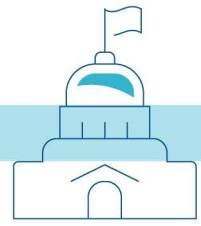


INTRODUCTION:

The incorporation of companies in the Saudi Arabia goes through several main stages, and each stage has its own requirements. This brief summarizes the information related to these stages and their main requirements, noting the importance of obtaining a more accurate legal opinion corresponding to the type of company and the type of activity.

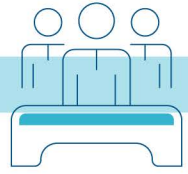
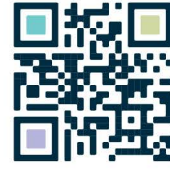


RELATED AUTHORITIES TO THE INVESTOR JOURNEY

During the investors journey, the investor goes through several government authorities that require either obtaining a license or a registration, in order to be able to carry on with the intended activities. Noting the importance of seeking more precise legal advice on these types in light of the company's intended activity, which is a deciding factor that may require additional licenses from other government authorities.



Disclaimer: This mat does not constitute legal advice; neither does it contain the entire legal procedures stipulated in the law. Also, the purpose of this mat is to draw attention to the significance of the law and its main provisions, however, it does not offer a substitute to careful and detailed legal advice



INVESTORS MAIN INQUIRES

This brief includes the investors most common questions before making the decision of the incorporating in Saudi Arabia, noting the importance of obtaining a more accurate legal advisory in relation to these stages, according to the type of activity, which is an influencing factor.

1

How to identify the intended activities?

The Intended activity must be chosen from the National Classification for the Economic Activities (ISIC4), in order to be added to the MISA license and the company CR as a requirement, and to check for any additional licensees or requirements.

Kindly visit the ISIC4 guide through the following link:
<https://www.stats.gov.sa/en/isic4>

2

What are the required licenses for all foreign investors?

Mandatory licenses:

Ministry of Investment License ("MISA"):

It is a mandatory license for all foreign investors before issuing a commercial registration.

Professional licenses (For Client who are practicing professional activities)

For all clients who wish to practice one of the professional activities such as management consulting, it is required that the partners are licensed to practice this profession.

Sub-licenses:

Sub-licenses are determined after specifying the activity that the customer wishes to practice, as there are some activities that require a license from certain authorities, such as a license to practice the transport activity from the Ministry of Transport.

3

Is it possible for foreign investors to incorporate 100% foreign company?

Yes, the investment law in Saudi Arabia allows foreign investors to issue a 100% foreign license for most activities. However, some activates are only limited to Saudi investors or and some are banned from investing in general.

4

Is it possible to incorporate a company owned by individuals?

Originally, individuals are not allowed to incorporate companies in Saudi Arabia, given the requirements that apply only to companies such as financial statements, unless the individual owns the premium residency, as they can incorporate a company without adhering to these requirements.

5

What is the List of activities Excluded from Foreign Investment

Industrial sector

- ☒ Oil exploration, drilling and production. Except the services related to the mining sector listed at (CPC 5115+883) in International Industrial classification codes.

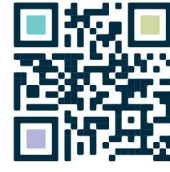
Services Sector

- ☒ Catering to military sectors.
- ☒ Security and detective services.
- ☒ Real estate investment in Makkah and Madina.
- ☒ Tourist orientation and guidance services related to Hajj.
- ☒ Recruitment services.
- ☒ Commission agents internationally classified at (CPC 621).
- ☒ Fishing/ hunting marine living resources

6

Is there a minimum capital for incorporation a company in Saudi Arabia?

Yes, the minimum capital varies depending on the type of activity and the type of company.



7 What are the ministry of investment ("MISA") fees for issuing an investment license?

Fees for the first year is (SAR 12,000).

- ☑ License issuance fees (SAR 2,000).
- ☑ Subscription fees for investor services: 10,000 SAR for the first year. Afterward the, the subscription amount will be to 60,000 SAR for each year.

If the investor wishes to subscribe in advance for more than one year:

- ☑ Fees for two years are (SAR 74,000).
- ☑ Fees for three years are (SAR 136,000).
- ☑ Fees for four years are (SAR 198,000).
- ☑ Fees for five years are (SAR 260,000).

8 What is the Ministry of commerce ("MOC") fees for issuing a commercial registration "CR"?

The issuing of the commercial registration requires two types of fees. The first is the fee is for issuing the CR, and the other is to carry out the publication procedure of the company's articles of incorporation ("AOA"), as follows:

Fees for publication of the AOA:

- ☑ LLC: SAR 500
- ☑ JSC: SAR 1000
- ☑ JLC: SAR 650

Fees for issuing the CR:

- ☑ LLC: SAR 1200
- ☑ JSC: SAR 1800
- ☑ JLC: SAR 800

Kindly note that the above-mentioned fees are subject to change and amendment based on future decisions by the Ministry of commerce.

9 Are there economic cities or free zones in the Saudi Arabia? Is the establishment of foreign companies limited to them?

Yes, there is 4 new Economic zones in Saudi Arabia

- ☑ King Abdullah Economic City (KAEC) SEZ
- ☑ Jazan SEZ
- ☑ Ras Al-Khair SEZ
- ☑ Cloud Computing SEZ, located in King Abdulaziz City for Science and Technology (KACST)

the investor can invest in one of the above zones or (Onshore) in any of the 13 different regions of Saudi Arabia.

economic incentives across the SEZ

- ☑ Reductions in corporate income tax.
- ☑ Exemptions from withholding tax.
- ☑ Deferred customs duties on imported goods.
- ☑ Exemption from fees for employees and their companions in the economic zones.
- ☑ Exemptions from value-added tax (VAT) according to the sector or commercial activity.
- ☑ Flexible and supportive business regulations regarding the recruitment of foreign employees.

For more information, visit <https://site.ecza.gov.sa/en>

10 Is it necessary to rent an office for the company?

Yes, the company must have an actual office, and the requirements differ according to the type of activity, and the number of employees, although Some companies choose to rent a virtual office where they also can have a national address temporarily at the beginning of the incorporation proses.

11 What are corporate tax types and ratios?

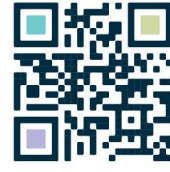
Where a company is owned by both Saudi and a foreign shareholder, the portion of taxable income attributable to a foreign interest is subject to corporate tax, and the Saudi (Or GCC nationality holder) share goes into the basis on which Zakat is assessed.

- ☑ **Corporate Tax:** On all registered entities including foreign-owned companies or subsidiaries and its 20% of adjusted net profits.
- ☑ **Zakat (Islamic Tax):** 2.5% zakat of the company's total financing sources minus fixed assets. Saudi nationals and citizens of GCC countries are liable for Zakat.
- ☑ **15% VAT** on all goods and services that are bought and sold by the company, with some exceptions.

* ERLF does not give any advisory related to tax, and to get more details, it is preferable to contact an accountant specialized in the field of taxes and zakat in Saudi Arabia.

12 Is there a required percentage for employees Saudization?

Yes, and the percentage of Saudization depends on the company's activity, size, and number of employees, but in a simplified way, the percentage of Saudization is often estimated that for every five foreign employees there must be one Saudi employee, and it must be clarified that Saudization is a term that refers to the proportions and quantity of Saudi employees in the establishment, which are mandatory percentages for all establishments. Whatever positions the employees are appointed, and accordingly, it is clear that Saudization differs from jobs localization, as it means limiting the specific profession or positions to Saudi employees and preventing the employment of any other nationality in this position, for example, the position of Human Resources Manager and the Human Resources Department has been localized by 100%, which means It is prohibited to employ any other nationality in this department.



13

What is Nitaqat program?

"Nitaqat" It is a program launched by the Ministry of Human Resources and Social Development ("HRSD") that aims to develop the employment sector in Saudi Arabia, and this program divides companies into a number of categories (red / yellow / low green, medium green, and high green / platinum) according to the Saudization rates of these companies. This classification entails several advantages for companies committed to Saudization rates, For example:

It is allowed to receive visa applications for any profession requested by the employer, provided that it takes into account the professions excluded by the decisions of related Authorities, and provided that it maintains the same platinum range after granting visas.

- ☑ Change the professions of foreign employees to any profession other than those excluded by the decisions of the related Authorities, taking into account the requirements for changing the profession.
- ☑ Renewal of work permits for foreign employees, regardless of the duration of residence, provided that the remainder of the worker's residence does not exceed six months upon renewal.
- ☑ The possibility of transferring services to foreign employees from any scope according with the laws and regulations.

And these benefits are determined upon The Companies range, and the company must maintain the Saudization rate, as When the range of the Company decreases the company might lose some of these features.

14

What is the consequence of violating the jobs localizations or the Saudization rates?

In case of violating the jobs localizations regulations and Saudization rates, the following fines will be applied:

- ☑ **Fines for appointing a non-Saudi employee in a Position limited to Saudis**
SAR 5,000 to SAR 20,000 per employee appointed to a localized position.
The amount of the fine is determined according to the size of the company (the size of the company is determined by the number of employees)
- ☑ **Fine for non-compliance with Saudization rates**
SAR 5000 to SAR 20,000 per employee that caused exceeding the prescribed percentage.
The amount of the fine is determined according to the size of the company (the size of the company is determined by the number of employees)
Kindly note that these fines are subject to change and amendment based on future decisions by the related authorities.

15

Is there a required minimum salary for employees?

The minimum salary is only applicable on Saudi employees, and its regulated as follows:

To calculate the Saudi employee in the Saudization rate in Nitaqat, and to get the benefit from the services of HRSD the following is required:

The monthly salary should not be less than SAR 4000 / and in this case the employee is calculated as one full employee.

- ☑ If the monthly salary is more than SAR 3000 and less than SAR 4000 / in this case the employee will be calculated as half of an employee.
- ☑ If the monthly salary equals SAR 3000 / in this case the employee will be calculated as half of an employee.
- ☑ If the monthly salary is less than SAR 3000 / the employee will not be counted in the Nitaqat program

Part-time jobs: the employee will be counted as half an employee provided that the employee is registered in the social insurance and that the monthly salary is not less than SAR 3000 and that the employee is not registered with more than two entities in the Nitaqat program.

Flexible work: the employee will be counted as one third of an employee provided that a total of 168 hours of work is completed, and social insurance contributions are paid.

16

What are the governmental fees for visas and Residence?

Visa:

SAR 2000

Authority: Ministry of Human Resources and Social Development. (HRSD)

Work permits:

Fees:

700 riyals per month for each foreign employee, not exceeding the number of Saudi employees.

800 riyals per month for each foreign employee who exceed the number of Saudi employees.

Issuance fees: 25 to 100 Saudi riyals, depending on the license period.

Authority: Ministry of Human Resources and Social Development. (HRSD)

Residence:

SAR 650

Authority: General Directorate of Passports

Kindly note that the above-mentioned fees are subject to change and amendment based on future decisions by the related authorities.

17

What is the social insurance system and what are its deduction rates?

Social insurance system is based on the management of employee's personnel affairs by deducting certain percentages and disbursing them on three categories:

RETIREMENT ACCOUNT: It is the deduction of a certain percentage of the salary that is disbursed on a monthly basis after the employee leaves work due to retirement, disability or decease.

APPLICATION: Saudis

DEDUCTION RATIO:

EMPLOYER: 9%

DEDUCTION FROM THE EMPLOYEE SALARY: 9%

Total: 18%

OCCUPATIONAL RISKS: Medical care and compensation in cases of work injuries or occupational disability.

APPLICATION: Saudi and foreign employees

DEDUCTION RATIO:

EMPLOYER: 2

SANID program: allowances for the employees who left work due to circumstances beyond their control.

APPLICATION: Saudis

DEDUCTION RATIO:

EMPLOYER: 1%

DEDUCTION FROM THE EMPLOYEE SALARY: 1%

Total: 2%