

Saudi Arabia: The new Integrated Logistics Bonded Zone (“ILBZ”) Customs Services Rules have been published - is your business ready?

November 2022



In brief

On October 31, 2022, the General Authority of Civil Aviation (“GACA”) launched the Integrated Logistics Bonded Zone (“ILBZ”), a Special Economic Zone located adjacent to the King Khalid International Airport in Riyadh, as part of the Government’s plans to boost the country’s cargo capacity, bolster supply chains and become a global logistics hub.

The special tax rules for the ILBZ can be found in our [news alert](#) from March 16, 2021, setting out the tax and customs incentives (and the associated conditions) that apply to the entities established in the Zone.

Following the recent announcement of the ILBZ launching, the GACA and the Zakat, Tax and Customs Authority (“ZATCA”) have now published the [Customs Services Rules](#), which establish the ground rules and specific procedures to operate in the ILBZ from a customs perspective.

In detail

Saudi Arabia has launched its first fully Integrated logistics bonded zone.

The Integrated Logistics Bonded Zone (“ILBZ”) is a special economic zone located adjacent to the King Khalid International Airport in Riyadh, Kingdom of Saudi Arabia (“KSA”) and was established by Royal Order (A/17), dated October 10, 2018.

Following its official launch on October 31 2022, GACA and ZATCA have now issued the Integrated Logistics Bonded Zone Customs Service Rules, setting out the customs ground rules that apply to companies operating within the ILBZ.

From a customs perspective, goods imported into the ILBZ would be under a customs duty suspension arrangement. While these goods are under the customs duty suspension arrangement, supplies or transactions relating to these goods would be outside the scope of Value Added Tax (“VAT”) in KSA.

With the publication of the applicable Customs Services Rules, GACA and ZATCA specify the conditions and the procedures that ILBZ registered entities will need to follow to enjoy the customs and tax incentives while remaining compliant with the applicable rules and regulations that will govern their activities within the Zone.

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Customs Service Rules

Who is eligible to register in the ILBZ and benefit from the customs and tax incentives?

Entities that are licensed to carry out any of the “Prescribed Activities” in the ILBZ and meet the eligibility requirements, are able to benefit from the customs and tax incentives.

The list of “Prescribed Activities” was set out in the Royal Order (A/17) dated on 12/10/2018 (the law that established ILBZ), and include the following:

- Maintenance, repair, processing, modification, development, assembly and storage of goods and after-sales services;
- Sorting, packaging, re-filling, trading, distribution, handling and use of goods, including simple manufacturing processes;
- Import, export and re-export;
- Logistics and valued-added services and logistics; and
- Recycling of waste and electronic wastes.

Which goods may enter the ILBZ?

Local and foreign goods from inside or outside KSA may enter the ILBZ, with the exception of Prohibited Goods (under the provisions of the Common Customs Law and Implementing Regulations or any other law or resolutions in KSA, or goods that violate the regulations and decisions related to the protection of intellectual, commercial and industrial property).

What are the key features of the new IBLZ customs regime?

To benefit from the suspension of customs duties and VAT within the ILBZ, goods must be deposited in a warehouse within ILBZ, under the supervision of GACA. Therefore, no customs duty and VAT would be applicable until such goods leave the ILBZ to enter the mainland territory.

The customs duties and VAT suspension also applies to the transportation of goods:

- Into or within ILBZ;
- From ILBZ to other GCC countries;
- From ILBZ to countries outside the GCC; and
- To other bonded zones within KSA.

Imported goods can enter ILBZ without the need of completing any specific procedures regarding to restrictions and/or permits/licenses from the competent regulatory authorities, irrespective of whether they have been imported through land, air or sea, or other bonded zones or duty-free markets.

In case of entry of the goods into mainland, the importer shall comply with the customs compliance requirements applicable, including any restrictions imposed, and obtain the necessary permits or licenses from the competent KSA authorities, when required.



Customs Service Rules

Registration and compliance obligations

In coordination with ZATCA, GACA shall issue a License and virtual code for ILBZ entities, in order to grant them access to ZATCA systems to carry out operations within the ILBZ. GACA shall also determine the validity period of the License.

One of the key obligations for ILBZ entities is the utilization of technical systems for inventory management that are compatible with the technical systems of ZATCA, for which these entities must undertake the integration of those systems with the systems employed by ZATCA. Inventory management is one of the key compliance obligations globally for free zone entities and we expect this to be an area of focus for ZATCA moving forward when auditing ILBZ entities.

The registered Zone Entities shall comply with the following obligations (non-exhaustive):

Assume full responsibility for their goods transported to the warehouses of Customs authorities.

Provide the necessary devices, tools, and equipment to provide customs services.

Utilize technical systems for inventory management that are compatible with the technical systems of ZATCA.

Ensure that Zone Warehouse requirements are being met, including ensuring Zone and Warehouse security.

Electronically archive all documents of any kind related to customs procedures for a period of no less than five years from the date of completing the customs procedures.

Allow ZATCA to audit and inspect goods stored in the area and warehouses.

What happens in the event of warehouse closure, or termination of activities in the ILBZ?

In the event of warehouse closure, the owner of the goods has ninety days to transfer the goods thereof to another zone, or subject them to additional customs procedures with the approval of GACA.

In the event that a Zone Entity or the GACA desires to terminate the license, they shall notify the other party in writing no less than three months in advance.

The Takeaway

We encourage businesses engaged in import and export activities in KSA, and potential investors to explore the advantages of establishing their operations in the ILBZ.

This is a fantastic opportunity to benefit from special customs and VAT rules, which includes customs duty and VAT savings, cash-flow optimization and a streamlined customs compliance regime, provided that the obligations set out for the entities licensed to operate in the IBLZ are duly complied with.

Want to learn more?

We will be holding a webinar on Tuesday 7th December at 11am (KSA time) to break down the requirements and practical considerations under the ILBZ's Customs Service Rules and the procedures for obtaining a license for operating within the zone. We would like to invite you to join this insightful session by registering for our webinar using [this link](#).

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Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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Thank you