Kingdom of Saudi Arabia No. 185/ 3835
Ministry of Finance 14/05/2006
Zakat & Income Department

To: Amro Ibn Abdullah Aldabbagh
Governor of General Investment Authority

Dear Sir,
Further to our letter addressed to your Excellency under number 1/1538, dated 07/01/2005, concerning the joint minutes between Zakat & Income Department and The General investment Authority regarding the necessary procedures need to be taken to improve investment environment in the Kingdom from the Department of Zakat & Income point of view. We expressed our agreement to the contents of the said minutes except paragraph (Thirdly. As we see that it must be changed so as to read as follows: (…..Ministry of Finance and The General Investment Authority must consider granting of more investment incentives in the regions where is less foreign investment attraction currently, including considering the feasibility of tax credit so as to attract investment for certain projects but for specific period).
After reviewing the study prepared by the General Investment Authority in Moharram 1427H about the suggested investment incentives intended to develop some less privileged regions in the Kingdom, such incentives involve five elements as follows:

1- Tax incentives: one of the important factors contributing to the regions development.
2- General view of tax incentives.
3- Internationally used tax incentives intended to develop the regions.
4- Examples of tax incentives: experience of other countries.
5- Suggested tax incentives.

By reverting to the taxation regulation contents issued by the Royal Decree No. (M/1) dated 06/03/2004 regarding the direct and indirect advantages to encourage investment in general which include reduction of tax rate, permitting to carry forward losses until fully recovered, adoption of assets early depreciation method and permitting deduction of research expenses, this indicates that the Kingdom's taxation regulation caters for more incentives for investment attraction. In addition to what stated in the study, the report titled "Business Establishment for 2006" by the World Bank indicates that the Kingdom of Saudi Arabia ranks fifth in the world in terms of tax payment facilities. The world bank criteria uses three factors which are: ( number of tax categories, number of hours spent in preparation of tax proceeds annually and total of due tax amounts as a share of total profits). In spite of the incentives and advantages of the taxation regulation that made it possible to attain this advance ranking, the Ministry does not object to grant more investment incentives in some of the Kingdom's regions as follows:

Firstly:1- Granting industrial projects the following incentives annually:

a- Tax credits ( tax discount) equivalent to 50% of Saudis training annual cost.

b- Tax credits ( tax discount) equivalent to 50% of total annual wages paid to Saudis if tax portion is still remaining after application of the above paragraph.

c- Tax credits (tax discount) in the limit of 15% of investment capital if tax portion is still remaining after application of both paragraphs.

2- Grant Services Projects the Following Incentives:

a- Tax credits ( tax discount) equivalent to 50% of annual training expenses.

b- Tax credits ( tax discount) equivalent to 50% of annual wages paid to Saudis if tax portion is still remaining after application of above paragraph according to following criterion:

1- These incentives are confined to the following regions ( Hayel, North Borders, Jizan, Najran, Albaha, Aljouf).

2- Invested capital should not be less than one million Riyals.

3- The granted tax credits granted to one project in one year should not exceed the due tax limit for that year.

4- The following additional conditions should be met with in order to qualify for application of the suggested tax credits in what regards hiring and training:

a- The number of hired Saudis should not be less than five employed in main technical and administrative jobs.

b- Those employed or trained should be residents of the region where the projects are established.

c- The employment contracts signed with employed trained persons should be permanent contracts whose period is not less than one year of service.

5- In case the granted tax credits exceed Saudis employment and training expenses the due annual tax amount, no tax will be paid for that year and at the same time it is not allowed to carry forward such excess as part of the project losses to following years.

As for tax credits granted to capital, it is allowed to carry them forward for following year or years until exhausting them or expiry the project holiday whichever applicable.

6-The granted tax discount for the project should not exceed 15% of the project capital throughout project life span.

7- The project shall enjoy tax credits (tax discount) of 15% of its capital in each new investment ( capital extensions).

Secondly: Tax credits are applicable to investor who meets the above mentioned requirements for 10 years as of the date of enjoying the tax credits and expires by the expiry of such period.

Thirdly: The licensed project should be implemented within(5) years from the date obtaining the license or otherwise the suggested tax credits shall be cancelled.

I hope that you will review the above and refer the same to concerned authorities unless you believe that some issue need to be explained or discussed with Zakat & Income Department.

Best regards,

Ibrahim Abdulaziz Alassaf
Minister of Finance (signature).