

# DOING BUSINESS

IN THE KINGDOM OF SAUDI ARABIA



The network  
for doing  
business

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 95 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the kingdom of Saudi Arabia has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at April 2019.

We look forward to helping you do business in Kingdom of Saudi Arabia.

## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

Saudi Arabia is the birthplace of Islam, the location of Mecca and Medina, the two holiest cities of Islam, and the focus of the annual Islamic Haj, the pilgrimage to the holy city of Mecca.

Saudi Arabia is the world's single largest repository of petroleum, having about one third of the world reserves of petroleum. Because the oil is close to the surface, it can be retrieved inexpensively. Saudi Arabia also has the world's largest developed reserve pumping capacity for oil, which allows it to control prices by adjusting the supply with relative ease, and to meet world shortages by increasing capacity. Annual per capita income is about \$7,000

### POPULATION

Saudi Arabia has a population of about 22,000,000 (estimates vary) including about 5 million foreigners. Of the citizens, 90% are Arabs and all are Muslims...

### GEOGRAPHY

The Kingdom of Saudi Arabia is a country situated in Southwest Asia, the largest country of Arabia, bordering the Persian Gulf and the Red Sea.. The kingdom occupies 80% of the Arabian Peninsula. Most of the country's boundaries with the United Arab Emirates (UAE), Oman, and the. The Saudi government estimate is at 2,217,949 square kilometres, while other reputable estimates vary between 2,149,690 and 2,240,000 sq. kilometres. Less than 1% of the total area is suitable for cultivation, and in the early 1990s, population distribution varied greatly among the towns of the eastern and western coastal areas, the densely populated interior oases, and the vast, almost empty deserts.

### CURRENCY

The currency of Kingdom of Saudi Arabia is Saudi Arabian Riyals.

### LANGUAGE

Arabic is official language of Saudi Arabia. Other languages like English are widely spoken across the kingdom.

### MAJOR EXPORTS

The top exports of Saudi Arabia are crude petroleum (\$100b), refined petroleum (\$18.4b), ethylenepolymers (\$10.5b), propylenepolymers (\$5.84b) and ethers (\$4.92b), using the 1992 revision of the hs (harmonized system) classification. Its top imports are cars (\$16b), gold (\$5.28b), broadcastingequipment (\$3.68b), packagedmedicaments (\$3.63b) and delivery trucks (\$3.31b).

The top export destinations of Saudi Arabia are china (\$26.7b), the United States (\$20.9b), India (\$19.9b), South Korea (\$17.7b) and other Asia (\$12.5b). The top import origins are china (\$23.4b), the United States (\$18.8b), Germany (\$11b), South Korea (\$9.7b) and the United Arab Emirates (\$8.5b).

## MAJOR IMPORTS

Saudi Arabia imported \$167B, making it the 28th largest importer in the world. During the last five years the imports of Saudi Arabia have increased at an annualized rate of 9%, from \$108B in 2010 to \$167B in 2015. The most recent imports are led by Cars which represent 9.6% of the total imports of Saudi Arabia, followed by Gold, which account for 3.16%.

The top import origins of Saudi Arabia are China (\$23.4B), the United States (\$18.8B), Germany (\$11B), South Korea (\$9.7B) and the United Arab Emirates (\$8.5B).

## EDUCATION – PRIMARY AND SECONDARY

In Saudi Arabia primary education through to high school is open to everybody and is free. Children may attend kindergartens as parents wish. At age 6 though, they must enrol for 6 years at primary school.

During the final 3 years of free education, this time in secondary schools, students have a choice between continuing general education, and switching to specialized secondary education at technical secondary institutes. Here 3 year vocational education and training programs are available in the fields of agriculture, commerce and industry

## TERTIARY EDUCATION

There are 24 government universities in Saudi Arabia where degrees in medicine, pharmacy and engineering take 6 years to complete, and humanities and social sciences, 4 (which are the choice of 70% of students). Notwithstanding this, the state awards over 5,000 bursaries.

King Saud University was established as the first ever in the Persian Gulf not dedicated to religious subjects. Today, over 40,000 students of both sexes study there.

## HEALTH CARE SYSTEM

Saudis receive their healthcare from one of several ways:

1) From a public, Ministry of Health-funded service; 2) From a military hospital, of which there are two branches (the Saudi Arabian National Guard and the Ministry of Defence and Aviation); 3) From a hospital for government employees; 4) From a subspecialized referral hospital; 5) From private, for-profit hospital; 6) From a private hospital for employees of a specific industry.

## BANKING AND FINANCIAL SERVICES

With assets of about US\$1.2 trillion (186 percent of GDP), the financial sector includes 24 commercial banks (51 percent of the total); pension funds (26 percent); five specialized (not deposit-taking) credit institutions (SCIs) that provide medium and long-term developmental loans for industry, agriculture, SMEs and real estate (19 percent); 1 investment funds (2 percent); and other financial institutions, including insurance companies (2 percent).

Domestic capital markets are relatively small: the stock market capitalization is a little over 54 percent of GDP and the bond market about one percent of GDP. The 12 domestic banks—four of which are majority-owned by government agencies or pension funds—represent 97 percent of banking system assets. The remainder is made up of 12 foreign banks.

Banks follow a simple business model, mainly intermediating private sector deposits (73 percent of total liabilities) for lending to corporates (43 percent of total assets) and households (19 percent). Among the latter, mortgage loans comprise only about one-fourth of the total while the remainder is consumer and credit card loans. Direct exposure to the government is limited (6 percent of assets).

The financial system is domestically oriented, with relatively low cross-border linkages, as suggested by IIP data and BIS banking statistics. Bank cross-border exposures in funding and lending are limited and regionally diversified, with the latter representing less than 15 percent of system assets.

### **TRANSPORTATION LINKS**

The most popular option for getting around in Saudi Arabia is via private car and taxi. There is however, a bus network and a railway network comprised of two main lines.

#### **Train services**

The Saudi Arabian Railways Organisation operates passenger trains along the 449 km route connecting Dammam, Abqaiq, Hofuf and Riyadh.

#### **Bus**

Inter-city buses are operated by Saudi Arabian Public Transport Company, comprising of 2,000 buses which connect Saudi Arabia's major cities: Riyadh, Jeddah, Mecca, Medina, Taif, Dammam, Abha, Gaseem, Tabuk and Hael.

#### **Taxis**

Taxis are generally cheaper than in other Gulf States and are a popular option as the public transport network does not connect the whole country. In 2012, Saudi Arabia's Ministry of Transport brought in a 'no hailing law' which means all taxi journeys had to be booked in advance.

#### **Airports**

Saudi Arabia's international departures are listed below:

Dammam: King Fahd International Airport

Jeddah: King Abdul-Aziz International Airport

Riyadh: King Khalid International Airport

Medina: Prince Mohammad Bin Abdul-Aziz International Airport

Al-Hofuf: Al-Ahsa International Airport

Yanbu: Prince Abdul Mohsin bin Abdulaziz International Airport

Jeddah's King Abdulaziz International Airport is Saudi Arabia's busiest airport served by most major airlines of the world

### **HOLIDAYS IN SAUDI ARABIA**

EID AL FITR

EID AL ADHA

NATIONAL DAY

## 3 – FOREIGN INVESTMENT

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**Foreign Investments licensed under the provisions of the Act and the Regulations may be in either of the two following forms:**

1. Firms owned by both a Saudi national and a Foreign Investor.
2. Firms wholly owned by a Foreign Investor.

The legal form of the firm shall be limited to the following: limited liability Company, joint - stock company, a branch of a foreign company or any other legal form permitted by a resolution of the Board of Directors.

**The conditions for granting a License include:**

1. The investment activity to be licensed should not be in the Negative List of excluded activities from Foreign Investment.
2. The product technical specifications and production processes should comply with the Saudi, Gulf or international standards and specifications.
3. The Licence Applicant should not have been convicted in the past for substantial violations of the provisions of the Act.
4. The Licence Applicant should not have been convicted in the past of any violation including (but not limited to) financial or commercial violations whether inside or outside the Kingdom.
5. The Licence Applicant should comply with the terms, conditions, representations and undertakings attached to the Licence application form.
6. Achieving the investment goals and the objectives of SAGIA. These terms and conditions shall apply to Licence renewal applications.

## 4 – SETTING UP A BUSINESS

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The start-up procedure has never been so simple in Saudi. In 2007 the government decreased both the minimum capital needed to set-up and the length of time it takes to incorporate.

**REGISTRATION OF A COMPANY IN SAUDI ARABIA FOLLOWS THIS 11-STAGE PROCESS:**

Prepare the documents including legalisation by the Saudi consulate. This takes 2 weeks.

Submit an application to the Saudi Arabian General Investment Authority (SAGIA) and obtain an investment license. This takes 3 to 4 weeks and costs 2000 SR.

Obtain approval from the Companies Department at the Ministry of Commerce and Industry after submitting the Articles of Association and the company name. This takes 5 days.

Sign the Articles of Association in front of a notary public. This takes 2 days.

Publication of the company name and a summary of the Articles of Association in the official gazette. This takes 2 days and approximately 5500SR.

Open a bank account, transfer the share capital and obtain a certificate stating that the capital has been deposited - a process which takes 2 weeks.

Register with the General Department of Passports, Ministry of Interior and the Ministry of Labour and obtain a work visa for the company manager. This takes 2 weeks.

Company manager getting his visa stamped at the Saudi consulate and obtaining his work permit and residence permit upon arrival in Saudi Arabia a process that takes 2 weeks.

Registrations with the Commercial Registry at the Ministry of Commerce and Industry and the Chamber of Commerce. This takes 2 days and costs 8100 SR.

Obtain a file number and certificate of business commencement by registering with the Department of Zakat and Income Tax (DZIT), Ministry of Finance. This takes one day.

Register with the General Organisation of Social Insurance. This takes one day.

**THERE ARE SEVERAL WAYS OF DOING BUSINESS IN SAUDI ARABIA, MOST COMMON OF THESE ARE:**

Direct Exports

Non Resident Execution of Projects

Commercial Agents and Distributors

Franchises

Technical and Scientific Offices (Rep Offices)

Permanent Branches

Temporary Branches

Sole Proprietorships

100% Self-Owned Companies (Limited, Joint Stock)

Joint Venture Companies (Limited, Joint Stock)

## 5 – LABOUR

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The Ministry of Labour and Social Development and the Ministry of Interior regulate recruitment of expatriate labour, which makes up a large majority of the private-sector workforce.

The government encourages recruitment of Saudi employees through a series of incentives and limits the number of visas for foreign workers available to companies. The largest groups of foreign workers come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen. Westerners compose less than 2 percent of the labour force.

Beginning with the 1969 Labour and Workman Regulations, Saudi Arabia has pursued a number of localization schemes to combat unemployment among Saudis, which the CIA World Fact book estimated at 11.7 percent for Saudi males in 2016, a rate believed to be much higher among women. Other estimates put the unemployment rate at as high as 25 percent, while estimates of youth unemployment among Saudis aged 15-25 approach 30 percent. In 2011, the Ministry of Labour and Social Development laid out a sophisticated plan known as "Nitaqat," under which companies are divided into sectors, each with a different set of quotas for Saudi employment based on company size.

Each company is determined to be in one of four strata based on actual percentage of Saudi employees, with platinum and green strata for companies meeting or exceeding the quota for their sector and size, and yellow and red strata for those failing to meet it. Expatriate employees in red and yellow companies can move freely to green or platinum companies, without the approval of their current employers, and green and platinum companies have greater privileges with regard to securing and renewing work permits for expatriates

## 6 – TAXATION

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Saudi Arabia's move to impose various type of taxes on commodities, goods and services as well as residency and visit visa fees and charges on dependants of expats is expected to boost the state's finances.

### SELECTIVE COMMODITY TAX

Saudi Arabia officially applied the selective commodity tax on June 11, 2017. The tax will be imposed on three commodities - 100 percent for tobacco and its derivatives, 100 percent for energy drinks, 50 percent for soft drinks. It would be collected in one phase from the suppliers and manufacturers, and these taxes are expected to increase the state's budget revenues.

Selective taxation might motivate many to quit these harmful substances instead of the huge budgets allocated annually to treat patients as a result of consuming these substances. Increasing its prices will also reduce the number of the children and youth who will start using it, as they are the targeted category by companies producing these products.

In the same context, the General Authority for Zakat and Income predicted that Saudi Arabia's revenues will reach more than \$3.2 billion (SR 12 billion Saudi riyal) annually, after imposing the selective commodity tax.

### VAT IN 2018

Value-added Tax (VAT) is an indirect tax. This tax may sometimes be referred to as a type of depreciation tax. In countries with a value-added tax system, most goods and services purchased and sold are charged.

In June 2016, the GCC countries agreed to impose VAT across the GCC region. In February 2017 (Jumada Al-Awwal 1438), Saudi Arabia ratified the GCC VAT framework and committed to impose VAT with effect from January 1, 2018 (Rabi Al-Thani 14, 1439). VAT will be introduced at a standard rate of 5%.

The General Authority of Zakat and Tax (GAZT) is responsible for managing the implementation, administration and enforcement of VAT in Saudi Arabia. It does so in close coordination with other relevant entities.

## EXPAT TAX

The decision to increase the residency and visitor visa fees was implemented as a step towards balancing budget revenues and expenditures by 2020.

A monthly fee for expats and their companions will be applied in 2017 to expatriate workers in the Kingdom at SR 100 Saudi riyal for each facility, which aims to garner \$266 million (1 billion Saudi riyal) by the end of the year.

In 2018, a monthly fee of 400 Saudi riyals will be levied on every employee in a company whose number of foreign employees exceed the number of Saudis, and 300 Saudi riyals fee on every employee in a company whose number of foreign employees is less than the number of Saudis, and 200 Saudi riyals on every person these foreign employees sponsor. Thus it is expected to collect \$6.39 billion (24 billion Saudi riyals) in 2018, from the program of financial compensation for expats.

In 2019, the expatriate labour fees in a company whose number of foreign employees exceed the number of Saudis will be increased to 600 riyals monthly, and in sectors with a lower number of Saudis to 500 riyals per month, with an increase of each companion fees to be 300 riyals per month. This is expected to collect \$11.72 billion (44 billion Saudi riyals).

In 2020, 800 Saudi riyals will be collected on every employee in a company whose number of foreign employees exceed the number of, while it will be 700 Saudi riyals for every employee in a company whose number of foreign employees is less than the number of Saudis. This is expected to collect \$17.3 billion (65 billion Saudi riyals).

## 7 – ACCOUNTING & REPORTING

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### LEGAL AND REGULATORY ENVIRONMENT

#### OVERVIEW OF STATUTORY FRAMEWORK FOR ACCOUNTING AND AUDITING

The Companies Act No. M/6 of 1965 (as amended in 2015) defines the accounting, auditing, and financial reporting requirements for corporate entities in the Kingdom of Saudi Arabia

#### REGULATION OF ACCOUNTANCY PROFESSION

In Saudi Arabia, the Certified Public Accountants (CPA) Regulation No. M12 of 1991 governs the activities of the accountancy profession. The law outlines the roles and responsibilities of those charged with supervising...

#### AUDIT OVERSIGHT ARRANGEMENTS

An independent audit Public Oversight Authority does not exist in Saudi Arabia. The Saudi Organization for Certified Public Accountants (SOCPA), the professional accountancy organization in the Kingdom.

#### PROFESSIONAL ACCOUNTANCY ORGANIZATIONS

The Saudi Organization for Certified Public Accountants (SOCPA), which comprises accountants, auditors, and bookkeepers, was established in 1992 in accordance with the Certified Public Accountants (CPA).

### ADOPTION OF INTERNATIONAL STANDARDS

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#### QUALITY ASSURANCE

The Saudi Organization for Certified Public Accountants (SOCPA) is required under the Certified Public Accountants Regulation No. M12 of 1991 to establish and administer a mandatory quality assurance (QA) review system...

#### INTERNATIONAL EDUCATION STANDARDS

The Certified Public Accountants (CPA) Regulation No. M12 of 1991 and the Saudi Organization for Certified Public Accountants' (SOCPA) internal regulations specify initial and continuing professional development

#### INTERNATIONAL STANDARDS ON AUDITING

The CPA Regulation No. M12 of 1991 designates the Saudi Organization for Certified Public Accountants (SOCPA) as the auditing standard setter in the jurisdiction, under the supervision of the Ministry of Commerce

#### CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

The Saudi Organization for Certified Public Accountants (SOCPA) is responsible for determining ethical standards for the accountancy profession in accordance with the Certified Public Accountants

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Saudi Arabia Monetary Agency (SAMA), in accordance with the authority granted in the SAMA Charter No. M/23 of 1957, requires banks and insurance companies to prepare financial statements in accordance with IFRS. Entities in the Kingdom of Saudi Arabia who do not have public accountability have a choice to make i.e., either to adopt full IFRS or the IFRS for SMEs.

## 8 – UHY REPRESENTATION IN SAUDI ARABIA

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### ABOUT US

Our firm is your trusted advisor to help you consider your options and take advantage of the exciting business opportunities arising in Saudi Arabia.

### OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

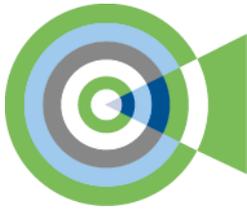
Based in Riyadh & Jeddah we provide national coverage working with our clients wherever necessary.

### BRIEF DESCRIPTION OF FIRM

We are a Riyadh based accounting and consulting firm located in the heart of the Riyadh. With nearly 25 years' experience in accounting, Auditing, advisory and tax services, our service is unparalleled. We are large enough to have the knowledge; systems and expertise to handle a wide range of client services, while at the same time are small enough to deliver a Partner Led service.

### SERVICE AREAS

Audit, accountancy, bookkeeping and outsourcing services  
General business advice  
Tax & Zakat Services



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## LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at [www.uhy.com](http://www.uhy.com) to find contact details for all of our offices, or email us at [info@uhy.com](mailto:info@uhy.com) for further information.

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