OVERVIEW OF TAXATION IN OMAN

Taxation System

The taxation system in Oman is regulated by the tax law issued vide Royal Decree No. 28/2009 replacing the old tax law in oman. The new tax law came into effect from 1 January 2010.

The taxation system in Oman is based on Permanent Establishment Concept. A Permanent Establishment means a fixed place of business through which a business is wholly or partly carried on in Oman by a foreign person either directly or through a dependent agent.

Apart from the above a foreign person renders any consultancy or other services either by himself or through an agent for a period of ninety days or more in oman will be deemed as a permanent establishment and will be subjected to tax as per the new law effective from 2010.

Tax Administration

The Administration of tax law is done by Secretary General for taxation which in turn consists of the following departments

1. Dept. of Tax Investigation and Assessment
2. Dept. of collection and Recovery
3. Dept. of Tax Exemptions
4. Dept. of Tax Returns
5. Dept. of Tax Survey and Agreements

The secretary General of taxation is under the supervision of Ministry of Finance.

The Secretary General is responsible for implementation and enforcement of the law.

Taxable Entities and Tax rates

Following are the entities registered with the Ministry of Commerce and Industry are considered as taxable entities

1. Sole Proprietorships and Establishments
2. Partnerships
3. Limited Liability Companies
4. Joint Stock Companies
5. Branches of Foreign Companies

Apart from the above any Joint-Venture entities are taxable for which no registration is required with the Ministry of Commerce and Industry

Tax Rates

The following are the tax rates effective as per the new tax law from 2010

1. 12% tax on companies including branches of foreign companies above the tax exemption limit of Rial Omani 30,000.

2. 10% Withholding tax on Companies do not have a permanent establishment for certain types of payments.

3. 55% tax on companies engaged in petroleum exploration

Obligations of Taxpayer

1. As per the new law issued in 2010 any tax payer whose income is chargeable to tax shall furnish information about the company to the tax department within three months from the date of incorporation or the date on which activity is commenced whichever is earlier.

   Any modification in the in information in the Commercial Registration of the company shall be notified within two months of the date of modification.

2 The books of accounts should be maintained by the tax payer on an accrual basis. unless otherwise a consent is obtained from the tax authorities for the same.

3. The tax payer may maintain the registers and books of accounts in a foreign currency only with the authorization from the Secretary General.

4. The taxpayer shall preserve all registers records or other information for 10 years from the end of the relevant tax year.

Income Chargeable to Tax

The following are the incomes that are subjected to tax as per the law

1. Profits from any business

2. Dividend Interest or any other income

3. Royalties or Management Fees etc

Exempted Income

The following are the incomes that are exempted from tax

1. Dividends received from any Omani company

2. Profits and gains from the disposal of securities listed in the MSM

Tax Year

1. The tax year normally followed is January to December.

2. The taxpayer is free to determine the tax year during the first year of tax filing.

3. The tax year once adopted should be followed unless otherwise the consent for change of tax year is obtained from the Secretary General for taxation

4. An application for change in tax year should be made before the expiry of the relevant tax year.

Expenses Deductible

1. All expenses that are incurred wholly for earning taxable income for the tax year

2. Managerial Remuneration paid to partners directors members subject to the directives issued under executive regulations of the tax law.

3. Donations paid to approved entities subject to 5% of the taxable income.

4. Sponsorship Fee incurred during the tax year subject to the rules of the executive regulations of the law.

5. Int. on loans is deductible subject to certain conditions.

6. Bad Debts are deductible subject to certain conditions

7. Rent paid is deductible similar to the practices followed in the past

8. Amounts incurred on lease are allowed provided the asset is accounted for in accordance with the IFRS regulations.

Expenses not deductible

1. Any Capital Expenditure incurred during the year, except those which are deductible as per the provisions of the law.

2. Any Amounts paid as tax according to the provisions of this law payable or paid in Oman or any other country.

3. Any penalty imposed under any law contract incidental to the business.

4. Any provisions made for Bad Debts or stock etc.

5. Losses from the disposal of securities listed in Muscat Securities Market.

Rules for Deduction of Depreciation on Capital Assets

1. Depreciation shall be provided on Written Down Value method as per the new tax law.

2. Depreciation is based on the poll of assets method except for Buildings, Aircrafts, Ships and Intangible Assets.

3. Depreciation will be applied on the Depreciation base of each pool as per the rates prescribed under the law.

4. The Depreciation base of the pool can be computed by increasing the WDV of Pool of assets for earlier year and

   a) Capital expenditure incurred in acquiring the asset and by decreasing

   b) Disposal value of the assets sold during the year.

5. If a business is partly carried on during the year or the business is closed during the year then depreciation shall be increased proportionately increased or reduced according to the period for which the business is run or closed.

6. No loss or profit on the sale or discarding or destruction of capital assets will be allowed for a particular tax year unless the entire block of assets is sold, discarded or destroyed under a particular pool is remaining.

7. If the condition as per Point no. 6 exists no depreciation will be allowed during the tax year and a balancing charge or allowance is calculated

8. The balancing charge is the profit earned on sale of capital assets and balancing allowance is the loss incurred on sale of assets as per the general accounting principles.

9. The balancing charge will be an addition to the taxable income and balancing allowance is a deduction to the taxable income.

   The rates of depreciation are furnished in Annexure-I

Activities Exempted From Tax

As per the tax laws the tax exemption on companies carrying on certain activities is divided into two

1) Unlimited Exemption

2) Limited Exemption

Under the First Category the companies engaged in the following activities will be given exemption for an unlimited period

1. Omani company engaged in the filed of shipping

2. Any foreign company shall be exempted provided a similar exemption is available on a reciprocal basis in the country in which the company is incorporated.

3. Investment Funds set up in oman under the Capital Market Law or funds set up outside oman to deal in securities in MSM shall be exempted from tax

Under Second category the companies carrying on the following activities will be shall be restricted to an exemption for a period of 10 years

1. Mining Industries
2. Industries licensed to operate
3. Export of locally manufactured or processed products
4. Operation of hotels and tourist villages
5. Farming and processing of farm products including livestock and manufacture of livestock products and agricultural industries.
6. Fishing and fish processing,
7. University, college or other educational institutions training colleges
8. Medical care by establishing private hospitals

Tax Filing

The tax law insists on filing of Provisional and Final Return of income within 3 months and Six months from the end of the year respectively.

The filing of returns within the time limit has become mandatory after insertion of penal provisions under the new tax law issued in 2010.

As per the Executive regulations of law issued in 2012 companies which meet the following criteria are exempted from filing of tax returns

1. Capital should be less than RO 20,000
2. Gross turnover/income should not exceed RO 100,000
3. Average no. of employees not more than 8 during the tax year

The companies satisfying all the above conditions can apply for exemption and in subsequent years an application for exemption should be made before 3 months before the date of expiry of the period up to which the exemption is granted.

As per the Executive regulations of law issued in 2012 companies which meet the following criteria are exempted from filing of financial statements

1. Capital from RO 20,000 to RO 50,000

2. Gross income less than 300,000

3. Av.no. of employees are less than 10

The companies satisfying all the above conditions can apply for exemption and in subsequent years an application for exemption should be made before 3 months before the date of expiry of the period up to which the exemption is granted.

Tax Assessments

Assessment of tax on returns filed for any tax year is made by the Secretary General for taxation under Article 143 of the income tax and notice is served on the taxpayer regarding the same.

The assessment of tax should be made within five years from the end of the relevant tax year during which the final return for that tax year is submitted.

If no final return is submitted, the time limit for making assessments will be ten years from the end of the relevant tax year.
The assessment once made can be revised or rectified if the original assessment involved error or omission or if it is inadequate, within five years from then date of issuing the original assessment.

Payment of tax

Any tax due as per the provisional return shall be paid as per the due date for filing of provisional returns.

The tax payable as per the final return will be paid after deducting the tax paid already with the provisional returns.

Any tax not paid as per the final return will be charged @ 1% per month from the end the due date for filing of original returns until the tax is paid.

Tax Disputes

Filing of Objections

Any taxpayer can file objections to the assessment made under the law and file his objections in writing stating clearly reasons for the objection.

The objections should be filed within 45 days from the date of serving the notice of assessment or decision.

The new law of 2010 has introduced a clause regarding the serving of notice on assessments

As per the new law the notice of assessment or any decision shall be sent by registered post and the same shall be deemed to have been received by the tax payer at the end of fifteen days unless otherwise proved by the taxpayer.

Penalties

The new tax issued in 2010 has issued stringent penalty clauses for the following

1, Non filing of provisional as well as final returns within the time limit specified .Amount of penalty ranges from a minimum of RO 100 to maximum of RO 1,000

2. Failure to declare correct income as per the tax returns. The penalty will be 25% of the difference between the amount of tax as per the correct income and the amount of tax as per the tax returns submitted.

3. a) Failure to submit any documents, information or accounting records

   b) Failure to answer any questions or queries raised on the taxpayer

   Will attract a fine not exceeding RO 2,500

The department before imposing any penalty should give a notice for giving opportunity to the taxpayer of being heared.

If he fails to respond to the notice the fine can be imposed without further hearing from the taxpayer.

Rules for obtaining tax Exemptions.

Initial Exemptions

1. The Company should be registered with the Ministry of Commerce and Industry or other competent authorities in Oman.

2. The company shall have necessary licence to carry on the business issued by the relevant authority.

3. The company should keep or update regular books of accounts

4. The application for exemption shall be made within 8 months of the date of commencement of business or date of registration whichever is later.

Renewal of Exemptions

More stringent rules for renewal of exemptions have been specified by the new executive regulations.

General Requirements

1. The net profits realized by the establishment or company after deducting any losses incurred should not exceed 50% of then paid-up capital at the beginning of the initial exemption period.

2. The licesne issued by the relavant authority or the registration record shall remain valid throughout the exemption period.

Special Requirements

1. The Minimum value of Investment in fixed assets shall be RO 1.5 Million during the exemption period.

2. The main activity shall be carried outside Muscat Governorate.

3. 10% increase in Omanisation during the last two years of the exemption period over the % fixed to the sector by the Ministry of Manpower.

4. In the case of Industries, registered as per the GCC unified code the products shall be included in the list of strategic commodities issued by the Ministry of Commerce and Industry.

5. The services offered by the entities carrying on service activities shall be rendered as per the performance level that is compatible with the standards and rules applicable by the competent authority.

The establishments shall fulfill at least three of the special requirements and companies shall fulfill the at least four of the requirements if they carry on the main activity in any of the following areas:

a. Industry

b. Mining

c. Export of locally manufactured products

d. Fishing and Fish processing

The establishments shall fulfill at least two of the special requirements and companies shall fulfill the at least four of the requirements if they carry on the main activity in any of the following areas:

a. Operation of Hotels and Tourist Villages

b. University, Collges, Higher Institutes private Schools, Nurseries Training colleges and Institutes

c. Medical care by setting up private Hospitals.

Other Requirements

1. The exempted entities shall submit the Return of income within due date specified under the law

2. The application of renewal of exemption should be made before 3 months of the period of expiry.

Withholding Taxes

Withholding taxes are deductible @ 10% on a foreign person or companies do not carry on business through a Permanent Establishment in Oman for following categories of payments

1. Royalties

2. Consideration for Research and Development

3. Consideration for the use or right to use the software

4. Management Fees

The term Royalty has been widely defined to include the following

Consideration for the use or right to use of

a. Intellectual or proprietary right either for artistic, literary or scientific work, including computer software, cinematograph films or tapes or discs or any other means used for radio or television broadcasting.

b. Patents, Trademarks, design, drawing, models and secret process formula.

c. Industrial, commercial or scientific equipment

d. Consideration for information concerning industrial, commercial scientific experience.

e. Consideration for granting rights of exploitation of mining or any other natural resources.

Carry forward of losses

The loss in a tax year can be carried forward for set off for a period of five years from end of the tax year in which the loss was incurred.

In case of taxpayers exempted from payment of tax as per the law the losses incurred during the exemption period can be carried forward indefinitely.[

Note on deduction of Managerial Remuneration paid to proprietor, partners, members or directors

The salary or any other perquisites paid to the proprietor, partners or members is more or less the same directives have been issued under the new tax regulations issued.

The salary or other perquisites paid will be allowed a deduction to the least of the following.

1 Actual salary paid

2 RO 1,000 per month engaged in the full time management of the company

3 10% of the taxable income

The deduction will be allowed before adjusting any brought forward losses from earlier years.

The remuneration paid to chairman or board of directors of the Joint Stock companies will be as per Article 101 of the companies law which is the least of following items

1. Actual salary paid to members

2. 5% of the Net profits

3. RO 2,00,000

In the case of professionals employed in professional firms the deduction is restricted to the least of the following

1. Actual Salary paid
2. 30% of the taxable income
3. RO 3000 per month per person

The following are some of the professions notified by the executive regulations of the law

1. Medicine
2. Dentistry
3. Physiotherapy
4. Accounting and auditing
5. Veterinary Engineering
6. Legal Consultancy
7. Painting
8. Photography
9. Sculpture
10. Translation

Sponsorship Fees

Sponsorship Fee paid by any company is restricted to 5% of the taxable income subject to the following conditions

1. Sponsorship arrangement should be documented
2. Sponsorship fee paid in the capacity of the sponsor will be allowed and no commission paid for import of goods or rendering of services will be allowed.

Double Taxation Agreements

Under the above any taxpayer can claim credit of tax paid in respect of income chargeable to tax in any other country with which oman has entered into double taxation agreements

The tax credit will be restricted to the total tax payable in Oman.

Oman has entered into Double Taxation Avoidance Agreements with the following Countries

France, India, Tunisia, United Kingdom, Mauritius, Italy, Pakistan, Egypt, Algeria, Lebanon, Russia, China, Yemen, South Africa, Sudan, Seychelles, Singapore, Thailand, Canada, Iran, Syria, Korea, Turkey, Morocco, Belarus, Brunei, Vietnam, Belgium, Uzbekistan, Netherlands, Croatia

Annexure-I

Rates of Depreciation

Original Cost Method

Nature of Asset	Rate
Buildings	4%
Prefabricated buildings or temporary or wooden structures, Ships or Aircrafts	15%
Buildings used for Hospitals or Educational Institutions	100%

WDV Method

Heavy Plant and Machinery Computers, Vehicles, Furniture and Fixtures	33%
Drilling Rigs	10%
Any other Plant machinery not included Above	15%

Annexure-II

Various Forms applicable under the new executive regulations issued in 2012

Form 1:	**Various Ministries to notify the licenses issued by them to carry out activities.**
Form 2:	**Business particulars form for an Establishment**
Form 3:	**Business particulars form for a Omani Company**
Form 4:	**Business particulars form for a PE**
Form 5:	**Business particulars form for foreign person doing services in Oman**
Form 6:	**Any Changes in Registration Data**
Form 7:	**Exemption Application form for any Establishment/Omani Company carrying on shipping business**
Form 8:	**Exemption Application form for any foreign person carrying on shipping business.**
Form 9:	**Exemption Application form for any investment funds**
Form 10:	**Exemption Application form for any certain activities viz., Industry Mining Fish Processing etc.**
Form 11:	**Renewal of Exemption for Activities ref in 10 above**
Form 12:	**Provisional Return of income**
Form 13:	**Annual return of income for an Establishment**
Form 14:	**Annual return of income for Omani Company**
Form 15:	**Annual return of income for an for PE**
Form 16:	**Annual return of income for Foreign person does services in Oman**
Form 17:	**Establishments and companies exempted from submitting accounts**
Form 18:	**Withholding Tax**