Oman Budget 2020
Key Highlights

January 2020

Insights
Tax and Legal Services
PwC Middle East

Summary of State Budget released in Royal Decree 1/2020

	2020 Budget			2019 Budget		2019 actuals*	
	Target oil prices at $58/bbl			Target oil prices at $58/bbl		Target oil prices at $65/bbl	
	OMR (m)	**% of total**	**% change from 2019**	**OMR (m)**	**% of total**	**OMR (m)**	**% change from 2019**
Revenues							
Oil	5,500	51%	1%	5,465	54%		
Gas	2,200	21%	11%	1,980	20%		
Total Oil and Gas	**7,700**	**72%**	**3%**	**7,445**	**74%**		
Taxes and Fees	1,573	15%	8%	1,450	14%		
Non tax revenues	827	8%	(3%)	850	8%		
Others	600	5%	69%	355	4%		
Total Non Oil and Gas	**3,000**	**28%**	**13%**	**2,655**	**26%**		
Total Revenues	**10,700**	**100%**	**6%**	**10,100**	**100%**	**11,100**	**10%**
Expenditures							
Defense and Security	3,450	26%	0%	3,450	27%		
Oil and Gas	2,230	17%	0%	2,230	17%		
Civil Ministries	4,590	35%	2%	4,490	35%		
Loan Interest	860	6%	37%	630	5%		
Investments	1,300	10%	(2%)	1,325	10%		
Subsidies and Other	770	6%	(2%)	775	6%		
Total Expenditures	**13,200**	**100%**	2%	**12,900**	**100%**	**13,700**	**6%**
Deficit	**(2,500)**			**(2,800)**		**(2,600)**	
Deficit funded by:							
Foreign Borrowing	1,500	60%		2,000	72%		
Local Borrowing	500	20%		400	14%		
Reserves	500	20%		400	14%		

*Source of information: Royal Decree 1/2020 and Ministry of Finance press release

Overview

The FY 2020 Oman budget represents the final year of the Ninth Five-Year Development Plan (2016-2020) and paves the way for the Tenth Five-Year Development Plan (2021-2025) which underpin the Oman Vision 2040 development objectives.

The budget sets a prudent and measured tone in both its revenue and expenditure projections with a resultant deficit of OMR 2.5 billion.

Revenue is budgeted to increase by 6% to OMR 10.7 billion (cf. FY19 OMR 10.1 billion), with oil & gas revenue representing c.72% (OMR 7.7 billion). The FY20 revenue forecast assumes a precautionary average oil price of $58 per barrel, which was also used as the basis for the FY19 budget, despite the fact that actual realised oil price in FY19 was $65 per barrel.

Expenditure is budgeted to increase by 2% to OMR 13.2 billion (cf. FY19 OMR 12.9 billion), with a commitment to complete a number of strategic infrastructure projects to help incentivize economic growth.

Key objectives of the FY 2020 budget include:

1. Fiscal sustainability;
2. Diversified economy;
3. Targeted rates of domestic and foreign direct investments;
4. Participation of private sector in development projects;
5. Creating more job opportunities.

There is continued focus on the need to enhance the contribution of non-oil revenue, and the budget includes allocations for the five sectors identified by the National Program for Enhancing Economic Diversification (Tanfeedh): manufacturing, logistics, tourism, fisheries and mining. The Government acknowledges that revenues from these sectors depend significantly on private sector investment, and is committed to improving the business environment to facilitate this. In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure and with the aim of bringing improved efficiency and cost savings.

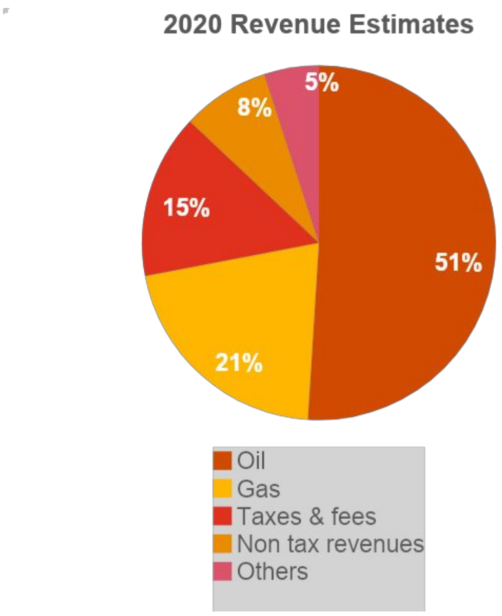
GDP grew by 2% in 2019 and is expected to grow by 3% in 2020.

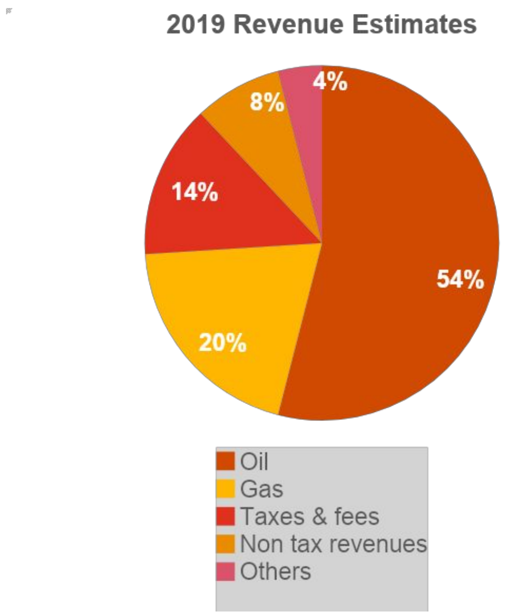
Inflation for the period January to November 2019 stood at 2% and is expected to remain low during 2020.

Further insights Oman Budget 2020

Revenue

Oman's 2020 budget estimates total revenues at OMR 10.7 billion, an increase of 6% compared to estimated revenues in 2019. Oil and gas revenues comprise c. 72% at OMR 7.7 billion and the remaining OMR 3 billion is estimated from non-oil and gas revenues.





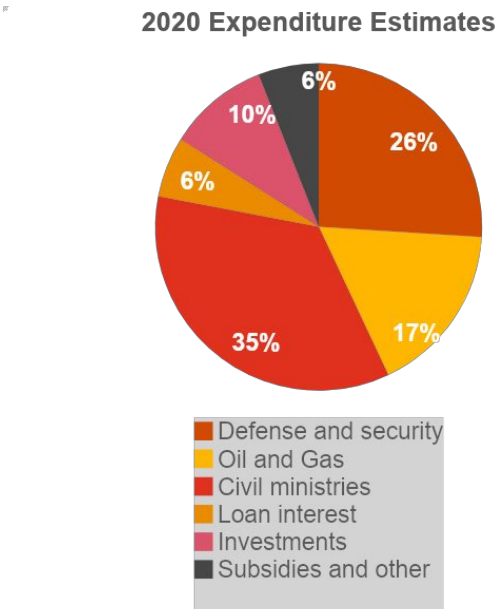
Revenue estimates are based on the following considerations:
- Oil price assumed at $58 per barrel;
- Oman's commitment to cut oil production in line with OPEC's decision to reduce production volumes;
- Growth of gas revenue by 11%;
- Revenue generated from Privatization Scheme;
- Improving the efficiency of tax and fees collection.

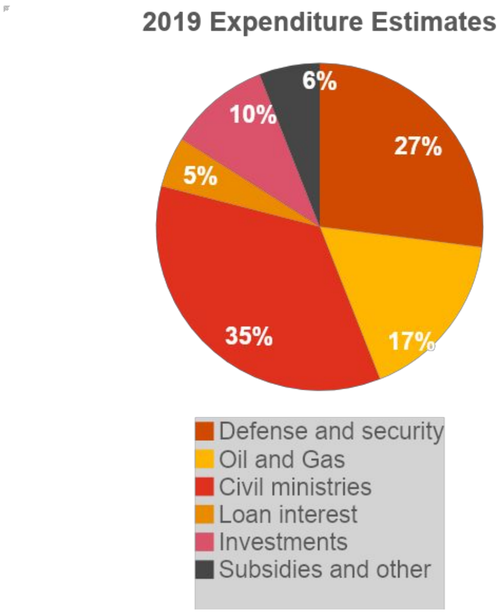
Actual revenue in 2019

The actual revenue realised in 2019 was OMR 11.1 billion, which represents a c. 10% increase (OMR 1 billion) compared to the 2019 budget estimates of OMR 10.1 billion. This revenue increase can mainly be attributed to the following factors:
- **Oil Revenues:** Precautionary approach adopted by MoF while preparing the 2019 budget and assuming the oil price at $58 per barrel, helped to increase the actual oil revenue. This is as a result of higher actual realised oil price of $65 as compared with the oil price assumed in the budget.
- **Non-hydrocarbon Revenues:** Total non-hydrocarbon revenues in 2019 were up by c. 13% compared to 2019 budget estimates, mainly due to the fiscal consolidation measures taken to improve the revenue structure.
- **Tax Revenues:** Total tax revenues in 2019 were up by c. 8% compared to 2019 budget estimates. This can be attributed to the improvement in Oman's economic performance, its positive impact on the performance of private sector entities and efficient overall management of the tax collection system. Further, the introduction of Excise Tax during 2019 has also contributed to the increase in tax revenues.

Expenditure

Total expenditure in FY20 is estimated at OMR 13.2 billion, an increase of OMR 300 million (2% higher) as compared to total expenditure projected in the 2019 budget. This increase can mainly be attributed to the increasing cost of servicing debt by c.OMR 230 million.





Expenditure of ministries and government units accounts for OMR 4.6 billion (35% of total budgeted expenditure for 2020). Further, investment spending is estimated at OMR 2.1 billion, ensuring that all ongoing projects are paid for, avoiding any delays in development. Further, loan interest expenditure has been projected to increase by c. 37% which is mainly on account of external borrowing obtained during FY 2016 to FY 2019 to fund the budget deficit and to maintain economic development aims.

Actual expenditure in 2019

The actual expenditure in FY19 was OMR 13.7 billion, a 6% increase compared to the 2019 projection.
This increase can mainly be attributed to the following factors:

- Rise in purchase costs of gas;
- High cost of public debt servicing;
- High subsidy cost of electricity sector;
- Investment spending to finalize development projects.

Deficit

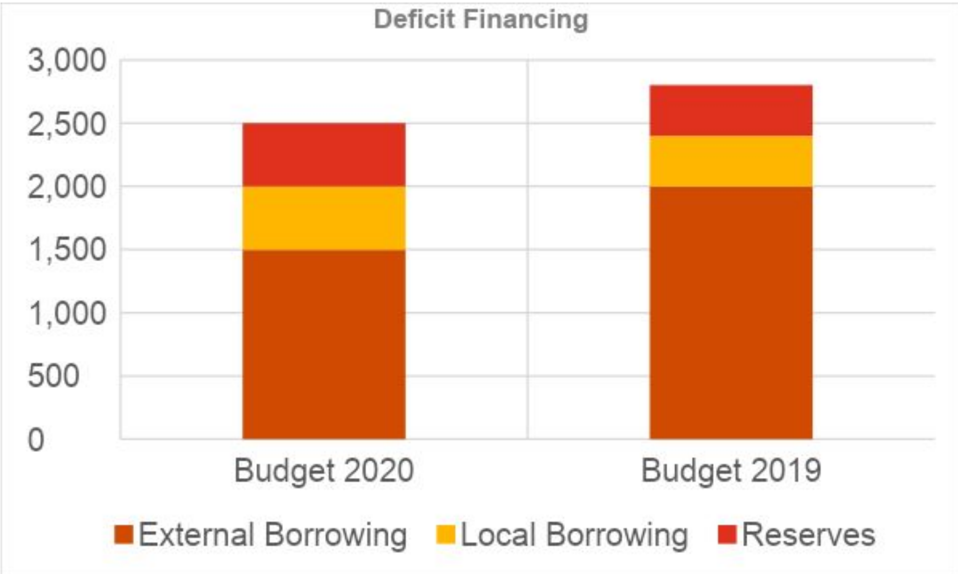
The actual deficit in 2019 was c.OMR 2.6 billion, while the 2020 budget estimates the deficit at OMR 2.5 billion, or 8% of total GDP.

Following the spike in the actual deficit in 2016 at c. OMR 5.3 billion (initially budgeted at OMR 3.3 billion), the deficit appears to be managed and is showing recovery. The estimated deficit in 2020 is lower than the deficit of 2019 by c. 4%, or OMR 100 million.

Deficit financing

The 2020 budget deficit is expected to be covered by external and domestic borrowing *c.80%), while the balance (c.20%) will be covered by drawing on the reserves. This is in line with the Government's guidelines to maintain the sovereign reserve funds, and to rely upon borrowing to finance any deficit.

All amounts in OMR (millions)



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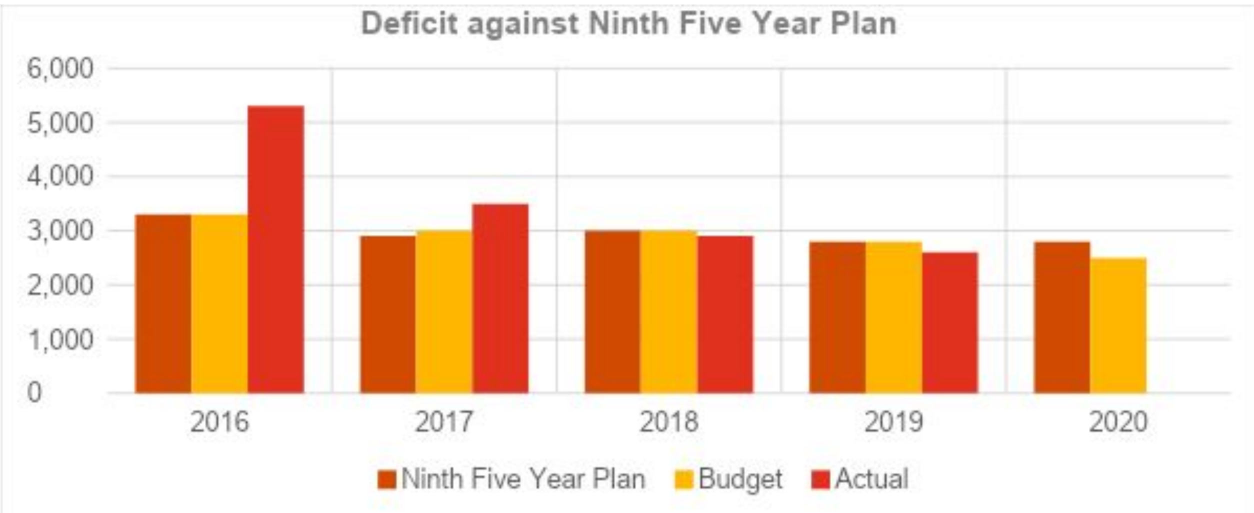

2020 Budget Objectives

Fiscal sustainability

Fiscal sustainability is the most important objective of the state budget; however for this to be realised, the Government acknowledges that spending must be prioritised against the competing needs of the continued provision of public services and strategic investment to keep the economy on a positive footing.

In addition, and in order to keep the deficit within 'safe limits', the Government acknowledges the need to improve the contribution of non-oil revenue "in a way that leads to reduce dependency on the oil sector". Whilst this is a plausible objective, with the continuation of existing measures, such as Tanfeedh; the Government will need to consider accelerating additional reforms, for example, the introduction of VAT, and intensify its investment activities in line with its interim five year plans and Vision 2040 objectives, to feel some relief from the burden of oil price volatility.

Economic stimulus

The budget outlines a number of key themes and objectives to ensure continued economic growth at a rate of 2-3%, in line with the Ninth Five Year plan. The Government has committed to the completion of a number of strategic investment projects and promoting the involvement of the private sector and small and medium enterprises (SME's) in the delivery of some government services. SME's will also continue to have access to funding via loans from the Al Raffd Fund and Oman Development Bank. Further, the Government also intends to give special attention to e-transformation for approvals and license issuance.

Maintaining levels of basic services

The budget is designed to maintain the level of priority social services for citizens. These include services within the education, health care, housing and social welfare sectors which account for c.40% of the 2020 budget. Public sector recruitment of nationals, and training via the National Training Fund will continue in 2020, with plans to train c. 10,000 nationals during the next 2 years i.e. 2020-2021, amounting to OMR 26.8 billion.

Key developments during FY 2019

2019 has witnessed a number of major government reforms and issuance of new legislation and laws that will hopefully serve to assist economic growth once they are implemented. The reforms were introduced with the aim of improving the business environment, reducing the heavy dependence on oil revenue, diversifying the economy, and setting up a basis for a stronger and more structured competitive market in which both public and private sector will play an equally important role. This is in line with the country's vision for the future, and the wider region's strategic movements towards a more open and diverse economy.

Below is a summary of the key laws issued in the year 2019. Further guidelines and clarity on these laws will be introduced by Executive Regulations and Bylaws yet to be issued.

Reforms aimed at improving the business environment and investment climate

Foreign Capital Investment Law (Royal Decree - 50/2019)

The new Foreign Capital Investment Law (FCIL) was published in July 2019, and is effective from January 2020. This law has significantly relaxed the rules and restrictions on foreign investment, streamlined the registration and licensing procedures for foreign investors, and set out provisions that aligns foreign investors' rights and incentives to those given to local ones, and the same time, provided detailed provisions on penalties & punishments in the cases of violation of the law, as well as how disputes related to foreign investments will be handled.

Privatization Law (Royal Decree - 51/2019)

Parallel to the introduction of the PPP, and in order to regulate the public projects awarded to private sector companies, a new Privatization Law was introduced to replace the older version of the law issued back in year 2004, came into force on 8 July 2019. This new law sets out procedures for the launch and award of privatization project, as well as guidelines for the privatization of government facilities (restructuring). It outlines the methodology for the disposal of revenues from privatization initiatives. Procedures for settling the status of Omani employees working in projects affected by privatization or restructuring are outlined as well. The Public Authority for Privatization and Partnership (PAPP), which is established via the PPP, will oversee the implementation of this Law.

Public Private Partnership Law (Royal Decree - 52/2019)

In line with the country's vision of a creating a diversified and competitive national economy, the Public and Private Partnership Law ("PPP Law") was introduced to stimulate efficiency and quality of public services and projects that have an impact on the economic and social development of the country, create job opportunities for the unemployed, and reduce burden of financial cost of public project on the government. That is by involving the private sector in executing those projects in partnership with the government.

The Law has come into force on 8 July 2019. It has introduced the establishment of a new governmental body named the Public Authority for Privatization and Partnership ("PAPP"), which will act as the focal point for the implementation of the provisions of the Law. The law has defined the role of the PAPP, and it will apply to Partnership Contracts; which are basically contracts between private sector companies and governmental bodies. Such contracts shall have a term of 50 years. The law has set out conditions and specifications of a Partnership Contract, the rights and obligations of the partners in the Partnership Contracts, and the related procedures of bidding and executing those projects. A winning bidder of such contract is obliged to establish the project company whose sole purpose is to implement partnership project, such bidder can be wholly owned by foreign persons as a way to encourage foreign investment in the country.

Bankruptcy Law (Royal Decree - 53/2019)

In conjunction with provisions introduced by the CCL related to dissolution and liquidation, a Bankruptcy Law was issued during the year 2019 regulating procedures related to bankruptcy cases. Oman did not have a separate law regulating such cases, and only a section in the Oman Commercial Law issued back in year 1990 (via RD 55/90) has addressed insolvency and bankruptcy situations, which is now replaced by the new Bankruptcy Law.

This new law has introduced restructuring procedures with the aim of helping businesses overcome debt stage, reach a compromise with debtors, and avoid going bankrupt. It also introduced provisions on establishing a roll of experts who will assess restructuring petition and restructuring plans, as well as on timelines of respective procedures. It also outlined procedures related to preventive composition, similar to provisions set out in the bankruptcy section of Commercial Law but with greater details on the rights of the bankrupted person, creditors and the public interest. This law will come into force by July 2020.

It will be applicable to all “traders” in Oman, which includes local and foreign investments, except establishments regulated by the CBO as per as per Banking Law and related laws, and insurance companies governed by Insurance Law.

Tax Reforms

Corporate Tax reforms

Income Tax Law - Amendments to Executive Regulations (Ministerial Decision - 14/ 2019)

The much awaited amendments to the Executive Regulations of the Income Tax Law (MD 30/2012) were issued and published in the Official Gazette on 10 February 2019. The amendments are in line with earlier amendments to the Income Tax Law issued on 27 February 2017 (via RD 9/2017).

Consistent with expectations, the amendments to the Executive Regulations provided more clarity on a number of tax law provisions related to withholding tax (“WHT”), deductibility of director remuneration, tax card system, electronic submissions and notifications, donations, tax on enterprises, and other matters.

Most of the provisions introduced by the amendments were effective from the following day from the date of issuance in Official Gazette (i.e. from 11 February 2019), while some of them were effective for tax years starting on or after 1 January 2018. The amendments issued brought clarity to a number of matters and also improved the tax administration process.

Below is the link to our news alert providing a detailed summary on this topic:

PwC News Alert - Executive Regulations amendments to the Income Tax Law

Temporary suspension of Withholding Tax on dividend and interest

Oman’s Capital Market Authority (CMA) issued a Directive on 15 May 2019 that effective 6 May 2019, the 10% withholding tax applicable on dividends and interest is suspended in order to boost foreign investments. This suspension is valid for a period of three years and may be further extended, if required.

The Ministerial Decision 14/2019 issued in February 2019 clarified that only dividends distributed to foreign shareholders by Omani Joint Stock Companies and Investment funds are subject to WHT, excluding de facto Limited Liability Companies. With the issuance of this Royal Directive, all taxpayers are exempt from the application of WHT on dividend distributions and interest payments. The Royal Directive only applies to WHT payments and distributions effective on or after 6 May 2019.

Below is the link to our news alert providing a detailed summary on this topic:

PwC News Alert - Temporary suspension of Withholding tax on dividend and interest

Indirect Tax reforms

Excise Tax Law (Royal Decree - 23/2019)

A new Excise Tax was implemented in Oman effective from 15 June 2019. The Excise Tax (also referred to as 'Selective Tax') is a tax on specific goods which are normally seen as harmful to individuals' health or to the environment. These goods are referred to as "Excise Goods".

Currently, Excise Tax in Oman is applicable on the following Excise goods:

- Tobacco and tobacco derivatives – 100%
- Carbonated drinks - 50%
- Energy drinks – 100%
- Pork products – 100%
- Alcohol – 50%*

* At the time of implementation, the Excise rate on alcohol was 100%, which was subsequently reduced to 50%. The reduced rate is expected to be in place for a period of 6 months. However, such period may also be extended by the authorities.

All stockpilers i.e. persons or businesses holding a stock of Excise goods on the implementation date (i.e. 15 June 2019) were required to file a one-time transitional Excise tax return on or before 15 July 2019 and also pay the Excise Tax due on the inventory of Excise goods held by them on the implementation date.

Further, on an ongoing basis, all importers and producers/ manufacturers of Excise goods are required to submit quarterly Excise returns and pay the Excise Tax due to the Tax authorities.

Below is the link to our news alert providing a detailed summary on this topic:

PwC News Alert - Excise Tax in Oman

Customs - Advance Rulings Initiative

The Royal Oman Police (ROP), represented by the Directorate General of Customs (DG Customs) has introduced the Advance Ruling program in Oman to facilitate the ease of importation and exportation. This will allow the businesses to make an application for advance ruling to DG Customs in relation to the origin, classification or valuation of the goods. With the introduction of the Advance Ruling program, Oman aims at aligning with the international trade practices and comply with its obligations under the World Trade Organization (WTO) Trade Facilitation Agreement.

Advance Rulings are defined as, binding decisions issued by DG Customs at the request of an importer or exporter on specific particulars in relation to the intended importation or exportation of goods. This will accelerate the release and clearance processes by providing binding information concerning the Customs treatment of goods intended to be imported or exported. The provisions of the Advance Ruling will be binding on each customs transaction for the specified period of time provided that the import/export conditions are the same as those stipulated in the application.

Tourism Tax - Amendments to Executive Regulations (Ministerial Decision - 56/ 2019)

By virtue of Ministerial Decision No. 56/2019, certain amendments have been made to the Executive Regulations of the Oman Tourism Law. Primarily, in terms of the amendments, the following restaurants/ cafes are also required to levy Tourism Tax @4%, with effect from 1 January 2020 (Prior to 1 January 2020, only restaurants/ cafes located in hotel establishments were required to levy Tourism Tax):

1. Restaurants/ cafes located within a tourist area (to be specified by the Ministry of Tourism by separate Ministerial Decisions)
2. Restaurants/ cafes managed through franchise contracts.

Restaurants/ cafes falling under any of the aforementioned categories are required to obtain a classification certificate from the Ministry of Tourism on payment of application fees amounting to OMR 200 per restaurant branch. Further, these restaurants are also required to undertake ongoing compliances in the form of payment of tourism tax on a quarterly basis and filing of quarterly and annual returns.

Other reforms

Implementation of Common Reporting Standard regime

In order to align with international best practices regarding the fight of cross-border tax evasion and meet the standards set by the European Union (EU) and the Organization for Economic Co-operation and Development (OECD) in this matter, the Central Bank of Oman (CBO) issued a circular (Reference: BDD/CBS/CB/2019/2858) implementing the Common Reporting Standard (CRS) regime. This circular sets the rules for the automatic exchange of information (AEOI) through CRS.

The CRS was established after the implementation of the Foreign Account Tax Compliance Act (FATCA) regulations that forces non-US Financial Institutions to provide the US Internal Revenue Services (IRS) with information about their US customers. The CRS has a similar goal but with a broader vision that would not only include US citizens and requires Financial Institutions to report information on accounts held by tax residents of reportable jurisdictions and certain entities controlled by such tax residents.

In line with the above, the CRS rules force Financial Institutions to identify and report accounts opened and held by persons that are tax residents in a CRS participating jurisdiction (i.e.109 jurisdictions including the Sultanate of Oman are implementing or have committed to implement CRS until now). FATCA required the reporting to be made by the Oman banks directly to IRS since there was no inter-governmental agreement signed with US IRS, however the CRS reporting will be made to the Oman tax authorities, who will then exchange this information with other reporting jurisdiction who has signed the Multilateral agreement.

Collection of CRS related information for new account holders started from 1 July 2019 for all Financial Institutions operating in the Sultanate of Oman. Thus, these Financial Institutions were required to collect a CRS self-certification from new customers upon account opening. Further, it was also expected that the existing account holders were required to provide the necessary information on tax residency in the later part of FY 2019. Oman is currently preparing the primary and secondary legislation to implement the CRS and the country is committed to commence its first AEOI in September 2020.

Below is the link to our news alert providing a detailed summary on this topic:

PwC News Alert - CRS Implementation

Commercial Companies Law (Royal Decree - 18/2019)

A new Commercial Companies Law (CCL) was issued in February 2019 in which became effective from April 2019. The provision of this law are believed to attempt to create a stronger and more transparent corporate governance regime in Oman. Key changes introduced by this law includes but not limited to: the introduction of a “one person LLC”, the removal of a minimum capital for establishing an LLC, better protection of the minority shareholders rights in joint stock companies, increased penalties in the case of violating the law, as well as provisions on dissolution and liquidation of companies established as per the law. It is anticipated that further guidelines and corporate governance compliance rules to be issued by competent authorities, like the CMA in the case of joint stock companies and the MOCI in the case of companies with government shareholders.

Mining Law (Royal Decree - 19/2019)

In line with the Sultanate’s ninth five-year plan (2016 t0 2020) which identified “Mining” as one of the key sectors that would contribute to the economic diversification, the new Mining Law was introduced in February 2019 replacing the older version of the law issued back in year 2003.

The new law came into force on 14 March 2019 providing a more robust framework for the mining industry and streamlining approval process of obtaining different types of permits related to exploration and exploitation as well concession agreements.

It has empowered the Public Authority for Mining ("PAM") to regulate the mining sector, conduct inspection and investigation activities when required, and revoke licenses granted in the case of violation or non-compliance with the law. It has also authorized PAM to seize private property from land owners in the name of the public interest, if there is a belief that the property may contain significant mineral wealth that may be of benefit to the national economy.

Furthermore, the law has provided flexibility in terms of financial obligations of the license holder for the purpose of encouraging investments in the sector. On the other hand, in order to protect the interest of the public, the law stipulated that a license holder is required to invest 1% of the value of production in the development of the local community of the surrounding respective mining site area.

Key developments expected in FY 2020 and beyond

Implementation of Value Added Tax

KSA and UAE have implemented Value Added Tax ("VAT") with effect from 1 January 2018 and Bahrain has implemented VAT with effect from 1 January 2019. Based on preliminary figures, the introduction of VAT in KSA and UAE has resulted in greater revenue than was initially forecast.

The FY 2020 Oman budget does not include any revenue from VAT. However, we understand that the Tax Authority remains committed to implementing VAT as an additional measure for economic diversification, and to reduce the reliance on the oil and gas sector.

Excise Tax

The Executive Regulations to the Oman Excise Tax law are expected to be issued during FY 2020. These regulations will stipulate the detailed procedures to be followed for registration, return filing and other such compliances to be undertaken under the Excise Law.

Further, Oman is expected to extend the scope of Excise tax levy to sugar sweetened beverages, during FY 2020 (KSA and UAE have already started implementing Excise tax on sugar sweetened beverages).

Executive Regulations for laws issued during 2019 for improving the investment climate in Oman

Executive Regulations for Foreign Capital Investment Law, Privatization Law, Public Private Partnership Law and Bankruptcy Law, are expected to be released during FY 2020. The regulations will stipulate the terms and conditions for application of these laws and thus are expected to provide greater clarity to investors. For example, under the Foreign Capital Investment Law, 100% foreign ownership will be allowed except for certain sectors to be notified in the Executive Regulations.

The Takeaway

Oman's 2020 state budget maintains a focus on economic diversification and the need to manage expenditure to ensure the deficit is maintained within sustainable levels, whilst still providing sufficient investment to promote economic stimulus and growth. The budget follows a similar strategic approach to that of FY 2019, with prudent increases in revenue and expenditure targets. The Government remains cautious in its outlook citing volatility in oil prices, which remain the principal source of revenue. Strategic steps to diversify the economy, such as the outsourcing of various Government services to the private sector and SMEs are a welcome sign, as is the continued commitment to targeted investment to boost employment and social development. Further, steps taken to improve the business environment and investment climate, such as the Foreign Capital Investment Law, Privatization Law, Public Private Partnership Law and Bankruptcy Law, should facilitate an increase in foreign direct investment (FDI) which is expected to boost the economy. Finally, although Oman's "Ease of Doing Business" rank improved to 68 in 2019 from 78 in 2018, it is expected to improve even further when all the above mentioned laws are fully operational.

Let’s talk

For a deeper discussion of how the 2020 Oman budget might affect your business, please contact:
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