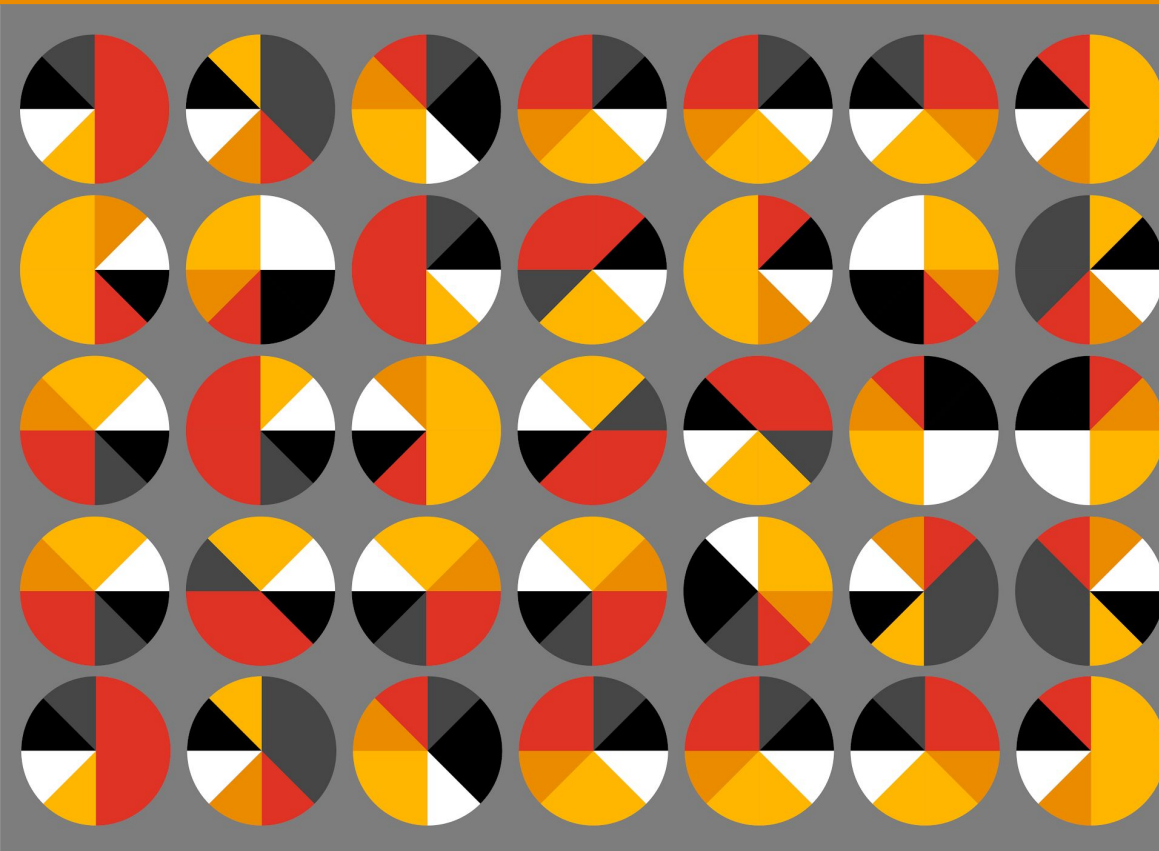


Kingdom of Saudi Arabia: Special Tax Rules for the Special Integrated Logistics Zone

March 2021



In brief

The Special Integrated Logistics Zone (“ILBZ” or the “Zone”) is a special economic zone (“SEZ”) located adjacent to the King Khalid International Airport in Riyadh, the Kingdom of Saudi Arabia (“KSA” or the “Kingdom”) following the issuance of Royal Order (A/17) dated 10 October 2018.

The General Authority of Civil Aviation (“GACA”) has now issued the [Special Tax Rules](#) (the “Tax Bylaws”) setting out the tax and customs incentives (and the associated conditions) that apply to entities established in ILBZ to carry out specific activities.

The Tax Bylaws specify that, provided certain conditions can be met, ILBZ entities would be subject to corporate income tax (“CIT”) at 0% on the income earned from carrying on their specific activities for up to 50 years. Further, provided certain conditions can be met, ILBZ entities would also be exempt from deducting withholding tax (“WHT”) on certain payments relating to the specific activities to non-residents.

From a customs perspective, goods imported into ILBZ would be under a customs duty suspension arrangement. While these goods are under the customs duty suspension arrangement, transactions relating to these goods would be outside the scope of Value-Added Tax (“VAT”) in KSA.

Further guidance will be issued by the General Authority of Zakat and Tax (“GAZT”) to specify the conditions and the procedures that ILBZ entities will need to follow to access these tax and customs incentives.

In detail

Who is eligible to benefit from these tax and customs incentives?

Entities that are licensed to carry out “Prescribed Activities” in ILBZ, and meet the eligibility requirements, are able to benefit from the tax and customs incentives.

The list of “Prescribed Activities” was set out in the Royal Order (A/17) dated 01/02/1440H (the law that established ILBZ), and include the following:

- Maintenance, repair, processing, modification, development, assembly and storage of goods and after-sales services;
- Sorting, packaging, re-filling, packaging, trading, distribution, handling and use of goods or other goods, including simple manufacturing processes;
- Import, export and re-export;
- Logistics and valued-added services and logistics; and
- Recycling of waste and electronic wastes.

What are the tax and customs incentives offered by ILBZ?

Tax relief period

The Tax Relief Period is 50 years commencing from the date the entity is licenced to carry out Prescribed Activities in ILBZ, until the earliest of the following:

- The 50-year period lapses; or
- The entity ceases to be an ILBZ entity (e.g. due to it no longer meeting the eligibility requirements or violates the special rules set for ILBZ).

Incentive for CIT

Income from Prescribed Activities carried on by an ILBZ entity would be subject to CIT at zero percent (0%) during the Tax Relief Period.

Income from other sources would be subject to the standard tax treatment applicable to KSA entities not established in ILBZ (‘Mainland entities’).

For international treaty purposes, ILBZ will be considered as an integrated part of the Kingdom. This means that an ILBZ entity would be considered a KSA tax resident to the extent the ILBZ entity can satisfy the tax residency requirements under the domestic Income Tax Law.

Incentive for WHT

During the Tax Relief Period, an ILBZ entity would be exempt from WHT on the following payments relating to Prescribed Activities:

- Dividends;
- Loan charges;
- Royalties to non-resident related parties; and/or
- Technical services and other services made to non-resident related parties.



What are the tax and customs incentives offered by the ILBZ? (cont'd)

Incentive for WHT (cont'd)

The above WHT exemption would not apply if:

- The payments do not relate to the 'Prescribed Activities'; or
- The payments were sourced from Prescribed Activities undertaken in the mainland KSA (whether by the ILBZ entity itself or its related parties).

Incentive for customs duty

Goods imported into ILBZ will be under a customs duty suspension arrangement; therefore, no customs duty would be applicable until such goods leave ILBZ / enter the Mainland..

Incentive for VAT

The transportation of goods into or within ILBZ under a customs duty suspension arrangement, and supplies or transactions occurring with respect to goods in ILBZ while under a customs duty suspension arrangement, would be outside the scope of the VAT Law.

When would an ILBZ entity not be able to avail the tax incentives?

To ensure that the tax incentives are only available to ILBZ entities that meet the requirements, the Tax Bylaws include the following 'anti-abuse' rules, which, if applicable to an ILBZ entity, would mean that the incentives would not be available to the ILBZ entity.

Specifically, the tax incentives would not be available to an ILBZ entity if that entity or its Related Person **carried on the Prescribed Activities in the Mainland**, and **those mainland activities are then ceased or substantially reduced before the Activities are then:**

- carried out from ILBZ by that ILBZ entity; or
- carried out from ILBZ by one or more Related Persons who are also entities established in ILBZ; or
- carried out from ILBZ by any other ILBZ entity as part of an arrangement to move activities from the Mainland to ILBZ for the purpose of obtaining a tax benefit.

GAZT may also deny the tax incentives if an ILBZ entity is **facilitating payments to non-residents** on behalf of anyone who is **not eligible to benefit from the tax incentives**.

Further, the tax incentives may not be available if an ILBZ entity:

- has **submitted false or misleading declarations or information** to GAZT; or
- has **misapplied the Tax Bylaws or misused the tax incentives** to obtain or assist another entity in obtaining a tax benefit or advantage on non-Prescribed Activities.

In addition to denying tax incentives, GAZT may also may apply any of the applicable penalties set out in the domestic tax laws.

What are the tax compliance requirements for ILBZ entities?

An ILBZ entity remains subject to the domestic tax legislation in the Kingdom. Therefore, an ILBZ entity must comply with the obligations as set out in the domestic tax law. The Tax Bylaws confirm that GAZT would not place any unduly burdensome or onerous requirements on IBLZ entities. However, the following compliance obligations have been specifically mentioned in the Tax Bylaws:

- An ILBZ entity is required to provide annual confirmation (albeit a simplified tax declaration) to GAZT that it complies with the requirements.
- An ILBZ entity must prepare and maintain accounts for each Tax Year, which separately disclose information relating to Prescribed Activities and non-Prescribed Activities (if applicable).

The Tax Bylaws confirm that GAZT will issue additional detailed guidance on the application of these tax incentives. In addition, the Tax Bylaws confirms that a special VAT refund scheme will be established by GAZT, along with the associated conditions and procedures, to allow ILBZ entities to recover input VAT incurred on services acquired from VAT-registered suppliers in the Kingdom.

Key takeaways

SEZs are an important enabler to the Kingdom's Vision 2030, by creating geographically distinct areas with special features designed to encourage foreign direct investments, and the creation of activities and jobs in designated sectors. In addition to offering an attractive regulatory environment, it is important for these SEZs to offer a business-friendly and predictable tax regime that is compliant with international standards.

The establishment of ILBZ, as well as the associated tax and customs incentives announced, is seen as a step by the Kingdom to create an environment that fosters business opportunities in the Kingdom.

Businesses that undertake (or are thinking about undertaking) the "Prescribed Activities" should evaluate whether establishing a presence in the ILBZ is consistent with their business plans, and whether their operations may be able to benefit from the regulatory and tax incentives offered by ILBZ.

Let's Talk

For a deeper discussion of how this issue might affect your business, please contact:

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