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VAT

# VAT Guideline for Real Estate Investment and Real Estate Financing

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## Introduction: Using this Guideline

The General Authority of Zakat and Tax (“GAZT”) is the government body tasked with regulating, enforcing, administering and implementing Zakat and taxation in the Kingdom of Saudi Arabia. GAZT aims to collect Zakat and taxes and facilitate taxpayers in achieving the highest degree of compliance. One of GAZT’s roles is to raise awareness among taxpayers, to provide information for taxpayers to understand VAT obligations and to facilitate VAT compliance. As part of this GAZT has released many guidelines to provide additional clarification on VAT, in relation to specific sectors and circumstances.

The VAT treatment of real estate transactions can be complex in practice, particularly when these are purchased using third party finance. The application of VAT, and the corresponding obligations on a seller, purchaser and financier will depend on the exact nature of the arrangements. Many property investors may not be familiar with the concepts of VAT – and therefore this guideline intends to give a high-level overview of the main implications and obligations of this activities.

More detailed legal information is provided in comprehensive guidelines on Real Estate, Financial Services and Islamic Finance. Please refer to VAT.GOV.SA to find these VAT Guidelines and other reference material.

This Guideline solely serves as guidance material and does not include or purport to include all relevant information or legal provisions in relation to real estate activities. It is not binding on GAZT or on any Taxable Person in respect of any transaction carried out and it cannot be relied upon in any way.

## 1. Basic principles to apply VAT to Real Estate transactions

Real Estate investors must consider the VAT implications of income derived when they sell or rent commercial, residential, or any other real estate.

### 1.1. Sale of Real Estate

VAT of 5% applies to all sales of Real Estate by a Seller (Supplier) who is a Taxable Person carrying on an Economic Activity. The table below examines and explains key parts of this rule:

TABLE 1: WHEN WILL VAT BE APPLIED TO A SALE OF REAL ESTATE?

<p><b>VAT</b></p> <p><b>of 5%</b></p> <p><b>applies</b></p> <p><b>to:</b></p>	<p><b>...all sales...</b></p>	<p>A sale – for VAT purposes - is a transfer of the ownership of property, the right to dispose of property, or similar agreement which provides for the subsequent transfer of that property in future such as “rent-to-own.</p> <p>There can be multiple sales of a property in the course of a commercial property investment arrangement. Each individual sale can be separately subject to VAT.</p>
	<p><b>...of Real Estate...</b></p>	<p>Real estate is all types of property, including commercial property, residential property, and any other developed or undeveloped land (buildings), together with any building or structure on that land<sup>1</sup> .</p>
	<p><b>...by a Seller (Supplier)...</b></p>	<p>The person considered the “Seller / Supplier” of real estate – for each individual sale - is the person who has ownership to a property in its own name and transfers this to a customer:</p> <ul style="list-style-type: none"> <li>• The original owner selling the real estate typically acts as Supplier.</li> <li>• A financing provider can also be a Supplier for VAT purposes, if it contractually buys and sells the real estate as part of a financing arrangement.</li> </ul>
	<p><b>...who is a Taxable Person carrying on an Economic Activity.</b></p>	<p>A Taxable Person is someone who carries on an Economic Activity and is registered or required to register for VAT in Saudi Arabia<sup>2</sup>.</p> <p>An Economic Activity is a commercial or similar activity conducted in an ongoing and regular manner<sup>3</sup>. For example, in a real estate context<sup>4</sup>:  The sale of a seller’s own dwelling (which the seller currently lives in) – is not an economic activity and not subject to VAT.  The sale of a house by a property investor who has previously bought sold properties over a period – is part of an economic activity and is subject to VAT.  The sale of a commercial property held for business use or as a business investment – is part of an economic activity and subject to VAT.</p>

1. Complete definition is provided in article 23 of VAT Implementing Regulations, and explained in the Real Estate Guideline.

2. A complete definition is provided in article 2 of VAT Implementing Regulations, and explained in the General VAT Guideline.

3. A complete definition is provided in article 1 of the GCC VAT Agreement, and explained in the Economic Activity Guideline.

4. Article 9(7) of the VAT Implementing Regulations sets out additional cases in which the sale of property is included or excluded from being part of an Economic Activity.

A sale of property subject to VAT (following the tests above) creates obligations for both the supplier and the customer:

**TABLE 2: VAT OBLIGATIONS FOR A SALE OF REAL ESTATE**

### **Taxable Supplier's obligations**

- To include 5% VAT within the final sales price and collect this from the Customer (or the Ministry of Housing for a qualifying sale of a Citizen's first home – see section 3 of this Guideline)
- To register for VAT, if the Seller/Supplier is not already registered and the sale results in the Seller/Supplier exceeding the minimum threshold for registration and considered as practising an Economic Activity.
- To issue a Tax Invoice to the Customer showing the total VAT charged.
- To report and pay the full 5% VAT to GAZT at the specified times as per the Law.

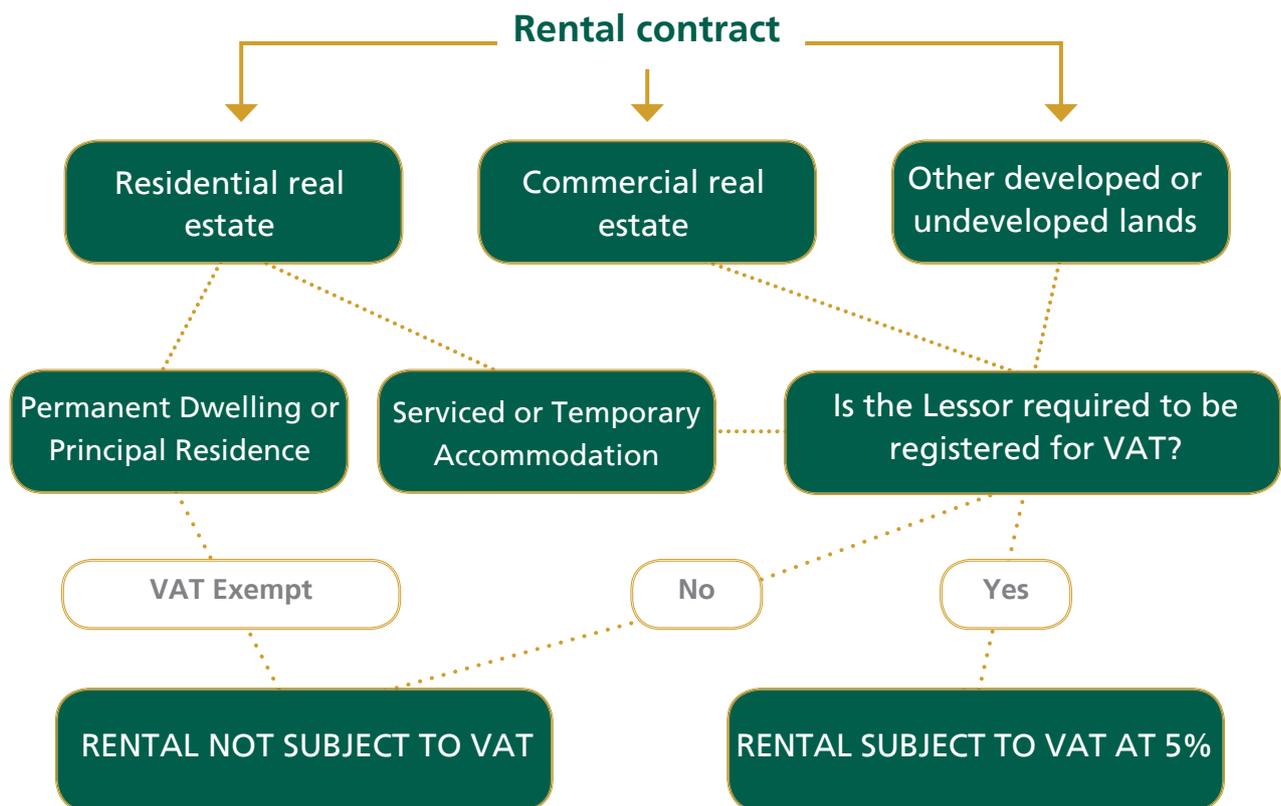
### **Customer's obligations**

- To provide a first home certificate in any case where the relief for qualifying sale of a Citizen's first house applies
- To pay the full amount charged by the Supplier for the house, including the VAT amount charged by the registered Seller via a Tax Invoice.

## 1.2. Rental of Real Estate

Residential rental is exempt from VAT. All other real estate rental made by a Taxable Person is subject to VAT e.g. commercial rental. The flowchart below illustrates how the VAT treatment is determined.

### FLOWCHART: APPLICATION OF VAT TO REAL ESTATE RENTAL



Implications for Lessor:

- The Lessor must not charge VAT.
- The Lessor is not able to register for VAT or deduct VAT on costs relating to these supplies.

Implications for Lessor:

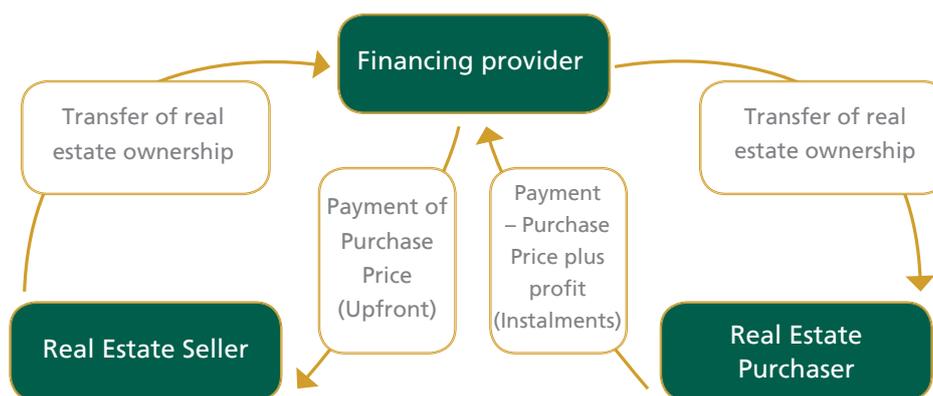
- The Taxable Lessor must register for VAT (if not already registered).
- A Taxable Lessor must charge VAT and issue a Tax Invoice for each separate rental charge.

## 2. VAT Treatment of Real Estate Financing Arrangements

This section describes three common financing arrangements for the sale and purchase of real estate: murabaha, ijara and a conventional finance product. All such arrangements will typically involve multiple parties including a “Seller”, a “Purchaser” and a “Financing provider”. Each financing arrangement assists the Purchaser to finance a real estate purchase, but the differences in the arrangements results in different VAT implications for the parties.

### 2.1. Murabaha

Under a typical murabaha arrangement, usually a Financing provider - Bank - purchases real estate from the owner (Seller) and sells this to the Purchaser at a profit margin, to be paid by instalments (which include both purchase price and profit margin).



There are two sale and purchase agreements within the murabaha agreement. Therefore, there are two sales of the real estate for VAT purposes, both involving the financing provider:

1. The financing provider acquires the real estate from the Seller – formal ownership is transferred to the financing provider in its own name.
  - **If the Seller is a Taxable Person (such as a real estate developer or a person involved in buying and selling real estate), VAT is charged at 5% on the full purchase price.**
2. The financing provider will grant the purchaser the right to use the real estate (possession transfer) and sell it to the Purchaser for installments over an agreed financing period. The ownership is transferred to the purchaser upfront, and the purchaser will pay the purchase price (principal) and a markup (profit element) over the agreed financing period.
  - **The principal purchase price is subject to 5% VAT, and the financing provider’s profit is VAT exempt.**

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 4. Article 9(7) of the VAT Implementing Regulations sets out additional cases in which the sale of property is included or excluded from being part of an Economic Activity.

**TABLE 3: VAT OBLIGATIONS FOR PARTIES TO A MURABAHA ARRANGEMENT****First - Sale from Owner to Financing provider with the following cases:**

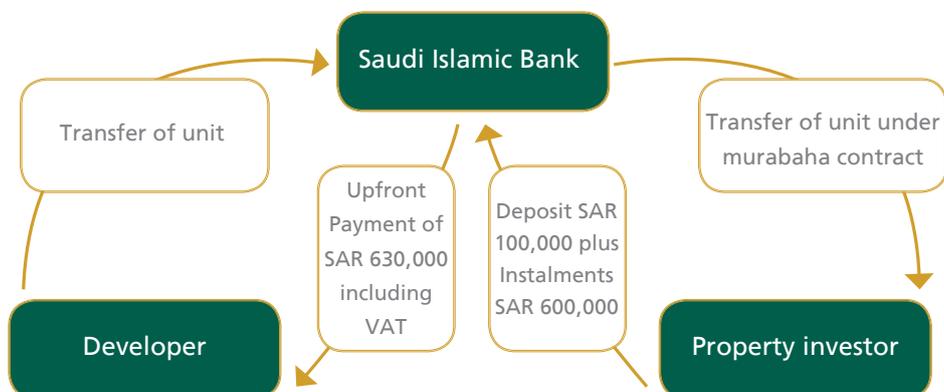
1. VAT registered Seller to Financing Provider		
VAT-registered Real Estate Seller	Financing provider	Real estate Purchaser
<ul style="list-style-type: none"> <li>Issues Tax Invoice to Financing Provider.</li> <li>Charges 5% VAT on purchase price.</li> <li>Reports VAT charged as per specified dates in the Law.</li> </ul>	<ul style="list-style-type: none"> <li>Acts as Customer at this stage</li> <li>Pays VAT-inclusive amount to Real Estate Seller.</li> <li>It is allowed to deduct VAT charged by Real Estate Seller as Input Tax.</li> </ul>	<ul style="list-style-type: none"> <li>No obligations at this stage.</li> </ul>
2. Non-VAT registered Seller to Financing Provider		
Non-VAT Registered Real Estate Seller	Financing provider	Real estate Purchaser
<ul style="list-style-type: none"> <li>Seller will not charge VAT or issue any Tax Invoice to Financing Provider and owes no obligations towards GAZT. <sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>Acts as Customer at this stage</li> <li>Pays sale price amount to Real Estate Seller (without VAT).</li> <li>Cannot deduct VAT as Input Tax as VAT is not charged by Seller.</li> </ul>	<ul style="list-style-type: none"> <li>No obligations at this stage.</li> </ul>

**Second – Sale from Financing Provider to Real Estate Purchaser**

Sale from Financing Provider to Real Estate Purchaser		
<ul style="list-style-type: none"> <li>No obligations from second sale.</li> </ul>	<ul style="list-style-type: none"> <li>Acts as Supplier at this stage</li> <li>Issues Tax invoice to Purchaser on date of transfer. VAT shown on Tax Invoice could be collected from customer upfront, or included in the loan amount to be collected over the course of the murabaha. This is a commercial decision for the financing provider. In all cases, the seller (the financing provider) shall be obliged to pay the tax to the Authority when it is due.</li> <li>5% VAT charged on full principal value of the property is due to GAZT upfront, and is reported in Tax Return at the specified times as per the Law<sup>6</sup>.</li> <li>Does not charge VAT on profit element – (VAT exempt)</li> <li>Collects VAT from Ministry of Housing for eligible sales of first homes to Saudi citizens.</li> </ul>	<ul style="list-style-type: none"> <li>Pays instalments due to financing provider.</li> <li>Depending on usage of property, Purchaser may be eligible for Input Tax deduction.</li> <li>Provides a first home certificate in any case where the relief for qualifying sale of a Citizen's first house applies.</li> </ul>

5. Each seller must verify whether he will be obliged to register for VAT with the Authority when he sells a property. Normally, individuals who own several properties for investment purposes or trade in real estate are usually required to register with the Authority. For more information, please see the detailed guidelines for the real estate sector and economic activity. Also, you can contact the Authority via the communication channels on the website

Example (1): A property investor sees a new residential unit in Jeddah listed for sale by a developer for SAR 630,000 (including VAT). The investor wants to purchase the unit and use it for rental. The investor's purchase is not eligible for relief as the first home of a Saudi citizen.



The investor (the real estate purchaser) enters into a murabaha agreement with Saudi Islamic Bank (the financing provider) to finance the purchase. To execute the murabaha, Saudi Islamic Bank purchases the unit from the developer (the real estate seller) for the purchase price of SAR 630,000. The developer issues a Tax Invoice to the Bank showing VAT of SAR 30,000 charged on the transaction, and the Bank deducts this as Input Tax.

Under the murabaha arrangement, the Bank sells the unit to the investor for a total amount of SAR 700,000 – (made up from a deposit of SAR 100,000 and a further 600,000 over ten years). The total amount includes:

- The principal value (the VAT-exclusive purchase price) of SAR 600,000;
- 5% VAT charged on the principal value (SAR 30,000); and
- a profit of SAR 70,000.

Saudi Islamic Bank must issue a Tax Invoice to the investor for the full principal value of SAR 600,000 and VAT of SAR 30,000 as at the date of supply (in most cases, the date of possession transfer). An excerpt from the Tax Invoice is below.

6. VAT is due on the date of payment of the consideration for the sale of the property or the issuance of the invoice or the date of supply - whichever is earlier - and the date of supply is the date on which the possession of the property was transferred

**Supplier: Saudi Islamic Bank**

**Customer: Jeddah Property Investor**

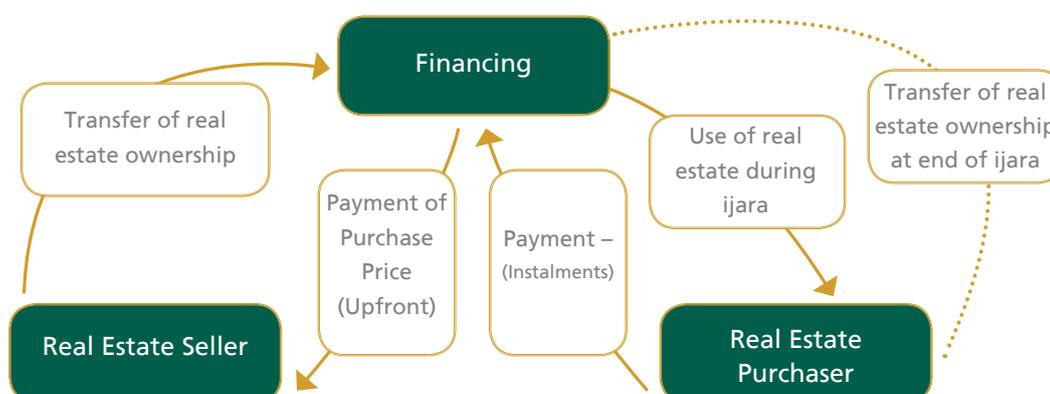
**Date of Supply : Unit Transfer Date**

		VAT payable	Value
Sale of Residential Unit – principal value	5% VAT	30,000	600,000
Profit on Sales of Residential Unit under Murabaha	VAT exempt	0	70,000
Total VAT charged on supply		30,000	
Total payable under Murabaha (including VAT)			700,000
Deposit received			(100,000)
Outstanding balance due			600,000

Saudi Islamic Bank reports VAT of SAR 30,000 in its Tax Return for the date of supply, but it collects the principal, VAT and profit elements from the customer progressively under the installment payments over the ten-year murabaha period.

## 2.2. Ijara

Under a typical “lease-to own” ijara arrangement<sup>7</sup>, a financing provider purchases real estate from the seller and leases this to the Real Estate Purchaser. At the end of the ijara term, the formal ownership of the property is typically transferred from the financing provider to the Purchaser. The financing provider earns a profit from the mark-up of the purchase value over the lease instalments.



7. Often referred to as Ijara Muntahia Bittamleek

Under the “lease-to-own” ijara arrangement there are two sales of the real estate:

1. The financing provider acquires the real estate from the Seller – formal ownership is transferred to the financing provider in its own name.
  - If the Seller is a Taxable Person, VAT is charged at 5% on the full purchase price .
2. The financing provider leases the real estate to the Purchaser (and transfers possession), with the ownership of that real estate to be transferred at the end of the agreed financing period. The purchaser will pay the cost price (principal) and a markup (profit element) within the installments paid to the financing provider.
  - For VAT purposes, the sale of real estate under the ijara contract takes place when possession is granted to the purchaser upfront.
  - The principal purchase price is subject to 5% VAT, and the financing provider’s profit is VAT exempt.
  - The transfer of formal ownership at the contract end is not a separate supply of the real estate and does not create additional VAT obligations

**TABLE 4: VAT OBLIGATIONS FOR PARTIES TO A LEASE-TO-OWN IJARA**

**First - Sale from Owner to Financing provider with the following cases:**

1. VAT registered Seller to Financing Provider		
VAT-registered Real Estate Seller	Financing provider	Real estate Purchaser
<ul style="list-style-type: none"> <li>• Issues Tax Invoice to Financing Provider</li> <li>• Charges 5% VAT on purchase price</li> <li>• Reports VAT charged as per specified dates in the Law</li> </ul>	<ul style="list-style-type: none"> <li>• Acts as Customer at this stage</li> <li>• Pays VAT-inclusive amount to Real Estate Seller</li> <li>• It is allowed to deduct VAT charged by Real Estate Seller as Input Tax</li> </ul>	<ul style="list-style-type: none"> <li>• No obligations at this stage</li> </ul>
2. Non-VAT registered Seller to Financing Provider		
Non-VAT Registered Real Estate Seller	Financing provider	Real estate Purchaser
<ul style="list-style-type: none"> <li>• Seller will not charge VAT or issue any Tax Invoice to Financing Provider and owes no obligations towards GAZT.<sup>8</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Acts as Customer at this stage</li> <li>• Pays sale price amount to Real Estate Seller (without VAT)</li> <li>• Cannot deduct VAT as Input Tax as VAT is not charged by Seller</li> </ul>	<ul style="list-style-type: none"> <li>• No obligations at this stage</li> </ul>

8. Each seller must verify whether he will be obliged to register for VAT with the Authority when he sells a property. Normally, individuals who own several properties for investment purposes or trade in real estate are usually required to register with the Authority. For more information, please see the detailed guidelines for the real estate sector and economic activity. Also, you can contact the Authority via the communication channels on the website

## Second – Sale from Financing Provider to Real Estate Purchaser

Sale from Financing Provider to Real Estate Purchaser		
<ul style="list-style-type: none"> <li>No obligations from second sale.</li> </ul>	<ul style="list-style-type: none"> <li>Acts as Supplier at this stage</li> <li>Issues Tax invoice to Purchaser on date that Purchaser takes possession to the real estate. VAT shown on Tax Invoice could be collected from customer upfront, or included in the loan amount to be collected over the course of the Ijara. This is a commercial decision for the financing provider. In all cases, the seller (the financing provider) shall be obliged to pay the tax to the Authority when it is due.</li> <li>5% VAT charged on full principal value of the property is due to GAZT upfront, and is reported in Tax Return at the specified times as per the Law<sup>9</sup>.</li> <li>Does not charge VAT on profit element – (VAT exempt)</li> <li>No additional VAT charged on final transfer of ownership.</li> </ul>	<ul style="list-style-type: none"> <li>Pays instalments due to financing provider.</li> <li>Depending on usage of property, purchaser may be eligible for Input Tax deduction</li> </ul>

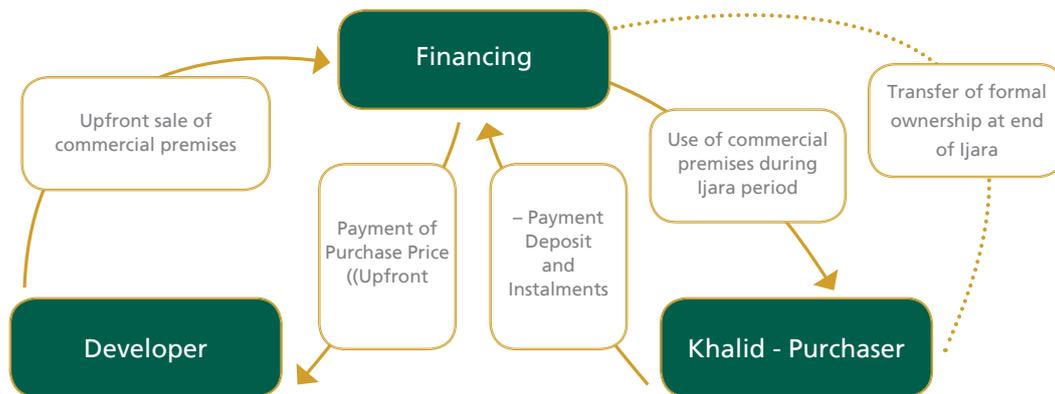
Example (2): Khalid is a commercial property investor in Dammam. He wishes to finance the acquisition of a new business premises, currently being offered for sale by a developer for SAR 4,200,000 (including VAT). Khalid intends to carry out improvement works and hold the premises for commercial use.

Ijara Company offers an ijara arrangement under which Khalid pays SAR 950,000 upfront, and a further SAR 3,600,000 in regular lease payments across a ten-year lease term, with an option to purchase the property in full on completion. The ijara therefore contemplates the transfer of ownership of the real estate. Once the sale details are agreed, Khalid refers the developer to Ijara Company to arrange the contracts for the financing of the property. In order to enter the arrangement, Ijara Company must first purchase the business premises in its own name from the developer.

The developer transfers full contractual ownership of the property to Ijara Company for SAR 4,200,000 and is paid upfront. The developer issues a Tax Invoice to Ijara Company<sup>10</sup>.

9. The full amount of the tax due on the property transferred under an Ijara contract is reported in the tax return to be filed for the period in which the property is supplied

10. The Financing Provider is eligible to deduct the VAT as it is used for an onwards taxable supply of the property



For VAT purposes, Ijara Company is deemed to supply the premises to Khalid on the date Khalid takes possession to the property (30 March 2020). It must issue a Tax Invoice to Khalid for the principal value of the premises (SAR 4,000,000) and the VAT chargeable (SAR 200,000). An excerpt of the Tax Invoice is shown below:

**Supplier: Ijara Company**

**Customer: Khalid**

**Date of Supply :**

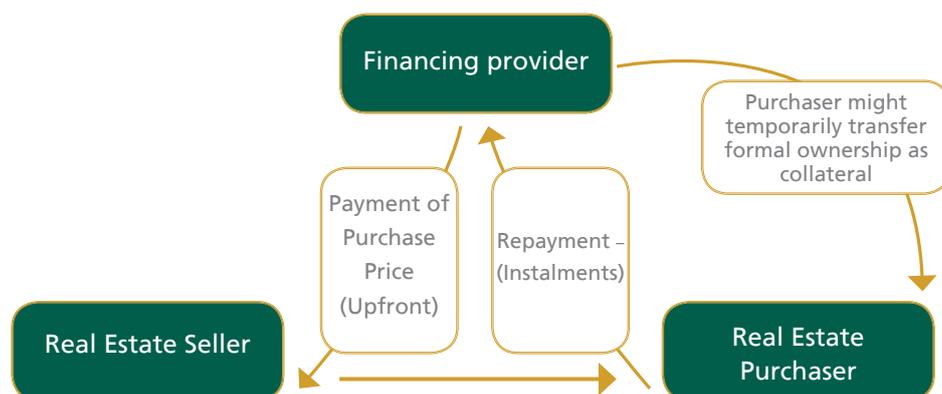
**Date of Possession - 30 March 2020**

		VAT payable	Value
Ijara for Commercial Premises – principal value	5% VAT	200,000	4,000,000
Profit on Commercial Premises under Ijara	VAT exempt	0	350,000
Total VAT charged on supply		200,000	
Total payable under Ijara (including VAT)			4,550,000
Deposit received			(950,000)
Outstanding balance due			3,600,000

The VAT charged is reported in Ijara Company's VAT return for March 2020. The additional markup of SAR 350,000 charged over the duration of the ijara is VAT exempt. Ijara Company must not issue Tax Invoices in respect of the regular lease payments received throughout the ijara term.

## 2.3. Traditional Conventional loans and other finance products where Customer purchases real estate directly

In other circumstances, a financing recipient purchases real estate directly from the seller, and uses this as collateral for obtaining finance. Such a model is common under traditional conventional real estate financing models.



In cases where the purchaser enters into a direct sale and purchase agreement with the seller, there is only one sale of the real estate. In these cases the financing provider does not purchase or sell the real estate.

- If the Seller is a Taxable Person, VAT is charged at 5% on the full purchase price .
- The cash-only financing provided by the financing provider is exempt from VAT.
- Any temporary transfer of the real estate as collateral (if applicable) is not subject to VAT.

Example (3): Angelo wishes to purchase a new unit in Riyadh, offered for sale by a developer for SAR 1,400,000 (plus VAT of SAR 70,000). Angelo is able to pay SAR 270,000 of the purchase price upfront as a deposit, but requests a conventional loan from Green Bank for the remaining SAR 1,200,000 to be paid over 15 years.

Angelo enters into a contract with the developer directly for the sale of the unit. The developer is aware that Green Bank is providing finance, but the bank is not a party to the contractual agreements. The developer issues a Tax Invoice to Angelo for the sale of the unit.

**Supplier: Riyadh Developer**

**Customer: Angelo**

**Date of Suply : Date of Transfer**

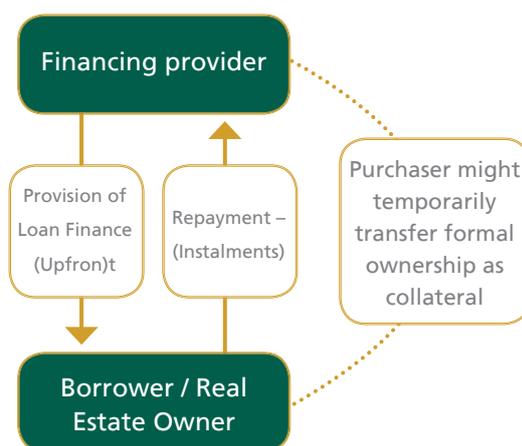
		VAT payable	Value
Sale of unit – principal value	5% VAT	70,000	1,400,000
Total consideration due for unit (including VAT)	VAT exempt	0	1,470,000
Deposit received			(270,000)
Amount payable from finance provider (Green Bank)			1,200,000

Angelo makes regular repayments to Green Bank, made up of the principal value of the loan amount and an implicit margin. Green Bank's financing margin is VAT exempt, and the repayments do not include any VAT. Green Bank does not issue Tax Invoices to Angelo, but may typically issue a statement of payments due and total amount owed.

Under the terms of the loan, Angelo must transfer the ownership deed of the property to Green Bank. This is a temporary transfer as collateral, and Green Bank never receives full ownership to the property. On completion of the loan, the ownership deed reverts back to Angelo. No VAT is charged on the transfer of the deed by Angelo or the subsequent transfer by Green Bank.

### 2.3.1. Other Cases: Use of existing owned real estate as collateral for conventional finance

A person owning existing real estate can use this as collateral for a traditional conventional loan. In this case, the finance is not connected to the original purchase of the real estate – the borrower can borrow the funds for use in another purpose.



These cases do not involve the sale of real estate, or any supplies which are subject to VAT:

- The cash-only financing provided by the financing provider is exempt from VAT.
- The temporary transfer of the real estate as collateral (if applicable) is not subject to VAT.

## 2.4. Common questions on Real Estate Financing

- **Each financing contract intends to provide financing for a house purchase, but VAT may apply differently based on the type of contract. Is that correct?**

Yes. The VAT treatment of each product differs, because of the exact arrangements for purchase and sale of the real estate. Under the murabaha and ijara contracts, the financing provider also sells real estate in its own name, and therefore must charge VAT on those sales.

- **How does VAT apply if the real estate Seller is not registered?**

VAT only applies to a supply made by a Taxable Person. If the real estate Seller is not registered and not a Taxable Person, it must not charge VAT on its sale to the financing provider, or its direct sale to the Purchaser.

However, the VAT treatment is determined independently for each transaction. Therefore if the Financing provider is a Taxable Person, it must still apply VAT to all sales of real estate it makes.

- **What are the VAT implications if the real estate financing contract is cancelled before end of term?**

This depends on the exact transactions resulting from the cancellation arrangements. The Purchaser might often transfer the real estate, or its interest in the real estate, to another third party purchaser or back to the Financing provider. In this case, the Purchaser must determine if this transfer is made as part of an Economic Activity and if the transfer is required to be subject to VAT.

- **How does VAT apply to other fees charged relating to a real estate financing arrangement?**

Any explicit fees or commissions charged by the financing provider to enter into a finance arrangement, or for the administration of a financing arrangement, are subject to VAT at 5%.

### 3. Sales of first houses to Saudi citizens

The Kingdom of Saudi Arabia has agreed to bear the cost of VAT for Saudi citizens purchasing their first house, up to a maximum value of SAR 850,000<sup>11</sup>. This VAT relief is administered in conjunction with the Ministry of Housing.

#### What sales are eligible for the State to fund the VAT amount?

- Sales of residential properties only.
- Sales to a Saudi citizen only.
- The first house that the Saudi citizen has purchased (as is certified by the Ministry of Housing)

TABLE 5: VAT PROCESS FOR SALES OF FIRST HOUSES TO SAUDI CITIZENS

#### Step 1: Purchaser applies for first home certificate from the Ministry of Housing

The purchaser must apply via the Ministry of Housing website, and must validate eligibility of the sale as part of the application process.

#### Step 2: Purchaser provides certificate to Supplier of real estate

If the Purchaser cannot provide a certificate, the Supplier should collect 5% VAT in full from the Purchaser.

#### Step 3: Supplier determines VAT to be collected from the Ministry of Housing, and any additional VAT to be collected from the Purchaser

On sales of property valued up to SAR 850,000, all VAT is collected from the Ministry of Housing

Example -

VAT exclusive sale price: SAR 720,000

Total VAT at 5%:	SAR 36,000
VAT collected from Ministry	SAR 36,000
VAT collected from Purchaser	(none)

On sales of property valued over SAR 850,000, the maximum amount which can be collected from the Ministry of Housing is SAR 42,500 (5% of 850,000).

Any VAT on the value exceeding SAR 850,000 must be collected from the Customer.

Example -

VAT exclusive sale price: SAR1,420,000

Total VAT at 5%:	SAR 71,000
VAT collected from Ministry	SAR 42,500
VAT collected from Purchaser	SAR 28,500

#### Step 4: Supplier issues a Tax Invoice to the Purchaser and reports all VAT in the VAT return

The total VAT of 5% on the sale value is shown on the Tax Invoice and included in the Tax Return. This is not adjusted for amounts collectable from the Ministry of Housing.

11. Refer to the Royal Order No. (A/86) dated 191439/4/H

### 3.1. First Home Relief under Real Estate Financing Arrangements

#### MURABAHA OR LEASE-TO- OWN IJARA

- Sale from Seller to Financing Provider is subject to VAT at 5% in full. First Home Relief does not apply to this first sale transaction.
- If Purchaser provides first home certificate, the Financing Provider must apply First Home Relief to the second sale.
- Financing Provider collects VAT (up to a maximum of SAR 42,500) from the Ministry of Housing.
- Financing Provider collects any excess VAT (charged on amounts exceeding SAR 850,000) from Purchaser through instalments due under the financing arrangements.

Example (4): Saudi Islamic Bank provides a murabaha agreement for the first house of Abdullah, a Saudi citizen. Under the murabaha arrangement, the Bank purchases the house from the property seller, and then sells the unit to Abdullah for:

- The principal value (the VAT-exclusive purchase price) of SAR 1,000,000; plus
- 5% VAT charged on the principal value (SAR 50,000); and
- a profit of SAR 70,000.

Abdullah pays a deposit of SAR 100,000, and the balance of the murabaha over a 15 year period. Saudi Islamic Bank collects SAR 42,500 from the Ministry of Housing, and includes the remaining VAT (on the excess value over SAR 850,000) within the loan amount to be collected with the murabaha repayments. The Tax Invoice shows the total VAT charged on the sale and notes the amount to be collected from the Ministry of Housing.

**Supplier: Saudi Islamic Bank**

**Customer: Abdullah**

**Date of Supply : Unit Transfer Date**

		VAT payable	Value
Sale of Residential Unit – principal value	5% VAT	50,000	1,000,000
Profit on Sales of Residential Unit under Murabaha	VAT exempt	0	70,000
Total VAT to be collected from Ministry of Housing		42,500	
Total VAT to be collected from Customer			7,500
Total payable by Customer under Murabaha (including VAT)			1,077,500
Deposit received			(100,000)
Outstanding balance due			977,500

Saudi Islamic Bank reports the full amount of VAT charged on the sale (SAR 50,000) in the Tax Return in which the unit is considered sold for VAT purposes<sup>12</sup>.

#### NON-ISLAMIC LOAN

- Seller must apply the First Home Relief, and collect VAT from the Ministry of Housing if Purchaser provides home certificate.
- Financing Provider has no obligations for the First Home Relief.

12. The date on which the unit was sold is the date of supply of the property, which is the date of payment of the consideration or the date of issuing the tax invoice for the sale or the date of transfer of the unit's possession - whichever is earlier.



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