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Tax incentives in the Kingdom of Saudi Arabia

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The Kingdom of Saudi Arabia (the "KSA") possesses one of the largest economies in the Middle East and North Africa (MENA) region. The KSA's economy is heavily dependent on oil revenues. This dependence on oil led to pressures to diversify, liberalise and reform the economy. To achieve the desired liberalisation and reform, policies focused on privatisation and investment promotion. Private investment was encouraged and the KSA turned to Foreign Direct Investment (FDI) as an appropriate vehicle that could revitalise its economy and diversify its productive base.

Tax incentives

In order to increase FDI and raise the skills of the Saudi national work force, on November 24th, 2008 the Council of Ministers issued its decision No. 359 (the "Council of Ministers Decision") to grant conditional 10-year tax incentives commencing from the date on which the project enjoys the tax credit (the "Tax Incentives") on investment in designated underdeveloped provinces of the KSA, namely: Hai'l, Northern Borders, Jazan, Najran, Al Baha and Al Jouf.

Foreign investors will be granted tax credit (tax deduction) against the annual tax payable in respect of the following costs incurred on Saudi employees for 10 years (the "Employment Incentive"), to be calculated as follows:

- 50 percent of the annual cost incurred on training of Saudi employees; and
- 50 percent of the annual salaries paid to Saudi employees, if there is any balance of tax payable after applying (1) above.

In addition, investors will be granted a tax credit for 10 years equal to 15 percent of the paid up capital of industrial projects whether in cash or in kind as well as in case of capital increase (the "Capital Incentive").

Conditions

The Council of Ministers Decision empowers the Minister of Finance to issue the instructions, procedures and forms (the "Conditions") required for the implementation of the Council of Ministers Decision. The Minister of Finance issued his resolution No. (2106) dated July 18th, 2009 with the following Conditions in relation to the Tax Incentives:

1. The project should be established in any of the regions of (Hai'l, Northern Borders, Jazan, Najran, Al Baha and Al Jouf) including the economic cities and industrial areas established in these regions.
2. The project should be licensed from the Saudi Arabian General Investment Authority.
3. The project paid up capital – whether in cash or in kind – shall not be less than one million Saudi Riyals.
4. The project shall maintain regular accounts audited by a certified Saudi auditor.
5. If the project established in any of the above mentioned regions is a branch of a company or a corporation established in another region, it shall be an independent project with an independent capital, shall maintain independent accounts to be audited by the project auditor and submitted with an independent tax return in addition to the consolidated return of the activity.
6. The Tax Incentives shall not be extended to other dependent projects established in regions other than those stated in the Council of Ministers Decision.
7. All the projects established in the regions stated in the Council of Ministers Decision shall benefit from the Tax Incentives whether such projects are established before or after the issuance of the Council of Ministers Decision.
8. The Tax Incentives set out in the Council of Ministers Decision shall apply as of the year in which the project starts to benefit from the Tax Incentives up to ten years in respect of the taxable years commencing and ending on or after the date of issuance of the Council of Ministers Decision.

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