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KSA Tax Alert –

ZATCA Issues Economic Substance Requirements Regulations for Special Economic Zones (SEZs)

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EXECUTIVE SUMMARY

On August 7, 2026 (24 Safar 1448H), the Zakat, Tax and Customs Authority (ZATCA) published Board Decision No. (03-02-26) approving the **Economic Substance Requirements Regulations for Special Economic Zones (SEZs)**.

The Regulations implement the directives issued under Royal Decree / Council of Ministers Resolution No. 233, establishing compulsory operational substance requirements for all entities operating within Kingdom Special Economic Zones (SEZs).

The Regulations enter into force immediately upon publication. Entities operating in SEZs must fulfill these economic substance requirements annually, beginning from their first financial year of conducting qualified activities, to maintain eligibility for tax and customs exemptions.

SCOPE OF APPLICATION & COVERED ZONES

The Regulations apply strictly to all Licensed Entities carrying out Qualified Activities in the following designated Special Economic Zones:

King Abdullah Economic City (KAEC) SEZ	*Focusing on advanced manufacturing, logistics, and supply chain solutions.*
Ras Al-Khair SEZ	*Dedicated to maritime industries, rig manufacturing, and heavy industrial integration.*
Jazan SEZ	*Centered on food processing, heavy industry, and trade with regional markets*
Cloud Computing SEZ	*Targeting cloud infrastructure, digital services, and technical platform hosting.*

CORE ECONOMIC SUBSTANCE REQUIREMENTS (ARTICLE 4)

Licensed entities must satisfy the following baseline core criteria annually beginning from the first Financial Year in which the Qualified Activities are carried out:

Substance Pillar	Mandatory Regulatory Standard
Physical Footprint	Must possess adequate physical premises and suitable operational assets within the designated Zone suitable for conducting qualified activities.
Local Workforce	Must employ an adequate number of full-time employees physically present in the Zone. Personnel may include directly employed staff or contractors under formal service agreements.
Operational Expenditure	Must incur adequate and proportionate operational expenditures within the Zone directly tied to the qualified activities.
Local Governance & Management	Must be directed and managed from within the Zone. At least one managing director must be a KSA resident. Management must have the necessary qualifications to manage the Qualified Activities. Board meetings (or equivalent governing bodies) must meet statutory quorum in KSA with strategic decisions recorded in formal minutes.

ENHANCED STANDARDS FOR INTELLECTUAL PROPERTY (IP) ACTIVITIES

Entities engaging in Intellectual Property (IP) activities are subject to heightened scrutiny and additional mandatory criteria under Article 4(B) and Article 5:

- **Resident Director Requirement:** At least 50% of directors responsible for managing IP activities must reside in Saudi Arabia.
- **Commercial Rationale Plan:** Entities must provide a detailed business plan demonstrating the sound commercial justification for holding IP assets in the SEZ.
- **Detailed Personnel Disclosures:** Mandatory submission of comprehensive employee records, including experience levels, contract types, qualifications, and employment duration.
- **Strategic Risk & Decision Control:** Core strategic decisions, risk management, and risk-bearing associated with IP assets must occur physically inside the Zone.
- **Marketing Intangibles Exclusion:** TAX EXEMPTION EXCLUSION: Tax and customs incentives/exemptions DO NOT APPLY to income derived from marketing intangibles.

TAX RETURNS, PENALTIES & ADMINISTRATIVE RULES

The Regulations set out clear administrative compliance mechanisms:

- **Annual Substance Return (Article 6):** Licensed entities must submit an annual Economic Substance Return using ZATCA's prescribed forms and deadlines to verify active compliance.
- **Penalties & Enforcement (Article 7):** Failure to satisfy economic substance requirements will trigger penalties administered directly by the Economic Cities and Special Zones Authority (ECZA).
- **Official Guidance (Article 8):** ZATCA will publish detailed explanatory circulars and technical guidance notes regarding the practical implementation of these Regulations.

RECOMMENDED NEXT STEPS FOR SEZs

1

Conduct Substance Gap Assessment

Audit current SEZ operations against physical space, local headcount, local expenditure, and board meeting locations

2

Review Governance Structure

Ensure board composition meets KSA resident director ratios (min. 1 director generally; min. 50% for IP entities) and that meetings occur within KSA with full quorum

3

Evaluate IP Holding Entities

Isolate marketing intangibles from tax incentive calculations and document clear commercial rationale for SEZ location.

4

Prepare Data Collection Frameworks

Establish internal processes to track operational expenditures, employee logs, and strategic board decisions for the annual ZATCA return.

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