

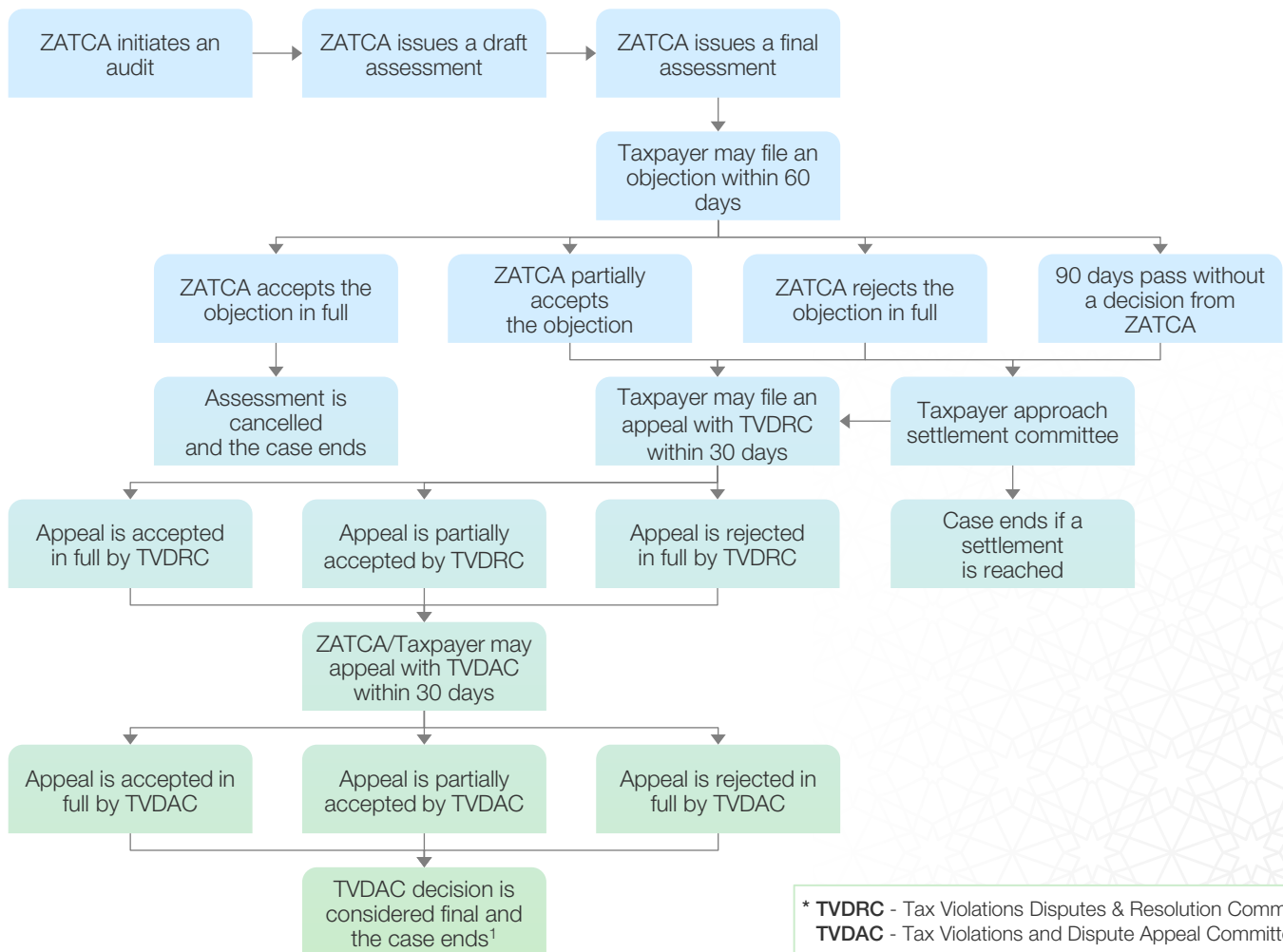
Raising the Bar

How Transfer Pricing Disputes Are Redefining Tax Governance in Saudi Arabia

Introduction: Saudi Arabia’s Transfer Pricing Framework and Recent Developments

Saudi Arabia formally introduced transfer pricing (TP) regulations in 2019, marking a significant shift in the Kingdom’s tax environment. In the years that followed, the Zakat Tax and Customs Authority (ZATCA) enhanced its audit capability, introduced more structured transfer pricing reviews, and issued increasing technical assessments. As these assessments progressed through the appeals system, a growing number of decisions were published on the General Secretariat of Tax Committees (GSTC) portal.

Tax disputes in Saudi Arabia follow a structured, deadline driven process that begins well before formal litigation and often narrows available outcomes long before matters reach appeal. Following a ZATCA audit and assessment, taxpayers must pass through a mandatory objection phase before choosing between settlement or litigation before the GSTC. The diagram below summarizes the end to end dispute process in Saudi Arabia, from initial audit through final appeal, highlighting key decision points and statutory timelines.



* **TVDRC** - Tax Violations Disputes & Resolution Committee
TVDAC - Tax Violations and Dispute Appeal Committee

For this article, we examined 31 GSTC-published decisions involving transfer pricing matters. These decisions offer rare visibility into how the authorities evaluate substance, documentation, and intercompany pricing in practice. Saudi Arabia does not operate a formal case law system, so past decisions are not legally binding. However, these rulings provide practical insight into how future disputes may be viewed, especially given the consistency of themes across industries and fact patterns.

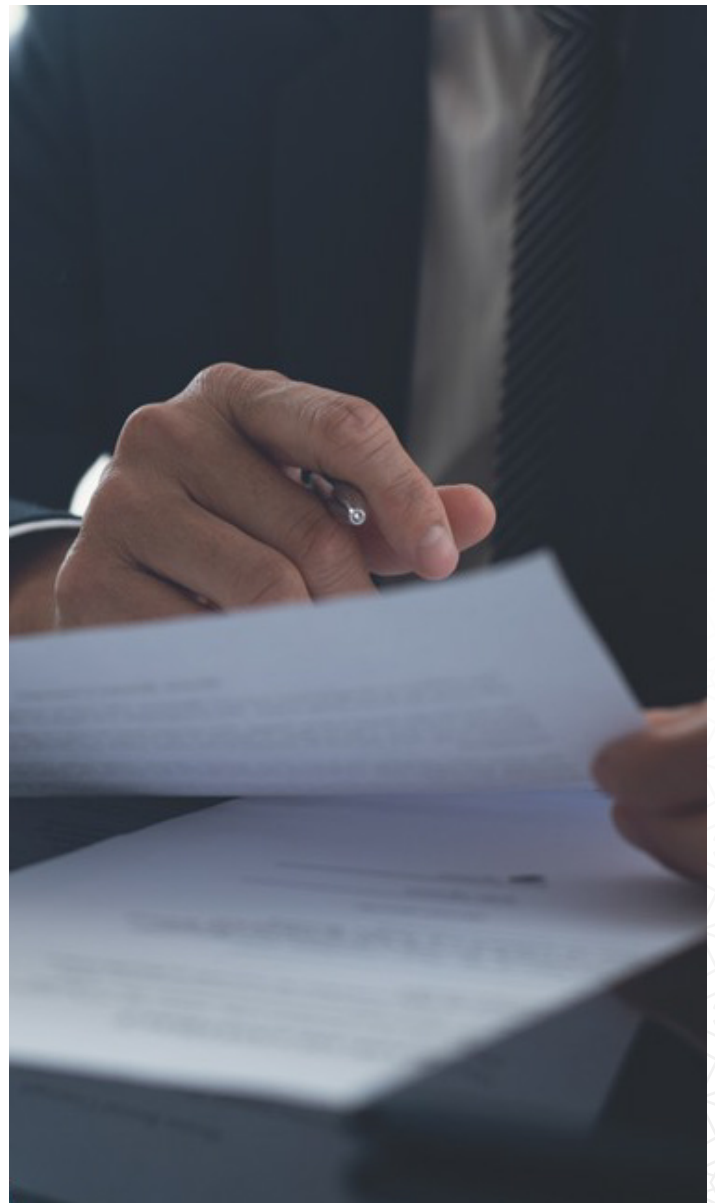
The Transfer Pricing Turning Point

Transfer pricing is now a focal point of tax controversy in Saudi Arabia. Across the cases reviewed, ZATCA repeatedly questioned intercompany pricing when taxpayers could not articulate a clear functional narrative or substantiate the economic basis for their arrangements. In several matters, authorities resorted to deemed-profit percentages prescribed in income tax bylaws when taxpayers failed to provide the documents needed to support their positions.

In disputes involving manufacturing and distribution structures, appellate committees focused on inconsistencies in the taxpayers' transfer pricing positions across the audit and litigation process. Where taxpayers changed pricing methods, tested parties, or profitability indicators without adequate justification, and failed to provide underlying agreements, the financial statements of the tested entity, or a clear breakdown of bundled charges, the GSTC concluded that the pricing did not reflect economic reality. In these circumstances, ZATCA was permitted to disregard the analyses and apply deemed profit margins based on the available information.² By contrast, appellate committees have shown willingness to overturn transfer pricing adjustments where taxpayers could demonstrate that only a limited portion of their cost base related to controlled transactions, and that entity level profitability adjustments were disproportionate. In such cases, committees emphasized that transfer pricing adjustments must be linked to the actual value of related party transactions and cannot exceed their economic footprint. Where taxpayers supported this position with transaction level analyses and reconciliations, ZATCA's adjustments were reduced or reversed.³

Taken together, these cases reveal a tax environment where documentation matters more than ever, substance must match the economic reality of the Saudi business, and governance failures carry meaningful consequences. Organizations that build strong, evidence-based transfer pricing frameworks are better positioned to manage audit risk and avoid costly disputes.

Over the years, Saudi Arabia's transfer pricing rules have shifted from procedural compliance to genuine governance. They require coherence, discipline, and sustained alignment between what is written in the TP report and what happens in the business.



Documentation: The Deciding Factor in Every Case

Documentation was the most influential factor across all 31 decisions. Taxpayers fared best when they produced:



Complete audited financials



Dated intercompany agreements



Evidence of services delivered



Customs documentation



Year-specific transfer pricing analyses

Appellate decisions also show that ‘documentation’ in practice means more than having a local file on hand. It requires a defensible, consistent benchmarking position supported by reliable source evidence. Where taxpayers attempted to revisit benchmarking inputs or methodologies at the appeal stage without resolving underlying weaknesses, appellate committees were unpersuaded. Committees also emphasized that database extracts alone are insufficient to support comparability; independence, product characteristics, and functional alignment must also be corroborated using reliable, verifiable information. In these circumstances, adjustments to margins and related outcomes were upheld or modified in line with the evidentiary record, including consequential impacts where transfer pricing adjustments flowed through to the tax and zakat base.⁴

Saudi Arabia is now operating an evidence-driven tax model. Authorities are not simply looking for a TP file; they want a file that speaks coherently to the real economic activity of the Saudi business.

Expense Deductions and Intragroup Charges: Substance Over Form

Many disputes centered on management fees, technical-service charges, royalties, and head-office allocations. Tribunals repeatedly focused on one critical issue: did the taxpayer receive a real, identifiable benefit in Saudi Arabia?

Appellate committees have taken a strict approach to intragroup service charges where taxpayers could not demonstrate that services were actually rendered and provided an identifiable benefit to the Saudi entity. In disputes involving technical or support services, invoices and intercompany agreements alone were not sufficient.

What committees expected to see included:



Contemporaneous evidence of performance



Clarity on “who did what”



A demonstration of local business needs and value

Where taxpayers failed to produce this evidence, committees accepted the disallowance of the charges and the corresponding transfer pricing adjustments.⁵

This emphasis has driven a shift toward real-time tracking of intragroup services, better alignment between global and regional teams, and a deeper focus on whether services are necessary, duplicative, or purely group-driven.

Late-Payment Penalties: Technical Versus Procedural Failures

Late-payment penalties appeared frequently across the 31 decisions. A recurring distinction emerged. When disputes were technical, such as differing views on comparables or pricing models, tribunals sometimes recalibrated penalties. But when taxpayers failed to comply procedurally, such as submitting filings late or not responding to ZATCA's requests, penalties were upheld.

Recent appellate decisions show that late payment penalties are not treated uniformly; outcomes depend on why the additional tax arose and how the taxpayer engaged with the process.

Where the underlying adjustments stemmed from a genuine technical dispute, particularly around transfer pricing methodologies and comparability, the committees treated the matter as a substantive controversy and linked penalty timing to the final resolution or to notification of the final decision. By contrast, where the dispute was driven by evidentiary or documentary shortcomings (rather than a true interpretive disagreement), committees applied the statutory penalty framework from the original due timeline and limited relief to only items that fell away once the underlying adjustment was reversed.⁶

Funding Structures and Related-Party Loans: Substance Over Form and Commercial Rationale

Several decisions touched on the treatment of related-party financing. Where entities recorded chronic losses, relied heavily on group-directed pricing, or lacked control over key risks, ZATCA questioned whether related-party funding truly represented debt.

The broader direction mirrors international practice: economic substance outweighs legal form. If a financing structure does not reflect commercial reality, it will not withstand scrutiny.

Advance Pricing Agreements (APAs) and Mutual Agreement Procedures (MAP): A Path to Certainty

As transfer pricing enforcement continues to intensify in Saudi Arabia, taxpayers now have access to mechanisms that can prevent disputes altogether. Unilateral Advance Pricing Agreements (APAs) are now available and can provide pricing certainty for future years. Notably, ZATCA has recently concluded its first unilateral APA, marking a significant milestone in the evolution of the Kingdom's transfer pricing framework. This development represents a meaningful shift in a regime where uncertainty has historically been high, signalling a more mature and proactive approach to dispute prevention.

Similarly, mutual agreement procedures (MAPs) provide a structured way to eliminate double taxation arising from transfer pricing. As Saudi Arabia's treaty network expands, MAPs can be a practical tool for resolving cross-border disagreements.

APAs and MAPs together reflect a maturing system, one that now provides taxpayers with options to negotiate certainty rather than merely react to assessments.



Key Takeaways for Businesses: Actionable Lessons for Governance and Compliance

The lessons from the 31 GSTC decisions are direct and consistent:



Appendix: Summary of 31 GSTC Published Cases Reviewed

Below is a consolidated overview of the themes observed in the 31 publicly available GSTC decisions reviewed for this article. The table summarizes the core issue and key lesson from each case in a concise format.

Case Theme	Dispute Focus	Key Lesson
Functional analysis gaps	Missing or unclear functions/risks in the TP file	Functional narratives must reflect actual Saudi operations
Unsupported comparables	Weak benchmarking or inappropriate dataset	Comparables must be defensible, independent, and aligned with activity
Missing agreements	No intercompany contracts provided	Signed, dated agreements are critical evidence
Management-fee disputes	Charges without proof of benefit	Evidence of services is mandatory
Royalty/Intangible property (IP) charges	No link between IP and Saudi revenue	Demonstrate economic use of IP locally
Cost allocations	Global cost-sharing with no Saudi rationale	Allocations must reflect local benefit
Recurring losses	Entity labeled "limited-risk" but loss-making	Entity profiles must align with financial results
Reconstructed margins	ZATCA applied benchmark percentages in line with its guidelines	Lack of documentation not meeting local guidelines issued by ZATCA
Customs-TP mismatch	Import pricing inconsistent with TP file	TP and customs data must reconcile
Bad-debt provisions	Claims not evidenced	Provisions must be supported by aging and proof
Marketing/distribution	Activities misaligned with claimed functions	Distribution models must reflect commercial reality

Case Theme	Dispute Focus	Key Lesson
Service delivery proof	Invoices without deliverables	Deliverables, emails, outputs required
Late filing	Delayed Zakat/TP submissions	Procedural compliance essential
Late payment	Timing dispute	Technical disputes treated differently from procedural failures
Misclassified revenue	Related-party vs third-party inconsistency	Revenue classification must match financial statements
Unexplained fluctuations	Profitability changes not substantiated	Year-on-year analyses required
Product comparability	Different product classes used as comparables	Product similarity remains important
Sector mismatch	Comparables from unrelated industries	Industry alignment matters
Currency conversion	Errors in FX application	FX consistency required
HQ allocations	Charges pushed from parent without detail	HQ fees must be tied to actual services
Group incentives	Discounts mandated by parent	Local benefit must be shown
Intercompany loans	Weak evidence of creditworthiness	Funding must reflect actual risk
Interest deductions	Unsupported or excessive interest	Arm's-length financing required
TP retroactivity	Use of outdated or irrelevant TP studies	TP must be updated annually
Inconsistent positions	Different explanations to ZATCA vs committee	Consistency across submissions is essential
Transfer-pricing policies	Global policies not adapted locally	Localization of TP policies required
Loss-making comparables	Inclusion of persistent loss-makers	Comparables must reflect normal operations
Single-year data	Use of one-year margins	Multi-year analyses preferred
Incomplete local file	Missing sections of TP report	Full documentation required
Unexplained related-party flows	Payments with no audit trail	Traceability of intercompany flows needed
Procedural non-response	Failure to answer queries	Audit engagement discipline is essential

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1. Although the TVDAC's decision concludes the ordinary objection process, it remains subject to the strictly limited reconsideration mechanism set forth in paragraph (1) of Article 40 of the Zakat, Tax and Customs Committee Procedures, read with Article 200 of the Law of Civil Procedure (issued per Royal Decree No. M/1 dated 25 November 2013) and Ministerial Resolution No. 512. Reconsideration may be sought only where the statutory grounds are satisfied, including the subsequent discovery of decisive evidence that, despite due diligence, could not have been produced before the judgment.
2. Appeal Decision IR 2023 160536 General Secretariat of Tax Committees (GSTC).
3. Appeal Decision IR 2024 236651, General Secretariat of Tax Committees (GSTC).
4. Appeal Decisions IR 2023 152506 and IR 2024 202594, General Secretariat of Tax Committees (GSTC).
5. Appeal Decision IR 2024 192923, General Secretariat of Tax Committees (GSTC).
6. Appeal Decisions IR 2024 189697, IR 2024 168293, and ZIW 161723 2022, General Secretariat of Tax Committees (GSTC).

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