

Doing Business in Saudi Arabia

2010



Contents

1. Introduction.....	2
2. Business environment.....	3
3. Foreign investment.....	6
4. Setting up a Business.....	7
5. Labour	11
6. Taxation.....	12
7. Accounting & reporting.....	18
8. UHY firms in Saudi Arabia	19
9. UHY offices worldwide	19

1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 75 countries throughout the world. Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Saudi Arabia has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at February 2010.

We look forward to helping you do business in Saudi Arabia.

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2. Business environment

Overview

Saudi Arabia is one of the main players in the Arab and Muslim worlds; its stature is built on its geographic size, its prestige as the custodian of the birthplace of Islam and its status as the world's dominant oil producer and owner of the largest hydrocarbon reserves.

The nation possesses about 20% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in the Organisation of the Petroleum Exporting Countries (OPEC). The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings.

Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and petrochemical sectors.

Approximately 5.5 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors, while the government is tackling unemployment among its own nationals. Saudi officials are particularly focused on employing its large youth population, and providing the technical skills which the private sector needs. The government has substantially boosted spending on job training and education, for example with the opening of the King Abdallah University of Science and Technology – Saudi Arabia's first co-educational university.

As part of its effort to attract foreign investment, Saudi Arabia joined the World Trade Organisation in 2005 after many years of negotiations. The government has also established four 'economic cities' in different regions of the country to promote economic development.

Five years of high oil prices during 2004-2008 gave the Kingdom ample financial reserves to manage the impact of the subsequent global financial crisis, but tight international credit, falling oil prices, and global economic slowdown reduced Saudi economic growth in 2009, prompting the postponement of some economic development projects.

GDP growth in 2009 is estimated at -0.6% (compared with 3.3% in 2007 and 4.4% in 2008) but GDP per capita has remained steady at about USD 20,300 (2009 estimate).

Government

Named after the ruling Al Saud family, which came to power in the 18th century, the country includes the Hijaz region – the birthplace of the Prophet Muhammad and the cradle of Islam. This fact, combined with the Al Sauds' espousal of a strict interpretation of Sunni Islam known as Wahhabism, has led it to develop a strongly religious self-identity.

The Al Saud dynasty's monopoly of power means that during the 20th century successive kings have been able to concentrate on modernisation and on developing the country's role as a regional power.

Current head of state is Prime Minister King Abdullah Bin-Abd-al-Aziz Al Saud. King Abdullah succeeded the late King Fahd, his half brother, in August 2005. It has always been in the ruling family's interests to preserve stability in the region and to clamp down on extremist elements.

National facts

Area 2.149.790 sq km

Population 28.7 million(2009)

Capital Riyadh

Main cities **Riyadh** (the capital)
Makkah (The most sacred place to Muslims, and their praying direction)
Al Madinah (Second most sacred place)
Jeddah (Saudi capital of business, an important port, and a major gateway to pilgrims)
Dammam (Capital of Eastern region, oil-rich, and an important port)
Dhahran (A military city, the location of Saudi **Aramcos** headquarter which is the largest oil company in the world)
Arar (Capital of Northern region)

Geography Saudi Arabia is located in south-west Asia. It is bounded by the Red Sea from the west; Jordan, Iraq, and Kuwait from the north; Arabian Gulf, Bahrain, Qatar and United Emirates from the east; and Yemen and Oman from the south.

Climate	Continental weather Summer: Hot with temperature in some areas reaching 49°C (120°F). Winter: Cooler with an average temperature of 23°C (74°F) in Jeddah and 14°C (58°F) in Riyadh.
Judicial law	The constitution of Saudi Arabia is Quran and Sunnah; all legislative regulations have been derived from these two sources. The King and the Council of Ministers form the executive and the legislative authority. The state Consultative Council is tasked with giving opinion on any issue submitted to the council by the prime minister.
Language	Arabic
Currency	Saudi Riyal
National day	23 September (1932 AD)
Symbol	Two crossed curved swords which symbolise strength and justice. A palm tree on the top symbolises prosperity.
Timing	GMT + 3:00
Phone code	+966
International membership	Cooperation Council For the Arab States of the Gulf Arab League World Trade Organisation Member states and observers of: <ul style="list-style-type: none"> • Organisation of the Islamic Conference • Organisation of the Petroleum Exporting Countries • Monarchies • Afro-Asiatic-Speaking Nations

3. Foreign investment

Saudi Arabia is attractive to investors because of its stability. There are few barriers to entry, but investors need to research the business environment thoroughly before entering or launching products in this competitive and growing market.

Generally, investment in the Kingdom realises high profit ratios for local, foreign and shared projects, with low exposure to risk and an uncomplicated tax and property registration regime.

The Saudi Riyal is one of the world's most stable currencies: there has been no significant change in its exchange value during the last three decades. Also, there are no restrictions on foreign currency exchange and outgoing money transfers. Inflation rates are low and the Kingdom has been signing bilateral agreements with an increasing number of countries covering investment incentives, protection and arrangement of tax issues.

Key reasons for investing in the Kingdom given by the Saudi Arabian General Investment Authority are:

- Saudi Arabia is ranked fourth globally for 'fiscal freedom' and seventh for the most rewarding tax system in the world (source: World Economic Forum)
- The Kingdom has the seventh 'freest' labour market in the world (source: World Economic Forum)
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- It is one of the world's 25 largest economies (ranked 24th), and the largest economy in the Middle East & North Africa (MENA) region
- The Kingdom is one of the world's fastest-growing countries: per capital income is forecast to rise to USD 33,500 by 2020
- It is the largest free market in the MENA region
- Saudi Arabia represents 25% of total Arab GDP
- It has 25% of the world's oil reserves
- The Kingdom is 13th out of 181 countries for overall 'ease of doing business' globally; and seventh in terms of 'ease of paying taxes' (source: the International Finance Corporation/World Bank's Doing Business report, 2009)
- It is the largest recipient of foreign direct investment in the Arab world.

4. Setting up a Business

Foreigners wishing to conduct any type of the business in Saudi Arabia may do so by:

- Establishing an incorporated entity
- Entering into a partnership
- Establishing a branch office
- Establishing a representative office
- Engaging a service agent.

The Saudi Arabian General Investment Authority is responsible for licensing all new foreign investment in Saudi Arabia.

Foreigners and entities are permitted to invest in all industries and services except for those specifically excluded from foreign investment. Exempted industries include those related to: the manufacture of military materials; equipment and explosives; and oil exploration and production. Services exempted relate to: security; insurance and real estate brokerage; wholesale distribution and retail services; telecommunications services; and land, air and space transport, amongst others.

However, since the Kingdom's accession to the World Trade Organisation, the business environment has become more transparent and predictable for trade and foreign investments. The Kingdom has increased domestic and foreign investments, and has increased access of Saudi products and services to international markets. Foreign investors may also now obtain more than one licence, enabling them to participate in more than one business venture.

Foreigners wishing to conduct business in Saudi Arabia may do so by establishing a permanent presence in the Kingdom, or by entering into an agency relationship for the distribution and sale of their products.

Investment licences

To qualify for an investment licence, the proposed investment activity must not be an excluded activity (see above); and the product standards and production processes must be in accordance with prevailing laws in the Kingdom or, in their absence, the laws of the European Union or the United States.

A foreign investor may obtain more than one licence to practise the same activity or different activities. The minimum capital requirements for projects are:

Activity type	Minimum capital required (Saudi Riyals)
Individual establishments	100,000
Companies	500,000
Industrial projects	1,000,000
Agricultural projects	25,000,000

Commercial Registration Companies operating in Saudi Arabia must register their businesses with the [Ministry of Commerce and Industry](#) and obtain a Commercial Registration (CR) number.

Forms of doing business

Business forms available under Saudi law are:

Limited Liability Company (LLC)

This is the most common form for entering into joint ventures with Saudi partners; however, a Saudi partner is not necessary as there is no legal limit on the percentage of foreign ownership. An LLC must have between two and 50 shareholders and is managed and represented by one or more managers. There is no board of directors, although shareholders often provide a board and other management arrangements in the Memorandum of Association. An LLC must also have an auditor and, where it has more than 20 partners, it must establish a Board of Controllers.

Partnerships

The limited partnership, or 'sharikat tawsiya baseetah', is a separate business entity comprising several individuals or companies, including general (at least one) and limited partners. The general partners are liable for partnership debts to the full extent of their personal assets, while the limited partners are liable only to the extent of their capital contributions.

Joint Stock Corporation

A Joint Stock Corporation (JSC) is an entity with at least five shareholders holding transferable shares. The minimum capital requirements are SR 2 million for a private JSC and SR 10 million for a public JSC. Liability of shareholders is limited to the par value of each shareholder's share capital. The JSC must be approved by licence or Royal Decree published in the Saudi Official Gazette. Additionally, it must be registered with the Ministry of Commerce's Companies Department and the Ministry of Commerce Commercial Registry.

Branch Offices

Foreign companies may register a wholly foreign-owned Saudi branch office, provided that they obtain the necessary licence. The branch office may engage in any government contract or private sector work within the scope of its licence. Branch offices are subject to Government Tenders Regulations, where applicable. Branch office registration follows the same general procedure as for the registration of an LLC.

Sponsorship and Temporary Commercial Registration

As an alternative to one of the above entities, foreign contractors have in the past performed isolated private sector projects under the sponsorship of their Saudi customer and in contracts with the Saudi government. The foreign contractor operates under a Temporary Commercial Registration (TCR).

Sponsorships may be in two forms. The first is where the foreign contractor obtains a business visa, sponsored by the Saudi customer. The second is where the foreign contractor 'seconds' its employees to the employment and sponsorship of the Saudi customer.

If a foreign contractor is awarded a project with the Saudi government, and it does not have a registered presence in Saudi in one of the above forms, it must obtain a TCR (Commerce Ministry Resolution No. 680, 1978). An application for a TCR must be filed within 30 days of obtaining the contract, along with a copy of the contract. Additionally, a 'service agent' must be identified pursuant to the Saudi Service Agent Regulations. TCRs are limited in scope and duration to the substance and term of the government contract for which they are issued.

Commercial Agencies

Agencies and distributorships are governed by the Commercial Agencies Regulations and the related Implementing Rules (Royal Decree No. M/11, amended by Royal decree No. M/32; Ministry of Commerce Decision No. 1897). The rules and regulations reserve a monopoly for Saudi nationals and wholly owned Saudi entities on trading activities. Trading activities include the import and local purchase of goods for resale.

So, foreign companies engaging in such activities must use Saudi commercial agents and distributors, who must register their agency agreements with the Ministry of Commerce agency register.

The agent must hold a valid Saudi commercial registration permitting him to act as an agent or distributor, and the directors and authorised representatives of the agent must be Saudi nationals. The Commercial Agency Regulations board appointment of agents is indirectly controlled

by the foreign principal, therefore, the Saudi agent must be independent from the foreign principal.

Economic Cities

Saudi Arabia's four new Economic Cities – fully planned and under construction – are where up to five million residents will live, work and play. Each is designed to maximise investment potential and deliver advantages to businesses located there.

At a cost of more than USD 60 billion, the cities will create more than a million new job opportunities, homes for 4-5 million residents – and contribute USD 150 billion to Saudi's GDP.

5. Labour

Saudi Arabia has a labour force of 6.922 million – 60% of which are non-nationals (2009 estimate).

Unemployment among young Saudis is an issue for the government: the official overall unemployment rate is 11.6% (2009 estimate) but some economists estimate it is much higher, nearer 25%. And most of the Saudi population is young: the numbers of Saudis up to the age of 15 years represents about 45% of the total population – a proportion that is continuously growing.

The Government has been active in improving its human resource development programme, which includes establishing public and private educational, technical, research, and training institutions for young Saudis to meet employment demands of the growing private sector market.

The programme offers investors more opportunities to select skilled, semi-skilled and technical labour for projects at different rates, which vary according to their employees' respective status.

The Kingdom's Human Resources Development Fund trains and recruits Saudis, and provides incentives for companies that employ nationals through:

- Paying for a percentage of the salaries of Saudi labour employed by the private sector
- Providing aids and support for activities related to qualifying, training and recruitment of Saudi labour in the private sector
- Making contributions to Saudi qualifications and training costs in the private sector
- Supporting programmes aimed at improving the prospect of Saudi labour recruitment and the replacement of foreign labour
- Financing private sector companies that train and qualify Saudi labour through granting loans to enable them to expand their activities and use modern technologies.

Through CADRE, a human resources institution, the Kingdom provides a 'recruiting engine' to match investors with the right people, both Saudi and foreign. CADRE is tasked with planning and implementing a comprehensive human capital strategy for the Kingdom's Economic Cities (see above) and future similar developments.

6. Taxation

There are no personal taxes in Saudi Arabia. Neither Saudi nationals nor foreign employees are taxed on their salaries.

Generally, companies pay a 20% corporate tax. But non-Saudis who derive net income from investments in Saudi businesses; and self-employed individuals who engage in professional activities, are subject to corporate tax on a sliding scale according to their income levels.

Tax rules and regulations are simple compared with many other countries' tax regimes. Below are the few main rules and regulations.

Those subject to tax are:

- A resident capital company with non-Saudi shares
- A resident non-Saudi person who carries out activities in the Kingdom
- A non-resident person who carries out activities in the Kingdom through a permanent establishment
- A non-resident person who has other income subject to tax from sources within the Kingdom
- A person engaged in natural gas investment fields
- A person engaged in oil and other hydrocarbon production.

Concept of residency

A person is resident in the Kingdom for a taxable year if he meets any of the following conditions:

- He has a permanent place of abode in the Kingdom and is physically residing in the Kingdom for a period in aggregate of not less than 30 days during the taxable year
- He is physically residing in the Kingdom for not less than 183 days in the tax year. (Residence in the Kingdom for part of a day is considered residence for the whole day. Residence in the case of transit between two points outside the Kingdom is not taken into account.)

A company is considered a resident company if it meets any of the following conditions:

- It is formed under the Regulations for Companies
- Its head office is situated within the Kingdom.

Concept of permanent establishment

A permanent establishment of a non-resident in the Kingdom consists of the permanent place of activity of the non-resident through which he carries out business, in full or in part, including business carried out through an agent.

The following are considered permanent establishments:

- Construction sites, assembly facilities, and related activities
- Installations or sites used for surveying for natural resources, drilling equipment, or ships used for surveying for natural resources, and related activities
- A fixed location where a non-resident natural person carries out business
- A branch of a non-resident company licensed to carry out business in the Kingdom.

A place is not considered a permanent establishment of a non-resident in the Kingdom if it is used in the Kingdom only to:

- Store, display or deliver goods or products belonging to the non-resident
- Keep an inventory of goods or products belonging to the non-resident only for the purposes of processing by another person
- Purchase goods or products only for the collection of information for the non-resident
- Perform any other activities that are preparatory or auxiliary in nature for the interests of the non-resident
- Prepare contracts relating to loans, supply of products or perform technical services for signature.

A non-resident partner in a resident personal company is considered an owner of a permanent establishment in the Kingdom in the form of a share in a personal company.

Sources of income

The following are considered as sources of income in the Kingdom, if it is:

- Derived from an activity this occurs in the Kingdom
- Derived from immovable property located in the Kingdom, including gains from the disposal of an interest in such immovable property and from the disposal of shares of partnership interests in a company, the property of which consists, directly or indirectly, principally of interests in such property
- Derived from the disposal of shares or a partnership interest in a resident company
- Derived from the rental of movable property used in the Kingdom

- Derived from the sale or license to use industrial or intellectual property used in the Kingdom
- Shares' profits or management fee, or director's fee paid by a resident company
- Payment for services made by a resident company to the company's head office or to an affiliated company
- Amounts for exploitation of a natural resource in the Kingdom
- Attributable to a permanent establishment of a non-resident located in the Kingdom, including income attributable to sales in the Kingdom of goods of the same or similar kind as those sold by a non-resident through a permanent establishment, and income arising from rendering services or the performance of other activity in the Kingdom of the same or similar nature as activity performed by a non-resident through a permanent establishment.

Tax base

The tax base of a resident capital company is the total of non-Saudi shares in its income, subject to tax from any activity within the Kingdom, less any deduction allowable.

The tax base of a resident non-Saudi natural person is his income, subject to tax from any activity within the Kingdom, less any deduction allowable.

The tax base of a non-resident who exercises activity within the Kingdom through a permanent establishment is his income, subject to tax arising from or related to the activity of such establishment, less any deduction allowable.

The taxable income of each natural person is determined separately.

A capital company is taxable on its tax base separately from its shareholders or partners.

Tax rates

The tax base of each of the following is subject to tax at the rate of 20%:

- A resident capital company
- A non-Saudi resident natural person who carries out activities
- A non-resident person who carries out activities in the Kingdom through a permanent establishment.

The tax base of a taxpayer engaged only in natural gas investment fields is subject to tax at the rate of 30%.

The tax base of a taxpayer engaged in oil or other hydrocarbon production is subject to tax at the rate of 85%.

Income subject to tax

Gross income subject to tax includes all income, profits and gains of any type, and of any form of payment resulting from carrying out activities, including capital gains and any incidental income, net of exempt income and allowable deductions and contributions.

Exempt income

Income is exempt from income tax is:

- Capital gains realised from the disposal of financial papers traded on the Saudi stock market, in accordance with guidelines specified by by-laws
- Gains on the disposal of property other than assets used in the activity.

Taxable year

The taxable year is the same as the government financial year.

The taxpayer may use another 12-month period as the taxable year subject to conditions as prescribed in by-laws.

Where the taxable year for a taxpayer changes, the period between the last full taxable year prior to the change and the date on which the changed taxable year commences is treated as a separate short taxable year. The first year of a newly established taxpayer, or the last year of a taxpayer that liquidates, is also a short taxable year if not coinciding with a full year, unless it is a long taxable year in conformity with the Companies Law.

Groups of related companies must utilise the same taxable year.

Method of accounting

A taxpayer's method of accounting must clearly reflect the taxpayer's income and he is required to quote the method of accounting which has been used in calculating the tax base. The accounting methods are:

Cash Basis Accounting

A cash basis taxpayer must take income into account when received or made available, and must take deductions into account when paid.

Accrual Basis Accounting

An accrual-basis taxpayer must take income and deductions into account when accrued.

An amount is payable to the taxpayer when the taxpayer becomes entitled to receive it, even if the time for discharge of the entitlement is postponed or the entitlement is payable by instalments.

An amount is treated as payable by the taxpayer when all the events that determine liability have occurred.

Withholding tax

Any resident, whether or not that person is a taxpayer, and any permanent establishment of a non-resident in the Kingdom, who makes a payment to a non-resident that is from a source in the Kingdom, may withhold tax from such payment according to the following rates:

Management fees	20%
Royalties or proceeds; payments for services to a head-office or related company	15%
Payments for rent; payments for technical and consulting services; payments for air tickets, air freight and maritime freight; payments for international telecommunications services; dividends; loan charges; insurance or reinsurance premiums	5%
Other payments	15%

In the case of payments made by a natural person, the withholding requirement applies only to payments made in the course of the person's business activity.

A person withholding tax is obliged to:

- Register and pay the amount withheld during the first 10 days of the month following the month of payment to the beneficiary
- Provide the beneficiary with a certificate stating the amount of the payment and the amount of tax withheld
- Provide at the end of the tax year, the name, address, and, where appropriate, the taxpayer's identification number of the beneficiary receiving the payment, along with any additional information required
- Maintain records that are required to ascertain his withholding obligations as required by by-laws.

A person required to withhold tax is personally liable for the payment of the amount of tax outstanding and any delay penalties in any of the following circumstances:

- Fails to withhold tax as required
- Having withheld tax, fails to pay tax as required
- Fails to report the withholding.

If tax is not withheld, the beneficiary remains liable for the tax and it may be recovered from him, or from his agent or sponsor.

Where a payment is made to a non-resident and tax is withheld, that tax is a final tax and no further tax liability can be imposed on the income to which the tax relates, and no refund of tax shall be made in respect of the payment.

Where a payment is made to a non-resident which carries on business in the Kingdom through a permanent establishment, and that payment is effectively connected with such business, that payment is taxed as a part of the tax base of the beneficiary.

If tax is withheld from a payment that is included in the tax base of a taxpayer, the tax withheld is credited against the non-resident person's liability in respect of the tax base.

Tax payments

A taxpayer must pay his due tax in accordance with the declaration within 120 days of the end of his tax year.

7. Accounting & reporting

All businesses are required to keep adequate accounting records for at least 10 years, in accordance with the Kingdom's rules and regulations.

All types of the businesses are required to prepare financial statements (income statement, balance sheet, cash flow statement, statement of changes in equity and notes to the accounts) and all types of businesses require an audit from a legally registered auditor. Only legally registered firms are allowed to act as 'independent auditors' of accounts.

SOCPA

The [Saudi Organisation for Certified Public Accountants](#) (SOCPA) was established in 1992 by the Saudi Ministry of Commerce. It operates under the supervision of the Ministry of Commerce to promote the accounting and auditing profession and all matters leading to the development of the profession and to improve its status.

SOCPA has a staff of approximately 25 professionals, in addition to its board of directors and technical committees. It includes people with substantial qualifications and experience in the accounting and audit profession, including specialised academics, practitioners, and company and government officers in various economic bodies, from both the public and private sectors.

Saudi Arabian Monetary Agency (SAMA)

[SAMA](#) is the Kingdom's central bank. The bank:

- Issues the national currency
- Acts as a banker to the government
- Supervises commercial banks
- Manages the Kingdom's foreign exchange reserves
- Conducts monetary policy for promoting price and exchange-rate stability
- Promotes the growth and ensures the soundness of the financial system.

8. UHY firms in Saudi Arabia

UHY Al Bassam & Partner CPAs & Consultants provides UHY's business centre in Bahrain and also expanded representation in Saudi Arabia. The firm is based in three countries in the Middle East: Saudi Arabia, Bahrain and Qatar.

The firm has five partners and more than 70 staff. Arabic and English are spoken within the firm. Its services comprise 31% audit, 7% tax, 22% corporate finance, 31% management consulting and the remainder a mix of other services.

Its clients are involved in insurance, government, manufacturing, trading and construction. Clients conduct business in Saudi Arabia, Bahrain, Qatar, Canada, the UK, the US, and the United Arab Emirates.

Managing partner Ibrahim Al Bassam is UHY's international contact partner. His firm has achieved growth of more than 20% per annum since it started in 2003. Previously he held positions with Ernst & Young, KPMG and Arthur Andersen. With Ernst & Young he was director of its business advisory division in Jeddah.

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