Changes to the Tax Regime in Oman

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Who is affected?

The changes affect Oman taxpayers, as well as foreign companies without a local permanent establishment that receive certain types of income from Oman. In addition, the changes will also impact small and medium enterprises.

Key changes

Changes to corporate tax rates

The standard corporate income tax rate has increased from 12% to 15%.

A new lower rate of 3% has been introduced for small businesses that meet certain turnover, capital, and minimum employee conditions, and do not fall within specified industry sectors. The lower rate will be irrelevant to most “foreign” (i.e. non-GCC) controlled companies because of the relatively high share capital requirements imposed on these foreign companies under the current Foreign Investment Law of Oman.

Both of these rate changes will apply retrospectively for all financial years beginning on or after 1 January 2017.

Exemption threshold removed

The exemption which previously applied to the first OMR 30,000 of taxable profits has been removed. As a consequence, businesses that were not subject to tax will now be required to file a tax return and pay tax for the first time.

Withholding tax scope extension

The scope of withholding tax has been broadened to include payments of dividends and interest, and payments for services to foreign persons without a permanent establishment in Oman. Ministries and government bodies will now also be required to withhold. Previously, withholding tax only applied to management fees, royalty payments, consideration for the use of, or right to use, computer software, and consideration for research and development.

Other changes

- A minimum period of activities is now required to create a permanent establishment in the case of a building site, place of construction, or an assembly project.
- All taxpayers must obtain a tax card and use the tax card number on all contracts, invoices, and tax authority correspondence.

- Tax exemptions for most industry sectors are no longer available (i.e. whilst existing tax exemptions will be respected, any applications for the renewal of a tax exemption will be impacted if they fall within a sector for which no tax exemption is available).
- The old assessment regime will shift to a self-assessment based system.
- Stricter penalties have been introduced to enforce compliance in cases of certain deliberate violations of the tax law. These take the form of both higher fines and imprisonment of the Principal Officer.
- Electronic filing of tax returns will be introduced.
- Islamic finance transactions will be taxed in the same way as their conventional equivalent.

Al Tamimi's view

Given the impact of low oil prices and the resultant budget deficit, diversifying revenue streams through taxes has been under consideration for some time. In addition to the introduction of VAT, which will be implemented across the GCC by 2018-19, amendments to the Oman income tax law were widely expected in order to generate additional revenue in the form of taxes. The increase in the standard tax rate, the expansion in the scope of withholding tax, the removal of tax exemptions, and stricter penalties to encourage compliance are all measures designed to achieve this objective.

However, the removal of the exemption threshold and the expansion of the withholding tax base will result in a higher compliance cost for businesses operating in Oman. In addition, foreign companies are likely to push the withholding tax burden to local businesses through contractual gross-up clauses further increasing the cost of doing business in Oman. Accordingly, it will be important to consider whether the withholding tax will be reduced or eliminated by an applicable double tax treaty between Oman and the country in which the foreign recipient is resident. Companies operating in Oman will need to review their contracts to assess potential withholding tax liability and consider the implications of additional compliance.

Despite the amendments to the tax law, Oman remains a jurisdiction without any personal income tax legislation and where disposable incomes, particularly in highly skilled sectors, are high by Middle Eastern standards. Furthermore, the Government's continued adherence to its Vision 2020 plan in promoting tourism, manufacturing, logistics, and various other sectors should lead to a higher permanent and visiting population, which may serve to offset the cost of taxation on corporations.

Al Tamimi will be pleased to help you understand how the changes affect your business.

Al Tamimi & Company has a regional tax practice. For further information please contact Arif Mawany (A.Mawany@tamimi.com) or Shiraz Khan (S.Khan@tamimi.com).