the KSA
3. Copy of trade name reservation issued by the Ministry of Commerce and Industry
4. Draft Memorandum of Association of a limited liability company
5. Draft Memorandum of Association and Articles of Association of the joint-stock company
6. Shareholders' decision to invest in the KSA, indicating their names, share capital, equity of each shareholder, address of head office, type of activity, appointment of the General Manager, and his powers, duly attested by the competent authorities and consulate
7. Copy of General Manger's passport
8. Copy of the national ID and Family Register, if one of the partners is a Saudi citizen, and copy of CR certificate to show the profession or a relevant offprint from the Civil Status Department

# Company Registration, Policies and Procedures

9. A detailed action plan accurately identifying the project's capability to achieve investment objectives including:

- contribution to increasing the Kingdom's income
- jobs to be provided to citizens
- how the project is going to contribute to fostering competition
- enhancing services
- diversifying options for consumers
- the strategic impact of the project on investment in the Kingdom
- benefits to the city and the surrounding areas where the project will be stationed
- an employment and training plan including an estimation of the number of employees and percentage of Saudis in each department and administrative level
- personnel training and qualifying programs
- Number of branches to be opened
- An estimation of start-up cost and required financing

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10. A balance sheet for enterprises applying for license from outside the KSA, covering a period of three years at least and reflecting the solid financial position of the enterprise, duly certified by a recognized public accountant and authenticated by the body concerned with the trade and tax activity in the applicant's country, and legalized by the Saudi Consulate.

11. A proof of the financial capability to invest commensurately with the project's share capital and equity of each shareholder, in line with the action plan submitted for the project.

12. Any other documents, data or information that may be required by the SAGIA.

13. Approval by the relevant government agency of the specialized activities, for which licenses can be issued but exercising the business will not be allowed until such approval is obtained. This restriction to the license should indicate the name of the governmental body whose approval is required.

**Disclaimer:** Whilst every effort has been made to ensure that the details contained herein are correct and up -to-date, it does not constitute legal or other professional advice IMC does not accept any responsibility, legal or otherwise, for any errors or omission.



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## Our Services

- Corporate Advisory services
- Corporate support services
- Global Mobility
- International Tax
- Transaction Advisory Services
- Global Formation compliance & Reporting
- Private client & family advisory

## About IMC

IMC is a cross border advisory firm focusing on the AMEA (Asia, Middle East & Africa) markets. We specialize in corporate advisory services, global mobility services, private client & family advisory, international tax, corporate finance, mergers & acquisitions, investment advisory and business support & outsourcing solutions.

At IMC, we pride in our team comprising of highly qualified professionals, possessing in-depth knowledge & practical experience, enabling us to understand specific client requirements and respond accordingly. Our team shares our philosophy of working in an environment of trust and integrity with highest regard for work ethics to provide our clients with world-class services.



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