



Sale of First Residence to KSA Citizens

Introduction

The General Authority of Zakat & Tax (GAZT) recently launched a web page and issued multiple tweets to outline the procedure to be followed for waiver of Value Added Tax (VAT) on the sale of first home to Saudi citizens. Pursuant to the Royal Order No. (A/86) dated 18/4/1439 AH (January 6th, 2018), the mechanism has been announced by which the government will bear the VAT on behalf of Saudi Citizens for the purchase of their first home up to the amount of SAR 42,500 (5% VAT on SAR 850,000). This alert summarizes key points for your easy reference.

Who is eligible to claim this benefit?

A Saudi Citizen can avail this benefit if he is purchasing his first home and does not own any property in his name. Therefore, the Citizen will not be required to pay VAT (up to SAR 42,500) while purchasing the first dwelling provided he is able to present a “Tax Benefit Certificate”. If the value of property is more than SAR 850,000, then VAT on the balance value will be paid by the Citizen.



What is a Tax Benefit Certificate?

“Tax benefit certificate” refers to a certificate that is to be obtained by the Citizen proving his eligibility to benefit from Royal Order No. (A/86). This certificate shall exempt the Citizen from paying VAT to the supplier of the Residential Property. The certificate will be issued by the **Ministry of Housing** to the Saudi Citizen after due procedure. The application for the “tax benefit certificate” should be made online on the dedicated website for issuance of this certificate by the Ministry of Housing.

What is the procedure for the Registered VAT Supplier?

- The Supplier will not collect the VAT up to SAR 42,500 from a Citizen when a certificate issued by the Ministry of Housing is provided. If VAT is more than SAR 42,500, the same can be collected from the Citizen (buyer) at the time of sale.
- The supplier should verify the original “Tax Benefit Certificate” collected from the Citizen (obtained via the Electronic System) as a prerequisite to proceed with the sale without collecting tax from the Citizen.
- Supplier will have to pay, to the GAZT, the entire VAT payable (including SAR 42,500 which is not collected from the buyer) on the sale price of house sold.
- Since the VAT cost will be borne by the Government on behalf of the Citizen as per the Royal Order No. (A/86), supplier will have to file a claim with the Ministry of Housing to reimburse the VAT (total VAT or SAR 42,500 whichever is lower) paid on behalf of the Citizen. Supplier needs to attach all the required documents specified in the application form or Electronic System, including a copy of the title deed of the housing unit under the name of the Citizen.
- Once the application form is completed and submitted to the Ministry of Housing together with the requisite documents, the Ministry will pay the VAT to the supplier up to a maximum amount of SAR 42,500 in accordance with the provisions of the Royal Order No. (A/86)

Response Time of payment to the Supplier by the Ministry

The Ministry of Housing will finalize the VAT payment procedures to the supplier no later than one month from the date of submission of the VAT payment request from the supplier. The time-period of payment will depend on the period that the Ministry of Finance will require to approve the payment of tax to the supplier.

What if the Supplier does not receive the payment within the period?

If the supplier, applies for the payment of VAT and does not receive it before filing the VAT return for the concerned period, the supplier will have to pay the entire VAT liability on the due



date. The supplier needs to pursue the Ministry of Housing to receive the payment on a timely basis.

What about houses sold between 1st January' 2018 to July' 2018 where this benefit was not taken?

Since the Citizen would have paid the VAT, it can make an application for refund of this amount. The Citizen, however, has to satisfy the test of buying the first house.

Comments - Overall impact on the Real Estate sector

- Saudi Citizens not having a house, will be encouraged to buy their first house. This will help increase the demand of real estate and hence benefit the KSA economy.
- For the finance & tax teams of the real estate companies, there is an addition to the VAT compliance process. They need to exercise caution to confirm they receive proper "Tax Benefit certificate". Further they would need to set up a process to follow up to the Ministry for reimbursement.
- Working capital may be impacted if there are delays in the payment by the Ministry



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