

SPECIAL TAX RULES FOR THE SPECIAL INTEGRATED LOGISTICS ZONE

CHAPTER ONE- DEFINITIONS & PURPOSE

ARTICLE ONE DEFINITIONS

- A. The following terms and words wherever mentioned in these Special Tax Rules shall have the meanings assigned hereto:
- (1) The "**Authority**" means the General Authority of Zakat and Tax.
 - (2) "**Corporate Person**" means any entity, other than a natural person that has a Legal Personality and any form of Partnership with an independent Legal Personality.
 - (3) "**Established Entity**" has the meaning given to it in the Zone Law.
 - (4) "**Eligible Income**" means the income from the Prescribed Activities derived by an Established Entity that would be taxable income under the Income Tax Law.
 - (5) The "**Governing Body**" means the government authority or body prescribed by the Zone Law to administer the Zone.
 - (6) The "**Income Tax Law**" means the Income Tax Law issued by Royal Decree No. (M/1) dated 15/01/1425 H, or any subsequent law which replaces it, together with the implementing regulations thereof.
 - (7) The "**Zone Law**" means the Special Integrated Logistics Zone law issued by Royal Order (A/17) dated 01/02/1440H corresponding to 10/10/2018G.
 - (8) "**Legal Personality**" means the capacity -by law or fact- to have legal rights and obligations.
 - (9) The "**Minister**" means the Minister of Finance.
 - (10) "**Non-Prescribed Activities**" means activities other than the Prescribed Activities carried on by an Established Entity.
 - (11) "**Payment**" means any consideration in kind or in cash paid or payable, including settlements, set-off, book adjustments and liabilities that are due and payable.
 - (12) "**Prescribed Activities**" shall mean the activities listed under Article 6 of the Zone Law.
 - (13) "**Person**" means anyone with a Legal Personality including a natural person, Corporate Person, the State and its instrumentalities and bodies.

- (14) **"Related Person"** shall have the same meaning prescribed in the Transfer Pricing Bylaws issued by GAZT Board Resolution No (6-1-19) dated 25/05/1440H corresponding to 31/01/2019G and any amendments thereto.
- (15) The **"Tax Bylaws"** means these special tax rules enacted pursuant to Article 10 of the Zone Law.
- (16) **"Tax Laws"** means all other primary and secondary legislation of the Kingdom, the subject of which pertain to taxation and are administered or enforced by the Authority, including without limitation, any law -including the Income Tax Law and VAT Law-, implementing regulations, bylaws, and tax treaties. For purposes of these Bylaws, this term does not include the Tax Bylaws.¹
- (17) **"Tax Relief"** means the tax benefits and exemptions available under these Tax Bylaws to Established Entities during the Tax Relief Period.
- (18) **"Tax Relief Period"** means the period that an Established Entity is permitted to enjoy the Tax Relief granted under the Tax Bylaws.
- (19) **"Tax Year"** shall have the meaning given to it in Article 18 of the Income Tax Law Implementing Regulations issued by Ministerial Resolution No. Decree No. (1535) dated 11/06/1425 H.
- (20) **"Value Added Tax (VAT) Law"** means the Value Added Tax Law issued by Royal Decree No. (M/113) dated 2/11/1438 H, and the implementing regulations thereof.
- (21) The **"Zone"** means the Special Integrated Logistics Zone and any other designated physical area that might be established pursuant to the Zone Law and falls within its purview.
- B. Any word or phrase not specifically defined in the Tax Bylaws shall be defined and interpreted according to the following references in the order in which they appear:
- (1) The Zone Law.
 - (2) The relevant Tax Law applicable to the term or phrase based on the context in which it is stated.
 - (3) Accounting standards as applicable under the regulations of the Saudi Organization for Certified Public Accountants.
 - (4) Other laws in force in the Kingdom.
 - (5) Its ordinary meaning of such word or phrase, provided that such definition or interpretation is consistent with the provisions of these Tax Bylaws and the context of such word or phrase.
- C. Any reference to a law, or a provision thereof, shall be understood to mean a valid and enforceable law and any subsequent amendments thereto.

ARTICLE TWO -PURPOSE

- A. These Tax Bylaws are issued pursuant to Article 10 of the Zone Law for the purpose of prescribing the taxation rules and provisions applicable to Established Entities in the Zone.
- B. Subject the conditions and limitations of these Tax Bylaws, the tax treatments including the Tax Relief pursuant to these Tax Bylaws shall only be applicable to Established Entities.
- C. These Tax Bylaws shall not be deemed to preclude the application of the Tax Laws of the Kingdom to Established Entities, nor shall an Established Entity be exempt or excepted from the Tax Laws of the Kingdom except where such exemption or exclusion is expressly prescribed by these Tax Bylaws.

CHAPTER TWO- DIRECT TAX RULES

ARTICLE THREE INCOME TAX RATE & WITHHOLDING

- A. Subject to compliance with these Tax Bylaws, an Established Entity's Eligible Income shall be subject to income tax at a rate of zero percent (0%) during the Tax Relief Period.
- B. During the Tax Relief Period an Established Entity shall be exempt from withholding and remitting to the Authority tax due in accordance with the Income Tax Law in respect of any of the following Payments it makes to a non-resident of the Kingdom:
 - (1) Dividends;
 - (2) Loan charges;
 - (3) Royalties, provided that the recipient of such Payment is a Related Person to the Established Entity; and
 - (4) Consideration for technical services, other service, or both provided that the recipient of Payment is a Related Person to the Established Entity.
- C. For purposes of Subparagraphs B (3) & B(4) of this Article, the term recipient means the ultimate beneficiary of such Payment.
- D. The withholding tax exemption pursuant to Paragraph B of this Article shall not apply in any of the following cases:
 - (1) If the payment made by the Established Entity relates to Non-Prescribed Activities.
 - (2) If the payment made by an Established Entity are or will be sourced from Payments made by Related Persons carrying on activities in the Mainland, which relate to the same exempt categories specified in Paragraph A of this Article.
 - (3) Cases of avoidance prescribed in ARTICLE Five of these Tax Rules.
- E. The tax treatment applicable to an Established Entity's income, other than its Eligible Income, shall be determined in accordance with the relevant Tax Laws of the Kingdom.

- F. The exclusion of a Non-Resident's activities relating to goods situated in the Zone from creating a permanent establishment, as prescribed in Article 9 of the Zone Law, is subject to the Non-Resident having no physical presence in the Kingdom.

ARTICLE FOUR DURATION OF TAX RELIEF

- A. The Tax Relief Period for an Established Entity commences from the date the Established Entity obtains a trading license to carryout Prescribed Activities in the Zone until the earliest to occur of the following:
- (1) The 50-year period lapses; or
 - (2) the Entity ceases to be an Established Entity in the Zone for any reason.
- B. The Established Entity may apply the reduced income tax rate under Paragraph A of ARTICLE Three on Eligible Income from Prescribed Activities that, but for the tax relief, would have been taxable during that Tax Year according to the Income Tax Law.

ARTICLE FIVE ANTI-AVOIDANCE

- A. Any Established Entity is not eligible for any Tax Relief prescribed in these Tax Bylaws if that entity or a Related Person to an entity carried or carries out the Prescribed Activities in the Mainland and those activities are ceased or substantially reduced and subsequently:
- (1) carried out from the Zone by that Established Entity;
 - (2) carried out from the Zone by one or more Related Persons who are Established Entities;
 - (3) carried out from the Zone by any other Established Entity as part of an arrangement to move activities from the Mainland to the Zone for the purpose of obtaining a tax benefit.
- B. The Authority may deny Tax Relief if the Established Entity is facilitating Payments to non-residents on behalf of Persons not eligible for the Tax Relief.
- C. The Authority may apply any of the applicable penalties set out in the Tax Laws and/or revoke Tax Relief of an Established Entity in any of the following cases:
- (1) An Established Entity has knowingly or intentionally submitted false or misleading declarations or information to the Authority;
 - (2) An Established Entity has intentionally misapplied these Tax Bylaws or misused the Tax Relief to obtain or assist another in obtaining a tax benefit or advantage in respect of Non-Prescribed Activities; or
 - (3) The Established Entity has facilitated Payments to non-residents on behalf of Persons not eligible for the Tax Relief.

CHAPTER THREE- ADMINISTRATION

ARTICLE SIX OBLIGATIONS OF AN ESTABLISHED ENTITY

- A. An Established Entity must provide confirmation with its annual simplified tax declaration that it complies with the requirements of these Tax Bylaws during each Tax Year.
- B. For purposes of implementing these Tax Bylaws, and mitigating, to the extent possible, misuse of the Tax Relief to evade or avoid taxation, the Authority shall not place any unduly burdensome or onerous requirements or procedures nor shall it hinder investments into the zone or impede the Zone's objectives in the course of carrying out its duties.
- C. If at any time during a Tax Year the Established Entity or a related person carries on Non-Prescribed Activities in the Kingdom, that Established Entity must maintain separate accounts for the Non-Prescribed Activities. The allocation of income to Prescribed Activities shall take place as if these are independent from the other activities of the Established Entities, in accordance with the arm's length principle.
- D. For the duration of the trading license, the Established Entity must prepare and maintain accounts for each Tax Year, including -if applicable- the partial Tax Year commencing on the date the Established Entity obtains a trading license in the Zone and ending on the last day of that entity's Tax Year.
- E. The Authority shall issue detailed guidance and explanatory material with respect to the provisions of these Tax Bylaws including any application process, time limitations, and all other pertinent information.

ARTICLE SEVEN ADMINISTRATION BY THE AUTHORITY

- A. The Authority shall be entitled to carry out all its legally granted regulatory and executive duties including obtaining information, conducting assessments, examinations and audits of Established Entities in the Zone, in accordance with the procedures specified in the Tax Laws.
- B. An Established Entity, or any person intending to carry on activities in the Zone, may submit a request for a ruling to the Tax Authority to provide an interpretation or clarification on taxation matters arising out of these Tax Bylaws applicable to the Established Entity making such request.

CHAPTER FOUR- OTHER RULES

ARTICLE EIGHT MISCELLANEOUS

- A. International Treaties
 - (1) For the purposes of all international treaties, conventions or other agreements to which the Kingdom is a party, the Zone shall be deemed as being an integrated part of the Kingdom.

Established Entities are deemed residents of the Kingdom to the extent they satisfy the residency requirements in the Income Tax Law.

B. Value Added Tax

- (1) The Zone shall be construed to form an integrated part of the territory of the Kingdom for the purposes of Value Added Tax.
- (2) Notwithstanding Paragraph A of this Article, the transportation of goods into or within the Zone under a customs duty suspension arrangement, and supplies or transactions occurring with respect to goods in the Zone while under a customs duty suspension arrangement in the Zone are outside the scope of the VAT Law.
- (3) The Authority shall establish conditions and procedures to implement a special VAT refund scheme for Established Entities to recover input VAT incurred in the Kingdom.

