

Insights

TRANSFORMING SAUDI ARABIA'S HOTEL INDUSTRY: RECENT LICENSING REFORMS

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Saudi Arabia is ambitiously working towards its 2030 goals, striving to be investor-friendly while upholding transparency, accountability, and creating more opportunities for its local population. This vision has brought significant changes to the hotel management industry. Whilst, previously and historically, hotel managers could operate hotels in Saudi Arabia from offshore offices, this is no longer permitted due to recent reforms.

A number of reforms contributed to that result:

1. In 2004, the Zakat, Tax and Customs Authority (ZATCA) introduced a withholding tax (WHT), including a top rate of 20% withholding which applies to management fees paid to offshore entities. The 20% WHT applied to hotel management company remittances and had a substantial impact on the economics of the then-current and existing regime.
2. In 2021, the Anti-Concealment Law (ACL) was updated and its enforcement became substantially more robust which significantly impacted the commercial ecosystem. This law ensures that all economic activities conducted by foreign parties have proper approvals and licenses and are subject to corporate income tax (CIT) which generally applies to non-Saudi businesses. This had the effect of discouraging and penalizing offshore management of hotels. While there have been similar laws in the past, the new ACL was passed with a renewed commitment from the Ministry of Commerce to prevent and penalize all concealment efforts and arrangements. This was significant in the context of 'hotel management' where despite the Saudi owner owning the facility, holding the licenses and (usually) employing the hotel staff, the operations have commonly been run, managed and operated by offshore entities.
3. The most direct impact arose in 2023 with adoption of the Tourism Accommodation Facilities Management Regulations which were implemented in connection with the Tourism Law (2023), the effect of which is to require Ministry of Tourism (MoT) licensing for "hotel management" and related activities, in addition to Commercial Registration (CR) by the Ministry of Commerce. Recent reports confirm that the MoT is taking a hard stance on tourism facilities being run and operated in an unauthorized manner, including without the requisite licenses.

Despite these reforms, investors are increasingly attracted to Saudi Arabia due to its rapid tourism growth, and thus are prioritizing the benefits of capitalizing on opportunities in Saudi Arabia, in spite of the more robust regulatory requirements and associated costs. The number of Ministry of Tourism licenses has nearly doubled in 2024 since 2023, reflecting the Kingdom's aim to welcome 150 million tourists annually as part of its 2030 vision. Experts predict that Saudi Arabia could become one of the top five tourist destinations by 2040, presenting massive potential and opportunities for both existing and new investors.

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