

A Comprehensive Guide to Withholding Tax in Saudi Arabia

THOUGHT LEADERSHIP



**GLOBAL
EXPANSION**



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01

INTRODUCTION

Welcome to our detailed guide on withholding tax (WHT) in Saudi Arabia. It provides a thorough understanding of withholding tax, including its basics, applicable rates, compliance requirements, penalties, and more.

Understanding Withholding Tax in Saudi Arabia

Withholding tax in Saudi Arabia is an income tax levied on non-residents who earn income from Saudi sources. The responsibility for withholding and remitting this tax falls on the entity or individual making the payment to the non-resident.

According to the Implementing Regulations of the Income Tax Law (ITL), the tax is imposed on the total amount paid to the non-resident by the payer.

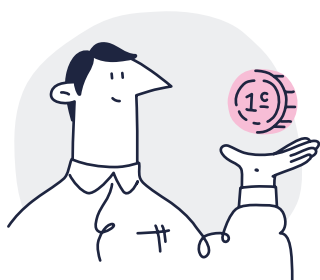


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OBLIGATIONS OF PAYING WITHHOLDING TAX IN SAUDI ARABIA

Saudi residents or private establishments making payments to non-resident parties for services rendered are subject to withholding tax.

This includes payments for technical or management services, rent, interest, dividends, royalties, and more. The recipients of these payments are ultimately responsible for the tax.



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TYPES OF PAYMENTS SUBJECT TO WITHHOLDING TAX

Withholding tax in Saudi Arabia applies to a variety of payments made to non-residents, including:

- ▶ Dividends
- ▶ Management or directors' fees
- ▶ Services performed in Saudi Arabia
- ▶ Payments from business activities in KSA
- ▶ Rental income (both immovable and movable property)
- ▶ Income from debt claims
- ▶ Licensing of industrial or intellectual properties (royalties)
- ▶ Interest from loans
- ▶ Insurance/reinsurance premiums
- ▶ Technical or consulting services, even if performed abroad



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WITHHOLDING TAX RATES IN SAUDI ARABIA

Unless reduced by a tax treaty, the following rates apply under Article 63 of the ITL:

Type of Payment	Withholding Tax Rate
Dividends	5%
Interest	5%
Royalties	15%
Management Fees	20%
Technical Services	15%
Other Services	20%



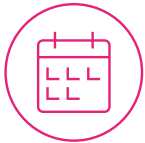
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COMPLIANCE, DEADLINES & EXEMPTIONS



Compliance with Withholding Tax Obligations

Withholding tax returns must be filed every month, and paying on time is essential to avoid penalties.



Withholding Tax Deadlines

Monthly filing: Tax must be filed within the first ten days of the following month.

Annual filing: For non-partnerships, within 120 days of the year-end; for partnerships, within 60 days.



Exemptions and Reductions in Withholding Tax

Certain conditions allow for exemptions from withholding tax:

- 1 The non-resident's business activity is exempt.
- 2 A tax treaty between Saudi Arabia and the non-resident country offers exemptions or reduced rates.

To process exemptions or reductions, it is essential to maintain thorough documentation of payments and contracts.

Eligibility for Exemption

Non-residents supplying construction materials for infrastructure development in Saudi Arabia are exempt from withholding tax. This exemption is designed to promote infrastructure projects.

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IMPACT OF TAX TREATIES ON WITHHOLDING TAX

Saudi Arabia has established tax treaties with various countries to support international trade. These treaties may offer reduced rates or exemptions from withholding tax.

To determine if your country has a tax treaty with Saudi Arabia and understand the potential benefits, visit the [Saudi Ministry of Finance's Tax Treaties Page](#).

The Saudi Arabia-UAE Tax Treaty

Effective January 1, 2020, the Double Tax Treaty (DTT) between Saudi Arabia and the UAE includes:

- ▶ Exemption from withholding tax on service fees unless services establish a permanent establishment (PE).
- ▶ Exemption from withholding tax on interest payments.
- ▶ Reduction of withholding tax on royalty payments to 10%.
- ▶ Reduction of withholding tax on dividends to 5%.
- ▶ Exemption for UAE Sovereign Wealth Funds and capital gains from share sales in KSA.



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CONSEQUENCES OF NON-COMPLIANCE

Failure to comply with withholding tax regulations results in fines and penalties.

- ▶ Late filings incur a penalty of **1% of the tax value** for every 30 days of delay
- ▶ Intentional tax evasion attracts an additional **fine of 25%**



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REMITTANCE AND REPORTING OF WITHHOLDING TAX

Reporting: Withholding tax can be reported online via the [Zakat, Tax and Customs Authority \(ZATCA\) portal](#).

Remittance: Payments can also be made online through the [ZATCA portal](#).



FREQUENTLY ASKED QUESTIONS (FAQS)

- ▶ **How much is the withholding tax in Saudi Arabia?**
The withholding tax in Saudi Arabia ranges from 5% to 20%, depending on the type of service being taxed.
- ▶ **Is there a 15% withholding tax in Saudi Arabia?**
Yes, there is a 15% withholding tax in Saudi Arabia for royalties. Rates for other types of services may vary.
- ▶ **How do I claim withholding tax in Saudi Arabia?**
You can file withholding tax through the [ZATCA website](#).
- ▶ **What is the WHT guideline for Saudi Arabia?**
In Saudi Arabia, withholding tax (WHT) must be paid through the ZATCA portal monthly.
- ▶ **What are the double tax treaties with Saudi Arabia?**
Saudi Arabia has double tax treaties with various countries. These treaties provide citizens of these countries with specific tax rates and advantages when doing business with Saudi Arabia. For more details, visit the [Saudi Ministry of Finance's Tax Treaties Page](#).

For more information, you can also refer to the official Zakat, Tax and Customs Authority (ZATCA) website: [ZATCA](#).





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