



KSA Regional Headquarters Update:

Economic Substance Requirements Readiness and Recent Developments

October 2026

A large, stylized orange graphic consisting of two overlapping parallelogram shapes, one shifted to the right and slightly up from the other, creating a sense of movement or a stylized 'P'.

In brief

In October 2026, the Zakat, tax and Customs Authority (ZATCA) issued a user manual on the Economic Substance Requirements (ESR) annual disclosure form that RHQs in KSA must file. This follows the development in August 2026, when the ESR declaration form went live on the ZATCA Portal for RHQs in the Kingdom.

RHQs must now submit the ESR form through the ZATCA Portal (Erad). RHQs filing their tax returns must therefore demonstrate compliance with ESR.

Our point of view

Transition from statement to test: With the form now live, ESR for RHQs has transitioned from a requirement statement to an actual test of substance. These requirements put real emphasis on RHQs' role as a 'regional administrator' in the Middle East and North Africa (MENA) region.

One RHQ, one set of facts: ZATCA and MISA now see the same RHQ through several filings:

- the corporate tax return and the transfer pricing disclosure form that forms part of it;
- the transfer pricing documentation;
- the annual ESR form;
- MISA's ongoing reporting and evaluations.

These are often prepared by different teams at different times. ZATCA verifies ESR compliance every year. Headcount, executive roles, residency, activities and financial figures should therefore reconcile across every filing.

Substance and Form are two sides of the same coin: a common example, if an RHQ charges management fees for strategic oversight, it must be able to show that the regional oversight actually takes place within the RHQ, and the ESR form now formally documents this.

Financial disclosures bring eligible income into focus: The ESR form requires RHQs to disclose eligible/non eligible income, from RHQ activities, operating expenditure and assets held in KSA. This increases the importance of ensuring that income benefiting from the 0% (30 years) CIT incentive is supported by the RHQ's activities and is consistent with its financial statements and transfer pricing documentation.

Board governance is now subject to more structured disclosures: Board minutes are now of significance to ESR compliance and subject to external scrutiny. The ESR form requires disclosing meeting outcomes and observations, so minutes now need to show that strategic regional decisions are taken in Saudi Arabia.

In detail

RHQ ESR Annual Disclosure – Form is Live and user manual published

ESR is among the critical ongoing compliance obligations for licensed RHQs in KSA and is the gateway to maintaining the 0% income tax and 0% WHT incentives (30 years).

The ESR framework is described in the RHQ Tax Rules. It governs the requirements that RHQs in KSA must maintain to continue to benefit from the tax incentives offered by the regime. The requirement to report on ESR compliance is not new. ZATCA's Guideline for Regional Headquarters (2024) already requires RHQs to submit an annual report, on a form prepared by ZATCA, to show that they meet the ESR set out in Article 5 of the RHQ Tax Rules. The new disclosure form and user manual put this existing obligation into practice. They do not create a new one.

The release of the ESR annual disclosure form on the ZATCA Portal and the issuance of the associated user manual by ZATCA are significant practical developments that emphasise the importance of ESR for RHQs in KSA.

Based on the ESR annual disclosure form currently available on the ZATCA portal, the ESR disclosure is structured into the following broad categories:

1. **General Information**, including Legal Name, Taxpayer Identification Number (TIN), RHQ licence details, Commercial Registration (CR) details, and details of RHQ activities.
2. **Contact Details**, including contact details of the relevant contact person, such as CEO, CFO or accountants.
3. **Locations of Headquarters and Branches**
4. **Board of Directors and Board Meeting Details**, including the names, nationalities, ID types (National ID, Resident ID or Foreign ID) and ID numbers of Board members, together with details of board meetings such as meeting dates, locations, attendee names, and meeting outcomes and observations.
5. **Executive Management and Number of Employees**, including names, nationalities, ID details, confirmation of residency in KSA and the total number of employees.
6. **Mandatory and Optional Activities**, including types of activities performed and confirmation of whether the RHQ carries out any other activities in KSA other than those that it is eligible to undertake.
7. **Financial Disclosure**, including details of assets owned or leased in KSA, operating expenditure, eligible/non eligible income. RHQs should ensure that these disclosures reconcile with their financial statements, tax returns and transfer pricing documentation, with income from non-eligible activities appropriately identified and separately accounted for.

In detail (cont.)

8. Summary

Potential penalties for non-compliance:

- **Initial notification:** Where an RHQ fails to comply with the ESR, ZATCA must first notify the RHQ of the violation and provide a 90-day period to remedy the non-compliance.
- **Initial penalty:** If the violation is not remedied within the initial 90-day period, a penalty of SAR 100,000 may be imposed, with a further 90 days granted to rectify the violation.
- **Increased penalty:** If the violation remains unresolved after the additional 90-day period, a penalty of SAR 400,000 may be imposed.
- **Repeat violations:** A penalty of SAR 400,000 may also apply where the same violation is repeated within three years of the initial penalty.
- **Suspension of tax incentives:** In cases of continued non-compliance, ZATCA may, in coordination with MISA, consider suspending the RHQ's tax incentives.

What remains unclear?

Which years are covered, and from when?

Under the RHQ Tax Rules, ESR is applicable from the date of the RHQ licence. Currently, the Tax portal appears to exclude fiscal years of RHQs whose historic tax returns have already been submitted (i.e. for periods preceding the form going live), but those years could be added later.

Our view: Treat the licence year as the first year in scope. Keep substance evidence ready for every year since licensing, even if the tax portal does not require submission for previous years yet. For practical purposes, RHQs may treat the forthcoming filing as the first period of ESR disclosure form filing until further communication from ZATCA. Noting that ZATCA may reach out for previous years to gather the ESR information.

When is the form due?

The RHQ guideline sets no deadline for the filing of the form, ZATCA has not expressly set a deadline for the ESR form to date.

Our view: Although ZATCA has not prescribed a specific filing deadline, currently the submission of the RHQ return is not accepted without filing the associated ESR form, therefore, it may be fairly understood that the ESR form filing deadline is the same deadline for the filing of the RHQ tax return. Accordingly, RHQs should plan to complete their ESR disclosure before filing their annual CIT or Zakat return, ordinarily due within 120 days of year-end.

What happens if the form is late or not filed?

The penalty ladder in Article 11 (as outlined above) applies where an RHQ "does not fulfil any of the Economic Substance Requirements". It does not specify penalties on late or non-filing of ESR disclosure form.

Our view: Do not treat a late filing or non-filing of ESR disclosure form as low risk. Late or no filing of ESR disclosure forms could have associated punitive implications.

In detail (cont.)

How many board meetings are sufficient?

Although there is no minimum board meeting requirement as per the RHQ Tax Rules or Guidelines; the guidelines state that the ESR should be reasonable to the activity level of the RHQ. Accordingly, there should be a reasonable connection between the number of the board meetings and the level of the RHQ's activities and decisions.

Our view: Set a meeting calendar that follows the RHQ's real decision points, such as budget approval and the regional strategy review, and record the reasoning. One meeting a year that rubber-stamps decisions already taken elsewhere is unlikely to meet the substance requirements for RHQs.

What does "resident" mean for directors and executives?

There are a number of definitions of residence as follows:

- **The RHQ Guideline ("for directors"):** residence "must be statutory and not just through applying the relevant provisions in local income tax laws". This points to lawful Saudi residence, not just meeting the income tax test.
- **The RHQ Guideline ("for employees"):** an employee is treated as resident if they spend most of their working hours in KSA. A non-resident employee is never treated as present in KSA, even when working there.
- **The Income Tax Implementing Regulations:** these have their own day-count tests. An individual is resident if they have a permanent residence in the Kingdom and spend at least 30 days there in the tax year, or if they spend at least 183 days in the Kingdom.

The disclosure form asks a simple "Resident in the Kingdom? Yes/No" for each executive, without saying which test applies.

Our view: RHQs should assess residency based on the individual's role and the applicable ESR provisions, maintaining evidence of their legal residence status and actual working arrangements in KSA. Where the appropriate basis for answering the executive-residency question is unclear, clarification should be sought before submission.



Next steps for RHQs preparing to submit the ESR annual disclosure form

Considerations to help RHQs prepare to submit the ESR annual disclosure form:

- **Documentation:** Maintain comprehensive records of all activities conducted from KSA, including management reporting lines and decision-making authority.
- **Board governance:** Ensure board meetings are physically held in KSA with proper minutes documenting strategic decisions. Avoid meetings that lack substantive deliberation.
- **Proportionality:** The resources deployed (employees, premises, assets, expenditure) must be commensurate with the nature and scale of activities. A thin operational presence relative to the income earned may attract scrutiny.
- **Ongoing monitoring:** Treat ESR as a continuous obligation, not a point-in-time filing exercise. Changes in business operations, headcount, or management structures should be assessed against ESR requirements in real time.
- **Engage with the form now:** As the form is live on the ZATCA Portal, RHQs should access it to familiarise themselves with its contents and identify any potential gaps before filing it.

Key takeaway

The ESR annual disclosure form provides evidence that an RHQ complies with the substance requirements necessary to qualify for tax incentives.

RHQs should assess, well in advance of the filing deadline, whether they meet ZATCA's ESR requirements, identify potential gaps and develop appropriate remediation strategies.

Other ongoing developments in RHQ landscape in KSA

1. RHQs of Financial Institutions - A Developing Opportunity

Beyond the ESR requirements that apply to all RHQs, an additional development is emerging that may reshape the operational scope of RHQs of Financial Institutions.

There are early indications that RHQs of Financial Institutions may be permitted to conduct certain cross-border transactions from KSA (based on the initial announcements by the Saudi Press Agency on 05 August 2025) which, if formalised, would represent a notable expansion of permissible RHQ activities for Financial Institutions in the Kingdom.

Currently, no substantive formal publications have been issued by either the Ministry of Investment (MISA) or ZATCA on the specific parameters, conditions, or regulatory framework that would govern such cross-border activity by RHQs of Financial Institutions.

Formal guidance is expected in due course, and early engagement may provide valuable insight into the direction of policy development.

2. ZATCA's 2nd Edition of the RHQ Guidelines. What Changed?

In May 2026, ZATCA released the 2nd Edition of its guidelines for Regional Headquarters.

This targeted revision focuses on three specific areas that reflect recently enacted legislative changes. **The core tax incentives, qualification standards, mandatory and optional activities, income tax treatment, PE analysis, transfer pricing obligations and international treaty application remain unchanged.**

The key updates in the 2nd edition of the RHQ guidelines include:

Area	Changes
VAT Tax Group	• Ownership / control criteria: Revised VAT grouping eligibility requirements, including the 50% ownership threshold based on capital, voting rights or market value, or effective control exercised by a legal person within or outside the group. • Additional restrictions: Exclusion of entities licensed to operate in special customs-suspension zones and entities eligible for Article 70 VAT refunds, subject to prescribed exceptions. • VAT registration: Upon approval of a VAT group, a separate VAT TIN is issued, and the existing VAT TINs of individual members are suspended. These updates are to align with the amendments in the VAT Implementing Regulations rather than introducing new requirements specifically for RHQ.
Zakat Provisions	The second version brings the RHQ Guideline in line with the new Zakat Collection Implementing Regulations (Ministerial Resolution No. 1007). The second version adopts the wording of the new Regulations on who is subject to Zakat. It confirms that the 0% income tax is not a Zakat holiday. The incentive covers income tax and withholding tax only. Zakat still applies to the shares held by Saudi and GCC shareholders, at 2.5% of the Zakat base for the Hijri year, calculated by days where the financial year differs. Returns and payment remain due within 120 days of year-end
Real Estate Transactions Tax (RETT)	Updated to align with the new RETT Law and its Implementing Regulations, reflecting the following: • Scope of RETT: Covers transfers of ownership or benefits in real estate permanently, directly or indirectly, as well as transfers of benefits for periods exceeding 50 years. • Applicability: RHQs remain subject to the general RETT framework, including the applicable 5% rate and statutory exemptions.

RHQ Compliance calendar

Compliance obligation	Filing / compliance requirements	Frequency	Filing deadline
Corporate Income Tax	Submit an annual CIT return, including where qualifying RHQ income benefits from the 0% CIT rate.	Annually	Within 120 days following the financial year-end.
Zakat	Assess Zakat obligations based on the RHQ's ownership and legal structure and submit the applicable return.	Annually, where applicable	Within 120 days following the financial year-end.
RHQ Economic Substance Report	Demonstrate continued compliance with RHQ economic substance requirements, including adequate premises, employees, expenditure and effective management in KSA.	Annually / as prescribed	Recommended to be with the or before the CIT/Zakat return, (currently, the RHQ's CIT/Zakat return cannot be filed without submitting the ESR form).
Transfer Pricing	Submit related-party transaction disclosures and maintain applicable TP documentation, including the master file, local file and CbCR documentation, subject to relevant thresholds.	Annually	TP disclosure generally submitted alongside the annual CIT return. Other documentation and reporting deadlines depend on the applicable requirements.
Value Added Tax	Submit periodic VAT returns where the RHQ is VAT-registered.	Monthly or quarterly	By the last day of the month following the relevant tax period.
Withholding Tax	Report relevant payments to non-residents, taking into account applicable RHQ exemptions.	Generally monthly, where applicable, in addition to one annual filing	By the 10th day of the month following the relevant payment month. The annual filing is due within 120 days following the end of the fiscal period.
Financial Statements (Qawaem)	Prepare and file annual financial statements in accordance with applicable Saudi corporate reporting requirements.	Annually	Within six months following the financial year-end, where applicable.
MISA RHQ Licence Compliance	Maintain the RHQ licence conditions, including required activities, staffing, management presence and notification of relevant changes.	Ongoing / as required	Throughout the year, subject to applicable licence conditions and reporting requirements.

Note: The above deadlines are indicative and subject to the RHQ's legal structure, ownership, registration status, applicable exemptions and regulatory requirements.

How can we help?

We have a dedicated team of Tax and Legal specialists with a focus on advising clients on RHQ Landscape in the Kingdom.

Our team has significant experience in supporting MNEs in establishing their RHQs in the Kingdom, including ESR readiness and gap assessments against ZATCA and MISA requirements, preparation and validation of the annual disclosure against financial statements, tax returns and TP documentation, and ongoing governance, substance monitoring and support with ZATCA enquiries.

Please contact any of our team members below for further assistance with RHQ matters:



Mohammed Al-Obaidi

Partner - KSA Tax and Legal
Services Leader

mohammed.alobaidi@pwc.com



Mohammed Alkhashi

Partner - KSA M&A and
International Tax Leader

mohammed.x.alkhashi@pwc.com



Fayez Aldebs

Partner - Corporate Tax and
Zakat

fayez.aldebs@pwc.com



Zachary Noteman

Partner - KSA Transfer Pricing
Leader

zachary.noteman@pwc.com



Umer Aziz Subhani

Partner - Indirect Tax

umer.aziz.subhani@pwc.com



Tamer El Azazzy

Partner - Corporate Tax and
Zakat

tamer.elazzazy@pwc.com



Imran Dawjee

Director - Corporate Tax and Zakat

imran.m.dawjee@pwc.com



Joy Mukherjee

Director - Transfer Pricing

joy.mukherjee@pwc.com



Abdulmuhsen Al-Badrani

Director - Legal

abdulmuhsen.al-badrani@pwc.com



Thank you

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