

# DOING BUSINESS IN OMAN



Contents

**BACKGROUND** ..... 3

COUNTRY OVERVIEW ..... 3

ECONOMIC OVERVIEW ..... 4

TRANSPORT INFRASTRUCTURE ..... 5

**ESTABLISHMENT OF BUSINESS** ..... 6

**JOINT VENTURES** ..... 6

**AUDIT REQUIREMENT** ..... 6

**FREE ZONES IN OMAN** ..... 7

**RECENT DEVELOPMENTS AND SECTORS ATTRACTING FOREIGN INVESTMENT** ..... 8

**TAXATION** ..... 8

**TAX TREATIES** ..... 11

**WITHHOLDING TAX** ..... 13

**DISPUTE RESOLUTION** ..... 13

# **BACKGROUND**

## COUNTRY OVERVIEW

The Sultanate of Oman was formed in 1970 upon the accession of Sultan Qaboos bin Said Al Said, who has ruled ever since. The current estimated population is 4.8 million, of which almost 44 percent are expatriates employed in a range of industries. Over the years Oman had made diversification to shift its main focus as an oil-based economy. The strategic location of the country of Oman had benefited in a long way in diversifying its economy towards other sectors viz., tourism, manufacturing, mining etc. Arabic is the national language adopted by ministries and English widely spoken by expat population as well as by organised Omani workforce.

### **Advantages of investing in Oman:**

Oman offers following advantages to the foreign investors to invest in Oman.

- Political stability.
- Foreign investors can do registration easily through online.
- Capital and profits of a business entity is fully repatriable.
- No personal income-tax. All individuals can fully repatriate their savings.

### **Government and Constitution:**

The highest executive authority is the Council of Ministers deriving its power from His Majesty the Sultan, to whom it is collectively responsible. There are specialist councils, the Majlis A'Shura i.e. the Council of the People, the Government of the Capital and ministries.

### **Legal System:**

The Sharia Law which is based on the Holy Quran is the general law of the land. To regulate and control its economic affairs, Oman has developed a comprehensive framework of laws and regulations.

### **Immigration:**

Foreign nationals seeking entry into Oman are required to have visas, which may be obtained through an Omani sponsor from the Immigration Department of the Royal Oman Police.

- Residence visa (investor visa, joining visa, family joining visa)
- Visit
- Tourist visa
- Transit visa (via airports, via sea, and truck drivers visa)
- Work visa (with companies and servant visa)

The visa charges have been hiked considerably by the Ministry

**Major Exports and Imports:**

Oman's major exports are oil and gas. Export earnings are also derived from export of dates and tourism. Major imports are motor vehicles, equipment, computer hardware/software, consumer products, textiles and foodstuffs.

**ECONOMIC OVERVIEW**

**General Economy:**

The general economic condition was hit in 2017 due to the decline in oil prices, but various measures were taken for the upliftment of revenue in other sectors like Tourism, Mining etc. in order to diversify the economy and reduce dependency on oil.

Further Tanfeedh program for economic diversification was commenced under the able leadership of HM Sultan Qaboos Bin Said in line with the 9<sup>th</sup> Five-year Development plan (2016- 20)

**Finance:**

The Central Bank of Oman is the apex body which acts as the official bank of the government and supervises the finance in the banking sector. Central Bank of Oman issues and controls country's monetary policy and regulates commercial banks and foreign branches of the banks.

**GENERAL LEGISLATION**

**Oman Commercial Laws**

Regulation of business activity and investment in Oman is done through various laws. The following are some of the important laws governing industry in Oman.

1. The Commercial Companies Law
2. Foreign Capital and Investment Law
3. Banking Law
4. Insurance Law
5. Capital Market Authority Law
6. Oman Labour Law
7. Accounting and Auditing Profession Law
8. The Code of Corporate Governance for MSM Listed Companies and Insurance Companies

It is obligatory for all business activities to register with the Ministry of Commerce & Industry and become members of the Oman Chamber of Commerce and Industry.

**Foreign Capital and Investment Law:**

Non-Omani participation in the capital of a company is not allowed to exceed 70%. However, in certain exceptional cases, 100% of the capital of the company can be owned by foreigner by the Ministry of Commerce and Industry.

In order to attract more foreign investment and ease the doing business in Oman proposals have been mooted for introduction of regulatory changes in restriction on equity holding of foreign investors in Omani companies.

Online registration for companies had been simplified through Invest Easy program which will facilitate the companies to register, update and edit any company information online without the physical involvement of the personnel at the ministry.

**Social Security for Omani staff:**

Social Security Law requires Omani employees working in the private sector to be insured against old age, disability, death and occupational injuries and diseases. As per this law, private sector employers must make monthly contributions to the Public Authority for Social Insurance at a rate of 18.5% of each Omani employee's monthly basic salary including the employer's contribution.

**The National Program for Enhancing Economic Diversification (Tanfeedh)**

Owing to the rapidly increasing economic, financial and social challenges facing the Sultanate, there was an urgent need for an initiative to keep pace with such developments. In response to this, the National Program for Enhancing Economic Diversification (Tanfeedh) was announced as a core element in the Ninth Five Year Plan.

**TRANSPORT INFRASTRUCTURE**

The Sultanate turns into one of the leading countries in the Transport and Communications Sector, through providing high quality, accessible, sustainable and safe services by the relevant Ministry, while taking into account its Social responsibilities, making of the Sector the second source of the National Income and positioning the Sultanate among the top ten countries in the logistical performance internationally, by the year 2040.

## **ESTABLISHMENT OF BUSINESS**

### **Introduction**

Foreign companies and individual investors may establish operations in Oman via one of the following main forms:

- ✓ Limited Liability Company (LLC)
- ✓ Joint stock company
- ✓ Branch
- ✓ Commercial Agency
- ✓ Commercial Representative Office
- ✓ Limited Liability Partnership
- ✓ Sole Proprietorship (Limited to Omanis, GCC Nationals and U.S. Nationals)

## **JOINT VENTURES**

Joint Ventures allow foreign companies with no physical presence in Oman to enjoy the benefits of undertaking commercial activities, without the costs and risks associated with the establishment of a legal entity in the country.

The Joint Venture partner to a foreign company must be a locally registered company with at least 30% Omani shareholding. Furthermore, Joint Ventures are not considered legal entities in Oman, and, as such, are not subject to any licencing or registration requirements. As in all jurisdictions, choosing the right JV partners is key to ensure that they will be able to contribute to the JV in the planned way.

## **AUDIT REQUIREMENT**

All the forms or type of Companies will be subject to audit in compliance with the tax laws or in the case of listed companies and companies regulated by the Capital Market Authority, will be as per the guidelines of the Capital Market Authority.

## **FREE ZONES IN OMAN**

Free Zone had been set up in Oman in order to attract more foreign investment with all facilities of warehousing, industrial space to occupy and build factories or manufacturing facilities and Wi-fi enabled industrial complexes with moderate investment.

The free zones are situated in a place where port facilities are nearby to encourage the foreign investors for exporting of goods produced locally.

The following are some the free zones situated in Oman

- **Salalah Free Zone**
- **Free zone Sohar**
- **Sohar Port and Free Zone**
- **Al-Mazunah Free Zone**
- **Duqm Special Economic Zone**
- **Knowledge Oasis Muscat**

### **ADVANTAGES OF INVESTING IN FREE ZONES**

- 100% Foreign Ownership
- Lower Omanisation requirements
- Zero Custom Duties
- Tax exemption as applicable under tax laws
- No minimum Capital requirement

## **RECENT DEVELOPMENTS AND SECTORS ATTRACTING FOREIGN INVESTMENT**

Most of foreign investments continue to go to the oil sector. The country's leading investors are the United States, the United Arab Emirates, Japan and China.

To encourage investments in Oman, "In-Country value" (ICV) has been initiated which is now included in government tenders in all sectors like transportation, tourism, while oil and gas sectors were the primary sectors where ICV was introduced.

Apart from ICV, government proposals for the mining law and few other changes were proposed in the Foreign Investment Law such as 100% foreign ownership in some sectors and Invest Easy for registration of companies to attract foreign investments.

The Invest Easy is a one-stop shop that provides e-services for establishing companies and managing them online, making it much easier and convenient for investors.

## **TAXATION**

The Omani government has now introduced sweeping changes to the income tax law. The changes have been the subject matter of discussion for so many months, and are aimed at increasing tax revenue, improving tax administration, and stimulating the SME sector.

The corporate tax rate is increased to 15%, from 12% and the basic exemption previously allowed for corporate assesses was discontinued.

These changes become effective from the date of publication in the Official Gazette (i.e. 27 February 2017).

*The major changes include:*

- An increase in the corporate income tax rate for all tax payers from 12% to 15%
- Lower rate of 3% or nil rate was introduced for SME'S in order to encourage them.
- Removing the basic exemption limit of OMR30,000 previously available to all corporate taxpayers who carry on commercial activities in Oman.
- The changes in the tax rate became applicable for all tax years beginning on or after 1 January 2017



### **Tax Administration**

- The period for completion of assessments by tax department had been reduced from 5 to 3 years as applicable from tax year 2017.
- In the case of fraudulent or non-submission of income tax returns the time limit for assessment completion had been reduced from 10 to 5 years.
- Online filing of tax returns was introduced in line with other countries.
- Self-assessment of tax returns to be implemented.
- Various penalties for non submission and incorrect declaration of income in returns were introduced to legitimise the filing of tax returns.
- Penalties for non submission of required information called for by the tax authorities including failure to submit information or attend meeting called for by the tax department.
- Criminal punishment were introduced in addition to monetary penalties for wilful default for non-filing of returns and non declaration of correct income etc.

### **Tax Registration:**

All the taxable entities must register with Income Tax department by filling up a Business Particulars Form and enclosing various registration documents.

### **Provisional Return of Income:**

It is mandatory for all taxable entities to file within three months of their financial year ending, provisional return of income and pay the income tax i.e. the taxable entities have to make an estimate of taxable income for the accounting year.

### **Annual Return of Income and Audited Accounts:**

Annual return of income along with audited accounts is required to be filed within six months of the end of the financial year and should be accompanied with the balance tax payable, if any.

#### **a) Small Tax Payers**

- ✓ A new lower rate of 3% on taxable income has been introduced and would apply to tax payers upon meeting the following conditions:
  - Applicable to all Omani companies including establishments, partnerships and limited liability companies.
  - The capital registered should not be more than RO 50,000 at the beginning of the year.

- Average number of employees not to exceed 15 including all employees (Expat and Omani Employees)
- Revenue of the company or establishment should not exceed RO 100,000 in a tax year.
- The company should not be engaged in the business of banking, insurance and financial institution, public utilities concessions, air and sea transport, and extraction of natural resources or as decided by the Council of Ministers.
- These tax payers are not required to submit audited financial statements instead a declaration in the new return form prescribed by the tax authorities.
- The returns should be submitted within 3 months from the end of the tax year.
- Extending more concession for SME Enterprises a nil rate of tax was introduced for above companies satisfying further conditions for employment of Omanis and engagement of Omani partners or proprietors devoting full time for the business etc.

#### **Accounting Records**

It is mandatory for the companies to maintain the accounting records along with all supporting documents for a period of 10 years.

#### **Accounting Period**

The tax payer can choose an accounting period ending of his own choice i.e. it could be 31<sup>st</sup> December 31<sup>st</sup> January or 31<sup>st</sup> March, etc.

In event of company being in liquidation, the accounting period may be for less than 12 months.

#### **b) Other Taxes**

Oman does not impose estate tax, gift tax or dividends tax. Municipalities may impose certain consumption taxes, including tax on the income categories outlined below:

- 5% on hotel and restaurant bills
- 4% on hotels, motels and tourism restaurants
- Tax at a rate of 2% on electricity bills exceeding RO 50 per month
- Tax at a rate of 5% on lease agreements, payable by landlords

In addition, a border toll fee is levied on all vehicles across all the entry points of the Oman border

#### **c) Custom Duties**

Customs duty levied at a flat rate of 5% on their cost- insurance-freight (CIF) value. Consumer goods, including food stuffs are exempt from customs duty. Alcohol and tobacco are subject to higher rates of duty.

#### **d) Value Added Tax (VAT)**

The expected introduction of a value added tax (VAT), in 2019, will boost tax revenues and assist the government in funding the diversification programs planned.

VAT is introduced as per the GCC treaty agreement entered into by the member states in Feb 2017.

The draft of the Oman legislation is in the preparation stage and the legislation is expected to be completed by late 2018.

The tax is expected to be in force by 2019.

VAT can provide significant revenue with limited administrative costs.

## **TAX TREATIES**

### **Avoidance of Double Taxation**

Under the Present tax Law, companies which are liable to pay income tax on their overseas income will be entitled to corresponding tax credit to the extent of Omani tax on foreign income or the foreign tax paid whichever is lower, in those cases where there is no Avoidance of Double Tax Treaty between Government of Sultanate of Oman and government of the foreign country.

Tax credit should be claimed within 2 years from the ending date of the tax year in which the payment of income tax overseas was made.

Where there is an Avoidance of Double Tax Treaty (ADTT) between the Government of Sultanate of Oman and Government of that foreign country, then the Omani company will get suitable tax credit / relief in Oman in accordance with the provisions of the relevant ADTT.

**TAX TREATIES (Contd.)**

**List of countries with whom Oman has entered into Avoidance of Double Tax Treaties**

1. France	18. Thailand
2. United Kingdom	19. Moldova
3. India	20. Vietnam
4. Pakistan	21. Morocco
5. Mauritius	22. Seychelles
6. Tunisia	23. Japan
7. Italy	24. Uzbekistan
8. Lebanon	25. Croatia
9. China	26. Spain
10. South Africa	27. Algeria
11. Belarus	28. Iran
12. Brunei	29. Portugal
13. Canada	30. Switzerland
14. Turkey	31. Sudan
15. South Korea	32. Yemen
16. Singapore	33. Japan
17. Netherlands	34. Hungary

## **WITHHOLDING TAX**

At present the withholding tax which are applicable on certain payments for companies which do not have a permanent establishment in Oman is extended to certain more types of payments.

The ambit of withholding tax applicability had been extended further for payments made on interest, dividends and payments for services whether professional or consulting nature.

## **DISPUTE RESOLUTION**

There are three different courts in Oman:

- Primary Court
- The Court of Appeal
- The Supreme Court

Oman is a civil law country and, therefore, unlike common law jurisdictions, case law does not act as binding precedent, and the courts do not need to decide future cases based on a previous court's decision. Court proceedings are conducted in Arabic, and there are various rules and conditions describing those permitted to attend the proceedings, as well as the qualifications of the lawyer relative to each type of court.

Arbitration is a well-established method of dispute resolution, especially in relation to large-scale industrial, construction, oil and gas, etc. contracts.

### **DISCLAIMER**

→ This document is provided as a general overview of matters to be considered when setting up an overseas business in Oman. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided.

### **SIGN OFF**

#### **IBN HYAN DFK INTERNATIONAL CHARTERED ACCOUNTANTS**

**Tel: 00968- 24562886 | 00968 – 24652544**

**Fax: 00968- 24563558**

**Website: [www.ibnhyan.org](http://www.ibnhyan.org)**

**Mailto: [admin@ibnhyan.org](mailto:admin@ibnhyan.org)**

**Created : May 2017**

**Amended : May 2018**

## ABOUT US

*Year of Establishment - 1990*

*Staff Strength - 20*

*License Held*

*Audit - MH/24/90*

*Consultancy - MA/71/94*

## FOUNDER

*Late.Mr.Riadh Al Asfoor - was licensed to practise the profession of Auditing and Financial Consultancy in the year 1987.*

## KEY PERSONS

*Mr.Gomathisankaran*

*Partner - Audit & Taxation Department*

*Contact Number : +968 - 95244078*

*Email : [sankarans@ibnhyan.org](mailto:sankarans@ibnhyan.org)*

*Mr.Sanil Varghese*

*Partner - Internal Audit Assurance & Financial and Management Consultancy*

*Contact Number: +968 - 99020383*

*Email : [sanil@ibnhyan.org](mailto:sanil@ibnhyan.org)*

## EMPANELMENT

- *Capital Market Authority for Regulated Entities*
- *Various Banks / Ministries*
- *Oman Development Bank*

## ACTIVITIES

- *Statutory Audit*
- *Tax Compliance & Advisory Services*
- *Contract Accounting and Transaction Advisory Services*
- *Internal Audit*
- *Due Diligence*
- *Assistance in Company Formation*
- *Preparation of Feasibility Studies*
- *Business Valuation*
- *Asset Management Services*
- *Preparing Networth Statements for High Networth Individuals*
- *Assistance in Ministry of Commerce Assignments*
- *Trademarks Registration & Related Services*