

Saudi Arabia exempts investment of oil and hydrocarbon producing companies into Saudi-listed companies

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Executive summary

On 26 June 2020, the Saudi Arabian government issued Royal Decree No. M/153 (RD M/153). The Decree exempts from income tax the direct and indirect investment of oil and hydrocarbon producing companies into Saudi Arabian listed companies and subsidiaries of these listed companies. Oil and hydrocarbon companies with investments in Saudi Arabian listed companies and subsidiaries of these listed companies should assess the impact of the change for financial and tax reporting purposes.

Detailed discussion

When the Income Tax Law (ITL) was enacted in 2004, persons subject to taxation included:

- ▶ A resident company with respect to shares of non-Saudi partners
- ▶ A person engaged in the field of oil and hydrocarbons production

The ITL was amended with effect from 1 January 2017 to also impose tax on resident companies with respect to the direct and indirect ownership of persons engaged in oil and hydrocarbon production.¹

On 26 June 2020, RD M/153 was issued to exempt Saudi listed companies and subsidiaries of these listed companies with respect to shares owned directly or indirectly by oil and hydrocarbon producing companies. The effective date of the amendment has not yet been announced.

Earlier this year, on 2 March 2020, the General Authority of Zakat and Tax issued proposed Zakat Levy Regulations for public consultation.² The amendment to the ITL is consistent with Article 3 of the proposed regulations, which would make the investments of oil and hydrocarbon companies into Saudi-listed companies liable for zakat, rather than corporate income tax.

Implications

Oil and hydrocarbon companies with investments in Saudi-listed companies will need to assess the impact of above change for their financial and tax reporting purposes, including the potential effect on deferred tax assets.

Endnotes

1. See EY Global Tax Alert, [Saudi Arabia amends Income Tax Law](#), dated 11 October 2017.
2. See EY Global Tax Alert, [Saudi Arabia proposes penalties for zakat non-compliance](#), dated 11 March 2020.

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