

Implementing Regulations of

Income Tax Law issued by Royal

Decree No. (M/1), dated 15/01/1425 H

BASIC PROVISIONS

Article 1

1. The provisions of Income Tax Law (The Law) apply to resident capital companies on shares of non-Saudi persons, natural or corporate, resident or non-resident. Shares of non-Saudi persons in Saudi joint companies that have shares in resident capital companies are not considered Saudi shares for the purpose of this Law.

The provisions of the Law also apply to non-resident persons, natural or corporate, Saudi or non-Saudi, who conduct business in the Kingdom through a permanent establishment located in the Kingdom or who derive income from a source in the Kingdom.

2. A non-resident person with no permanent establishment in the Kingdom who derives income from a source in the Kingdom is subject to tax as follows:

Income stipulated under Article 68 of the Law is subject to withholding provisions of that Article.

A capital gain derived from disposal of fixed and traded assets, or from disposal of shares in a resident company is subject to tax under general provisions of the Law.

Article 2

Taxable activity is all activities of any type, such as commercial, industrial, agricultural, service, banking, and insurance activities; investments of all types; transportation operations; leasing movable, immovable tangible and intangible property. It also includes professional and trade activity, or any other similar activity that is for profit, such as agencies and brokerage and other similar activities. Taxable activity does not include opening bank accounts of any type (current, for a period or saving), and trading in shares of companies listed in the Kingdom's Stock Market by a natural resident person.

Article 3

1. A natural person is resident in the Kingdom during a taxable year if he has a permanent place of abode (residence) in the Kingdom and is present in the Kingdom during a period not less than 30 days, continuous or in aggregate, during the tax year.

A natural person is also resident in the Kingdom if he is present in the Kingdom during not less than 183 days, continuous or in aggregate, in the tax year even if he has no permanent abode in the Kingdom.

2. "A permanent place of abode" means an abode the taxpayer owns or leases for long time, for not less than one year, during the taxable year. It could also be an abode provided to the natural person by any party during the tax year for a period not less than one year.
3. Nationality (citizenship) is not considered to determine place of residence of a person. A natural or corporate person, notwithstanding its nationality, is not resident in the Kingdom unless the residency provisions of the Law and of these Regulations apply.

Article 4

1. An agent referred to in Article 4 of the Law is a dependent agent who has any of the following authorities:
 - a. negotiate on behalf of a non-resident,
 - b. conclude contracts on behalf of a non-resident,
 - c. has a stock of goods, owned by a non-resident, on hand in the Kingdom to supply the clients' demands on behalf of the non-resident.
2. A place from which a non-resident carries out insurance and/or reinsurance activity in the Kingdom through an agent is considered a permanent establishment of the non-resident even though the agent is not authorized to negotiate and conclude contracts on behalf of the non-resident.

SOURCE OF INCOME

Article 5

The following types of income are considered derived from an activity occurring in the Kingdom and are therefore from a source in the Kingdom:

1. Loan charge (proceeds) to a non-resident in any of the following cases:
 - a. the debt is secured by movable or immovable property located in the Kingdom,
 - b. the borrower is a resident of the Kingdom,

- c. the loan is related to an activity carried out in the Kingdom.

“Loan charge (proceeds/interest)” means an amount paid for the use of money. This includes income realized from loan transactions of any type, whether secured by guarantees or not, or by giving rights to participate in the profits of the debited person or not; it also includes income realized from governmental and non-governmental bonds.

2. Insurance/reinsurance premiums in any of the following:

- a. insured asset is located in the Kingdom,
- b. the insurer is a resident of the Kingdom,
- c. insurance of activities or risks related to activities carried out in the Kingdom.

3. Income derived from technical or consulting services in any of the following:

- a. the service is given to a person resident in the Kingdom,
- b. the service is related to an activity carried out in the Kingdom.

4. Income derived by a capital company resident in the Kingdom from its operations and of its branches inside and outside the Kingdom.

5. Income derived from movable or immovable property attributed or related to activities in the Kingdom carried out by a person resident in the Kingdom.

6. Income derived from sale of goods or merchandises manufactured or produced in the Kingdom.

7. A Contract of delivery of goods to the Kingdom, including the contracts for freight and insurance of these goods, is not considered to be derived from an activity in the Kingdom unless it includes associated work performed in the Kingdom, such as domestic transportation, installation, training or other similar work. In such case, only associated work is considered to be derived from an activity in the Kingdom.