

## Real Estate Transaction Tax (RETT) in KSA

### What you need to know

Real Estate Transaction Tax (RETT) was introduced in the Kingdom of Saudi Arabia (KSA) with effect from 4 October 2020. Unless specifically exempted, the tax applies to all land and property sales, assignments, transfers and similar activities that take place in the Kingdom. This is a new tax in KSA and will have far-reaching impacts on businesses and organizations involved in any real estate, construction or sales activities with immediate effect.

To provide businesses with the needed clarity to navigate this change, we have listed below some of the key considerations that they need to be attentive to:

- ✔ The applicable rate is 5% of the value of the land and property (and rights thereto)
- ✔ The sale of shares in property owning companies may also attract a charge to RETT
- ✔ Companies may face (negative) adjustments for VAT recovered earlier in relation to capital assets used for development and subsequent sales of real estate
- ✔ There are some exceptions that apply, mostly around transfers to close family and transfers for the public good (charitable and similar) and inheritance. Both taxable and exempt RETT transactions must be reported
- ✔ Value Added Tax (VAT) is no longer applicable to the sale and disposal of property, which will have an impact on property developers and construction companies in particular. Such transactions will now be treated as being exempt
- ✔ There are stringent penalty provisions for overt avoidance and planning arrangements
- ✔ No RETT grouping is provided for in the law, so intercompany transfers of land and property will be liable to RETT
- ✔ RETT is generally due when the deal is notarized at the Ministry of Justice. However, an earlier tax point may occur with off-plan sales and other non-notarized transactions
- ✔ The primary responsibility to collect the tax lies with the seller. However, in cases where the tax is not remitted by the seller, the purchaser may become liable
- ✔ A scheme known as Licensed Real Estate Developer Scheme has been introduced allowing "land and property development companies" to recover input VAT on their expenses. Rules and conditions around the qualification as a Licensed Real Estate Developer have been issued by the General Authority for Zakat and Tax (GAZT)

The RETT marks a new chapter in how indirect taxation is further applied into the Saudi Arabian economy and commercial landscape. Although the vast majority of transactions undertaken, particularly in the private sector, should be comparatively easy to identify as being liable to RETT, more complicated arrangements will require careful and detailed review. These arrangements include Build Own Operate Transfer (BOOT), major infrastructure projects involving multiple partners and joint-ventures, property investment companies and real estate funds.

#### How can Deloitte help?

Deloitte can support businesses in the Kingdom through a series of service offerings as listed below:

#### RETT health check assessment

We have designed an approach and methodology to review compliance with the RETT rules so that errors, risks and opportunities can be identified and resolved or seized. Given that RETT is a very new law, possibilities of error by oversight or an incorrect interpretation of the regulations cannot be ruled out.

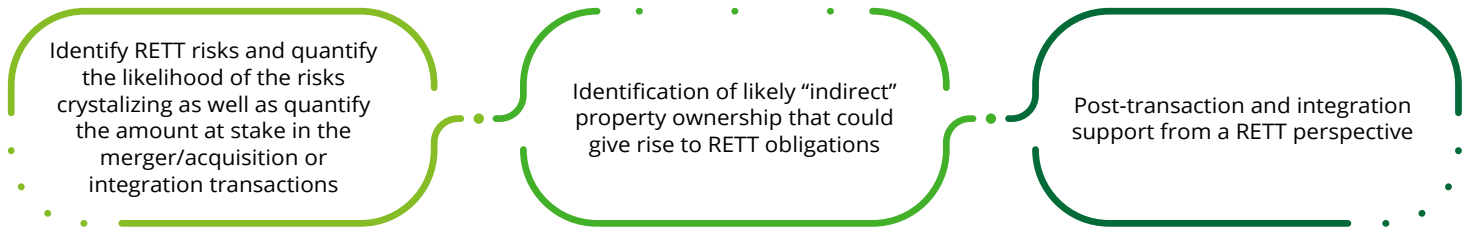
The deliverable is a report with clear and practical recommendations. The methodology provides a structured approach to ensure efficiency and effectiveness through the following process.



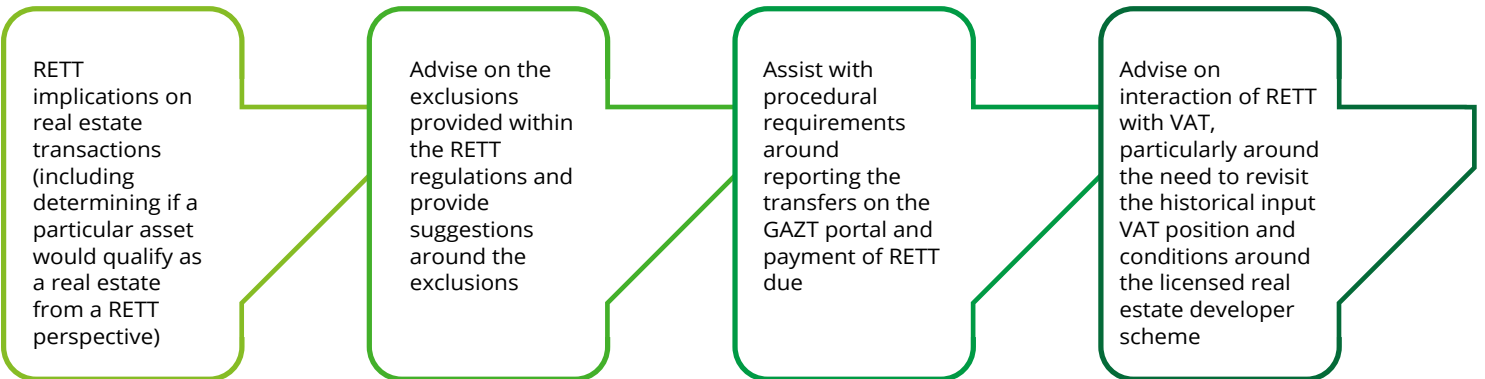


### Acquisition/merger and restructuring

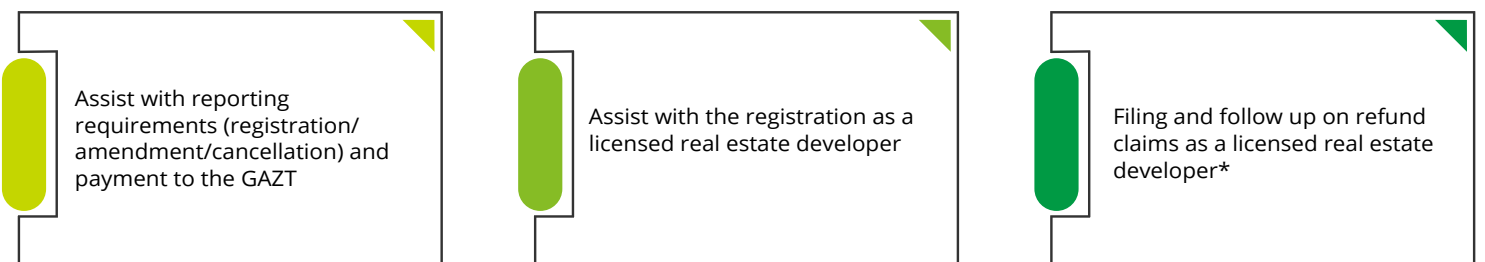
The merger/acquisition or restructuring transactions may involve movement of real estate between entities, which could entail RETT implications. Given that the transferee and transferor are jointly liable for any RETT liability arising out of the transaction, it is important to assess the RETT implications in advance.



### RETT advisory services



### RETT compliance services



\*It is important to note that the GAZT has not issued a detailed refund process to date.

## Contacts

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