

## **Today A New Route to Global Markets: Saudi Arabia's Special Economic Zones – Incentives and Economic Substance Requirements**

### **1- Overview**

Prepared by our Partner, Steeve Zouein, and Junior Associate, Muhanad Zeitouni, this article examines Saudi Arabia's Special Economic Zones (SEZs) and their role in positioning the Kingdom as a global investment powerhouse at the crossroads of international trade. As part of this strategy, the Kingdom has launched a network of SEZs designed to enhance competitiveness, attract foreign direct investment, and accelerate economic diversification.

These zones offer a unique, investor-centric environment supported by world-class infrastructure, strategic geographic positioning, and a comprehensive regulatory framework aligned with international best practices. They provide access to global markets, benefiting from Saudi Arabia's connectivity to major trade routes and proximity to key regions across Europe, Asia, and Africa.

The first wave of SEZs—namely King Abdullah Economic City (KAEC), Ras Al-Khair, Jazan, the Cloud Computing SEZ, and the Riyadh Integrated Special Logistics Zone—covers a wide range of high-growth sectors including logistics, manufacturing, maritime industries, digital technologies, and advanced services. Together, they create an integrated ecosystem enabling businesses to scale regionally and globally.

In addition to strategic location advantages, investors benefit from a suite of competitive incentives, including corporate tax reductions, customs duty exemptions, VAT reliefs, and flexible labor regulations. These are complemented by a streamlined “one-stop-shop” application and licensing process, ensuring a seamless and efficient investment journey.

### **2- Entry into Force**

In January 2026, the Saudi Council of Ministers approved the detailed regulatory frameworks governing the four special economic zones (SEZs) of King Abdullah Economic City (KAEC), Ras Al-Khair (RAK), Jazan, and Cloud Computing. These frameworks have entered into force today on 16 April 2026. That means:

- The legal framework is currently in force
- Investors can apply and operate under the SEZ regime today
- Certain sector-specific incentives or detailed rules may continue to evolve through secondary regulations

### 3- Comparative Overview of Saudi Arabia’s Special Economic Zones

Zone	Location	Key Sectors	Strategic Advantage	Key Incentives
<b>1- King Abdullah Economic City (KAEC) SEZ</b>	Western Region (Red Sea, near Jeddah)	Automotive, logistics, pharmaceuticals, MedTech, light manufacturing	Access to Red Sea trade routes (13% of global trade), proximity to major port and airport	5% CIT (up to 20 years), 0% VAT intra-zone, customs duty deferral, WHT exemptions
<b>2- Ras Al-Khair SEZ</b>	Eastern Province (Arabian Gulf)	Maritime industries, shipbuilding, offshore rigs	Largest maritime yard in MENA, access to industrial base and raw materials	5% CIT (up to 20 years), customs & VAT exemptions, WHT exemptions
<b>3- Jazan SEZ</b>	South (Red Sea, near Africa)	Metals, mining, food processing, logistics	Gateway to African markets, large export port, proximity to natural resources	5% CIT, customs exemptions on inputs, VAT relief, low-cost utilities
<b>4- Cloud Computing SEZ</b>	Riyadh (hybrid – can operate nationwide)	Cloud services, data centers, digital technologies	Supports digital economy & AI strategy, flexible location model	Special tax treatment (OECD-aligned), low electricity cost, expat levy exemption
<b>5- Riyadh Integrated Special Logistics Zone (RISLZ)</b>	Riyadh (near King Khalid Airport)	Logistics, distribution, light manufacturing, e-commerce	Air cargo hub, integrated logistics ecosystem, central location	0% income tax on specific activities, no customs on goods in zone, VAT exemptions

#### Key Common Features Across All SEZs

- Competitive tax regime
- 100% foreign ownership permitted
- No restrictions on capital repatriation
- Streamlined **“one-stop-shop” licensing system**
- Access to skilled workforce and advanced infrastructure

## 4- Economic Incentives

Exemptions and incentives granted to Special Economic Zones pursuant to Council of Ministers Resolution No. (233) dated 29/03/1444H referenced in Royal Decree No. M/140 dated 16/07/1447H, Umm Al-Qura Official Gazette, Issue No. 5140 include:

- 5% corporate income tax for a period of up to twenty years.
- 0% customs duties deferral for goods located within the Special Economic Zone.
- 0% value-added tax on goods exchanged within the zone and between Special Economic Zones.
- Permanent 0% withholding tax on the repatriation of profits to foreign countries.
- Flexible regulatory framework for foreign talent, including exemptions from expatriate levy fees for employees and their families during the first five years

## 5- What's New: Incorporation and Corporate Framework

Companies licensed to operate within the Special Economic Zones (SEZs) benefit from specific regulatory carve-outs. In particular, they are exempt from the provisions of the Companies Law (Royal Decree No. M/132) and the Commercial Registration and Trade Names Regulations (Royal Decree No. M/83), as provided under the relevant Council of Ministers Resolution issued in connection with the SEZ framework.

The competent authority is mandated to issue detailed rules governing the corporate framework, including matters relating to governance, rights, obligations, and responsibilities of companies established within the SEZs.

An important note to make a cross all zones, entities must be incorporated as Saudi-national limited liability companies (LLCs), whether single-member or multi-member, and must be registered in a dedicated Companies Register maintained by the relevant authority in coordination with the Ministry of Commerce.<sup>1</sup> The regulatory framework applies not only to companies incorporated inside the zones but also to branches of companies established outside the zones once they are registered within an SEZ.

A company acquires legal personality upon registration, at which point all acts carried out on its behalf prior to incorporation shall be transferred to it, subject to the company assuming the associated costs and liabilities.

Registration must comply with prescribed trade name requirements, including clearly indicating incorporation within an SEZ and ensuring that the chosen name does not conflict with existing or well-known trade names.

In addition, companies may adopt partner agreements or family charters, which may prevail over the articles of association, subject to applicable regulations.

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<sup>1</sup> Royal Decree No. A/19, *Statute of the Economic Cities and Special Zones Authority*, art 5-6.

## 6- Corporate Governance and Operational Rules

Companies must maintain written articles of association that comply with mandatory regulatory provisions and become enforceable against third parties only after registration and publication.<sup>2</sup> Amendments require shareholder approval in accordance with prescribed voting thresholds.

The framework permits shareholder agreements and family charters to regulate relationships among shareholders or between shareholders and the company. It also allows the establishment of single shareholder companies.<sup>3</sup> Multiple classes of shares may be created and share transfers can be restricted provided they are not absolutely prohibited.

Saudi Arabia's SEZ ecosystem emphasizes procedural efficiency. An integrated "One Stop Shop" platform centralizes government and non-government services, including licensing, registration, employment services, tax and customs support, property registration, and compliance functions. This consolidated approach significantly reduces administrative touchpoints and accelerates market entry.

## 7- Filing Requirements

A dedicated competent administration within ECZA is responsible for incorporation, registration, supervision, enforcement, and record keeping, effectively functioning as the zone equivalent of a commercial registry.<sup>4</sup>

An application to establish a company must include, at minimum:<sup>5</sup>

- Company name
- Capital amount
- Identification documents of founders
- Details of managers or board members
- Draft articles of association
- Proof of payment of prescribed fees
- Statement of intended economic activities
- Any additional requirements determined by the competent authority

Upon approval of the application, the competent administration issues the commercial license, assigns a registration number, registers and publishes the articles of association, and records the company in the SEZ register. Companies may commence activities only after obtaining the necessary licensing and completing registration.

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<sup>2</sup> Royal Decree No. A/19, *Statute of the Economic Cities and Special Zones Authority*, art 12.

<sup>3</sup> Royal Decree No. A/19, *Statute of the Economic Cities and Special Zones Authority*, art 14.

<sup>4</sup> Royal Decree No. A/19, *Statute of the Economic Cities and Special Zones Authority*, art 3.

<sup>5</sup> Royal Decree No. A/19, *Statute of the Economic Cities and Special Zones Authority*, art 21.

## 8- The New Compliance Frontier: Economic Substance Requirements (ESR)

As part of its “incentive with discipline” approach, Saudi Arabia has introduced draft **Economic Substance Requirements (ESR)** for Special Economic Zones (SEZs). These rules, issued by ZATCA in collaboration with ECZA, set out the conditions investors must meet to benefit from the attractive tax incentives available in the zones (such as the 5% corporate tax rate or special tax regimes).

In essence, companies must demonstrate real economic activity in the Kingdom not just a legal presence.

### ➤ Core Economic Substance Requirements

Under the draft regulations, investors must meet the following requirements on an annual basis:

- Physical presence: Maintain adequate premises and assets within the SEZ.
- Employees: Employ a sufficient number of full-time staff physically located in the zone.
- Operating expenditure: Incur appropriate operational costs within the zone, aligned with the business activity.
- Management and control: Ensure that activities are directed and managed from within Saudi Arabia, including:
  - At least one director resident in the Kingdom
  - Qualified management
  - Board meetings held in Saudi Arabia where key decisions are taken

### ➤ Additional Requirements for IP-Based Activities

For businesses generating income from intellectual property (IP), stricter substance requirements apply to prevent purely tax-driven structures. These include:

- At least 50% of directors must be Saudi residents
- A clear business plan demonstrating the commercial rationale for holding IP in the zone
- Detailed disclosure of employees and their qualifications
- Strategic decisions and risk management related to IP must take place within the zone
- Activities must go beyond mere holding or marketing of IP

### ➤ Alignment with Saudi Arabia’s IP Framework

These requirements are aligned with recent developments in Saudi Arabia’s intellectual property regime, including the new **Copyright Law (2026)**, which strengthens IP protection and enforcement. This provides greater legal certainty for businesses relying on IP assets.

### ➤ Reporting and Compliance

- **Annual filing:** Companies must submit an annual ESR return to confirm compliance
- **Guidance:** ZATCA may issue further clarifications
- **Penalties:** Non-compliance may result in sanctions imposed by ECZA
- **Effective date:** The ESR rules will apply upon publication in the Official Gazette .

## 9- Conclusion

As the Kingdom continues to implement its economic transformation agenda, SEZs are expected to play a pivotal role in strengthening the investment landscape and positioning Saudi Arabia as a central hub within global trade networks.

Access to SEZ benefits is **conditional on genuine economic activity**. Companies must demonstrate real operations in Saudi Arabia—simply incorporating in an SEZ without substance will not be sufficient to benefit from the regime.

Overall, Saudi Arabia’s SEZ framework represents a significant step forward in creating a dynamic, business-friendly environment that supports innovation, growth, and long-term investment opportunities.