

Guide to do business in

# SAUDI ARABIA

Chandrawat  
& Partners





## ABOUT SAUDI ARABIA

Extending across most of the northern and central Arabian Peninsula, Saudi Arabia is relatively a young country but is heir to a very rich history. Saudi Arabia has an oil-based economy. The Gross Domestic Product ("GDP") value of Saudi Arabia represents 0.37 percent of the world economy. According to Saudi General Authority for Statistics, the Saudi GDP grew by 8.7% in 2022 and 5.4% in the fourth quarter of the year. Saudi Arabia's oil and non-oil sectors both contributed to the growth. To diversify the economy, the government has been investing in telecommunications, petrochemicals, natural gas exploitation and power generation sectors in recent years.

## ADVANTAGES

Saudi Arabia is ranked 62 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Saudi Arabia improved to 62 in 2019 from 92 in 2018. Saudi Arabia has signed bilateral trade and investment agreements with more than 20 countries like Malaysia, China, Germany, Italy etc. The country offers a number of special advantages to foreign investors as follows:

### Gulf Cooperation Council ("GCC")

- Saudi Arabia is a founding member of the Gulf Cooperation Council (GCC), which also includes Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates.
- The GCC Customs Union formally ensures the free movement of labour and capital within the bloc.
- The GCC currently maintains free trade agreements ("FTAs") with Lebanon, Singapore, the European Free Trade Association (Norway, Switzerland, Iceland, and Liechtenstein), and the Greater Arab Free Trade Area of 18 Arab countries.

### Foreign Direct Investment ("FDI")

- Foreign investors are no longer required to take local partners in many sectors and may own real estate for company activities.
- They are allowed to transfer money from their enterprises out of the country and can sponsor foreign employees, provided that "Saudization" (Saudi nationalization scheme) quotas are met.

### Investment Incentives

- Ministry of Investment of Saudi Arabia ("MISA") advertises several financial advantages for foreigners looking to invest in the Kingdom, including custom duty drawback and exemption on selected materials, equipment, and machinery; the lack of personal income taxes; and a corporate tax rate of 20 percent on foreign companies' profits (the lowest among G20 countries).
- Ministry of Investment of Saudi Arabia's (MISA) website also lists various Saudi Arabia Government ("SAG") - sponsored regional and international financial programs to which foreign investors have access, such as the Saudi Export Program, Arab Fund for Economic and Social Development, the Arab Trade Financing Program, and the Islamic Development Bank.

### Infrastructure

- 10 Seaports processing over 8.3 million twenty-foot equivalent unit ("TEU") per year, forming the largest maritime network in the Middle East.
- 28 airports handling more than 90 million passengers per year with flights to over 45 countries.
- More than 5590 kms of railways providing convenient connectivity across the Kingdom.

### Vision 2030

- Launched in 2016, Vision 2030 is Saudi Arabia's blueprint for the future. Projects like Absorption based desalination plant, composite aero structure factory, green Riyadh, sakaka solar power plant and many more.

There is no individual income tax scheme in Saudi Arabia. Following are the types of taxes in Saudi Arabia:-

## Corporate Tax

The tax rate of the tax base is 20% for a resident capital company, a non-Saudi resident natural person who conducts business and a non-resident person who conducts business in the kingdom through a permanent establishment. The tax rate for a taxpayer engaged only in natural gas investment activities is 30%. The tax rate for taxpayer engaged in the production of oil and hydrocarbon materials is 85%.

## Withholding Tax ("WHT")

Payments made from a resident party to a non-resident party for services performed are subject to WHT. The rates vary between 5%, 15%, and 20% based on the type of service and whether the beneficiary is a related party.

## Value Added Tax ("VAT") and excise tax

VAT is imposed at a rate of 5% for most goods and services, with certain exceptions applicable. Effective 1 July 2020, the standard VAT rate was increased by the government to 15%.

## Customs Duties

Customs duties are imposed on imports according to tariff rates that are effective on the payment date in accordance with the Saudi Customs regulations. Customs duties are imposed on the price of the imported goods. This price is assessed based on the actual cost paid or on the agreed upon cost denominated in the currency of the exporting country.

## Payroll Taxes

Since there is no individual income tax regime in Saudi Arabia, earnings from employment are not subject to income tax.

## Social Insurance Tax

Social insurance tax is paid monthly based on (i) basic wage, (ii) cash or in-kind housing allowance, and (iii) commissions, with an upper limit of 45,000 Saudi riyals (SAR), is computed at 2% for non-Saudi employees, and is paid by the employer.

## Real Estate Transaction Tax ("RETT")

Real Estate Transaction Tax is imposed at a rate of 5% of the total real estate disposal value regardless of its condition, shape, or use at the time of the disposal.

## Zakat Tax

Zakat is charged on the company's Zakat base at 2.5%. Zakat base represents the net worth of the entity as calculated for Zakat purposes.

There are mainly 5 types of corporate entities that can be chosen to conduct business under the Companies Law of Saudi Arabia:

## Joint Liability Company / General Partnership

In general partnership, two or more partners assume joint liability for the partnership's debts in all their entire funds. Any person joining the partnership is jointly liable with all other partners to pay off the partnership's debts. Profit and loss sharing is decided according to the agreement made before the commencement of the partnership.

## Limited partnership companies

In a limited partnership company, among two teams of partners one team include at least one joint partner who shall be liable for the partnerships' debts. The other consist of at least one dormant partner who shall be liable to the extent of his share in the capital.

## Joint ventures

In a joint venture, two or more party combine their resources to attain a specific goal. Every contributor is liable to their undertaking in the venture unless the contract of the venture states otherwise.

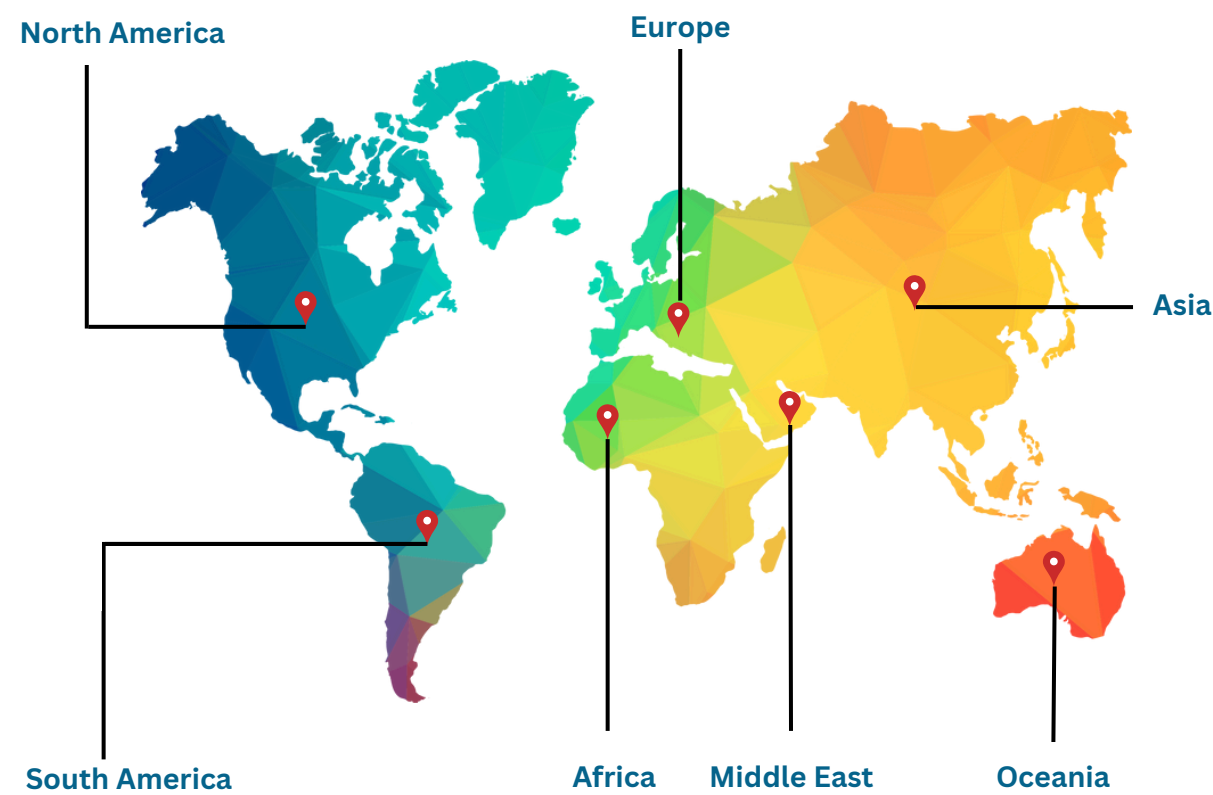
## Joint-stock companies

In a joint stock company, a minimum number of shareholders is two. Shareholders' liability is limited to the value of their shares and there can be a minimum of three and a maximum of 11 directors.

## Limited liability companies

In a limited liability company, there can be a minimum of one partner and a maximum of 50 partners and is managed by a sole manager or a board of managers. The liability of partners is limited to the share of the partners in the capital.

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