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Recent developments in international taxation: Kingdom of Saudi Arabia

Preliminary note

This document provides a consolidated overview of recent tax developments in the Kingdom of Saudi Arabia (KSA) in the last 12 months. The report provides insights on key developments, regulatory changes and economic impacts within the fiscal environment in the KSA. It also offers a perspective on the evolving role of taxation in supporting Saudi Arabia's Vision 2030 economic diversification goals. The national report covers developments in both direct and indirect tax domains. Updates are presented thematically rather than in chronological order.

Direct taxes

Direct taxes in KSA include corporate income tax (CIT), zakat and withholding tax (WHT). This section will summarise the updates relating to such taxes from 2024 to the present.

Regional headquarters tax rules

Saudi Arabia has introduced [new tax rules](#) ('Rules') for regional headquarters (RHQs), effective 16 February 2024.

As a key part of the KSA's Vision 2030, initiated by the Royal Commission for Riyadh City and the Ministry of Investment, the RHQ initiative focuses on establishing an RHQ in the KSA to manage and guide multinational companies' (MNC) operations within the country and the Gulf region.

The initiative, articulated through a series of newly minted legal frameworks, underscores the KSA's strategic pivot towards becoming a global nexus for business and investment in the Gulf region and beyond. It is noteworthy that, from 1 January 2024, only companies registered in the KSA are eligible for government contracts or to receive specific benefits for having an RHQ.

These Rules grant qualifying RHQs 0 per cent income tax on eligible income and 0 per cent WHT on payments to non-residents (dividends, related-party/third-party service fees), provided some requirements are met. Namely, RHQs must meet economic substance criteria:

- a valid licence;
- physical Saudi assets;
- local management/board meetings;
- full-time employees (including a resident director); and
- revenue from approved activities.

Regional headquarters must also be set up as an independent legal entity, either through a subsidiary or a registered branch of a foreign parent company. This requires maintaining a physical office in Saudi Arabia to function as the hub for regional administrative operations. Importantly, RHQs are not required to generate income through direct commercial activities.

Any revenue-generating business must instead be carried out by a Saudi-based affiliate (an entity licensed by the Ministry of Investment (MISA)) to operate in the relevant commercial sector.

Additionally, to qualify for RHQ status, MNCs must already operate at least two subsidiaries or branches in two different countries outside of Saudi Arabia and the country of their incorporation. This criterion is designed to ensure that only globally active corporations with a strong international footprint can establish RHQs in the KSA, thus aligning with Saudi Arabia's vision of promoting sustainable economic growth and regulatory compliance.

Overall, the introduction of tax rules for RHQ in KSA marks a significant step in the country's Vision 2030 agenda. This agenda aims to make the Gulf nation a leading global hub for business and investment by attracting multinational corporations through strategic incentives.

Zakat

Zakat is a religious levy rooted in Islamic principles that forms an integral part of the KSA's tax system. It is administered by the Zakat, Tax and Customs Authority (ZATCA) and applies to entities wholly or partially owned by Saudi or Gulf Cooperation Council (GCC) nationals.

Unlike CIT, zakat is not based solely on profits. Instead, it is assessed on the entity's net worth, incorporating both the net profit and zakatable balance sheet items: ie, sources of funding, whether internal or external (eg, owner equity, retained earnings, long-term obligations), and non-zakatable assets include non-traded investments, net fixed assets and the like. ZATCA uses the indirect method to arrive at the zakatable base, starting from the entity's accounting equity and adjusting for specific additions and deductions, ultimately reflecting a working capital proxy.

To modernise and standardise zakat compliance, ZATCA issued new [Zakat Regulations](#), effective 1 January 2024. These regulations introduce a revised methodology and clearer zakat classification of assets and liabilities. The table below compares the previous and updated Zakat Regulations in the KSA.

Aspect	Previous Regulation	Updated Regulation (Effective January 1, 2024)	Article
Ownership Changes During Year	Adjusted based on mid-year changes.	Ownership % fixed at year-end only.	Art. 13
Zakat Base	Applicable to the higher of the zakat base or zakat adjusted profit	New minimum and maximum rules. The minimum rules apply if the zakat base is less than zakat adjusted profit.	Art. 27
Additions to Zakat Base	Equity items and liabilities, including short-term liabilities that have been used to finance deductible assets.	Standardized into: equity and similar items, non-current liabilities, and profit differences (after tax/zakat).	Art. 23
Equity Treatment	Opening balances including reclassifications during the year in equity items or additions made during the year used to finance deductible assets.	Closing balances regardless of the change during the year.	Arts. 24, 30, 36-41
Non-current Liabilities	Opening balance of long-term liabilities and the additions during the year are pro-rated. Capped at the total value of deductible assets. Short term liabilities added in certain cases.	Closing g balance of long-term liabilities. Capped at the total value of deductible assets. Short term liabilities added in certain cases.	Art. 29
Deductible Items	Less comprehensive and less conditional.	Expanded and condition-based (e.g., funds, housing, BOT, sukuk).	Arts. 26, 31-32, 42, 45, 47-55, 74, 77
CPA Certificate for Bad Debts	Required in most cases.	Not required if <1% of revenue or final bankruptcy.	Art. 65
Amendment of Returns	Limited flexibility.	Allowed with ZATCA approval; limitation restarts.	Arts. 103-104
Limitation Period	5 or 10 years, depending on the Zakat payer's compliance status.	5 or 10 years, depending on the Zakat payer's compliance status.	Art. 106
Revenue/Expense Mismatch	Mismatch between reported expenses and FS, will be adjusted in the return.	Mismatch between reported expenses and FS, will be adjusted in the return.	Arts. 60-61
Record Retention	Not specified, but it can be assumed to fall within 5 to 10 years (i.e., until the end of the limitation period).	10 years	Art. 110
BOT/BOOT Projects	No specific guidance.	Deductible under specific conditions.	Art. 74
Real Estate Projects	Deductible, limited to less than 25% of advance receivables.	Deductible under specific conditions, limited to less than 25% of advance receivables.	Art. 73

Idle land tax

In a major reform to the Kingdom's real estate framework, Saudi Arabia has expanded the scope of the [Idle Land Tax Law](#) for the first time since its introduction in 2016. Approved by the Cabinet on 29 April, the amendments mark the most significant update to the legislation to date.

The idle land tax is a government-imposed levy on undeveloped land (commonly referred to as 'idle land') located within urban areas and designated for residential or mixed residential-commercial use. Key changes include the introduction of taxes on long-vacant buildings and adjustments to land size thresholds that determine tax liability.

These measures aim to stimulate property development and discourage speculative land holdings. The updated law is part of a wider strategy to address housing supply and demand imbalances, particularly in high-growth urban centres like Riyadh. By promoting more efficient land use and curbing real estate speculation, the reforms also support national efforts to improve access to affordable housing, an essential pillar of Saudi Arabia's Vision 2030.

Specifically, the new law raises the annual rate to up to 10 per cent of land value for idle plots owned by individuals or non-government entities, excluding state-owned land. The tax applies to land areas of 5,000m² or more within urban boundaries. A new annual tax on vacant properties and unused buildings within cities has also been introduced, capped at 5 per cent of estimated rental value, with a possible increase to 10 per cent by Cabinet approval.

The government will issue the Executive Regulations for the amended Idle Land Tax Law within 90 days of its publication in the Official Gazette. Additionally, specific regulations addressing the taxation of vacant properties are anticipated within the next year, according to the Saudi Press Agency (SPA).

Indirect taxes

Real estate transactions tax

Since October 2020, Saudi Arabia has applied a 5 per cent tax on real estate sales and transfers under the RETT Regulations. Effective 9 April 2025, Saudi Arabia has introduced a Real Estate Transactions Tax (RETT) Law under Royal Decree M/84 and [revised RETT Regulations](#), which came into force on 3 May 2024.

The new RETT Regulations introduce several important exemptions aimed at encouraging investment, streamlining ownership structures and supporting capital market development. A key change is the exemption granted to individuals who contribute real estate assets as in-kind shares in exchange for investment units in real estate investment funds. This incentive is designed to promote asset-backed investment and enhance liquidity in the real estate sector.

The exemptions also extend to cases where real estate ownership is transferred to a company in which the individual holds shares, provided that the property was recorded in the company's assets before the effective date of the new regulations. This facilitates corporate restructuring and ownership consolidation without triggering immediate tax liabilities.

The regulations impose conditions on post-transfer ownership changes to maintain the integrity of these exemptions, particularly in the context of public offerings of company shares or fund units. These measures aim to prevent tax avoidance and, simultaneously, encourage initial public offerings (IPOs) and public participation in real estate investment.

In addition, amendments have been made to the timing of RETT obligations for project contracts such as those involving construction, ownership, operation and transfer arrangements. Tax will now be due within 30 days of the actual transfer of ownership or possession, aligning tax payments more closely with transaction execution and improving business cash flow management.

VAT

On 18 April 2025, ZATCA published [Board Resolution No. 01-06-24](#) in the *Umm Al-Qura Gazette*, approving major amendments to the VAT Implementing Regulations.

Saudi Arabia has implemented substantial revisions to over 26 articles of its VAT Regulations, marking a significant shift in the country's tax compliance landscape. These changes, some of which were refined following public consultation initiated on 28 August 2024, are aimed at improving clarity, promoting fairness and enhancing enforcement.

ZATCA has published a comprehensive guide detailing updates across several critical areas, including VAT grouping rules, the scope of taxable services, treatment of economic activity transfers, input VAT restrictions, and transactions involving customs suspensions or special economic zones (SEZs). Supplies made through digital platforms by both resident and non-resident unregistered suppliers are also addressed.

VAT group eligibility is now strictly limited to taxable persons, accompanied by new restrictions and exclusion criteria. The definition of restricted motor vehicles has been updated to include any passenger vehicles with a capacity of up to ten persons. In contrast, conditional exceptions for specific vehicle types like emergency and industrial vehicles have been provided.

Additionally, the reforms allow VAT deductions on certain previously non-recoverable expenses, provided they are incurred as a statutory obligation. Clearer timelines for issuing credit and debit notes have also been introduced, aligning compliance obligations with commercial realities and reducing ambiguity for businesses.

The VAT refund framework has undergone major changes to broaden access and support specific sectors. Eligible entities now include military organisations, accredited diplomatic and consular staff, registered charities, and entities engaged in designated economic activities. This underscores a policy focus on supporting essential services and nonprofit operations. At the same time, the regulations clarify that registered taxpayers cannot claim refunds for amounts otherwise recoverable as input VAT, reinforcing integrity in refund claims.

In a significant development for the digital economy, new compliance obligations have been introduced for electronic marketplaces. Starting 1 January 2026, platforms – whether resident or non-resident – that facilitate the supply of goods or services for unregistered Saudi suppliers will

be treated as the deemed supplier. They will be responsible for collecting and remitting VAT on such transactions unless expressly exempted. This policy seeks to close enforcement gaps in the rapidly growing online commerce sector, and ensure a level playing field between domestic and foreign digital platforms.