



PROVEN

Guide to  
**Doing Business**  
in Saudi Arabia  
**2023**

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# GLOSSARY

This guide aims to introduce readers to the fundamentals of business setup in the Kingdom of Saudi Arabia. A decade into our experience in the Kingdom, PROVEN has provided services for many businesses, building solutions, and acting as a facilitator for foreign investors into the Saudi market. Our scope expands, along with the opportunities that the Saudi government provides. The past few years have been particularly rich, as the Saudi Vision opens new doors for business and investment.

The Saudi Vision launched a series of initiatives which aim to steer the economy away from oil dependence, and into a more diverse wheel, featuring tourism, entertainment, and business as new and attractive arenas for investment. The Kingdom's economy is the largest in the MENA region, and it has helped cultivate an advanced, technology-backed conduction of government processes. Laws and regulations for setting up a company, as well as cultural practices that are primarily specific to the Kingdom, require expertise and experience, and this guide compiles essential information for foreign investors interested in entering the business circuit of Saudi Arabia.

In this compilation guide, we will delve into some necessary processes involving licensing at the Ministry of Investment (MISA), formerly SAGIA, and the Chamber of Commerce (COC), as well as the different types of companies. This process will only get you one foot in the door, as post-registration processes also require attention, being the real beginning of an effective business setup.

**Saudi Vision:** An elaborate, long-term, multi-program plan to diversify the Saudi economy from oil dependence.

**ISIC:** The United Nations Economic and Social Council's International

Standard Industrial Classification of All Economic Activities, (ISIC), a categorization system for commercial activities.

**A Negative List:** A list of business activities foreign investors cannot practice in Saudi Arabia.

**MISA:** Ministry of Investment in Saudi Arabia.

**GOSI:** General Organization for Social Insurance in Saudi Arabia.

**GAZT:** General Authority for Zakat and Tax in Saudi Arabia.

**Zakat:** An Islamic form of tax.

**Contributor:** A 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 compensation.

**Iqama:** Foreign nationals who want to work in Saudi Arabia must obtain a work visa which will be converted to a work permit and residency permit.





## INTRODUCTION

PROVEN Arabia is the mother company under which we operate. Started in 2009 by Group CEO Zaid Al Mashari and Chairman Naif Al Otaibi, PROVEN Arabia now hosts over 200 employees in Saudi Arabia, the United Arab Emirates, India, Canada, Egypt, and the United Kingdom. The expansion of the types of activities in PROVEN Arabia resulted in the spawning of multiple startups over the years. Subsidiary brand PROVEN has provided Outsourcing, Entity Setup, Corporate Services, Marketing, and Shared Services to clients for over a decade.

The PROVEN Arabia Group of companies offers a diverse range of services throughout various industries. We help our clients utilize opportunities in the Gulf Cooperation Council (GCC) region. We have built a solid reputation by providing bespoke, strategic, and effective solutions for companies operating in Saudi Arabia.

PROVEN Arabia's strong customer focus, reputable companies and unique approach enables organizations to succeed in Saudi Arabia.

## PROVEN

PROVEN is a business service provider with its headquarters in Riyadh, Saudi Arabia that offers tailored professional services to businesses worldwide that seek expansion and growth, particularly in the GCC region. Our consultancy firm has successfully added value to clients since 2009 by delivering personalized solutions, measurable results, and seamless navigation in local markets.

Our team provides access to local expertise and advisory support across multiple areas, driving efficiency throughout client business operations. We provide business support solutions that enable our clients to access GCC markets, grow their businesses, and succeed in exporting their companies efficiently.

The PROVEN team works with a multitude of firms, big multinationals, local brands, government entities, and SMEs, providing the same world-class service no matter the industry or size. Awarded as one of the leading outsourced business service providers in the region, our solutions are bespoke, professional, and customized for each business that we work with. By combining consulting, expert advice, and local knowledge with our in-house solutions, we can maximize results for our clients. Our key business areas include, but are not limited to, Business visas, Human Resources, Payroll, Entity Setup, and Corporate Immigration.








# THE KINGDOM OF SAUDI ARABIA

Situated at the eastern extremity of Southwestern Asia, Saudi Arabia is a monarch founded in 1932.



More than


# 2

million pilgrims annually visit the holy sites.

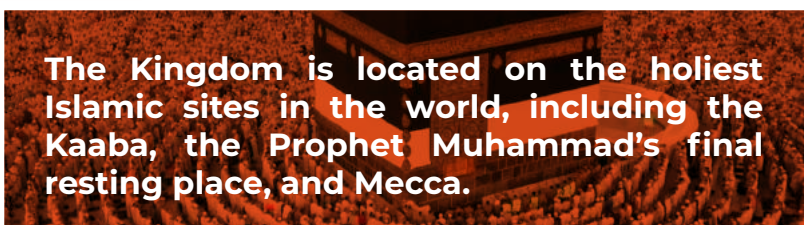
The population of the Kingdom is

# 34.2 million


and about half constitute large part of its workforce.




The Kingdom is located on the holiest Islamic sites in the world, including the Kaaba, the Prophet Muhammad's final resting place, and Mecca.




The Kingdom sits on 20% of the global oil petroleum reserves and is the largest oil-producing country in the world.



Saudi culture is founded on the principles of Islam.



About 30% of the population is made up of foreign workers from across the world, most prominently from Asia.



## SAUDI VISION 2030

Revealed in 2016 by Crown Prince Mohammed Bin Salman, Vision 2030 is a plan to lighten the weight on oil production, and redistribute it across other economic sectors, including tourism and business. This plan has allowed foreign investors to step into the Kingdom's business arena. Alongside the Saudi Vision came major changes in the Saudi atmosphere; a move towards digitization, a list of programs supporting the private sector, and Saudization, an employment scheme that aims to eradicate unemployment among Saudi nationals. What the Saudi Vision does for the business is allow it to happen.





# WHY SAUDI ARABIA IS A GOOD INVESTMENT

## MISA (MINISTRY OF INVESTMENT)

The business culture in Saudi Arabia is constantly under maintenance and renovation by MISA. Formerly the Saudi Arabian General Investment Authority (SAGIA), the authority is now a ministry with a laser focus on nurturing investments in the Kingdom.

The Ministry conducts multiple research campaigns to acquire the information necessary to improve the business experience and develop local opportunities for joint ventures. The Saudi Ministry of Investment acts as a facilitator and organizer of business processes in the Kingdom, much like a hinge in the door opening Saudi Arabia for foreign investors.

MISA does follow-ups and assessments on investment performance to develop quality investments that facilitate sustainable development. The Ministry supports the private sector by alleviating investment difficulties via research and constant development of the way business is done in Saudi Arabia, a growing market since the historic 2016 Saudi Vision reveal. Part of this effort and growth is the move to online services and the presentation of information for investors all around the world. The MISA has adopted the United Nations Economic and Social Council's International Standard Industrial Classification of All Economic Activities (ISIC), which is a system of categorization for commercial activities.

## A WELCOMING AND READY ECONOMY

The Saudi economy is part of the G20 as one of the 20 most powerful economies in the world.

A rich culture of investment is forming due to the economic diversification plans.

An entire ministry, MISA, has been dedicated to growing the investment culture in Saudi Arabia with a strict focus on continuing growth and development.

SAR 120 billion was dedicated to the private sector during the COVID-19 lockdown crisis.





## POLITICAL STABILITY

Saudi Arabia maintains a secure and stable political landscape by prioritizing its people and providing training, special privileges, jobs, healthcare, and social insurance.

The Kingdom keeps an outstanding balance between its internal security and external diplomatic relations.

## DIGITIZED BUSINESS CULTURE

Saudi Arabia maintains a secure and stable political landscape by prioritizing its people and providing training, special privileges, jobs, healthcare, and social insurance.

Foreign investors can acquire investment licenses from MISA within hours, as well as conduct processes relating to social insurance online.

The Wages Protection System is mandatorily conducted online monthly.

## SETUP IN THE KINGDOM OF SAUDI ARABIA

In general, there are four types of license options available to a foreign investor, but business can be done through an agent or a distributor as well.

### ENTITY TYPES

- ◆ Single Member Limited Liability Company (SMLLC) ◆

Saudi Arabia maintains a secure and stable political landscape by prioritizing its people and providing training, special privileges, jobs, healthcare, and social insurance.

In this type of business entity, the owner owns all the company's shares.

There are many advantages to owning an SMLLC, but you cannot establish and own more than one.

- ◆ Joint Stock Company (JSC) ◆

Consists of capital that is divided into shares of equal value.

Shares are owned by shareholders who can buy, transfer, and sell them without affecting the existence of the company.

To establish in Saudi Arabia you must submit the company's name, purpose, and a Memorandum of Association (MOA) specifying the number of members.





## ◆ Foreign Company Branch ◆

Operates in the jurisdiction through a branch, agency, office, or other business forms.

Arabic must be used for company papers, publications, and documents.

The branch of a foreign company can represent and conduct business activities in Saudi Arabia if it complies with local law and regulations.

## ◆ Limited Liability Company (LLC) ◆

The most used business entity in Saudi Arabia.

Allows limited liability for owners under the company's debt.

Not allowed to have more than 50 shareholders.

Each shareholder must sign the MOA.

One or more auditors can be appointed according to the business requirements.

The legal entity must provide details about shareholders, management, capital, auditors, and other business-related information to the regulating authorities.

## ◆ Limited Liability Company (LLC) ◆

You can perform business practices in the Kingdom by way of an agent or distributor. This option entirely removes the necessity of setting up an entity in Saudi Arabia and gives you the option of being represented by an agent or distributor who sells or distributes your products or services. You can perform this activity without a physical presence in the Kingdom and take advantage of your agent or distributor's connections in the Saudi market.

These types of agreements are governed and regulated by the Saudi Commercial Agencies Law.

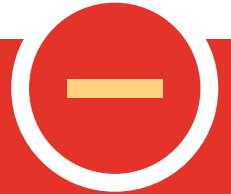






# NEGATIVE LIST

The Negative List is a group of activities excluded from foreign investments. These are forms of business made exclusive to Saudi nationals or the government, to maintain national security and cultural values and principles.



Oil exploration, drilling, and production.



Catering to military sectors, production, and distribution of armory, military equipment, or weapons.



Security and detective services.



Real estate investments in Makkah and Al Madinah.



Tourist orientation and guidance services related to Hajj and Umrah.



Recruitment services.



Commission agents.



Services provided by midwives, nurses, physical therapists, or any quasi-doctoral services.



Fishing and hunting marine resources.



Poison centers, blood banks, and quarantines.





# LICENSING SERVICES

## Investment Type - Service

Service investments comprise licensing the activities of contracting, public transport, manpower recruitment agencies, domestic labor hiring, university colleges, and regular universities.

- ▶ Application for licensing of service activities must be made through the MISA website - E-services page.
- ▶ Ensure the percentage of Saudi shareholding and capital comply with the minimum specified for this type of activity.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of 5 years in addition to SAR 10,000 as a first one-year subscription to services of MISA Business Centers, to be followed by the service subscription fee in later years.

## Issuance

Applications for licenses can be made after completing the following documents and meeting the following conditions\*:

- 1 A copy of the commercial registration of the shareholding partner certified by the Saudi Embassy; a copy of the national identity for natural GCC national shareholders; copy of the national identity for Saudi shareholders; proof of profession issued on 'Absher'; and a copy of the commercial registration for Saudi companies.
- 2 Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.

*\*Considering the documents and conditions set forth for all types of activity.*

**Applications to license amendment can be made after completing the following documents and meeting the following conditions\*:**

- 1 A letter from/decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity.

*\*Considering the documents and conditions set forth for each type of amendment and the requirements of the General Authority of Zakat and Tax.*





## Amendment

Applications to license amendment can be made after completing the following documents and meeting the following conditions\*:

- 1 A letter from or the decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity.
- 2 Approval of the Saudi Industrial Development Fund (SIDF) on the requested amendment for industrial projects in case of being the recipient of an industrial loan.

*\*Considering the documents and conditions set forth for each type of amendment and the requirements of the General Authority of Zakat and Tax.*

## Renewal

Applications to license renewal can be made after meeting the following conditions:

- 1 Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.
- 2 The entity shall review the requirements of the licensed activity.
- 3 The requirements of the General Authority of Zakat and Tax shall be met.

## Industrial

They refer to the activities falling under the production processes of importing raw materials, production lines of manufacturing products for export or local sale as well as the provision of products' warranty, maintenance, and installation.

**Application for licensing of industrial activities shall be made through the MISA website - E-services page.**

- ▶ A statement that 'The licensee must refer to the Ministry of Energy, Industry and Mineral Resources to obtain the industrial license, and the General Authority for Meteorology and Environmental Protection for environmental approval' shall be added to all licenses issued in the industrial field.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of five years in addition to SAR 10,000 as a first one-year subscription to services of MISA Business Centers, to be followed by the service subscription fee in later years.





**Applications for licenses can be made after completing the following documents and meeting the following conditions\*:**

- 1** A copy of the commercial registration of the shareholding partner certified by the Saudi Embassy; a copy of the national identity for natural GCC national shareholders; copy of the national identity for Saudi shareholders; proof of profession issued on 'Absher'; and a copy of the commercial registration for Saudi companies.
- 2** Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.

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**Applications to license renewal can be made after meeting the following conditions:**

- 1** Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.
- 2** The entity shall review the requirements of the licensed activity.
- 3** The requirements of the General Authority of Zakat and Tax shall be met.

## Commercial

MISA has started granting commercial licenses with Saudi shareholders in addition to issuing 100% foreign commercial licenses. This is due to the importance of commercial businesses in the Kingdom and Saudi efforts to facilitate the entry and engagement of foreign enterprises according to the terms and conditions set for foreign companies.







### **Application**

- ▶ Application for licensing of commercial activities shall be made through the MISA website E-services page.
- ▶ Ensuring the percentage of Saudi shareholding and the capital complies with the minimum specified for this type of activity.
- ▶ In the case of a commercial license with a Saudi shareholder, the Saudi share shall not be less than 25%. In the case of a 100% foreign commercial license, the entity shall comply with the criteria and conditions specified for such activity.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of five years in addition to SAR 10,000 as a first one-year subscription to services of MISA Business Centers, to be followed by the service subscription fee in later years.

### **▶ Applications for licenses can be made after completing the following documents and meeting these conditions\*:**

- ▶ A copy of the commercial registration of the shareholding partner certified by the Saudi Embassy; a copy of the national identity for natural GCC national shareholders; copy of the national identity for Saudi shareholders; proof of profession issued on 'Absher'; and a copy of the commercial registration for Saudi companies.
- ▶ Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.

*\*Considering the documents and conditions set forth for all types of activity.*

### **Applications to license amendment can be made after completing the following documents and meeting the following conditions\*:**

- ▶ A letter from or the decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity.

*\*Considering the documents and conditions set forth for each type of amendment and the requirements of the General Authority of Zakat and Tax.*

### **Applications to license renewal can be made after meeting the following conditions:**

- ▶ Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.
- ▶ The entity shall review the requirements of the licensed activity.
- ▶ The requirements of the General Authority of Zakat and Tax shall be met.





## Entrepreneurial

Given the importance of entrepreneurs to Saudi Arabia and their effective impact on its economy, MISA works to provide its services to entrepreneurs who wish to establish pilot enterprises accredited by Saudi universities or business incubators.

### Application

- ▶ Application for licensing of entrepreneurial activities shall be made through the MISA website - E-services page.
- ▶ Applications for licensing of entrepreneurial businesses shall be supported by accrediting resident universities or business incubators.
- ▶ In case the applicant is a KSA resident, a non-objection letter from their Saudi sponsor shall be provided.
- ▶ License at issuance shall be valid for a period of 5 years.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of five years in addition to payment for obtaining services from the MISA Business Centers according to the entity's classification rather than the entrepreneur license at the end of the fifth year.

### Applications for licenses can be made after completing the following documents and meeting the following conditions\*:

- ▶ A copy of the commercial registration of the shareholding partner certified by the Saudi Embassy; a copy of the national identity for natural GCC national shareholders; copy of the national identity for Saudi shareholders; proof of profession issued on 'Absher'; and a copy of the commercial registration for Saudi companies.
- ▶ Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.

*\*Considering the documents and conditions set forth for all types of activity.*

### Applications to license amendments can be made after completing the following documents and meeting the following conditions\*:

- ▶ A letter from or the decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity.  
Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.

*\*Considering the documents and conditions set forth for each type of amendment and the requirements of the General Authority of Zakat and Tax.*





**Applications to license renewal can be made after meeting the following conditions:**

- ▶ Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.
- ▶ The entity shall review the requirements of the licensed activity.
- ▶ The requirements of the General Authority of Zakat and Tax shall be met.

## Real Estate

This includes investment in a property provided that the total cost of the project, in terms of both land and construction, is not less than SAR 30 million in terms of land and construction and the investment is carried out outside the borders of the cities of Mecca and Medina.

**Application**

- ▶ Application for licensing of real estate activities shall be made through the MISA website - E-services page.
- ▶ The total cost of both land and construction shall not be less than SAR 30 million.
- ▶ The property shall be outside the borders of the cities of Mecca and Medina.
- ▶ Ensuring the percentage of Saudi shareholding and the capital complies with the minimum specified for this type of activity.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of 5 years in addition to SAR 10,000 as a first one-year subscription to services of MISA Business Centers, to be followed by the service subscription fee in later years.

**Applications for licenses can be made after completing the following documents and meeting the following conditions\*:**

- ▶ A copy of the commercial registration of the shareholding partner certified by the Saudi Embassy; a copy of the national identity for natural CCC national shareholders; copy of the national identity for Saudi shareholders; proof of profession issued on 'Absher'; and a copy of the commercial registration for Saudi companies.
- ▶ Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy.  
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*\*Considering the documents and conditions set forth for all types of activity.*





**Applications to license amendment can be made after completing the following documents and meeting the following conditions\*:**

- ▶ A letter from or the decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity.  
The entity shall review the requirements of the licensed activity.

*\*Considering the documents and conditions set forth for each type of amendment and the requirements of the General Authority of Zakat and Tax.*

**Applications to license renewal can be made after meeting the following conditions:**

Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.

- ▶ The entity shall review the requirements of the licensed activity.

The requirements of the General Authority of Zakat and Tax shall be met.

## Engineering Consultancy Offices

Saudi Arabia seeks to attract consultancy-related investments of all types, including 100% ownership of Saudi-based engineering offices.

### Application

- ▶ Application for licensing of engineering consultancy activities shall be made through the MISA website - E-services page.
- ▶ The applicant foreign company or one of its subsidiaries shall be licensed in the same field in four countries at least.
- ▶ An experience certificate for the company shall be submitted for the last ten years at least.
- ▶ Payment of the SAR 2,000 annual license fee for a maximum of 5 years in addition to SAR 10,000 as a first one-year subscription to services of MISA Business Centers, to be followed by the service subscription fee in later years.







**Applications for licenses can be made after completing the following documents and meeting the following conditions\*:**

- ▶ Copies of the commercial registrations of the entity in the same field in four countries certified by the Saudi Embassy.
- ▶ Last fiscal year's financial statements of the applicant foreign company certified by the Saudi Embassy. *the General Authority of Zakat and Tax.*

*\*Considering the documents and conditions set forth for all types of activity.*

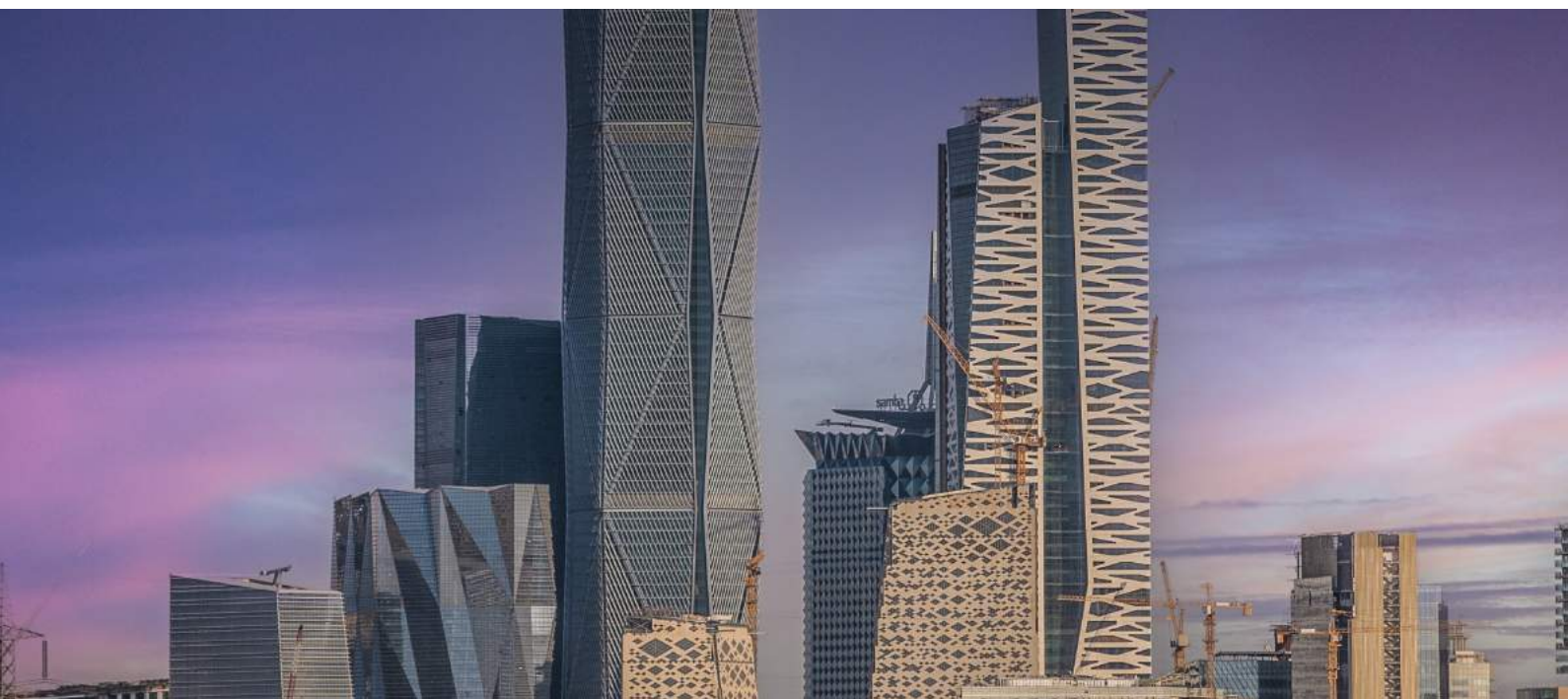
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- ▶ A letter from or the decision of shareholders for LLCs or the draft memorandum of association for SMLLCs certified by the Chamber of Commerce to amend the legal entity identifying the new entity. The entity shall review the requirements of the licensed activity.

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**Applications to license renewal can be made after meeting the following conditions:**

- ▶ Investment entities requesting renewal shall commit to updating and validating their data at MISA annually.
- ▶ The entity shall review the requirements of the licensed activity.
- ▶ The requirements of the General Authority of Zakat and Tax shall be met.





# POST-INCORPORATION

Once your company is incorporated, it is legally established and can commence business activities subject to obtaining the required post-regulatory approvals. For your company to be fully operational, more registrations with other Saudi authorities are required. This is known as post-incorporation.



The Summary of procedures is as follows:

All documents must be translated into Arabic by an official translator to submit to the relevant government authority.

All documents issued from a foreign country must be legalized by the Saudi Embassy.

Obtain an investment license from The Ministry of Investment of Saudi Arabia (MISA).

Obtain a Commercial Registration (CR) from the Ministry of Commerce and Industry (MOCI).

Register with the Chamber of Commerce.

Once your company is incorporated, it is legally established and can commence business activities subject to obtaining the required post-regulatory approvals. For your company to be fully operational, more registrations with other Saudi authorities are required. This is known as post-incorporation.





The following steps would be to apply for a Commercial Registration (CR) at the Ministry of Commerce:

**Completed investment license application form.**

**A board resolution of the parent company approving the incorporation of the Saudi entity. Such a resolution must be legalized by the Saudi Embassy in the country of issuance.**

**Proof of track record or experience in the industry the company wishes to engage in (e.g., audited financial statements of the foreign investor for the past three years).**

**Copies of the parent company's constitutional documents legalized by the Saudi Embassy in the country of issuance.**

**A copy of the general manager's passport, as they will be the authorized person in Saudi Arabia to represent the company and sign company documents.**

**Third-party approvals, if applicable.**

**A copy of the trade name confirmation.**





## SAUDIZATION

The 2019 Q4 report on the Saudi labor market issued by GAS TAT (General Authority for Statistics) revealed that among 13 million working Saudi residents, 23% are Saudi nationals. This is the result after four years of Vision 2030 to eliminate unemployment among Saudi nationals. The nationalization of the workforce was initiated through Saudization, a component of the 2030 Vision.

## NITAQAT RATIO

Nitaqat, a program of Saudization, is a solution to the challenges that the labor market has been facing, such as high unemployment, key positions being given to foreign labor, low productivity, the lack of a female workforce, and challenges regarding the mismatch between qualifications obtained and job opportunities available. Nitaqat requires employers in the private sector with over nine employees to hire a certain percentage of Saudi nationals, depending on the company's industry and the number of employees. Companies with less than ten employees are exempt from the zoning system but are still required to hire at least one Saudi national.

## SOCIAL INSURANCE

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 provided by society for citizens. The scheme covers 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, provided that the notification is effective within the first fifteen days of the month immediately following the month in which the worker has entered employment. Such notice should be made by completing the approved form in addition to paying contributions. Employers must also notify GOSI of any worker leaving their employment, provided that the notification is effective within the first fifteen days of the month immediately following the month the worker has left employment.





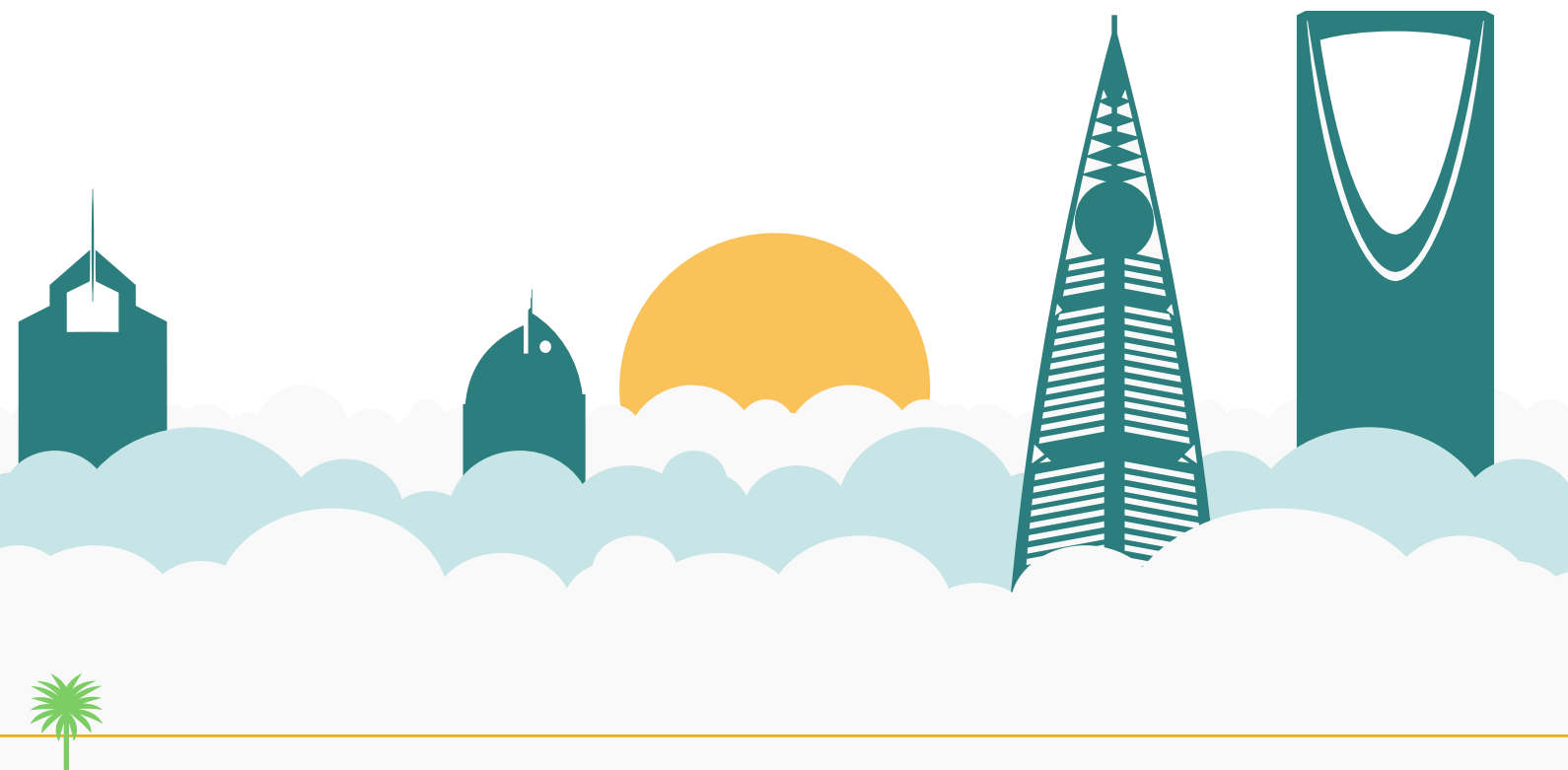


# WAGES PROTECTION SYSTEM

The Wage Protection System, often referred to as WPS, ensures that wages are paid out fairly to all employees of private sector organizations. The system is in place to safeguard both Saudi and ex-pat employees. A database pertaining to the payment of wages is established for private sector employees based on the information provided regarding salaries in the COSI system. WPS ensures that private sector organizations abide by labor laws and pay private sector employees in a timely manner in accordance with salaries established in their contracts and subsequently registered with GOSI.

The Wage Protection System was implemented by the Ministry of Human Resources and Social Development and became mandatory on 1 September 2013 for all Saudi companies with over 3,000 employees. While the phases of WPS that were implemented before were dependent on the number of employees in an organization, this is about to change soon. As per the 17th (final) phase of the Wage Protection System, with effect from 1 December 2020, organizations of all sizes will be obligated to register with WPS, irrespective of their size. The current WPS applies to small companies with five or more workers. It aims to allow organizations to develop their capacity and processes for adherence to WPS and protect private sector employees at organizations of all sizes.

There are several regulatory compliance processes, which companies should be aware of regarding WPS. The submission file should be compliant with the structure outline. The data on deductions, increments, and salaries should be accurate and match all other sources linked with the Ministry, as there are significant fines and repercussions associated with non-compliance.





# TAX

Saudis and expatriates living in Saudi Arabia are not subject to personal income tax. Individuals receiving income from an employer do not receive deductions from their gross income. Businesses fall into two categories for taxes, administered by the GAZT (General Authority for Zakat and Tax): These are resident and non-resident entities. A non-resident entity is any business outside of the GCC doing business in Saudi Arabia without a foreign investment license. A resident entity is a business registered in Saudi or any CCC country.

Non-resident entities pay a 20% tax on income acquired from commercial activity within Saudi Arabia. At the same time, resident entities pay a 2.5% tax; in the form of Zakat. If the entity is owned by a resident and a non-resident, then tax is charged on a pro-rata basis depending on the percentage of ownership.

The fiscal tax year for companies is generally a year from the issuance of the commercial registration or license. Companies can, however, request a different fiscal year based on several operating criteria if applicable. Zakat and corporate taxes are filed once a year based on the audited financials through the GAZT, also referred to as DZIT (Department of Zakat and Income Tax).



# ZAKAT

Zakat is applicable to capital that is not invested in long-term investments or fixed assets. Companies that owe Zakat should be mindful of the end-of-service accruals, depreciation, owners' capital, owners' outstanding profit share accruals, statutory reserves, and end-of-service indemnities.

# WITHHOLDING TAX

Any dividends received in Saudi Arabia are treated as income and subject to the above-mentioned treatment for tax purposes. There is a 5% withholding tax applicable on dividends paid to non-residents. There is also a 5% withholding tax applicable to non-resident third-party entities engaged in technical services and this rate goes up to 15% for related parties engaged in technical services.





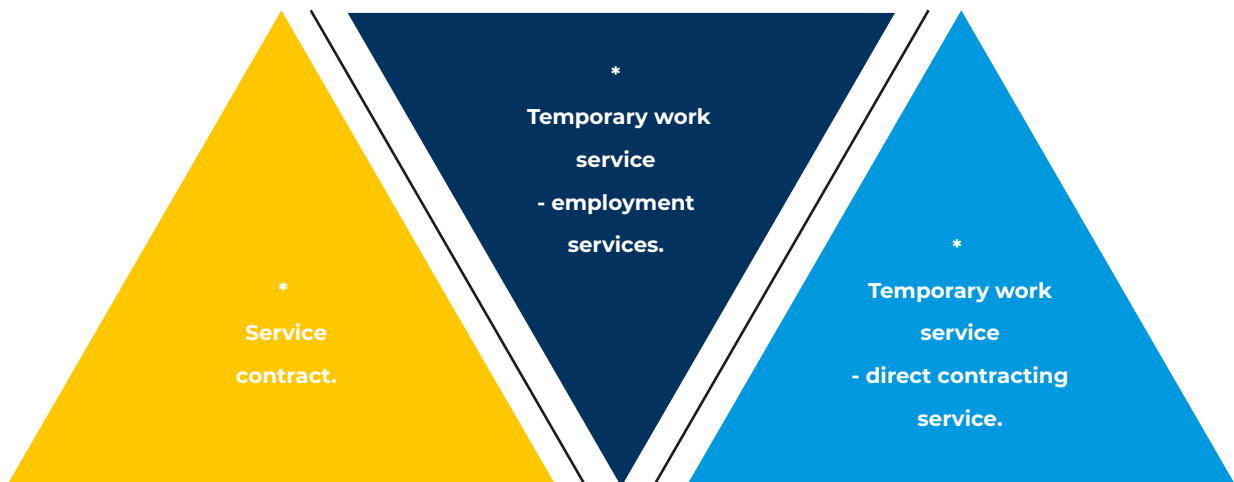
## VALUE ADDED TAX (VAT)

In 2018 there was another layer of complexity added to GCC taxation with the establishment of Value Added Tax. As of January 2018, Saudi Arabia and the UAE were the first GCC economies to commit to implementing VAT. The Saudi Arabian economy is still primarily driven by the petrochemical industry, natural resources, commodities, and service sectors. Therefore, the downstream effects of VAT will be significant on all KSA operating businesses.

## AJEER, TRANSFERS, AND THIRD-PARTY SPONSORSHIP

Ajeer is a regulatory regime for organizing the work of foreign nationals, by documenting the contractual relations which include direct labor contracts or subcontracts. Ajeer is designed to regulate and record the temporary work of foreign employees (expatriates) working for non-sponsors.

Ajeer for business service, currently this service is offered under three schemes:



The Ministry of Human Resources and Social Development announced its permission to transfer foreign workers between private sector companies in April 2020, which allowed for sponsorship changes. The new initiative set out to help enterprises employ the available workforce to facilitate their work, and to help reduce the workload on affected sectors, permitting fluidity in the work process.

The redistribution of workers was made necessary due to the COVID-19 pandemic that affected businesses worldwide, and it was made available through the Ajeer portal, which coordinates work connections between employers and workers. This has also reduced the expenses on inactive businesses and redirected workers to other businesses in high demand. Many exemptions were made under the new sponsorship change initiative, including conditions for the change and the number of workers permitted to transfer from a single firm.





## BLOCK VISA / QUOTA

Companies planning to hire ex-pats on a long-term basis require authorization from the Ministry of Labor. The Ministry issues block visas to companies, which allows them a quota of foreign ex-pats they can hire.

Companies can expect to receive their block visa from the Ministry of Labor in 7-10 days, provided they have attached all the relevant documents required. The Block Visa is valid for two years, which means that once a block visa has been issued to a company, they have two years to recruit and hire employees before the block visa expires.

Before hiring a new expatriate, companies must ensure they still have enough visas available to hire a new employee. Otherwise, their visa application may be rejected. This is also attached to their Saudization level and will determine whether they can obtain new visas.

## TRANSFER PRICING

An updated list of transfer pricing guidelines was issued by GAZT in 2020, emphasizing the enforcement and application of transaction principles between related parties or parties under common control, as if those parties were independent. The guidelines are not legally binding but do represent GAZT's implementation of transfer pricing bylaws.

It is important for businesses to be aware of these guidelines to maintain compliance. Taxpayers with related party transactions must file a disclosure form with their tax returns. For those taxpayers with transactions exceeding SAR 6 million with related parties, a master file and a local file must be prepared and maintained at the time of filing the tax return.

Taxpayers who are part of a multinational enterprise group and have consolidated group revenue exceeding SAR3.2 million, are required to present a country-by-country report.

**Transfer pricing guidelines help taxpayers maintain compliance on the following levels:**

\*The Arm's Length Principle

\* Documentation

\* Control

\* Disclosure forms

\* Selection of Comparable Ownership

\* Country-by-country reporting

## CONSIDERATIONS BANKRUPTCY SYSTEM

The Saudi Bankruptcy Law supports private sector organizations of various legal and economic natures and backgrounds. In case of bankruptcy, the system helps organizations resume business activities while protecting all stakeholders and maintaining transparent financial conduct in general.







## PROFESSIONAL COMPANIES LAW

The Professional Companies Law, issued in 1991, governs the regulatory framework of the professional sector. A revised 2020 version now allows non-Saudi companies to form professional companies in the Kingdom, which has had a major impact on inbound investment in Saudi Arabia.

## SYSTEM OF COMPETITION

The evolving economy of Saudi Arabia encourages business competition and bans any form of monopoly. To keep competition within healthy margins, the General Authority of Competition is dedicated to monitoring competing businesses, prices, and partnerships.

## RECENT UPDATES

The New Companies Law issued by the Kingdom of Saudi Arabia in 2022, came into effect in January. The law governs all forms of entities in the Kingdom's market under one comprehensive single law, whether commercial, non-profit, family-operated entities or professional.

Entities have a compliance grace period of two years to implement the required changes to their corporate documents or restructure their operations in accordance with the new law.

## REGIONAL HEADQUARTERS (RHQ)

A joint initiative between the Ministry of Investment (MISA) and Royal Commission for Riyadh City (RCRC), the RHQ is a multinational group established under Saudi Arabia law to support, manage, and provide strategic direction to its branches, subsidiaries and affiliates that operate in the MENA region.

This includes the countries of the Gulf Cooperation Council (Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Oman, and Qatar), Yemen, Iraq, Jordan, Palestine, Lebanon, Syria, Egypt, Libya, Tunisia, Algeria, Mauritania, and Morocco.

The program invites global companies to relocate their regional headquarters to Saudi Arabia. A multinational group that has a foreign parent entity and which carries on business in more than one jurisdiction through the parent entity, its subsidiaries, branches, or affiliates can apply for this service.

To be eligible for an RHQ license the group must have a presence in two different countries, excluding Saudi Arabia and the country where its headquarters is based. The group's headquarters must be either a registered branch of a foreign company in Saudi Arabia, or a subsidiary of a group already established in Saudi Arabia.





**The RHQ may be eligible to receive the following benefits after obtaining the RHQ License issued by MISA:**

Exemption from complying with Saudization percentage requirements for a period of 10 years for the RHQ entity.

Work visas for professions that are restricted to Saudi nationals for RHQ employees.

No limitation in the number of work visas that can be applied for by the RHQ entity for its employees.

Dependents of RHQ employees are permitted to work and apply for jobs through the Ajeer program.

The maximum age for residency of male dependents of RHQ employees is extended to 25 years old.

The RHQ employees are exempted from professional accreditation requirements applicable in the Kingdom if they are duly accredited in the country of origin.

Waiver from the MISA subscription fees for access to MISA investor service centers following the first year.

Access to MIZA 'end to end' services at discounted rates with preferential treatment.

## INCORPORATION PROCEDURES

An investment license must be obtained from the Ministry of Investment of Saudi Arabia (MISA) before starting the incorporation procedures if any non-resident wants to set up a branch or an LLC in KSA and this may take 3 to 4 months.

## ONGOING OBLIGATIONS

Companies owned by Saudis only, or by Saudis and non-Saudis, must file audited financial statements along with the tax return. Audited financial statements must be uploaded within four months from the end of the financial year on the MOCI's web portal.

Tax implications:

Corporate income tax is 20%.

WHT is from 5% to 20%.

Income from oil and hydrocarbon production is taxed from 50% to 85%.

AT is 15% for most goods and services.

The Zakat rate for a person is 2.5% of their net worth and 2.5% of a company's total capital resources.





## Compliance requirements

The Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting (the Convention) was signed by Saudi Arabia in 2018.

All domestic companies whose securities trade in a public market are required to use IFRS Accounting Standards in their consolidated financial statements.

Last year the government issued Ministerial Resolution No. 131, which requires all reporting financial institutions in Saudi Arabia to file annually audited US Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) certifications of compliance with the Zakat, Tax and Customs Authority (ZATCA).

## LEGAL STRUCTURES

LLCs, JSCs, and branches are usually used by foreign investors in the Kingdom, although investors' choices are generally driven by factors such as shareholder numbers, management structure, and the business activities permitted.

Several types of companies and legal entities are provided under Saudi Arabia law and the most common are:

- ▶ Limited Liability Company (LLCs) are the equivalent of private limited companies and is the most common legal entity preferred for incorporation in Saudi Arabia. It can be registered by a single shareholder:
- ▶ Joint Stock Companies are the equivalent of public limited companies such as banks, insurance, and finance businesses. There are two types: 'closed', which are unlisted JSCs and 'public', which are listed as JSC-listed.
- ▶ Branch: Foreign investors may also choose to establish a branch to do business in the KSA.
- ▶ General Partnerships where two or more partners are required to share the responsibility of companies' duties and debts.
- ▶ Limited partnership is comprised of general partners who are responsible for the partnership's debts to the extent of their personal wealth and limited partners who are only responsible for the debts of the partnership to the extent of their investments.
- ▶ Joint Ventures: Foreign partners in a joint venture may own 100% of the equity in some GCC countries while having a local Saudi partner own 50% or more of the equity has advantages.

Although the Saudi Council of Ministers approved the new KSA Companies Law last year, it is yet to come into force, but it is anticipated it will provide greater flexibility for establishing and managing companies under a new regulatory framework that is more in line with well-established international standards.





### Key changes in the New Saudi Companies law include:

- ▶ Introducing a new type of company 'Simplified JSC' and removing the older type of company partnerships.
- ▶ Allowing LLCs to issue tradable debt and financial instruments.
- ▶ Removing restrictions on company names and share lock-in periods.

To enter the Kingdom, visitors need a visa, except for citizens of countries that are members of The Cooperation Council for the Arab States of the Gulf such as the United Arab Emirates, Bahrain, the Sultanate of Oman, and Kuwait.

Foreign nationals need to apply for an employment visa and to do this they must have a sponsor in Saudi Arabia. The sponsoring employer is responsible for most of the application process, but the prospective employee will need to supply all relevant documents such as:

- ✓ A passport valid for the duration of employment.
- ✓ A color passport-sized photograph.
- ✓ Proof of online payment of the visa fee through the Enjazit website.
- ✓ A completed visa application.
- ✓ Three copies of a signed medical report.
- ✓ A letter of employment from the sponsoring company in Saudi Arabia, which must be certified by the Ministry of Foreign Affairs and Saudi Chamber of Commerce.
- ✓ A signed copy of the employment contract.
- ✓ A certified copy of the applicant's university degree or diploma, validated by the Saudi Arabian Cultural Mission and, in certain cases, the Ministry of Foreign Affairs.
- ✓ A police report of any criminal record.
- ✓ An addressed, prepaid envelope.

The processing time for a work visa takes 2 to 3 months. If a company is found to be employing foreigners without the proper work permits and visas, it can be liable to a fine of up to SAR 100,000 and its license to trade may be revoked. Individuals who are working in Saudi Arabia without an Iqama can be fined up to SAR 10,000 and immediately arrested and deported.





## Work Permit

- ▶ Foreign nationals who want to work in Saudi Arabia must obtain a work visa which will be converted to a work permit and residency permit (Iqama) upon completion of the in-country processes in Saudi Arabia.
- ▶ To employ a foreign national on a work visa, approval must be obtained from the Ministry of Human Resources and Social Development (MHRSD) in the form of a Block Visa (or quota) through the Qiwa Portal by the intended employer.
- ▶ To acquire a Block Visa the first step is to obtain a Work Visa, following which there is a consular application process that is typically initiated in the country of citizenship of the foreign national.
- ▶ The application for a Block Visa must contain a specific job title for the foreign employee to be sponsored, which corresponds to the foreign employee's professional qualifications.
- ▶ The Saudi Ministry of Labor has developed a Saudi Nationalization scheme known as 'Nitaqat', to increase the employment rate of Saudi nationals in the private sector.
- ▶ Each company is ranked according to a color-coded system that rewards (or penalizes) companies for meeting Saudization targets.
- ▶ The Nitaqat threshold affects the ability of the company to hire expatriate employees overseas and in-country transfer of expatriate employees.





# Contact

For Enquiries  
[info@proven-sa.com](mailto:info@proven-sa.com)

## SAUDI ARABIA

Moon Tower 3rd Floor,  
7586 King Fahd Branch Road  
Ar Rahmadiyah  
Phone: +966 11 411 1127

## INDIA

No 118 Gayathri Lakefront,  
4th Floor Towards Manyata Techpark  
Outer Ring Road Near Hebbal Flyover  
Bangalore-560024

## UNITED ARAB EMIRATES

Office 3601  
Jumeirah Business Centre 1  
Cluster G  
Jumeirah Lake Towers  
Phone : +971 4 450 8208



[WWW.PROVEN-SA.COM](http://WWW.PROVEN-SA.COM)