Gateway to growth: Exploring tax benefits in Saudi Arabia's transportation and logistics sector

The Kingdom of Saudi Arabia's freight and logistics market is set to experience significant growth in the coming years, with an expected size of US$25.33 billion in 2024 and US$32.88 billion by 2029. This growth is influenced by the Kingdom's strategic location and its commitment to improving logistical competitiveness. This anticipated growth aligns seamlessly with the transformative goals outlined in Vision 2030, the Saudi Arabian government's comprehensive roadmap for economic diversification and development. In line with Vision 2030, the Saudi Arabian government has introduced new policies and tax benefits to attract global investors and facilitate regional business expansion. These measures create a favorable business environment and position the Kingdom as a leading logistics hub in the region.

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A global hub for logistics

Saudi Arabia has been actively pursuing initiatives to establish itself as a global hub for logistics due to its strategic geographical location, government support, and ambitious vision for economic diversification. Some of the initiatives include:

- **Building a comprehensive logistics infrastructure:** Saudi Arabia has launched the National Transport and Logistics Strategy (NTLS) to develop and expand transportation in the sea-to-air and rail-to-road connectivity. The strategy includes the development of advanced ports and railway connectivity, as well as the creation of 69 logistics platforms that have been grouped into logistics zones, zones at land ports, and zones for truck parking.
- **Advancing airports and ports:** The Kingdom is establishing airports with international standards that provide the necessary operational requirements and work on reliable commercial bases to develop non-navigational revenues and contribute to improving the operational capacity of the airports.
- **Sustainable port and supply chain integration:** Oxagon, a floating industrial city under development in the southwest corner of NEOM, will establish a next-gen sustainable port with a fully integrated supply chain, logistics, and rail delivery system, offering connectivity to global trade routes. The supply chain platform will serve NEOM's population and economy with a single physical and digital platform.
- **Leveraging strategic geographic location:** The new players will benefit from the Kingdom's strategic geographic location, becoming a gateway to the world and a global destination for transportation, trade, and tourism.

- **Seizing opportunities in the India-Middle East-Europe Economic Corridor:** This corridor presents significant opportunities for Saudi Arabia and aims to strengthen economic ties between India, Europe, and the Middle East.
- **Supporting the Saudi Aviation Strategy:** The strategies implemented align with the Saudi Aviation Strategy, which aims to triple annual travelers to 330 million and expand the number of destinations from 99 (at present) to 250 by 2030.

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Tax considerations for the KSA transportation sector

As the transportation and logistics industry in Saudi Arabia continues its expansion and evolution, shifts in local tax policies have become a pivotal factor impacting the sector. Currently, businesses operating in KSA must consider several taxes, including the 20% Corporate Income Tax (CIT), 2.5% Zakat, 15% Value-Added Tax (VAT), and 5% Real Estate Transfer Tax (RETT), while also complying with KSA transfer pricing (TP) requirements.

In general, international transportation and related services are subject to VAT at a zero-rate, whereas domestic transportation is standard-rated. However, zero-rating VAT is subject to certain conditions outlined in the VAT legislation, necessitating careful assessment for taxpayers operating in KSA. Moreover, resident taxpayers must comply with e-invoicing requirements as well.

Additionally, with the advancements in ports and airports, real estate transfers occur, making assessment of RETT critical as the 5% RETT could become a significant cost to businesses. From a withholding tax (WHT) perspective, payments from KSA to non-resident service providers sourcing income from KSA must be assessed, posing potential challenges for leasing and freight services.

Furthermore, KSA has introduced transfer pricing regulations, albeit in their early stages, along with the Advanced Pricing Arrangement (APA) program. Taxpayers can utilize the APA program in a mutually beneficial manner, providing insulation from TP audits for a specified period, benefiting both the taxpayer and the tax authority in the Kingdom.

The road ahead with the changing tax landscape

Given the burgeoning economic environment in the Kingdom, aligning with global best practices has become imperative. KSA has recognized the need for tax reforms and has taken proactive steps in this regard. The Economic Cities and Special Zones Authorities (ECZA) have launched the first five economic zones, aimed at supporting various industry sectors and business activities. Among these, the Special Integrated Logistics Zone (SILZ) has garnered significant attention, particularly within the logistics sector. Positioned adjacent to King Khalid International Airport, SILZ is strategically placed to propel Saudi Arabia into the leading transport and logistics hub. Its close proximity to the airport, coupled with access to rail, metro, and ring road systems, ensures both global and regional connectivity. Companies operating within SILZ benefit from a wide range of direct and indirect fiscal incentives, further enhancing its appeal, such as:

- Suspension of customs duties on goods imported or transported within the SILZ;
- No VAT on goods and services in the zone for approved activities;
- Subject to conditions, the registered zone establishments can recover VAT on expenses;
- Zero percent income tax rate on prescribed activities;
- 50-year tax relief for SILZ entities, subject to license status;
- Exemption from WHT on non-resident payments on prescribed activities; and
- SILZ imports re-exported may qualify for a customs duty refund, subject to certain conditions.

KSA tax authorities have issued comprehensive guidelines outlining the procedures for SILZ. Further, SILZ offers a range of benefits, such as streamlined administrative and regulatory processes, rapid certification of goods for export, and unrestricted capital repatriation, making it an ideal hub for transportation-related industries. These benefits come into effect from the point at which the business receives its license to conduct operations. From a CIT perspective, qualifying income generated from activities conducted within the zone is subject to a zero percent (0%) income tax rate for the duration of the tax exemption period. Regarding WHT, businesses eligible for exemption may benefit from exemption on payments made to non-residents for services provided within the Kingdom. These services typically include dividends, returns on loans, royalties, and payments for technical services, among others. However, it is important to note that these payments, in relation to CIT and WHT, are contingent upon certain conditions as outlined in the General Guideline to the Zakat, tax and customs provisions of the SILZ. Thus, a thorough examination of these conditions is strongly recommended for both existing taxpayers and businesses intending to commence operations within the Kingdom.

Apart from SILZ, KSA authorities have implemented bonded zones where businesses can avail themselves of VAT and customs duty benefits, provided they meet certain conditions. Furthermore, logistic service providers are actively engaging with authorities to assess potential benefits under the Regional Headquarters (RHQ) scheme and ensure compliance with local regulations.

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Moving forward

Saudi Arabia is riding the wave of global transportation trends. With continued government support, innovative financial, tax, and regulatory incentives, and the establishment of zones, the Kingdom is bound to be a global go-to logistics hub. The following is a list of key tax trends observed in the KSA market:

1. **Proactive engagement with tax and regulatory authorities:** Proactive engagement with local tax and regulatory authorities not only helps avoid surprises but also fosters confidence and strengthens relationships with them.
2. **Collaborative tax strategy:** Engage with local advisors to develop a comprehensive tax structuring and compliance strategy tailored to specific tax requirements. Ensure that the transaction and/or entity structure selected maximizes efficiencies from a tax perspective, considering factors such as location and the approach to local presence and delivery of the goods and services.
3. **Continuous training and education:** It is essential to ensure that all stakeholders, including staff members, are well-versed in local tax regulations and processes.
4. **Technology integration:** Utilize advanced technology solutions provided by advisors and partners to enhance operational transparency, efficiency, accuracy, and timely reporting to various stakeholders.

Witnessing the growth of the transportation sector in the Kingdom of Saudi Arabia is truly exciting. For any enterprise seeking to carry out business in the Kingdom, it is recommended to establish local partnerships with tax advisors to help navigate some of the intricacies of getting set up and established. This should enable investors in the Kingdom to benefit from "[tax] friction-free" operations, compliance, and a go-to-market approach that will provide ample opportunities for long-term growth and reward.

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