



PERMANENT ESTABLISHMENT IN SAUDI ARABIA: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

Both branches and subsidiaries can be permanently established in Kingdom of Saudi Arabia.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

The main differences are that:

- The legal form of the branch will be a foreign entity and will take a license from the Saudi Arabian General Investment Authority (SAGIA).
- The subsidiary legal form will be affected by the nationality of the shareholders and the nature of the business. So, the subsidiary may be a local entity, mixed entity or foreign entity.

TAX AND ACCOUNTING OBLIGATIONS

- The branch will be affected by income tax.
- The subsidiary based on the nationality of the shareholders will be affected so, may be affected like the branch by income tax or affected by just legal zakat (if all the shareholders are Saudis or from Gulf Area) or affected by both income tax and legal zakat if the nationality of the shareholders are mixed. Zakat is a form of obligatory alms-giving and religious tax in Islam.
- Both branches and subsidiaries may be affected by withholding tax.

REGISTRATION FORMALITIES

Registration formation procedures for the branches and foreign or mixed entities will be more than for local entities.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

- Obtain a license from the Saudi Arabian General Investment Authority (SAGIA).
- Many other procedures.