



APA Guidelines - ZATCA 2025

Kingdom of Saudi Arabia

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Transfer Pricing Experts

Background

In March 2023, the Board of Directors of Zakat, Tax and Customs Authority, “ZATCA” approved the amendments to the Transfer Pricing Bylaws, introducing the provisions relating to Advance Pricing Agreements (“APA”) under Article 23, to Taxpayers and Zakat payers, vide Authority No. (8-2-23) dated 08/28/1444 AH corresponding to 20/03/2023 AD, applicable from Financial Year beginning on or after 1st January 2024.

Accordingly, on May 19, 2024, ZATCA officially launched the Unilateral APA Process by inviting applications from Taxpayers and Zakat Payers. Further in February 2025, the Zakat, Tax, and Customs Authority (ZATCA) has introduced the Advance Pricing Agreement (APA) Guidelines to provide tax certainty and minimize transfer pricing (TP) disputes for taxpayers engaging in controlled transactions. These guidelines, aim to minimize any ambiguities for Taxpayers on the implementation and application of the APA.

The alert covers the nuances of the APA guidelines which was released by ZATCA in 2025.

Key Features of the APA Guidelines

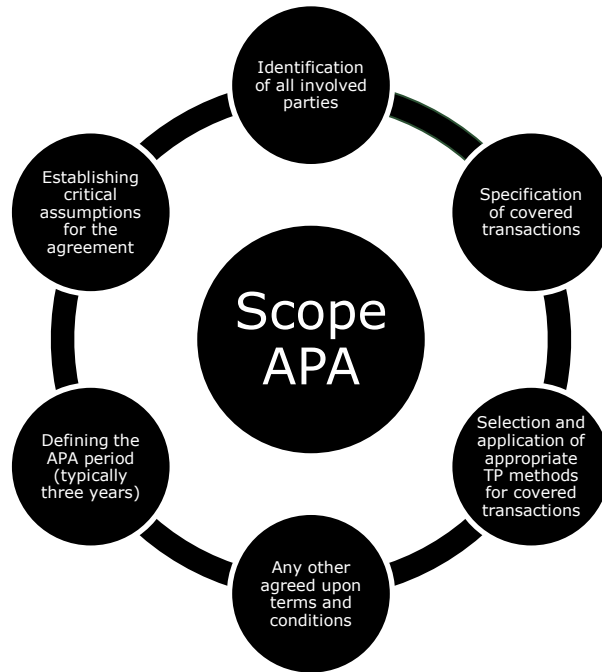
1. Introduction

ZATCA has introduced Advance Pricing Agreement (APA) regime to prevent future Transfer Pricing (TP) disputes, which can be complex, time-consuming, and costly. The APA framework allows Taxpayers to agree on an Arm’s Length pricing methodology for their Transactions with Related Persons. As APAs are new in the Kingdom, ZATCA acknowledges that Taxpayers need time to familiarize themselves with the process. The Guideline outlines the key concepts, procedures, and steps for obtaining APA with ZATCA.

An APA is a formal arrangement between ZATCA and a taxpayer, specifying the Transfer pricing (TP) method applicable to transactions with related persons. It confirms in advance the pricing approach for controlled transactions, covering a specified number of zakat/tax years. The APA provides clarity on

applicable TP methods and ensures consistency with the arm's length principle. The APA aims to proactively resolve TP issues and prevent disputes, providing tax certainty.

Scope of APA



2. Eligibility Criteria

A taxpayer seeking an APA must meet the following conditions as per Article 23(a) of the TP Bylaws,

- **Covered transactions** should exceed SAR 100 million annually, unless exempted for complex transactions. The Governor of the Authority may grant exemptions for complex transactions. Complex transactions involve significant challenges in determining an appropriate transfer price. These may include
 - **Uncertainty in Transfer Pricing Method:** Difficulty in selecting the appropriate method to apply the arm's length principle.
 - **Complex Calculations:** Methods such as the profit split method requiring sophisticated computations.
 - **Lack of Reliable Comparable:** Difficulty in finding comparable data, requiring extensive adjustments.
- The APA request must be initiated at least **12 months** before the start of the first fiscal year covered by the agreement.
- Transactions involving **profit attribution** to a permanent establishment are not eligible.

Taxpayers must fully cooperate, including submitting a complete APA application with full disclosure of relevant facts across all involved jurisdictions, providing requested information within specified deadlines and proactively updating the Authority with relevant developments. Failure to meet these requirements may lead to the termination of negotiations, with the Authority notifying the taxpayer of the rejection.

3. Types of APAs

The guidelines categorize APAs into three types:

- **Unilateral APA:** Agreement between the taxpayer and ZATCA
- **Bilateral APA:** Agreement between ZATCA and a foreign tax authority where the Kingdom has a tax treaty.
- **Multilateral APA:** Agreement involving multiple tax authorities to ensure TP compliance across jurisdictions.

Currently, ZATCA **only allows unilateral APAs**, with bilateral and multilateral agreements to be introduced in the future. The authorized representatives of both the applicant Taxpayer and the Authority's will officially sign the unilateral APA

4. Duration of APA

An APA is binding on both the Authority and the Taxpayer, subject to the terms outlined in the agreement. As per Article 23(2)(c) of the TP Bylaws, the standard APA duration is three years, provided the Taxpayer submits an Annual Compliance Report (ACR) to confirm adherence to the Arm's Length Principle.

APAs apply only to future transactions and cannot be applied retrospectively. Upon mutual agreement, the APA may be renewed for an additional three years, subject to conditions. Currently no roll backs are provided in the guideline.

The timeline is slightly shorter as compared to other countries which are typically of 5 years.

5. Critical assumptions

An APA establishes critical assumptions that are fundamental to its validity. These assumptions may relate to the Taxpayer, Related Persons, industry conditions, or overall economic factors. Any significant changes to these assumptions during the APA period could impact its effectiveness. Critical assumptions must be tailored to the Taxpayer's specific circumstances, business environment, chosen methodology, and the nature of the Controlled Transactions.

The critical assumptions may vary depending on the APA and can include:

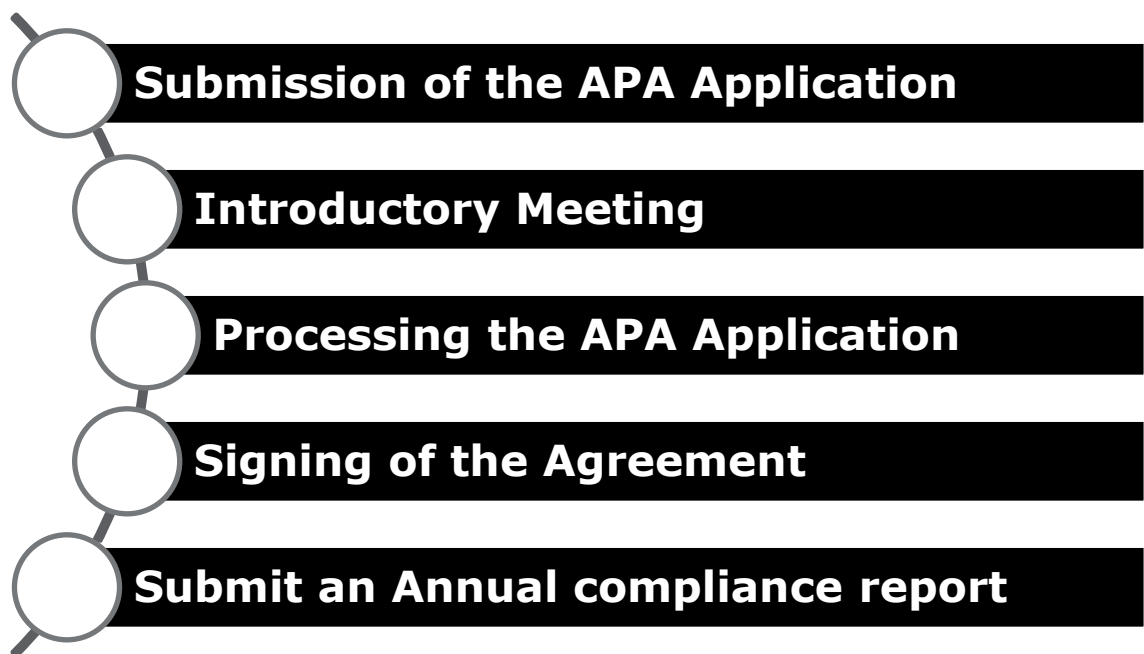
- **Tax and Zakat Regulations:** Compliance with tax laws and applicable agreements.
- **Trade and Regulatory Factors:** Changes in tariffs, duties, import restrictions, or government policies.

- **Economic and Market Conditions:** Variations in market share, sales volume, pricing, or economic trends.
- **Functional and Risk Profiles:** Shifts in the functions and risks associated with the involved entities.
- **Financial Factors:** Changes in exchange rates, interest rates, credit ratings, or capital structure.
- **Accounting Considerations:** Modifications in financial reporting, including income and expense classification.
- **Related Persons:** Operational and structural changes affecting related entities across jurisdictions.

If a critical assumption is not met during the APA term or if changes materially affecting the suitability of the selected Transfer Pricing Methodology (TPM), the Taxpayer must notify the Authority. Depending on the circumstances, the APA may require revision or cancellation

6. APA Procedure

- **Pre-File Meeting:** Taxpayers may request a pre-file meeting (on a named basis) with the APA team before submitting their formal application. It appears to be Optional from the language and not mandatory before submitting the application. The purpose of this meeting is to provide a clear understanding of the APA process, clarify procedural requirements, and address any preliminary concerns.
- **Stages of the APA:**



I. Submission of APA application

Taxpayers must submit unilateral APA applications electronically via the Electronic registration system (ERAD) portal. However, Complex transactions that may be exempted by the governor from the minimal

amount requirement must be submitted through the assigned relationship manager/APA team and not via online portal. Applications must be submitted at least 12 months before the first financial year covered in the APA. Failure to submit a complete application by this deadline will result in automatic rejection through the e-portal, requiring the taxpayer to adjust the effective starting year to proceed. A comprehensive application is required before scheduling an Introductory Meeting. It must include details on Covered Transactions, tax/Zakat years, involved parties, the proposed Transfer Pricing Methodology (TPM), and its impact on tax/Zakat filings. The application must provide a detailed analysis supporting the chosen TPM, including:

- Functional analysis of all entities involved.
- Compliance with Tax Law, Zakat Regulations, TP Bylaws, and Guidelines.
- Historical application of the TPM to past tax/Zakat years or the latest business cycle.
- Comparison with previously applied TPMs, explaining any deviations and justifying why the proposed TPM better reflects the Arm's Length Principle.

The Authority assesses the suitability of the TPM based on factual data and projections. Upon submission, the Authority will acknowledge receipt and review the application for completeness. If incomplete, the taxpayer will be notified with a request for additional information. All documents must be in Arabic or English, as appropriate.

II. Introductory Meeting

The Introductory Meeting must be held within 60 days of submitting a complete application. The meeting allows the Taxpayer to present key details from the application, which includes Business operations, structure, business activities, Covered Transactions, proposed TPM, and its impact on zakat/tax filings in the Kingdom. The Authority may seek clarifications on the Taxpayer's past, current, and proposed tax positions, ensuring transparency and resolving potential misunderstandings. The objective is to assess the suitability of the APA request and streamline the review process. Further, routine APA terms and conditions may be discussed, but the Authority will not commit at this stage. Additional information requests may be made before, during, or after the meeting. Based on the discussions, the Authority will decide on the next steps in the APA process.

III. Application Review and Evaluation

The Authority will assess the APA application to ensure:

- Compliance with the Arm's Length Principle for covered Controlled Transactions.
- Availability of sufficient supporting information for a comprehensive evaluation.
- Alignment with factual circumstances and outcomes of introductory meetings.

The Authority may conduct site visits (from the language it looks to be optional) and functional interviews to gain deeper insights into the Taxpayer's business and industry, clarify issues, and verify submitted information. The Authority may, if necessary, visit the premises of the Related Persons involved in the APA to gain a clear understanding of the factual context. After site visits and interviews, the Authority may send written follow-up questions and inform the Taxpayer of the next steps. The Authority may request additional information during evaluation, with mutually agreed deadlines. Failure to provide requested

details may result in discontinuation. Upon completing the review, the Authority will discuss findings with the Taxpayer through negotiations.

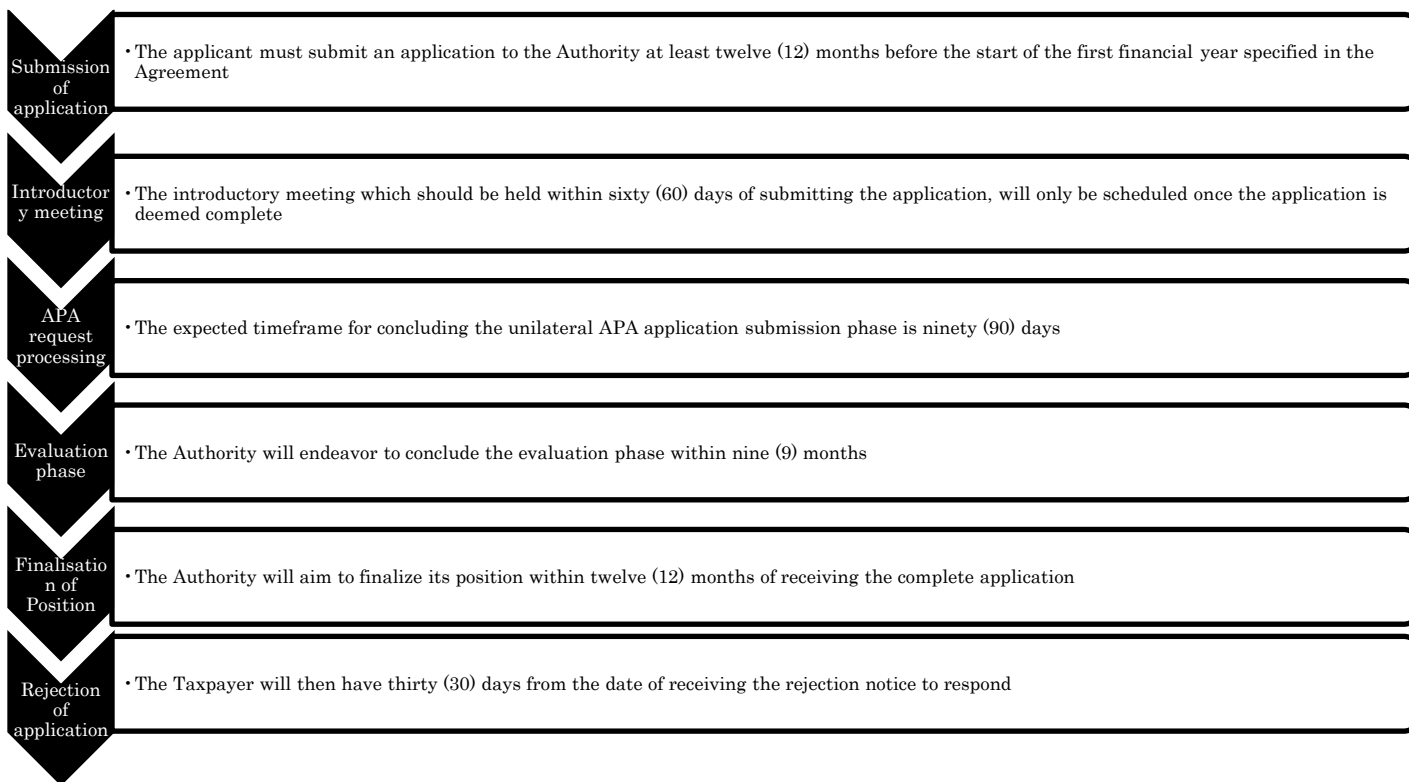
IV. APA Negotiation & Drafting and signing the agreement

Once consensus is reached, the Authority will draft the APA for Taxpayer approval, covering Related Persons' details, Covered Transactions and tax/zakat years, Comparable transactions, TPM, and financial projections. Critical assumptions and Taxpayer obligations (e.g., reporting, record-keeping). Legal validity, confidentiality, and mutual responsibilities, Effective date and other relevant terms. The Authority will aim to finalize its position within 12 months of receiving the complete application. An APA can only be completed once all parties confirm and agree on the terms and conditions. The authorized representatives from both the Authority and the Taxpayer will formally sign the unilateral APA once an agreement is reached.

V. Annual compliance report(ACR)

Once an APA is in place, taxpayers must submit an ACR within 120 days after the end of the financial year. The taxpayers must implement Compensating Adjustments if actual results deviate from the agreed arm's length price. APA authorities may also undertake compliance audit to ensure that the critical assumptions, terms and conditions of the Agreement are complied with.

Summary of APA Timelines



7. APA Revisions, Cancellations, and Renewals

An APA may require revisions due to changes in:

- Critical assumptions
- Tax laws and zakat regulations
- Business operations impacting transfer pricing

If a taxpayer fails to meet APA conditions, the authorities may cancel or revoke the agreement. Taxpayers can apply for APA renewal at least 12 months before expiration, provided there are no significant changes in business operations. In case of changes in the business, the Taxpayer during the renewal submit the proposed changes along with an updated analysis and supporting documentation. The renewal process will include revising Critical Assumptions and facts from the initial APA and modifying the related analysis as necessary.

8. Withdrawal from the APA Request

The tax payer can withdraw the application. Any prior agreements or understandings concerning the APA request will cease to be effective.

9. APA Application form

The Unilateral application form is provided in Appendix 1 of the APA guidelines. The form is subdivided into 4 sections namely A, B, C & D.

- Section A covers the Details of the applicant along with address ,details of counter party along with country of residence, details of immediate parent company, Ultimate parent company ,Name and designation of authorised signatory, Introductory meeting dates.
- Section B: This section includes details of covered transactions ,type, nature,description, amount, jurisdiction and period for which application is made.
- Section C: Declaration and signature
- Section D: Disclosure requirement which includes General information, functional analysis Transfer pricing background and proposed transfer pricing method analysis for each covered transaction.

10. Conclusion

The KSA APA Guidelines mark a significant step towards enhancing tax transparency and compliance for multinational enterprises operating in Saudi Arabia. By allowing businesses to pre-agree on transfer pricing methods, the APA framework fosters a cooperative relationship between taxpayers and ZATCA. As the APA program evolves, the introduction of bilateral and multilateral agreements will further strengthen Saudi Arabia's tax environment and reduce litigation.



Our Comments

KSA APA's streamlined processing time and clear compliance requirements align well with international best practices. Adoption of online modes for submission of application and even rejection of application via online mode if information is not submitted by the tax payer is a good step.

Saudi Arabia's APA program, primarily focuses on unilateral agreements, whereas global standards emphasize bilateral and multilateral APAs. Generally, coverage of Permanent Establishment (PE) in APA framework is present in other countries. While KSA adheres to global best practices in compliance reporting, the absence of rollback provisions distinguishes it from more advanced APA programs. The guidelines covers even domestic transaction in the framework which is different from most of the other countries. As the APA framework evolves, incorporating bilateral APAs would enhance certainty for multinational businesses operating in KSA.



How we can support

VSTN offers end to end support in APA process including:-

- In-depth analysis of business and aligning the transfer pricing policy with the business model
- Providing strategic guidance in preparation and submission of APA application
- Negotiation with Tax Authorities
- Post conclusion support
 - Filing of annual compliance report and
 - Audit

About us

VSTN Consultancy Private Ltd is a boutique Transfer pricing firm with extensive expertise in the field of international taxation and transfer pricing. VSTN Consultancy has been awarded by International Tax Review (ITR) as Best Newcomer in Asia Pacific – 2024 and is recognised as one of the finest performing transfer pricing firms.

Our offering spans the end-to-end Transfer Pricing value chain, including design of intercompany policy and drafting of Interco agreement, ensuring effective implementation of the Transfer Pricing policy, year-end documentation and certification, Global Documentation, BEPS related compliances (including advisory, Masterfile, Country by Country report), safe harbour filing, audit defense before all forums and dispute prevention mechanisms such as Advance Pricing agreement.

We are structured as an inverse pyramid where leadership get involved in all client matters, enabling clients to receive the highest quality of service.

Being a specialized firm, we offer advice that is independent of an audit practice, and deliver it with an uncompromising integrity.

Our expert team bring in cumulative experience of over six decades in the transfer pricing space with Big4s spanning clients, industries and have cutting edge knowledge and capabilities in handling complex TP engagements.



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