

# KSA Transfer Pricing Flyer

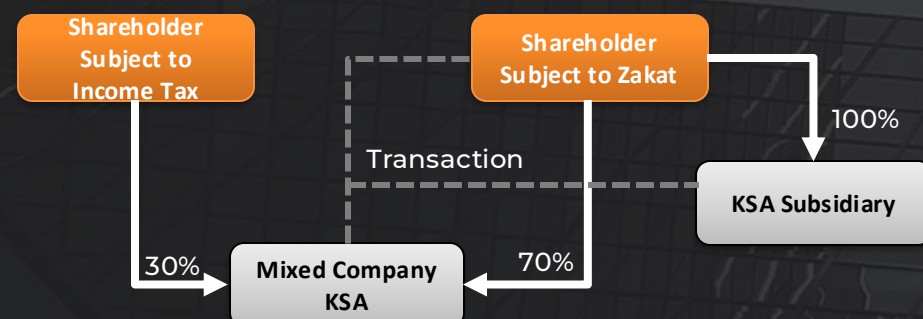
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Overview of TP compliances



# Arm's Length Principle

- » Kingdom of Saudi Arabia had introduced transfer pricing Bylaws in the year 2019. The Bylaws were constantly updated to include more persons under the purview of transfer pricing regulations of KSA from time to time aligned with the OECD guidelines. The Bylaws lays down the detailed guidance on the applicability, covered persons, covered transactions and approach for determining arm's length criteria of the controlled transactions, a framework to set prices for Controlled Transactions, including but not limited to transfers of goods, services, loans and Intangibles (intellectual property). Besides loans, other financial transactions are also covered in this Guideline, for instance, guarantees, factoring and hedging
- » The following persons are covered under the TP Bylaws of the KSA covering both the domestic and cross border transactions:
  - Taxpayers subject to 100% income tax
  - Mixed Companies to the extent that the Mixed Company is subject to income tax in the Kingdom.
  - 100% Zakat Payers
  - Small Enterprises, investment funds, and wholly government –owned companies that are exempt from Zakat collection



## Identify of Related Persons

Related persons means two or more natural persons having relation or partnership

- » A natural person is related to juridical person in case of either him or his related person together exercises controls (directly or indirectly or both) voting rights income or capital of a company or partnership or juridical person
- » Two juridical persons are related when there is a common control on them, one controls the other or the persons having effective control over them are related

## Identification and delineation of controlled transactions

- » Broad-based analyses including the industry sector and other relevant items of the MNE Group such as business strategies, supply chain and key functions assets and risks
- » In depth-analysis including the determine the contractual terms of the Transaction; Functional and Risk Analysis for each Related Person part of the Controlled Transaction; Characteristics of the property transferred, or services provided; The economic circumstances of the market in which the Related Persons operate; and the Business strategies pursued by the Related Persons
- » Determination of most appropriate method and its application to determine the uncontrolled transactions

## Documentation

- » In general, the KSA transfer pricing guidelines and Bylaws impose four documentation requirements i.e., Disclosure Form and Affidavit, General documentation, Local File, Master File and Country-by-Country Report

## Implementation

- » Reporting of the Controlled Transactions in the commercial accounts based on the existing accounting rules in the KSA
- » Making Periodical adjustments and year-end adjustments before filing the tax return as all Controlled Transactions must be reported in the Disclosure Form and the tax returns in accordance with the Arm's Length Principle
- » KSA will only allow a downward corresponding adjustment if there is a DTA in place



# Applicability



Compliance Requirement	Natural Person	100% Zakat payers	Taxable person subject to 100% income tax / Mixed Companies	Due date	Penalty
TP Bylaws	No	Yes	Yes	-	-
Disclosure Form & Affidavit	No	Yes	Yes	Within 120 days from the end of fiscal year i.e. Calendar Year	<ul style="list-style-type: none"> <li>Incorrect Disclosure Forms: SAR 100,000 – SAR 500,000.</li> </ul>
General TP Documentation	No	Yes	Yes	On request from the Authority – Within 30 Calendar days	
Local File	No	Yes. Aggregate Value of Related Party Transactions till 2027: Mandatory > SAR 100 million	Yes. Aggregate Value of Related Party Transactions ≥ SAR 6 million annually	On request from the Authority – Within 30 Calendar days	<ul style="list-style-type: none"> <li>Penalty for <u>Late/Missing Documentation</u> (Local/Master File): SAR 50,000 – SAR 100,000 per violation.</li> <li><u>Tax Evasion via TP Manipulation</u>: A penalty of SAR 1 million, plus 300% of the tax difference.</li> </ul>
Master File	No	Aggregate Value of Related Party Transactions after 2027 > SAR 48 million			
Country –by - Country Report	No	Yes, if the consolidated group revenue is ≥ SAR 3,200,000,000 (approx. EUR 750 million) in the reporting year immediately preceding the current reporting year	Yes. If the consolidated group revenue is ≥ SAR 3,200,000,000 (approx. EUR 750 million) in the reporting year immediately preceding the current reporting year	within the 12-month period immediately following the end of the reporting year of its MNE group	
Country –by- Country Notification	No	Yes	Yes	Within 120 days from the end of fiscal year i.e. Calendar Year	



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# Documentation Requirement



**Local File** provides detailed information on Controlled Transaction with the Taxable Person and is, accordingly, supplementary to the Master File. The information required under Local File is consistent with the OECD guidelines



**Master File** provides an overview of the MNE's global business, the Transfer Pricing Policy and economic activities/ functions of the Related Persons. The information required under Master File is consistent with the OECD guidelines



**Country-by-Country report** includes Tax Jurisdiction-wide information on various information relating to the MNE's global activities : In principle, the Ultimate Parent Entity (UPE) or Surrogate Parent Entity (SPE) should submit the CbCR



**CbCR Notification Form:** Every Taxpayer who is a Constituent Entity of an MNE Group must submit to the Authority a CbCR Notification (part of Tax/Zakat Return) no later than 120 days after the last day of the Taxpayer's Reporting Year. The CbCR Notification must include information on the identity of the Reporting Entity of the MNE Group, its country of tax resident and the country in which the Reporting Entity submits the CbCR

**TP Disclosure Form:** The Disclosure Form of Controlled Transactions is used by the Authority to conduct a high level Transfer Pricing Risk Assessment. Additional information supporting the Transfer Pricing position taken may be requested by the Authority

**CA Affidavit:** If Sections 1 (the Disclosure Form) and Section 2 (the CbCR Notification Form) are completed accurately, the Taxpayer must attach the Chartered Accountant Certificate declaring that the Transfer Pricing policy of the MNE Group is consistently applied in relation to the Taxpayer in the KSA. With respect to the Chartered Accountant Certificate, GAZT accepts both "limited" and "reasonable" assurance engagements (as endorsed by Standing Committee on Public Accounts) as long as the certificate is provided by a licensed auditor in KSA



**General TP Documentation:** Applicable to all the taxpayers having controlled transactions where TP Bylaws apply. No specific requirements prescribed and therefore applies a format-free approach. Generally, most information listed in the Bylaws under the Master File and Local File should be documented, including in particular a Functional Analysis and an economic analysis

**The Authority may direct any Person (as listed in the Bylaws) to prepare and maintain documentation related to Controlled Transactions and to request such Person to provide such documentation within the time which shall in all cases be no less than Thirty (30) days from the date of the Authority's request**





# Regional Headquarter (RHQ) Program and its Transfer Pricing Considerations

## Key Features of RHQ

- » **Valid License & Permitted Activities:** Must have valid license and the activities covered under such license. The main activities of the RHQ are restricted to strengthening the group's profile in the region, providing strategic supervision, administrative guidance and support for the internal business of the Company, subsidiaries, and other related companies. Optional activities such as sales and marketing. RHQ should earn income from only the above activities and must incur operational expenditure in relation to its activities. Related persons shall have the same meaning as the TP Bylaws of KSA
- » **Tax Benefits:** Zero percent income tax and zero percent withholding tax for 30 years.
- » **Personnel Requirements:** Must have at least one resident director in RHQ. Must employ adequate employees with adequate qualification and skill set to conduct such activities
- » **Accounting & Reporting :** Must prepare and maintain the books of accounts for each full and partial tax years and file the tax returns and Zakat Returns
- » **Transfer Pricing Compliance:** RHQ must comply with Transfer Pricing Bylaws of KSA and must ensure all the transactions with related persons are conducted at arm's length
- » **Authority Oversight & Ruling Requests:** The Authority has powers to carry out the audit, call for any information and monitor the fulfilment of economic substance in respect of RHQ in accordance with the procedures and provisions outlined in the relevant Tax and Zakat laws. RHQ may submit a request for a Ruling to the Tax authorities to provide interpretation and clarifications on tax rules and Bylaws
- » **Penalties:** Penalties outlined in the Tax and Zakat laws apply to RHQ

## Transfer Pricing Considerations

- » **Functions, Assets & Risk (FAR) Analysis:** Conducting a detailed Functions, Assets and Risk analysis to support the licensed activities of RHQ
- » **Transfer Pricing Method Selection:** Evaluation of the most appropriate method to commensurate with the key licensed activities of RHQ
- » **Intercompany Agreement vs. Conduct Analysis:** Thorough analysis of the terms of the intercompany agreements vis-a-vis conduct of the parties to substantiate economic substance
- » **Controlled Transaction Evaluation:** Evaluate controlled transactions to identify the deviations from the eligible income and expenditures of the RHQ
- » **Periodic & Year-End Adjustments:** Thorough periodical and year-end adjustments to meet the arm's length principle requirements
- » **Extensive Documentation:** Maintain extensive documentation in relation to the above to substantiate the arm's length nature of the controlled transactions
- » **Compliance with Bylaws:** Meet the robust documentation requirements as per the Bylaws to avoid penal consequences

*The KSA has not implemented the global minimum tax and qualifying domestic minimum tax pursuant to OECD pillar 2*



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# Advance Pricing Agreement

## Highlights of APA Program

- » APAs can be requested for related party transactions with a minimum value of SAR 100,000,000. Exemption to certain complex transactions from this threshold can be granted by the governor
- » A comprehensive application must be submitted at least 12 months before the first financial year covered by the APA
- » The duration of the APA is three years
- » Currently, there are no fees associated with the application for the APA
- » Annual Compliance Report is to be submitted annually during the period covered by the APA

## Benefits of APA Mechanism

- » Managing TP risks
- » Achieve tax certainty and
- » Minimize the potential for disputes with the tax authority

**Prefiling Meeting:**  
Optional with mandatory disclosure of name of the taxpayer

**Phase 1 (2-3 months):**  
Submission of the formal application in ERAD portal, review of the same by APA team, initial discussion between the taxpayer and APA team. Withdrawal option available

**Phase 2 (8-9 months):**  
Submission of additional information to ZATCA, additional meetings along with technical reviews, analysis, and pre-agreed site visits by ZATCA to assess the functional profile of the Tax/Zakat payer, Negotiations between tax/zakat payers, drafting and signing the agreement

**Phase 3:**  
Filing of Annual Compliance Report, Annual Inspection and Audit by ZATCA





# How VSTN Can Help



A tailored approach considering the industry and operations of the taxpayers of the KSA



Timely analysis on applicability of the Bylaws including amendments and updates



Evaluation of existing transfer pricing policies and intercompany agreement to identify the risks and frame mitigation strategies



Periodic monitoring and evaluation of the controlled transactions to advise on the arm's length requirements



End to end assistance in Annual TP Compliance



Upfront advise on future transactions including evaluation of APA and Rulings as an option



Specific Support to RHQ

- Detailed documentation with FAR analysis
- Analysis of Cost-Plus Vs Profit Split
- Framing the risk mitigation strategies for RHQ in addition to the annual compliance



Evaluation of Pillar 2 implications in case RHQs and Special Economic Zones for inbound MNCs which have IIR implemented



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# ABOUT US

vstn

- » VSTN Consultancy is a Global Transfer Pricing firm with extensive expertise in the field of international taxation and transfer pricing having its offices in India and UAE. VSTN Consultancy has been awarded by **International Tax Review (ITR)** as **Best Newcomer in Asia Pacific – 2024 | Middle East Transfer Pricing Practice Leader of the Year 2025 | Middle East Best Newcomer of the year - 2025** and is ranked as one of the recommended transfer pricing firms. VSTN Consultancy has been shortlisted in other awards as finalist by ITR for Tax Innovator, Tax Compliance and Reporting Firm, Transfer Pricing Leader , Transfer Pricing Rising Star in Asia Pacific – 2025 | Best Newcomer, Tax Innovator and Transfer Pricing Leader in EMEA – 2025. VSTNs senior partners have been ranked in ITR in the list of recognized Practitioners
- » Our offering spans the end-to-end Transfer Pricing value chain, including design of intercompany policy, drafting of Interco agreement, ensuring effective implementation of the Transfer Pricing policy, year-end documentation and certification, Global Transfer Pricing Documentation, BEPS related compliances (including advisory, Masterfile, Country by Country report), safe harbor filing, audit defense before all forums and dispute prevention mechanisms such as Advance Pricing agreement
- » We are structured as an inverse pyramid where leadership get involved in all client matters, enabling clients to receive the highest quality of service
- » Being a specialized firm, we offer advice that is independent of an audit practice and deliver it with an uncompromising integrity.
- » Our expert team brings in cumulative experience of over several decades in the transfer pricing space having worked with multiple Multinational Companies across sectors/industries and have cutting edge knowledge and capabilities in handling complex TP engagements





# Core Team

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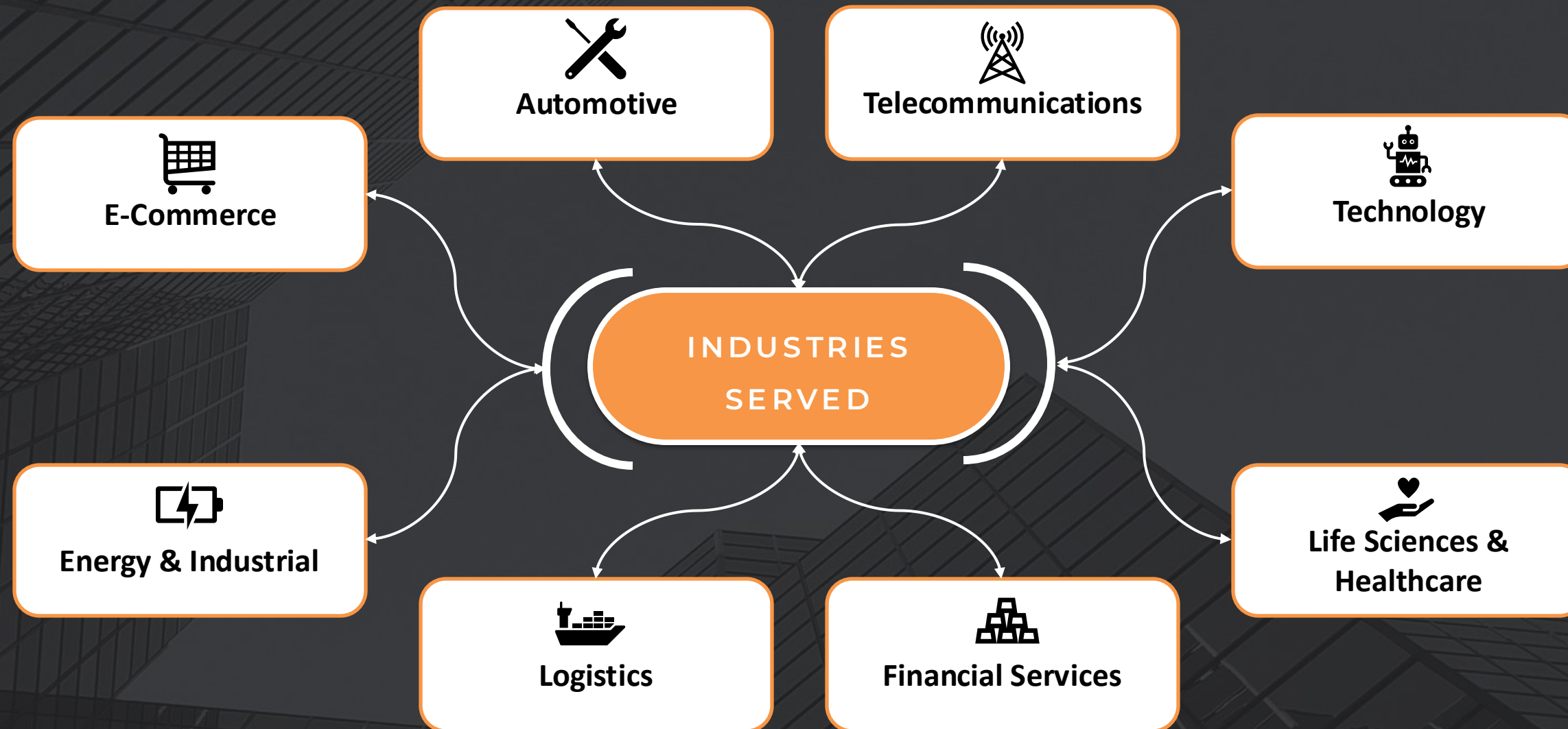
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# INDUSTRIES SERVED





# Global Locations Served





# Our Licensed Databases

SNo	Database	Provider
1	TP Catalyst	Moody's
2	ORBIS	Moody's
3	Loan Module	Moody's
4	IP & Royalty Data	Moody's
5	Royalty Rates and Benchmark Module	ktMINE
6	Services CUT	ktMINE
7	EDF-X Bond Database	Moody's
8	EDF-X Credit Risk Analytics	Moody's
9	Loan Module	Royalty Range
10	Transfer Pricing Documenter (formerly Thomson Reuters Onesource)	Ryan
11	Prowess	CMIE



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