

Client Alert

Real Estate

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Saudi Arabia Issues Real Estate Transaction Tax (“RETT”) Law

Pursuant to Royal Decree number M/84 dated 19/3/1446H (corresponding to 22 September 2024G) and Council of Ministers Resolution number 239 dated 14/3/1446H (corresponding to 17 September 2024), the Real Estate Transaction Tax Law (the “**RETT Law**”) was published on 8/4/1446H (corresponding to 11 October 2024G). The RETT law will take effect 180 days following its publication date. Its implementing regulations will also be issued 180 days following the publication date of the RETT Law and will supersede existing regulations (the “**RETT Implementing Regulations**”).

We highlight aspects of the RETT Law below:

- **Definition of a real estate company:** a real estate company is defined as any company, fund, or entity which directly or indirectly owns real property in the Kingdom of Saudi Arabia (“**Saudi Arabia**”) with the objective of generating income through the sale or lease of such properties. The market value of said properties must exceed a certain percentage of the total fair market value of the real estate company’s assets. Such percentage is determined by the RETT Implementing Regulations and must be at least 50% of the asset value.

We note that the RETT Guidelines issued by the Zakat, Tax, and Customs Authority (“**ZATCA**”) on 3 May 2024 defined a real estate company as a company with real estate properties that account for more than 50% of its assets or capital. As such, this definition in the RETT Law limits the application of the RETT to companies that are actively engaged in the sale or lease of real estate.

- **New RETT Exemptions:** The RETT Law introduces additional exemptions from the application of the RETT, namely the following exemptions:
 - transfer of real estate to or from a licensed charitable organization for no consideration;

- real estate transactions involving initial public offering, trading of listed securities, and trading of units in investment funds;
 - real estate transactions involving mergers and acquisitions; and
 - real estate transactions pursuant to a forced sale issued by a competent court.
- **Statute of Limitations:** Article 8 of the RETT Law imposes a time limit on ZATCA's assessment of a given real estate transaction. ZATCA must request payment of a tax deficiency within three years of the date of a real estate transaction or its knowledge of an undisclosed or undocumented real estate transaction.

The RETT Law is a significant regulatory development. The additional exemptions introduced in the RETT Law aim to facilitate commercial activities through initial public offerings, trading of listed securities, trading of units in investment funds and corporate restructuring. The additional exemptions also aim to encourage charitable contributions.

We anticipate further clarifications on the application of the RETT exemptions with the issuance of the RETT Implementing Regulations.

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