

SPECIAL ECONOMIC ZONES IN SAUDI ARABIA

A Tax Professional's Insight into the Regulatory Framework

Income Tax /Withholding Tax

Customs Duties/ Real Estate Transaction Tax

Value Added Tax



INTRODUCTION

A Special Economic Zone (SEZ) is a designated area within a country that operates under a separate and more commercially attractive regulatory framework. SEZs are typically established to attract foreign investment, promote export-oriented industries, and accelerate economic growth through incentives such as lower taxes, customs duty relief, streamlined approvals, and modern infrastructure.

The SEZ framework combines fiscal incentives, regulatory flexibility, and sector-specific focus areas to create a competitive and investor-friendly ecosystem designed to integrate Saudi Arabia more deeply into global value chains. As part of its Vision 2030 transformation agenda, Saudi Arabia has introduced SEZs to enhance its attractiveness as a global investment destination and reduce reliance on oil revenues. The first wave of SEZs, King Abdullah Economic City (KAEC), Jazan, Ras Al-Khair, and the Cloud Computing SEZ in Riyadh was officially announced on 13 April 2023.

Additionally, the Riyadh Integrated Special Logistics Zone (SILZ) was launched earlier in 2022.

These zones are regulated by the Economic Cities and Special Zones Authority (ECZA), which serves as the primary regulator overseeing licensing, governance, and operational frameworks, while the Zakat, Tax and Customs Authority (ZATCA) administers the applicable tax regime across the Kingdom, including SEZs.

The detailed regulations governing KAEC, Jazan, Ras Al-Khair, and the Cloud Computing SEZs were approved in December 2025, published in January 2026, and became effective in April 2026. This article examines these frameworks from a tax perspective.

SEZs are built around sector-specific clusters shaped by the industrial profile of each location. Each site has its own focus areas.

SEZ	Focus Sectors	Province
KAEC	Automobile supply chain and assembly ICT (electronic light manufacturing) Pharmaceuticals MedTech Logistics Consumer goods	Makkah province
Ras Al-Khair	Rig platforms and MRO Shipbuilding and MRO	Eastern province
Jazan	Food processing Metals conversion Logistics	Jazan province
Cloud computing	Cloud Computing Service	Not strictly location specific Headquarters in Riyadh with the ability for businesses to build and operate data centres from all over the kingdom



An overview of the tax regime across the SEZs

Contrary to early expectations of a unified tax framework, Saudi Arabia has adopted a differentiated, sector-driven approach, with distinct tax regimes applying to each SEZ. This approach reflects the Kingdom's strategy of tailoring incentives to specific industries.

Tax Type	KAEC	Ras Al Khair	Jazan	Cloud Computing	SILZ (Riyadh Integrated Logistics Zone)
Corporate Income Tax (CIT)	5% preferential rate (up to 20 years, subject to conditions)			No fixed 5% rate; aligned with standard CIT framework	0% for up to 50 years (qualifying income)
Withholding Tax (WHT)	0% on profit repatriation			Subject to general framework (limited specific relief)	0% on qualifying payments
Value Added Tax (VAT)	0% VAT for all intra-SEZ goods exchanged within the zone and between zones;			Generally aligned with standard VAT rules	0% VAT for all intra-SEZ goods exchanged within the zone and between zones; 0% VAT on servicing or manufacturing and assembly
Customs Duties	Customs duty deferral			Exemptions primarily for qualifying imports	Customs duty deferral
Real Estate Transaction Tax (RETT)	No explicit exemption				

Note-1: The 5% CIT rate cited above is derived from ECZA policy announcements and is not explicitly stated in primary SEZ legislation or ZATCA tax legislation.

Note-2: With regard to WHT on the SEZ (i.e. KAEC, Ras Al-Khair and Jazan), note that while the SEZ legislations provides for a blanket WHT exemption, the ECZA policy announcements seems to suggest that WHT exemption is only on profit repatriation.

All services supplied within or into the SEZs remain subject to the standard Saudi VAT rules, unless otherwise exempt under the general VAT framework. Common services such as management services, consultancy, IT support, technical services, and professional fees would continue to be subject to the standard Saudi VAT rules unless another exemption applies. This distinction is commercially significant, particularly for businesses with high service-related operating costs.

At the same time, the relief on goods is not unconditional. The regulations specifically require a clear nexus between the goods and the entity's licensed SEZ activities. Goods acquired for non-licensed activities, or goods diverted into the mainland market without sufficient connection to qualifying SEZ operations, may not benefit from the relief.

Some nuanced observations:

Looking at the above, the trend is conspicuous that the Industrial SEZs (KAEC, Ras Al-Khair, Jazan) follow a traditional SEZ framework, characterised by a reduced CIT rate, subject to eligibility and Customs / VAT relief focused on goods. This model is particularly suited for manufacturing, logistics, and industrial operations, where customs efficiencies are critical.

Whereas the Cloud Computing SEZ departs significantly from the traditional model and reflects alignment with global digital taxation trends, prioritizing regulatory flexibility over aggressive tax incentives.

Certain incentives, particularly the 5% CIT rate are conditional. This introduces eligibility criteria, substance requirements and potential interpretational variability. Investors must therefore carefully evaluate licensing conditions and regulatory approvals.

Apart from tax incentives, certain non-fiscal incentives are also provided such as up to 100% foreign business ownership, exemption from the expat levy (fees for employees and their families inside the zone), alongside flexible and supportive regulations around hiring foreign talent.



Interaction with OECD Pillar Two (Global Minimum Tax)

An important consideration for multinational enterprises operating within Saudi Arabia's SEZs is the interaction of the preferential tax regimes with the OECD's Pillar Two Global Anti-Base Erosion (GloBE) rules, which impose a minimum effective tax rate (ETR) of 15% on large multinational groups. The 5% corporate income tax rate applicable in certain industrial SEZs (e.g., KAEC, Ras Al-Khair and Jazan), as well as the 0% regime in SILZ may result in an ETR below the global minimum threshold. Consequently, in-scope multinational groups may be subject to top-up tax in another jurisdiction under the Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR), thereby reducing or eliminating the net benefit of SEZ incentives.

By contrast, the Cloud Computing SEZ's alignment with a standard income tax framework and the conditional, policy-driven nature of certain incentives suggest that Saudi Arabia is consciously balancing competitiveness with international tax transparency and BEPS alignment. From a policy perspective, this reflects a broader shift away from purely low-tax regimes toward substance-based incentives, where non-tax factors such as infrastructure, market access, and regulatory efficiency become increasingly important. For investors, this underscores the need to assess SEZ benefits not only from a domestic tax perspective, but also through the lens of global minimum tax exposure and group-wide effective tax rate management.



CONCLUSION

Saudi Arabia's introduction of SEZ regime represents a significant step in Saudi Arabia's efforts to diversify its economy and enhance its attractiveness as a destination for foreign and domestic investment.

Saudi Arabia's SEZ regime marks a deliberate evolution from a uniform, incentive-driven tax model to a more nuanced and differentiated framework, tailored to sectoral priorities and aligned with international tax developments. The coexistence of industrial SEZs offering a preferential 5% corporate income tax rate, the Cloud Computing SEZ's globally aligned digital tax model, and the highly concessional SILZ regime illustrates a clear policy shift toward targeted fiscal design rather than blanket incentives.

However, the interaction with the OECD's Pillar Two global minimum tax regime fundamentally reshapes how these incentives should be evaluated. For large multinational groups, the low effective tax rates in industrial SEZs and zero-tax models such as SILZ may be partially neutralised through top-up taxation in other jurisdictions.

As a result, the attractiveness of Saudi SEZs increasingly lies beyond purely fiscal considerations. Non-tax advantages, including strategic geographic location, world-class infrastructure, supply chain integration, regulatory support, and access to a growing domestic market, become critical differentiators. At the same time, the conditional nature of certain tax incentives, combined with evolving global tax rules, underscores the importance of careful structuring, substance alignment, and holistic effective tax rate management for investors.

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