



Kingdom of Saudi Arabia to set up first Special Economic Zone for Integrated Logistics

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The Kingdom of Saudi Arabia announced establishing a special economic zone (SEZ) at Riyadh's King Khalid International airport. The SEZ will focus on integrated logistics and will enjoy special rules and regulations to attract multinational investors to invest in the Kingdom. The SEZ will be Governed by General Authority of Civil Aviation and Saudi Arabian General Investment Authority (SAGIA) will manage the attraction of the investments.

The announcement to set up the SEZ forms part of a larger effort by the Kingdom to attract foreign investment into a number to sectors including Information and Communication Technology, Tourism and Financial Services. The SEZ will offer support for multinationals in a wide range of activities including warehousing and fulfilment, inventory management, maintenance and repairs, staging, testing and assembly.

A Royal Order Number A/17, approving the regulations for SEZ, was published in the official Gazette on 19th October 2018. The Royal Order confirms that specific tax rules will be applied to the activities carried out in the SEZ and KSA General Authority of Zakat and Tax (GAZT) will issue special guidelines on taxes applicable to entities operating in the SEZ. It is therefore imperative for multinationals to carefully consider the likely tax implications of the activities they intend to carry out within the SEZ.

In addition to the above, the Royal Order confirms that:

- The Non-residents would not have their Permanent Establishment (PE) for tax purposes in the Kingdom provided their activities are directly related to specific Goods inside the SEZ;
- Custom duties and Value Added Tax (VAT) should not be applied while the goods remain in the SEZ;
- No VAT will be charged on supplies of goods in the SEZ; and
- No VAT will be due on the transfer of goods between the mainland and the SEZ for repair and maintenance. However, goods transported for any other reason may not be relieved from the Customs and VAT regulations.

Furthermore, Article 6 of the Royal Order provides a list of activities which are covered under the scope of the special rules and regulations as follows:

- Repair maintenance, processing, etc. of goods;
- Sorting, repackaging and similar actions in relation to goods, including simple manufacturing processes;
- Import, export and re-export;
- Logistics and after sales services; and
- Certain recycling activities.

Other incentives to consider for entities prior to setting up at SEZ are:

- No financial restrictions on borrowing and the repatriation of funds;
- Simplified procedures to obtain residence permits and work visas for the workforce deployed within SEZ; and
- No restrictions on private ownership of assets including intellectual property rights.

The regulators are expected to issue further interpretations and guidance on the Royal Order that established the SEZ in due course. We shall provide periodic updates of any significant developments in this regard.

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