



DOING BUSINESS IN SAUDI ARABIA

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Introduction

Saudi Arabia offers excellent opportunities for international business, particularly in light of the Government's ambitious Vision 2030 plan encouraging expansion of trade and allowing greater access for overseas investors.

However, foreign investment is governed by complex legal and administrative regulations, and this document is intended as overview of the requirements. Broadly, it will cover the establishment of a business or commercial relationship; tax regulations; and immigration requirements.

I: ESTABLISHING A BUSINESS

Five types of business entity are recognised in Saudi Arabia.

- A. Limited Liability Company (LLC)
- B. Joint Stock Company (JSC)
- C. Joint liability company (equivalent to partnership)
- D. Limited partnership company (equivalent to limited liability partnership)
- E. Joint venture

Foreign companies may also establish **branches or representative offices** in Saudi Arabia, or may choose to work through an **agent or distributor**. The most common forms of entry to the Saudi Arabian market chosen by foreign investors are LLC, JSC, branches and agency relationships. These are considered further below.

Broadly, the steps to be taken can be divided as follows:

1. SAGIA licence (required for any foreign investment)
2. Choice of, and establishment of, business entity
3. Further required registrations

1. SAGIA licence

Before investing in Saudi Arabia, a foreign investor must first obtain a licence from the Saudi Arabian General Investment Authority (SAGIA). This process takes 20-30 days and requires copies of the following documents:

- Constitutional documents of the company: Articles of Association and commercial registration (or equivalent);

- A shareholders' resolution to invest, including the names and capital holdings of shareholders, the company's headquarters, the type of activity, name of the general manager and authorised representative;
- Completed SAGIA form, duly stamped with the company's seal.

(All documents to be legalised by the local Saudi Consulate.)

Some foreign businesses may be eligible for an expedited process, the "Immediate" or "Instant" Licence, with SAGIA which is much quicker – the stated aim is that it will be issued in 10 minutes. Broadly, this will be open to multinationals, companies listed on an international stock exchange, SMEs using proprietary IP, "innovative" companies, "first-class" construction companies, etc.

Some activities require the additional approval of the relevant Government Department, particularly those in verticals which are restricted for foreign investors. Such approval may need to be sought before the SAGIA licence application, or after – depending on the sector involved. Such restricted activities will often be subject to specific rules regarding minimum capital requirements and the percentage of foreign ownership. These rules are changing currently, and it is imperative to take local advice on what will apply in your sector of activity.

Note that certain sectors are wholly prohibited for foreign investors.

In the industrial sector this includes:

- oil exploration, drilling and production
- manufacture of military equipment
- manufacture of civilian explosives

In the service sector this includes:

- Catering to military sectors
- Security services
- Real estate investment in Mecca and Medina
- Tourist orientation and guidance services related to Hajj and Umrah
- Recruitment and employment services, including local recruitment offices
- Real estate brokerage
- Printing and publishing (save for certain activities)
- Commission agents
- Audio-visual and media services

- Land transportation services, excluding inter-city passenger trains
- Quasi-medical services (nurses, midwives, therapists)
- Fisheries

2. Choice of business entity

Limited Liability Company (LLC)

This is the equivalent of a private limited company. It may comprise 1 - 50 shareholders, each of whom is liable to the extent of their shareholding. Note that a single member LLC cannot own another single member LLC.

There is no minimum capital requirement, save for certain categories of SAGIA licences (for example an industrial LLC must have minimum capital of SAR 1 million).

Shares may not be offered for public subscription (to do this the LLC would be required to convert to a JSC).

The shareholder's agreement must be compliant with Shari'a and local companies law. The register of shareholders should be lodged with the Ministry of Commerce and Investment (MOCI) and updated as required. Note that any sale or transfer of shares is subject to statutory rights of pre-emption.

Joint Stock Company (JSC)

This is the equivalent of a public limited company. Closed JSCs are unlisted, public JSCs are listed on the Saudi Stock Exchange and are subject to a much higher degree of oversight.

JSCs require authorisation by both SAGIA and MOCI, and additional authorisation by royal decree in order to undertake public sector work, banking or insurance activities or to receive state assistance. The additional regulations imposed on JSCs increase compliance costs significantly as compared with LLCs.

Normally there must be a minimum of two shareholders, and a minimum capital requirement of SAR 500,000 (save for certain categories of SAGIA licences). Corporate governance requirements are imposed similar to those found in other countries.

Branch of a Foreign Entity

A branch office of the foreign company or business can be set up in Saudi and carry out trading activities directly. Such branch office will require a licence issued by SAGIA and is subject to the Foreign Investment Law and to the authority of MOCI.

The parent company assumes all liability for activities carried out by their Saudi branch office. The minimum capital requirement is SAR 500,000.

A foreign business winning a Government contract is entitled to apply to set up a temporary branch office in order to implement the contract; the administrative requirements for this type of branch office are somewhat abbreviated.

Branches and TSOs (below) are generally quicker and easier to establish than LLCs, though they allow less flexibility.

Technical and Scientific Services Office (TSO)

This is intended primarily to provide technical support to the parent company's Saudi Arabian agent or distributor, and is not permitted to carry out any sales activity. There is no minimum capital requirement.

Commercial Agency / Distribution Arrangements

Goods or services originating from outside Saudi Arabia can be sold through a local distributor or agent. Such relationships are governed by the Saudi Commercial Agencies Law which allows considerable latitude to the parties to decide their own arrangements. Agents must be registered in the Commercial Agents Register at MOCI, and the agency/distribution agreement should be registered with MOCI within three months of coming into effect (though this is not always done and the main practical effect of failing to register is that it can be hard to appoint a new agent if a change is needed).

Although exclusive arrangements are not obligatory, it is the policy of MOCI that agency and distribution arrangements are exclusive either by product line or by geography. A foreign company may appoint different distributors, for example, for each of the three main regions of Saudi Arabia.

3. Further registrations

Once the business entity is appropriately licensed and set up, the business should also register with the following Government agencies:

- Ministry of Commerce and Investment: Commercial registration (this should be done after the SAGIA registration is finalised and a bank account has been opened). This takes approximately 7 working days and a fee of SAR 2,000 is payable. You must provide: the original and a copy of: the Articles of Association, a Board resolution authorising the investment, the SAGIA Licence, and a copy of the General Manager's ID document.
- Chamber of Commerce: this registration is issued in person to the Authorised Signatory on the day of application. A fee of SAR 2,000 is due annually (or VIP membership is available for SAR 10,000). Document requirements are original and copy of the Articles of Association, the Board resolution and the original commercial registration from MOCI.
- Municipal Licence: This necessitates a physical inspection of the proposed business premises, along with a review of the lease and various maintenance agreements. This can take up to three weeks. The fee depends on the size of the office.
- Ministry of Labor: This takes around three working days. The MoL has oversight of salaries to ensure they are paid correctly and on time.
- Ministry of Interior: This takes around three working days.
- General Organisation for Social Insurance (GOSI): This takes one working day, but requires a registration number issued by the Ministry of Labor, so cannot be done concurrently with that application.
- General Authority of Zakat and Tax (GAZT): This takes three working days.
- Wasel (Saudi Postal System): This takes one day and is renewed annually with a fee of SAR 1,000 per year.
- VAT registration: (if necessary – see below) with GAZT

Please note that this is not an exhaustive list of requirements and that Saudi business and foreign investment regulations are currently changing rapidly. It is strongly recommended that foreign businesses work closely with a local advisor throughout the process to ensure they comply with up-to-date regulations.

II Tax and Accounts

A: Taxes on Income (company and personal)

There are two systems of income taxation in Saudi Arabia. Broadly, Saudi and GCC nationals and businesses are subject to Zakat, which is based on Islamic concepts and is payable at a rate of 2.5%. Non-Saudi businesses are subject to income tax, generally at a flat rate of 20% (higher rates apply to companies in oil and gas production). There is no personal income tax.

Where a company is of mixed shareholding (some Saudi, some non-Saudi) Zakat will be applied to the Saudi portion, and income tax to the non-Saudi portion.

A number of cities are being developed where tax incentives may be available for qualifying companies; this permits deductibility of certain training and salary costs, for example.

Tax returns are on a self-assessment basis and must be submitted and tax paid within 120 days of the end of the company's year-end.

B: Taxes on goods/services

VAT is 5% on most goods and services (since 1 January 2018). Registration (with GAZT) is compulsory for all businesses with turnover greater than SAR 375,000. Returns are due every three months.

An additional Selective Tax is imposed on certain goods deemed harmful to health. Tobacco and energy drinks are taxed at 100% and other soft drinks at 50%. Returns are due monthly.

C: Import taxes

The standard rate is 5%, though this varies for certain goods, in order to either protect local industry (for example, the rate for textiles is 12%) or encourage imports (for example, coffee is duty free).

D: Accounting Requirements

Audits are required annually, and must be carried out by an auditor certified with the Saudi Organisation for Certified Public Accountants (SOCPA), and licensed by MOCI (such licences being available to Saudi nationals only).

In addition to filing accounts (which should comply with SOCPA accounting standards), all JSCs and LLCs must file a Directors' Report and financial statements with MOCI within six months of the financial year end.

MOCI requires that all companies and establishments (with capital that exceeds SAR 100,000) should keep the following books of account locally in Arabic:

- Daily Journal.
- General ledger.
- Inventory book- this is a comprehensive trial balance of all assets, liabilities and results of the year, which should be comparable to a detailed balance sheet and income statement.

III Immigration and Saudization

Broadly there are three types of visa for those who require a visa to enter Saudi Arabia for business or work purposes (nationals of other GCC countries may enter without a visa).

A: Business Visit / Commercial Visas

These are intended for short visits to conduct business in Saudi. Under such a visa the entrant is not allowed to do work – the visa is intended for those needing to attend meetings, conferences or for visiting facilities. These can be issued for a one-off trip, or for a series of trips over a specified period. The process is as follows:

1. Obtain invitation letter (2 working days): submit passport, job title, purpose of the visit, details of the applicant's company and the type and length of visa required.
2. Process the visa at the applicant's local Saudi consulate: submit passport, purpose of visit, proof of intent to depart Saudi Arabia, proof of sufficient funds for the duration of the visit; letter of invitation from a Saudi company; letter of introduction from the visitor's company stating job title and purpose of trip; medical insurance for the duration of the trip.

B: Work Visit Visa

This is intended for short term work assignments in professional or technical roles. Often, this will be appropriate for those entering to work on installations, or for training or consulting.

The process is similar to that for a Business Visit Visa, save that the visitor must additionally provide a copy of the relevant secondment agreement and an Educational Certificate attested by the Saudi consulate matching the job title on the application.

C: Work Visa (Iqama)

This is intended for long-term work assignments, and may last one or two years. The application is sponsored by a Saudi entity, who must have registered with the Ministry of Labor for approval to sponsor foreign nationals (the “Block Visa”). The applicant, at their local Saudi Consulate, then applies for a permit, submitting the visa authorisation number provided by the sponsoring Saudi entity along with identity documents, medical certificates, professional and educational certificates, and a contract of employment.

The visa can take several weeks to be issued. Any trips out of the country should be planned well in advance as exit/re-entry visas will need to be applied for.

Note that nationals of some countries are prohibited entry to Saudi Arabia.

Saudization Program (Nitaqat)

This government program was introduced in 2011 and is designed to increase employment opportunities for Saudi nationals. Businesses are classified into six categories depending on the percentage of employees who are Saudi nationals: businesses with a high proportion of Saudi employees will be in the platinum category, and the levels run down through green (sub-divided into high, medium and low), yellow and red.

Platinum category businesses have the benefit of fast-track services with the Ministry of Labor for visa applications and are preferred suppliers for government projects. Only platinum and high green category businesses may apply for the Block Visa needed in order to recruit expatriate employees. Lower categories of businesses are restricted to expatriate employees already in Saudi Arabia and looking to change employer.

Ranking is based on an evaluation of:

- Company's activity sector
- Size of Company
- Percentage of Saudi national employees

The percentage levels for each category vary widely by industry and by the total number of employees in the business.

Three industry examples (valid as of September 2017) are shown below:

Sector	No. of Employees	Platinum	High Green	Medium Green	Low Green	Yellow	Red
Information Technology	6-49	56%	38%	28%	20%	11%	≤ 10%
	50-99	64%	46%	36%	29%	19%	≤ 18%
	100-199	67%	49%	39%	32%	19%	≤ 18%
	200-499	70%	52%	42%	35%	19%	≤ 18%
	500-2999	73%	55%	45%	38%	22%	≤ 21%
	3000+	76%	58%	48%	41%	22%	≤ 21%
Manufacturing Industries	6-49	27%	21%	15%	9%	6%	≤ 5%
	50-99	31%	26%	21%	16%	7%	≤ 6%
	100-199	31%	26%	21%	16%	7%	≤ 6%
	200-499	31%	26%	21%	16%	7%	≤ 6%
	500-2999	37%	31%	26%	21%	9%	≤ 8%
	3000+	37%	31%	26%	21%	9%	≤ 8%
Consulting and Business Services	6-49	47%	39%	31%	23%	15%	≤ 14%
	50-99	37%	33%	27%	22%	15%	≤ 14%
	100-199	37%	33%	27%	22%	15%	≤ 14%
	200-499	37%	33%	27%	22%	15%	≤ 14%
	500-2999	37%	33%	27%	22%	15%	≤ 14%
	3000+	37%	33%	27%	22%	15%	≤ 14%

For information on other industries or special requirements or dispensations that may be available in different geographical areas, please contact us as set out below.

For companies struggling to find sufficient Saudis with the required skills, there is a “Parallel Nitaqat” system, where a company can choose the Nitaqat category it wishes to be in, and pay a fee in respect of each Saudi employee they would need to hire in order to reach that level. This money is used to train Saudi nationals in skills that are in short supply.

Certain types of employment are reserved exclusively for Saudi nationals, including cashiers, senior HR personnel, security personnel and receptionists.

An additional obligation is the Saifi initiative, under which all companies with more than 25 employees must hire Saudi national interns (aged 17 plus) during their summer vacation for four weeks. They should be paid SAR 1,500 per month. It is possible to, instead, pay for this obligation to be fulfilled by an external training body.

PLEASE NOTE: the rules for the Saudization program, and other programs to increase Saudi employment, change often in response to alterations in the job market and skills availability. In order to ensure you are making business decisions based on the latest information on your industry, please call us for advice.

Saudi Arabia has unparalleled opportunities for your business. The unique legal, cultural and bureaucratic conditions necessitate a local guide to support your business decisions and development and enable you to make the most of the opportunities.

You can reach one of our experienced advisers at:

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