



Guideline

Tax and Customs Operations in Special Economic Zones (SEZs)



The Zakat, Tax and Customs Authority (ZATCA) has issued this procedural manual to clarify certain tax and customs treatments related to the application of the statutory provisions in force at the time of its issuance. The content of this manual does not constitute an amendment to any of the laws and regulations applicable in the Kingdom.

ZATCA has issued this Procedural Manual to clarify certain tax and customs treatments related to the implementation of the statutory provisions in force at the time of its issuance. The content of this Manual is not considered an amendment to any of the laws and regulations in force in the Kingdom.

ZATCA further affirms the application of the explanatory treatments contained herein, where applicable, in light of the relevant statutory provisions. In the event that any clarification or content within this Manual is amended, without any corresponding amendment to the relevant statutory provision, the updated explanatory treatment shall apply to transactions occurring after the date the updated version of the manual is published on the ZATCA's website.



Introduction

The Zakat, Tax and Customs Authority (ZATCA) has issued this Procedural Manual pursuant to the provisions of the Special Economic Zones (SEZs) Regulations promulgated by Council of Ministers Resolution No. (468) dated 10/07/1447 H (30/12/2025). The Manual aims to provide the necessary clarifications and guidance on the tax and customs procedures and provisions related to Special Economic Zones licensed by the competent authority. This manual includes additional information and clarifications on the following matters:

- Tax and customs incentives applicable to Licensed Entities in Special Economic Zones.
- Tax and customs procedures applicable to Licensed Entities in Special Economic Zones.

For further information regarding the application of tax and customs rules or regulations in specific cases within SEZs, ZATCA may be contacted through official channels to request an Interpretive Ruling via the ZATCA's website at: (ZATCA.GOV.SA). ZATCA will ensure the applicant is provided with sufficient information regarding the application of relevant legislation to their specific case.

1. Overview of Special Economic Zones

- The Competent Authority has launched four (4) Special Economic Zones, as follows:
 1. King Abdullah Economic City (KAEC) Special Economic Zone.
 2. Ras Al-Khair Special Economic Zone.
 3. Jazan Special Economic Zone.
 4. Cloud Computing Special Economic Zone.
- SEZs (KAEC SEZ, Ras Al-Khair SEZ, and Jazan SEZ) enjoy the following tax and customs incentives and exemptions:
 1. Income tax incentives for a period of twenty (20) years.
 2. Exemption from Withholding Tax (WHT).
 3. Application of Zero-Rated Value Added Tax (VAT) in accordance with specific conditions.
 4. Goods imported from outside the Kingdom into the SEZ are considered outside the scope of VAT.
 5. Suspension of customs duties.

The Cloud Computing Special Economic Zone also provides specific tax treatments based on the provisions of international agreements and the Income Tax Law.



2. ZATCA's Role in SEZs

ZATCA shall be responsible for supervising customs and tax operations within the Special Economic Zone. It shall exercise its right to inspect, monitor, and verify compliance with economic substance requirements, and oversee Licensed Entities in accordance with the relevant provisions.

Key Terminology

Term	Definition
Kingdom/KSA	The Kingdom of Saudi Arabia.
Income Tax Law	The Income Tax Law issued by Royal Decree No. (M/1) dated 15/1/1425H (29/7/2004) as amended, or any other law that replaces it.
Implementing Regulations of the Income Tax Law	The Implementing Regulations of the Income Tax Law issued by Ministerial Resolution No. (1535) dated 11/06/1425H (15/12/2004), as amended, or any superseding regulations.
Value Added Tax (VAT) Law	The Value Added Tax Law issued by Royal Decree No. (M/113) dated 02/11/1438H (25/7/2017), as amended, or any law that replaces it.
Implementing Regulations of the VAT Law	The Implementing Regulations of the Value Added Tax Law issued by the Board of Directors of the General Authority of Zakat and Tax (formerly) Resolution No. (3839) dated 14/12/1438H (corresponding to 05/09/2017) as amended, or any superseding regulations.
Customs Law	The Unified Common Customs Law for the Cooperation Council for the Arab States of the Gulf (GCC), approved by Royal Decree No. (M/41) dated 3/11/1423H (5/1/2003), its Implementing Regulations, as amended, including the rules, controls, and instructions issued pursuant thereto.
Real Estate Transaction Tax (RETT) Law	The Real Estate Transaction Tax Law issued by Royal Decree No. (M/84) dated 19/03/1446H (22/9/2024), as amended, or any law that replaces it.
Implementing Regulations of the RETT Law	The Implementing Regulations of the Real Estate Transaction Tax Law issued by the Board of Directors of the Zakat, Tax and Customs Authority Resolution No. (25-03-01) dated 24/09/1446H (24/3/2025) as amended, or any superseding regulations.
Excise Tax Law	The Excise Tax Law issued by Royal Decree No. (M/86) dated 27/08/1438H (23/5/2017), as amended, or any law that replaces it.
Implementing Regulations of the Excise Tax Law	The Implementing Regulations of the Excise Tax Law issued by the Board of Directors of the General Authority of Zakat and Tax (formerly) Resolution No. (17-1-9) dated 13/09/1438H (8/6/2017) as amended, or any superseding regulations.



Special Economic Zone/SEZ	A geographically defined area that enjoys special competitive or legislative treatment and advantages, differing from those applied to economic activities within the Kingdom, without prejudice to the provisions of international agreements and obligations in force in the Kingdom.
Mainland	The territory of the Kingdom of Saudi Arabia, excluding the Special Economic Zones.
Authority/ZATCA	The Zakat, Tax and Customs Authority.
The Competent Authority	The Economic Cities and Special Economic Zones Authority (ECZA).
The Concerned Entity	The entity to which approval is issued for the establishment of a Special Economic Zone.
Qualifying Activities	Activities licensed by the Competent Authority for the licensed entity to practice within SEZ in accordance with relevant regulations, which result in the application of tax and customs exemptions and incentives.
Licensed Entity	Any establishment licensed to conduct activities within the Zone pursuant to the Implementing Regulations for Special Economic Zones, issued under Council of Ministers Resolution No. (468) dated 10/07/1447 AH.
Resident	For Income Tax purposes, a resident is defined as a natural person or a company that satisfies the residency conditions specified in Article 3 of the Income Tax Law, or any government agency, ministry, public entity, legal person, or body established in the Kingdom ¹ .
Non-Resident	Any person who does not qualify as a resident under the provisions of the Income Tax Law ² .
Person	Any natural or legal person ³ .
Taxable Person	A person registered or required to register for Value Added Tax or Income Tax purposes.
Tax	Income tax, withholding tax, value-added tax, excise tax, or any other tax applicable in the Kingdom.
Withholding Agent	Any resident person, whether taxable or not, and any permanent establishment of a non-resident, who pays an amount to a non-resident from a source in the Kingdom that is subject to withholding tax under the provisions of the Income Tax Law.
Customs Suspension	A customs procedure under which goods enter Special Economic Zones without the collection of customs duties and taxes, if any, until the purpose of the suspension is achieved, such as re-export or import and payment of due customs duties and taxes, with such goods remaining under customs control throughout the suspension period.

¹Article 1 of the Income Tax Law.

²Article 1 of the Income Tax Law.

³Article 1 of the Income Tax Law.



Chapter1: Geographically Defined Special Economic Zones

The King Abdullah Economic City (KAEC) Special Economic Zone, Ras Al-Khair Special Economic Zone, and Jazan Special Economic Zone are located within specific geographical boundaries. Each of these Special Economic Zones (SEZs) is characterized by similar tax and customs treatments.

1. Qualifying Activities

Qualifying activities vary by SEZ and are categorized as follows:

King Abdullah Economic City (KAEC) Special Economic Zone.	
Qualifying Activities	• Manufacturing, including packaging, pharmaceuticals, medical devices, geochemistry, Fast-Moving Consumer Goods (FMCG), and automotive. • Logistics. • Construction. • Any other activities as may be determined by a relevant decision

Ras Al-Khair Special Economic Zone.	
Qualifying Activities	• Shipbuilding, including maritime-related industries. • Rig building (Offshore rig building). • Maritime services. • Any other activities as may be determined by a relevant decision

Jazan Special Economic Zone.	
Qualifying Activities	• Food processing industry. • Metal conversion. • Logistics. • Any other activities as may be determined by a relevant decision



2. Administration of Tax and Customs Incentives

Licensed Entities in SEZs must comply with all obligations stipulated under tax and customs laws, specifically the submission of returns and settlement of any due payments in accordance with the relevant laws and regulations. The provisions stipulated in the tax and customs laws and regulations also apply to warehouses and customs zones belonging to licensed entities within the SEZs. This means that the provisions of the tax and customs laws apply to SEZ licensed entities; however, in cases where a specific treatment is defined under the "Special Economic Zones Regulations" issued by the Competent Authority and relevant resolutions, including agreed-upon procedures, such specific treatment shall prevail in the event of any conflict.

2.1 Income Tax

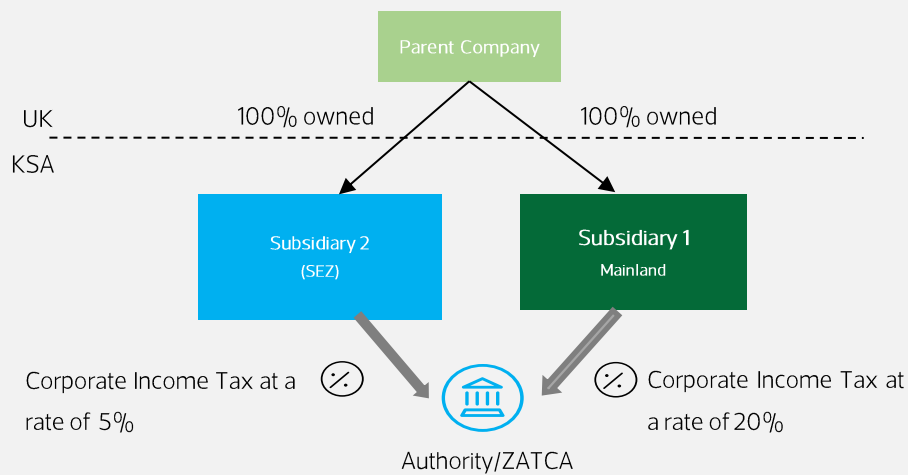
Income shall be considered as derived from a source in the Kingdom and subject to tax in any of the cases specified under Article 5 of the Income Tax Law and Articles 5 and 6 of the Implementing Regulations of the Income Tax Law.

In general, and except for taxable persons engaged in the production of oil and hydrocarbons, licensed entities subject to income tax in the Kingdom are taxed at a rate of 20% on the tax base calculated in accordance with the provisions of the Income Tax Law and its Implementing Regulations. Notwithstanding the foregoing, income derived by a licensed entity from Qualifying Activities in the aforementioned SEZs shall be subject to Income Tax at a rate of five percent (5%) for a period of twenty (20) years. This applies to licensed entities owned by Saudi investors and those treated as such among GCC nationals, subject to a review of tax incentives upon the application of the Global Minimum Tax (Pillar Two) rules in the Kingdom for companies within its scope. If a licensed entity in the SEZ generates non-qualifying income from activities other than the Qualifying Activities within the SEZ, such income shall be subject to the standard tax rate of twenty percent (20%), as applied in the Mainland. Income derived from non-qualifying activities shall be calculated separately. The process for filing tax returns for both qualifying and non-qualifying income shall follow the standard tax return filing procedures. In the event of any carried-forward operating losses adjusted according to relevant laws and regulations, the taxable person is entitled to deduct approved operating losses carried forward to the years following the year the loss occurred until the cumulative loss is fully offset. The maximum deduction allowed in each tax year shall not exceed twenty-five percent (25%) of the annual profit as per the taxable person's return, in accordance with the provisions of Article 21 and Article 43 of the Income Tax Law, and Article 11 of the Implementing Regulations of the Income Tax Law.



Example (1): Taxable Income in Special Economic Zones vs. Taxable Income in the Mainland

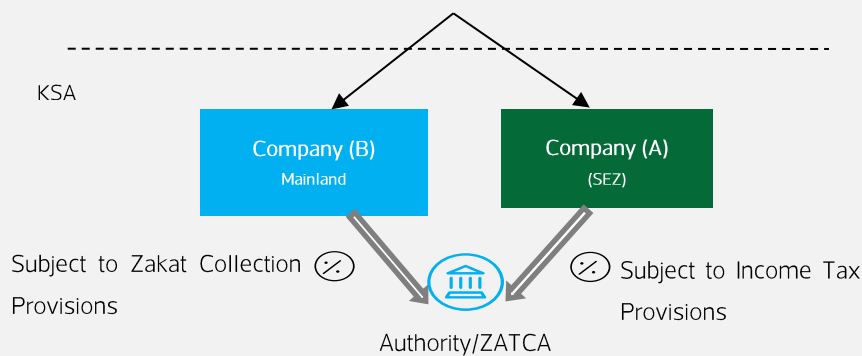
A UK parent company owns two subsidiaries in the Kingdom. The first subsidiary was established in the Mainland, while the second subsidiary was established in a Special Economic Zone, where it exclusively conducts Qualifying Activities. Accordingly, the income tax treatment is as follows:



The taxable income of the first subsidiary is subject to a 20% income tax rate, whereas the income of the second subsidiary is subject to a 5% tax rate.

Example (2): Income Tax and Zakat Collection Provisions in Special Economic Zones and the Mainland

Company (A) is wholly owned (100%) by Saudi partners (and those treated as such among GCC nationals) and was established in a SEZ. The partners also established Company (B) in the Mainland in accordance with the laws of the Kingdom.



Company (A), established in the SEZ, is subject to the Income Tax provisions applicable within the SEZ. Meanwhile, Company (B), established in the Mainland, is subject to Zakat collection provisions applicable in the Mainland.



2.2 Withholding Tax

In accordance with the applicable tax laws and regulations in the Kingdom, withholding tax becomes due when a resident person (whether taxable or non-taxable) or a permanent establishment of a non-resident in the Kingdom makes payments to a non-resident from a source within KSA. The applicable withholding tax rates vary depending on the nature of the services or payments.

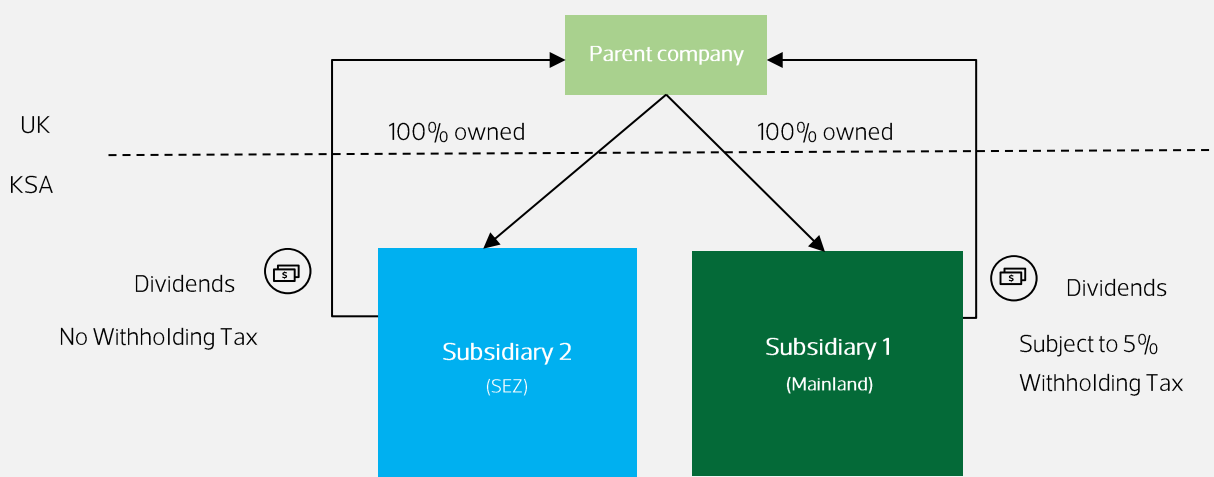
Notwithstanding the foregoing, a licensed entity in a SEZ is exempt from withholding and remitting tax on all amounts paid to non-residents as stipulated in Article 68 of the Income Tax Law and Article 63 of its Implementing Regulations.

In cases where such exemption is exploited for tax evasion or avoidance purposes, the provisions of the Income Tax Law and its Implementing Regulations shall apply. In such cases, ZATCA reserves the right to issue a tax assessment and apply WHT at the rates prescribed in the Law, without prejudice to any other penalties specified by the Law.

Licensed entity in a Special Economic Zone is required to submit a detailed annual declaration (WHT Return) of all payments made to non-residents through a specified withholding tax statement.

Example (3): Dividend Distribution from a Company in a Special Economic Zone vs Mainland

Referring to Example (1), both subsidiaries established in the Kingdom distribute dividends to their UK-based Parent Company. Accordingly, the withholding tax treatment is as follows:



As this constitutes a cross-border transaction, and since the second subsidiary is established in a Special Economic Zone, no withholding tax shall apply on dividend distributions to the parent company, provided that such payments are related to the company's Qualifying Activities. Conversely, dividends distributed by the first subsidiary (established in the Mainland) shall be subject to withholding tax at a rate of 5% when paid to the parent company.



2.3 Value-Added Tax (VAT)

2.3.1 Overview

Value Added Tax (VAT) is an indirect tax imposed on the import and supply of taxable goods and services at each stage of the supply chain, from production or importation through manufacturing and distribution, up to the final supply to the end consumer.

A licensed entity registered for VAT purposes in the Kingdom must file VAT returns on a quarterly or monthly basis.

The licensed entity must charge and remit tax on all taxable supplies made where the place of supply is within the Kingdom. VAT charged and collected by the taxable person from customers, whether taxable or non-taxable, is referred to as output tax. VAT incurred and payable by the taxable person on purchases of goods or services from VAT-registered suppliers is referred to as input tax. The taxable person must disclose the net VAT due for each tax period by deducting recoverable input tax from output tax in the relevant VAT return and paying any VAT due. Where the tax period results in a credit balance (i.e., input tax exceeds output tax), the taxable person may either reclaim the excess amount or carry it forward to subsequent tax periods.

The import of goods and the supply of most goods and services in the Kingdom are subject to VAT at the standard rate of 15%, while a zero percent (0%) rate applies to certain specifically defined supplies, including certain supplies of goods related to Qualifying Activities within Special Economic Zones.

2.3.2 Tax Treatment for Supplies Made to, From, Within, or Between Special Economic Zones

The Implementing Regulations of the VAT Law and the Special Economic Zones legislation specify the tax treatment for imports into any of the Special Economic Zones, or for the supply of goods to, within, or between Special Economic Zones. These cases are either subject to Value Added Tax (VAT) at the zero rate or are considered outside the scope of tax, depending on the case⁴. The following section provides further clarification in this regard.

⁴ Article Thirty-Two (32) (bis) of the Implementing Regulations of the VAT Law



2.3.2.1 Supplies of Goods Within or Between Special Economic Zones

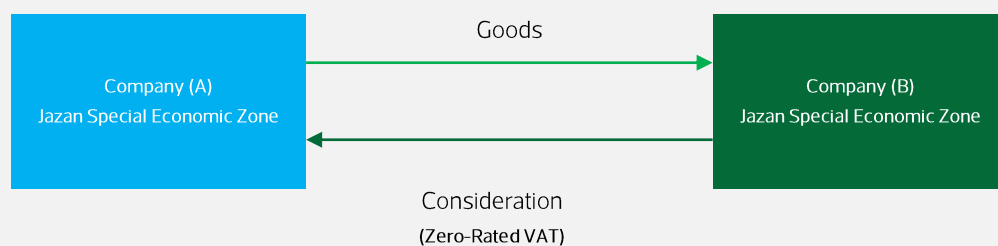
Supplies of goods related to Qualifying Activities from a licensed entity in a Special Economic Zone to another licensed entity within the same SEZ (without removing the goods from the SEZ) are subject to VAT at zero rate.

Supplies of goods between licensed entities in different Special Economic Zones are also subject to Value Added Tax at a rate of zero percent (0%), provided that the other SEZ is also subject to customs and tax suspension provisions in accordance with the regulations governing that other SEZ.

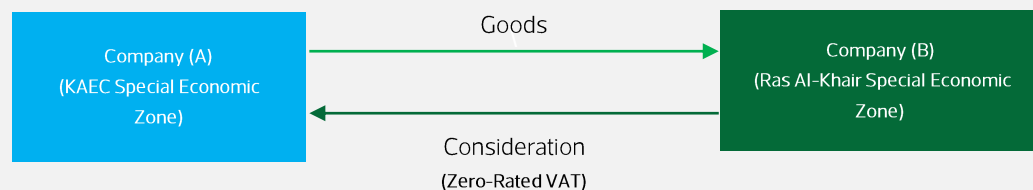
To apply the zero rate to the aforementioned supplies, the following two conditions must be satisfied:

- The goods must be under a customs suspension status (meaning that for supplies to Special Economic Zones, the goods enter under customs suspension or are supplied while under customs suspension for supplies within the Special Economic Zone).
- The goods must be related to the Qualifying Activities of the licensed entity.

Example (4): Supply of goods from a taxable supplier in a Special Economic Zone to a recipient in the same Special Economic Zone in cases where the conditions for applying the zero rate are satisfied.



Example (5): Supply of goods from a taxable supplier in a Special Economic Zone to a recipient in another Special Economic Zone in cases where the conditions for applying the zero rate are satisfied.



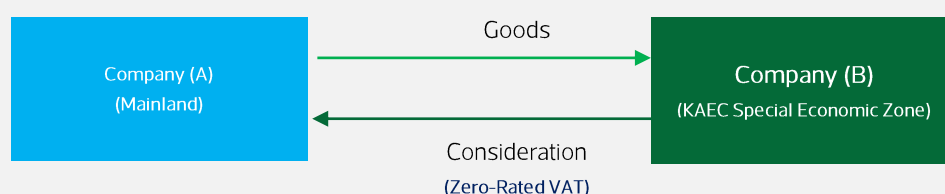


2.3.2.2 Supplies of Goods from the Mainland to a Special Economic Zone

Goods related to Qualifying Activities in the Zone, which are supplied by a taxable supplier in the Mainland to a licensed entity in the SEZ, are treated as being under a suspended status for customs duties and VAT. The supply of such goods is subject to VAT at the zero rate. The forementioned treatment applies to all supplies of goods made by taxable persons in the Mainland, subject to the fulfillment of the following conditions:

- The goods must be under a customs suspension status.
- The goods must be related to the Qualifying Activities of the licensed entity.

Example (6): Supply of goods from a taxable supplier in the Mainland to a recipient in a Special Economic Zone in cases where the conditions for applying the zero rate are satisfied.



Supplies of Goods from a Special Economic Zone to the Mainland

In cases where goods are supplied from a Special Economic Zone to a recipient in the Mainland, and the goods subject to the supply are moved from the SEZ into the Mainland, such a supply is considered an import into the Kingdom by the recipient. VAT, customs duties, and the requirements of restriction and clearance agencies apply immediately upon the release of the goods from the SEZ into free circulation.

The licensed entity in the Zone must disclose the removal of goods from the Special Economic Zone to ZATCA. Such disclosure shall be made by submitting a customs declaration based on the customs procedures in force under the Unified Common Customs Law. The VAT due on the import (and any applicable customs duties) shall be payable by the person responsible for removing the goods from the suspension status and "importing" them into the Mainland, according to standard procedures or via the tax return if the Postponed Payment procedure is applied under the provisions of Article 44 of the Implementing Regulations of the VAT Law.

With respect to tax invoices, if the SEZ licensed entity is not registered with ZATCA for VAT purposes, the licensed entity within the SEZ is not required to issue a tax invoice for supplies of goods to the mainland that occurs while VAT liability is suspended due to the goods being under suspension status.



However, if the licensed entity is registered with ZATCA for VAT purposes and makes taxable supplies outside the suspension status (e.g., supply of services), the licensed entity may issue a tax invoice for non-taxable supplies in accordance with the provisions of Article 53 of the Implementing Regulations of the VAT Law. In all cases, the licensed entity must issue commercial invoices to customers according to standard commercial rules, which ZATCA may review and verify to ensure that the information contained therein matches the data to be included in the relevant customs declaration. The importer (the recipient in the mainland) shall be the person obligated to submit such declaration to ZATCA in accordance with the provisions of the Unified Common Customs Law, i.e. such supplies are treated as goods imported into the Kingdom by a non-resident supplier to an importer within KSA. Therefore, the supplier bears no responsibility for calculating VAT on goods that will be imported from SEZ into the mainland.

Example (7): Supply of goods from a taxable supplier in a Special Economic Zone to a recipient in the Mainland.



2.3.2.3 Supplies of Goods from Outside the Kingdom to a Special Economic Zone

Supplies of goods imported into a Special Economic Zone from outside the Kingdom are treated as Outside the Scope of VAT, provided that the following conditions are satisfied:

- The goods must be under a customs suspension status.
- The goods must be related to the Qualifying Activities of the licensed entity.

Example (8): Supply of goods imported from a supplier outside the Kingdom to a recipient in a Special Economic Zone in cases where the conditions for treating the supply as "Outside the Scope of VAT" are met (tax liability is suspended until the date the goods are cleared from the Zone into the Mainland).



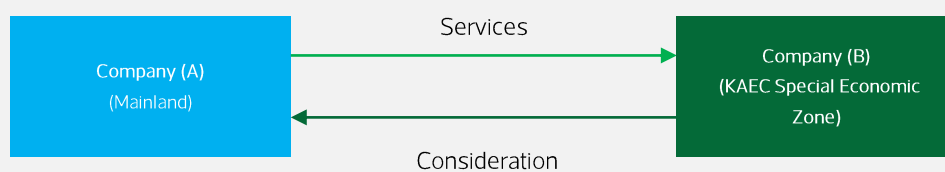


2.3.2.4 Supplies of Services

Supplies of services to, from, within, or between Special Economic Zones are subject to the standard VAT rules applicable to service supplies in the mainland. This includes services supplied by a taxable person in the mainland to a licensed entity in a zone, or services supplied by a taxable licensed entity in a SEZ to any recipient of such services, whether within the SEZ or in the mainland. VAT at the zero percent rate applies to supplies of services made by a taxable licensed entity in a SEZ to any customer resident outside KSA, in accordance with the provisions of Article 33 of the Implementing Regulations of the VAT Law.

For further information and details in this regard, please refer to the VAT Guidelines published on ZATCA's website.

Example (9): Supply of services from a taxable supplier in the Mainland to a recipient in a Special Economic Zone.



(VAT applies at 15%, zero-rated, or exempt depending on the nature of services and standard rules)

Example (10): Supply of services from a taxable supplier in a SEZ to a recipient within the same SEZ.



Consideration

(VAT applies at 15%, zero-rated, or exempt depending on the nature of services and standard rules)

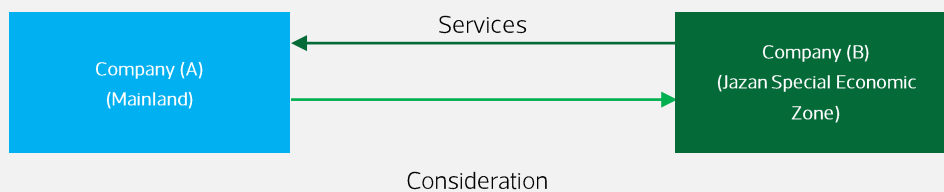


Example (11): Supply of services from a taxable supplier in a SEZ to a recipient in another SEZ.



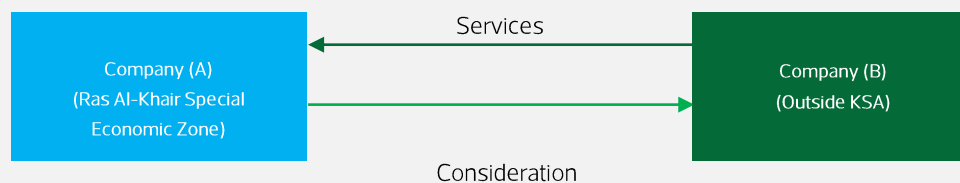
(VAT applies at 15%, zero-rated, or exempt depending on the nature of services and standard rules)

Example (12): Supply of services from a taxable supplier in a SEZ to a recipient in the Mainland.



(VAT applies at 15%, zero-rated, or exempt depending on the nature of services and standard rules)

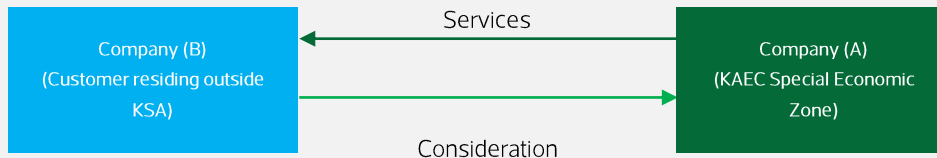
Example (13): Supply of services from a supplier located outside the Kingdom to a taxable recipient in a SEZ.



(VAT applies according to the Reverse Charge Mechanism)



Example (14): Export of services from a taxable supplier in a SEZ to a non-resident customer.



(Value Added Tax applies at the zero percent rate, subject to the conditions and controls contained in Article 33 of the Implementing Regulations of the VAT Law).

2.3.2.5 VAT Deduction

A licensed entity in a Special Economic Zone who is a taxable person registered for VAT purposes is entitled to deduct Input Tax incurred in the course of their activities involving taxable supplies. This applies to supplies subject to the Zero Rate, including supplies within the Zone, outside KSA, or to another SEZ enjoying customs and tax suspension status, in accordance with the provisions of the VAT Law and its Implementing Regulations. Input Tax is deducted through the VAT returns. Frequently, zero-rate supplies may result in a position where the value of deductible Input Tax exceeds the value of Output Tax; consequently, the SEZ licensed entity will have a refundable VAT credit balance.

A SEZ licensed entity registered for VAT purposes in the Kingdom may submit a request to ZATCA for the refund of any such due balance. The request shall be submitted on the date of filing the tax return or at any other time within five (5) years from the end of the calendar year in which the credit balance arose, in accordance with the provisions set forth in the Implementing Regulations of the VAT Law.

2.4 Customs Duties

Qualifying activities within Special Economic Zones are considered among the special customs regimes and statuses under which the payment of Customs Duties and VAT is suspended. Unlike standard suspended statuses, the suspension procedures for these zones are not subject to a specific time limit. However, these zones remain subject to customs and tax regulatory procedures, the respective laws and implementing regulations, and the rules and manuals issued through coordination between the Authority (ZATCA) and the Competent Authority (ECZA).



Customs duties and VAT are not collected on goods and products related to Qualifying Activities in the SEZ when such products and goods are brought into the SEZ from outside KSA and subsequently moved out of the Kingdom ("re-exported"), if compliance with customs and tax procedures, controls, and relevant provisions issued by the Competent Authority is ensured.

The accrual of customs duties and VAT on goods and products related to Qualifying Activities is suspended until the date they enter the local market, and the customs and tax suspension status is terminated. Goods moved from the SEZ to the local market are subject to customs duties and VAT according to the Customs Tariff in force on the date the customs declaration is registered upon exit, in addition to the amounts due on them according to the standard rules on that same date. In this regard, the key applicable customs provisions and procedures are as follows:

1. Goods introduced from the Mainland into the SEZ and related to qualifying activities are treated as exported or re-exported goods.
2. Imports from the SEZ into the Mainland are subject to the provisions of the Customs Law. Taxes and customs duties are levied on goods imported from the SEZ as if they were imported from outside KSA.
3. The general principle for calculating customs duties on imports from SEZ projects and Qualifying Activities into the Mainland is to subject the final product resulting from manufacturing operations within the SEZ to the Customs Tariff in force on the date of the customs declaration registration, even if those goods include local components.
4. Customs Value is subject to the principles and provisions set forth in the Customs Law and the provisions of international agreements to which the Kingdom is a party.
5. The transfer of goods from the Mainland to the SEZ, or vice versa, for the purposes of repair, maintenance, and after-sales services is permitted, provided that the customs procedures specified under Article (2.5.5) below are satisfied.
6. A licensed entity in the Mainland may request a refund of customs duties if goods are re-exported into the SEZ, in accordance with the periods and procedures outlined in the Customs Law.

2.5 Tax and Customs Administration and Procedures

2.5.1 Correspondence with ZATCA

Arabic is the official language for all correspondence with the Zakat, Tax and Customs Authority. The Authority may permit the use of English in addition to Arabic for any correspondence, documents, or other related materials. In the event of any conflict or inconsistency between the Arabic and English versions, the Arabic version shall prevail. A licensed entity may use English to



maintain their books, records, documents, and financial reports, provided that an Arabic translation is submitted upon ZATCA's request.

2.5.2 Tax Registration

Licensed entities operating within the SEZs shall be registered for tax purposes based on the license issued by ECZA, in accordance with the procedures agreed upon between ECZA and ZATCA.

If a licensed entity in the SEZ establishes a branch in the mainland, such branch shall register separately with ZATCA and will be assigned its own Tax Identification Number (TIN). It should be noted that this mainland branch will not be entitled to any tax incentives, even if the parent company is established within the SEZ.

A licensed entity in the SEZ required to register for Value Added Tax (VAT) shall complete the registration process if their annual taxable supplies exceed—or are expected to exceed—the mandatory registration threshold of SAR 375,000 during the previous or upcoming twelve months. However, if a licensed entity in the SEZ exclusively makes supplies that are entirely zero-rated, they are exempt from the mandatory VAT registration requirement. Accordingly, a licensed entity in the SEZ whose revenues exceed the mandatory threshold solely through zero-rated supplies within the SEZ is not required to register for VAT, although they may choose to do so voluntarily to benefit from input tax deductions and refunds. Licensed entities benefiting from this exemption are not required to notify ZATCA, but they shall maintain proper documentation evidencing total supplies and revenues, proof that all supplies are zero-rated, and all relevant business records.

Notwithstanding the foregoing, licensed entities in the SEZ may opt for voluntary VAT registration (subject to meeting the applicable criteria) in order to deduct input tax incurred on expenses related to their SEZ activities, while applying tax to their taxable supplies at either standard rate or zero rate.

2.5.3 Tax Returns and Payment

2.5.3.1 Income Tax

Licensed entities in the SEZ are required to submit an annual income tax return in accordance with the provisions applicable in the mainland and as stipulated under the Income Tax Law. This obligation applies irrespective of whether the licensed entity benefits from any tax incentives; as such, the licensed entity remains obligated to file the tax return.

The income tax return shall be filed within one hundred and twenty (120) days following the end of the relevant fiscal year. The return shall include all income realized during the tax period. Additionally, only expenses and costs that are directly related to business activities shall be considered deductible.



With respect to income derived from non-qualifying activities within the SEZ, such income, together with the associated expenses and costs, shall, where possible, be calculated separately. If the licensed entity is unable to segregate profits arising from qualifying and non-qualifying activities, the taxable base shall be determined in accordance with the following formula:

Taxable Base at the Standard Rate (20%) = licensed entity's Tax Base × (Non-Qualifying Income ÷ Total Income)

The tax due as per the submitted return shall be paid within one hundred and twenty (120) days from the end of the tax year. In the event of a tax overpayment, the taxpayer shall be entitled to a refund of the excess amount, in addition to compensation calculated at a rate of 1% for every thirty (30) days. Such compensation shall commence thirty (30) days after submission of the refund request and shall continue until the refund is paid or the overpayment is offset against other tax liabilities, in accordance with the provisions of Article 66 of the Implementing Regulations of the Income Tax Law.

2.5.3.2 Withholding Tax

The licensed entity is required to submit an annual Withholding Tax (WHT) statement in accordance with Article (68) of the Income Tax Law and Article (63) of its Implementing Regulations, no later than one hundred and twenty (120) days following the end of the licensed entity's fiscal year. This annual WHT statement shall summarize all withholding tax transactions carried out during the relevant year.

2.5.3.3 Value-added Tax (VAT)

Every person registered for VAT purposes, or a duly authorized representative acting on their behalf, shall submit a VAT return to ZATCA for each applicable monthly or quarterly tax period. The VAT return shall constitute the Taxable Person's self-assessment of the tax due for the relevant period. Monthly tax periods shall apply mandatorily to Taxable Persons whose annual taxable supplies exceeded forty (40) million Saudi Riyals during the preceding twelve (12) months. For all other VAT-registered persons, the standard tax period shall be quarterly (three months). The VAT return shall be filed, and any net tax due shall be paid, no later than the last day of the month following the end of the tax period to which the return relates. For further information in this regard, please refer to the "[Simplified Guide for Filing Tax Returns](#)" and the "[VAT Return Filing Guide](#)". Licensed entities in SEZs are subject to the same requirements regarding VAT return filing and tax payment applicable in the mainland. In this regard, it is necessary to note the existence of an exception from the registration obligation, which is available to persons whose supplies are entirely zero-rated. In cases where a licensed entity in the SEZ is not registered for VAT because they qualify for this exception, there will be no requirement to submit VAT returns or pay VAT to ZATCA.



Zero-rated supplies made to, within, or between SEZs shall be declared by the VAT-registered supplier as exports (in Box No. 4 "Exports") of the VAT return. Regarding zero-rated supplies from the mainland, these shall be disclosed in the tax return by the licensed entity in the SEZ as zero-rate purchases (in Box No. 10). Invoices and documents related to supplies associated with SEZs shall be maintained in accordance with the provisions stipulated in the VAT Implementing Regulations. Furthermore, the Taxable Person shall maintain all documents proving the location of the goods at the time of supply, as well as evidence of their transport and placement under, from, or within any of the customs duty suspension regimes. Such documents specifically include customs documents issued in accordance with the provisions and procedures of the Common Customs Law⁵.

A VAT-registered supplier may claim a refund of any overpaid tax in the cases referred to under Article (69) of the VAT Implementing Regulations and Paragraph (2.3.2.5) of this procedural manual. Additionally, it should be noted that licensed entities in the SEZs shall comply with the provisions of the Electronic Invoicing (E-Invoicing) Regulations issued by ZATCA.

2.5.4 Tax Audit and Assessment

ZATCA has the right to perform tax assessment and estimation in the following cases:

- A. Failure to maintain certified books, records, and financial statements.
- B. Books and records are not based on accurate facts or assumptions.
- C. Failure to submit the tax return within the statutory deadline in accordance with relevant provisions.
- D. ZATCA's justified amendment of the tax return in the event of non-compliance with tax and customs laws and their Implementing Regulations in processing the return items.

Licensed entities in the SEZs are also subject to tax audits, assessment of tax liabilities, and estimation by ZATCA in accordance with the tax laws and instructions/regulations in force in KSA.

Licensed entities in the SEZ shall apply and directly refer to the provisions of the tax laws and instructions/regulations in force in the Kingdom to determine tax assessment procedures.

2.5.5 Customs Procedures

Without prejudice to the procedures and provisions stipulated in the Common Customs Law, a customs declaration shall be submitted for all goods entering or exiting the SEZ in accordance with the provisions of the Common Customs Law. Customs procedures for the SEZs shall be processed through the systems approved by ZATCA as follows:

⁵ Article Thirty-Two (32) (bis) of the Implementing Regulations of the VAT Law



A. Entry of Goods into the Special Economic Zone

Entry into the SEZ is carried out by submitting a customs declaration by the licensed entity or their authorized representative, in accordance with the following procedures:

1. Completion of the approved customs declaration form, including the entire contents of the consignment arriving at the SEZ and the distinguishing elements for each item separately. All customs declaration requirements shall be fulfilled as applicable—if any.
2. Uploading the final form to ZATCA's approved platform for review and approval.
3. Customs declaration procedures are concluded upon the full arrival of the goods at the SEZ and the entry of all their details into the licensed entity's inventory system.
4. The type of customs declaration shall be in accordance with the Common Customs Law as follows:
 - A. Export Declaration issued by the licensed entity (within the mainland) if the goods are of national origin and destined for the SEZ.
 - B. Re-export Declaration issued by the licensed entity (within the mainland) if the goods are foreign and destined for the SEZ.
 - C. Temporary Export Declaration from the Kingdom's territories to the SEZ for maintenance purposes.
 - D. Transit Declaration for cases of transit through the mainland (from outside the Kingdom to the SEZ, or from one duty-suspension zone to another duty-suspension zone).
 - E. Import Declaration (from the licensed entity within the SEZ) for goods not related to qualifying activities, provided that customs duties and taxes are settled.
5. Goods shall be entered in accordance with the import procedures applicable under the Common Customs Law, if restriction procedures are fulfilled, while considering any coordination or special conditions between ECZA and the restriction authorities for the entry of restricted goods into the SEZ.



B. Removal of Goods from the Special Economic Zone

1. Mechanism for the Removal of Goods from the Special Economic Zone

The removal of goods from the SEZ shall be carried out by the licensed entity or their authorized representative in accordance with the procedures outlined in Paragraph (A).

2. Type of Customs Declaration

- A.** The customs declaration shall be submitted based on the origin and destination of the goods or the customs procedure as follows:
 - 1. Export or Re-export Declaration issued by the licensed entity, as applicable, if the destination of the goods is outside the Kingdom.
 - 2. Import or Temporary Admission Declaration issued by establishments within the mainland, as applicable, and in accordance with the customs procedures applied in the mainland, if the goods are arriving from the SEZ to the mainland.
 - 3. Transit Declaration for cases of transit through the mainland territory (from a duty-suspension zone to another duty-suspension zone or to a customs house).
 - 4. Temporary Import Declaration from the SEZs to the mainland in accordance with the cases and conditions stipulated in the Common Customs Law and any instructions or controls issued in this regard.
- B.** Provisions regarding guarantees, securities, and undertakings, as well as the provisions for their release based on discharge documents, shall apply in accordance with the Common Customs Law for items (1) and (3) above.
- C.** Subject to any coordination or special conditions between ECZA and restriction authorities, goods arriving from the SEZ to the mainland shall be cleared in accordance with the procedures followed by ZATCA, such as clearance under an undertaking not to dispose of the goods, provided that the clearing authority completes the sampling process from the importer's warehouses.

C. Transfer of Goods between SEZs or Other Areas under Customs Duty Suspension

Goods shall be removed from the SEZ for the purpose of transfer to another area under customs duty suspension by submitting a transit declaration by the licensed entity or their authorized representative. This declaration shall include shipment information, the specified destination, and all related details in accordance with the provisions of the Common Customs Law. The request shall be referred to ZATCA to verify the accuracy of the information and its consistency with the actual shipment for the approval of the request.



D. Transfer of Ownership

Subject to the procedures detailed in Paragraph (A) and Paragraph (B) of this section, the transfer of ownership of goods between licensed entities within the SEZ, or to any other SEZ, shall be carried out according to the procedures and requirements set by ECZA, while observing the following:

1. Notifying ZATCA of all measures taken in this regard.
2. Updating the inventory records of each licensed entity and recording the details of the seller and buyer, the value of the goods, and the original customs declaration number under which the goods entered the SEZ.
3. ZATCA reserves the right to exercise its powers of inspection, oversight, compliance verification, fulfillment of actual requirements, and auditing of licensed entities in accordance with the relevant provisions.
4. Goods linked to a customs smuggling case shall not be permitted for sale.

E. Processing of Manufacturing Operations within the SEZ

1. Manufacturing operations shall be monitored by the licensed entity through the submission of a monthly list via email until the inventory linkage with the licensed entity or the relevant authority is approved. This list shall include the finished product, components of the finished product, etc., in accordance with the manufacturing formulas approved by the competent authorities.
2. In the event that the list described in paragraph (1) above cannot be provided, the establishment may submit its own production records that enable ZATCA to track the inputs and outputs of the products of the SEZ.
3. The establishment shall notify ZATCA of any discrepancies between the components of the finished product and the list referred to in paragraph (1) upon completion of the manufacturing process.
4. In all cases, the licensed entity shall provide ZATCA with all necessary data to verify the final status of goods entered into the SEZ.



F. Maintenance Operations Monitoring Mechanism

1. Maintenance requests submitted by establishments in the mainland shall be monitored through the submission of a Temporary Export Declaration (Maintenance type) from the mainland to the SEZ, in accordance with established procedures. Upon removal, the goods are subject to the removal procedures detailed above and the Common Customs Law, provided that the establishment within the SEZ attaches an invoice specifying maintenance fees, including materials and labor.
2. In cases where goods are removed from the SEZ to the mainland for the purpose of completing their manufacture or maintenance, a Temporary Export Declaration shall be submitted by the licensed entity in the SEZ under customs duty suspension. Upon entry, the goods are subject to the procedures and instructions specified in the Common Customs Law, provided that the finished or maintained goods are subsequently exported back to the SEZ under a Transit Declaration.

G. Monitoring Mechanism for Consumed Goods Resulting from Operations within the SEZ

Consumption operations are monitored through the submission of a monthly list by the licensed entity illustrating the consumption of goods, accompanied by item details, reasons for consumption, and supporting documents. Quantities shall be reserved in the inventory, reviewed by ZATCA, and subsequently deducted from the stock.

While adhering to the data requirements in items (A) and (B), the aforementioned list shall be submitted to ZATCA on the basis that the goods to be consumed or used are within the Qualifying Activities licensed in the SEZs, and such materials shall be subject to inspection. Consumed/used goods in the SEZ are classified into two categories:

1. **Non-Subject to Customs Duties (i.e., goods not subject to duties for consumption/use related to activities):**

Taking into account the criteria for Qualifying Activities issued by ECZA, goods imported for the purpose of use and consumption within the SEZ for manufacturing, maintenance, or value-added operations—which enable qualifying entities to conduct their activities—shall not be subject to customs duties. These include:

- Packing and packaging materials and their associated components.



- Oils, fuels, lubricants, and materials used in operation and production processes, based on the manufacturing formulas issued by the competent authorities and ECZA. This includes the allowable waste percentages in the manufacturing formula for each activity. These materials shall be clearly identified as inputs of the finished product when goods are supplied to the mainland, based on invoices or any documents requested by ZATCA from the licensed entity.

Procedures to be Followed for the Consumption of Goods:

- Submission of a monthly report to ZATCA detailing the consumed goods.
- ZATCA shall reconcile the consumed materials with the relevant records of consumed goods and deduct the quantities from the inventory.

2. Subject to Customs Duties (Goods subject to customs duties for consumption/use):

Taking into account the criteria for Qualifying Activities issued by ECZA, customs duties shall be collected on goods that are not related to the Qualifying Activities entering the SEZ.

H. With respect to the procedures for the removal and recycling of waste and scrap, ZATCA may—upon a request submitted by the concerned party—permit the following:

1. Waste and scrap resulting from a licensed Qualifying Activity may be removed to the mainland after payment of the applicable customs duties and taxes, provided that such waste and scrap possess commercial value. This excludes damaged or perished materials, or operational and manufacturing waste that cannot be sold, used, or recycled.
2. The aforementioned items (waste and scrap) shall be disposed of if their presence in the SEZ results in harm to public health, security, or order, as determined by ECZA and after obtaining ZATCA's approval.
3. Relevant restrictions and procedures shall be observed during the import and export procedures of the aforementioned waste, scrap, or debris to and from the mainland and the SEZs.

Destruction requests shall be processed by the licensed entity or their authorized representative through the submission of a request to ZATCA, stating the reasons for destruction and attaching the required documents. ZATCA shall review the request; upon approval, a date for destruction shall be set under ZATCA's supervision.



Following the completion of the destruction process, the quantities shall be deducted from the licensed entity's inventory records, including the approved destruction number.

The following applicable customs provisions and procedures shall also be observed:

1. The customs value shall be determined in accordance with the Common Customs Law.
2. The licensed entity licensed to conduct activity within the SEZs shall be criminally and civilly liable for any violation of this procedural manual and the Common Customs Law.
3. The burden of proof regarding the consumption and disposal of goods lies with the licensed entity, without prejudice to ZATCA's right to administrative and judicial prosecution for customs smuggling crimes.
4. Taking into account any coordination or requirements issued between ECZA / the relevant authority and the competent restriction authorities, prohibition and restriction provisions shall apply to import and export operations to and from the SEZ in accordance with the Common Customs Law.
5. Exemption provisions shall apply to goods arriving in the mainland in accordance with the Common Customs Law and other relevant regulations.
6. Procedures for temporary admission and temporary export of goods and equipment, as well as provisions for transit and returned goods, shall apply in accordance with the Common Customs Law and in a manner consistent with the nature of the SEZs, including raw materials and items for manufacturing and maintenance operations.
7. Provisions regarding guarantees, undertakings, and the deferral of taxes and customs duties as specified in the Tax and Customs Laws shall apply.
8. Provisions for the refund of customs duties shall apply as stipulated in the Common Customs Law and the procedures approved by ZATCA, in a manner consistent with the cases occurring within the SEZ.

I. Inventory Management System

1. The licensed entity in the SEZ shall provide an electronic inventory management system that is auditable and monitorable. This system shall include a chronological log of entry and exit movements and be electronically linked with ZATCA or have its data and necessary reports made accessible to ZATCA. This is to enable the reconciliation of quantities of goods arriving at factories or warehouses with the quantities exiting them, the remaining inventory balance, and operations performed on the stock and manufacturing in general.
2. Taking into account paragraph (1) above, licensed entities shall, during a transitional period of six (6) months from the effective date of this procedural manual, provide records,



reports, and any documents upon ZATCA's request. ZATCA is granted the authority to access the licensed entity's approved inventory system until the end of the transitional period, provided that the electronic inventory management system is linked before the expiration of this period.

3. Materials shall be consumed within manufacturing operations in accordance with the manufacturing formulas approved by the competent authorities and ECZA. ZATCA reserves the right to request these formulas during audit, verification, inspection, and reconciliation procedures.
4. The licensed entity shall electronically submit a periodic inventory reconciliation form monthly, using a template designed for this purpose. It shall include: (Opening Balance + Imports - Exports/Consumption - Losses = Closing Balance), representing the current inventory balance that is expected to be physically present in the stock.

* Exports refer to raw materials exported from the SEZ in their original state, raw materials contained in the finished product manufactured and stored in the licensed entity's warehouses, raw materials in the finished product exported outside the SEZ, and raw materials under-process (Work in Progress).*

5. The licensed entity shall maintain formal records illustrating the final status of goods and inventory, including but not limited to cases of damage or instances resulting from disasters and accidents.
6. During inspection and audit procedures, ZATCA has the right to request the necessary accounting, financial, and administrative records and documents for all customs and tax operations performed directly or indirectly to verify the integrity of the goods' final status. In the event of any unjustified shortage, ZATCA reserves the right to initiate legal proceedings against the licensed entity in accordance with customs and tax laws.

2.5.6 Penalties

Licensed entities in the SEZs are subject to penalties resulting from the violation of relevant tax or customs laws, including the Value Added Tax Law, Income Tax Law, Excise Tax Law, Real Estate Transaction Tax (RETT) Law, and the Common Customs Law.



2.6 Other Tax Considerations

2.6.1 Transfer Pricing

Licensed entities conducting transactions with related persons shall comply with the Transfer Pricing Bylaws issued by ZATCA under Board of Directors Resolution No. (6-1-19) dated 25/05/1440 AH (corresponding to 31/01/2019). Consequently, licensed entities in this case shall submit transfer pricing documentation, including the Master File, Local File, and Country-by-Country Report (CbCR). The Master File contains information on global business operations and the transfer pricing policies of the multinational enterprise (MNE) group, while the Local File includes detailed information on all controlled transactions between the taxable person and related persons. The Country-by-Country Report is a report submitted by MNE groups regarding their operations in each country, provided the conditions specified in the Transfer Pricing Bylaws are met. Licensed entities shall attach the required documentation to their annual tax returns, and these transactions shall be disclosed alongside the tax return within one hundred and twenty (120) days from the end of the fiscal year.

For further information and details in this regard, please refer to the aforementioned Transfer Pricing Bylaws and the Transfer Pricing Manual.

2.6.2 Real Estate Transaction Tax (RETT)

Licensed entities in the SEZs, when conducting any real estate transaction that transfers ownership or grants permanent right of use—directly or indirectly—or transfers the right of use for a period exceeding fifty (50) years in accordance with the Real Estate Transaction Tax Law, shall pay RETT at a rate of 5% of the transaction value within the deadlines specified under the regulatory provisions. The tax is calculated based on the total agreed transaction value between the transferor and the transferee, provided that—at the date of the transaction—it is within the fair market value. Furthermore, certain real estate transactions are exempt from the application of RETT pursuant to Paragraph (A) of Article (3) of the Real Estate Transaction Tax Law.

For further information and details in this regard, please refer to the RETT guidelines published on ZATCA's website.



2.6.3 Excise Tax

Every person registered for Excise Tax as a producer or importer of excise goods who releases excise goods for consumption in the Kingdom shall pay the Excise Tax due on those goods within the timeframes specified in the Excise Tax Law and its Implementing Regulations. Excise goods are considered released for consumption, and tax payment becomes due, in several cases, including production outside an Excise Tax suspension regime, release from any tax suspension regime, possession outside a tax suspension regime unless the tax due has been paid, or importation unless placed under an Excise Tax suspension regime. In general, tax is suspended on excise goods if they are produced, transferred, possessed, stored, or received by a person licensed by ZATCA within a tax warehouse licensed for Excise Tax purposes, in addition to being transported under a tax suspension regime in the cases stipulated within the Excise Tax Law and its Implementing Regulations. Overall, licensed entities in the SEZs are subject to the same requirements regarding Excise Tax return filing and tax payment applicable in the mainland. For further information and details in this regard, please refer to the Excise Tax guidelines published on ZATCA's website.

Chapter Two Special Economic Zone for Cloud Computing

1. SEZ Nature

The Cloud Computing SEZ differs from other Special Economic Zones in that it is not tied to a specific geographic location. While the SEZ is headquartered in Riyadh, licensed entities are permitted to establish and operate data centers throughout the Kingdom.

2. Qualifying Activities

Special Economic Zone for Cloud Computing	
Qualifying Activities	Activities related to cloud computing and informatics services, including: • Information Technology and Programming. • Financial Technology (Fintech). • Industry 4.0. • Digital Health. • Smart Mobility. • Any other activities as may be determined by a relevant decision



3. Administration, Tax, and Customs Incentives

3.1 Tax and Customs Considerations

Licensed entities in the SEZ are subject to the tax and customs regime applicable in the Kingdom regarding Income Tax, Value Added Tax (VAT), Withholding Tax (WHT), Real Estate Transaction Tax (RETT), Excise Tax, and Customs.

Regarding Income Tax:

Licensed entities in the SEZ who are subject to the provisions of the Income Tax Law and its Implementing Regulations are taxed at a rate of 20% of the tax base.

Regarding Withholding Tax (WHT):

In accordance with the Income Tax Law and its Implementing Regulations, payments made by a resident to a non-resident from a source in the Kingdom are subject to WHT based on the nature of the transactions as follows⁶:

Nature of Transactions	Withholding Rate (%)
Management Fees	20%
Royalties	15%
Dividends	5%
Rent	5%
Loan Charges (Interest/Income from debt claims)	5%
Insurance/Reinsurance	5%
Technical and Consultative Services*	5%
International Air Tickets/Air or Sea Freight	5%
International Telecommunication Services	5%
Any other payments for services	15%
* Payments for technical and consultative services are by nature subject to WHT regardless of the location where such services are performed.	

⁶ Article (68) of the Income Tax Law, and Article (63) of the Income Tax Law Implementing Regulations.



The Income Tax Law and its Implementing Regulations stipulate the obligations regarding WHT. A resident person—whether a taxpayer or not—or a Permanent Establishment (PE) of a non-resident person in the Kingdom making a payment within the scope of WHT shall comply with the relevant requirements regarding the submission of monthly WHT statements and tax payment in accordance with the Income Tax Law and its Implementing Regulations.

Furthermore, a person obligated to withhold tax—who is not registered for Income Tax purposes—shall register with ZATCA and submit a monthly withholding statement including any paid amount subject to WHT in the respective month. In the event that there are no payments subject to WHT, there is no obligation to submit the monthly statement. The person obligated to withhold tax shall submit the statement and pay the withheld amount within the first ten days of the month following the month in which the payment was made to the beneficiary.

In addition to the monthly withholding statement and payment, the person obligated to withhold tax shall submit an annual statement no later than one hundred and twenty (120) days from the end of their fiscal year. The annual WHT statement is considered a summary of all monthly withholding forms submitted throughout the year; consequently, no additional WHT shall be due upon the submission of the annual statement.

Regarding Value Added Tax (VAT):

There is no specific tax treatment applicable to the Cloud Computing SEZ. Consequently, supplies made to, from, within, or between these zones are subject to the same tax treatment applied in the mainland (base economy). Furthermore, the provision of cloud computing and informatics services that do not involve the supply of goods is considered a supply of services; the rules governing service supply transactions—regarding subjection to either the standard rate or the zero rate—shall apply.

It should be noted that the requirements for VAT registration, tax return filing, and tax payment for licensed entities in the Cloud Computing SEZ are identical to those applied in the mainland.

3.2 Special Tax Treatment

The Cloud Computing SEZ provides tax treatments based on the provisions of international agreements, the Income Tax Law, its Implementing Regulations, and the guides and bulletins issued by ZATCA. This is subject to the application of the Global Minimum Tax rules (Pillar Two) in the Kingdom for companies falling within its scope. The following paragraphs provide further clarification in this regard:



1. Classification of payments related to SEZ activities made to related persons in accordance with OECD principles:

The classification of payments to non-residents affects the determination of which state has the right to impose tax. This means such payments may not be subject to Withholding Tax (WHT) in the Kingdom and may be taxed exclusively in the recipient's jurisdiction. The classification of a specific type of payment, such as royalties, may differ as a result of following the interpretations in the OECD Commentaries, which differs from ZATCA's practice applied in the mainland.

Example (15): Payments for the use of a program for a specific entity, with the right of this entity to make multiple copies of this program solely for its business operations, are considered "Royalties" according to ZATCA's current practice. However, these payments are considered "Business Profits" according to the OECD Commentaries, which is what will be applied to licensed entities in the Cloud Computing SEZ.

2. Application of principles established in the OECD Commentaries regarding payments to persons resident in countries with Double Taxation Avoidance Agreements (DTAA) with the Kingdom, particularly concerning Permanent Establishments (PE):

The existence of a PE in a state grants it the right to tax the entire profits realized by that PE. Although ZATCA does not apply the concept of a "Virtual PE," the OECD Commentaries provide a detailed analysis of cases leading to the existence of a PE, including cases of digital services. The explanations issued regarding Article (5) of DTAA's related to PEs provide a detailed analysis of "E-commerce" and situations that constitute a PE, such as whether the presence of a server leads to the creation of a "fixed place of business."

It should also be noted that the OECD Commentaries regarding the attribution of income to a PE will be applied, regardless of whether this aligns with the practices adopted by ZATCA in the mainland.

3. Non-consideration of a Virtual PE resulting from the use or storage of data in data storage centers within the Kingdom:

OECD principles regarding a Service PE apply. The explanations issued regarding the OECD Model Tax Convention provide guidance on how to apply the definition of a "fixed place of business" to e-commerce, including whether a server location constitutes a PE in the Kingdom.



4. Application of Mutual Agreement Procedures (MAP) as a means of resolving tax disputes in the event of a DTAA:

For more information in this regard, please refer to the "Mutual Agreement Procedure (MAP) Request Guide" published on ZATCA's website.

5. Allowing the deduction of expenses paid to related persons, provided they comply with Transfer Pricing Bylaws:

The Transfer Pricing Bylaws issued by ZATCA under Board Resolution No. (6-1-19) dated 25/05/1440 AH (31/01/2019), and any subsequent amendments apply to the licensed entity in the SEZs. This ensures consistent compliance with the same rules and principles in both the SEZs and other areas.



Scan this code to view the last
version and all published documents
Or visit our website zatca.gov.sa