

## RETT relief on the purchase of replacement real estate for expropriated real estate

November 2024



Real Estate Transaction Tax (RETT) was introduced in the Kingdom of Saudi Arabia (KSA or “the State”) on 4 October 2020. It applies to most land and property transactions in KSA, barring certain exemptions. One of the exemptions provided is for the compulsory disposal of real estate in cases of expropriation for the public interest or temporary seizure of real estate (Article 3.A.5 of the RETT Implementing Regulations).

One of the key issues that arise in the case of compulsory expropriation is that if the landowner purchases a replacement real estate, RETT would generally be applicable to such a purchase. This leads to an additional cost for the landowner, which may seem unfair.

The State Properties General Authority (SPGA) has sought to address this issue in the Draft Executive Regulations for the Law of Expropriation of Real Estate for the Public Benefit and Temporary Seizure of Property (“the draft regulations”). As per the draft regulations, the State shall bear RETT resulting from the purchase of a replacement real estate for the expropriated real estate, subject to the condition that the replacement real estate is purchased within a time limit of six years from the date of receiving the compensation amount. These draft regulations are yet to be made effective.



However, pending the enactment of the draft regulations, it is noteworthy that this relief is currently being provided on a case-by-case basis by the Government. It is now available for any land within the scope of the Diriyah Gate Project, scheduled to be expropriated under the Council of Ministers Decision No. 323 dated 28-04-1444 (22 November 2022). The relief is more or less similar to what is outlined in the draft regulations, except that the replacement purchase must be completed within five years of receiving the compensation amount.

With this decision, the Saudi Government demonstrates its commitment to supporting and providing relief to parties affected by expropriation within the Diriyah Gate Project. The Government's proactive approach to covering RETT allows impacted parties to focus on finding suitable replacement properties without the additional financial burden typically associated with such transactions.

Saudi Arabia's Vision 2030 initiative has set the stage for the development of numerous “giga projects” designed to transform various regions of the country and diversify the economy. Some of these projects may involve real estate expropriation to accommodate the development plans outlined in Vision 2030. It may be expected that the Government might provide similar reliefs for other specific regions, particularly if the enactment of the draft regulations is further delayed. Once the draft regulations are enacted, this relief should become more broadly available across KSA.

Finally, it is essential to underscore that tax advisors should be consulted in expropriation matters, not only to analyze RETT exemptions but also to evaluate whether the RETT relief applies to the purchase of replacement lands.

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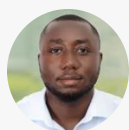
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