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Tax implications of talent mobility – cross-border movement of employees in the Kingdom of Saudi Arabia (KSA)

This contribution examines Saudi Arabia's tax system in the context of cross-border employee mobility, emphasising that the absence of personal income tax (PIT) does not preclude exposure to corporate income tax (CIT). It highlights the potential risk of establishing a permanent establishment (PE) through the presence of employee activities in the country, especially for senior staff or those involved in contract negotiations, and underscores the importance of aligning tax outcomes with genuine economic substance under the regional headquarters (RHQs) regime.

1. Overview of the tax system

The system of individual taxation in the Kingdom of Saudi Arabia (KSA) is characterised by the absence of personal income tax (PIT) on employment income, setting it apart from many other jurisdictions and instead aligning it with all other Gulf Cooperation Council (GCC) countries, except for the Sultanate of Oman, where PIT will be introduced as of 1 January 2028. Rather than taxing salaries or wages, the Saudi tax framework primarily focuses on business activities and on indirect forms of taxation applicable to individuals.¹

The tax liability for individuals depends largely on their nationality and the nature of their economic involvement in the country. Saudi nationals and nationals of other GCC member states are generally subject to zakat on their business activities,² while non-Saudi individuals may be liable for income tax if they carry on business in Saudi Arabia, either as residents or through a permanent establishment (PE).

¹ Income Tax Law in the KSA issued by Royal Decree No (M/1) dated 15/1/1425 AH [Corresponding to 06 March 2004], and any amendments or replacements thereto; Income Tax Law Implementing Regulations issued by Ministerial Resolution No (1535) dated 11/6/1425 AH [Corresponding to 28 July 2004], and any amendments or replacements thereto.

² Zakat Law issued by Royal Decree No (17/2/28/8634) dated 29/6/1370 AH [Corresponding to 05 April 1951]; Zakat implementing regulations issued by Ministerial Resolution No (2216) dated 7/7/1440 AH [Corresponding to 14 March 2019].

Beyond the direct taxation of business income, individuals may also be affected by a range of indirect taxes. These include value-added tax (VAT) on goods and services,³ excise taxes on specific products,⁴ customs duties on imports⁵ and a real estate transaction tax (RETT) on property transfers.⁶ Additionally, recent developments, such as the amendment to the so-called 'White Land Tax Law', which raises the levy on undeveloped land up to ten per cent, highlight the KSA's increasing reliance on targeted property-related taxation measures.⁷

Although employment income itself is not subject to taxation, individuals working in Saudi Arabia are generally required to contribute to the social security system administered by the General Organization for Social Insurance (GOSI). These contributions apply mainly to Saudi nationals (and certain GCC nationals), while non-Saudi employees are typically covered for occupational hazard insurance purposes only.

End-of-service (EOS) benefits under Saudi Labor Law apply to all employees (Saudi and non-Saudi) and are paid as a lump sum upon the termination of employment. For Saudi nationals, employers must also contribute to the GOSI social insurance system, which provides retirement pensions, whereas non-Saudi employees generally rely on EOS benefits instead of a pension, as they are not covered by GOSI retirement schemes.

The Saudi tax system is currently centrally administered by the Zakat, Tax and Customs Authority (ZATCA), the successor to the General Authority for Zakat and Tax (GAZT), and applies uniformly across the entire KSA, with no regional or subnational variations in

³ Value-Added Tax Law issued by Royal Decree No (M/113) dated 2/11/1438 AH [Corresponding to 25 July 2017], and any amendments or replacements thereto; Value Added Tax Law Implementing Regulations Issued by resolution of the Board of Directors of the ZATCA No (3839) dated 14/12/1438 AH [Corresponding to 05 September 2017], and any amendments or replacements thereto.

⁴ Excise Tax Law issued by Royal Decree No (M/86) dated 27/8/1438 AH [Corresponding to 23 May 2017], and any amendments or replacements thereto; Implementing Regulations of the Excise Tax Law issued by resolution of the Board of Directors of the ZATCA No (91-17) dated 5/9/1438 AH [Corresponding to 30 May 2017], and any amendments or replacements thereto.

⁵ Common Customs Law of the GCC States issued under Royal Decree No (M/41) dated 3/11/1423 AH [Corresponding to 06 January 2003], and any amendments or replacements thereto; Implementing regulations of the Common Customs Law of the GCC States issued under Ministerial Resolution No (2748) dated 25/11/1423 AH [Corresponding to 27 January 2003], and any amendments or replacements thereto.

⁶ Real Estate Transactions Law Tax issued by Royal Decree N (A/84), dated 14/2/1442 AH [Corresponding to 01 October 2020], replaced by Real Estate Transactions Law Tax issued by Royal Decree No (M/84), dated 19/3/1446 AH [Corresponding to 22 September 2024] and any amendments or replacements thereto.

⁷ Saudi Arabia introduced a tax on undeveloped urban land (the so-called 'White Land Tax') in 2015 (Royal Decree No M4/1437 dated 12/2/1437 AH [Corresponding to 24 November 2015]), increasing to up to ten per cent of the land value, targeting unused residential and commercial plots. A 2025 amendment (Resolution No 758 dated 1/11/1446 AH [Corresponding to 28 April 2025]) expanded the tax to include long-vacant buildings and introduced tiered tax rates (2.5 per cent) based on urban priorities. Revenue funds housing and infrastructure projects, with regulations that define the valuation, set phased implementation, and establish anti-avoidance rules.

regard to individual taxation. Furthermore, there are no special ring-fencing regimes exclusively targeting expatriate individuals.

Overall, the Saudi approach reflects a fiscal model that prioritises taxing business activity, consumption and specific assets over personal income, while maintaining a relatively simple, centralised administrative structure.

2. Taxation of employment income

2.1 Scope of taxable income

Individuals are subject to income tax in Saudi Arabia if they are:

- a resident non-Saudi conducting business in the KSA;
- a non-resident conducting business in the KSA through a PE; or
- a non-resident deriving income from Saudi sources.

An individual who is a resident is defined as:

- an individual with a permanent domicile in KSA who is present for at least 30 days during the tax year. A permanent domicile exists if a place of abode is available to the taxpayer (ownership, lease, etc) for at least one year; and
- an individual present in the KSA for at least 183 days during the tax year, even if they do not have a permanent residence therein. ZATCA understands a permanent residence to be a dwelling that is permanently available to the taxpayer.

Spouses are separate taxable persons, with no joint taxation system. Partnership income is taxed in the partners' hands, not in the partnership's hands, who must file a tax return showing the relevant income, profit, loss, expenses and debts, etc.

Saudi Arabia's employment income regime is favourable, as individuals, resident or non-resident, are not taxed on their employment income. This reflects the broader Saudi tax system, which does not impose PIT on salaries or wages.

Given the absence of PIT, employment-related income is not merely taxed at a zero per cent rate but is effectively excluded from the tax base altogether. This exemption applies comprehensively to all forms of employment remuneration, including salaries, bonuses, allowances, benefits in kind and equity-based compensation arising from employment.

However, a clear distinction must be made between employment income and income derived from business or independent activities. The latter falls within the scope of taxation, generally at a flat rate of 20 per cent.

2.2 Source rules

Although employment income is not taxed in the KSA, Saudi-sourced income is crucial for determining employers' tax positions and whether a PE risk arises.

Under Saudi domestic tax law, income is considered Saudi sourced if it is derived from activities within the KSA or services provided to Saudi entities. This includes remuneration for work performed in Saudi Arabia, regardless of the payment location or the recipient's residence.⁸

Additionally, source rules matter in cross-border situations, particularly involving non-resident individuals or foreign employers. In such cases, Saudi-sourced income may trigger CIT implications for employers, including potential exposure to PE risks or withholding tax (WHT).⁹

While these rules do not affect employees, due to the absence of an employment income tax, they are vital for determining the tax exposure of businesses located in or connected with the KSA, particularly regarding the relevant CIT liabilities and compliance obligations.

2.3 Tax rates

As stated, Saudi Arabia does not have a comprehensive PIT system. Instead, the tax framework is characterised by the absence of taxation on employment income and a limited number of flat-rate taxes applicable to specific categories of income and transactions.

In particular, individuals are subject to income tax only when they carry on business or professional activities. In such cases, income is taxed at a flat rate of 20 per cent, broadly aligned with the CIT regime and applied based on similar rules.

⁸ See Decision No (IR-2022-394), issued in Case No (W-1750-2018), wherein the tribunal decided that salary and wage reimbursements can remain non-taxable in the KSA if the employees are truly employed by the local entity and the arrangement is properly documented, even if another entity processes the payroll.

⁹ See Decision No (IZJ-2022-2049), issued in Case No (W-52007-2021), wherein the tribunal determined that income sourced within the KSA is subject to five per cent WHT as laid down in Saudi Arabia's Income Tax Law.

For Saudi nationals and nationals of other GCC countries, business income is not subject to income tax but instead falls within the scope of zakat. Zakat is levied at a rate of 2.5 per cent on the individual's net worth or zakat base, in accordance with the applicable regulations.

In addition to direct taxes, the KSA imposes VAT at a standard rate of 15 per cent on most goods and services. VAT applies broadly to domestic consumption and is borne by the final consumer, although businesses are responsible for its collection and remittance.

Beyond these general taxes, certain transaction-based taxes apply in specific circumstances. Notably, the RETT is levied at a rate of five per cent on the transfer of real estate, including sales, long-term leases and certain other disposals, with the tax calculated based on whichever is higher, the transaction value or the market value.

Saudi Arabia does not impose a recurrent real estate tax. However, a specific levy, commonly referred to as the 'White Land Tax', applies to undeveloped urban land intended for residential or commercial use. This tax is designed to encourage development and increase real estate supply. Following amendments in 2025, the levy may reach up to ten per cent of the land value, depending on the applicable tier and regulatory conditions.

2.4 Miscellaneous issues

Although there is no payroll tax or WHT obligation on employment income, employers and employees are subject to social security contributions under the GOSI regime.

Saudi employees are required to contribute ten per cent of their salary towards insurance that covers old age, disability and death, with additional contributions applicable under the unemployment insurance scheme.¹⁰

Moreover, the GOSI operates an unemployment insurance scheme to provide employees who have lost their jobs for reasons beyond their control with a stream of income. The scheme is funded through a two per cent contribution, split equally between the employer and the employee.

¹⁰ Social Insurance Law issued by Royal Decree No M/273 dated 26/12/1445 AH [Corresponding to 02 July 2024].

In general, contribution requirements vary according to the employee status. Saudi nationals are subject to broader contribution obligations, whereas expatriates are generally limited to employer contributions for occupational hazard insurance.

3. PE risks

In the absence of employee-level taxation, the principal tax exposure arising from cross-border mobility is the risk of a foreign employer creating a PE.

A PE is generally understood as a fixed place of business through which a non-resident carries on activities in Saudi Arabia or arising through the actions of dependent agents.

The concept of a PE is defined not only by domestic tax law, but also by the double tax treaties (DTTs) that the KSA has entered into with other countries. Saudi Arabia has signed 50 such treaties with nations including China, Japan, Switzerland and the United Kingdom. These DTTs take precedence over domestic tax rules.¹¹

3.1 Dependent agent PE

A dependent agent's PE may arise where employees act on behalf of a foreign enterprise and play a meaningful role in its commercial operations.

Employees engaged in sales or business development functions are particularly relevant in this context. A PE may arise where such individuals habitually negotiate or conclude contracts or where they play a principal role in their conclusion, even if formal approval is obtained outside the KSA.

Other activities, such as maintaining stock for delivery or engaging in regulated activities, such as insurance operations, may also contribute to the existence of a taxable presence in the KSA.

3.2 Fixed-place PE

¹¹ ZATCA, Tax and Customs Agreements <https://zatca.gov.sa/en/RulesRegulations/Agreements/Pages/default.aspx> last accessed on 7 May 2026. ZATCA published Circular No 2303001 of 17 May 2023 relating to the taxation of PEs in the context of DTTs <https://zatca.gov.sa/en/MediaCenter/Publications/Documents/Taxation%20of%20Permanent%20Establishments.pdf> last accessed on 11 May 2026. The Circular provides guidance on determining the existence of a PE and the tax implications in Saudi Arabia, in accordance with the provisions of the DTTs signed with foreign jurisdictions.

A fixed-place PE may arise where a non-resident enterprise has a physical location in Saudi Arabia through which its business is carried on.

In simplified terms, in order for a fixed-place PE to exist, four key criteria must be met. First, there must be an actual place of business (office, facility or defined space used to conduct business activities). Second, the place must be 'fixed', which indicates that the space must have some degree of permanence. Third, the business must be carried out on a daily or ongoing basis from that location rather than on a temporary or one-off basis. Finally, the place must be at the enterprise's disposal, meaning that the company can use and control the space for its business activities whenever it likes.

One key area of exposure arises in the context of home office arrangements. Where an employee works remotely from a home office in the KSA for personal convenience, there remains a risk that such an arrangement could be viewed as a fixed place of business. This risk is heightened where the employee undertakes core business activities for the foreign enterprise. While domestic law does not prescribe a specific duration threshold, DTTs often refer to a period of approximately 183 days within a 12-month timeframe when assessing whether a taxable presence exists.¹²

In such circumstances, the home workspace may be regarded as a fixed-place PE, thereby subjecting the foreign enterprise to Saudi income tax on profits attributable to that PE on a net basis. Conversely, where no PE is created, the relevant income would generally fall outside the scope of Saudi income tax, although it may still be subject to a gross WHT.¹³

A similar risk arises in the context of long-term project offices. Where an office is established in Saudi Arabia to execute a project that exceeds six months (ie, 183 days), such presence is typically considered to constitute a fixed-place PE.

As a result, the foreign employer would become subject to CIT obligations in Saudi Arabia under regulations issued by ZATCA. Additionally, expatriate employees assigned to such projects may be treated as tax residents of Saudi Arabia, which would mean their employment income would be tax-free under the KSA's current tax regime.

¹² In November 2025, the Organisation for Economic Co-operation and Development (OECD) updated its Model Tax Convention, introducing new guidance in the Commentary to Article 5 (paragraphs 44.1–44.21) addressing home offices and clarifying under which conditions they may constitute a PE. Saudi Arabia has not yet issued specific guidance on this matter.

¹³ See Decision No (IFR-2022-2153) issued in Case No (IW-73255-2021), where the tribunal found that the temporary presence in the country (90-day visit visa) of temporary personnel did not subject the employee to WHT or create a taxable presence in the KSA.

3.3 Service PE

Under both domestic tax law and DTTs, a service PE may arise where a non-resident enterprise furnishes services in Saudi Arabia through employees present in the KSA for more than 183 days within a 12-month period.

Where such a threshold is met, the foreign enterprise becomes subject to taxation in Saudi Arabia on the profits attributable to those activities, determined on a net basis, with additional adjustments compared to a regular resident taxpayer.

In the absence of a PE, business profits generally remain taxable only in the country of residence under the applicable taxation treaty. The absence of a PE does not prevent Saudi-source taxation insofar as the income earned by the non-resident may fall within the scope of WHT, in which case, the tax becomes payable on the gross payment, not the net profit.¹⁴

Until 2023, Saudi Arabia applied an expansive interpretation of the service PE concept, often described as a 'virtual PE', under which non-resident service providers could be taxed based solely on exceeding a duration threshold (typically 183 days), even without a physical presence in the KSA. In 2023, however, ZATCA reversed this position, confirming that a service PE requires employees to be physically present in Saudi Arabia, aligning the approach with international tax standards.¹⁵

4. Exit/departure considerations

Saudi Arabia does not impose exit taxes on individuals, and there are no specific tax filing obligations upon departure. Accordingly, Saudi nationals or expatriates are not required to report their worldwide income when leaving the country.

However, certain tax considerations may still arise in connection with investments, particularly regarding capital gains. For resident individuals, capital gains are generally only taxable where they are derived in the course of a business or professional activity, in

¹⁴ See Decision No (IFR-2022-6759), issued in Case No (W-42028-2021), which held that employees seconded from the foreign head office were effectively providing services to the Saudi branch, resulting in the recharacterisation of payments as taxable cross-border services subject to WHT rather than as non-taxable salaries and wages. While the case does not explicitly rule on PE, the tribunal's reasoning reflects a service PE risk logic, under which foreign employee activity in the KSA may be treated as a taxable presence through service provision.

¹⁵ See ZATCA's Circular No 1/80/1436 dated 10/2/1436 AH [Corresponding to 02 December 2014], which was replaced by Circular No 2303001 of 17 May 2023, relating to the taxation of PEs in the context of DTTs, cited in n 11 above.

which case they are taxed at the standard rate of 20 per cent as part of business income. Capital gains realised outside a business context are typically not subject to taxation.

For non-resident shareholders, different treatment applies. Capital gains derived from the disposal of shares in Saudi companies are, in principle, subject to taxation in the KSA at a rate of 20 per cent, although an exemption may apply to gains on listed securities when specific conditions are satisfied, such as their acquisition being after 30 July 2004 and compliance with stock market regulations. In a corporate setting, such gains must be reported and collected through the Saudi entity in which the shares are held.¹⁶

In addition, certain types of investment income derived by non-residents, such as dividends, interest and royalties, may be subject to WHT, typically ranging from five per cent to 15 per cent, depending on the nature of the payment.

While these rules do not establish an exit tax, Saudi-source gains, especially from shareholdings in Saudi entities, may still be taxed after a person ceases to be a resident. Moreover, cross-border mobility planning should consider not only the lack of exit taxation in Saudi Arabia, but also the potential tax implications in other jurisdictions, including tax residency, capital gains realisation and deferred compensation

5. Recent developments and case law

In 2016, Saudi Arabia launched its 'Vision 2030' to reduce its reliance on oil by fostering private sector growth, attracting foreign investment and enhancing workforce mobility. This long-term strategy also aims to transform the country's tax and regulatory landscape.¹⁷

Embracing this vision, the KSA has updated its tax system, implementing VAT, revising WHT regulations and improving compliance, in order to meet international standards, while appealing to global talent and enterprises.

¹⁶ The GAZT (as of May 2021, the ZATCA) has issued Circular No 2005003 on capital gains realised from restructuring transactions <https://zatca.gov.sa/ar/MediaCenter/Publications/Documents/CGT%20on%20restructuring%20events%20circular.pdf> last accessed on 7 May 2025. The Circular clarified the tax regime of capital gains realised by non-resident persons on the transfer of shares in Saudi companies.

¹⁷ KSA Government, Saudi Vision 2030 <https://www.vision2030.gov.sa/en> last accessed on 7 May 2026.

Another major advancement in this strategy is the recent launch of the regional headquarters (RHQs) programme, which is designed to encourage multinational enterprises (MNEs) to establish strategic and management operations in Saudi Arabia.¹⁸

Under this regime, qualifying entities may benefit from a zero per cent CIT rate on qualifying income and a zero per cent WHT rate on certain payments to non-residents for up to 30 years. Access to these incentives is contingent upon meeting economic substance requirements, including maintaining real operational activity within the KSA.

A central element of these requirements is also the presence of suitably qualified personnel in the KSA. Notably, RHQs must employ individuals with the necessary qualifications, experience and skills to perform their roles effectively. This includes an appropriate educational background and professional expertise aligned with the seniority of the position. In addition, the board of directors of RHQ-qualifying entities must collectively possess the knowledge and experience required to carry out their duties, and the majority of employees must have relevant experience to support the entity's core activities.¹⁹

These requirements demonstrate that the RHQs regime is designed to attract genuine business operations rather than purely formal structures. From a talent mobility perspective, this reinforces the importance of deploying skilled personnel to Saudi Arabia and ensuring that key decision-making functions are carried out locally.

6. Key takeaways

Saudi Arabia offers a highly favourable environment for employees, due to the absence of a comprehensive PIT on employment income. However, this shifts the primary tax risk to employers.

The main tax exposure arises from the potential creation of a PE through the carrying out of employees' activities in the KSA. This risk is particularly relevant for senior personnel, individuals involved in contract negotiations and situations involving a long-term presence in the KSA.

¹⁸ Regional Headquarters Tax Rules Issued by resolution of the Board of Directors of the Zakat, Tax and Customs Authority No (24-1-9) dated 23/07/1445 AH [Corresponding to 02 February 2024], and any amendments or replacements thereto.

¹⁹ See ZATCA, *Guideline for Regional Headquarters in KSA. Guideline to Clarify the Tax and Zakat Provisions Applicable to the Activities of Regional Headquarters*, p 16, [https://zatca.gov.sa/en/HelpCenter/guidelines/Documents/Guideline%20for%20Regional%20Headquarters%20in%20KSA%20\(2\).pdf](https://zatca.gov.sa/en/HelpCenter/guidelines/Documents/Guideline%20for%20Regional%20Headquarters%20in%20KSA%20(2).pdf) last accessed on 07 May 2026.

In addition, although there is no comprehensive PIT, certain capital gains tax exposures may still arise, particularly for non-residents disposing of shares in Saudi entities or for gains linked to business activities.

Finally, recent developments, including the RHQs regime as part of the broader Vision 2030 initiative, emphasise the importance of aligning tax outcomes with real economic substance.