IPTI Xtracts

Property Tax and Assessment News from Around the World

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CONTENTS

SAUDI ARABIA

Understanding the new real estate transactions tax

News channels and social media platforms are abuzz with discussions and opinions about the newly imposed 5 percent tax on real estate transactions and its overall impact on the sector.

A Royal Decree has exempted all real estate transactions involving ownership and sale from the 15 percent value-added tax (VAT), replacing it with the new tax of 5 percent of the value of a property at the time of sale.

A real estate transaction is any legal action that leads to the transfer of ownership of a property or usufruct for the purpose of ownership or lease, including different forms of sale and barter, and financial leasing.

The new tax will be imposed on the value of the property that is to be sold or transferred regardless of its condition or form. It includes the land and what is constructed on it. The tax has to be paid before or during the transaction or documentation process.

The purpose of the tax is to support citizens and help them own houses and commercial property in order to boost the Kingdom's economy.

The state will now bear SR1 million ($267,000) of the total property value for first-time homeowners.

There are 12 cases where real estate transactions are exempted from the tax, such as dividing property among inheritors or transferring a property as a gift to children or to a relative up to the second degree.

The exceptions also include presenting real estate as a share in kind in a joint stock company, provided that the corresponding shares of the property may not be disposed of for more than five years.

Any government agency that sells real estate, and the transfer of a property to a government entity is also exempted, where the board of directors has the right to recommend more exceptions.

These exceptions extend to cover cases of forcible removal of a property when expropriation is in favor of the public benefit or temporary seizure of the property, or the temporary use of the property for the purpose of securing financing or credit in case it is not permanently transferred to a financier or others.

Financial lease contracts and lease contracts that have been completed before the implementation of this regulation are also exempted from the tax.

Other exemptions include transferring property between a fund and a custodian temporarily, or the transaction of property if one of the parties is a foreign government, international organization, diplomatic or military body or mission when dealing with reciprocity, or real estate supplies that are subject to VAT before it is authenticated.

Procedures have been defined clearly for the payment of the tax. Two bodies are involved in the entire procedure — the General Authority of Zakat and Tax (GAZT) and the Ministry of Justice.

For GAZT, one has to visit its website and choose the tax from several options. After completing certain formalities such as the seller's date and contract number, one needs to disclose the nature and type of the property. Once the value of the property is calculated, an invoice of 5 percent tax will be issued to be paid by the taxpayer.

With regard to the procedures of the Ministry of Justice, the authority stated that the transactions should be processed and notarized at the notary after paying the tax. The final step is to document the contract and the seller will be notified of the completion of the process.

According to the GAZT, the competent authority will not complete the documentation process without a receipt confirming the payment of the tax.

Saudi Arabia brings in lower property tax to boost sector

Property deals in Saudi Arabia have been exempted from a 15 percent value-added tax (VAT) as the government moves to support the real estate sector.

Instead a new 5 percent tax will be applied to deals as the Kingdom seeks to boost an economy that has been hit hard by the impact of the coronavirus pandemic and weaker oil prices.

The Saudi economy contracted by about 7 percent in the second quarter as unemployment rose to 15.4 percent. The government had in July tripled VAT to 15 percent to help offset the impact of weaker oil prices.

“The royal order aims to support citizens and ease their burden," Finance Minister Mohammed Al-Jadaan tweeted. He said that the reduction would enable people to own homes and help to support the residential and commercial property sector.

The royal order said that the government would meet the cost of the new real estate transaction tax “for up to SR1 million ($266,616)” for Saudis buying their first home.

Despite the headwinds facing the Kingdom's real estate sector, mortgages in Saudi Arabia have surged this year with the number and value of home loans issued in the eight months to August exceeding all of last year. More than 22,000 home loans were issued over the period with a combined value of SR10.1 billion according to a statistical bulletin issued by the Saudi Arabian Monetary Authority (SAMA).

That compares with 12,309 mortgages valued at SR5.2 billion for the same period a year earlier. The jump in house buying contrasts sharply with the slump in real estate transactions elsewhere in the region as a combination of weak oil prices and the coronavirus have hurt consumer confidence.

Demand for home loans is also spurring the growth of Islamic finance according to Moody's, the credit ratings agency.

"Mortgages, a key consumer finance product, have been a key driver of Islamic finance expansion over the past few years, and will remain an engine of growth," it said in a report this week.

"Despite fiscal austerity measures now in place, mortgage demand is strong, product offerings have improved and home valuations have become more affordable."

Boosting home ownership in Saudi Arabia is one of the goals outlined in the Kingdom's Saudi Vision 2030 blueprint for economic and social change. It includes a number of targets such as reducing the ratio between the average unit price and average annual per capita income to five times. It also aims to increase the percentage of home ownership among Saudi citizens to 60 percent. The Saudi Real Estate Refinance Company bought a portfolio of mortgages worth more than SR3 billion in July with the aim of boosting liquidity to the housing market and allowing for more loans to be issued.

Saudi Arabia imposes new 5% property tax

Oil-rich kingdom orders exemption of real estate deals from 15% value-added tax, imposes new lower tax on transactions to shore up property sector.

RIYADH - Saudi Arabia's king on Friday issued an order exempting real estate deals from a 15% value-added tax (VAT) and imposed a new 5% tax on transactions as the Gulf state moves to revitalise an economy hit by low oil prices and the COVID-19 pandemic.

The finance minister said on Twitter that the order, carried on state media, also aimed to support Saudi citizens who want to buy homes.

The world's largest oil exporter is facing a deep recession, with the economy shrinking by 7% in the second quarter and unemployment hitting a record high of 15.4%.

The government had in July tripled VAT to 15% to boost non-oil revenues, but the move has limited domestic demand.

"The royal order aims to support citizens and ease their burden ... and enable them to own homes, and helps develop the kingdom's economy by spurring the residential and commercial property sector," Finance Minister Mohammed al-Jadaan tweeted.

De facto ruler Crown Prince Mohammed bin Salman has launched an ambitious plan to diversify the economy and create jobs for millions of Saudis. The government has said it is committed to the plan but that programmes would undergo "structural improvements" and be reprioritised to spur growth.

The royal order said the government would bear the cost of the new Real Estate Transaction Tax "for up to 1 million riyals ($266,616)" for Saudi citizens purchasing their first home.

The housing minister said the move would help achieve a target of boosting housing ownership by Saudis to 70% percent by 2030 in a country with an overwhelmingly young population.

Saudi Arabia plans to cut spending by 7.5% in next year's budget, according to a preliminary budget statement that forecast a 12% budget deficit for 2020 and a 5.1% deficit next year.