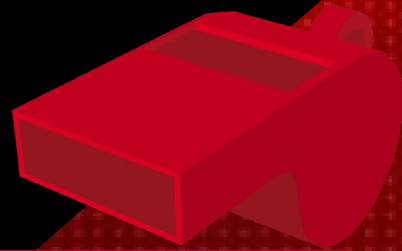


## TAX ALERT

October 30, 2024



# Navigating the New Real Estate Transaction Tax Regulations in Saudi Arabia: Key Insights and Implications

## Overview

On 19/03/1446H,, the Saudi Arabian Zakat, Tax and Customs Authority (ZATCA) issued a new regulation concerning the Real Estate Transaction Tax, established under Royal Decree No. M/84 and Council of Ministers Decision No. 239. This regulation outlines the application of a tax on real estate transactions across various scenarios. The real estate transaction tax applies to the value of properties being sold or transferred, regardless of their condition or form. It includes both the land and any structures on it and must be paid prior to or during the transfer or documentation of the contract.

## Key Provisions

### Definition of Terms:

- **Tax:** A 5% charge imposed on real estate transactions.
- **Real Estate:** Non-movable properties within the Kingdom.
- **Transaction:** Any act transferring property ownership or benefiting from it.

## Tax Rate

- A 5% tax applies to all real estate transactions regardless of property condition or type.
- The tax is calculated based on the agreed total value of the transaction at the time of transfer and should not be less than the fair market value at the time when the transaction takes place.

## Exemptions

The following transactions are fully exempt from tax:

- Inheritance division.
- Transfers to a public, private, or joint endowment without compensation, as well as transfers to or from a legally licensed charitable association.
- Transactions related to public benefit, public bodies and institutions, or executed by governmental authorities.
- Gifts between family members up to the third degree.
- Various other specific transactions including certain types of investments and administrative actions.



## Tax Timing and Payment

- The tax is due on the transaction date, which also serves as the documentation date. Early payment is allowed, with some exceptions permitting payment after the transaction.
- Sellers are responsible for tax payment, and joint liability applies in cases of non-payment.

## Compliance and Reporting

- Parties involved in transactions must ensure accurate reporting and avoid agreements that result in concealed or fictitious transactions.
- ZATCA retains the right to reassess the value of transactions within three years for tax purposes, especially in cases of suspected tax evasion.

## Refunds

- Tax paid in error or for incomplete transactions may be refunded, provided the conditions set by the regulation are met.

## Tax Penalties

- Penalties for tax evasion can be up to three times the evaded tax amount. This also applies to anyone who assists or facilitates such evasion.
- A penalty of 2% per month on unpaid tax will be applied, capped at 50% of the total unpaid amount, starting the day after the payment deadline. If the tax amount is adjusted, an additional penalty of 1% per month will apply, beginning 30 days after notification.
- Violators of the tax system or regulations face a fine up to the amount of the due tax or 50,000 Riyals, whichever is higher.



## Appeals Process

- Individuals can challenge decisions within 60 days of notification, with the authority required to respond within 90 days. If unresolved, a 30-day window for court appeal follows. Failure to appeal renders the authority's decision final.

## Effective Date

- The regulations will take effect 180 days from the publication date 19/03/1446H , superseding any conflicting provisions.

## Evasion

- Tax Evasion was defined as providing false documents with the intent to evade tax is classified as tax evasion, and the taxpayer must prove lack of intent.



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