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KSA Tax Alert –

Detailed Procedural Guide for Tax & Customs Operations in Special Economic Zones (SEZs)

August 2026

EXECUTIVE SUMMARY

In August 2026, the Zakat, Tax and Customs Authority (ZATCA) published the First Edition of the 'Detailed Procedural Guide for Tax and Customs Operations in Special Economic Zones (SEZs)' based on Cabinet Decision No. (468) dated 10/07/1447H.

The comprehensive guide clarifies the tax incentives, customs suspension regimes, WHT exemptions and administrative requirements governing entities licensed within Saudi Arabia's designated SEZs.

The guide covers four primary zones:

- King Abdullah Economic City (KAEC) SEZ
- Ras Al Khair SEZ
- Jazan SEZ, and
- Cloud Computing & Informatics SEZ (not geographically bound — licensed entities can set up data centers anywhere in Saudi)

DIRECT TAX INCENTIVES & RULES (GEOGRAPHICALLY DEFINED SEZS)

Corporate Income Tax (CIT) & Zakat Concessions

Reduced CIT Rate:
5% CIT Rate for 20 Years: Income derived from qualifying activities licensed by the Special Economic Cities and Zones Authority (ECZA) is taxed at a reduced rate of 5% for 20 years. A mainland branch of an SEZ entity gets its own TIN and does NOT inherit the SEZ tax incentives.

Non-Qualifying Income: Any income generated from non-qualifying activities is taxed at the standard Mainland CIT rate of 20% Non-qualifying income and expenses must be tracked. If separation is not feasible, proportional allocation formula applies: [Taxable Base @ 20% = Total Base × (Non-Qualifying Income / Total Gross Income)]

Application to Saudi/GCC Entities: Saudi and those who deal with them from among the citizens of the GCC-owned entities established in the SEZ carrying out qualifying activities are subject to Corporate Income Tax (at 5%) rather than Zakat rules.

Loss Carry-Forward: Carried-forward tax losses can offset up to 25% of annual taxable income per tax year until fully utilized

Pillar Two Alignment: ZATCA notes that tax incentives will be reviewed upon KSA's implementation of Global Minimum Tax (Pillar Two) rules for multinational enterprise (MNE) groups within scope

DIRECT TAX INCENTIVES & RULES (GEOGRAPHICALLY DEFINED SEZS) (contd)

Withholding Tax Relief

Full WHT Exemption	SEZ-licensed entities are completely exempt from WHT on cross-border payments (dividends, royalties, management fees, technical services, interest, etc.) made to non-residents.
Mainland Comparison	In contrast, Mainland companies face 5% WHT on dividends, 15% on royalties, and 20% on management fees
Compliance & Anti-Avoidance	Anti-avoidance provisions apply if exemption structures are abused. Licensed entities must submit an Annual WHT Information Return within 120 days from fiscal year-end detailing all non-resident payments

VAT TREATMENT OF SUPPLIES IN SEZs

The VAT Implementing Regulations and the SEZ rules set out a specific treatment for imports into and supplies of goods into, within and between the SEZs. Depending on the case, the supply is either zero-rated or falls outside the scope of KSA VAT.

Transaction Flow	VAT Treatment	Key Conditions & Notes
Within the same SEZ (licensed entity to licensed entity, goods do not leave the zone)	0%	Goods must be under customs suspension and relate to the licensed qualifying activities.
Between two different SEZs	0%	The receiving zone must also operate a customs suspension regime.
Import from outside KSA into an SEZ	Outside the scope of KSA VAT	VAT is suspended until the goods are released from the zone into the mainland.
SEZ to Mainland	Import VAT at 15% plus customs duty	Treated as an import by the mainland recipient, who files the customs declaration.
Services	VAT standard rules apply	No special rules.

VAT REGISTRATION, RECOVERY & REPORTING

Mainland VAT Rules Apply, With Targeted SEZ Relief

Registration Threshold	Registration is mandatory once taxable supplies exceed, or are expected to exceed, SAR 375,000 over the preceding or the following twelve months.
Fully Zero-Rated Entities	An entity making only supplies that are wholly zero-rated is relieved from mandatory registration and need not notify ZATCA. It must, however, retain documentation evidencing total supplies and revenues and confirming that all supplies are zero-rated. Voluntary registration remains available.
Input VAT Recovery	Input tax incurred on the taxable activity is deductible, including on zero-rated supplies made within the zone, for exported. Zero-rated entities frequently end up in a repayment position; refunds may be claimed on filing or within five years of the calendar year-end in which the credit arose.
Returns & Reporting Boxes	Monthly returns where annual taxable supplies exceed SAR 40 million, otherwise quarterly, due by the last day of the following month.
Records & E-Invoicing	Retain invoices and customs documentation evidencing the location of the goods at the time of supply and their movement into or under a duty-suspension regime. ZATCA's E-Invoicing Regulation applies in full to licensed entities.

CUSTOMS DUTY SUSPENSION REGIME

Qualifying activities carried out in the SEZs constitute a special customs regime under which customs duties and import VAT are suspended. Unlike the ordinary suspension arrangements, this suspension is not limited to a fixed period,

- **No Duty on Transit Trade:** Customs duties and VAT are not collected on goods and products relating to qualifying activities that enter the zone from outside KSA and are subsequently re-exported outside the Kingdom.
- **Mainland to Zone:** Goods moved from the mainland into the zone in connection with qualifying activities are treated as exported or re-exported goods.
- **Zone to Mainland:** Movements into the mainland are treated as imports and duties are payable as if the goods came from outside KSA,
- **Basis of Assessment:** Duty is assessed on the finished product resulting from manufacturing in the zone, even where that product incorporates locally sourced components.
- **Customs Valuation:** Valuation follows the Customs Law and the international agreements to which KSA is a party.
- **Repairs & Maintenance:** Goods may move between the mainland and the zone for repair, maintenance and after-sales services, subject to the prescribed customs procedures.
- **Duty Drawback:** A mainland licensed entity may claim a refund of customs duties where the goods are re-exported into the economic zone, within the periods and procedures set out in the Customs Law.

CUSTOMS PROCEDURES & INVENTORY CONTROL

1

Entry of Goods into the Zone

A customs declaration is filed by the licensed entity or its agent covering the full consignment and the distinguishing elements of each item and uploaded to ZATCA's platform. The declaration closes once the goods arrive in full and are recorded in the entity's inventory system.

2

Declaration Types

Export declaration, re-export declaration, temporary export for maintenance, transit for movements crossing the mainland and an import declaration for goods unrelated to qualifying activities on which duties and taxes must be settled.

3

Manufacturing, Consumables & Waste

Monthly production and consumption listings are filed. Packaging materials, oils, fuels and lubricants consumed in qualifying operations are duty-free.

4

Inventory Management System

Licensed entities must operate an auditable electronic inventory system with a time-stamped record of all inbound and outbound movements, linked electronically to ZATCA, plus a monthly reconciliation: opening balance + inbound - outbound/consumption - loss = closing balance.

SPECIAL RULES FOR CLOUD COMPUTING & INFORMATION TECHNOLOGY SEZs

Unlike physical SEZs, the Cloud Computing and IT SEZ in Riyadh applies standard CIT (20%) and standard WHT rates. However, ZATCA introduces special international tax treatments aligned with OECD guidelines and Double Tax Treaties (DTTs)

- **Software Payments:** Payments for standard software usage/licensing are classified as Business Profits (exempt from WHT under treaties if no PE) rather than Royalties
- **Permanent Establishment (PE) Safeguards:** Storage or processing of data on KSA data centers/servers alone does not create a Service Permanent Establishment (PE). OECD PE profit attribution principles apply
- **Transfer Pricing & MAP:** Related-party payments are deductible provided they comply with ZATCA Transfer Pricing (TP) regulations and arm's length principle. Mutual Agreement Procedure (MAP) is explicitly supported for dispute resolution.

ADMINISTRATIVE & COMPLIANCE CALENDAR

Filing / Obligation	Deadline	Scope & Requirements
Annual CIT Return	Within 120 days of fiscal year-end	Declaration qualifying (5%) and non-qualifying (20%) taxable income.
Annual WHT Return	Within 120 days of fiscal year-end	Summary of all cross-border payments made during the year.
Monthly / Quarterly VAT	Last day of following month	Standard VAT returns; zero-rated sales reported under Box 4.
Monthly Inventory Report	Monthly basis	Reconciliation of opening, imports, exports, loss and closing stock.

RECOMMENDED ACTION ITEMS FOR SEZs

1

Structure & Eligibility Review

Review existing corporate structures and assess eligibility for qualifying activities in designated SEZs to leverage 5% CIT and 0% WHT

2

Income Segregation

Ensure robust cost-accounting systems are in place to segregate qualifying SEZ income from non-qualifying Mainland income

3

Supply Chain & ERP setup

Configure ERP systems for VAT treatment on qualified inter-SEZ and Mainland-to-SEZ movements, and set up customs suspension tracking

4

Inventory System Integration

Implement ZATCA-compliant inventory management software within the 6-month transition period

5

Transfer Pricing Documentation

Maintain full documentation (Local File, Master File, CbCR) for intra-group transactions to comply with TP rules

Our Offices

UAE

Dubai
Office 604, Bay Square 11, Business Bay, P.O. Box: 118767,
Dubai, UAE
+971 4576 5098
GCC@acquisory.com

INDIA

Delhi-NCR
1116, 11th Floor, WTT, C-1, Sector 16, DND Flyway, Noida - 201301
T: +91 120 614 300

Mumbai
102, 1st Floor, Naman Centre, BKC, Bandra East, Mumbai City,
Maharashtra, 400051

Bengaluru
Unit 1003-1004, 10th Floor, Prestige Meridian - II, Mahatma Gandhi
Rd, Bengaluru, Karnataka, 560025