Foreign investment in Saudi Arabia
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INTRODUCTION

Saudi Arabia has had increasing interest for businesses since the oil expansion of the 70s and 80s but as the world moves away from oil power to renewable energy, the Kingdom has also looked to move with the changes. Not only with the expansion into more sustainable power but also to expand its Sovereign wealth fund and private sector businesses to rival other major cities.

The Kingdom is already the biggest economy in the region, but the government has taken more steps recently to become an easier place to do business and attract more companies to the private sector. Instead of only relying on the size of its economy, it has become a more welcoming place for foreign investment. The introduction of numerous online portals, the easing of processes and implementing new licenses all lead into the larger goal of a diversified economy as laid out in Vision 2030.

No company set up process can be discussed without mentioning the role of Saudi Arabia General Investment Authority (SAGIA) the entity itself has worked hard to not only promote the Kingdom in key locations across the world but also to streamline its processes in order to ease the process for the companies it worked so hard to attract.

SAGIA is only a small part of the export process, however important it is. There are other elements that happen after setting up, which are important to operate in compliance with the law.

In this white paper, we look to what the future of business will look like in Saudi Arabia, the recent reforms of SAGIA and the steps that companies need to take after they have set up in the Kingdom.

Zaid Al Mashari
CEO
Saudi Arabia has made significant progress in implementing economic reforms over the past three years and is one of the economies to create a regulatory reform committee, using the World Bank – Doing Business indicators as one input when implementing reforms to improve the business environment. The Kingdom is currently rated at number 92 on the World Bank’s Ease of Doing Business ranking.

Saudi Arabia is ranked 39 in the Global Competitiveness report 2018 issued by World Economic Forum, up from the 2012 rank of 41.

Saudi Arabia has passed legislation that increased protection for minority investors protections by increasing shareholder rights and role in major decisions, clarifying ownership and control structures, requiring greater corporate transparency and regulating the disclosure of transactions with interested parties. These laws give more agenda-setting power to shareholders and disclose board member activities in other companies, executive compensation and audit reports.

The Kingdom has taken steps to clarify corporate governance, ownership and control structures by, for example, enacting legislation that requires companies to nominate independent board members and set up an audit committee.

There has been improvement on the extent of approval, extent of director liability and ease of shareholder suits indices.

Saudi Arabia enacted regulation to enhance approval and disclosure requirements for related-party transactions, improving on the extent of approval, extent of director liability and ease of shareholder suits indices.

Starting a business has been made easier, using an online system, which facilitates the commercial name reservation and submission of the articles of association procedure. Saudi Arabia has also improved the online payment system, removing the need to pay fees in person.

Saudi Arabia made their land dispute mechanism more accessible by publishing statistics on land-related cases filed at the court of first instance and implemented an online system to check for property ownership and encumbrances and by streamlining the property registration process.
Additionally, Saudi Arabia made registering property easier by improving the land administration system’s dispute resolution mechanisms.

Timeframes for trading across borders have been shortened by reducing the number of documents required for customs clearance.

Paying taxes is now easier by improvements to the online platform for filing and paying taxes.

Saudi Arabia made enforcing contracts easier by introducing an electronic case management system for the use of judges and lawyers.

Whilst there have been numerous reforms for business, the pace of reforms have slowed in order to allow the market to absorb the changes and counter any negative effects.

The International Monetary Fund is projecting GDP for Saudi Arabia to increase to 2.1% in 2020 despite it saying that the Kingdom’s economy will expand slower than expected this year. The IMF lowered its forecast for 2018 to just 1.8%, down from the 2.4% that was predicted in October 2018 and is also pessimistic about oil prices over the next two years.

The government’s focus has been to continue pumping investments into initiatives that contribute to promoting economic growth, supporting the private sector and improving services to citizens in the sectors of education, health, social development, municipal services, housing and public transport.

Other notable changes that affect business in Saudi Arabia are:

1. The introduction of transfer pricing bylaws based on an international framework has been implemented throughout the Kingdom.
2. The government introduced an incentive program to financially assist companies in hiring Saudi nationals.
3. The government aiming to boost spending to offset the contractionary effects from last year by introducing the largest expansionary budget.
4. The Saudi work visa was extended from one year to two to assist private sector companies in overcoming practical operational challenges.
Saudi Arabia has long been an attractive economy for many foreign investors, however, misconceptions and a lack of understanding of the country often became a barrier to entry. To combat this, the Supreme Economic Council authorized the Foreign Investment Act (FIA) in 2000. This act was a framework in which non-Saudi investors were permitted to enter the Kingdom in minority, majority or 100% ownership form. From the FIA the Saudi Arabian General Investment Authority (SAGIA) was created, whose primary responsibility is to approve foreign investment projects.

The Kingdom has had a steady annual average economic growth of more than 4% over the past 25 years with the private sector is now experiencing its most rapid growth as the government introduces measures to increase foreign investment.

Continuing to diversify the economy is vital to the sustainability and long-term success of the Saudi economy. To accomplish its goals, the government has invested resources in diversifying the economy and promoting growth of promising economic sectors such as leisure and tourism.

In addition, the government will be licensing public sector entities to the private sector on long-term licenses, allowing the government to decrease costs whilst improving the private sector economy and the quality of services.

There are plans to privatize whole or parts of state-owned companies with several already underway.
The Saudi General Investment Authority (SAGIA) was established in April 2000 as a central agency for inward investment, to help the investments support the country’s development goals and participate in the diversification of the Saudi economy.

SAGIA is responsible for following up and assessing investment performance, alleviating the difficulties encountered by investors, conducting studies and research and drafting executive plans to stimulate local investments.

SAGIA also undertakes studies, research and develops investment data and proposes plans or improvements to enhance investments within the Kingdom.

SAGIA aims to:

1. Transfer and nationalize industrial activity license application
2. Produce income resources in Saudi Arabia
3. Increase export of goods or services
4. Enhance economic competitive edge of Saudi Arabia
5. Promote Saudi Arabian products in local international markets
SAGIA AND THE NATIONAL TRANSFORMATION PROGRAM 2020

SAGIA is an integral component of the National Transformation Program. The National Transformation Program is the interim action and development plan for Vision 2030 which sets out strategic objectives to be met by a number of government bodies; economic and development sectors by 2020. Each year, the program identifies new initiatives as necessary for achieving the Vision 2030 goals.

The National Transformation Program consists of eight themes; transform healthcare; improve living standards and safety; ensure sustainability of vital resources; social empowerment and non-profit sector development; achieve governmental operational excellence; labor market accessibility and attractiveness; contribute in enabling the private sector; develop the tourism and national heritage sectors.

SAGIA is one of the entities involved in the seventh theme; contribute in enabling the private sector, which aims to overcome obstacles currently facing the private sector and attract foreign direct investment (FDI).

These objectives are based on the targets set in Vision 2030 and outline the large size of the role SAGIA has in Saudi Arabia reaching its Vision 2030 goals as well as enabling Saudi Arabia to become a regional investment powerhouse. The main aim is the creation of an attractive environment for both local and international investors and to increase their confidence in the Saudi economy.

The objectives are aimed at increasing FDI inflows to Saudi Arabia as a percentage of GDP from 1.3% in 2016 to 1.46% in 2020. SAGIA has been instrumental in developing a uniform value proposition for many of the high priority sectors and ensuring the right quality of FDI comes to the Kingdom. As a result, Saudi Arabia is now being positioned as a key investment destination for investors looking to access the Middle East region.

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**In summary, the National Transformation Program aims to:**
- Achieve governmental operational excellence
- Improving economic enablers
- Enhance the standards of living

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SAGIA is tasked with making the local investment environment more navigable for both local and foreign entities. The goals outlined for SAGIA in the National Transformation Program will boost the private sector though increasing ease of doing business and increasing on the ground local capabilities.

These goals have a positive exponential downstream effect on the local business ecosystem spurring growth and innovation. SAGIA will need to collaborate with various local entities in order to improve the local infrastructure. Some areas of focus remain in resolving insolvency, starting a business and protecting minority investors.

Recently, it was noted that the SAGIA played a pivotal role in participating in many international events through 3 initiatives:

- **InvestSaudi** - To learn more about investment in Saudi Arabia and see both opportunities and sectors in the Kingdom.

- **Tayseer** - A government committee established to help the private sector thrive.

- **Meras** - A platform to start and manage your business, which provides all government and private sector services that are needed to set up a business in one day.

There are more than 80 government services in one complex, which is divided between several government bodies of commerce and investment, justice, passport center, and labor office.
SAUDI INVESTMENT STATS

HIGHEST NUMBER OF INVESTMENTS PER SECTOR

- Manufacturing
- Information and technology
- Construction
- Professional science and technical

30% were joint venture partnerships with local investor

70% were full foreign ownership

70% Increase in new foreign investor licenses in Q1 2019 compared to Q1 2018
The past few years have seen great efforts made to improve the ease of doing business in Saudi Arabia. With large scale initiatives currently being undertaken within the Saudi economy, it has become essential for the numerous government entities to collaborate and move symbiotically towards the milestones laid out.

Tayseer is an example of an initiative which highlights the focused approach the government is taking by continuously assessing and improving the business environment, particularly for the private sector.

These four objectives are the cornerstones for the business environment transformation. Tayseer brings together more than 35 government entities to synchronize their efforts to achieve its goals. There are currently more than 300 initiatives underway which are aimed at improving the Kingdom’s business environment and motivate the private sector. Tayseer’s scope of work spans across the full business environment spectrum. The current areas of focus are listed on the right.

Tayseer is tasked with the following four objectives:

1. Enforcement of royal orders and directives to improve the business climate for the private sector
2. Increase the efficiency of government services
3. Improve the efficacy of communication with private sector
4. Elevate the ranking of the Kingdom in ease of doing business and competitiveness
There are a number of reforms which have already been implemented successfully. The positive spillover effects from these reforms are visible both domestically as well as in the Kingdom’s standing in various international rankings.

The Kingdom has been ranked 4th by the World Bank’s 2019 Feb Ease of Doing Business Report in terms of the number of reforms implemented that will contribute to improving the business environment at the G20 level. Saudi Arabia improved its World Bank 2019 Ease of Doing Business score by 1.62 percent from last year. It now ranks at 92nd place among 190 economies.
Foreign Investment Set Up in Saudi Arabia
COMPANY SET UP

Foreign investors can operate in Saudi Arabia by the establishment of legal entities but not limited to the following:

1. Limited Liability Company

An LLC is a private equity formed between two or more partners (maximum of fifty) or shareholders who are liable for the company’s debts respective of their contributed capital.

2. Single member limited liability company

A SMLLC is an LLC established by one person. This person has complete authority and can assume the position of director, board of directors and general shareholders’ assembly. The owner is liable to the amount of capital placed in the company.

3. Foreign company branch

Foreign companies can set up a branch office in Saudi Arabia where the parent company undertakes full liability of the office’s actions.

4. Joint stock company

A JSC is a company whose capital is divided into negotiable shares. A JSC will have a name indicating its purpose and is managed by a board of directors. The JSC’s memorandum of association limits its’ members to a minimum of three and a maximum of eleven.
SAGIA emphasizes the importance of foreign companies establishing their business under the correct license activity. The investment license will fit into one of the following activities;

**Services license**
Service activity license comprises of the following activities: (management consulting, information technology, tourism, training, health, insurance and re-insurance, education, advertising and media, logistic services, organizing exhibitions, catering and food services, financial services, aviation and handling services, etc.).

Service licenses are divided into two categories:
• Non-specialized activities where there is no approval required by other government agencies.
• Specialized activities which require approval by other government agencies such as health, insurance and transportation.

**Industrial license**
This service is provided to all industrial licenses, such as heavy and light industries and transformative industries.

**License for a scientific and technical office**
This service is provided to foreign companies that have a Saudi agent distributing the company’s products in the Kingdom, and such companies that wish to open an office to provide scientific and technical services to agents, distributors and consumers of their products.

**Temporary certificate to submit proposal to government projects**
Entities that need to bid for government projects are able to submit an application to SAGIA by requesting a temporary certificate to bid for government projects in accordance with the decision of the Council of Ministers No. (405) dated 22/10/1435 AH.
Real estate license
This service provided to foreign companies in property field in case that the total cost of the project, in terms of both land and construction, is not less than 30 million Saudi riyals in terms of land and construction and the investment established outside the borders of the cities of Mecca and Medina.

Temporary licenses for the performance of a government/semi-government contract
This service shall be provided to the foreign entities that do not have foreign investment License for the contract activity, for which a government or semi-government contract is awarded, providing the possibility to apply for a temporary license to execute a government or semi-government contract, this license expires at the end of the contract tenor.

Trading license
This service is provided to foreign entities that are interested in the activity of wholesale and retail trade in the Kingdom of Saudi Arabia.

Commercial license with Saudi shareholder:
- 100% foreign commercial license

License for public transport
This service is provided for international companies that wish to provide public land transport services (buses / metros) within cities in the Kingdom.

License for public transport:
- Service for issuing license to practice buses land transport within cities
- Service for issuing license to practice land transport by metros within cities
- Service for issuing license to practice other transport

Consulting license for engineering offices
This service provided to foreign companies that wish to provide the engineering consultation services inside the Kingdom with a 100% possession.

Entrepreneur licenses
This service provided to entrepreneurs who wish to establish pilot projects accredited by Saudi universities or business incubators.
Immediate license
This service is offered to any company in the world and wants to open a headquarters in Saudi Arabia to engage in investment activity immediately and provide documents that meet the standards required for the activity.

Consulting license for technical and economic communication offices
This service is provided to economic and technical offices associated to countries wish to have license.

License for agents of recruitment and hiring of domestic labor services
This service provided to foreign companies that wish to engage the activities of domestic labor placement services and temporary employment agency activities for home services in the Kingdom.

Licensing of university colleges and constant universities
The service is provided to foreign companies that wish to conduct educational activities through the university colleges and constant universities in the Kingdom 100%.

Licensing of audio-visual media
The service provided to foreign companies that wish to conduct audio and visual activities.
## Minimum Acceptable Capital

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<th>License Type</th>
<th>Minimum capital (SAR)</th>
<th>Minimum Saudi Participation (%)</th>
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<tbody>
<tr>
<td>Commercial with Saudi partner</td>
<td>SAR 26,666,667&lt;br&gt;Foreign capital shareholding not less than twenty million (SR 20,000,000) and partnership not more than 75%</td>
<td>25%</td>
</tr>
<tr>
<td>100% Foreign commercial</td>
<td>SAR 30,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Communications</td>
<td>-</td>
<td>40%</td>
</tr>
<tr>
<td>Communications value added</td>
<td>-</td>
<td>30%</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>40%</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>-</td>
<td>40%</td>
</tr>
<tr>
<td>Property financing</td>
<td>-</td>
<td>40%</td>
</tr>
<tr>
<td>Property investment</td>
<td>The value of each project is not less than SAR 30,000,000 (covering land and construction); the land and building will be outside the perimeter of the two Holy Mosques</td>
<td>-</td>
</tr>
<tr>
<td>Management of construction projects, detailed engineering design and EPC contracts</td>
<td>-</td>
<td>25%</td>
</tr>
<tr>
<td>Public transport (bus transportation within cities)</td>
<td>SAR 500,000</td>
<td>30%</td>
</tr>
<tr>
<td>Public transport (metro transportation within cities)</td>
<td>SAR 500,000</td>
<td>20%</td>
</tr>
<tr>
<td>Joint stock company</td>
<td>SAR 500,000</td>
<td>-</td>
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Foreign branch company

Investor registration through SAGIA E-Services Portal

Issuance of investment license

N/A

Single and Limited Liability Company

Joint Stock Company

Memorandum of Association
Documentation of memorandum of

Issuance of Commercial Registration license

Issuance of Chamber of Commerce certificate

Obtain office space

Municipality License - National Address (Wasel)

Online Post Incorporation

Ministry of Labor

General Organization of Social Insurance

General Authority of Zakat and Tax

Issuance of General Director visa in case of non-Saudi director
Post Incorporation
The post registration actions are a key area for companies to get right in order to maximize their opportunities in the Kingdom. Although steps have been taken to ease the setting up of various systems, it can still be a complex process for companies who are not used to the country.

We advise partnering with a local company who has the expertise, local knowledge and team that can streamline the experience for new companies and ensure that businesses can take advantage of what compliance offers.

The main processes or systems that need to be set up are as follows;

**Office Space**

Companies who want to start their business must obtain office space. This step is one of the main steps to complete the post-incorporation procedures as it is required to obtain the municipality license and the national address (Wasel).

**Municipality license**

Companies will need to register and issue the municipality license for their office, this is one of the major requirements to complete the company’s registration with the Ministry of Labour and GOSI.

The Ministry of Municipal and Rural Affairs does allow some companies to issue immediate municipality licenses depending on their commercial activity, this makes the process much easier and reduces the set-up time.
National Address (Wasel)
Companies will need to set up a Wasel Commercial service which delivers to both public and private sectors and includes all the benefits of the Wasel package. It is automatically activated as soon as the national address is registered.

It allows offices to receive a large number of letters at the same place and to spare the effort of delegating someone to post boxes throughout the offices

As soon the national address is registered, the Wasel service is automatically activated.

PO Box
Companies also need to set up a PO box. This differs from the Wasel box, which delivers to your office, the PO box is placed in a location offsite and an assigned person from a company goes and collects items.

Zakat
The General Authority of Zakat and Tax (GAZT) collects Zakat and taxes and facilitate taxpayers in achieving the highest degree of compliance and collecting Zakat and taxes from taxpayers in accordance with the relevant regulations and instructions.
**GOSI**

The General Organization for Social Insurance (GOSI) is a semi-governmental body that exercises administrative and financial independence. The Social Insurance Scheme is a part of social cooperation and solidarity scheme provided for citizens, covering private sector workers and a select group from the public sector. The scheme provides contributors and their families with financial aid if the individual has left work due to retirement, disability or death; it provides medical care for contributors with work injuries or occupational diseases and the necessary compensation in the event of occupational disability or death.

Employers must notify GOSI once new workers enter their employment, within the first fifteen days of the month immediately following the month in which the worker has entered employment.

Notifications should be made by completing the required form in addition to paying contributions this service is available through the GOSI office, GOSI online and data exchange.

Employers must also notify GOSI of any worker who leaves employment, effective within the first fifteen days of the month immediately following the month in which the worker has left employment, this service is available through the GOSI office, GOSI online and data exchange.

The employer can modify the wage of contributors or occupation of voluntary contributors and can view all details related to their establishment, such as branches, the credit and debt balance and fines through GOSI online.
Compulsory contributors are;
1. Any worker who has a contractual agreement with an employer to carry out work that is primarily in the Kingdom of Saudi Arabia in consideration of wage, regardless of the nature, form or duration of the contract or the amount or kind of paid wage.

2. The Saudi national employee who works abroad but the employer’s head office is within the Kingdom is covered under the annuities branch, as long as the work relationship is established to be existing between the worker and employer.

3. Employees of the state and semi-state bodies who do not benefit from the civil or military retirement schemes.

4. Occupational hazards branch is applied on a mandatory basis to all workers without distinction of sex, nationality or age.

5. Occupational hazards branch is applied on a mandatory basis to all Saudis workers without distinction of sex, provided that the worker is under the age of sixty when first applied to the scheme.

The minimum wage under annuities branch is SAR 1,500 and SAR 400 under the occupational hazard branch and the maximum wage is SAR 45,000.

The employer’s share is the amount contributable each month by the employer for their employees, it is 9% for annuities branch, 2% for occupational hazard branch and 1 percent for unemployment.
MINISTRY OF LABOUR

The Ministry of Labor provides protection and support to both employees and employers in the private sector, develops the skills of the workforce, ensures that the labor market is efficient and establishes programs to continue the development of the economy.

MAIN SERVICES OF THE MINISTRY OF LABOR

Ministry of Labour
The Ministry of Labor provides protection and support to both employees and employers in the private sector, develops the skills of the workforce, ensures that the labor market is efficient and establishes programs to continue the development of the economy.

Wage Protection System
The Wage Protection System or WPS is an essential part of the payroll process. WPS is a database containing the details of each private sector employees’ wages based on the information held in the GOSI system and ensures that organizations abide by labor laws and pay their employees their agreed salary on the agreed date as established in the contract. All private sector companies need to register their employees through the system.
Saudization
Saudization is key to running a successful business in Saudi Arabia and is an initiative that gives Saudi nationals opportunities in the workforce. For companies, that means that there’s a percentage of Saudi nationals that each company must hire depending on the company’s industry and size. Saudization is measured by Nitaqat, a system that categorizes companies based on their current Saudization levels and if they meet the requirements of their industry and company size.

Companies with low Saudization levels that fall into the red or yellow categories are not granted the same treatment as the companies who employ high numbers of Saudi nationals and as a result are in the high green and platinum bands.

A significant change from the latest Nitaqat development will only allow those companies in the platinum, high green and medium green categories to apply for new block visas, companies in the low green categories will only be able to obtain residency for expat employees through transfer of sponsorship and companies in the yellow and red categories will only be able to renew residence IDs under certain conditions and they will not be able to hire a new expats.

Benefits of Saudization compliance include:

- Expedited visa processing and lower processing fees
- Eligibility to switch employee’s professions on the visa
- The ability to easily renew Iqamas and can be done before three months end of the Iqama’s expiry
- The ability to hire new employees from companies in the red and yellow categories
If the company cannot find a Saudi national to take the role and meet their Saudization quota, they can pay a fee to the government that they would pay for the wage of the national as an alternative.

Saudization is a key area of business, not only the requirement from the government to meet Saudization compliance but also a cultural expectation, particularly in business meetings, that Saudi nationals are present. Private sector entities that achieve high levels of compliance, position themselves as long-term thinkers and are viewed as a more trustworthy partner than those who are not.

**Block Visa**
A block visa contains multiple visa applicants that are approved on one document, used by companies to bring single or multiple foreign workers to the Kingdom. Once the block visa is approved the individuals can then make their work visa application at the nearest Saudi Embassy.

In order to be granted a block visa, the company must allocate block positions on the block visa with specific employee details. The block visa is granted dependent on the nationality of the applicants, their country of origin, and their exact job role in relation to their academic qualification.

Companies submit a block visa request directly through the Ministry of Labour and Social Development portal with a fast track visa service for companies who have a high Saudization rate being able to obtain visas immediately.

The Ministry of Labour now allows companies in the medium green category to apply for block visas provided that it does not reduce the company’s Saudization category to below medium green, which was previously restricted to the high green and platinum categories only.
The process for applying for a block visa is as follows:

• The sponsoring company must apply for a block visa request to a government relations officer (GRO) from the MLSD as the sponsoring company requires pre-approval to sponsor a foreign national.

• Once the block visa has been approved, the company must, through the Ministry of Foreign Affairs (MOFA) in Saudi Arabia, obtain a visa authorization number and a power of attorney.

• Now, the individual can apply for a work visa in their country of residence through the appropriate Saudi Diplomatic Mission. The applicant is required to supply a medical certificate from a medical check-up in their home country.

• Once the work visa has been approved and the employee has entered Saudi Arabia, they may be required to take another medical check-up.

• Within the first 90 days of arrival in the Kingdom, the employee is required to submit an application for a work permit and residence permit (Iqama) to the MoL.

• Once the work permit and iqama have been issued, the employee will then need to apply for an exit/re-entry permit via the Ministry of Interior, allowing them to exit and re-enter the country during the validity of their work permit.
**Processing time**
The processing time for a block visa and visa authorization vary, but generally take several weeks to obtain.

Companies need to factor in additional time to gather all the required documents from the concerned parties to be able to complete the application process.

The medical check-up certificate should be available within three days, depending on the physician.

The medical insurance should be available within five days, depending on the insurance company.

The work permit and Iqama generally take three to ten working days to process and the exit/re-entry permit is usually obtainable within two working days.

**Compliance**
Compliance across all regulations is essential to doing business in Saudi Arabia. When companies are bidding for projects or tendering for government contracts, evidence of compliance across each area of business is also submitted, if they are lacking in any area then that will result in the bid or tender not being successful.

Compliance also results in expedited processing times for employment visas, this enables companies to get their team on the ground in a more sustainable timeframe, reducing delays and reducing down time for businesses.
Significant Developments
Listed companies were required to adopt IFRS reporting standards beginning from January 2017 with other companies having implementation timelines starting from January 2018. There were also significant changes made to the existing treatment and ratification of double tax treaties which will reduce tax avoidance and provide smoother resolutions to treaty abuse cases. These changes also help with the elimination of double taxation helping KSA resident entities.

A tax and Zakat dispute resolution committee has been setup to resolve appeal cases without going through formal appeal procedures and Saudi Arabia introduced selective commodity tax on three main commodities in June 2017.

The biggest elemental change to existing tax structure was the introduction of the indirect value added tax (VAT) in 2018. The tax was applied on goods and services during the various stages of the supply chain. The tax had tremendous impact on most economic sectors and required both producers and consumers across the value chain to adapt to more efficient economic behavior.

Expat levies were also introduced in 2017 which is a direct tax on expats in the Kingdom as well as on their dependents. The tax is slated to increase every year till 2020.
Tax system overview

The tax system in Saudi Arabia is relatively simpler than in other emerging market economies. Income tax is due on the non-Saudi shares in a resident corporation while Zakat applies on the Saudi shares. The citizens of GCC countries are treated as locals. Economic activity generated within Saudi Arabia is subject to tax less allowable expenses. The corporate tax rate is 20% while Zakat rate is 2.5%. The disposal of shares in a resident company is typically subject to a 20% capital gains tax. However, capital gains deriving from the disposal of securities traded on foreign stock markets are tax exempt if they are also traded on the Saudi stock market. Dividends are taxed as income unless the payer company has minimum 10% Saudi resident ownership for at least one year. There is no individual income tax scheme in Saudi Arabia. Income tax is not imposed on an individual’s earnings if they are derived only from employment in Saudi Arabia.

Country comparison for corporate taxation

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<th>Saudi Arabia</th>
<th>MENA</th>
<th>US</th>
<th>Germany</th>
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<tbody>
<tr>
<td>Number of payments of taxes per year</td>
<td>3.0</td>
<td>17.8</td>
<td>10.6</td>
<td>9.0</td>
</tr>
<tr>
<td>Time taken for admin formalities (hours)</td>
<td>67.0</td>
<td>208.2</td>
<td>175.0</td>
<td>218.0</td>
</tr>
<tr>
<td>Total share of taxes (% of profit)</td>
<td>15.70</td>
<td>32.3</td>
<td>44.0</td>
<td>48.9</td>
</tr>
</tbody>
</table>

Source: Doing Business - 2017
Saudi Arabia is experiencing rapid change with much of it to improve business in the private sector and more reforms are expected as the sector reaches maturity. Although much has been made easier and moved online for companies, there are still important elements that companies need on the ground support with in order to successfully launch in the Kingdom. Often a local knowledge is the best way to navigate the business landscape or at least the recruitment of an experienced team that already have the local knowledge and speak the language.

Saudi Arabia is experiencing a positive shift as it looks to open up the private sector plus a number of new areas like leisure, tourism, entertainment and new levels of hospitality and the economy looks to strengthen further as no change is left unexplored.
BRIEF ABOUT PROVEN

Proven SA, part of the Proven Arabia group, was established in 2009 to provide value for companies looking to bring their business to Saudi Arabia.

Proven SA helps our clients and individuals navigate a changing Saudi Arabia with a local team delivering expert advice and world class solutions.

In an increasingly diversified Saudi Arabia, we enable companies to not only enter the market but adapt and evolve so they can continue to benefit from the opportunities available. We help our clients to make informed decisions and operate effectively bringing their Saudi operations inline with their customers and competitors.

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