

Transfer Pricing Country Profile SAUDI ARABIA

A decision-oriented overview of KSA Transfer Pricing - implications, risks, and strategic considerations

1 Saudi Arabia (KSA) Transfer Pricing Framework

Saudi Arabia's transfer pricing (TP) framework, managed by ZATCA, mandates the arm's length principle for related-party transactions, aligning with OECD guidelines to ensure fair pricing, and applies to both income taxpayers and zakat payers, with key rules in the 2019 Bylaws and updated 2024 Guidelines covering documentation (Master/Local Files, CbC reporting) and Advance Pricing Agreements (APAs).



Definition of Related Parties

- Article 1(26): Defines "Related Persons" (related parties) for transfer pricing purposes i.e., who qualifies as a related party under the ZATCA Transfer Pricing regime.
- Natural persons related by blood or marriage up to the 4th degree.
- Natural persons and legal entities where one directly or indirectly controls $\geq 50\%$ of the voting rights, capital, or income.
- Legal entities related because of common control or effective control over business decisions.

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Transfer Pricing Methods

All the five recognized OECD methods are accepted:

- ▶ Comparable Uncontrolled Price (CUP)
- ▶ Resale Price Method (RPM)
- ▶ Cost Plus Method (CPM)
- ▶ Transactional Net Margin Method
- ▶ Profit Split Method (PSM)

3 Transfer Pricing Documentation

Master File and Local File

Total value of their annual controlled (related-party) transactions exceeds SAR 6 million (approximately \$1.6 million) in a 12-month period and MNE Group's consolidated group revenue exceeding Three Billion & Two Hundred Million Saudi Riyals (SAR 3.2 Billion) during the year immediately preceding the current Reporting Year as reflected in the Group's Consolidated Financial Statements for that preceding year.

TP Disclosure Forms

No minimum transaction threshold. All entities subject to Income Tax or Zakat that engage in any controlled (related party) transactions during a fiscal year must submit the form..

Country by Country Reporting

CbCR is mandatory for multinational enterprise (MNE) groups with consolidated group revenue exceeding SAR 3.2 billion (approximately \$850 million) in the prior fiscal year.

4 Key Areas of Focus

- ▶ Intra-group Services
- ▶ Financial Transactions
- ▶ Intangibles
- ▶ Advance Pricing Agreements
- ▶ Business Re-structuring

5 Compliance, Disputes & Outlook

Compliance [ZATCA Regulations]

Documentation: Mandatory Maintenance of Master File and Local File for taxpayers with related party transactions, with a 30-day turnaround time for submission upon request.

Disclosure & Affidavit: Annual filing of a TP Disclosure Form (TPDF) along with the tax/Zakat return, accompanied by a mandatory certified TP Affidavit

Thresholds: Must be on arm's length

Languages: In Arabic or translated only

Dispute

Increased Audit: ZATCA is actively auditing MNEs, often conducting joint audits with Customs authorities to align import values with TP documentation.

Penalties: Incorrect, non-compliant, or delayed filings can lead to significant penalties, including 50% of the tax difference.

Challenges: Strict requirements on selecting comparables often involve using Middle East-based entities or, failing that, Eastern European firms, sometimes rejecting Western European comparables.

Outlook

Proactive Management: Increasing use of Advance Pricing Agreements (APAs) is encouraged to gain certainty and reduce disputes.

Integration: Companies should align intercompany agreements, financial statements, and customs valuation for consistency.

HOW CAN WE HELP?

TP Governance and Strategy

Designing robust frameworks and strategic advisory

- Economic Substance & TP Policy Design
- TP Policy, Restructuring & Planning
- Value Chain Analysis and TP / Tax Optimization
- Intangible Property Structuring

TP Reporting and Compliance

Ensuring compliance with evolving regulations

- TP Documentation (Local File, Master File, TP Disclosure Form)
- Benchmarking Analyses
- Country by Country Reporting
- Permanent Establishment (and profit attribution)

TP litigation and Controversy

Protecting your position across the audit lifecycle

- Mock Tax Audits & Pre-audit Strategy
- Defense File Preparation
- Tax Rulings & Advance Pricing Agreements (APA)
- Mutual Agreement Procedure (MAP)
- Post-audit Assessment & Implementation Support

GET IN TOUCH



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At The Tax Point, we support groups operating in the UAE where transfer pricing is not a compliance checkbox, but a strategic control tool.