

## Introduction:

The Professional Magazine is a specialized publication issued by Ali Ibrahim Al-Nasser & Partners, Certified Public Accountants and Consultants. In this twenty-fifth issue, we address the tax advantages of investment funds under the Real Estate Transaction Tax (RETT) regulations. This issue also highlights a number of common professional mistakes and practices, most notably the failure to verify the correct effective date of registration when submitting a Value Added Tax (VAT) registration application.

# Key Updates and Developments

## 1. SOCPA Issues the 2026 Edition of the International Standards on Quality Management, Auditing, Review, and Other Assurance Engagements:

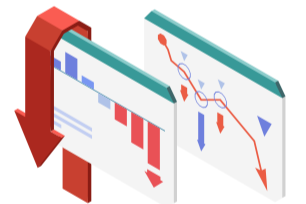
The Saudi Organization for Chartered and Professional Accountants (SOCPA) has issued the updated electronic Arabic edition for 2026, corresponding to the latest edition of the International Standards on Quality Management, Auditing, Review, Other Assurance Engagements, and Related Services issued by the International Auditing and Assurance Standards Board at the end of 2025. This edition includes the updates to the international standards that were approved by SOCPA's Auditing Standards Board during 2025.

## 2. SOCPA Issues the Arabic Electronic Edition of the International Code of Ethics for 2026:

The Saudi Organization for Chartered and Professional Accountants (SOCPA) has published the updated Arabic edition (2026) of the International Code of Ethics for Professional Accountants (including International Independence Standards) as adopted in the Kingdom of Saudi Arabia, corresponding to the latest edition of the International Code issued at the end of 2025.

This edition includes a number of improvements to the translation of the Code, as well as the incorporation of updates issued by the international board, which had previously been approved by SOCPA's Professional Conduct and Ethics Committee.

## Tax Advantages of Investment Funds under the Real Estate Transaction Tax (RETT) Regulations



Tax and Zakat systems often include provisions that take into account certain types of activities or economic practices, either due to the nature of such activities or because public interest considerations justify granting specific tax advantages. One example is the special provisions relating to real estate investment funds under the Real Estate Transaction Tax (RETT) Law and its Implementing Regulations. Real estate funds are closely connected to real estate transactions in their various forms, including the sale, purchase, transfer, and acquisition of real estate. Real estate funds also fall within the concept of a Real Estate Company under the Law, which defines a Real Estate Company as: "Any company, fund, or entity—regardless of the purpose of its establishment—that directly or indirectly owns real estate within the Kingdom for the purpose of generating income through the sale or lease thereof, provided that the fair market value of such real estate exceeds a specified percentage of the total fair market value of its assets, as determined by the Regulations, and in any case not less than fifty percent (50%) of the value of such assets." This may result in the transfer of fund units by unit holders being treated as a real estate transaction subject to Real Estate Transaction Tax (RETT) where the conditions set out in Paragraph (i) of Article (2) of the Implementing Regulations are met. Said paragraph provides that: "A real estate transaction shall arise where a person, or a group of persons acting in concert, disposes of an aggregate interest of thirty percent (30%) or more in of the interests in a Real Estate Company through one or more related transactions during any three (3) year period commencing on or after the date on which such person or persons hold thirty percent (30%) or more of the interests in that Real Estate Company."

Given the close connection between real estate funds and real estate transactions—whether through transfers of real estate to or from the fund or its custodians, or through transfers of units in real estate funds by unit holders—the Real Estate Transaction Tax (RETT) Law and its Implementing Regulations provide a number of special benefits and exemptions for investment funds. Among the most notable are the following:

- Exemption for transfers of units in exchange-traded funds listed on the stock market: Paragraph (9) of Article (3) of the Real Estate Transaction Tax (RETT) Law provides an exemption for real estate transactions in cases of public offerings, trading of listed securities, and trading of investment fund units. Accordingly, the transfer of units in exchange-traded funds is considered an exempt transaction for RETT purposes, regardless of the percentage of units being transferred. Examples include transfers of units in listed real estate investment funds (REITs). In addition, registration of the exempt real estate transaction is not required in this case, as Paragraph (6) of Article (11) of the Implementing Regulations confirms that registration is not required for exempt transactions involving subscriptions in publicly offered securities and the trading of listed securities.
- Exemption for transfers of units in unlisted real estate funds that fall within the concept of a real estate transaction, where the transfer does not reach 50% of the fund units: Paragraph (9) of Article (3) of the Implementing Regulations provides an exemption for the transfer of unlisted units of an investment fund established in the Kingdom in accordance with the Capital Market Law and the rules and instructions issued thereunder, where such fund falls within the definition of a Real Estate Company. This exemption does not apply where a person, or a group of persons acting in concert, disposes of an aggregate interest of fifty percent (50%) or more of the units of the fund through one or more related transactions during any three (3) year period commencing on or after the date on which such person or persons hold fifty percent (50%) or more of the units of that fund. Accordingly, where the transfer of units in an unlisted real estate fund is less than 30% of the fund units, the transaction does not fall within the concept of a real estate transaction in the first place. If the transfer reaches 30%, the transaction falls within the concept of a real estate transaction; however, it remains exempt from Real Estate Transaction Tax (RETT) unless the transfer reaches 50% of the fund units, including related transactions within the period referred to above.
- Exemption for temporary real estate transfers between an investment fund and a custodian—or vice versa—or between custodians of the same fund: In accordance with the provisions of the Capital Market Law and the rules and regulations issued pursuant thereto, and as stipulated in Paragraph (10) of Article (3) of the Implementing Regulations.
- Exemption for transfers of real estate contributed to real estate funds as an in-kind subscription: Paragraph (13) of Article (3) of the Implementing Regulations provides an exemption for the transfer of real estate contributed as an in-kind subscription to the capital of a real estate investment fund, in accordance with the provisions of the Capital Market Law and the rules and instructions issued thereunder, provided that the fund units issued in exchange for such in-kind contribution are not disposed of until the earlier of: the expiry or liquidation of the fund; or the lapse of at least five (5) years from the date of acquisition of the units. Accordingly, acquiring units in real estate funds through an in-kind transfer of real estate, without cash consideration, shall not result in any Real Estate Transaction Tax (RETT) cost.
- Exemption for transfers by a natural person who owns the fund when transferring real estate to the fund: Paragraph (17) of Article (3) of the Implementing Regulations provides an exemption for a real estate transfer made by a natural person to a company or investment fund established in the Kingdom, where that person solely owns—directly or indirectly—all of the shares, interests of such company, or fund units, provided that no change occurs in that person's ownership percentage in the company or fund for a period of not less than five (5) years from the date of the transaction. Accordingly, a natural person who wholly owns any investment fund may transfer any real estate asset to the fund with exemption from Real Estate Transaction Tax (RETT), regardless of the nature or reason for the transfer, and whether made for consideration or without consideration.
- Exemption for real estate transfers between a company and its wholly owned fund, and between funds owned by the same person: Paragraph (18) of Article (3) of the Implementing Regulations provides an exemption for a transfer between a company and an investment fund established in the Kingdom, where the company owns—directly or indirectly—all of the units of the fund; and a real estate transfer between companies or investment funds established in the Kingdom, where all of their shares, interests, or units are owned—directly or indirectly—by the same person, provided that all shares of the transferee company, or its interests, or the units of the transferee fund remain owned—directly or indirectly—by the same person for a period of not less than five (5) years from the date of the real estate transaction. Accordingly, real estate may be transferred between a company and its wholly owned fund without Real Estate Transaction Tax (RETT), regardless of the reason for the transfer and whether made for consideration or without consideration. This exemption also extends to transfers of real estate between funds owned by the same person, regardless of the reason for the transfer and whether made for consideration or without consideration.
- Exemption for transfers without consideration to funds owned by endowments (Awqaf): Paragraph (20) of Article (3) of the Implementing Regulations provides an exemption for a real estate transfer made without cash or in-kind consideration to a company or investment fund established in the Kingdom, where all of the shares, interests, or units of such company or fund are owned—directly or indirectly—by a public, private, or joint endowment (Waqf) registered with the competent Awqaf authorities as an endowment and subject to their supervision, provided that no change occurs in the endowment's ownership percentage in the company or fund for a period of not less than five (5) years from the date of the real estate transaction.



Based on the foregoing, fund managers, unit holders, and investors in investment funds should, where possible, take advantage of the tax benefits available to real estate funds. This includes considering such tax advantages and the extent to which they may be utilized when structuring and establishing funds, or when making acquisition and exit decisions.



# Common Professional Mistakes and Practices

## Common Mistake:

Failure to verify the correct effective date of registration when submitting a Value Added Tax (VAT) registration application.

## Correct Procedure:

Verify the correct effective date of registration when submitting a Value Added Tax (VAT) registration application.

## Clarification (Example):

A taxable person, when applying for VAT registration, may incorrectly enter the effective date of registration. This may result in the taxpayer being treated as VAT-registered for prior periods, leading to the appearance of earlier tax returns that the taxpayer may be required to submit, or incurring tax on supplies that arose during those periods.



## Common Mistake:

Failure to consider the proportional deduction rules when deducting input tax in real estate companies or real estate funds.

## Correct Procedure:

Deduct non-attributable input tax on a proportional basis where the taxpayer has exempt supplies.

## Clarification (Example):

The supplies of a real estate company or real estate fund may include exempt supplies from VAT, such as residential leasing supplies or the sale of real estate. In such cases, where the taxpayer claims deduction of non-attributable purchases, it must be deducted on a proportional basis in accordance with Article 51 of the Implementing Regulations.



## Contact information:

+966 11 293 1220

+966 55 2012007

info@ans-cpa.com

https://www.ans-cpa.com/

الرياض - حي اشبيلية - طريق الصحابة | جدة - حي الشراع - طريق الأمير نايف  
.Riyadh - Ishbilyah - Al Sahaba Rd. | Jeddah - Al shera'a - Prince Naif Rd