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CHARTERED ACCOUNTANTS

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VAT in the Sultanate Of Oman

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INTRODUCTION

VAT

Value Added Tax (VAT) is :

- An indirect tax on consumer spending.
- Charged on most goods and services supplied within the Sultanate.
- Borne by the final consumer, and
- Collected by the businesses on behalf of The Tax Authority (The Authority).

VAT in The Sultanate:

- Royal Decree 121/2020 (12 October 2020) provides that the value added tax (VAT) regime will be implemented in Oman, effective April 2021.
- VAT registration process will be online but it is not yet live and will commence from January 2021.

RATIONAL FOR *VAT* INTRODUCTION

Oman has faced a 2.8 per cent economic contraction this year and a government deficit of 16.9 per cent of gross domestic product (GDP), according to the International Monetary Fund.

The Sultanate has therefore cut public spending to contain the financial leakage caused by lower oil prices and the downturn caused by coronavirus lockdowns.

The long-term strategic vision of Oman is to diversify its economy and reduce dependency on oil revenues.

Introduction of *VAT* is one of the measure by Government to increase non-oil revenues and strengthen economy on long term basis.

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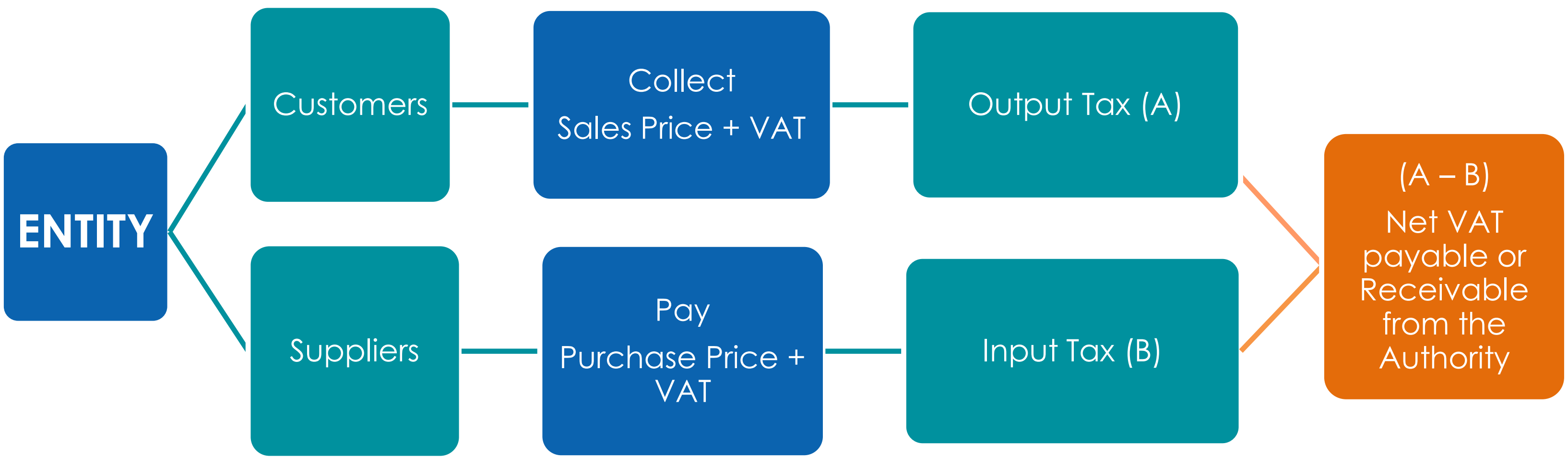
VAT IN A NUTSHELL



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VAT TERMS:

The Essentials of VAT

- **Taxable Person**: A person who conducts an economic activity in an independent capacity with the aim of generating income and is registered with the Authority.
- **Taxable Supply**: Supplies on which tax is charged, whether at the standard rate or zero rate, and for which associated input tax is deductible.

Difference between Input & Output VAT

- **Input Tax**: The tax incurred by the Taxable Person in relation to goods or services purchased by him for the purpose of carrying on an economic activity.
- **Output Tax**: The tax due on the Taxable Supply (sell) of goods and services.

TYPES OF SUPPLY

Exempted supplies:

Supplies on which no tax is charged and for which associated input tax shall not be deducted.

Exempt supplies include –

1. Financial services
2. Provision of healthcare and associated goods and services.
3. Provision of education and associated goods and services.
4. Undeveloped lands.
5. Resale of residential real estate.
6. Local passenger transport.
7. Renting of real estate for residential purposes.
8. Importation if the goods are exempted from customs duty or are zero rated from VAT in that specific member state.

Taxable Supplies:

Taxable supplies are charged to VAT in one of the two rates.

Standard rate

Tax is charged on the import and supply of taxable goods or services at the rate of 5% applied on the taxable value.

Zero rate

This is a tax rate of nil. No VAT is charged but it is considered as a taxable supply and will be a determinant for VAT registration. Input credit can also be claimed.

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TYPES OF SUPPLY

Zero Rated Supplies

- Supply of foodstuffs.
- Supply of medicines and medical equipment.
- Supply of gold, silver & Platinum.
- Supply of sea, air & land means of transportation for commercial purposes.
- Oil, oil derivatives and the gas sector.
- Supply of goods and services that are exempt in the Sultanate shall be considered zero rate when supplied out of the Sultanate.

- Following supplies outside GCC are zero rated-

1. Export of goods.
2. Re-exporting goods that are temporarily. imported to the Sultanate.
3. Supply of services to customer residing outside the GCC countries.

Out of scope supplies

- Made by a non-taxable person.
- Made outside of the Sultanate.
- Not made in the course of an economic activity.
- Taxable person transfers his activity to another person.
- Sales that take place from a place outside the Sultanate to another place outside the Sultanate.
- Made between the insurer and the insured in order to settle. insurance requirements of a taxable insurance contract will not be subject to vat.

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VAT REGISTRATION

Mandatory	Applicable to those entities having taxable turnover of RO. 38,500/- and above in a year.
Voluntary	Applicable to those entities having taxable turnover of RO. 19,250/- but below RO. 38,500/- in a year
Not Applicable	Entities with taxable turnover of less than RO. 19,250/- are not required to register for VAT.

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VAT REGISTRATION – THREHOLD CALCULATION APPROACH

Historic Turnover Test	At the end of each month, the business must look at the cumulative total of taxable supplies for the last 12 months and check if the total exceeds registration threshold for voluntary or mandatory registration.
Future Prospects Test	The total value of the taxable supplies expected to be made by the end of any month along with the succeeding 11 months exceeds the registration threshold.

The total of taxable supplies include –

1. Value of taxable supplies (both standard rate and zero rate supplies) , except value of Capital Assets.
2. Value of intra GCC supplies of goods and services.
3. Value of goods and services supplies to taxable person (Customer) subject to Reverse Charge Mechanism.

Exempted and the out-of-scope supplies will be excluded for registration.

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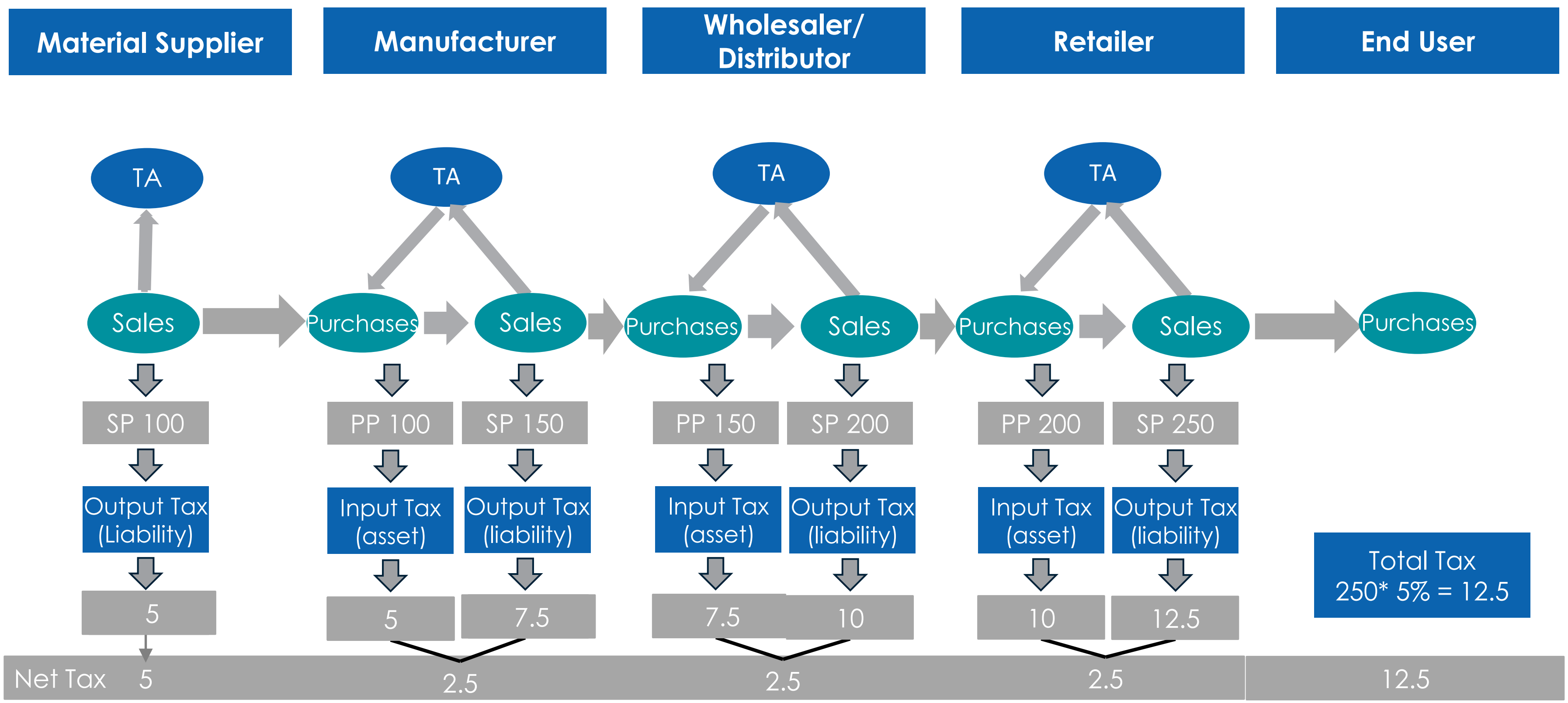
VAT Example:



*TA –Tax Authority *SP – Sale Price *PP – Purchase Price

TA Receivables RO 35 (5+7.5+10+12.5) and TA Payables RO 22.5 (5+7.5+10), TA Net Receivables: 12.5 (35 – 22.5)
Assumption: Except end users all parties in the supply chain are VAT registered parties and making 100% taxable supplies.

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VAT DEREGISTRATION

Taxable person must apply a request to deregister in any of the following cases:

1. When the taxable person stops conducting his activity.
2. When the taxable person stops making taxable supplies.
3. If the value of his/her supplies fall below the Voluntary Registration Threshold.
4. If the value of his/her supplies exceed the Voluntary Registration Threshold but falls below the Mandatory Registration Threshold.

VAT GROUPS

Two or more persons may register as a VAT group provided that the conditions determined in the regulation are met.

1. The VAT group is treated as a separate taxable person from the members of the group. As a result, only one VAT return is required.
2. All members of the VAT group remain jointly and severely liable for the tax obligations of the VAT group.

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TAX INVOICE

- Taxable person must issue a tax invoice when supplying goods and services or upon receipt of full or partial consideration before the supply of goods takes place.
- Tax invoice is issued in Omani Riyals and when issued in a currency other than the Omani Riyals, tax is calculated in Omani Riyals.
- Taxable person is obliged to mention the Tax Identification Number (TIN) in all his/her invoices.

RECORD KEEPING

- A taxable person is obliged to keep regular up to date records and accounting books.
- It is not permissible for the taxable person to keep its records in a foreign currency unless a written approval from the authority has been obtained.

The taxable person shall maintain:

- ☐ Tax invoices
- ☐ Accounting records
- ☐ Customs documents relating to import & export of goods

Records must be maintained for 10 years

Records must be maintained for 15 years for business in the real estate sector

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TAX RETURN

- The registered person shall submit a VAT return to the authority within 30 days following the end of the tax period.
- The tax period will start on the day the taxable person registers him/herself.
- The authority shall be entitled to assess the tax for the tax period if the VAT return is not submitted by the deadline.
- The authority is not permissible to assess the tax 5 years after the date of the end of the tax period for which the VAT return was supposed to be filed.

VAT return shall include the following-

1. Value of taxable supplies and exempt supplies.
2. Value of imported goods.
3. The value of output tax and input tax claimed and the value of tax due for the tax period.

AMENDMENT –

- The registered person can file a revised tax return if he/she discovers that the tax return filed contains an error or omission. Such revision can be filed within 30 days following the date of discovery. VAT return shall not be revised after the lapse of 3 years starting from the date of filing.

- The authority must revise the VAT return filed upon discovery of mistake, an omission or insufficiency.

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TAX REFUND

Tax shall be refunded in the following situations -

- Tax paid by the taxable person is in excess of the tax due.
- Tax paid by a non resident person of the Sultanate or any GCC Member State who is not a taxable person.
- Tax paid by tourists of the Sultanate on the goods purchased.
- Tax paid by resident of any GCC member state who is a taxable person therein and therefore not a resident and taxable person of the Sultanate.

TAX DISPUTES

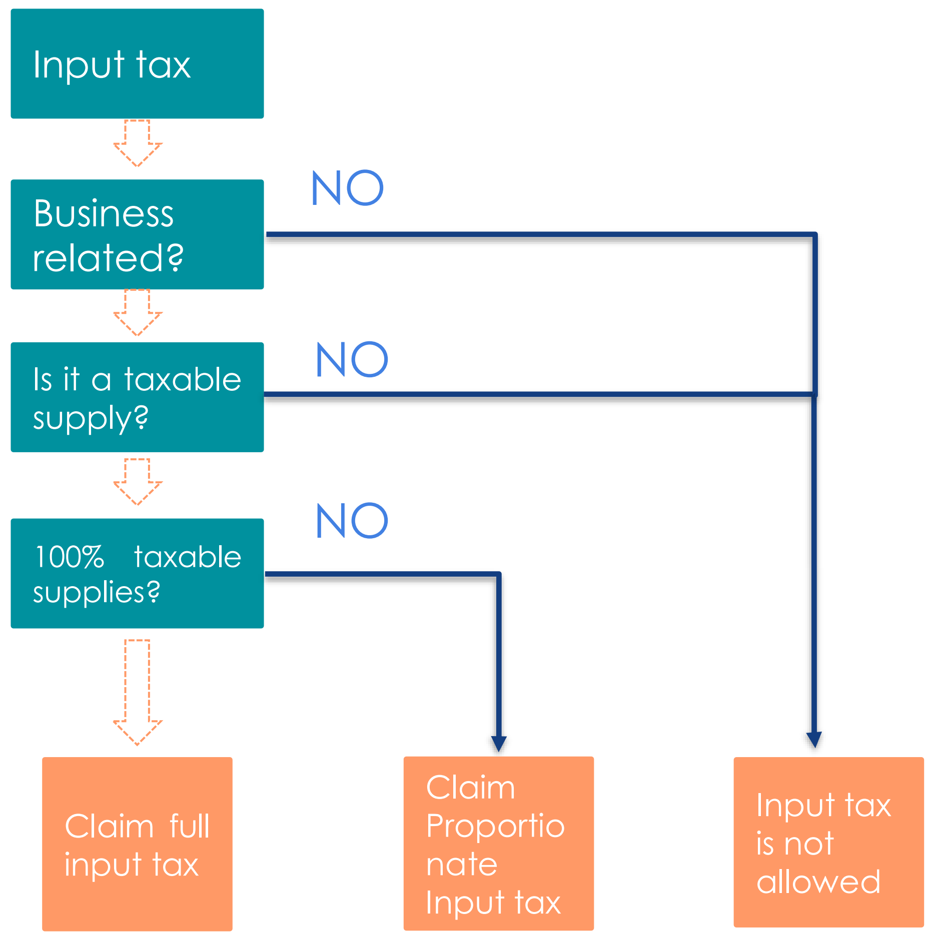
Taxable person is entitled to object against a tax assessment of the VAT return within 45 days from the date of being informed about the assessment.

RECOVERY OF INPUT TAX

The taxable person has the right to deduct Input tax incurred on purchases of taxable supplies.

If the taxable person does not make a 100% taxable supplies and makes mixed supplies instead, Input tax can be deductible proportionately.

The taxable person may claim the input tax deduction within 3 years from the date of a valid tax invoice.



PENALTIES

- Significant penalties both monetary and/or in the form of imprisonment shall be levied for the breach of certain conditions.
- Monetary penalties ranging from R.O 1,000 - R.O 20,000 and imprisonment period ranging from 2 months to 3 years.

TRANSITIONAL PROVISIONS

- If an invoice has been issued or payment made for a supply of goods or services before the effective date with the supply being made after the effective date, supply is considered to be made after the effective date.
- For a contract entered into prior to the effective date with supplies made after the effective date, supply is considered to take place after the effective date.
- Consideration mentioned in the contract will be considered inclusive of VAT unless mentioned otherwise.

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WHAT DOES VAT MEAN FOR BUSINESSES

Business impact

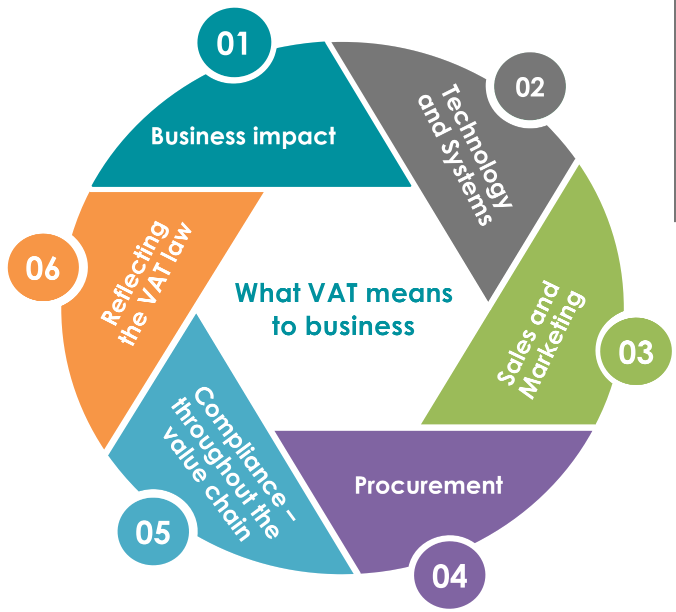
- Potential effects on margins and pricing
- Impact from VAT leakage
- Working capital funding of timing differences between paying and collecting/receiving VAT
- Impact of long term contracts on hand

Reflecting the VAT law

- Identify correct VAT treatment of every business transaction
- Industry sector specific issues
- Inter-company transactions
- Intra GCC transactions
- Apply any exemptions/Zero rate

Compliance – throughout the value chain

- Establish VAT management framework covering governance, controls, roles and responsibilities
- Tax knowledge and training
- Tax registrations and filing requirements
- Process and procedure guides



Technology and Systems

- Systems changes for VAT compliance and reporting (e.g. financial and point of sale systems)
- VAT coding of accounts payable and receivable
- Process and compliance automation
- Electronic documentation
- Data and analytics to enhance compliance

Sales and Marketing

- VAT treatment of sales and exports
- Effect on demand
- Pricing strategy and payment terms
- Customer management
- Impact on current contracts and commercial arrangements

Procurement

- VAT treatment of purchases and imports
- Procurement strategy
- Vendor management
- Contracts and arrangements

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VAT IMPLEMENTATION CONSIDERATION

IT systems configuration:
As VAT is a transaction tax, automation becomes key. Consider whether the current ERP system has VAT capabilities.

Pricing considerations:
Suppliers making standard rated supplies need to consider whether to pass on the full VAT amount or absorb some costs.

Cash flow and working capital:
There is a difference in time when output VAT is paid versus when input VAT can be claimed, and this will have an impact on the cash flow and the working capital of businesses.

Audit trail:
Businesses will need to ensure they are keeping the correct records for at least 5 years and that they are able to provide these documents to the FTA upon request.

VAT compliance:
VAT compliance processes will need to be set up and may include allocating resources for the preparation and submission of VAT returns.

Staff knowledge:
Generally affects the finance teams, procurement teams and legal teams as their day to day work will be impacted by VAT.

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HOW CAN WE HELP YOU

Impact Assessment

- Impact on cost and revenue
- Impact on cash flow
- GAP analysis – people, technology and process
- Transition impact

Design & Implement

- Revise internal policies and processes
- Assist in software modifications
- System output testing
- Transition process and management

Training & Awareness

- Training and awareness session for staff
- Ongoing assistance for any amendments and other updates

Compliance

- Tax Registrations
- Regular return filings
- Update on any amendments in executive regulations
- Reports and record keeping

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Contact Us

For questions or more information about how we can help and assist you and your business please get in touch.

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