Doing Business in Saudi Arabia

www.bakertillyinternational.com

Preface

This guide has been prepared by Baker Tilly, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Saudi Arabia.

Baker Tilly International is the world's 8th largest network of independent accounting and business advisory firms by combined fee income, and is represented by 161 firms in 137 countries and 27,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Saudi Arabia has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Saudi Arabian matters can be obtained from Baker Tilly, contact details can be found at the end of this guide.

December 2014

Baker Tilly is the trading name of Baker Tilly JFC

Contents

1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 19 November 2014.

Geography

Location:	Arabian Peninsula
Area:	2,149,690km^2
Land boundaries:	Iraq, Jordan, Kuwait, Oman, Qatar, the United Arab Emirates and Yemen
Coastline:	Red Sea, Gulf of Aqaba and Persian Gulf
Climate:	Mostly dry desert; high temperatures during the day, falling to low night-time temperatures during winter months
Terrain:	Mostly sandy desert
Time zone:	GMT +3

People

Population:	29.99m (2013 est.) concentrated in the cities of Riyadh, Jeddah, Mecca, Medina and Ad Dammam
Ethnic groups:	Arab (90%), Afro-Asian (10%)
Religion:	Muslim; open worship of other religions is not permitted
Language:	Arabic; English is widely spoken in business circles

Government

Country name:	Kingdom of Saudi Arabia
Government type:	Theocratic monarchy
Capital:	Riyadh
Administrative divisions:	Saudi Arabia comprises 13 provinces, each of which is divided into governorates; there are 118 governorates in total. Governorates are in turn divided into sub-governorates. Each province has its own capital town or city, governed by a mayor.

Political situation

The King is head of both state and government. A Council of Ministers is appointed by the King every four years and includes members of the royal family; it forms the executive and legislative branches of government and is responsible for formulating the country's economic policy and for guiding development. The Council of Ministers is supported by a Consultative Council (*Majlis al-Shura*), which has 150 members appointed by the King for four-year terms. Political parties and elections are not permitted.

Laws and policies are heavily influenced by the *ulema*, which is a body of religious leaders and jurists. While Shari'a law dominates the judicial system, some aspects of commercial law are based on secular principles, in part to meet international standards.

Economy

GDP – per capita:	US$25,852 (2013)
GDP – real growth rate:	3.8% (2013)
Unemployment:	6% (2014 est.)
Currency (code):	Saudi Riyal (SR)

2 Business Entities and Accounting

2.1 Companies

The most common company types used by foreigners setting up business in Saudi Arabia are the limited liability company and the joint stock company.

2.1.1 Limited liability companies (LLCs)

LLCs must have at least two and not more than 50 shareholders, who may be individuals or legal entities. Shareholders' agreements must comply with both the Companies Law and Shari'a law. If an LLC has more than 20 shareholders, a supervisory board consisting of at least three members must be in place. Share transfers must be approved by the Saudi Arabian General Investment Authority (SAGIA).

The minimum share capital requirement for an LLC with foreign participation is generally SR500,000. The minimum share capital requirement can be reduced in some circumstances by SAGIA (eg export projects, or projects that involve substantial technical experience). Share capital must be fully paid up.

2.1.2 Joint stock companies (JSCs)

JSCs must have at least five shareholders and three directors; there is no maximum limit on the number of shareholders. JSCs must have articles of association based on the model issued by the Ministry of Commerce and Industry (MCI). Shareholder meetings must be held at least once a year and no later than six months after the end of the fiscal year.

The minimum share capital requirement for a JSC is generally SR2m, divided into negotiable shares of at least SR50. The minimum share capital requirement increases to SR10m if the shares are to be publicly traded. Each shareholder must pay at least 25% of their cash contribution at the time of establishment, and at least 50% must be paid up at the time of incorporation.

Members of the board of directors must hold shares in the JSC of a nominal value of at least SR10,000.

To establish a JSC in Saudi Arabia, generally a proposed feasibility study is submitted to the Minister of Commerce for review; the minister then authorises establishment if the study meets approval. In certain circumstances (eg state assistance, public sector projects and banking businesses), the JSC must be authorised through Royal Decree.

2.2 Partnerships

2.2.1 General partnerships

A general partnership is formed of two or more partners who are jointly and personally liable for the partnership's debts. A partnership agreement must be drawn up and registered with the MCI.

2.2.2 Limited partnerships

A limited partnership must register with the MCI in the same way as for a general partnership. Members comprise general partners, who are jointly and personally liable for the partnership's debts, and limited partners, who are liable to the extent of their investment.

2.2.3 Partnerships limited by shares (PLSs)

A PLS has at least one general partner who is personally liable for the debts of the partnership, and at least four shareholders who are liable only to the extent of their shares in the capital.

The minimum share capital requirement for a PLS is SR1m. The PLS is managed by the general partner(s), who in turn are supervised by a supervisory board.

PLSs must be registered with the MCI, generally along the same lines as for JSCs (see 2.1.2).

2.3 Sole Proprietorships

A sole proprietor is an individual who owns and operates a business entity. There is no distinction between the proprietor and the business, resulting in unlimited personal liability.

2.4 Branches

A foreign company can establish a branch in Saudi Arabia, subject to SAGIA approval. Establishing a branch is similar in procedure to that for an LLC, but without the requirement for articles of association to be approved. The foreign parent company is liable for the branch's debts and activities. A branch's business activities in Saudi Arabia are limited to the scope of the licence issued by SAGIA.

2.5 Technical and Scientific Offices (TSOs)

A foreign company can set up a TSO to provide technical assistance and support to local distributors and agents. A TSO is not independent and cannot carry out business activities or earn revenue. Much like a branch, the parent company is liable for the TSO's activities. It can have a maximum of between five and ten employees, depending on what has been approved by the authorities. Directors and employees may be foreign nationals.

2.6 Audit and Accounting Requirements

Companies can choose their own financial years, specified in the articles of association.

Accounts must meet generally accepted accounting principles (GAAP) as issued by the Saudi Organization for Certified Public Accountants (SOCPA). In situations where GAAP is not available, companies should use the International Financial Reporting Standards (IFRS). Banks and insurance companies must use IFRS.

All companies registered under the Companies Law, and all companies with foreign participation, are required to have their accounts audited each year. LLCs and JSCs must appoint at least one independent auditor; banks must appoint at least two. For JSCs and banks, the auditors must have been registered with SOCPA for at least five years.

2.7 Filing Requirements

Audited financial statements must be filed with the MCI within six months of the company's financial year end.

3 Finance and Investment

3.1 Exchange Control

There are no exchange control provisions in Saudi Arabian law, and residents and non-residents may hold bank accounts in any currency.

3.2 Banking and Sources of Finance

The central bank, the Saudi Arabian Monetary Authority (SAMA), is responsible for monetary policy and is the banker to the government. SAMA supervises commercial banks and issues the national currency.

There are two main specialised public sector credit institutions that provide loans to Saudi individuals and companies:

- Public Investment Fund (PIF)
- Saudi Industrial Development Fund (SIDF).

The PIF provides funds for government and private domestic industries, and has been the major funding agency for base chemical and heavy industrial plants and export refineries. PIF loans are generally mid to long-term and on very soft terms.

The SIDF offers finance to private industry. It encourages the private sector to invest in manufacturing enterprises. SIDF loans amount to up to 50%, 60% or 75% of project costs, and are medium to long term and low cost.

In the private sector, there are several main industrial groups providing funding and taking equity participation. These include the following:

- National Industrialisation Company (NIC)
- Saudi Advanced Industries Company (SAIC)
- Saudi Venture Capital Investment Company (SVCIC).

The NIC was established to stimulate private industrial development in Saudi Arabia. It seeks joint venture project proposals from companies that may be interested in new industrial joint ventures in the country.

SAIC was established to participate in joint venture projects employing advanced industrial technology. It has participated in the formation of various aerospace industrial projects and seeks investors with technical know-how for investment in new industrial projects in Saudi Arabia.

The SVCIC is a closed joint stock investment company set up to invest in small and medium-sized enterprises.

3.3 Investment Incentives and Restrictions

A foreign business wishing to establish itself in Saudi Arabia must apply for a foreign investment licence from SAGIA and register with the MCI. Depending on the sector, further licences may have to be granted prior to commencing business activity.

The PIF and SIDF provide low cost medium- to long-term loans to new businesses and expansion projects (see 3.2).

Foreigners are prohibited from carrying out economic activities on the ”negative list”, which is reviewed regularly and published by the Supreme Economic Council. Restricted activities include oil exploration and production, real estate brokerage services, and some media and press services. Foreign investment in real estate in the holy cities of Mecca and Medina is specifically forbidden. Other activities, such as wholesale or retail trade, are permitted only if they are carried out in partnership with Saudi national individuals or businesses. In those instances, the Saudi national must hold a majority share in the business.

The Foreign Investment Law allows 100% foreign ownership of LLCs and JSCs. There are no restrictions on repatriation of profits from Saudi Arabia, although a withholding tax applies (see 5.1).

A foreign investor is permitted to obtain more than one licence for various business activities. Licensed foreign investor projects enjoy the same privileges, incentives and guarantees as national projects.

Other incentives to encourage foreign investment in approved projects include:

- Financial and technical operating subsidies, and
- Competitive land and utility rates.

There are several tax incentives available – see 5.7.

3.4 Tariffs

Saudi Arabia is a member of the Gulf Cooperation Council and the Greater Arab Free Trade Area and applies no tariffs on imports from other member states. Imports from other countries are generally subject to customs duty of 5%, although this rises to 12%, 15% or 20% on certain imports.

Importation of certain goods is prohibited. A list of these items can be found at http://www.customs.gov.sa/CustomsNew/tariff/trfmain_E.aspx

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

4.1.1 Employment law and work relations

The Labour Law M/51 regulates employment in Saudi Arabia.

To encourage employment of Saudi nationals, the Ministry of Labour will instruct a newly licensed business on the number of Saudis it must employ. These figures are reviewed regularly.

Employers are responsible for organising healthcare for resident and non-resident employees.

Although there is no set minimum wage as such, in order for a company to meet the requirements of the Saudisation programme (which is designed to encourage higher employment of Saudi nationals in private businesses), it must offer a minimum wage to its employees. This policy was announced in early 2013; companies are required to file data relating to employees' pay in 2013 and 2014, with various compliance dates set according to the number of employees. Various incentives are offered to those companies that meet the criteria.

There are no unions and employees do not have the right to strike.

4.1.2 Employment conditions and contract

General work conditions apply to all employees, including:

- An employee cannot work either for more than eight hours in a working day, or for more than 48 hours in a working week (as the employer decides)
- The number of working hours may be increased or decreased to nine or seven hours in a working day for certain sectors
- During Ramadan, working hours are reduced to six hours in a working day, or 36 hours in a working week
- Minimum paid annual leave is 21 days, increasing to 30 days after five year's service with the employer, plus public holidays
- After two years in service, the employee is entitled to 10 to 15 days' paid leave to perform Hajj.

Additional rules apply to the employment of non-Saudis, including:

- There must be a Ministry of Labor approved permit to work in Saudi Arabia
- The work contract must be in writing and for a specified period
- If no duration is given in the contract, the period is deemed to be the duration of the contract
- Movement to another employer, or to another employment role, is tightly regulated.

Specific rules apply to the employment of women. For example, women cannot be employed in hazardous roles or industries. The employee is entitled to paid maternity leave; she is not permitted to work for six weeks following giving birth.

4.2 Visas and Permits

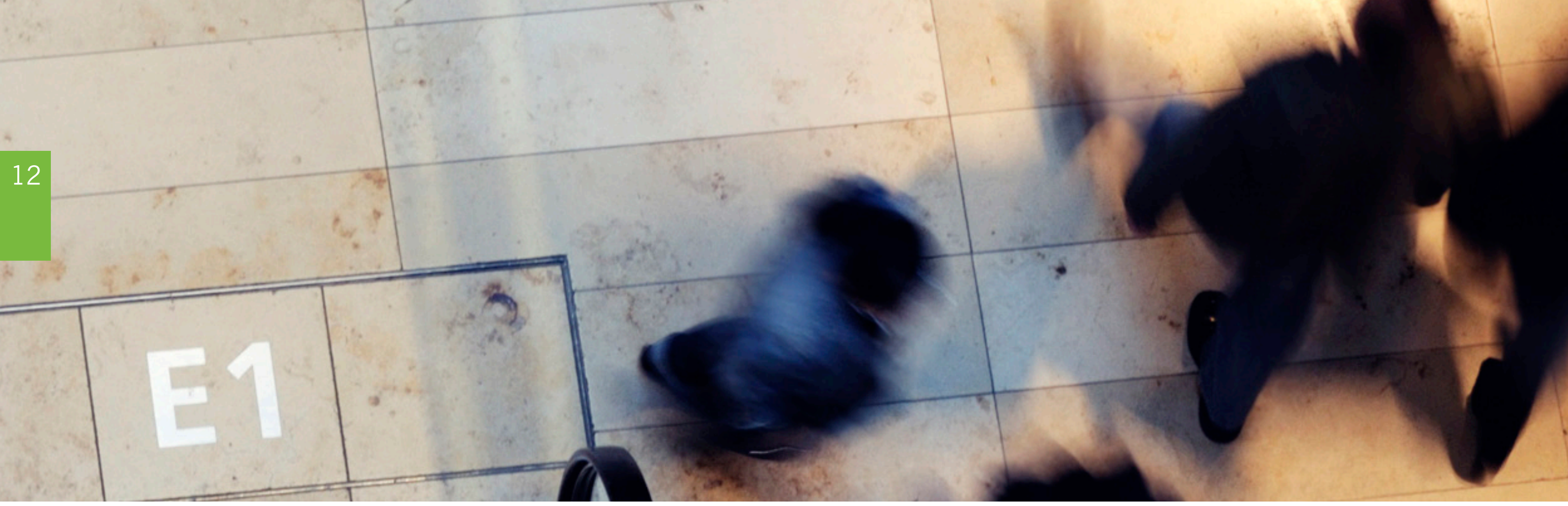
Foreigners seeking to enter Saudi Arabia must obtain a visa prior to entry from the Saudi embassy in their country of residence. The various visas include:

- Business and work visit visas for businessmen, investors, representatives of US companies, managers, sales managers and sales representatives, among others
- Personal and family visit visas, which do not grant a right to employment
- Resident and student visas, which do not grant a right to employment
- Extension of an exit / re-entry visa, for those who have been outside Saudi Arabia for up to seven months (up to 13 months for students).

Application forms for work-related visas must be accompanied by a letter, certified by the Chamber of Commerce and the Ministry of Foreign Affairs, from the sponsor company in Saudi Arabia. Academic qualifications must be certified and notarised before being validated by the Saudi Arabian Cultural Mission. Applicants must also provide detailed medical and police reports.

Permits for non-Saudi employees must also be approved by the Ministry of Labor.

Individuals seeking investor-related visas must also provide a copy of the certificate issued by SAGIA.



5 Taxation

Facts and figures as presented in section 5 are correct as at 20 November 2014.

5.1 Corporate Income Taxes

A company is resident in Saudi Arabia if it is incorporated under Saudi law or if its effective place of management is located in Saudi Arabia.

Resident companies owned by nationals of Saudi Arabia or other Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates) are subject to the Islamic tax *zakat*. This tax generally applies to:

- Capital, and proceeds from capital
- Receipts, profits and gains, and
- Estimated values of commercial goods, property and financial belongings,

subject to various allowable deductions and a one-year holding period.

Resident companies owned by non-Saudi or non-GCC nationals are liable to income tax on their worldwide income.

Resident companies owned partly by Saudi or GCC nationals and partly by non-Saudi or non-GCC nationals are subject proportionately to *zakat* and to income tax.

Non-resident companies are subject to income tax on their income from sources in Saudi Arabia, subject to the terms of any relevant double tax treaty.

The *zakat* rate is 2.5%.

The standard corporate income tax rate is 20%. For companies engaged in natural gas extraction activities, the rate increases to between 30% and 85%. For companies engaged in oil extraction activities, the rate is 85%.

Non-resident companies trading through a permanent establishment in Saudi Arabia are generally subject to an additional withholding tax of 5% on the remittance of net profits out of the country.

Capital gains are in general taxed in the same way as income. Gains from the sale of securities acquired after 29 July 2004 and traded through the Saudi Stock Exchange are exempt.

Net operating losses can be carried forward indefinitely for relief against future profits; however, in any one year, loss carry-forwards are limited to 25% of that year's profits. Losses cannot be carried back to previous years. If a change of 50% or more occurs in the underlying ownership or control of a company, no deduction is allowed for the non-Saudi share of the losses incurred before the change in the tax years following the change.

There is no facility for group companies to file consolidated income tax returns; however, group consolidation is permitted for *zakat* purposes, on condition the subsidiaries are wholly owned.

The tax year is generally the calendar year, but in prescribed circumstances companies may choose a different period. Tax returns must be filed electronically within 120 days of the end of the tax year.

Advance income tax payments may be required, depending on the company's tax position in the previous year. Payments are due at the end of the sixth, ninth and twelfth months of the tax year, with the balance payable when filing the tax return.

5.2 Personal Taxes

Individuals are subject to *zakat* and income tax on business income only, at the same rates, and on the same residence/non-residence principles, as for companies (see 5.1). Employment and investment income are not taxable.

Capital gains are taxed only if they relate to the disposal of property used in a business.

There are no inheritance or gift taxes.

There is no wealth tax, but *zakat*, which is payable only by Saudi and GCC nationals, is based in part on capital.

5.3 Employment Related Costs and Taxes

Employers are required to make contributions to the General Organization for Social Insurance, equivalent to 11% on up to SR45,000 of their Saudi national employees' pay, and 2% on up to SR45,000 of their other employees' pay.

Employees who are Saudi nationals must contribute 9% on up to SR45,000 of their pay. Other employees are exempt from making contributions.

Legislation has introduced an unemployment insurance scheme under which employers and Saudi national employees are each required to contribute 1% of employee pay.

Companies that employ more foreigners than Saudi nationals are subject to an annual levy of SR2,400 per foreign employee, payable when that employee's one-year residency permit is renewed, subject to exceptions.

5.4 Withholding Taxes

5.4.1 Domestic payments

There are no withholding taxes on domestic dividend, interest and royalty payments.

5.4.2 Payments abroad

The following withholding tax rates generally apply to payments made to recipients abroad:

	Tax Rate
Dividends	5%
Interest	5%
Royalties	15%

Other payments from which tax must be withheld at source include rents, technical fees, and insurance premiums (5%); fees charged by associated companies (15%); and fees for contracted out management services (20%).

For payments made to recipients in countries with which Saudi Arabia has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

5.5 Value Added Tax (VAT)

The introduction of a VAT system in Saudi Arabia and the other GCC countries is under consideration.

5.6 Other Taxes

There are no other significant taxes.

5.7 Tax Incentives for Businesses

5.7.1 Regional incentives

Investors in the Baha, Al-Jouf, Hail, Jazan, Najran and Northern Border provinces can benefit from tax credits of up to 15% of paid-up capital for 10 years.

Tax credits are also available for companies in the above listed provinces that employ and train at least five qualified Saudi employees for one year or more. Training must be accredited by the relevant Saudi authorities. The tax credit is equivalent to 50% of yearly salaries paid to those employees, and 50% of the training costs.

Member Firm Contact Details

Baker Tilly

Office # 17, Al Odeh Commercial Center
Olaya Road, King Fahd District
PO Box 301318
Riyadh
Riyadh 11372
Saudi Arabia

T: +966 11 4556918
F: +966 11 4556915

Offices also located in Dammam and Jeddah.

Baker Tilly is the trading name of Baker Tilly JFC

Global Office
Juxon House
100 St Paul's Churchyard
London EC4M 8BU
United Kingdom

T: +44 (0)20 3102 7600
F: +44 (0)20 3102 7601

info@bakertillyinternational.com

---

www.bakertillyinternational.com