

Saudi Arabia to Introduce New Land Tax

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There are large tracts of land in the main urban areas of the Kingdom which lie undeveloped. By some estimates these comprise up to 30% of some of these urban areas.

As land prices have generally been increasing across the Kingdom in recent years some developers and land owners have made strategic decisions to purchase and hold these undeveloped urban lots, but not to develop them.

So why has a land tax been introduced?

The aptly named Tax Law on Vacant Lands itself states the following aims:

- Increase the availability of land for development in order to achieve a balance between supply and demand;
- Provide residential land at a reasonable cost; and
- Encourage fair competition and combat monopolistic practices.

All of these aims are consistent with the Saudi Arabian government's policies of stimulating development and increasing affordable housing across the Kingdom.

Cost of the land tax

An annual tax will be levied on vacant lands owned by non-government persons at the rate of 2.5% of the value of the land, payable per annum.

Though not an unreasonably high amount in itself (when compared to other similar land taxes in other jurisdictions), when vacant land remains non-income producing the incentive to develop the land will become apparent fairly quickly.

Commencement of the law and its implementing regulations awaited

Some of the details are yet to be finalised. The Saudi Arabian government has been carrying out consultations across the Kingdom before finalising the Implementing Regulations.

The Implementing Regulations are to be promulgated by decision of the Cabinet around mid-2016. They will cover details such as:

- The timeframe for the gradual implementation of the tax;
- Guidelines for determining which land holdings, and the extent thereof, will be subject to the tax;
- Criteria upon which the applicability of the tax is dependent; and
- The controls necessary to ensure the fair application of the tax and prevent tax evasion, etc.

Designation of which lands fall within the 'urban boundaries' is presently under consideration. Candidates for such lands will likely be within built-up areas and which have access to services and utilities.

The Tax Law on Vacant Lands will commence in force after it has been published in the official gazette of

the Kingdom (which is expected to occur in June 2016). The Implementing Regulations will commence 180 days after they have been published (also expected in June 2016), so likely in early 2017.

Penalties, objections and appeals

The penalty for violation of the law is a fine of up to the amount of tax due on an owner's land without prejudice to his obligation to pay the land tax assessed.

A land owner may object to an assessment within a specified time to a new committee set up for that purpose. If unsatisfied with the result there are appeal rights against a notice that land is taxable or on the amount of any land tax assessment.

Precisely how land is to be valued will be a key consideration, as will the minimum requirements to develop such land to put it beyond the scope of the land tax.

The Implementing Regulations will set out guidelines for the appraisal of lands and will specify the authority responsible for appraisals. Those guidelines shall include land location, use, building code, and factors affecting the availability of public services and public utilities access.

How can you be prepared?

The impact of the land tax will need to be considered in any legal due diligence and feasibility analysis for land purchases in the Kingdom. Also sales contracts will need to address land tax, valuations and the objection / appeal process.

With low oil prices could this new tax be a sign of other property taxes to come? We can't be certain, though this tax is more about stimulating land development and increasing the supply of affordable housing than simply revenue raising. However it would be prudent to ensure that any future taxes are clearly addressed in sale agreements and in leases in the Kingdom of Saudi Arabia.