Oman: Major changes to corporate income tax and withholding taxes

February 2017

In brief

The Omani government has now introduced broad tax changes to the income tax law. The changes have been the subject of intense speculation for many months, and are aimed at increasing tax revenue, improving tax administration, and stimulating small business activity.

Consistent with expectations, the corporate tax rate is increasing to 15%, from 12%. Another notable change is the extension of withholding tax to dividends, interest, and payments for services.

These changes become effective from the date of publication in the Official Gazette (i.e. 27 February 2017). Companies operating in Oman are encouraged to consider their impact.

In detail

Royal Decree No. 9/2017 was published in the Official Gazette on 26 February 2017, introducing broad tax changes that have been the subject of intense speculation for many months.

The headline items include:

- An increase in the basic income tax rate from 12% to 15%
- A 3% rate of income tax for certain small taxpayers
- Elimination - for all taxpayers - of the tax exemption on the first OMR 30,000 of taxable profits
- Extension of withholding tax to dividends, interest, and payments for services
- Enhanced penalty provisions, including increased criminal penalties
- Elimination of most tax exemptions
- Introduction of 'tax cards' for all taxpayers
- Introduction of electronic tax return filing
- Changes to the assessment regime

Tax Rates

The standard rate of income tax is increased to 15%, for tax years beginning on or after 1 January 2017, and the OMR 30,000 exempt threshold is removed.

PwC View*: Even at the increased rate, this still represents one of the lower income tax rates in the world, and we would not see this, on its own, as a significant deterrent to international investment.*

A 3% tax rate applies to Omani proprietorships ('establishments') and to LLCs which meet the following requirements:

- Registered capital does not exceed OMR 50,000 at the beginning of the tax year
- Gross income does not exceed OMR 100,000
- Average number of employees during the tax year does not exceed 15
- Taxpayer activities do not include air/sea transport; extraction of natural resources; banking, insurance or financial services; public utility concessions; or other activities to be decided by the Minister of Finance after approval by the Council of Ministers.

The 3% tax rate is effective for years beginning on or after 1 January 2017, and is coupled with a requirement for small taxpayers to file income tax returns.

PwC View: *Small businesses that have not previously been subject to income tax would now be subject to income tax, and would be required to submit a tax return (accompanied by a simplified 'income statement').*

The deadline for filing the 2017 tax return, and paying the associated income tax liability, will generally be 31 March 2018 (or three months after the year-end in other cases).

Withholding Tax

Withholding tax (at 10%) is extended to dividend payments, interest and payments for services. Withholding tax will be due on payments made on or after 27 February 2017.

Previously, withholding tax had applied only to royalty payments; management fees; consideration for the use of or right to use computer software; and consideration for research and development.

The withholding tax rate remains at 10%.

The obligation to deduct and account for withholding tax is now extended to Ministries and other public bodies.

PwC View: *Withholding tax may still be reduced or eliminated by any applicable double tax agreement (DTA) in place between Oman and the recipient country. Oman has a few DTAs in place that provide for NIL dividend and/or interest withholding tax (subject to meeting certain requirements) while others provide reduced withholding tax rates (e.g. to 5%).*

Permanent Establishment

The definition of permanent establishment (PE) - which previously included a PE in connection with a building site, place of construction or assembly project - has been amended, to now only create such a PE where the activity carries on for more than 90 days.

PwC View: *This removes some ambiguity that existed around the 'construction PE' definition, and brings the time limit in line with the existing, 90-day 'services PE' definition.*

Overall, the PE definition may be overridden by a narrower test in any applicable DTA, or by a longer time limit for a 'construction PE'.

Penalty Provisions

The maximum penalty for failure to file returns by the due date is increased from OMR 1,000 to OMR 2,000.

The maximum penalty for failure to submit information requested by the tax authority or to attend scheduled hearings is increased from OMR 2,500 to OMR 5,000.

A penalty of up to OMR 3,000 may be imposed for failure to comply with the Executive Regulations or administrative decisions.

Intentional refusal by a Principal Officer to submit tax returns or other requested information can result in imprisonment for a period of 1 to 6 months and/or a fine of OMR 500 – 20,000. A second offense within 2 years increases the period of imprisonment to 3 to 12 months and the fine to OMR 2,000 – 30,000.

The intentional failure to submit accurate tax returns or the intentional destruction or concealment of documents and records can result in imprisonment for a period from 6 months to 3 years and/or a fine of OMR 5,000 – OMR 50,000.

Tax Exemptions

Tax exemptions will be available only for industrial (manufacturing) activities. Exemptions will no longer be available for mining; export of locally manufactured goods; operation of hotels and tourist villages; agriculture; fishing; or education.

In addition, new industrial exemptions will be limited to the initial 5-year period, with no renewal.

Existing tax exemptions will not be impacted, but the changes would look to impact pending renewal applications.

Tax Cards

A tax card system is introduced whereby all taxpayers (Omani companies, establishments, and permanent establishments) will be issued with tax cards, and new taxpayers must apply for a tax card at the time of commercial registration.

The tax card number must

appear on all contracts, invoices, and tax authority correspondence.

Government entities must obtain a copy of the tax card before dealing with a taxpayer. Failure to comply with tax card provisions may result in a fine of up to OMR 5,000.

The Ministry of Finance is to determine the effective date of provisions related to the tax card and outline any transitional provisions.

Electronic filing and self-assessment

The current assessment regime is to be replaced by self-assessment under rules and conditions to be outlined by the Ministry of Finance. Under the new regime, returns will be inspected by the tax authority on a sample basis only. Taxpayers will be subject to accuracy penalties ranging from 1- 25% of the tax on any understated income.

The period for assessment now runs until the end of the 3rd year following the year in which a return is submitted. Previously, the period had run until the end of the 5th year following the year of filing.

Electronic filing of tax returns is to be introduced under rules to be set out by the Ministry of Finance.

Islamic Finance

Provisions are introduced to ensure that Islamic financial transactions are taxed in accordance with their fundamental substance in the same way as conventional financial transactions.

The takeaway

Companies will need to consider immediately the commercial impact of the tax rate changes and expansion of withholding taxes on their operations in Oman. Double taxation treaties may help ameliorate the impact of withholding tax changes. The compliance enforcement and withholding tax changes will also need to be factored into operating models.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Middle East - Oman contacts

Russell Aycock, *Muscat*
Tax Director
+968 2455 9122
russell.aycock@pwc.com

Neil Allmark, *Dubai*
Tax Director
+971 4515 7180
neil.allmark@pwc.com

Omar Al Sharif, *Muscat*
Country Senior Partner
+968 2455 9118
Omar.al-sharif@pwc.com

PwC Middle East International tax and regional contacts

Dean Kern, *Dubai*
Middle East Tax & Legal Services Leader
+971 4 304 3575
dean.kern@pwc.com

Jochem Rossel, *Dubai*
Middle East International Tax Leader
+971 4 304 3445
jochem.rossel@pwc.com