



# Oman

## 20/20 vision



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Once a middle-income economy heavily dependent on depleting oil resources, the Sultanate of Oman has been actively pursuing a development plan focusing on diversification, industrialization and privatization, with the objective of reducing its reliance on the oil sector's contribution to GDP, currently at 48.44 percent (USD 37.8 billion) and creating more employment opportunities for the rising number of young Omanis entering the workforce. And the outcome? The Public Authority for Investment Promotion and Export Development (PAIPED) was recently recognized at the United Nations Conference for Trade and Development held in Geneva for its efforts to promote non-oil products.

### Vision 2020

The Omani economy had been on a steady transformation course through development plans, beginning with the first Five-Year Plan (1976–1980). At the instruction of His Majesty Sultan Qaboos bin Said, Vision 2020, a plan for Oman's economic future up to the year 2020 was set, outlining the country's economic and social goals, which include:

- Economic and financial stability;
- Reshaping the role of government in the economy and broadening private sector participation;
- Diversifying the economic base and sources of national income;
- Globalization of the Omani economy;
- Upgrading the skills of the Omani workforce and developing human resources.

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### Growth potential

During the last decade Oman had set apace a reform program aimed at developing and diversifying the economy and releasing its potential for growth with the ultimate goal of promoting development and competitiveness through increased government spending on key sectors and stimulating private investment.

Oman's economic growth strategy underlines the development of simple industrial chains, particularly in basic manufacturing and allied activities as well as other industries that will enhance the Sultanate's position and offer a competitive advantage in the region.

The industrial sector has for long been the foundation of Oman's long-term diversification strategy as it is also capable of meeting the country's social development needs and generating more employment opportunities. There is no doubt that the contribution from industry has played a significant role in shaping the Sultanate's economy in terms of accelerated growth, sustainable economic and social development and creating new jobs; however, other sectors such as tourism and gas-based industries, banking and finance, healthcare and insurance, agriculture, retailing, aviation and recently the railways project, have also been key components of the government's diversification strategy (see below).

The mineral industry in Oman, for instance, is on a strong growth path. Oman's mineral resources include chromite, zinc, limestone, gypsum and silicon among others. A large number of investors have been drawn into the sector as it is potentially expected to contribute significantly to the country's GDP. Several industries have been developing around the mineral sector as part of the national development process, which as a result, has boosted the employment opportunities for a young Omani workforce as well as contributing to the nation's GDP.

One of the benchmarks for sustainable development and increased private investment is increased investment in infrastructure. Accordingly, the continuous development of Oman's infrastructure and the availability of investment funds for such development projects is a determinant factor for the future growth of the economy. Government spending during the past few years on infrastructure projects such as roads, airports, seaports, hospitals and health centers cannot be overlooked.

#### **Omanization**

Omanization as a national objective is regulated and monitored in the public sector and, most recently, in the private sector as well. The government, along with various industry segments, has initiated training and development programs to enhance the skills and competencies of nationals in various fields and promote the employment of nationals in the private sector. The aim has been to match the supply of labor locally with market requirements. It is intended to see Omani nationals playing a leading role in all areas of employment – both in trade and professions – in the Sultanate. The natural consequence of this process has been the prioritization of education and training.

#### **In-Country Value (ICV) strategy**

In-Country Value (ICV), which refers to the total spend retained in the country to aid in job creation, development of human resource capabilities and establishment of industries locally to stimulate productivity, has been growing in importance in Oman, particularly in the oil and gas sector.

ICV aims at enhancing the value of goods, services and skills in the sector and stimulating local production and manufacturing in order to reduce the imports of goods and enhance the provision of services in Oman, thereby reducing dependency on external experts and improving the skills and capabilities of Omani nationals by increasing their contribution to the activities of the oil and gas sector.

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#### **Conclusion**

In a mid-sized, open economy in which the biggest driver of growth so far has been oil, managing the transition to a more diversified economy is challenging. Fortunately, Oman's government has taken a number of steps in terms of efficient economic planning and implementation of various social development initiatives that have contributed to the success of the Omani economy.

Other factors that have contributed to Oman's success include the significant rise of foreign investment in many sectors as a result of competitively low tax rates in the region. The development of Small and Medium Enterprises (SMEs) together with ICV strategy lays a solid foundation for self-reliant industry and modernization of the economy. Despite the various challenges within the region and in the country, Oman's economy is set on the right path of sustainable growth, development, diversification and progress.

### Industry

- Development of industrial estates in Sohar, Sur, Salalah, Nizwa and Buraimi.
- The provision of natural gas to the industrial estates in Sohar and Salalah has helped promote the expansion of those industries reliant on large quantities of energy.
- Tax exemptions are an incentive to the development and expansion of the industrial sector, which contributes significantly to the country's GDP, currently at 16.3 percent (USD 12.9 billion).
- The Duqm region is one of the newest industrial areas growing in prominence with a port and industrial zone project that will transform the area into a major economic development center in which the port will act as facilitator unlocking the potential growth opportunities. The Duqm port & dry-dock will be one of the major ports in Oman with its strategic location. This port is also equipped with a ship repair yard and dry-dock facility, which is the first of its kind in Oman.
- Oman has also started to build a rail network that is expected to link major ports, industrial areas and free zones at Sohar, Salalah and Duqm with a wider GCC network.
- An accelerated program to add significant new capacity to increase the supply of power and water to meet the rising demand in the Sultanate, essential for sustained growth and development.

### Human Resources

The Omani government has a strong desire to have Omani nationals play a leading role in all areas of trading and professional employment in the Sultanate. As a result, education and training are prioritized and have been a cornerstone of each of the Sultanate's five-year development plans. The Ministry of Education's commitment to a sector that – while maintaining traditional values – is modern and advanced, is reflected in its range of educational programs, including the basic education system, designed to meet the demands of modern science and culture in the information age.

### SMEs

- The past few years have witnessed greater focus on the growth and development of small and medium enterprises (SMEs) to compete in the international arena, beyond the domestic markets.
- Establishment of the Public Authority for Small and Medium Enterprises Development (PASMED), an independent body created to encourage young entrepreneurs and to provide support in terms of technical, financial, training, marketing and management, all necessary fields for aiding these enterprises during the coming periods.
- The Omani government anticipates sizeable expansion of jobs created from the development of SMEs. The planned expenditure on the SME sector in 2013 is estimated at RO12.9 billion, almost 30 percent up from 2012.

### Tourism

- Tourism is being developed as an important and sustainable socio-economic sector of the Sultanate of Oman in a manner that reflects the Sultanate's history, cultural and natural heritage and spirit of traditional hospitality. Tourism will facilitate economic diversification, the preservation of cultural integrity and the protection of the environment of the Sultanate.
- According to the latest statistics, tourism contributes approximately 2.4 percent to Oman's GDP and is expected to increase to 3 percent by 2020. There is a significant increase in investment in the tourism sector creating considerable jobs.

## Taxation

In 2009, Oman introduced a new tax law that consolidates a number of ministerial decisions, interpretations and practices arising from the previous 28-year old law, along with the introduction of certain new tax regulations.

One of the noteworthy changes brought into the new tax law was the elimination of the discrimination in tax rates between the branches of foreign companies and Omani companies/establishments and the introduction of a unified rate of 12 percent applicable to all establishments. Further, under the U.S. Free Trade Agreement, American companies can register a limited liability company with 100 percent foreign ownership without the involvement of a local partner.

The reduction in tax rates, the amendment to the definition of "permanent establishment," which is now in line with the Organization for Economic Cooperation and Development (OECD) and the free trade agreements entered into by Oman, has encouraged and increased foreign investment in Oman.

Another major change introduced by the new tax law is a shift from a territorial system of tax to a global system of tax, whereby revenue earned outside Oman is also taxed and which, consequently, increases the government's revenue from tax.

The new executive regulations to the new income tax law that came into force in tax year 2012 and apply to all accounting years ending after January 1, 2012, provide clarifications and specify guidelines and rules in relation to the provisions of the new tax law.

As part of simplifying the compliance and thereafter the assessment process, the tax authorities introduced 18 new different tailor-made forms enabling them to collect relevant information on a timely basis at the time of compliance, which is expected to speed up the assessment process. It is worth noting that the new provisions also include exemptions for small businesses for filing returns and financial statements and from mandatory tax registration and compliance on fulfillment of certain conditions. Tax deductions now require more detailed documentation than in the past. Provisions of penalty for non-compliance introduced in the new tax law are likely to be implemented soon.

With implementation of Islamic finance regulations, the tax authorities are currently reviewing the tax laws and are likely to introduce amendments to accommodate the effect of the Islamic finance transactions.

Various service improvement measures to tax payers have already been, or are in the process of being implemented. These include establishing a Large Tax Payers Unit (LTPU), online portals and revamping of the tax system among others.

by **Alfred Strolla**, managing partner, Oman, Sudan and Yemen, Deloitte Middle East and **Phaninder Peri**, senior manager, Tax, Deloitte Middle East