



## **PB First Global Tax Information Booklet**

**No.10.**

**Tax Implications of Doing Business in Saudi Arabia**



**Our Expertise, Your Advantage**

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Welcome!

In this 10<sup>th</sup> volume of the PB First Information Booklet, we take a look at one of the biggest markets in the Middle East – Saudi Arabia. We outline here an overview of the tax and accounting environment in the kingdom and the implications for foreign investors.

Inside this document, you will find therefore details of not only VAT and Corporate Tax, but how Zakat (Charity giving) features in the financial framework of the country.

We hope you find the following details useful, and if you think you'd like our assistance, please drop us a line.

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## 1. Representative Office

Under Saudi law, there is no formal 'representative office' structure. All foreign entities engaging with the Kingdom fall under the oversight of the Ministry of Investment (MISA) and the Zakat, Tax and Customs Authority (ZATCA). To avoid creating a taxable presence in Saudi Arabia, foreign businesses must ensure their activities do not meet the legal thresholds for a Permanent Establishment (PE) or otherwise generate Saudi-source income.

ZATCA compliance items to be aware of (even without a PE):

### **Tax registration:**

Businesses carrying on activities in Saudi Arabia must register with ZATCA and obtain a Tax Identification Number (TIN) for filings and payments.

### **Withholding tax (WHT):**

Cross-border payments from Saudi customers to non-residents may be subject to WHT at rates typically ranging from 5% to 20%, depending on the nature of the payment (e.g., services, royalties, management fees).

### **VAT (15%) and reverse charge:**

Supplies to Saudi taxable persons may fall under the reverse-charge mechanism for VAT purposes, whereby the Saudi recipient accounts for VAT on services received from a non-resident supplier.

### **Zakat vs. corporate income tax in mixed ownership:**

In Saudi/GCC vs. non-Saudi mixed ownership structures, the Saudi/GCC share is generally subject to 2.5% zakat on the zakat base, while the non-Saudi share is subject to 20% corporate income tax.

### **When no Saudi tax liability arises:**

If you do not create a PE, do not derive Saudi-source income, employ staff locally, or register a commercial presence, you are generally not subject to Saudi corporate income tax. In that case, profits and losses remain recorded in the foreign entity's home-country financial statements.



## 2. Registration for VAT Purposes Only

Under Saudi Arabian law, foreign companies may be required to **register for Value Added Tax (VAT)** if they make **taxable supplies in the Kingdom** or are otherwise considered to be carrying out an **economic activity** within Saudi Arabia as determined by the **Zakat, Tax and Customs Authority (ZATCA)**. ZATCA requires VAT registration for any entity—resident or non-resident—that meets the statutory criteria for taxable supplies.

Foreign businesses must register for VAT in Saudi Arabia if they:

- Make **taxable supplies** in the Kingdom, whether directly or through a Saudi-based customer.
  - Provide services to Saudi taxable persons where the place of supply falls within Saudi Arabia under VAT rules.
- ZATCA mandates that VAT applies at a standard rate of **15%**, applicable to the vast majority of goods and services supplied domestically.

Foreign entities **without a Permanent Establishment (PE)** may still fall under VAT obligations if their supplies are taxable in Saudi Arabia, even in the absence of income tax exposure.

## 3. E-Commerce and Non-Resident Sellers

Foreign companies trading with Saudi customers—including online sellers—may have VAT obligations if:

- They provide supplies where the **place of supply** is Saudi Arabia.
- They act as non-resident suppliers of electronic or remote services.

ZATCA maintains comprehensive VAT compliance requirements for cross-border e-commerce transactions. Non-resident suppliers are responsible for ensuring VAT is applied correctly under Saudi law.

### **Import VAT and Customs Obligations**

Where a foreign business imports goods into Saudi Arabia, **import VAT and applicable customs duties** must be declared and paid at the point of entry. Importation procedures fall under ZATCA's customs division, which enforces declaration obligations for importers and their logistics partners.

### **No Equivalent to the EU OSS Regime**

Saudi Arabia **does not operate an OSS-style (One-Stop Shop) VAT regime** equivalent to the European Union system.

Instead:

- Each non-resident seller must assess whether its supplies trigger mandatory VAT registration under **Saudi VAT Law**.
- VAT must be filed directly with ZATCA; taxes are not remitted via a consolidated multi-country system as in the EU OSS arrangement.

## **4. Registration as Employer Only**

### **Employer onboarding & core registrations.**

If a foreign company employs staff who **work in Saudi Arabia**, it must complete the **employer registrations** and comply with payroll and labor rules administered by the **Ministry of Human Resources and Social Development (MHRSD)**, the **General Organization for Social Insurance (GOSI)**, and the **Wage Protection System (WPS) via the Mudad platform**. This includes registering as an employer with GOSI, enrolling employees, and reporting and funding monthly social insurance contributions; and onboarding to WPS/Mudad to evidence timely salary payments.

### **GOSI (social insurance) obligations.**

All employers must register eligible staff with **GOSI**. For **Saudi nationals**, employers and employees contribute to pensions and social insurance (including SANED unemployment) based on covered wages up to prescribed caps; for **non-Saudi (expatriate) employees**, employers typically contribute only the **occupational hazards** insurance (commonly 2%) while no pension deductions are taken from the expatriate's pay. Late registration, under-reporting, or missed payments can lead to penalties.

### **Wage Protection System (WPS) via MHRSD/Mudad.**

Private-sector employers must process payroll through banks and **upload wage files monthly** to **MHRSD** (commonly via **Mudad**) to demonstrate that salaries are paid **on time and in full**; non-compliance can trigger fines and labor-office restrictions. WPS applies to Saudi and expatriate employees alike and is a central control in KSA payroll compliance.

### **No wage (personal income) tax on employees.**

Saudi Arabia **does not impose personal income tax on employment income**, so salaries—whether for Saudi nationals or expatriates—are **not subject to wage tax withholding**. Consequently, benefits-in-kind (e.g., company car, housing, stock options) do **not** generally create Saudi **wage tax** exposure, though they may have implications under employment law, contract terms, or social insurance if included in contributory pay definitions.

### **Health insurance is mandatory for expatriate staff.**

Employers must arrange **private health insurance** compliant with the **Council of Health Insurance (CHI)** rules for non-Saudi employees (and commonly dependents); the policy is digitally linked to the employee's residency (**Iqama**) and is required for visa issuance/renewal. As of late 2025, **temporary work visas** also require **pre-issuance** health insurance from a **CHI-approved** insurer.

### **Saudization (Nitaqat) considerations even for limited hiring.**

Hiring employees locally may subject the employer to **Saudization/Nitaqat** metrics administered by **MHRSD**, which classify entities and can affect work-permit processing and access to services. Even with a lean footprint, companies should monitor applicable Saudization targets for their sector/size to avoid operational constraints.

### **Expat levies & special cases.**

Employers should assess **expatriate levy** rules and any **sector-specific exemptions** when budgeting labor costs. Notably, the **Cabinet cancelled the expatriate worker levy for licensed industrial facilities** effective late 2025, reflecting policy support for the industrial sector; other sectors remain subject to prevailing fee frameworks unless separately exempted.

## **5. Permanent Establishment**

Under **Saudi Arabian Income Tax Law**, a foreign enterprise may be considered to have a **Permanent Establishment (PE)** in the Kingdom if it engages in activities that constitute a **fixed place of business** or conducts business through a **dependent agent** acting on its behalf. ZATCA defines taxable activity broadly, covering all forms of commercial, industrial, service-based, or professional operations carried out in Saudi Arabia

A PE is typically created when a foreign business maintains a **place of management, branch, office, factory, workshop, or any fixed site** used to conduct business in Saudi Arabia, including construction sites that meet statutory duration thresholds. A PE also arises when a person in the Kingdom habitually concludes contracts or plays the principal role in negotiating contracts on behalf of the foreign enterprise.

### **Saudi PE Triggers and Risk Indicators**

Foreign businesses may unintentionally create a PE in Saudi Arabia through activities such as:

- **Maintaining a fixed place of business** (e.g., office, project site, or permanent facility) used for more than a temporary purpose.
- **Employing individuals** who habitually act on behalf of the foreign entity, negotiate terms, or conclude contracts in the Kingdom. Even a single senior manager or representative may give rise to a PE.
- **Conducting activities that generate Saudi-source income**, including service activities performed physically in the Kingdom.
- **Providing long-term or recurring services**, whether through employees or subcontractors, especially when tied to a physical presence or repeated projects.

Saudi PE rules apply **regardless of whether the foreign company registers formally with MISA**; the tax liability arises from activity, not registration.

### **Dependent Agent PE**

A foreign company will also be treated as having a PE in the Kingdom if it appoints an agent who

- Habitually concludes contracts on its behalf; or
- Maintains authority to negotiate and finalize commercial arrangements; or
- Secures, delivers, or maintains inventory for the enterprise in Saudi Arabia.

This is strictly enforced in Saudi Arabia, and ZATCA often treats consistent local activity as creating a dependent agent PE even in the absence of a formal office.

### **ZATCA's Enforcement Approach**

ZATCA follows a **substance-over-form** approach. If there is ambiguity about whether a foreign entity has created a PE, ZATCA often presumes one exists, especially when:

- Saudi-based personnel or contractors perform core operational functions;
- The foreign entity earns recurring Saudi-source revenue;
- A local "representative" performs managerial or supervisory functions that resemble those of a branch.

## Consequences of Creating a PE in Saudi Arabia

If a foreign business is deemed to have a PE, the PE must:

- Calculate taxable income attributable to the PE based on Saudi tax rules;
- Pay **20% corporate income tax** on the non-Saudi share of profits;
- Comply with withholding tax, VAT, and ZATCA reporting requirements depending on the nature of the activities.

### Key Takeaway

Foreign companies operating in Saudi Arabia must carefully evaluate whether their activities — especially through local managers, employees, or long-term service projects — create a PE. Even **limited local presence** or dependent agent activity may result in ZATCA classifying the foreign entity as having a PE and subjecting it to Saudi corporate taxation. Where an **effective DTT** exists between **Saudi Arabia** and the counterparty jurisdiction, **double taxation relief** may be available on Saudi-source income—typically via **exemption or foreign tax credit** mechanisms, depending on the treaty text. In practice, DTTs can **reduce or eliminate withholding tax (WHT)** on certain cross-border payments (e.g., dividends, interest, royalties), but the precise relief depends on the **specific treaty article and conditions**.



## 6. Subsidiary Company

### Choosing the correct corporate vehicle

#### Limited Liability Company (LLC)

The **LLC** is the most commonly chosen legal form for foreign investors due to its operational simplicity, flexibility in structuring, and strong acceptance by regulators, banks, and commercial partners. It requires at least one shareholder and offers limited liability protection. The LLC does **not** have a statutory minimum capital requirement, although MISA may impose practical minimum capital depending on the sector (e.g., trading vs. services). LLCs are favored because they are easier to manage compared to joint stock companies, allow 100% foreign ownership in most sectors, and are widely used by multinational subsidiaries in the Kingdom.

#### Joint Stock Company

A **JSC** is typically suitable for large enterprises planning to raise capital publicly, issue tradeable shares, or eventually list on the **Saudi Stock Exchange (Tadawul)**. It has higher governance, reporting, and minimum-capital requirements and is generally recommended only for companies planning significant operations, complex ownership structures, or capital-market activity.

#### Other Entity Forms

While possible, foreign investors seldom use other forms such as simple partnerships or limited partnerships, as they offer less operational flexibility and may introduce complex tax/Zakat implications. Partnerships in Saudi Arabia generally pass profits directly to partners as partnerships **do not create hybrid-entity tax advantages**; instead, they are assessed under Saudi tax and Zakat rules depending on the nationality/residency of the partners.



## 7 Legal Setup of a Saudi Subsidiary (e.g., LLC or JSC)

Setting up a company in the Kingdom of Saudi Arabia follows a regulated process overseen by several authorities, primarily the Ministry of Investment (MISA), the Ministry of Commerce (MoC), and the Zakat, Tax and Customs Authority (ZATCA). Unlike the German system that requires notarization before a civil law notary, Saudi incorporation is an online and ministerial administrative process, conducted through government digital platforms.

### Pre-approval and Licensing (MISA)

Before incorporation, foreign investors must obtain an investment license from MISA, which allows them to engage in commercial activities in the Kingdom. MISA evaluates sector-specific conditions, ownership restrictions (if any), and capital requirements. The approved license is a prerequisite for creating an entity with the Ministry of Commerce.

### Drafting the Articles of Association (AoA)

The Articles of Association (AoA)—for an LLC or JSC—are prepared (commonly bilingual Arabic–English) and submitted electronically through the MoC system. The AoA must comply

with the Saudi Companies Law, which governs shareholder rights, capital structure, governance, and profit-distribution rules.

The document is then digitally authenticated through the Najiz platform (Ministry of Justice), replacing the notary-based process used in many civil law jurisdictions.

### **Commercial Registration (CR) Issuance**

Once the AoA is authenticated, the founders request issuance of the Commercial Registration (CR) with the Ministry of Commerce. A Saudi entity is legally incorporated once the CR is issued.

Time frames vary depending on the investor's nationality, approvals required, and banking setup processes. For foreign shareholders, timelines may extend depending on document attestation and verification procedures.

### **Capital Contribution and Bank Account Setup**

Unlike other jurisdictions which may have rules such as those requiring that part of the share capital be paid before registration, Saudi Arabia allows incorporation before capital injection, with funds deposited after CR issuance.

After CR issuance, the company can open a corporate bank account and deposit the subscribed capital. Banks conduct Know-Your-Customer (KYC) and Anti-Money-Laundering (AML) compliance checks, including verification of Ultimate Beneficial Ownership (UBO) data.

### **Registration with ZATCA (Tax, VAT, WHT)**

Following incorporation, the entity must register with ZATCA for:

- Income Tax or Zakat, depending on ownership composition (foreign share → 20% corporate income tax; Saudi/GCC share → 2.5% Zakat).
- VAT registration if taxable turnover exceeds statutory thresholds, or if the entity engages in activities requiring voluntary or mandatory VAT registration.
- Withholding tax (WHT) obligations apply to all payments to non-residents.

ZATCA also requires accurate maintenance of UBO and residency data, and companies may need a Tax Residency Certificate for treaty-benefit claims.

### **UBO (Ultimate Beneficial Owner) Reporting**

Saudi Arabia mandates disclosure of UBOs through MoC platforms. This register must remain continuously updated, and all intermediaries (banks, auditors, law firms) verify the accuracy of these declarations during KYC/AML procedures, similar to Germany's transparency register obligations.

### **Additional Compliance Requirements**

#### **GOSI Registration**

Once employees are hired, the company must register with the General Organization for Social Insurance (GOSI) and enroll all staff.

#### **Wage Protection System (WPS)**

Private-sector employers must enroll in Mudad/WPS and report salary payments monthly.

#### **Saudization (Nitaqat)**

The company must comply with workforce nationalization rules administered by MHRSD, which may affect hiring and licensing.

#### **Shelf Companies**

Saudi Arabia does not utilize shelf companies. All foreign-owned entities must go through the full MISA licensing and MoC registration process. Even if such Shelf companies existed, the fiscal registration (ZATCA, VAT, WHT) would still require full verification and would not be accelerated

#### **Summary**

In Saudi Arabia, forming an LLC or JSC is a regulator-driven, digital process involving MISA licensing, MoC registration, bank KYC/AML steps, and ZATCA tax registration. UBO disclosure, social insurance compliance, and WPS payroll reporting are mandatory. Unlike some jurisdictions, notarization and shelf-company shortcuts do not apply.

## **8. Opening a Bank Account**

When opening a corporate bank account in the **Kingdom of Saudi Arabia**, foreign companies should be prepared for a **rigorous KYC/AML process**, as Saudi banks follow strict compliance requirements set by the **Saudi Central Bank (SAMA)**, the **Ministry of Commerce (MoC)**,

and **ZATCA**. This process is typically more detailed for entities with foreign ownership, complex structures, or high-risk jurisdictional backgrounds.

### **8a. Enhanced KYC & AML Requirements**

Saudi banks are required to perform robust **Know-Your-Customer (KYC)** and **Anti-Money-Laundering (AML)** checks, which include:

- Verification of the company's **Commercial Registration (CR)**.
- Confirmation of **Ultimate Beneficial Ownership (UBO)** details (mandatory under MoC and ZATCA frameworks).
- Review of the **MISA investment license** (for foreign-owned entities).
- Examination of the company's business model, activities, projected transactions, and source of funds.

Banks cross-check UBO data with government systems, as all UBO information must match what is declared on MoC and ZATCA registries.

### **8b. Possible Additional Scrutiny for Certain Investors**

Applicants may face **additional compliance requirements**, especially when:

- The shareholders include **U.S. persons or entities** subject to **FATCA**; banks must collect FATCA declarations and supporting documents as per SAMA's FATCA/CRS implementation rules.
- The investors originate from **high-risk, blacklisted, or grey-listed jurisdictions** identified by SAMA or FATF. In these cases, banks may request enhanced due-diligence files, additional attestations, or more detailed financial histories.

### **8c. In-Person Verification and Authorised Signatory Requirements**

Most Saudi banks require that:

- At least **one authorised signatory** (typically a company director or general manager as per the AoA/CR) appears **in person** at a branch for identity verification and signature specimen registration.
- Supporting documents—including board resolutions and signature authority letters—be submitted in line with Saudi corporate law.

This requirement stems from common KYC practice and the need to match bank data with MoC and ZATCA records (including UBO declarations).

## 8d. Documentation Typically Required

Although specific checklists differ by bank, foreign companies should expect to provide:

- **Commercial Registration (CR)**
- **MISA license**
- **Articles of Association (AoA)**
- **UBO declarations** (mandatory for all entities; validated through MoC/ZATCA systems)
- Passport/Iqama copies of directors and authorised signatories
- Board resolution approving account opening
- Tax and Zakat registration details (post-registration with ZATCA)

Banks may require additional documents if the ownership structure includes multiple corporate layers.

## 8e. Timing Considerations

Unlike some jurisdictions, Saudi Arabia does **not** allow bank account opening before full legal incorporation. Companies must:

1. Obtain MISA approval
2. Register the company with MoC and obtain the Commercial Registration
3. Authenticate the AoA
4. Register with ZATCA (tax/Zakat/VAT/WHT)

Only then can they proceed with opening a bank account. Processing time will vary depending on complexity of the structure and KYC risk level.

## 8f. No “Shelf Company” Shortcut

Saudi Arabia does **not** employ shelf companies. Even after the Commercial Registration is issued, the bank cannot bypass its statutory AML and UBO checks, meaning there is no way to “fast-track” the compliance process.

## Summary

Opening a corporate bank account in Saudi Arabia involves strict SAMA-mandated KYC/AML procedures. Banks verify the company’s CR, MISA license, and UBO data—including cross-checks with MoC and ZATCA. Foreign owners, especially those subject to FATCA or from high-risk jurisdictions, face enhanced due diligence. At least one authorised signatory must usually complete in-person verification. UBO reporting is mandatory and must always match regulatory filings.

## 9. Fiscal and Trade Registration

### 9a. Commercial & investment setup (before tax registration)

- **Obtain the foreign investment license** from the **Ministry of Investment (MISA)** as the first step if any non-GCC ownership is involved; this license is a prerequisite to creating the legal entity with the Ministry of Commerce.
- **Incorporate and obtain the Commercial Registration (CR)** through the **Ministry of Commerce (MoC) / Saudi Business Center**; this is the company’s legal identity and unlocks downstream registrations (ZATCA, GOSI, etc.).
- As part of the “start your business” flow, the platform also guides you to **open an entity file with MHRSD, register for Zakat with ZATCA, register with GOSI, register the National Address (SPL), and register with the local Chamber of Commerce.**

### 9b. Municipal (Baladi) trade license & premises evidence

- For any activity with a **physical location**, you must secure a **municipal commercial license** via the **Balady** platform (MOMRAH), which confirms compliance with zoning/safety rules and is often an **operational prerequisite** alongside the CR.
- Typical Balady requirements include **proof of premises (lease or title)** and—where applicable—**Civil Defense safety evidence**; some activities qualify for **instant licensing**, otherwise the request routes to the municipality for review/inspection.
- You can **pre-check municipal conditions by activity** (e.g., office, retail, F&B) through the **National Platform** service to avoid rework or rejection.

### 9c. Fiscal registration with ZATCA (tax/Zakat/VAT/WHT)

- After CR issuance, **register with ZATCA** to obtain your tax/Zakat account; the MoC “Start your business” path explicitly includes creating the **Zakat registration** through ZATCA’s online portal.
- If your activity/turnover requires it, **register for VAT** and comply with the **standard 15% VAT** framework administered by ZATCA (returns are monthly/quarterly depending on revenue thresholds).
- For **payments to non-residents**, understand your **withholding tax (WHT)** position and any **treaty rate** relief; in the absence of a treaty, domestic WHT rates (e.g., dividends 5%, interest 5%, royalties 15%) apply.
- Entities can obtain **Tax Residency / WHT certificates** through ZATCA’s e-services to support treaty claims and counterparty compliance.

### 9d. Evidence of real presence (anti-“letterbox” expectations)s

- While Saudi processes are digital, authorities still **expect physical substance** aligned to the licensed activity—e.g., **valid CR, Balady municipal license tied to a real premise/lease, and National Address (SPL)** registration.

- Balady's requirements (premises details, exterior signage photo, and where relevant, Civil Defense safety paperwork) function as a **front-line check** that operations are not merely "mail-box" in nature.

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