

GENERAL INSTRUCTION MANUAL**242.001**

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
12-20-09REPLACES
07-28-03

SUBJECT WITHHOLDING TAX, PAYMENTS AND REPORTS TO DZIT

APPROVAL
AYHPAGE NO.
1 OF 10

CONTENT: This General Instruction describes Saudi Aramco's (the "Company's") obligations to withhold tax under the Saudi Arabian Income Tax Law of 2004 and the Implementing Regulations thereunder (the "Law"), to make payments of withheld taxes and to submit tax returns to the Kingdom's Department of Zakat & Income Tax ("DZIT"). It also describes the Company's procedures for reporting certain information regarding contracts and payments made to resident contractors and vendors to the DZIT. The text includes:

1. Background
2. Residency and DZIT Requirements
3. Withholding Tax on Certain Payments to Non-Residents
4. Tax Treaties
5. Responsibilities and Processing
6. Accounting for Withholding Tax and Payments
7. DZIT Certificates
8. Reports

1. **BACKGROUND**

The Government of Saudi Arabia had replaced the old Tax Law issued by Royal Decree No. 3321 dated 21/01/1370H and its amendments with the current Tax Law issued by Royal Decree No. (M/1) dated 15/01/1425H and implemented on 13/06/1425H (July 30, 2004).

The Law included major changes from the prior law. One important addition introduced in the Law was the required withholding of tax at rates varying from 5% to 20% on certain Saudi sourced payments made by Saudi tax residents to Saudi non-residents. Generally, Saudi Aramco considers a contractor's technical and financial qualifications and places a contractor on a Saudi Aramco bid slate for contracts to be performed in Saudi Arabia only if the contractor has a Saudi Arabian ministerial license or commercial registration, which are legally required to do business in Saudi Arabia. Traditionally, Saudi Aramco has retained a percentage of each payment to construction contractors ("retention") to ensure performance. In 1983, the retention policy was extended to essentially all contracts to ensure performance as well as to satisfy DZIT regulations. However, the Law does not require any retention by Saudi Aramco from Saudi contractors to satisfy their Saudi tax obligations. Nevertheless, retention may continue to be required to satisfy contractual or performance concerns.

2. **RESIDENCY AND DZIT REQUIREMENTS**

2.1 DZIT assesses and collects Zakat from the following individuals and legal entities:

- Saudi individuals and nationals of GCC states who conduct business in the Kingdom of Saudi Arabia are subject to Zakat and not to income tax.
- Saudi companies of all types and companies owned by nationals of GCC states that conduct business in the Kingdom and shares of Saudis and nationals of GCC states in joint companies are also subject to Zakat.

2.2 Under the Law, DZIT assesses and collects income tax on the taxable income of non-Saudi natural persons and legal entities as follows:

Non-Saudi natural persons who conduct business and are resident in the Kingdom are subject to income tax. A natural person is considered to be resident in the Kingdom if he meets either of the two following conditions:

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- He has a permanent place or residence (abode) in the Kingdom and resides in the Kingdom for a total period of not less than thirty (30) days in the taxable year; or
- He resides in the Kingdom for a period of not less than one hundred eighty three (183) days in the taxable year.
- A non-Saudi company is considered to be resident in the Kingdom during the taxable year if it meets either of the following conditions:
 - It is formed in accordance with the Saudi Companies Law; or
 - Its head office (central management) is located in the Kingdom.
- A Saudi natural person or Saudi company who does not meet the residency conditions as stated above is not considered resident in the Kingdom and his income derived from a source in the Kingdom is subject to income tax, not Zakat.

2.3 The Law requires a Saudi resident natural person or Saudi company which makes certain Saudi sourced payments to a Saudi non-resident to withhold tax at varying rates as described below. A GCC natural person's share in a Saudi resident capital company is subject to Zakat and dividends paid to him by that company are not subject to withholding tax. A GCC natural person's share in a Saudi resident capital company is subject to Zakat. However, dividends paid to him as a non-resident by the resident capital company are subject to withholding tax.

3. **WITHHOLDING TAX ON CERTAIN PAYMENTS TO NON-RESIDENTS**

The Law requires that Saudi residents and permanent establishments of non-residents which make certain specified Saudi sourced payments to non-residents shall withhold tax at rates prescribed under the Law. Within the first 10 days of the month following the month of payment to the non-resident, withheld tax has to be paid to the DZIT using the prescribed form (the monthly withholding form). Withholding information for the tax year is also required to be provided to the DZIT within 120 days following the end of the taxable year using the prescribed form (the annual withholding form), except for a partnership which is required to file its annual withholding forms within 60 days following the end of the fiscal year. Penalties for non-compliance are established under the Law. Payments to a non-resident with a permanent establishment in the Kingdom are not subject to withholding tax and are required to be reported by the non-resident in the non-resident's Saudi income tax return. A non-resident natural person is considered to have a permanent establishment if he has a fixed base in the Kingdom where he carries out business. A branch of a nonresident company is considered to have a permanent establishment if it has a license to carry out business in the Kingdom.

Since a non-resident with a permanent establishment in the Kingdom is required to file an income tax return, it is entitled to deduct tax withheld from the total income tax payable or is entitled to receive a refund of withheld tax if the Saudi income tax return shows a loss.

- **Selected Payments and Tax Withholding**

Dividends. Distributions of profit ("dividends") paid by a resident company or by a permanent establishment of a non-resident are considered Saudi sourced and are subject to withholding in the Kingdom. Profits transferred by a permanent establishment to its head-office abroad after such profits have been subject to Saudi

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Arabian income tax are subject to withholding.

Services Provided by a Related Party. Payments to a related company for providing client services, finance or marketing services are subject to withholding tax.

Banking Fees and Services. Loan charges and interest paid to non-resident banks are subject to withholding. Bank services, such as remittance fees and corresponding bank fees are not subject to withholding tax provided the services are fully performed outside the kingdom.

Technical and Consulting Services. Payments to non-residents for technical and consulting services performed totally outside the Kingdom are not subject to tax withholding since they are not Saudi sourced. Payments to non-residents for technical and consulting services performed in whole or in part in the Kingdom are subject to tax withholding.

Royalties and License Fees. Payments of royalties and license fees to non-residents are subject to tax withholding. Payments for license fees (including payments for software licenses which are for "custom" software; i.e. for software which is written for or uniquely suited to the purchaser and which is subject to continuing development and maintenance) are considered royalties and are subject to tax withholding. Payments for "off-the-shelf" software are not subject to tax withholding.

Other Payments. Saudi sourced payments to a non-resident for services other than technical or consulting services, including services to a head office or related company, payments for air or maritime freight fees and international telecommunications services are subject to withholding.

Payments for Goods. Payments for goods are not subject to withholding tax under the Law.

- **Withholding Tax Rates:**

Taxes are required to be withheld from the gross amount of the below listed Saudi sourced payments made by a Saudi tax resident to a non-resident as follows:

Type of payment	Rate
Management fees	20%
Royalties or proceeds; payments for services to a head-office or related company	15%
Payments for rent; payments for technical and consulting services; payments for air tickets, air freight and maritime freight; payments for international telecommunications services; dividends; loan charges; insurance or reinsurance premiums	5%
Other payments	15%

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- **Withholder's Obligations**

A Saudi natural person, Saudi company or non-resident with a permanent establishment in the Kingdom which is required to withhold tax is obligated to do the following:

- Register with the DZIT. Saudi Aramco's Financial Number with the DZIT is (100062144).
- Withhold tax and make payments of withheld tax to the DZIT within the first 10 days of the month following the month of payment using the prescribed forms.
- File an annual withholding tax form (AWTF) within 120 days following the end of the financial year and, for partnerships, within 60 days following the end of the fiscal year.
- Provide the payee with a certificate stating the payee's name, amount of payment, amount of tax withheld and number and date of DZIT receipt.
- Maintain records required to prove the correctness of the tax withheld.

- **Withholder's Liability**

A Saudi taxpayer responsible for withholding who fails to withhold tax as required, fails to pay withheld tax, or fails to properly report withheld tax to the DZIT is liable to pay the unpaid tax and any resulting penalties as specified under the Law.

A taxpayer who provides false information or submits fraudulent information to the DZIT with the intent of evading taxes is also liable to pay the taxes, fines and penalties as provided under the Law.

4. **TAX TREATIES**

The Kingdom of Saudi Arabia has entered into Tax Treaties with many different countries. Provisions of Tax Treaties (which differ and vary) supersede the provisions of the Law in case of conflict between them. Therefore, resident and non-resident contactors/vendors may use the provisions of Tax Treaties to claim potential benefits in respect of tax or withholding tax.

- **Tax Treaties In Force**

Country	In Force Year
China	2007
France	2007
Austria	2008
India	2007
Pakistan	2007
South Africa	2008
South Korea	2008
Turkey	April 2009

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- **Tax Treaties Signed but not Yet in Force**

Malaysia
Germany
Russia
Syria

Spain
Uzbekistan
Cuba
Italy

Netherlands
United Kingdom(in force
2010)

5. RESPONSIBILITIES AND PROCESSING

As stated in the above discussion, the Company is required to comply with the Law regarding withholding tax and reporting to the DZIT. Several departments within Saudi Aramco are involved in withholding tax, remitting withheld taxes, and reporting to the DZIT. Following is a brief description of each Department's responsibilities.

Contracting Department

The Contracting Department is responsible for the following:

- Ensure that all contracts with non-residents have sufficient clauses and language providing for documentation which will allow the company to fulfill its responsibility under the Law.
- Characterizes the payments so that determination can be made regarding whether or not the payments made to contractors are subject to Withholding Tax.
- Create a vendor number and specifies the residency status of the vendor in the residency field in the Kingdom of Saudi Arabia on the vendor master table with "NR" for Non-Residents and "R" for Residents.
- Complete and submit to DZIT the Information Contract Form as required within 90 days of the signature of the contract or amendment with a value of SR 100,000 or more and provide Financial Reporting & Tax Compliance Division (FR&TCD) in the Financial Accounting Department (FAD) with the dated copy of such form after signature.
- Provide FR&TCD by the first working day of every month with DZITCNS1 report which shows payments and contracts subject to withholding for the previous month, and DZITCNS2 report which shows all new contracts with NR's for the previous month.
- Expedite uploading of contracts to the Electronic Contract Network (ECN).
- Pursuant to procedure 26 of Chapter IX in Volume II of the Contracting Manual, contracts, which are procured by AOC-under a power of attorney from the company-for work to be performed or services to be provided in Kingdom by Out-Of-Kingdom (OOK) vendors with NR status, will be looked into on a case by case basis by CD, FR&TCD and Law Department in order to determine whether they are subject to tax withholding and the required percentage.

Financial Accounting Department (FAD)

FR&TCD is responsible for the following:

- Checks the invoices flagged by SAP through workflow on a daily basis to

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determine and assign the applicable Withholding Tax code type based on type of service or payment stated on invoices and Contracting Department classification to the contractors as "NR" and/or to contracts tax provisions such as "V" for contracts subject to withholding tax that will be deducted from vendor, "A" for contracts subject to withholding tax that will be absorbed by the company, or "N" for contracts which are not subject to withholding tax.

- Calculates on a monthly basis the Withholding Tax due and requests Treasury Services Department (TSD) to remit the applicable total Withholding Tax amount for the month to the DZIT at least three (3) working days prior to the remittance due date.
- Prepares the monthly Withholding Tax report, completes the Monthly Withholding Tax Form (MWTF) and sends these forms with a cover letter to Saudi Aramco Affairs-Eastern Province (SAA-EP) at least five calendar days before the deadline for translation and coordination with Saudi Aramco Affairs-Central Province "SAA-CP" for submission to the DZIT.
- Prepares and provides all vendors who were subject to deduction of Withholding Tax with the required confirmation letters and detailed list of taxes withheld every month.
- Prepares the annual Withholding Tax report, completes the Annual Withholding Tax Form (AWTF), and sends these forms with a cover letter to SAA-EP at least fifteen calendar days before the deadline for translation and coordination with Saudi Aramco Affairs-Central Province (SAA-CP) for submission to the DZIT before April 30th.
- Replies to inquiries from the DZIT and provides the DZIT with information requested relating to Withholding Tax and replies to inquiries from vendors and other organizations.

Treasury Services Department (TSD)

Cash Management & Investment Division in Treasury Services Department (TSD-CM&ID) should remit to the Ministry of Finance, Income Tax Account No. 8903 with Saudi Arabian Monetary Agency (SAMA) the applicable total Withholding Tax amount on due date as indicated in FAD's request. TSD-CM&ID should provide FAD with SAMA advice confirming receipt of these remitted funds within two weeks following the payment.

Saudi Aramco Affairs-Eastern Province (SAA-EP)

SAA-EP should translate all required documents and coordinate with SAA-CP to stamp the MWTF and AWTF and submit all required forms and documents to the DZIT before the filing deadlines.

Saudi Aramco Affairs-Central Province (SAA-CP)

SAA-CP should stamp the MWTF and AWTF before submission to the DZIT and deliver the required documents to the DZIT before the filing deadlines. SAA-CP should provide FAD with an electronic copy of the whole package delivered to the DZIT and should also keep a copy of all such delivered documents in their files.

Operations Accounting Department (OAD)

OAD is responsible for workflow routing and payments processing, including miscellaneous payments (A60s) to NR, before and after the WT code type

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determination.

Any over withheld tax payments not requested or determined by FAD, credited to DZIT Tax Withholding Account No. 3003004, 3003005, or 3260011 should be cleared to Account 2800026 in order for OAD to repay such over withheld taxes to vendors.

Law Department

Law Department is responsible for providing updates of any changes in the Law and providing timely and accurate tax advice regarding interpretation of the law to all concerned departments.

6. ACCOUNTING FOR WITHHOLDING TAX AND PAYMENTS

Tax calculation and payment to DZIT should be in Saudi Riyals using the latest SAMA exchange rate that covers the same period of invoice payment.

FR&TCD is responsible for the reconciliation and clearing of the following accounts which are used for Withholding Tax deductions:

3003004 – DZIT Tax Withholding Account (for all WT's deducted from vendors via the work flow).

3003005 – Saudi Gov. WT (for WT on Loan Interest).

3260011 – OOK Insurance Premiums Taxes Payable (for WT on OOK Insurance Premiums).

In processing payments to a non-resident contactor/vendor that are subject to Withholding Tax via the workflow, the accounts payable system automatically posts the following journal entries:

a) In Case Withholding Tax is Deducted from the Vendor Payment:

	Account	Account Short Text	Amount
CR	100XXXXX	Vendor Account	Gross payment/invoice less Withholding Tax
CR	3003004	DZIT Tax Withholding	Withholding Tax
DR	74XXXXX	Proponent expense/cost center	Gross payment/invoice amount

b) In Case Withholding Tax is Absorbed by Saudi Aramco:

	Account	Account Short Text	Amount
CR	100XXXXX	Vendor Account	Gross payment/invoice amount
DR	74XXXXX	Proponent expense/cost center	Gross payment/invoice amount

The applicable Withholding Tax will not be debited to the Proponent expense/cost center systematically but the system will record it for reference as an amount that will be absorbed by the Company as determined by FR&TCD via the workflow. After the Withholding Tax is paid to the DZIT, FR&TCD will debit the related proponent expense/cost center in the amount as shown below.

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8 OF 10c) When Withholding Tax is Wire-Transferred to the DZIT:

As soon as FAD requests TSD to wire-transfer the total amount of monthly total WT imposed on NRs, TSD remits the total amount of such Withheld Taxes via the automated payment program. Posting performed by the program is as follows:

	Account	Account Short Text	Amount
CR	1030110	Payments Request Clearing-TR-TM Transactions	Total monthly Withholding Tax
DR	1001619	SAB-Khubar-Demand-Reconciling Item	Total monthly Withholding Tax

After the withholding tax payment, FR&TCD manually prepares the monthly WT entry, books, and posts items in order to clear the accounts as follows:

	Account	Account Short Text	Amount
CR	1001619	SAB-Khubar-Demand-Reconciling Item	Total monthly Withholding Tax
DR	3003004	DZIT Tax Withholding	Withholding Tax amounts credited to 3003004 during the month
DR	3003005	Saudi Gov. Withholding Tax	Withholding Tax amounts on loan interest credited to 3003005 during the month
Dr	3260011	OOK Insurance Premium Taxes Payable	Withholding Tax amounts on insurance credited to 3260011 during the month
DR	74XXXXX	Proponent expense/cost center	Withholding Tax amounts that will be absorbed by the Company
DR	7901050	Miscellaneous Expense Account	In case of delay fines
CR/DR	7900108	Gain/Loss Account	In case of exchange rate differences

7. DZIT CERTIFICATES

- **Registration Certificate**

A registration certificate is issued to new taxpayers. It is valid for 12 months from the date of issue of the Commercial Registration or permit.

- **Restricted Certificate**

A restricted certificate is issued to taxpayers with outstanding tax liabilities where payment is being arranged, or to foreign companies not resident in the Kingdom. It is valid for all purposes except for receiving the final payment.

- **Certificate**

A certificate is issued to taxpayers upon filing a final tax return and making tax payments in accordance with the return with no outstanding tax liabilities.

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The major preparation and updating activities in connection with the generation of the required annual reports for submission to DZIT are as follows:

- **Vendor Master Maintenance**

PAD/OAD is responsible for maintaining vendor payment details. The Zakat liability flag in the vendor master file will determine what vendors are liable for Zakat.

- **SAP Reports and ASCII Files**

Each January, FAD will generate four reports and three ASCII files for the previous year's payments to contractors and vendors. Once the reports have been generated, they should be downloaded from SAP to Compact Discs (CD) by Feb 15th.

Suppliers – Two reports and one ASCII file are generated:

- T/C ZF0045 generates report ZFR00670 (Payment of Materials to Saudi Suppliers). The report is summarized by vendor and is expressed in Saudi Riyals. Suppliers with total payments of \$1,000 or less are excluded from the report.
- T/C ZF0048 generates report ZFR00680 (Suppliers Audit Trail). Due to the large number of transactions, a hardcopy of this report is not generated. It is used only to support the total for each Supplier.
- One ASCII file of the ZFR00670 report.

Contractors – Two reports and two ASCII files are generated:

- T/C ZF0697 generates report ZFR01049 (Contractor and Contractor Payments). There are actually two reports in this run. The first report contains contractor payments summarized by contract and by currency. The second report contains the contractor address details.
- T/C ZF0698 generates report ZFR01050 (Contractors Audit Trail). Due to the large number of transactions, a hardcopy of this report is not generated. It is used only to support totals for each Contractor.
- Two ASCII files of ZFR01049: One for payments and one for address details.

CD-RAM Conversion:

- T/C ZW02 (View Unix File Directories) generates a view only of the various ASCII files. A thorough review should be made before attempting to download the files to CD-RAM.
- T/C ZW01 (Front End – Interface Control Function) downloads the flat files from SAP onto CD-RAMs.

- **Annual Reports Submitted to DZIT**

FAD will generate the following reports for the DZIT by Feb. 15th:

- 1 hardcopy of Report ZFR00670 using SAP transaction ZF0045 – Payment of Materials to Saudi Suppliers;
- 1 hardcopy of Report ZFR01049 using SAP transaction ZF0697 – Contractor and Contractor Payments;

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- 1 hardcopy of Report ZFR01049 using SAP transaction ZF0697 – Contractor Addresses;
- 2 CD's of the 3 reports mentioned above;
- A summary sheet of the ASCII records layout.

FAD will forward one of the CD's to OAD for their review by February 15 and OAD's concurrence is needed by February 28 in order to meet DZIT's reporting deadline.

FAD will coordinate the submission of one CD and the file layout to DZIT through SAA-EP and SAA-CP by March 15th. FAD will retain the other CD.

Approved: _____

ADEL Y. AL-HAWAJ, Manager (A)
Accounting Policies & Systems Department

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