

## VAT in Oman



### Where are we today?

Following the signing of the Gulf Cooperation Council (GCC) VAT Framework Treaty, the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA) introduced VAT effective from 1<sup>st</sup> January 2018. Other GCC members are looking to implement VAT soon. The Treaty acts as the basis for domestic VAT legislation by stipulating certain principles, which must be followed by all members, while allowing the countries to opt for different VAT treatments and approaches.



### Zero-rated or exempt?

The Treaty provides that VAT on the supply of goods or services within the scope of VAT will generally be charged at a standard rate of 5%, unless the goods or services are exempt or zero-rated. GCC members have been granted the flexibility to choose whether the supply of specific goods or services are treated as zero-rated or exempt.

Why is this important in an Omani context? The distinction between zero-rating and exemption is an important one; in both cases VAT is not accounted for on the supply at a positive rate, a supplier making exempt supplies is generally not allowed to recover input VAT in relation to such supplies. Recovery of input VAT incurred in relation to zero-rated supplies is generally allowable.

### Categories specified by the Treaty include:

#### Must zero-rate:

- Medicine and medical equipment
- Cross-border goods and passengers transportation services
- Goods exported outside GCC territory
- Certain cross-border supplies of services

#### May zero-rate:

- Certain food items
- Supply of transportation for commercial purposes
- Oil, oil derivatives and the gas sector

#### Can zero-rate or exempt:

- Education sector
- Healthcare sector
- Real estate sector
- Local transport sector

#### Must exempt:

- Financial services (with some flexibility to tax)
- Importation, if the goods are exempted from customs duty or exempted or zero-rated from VAT in the specific member state



### Where are we today?



### Timing

#### Timing

In Oman, we understand that the local VAT legislation, regulations and guidance is under preparation and review by the government.



### Zero-rated or exempt?

As adopted in the UAE and KSA, we have set out below sector-specific VAT treatment at the time of writing (note these will change and evolve so check if you have specific questions or want to apply rules to individual transactions):

Sector	UAE	KSA
<b>Financial services</b>	Fee based services: Taxable Margin based services: Exempt	Fee based services: Taxable An implicit Margin based services: Exempt
<b>Insurance</b>	All non-life insurance: Taxable Life insurance: Exempt	All non-life insurance: Taxable Life insurance: Exempt
<b>Food items</b>	All taxable	All taxable
<b>Education</b>	Specified services: Zero rated	Taxable
<b>Health</b>	Specified services: Zero rated	<ul style="list-style-type: none"> <li>• Taxable (Private Healthcare Providers)</li> <li>• Services provided by government healthcare provider are considered to be provided in the capacity of a public body. These activities will therefore fall outside the scope of VAT</li> </ul>
<b>Medicines and medical equipment</b>	Zero-rated (identified in a decision issued by the Cabinet)	Zero-rated (qualified medicines and qualified medical equipment)
<b>Real estate</b>	The first supply of residential buildings within (3) years of its completion: Zero-rated The first supply of buildings converted from non-residential to residential: Zero-rated Residential rental: Exempt Bare land: Exempt New housing: Zero rated All other real estate: taxable	Residential rental: Exempt All other real estate: Taxable
<b>Local transport</b>	Exempt	Taxable
<b>Oil and gas</b>	Specified products: Zero-rated	All taxable
<b>Export</b>	Zero-rated	Zero-rated
<b>International transport</b>	Zero-rated	Zero-rated
<b>Investment metals</b>	Zero-rating the supply or import of investment precious metals	<ul style="list-style-type: none"> <li>• Zero-rating to the first supply of a qualifying metal by its producer or refiner as defined</li> <li>• Zero-rating on any grant, assignment or surrender of a right, interest or claim with respect to any supply of a qualifying metal for investment as defined</li> </ul>



### Prepare early – what to think about now

Uncertainty around implementation dates is no reason to delay thinking about readiness steps your business should take. Preparation is key because VAT liabilities are generally self-assessed, with errors often subject to severe penalties and time consuming interactions with local tax authorities, or worse, causing a business disruption. Finance and operational teams in the business need to identify and claim necessary resources early.



### The risks of getting it wrong are potentially enormous

The obvious point on risks has a number of aspects:

#### Reputational

- The legal requirement under VAT rules is usually to pay the right amount of tax, at the right time. The ability to pay the right amount of tax depends on whether an organization is fully versed with its tax obligations and understands how to meet them
- Failure to meet these obligations can lead to ongoing public perception challenges and a difficult relationship with authorities

#### Operational

- The operational imperative is to maintain business operations-business-as-usual principles - over the course of a tax implementation
- Disruption of procure to pay and sell to receive processes will give rise to major operational difficulties with logistics unable to import goods, sales unable to raise invoices, etc.

#### Financial

- The business-as-usual principles under VAT can, depending on the level of preparation undertaken, create substantial cash-flow and absolute tax costs
- The inability to sell goods and services due to a failure to implement the necessary changes in time can lead to major revenue shortfalls
- Financial penalties for errors levied by tax authorities can be significant



### Impact

#### Impact

VAT will impact most industries, but in our experience in particular:

- Consumer and industrial products
- Technology, media and telecommunications
- Financial services
- Real estate



### Standard rate

#### Standard rate

The standard VAT rate will be 5% in all six GCC countries. This is significantly lower than the OECD average VAT rate (currently approximately 19%).



### Prepare early – what to think about now



### Common pre-implementation actions

#### Common pre-implementation actions

There are a number of actions businesses can take long before VAT is implemented to determine their systems, processes and contractual arrangements are 'ready to go'. Immediate actions include:

- Assess VAT readiness with GCC VAT Review Smart (VRS), Deloitte's online assessment tool, which considers everything from the financial impact of VAT, through to staffing and accounting processes
- Developing roadmaps through to VAT implementation date(s) and develop a resourcing plan to identify the work necessary to be ready to submit VAT returns
- Business and industry groups should begin lobbying authorities long before draft legislation is released
- Mapping your transaction footprint to determine all future VAT liabilities so that compliance obligations are easily overlaid
- Reviewing and updating contractual arrangements with vendors and customers to determine each party is aware of its responsibilities for paying and accounting for VAT
- Including appropriate clauses in contracts and implement changes to contractual terms, where necessary, e.g. to manage VAT costs in vendor contracts or future pricing/revenue in customer contracts



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## VAT and the impact areas in the implementation cycle



### Sales and marketing

- Effect on demand
- Pricing strategies
- Impact on current pipeline and inventory
- Treatment of exports



### Legal

- VAT impact on contracts
  - Current contracts
  - Future contracts



### Information system

- Systems review and changes for VAT compliance



### Internal/Human capital

- Education and communication
- Training



### Customers

- Communication changes in business practices
- Structure of offers/financing
- Support mechanisms and incentives



### Finance and administration

- Impact on cash flow
- Identification of transactions and VAT liability
- Maximization of VAT input tax credit on purchases
- Registration & compliance
- Need to be more involved



### Strategy

- VAT impact on corporate plans e.g. restructuring, new projects and transactions
- Clarification of issues and treatment with tax authorities
- Interaction with your supply chain



### Suppliers

- End of current business tariffs and charges
- Preference for VAT registered vendors to maximise ITC
- Use of self-billing/other billing best practices to maximise credits
- Imports of capital goods and raw materials

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