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Tax Alert

August 18, 2026

ZATCA Issues Economic Substance Requirements Regulations for the Special Economic Zones

Introduction

ZATCA has issued the **Economic Substance Requirements Regulations for the Special Economic Zones**, approved by Board of Directors Decision No. (03-02-26) dated 10/10/1447H and published in Umm Al-Qura on **7 August 2026 and became effective on the same date**. The Regulations were published bilingually with an official English text and set out what a licensed entity must satisfy each year to demonstrate genuine economic activity in the Zone, and therefore to retain the tax and customs incentives.

Key highlights

- The Regulations apply to all licensed entities carrying out qualified activities in the four Special Economic Zones. Compliance is tested annually, beginning with the first financial year in which qualified activities are carried out.
- Key Substance requirements:
    - The entity must have adequate premises and assets suitable for conducting its qualified activities in the Zone.
    - An adequate number of full-time employees physically present in the Zone, proportionate to the qualified activities. Personnel employed by companies contracting with the licensed entity shall also be considered.
    - Operational expenditure must be incurred in the Zone, commensurate with the nature of the qualified activities carried out.
    - Direction and management from within the Zone, including at least one director responsible for the qualified activities resident in the Kingdom, management holding the necessary qualifications, and board meetings at which actual and strategic decisions are taken and minutes are prepared with quorum met in the Kingdom.
- In case of entities that conduct intellectual property activities, additional conditions apply such as - At least 50% of the directors managing the qualified activities must be resident in the Kingdom; detailed business plan demonstrating the commercial rationale for holding the IP assets in the Zone; furnishing of detailed employee information etc.

At a glance:

The Regulations are **effective from 7 August 2026**

Compliance is verified **annually** by ZATCA through a prescribed **ESR return**, while penalties for breach are imposed by **ECZA**, not ZATCA.

Entities carrying on **intellectual property activities** face five additional requirements, and incentives do not extend to income from **marketing intangibles**.

Key highlights (contd.)

- Incentives and exemptions do not apply to income arising from IP activities related to marketing intangibles. The scope of IP activities within the qualified activities follows the classification issued by ECZA.
- The licensed entity must file an annual return using the form prescribed by ZATCA for the purpose of verifying compliance. The form is yet to be notified.
- Where any of the requirements is breached, the penalties issued by ECZA apply.

Dhruva comments:

With the issuance of the substance rules, the entities need to ascertain their compliance with the substance requirements. Some of the requirements are subjective rather than definitive, such as the requirement of commensurate expenditure – hence undertaking a readiness assessment is warranted – the role of transfer pricing professionals may become important for preparation of a defense file by way of appropriate benchmarkings - unless the authority issues some definite expenditure criteria.

It would be interesting to see the compliance form once notified.

Please read alongside the ZATCA Procedural Guide issued in August 2026.

Dhruva Consultants achieved ITR World Tax Ranking 2026:

- Tier 1 – Indirect Tax
- Tier 2 – General Corporate Tax, Transfer Pricing, Transactional Tax
- Other Notable: Tax Controversy

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