

# Preparing for VAT

Oman - November 2020



On 12 October 2020, His Majesty Sultan Haitham bin Tarik issued Royal Decree 121/2020 to implement Value Added Tax (VAT) in Oman. The VAT Law was published in the Official Gazette on 18 October 2020.

As per the Royal Decree, the law will come into force in 6 months from the publication, which is April 2021. The standard VAT rate will be 5% and will be levied on most goods and services, with exceptions made to some supplies, which will be zero-rated or exempt.

The Omani law is a closer sister to the UAE VAT law and follows the Bahraini law in terms of enforcement, applying hefty penalties, including, in some cases, imprisonment (i.e., failure to register for tax).

VAT is being implemented in response to severe financial and economic repercussions due to the COVID-19 outbreak, which amplified preexisting fiscal strains and low oil prices. The IMF estimated VAT will generate new government revenue of between 1.5 and 3 percent of non-oil GDP.

The Executive Regulations will be published in December 2020, registrations will open in January 2021 and VAT will apply as from April 2021.

# What to do?

Experience has taught that planning for the implementation is paramount. Many businesses in KSA, UAE and Bahrain these days are rectifying mistakes due to insufficient planning for the implementation.

Our recommendation is to follow these basic steps to address implementation challenges:

## ▶ Assess

- The budgetary impact of the implementation of VAT (IT, external consultants,...).
- One-off costs v. recurring costs.
- Cost of (full) compliance.
- VAT registration cost.
- Potential document archiving costs.
- Cash flow effects of VAT in the supply chain (impact on working capital).
- Bad debts.
- Accounting obligations in Oman.
- Administrative and process burden.

## ▶ Review

- Payment terms in view of potentially mitigating pre-financing cost and increasing cash flow.
- Quality of master data concerning suppliers and customers.
- Contracts with customers in view of eliminating the

risk of bearing an additional cost of 5% as a result of prices being VAT inclusive.

- IT systems landscape and capabilities concerning VAT determination, reporting, and master data.

## ▶ Determine

- Whether transactions are subject to VAT and who is liable for VAT.
- The possibility of grouping entities.
- How to communicate with employees on the impact of VAT (training staff of multiple departments and functions).
- Strategies to get in touch with clients and vendors.

## ▶ Identify

- Transactions that are unusual from a VAT perspective (i.e., long term capital projects, discounts, rebates etc).
- Who will assume tax/accounting functions in the company.





# AURIFER TAX IN ASSOCIATION WITH AL HASHMI LAW

Al Hashmi law is a well-known law firm in Oman started by Omar Al Hashmi in the year 2004, an accomplished bilingual lawyer proficient in Arabic and in English. Al-Hashmi Law firm has a close working relationship with a number of corporate in-house counsel, providing support and assistance on all aspects of Omani laws and regulations and generally. Al-Hashmi law firm has successful associations with leading international law firms engaged in providing services that are required for their clients. Al Hashmi law firm focuses on the specific needs of corporate and individual clients and work dedicatedly to provide them with best solutions. The legal services of Al Hashmi Law are comprehensive and blended with years of industry knowledge and experience.

In respect of providing tax services, Al Hashmi law has associated with Aurifer Tax. Aurifer Tax was founded by Thomas Vanhee in 2017.

Aurifer is a tax advisory firm located in Dubai and Riyadh, with a representative office in Brussels.

The highly skilled and well-trained advisers will guide you through your fiscal obligations in the Gulf. The international tax experience in policy and implementation is exactly what you need for the changes lying ahead.

Aurifer exist to guide businesses and governments through assessing the impact of new VAT legislation and provide strategic tax advice to address any issues,

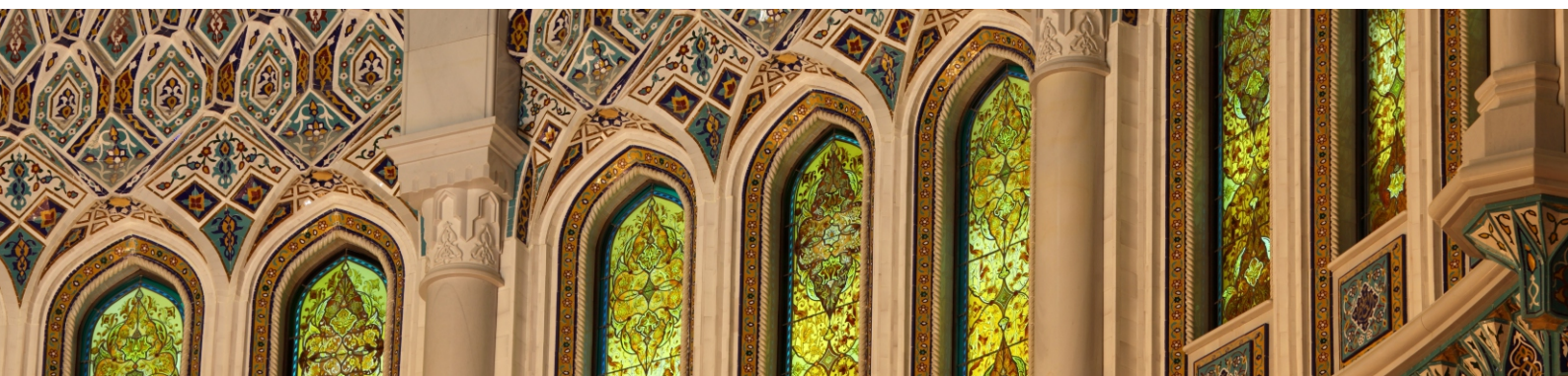
seize possible opportunities. Aurifer determines your tax strategy and processes to ensure compliance and keep your financial edge. This may entail important changes to your corporate strategies and structure, such as merging, demerging or divesting some of your assets. In order to determine the impact, Aurifer need to not only analyze your income but also all of your purchases and expenditure.

The comprehensive department analyses examine the impact on your organizational processes as well as the finance, IT and logistics department, HR marketing and sales.

Aurifer assists in tax controversies with the tax administration. We guide you through initial stages of securing tax treatment through agreements with the tax authorities, through administrative controversies after an audit, and finally before the courts through our partnership with renowned law firms.

Traditionally, businesses in the Gulf have had some experience with corporate income tax, especially with respect to their foreign investments. The experts guide you through questions around tax residency, analyzing how double income tax treaties apply to your structure and transfer pricing requirements.

The experts of Aurifer are also available for short term projects to assist clients more closely with particular tax transformation projects.



# OUR PEOPLE

## Thomas Vanhee

Partner & Affiliate Professor of Tax Law



Thomas founded Aurifer, an award-winning boutique tax firm established in Dubai and Riyadh, with a representation office in Brussels.

After a decade of working at tier 1 tax law firms in Brussels and Paris, and after having been seconded with Deloitte in the Gulf, it was time to spread his wings and personally serve the exciting Gulf market. He is grateful to be surrounded by high quality people who want to make their mark in the Gulf tax market.

Thomas has been involved in several high-profile deals and have worked for blue chip and quoted companies and institutions in various sectors. In recent years Thomas has also been heavily involved in tax policy in Europe and the Gulf. Recently, he has been assisting businesses in assessing them with their readiness for the introduction of VAT and helping them with coping with new tax challenges in the Gulf driven by tax reform.

He is also teaching taxation at Paris Sorbonne Abu Dhabi. He holds a law degree of the Catholic University of Leuven (cum laude) and a tax master's degree of Solvay Business School (magna cum laude).

He is hands-on, proactive and combine a technical skill set with a sound understanding of what makes businesses tick.

## Omar Al Hashmi

Managing Partner at Al Hashmi Law



Omar presently the board member of Omran, is an accomplished bilingual lawyer proficient in Arabic and in English qualified in Oman with 16 years of practice experience advising on a broad spectrum of contentious and non-contentious matters in all specialties including real estate. He has gained the trust and confidence of his top-notch clients by delivering work in perfection and to their satisfaction. He has developed a strong legal network across the world with affiliations and work associations with several leading law firms, especially commended for his pleasant nature.

He is on the advisory board of Oman Investment Authority's subsidiary company apart from being a board member of Omran and often works with the Oman Investment Authority's economic and legal team. He also assisted with the drafting of the implementing regulations (under review with Min. of Legal Affairs) to the Royal Decree 55/2019 and reviewed and amended the Data Protection Law of the Country (under review with Min. of Legal Affairs).

He advises on regulatory and compliance mechanisms under the Oman commercial companies' law and other corporate related laws for local and international clients.

With bachelor's in law, his specialization areas include Energy & Natural Resources law, privatization of corporates, liquidation and arbitration and has a good relationship with government bodies and ministries and has an elite network of professionals and lawyers.

# OUR PEOPLE

## Faisal Alasousi

Counsel at Aurifer Middle East Tax Consultancy  
& Tax Economist at Kuwait Ministry of Finance



Faisal practiced international taxation orders, principles and standards since 2012 at the Ministry of Finance - Department of Treasury and Tax.

Worked on technical tax issues with heavy emphasis on law, accounting and economics. Applied tax techniques on cross-border transactions in the field of direct taxation with detailed knowledge of the main tax treaty case-law, tax dispute prevention-resolution, tax regulations, anti-avoidance provisions and other tax issues.

He devised initiatives to bring Kuwait into greater conformity with international standards and was insured that Kuwait off the EU list of non-cooperative jurisdictions for tax purposes (Council Conclusions adopted 2017). He also designed a strategy for Kuwait to comply with anti BEPS measures, G20 criteria and other international initiative towards transparent and fair taxation. He contributed significantly in selecting the policy options of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI) for Kuwait and participated in the signing ceremony with 71 countries (Paris 2017). He is specialized in tax planning, strategy, value chain, tax restructuring, transfer pricing, rulings and APA and Comprised various aspect with tax agreement negotiation, application, interpretation and translation.

## Dhana Pillai

Head of Property, Tax and Project Finance at Al Hashmi Law



Dhana admitted into the Bar of Tamilnadu (India) in 2005, is a corporate lawyer specialized in international tax, data privacy, real estate, construction and free zones. Dhana is a specialist in dealing with state owned enterprises and regulatory bodies working and negotiating contracts for and with government. Dhana advises on corporate tax matters and tax efficient real estate development structures. Dhana joined Al Hashmi Law from Omran. At Omran, Dhana was responsible for producing the tax efficient legal structure, drafting changes to the special laws and rules applicable to Mina Al Sultan Qaboos Port, dealing with the ministries for the taking-over of the port operations by Omran. Dhana previously worked with Dentons Muscat and Deloitte Rotterdam for each 4 years as corporate and tax lawyer. Dhana was instrumental in drafting Oman's National Data Strategy, Data Protection Law and National Addressing Law (all still under review of the relevant authority). Dhana regularly writes and speaks on webinars on Privacy and Data Protection law and Oman tax law on LexisNexis. Dhana's qualifications include Bachelor in Bank Management and Bachelor of Law from India, and Advanced Masters in International Taxation from Leiden University, The Netherlands.



# FAQ's

## ▶ Will 5% VAT apply on all goods and services?

5% VAT will be applicable on all goods and services with exception to the application of an exemption on the following transactions: Financial services, healthcare services, educational services, bare land, the resale of residential real estate, local passenger transport, residential leases.

Import exemptions are available for goods which otherwise would be zero rated, imports by diplomatic and consular bodies, armed forces, personal items, necessities of non profit associations and returning goods.

Zero rates are available for supplies of foodstuffs, medicines and medical equipment, investment gold silver and platinum, international transport of goods and passengers, sea air and land means of transportation for commercial purposes, rescue aircrafts boats and auxiliary ships, the supply of crude oil (and derivatives) and natural gas, export of goods, supply of goods to a customs duty suspension situation, re-exports of goods temporarily imported and services rendered to a non Omani recipient.

## ▶ Does VAT apply on supplies to governments?

Yes. VAT applies on supplies made to governments.

## ▶ Does my business have to register for VAT purposes?

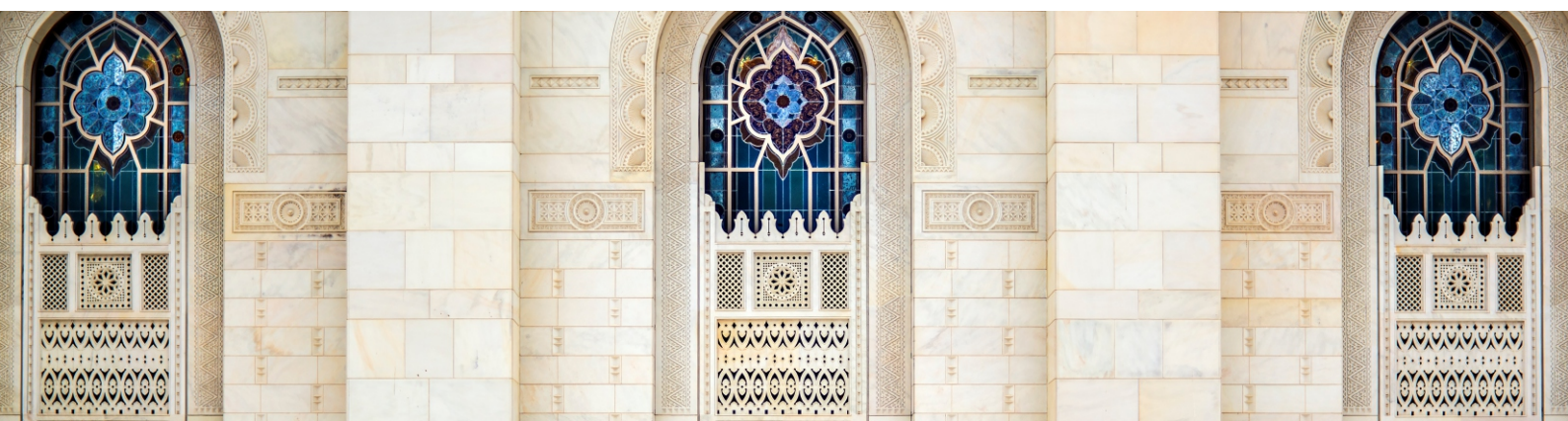
According to the guidance published by the OTA, the Mandatory Registration Threshold is OMR 38,500. Only taxable supplies are taken into account to calculate the threshold.

There are two tests to determine if a person should register for VAT:

I) Backward Look: Has the taxable turnover exceeded the mandatory VAT threshold in the current month plus the previous 11 months?

II) Forward Look: Is it expected that the taxable turnover will exceed the mandatory VAT threshold in the current month plus the next 11 months?

These tests should be carried out on a monthly rolling basis by an unregistered person engaged in economic activity. If the answer is yes for either test, the person must register for VAT. We may expect a higher registration threshold in the first year of implementation.



# FAQ's

## ▶ Will VAT apply on imports?

Imports are generally subject to VAT and VAT is payable by the importer of record. If the importer of record is a taxable person, the import VAT will be recoverable. Certain goods are not subject to import VAT.

## ▶ Will prices increase by 5%?

Given the fact that not all supplies are subject to 5% and certain businesses may choose not to raise prices, life will not simply become 5% more expensive. It is expected though that consumption will increase before the introduction of VAT, and that there'll be a short inflationary impact around the introduction of VAT.

## ▶ Do I need to hire an extra resource?

Your needs are highly dependent on the complexity of your organisation. Complex organizations are highly advised to hire additional internal or external resources. SMEs could consider upskilling the existing resources they have. The profiles of the people who can help you would those of an accountant or an attorney specialized in tax.

## ▶ Do I need new accounting software or a new ERP?

The Laws do not prescribe a specific accounting software or ERP and neither will the Omani tax

authority. Business will need to identify different providers and select the software appropriate for their business.

## ▶ How much time do I need to prepare?

This depends on the nature and size of your business but preparation is really key. If anything can be learned from the implementation in the other GCC countries, it is that there needed to be more planning, not less.

## ▶ I think my business will be in a credit position, how fast will the Omani tax authority refund VAT?

This was really one of the pain points in all GCC countries which introduced VAT. The refunds were only made slow, and only kicked off a few months after the implementation of VAT.

## ▶ Is the VAT return the same as the financial statements?

While the Omani tax authority may use the Financial Statements to compare with the VAT reporting, there is no direct relationship between the Financial Statements and the VAT returns. There may be important differences between them, as not all transactions are to be reported in the VAT return and there may be timing differences as well.

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