

Tax alert | Saudi Arabia introduces real estate transfer tax

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According to a royal decree issued on 2 October 2020, transfers of real estate in Saudi Arabia are now exempt from VAT. From 4 October 2020, a 5% real estate transaction tax (RETT) will be imposed on the sale of real estate, including hire purchase agreements and the finance leasing of real estate (including *murabaha* financing arrangements). The General Authority of *Zakat* & Tax (GAZT) has released a **guide** (in Arabic) on the application of the new tax, which includes practical examples and a matrix comparing the tax systems.

Real estate transactions exempt from the RETT include:

1. Transfers of real estate as part of the distribution of an estate
2. Gifts of real estate to close family members
3. Transfers of real estate without charge to a family endowment, a charitable trust or a licensed charitable association
4. Temporary transfers of real estate as financing collateral
5. Consecutive transfers of real estate under financial lease arrangements

What is the RETT payable on?

The RETT is payable on the greater of the consideration paid or the market value of the property transferred.

Are there any special circumstances?

There are special rules for licensed real estate developers who are entitled to recover input VAT incurred on expenses relating to property development and sales. Nationals buying their first homes also benefit from the government bearing RETT costs up to SAR 1 million.

Types of supply		VAT		RETT
		Previous	New	
Sales of:	Real estate	15%	Exempt	5%
Leases of:	Residential real estate	Exempt	Exempt	Out of scope
	Commercial real estate	15%	15%	Out of scope
Sales of real estate:	To a government body	15%	Exempt	Out of scope
	By a government body as a public authority	Out of scope	Exempt	Out of scope
	By a government body for commercial or investment purposes	15%	Exempt	5%
	To a diplomatic body or an approved international organisation	15%	Exempt	Out of scope
Gifting real estate to:	A husband, wife or relative to the second degree	Out of scope	Exempt	Out of scope
	Any other person	15%	Exempt	5%

Disclaimer: This tax alert is based on a **guide** issued by the General Authority of *Zakat* & Tax (GAZT) and is for general information. Seek professional advice in relation to your particular circumstances.