

Saudi Arabia's Regional Headquarters Program: Where are we now and what's next?

ASG Analysis



ASG has been following the Saudi Regional Headquarters (RHQ) Program closely since it was first announced in February 2021 (see our previous Analyses [here](#) and [here](#)). RHQ requirements formally took effect on January 1, 2024, and long-awaited RHQ tax guidance was issued on February 16, 2024. At this critical juncture, we are exploring the future of the RHQ Program and considerations for multinational companies.¹

Key takeaways

- First introduced in February 2021, the Saudi Regional Headquarters (RHQ) Program is now at a critical juncture. On January 1, 2024, RHQ procurement controls formally took effect. This means that Saudi government entities can no longer contract with companies that have regional headquarters outside of the Kingdom, except in certain circumstances.
- The Kingdom has already begun to enforce RHQ requirements in government procurement. The Saudi Ministry of Finance has circulated to other Saudi government entities a list of multinational companies that are non-compliant with RHQ requirements. These companies are barred from contracting with government entities until they resolve their RHQ status.
- The details of the Program have evolved over the past three years but the overall policy direction and the commitment of the Saudi government to the Program have remained consistent. The Saudi government views the RHQ Program as crucial to bringing the leadership of multinational companies closer to the Kingdom. Saudi leaders believe that this in turn will lead companies to better appreciate the opportunities offered by the Saudi economy and invest more in the Kingdom over the long-term. The speed with which the Saudi government has moved to enforce RHQ requirements in procurement underscores its commitment to the program.
- In late December 2023, the Council of Ministers issued updated RHQ procurement controls that provide government entities with a clearer process for obtaining exemptions to contract with companies that do not have RHQs in the Kingdom. In February the Zakat, Tax, and Customs Authority (ZATCA) published long-awaited tax guidance, which provides tax exemptions for RHQ-related activities but also stands to impose significant compliance burdens.
- This is a crucial moment for companies at all stages of their RHQ journey. Companies that have already established or are in the process of establishing RHQs should watch closely for signs of how Saudi authorities intend to approach enforcement and prepare for an evolving compliance landscape. Companies that are still weighing whether to establish RHQs in the Kingdom should consider the costs and benefits in a fresh light based on the new tax guidance and potential compliance burdens. (For more on the implications for companies see [here](#).)

¹ This report does not constitute formal legal or tax advice. While efforts have been made to ensure the accuracy and completeness of the information contained in this report, Albright Stonebridge Group disclaims any liability arising from reliance on the information provided.

Current landscape

The Saudi Regional Headquarters (RHQ) Program was first announced in February 2021 and was originally conceived as a way to bring the leadership of multinationals to Saudi Arabia and encourage them to evaluate opportunities to support the Kingdom as it seeks to diversify its economy. Three years after the Program's announcement, RHQ requirements formally took effect on January 1, 2024. This means that, according to Ministry of Finance procurement controls that were approved by the Council of Ministers, Saudi government entities can no longer contract with companies that have RHQs outside of the Kingdom, except in certain circumstances.

On February 16, 2024, six weeks after procurement controls took effect, the Zakat, Tax, and Customs Authority (ZATCA) published long-awaited guidance on the tax treatment of the RHQ. This guidance provides some reassurance around tax exemptions for RHQ activities but also stands to impose significant added administrative and compliance burdens on companies with RHQs.

Now that RHQ procurement controls have taken effect and tax guidance has been issued, focus is increasingly turning to how the Saudi government will enforce RHQ requirements. Below we summarize current government procurement requirements, provide an overview of RHQ tax treatment and implications for companies, and consider the current state and future of RHQ enforcement.

Procurement controls

In January 2023, the Ministry of Finance published initial procurement controls that imposed sweeping restrictions on the ability of Saudi government ministries and other entities to contract with multinational companies that have regional headquarters outside of the Kingdom. The controls outlined a handful of narrow exceptions to the RHQ requirement allowing government entities to contract with companies that do not have regional headquarters in Saudi Arabia only in the following circumstances:

- If the contract is valued at less than 1 million Saudi Riyals (approximately \$270,000).
- If the company without an RHQ submits a bid 25 percent lower than any qualifying bid by a company with an RHQ.
- If there is no qualified bidder with an RHQ.
- If there is an emergency that necessitates inviting companies without RHQs to bid.

On December 25, 2023, the Council of Ministers announced updated RHQ procurement controls that, among other changes, provide government entities with a process for obtaining exemptions to allow them to contract with companies that do not have RHQs in the Kingdom. The updated controls were effective from their date of issuance and include:

- **Expansion of Applicability:** The update adds government-owned non-profit organizations and foundations to the list of government organizations that are barred from contracting with companies that do not have RHQs in the Kingdom. State-owned enterprises such as Saudi Aramco and companies owned by the Saudi Public Investment Fund (PIF) are notably still excluded from the scope. That said, some of these state-owned enterprises have voluntarily chosen to adopt policies that favor vendors with RHQs as part

of their localization schemes; Aramco, for example, includes RHQ requirements in its In-Kingdom Total Value Add (IKTIVA) program.

- **List of Companies without RHQs:** The list of companies without RHQs in the Kingdom will now be communicated directly to government organizations, instead of being published on a platform maintained by the Ministry of Investment (MISA). This effectively gives MISA the final say on whether a company is RHQ-compliant either because it has an RHQ that meets the requirements, or because it does not need one according to the program rules. In time, we imagine that such a “list” is more likely to take the shape of a system that responds to an inquiry about the status of a particular company as part of the procurement process.
- **Exemptions Criteria:** The new rules make it so that the RHQ restrictions apply to tenders involving limited bidding and direct contracting. Non-RHQ compliant companies can only be invited to participate if: (a) there is only one qualified bidder, or the product or service being procured is exclusive to one company; or (b) in case of emergency.
- **Exemptions Committee:** The new rules transfer the responsibility of reviewing exemption requests from the Ministry of Finance to the Local Content and Government Procurement Authority (LCGPA). Under these rules, government organizations wishing to contract with companies that are not RHQ compliant must submit a request to the Exemptions Committee which will have a General Secretariat based within the LCGPA (its budget will also be paid by the LCGPA). The new rules add representatives from the RHQ Program, the Ministry of Finance, and the General Authority of Foreign Trade (GAFT) to the Committee.
- **Appeals:** Government organizations can appeal a decision of the Exemptions Committee to the RHQ Program Supreme Committee (instead of the Minister of Finance).

The Kingdom has already begun to enforce RHQ requirements in government procurement. (For more on the current state of RHQ enforcement see [here](#).)

Tax guidance

On December 5, 2023, MISA and the Ministry of Finance issued a statement on tax exemptions for companies with RHQs in the Kingdom. The [announcement](#), published in coordination with the Ministry of Finance and ZATCA, said that RHQ entities will benefit from zero percent corporate income tax and zero percent withholding tax for a period of 30 years for revenue generated from all RHQ-licensed activities. Though these tax exemptions were thought to be a precursor to minimal tax burden, the rules issued by the board of directors of ZATCA on February 16, 2024 do not provide the reassurance we expected on tax residency requirements and stand to impose significant added administrative and compliance burdens on companies with RHQs.

What we know

- **RHQ-approved activities can generate revenue.** While the RHQ was never supposed to generate revenue from commercial activities, the new tax guidance specifically notes that the RHQ can generate revenue from any RHQ-licensed activity including accounting and auditing, human resources and personnel management, marketing support, and

others that are permissible under the RHQ's commercial registration and foreign investor license defined per ISIC4 code 701011. We understand that for companies in the services sector that follow the timekeeper model for revenue generation, RHQ employees will likely still be able to generate revenue from client service and management, but that this revenue may need to be placed under a separate special tax vehicle, would not qualify for RHQ tax incentives, and would be subject to internal transfer requirements.

- **RHQs must fulfill economic substance requirements.** Economic substance requirements are not new to the Kingdom and now play a central role in RHQ tax guidance. To be eligible for any RHQ tax incentives, the RHQ must fulfill the economic substance requirements by holding all regional board meetings in the Kingdom, having adequate office space in the Kingdom that is suitable for business activities, and employing an adequate number of full-time employees.
- **Entities reporting into the RHQ will not be considered Saudi tax residents.** When the tax rules were released in February, it was still unclear whether entities reporting into the RHQ would be considered tax residents given that the RHQ fulfills the definition of "central management" under Saudi tax law. ZATCA has since issued guidance clarifying that a non-Saudi entity that reports into the RHQ will not be considered a Saudi tax resident so long as that entity is generating revenue outside the Kingdom.²
- **Tax laws are effective immediately.** RHQ tax rules entered into effect immediately from the date of publication. Tax incentives will apply retroactively from the date that companies received their MISA licenses, which means that companies that were early movers on the RHQ will not lose out on tax benefits.

Key remaining questions

- **How will these new laws impact existing tax treaties?** Saudi Arabia has entered several tax treaties with regional trading partners including the UAE and Egypt. While these treaties theoretically create mutually beneficial guardrails and a favorable tax environment, it is unclear whether RHQ tax regulations will neatly complement existing agreements.
- **How will the government handle non-compliance?** ZATCA has been clear that companies that do not fulfill economic substance requirements will be ineligible to receive RHQ-related incentives. It remains unclear, however, whether a company can maintain its RHQ license from MISA and continue to contract with Saudi government entities even if it is in violation of tax requirements. We expect MISA to monitor compliance with core RHQ requirements while ZATCA will monitor tax compliance, meaning that companies will need to comply with the requirements from MISA to maintain the validity of the license as well

² The concept of central management was introduced by the Ministry of Finance in 2016. It is not formally defined under Saudi tax law but is understood to mean an entity responsible for strategic decision making that also holds leadership meetings in and generates revenue in the Kingdom.

as the specific tax requirements from ZATCA, which include the requirements to qualify for incentives.

Current RHQ enforcement

Enforcement of RHQ requirements has been swift. The Saudi Ministry of Finance has reportedly circulated to all Saudi government entities a list of multinational companies that have done business before with the Saudi government. Each company is marked as either (1) compliant with RHQ requirements, (2) not needing an RHQ, or (3) non-compliant with RHQ requirements. Companies marked as (1) or (2) above can continue to access government procurement, while those marked as (3) are barred from contracting with government entities until they resolve their RHQ status.

That said, MISA has shown flexibility on specific RHQ policy details. For example, we understand that MISA recognizes the requirement for the RHQ to employ 15 people within the first year is not realistic for companies with a small existing footprint in the Kingdom and will allow these companies to employ fewer people in the RHQ and / or take a longer time to reach 15 employees. MISA has also taken steps to streamline the RHQ process for multinational companies. For example, MISA has worked with the Ministry of Commerce to introduce an “accelerated” commercial registration (CR) for regional headquarters, which allows companies to defer the standard CR document requirements for up to 90 days. MISA also provides support through its “RHQ Care” team to help accelerate RHQ licensing and through “MIZA” (the MISA investment services team) to help companies through the administrative processes and logistics after obtaining the license.

The future of RHQ enforcement

Although we have some additional clarity around procurement rules and tax treatment, several uncertainties remain with respect to how requirements will be enforced in practice. Key unknowns include:

- **RHQ reporting structure.** Current requirements stipulate that the RHQ should cover all of a company’s legal entities in the MENA region, including the UAE which remains a hub for many multinational companies. However, it is unclear how strictly MISA will enforce this requirement and whether this requirement could change over time.
- **Monitoring of RHQ activities.** The RHQ must provide strategic direction and management support to the entities falling under its administration. As MISA cannot control the day-to-day activities of a given company, though, this requirement may be challenging to enforce.
- **Definition of “adequate.”** To fulfill economic substance requirements the RHQ must have “adequate” office space and an “adequate” number of employees in the RHQ. This poses questions as to whether the RHQ can co-locate with a commercial entity per initial guidance, and how uniformly the 15-employee requirement set by MISA will be enforced. Office space and employee numbers are easy to monitor through a review of real estate records and iqama issuances (official Saudi identification documents).

- **Auditing requirements.** Neither MISA nor ZATCA has announced any auditing requirements. However, we understand that auditing requirements are being developed as the new tax laws give ZATCA the authority to “obtain information and conduct examination activities.” If past is precedent, the Saudi government will likely rely on third party auditors to manage compliance.

Considerations for companies

- **Monitor changing requirements.** Companies should expect RHQ requirements, including with respect to tax treatment and enforcement, to continue to evolve and should be prepared to adjust course and revisit strategic assumptions as needed.
- **Consult with tax advisors.** Companies should work with a tax firm to understand the new tax guidance, develop a plan to ensure compliance, and navigate additional tax and compliance burdens.
- **Weigh the strategic costs and benefits.** For companies that do not rely heavily on Saudi government procurement, the challenges of new RHQ tax requirements and compliance burdens may outweigh the value of potential work with Saudi government clients.
- **Remain flexible.** Several uncertainties remain and we expect there to be growing pains both for companies and Saudi government entities now that the Program is in full effect. Companies should accept and prepare for flexibility in the face of inevitable changes in RHQ requirements and enforcement.
- **Consider the broader landscape.** As they consider their long-term positioning in the Kingdom, companies should view the RHQ in the context of the Kingdom’s broader efforts to attract investment through an increasingly assertive combination of pressure and incentives. These efforts include the Kingdom’s Economic Participation Policy (see our previous Analysis [here](#)) and the focus on establishing SEZs as a means of creating a more favorable environment for inbound investment.

ABOUT US

Albright Stonebridge Group (ASG), part of Dentons Global Advisors, is the premier global strategy and commercial diplomacy firm. As a multidisciplinary advisory firm, we help clients understand and successfully navigate the intersection of public, private, and social sectors in international markets. ASG's worldwide team has served clients in more than 120 countries.

Our team combines leading experts in international government relations, risk management, and Saudi investment policy who bring deep knowledge of the Saudi business landscape and an extensive network of relationships across the Saudi government. Our team has helped some of the largest multinational companies in different sectors, from healthcare to technology to professional services, successfully navigate complex policy and strategic challenges in the Kingdom including their responses to the RHQ Program.



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