

INCOME TAX LAW

Chapter One

Definitions

Article 1: Definitions

The following words and phrases, wherever mentioned in this Law, shall have the meanings next to them unless the context requires otherwise:

The Minister:	Minister of Finance
The Department:	Department of Zakat and Income.
Tax:	Income tax imposed in accordance with this Law.
Person:	Any natural or corporate person.
Taxpayer:	Any person subject to tax in accordance with this Law.
Activity:	A commercial activity in all its forms, or any vocational, professional or other similar activity for profit. This includes the use of movable and immovable property.
Royalties:	Payments received for use of or the right to use intellectual rights, including, but not limited to, copyright, patents, designs, industrial secrets, trademarks and trade names, know-how, trade secrets, business, goodwill, and payments received against the use of information related to industrial, commercial or scientific expertise, or against granting the right to exploit natural and mineral resources.
The Kingdom:	Lands and territorial waters of the Kingdom of Saudi Arabia, its air space and its rights in the zone divided between it and the State of Kuwait. This includes marine or semi-marine areas that are under the sovereignty, sovereignty rights or jurisdiction of the Kingdom in accordance with International Law.
Capital company:	A joint stock company, a limited liability company, or a company limited by shares. For purposes of this Law, investment funds shall be considered capital companies.
Partnership:	A general partnership, a silent partnership, or a limited partnership.
Resident:	A natural person, a company that satisfies the residency conditions stipulated in Article Three of this Law, any

	governmental department or ministry, or public entity, or any other corporate person or entity formed in the Kingdom.
Nonresident:	Any person who does not satisfy the requirements of the status of a resident.
Saudi citizen:	A person holding Saudi nationality or who is treated as such.
Commercial books:	Set of commercial books kept by the taxpayer in which all commercial transactions are recorded as described by Royal Decree No. (M/61) dated 17/12/1409H and its implementing regulations issued by Ministerial Decision No. (699) dated 29/7/1410H, amended by Ministerial Decision No. (1110) dated 24/12/1410H or any subsequent amendments.
Regulations:	Implementing regulations of this Law.

Any word or phrase with no specific definition in this Chapter shall have the same definition it has in other Laws applicable in the Kingdom provided that such definition is not inconsistent with the provisions of this Law.

Chapter Two

Taxpayers

Article 2: Persons Subject to Taxation

- (a) A resident capital company with respect to shares of non-Saudi partners.
- (b) A resident non-Saudi natural person who conducts business in the Kingdom.
- (c) A nonresident who conducts business in the Kingdom through a permanent establishment.
- (d) A nonresident with other taxable income from sources within the Kingdom.
- (e) A person engaged in the field of natural gas investment.
- (f) A person engaged in the field of oil and hydrocarbons production.

Article 3: Concept of Residency

- (a) A natural person is considered a resident in the Kingdom for a taxable year if he meets any of the two following conditions:
 - (1) He has a permanent place of residence in the Kingdom and resides in the Kingdom for a total period of not less than thirty (30) days in the taxable year.

- (2) He resides in the Kingdom for a period of not less than one hundred eighty three (183) days in the taxable year.

For purposes of this paragraph, residence in the Kingdom for part of a day is considered residence for the whole day, except in case of a person in transit between two points outside the Kingdom.

- (b) A company is considered resident in the Kingdom during the taxable year if it meets any of the following conditions:
 - (1) It is formed in accordance with the Companies Law.
 - (2) Its central management is located in the Kingdom.

Article 4: Permanent Establishment

- (a) A permanent establishment of a nonresident in the Kingdom, unless otherwise stated in this Article, consists of the permanent place of the nonresident's activity through which it carries out business, in full or in part, including business carried out through its agent.
- (b) The following are considered a permanent establishment:
 - (1) Construction sites, assembly facilities, and the exercise of supervisory activities connected therewith.
 - (2) Installations, sites used for surveying natural resources, drilling equipment, ships used for surveying for natural resources as well as the exercise of supervisory activities connected therewith.
 - (3) A fixed base where a nonresident natural person carries out business.
 - (4) A branch of a nonresident company licensed to carry out business in the Kingdom.
- (c) A place is not considered a permanent establishment of a nonresident in the Kingdom if used in the Kingdom only for the following purposes:
 - (1) Storing, displaying or delivering goods or products belonging to the nonresident.
 - (2) Keeping a stock of goods or products belonging to the nonresident for the purpose of processing by another person.
 - (3) Purchasing goods or products for the sole purpose of collection of information for the nonresident.
 - (4) Carrying out other activities of preparatory or auxiliary nature for the interests of the nonresident.

- (5) Drafting contracts for signature in connection with loans, delivery of goods or activities of technical services.
 - (6) Performing any series of activities stated in subparagraphs (1) to (5) of this paragraph.
- (d) A nonresident partner in a resident partnership is considered an owner of a permanent establishment in the Kingdom, in the form of an interest in a partnership.

Article 5: Source of Income

- (a) Income is considered accrued in the Kingdom in any of the following cases:
- (1) If it is derived from an activity which occurs in the Kingdom.
 - (2) If it is derived from immovable property located in the Kingdom, including gains from the disposal of a share in such immovable properties and from the disposal of shares, stocks or partnership in a company the property of which consists mainly, directly or indirectly of shares in immovable properties in the Kingdom.
 - (3) If it is derived from the disposal of shares or a partnership in a resident company.
 - (4) If it is derived from lease of movable properties used in the Kingdom.
 - (5) If it is derived from the sale or license for use of industrial or intellectual properties used in the Kingdom.
 - (6) Dividends, management or directors' fees paid by a resident company.
 - (7) Amounts paid against services rendered by a resident company to the company's head office or to an affiliated company.
 - (8) Amounts paid by a resident against services performed in whole or in part in the Kingdom.
 - (9) Amounts for exploitation of a natural resource in the Kingdom.
 - (10) If the income is attributable to a permanent establishment of a nonresident located in the Kingdom, including income from sales in the Kingdom of goods of the same or similar kind as those sold through such a permanent establishment, and income from rendering services or carrying out another activity in the Kingdom of the same or similar nature as an activity performed by a non-resident through a permanent establishment.

- (b) Place of payment of the income shall not be taken into account in determining its source.
- (c) For purposes of this Article, a payment made by a permanent establishment of a nonresident in the Kingdom is considered as if paid by a resident company.

Chapter Three

Tax Base and Tax Rates

Article 6: Tax Base

- (a) The tax base of a resident capital company is the shares of non-Saudi partners in its taxable income from any activity from sources within the Kingdom minus expenses permitted under this Law.
- (b) The tax base of a resident non-Saudi natural person is his taxable income from any activity from sources within the Kingdom minus expenses permitted under this Law.
- (c) The tax base of a non-resident who performs an activity within the Kingdom through a permanent establishment is his taxable income arising from or related to the activity of such establishment minus expenses permitted under this Law.
- (d) The tax base of each natural person is determined independently.
- (e) The tax base of a capital company is determined separately of its shareholders or partners.

Article 7: Tax Rates

- (a) The tax rate of the tax base is twenty percent (20%) for each of the following:
 - (1) A resident capital company.
 - (2) A non-Saudi resident natural person who conducts business.
 - (3) A nonresident person who conducts business in the Kingdom through a permanent establishment.
- (b) The tax rate of the tax base for a taxpayer engaged only in natural gas investment activities is thirty percent (30%).
- (c) The tax rate of the tax base for a taxpayer engaged in the production of oil and hydrocarbon materials is eighty five percent (85%).
- (d) Withholding tax rates are those specified under Article Sixty Eight of this Law.

Chapter Four

Taxable Income

Article 8: Taxable Income

Taxable Income is the gross income including all revenues, profits and gains of any type and of any form of payment resulting from carrying out an activity, including capital gains and any incidental revenues, minus exempted income.

Article 9: Gains or Losses Resulting from Disposal of Assets

- (a) The gain or loss from the disposal of an asset is the difference between the compensation received for the asset and its cost base.
- (b) No gain or loss on disposal of a depreciable asset is taken into account other than what is stated in Article Seventeen of this Law.
- (c) In determining taxable income, a natural person may not take into account gain or loss on disposal of an asset that is not for use in the activity.
- (d) The cost base of an asset purchased, produced, manufactured, or constructed by the taxpayer itself is the amount paid or incurred by the taxpayer in cash or in kind in the process of acquiring the asset.
- (e) Where a taxpayer disposes of a part of an asset, the cost base of the asset is apportioned between the part retained and the part disposed of in accordance with their market value at the time of purchase of the asset.
- (f) Expenses incurred to alter or improve a non-depreciable asset are added to the cost base of the asset.
- (g) The compensation value for disposal of an asset against assets in rem is based on the market value of those assets in rem, including exemption from debt on the asset.
- (h) Where a taxpayer disposes of an asset by way of gift or inheritance, the disposer is treated as having received compensation equal to the market value of the asset at the time of disposal, unless paragraph (i) of this Article is applicable.
- (i) If the asset disposed of is encumbered by debt exceeding its market value, the taxpayer disposing of the asset is treated as having received compensation equal to the value of such debt.

- (j) In determining the tax base, no gain or loss is taken into account on an involuntary disposal of an asset to the extent that the compensation value is used in purchasing an asset of the same kind within one year of the involuntary disposal.
- (k) The cost base of a replacement asset described in paragraph (j) of this Article is determined with reference to the cost base of the replaced asset.
- (l) Where an asset owned by a taxpayer is converted to personal use or otherwise ceases to be used in the generation of income, the taxpayer is deemed to have disposed of the asset for its market value, with the recognition of the resulting gain but not the loss.

Article 10: Tax-Exempt Income

The following types of income are exempt from income tax:

- (a) Capital gains realized from disposal of securities traded in the stock market in the Kingdom in accordance with restrictions specified in the Regulations.
- (b) Gains resulting from disposal of property other than assets used in the activity.

Article 11: Donations

In determining the tax base of each taxpayer, a deduction is allowed for donations paid during the taxable year to public agencies or philanthropic societies licensed in the Kingdom which are nonprofit organizations and are allowed to receive donations.

Chapter Five Expenses of Earning Income

Article 12: Expenses Related to Earning Income

All regular and necessary expenses of earning taxable income, paid or accrued, incurred by the taxpayer during the taxable year are deductible in determining the tax base, with the exception of outlays of a capital nature and other nondeductible expenses according to Article Thirteen of this Law and other provisions of this Chapter.

Article 13: Nondeductible Expenses

No deduction is allowed for the following:

- (a) Expenses not connected with the earning of taxable income.
- (b) Any amounts paid or benefits offered to a shareholder, a partner or any of their relatives which constitute salaries, wages, awards or the like, or those which do not satisfy the conditions for transactions among independent parties against properties or services.
- (c) Recreation expenses.
- (d) Expenses of a natural person for personal consumption.
- (e) Income tax paid in the Kingdom or in another country.
- (f) Fines and financial penalties paid or payable to any party in the Kingdom, excluding those paid for breach of contractual conditions and obligations.
- (g) Any bribe or similar amounts considered a criminal offense under the laws of the Kingdom, even if paid abroad.

Article 14: Bad Debts

- (a) A taxpayer may deduct bad debts arising from sales of goods or services that have been previously declared as a taxable income of the taxpayer.
- (b) A bad debt may be deducted when stricken off the taxpayer's books when there is suitable evidence proving the impossibility of collecting it, as specified in the Regulations.

Article 15: Reserves and Allocations

No reserves or allocations may be deducted except allocations of doubtful debts for banks. The Regulations shall determine the rules and restrictions specifying such allocations.

Article 16: Research and Development Expenses

Research and development expenses connected with the earning of taxable income may be deducted. Expenses for purchase of land or equipment used for research may not be deducted. Such equipment shall be subject to depreciation under Article Seventeen of this Law.

Article 17: Depreciation

- (a) Except for land, a depreciation may be deducted for a taxpayer's depreciable tangible or intangible assets which lose value because of wear and tear or obsolescence and which are wholly or partly used in the generation of taxable income, and remain to have a value after the end of the taxable year.
- (b) Depreciable assets are classified into groups and depreciation rates as follows:
 - (1) Stationary buildings: five percent (5%).
 - (2) Movable industrial and agricultural buildings: ten percent (10%).
 - (3) Factories, machines, engines, hardware and software (computer software) and equipment, including passenger and cargo vehicles: twenty five percent (25%).
 - (4) Expenses for geological surveying, drilling, exploration, and other preliminary work to exploit natural resources and develop their fields: twenty percent (20%).
 - (5) All other tangible and intangible depreciable assets not included in pervious categories, such as furniture, planes, ships, trains and goodwill: ten percent (10%).
- (c) The depreciation deduction for each group is determined in accordance to paragraphs (d) to (l) of this Article.
- (d) The depreciation deduction for each group is calculated by applying its depreciation rate determined in accordance with paragraph (b) of this Article against the balance of the value of such group at the end of the taxable year.
- (e) The balance of the value of each group at the end of the taxable year is the total of the balance of the value of the group at the end of the previous taxable year after the depreciation deduction in accordance with this Article for the previous taxable year, and fifty percent (50%) of the cost base of assets in use added to the group in the current and previous taxable years after the deduction of fifty percent (50%) of the compensation received from the assets disposed of during the current and previous

taxable years, provided that the balance does not become in the negative.

- (f) If the taxpayer converts its assets to personal use or if the asset ceases to be used in the generation of taxable income, this action by the taxpayer is deemed to be a disposal of the asset for its market value.
- (g) When fifty percent (50%) of the compensation of the assets disposed of during the current and previous taxable years exceeds the balance of the value of the group at the end of the taxable year, regardless of the amount of such compensation, the value of the group shall be reduced to zero and the excess is included in the taxpayer's taxable income.
- (h) If the balance of the value of the group at the end of the year, after allowing for the deduction in accordance with paragraph (d), is less than one thousand (1,000) riyals, the amount of the balance may be deducted.
- (i) Where all the assets in a group are disposed of, the balance of the group may be deducted at the end of the year.
- (j) Where a land is bought or sold with constructions thereon, the value shall be reasonably apportioned to arrive at a separate value of the construction.
- (k) In case a part of the assets is used for the generation of taxable income, a depreciation deduction is allowed for a part of the asset value against the part of the asset used in the generation of the taxable income.
- (l) As an exception to the provisions of the previous paragraphs, assets under Build, Operate and Transfer (BOT) or Build, Own, Operate and Transfer (BOOT) contracts may be depreciated over the contract period or over the remaining period of the contract, if acquired or renewed during that period.

Article 18: Expenses of Asset Repair and Improvement

- (a) Expenses incurred by the taxpayer for the repair or improvement of depreciable assets in each group may be deducted.

- (b) The amount of expenses deductible in accordance with paragraph (a) of this Article for each year shall not exceed four percent (4%) of the balance of the value of the group at the end of that year.
- (c) The amount exceeding the limit stated in paragraph (b) of this Article shall be added to the balance of the value of the group.

**Article 19: Expenses for Geological Surveying and Preliminary Work
for the Extraction of Natural Resources**

- (a) Expenditures for geological surveying and preliminary work for the extraction of natural resources are deducted in the form of amortization expenses at the depreciation rate determined in paragraph (b) of Article Seventeen of this Law, where these expenses constitute an independent group.
- (b) This Article also applies to expenses of intangible assets incurred by the taxpayer in acquisition of rights to geological surveying and the processing and exploitation of natural resources.

Article 20: Contributions to Authorized Retirement Funds

- (a) An employer's contributions to an authorized retirement fund established in accordance with the laws of the Kingdom may be deducted in favor of the employee.
- (b) The deduction allowed under paragraph (a) of this Article in respect of each employee shall not exceed twenty five percent (25%) of each employee's income, prior to calculating the employer's contributions.
- (c) The employee's contributions to an authorized retirement fund may not be deducted.

Article 21: Carrying Forward of Losses

- (a) A net operating loss may be carried forward to the taxable year following the year in which the loss is incurred. The carried-forward loss shall be deducted from the tax base of the following

taxable years until the cumulative loss is fully offset. The Regulations shall specify the maximum limits allowed to be annually deducted.

- (b) A net operating loss is the deductions allowed under this Chapter which are in excess of the taxable income for the taxable year.
- (c) To calculate the net operating loss for a natural person, the deductions and income for activity only shall be taken into consideration.

Chapter Six

Tax Accounting Rules

Article 22: Taxable year

- (a) The taxable year is the State's fiscal year.
- (b) A taxpayer may use a twelve-month period other than the one specified in paragraph (a) of this Article as a taxable year, in accordance with the restrictions specified in the Regulations.
- (c) If a taxpayer changes its taxable year, the interval between the last full taxable year prior to the change and the starting date of the new taxable year shall be considered as a short independent fiscal period. The first year of a new taxpayer or the last year of a taxpayer in case of discontinuation or liquidation may be a short independent fiscal year, unless it is stipulated to be a long fiscal year in accordance with Companies Law.
- (d) Groups of related companies, as defined in Article Sixty Four of this Law, shall use the same taxable year.

Article 23: Method of Accounting

- (a) A taxpayer's method of accounting must clearly reflect the taxpayer's income.
- (b) The gross income and expenses of a resident company, and any other taxpayer who keeps or is required by Law to keep commercial books according to the

accounting principles generally accepted in the Kingdom, are determined according to such books after adjustment of the accounts so as to conform to the rules of this Law.

- (c) For taxation purposes, a natural person may record his transactions on a cash or accrual basis. However, if his gross income from business during a taxable year exceeds the amount specified in the Regulations, he must use the accrual method in all succeeding taxable years.
- (d) A company which keeps or is required by Law to keep commercial books must record income and expenses on an accrual basis. Otherwise, it may, for taxation purposes, use either the cash or accrual method.
- (e) Except for a change from the cash basis to the accrual basis required in accordance with paragraphs (c) or (d) of this Article, a taxpayer may change its method of accounting upon obtaining the Department's consent.
- (f) If the taxpayer changes its method of accounting, it must perform adjustments to items of income and deduction or to debt or any other items in the taxable year following the change, so that no item is omitted nor included more than once.

Article 24: Cash-Basis Accounting

A taxpayer who uses the cash method in its books and records shall register the received income when received or made available, and the paid expenses when paid.

Article 25: Accrual-Basis Accounting

- (a) A taxpayer who uses the accrual method shall record income and expenses when they are due.
- (b) An amount becomes payable to the taxpayer when the taxpayer is entitled to receive it, even if payment is postponed or paid in installments.
- (c) An amount becomes payable by the taxpayer when all facts determining liability have occurred.

Article 26: Long Term Contracts

- (a) For a taxpayer who uses the accrual method, income and expenses relating to a long term contract shall be calculated on the basis of the percentage of the work accomplished during the taxable year.

- (b) The percentage of work accomplished is determined by comparing the costs of the contract incurred during the taxable year with the total estimated cost of the contract.
- (c) For purposes of this Article, the term 'long term contract' means a contract for manufacture, installation, construction or performing services related thereto, and whose execution is not completed within the year in which execution started, with the exception of the contract expected to be completed within six months of the actual starting date of work cited in the contract.

Article 27: Stock

- (a) A taxpayer who maintains a stock shall establish and maintain inventories for such a stock.
- (b) The cost of goods sold during the taxable year shall be deducted.
- (c) The cost of goods sold during a taxable year is determined by adding the cost of goods purchased during the year to the opening stock and subtracting the value of the closing stock.
- (d) A taxpayer who uses the cash method shall calculate the cost of stock by use of the prime (direct) cost method or the absorption costing method, but a taxpayer using the accrual method shall calculate the cost of stock by use of the absorption costing method only.
- (e) The value of the closing stock is the book or market value, whichever is lower at that date. A taxpayer shall calculate the book value of the stock by use of the weighted average method. However, it may use another method, after obtaining a written permission from the Department, and it may not change the method chosen except with the consent of the Department.

Chapter Seven

Additional Rules for Determining Tax Base

Article 28: Joint Property

Income or expenses relating to jointly-owned property are apportioned among partners in proportion to their respective shares in the property.

Article 29: Valuation

- (a) If calculation of the tax base or gross income involves non-cash properties, services, or other benefits, their fair market value is calculated as of the date it was recorded in the books for taxation purposes.
- (b) The market value of non-cash property transferred to an employee or any other service provider is determined without regard to any restriction on transfer of ownership.

Article 30: Currency Conversion

- (a) Gross income and tax base are calculated in Saudi riyal.
- (b) If calculation of income involves an amount in a currency other than the Saudi riyal, the amount shall be calculated for taxation purposes in Saudi riyal at the exchange rate declared by the Saudi Arabian Monetary Agency on the date of the transaction.

Article 31: Indirect Payments or Benefits

The gross income of a taxpayer shall include any payment from which the taxpayer benefits directly or indirectly, as well as any payment dealt with according to its instructions, if such payment is considered income of the taxpayer if paid to the taxpayer directly.

Article 32: Compensation Received

Compensation amounts received shall take the status of what is compensated for.

Article 33: Recoup of Expenses Deducted

- (a) If a taxpayer recoups expenses, loss, or previously permitted bad debt, the amount recouped is included in the gross income for the year in which it is recouped and shall take the status of the income related to expenses.
- (b) For the purpose of this Article, expenditure shall be considered recouped in the absence of the basis for the expenditure.

Article 34: Estimated Tax

- (a) If branches of foreign airline, sea or land freight and transportation companies operating in the Kingdom do not submit proof of their tax base in accordance with this Law, such tax base shall be determined as

follows:

- (1) The tax base for branches of foreign airlines operating in the Kingdom shall be considered five percent (5 %) of the gross income realized in the Kingdom from tickets, cargo, mail or any other income. Such branches shall declare their gross income in the Kingdom at the times specified by Law.
 - (2) The tax base of foreign freight, land and sea transportation companies operating in the Kingdom shall be considered five percent (5 %) of income realized in the Kingdom from charges for freight or any other income. Such branches are required to declare their income in the Kingdom at the times specified by Law.
- (b) The Minister shall have the power to authorize certain other sectors to use estimated taxation to determine their tax base and rates in accordance with the Regulations.

Article 35: International Agreements

In case the conditions of a treaty or an international agreement to which the Kingdom is party are inconsistent with articles and provisions of this Law, the conditions of the treaty or international agreement shall prevail except for provisions of Article Sixty Three of this Law which are related to procedures of anti tax-avoidance.

Chapter Eight

Taxation Rules of Partnerships

Article 36: General Provisions

- (a) Taxes shall be imposed on partners in partnerships and not on the company itself. However, the company is required to file a tax declaration for the purpose of information showing the amount of income, profit, loss, expenses, debts, and other items or tax related matters of the partnership for the taxable year. The declaration shall be subject to procedural rules, including fines imposed on tax declarations in accordance with this Law.
- (b) The partnership, rather than its partners, shall be responsible for

choosing the taxable year, the accounting method, the inventory method and any other accounting policies consistent with this Law. It shall also be responsible for filing notifications and statements required in relation to its types of activity.

- (c) The provisions of this Law concerning capital companies shall apply to shares of limited partners in limited partnerships.

Article 37: Taxation on Partners

- (a) In determining the tax base of a partner, income, deductions, losses, and debt derived or accrued against the partnership retain their status as to geographic source and type of income, gains, deductions, losses, and debt.
- (b) A partner's share in a partnership's income, loss, expenses, and debt shall be taken into account for the purpose of determining the tax base of the partner's taxable year in which the partnership's taxable year ends. The partner's loss which exceeds his cost base is suspended until the partner acquires sufficient cost base to offset the loss or until the partner's share is disposed of.
- (c) The loss of the related party disallowance rule stated in paragraph (d) of Article Sixty Three of this Law shall not be applicable to the partner's share of losses and expenses in a partnership in accordance with paragraph (b) of this Article. A partnership's loss suspended according to paragraph (d) of Article Sixty Three shall not be distributed among the partners until its conditions are fulfilled. The conditions shall be considered fulfilled in case a loss is incurred in distribution upon complete disposal of the partner's share.

Article 38: Cost Base of the Partner's Share

- (a) The cost base of a partner's share in a partnership shall be determined by the amount the partner pays against his share plus the cost base of properties he contributed to the company.
- (b) The cost base increases by the amount of a partner's share in a partnership's income (along with his exempt income) included in the partner's gross income.

- (c) The cost base decreases, but not below zero, by the cost of distributions from the partnership to the partner and by the partner's share of partnership losses, and expenses as well as nondeductible expenses of the partnership, except for capital items.
- (d) Debt incurred by the partnership, including the debt against its properties, increases each partner's cost base according to his share in the partnership. However, debt incurred by some partners in the partnership, in their personal status, shall increase the cost base for these partners only.

Article 39: Cost Base of Partnership's Assets

- (a) The initial cost base of properties contributed to a partnership shall be equal to the cost base of the contributing partner.
- (b) If a partner retires from a partnership and receives a distribution causing him to make profit by disposing of his share in the partnership, the cost base of the partnership's profiting assets shall be adjusted by increasing the amount of profit made, provided that the value of such assets does not exceed their market value. Cost base adjustments are distributed among assets according to the percentage difference between the cost base and the market value.
- (c) If a partner retires from a partnership and receives a distribution causing him to incur a loss by disposing of his share in the partnership, the cost base of the partnership's losing assets shall be adjusted by reducing the value of the loss incurred, provided that the cost base of such assets is not less than zero. Cost base adjustments are distributed among assets in accordance with the percentage difference between the cost base and the market value.
- (d) For purposes of paragraphs (b) and (c) of this Article, a profiting asset is the asset that has a cost base lower than the market value and a losing asset is the asset that has a cost base higher than the market value.

Article 40: Transfer of Property to a Partnership

- (a) No gain or loss shall be calculated for a transfer of a partner's asset to a

partnership against acquiring a share in such partnership.

- (b) The partner is considered an owner of a share in the partnership equal to the difference between the value of the asset transferred by him to the partnership according to market prices and the amount paid to him. If the amount paid to him exceeds the market price, the excess amount shall be considered as distribution to the partner by the partnership.

Article 41: Transfer of Asset Ownership from a Partnership to a Partner

- (a) A partnership's transfer of a non-cash asset to a partner therein, including liquidation of the partner's share, is treated as a disposal of the asset by the partnership, with declaration of gain or loss on the transfer date.
- (b) A partner shall take the cost base of the asset which equals the market value of the asset.
- (c) A partner is deemed to have received a distribution of profit from the partnership with a value equal to the market price for the ownership of the asset transferred to him without paying its cost. The partner is treated as having disposed of part or all of his share in the partnership, if the estimated distribution exceeds the partner's cost base in the partnership. If the distribution is a complete disposal of a partner's share, and is less than the partner's cost base, the difference between the cost base and distribution may be deducted on the basis that it is a loss resulting from his disposal of his share.

Article 42: Change of Partners in a Partnership

- (a) If a partner or partners enter into or retire from a partnership which results into its reconstitution, all its assets shall be considered transferred to the new partnership against shares in this partnership.
- (b) A reformation of a partnership occurs when the entry or retirement of a partner or partners results in a change in the partnership's membership exceeding fifty percent (50%) of its formation in the year preceding the change.

Chapter Nine

Rules of Taxation on Capital Companies

Article 43: General Provisions

- (a) A tax shall be imposed on the shares of general partners in a partnership limited by shares, as in a partnership. Henceforth, the general partners' shares are deducted in determining the tax base of the partnership. The provisions of this Law which are applicable to partnerships shall apply to the shares of general partners in partnerships limited by shares.
- (b) In case of a change of fifty percent (50%) or more in the ownership or control of a capital company, the share of a non-Saudi may not be deducted in losses incurred prior to the change in accordance with Article Twenty One of this Law in taxable years following the change.

Chapter Ten

Natural Gas Investment Tax

Article 44:

A natural gas investment tax shall be imposed on every person engaged in natural gas investment, gas liquids and condensates within the Kingdom, its exclusive economic region or its continental shelf.

Article 45:

- (a) Natural gas investment activities shall mean drilling, production, collection, treatment, processing, fractionation of natural gas liquids, production and gathering of gas condensates as well as transportation of natural gas, its liquids and gas condensates.
- (b) Transportation shall mean transporting natural gas from purification plants to processing and fractionation plants or from any such plants to end user facilities, as well as transporting gas condensates and its liquids. That does not include local distribution networks and pipelines constructed by non-gas producers beyond the official sale points.
- (c) Gas condensates shall mean condensates in their natural form, which are hydrocarbons that exist in a single gaseous phase in reservoirs with original temperatures in the range between the critical and maximum temperatures, where it is possible for the substance to have two phases side by side and which

are extracted from wells completed in gas condensate reservoirs and become liquid at standard conditions of temperature and pressure.

Article 46:

Income from natural gas investment activities shall be the gross income derived from the sale, exchange or transfer of natural gas and its liquids, gas condensates, including sulfur and other products, as well as any other incidental or non-operational income derived from the taxpayer's primary activity, regardless of its type or source, including income derived from the utilization of excess energy in a facility subject to natural gas investment tax.

Article 47:

The natural gas investment tax base shall be the gross income referred to in Article Forty Six of this Law, minus the expenses deductible under this Law. The amounts of royalties and surface rentals shall be considered as deductible expenses.

Article 48:

The natural gas investment tax rate for any taxable year shall be determined on the basis of the internal rate of return on the cumulative annual cash flows of the taxpayer derived from natural gas investment activities. The tax rate applicable to natural gas investment tax base of the taxpayer shall be in accordance with the following table:

Internal Rate of Return (IRR)	Natural Gas Investment Tax (NGIT)	IRR %	NGIT %	IRR %	NGIT %	IRR %	NGIT %
8.0 or less	30.00	11.0	32.61	14.0	57.50	17.0	82.39
8.1	30.15	11.1	32.87	14.1	58.87	17.1	82.63
8.2	30.17	11.2	33.15	14.2	60.24	17.2	82.85
8.3	30.18	11.3	33.46	14.3	61.59	17.3	83.04
8.4	30.20	11.4	33.80	14.4	62.93	17.4	83.22
8.5	30.22	11.5	34.17	14.5	64.24	17.5	83.39
8.6	30.25	11.6	34.57	14.6	65.51	17.6	83.54
8.7	30.27	11.7	35.01	14.7	66.75	17.7	83.67
8.8	30.30	11.8	35.49	14.8	67.95	17.8	83.80
8.9	30.33	11.9	36.00	14.9	69.10	17.9	83.91
9.0	30.37	12.0	36.56	15.0	70.21	18.0	84.01
9.1	30.41	12.1	37.16	15.1	71.26	18.1	84.10
9.2	30.45	12.2	37.80	15.2	72.27	18.2	84.19
9.3	30.50	12.3	38.50	15.3	73.22	18.3	84.26
9.4	30.55	12.4	39.24	15.4	74.12	18.4	84.33

9.5	30.60	12.5	40.03	15.5	74.97	18.5	84.40
9.6	30.67	12.6	40.88	15.6	75.76	18.6	84.45
9.7	30.74	12.7	41.78	15.7	76.50	18.7	84.50
9.8	30.81	12.8	42.73	15.8	77.20	18.8	84.55
9.9	30.90	12.9	43.74	15.9	77.84	18.9	84.59
10.0	30.99	13	44.79	16.0	78.44	19.0	84.63
10.1	31.09	13.1	45.90	16.1	79.00	19.1	84.67
10.2	31.20	13.2	47.05	16.2	79.51	19.2	84.70
10.3	31.33	13.3	48.25	16.3	79.99	19.3	84.73
10.4	31.46	13.4	49.46	16.4	80.43	19.4	84.75
10.5	31.61	13.5	50.76	16.5	80.83	19.5	84.78
10.6	31.78	13.6	52.07	16.6	81.20	19.6	84.80
10.7	31.96	13.7	53.41	16.7	81.54	19.7	84.82
10.8	32.15	13.8	54.76	16.8	81.85	19.8	84.83
10.9	32.27	13.9	56.13	16.9	82.13	19.9	84.85
						20.0 or higher	85.00

Cumulative annual cash flows shall mean the aggregation of the annual cash flows of the taxpayer subject to the natural gas investment tax for each year starting from the first year of its tax declaration in which the taxpayer was subject to the natural gas investment tax until the year preceding the year in which the tax declaration is due for presentation.

The internal rate of return shall mean the discount rate that causes the net present value of these cumulative annual cash flows (after being discounted to the start of the first year of such cash flows) to equal zero, and then rounded to the nearest tenth of a percent (0.1%).

Article 49:

The annual cash flows shall be calculated by adjusting the natural gas investment tax base as follows:

- (a) Adding back any operational losses carried forward from previous years.
- (b) Adding back non-cash items deducted for the purpose of determining the taxpayer's base.
- (c) Adding back all financing fees and other bank service fees.
- (d) Subtracting capital cash expenditures except financing fees and other bank service fees.

- (e) Subtracting the natural gas investment tax and companies income tax actually paid.

Article 50:

- (a) Income tax stipulated under paragraph (b) of Article Seven of this Law shall be applied to the natural gas investment tax base of a taxpayer subject to natural gas investment tax.
- (b) The income tax amount paid by a taxpayer for natural gas investment tax base in accordance with paragraph (a) of this Article shall be deducted from the natural gas investment tax to be paid by the taxpayer.

Article 51:

- (a) For the purpose of calculating the natural gas investment tax, the taxpayer's natural gas investment tax base for each gas exploration and production contract or agreement with the Government shall be deemed independent of the natural gas investment tax base or any other gas exploration and production contract or agreement. The taxpayer shall file separate tax declaration and audited closing accounts for each gas exploration and production contract or agreement.
- (b) A taxpayer's natural gas investment tax base shall be deemed independent of the tax base for its other activities that are not related to its natural gas investment activity. The taxpayer shall file a tax declaration and audited closing accounts for its natural gas investment tax activity separate from its other activities.

Article 52:

A taxpayer is subject to income tax stipulated under paragraph (b) of Article Seven of this Law on the following:

- (a) Its income from processing or fractionation of natural gas in a licensed independent plant.
- (b) Its income from transporting natural gas for a third party through a licensed independent pipeline.

Article 53:

The provisions of this Chapter shall not apply to any company engaged in the

production of petroleum or the production of both petroleum and natural gas, with respect to such company's activities within its areas of operations or concession, as delineated upon the effectiveness of this Law.

Article 54:

The provisions of paragraph (c) of Article Seven of this Law shall not apply to the gas investment tax base for any taxpayer subject to the natural gas investment tax.

Article 55:

Where no stipulation is provided for in this Chapter, the provisions of other Articles of this Law shall apply to the taxpayer subject to the natural gas investment tax.

**Chapter Eleven
General Provisions**

Article 56: Tax Administration

The Department is the body responsible for the administration, examination, assessment and collection of income tax.

Article 57: Taxpayers Registration

- (a) Every person subject to tax in accordance with this Law shall register with the Department before the end of its first fiscal year.
- (b) The provisions of this Article shall not apply to taxpayers subject only to final withholding tax in accordance with Article Sixty Eight of this Law.
- (c) A fine not less than one thousand (1000) riyals and not exceeding ten thousand (10.000) riyals shall be imposed for failure to register. The Regulations shall specify the restrictions and amount of fine on different categories of taxpayers.

Article 58: Books and Records

- (a) A taxpayer, other than a non resident with no permanent establishment in the Kingdom, shall maintain the necessary commercial books and accounting records in Arabic for precise determination of the tax payable by it.

- (b) The Department has the right not to allow a deduction if the taxpayer is unable without reasonable excuse to produce a document of the expense or evidence supporting the legitimacy of its claim for the deduction.

Article 59: Confidentiality of Information

- (a) The Department and all its staff shall maintain confidentiality of information pertaining to taxpayers which they have access to in their official capacity. As an exception, they may disclose information only to the following bodies:
- (1) Employees of the Department, for the purpose of carrying out their duties under the law.
 - (2) Employees of the Customs Authority, for the purpose of enforcing the Customs Law.
 - (3) The General Audit Bureau, in its official capacity, for the purpose of auditing and reviewing.
 - (4) Tax authorities of foreign countries in accordance with treaties to which the Kingdom is a party.
 - (5) Law enforcement agencies, for the purpose of criminal prosecution of tax offenses.
 - (6) Any judicial body in the Kingdom, upon its order, in a case under review, to determine a taxpayer's tax liability, or in any other administrative or criminal matter under review.
- (b) A person receiving information under paragraph (a) of this Article shall be required to maintain its confidentiality, and not to use it except for the purpose for which it is required.
- (c) Information concerning a taxpayer may be disclosed to another person upon the taxpayer's written consent.

Chapter Twelve
Filing of Declarations, Assessments,
and Procedures of Objection and Appeal

Article 60: Declarations

- (a) Every taxpayer required to file a declaration shall file it in the prescribed form, include its identification number, and pay the due tax thereon to the Department.
- (b) The tax declaration shall be filed within one hundred and twenty days following the end of the taxable year for which the declaration was made.
- (c) The following taxpayers shall be required to file a tax declaration:
 - (1) A resident capital company.
 - (2) A nonresident with a permanent establishment in the Kingdom.
 - (3) A resident, non-Saudi natural person who conducts business.
- (d) A taxpayer who ceases business activity is required to notify the Department and to present, within sixty days from the cessation date, a tax declaration for the short taxable period ending with the date on which it ceases business.
- (e) A taxpayer whose taxable income exceeds one million (1,000,000) Saudi riyals, shall have a certified accountant licensed to practice in the Kingdom certify the correctness of the declaration.
- (f) A partnership shall file an information declaration in accordance with Article Thirty Six of this Law, on or prior to the sixtieth day following the end of its taxable year.

Article 61: The Department's Right to Information

- (a) All persons and government bodies shall provide the Department with any information related to tax requested by the Department for taxation purposes stipulated in this Law.
- (b) The Department may conduct a field examination of the taxpayer's books and records during working hours to ascertain the correctness of the taxpayer's tax liability.
- (c) All persons and government bodies shall provide the Department with information on contracts concluded with the private sector within three months of the date of conclusion of the contract. The information shall include names and addresses of the two parties, subject of contract, its value and financial terms, and execution and completion dates. A person who does not provide the Department with what is required under this paragraph, or does not notify the Department of the date of

cessation of work stated in the contract, is jointly liable for any tax claim due on the contract. The Regulations shall specify restrictions and procedures required to implement this obligation.

Article 62: Examination and Assessment Procedures

- (a) The Department may correct and adjust the tax shown on the declaration to make it conform to the provisions of this Law, and it may perform tax assessment if the taxpayer does not file its declaration.
- (b) The Department shall notify the taxpayer of the tax assessment under paragraph (a) of this Article and the tax due on it by a registered official letter, or by any other means that proves its receipt of the notification.
- (c) Subject to Article Sixty Five of this Law, if it becomes clear to the Department that the tax it previously accepted is incorrect, the Department may make an additional assessment on the taxpayer. The Department shall notify the taxpayer of the additional assessment and the reasons therefor. The taxpayer may object to the assessment as stipulated in the rules of objection.

Article 63: Anti Tax-Avoidance Procedures

- (a) For the purpose of tax determination, the Department may:
 - (1) disregard any transaction with no tax effect.
 - (2) re-classify transactions whose form does not reflect their substance and put them in their real form.
- (b) The Department may make tax assessment due on the taxpayer using the estimated tax method according to facts and circumstances pertaining to the taxpayer if the taxpayer fails to file its declaration on time or keep precise accounts, books and records, or to comply with the form, pattern and method required in its books and records.
- (c) The Department may re-allocate revenues and expenses in transactions among related parties or parties under the same body, as to reflect the returns that would have resulted if the parties were independent and unrelated.
- (d) A taxpayer is may not deduct a loss resulting from the transfer of properties between it and a party related thereto. Unless otherwise provided for by this

Law, the loss deduction is suspended until the related party disposes of the properties to another unrelated party.

- (e) If an individual taxpayer splits its income and divides it with another person, the Department may adjust the tax base of the taxpayer and that of the other person to prevent any reduction in the due tax.
- (f) For the purpose of this Article, income splitting means:
 - (1) Transfer of income, directly or indirectly, from one person to another related thereto.
 - (2) Transfer of properties, including money, directly or indirectly, from one person to another related thereto, which leads to the other person's realization of an income from such properties, if the reason or one of the reasons for the transfer is to lower the total tax due upon the income of the transferor or the transferee.
- (g) The Department may consider the value given by the transferee in determining whether the taxpayer is seeking to split income.

Article 64: Related Persons and Persons under Common Control

- (a) A natural person is considered related to another natural person if the latter is a spouse or an in-law, or a relative up to the fourth degree.
- (b) A natural person is considered related to companies of any type in the following circumstances:
 - (1) If he is a partner in a partnership and he, either alone or together with a related person or persons under this Article, controls fifty percent (50%) or more of the rights to its income or capital, either directly or indirectly, through a subsidiary company or companies of any type.
 - (2) If he is a partner in a capital company and he, either alone or together with a related person or persons under this Article, controls fifty percent (50%) or more of the voting rights or its value, either directly or indirectly, through a subsidiary company or companies of any type.

- (3) As for agencies administering properties endowed for specific purposes, a natural person is deemed related thereto if he benefits or is capable of benefiting from them, either alone or with a related person or persons, in accordance with this Article.
- (c) Companies and agencies are deemed under common control if the same person or related persons control fifty percent (50%) or more according to this Article as follows:
- (1) With respect to partnerships, control means the ownership of rights to its income or capital, either directly or indirectly, through a subsidiary company or companies of any type.
 - (2) With respect to capital companies, control means ownership of the voting rights therein or its value, either directly or indirectly, through a subsidiary company or companies of any type.
 - (3) With respect to agencies that administrate properties endowed for specific purposes, control means the possession of a beneficial interest in their income or assets.

Article 65: Statutory Period of Tax Assessment

- (a) The Department may, with a reasoned notification, make or amend a tax assessment within five years from the end of the deadline specified for filing the tax declaration for the taxable year, or at any time, upon a written consent of the taxpayer.
- (b) The Department may make or amend an assessment within ten years of the deadline specified for filing the tax declaration for the taxable year if a taxpayer does not file its tax declaration, or it is found that the declaration is incomplete or incorrect with the intent of tax evasion.
- (c) A taxpayer may request a refund of overpaid amounts at any time within five years from the end of the overpaid taxable year.

Article 66: Objection and Appeal

- (a) The taxpayer may object to the Department's assessment within sixty days of receipt of the assessment letter. The assessment shall be final and the tax

payable if the taxpayer agrees to the assessment or does not object to it within the said period.

- (b) An objection shall not be considered valid unless the taxpayer has paid the dues for undisputed terms within the period specified for objection, or has obtained an approval to pay the tax in installments in accordance with Article Seventy One of this Law.
- (c) The tax shall be payable upon a decision by the Preliminary Objection Committee, and it shall be considered final unless the decision is appealed by the taxpayer or the Department within sixty days from receiving it.
- (d) The Department and the taxpayer may appeal the decision of the Preliminary Objection Committee before the Appeal Committee within sixty days from the date of receiving the decision.
- (e) The taxpayer who wants to appeal the decision of the Preliminary Objection Committee shall file the application for appeal within the prescribed period and pay the due tax according to the mentioned decision or submit an accepted bank guarantee of the amount.
- (f) The Appeal Committee's decision shall be final and binding unless appealed before the Board of Grievances within sixty days from the date of notification of the decision.

Article 67: Formation and Jurisdiction of Preliminary Objection and Appeal Committees

- (a) Preliminary Objection Committees with jurisdiction to settle tax disputes shall be formed by a decision of the Minister.
- (b) The Council of Ministers shall issue a resolution, pursuant to a recommendation by the Minister, to form an Appeal Committee to review the taxpayer's or the Department's appeals to tax related decisions issued by Preliminary Objection Committees.
- (c) The Regulations shall specify the powers, jurisdictions and work procedures of the Preliminary and Appeal Committees and their members' academic and professional experience and remuneration.

**Chapter Thirteen
Tax Collection**

Article 68: Tax Withholding

(a) Every resident, whether or not a taxpayer according to this Law, and a permanent establishment of a non-resident in the Kingdom which pays an amount to a non-resident from a source in the Kingdom shall withhold tax from the paid amount according to the following rates:

- (1) Rent 5%
- (2) Royalty or proceeds 15%
- (3) Management fees 20%
- (4) Payments for airline tickets, air or maritime freight 5%
- (5) Payments for international telecommunications services 5%
- (6) Any other payments specified in the Regulations, provided that the tax rate does not exceed 15%

In the case of amounts paid by a natural person, the conditions for withholding stipulated under this Article shall apply to the payments pertaining to his activity.

(b) A person withholding tax under this Article shall comply with the following:

- (1) Registering with the Department and pay the amount withheld to the Department within the first ten days from the month following the month of payment to the beneficiary.
- (2) Providing the beneficiary with a certificate stating the value of the amount paid to him and the value of the tax withheld.
- (3) Providing the Department, at the end of the taxable year, with the name, address, and the beneficiary’s registration number (identification number), if available, along with any other information the Department may require.
- (4) Maintaining records required to prove the correctness of the withheld tax as specified by the Regulations.

(c) The person responsible for withholding tax under this Article is personally liable to pay the unpaid tax and any delay fines resulting therefrom in accordance with paragraph (a) of Article Seventy Seven, if any of the following cases applies to him:

- (1) If he fails to withhold tax as required.
 - (2) If he withholds tax, but fails to pay the tax to the Department as required,
 - (3) If he fails to report withholding statements to the Department as stipulated under subparagraph (3) of paragraph (b) of this Article.
- (d) In addition to what is stated in paragraph (b) of this Article, if tax is not withheld in accordance with the provisions of this Article, the beneficiary remains indebted to the Department for the amount of tax and the Department may recover it from him, his agent or sponsor.
- (e) Without prejudice to paragraphs (f) and (g) of this Article, if an amount is paid to a non-resident and tax is withheld for it in accordance with the provisions of this Article, that tax shall be final, taking into consideration that no further tax shall be imposed on the income from which the tax was withheld, and not to refund any amount paid as tax in accordance with this Article.
- (f) If the amount referred to in this Article is paid to a non-resident who conducts business in the Kingdom through a permanent establishment, and the amount paid was directly connected with the business of the establishment, such amount shall be calculated in determining the tax base of the non-resident.
- (g) If tax is withheld for an amount paid to a taxpayer which is included in its tax base, the tax withheld shall be deducted from the tax due on the taxpayer against the tax base.
- (h) For purposes of this Article and Article Five of this Law, "services" shall mean any work performed for compensation, except for the purchase and sale of goods or any other properties.

Article 69: Tax Payment

A taxpayer shall pay its due tax in accordance with its declaration within one hundred and twenty days from the end of its taxable year.

Article 70: Advance Payments of Tax

- (a) Without prejudice to paragraph (b) of this Article, a taxpayer who realizes income in the taxable year shall pay three advance payments of tax on or prior to the last day of the sixth, ninth and twelfth months of the taxable year. The amount of payment is the result of the following equation:

$$25\% \times (A - B)$$

where :

A = The taxpayer's tax for the preceding year according to its declaration.

B = The amount of tax paid in the preceding year by withholding from the source in accordance with Article Sixty Eight of this Law.

- (b) A taxpayer shall not be obligated to make advance payments under paragraph (a) of this Article, if the result of the above equation is less than five hundred thousand (500,000) riyals.
- (c) The Department has the power to reduce any of the payments due under this Article if it is convinced that the taxpayer's income for the taxable year, with the exception of the income of which tax is withheld from the source under Article Sixty Eight of this Law, shall be substantially less than the amount of income of the preceding year.
- (d) A payment made pursuant to this Article is considered a payment in advance against the taxpayer's total tax for the taxable year for which the payment was made.
- (e) The provisions of this Law relating to collection of tax and its mandatory procedures shall apply to advance payments of tax as they apply to the tax itself.

Article 71: Payment of Tax in Installments

- (a) The Minister has the power to allow payment in installments for amounts due on a taxpayer whenever enough reasons and justifications exist within the framework of restrictions and conditions specified by the Regulations. The Minister may delegate what he deems fit of this authority to the Director General of the Department. Further, he or whomever he delegates may revoke the installment arrangement if he finds that the accruals of the Public Treasury are subject to loss.

- (b) The payment of tax in installments in accordance with this Article shall not exempt the taxpayer from payment of the delay fine for the period of installments pursuant to paragraph (a) of Article Seventy Seven of this Law.

Article 72: Refund of Overpayment

In the case of an overpayment of tax, the taxpayer is entitled to a refund of the excess amount together with a compensation at the rate of one percent (1%) for each thirty days, beginning thirty days after its claim and continuing until the taxpayer receives the amount.

Article 73: Seizure of the Taxpayer's Properties

- (a) If the taxpayer fails to pay the tax due by the dates specified by law, the Department may seize the taxpayer's movable and immovable properties as allowed by *Shari'ah*. The Department may continue with the procedures of seizure after the passage of twenty days from the taxpayer's receipt of the Department's notice of its intention of seizure.
- (b) Any person, including banks and financial institutions, holding in possession a seized asset shall deliver the asset to the Department upon its request.
- (c) A bank or a financial institution shall refrain from allowing withdrawals or other payments from the taxpayer's bank account after receiving notice of the Department's intention to freeze the taxpayer's account.
- (d) A person not complying with the provisions of paragraphs (b and c) of this Article is obligated to pay the Department an amount equal to the value of the properties in its possession, not exceeding the amount for which the freezing was made.
- (e) Tools used by the taxpayer for its trade and personal effects and furnishings are exempt from seizure, with a maximum limit not exceeding three hundred thousand (300,000) riyals.

Article 74: Sale of Seized Property

- (a) The Department shall, through the competent body, sell properties seized in accordance with provisions of seizure.

- (b) From the sales returns, the expenses of the seizure and sale shall be paid first, then tax and fines. Any remaining amount shall be returned to the taxpayer.
- (c) Sale of the taxpayer's properties shall be suspended during the period of the administrative or judicial review of the assessment on the basis of which the seizure was made, except for:
 - (1) perishable properties,
 - (2) properties sold by the Department upon the taxpayer's request.

Article 75: Freezing of Funds Due to the Taxpayer

- (a) Following the freezing, the Department may issue notices to a third party, including the employer, banks or financial institutions, ordering direct payment to the Department of any funds that the third party owes the taxpayer on or after the date of receipt of the freezing notification.
- (b) A notice may be issued to the taxpayer's employer, and its validity may be limited to a specified period.
- (c) The monthly maintenance due upon the taxpayer as well as its living expenses stipulated by provisions of other laws in force are not subject to freezing.
- (d) A person complying with the provisions of this Article and Articles Seventy Three and Seventy Four of this Law shall be exempted from any obligation to the taxpayer or any other person, regarding the value of properties seized from the time of its compliance.

Chapter Fourteen

Fines

Article 76: Fine for Failure to File the Declaration

- (a) A taxpayer not complying with the provisions of paragraphs (a, b, d and f) of Article Sixty of this Law, shall be subject to a fine of one percent (1%) of its gross income provided that the fine does not exceed twenty thousand (20,000) riyals.
- (b) In case of failure to file the declaration within the prescribed time, the following fine shall be imposed in lieu of the fine stipulated under

paragraph (a) of this Article, if the fine under paragraph (a) is less than the amount specified under this paragraph:

- (1) Five percent (5%) of the unpaid tax if the delay does not exceed thirty (30) days of the date specified by Law.
 - (2) Ten percent (10%) of the unpaid tax if the delay exceeds thirty (30) days and does not exceed ninety (90) days of the date specified by Law.
 - (3) Twenty percent (20%) of the unpaid tax if the delay exceeds ninety (90) days and does not exceed three hundred sixty five (365) days of the date specified by Law.
 - (4) Twenty five percent (25%) of the unpaid tax if the delay exceeds three hundred sixty five (365) days of the date specified by Law.
- (c) Unpaid tax shall mean the difference between the amount of tax due under this Law and the amount paid on the date specified by Law under paragraph (b) of Article Sixty of this Law.

Article 77: Delay and Fraud Fines

- (a) In addition to the fines stipulated in Article Seventy Six of this Law and in paragraph (b) of this Article, the taxpayer shall pay a delay fine of one percent (1%) for every thirty days of delay on unpaid tax, including delay in payment of tax required to be withheld and advance payments. It shall be calculated from the tax due date until the date of payment.
- (b) In addition to the fines stipulated in Article Seventy Six of this Law and in paragraph (a) of this Article, the taxpayer shall be subject to a fine of twenty five percent (25%) of the difference in tax resulting from the taxpayer's or its certified accountant's providing false information or from fraud with the intention of tax evasion, and particularly in the following cases:
- (1) Submitting false books, records, accounts or documents that do not reflect the true status of the taxpayer.
 - (2) Filing a declaration on the basis of unavailability of books or records, and including therein information that contradicts what is shown in the taxpayer's books and records.
 - (3) Filing forged or fictitious invoices or documents, or

changing of purchase or sale invoices or other documents with the intention of understating profits or overstating losses.

- (4) Not declaring one or more of the taxable activities.
- (5) Destroying or hiding books, records or documents prior to the Department's examination.

Article 78: Liability of Certified Accountants

Without prejudice to the Certified Accountants Law, the Department may prosecute any certified accountant proven to have presented or certified false statements, which constitutes a violation of established accounting principles with the intention of assisting the taxpayer to evade all or part of the tax.

Chapter Fifteen The Minister's Powers

Article 79: The Minister's Powers

The Minister shall have the following powers:

- (a) Issuing the Implementing Regulations of this Law.
- (b) Issuing instructions and taking measures he deems necessary for the implementation of this Law.
- (c) Amending depreciation groups and rates stipulated in Article Seventeen of this Law.
- (d) Canceling tax debt and fines that have been determined uncollectable. The Regulations shall specify the cases where collection is impossible.
- (e) Granting remunerations upon recommendations by the Department's Director General to employees for outstanding performance of their work. The Regulations shall specify the conditions and restrictions for such remuneration.

Chapter Sixteen Concluding Provisions

Article 80: Law's Effectiveness Date

- (a) This Law shall be published in the Official Gazette and shall come into effect after ninety days from its publication date.

- (b) This Law shall apply to taxable years beginning after the date of its coming into force. As for taxable years starting on or prior to the date of its coming into force, they shall be subject to tax laws in effect prior to issuance of this Law.
- (c) This Law shall nullify the Income Tax Law issued by Royal Decree No. (3321), dated 21/1/1370H and its amendments, the Law of Additional Income Tax on Companies Engaged in Production of Oil and Hydrocarbons issued by Royal Decree No. (7634), dated 16/3/1370H and its amendments, and the Natural Gas Investment Tax Law issued by Royal Decree No. (M/37), dated 25/ 6/ 1424H.
- (d) Tax withholding provisions of Article Sixty Eight of this Law shall become effective from the date of its coming into force.

Article 81: Transitional Provisions

- (a) In case of acquiring an asset in a taxable year prior to the effectiveness of this Law, the value to be added to the appropriate group shall be the cost of the asset minus any depreciation deduction previously granted to the taxpayer.
- (b) Operational losses incurred before the entry into force of the Council of Ministers' Resolution No. (3), dated 5/1/1421H may not be carried forward.
- (c) Operational losses incurred by the taxpayer during a tax exemption period may not be carried forward.