

# MANAGING CAPITAL GAINS TAX IN SAUDI ARABIA TAX ALERT:

Strategic Insights into KSA Capital  
Gains Tax: Rules and Exemptions



In line with the Kingdom's efforts to enhance tax clarity and precisely identify sources of income, the Zakat, Tax and Customs Authority (ZATCA) has intensified its scrutiny of asset disposals and corporate share transfers. Taxable income encompasses all revenues, profits, and gains derived from business activities, including capital gains and incidental income.

This newsletter outlines the legal framework for capital gains, cost-basis calculation mechanisms, and cases where exemptions apply in accordance with the Saudi Income Tax Law and its Implementing Regulations

Key points	Details
<b>Scope and Context</b>	<ul style="list-style-type: none"> <li>• Taxable income encompasses all realized gains derived from business activities, with a specific focus on capital gains triggered by the <b>disposal of assets</b></li> <li>• This includes a <b>20% tax</b> on gains realized by non-residents from the disposal of shares or assets in resident companies</li> </ul>
<b>Source of Income</b>	<ul style="list-style-type: none"> <li>• Disposal of shares in a resident company; or</li> <li>• Disposal of real estate located in KSA; or</li> <li>• Disposal of shares in companies whose assets consist primarily (directly or indirectly) of KSA real estate; or</li> <li>• Any other transactions which leads to gains (upon re-characterization)</li> </ul>
<b>Exemptions</b>	<ul style="list-style-type: none"> <li>• <b>Traded Securities:</b> Gains from disposal of securities traded on the Saudi Stock Exchange (Tadawul), as per Capital Market Law;</li> <li>• <b>Non-Business Assets:</b> Gains from the disposal of property not classified as business assets; and</li> <li>• <b>Natural Persons:</b> Natural persons disposing assets not intended for business use</li> <li>• <b>Intra-group Transfers:</b> No gain or loss is recognized on asset transfers between companies within the same group, subject to conditions. The assets must not be disposed outside the group for at least two years following the transfer</li> <li>• <b>Mandatory Disposal:</b> disposal if the compensation is used to purchase a similar asset within one year, subject to satisfied conditions</li> </ul>
<b>Methodology</b>	<ul style="list-style-type: none"> <li>• <b>Formula:</b> Gain/Loss = Compensation received – Cost Basis</li> <li>• <b>Cost Basis:</b> Includes the purchase price plus costs incurred for improvements to non-depreciable assets</li> <li>• <b>Market Value:</b> Used for non-cash compensation, gifts, inheritance, and conversion of business assets to personal use</li> </ul>
<b>Depreciable Assets</b>	<ul style="list-style-type: none"> <li>• No independent capital gain/loss is calculated for depreciable assets;</li> <li>• The impact of disposal is managed through the "pooling/depreciation method"</li> </ul>

Key points	Details
<p><b>Key Takeaway</b></p>	<ul style="list-style-type: none"> <li>• <b>Strict Filing Deadlines:</b> Non-residents must ensure they file and settle tax liabilities within <b>120 days</b> of the transaction to avoid penalties</li> <li>• <b>Mandatory Documentation:</b> Maintaining a robust <b>"Cost Basis"</b> file, including original purchase invoices and sale contracts, is essential to substantiate taxable gains or losses</li> <li>• <b>Holding Period Integrity:</b> For intra-group transfers, assets must remain within the group for at least <b>two years</b> to maintain tax-exempt status</li> </ul>

## How we can support:

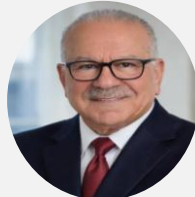
- **Technical Assessment** – Eligibility & Legal Interpretation;
- **Transaction Modelling** – Quantifying Outcomes & Structuring Alternatives;
- **Risk Analysis** – Defensibility, Audit Preparedness and ensuring Commercial Alignment;
- **Documentation:** Ensure documentations are robust, compliant, and commercially aligned;
- **Analyzing the applicability of tax exemptions:** Conducting a strategic corporate review to analyze eligibility for tax exemptions available under the Saudi tax regime;
- **Assessing tax implications of asset disposals:** Providing high-level technical analysis of the tax impact associated with the divestment of shares or business; and
- **Evaluating optimal solutions for group restructuring:** Assessing and designing tax-efficient pathways for intra-group asset transfers to ensure maximum leverage of the exemptions;

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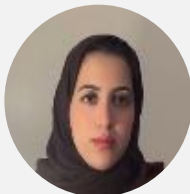
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