

**Middle East North
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SAUDI ARABIA: TAX LAW

Saudi Arabia New Tax law Issued on 12 January 2004,

The Council of Ministers in Saudi Arabia approved a new income tax law on 12 January 2004, lowering the tax rate on foreign investors from a maximum of 30 per cent to a flat rate of 20 per cent. The new Saudi income tax law was published in the official gazette (Umm Al Qura) on Friday 30 April 2004. The new tax law is effective from 29 July 2004 and will apply to taxpayers in respect of accounting periods beginning on or after the effective date. The by-laws of the new income tax law were published in the local newspapers on August 15, 2004.

The law applies to Saudi and non-Saudi shareholders (persons or corporations) in companies involved in commercial, professional or handicraft businesses or any similar activity with the aim of making profit, regardless of whether they reside in the Kingdom or not. The tax law is part of Saudi Arabia's efforts to reform its welfare-dominated economy and diversify state revenues away from oil sales, which account for 80 percent of its income.

Withholding tax due should be deposited with the Department of Zakat and Income Tax (DZIT) by the resident paying entity within the first 10 days of the month following the month in which the taxable payment was made. Failure to deduct or, having deducted, failure to deposit such tax will result in imposition of a late payment penalty and delay fine on the paying entity. The new tax law incorporates the Natural Gas Investment Tax (NGIT) regulations that were issued in 2003 as a separate law. The new tax law will supersede the separate NGIT law.

The salient features of the new tax law are summarized below:

- A flat tax rate of 20 percent will apply to the tax base of the following: (a) Foreign partner's (shareholder's) share in a resident capital company, (b) A resident non-Saudi natural person who does business in the Kingdom, (c) A non-resident that does business in the Kingdom through a permanent establishment.

- The tax rate on companies engaged in natural gas investment activities will be 30 percent. Such companies will also be subject to the NGIT where the rates range from 30 percent to 85 percent based upon the rate of return.

- The tax rate on companies engaged in the production of oil and other hydrocarbons productions will be 85 percent.

For a full English translation of the new bylaws, please contact:

Ms. Mawada Alwazir
Commercial Assistant
U.S. Consulate
Jeddah, Saudi Arabia
Email: mawada.alwazir@mail.doc.gov
Tel: 966-2-660-0009 ext. 205
Fax: 966-2-664-4184

Or contact the following for further information:

Directorate General of Zakat and Income Tax
Tel: 966-1-404-1495
Fax: 966-1-401-0182, or 0140

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