

VAT in Oman

Everything you need to know for
effective and efficient
implementation

October 2020

Oman VAT: reality

The Oman Government has passed Royal Decree No. 121/2020 dated 12 October 2020 approving the implementation of the much anticipated Value Added Tax (VAT) Law. This is a significant fiscal reform with implications for every business with supply chains in, or involving, the Sultanate.

VAT in Oman is expected to align to the Gulf Cooperation Council (GCC) Uniform VAT Agreement, a region-wide treaty stipulating fundamental VAT principles which must be followed by all GCC member states (but allowing countries to opt for varied VAT treatments and approaches). All things are not the same across the GCC: Oman VAT legislation is different in several aspects from that of the United Arab Emirates (UAE), the Kingdom of Saudi Arabia (KSA), and the Kingdom of Bahrain (Bahrain).

Exploring business impacts of VAT

The potential impact of VAT is expected to be significant on certain sectors that include Oil & Gas, Financial Services, Consumer Business and Real Estate. As the tax is levied on a transaction basis, VAT will touch most (if not all!) business activities and support functions. A successful response to VAT will require engaging with all affected internal and external stakeholders. Some of the sector specific complexities include:

Oil and Gas: The oil and gas sector remains an important and significant revenue source in Oman. While the oil and gas sector is proposed to be zero-rated, the scope of zero-rating must be carefully considered by businesses. Upstream and downstream businesses should examine their operations and existing arrangements to determine how VAT may affect them, and to ensure they are ready for this new VAT world. The tax, in our experience, poses differing

challenges for players across the sector: government-linked enterprises, large national oil companies, multinational conglomerates, local operators all have VAT challenges that are not identical. Service companies providing specialist resources and expertise would have to be mindful of VAT implications on 'offshore' activities alongside of 'onshore' activities. Do your transactions qualify to be zero-rated? Does exemption apply? How does the self-charge or reverse charge on imported services work? What about activities in Customs zones and special or free zones, not to mention cash-call transactions, barter and loans of equipment.

In our experience, the oil and gas sector has these VAT complexities and more – and the introduction of VAT will doubtless add extra complications for businesses across supply chains.

Financial services: Traditionally banking, financial (especially Islamic finance) services and insurance businesses are amongst the most complex in the world of VAT. Exemption from VAT applies in many (but not all) instances – but VAT exemption is a double-edged sword: whilst VAT may not need to be accounted for on the revenue side, often attributable VAT on associated costs is not recoverable. 'Margin based' income (i.e. interest and the profit margin arising from arrangements earned financial institutions and their partners may be exempt from VAT, whereas explicitly raised fees and commissions are generally subject to VAT.

Getting VAT right is key in the sector. Managing compliance is not only about assigning correct VAT liability to income streams, but equally so is determining the correct level of VAT to recover on costs incurred. Banks and insurance companies usually end up with multiple challenges, given diverse and changing

portfolios of products and transactions. Islamic finance presents its own set of complexities: a mere comparison to comparable "conventional" products is often not enough.

Many financial institutions in Oman face challenges too in dealing with new and evolving international reporting requirements (CRS, FATCA and the like); also they may be looking at IT transformation challenges. Let the Deloitte team help: having an experienced adviser who has been there, done that in other jurisdictions and countries is not just an advantage, it is often a necessity.

Consumer business: One of the key principles of a VAT system is that it should be borne by the end consumer or customer. It is thus very important for businesses dealing in consumer business to get VAT right from the beginning. In many VAT jurisdictions, consumer businesses have special rules applicable to the way in which they transact:

- ✓ Different methods of accounting for VAT (special retail VAT schemes, or facilitations needed by individual businesses)
- ✓ Alternative invoicing requirements: simplified VAT invoices, modified VAT accounting modes
- ✓ Potentially complex rules for discounts, promotions, loyalty programs, vouchers
- ✓ Tourist refund scheme criteria
- ✓ Interaction of VAT with Excise or Selective Tax, and with Customs Duty
- ✓ Use of warehousing, free zones, special zones and Customs suspension zones
- ✓ Treatment of linked products, for example where one product is zero-rated, and the other is standard rated

- ✓ Additional VAT considerations for products sold on instalment or via finance arrangements
- ✓ Dealing with shrinkage, wastage, changing mix of products.

In our experience this sector is often the most complex industry for VAT – if you are affected you need to focus on VAT and how it flows through your inventory, finance and transaction systems. Important too to give your team (and the authorities) the appropriate transparency and access to information.

Real estate: The range of transactions underpinning planning, construction and

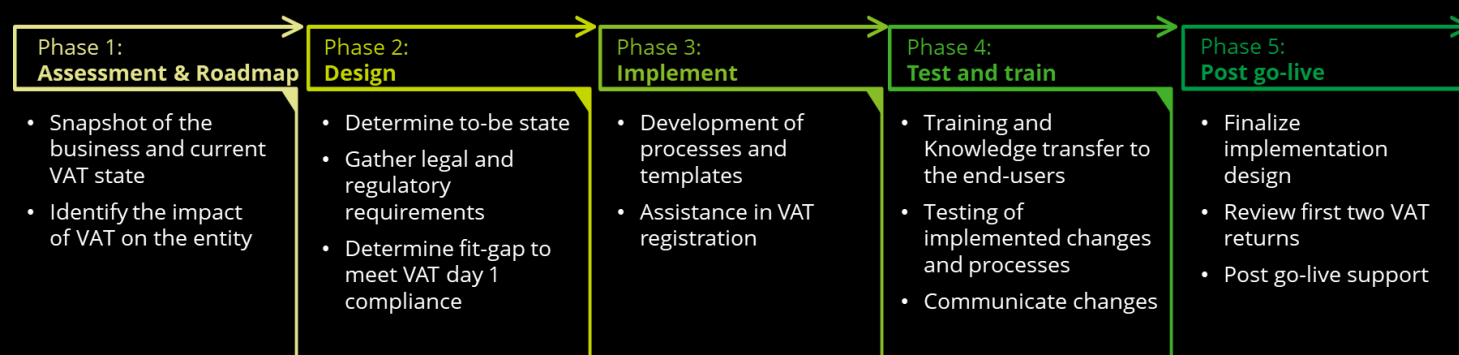
sale of commercial or residential real estate are varied and often highly complex. Exemption under VAT often comes with costs, both absolute and cash flow. Every real estate transaction, deal or project is different: determining the appropriate VAT treatment on exempt transactions and proper VAT liability is often a challenge. Contracts and obligations are longer term; delays, extensions and change management are a fact of life in delivering the necessary infrastructure, commercial and residential spaces that are so important to the continued development of the region. Timely and practical preparation for VAT, then dealing with the tax when

it arrives, tend in our experience to be critical.

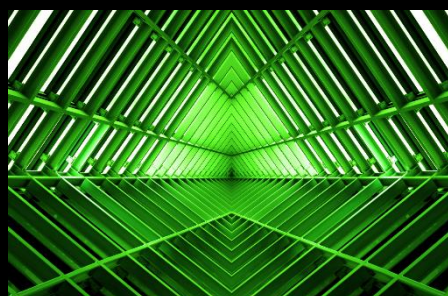
The real estate sector faces tight margins and high cash flow costs – we at Deloitte would also say there is a silver lining here. With economic uncertainty and the challenges of the pandemic, VAT is an opportunity for businesses operating in this sector to reanalyze the strategies to maximize recovery on VAT costs, as well as avoid compliance risks moving forward. Talk to us to find out how.

Deloitte's structured, effective and efficient approach to VAT implementation

Businesses should be taking steps now in order to define strategy and implement plans, to ensure organization-wide readiness before the introduction of VAT. Each business has its own different priorities, but a successful implementation will result in VAT being effectively embedded within processes. At the end of the day you should have confidence that you will have a well-managed compliance system, producing accurate and timely VAT filings. With these goals in mind, Deloitte has developed an outcomes-focused approach to help you achieve these objectives, tailored to individual needs.



Technology considerations – using tools to simplify VAT compliance



VAT is characteristically embedded throughout a business' entire supply chain. The strength of a VAT compliance function is highly dependent on the processes in place, the capacity of the IT system, and the people element: knowledge of VAT within the finance/tax department. The right approach to VAT in our experience does not guarantee

100% compliance, but puts in place checks and balances that give control while reducing error, risk and cost.

The complexity of your existing IT architecture is going to have a large influence on how straightforward it is to update for the introduction of VAT:

Simple architecture: One accounting system/software/ERP, usually for one line of business in a single entity with limited customization needed to cover processes needed for VAT. Work will be focused on enabling or existing tax calculation, invoicing and reporting functionality.

Medium complexity architecture: Goes beyond the simple above. More than one line of business, divisional reporting or multiple entities; multiple accounting requirements dealt with by different processes and systems (likely significant manual interventions and/or reports). VAT implementation requires transaction mapping and business requirements defined for processes impacted by VAT introduction; capability for tax calculation and reporting of existing system(s) is limited and will need configuration, customization. VAT software or tax engine may need to be considered as cost and time effective compliance solutions to bolt on to existing architecture.

High complexity architecture: When working this spectrum of complexity, this one is at the other end. The business itself is multi-faceted and layered (core and non-core), with many interdependencies in processes and IT. Multiple systems used, including older linked/feeder systems, with multiple interfaces amongst financial management and accounting systems. VAT capability (calculation, statements/invoices and reporting) varies; may in addition be in the process of IT integration/migration to new ERP or accounting platforms that impact how VAT can be made to work on Day 1.

Deloitte tax technology offerings

As a first step, Deloitte will conduct an “as-is” and fit/gap assessment based on your requirements. In this assessment, our tax technology experts will analyze the capabilities of your accounting system. The “as is” and fit-gap assessment will look at what your financial processes currently deliver given the VAT requirements, and identify areas not covered. As a next step, different options will be considered to

deliver an effective and efficient IT architecture equipped to meet your VAT business requirements; a recommendation may be made, depending on the findings.

The IT architecture solution design will take into consideration the VAT capabilities of all impacted systems, taking account of:

- ✓ “To-be” processes
- ✓ Future system solutions for each impacted process
- ✓ Change impacts
- ✓ Master data changes
- ✓ Migration requirements
- ✓ Configuration documents for VAT functionality
- ✓ Functional design specifications, where relevant

Deloitte VAT Compliance Centre

Poor compliance might lead to penalties and can damage reputations – have you thought about outsourcing solutions? Deloitte has developed a VAT Compliance Centre under its Business Process Solutions (BPS) service line, focused on guiding businesses through their VAT compliance journeys. The Centre is equipped with a dedicated team of tax specialists dealing with your tax compliance needs. Our services include registration, filing and submission of returns (including additional review and queries support), plus dealing with VAT refunds and tax audits.

Contacts

For further guidance and support, please get in touch with our Oman tax experts.



Ahmed Al Qassabi
Office Managing Partner
aalqassabi@deloitte.com



Muhammad Bahemia
Oman Tax Leader
mbahemia@deloitte.com



Robert Tsang
Oman Indirect Tax Leader
robtsang@deloitte.com



Phaninder Peri
Director, Corporate Tax
pperi@deloitte.com



Shaishav Udani
Senior Manager,
Indirect Tax
sudani@deloitte.com



Essam Elmansour
Senior Manager,
Indirect Tax
eelmansour@deloitte.com



Sunita Taijwani
Senior Manager,
Indirect Tax
staijwani@deloitte.com

Additionally, our wider team of tax experts would be happy to assist you should you have any further queries.



Nauman Ahmed
ME Tax Leader
nahmed@deloitte.com



Mark Junkin
ME Indirect Tax Leader
majunkin@deloitte.com



Fernand Rutten
ME Customs and Global
Trade Leader
frutten@deloitte.com



Marjolein van Delft
ME Tax Management
Consulting Leader
marvandelft@deloitte.com



Michael Towler
Indirect Tax, Partner
mtowler@deloitte.com



Alex Law
ME International and M&A
Tax Leader
alexlaw@deloitte.com



Basit Hussain
ME Business Process
Solutions Leader
bhussain@deloitte.com



This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories, serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 300,000 people make an impact that matters at www.deloitte.com.

Deloitte & Touche (M.E.) (DME) would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche (M.E.) accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication. DME is a licensed member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. DME's presence in the Middle East region is established through its affiliated independent legal entities, which are licensed to operate and to provide services under the applicable laws and regulations of the relevant country. DME's affiliates and related entities cannot oblige each other and/or DME, and when providing services, each affiliate and related entity engages directly and independently with its own clients and shall only be liable for its own acts or omissions and not those of any other affiliate.

DME provides audit and assurance, consulting, financial advisory, risk advisory and tax, services through 26 offices in 14 countries with more than 4000 partners, directors and staff. It has also received numerous awards in the last few years which include, Middle East Best Continuity and Resilience provider (2016), World Tax Awards (2017), Best Advisory and Consultancy Firm (2016), the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW), as well as the best CSR integrated organization.