



# A Simplified Guide to the Real Estate Transaction Tax



The Zakat, Tax and Customs Authority issued this guide to clarify some matters relevant to the implementation of regulatory provisions applicable on the day of its issuance. The content of this guide is not considered an amendment to any of the provisions of regulations and bylaws in effect in the Kingdom.

The authority asserts that it applies the illustrative treatments stated in this guide, where applicable, in light of relevant regulatory texts. In the event that any clarification or content stated in this guide relevant to a non-amended regulatory text is amended, the updated illustrative treatment shall be applied to transactions that are carried out after the date of publishing the updated version of this guide on the authority's website.



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## **What Is the Real Estate Transactions Tax?**



## What is the real estate transactions tax?

Real estate transactions tax, which was announced as per Royal Decree No. (A/84), dated 14 Safar, 1442 A.H., with the aim of supporting citizens and licensed real estate developers, started to be applied on Sunday, 17 Safar, 1442 A.H. In accordance with the Royal Decree and executive decisions, the sale of real estate is exempted from value-added tax, instead of imposing it at a rate of 15%, and the real estate transactions tax is imposed on the sale of real estate and the like at a rate of 5% of the value of the property. This is in addition to raising the amount that the Kingdom shall bear, instead of Saudi citizens, of the value of the real estate transactions tax to 1,000,000 (one million Saudi riyals) from the purchase price of the first dwelling, instead of 850,000 (eight hundred and fifty thousand Saudi riyals) which are associated with value-added tax.

The real estate transactions tax is a tax that is imposed at a rate of 5% on all real estate transactions, including:

- Sale
- Bequest
- Financial leasing
- Lease-to-own process
- Long-term usufruct contracts whose duration is more than 50 years.

The real estate transactions tax is calculated according to the price agreed upon between the seller and the buyer and should not be less than the fair market value at the time when the transaction takes place. The seller is obliged to pay it before or during the conveyance process.



## **Difference Between the Value-Added Tax (VAT) and Real Estate Transactions Tax (RETT)**



## Difference between the value-added tax (VAT) and real estate transactions tax (RETT)

Status	Previously	Currently	
	VAT before the issuance of the Royal Decree	VAT after the issuance of the Royal Decree	Real estate transactions tax
Sale of a residential property	%15	Exempted	%5
Sale of a commercial property	%15	Exempted	%5
Sale of a residential, commercial, or agricultural of land	%15	Exempted	%5
Leasing a residential property for less than 50 years	Exempted	Exempted	Not applicable
Leasing a commercial property for less than 50 years	%15	%15	Not applicable



The first dwelling for citizens (villa apartment housing unit)	The kingdom bears the tax due on an amount not exceeding 850,000 (eight hundred and fifty thousand Saudi riyals) of the value of the property	Exempted	The kingdom bears the tax due on an amount not exceeding 1,000,000 (one million Saudi riyals) of the value of the property
Sale of a property to a government entity	%15	Exempted	Excluded and not subject to the tax
Sale of a property by a government entity in its capacity as a public authority	Not subject to a tax	Exempted	Excluded and not subject to the tax
Sale of a property by a government entity for commercial or investment purposes	%15	Exempted	%5
Sale of a property to a diplomatic entity or an accredited international organization	%15	Exempted	Excluded and not subject to the tax
Granting a property as a gift to a husband, wife, or up to third-degree relatives	Not subject to the tax	Exempted	Excluded and not subject to the tax
Granting a property as a gift to any party	%15	Exempted	%5





Expropriation of a property for public benefit	%15	Exempted	Excluded and not subject to the tax
Provision of a property as an in-kind share in the capital of a company established in the kingdom while retaining the shares or stocks of the company for five years	%15	Exempted	Excluded and not subject to the tax
Usufruct right over a property for a period exceeding 50 years	%15	15% and registrant is entitled to get a refund of this amount	%5
Input related to construction, such as building materials and the like	∓15	∓15	Not applicable
Getting a refund of the input tax on the sale of real estate	Input tax shall be deducted by virtue of tax declarations	Input tax shall not be deducted by virtue of tax declarations	Non-refundable

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\*Only real estate developers eligible for a refund are entitled to receive a refund of the VAT paid on purchases related to real estate exempted from VAT (such as construction materials and the like).



## Sale of a residential property

### Villa - Apartment - Housing Unit

#### Example:

A person offered a villa for sale at a value of 1,000,000 (one million Saudi riyals). How can the tax be calculated when the villa is sold? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	150,000 (one hundred and fifty thousand Saudi riyals)	50,000 (fifty thousand riyals)
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the tax declaration submitted by the registrant.	The tax shall be paid on or before the date of notarization by a notary public or an accredited notary.



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	Seller



## First (equipped) dwelling for citizens

### Villa - Apartment - Housing Unit

#### Example:

A citizen wished to buy a house for 1,000,000 (one million Saudi riyals) from a real estate developer. This house is the citizen's first dwelling and he has a certificate from the Ministry of Municipal, Rural and Housing Affairs to that effect. How can the real estate transactions tax be calculated in this case?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
The amount which the kingdom bears in relation to the tax imposed on the first dwelling	Up to 850,000 (eight hundred and fifty thousand Saudi riyals)	Up to 1,000,000 (one million Saudi riyals)
Due tax value after deducting the amount born by the kingdom	22,500 (twenty-two thousand and five hundred Saudi riyals)	Zero*
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.



<b>Tax payment date</b>	It shall be paid through the tax declaration submitted by the registrant.	The tax shall be paid on or before the date of notarization by a notary public or an accredited notary.
<b>Date of application</b>	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
<b>The person required to pay the tax to the authority</b>	Seller	Seller

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\* The due tax value, after deducting the amount borne by the Kingdom, is "zero" because the value of the property does not exceed 1,000,000 (one million Saudi riyals).



## **Mechanism for benefiting from the Kingdom bearing the tax imposed on the first dwelling instead of the citizen**

1. The buyer issues a certificate proving that the Kingdom shall bear the real estate transactions tax imposed on the first dwelling, from the website of the Ministry of Municipal, Rural and Housing Affairs.
2. The buyer submits the certificate to the seller.
3. The seller visits the website of the Zakat, Tax and Customs Authority and selects the "Real Estate Transactions Tax" service. Then he accesses the real estate transactions platform and registers a new real estate transaction.

After entering the data of the property and the buyer, the authority makes sure that the buyer is eligible for subsidization, and excludes the tax value from the selling price, provided that it does not exceed 1,000,000 (one million Saudi riyals). The authority imposes a tax at a rate of 5% on the amount that exceeds this value.



## Sale of a Commercial Property

### Building - Commercial Unit - Land

#### Example:

A person offered a store for sale at a value of 1,000,000 (one million Saudi riyals) and wished to transfer the ownership of the store to the buyer. How can the tax be calculated when selling the store? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	150,000 (one hundred and fifty thousand Saudi riyals)	50,000 (fifty thousand Saudi riyals)
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	The tax shall be paid on or before the date of notarization by a notary public or an accredited notary.



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	Seller





## Sale of Land

### Residential - Commercial - Agricultural

#### Example:

A person or an establishment has a land in the kingdom, which is offered for sale at a value of 500,000 (five hundred thousand Saudi riyals), and wishes to transfer the ownership of the land to the buyer. How can the tax be calculated when selling the land? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	75,000 (seventy-five thousand Saudi riyals)	25,000 (twenty-five thousand Saudi riyals)
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	The tax shall be paid on or before the date of notarization by a notary public or an accredited notary.



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	Seller



## Granting a property as a gift to a husband, wife, or up to third-degree relatives\*

Transfer of the ownership of a property as a gift from a husband to his wife, from a wife to her husband, or up to a third-degree relative.

### Example:

A property owner granted his nephew of a land, whose market value is 700,000 (seven hundred thousand Saudi riyals), without compensation. He wanted to transfer the ownership of the piece of land to his nephew at the Ministry of Justice. How can the tax be calculated?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	It is not subject to the tax.	It shall not be subject to the tax if it meets the requirements stated in the regulations of the real estate transactions tax.
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.

\*"Up to third-degree relatives" means:

The first degree: father, mothers, grandparents, grandmothers, etc.

The second degree: sons and daughters and their descendants.

The third degree: brothers and sisters, siblings, or for a father or a mother, their children and their grandchildren.



## Granting a property as a gift to any without compensation

The real estate transactions tax is imposed at a rate of 5% on all real estate transactions that are carried out through sale and the like, including the conveyance of any property without compensation (unless it is not exempted according to the executive regulations of the real estate transactions tax).

### Example:

A person wished to grant his cousin a land, whose market value is 250,000 (two hundred and fifty thousand Saudi riyals), without compensation and wished to transfer its ownership to him at the Ministry of Justice.

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	37,000 (thirty-seven thousand Saudi riyals)	12,500 (twelve thousand and five hundred Saudi riyals)
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	The tax shall be paid on or before the date of notarization by a notary public or an accredited notary.



## Sale of a Property to a Government Entity

### Conveyance of a property from a person or an establishment to a government entity

#### Example:

A person offered a land for sale at a value of 500,000 (five thousand Saudi riyals) and a government entity wished to buy this property. How can the tax be calculated when selling the land? When should it be paid?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	75,000 (seventy-five thousand Saudi riyals)	Excluded and not subject to the tax
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	No due tax
Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	No due tax



## Sale of a property to a diplomatic entity or an accredited international organization

Conveyance of a property from or to a diplomatic entity or an accredited international organization in the kingdom, on condition of reciprocity

### Example:

A person wished to sell a residential building at a value of 200,000 (two hundred thousand Saudi riyals) to an embassy of a foreign country accredited by the Ministry of Foreign Affairs. This embassy wished to buy this building to be used by its employees. Exemption is applicable to this transaction on condition of reciprocity. How can the tax be calculated when selling the building? When should the tax be paid?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	30,000 (thirty thousand Saudi riyals)	Excluded and not subject to the tax
Registration in the Zakat, Tax and Customs Authority	The concerned person and the transaction shall be registered.	The transaction shall be registered before the conveyance or notarization of the contract.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant. The diplomatic entity may be refunded as a person eligible to receive a refund.	No due tax



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	No due tax



## Sale of a property by a government entity in its capacity as a public authority

### Example:

A government entity wished to sell a property to a person or an establishment in the kingdom in its capacity as a public authority. The sale was outside the economic, investment, or commercial scope. How can the tax be calculated when selling this property? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	It is not subject to the tax.	
Registration in the Zakat, Tax and Customs Authority	Registration of the government entity is not required.	The transaction shall be registered at the Zakat, Tax and Customs Authority.
Tax payment date	No due tax	





## Sale of a property by a government entity for commercial or investment purposes

Conveyance of a property from a government entity to individuals or establishments for commercial or investment purposes while competing with the private sector

### Example:

A government entity wished to invest in one of its properties by marketing or selling it for 1,000,000 (one million Saudi riyals) to some companies working in the kingdom. How can the tax be calculated when selling this property? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	150,000 (one hundred and fifty thousand Saudi riyals)	50,000 (fifty thousand Saudi riyals)
Registration in the Zakat, Tax and Customs Authority	The government entity should be registered with the authority	The transaction shall be registered at the Zakat, Tax, and Customs Authority
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	It must be registered on or before the date of notarization by a notary public or an accredited notary.



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	Seller



## Expropriation of a property for the public benefit

Conveyance of a property as per a decision issued by a competent authority to the effect of expropriating it for the public benefit

### Example:

An effective administrative decision was issued according to the Law of expropriation of real estate for the public benefit and compulsory temporary ownership of real estate in force in the kingdom to expropriate a residential building for the public benefit, in the interest of a government entity. The building was valued at 500,000 (five hundred thousand Saudi riyals). How can the tax be calculated?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	75,000 (seventy-five thousand Saudi riyals)	Excluded and not subject to the tax
Registration in the Zakat, Tax and Customs Authority	The government entity should be registered with the authority	The transaction shall be registered at the Zakat, Tax and Customs Authority.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	No due tax



Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	No due tax



## Provisions of a property as an in-kind share in the capital of a company established in the Kingdom

### Conditions:

- The respective companies should not dispose of the shares or stocks corresponding to the property disposed of for a period of five years from the date of registering or owning the shares or stocks of the property.
- The respective companies should keep the financial statements audited by an accredited external auditor throughout this period.

### Example:

A person has a commercial building with an estimated value of 500,000 (five hundred thousand Saudi riyals) and wishes to enter into partnership with a group of shareholders by considering the building he owns an asset contributed as in-kind share in the capital of a joint stock company. How can the tax be calculated? When should the tax be paid?

### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	%5
Tax value	75,000 (seventy-five thousand Saudi riyals)	Excluded and not subject to the tax
Tax value in the event that the aforementioned conditions have not been met	75,000 (seventy-five thousand Saudi riyals)	25,000 (twenty-five thousand Saudi riyals)



Registration in the Zakat, Tax and Customs Authority	it shall be registered with the authority.	The transaction shall be registered with the authority.
Tax payment date	It shall be paid through the periodic tax declaration submitted by the registrant.	No due tax if the aforementioned conditions have been met.
Date of application	From the beginning of 2018 until 3 October, 2020 A.C., and exemption starts from 4 October, 2020 A.C.	From 4 October, 2020 A.C.
The person required to pay the tax to the authority	Seller	No due tax if the aforementioned conditions have been met.

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When the company retains the shares or stocks for a period not less than five years or keeps the financial statements audited by an accredited external auditor throughout this period.



## VAT: Before and After



## Leasing a residential property

### Villa - Apartment - Housing Unit

#### Example:

A person wished to lease a residential apartment to another person in the kingdom for 20,000 (twenty thousand Saudi riyals) annually. How can the VAT be calculated at the time of leasing the apartment? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	Exempted from the VAT	
Tax value	No due tax	
Date of application	For all transactions, starting from January, 2018 A.C. onwards	





## Leasing a commercial property

### Building - Commercial Unit - Land

#### Example:

A person subject to the VAT wished to lease a commercial property in the kingdom for 375,000 (three hundred and seventy five thousand Saudi riyals) to another person or establishment. How can the VAT be calculated at the time of leasing the apartment? When should the tax be paid after the issuance of the royal decree on the real estate transactions tax?

#### Explanation:

	Previously	Currently
	VAT before exemption becomes applicable	Real estate transactions tax after the issuance of the royal decree
Tax rate	%15	
Tax value	56,250 (fifty-six thousand and two hundred and fifty Saudi riyals)	
Zakat, Tax and Customs Authority	Registration with the authority should take place if the mandatory registration limit is reached, according to normal procedures. Registration may become optional if supplies reach the threshold allowed for optional registration.	
Tax payment date	The VAT shall be paid through the periodic tax declaration submitted by the registrant.	
Date of application	For all transactions, from January 2018 onwards	



## **Real Estate Transactions Subject to Real Estate Transactions Tax**



The real estate transactions tax applies to all real estate transactions that take place by way of sale and the like, such as transfer of the ownership of a property, gift, bequest, financial leasing, lease-to-own process, Islamic Murabaha (sale with an agreed profit margin), long-term usufruct contracts whose duration is more than 50 years. This tax applies regardless of the status, appearance, or usage of the property at the time of the transaction (sale). The tax applies to the land and the buildings constructed or established on it, whether the transaction occurs before or after the construction of the buildings and whether the transaction covers the entire property or any part of it. The tax also applies whether the property is divided or undivided, is disposed of as a housing unit or any other type of property, and whether this transaction is notarized or not. A large number of real estate transactions are exempted from the tax and are stated in the executive regulations of the real estate transactions tax.

Transaction type	Payment date
Sale of a property notarized by a notary public or legally accredited notarization entity	On or before the date of notarization by a notary public or an accredited notary
Notarization of a property given as a gift and not exempted from the tax	On or before the date of notarization by a notary public or an accredited notary
Lease-to-own contracts and financial leasing contracts	On or before the date of notarization
Long-term usufruct contracts whose duration is more than 50 years	On or before the date of notarization
Notarization of the sale of a property at an auction, whether transaction is commercial or forced sale	On or before the date of notarization by a notary public or an accredited notary
Waiving lease-to-own or long-term usufruct rights	On or before the date of notarization; signing the assignment contract serves as notarization in the event that notarization is not carried out.
Off-plan sale	On or before the date of notarization by a notary public or an accredited notary



## **Exceptions from Real Estate Transactions Tax**



## 1. Disposal of real estate in cases of division of inheritance or distribution

The transfer of ownership of the property is exempt from the tax when distributing the inheritance among its beneficiaries, according to their legal shares, provided that the tax is paid when selling the property.

### Example:

A person died and his inheritance was distributed among his heirs and their shares were from the inheritance, according to the proportions specified by Sharia.

### Explanation:

In this case, this disposal is exempt from the real estate transactions tax when the property is vacated, with the obligation to register the real estate transaction in the Zakat, Tax and Customs Authority to obtain evidence of the exemption from paying the real estate transactions tax, as the conveyance process will not be accepted in the Ministry of Justice without registration. If the heir sells the property after distributing the inheritance, the sale is subject to the real estate transactions tax. In addition, if the property is sold by the heirs before distributing the inheritance for the purposes of dividing its cash among them, the sale is subject to the real estate transactions tax.

## 2. Disposal of real estate with no financial gain to a family or charitable endowment or licensed charitable association

The transfer of ownership of the property, with no financial gain, to a family, civil or charitable endowment or a licensed charitable association is exempt from the tax.

### Example:

Land whose owner wants to donate to a licensed charitable association.

### Explanation:

This disposal is exempt from the real estate transactions tax in this case, with the necessity of registering the real estate transaction in the Zakat, Tax and Customs Authority before the conveyance or documentation process to obtain evidence of the exemption from paying the real estate transactions tax.



### **3. Disposal of real estate to a government entity or to public legal persons or entities and projects of public benefit**

The transfer of ownership of real estate to a government entity, public bodies and institutions, and entities and projects of public benefit are exempt from paying the tax under the Law of Civil Society Associations and Organizations.

**Example:**

One of the government agencies bought a property from one of the people for use in the activities of that agency.

**Explanation:**

This disposal is exempt from the real estate transactions tax in this case, with the necessity of registering the real estate transaction in the Zakat, Tax and Customs Authority before starting the conveyance process in the Ministry of Justice. This is to obtain evidence of the exemption from paying the real estate transactions tax.

### **4. Disposal of a real estate by a government entity as a public authority**

The transfer of ownership of real estate by a government entity as a public authority outside the framework of practicing a commercial, investment or economic activity is exempt from the real estate transactions tax.

**Example:**

One of the government agencies sold a property to one of the people in the context of exercising its function as a public authority, and not for the purpose of practicing a commercial, investment or economic activity or as a competitor to the private sector.

**Explanation:**

This disposal is exempt from the real estate transactions tax, with the necessity of registering the real estate transaction in the Zakat, Tax and Customs Authority before starting the conveyance process in the Ministry of Justice. This is to obtain evidence of the exemption from paying the real estate transactions tax.



## **5. Disposal of real estate by force in cases of expropriation for public benefit or temporary seizure of the property**

The transfer of ownership of real estate (conveyance) by force for the public benefit is exempt from the real estate transactions tax by virtue of a decision of expropriation issued by a competent authority in accordance with the laws in force in the Kingdom.

### **Example:**

A final judicial ruling was issued regarding the expropriation of a property for the public benefit.

### **Explanation:**

This disposal is exempt from the real estate transactions tax, with the obligation to register the real estate transaction in the Zakat, Tax and Customs Authority to obtain evidence of the exemption from paying the real estate transactions tax.

## **6. Disposal of real estate as a documented gift with the competent authority for the spouse, wife or relatives up to the third degree\***

The transfer of ownership of the property with no financial gain, as a documented gift, to the competent authority is exempt from the tax, if it is from the husband to his wife, from the wife to her husband, or to one of the relatives up to the third degree. This is provided that the disposer does not re-dispose of the gift of the property to a person who would not have been subject to this exception if the property had been given to him directly from the first donor, for a period of three years from the date of documenting the gift.

### **Example:**

A person donated his land to his niece, and the land was conveyed into her name in the Ministry of Justice.

**Explanation:**

The disposer (the donor) is exempt from paying the real estate transactions tax on the value of the land before the real estate conveyance process because the disposer donated the land to the daughter of his sister, who is one of the relatives up to the third degree. The real estate transaction has to be registered in the Zakat, Tax and Customs Authority before the conveyance process to obtain evidence of the exemption from paying the real estate transactions tax.

## 7. Disposal of real estate by virtue of a documented legal will

The transfer of ownership of real estate with no financial gain in execution of a legal will documented by the competent authority is exempt from the real estate transactions tax .

**Example:**

One of the people, in case of his death, bequeathed a piece of land, for no financial gain, to one of his relatives who do not inherit by virtue of a legal will documented by the competent authority.

**Explanation:**

The disposer is exempt from the real estate transactions tax on that land, with the obligation to register the real estate transaction in the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of the exemption from paying the real estate transactions tax.

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\*"Up to third-degree relatives" means:

The first degree: father, mothers, grandparents, grandmothers, etc.

The second degree: sons and daughters and their descendants.

The third degree: brothers and sisters, siblings, or for a father or a mother, their children and their grandchildren.





## **8. Temporary transfer of ownership of the property as a guarantee for financing or a credit**

The temporary transfer of ownership of the property by its owner as part of a legitimate financial product or as a guarantee related to financing is exempt from the tax. In this case the property ownership is waived by its owner until he fulfills his obligations towards the financing entity, after which the property returns to his ownership again.

### **Example:**

An individual wanted to obtain a personal loan from one of the financial institutions, and the institution required that the property be mortgaged or transferred into its name as a guarantee until the person pays the full value of the loan in addition to the credit interest.

### **Explanation:**

The individual is exempt from paying the real estate transactions tax as in this case the property is transferred only temporarily until the debt due to the financing entity is paid, after which it returns to the owner again. This process should be registered with the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of the exemption from paying the real estate transactions tax.

## **9. Transfer of ownership of the property in implementation of lease-to-own contracts and financial lease contracts concluded before the effective date of the real estate transactions tax**

The transfer of ownership of real estate (conveyance) that was previously held by the buyer under lease contracts or financial lease contracts concluded before the date of the effective date of the real estate transactions tax is exempt from the tax.

### **Example:**

One of the individuals bought a property under the Islamic lease system in 2012, and in 2022 that property was conveyed in his favor after paying the full installments due on the property.



**Explanation:**

The conveyance of that property is exempt from the real estate transactions tax as the lease contract and possession of the property were concluded before the effective date of the real estate transactions tax. This process should be registered in the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of the exemption from paying the real estate transactions tax.

**10. The real estate transaction that was previously subject to value-added tax, provided that no change occurs with the parties of the transaction or the value and terms of the contract**

The transactions that were subject to the value-added tax and were documented after the effective date of the real estate transactions tax are exempt from the tax, and that they were due and paid for the value-added tax in full before the date of documentation.

**Example:**

One of the companies concluded a sale contract for a property with one of the individuals by transferring the possession of the property to him in early 2020, and the due value-added tax was paid in full on the date of transfer of possession.

**Explanation:**

The conveyance of that property, by the same seller to the same buyer, is exempt from the real estate transactions tax as the same transaction was previously subject to the value-added tax on the full value of the property, subject to the conveyance. This process should be registered in the Zakat, Tax and Customs Authority before the real estate evacuation process to obtain evidence of the exemption from paying the real estate transactions tax.



### **11. Temporary disposal of real estate for the purpose of transferring it between a fund and a custodian or vice versa or between custodians of the same fund**

The transfer of ownership of the property or its conveyance from a real estate fund to a statutory custodian affiliated with it or vice versa or between custodians of the same fund shall be exempt from the real estate transactions tax in accordance with the provisions of the Capital Market Law and the regulations and instructions issued pursuant to it. Such a transaction should be registered with the Zakat, Tax and Customs Authority before the real estate evacuation process to obtain evidence of exemption from paying the real estate transactions tax.

### **12. Submitting the property as in - kind share in the capital of a company established in the Kingdom, except for undisclosed partisanship companies**

The transfer of ownership of the property by using it as a in - kind share in the capital of any company established in the Kingdom, except for undisclosed partnership companies, shall be exempt from the real estate transactions tax, provided that the shares or shares corresponding to the property are not disposed of for a period of five years from the date of their registration or ownership. These companies should retain audited financial statements by an external auditor throughout this period, and the transaction should be registered with the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of exemption from paying the real estate transactions tax.

### **13. Real estate transactions involving a foreign government, an international organization or body, a diplomatic or military mission, or a member of the diplomatic, consular or military corps accredited in the Kingdom**

The transfer of ownership of the property shall be exempt from the real estate transactions tax if one of the parties to the transaction is a foreign government, an international organization or body, a diplomatic or military mission, or a member of the diplomatic, consular or military corps accredited in the Kingdom, provided that they are treated on a reciprocal basis. Such transaction should be registered with the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of exemption from paying the real estate transactions tax.



#### **14. Disposal of the property by the partner in the company by transferring the property into the name of the company**

The transfer of ownership of a property by a partner in a company to that company shall be exempt from the real estate transactions tax provided that the property is listed in the company's assets before the effective date of the real estate transactions tax. The disposer (the partner) should submit audited financial statements or a certified certificate from a licensed legal accountant proving the inclusion of the property in the company's assets before the effective date of the real estate transactions tax and until the date of disposal. The transaction should be registered with the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of exemption from paying the real estate transactions tax.

##### **Example:**

A partner in one of the companies transferred the ownership of one of his properties to this company in November 2020, knowing that this partner had submitted a certificate from a licensed legal accountant confirming the inclusion of the property in the company's assets since 2019 and until the present.

##### **Explanation:**

This transaction is exempt from the real estate transactions tax in this case because the property was listed within the company's assets before the effective date of the real estate transactions tax.

#### **15. Disposal of the property by submitting it as in-kind contribution to the capital of a real estate investment fund upon the establishment of the fund**

The submission of properties as in-kind contribution to the capital of real estate investment funds except for funds established for the purpose of renting properties shall be exempt from the real estate transactions tax, if the submission was upon the establishment of the fund and in accordance with the provisions of the Capital Market Law and the regulations and instructions issued pursuant to it. This transaction should be registered with the Zakat, Tax and Customs Authority before the real estate conveyance process to obtain evidence of exemption from paying the real estate transactions tax.

**Example:**

One of the persons submitted one of the properties he owns as in - kind contribution to one of the real estate investment funds upon the establishment of the fund which was established for the purpose of developing and reselling properties.

**Explanation:**

This transaction is exempt from the real estate transactions tax in this case because the investment fund to which the property was invested was being established at that time and its goal was to develop properties for resale.

**16. Real estate transaction by a natural person to a company or an investment fund that owns directly or indirectly all the stocks of the company or the shares or units of the fund**

The disposal of the property by a natural person(s) to a company or an investment fund established in the Kingdom, for which the person(s) owns directly or indirectly all its stocks, shares or units of the fund shall be exempt from the real estate transactions tax provided that there has been no change in his/their ownership percentage in the company or the fund for a period of not less than five years from the date of the real estate transaction. This includes: The case when there is a match in the full ownership percentage(s) of the natural person(s) in the property and the company or the fund to which the property was disposed.

**Example 1:**

One of the individuals transferred the ownership of one of his properties to a company or fund in which he owns 100% of the shares, and there is a continuation of his full ownership in the company or the fund to which he transferred the property, without any change in this for a period of 5 years from the date of the real estate transaction; such a transaction is exempt from being subject to the real estate transactions tax due to the full ownership of the company or the fund and the expiration of the time limit.

**Example 2:**

Ahmad and Abdullah both own 50% of the shares of the same property, and they transferred the ownership of the property to a company owned by the two of them in full by the same percentage as their ownership of the property, i.e. both own 50% of the shares in the company. Thus, this transaction is exempt from being subject to the real estate transactions tax because of the match in the percentages for the same owners and the expiration of the time limit.

**Explanation:**

The person is exempt in this case from paying the real estate transactions tax as the conditions required for exemption are fulfilled, which are owning all the stocks or shares in the company or owning all the units of the fund, and the full ownership percentage in the company or the fund transferred to which the property was transferred had not changed for a period of 5 years from the date of the real estate transaction.

**17. Real estate transaction between a company and another company established in the Kingdom, one of which owns directly or indirectly all the stocks of the other company or its shares; real estate transaction between a company and an investment fund established in the Kingdom when the company owns directly or indirectly all the units of the fund; real estate transaction between companies or investment funds established in the Kingdom for which all their stocks, shares or units are owned directly or indirectly by the same persons**

The following cases are exempt from the real estate transactions tax: the disposal of the property between a company and another company established in the Kingdom, one of which owns all the stocks or shares of the other company; the real estate transaction between a company and an investment fund established in the Kingdom when the company owns all the units of the fund; and the real estate transaction between companies that are owned by the same persons. The exemption depends on the ownership of the companies directly or indirectly provided that the ownership percentage of that person in the company or the fund to which the property was disposed has not changed for a period of not less than five years from the date of the real estate transaction. The exception aims to encourage people to restructure their business without incurring financial burdens as a result.

**Example 1:**

Company (A), which is a company that owns 100% of company (B), transferred a property to company (B), with the full ownership of company (A) in company (B) continuing without change for a period of 5 years from the date of the real estate transaction. Thus, this transaction is exempt from being subject to the real estate transactions tax due to the ownership in the company to which the property was disposed has not changed and the expiration of the time limit.

**Explanation**

Company (A) is exempt in this case from paying the real estate transactions tax as the real estate transaction was made with the company that is fully owned by it, with the condition that the ownership of the company has not changed for a period of 5 years starting from the date of the real estate transaction.

**Example 2:**

Company (A) transferred a property to an investment fund in which it owns all the units, without this ownership of the fund changing for a period of 5 years from the date of the real estate transaction. Thus, this transaction is exempt from being subject to the real estate transactions tax due to company (A) having full ownership of the fund's units and the expiration of the time limit.

**Explanation**

Company (A) is exempt in this case from paying the real estate transactions tax as the real estate transaction was made to the fund that it fully owns, with the condition that the full ownership of the fund's units has not changed for a period of 5 years, starting from the date of the real estate transaction.

**Example 3:**

Company (A) owns all the shares in company (B) and company (C), and the real estate transaction was made between company (B) and company (C) while the full ownership of company (A) in company (C) did not change for a period of 5 years from the date of the real estate transaction. Thus, this transaction is exempt from being subject to the real estate transactions tax because of the full ownership of the two companies (the disposer and the disposed to) and the expiration of the time limit.



**Explanation:**

Company (B) is exempt in this case from paying the real estate transactions tax as the real estate transaction was made between two companies that are fully owned by the same person, in addition to the fact that the ownership of all the shares in company (C) by that person of company (A) did not change throughout a period of 5 years from the date of the real estate transaction.

**18. Disposal of the property by any person to a licensed real estate developer to practice off-plan sale and lease activities**

The disposal of the property by any person to a licensed real estate developer to practice off-plan sale and lease activities in accordance with the systems, regulations, controls and instructions in force in the Kingdom shall be exempt from the real estate transactions tax provided that the property is allocated to one of the off-plan sale projects and a decision has been issued from the Off-Plan Sale and Lease Committee to license the sale.

**Example:**

One of the persons disposed of a property that he owns to one of the licensed real estate developers from the Off-Plan Sale and Lease Committee, and a decision was issued to license the sale on the map regarding the property which is the subject of the disposal.

**Explanation:**

This transaction is exempt from the real estate transactions tax in this case as the transaction was made to a real estate developer licensed by the Off-Plan Sale Committee and the property was licensed for and allocated to one of the sale projects on the map.





## **19. Disposal of the property with no financial gain to a company established in the Kingdom for which all of its stocks or shares are owned directly or indirectly by a family or charitable endowment**

The disposal of the property with no financial gain to a company established in the Kingdom for which all of its stocks or shares are owned directly or indirectly by a family or charitable endowment, provided that the ownership percentage of the endowment in the company that to which the property was disposed has not changed for a period of five years from the date of the transaction. This exemption aims to not impose any taxes on endowments due to the existence of exemptions in force for them in accordance with the exception number (2) of this guide.

### **Example:**

One of the persons disposed of a property, with no financial gain, to a company established in the Kingdom for which all of its stocks and shares are owned by a family or charitable endowment, provided that the ownership percentage of the endowment in the company to which the property was disposed has not changed for a period of five years from the date of the real estate transaction.

### **Explanation:**

This transaction is exempt from the real estate transactions tax in this case because the transaction of transferring the ownership of the property was with no financial gain and it was transferred to a company that is 100% owned by a family or charitable endowment while the percentage ownership of the endowment in the company to which the property was transferred did not decrease from 100% for a period of 5 years from the date of the real estate transaction.

## **20. Returning the property to its previous owner as a result of canceling the documented real estate transaction at the notary public or the accredited notary by mutual consent between its parties**

The return of the property to its previous owner as a result of canceling the documented real estate transaction at the notary public or the accredited notary, by mutual consent between its parties, shall be exempt from the real estate transactions tax provided that there is no change in the description of the property and there was a return of its full value.

**Example:**

Yusuf (the disposer) sold a property to Muhammad (the person disposed to or the collector). However, after a period of one month from the date of documenting the real estate transaction, both the disposer and the collector canceled the documented real estate transaction and agreed to return the property, without any change in its descriptions and its value.

**Explanation:**

This real estate transaction, which is the return of the property by the collector to the disposer, is exempt from the real estate transactions tax if the real estate transaction is canceled by mutual consent between its parties and within 90 days from the date of documenting the real estate transaction, provided that the property is returned without any change in its descriptions at the time of documenting, and there was a return of its full value. The tax paid for the canceled real estate transaction is also refunded.

## **21. The transaction is subject to the real estate transactions tax only once when the unity of the parties of the transaction, the property and the value is achieved**

It is not permissible for the real estate transaction to be subject to the tax more than once when the unity of the parties of the transaction, the property and the value are achieved. This excludes transactions related to Islamic leasing and its equivalents.

**Example:**

One of the individuals purchased a property under the Islamic leasing system after the entry into force of the real estate transactions tax, and the seller paid the real estate transactions tax that was due (5%) on the date of the seller's conveyance to the financing party.

**Explanation**

The conveyance process, from the financing party to the final beneficiary, is exempt from the real estate transactions tax as the first conveyance of the same transaction was subject to the tax and the tax due on it was paid on the date of the first conveyance. This process should be registered in the Zakat, Tax and Customs Authority before the real estate evacuation process to obtain what proves the exemption from the real estate transactions tax.



## **Violations and fines**



## 5%

The delay penalty is calculated at an amount equal to 5% of the unpaid tax amount for each month or part thereof for which the tax has not been paid.

## 10,000 SR

A fine of not less than 10 thousand riyals and not exceeding the value of the tax is due for violating the provisions of the real estate transactions tax, such as in the event of a failure to disclose details in a timely manner, failure to disclose details accurately, providing an inaccurate value for the property, or other violations mentioned in the Real Estate Transactions Tax Regulations.

## The amount of tax due

The tax evasion penalty reaches a financial fine of not less than the value of the tax due and not exceeding three times of its value.

\*\*Violations fall on the seller and he is responsible for paying the tax value to the Authority.



## **Mechanism of Objection to the Real Estate Transactions Tax**



## **Mechanism of Objection to the Real Estate Transactions Tax**

**Watch the video:**

<https://youtu.be/tkPmEw0WiwQ>



## Contact us

For more information on any transaction subject to the real estate transactions tax, please visit the website:

[Zatca.gov.sa](https://zatca.gov.sa)

Or contact us at the following number:

**19993**



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