Changes to Oman’s income tax law
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Sweeping changes have been introduced to Oman’s income tax law by Royal Decree 2017/9 issued on 19 February 2017 and published in the Official Gazette on 26 February 2017.

The major changes include:

– Raising the tax rate from 12 percent to 15 percent
  – Lower rate of three percent introduced for very small taxpayers who meet specified conditions
  – Effective for all financial years beginning on or after 1 January 2017

– Removing the tax-free threshold of OMR30,000 previously available to taxpayers who carry on activities in Oman through an establishment, Omani company or permanent establishment of a foreign person

– Significantly enlarging the tax base by taxing dividends on shares, interest and fees from the provision of services earned by any foreign person (natural or legal person) who is not carrying on any activity in Oman through a permanent establishment:
  – 10 percent on the gross amount
  – Deducted at source by the taxpayer and remitted to the tax authority
  – Applies to ministries, government bodies and other units of the state administrative apparatus

– Removing tax exemptions previously available to income arising from mining, exporting locally manufactured goods, operating hotels and tourist villages, agriculture, animal produce, fishing, education and medical care
  – Exemptions for manufacturing companies are now available for only five years

– Obtaining a tax card
  – The tax card number must be used on all contracts, invoices and correspondence
  – Ministries, government bodies, other units of state owned apparatus and companies owned (at least 40 percent) by the government must ensure they have a copy of the tax card before dealing with any taxpayer
  – All documents relating to transactions by that person with a government entity must include a copy of the tax card

– Moving to a self-assessment regime
  – Only a sample of returns will be assessed
  – Rules will be framed by the Minister of Finance

– Strengthening the provisions relating to imposition of penalties and punishments including imprisonment of the Principal Officer for failing to comply with the law.

The objective of the amendments is clearly to enhance revenues from taxes. They will increase the costs of businesses operating in Oman, given that many foreign taxpayers will expect the taxes imposed on their incomes to be borne by local businesses. Taxing dividends and interest income earned by foreign taxpayers will reduce their return on investment. Taxing interest income earned by foreign persons could impact the cost of borrowing if lenders pass on the cost to local businesses. There is also a thrust towards greater compliance with stricter penalty provisions being introduced. The move towards a self-assessment system is a sign of the trust the Government has in taxpayers who comply with the tax laws.
Foreign persons without a taxable presence in Oman

Previously, Oman’s income tax law imposed a 10 percent tax on foreign persons not carrying on activities in Oman through a permanent establishment on income realized in Oman from:

- Royalties including rental income from industrial, commercial and scientific equipment
- Research and development
- Use or right to use computer software
- Fees for management

Royal Decree 9/2017 extends this tax to income realized from:

- Fees for provision of services
- Dividends on shares
- Interest

We understand from our discussions with the tax authority that the withholding tax on dividends will apply only to shares of joint stock companies. The extension of tax to foreign persons earning fees from the provision of services is expected to capture everything other than supply of goods. This is a massive change in scope and is expected to generate significant revenues for the government. The cost of services is likely to increase by 10 percent as foreign service providers are likely to push this cost to local businesses. The 10 percent tax applies on the gross amounts due and must be deducted by the tax payer and paid to the tax authority within 14 days of the end of the month in which the amounts are paid or credited to the account of the tax payer. The amendment specifies that tax shall also be deducted on payments made by ministries, government bodies and other units of the state administrative apparatus who do not otherwise meet the definition of a tax payer.

For dividends and interest, the amended provisions apply from 27 February 2017. In respect of fees for provisions of services, there is some uncertainty on the effective date as the definition of income, which has now been amended to specifically include fees for provision of services, is effective from 1 January 2018 while the extension of the scope of withholding tax to include such fees is effective from 27 February 2017.

Changes in tax rates

Previously, the Oman tax law imposed a 12 percent tax on taxable incomes over OMR30,000 (US$78,000). The amended law has increased the rate to 15 percent on the entire taxable income.

A new lower rate of three percent has been introduced and applies to tax payers who meet certain conditions:

- Omani sole proprietorship or an Omani partnership or limited liability company (LLC)
- Registered capital of no more than OMR50,000 at the start of a tax year
- Gross income does not exceed OMR100,000 for any tax year
- Average number of employees (regardless of the nature, type, place or duration of work assigned) during the tax year does not exceed 15
- Not involved in air and sea transport; banking, insurance and financial institutions; the extraction of natural resources; public utility concessions; or any other activities decided by the Minister of Finance following approval by the Council of Ministers.

The new tax rates apply to accounting years beginning on or after 1 January 2017.
Reduction in exemptions

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– Not involved in air and sea transport; banking, insurance and financial institutions; the extraction of natural resources; public utility concessions; or any other activities decided by the Minister of Finance following approval by the Council of Ministers.

Previously, the Oman tax law allowed for tax exemptions for a maximum period of 10 years on income realized from:

– Industry (manufacturing)
– Mining
– Exports of locally manufactured or processed goods
– Operation of hotels and tourist villages
– Agricultural and animal produce, including processing such produce

Such tax payers pay tax at three percent of their declared taxable income. They don’t have to provide audited financial statements but are required to complete a simple declaration supported by an income statement, prepared on a cash basis of accounting. This simple (final) return must be submitted within three months of the end of the tax year.

The move is designed to cover a large number of prospective taxpayers who currently don’t comply with the provisions of the law on the basis that they earn a taxable income of less than OMR30,000. Over 300,000 companies are estimated to be registered with the Ministry of Commerce and Industry but less than 10 percent of them actually file tax returns.

To ensure taxpayers do not misuse this lower tax rate provision by splitting larger operations into multiple entities which meet the above criteria, the tax authority is empowered to use anti-avoidance provisions.

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Tax cards

The amended tax law introduces a tax card, which will be valid for a specified period and will then need to be renewed. An application for a tax card has to be submitted when the tax payer initiates the procedures for registering his commercial activity with the relevant authorities. The tax card number has to be mentioned on all contracts, invoices and correspondence. Ministries, government bodies, other units of state owned apparatus and companies owned (to the extent of at least 40 percent) by the government must obtain a copy of the tax card before dealing with any tax payer. All documents relating to transactions by that person with any government entity should be accompanied by a copy of the tax card. The government entity must notify the tax authority of any non-compliance within the time to be stipulated in the Executive Regulations.

Failure to comply with tax card provisions will result in the imposition of a fine up to
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Failure to comply with tax card provisions will result in the imposition of a fine up to OMR5,000. The Minister of Finance will decide the effective date of implementation of provisions relating to the tax card. Tax payers are also required to notify the tax authority of particulars relating to its registration within 60 days (previously three months) from the date of incorporation or commencement of commercial activity. Any changes in particulars must be notified within 30 days (previously two months). A maximum penalty of OMR2,000 can be imposed for failure to notify changes within the stipulated period.

To encourage compliance and self-assessment, the amendments introduce stricter penalties and punishments including:

- A maximum penalty of OMR2,000 (previously OMR 1,000) for failing to file tax returns by the due date
- The Minister of Finance is empowered to impose a fine up to OMR3,000 for non-compliance with the tax law’s Executive Regulations and other administrative decisions
- The Secretary General is empowered to impose a penalty of not less than one percent of the difference between the actual taxable income and the taxable income declared in the tax return - the maximum penalty continues to be 25 percent of the difference
- The maximum penalty for not submitting information and documents requested by the tax authority or not attending called hearings has been increased from OMR2,500 to OMR5,000.
- An intentional refusal by the Principal Officer to submit tax returns or information or documents requested can result in imprisonment for between one and six months and/or a fine ranging from OMR500 to OMR20,000; previously the imprisonment was for a maximum period of 1 month and the fine was for a maximum amount of OMR 2,000. If the offence is repeated within two years, the imprisonment period becomes three to twelve months with the fine between OMR2,000 and OMR30,000.
- An intentional refusal by the Principal Officer to submit returns disclosing actual income or the intentional submission of returns or other documents showing an incorrect tax liability or the intentional destruction or concealment of records and documents requested by the tax authority can result in imprisonment for between six months and three years and/or a fine of between OMR5,000 and OMR50,000.
Other amendments

- Previously, the definition of a permanent establishment included a building site, a place of construction or an assembly project; the amended definition only deems an establishment permanent if it lasts for a period exceeding 90 days.

- Previously the tax authority interpreted the tax law provision relating to donations to mean that they should be made in money and not in kind; the amended law allows donations in kind as a deduction based on prescribed conditions and provides a basis for determining the value of property donated in kind.

- The amended tax law has specific provisions to deal with Islamic finance, to ensure that Islamic Finance transactions are treated in accordance with their substance for tax purposes and so equally with conventional financial transactions.

- Financial statements accompanying returns must comply with International Financial Reporting Standards (IFRS) or such standards similar to IFRS as may be approved by the Secretary General; previously the tax law did not contain such a provision although Royal Decree 77/86 mandated all financial statements had to comply with IFRS.

- Tax returns must now be filed electronically. Revised returns must be filed by the tax payer within 30 days of an error or omission being found in the original return and before the expiry of the government’s right to collect any tax lapses (seven years from the date the taxes become due and payable under the law). Final tax returns will only be inspected by the tax authority on a sample basis, the rules and conditions for which will be issued by the Minister of Finance.

- A specific provision has been included in the tax law to allow inspection of documents and records at the tax payer’s premises.

- The time limit for the tax authority to assess a final tax return has been reduced to three years (previously five years) from the end of the tax year in which the final return is filed. The time limit for assessing non-submissions of final returns, deception or fraud has been reduced to five years (previously 10 years).

- Previously, the Secretary General had to decide on an objection filed by a tax payer within a maximum period of 10 months; this has now been reduced to eight months.

- Previously, the Secretariat General had to refund taxes following a final decision in a tax suit filed with the commercial courts within a maximum period of 120 days; this has now been reduced to 90 days.