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Tax & Zakat Tips for Startups in Saudi Arabia

Note: These publications have been prepared based on the regulations issued by the Royal Decrees and the Ministerial decisions related to Zakat and Taxation; should there be any inconsistencies between these publications and the official regulatory rules, the official regulations must take precedence.

Taxation or Zakat Based on the Ownership Structure.

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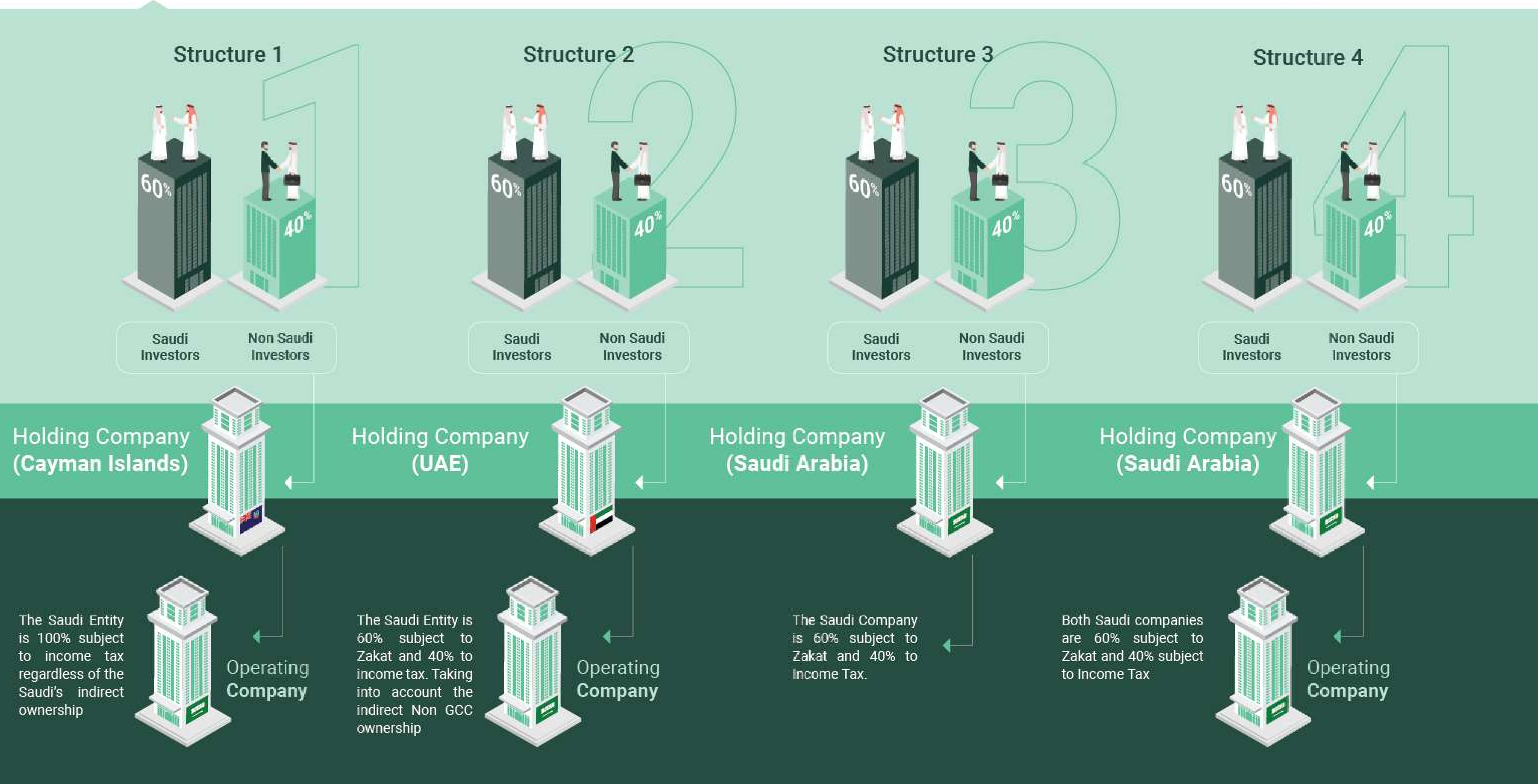


* If the owner is from a GCC country, then they are subject to Zakat provisions and treated like a Saudi citizen.

Capital Gain Tax

Capital Gain Tax (or "CGT") can be imposed when a non-resident disposes* its shares in a resident KSA Company or partnership. The "disposal" is not exclusive only to sale transactions. Instead, it also includes internal restructuring transactions that results in transfer of all or some of the shares in resident companies.

To whom does the **CGT** apply?

The Capital Gains Tax applies to any non-resident individual or company without tax presence in Saudi Arabia that has disposed of shares in companies resident in the Kingdom. This tax does not consider the nationality of the person disposing of the shares; in some cases, the non-resident may be Saudi, yet still subject to the Capital Gains Tax.

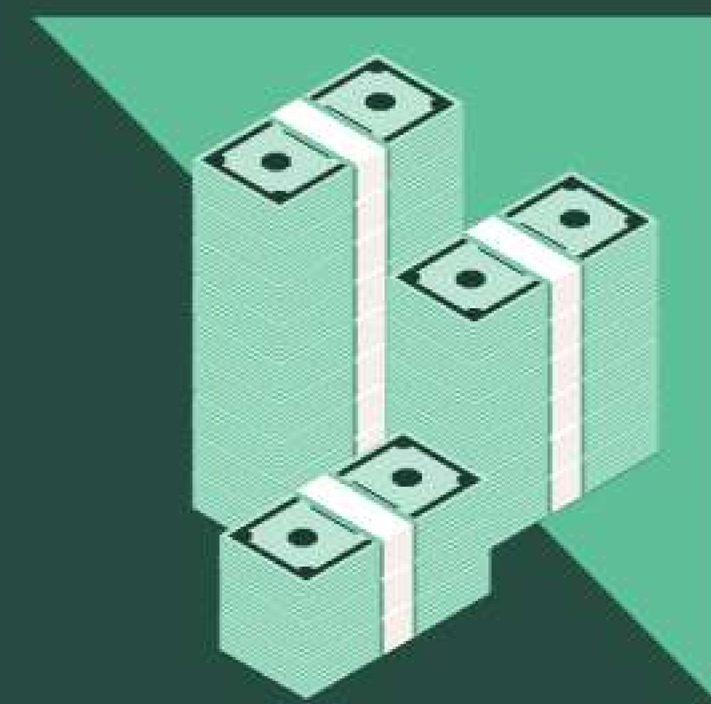
CGT Rate

CGT rate is 20% of the capital gain.

How is **CGT calculated** for non-residents?

The disposal value is determined based on the contractual value (if available), market value, or book value in the Company's books, whichever is higher, and then compared to the cost basis to determine the capital gain.

Who is responsible to remit the **CGT** to ZATCA?

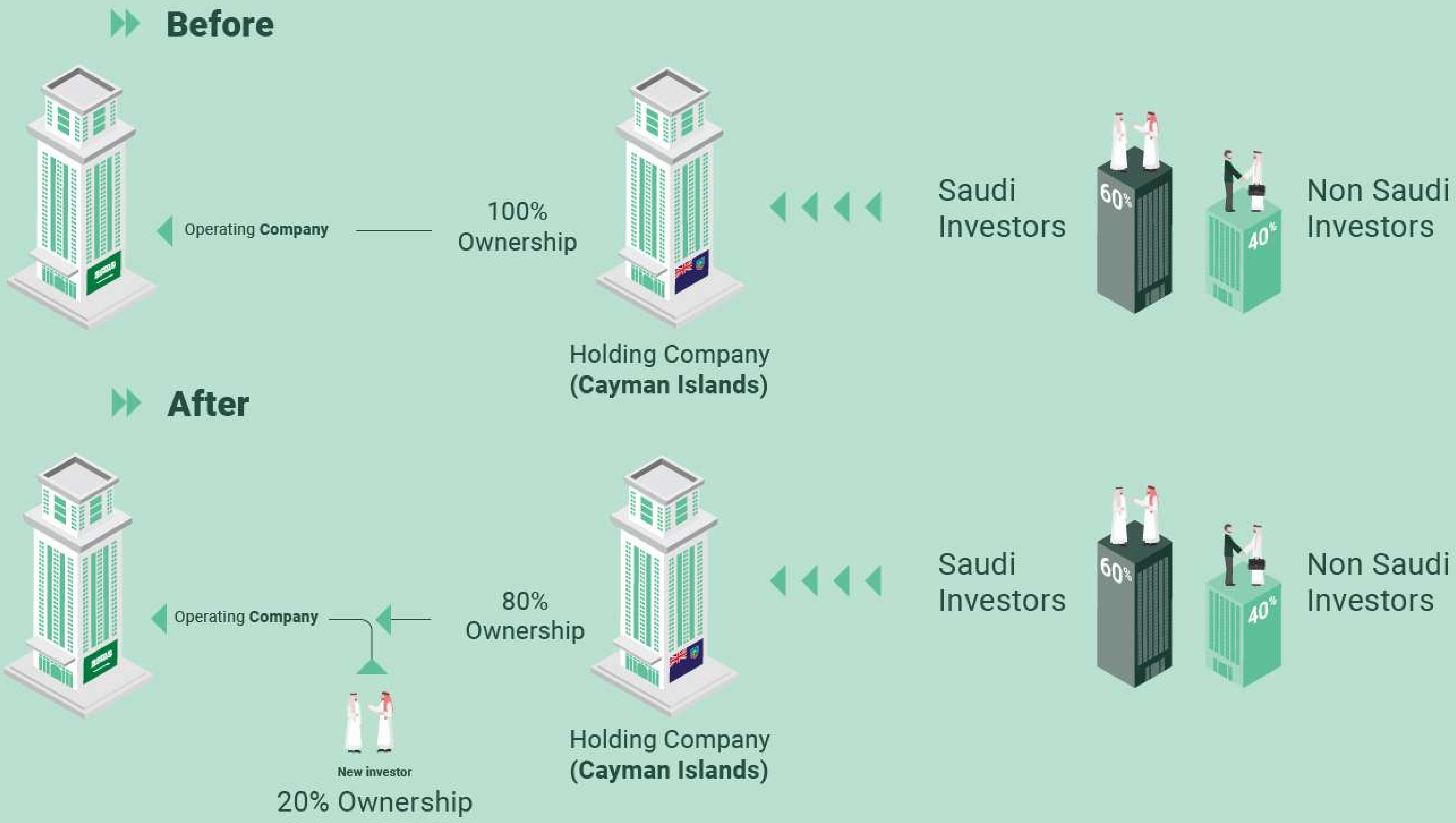


The seller (non-resident) is responsible, by law, for notifying ZATCA of the change in ownership and for paying the tax (if applicable) within 60 days from the date of the change in ownership. However, the buyer is also jointly responsible with the seller for paying the tax.

* **Note :** * The term "disposes" is not limited to just the process of selling; it also encompasses internal restructuring operations, which can result in the disposal or reduction of stakes in companies based in the Kingdom.

Capital Gain Tax
Example of Share Sale

The non-resident Holding Company sold 20% of its shares in the Saudi Company to a new investor.



- This transaction attracts CGT, since the non-resident company (i.e. Holding Company) disposed some of its shares in the resident company (i.e. Saudi Company).
- The presence of KSA resident investors in the Holding Company (Cayman Islands) does not alter CGT liability on the share sale.

* If the owner is from a GCC country, then they are subject to Zakat provisions and treated like a Saudi citizen.

Capital Gain Tax
Example of Restructuring

A Saudi Company wholly owned by a Holding Company in Cayman Islands, the Saudi Company did a restructuring plan to transfer all of the ownership shares from the Holding Company (Cayman Islands) to another holding company in Saudi Arabia with the same ultimate owners.

Before

After

- This transaction attracts CGT, since the non-resident company (i.e. Holding Company) disposed some of its shares in the resident company (i.e. Saudi Company).
- Transferring shares for free or as part of a restructuring plan does not alter the application of CGT. Further, If there was no set price for the share transfer, the market value of the shares is assumed to be the selling price

* If the owner is from a GCC country, then they are subject to Zakat provisions and treated like a Saudi citizen.

Withholding Tax ("WHT")

Taxes are withheld from amounts paid to non-residents for services rendered, which generate income from KSA

To whom does the **WHT apply?**

It applies to any individual or entity without tax presence in KSA, who earned income from a source in KSA

WHT Rates

WHT rates vary based on the service provided, ranging from 5% to 20%

Who is responsible for remitting the WHT to **ZATCA?**

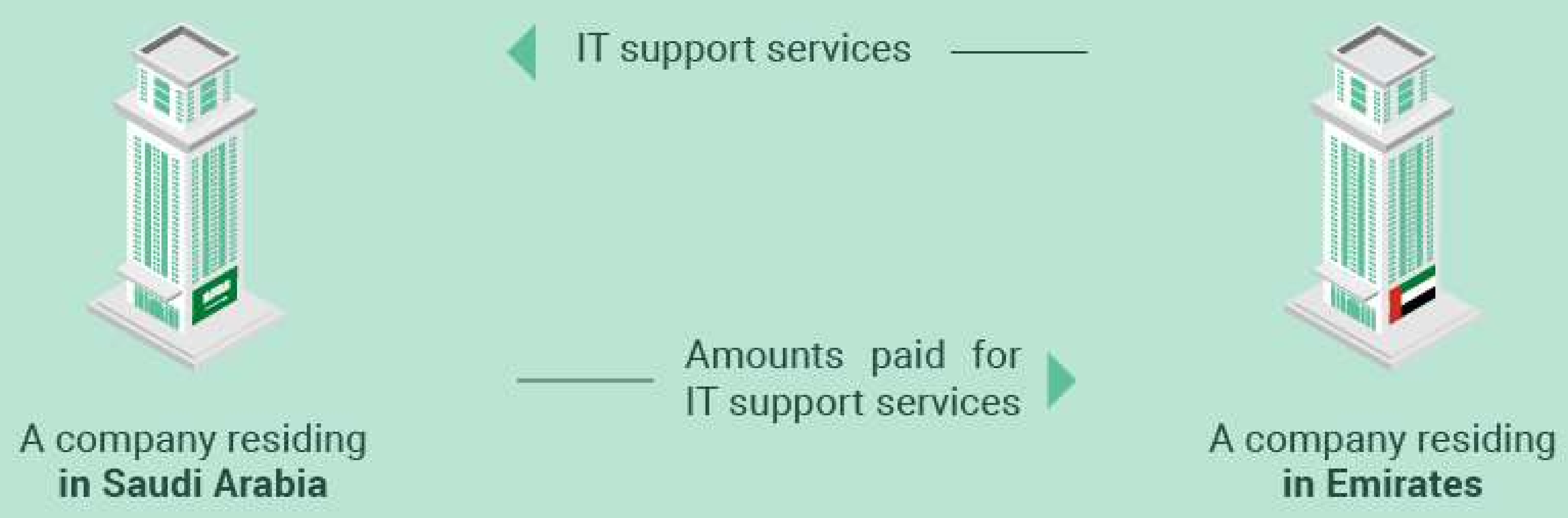
The resident company (who received the service) is the one responsible for withholding the tax amount from the non-resident and then remitting the amount to ZATCA.

Double Tax Treaty **("DTT")** Agreements

Saudi Arabia has signed multiple conventions to avoid double taxation with more than 50 countries. Which in turn will reduce tax burden on taxpayers.

Example

The Saudi company has paid SAR 3m to the UAE entity in return for IT support services.



- This transaction attracts WHT since the services provided from a non-resident to a resident party and the source of income is generated from KSA.
- The nature of the service provided is technical and consulting services which is taxed at 5% rate.

The WHT amount is SAR 150k (3m * 5%)