

Kingdom of Saudi Arabia (KSA): Withholding Tax Guideline

Zakat, Tax and Customs Authority (ZATCA), KSA has recently issued guide on withholding tax. This guide provides more insights and guidance on the application of the withholding tax ("WHT").

Some of the key highlights of Guide issued on Withholding tax by the ZATCA are as follows:

➤ **What is With Holding Tax & How it works?**

- Withholding Tax ("WHT") is an income tax assessed on Non-residents who generates income from a source in the Kingdom.
- The WHT base is determined according to the total payments made and **not the profit** from the transaction.
- Withholding Tax is **different** from the Normal Income Tax, in case of WHT, resident or Permanent establishment ("PE") **will deduct** certain amount (WHT) from the payment as per LAW and they will deposit to ZATCA.

➤ **With Holding Agent:**

- The Resident person, whether a Taxpayer or not or/and the permanent establishment of a Nonresident which **makes payments to a Non-resident** is considered as withholding Agent. Such Person is **responsible** for withholding and remitting the amount of tax to the Authority.

➤ **Which payment subject to With Holding Tax?**

- Payment made from Resident or PE of Non-resident to a Non-resident; **and**
- Payment should be from a source in KSA (subject to the force of attraction rules in KSA law and applicable tax treaties)

Payment means any consideration in kind or in cash paid, including settlements, set-offs, book adjustments and liabilities

➤ **Following payments are some of the examples, which are within the scope of WHT when they are paid to Nonresidents.**

Income	Liabe for WHT, Yes or No
Payment from business activities in KSA	Yes
Gains from the sale or disposal of immovable property	No – gains are subject to income tax
Lease of immovable property	Yes
Gains from the disposal of share	No – subject to income tax
Lease of movable properties in KSA	Yes
Sale or license of industrial or intellectual properties in KSA	Yes
Royalties	Yes
Dividends	Yes
Management or directors' fees	Yes
Services rendered to a Resident company	Yes
Services performed in KSA and Technical and Consulting Services provided by a Non-resident to a Resident irrespective of the place where it is performed	Yes
Exploitation of a natural resource	No – subject to income tax
Income attributed to a permanent establishment	No – subject to income tax

➤ **Below is the Table showing Withholding Tax rate for different kinds of payment:**

Type of Payment made	By Non-resident unrelated party (%)	By Non-resident related party (%)
Management Fee	20%	20%
Royalties	15%	15%
Dividend Distributed	5%	5%
Rent	5%	5%
Returns on loans	5%	5%
Insurance/Reinsurance	5%	5%
Technical & Consulting Service	5%	15%
Airline Ticketing/Sea Freight	5%	5%
International Telecommunication Service	5%	15%
In-Kingdom Land Transportation	15%	15%
Any other payments	15%	15%

➤ **Withholding Tax exemption and reductions**

- Currently, KSA income tax only provides WHT **exemption on dividend** declared and distributed by companies engaged in **natural gas investment, Oil and Hydrocarbons**.
- Non-resident may claim **relief for WHT** paid in KSA while paying the income tax in his country under a **Double Taxation treaty** concluded with KSA.

➤ **Filling and Payment**

- **The withholding agent has to register** with ZATCA and a file **monthly** WHT Declaration return for the WHT deducted by him during the month. Also Withholding tax agent has to pay the amount of WHT to ZATCA.
- Return filling and payment to ZATCA has to be made within 10 days from the month following the month of payment to the beneficiary
- Also, if there is **no WHT** deducted in particular month then there is **no requirement** to make a filling declaration.
- Withholding agent also has to do **annual filling within the 120 days** of end of fiscal year for him. Annual filling is compulsory even if there is no WHT during the whole year. This filling will be considered as a summary of all monthly WHT declarations.
- With holding agent is required to **provide a certificate to beneficiary** which states that amount paid him and tax withheld.



➤ **Fines**

- 1% fine of underpayment of tax or non-payment of withheld tax for each 30 days of the delay,
- Further to this there is penalty of 25% penalty if taxpayer or its certified accountant provide false information or commits fraud with the intention of tax evasion etc.

If you would like to discuss more about tax related matters, please drop us an email at info@premier-brains.com or call us at + 971 4 354 2959.

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