

**Chandrawat
& Partners**



DOING BUSINESS IN SAUDI ARABIA

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Overview

Saudi Arabia's Vision 2030 economic diversification initiatives are generating opportunities for U.S. companies across industry sectors. Saudi Arabia's evolution from the country it was when President Roosevelt and King Abdulaziz met aboard the Soviet Union ("U.S.S.R") Quincy 77 years ago to the vibrant G20 economy and important U.S. defense and trade partner it is today is truly remarkable.

Today, the \$54 billion U.S.-Saudi Arabia trade and investment relationship creates thousands of jobs in both countries. U.S. goods exports to Saudi Arabia exceeded \$10.9 billion, and U.S. imports were just over \$9 billion. Foreign direct investment (FDI) in Saudi Arabia increased from \$11.1 million in 2019 to \$11.4 million in 2022. In that same period, Saudi Arabia's FDI in the United States decreased from \$7.3 million to \$6.3 million. Saudi Arabia is the largest country in the Gulf region with a population of over 35 million, and the largest economy in the Arab World with a GDP of \$832.4 billion as of December 31, 2022.

Vision 2030 political, institutional, and financial reforms coupled with significant investment by Saudi Arabia's Public Investment Fund are generating opportunities for foreign companies across industry sectors including renewable energy, transportation, healthcare, advanced technology, and aerospace as well as across a series of giga-projects including the \$500 billion NEOM cognitive and smart city development in northwestern Saudi Arabia, the Qiddiya entertainment and sports megaproject in Riyadh, and The Red Sea Project – a sustainable luxury tourist destination.



Economic overview



Saudi Arabia is likely to be one of the world's fastest-growing economies this year as sweeping pro-business reforms and a sharp rise in oil prices and production power recover from a pandemic-induced recession in 2022. According to our recent Article IV consultation report, gross domestic product is expected to expand by 7.6 percent, the fastest growth in almost a decade.

Despite higher prices for imported commodities, inflation will remain contained at 2.8 percent in 2022 as the central bank tightens policy in line with the US Federal Reserve. Public finances and the external position will strengthen substantially thanks to increased non-oil revenue and higher proceeds from oil exports. Reserve buffers will remain ample.

Reforms to energy prices so that domestic fuel prices converge with international prices would generate fiscal savings and support the authorities' climate objectives, set out in the Saudi Green Initiative. Ongoing efforts to strengthen social safety nets through targeted schemes would protect the vulnerable from higher energy bills.

With central solid bank supervision, the financial sector remains resilient and systemic risks are low. Increases in interest rates are expected to have only a limited impact on the Saudi economy in an environment of high oil prices and strong liquidity. Continued improvements to the framework for financial sector regulation and sustained monitoring of rising mortgage lending are important to prevent risks from materializing.

Foreign Direct Investment ("FDI") policy

Over the last year, Saudi Arabia has experienced a surge in FDI. In Q3 of 2023, FDI inflows to the tune of SAR 7.2bn[4] (US\$1.9bn) were reported by the Investment Ministry. This was an impressive surge compared to 2022, which saw SAR 6.5bn worth of investment during the same quarter. This 10.7 percent growth in FDI inflows is a testament to the growing attractiveness of Saudi Arabia as an investment destination. By 2030, the Saudi Arabian Government aims to reach US\$100bn in annual FDI, an ambitious but achievable goal if current trends continue.

In 2022, the FDI trend reached its pinnacle after having grown steadily since before the Covid-19 pandemic and stayed strong despite the pandemic-fuelled economic disruption of 2021 and 2022. The United Nations Conference on Trade and Development's ("UNCTAD") World Investment Report 2022 showed that FDI inflows into Saudi Arabia were impressively robust.

This represented an impressive increase of 20 percent compared to 2022, which saw US\$4.6bn worth of FDI. During the first six months of the following year, Saudi authorities announced that FDI inflows had increased by an impressive 33 percent year-on-year. This upward surge in FDI only continued into 2022, which has been Saudi Arabia's most impressive year yet.



Key sectors



Here are some key sectors that have shown potential in Saudi Arabia:

Oil and gas: Saudi Arabia has significant reserves of oil and is one of the largest oil producers in the world. The oil and gas sector, including exploration, production, refining, and petrochemicals, has been a major contributor to the Saudi economy.

Renewable energy: In recent years, Saudi Arabia has been actively diversifying its energy sources and investing in renewable energy projects.

Infrastructure: The Saudi government has been heavily investing in infrastructure development, including transportation, healthcare facilities, education institutions, and housing projects.

Tourism and hospitality: Saudi Arabia is focused on developing its tourism sector as part of its Vision 2030 plan.

Financial services: The financial services sector, including banking, insurance, and capital markets, is growing in Saudi Arabia.

Manufacturing: Saudi Arabia has been aiming to increase its domestic manufacturing capabilities to reduce reliance on imports.

Healthcare: The Saudi government has emphasized improving healthcare services and infrastructure. Investing in hospitals, clinics, medical technology, and healthcare services can be lucrative as the country seeks to enhance its healthcare system.

Advantages of doing business in Saudi Arabia

The foreign investments flowing into Saudi Arabia are divided into three sections:

- direct investment within the economy;
- portfolio investments; and
- other investments.

The data showed that foreign direct investment accounted for 45.2 percent of the total foreign investments, “portfolio investments” represented 29.2 percent of the total, and “other investments” accounted for 25.6 percent.

The data indicated that portfolio investments increased by 10.1 percent, or USD 14.4 billion, at the end of last year, to 585.7 billion riyals (USD 156.4 billion), compared to 531.8 billion riyals (USD 142 billion) in 2021. Portfolio investments include equity and investment fund shares worth 199.9 billion riyals (USD 53.4 billion), in addition to debt securities worth 385.8 billion riyals (USD 103 billion).

The accession of the Saudi stock market, “Tadawul” to the emerging markets indices “MSCI” and “Standard & Poor’s Dow Jones”, made it easier for foreign investors to invest in Saudi Arabia, as the value of their holdings in the market increased by 195.9 percent to reach 208.3 billion riyals (55.54). billion) by the end of 2022, with an ownership percentage of 12.8% of the total value of shares, and contributed, along with the reforms that affected the market, to making “Tadawul” one of the top 10 financial markets around the world.



Types of Companies



How companies are registered and operated in Saudi Arabia is established under the New Companies Regulations, a legal act that became applicable starting on the 2nd of May 2022.

The New Companies Regulations provide the following types of companies in Saudi Arabia, available for both local and foreign businessmen:

- Joint Liability Company;
- Establishment/Sole Proprietorship;
- Joint Venture;
- The establishment or sole trader in Saudi Arabia;
- The limited partnership in Saudi Arabia;
- Limited liability company in Saudi Arabia;
- The joint stock company in Saudi Arabia; and
- Foreign companies expanding their operations in Saudi Arabia.

Minimum eligibility criteria



The minimum eligibility criteria for company registration in Saudi Arabia can vary depending on the type of company you wish to establish. However, here are some general requirements:

Legal form: Select the appropriate legal form for your company. The most common types in Saudi Arabia are Limited Liability Companies (LLC), Joint Stock Companies (JSC), and Branches of Foreign Companies.

Minimum share capital: Determine the minimum share capital required for your chosen legal form. The amount varies depending on the type of company and its activities.

Local partner: For LLCs, unless the company falls under specific exemptions, a local Saudi partner or partners must hold at least 51% of the shares.

Business activity: Define the intended business activity or activities of your company.

Commercial registration: Obtain a commercial registration (CR) from the Ministry of Commerce and Investment (MCI).

Office space: Arrange a physical office space to meet the legal requirement for company registration.

Company Registration in Saudi Arabia

Memorandum of Association ("MOA")

Prepare a Memorandum of Association that outlines the company's objectives, capital structure, management, and other relevant details.

Commercial bank account

Open a commercial bank account in Saudi Arabia for the company. This is required for financial transactions and managing the company's funds.

Required documents

Prepare and submit the necessary documents, which typically include the MOA.

Licensing and permits

Depending on the nature of your business activity, you may need to obtain additional licenses or permits from relevant government authorities or regulatory bodies.



How to set up a business?



To set up a business in Saudi Arabia, there can be varying requirements depending on the entity type. The process is generally similar, from registration, and licensing to set-up. Companies must complete the following steps in order to begin the process of setting up a business in Saudi Arabia:

1. Register with the Ministry of Commerce and Industry ("MOCI").
2. Foreign-owned companies must register with the Ministry of Investment ("MISA") – formerly known as 'SAGIA'.
3. Open a local Saudi Arabia bank account.
4. Register Wasel – The mandatory provision of a local address to the government. LLCs will require a physical local office lease and an address as a virtual office is not sufficient.
5. Register with the Ministry of Labour and Social Development ("MLSD") visa issuing authority to permit labour in-country.
6. Register with the General Organisation of Social Insurance ("GOSI") - Mandatory social insurance for processing salaries monthly and maintaining government records for the Saudisation quota system.



To begin the process of setting up and registering a company in Saudi Arabia, the following documents are required:

- The Commercial Registration ("CR") or business licence – Issued by MOCI, the CR certificate outlines and enables the company to conduct business activities in Saudi Arabia, and allows the same rights as given to a citizen.
- The Memorandum of Association ("MoA") or Articles of Association (AoA) – Approved by MOCI and signed in the presence of a notary.
- A Certificate of Incumbency.
- An audited financial statement for the last financial year
- A passport copy of the assigned general manager of the Saudi Arabian entity.



Taxation

Saudi Arabia does not impose a personal income tax that employees earn. However, taxes are levied on companies based on how they are set up. Corporate tax is imposed on all registered entities, including companies or branches with foreign ownership. Unlisted companies must pay a corporate tax rate of 20%. Tax is imposed on the net adjusted profits. The share of profits to interests owned by non-Saudi or non-GCC nationals is subject to income tax.

The share of profits that are due to interests owned by Saudi or GCC nationals is subject to Zakat tax, which is a religious levy. It is 2%. Saudi citizens who are investors and GCC residents who are considered Saudi citizens for tax purposes are responsible for the payment of these taxes.

Withholding taxes are imposed on entities that make payments to foreigners, such as for rent or management fees. Some withholding tax rates include:

- Rent – 5%
- Payment for airline tickets or maritime or air freight – 5%
- Payments for international telecommunications services – 5%
- Royalties – 15%
- Management fees – 20%



Accounting standards



Saudi Arabia has not fully adopted International Financial Reporting Standards ("IFRS") as its national accounting standards. However, Saudi Arabia has made efforts to converge its accounting standards with IFRS to promote international consistency and comparability of financial statements. The accounting standards in Saudi Arabia are referred to as the Saudi Arabian Financial Accounting Standards ("SAFAS"), also known as the Saudi Accounting Standards.

The Saudi Organization for Certified Public Accountants ("SOCPA") is the regulatory body responsible for setting and issuing accounting standards in Saudi Arabia. SOCPA has developed the SAFAS, which is based on IFRS with some modifications and additions to accommodate local laws, regulations, and business practices.

The SAFAS provide guidance on various aspects of accounting, including recognition, measurement, presentation, and disclosure of financial information. The standards cover a wide range of topics, including revenue recognition, lease accounting, financial instruments, consolidation, and many other areas.

It's important to note that accounting standards and regulations can evolve over time. Therefore, it is recommended to consult with professional accountants, financial advisors, or SOCPA directly for the most up-to-date information on accounting standards and requirements in Saudi Arabia.

Employment and labor laws

The labour landscape in Saudi Arabia is influenced by the Saudization program, which aims to increase the employment of Saudi nationals and reduce reliance on foreign workers. There are two types of employment contracts: fixed-term contracts for foreign employees and unlimited-term contracts for Saudi nationals.

Both employers and employees have various duties, including maintaining confidentiality and ensuring health and safety. Saudi citizens are entitled to a minimum wage, while high-income expats receive attractive compensation packages. The working week is Sunday to Thursday, and employees have annual leave based on their length of service. Non-compete provisions are allowed but with certain limitations. Recent labour reforms allow foreign employees to change jobs and obtain exit/re-entry permits without employer permission.

Termination of employment contracts requires notice, and invalid terminations may result in compensation. Employers are advised to include provisions for compensation in case of invalid dismissal. Employers must provide a statutory end-of-service reward unless specific circumstances apply. Garden leave can be included in employment contracts, allowing employers to require employees to stay at home during the notice period.



How can we help?

Our firm can provide help to businesses in the Kingdom of Saudi Arabia ("KSA") by offering assistance on a range of issues. This can include advising on the most appropriate business to invest in or the most lucrative sectors of the KSA economy, such as the joint-stock company or limited liability company and other existing sectors of the KSA economy.

A variety of services are available from us to support KSA businesses for the resident and non-residents of Saudi Arabia. The firm may assist a KSA company in a variety of ways, such as:

Formation and registration of the business

Our firm can help with business establishment and registration. Our firm can advise on the best business legal structure and make sure that all registration requirements are satisfied.

Compliance with local laws

For a firm to function in the KSA, it must adhere to certain legal standards, which our firm can advise on. Compliance with applicable rules and regulations may include those about employment, taxes, the environment, and other matters.

Intellectual property protection

Our firm can assist a company in defending its intellectual property rights in the KSA, such as copyrights, patents, and trademarks.

Mergers and acquisitions

Our firm can help with the talks, the writing of the necessary legal paperwork, and the due diligence process if a company is seeking a merger or acquisition in KSA.

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