

# Oman : Budget 2021 & 10th Five year development plan (2021-2025) - continued focus on diversification & maintaining deficit

January 2021



His Majesty Sultan Haitham bin Tarik issued two Royal Decrees (“RD”) on 1 January 2021, published in the Official Gazette on 3 January 2021, promulgating the Tenth Five-year Development Plan (“10th FDP”) (RD 1/2021) and the 2021 State Budget (RD 2/2021). In this News Alert, we are setting out the key features of the 2021 State Budget and the 10th FDP.

## Snapshot of the key features

### Oman budget 2021 and the Tenth Five-year Development Plan (2021-2025)

#### Oman Budget 2021

Royal Decree (“RD”) No.2/2021 was issued on 1 January 2021, and published in the Official Gazette dated 3 January 2021, promulgating the State’s Budget for the year 2021. Below are the key features of the 2021 budget :

Projected Revenue	OMR 8.6 billion
Projected Expenditure	OMR 10.8 billion
Projected deficit	OMR 2.2 billion
Projected income from the Oman Investment Authority	OMR 1.2 to 1.4 billion
Projected investments by the OIA	OMR 2.9 billion
Projected income from Energy Development Oman (“EDO”)	OMR 2.3 billion
Projected average oil price	\$45

Although the 2021 budget is predicated on a prudent average oil price of \$45/barrel, the forecasted deficit is the lowest since the financial crisis in year 2015. The budget is based on guaranteeing the sustainability of basic social services such as health, housing, education, & social security, and to ensure spending is maintained at 40% for these services.

#### Tenth Five-years Development Plan (2021-2015) ( “10th FDP”)

RD No.1/2021 was issued on 1 January 2021, and published in the official gazette dated 3 January 2021, promulgating the Tenth Five-year Development Plan (2021-2015) (“10th FDP”). The 10th FDP is an optimistic plan made on the basis of the following :

• promoting sustainable human development
• stimulating economic activity
• expanding the economic diversification base
• developing the economic environment
• achieving fiscal sustainability
• achieving a balanced development for the governorates and maintain economic diversification in different sectors.

The 10th FDP is expected to generate 135,000 job opportunities, with an average of 27,000 job opportunities annually over the period of the plan. It is also anticipated that it will result in gradual decrease in deficit to reach 1.7% by year 2024 and achieve a surplus of OMR 65 million by year 2025.

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Summary of State Budget released in Royal Decree 2/2021

	2021 Budget			2020 Budget		2020 actuals*	
	Target oil prices at \$45/bbl			Target oil prices at \$58/bbl		Target oil prices at \$48/bbl	
	OMR (m)	% of total	% change from 2020	OMR (m)	% of total	OMR (m)	% change from 2020
<b>Revenues</b>							
Oil	3,550	41%	(35%)	5,500	51%	4,364	(21%)
Gas	1,870	22%	(15%)	2,200	21%	1,700	(23%)
<b>Total Oil and Gas</b>	<b>5,420</b>	<b>63%</b>	<b>(30%)</b>	<b>7,700</b>	<b>72%</b>	<b>6,064</b>	<b>(21%)</b>
Taxes and Fees	1,622	19%	3%	1,573	52%		
Non Tax revenue	1,378	16%	67%	827	28%		
Capital Income and Recoveries	220	3%	(63%)	600	20%		
<b>Total Non Oil and Gas</b>	<b>3,220</b>	<b>37%</b>	<b>7%</b>	<b>3,000</b>	<b>28%</b>	<b>2,400</b>	<b>(20%)</b>
<b>Total Revenues</b>	<b>8,640</b>	<b>100%</b>	<b>(19%)</b>	<b>10,700</b>	<b>100%</b>	<b>8,464</b>	<b>(21%)</b>
<b>Expenditures</b>							
Defense and Security	2,965	27%	(14%)	3,450	26%	3,125	(9%)
Oil and Gas	780	7%	(65%)	2,230	17%	2,400	8%
Civil Ministries	4,075	37%	(11%)	4,590	35%	4,350	(5%)
Loan Interest	1,200	11%	40%	860	6%	860	0%
Investments	900	8%	(31%)	1,300	10%	1,130	(13%)
Subsidies and Other	810	7%	5%	770	6%	795	3%
Provision for debt repayment	150	1%	NA	0	0%	0	0%
<b>Total Expenditures</b>	<b>10,880</b>	<b>100%</b>	<b>(18%)</b>	<b>13,200</b>	<b>100%</b>	<b>12,600</b>	<b>(4%)</b>
<b>Deficit</b>	<b>(2,240)</b>		<b>(10%)</b>	<b>(2,500)</b>		<b>(4,196)</b>	<b>68%</b>
<b>Deficit funded by:</b>							
Foreign Borrowing	948	42%		1,500	60%		
Local Borrowing	692	31%		500	20%		
Reserves	600	27%		500	20%		

\*Source of information: Royal Decree 2/2021 and Ministry of Finance press release

## Economic developments in Oman Middle East

### Overview

#### Oman Budget 2021 (RD 2/2021)

The FY 2021 Oman budget represents the first year of the Tenth Five-Year Development Plan (2021-2025) (“the 10th FDP”), which paves the way to implement Oman Vision 2040 development objectives. The budget was prepared in light of the persistent financial and economic challenges resulting from the COVID-19 pandemic and decline in oil prices, including the agreement of the Petroleum Exporting Countries (OPEC +) to reduce crude oil production due to the decline in global growth and demand for oil, in addition to other commercial and geopolitical challenges.

It has been prepared taking into account Oman Vision 2040 priorities and fiscal framework and objectives to achieve fiscal sustainability, and reduce the ratio of the size of public debt to GDP. Also, to achieve a level of economic growth that contributes to the employment of Omani nationals, and continue to enhance the role of private sector institutions in the development process, maintaining the stability of inflation rates in a manner that preserves the level of per capita income.

In order to achieve fiscal balance, there has been a change in the strategies used to deal with the persisting conditions to find ways to reduce general expenditure. This includes issuing financial publications with the aim of accelerating plans for a reduction in general expenditure, boosting non-oil revenue by revisiting fees and taxes, governance of state-owned companies by transferring them to OIA, and endorsing the Medium Term Fiscal Plan (2020-2024).

#### 2021 Budget Objectives

The State's general budget for 2021 is based on:

- 1) Setting a ceiling for the budget of each government authority so that it does not exceed the revised budget in 2020;
- 2) Implementing measures aimed at rationalising spending and increasing its efficiency;
- 3) Achieving the first stage of financial measures towards achieving fiscal sustainability;
- 4) Controlling the deficit and aim to record a budget surplus by the year 2025 as per the tenth five-year plan;
- 5) Completing the transformation to implement the program and performance budget through the expansion of the government units implementing the project; and,
- 6) Seeking innovative means to finance government projects and services, mainly through partnership between the public and private sector.

The budget sets a prudent and measured tone in both its revenue and expenditure projections with a deficit of OMR 2.2 billion, which is considered the lowest since the financial crisis in year 2015, although on the assumed low average oil price of \$45. This is mainly attributable to the transfer of the oil and gas sector expenditure burden, estimated at OMR 2.3 billion to the newly formed state-owned company Energy Development Oman SAOC (“EDO”).

Revenue is budgeted to decrease by 19% to OMR 8.6 billion (cf. FY20 OMR 10.7 billion), with oil and gas revenue representing c.63% (OMR 5.4 billion). The FY21 revenue forecast assumes a precautionary average oil price of \$45 per barrel (cf. FY20 \$58 per barrel), which is below the actual realised oil price in FY20 was \$48 per barrel.

Expenditure is budgeted to decrease by 18% to OMR 10.8 billion (cf. FY20 OMR 13.2 billion), with a commitment to complete a number of strategic infrastructure projects to help incentivise economic growth.

## Economic developments in Oman Middle East

### Overview (continued)

#### Oman Budget 2021 (RD 2/2021)

One of the key objectives of the FY21 budget includes sustainability of basic social services and maintaining a level of spending comprising at least 40% on those services. The basic social services are: health, housing, education, & social care and security. The spending in these industries were sub-categorised with the education and health industries having the majority of social spending comprising of about 70% of the spending. This is followed by the housing and social security schemes.

FY21 budget together with 10th FDP are aiming at increasing non-oil revenue and reducing general expenditure to reach fiscal sustainability, enabling the national economy to achieve target growth rates. It is important to note that FY21 budget included higher revenue from excise tax at OMR 113 million (FY20 local taxes & fees OMR 100 million) which is mainly attributable to the widening of tax scope base for excise tax. It also includes forecasted revenue from Value Added Tax (VAT) of OMR 300 million which will be implemented from April 2021(FY20 Nil).

The budget also includes a new expenditure element referred to as “provision for loan prepayments” which covers future repayment installments of the government’s borrowings. The forecasted revenue from corporate tax on companies and corporations is estimated at OMR 400 million (FY20 OMR 550) with a decrease of 27% in comparison to taxes budgeted to be collected in year 2020. This is mainly due to the economic impact in year 2020 of the COVID-19 pandemic, which will affect corporate tax collection numbers in the subsequent year.

In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure, with the aim of bringing improved efficiency and cost savings.

According to the estimates of the Ministry of Economy, it is expected that the total Gross Domestic Product “GDP” at current prices by the end of 2020 will reach about OMR 24.7 billion.

Inflation for FY20 is expected to reduce by 0.8% and is expected to increase by 3.8% during FY21, with a portion of it attributable due to VAT.



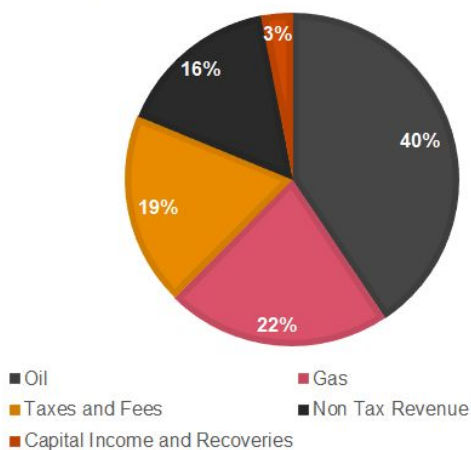
## Economic developments in Oman Middle East

### Further insights Oman Budget 2021

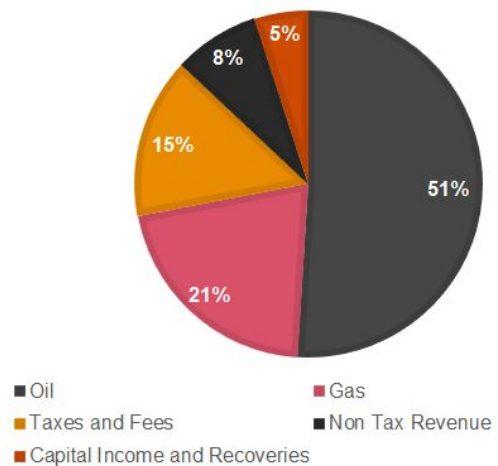
#### Revenue

Oman's 2021 budget estimates total revenues at OMR 8.64 billion, an increase of 2% compared to actual revenues in 2020. Oil and gas revenues comprise a percentage of 63% at OMR 5.42 billion and the remaining OMR 3.22 billion is estimated from non-oil and gas revenues.

2021 REVENUE ESTIMATES



2020 REVENUE ESTIMATES



Revenue estimates are based on the following considerations:

- Oil price assumed at \$45 per barrel;
- Transferring the proceeds of selling 20 thousand barrels per day of oil to the Oil Reserve Fund account to be used to repay part of the loan installments that will be due in the coming years;
- Oman's commitment to cut oil production (i.e. 960k barrels/day) in line with OPEC's decision to reduce production volumes. This commitment quota is effective for the period starting from May 2020 to April 2022; and
- Revenue generated from the estimated sale of gas as per consumption expected for the year 2021.

#### Actual revenue in 2020

The actual revenue realised in 2020 was OMR 8.464 billion, which represents c. 21% decrease (OMR 1 billion) compared to the 2020 budget estimates of OMR 10.7 billion. This revenue decrease can mainly be attributed to the following factors:

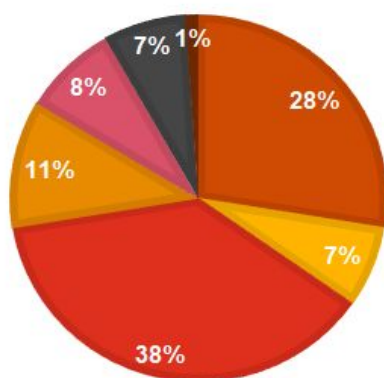
- **Oil Revenues:** In light of the global pandemic and the economic circumstances the world had to endure, global demand for oil products had decreased significantly. Oil revenues decreased by OMR 1.1 billion due to the decrease in the average oil price below the budgeted price in the FY20, by 10 US dollars per barrel. This was further reflected in the lower gas revenue as proceeds from sale of gas fell by OMR 500 million showing an overall reduction of average gas prices and a lower quantity supplied.
- **Non-hydrocarbon Revenues:** Total non-hydrocarbon revenues in 2020 were down by c. 20% compared to 2020 budget estimates (i.e. OMR 600 million). This mainly relates to the relief supplied by the government to the economy industries to help the businesses sustain the economic downturn caused by COVID-19. The relief measures included waiving collection of taxes from tourism tax, municipality fees and taxes, rent due on factories operating in industrial areas, penalty fines on expired labor cards and the reduction of shipping and handling fees.

## Economic developments in Oman Middle East

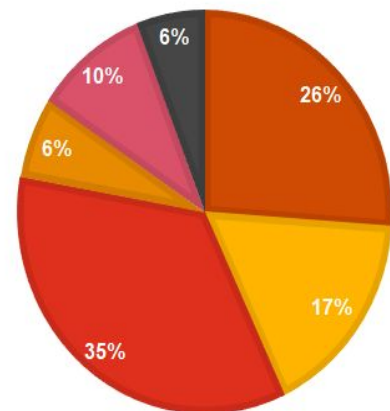
### Expenditure

Total expenditure in FY21 is estimated at OMR 10.88 billion, a decrease of OMR 2.32 billion (18% lower) as compared to total expenditure projected in the 2020 budget. This decrease in expenditure can be mainly attributed to lower development expenses, a decrease of 31% from 2020 budget estimates and lower oil and gas expenses (65% decrease). This is further attributable to lower defense and security expenditure and a lower civil ministries expenditure.

#### 2021 EXPENDITURES



#### 2020 EXPENDITURES



Expenditure of ministries and government units accounts for OMR 4.075 billion (37% of total budgeted expenditure for 2020). The biggest current expense for government units relates to payroll of government employees. Further, investment spending is estimated at OMR 900 million, down from OMR 1.3 billion. Loan interest expenditure has been projected to increase by c. 40% which is mainly on account of external borrowing obtained to fund the budget deficit and to maintain economic development.

Finally, following the incorporation of Economic Development of Oman (“EDO”), all expenses relating to the operation of Petroleum Development of Oman (“PDO”) has been allocated to EDO hence shouldering off a huge expense from the government budget.

### Actual expenditure in 2020

The actual expenditure in FY 2020 was OMR 12.66 billion, a 4% decrease compared to the 2020 projection. This decrease can mainly be attributed to the following factors:

- Deduction of 10% from the approved budget for civil, military and security units
- Reducing administrative and operating expenses of government companies by not less than 10%
- Reducing approved liquidity for development projects of ministries and government units by not less than 10%
- Suspending the execution of most of the ongoing projects of government companies

## Economic developments in Oman Middle East

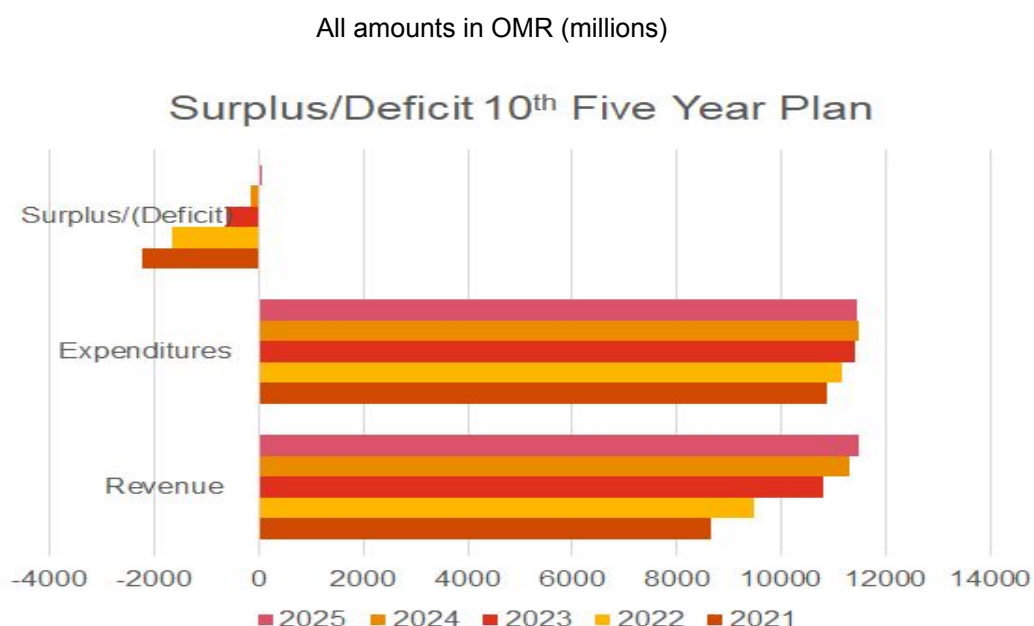
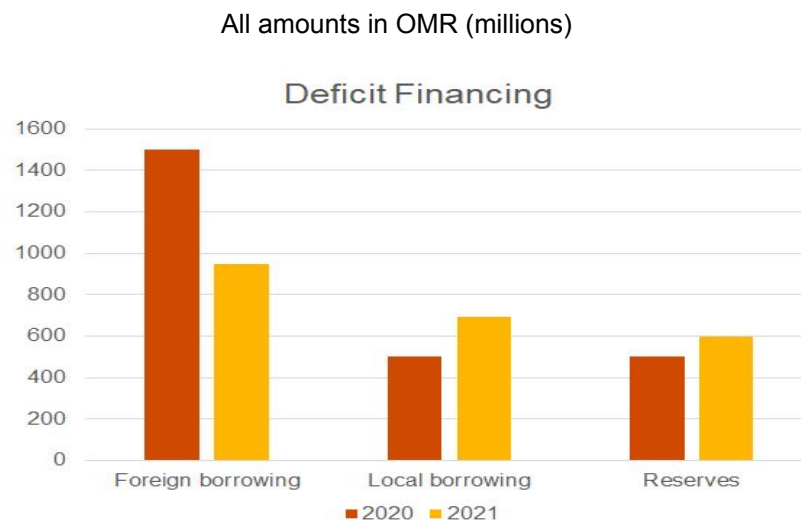
### Deficit

The actual deficit in 2020 was c.OMR 4.196 billion, while the 2021 budget estimates the deficit at OMR 2.24 billion.

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 2021 is lower than the deficit of 2020 by c. 10%, or OMR 260 million.

### Deficit financing

The 2021 budget deficit is expected to be covered by external and domestic borrowing c.73%, while the balance c.27% 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.





## Economic developments in Oman Middle East

### Credit Rating

The three credit rating agencies described in the statement below downgraded the Sultanate's credit rating during the period (from 2014 to October 2020) from the safe investment category in 2014 to the high-risk investment category in 2020. The reasons behind the downgrade are due to the drop in oil prices and their impact on the continuation of the budget deficit in the past six years and the high indebtedness to that peaked to record levels.

In addition, the continuing expected effects of the COVID-19 pandemic on the financial situation of the Sultanate is pressuring heavily on the state fiscal balance.

The following statement shows the development of the credit rating of the Sultanate issued by international rating agencies during the period (2014 - October 2020):

<b>Credit Agency</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Moody's	A1	A1	BAA1	BAA2	BAA3	BA1	BA3
S&P	A	BBB+	BBB-	BB	BB	BB	B+
Fitch	-	-	-	BBB-	BB+	BB+	BB-

These progressive downgrades have had, and continue to have, a direct effect on the state fiscal budget, making it more expensive for the state to borrow funds in the international market. Consequently, this has impacted fiscal reforms including introducing VAT and widening the scope of Excise Tax. This is further supplemented by gradual lift of the government subsidised industries including the petroleum, electricity and water industries.

The government, in response, has incorporated EDO and allocated related expenses to the oil and gas industry to EDO. This is seen as a positive step towards stabilising the state budget and would, in the long-term, strengthen the state's credit rating.

## Economic developments in Oman Middle East

### Overview

#### Tenth Five-Year Development Plan (2021-2025)- (RD 1/2021) (10th FDP)

The 10th FDP presents the first executive plan for paving the way to implement vision 2040. It considered as a starting point for achieving fiscal sustainability and economic growth. The plan focuses on arranging spending priorities in light of the various changes in the local and global economic situation to ensure high economic growth rates.

#### Objectives of the 10th FDP:

- Promote sustainable human development and preserve human capital
- Achieve a balanced development for the governorates and increasing income of citizens
- Expand the base of economic diversification and developing productive structures mechanisms and programs
- Develop the macroeconomic environment and achieving financial sustainability
- Stimulate economic activity in partnership with the private sector and supporting the role of small and medium enterprises

#### Main sectors targeted for economic diversifications as per 10th FDP:

The plan focuses on economic diversification mechanisms and programs and increasing the contribution of non-oil sectors and activities. The plan sets a target for growth in the gross domestic product of non-oil activities, by focusing on sectors such as manufacturing industries with high technological content, agriculture and fisheries, fish farming, agricultural and food processing, transport, tourism, storage and logistics.

The table below illustrates the expected contribution from non oil activity by the end of 10th FDP:

Sector	Current contribution to GDP	Contribution expected by the end of 10th FDP
Transformative Industries	10.8%	12.2%
Transportation and logistics	6.4%	7.5%
Education	4.9%	6.2%
Tourism	2.5%	3%
Fisheries Wealth	0.9%	2%
Mining	0.5%	0.7%

## Economic developments in Oman Middle East

### Overview (continued)

#### Financial framework of the 10th FDP

The financial framework of the 10th FDP aims to achieve the following:

- Achieving financial balance by implementing measures and initiatives aimed at controlling public finances
- Improving the credit rating of the Sultanate to enhance investment by controlling deficit and public debt
- Increasing government revenues by raising the contribution of non-oil revenues
- Continuing to implement measures aimed at rationalising public spending while the government continues to provide its services with greater efficiency
- Enhance social protection system to protect low-income people from any consequences result from implementing the proposed measures
- Maintaining the level of spending on basic services, including education, health, housing and social care and insurance
- Setting financial and investment incentives for the governorates of the Sultanate to enable each governorate to exploit its advantages in order to achieve sustainable development, stimulate trade and create job opportunities for citizens
- Stimulating economic diversification and developing economic sectors by finding additional means of financing for some productive projects and raising the level of partnership between the public and private sectors.
- Commitment to transfer the proceeds of selling 20 thousand barrels per day of oil during the years of the plan to be used to pay part of the loan installments.

The following table illustrates the financial framework of the 10th FDP:

*Amounts in million OMR*

Particular	2021	2022	2023	2024	2025
Average daily production (thousand barrels)	960	1,107	1,133	1,140	1,140
Average Price (USD / barrel)	45	45	50	50	50
Total revenue	8,640	9,490	10,815	11,315	11,500
Total public spending	10,880	11,150	11,420	11,480	11,435
Surplus / (deficit)	(2,240)	(1,660)	(605)	(165)	65

The 10th FDP aims to achieve a surplus of OMR 65 million in 2025 under the current trend and the fiscal measures taken by the government.

## Economic developments in Oman Middle East

### Key developments during FY 2020

In 2020, the world has faced a global health crisis with the COVID-19 pandemic, alongside a sharp fall in oil prices during the year. The dual shock of these two factors resulted in a severe economic impact and business disruption worldwide, which is expected to take significant amount of time to recover. Like the vast majority of countries, Oman attempted to control the spread of COVID-19 by enforcing phased lockdowns, travel restrictions, and temporary closure of businesses, which in turn caused major slowdown of the economic growth.

Further, at a local level, 2020 marked a turning point in the history of Oman with the demise of His Majesty Sultan Qaboos bin Said, the former Sultan of Oman who ruled Oman for approximately 50 years. His Majesty Sultan Haitham bin Tarik took over the ruling of the country effective from 11 January 2020. He was formally the Minister of Heritage and Culture, and he was leading and supervising “vision 2040” initiative.

Despite of the economic downturn caused by the pandemic, 2020 witnessed massive changes to the business, legal, and tax frameworks in the country, forming a continuation of development steps, set forth by the former Sultan in previous years with the aim of achieving, among other objectives, fiscal sustainability & economy diversification. Under His Majesty’s administration, a number of key strategic developments took place in 2020 such as restructuring of the government, removal of Oman from the EU blacklist, the enforcement of the Medium-Term Fiscal Plan (MTFP) for the years 2020-2024, and introduction of the long awaited VAT law.

Below is a summary of the key economic, tax and other development that were unfolded during the year 2020.

### Oman Tax initiative to improve its tax framework

#### Tax Reforms

#### Corporate Tax

##### Amendments to the Income Tax Law (“ITL”)

An RD was issued during 2020 (No.118) amending certain provisions of the ITL & introducing some new provisions to the law. The changes introduced are in line with the government’s aim in achieving an efficient and transparent tax environment as well as collaboration with other jurisdictions in combating tax evasions.

The key amendments are set out below:

- repealing the provisions relate to filing of Provisional & Final Returns of Income and replacing the same with a new rule of filing a single “Return of Income” along with change in due date to be within four months from the end of the accounting year (applicable to tax years starting on or after 1 January 2020)
- defining the concept of Tax Residency

- replacing “contestation” term in the ITL with “grievance” & amending some of related provisions
- introducing provisions enabling facilitation of Automatic Exchange of Information (“AEOI”) and empowering the OTA to seek information from licensed banks in Oman about any person for the purpose of adhering to international agreements dealing with taxation matters to which Oman is a signatory.

Parallely, the Oman Tax Authority (“OTA”) has issued a Ministerial Decision No. 78/2020 (“MD”) introducing provisions related AEOI, which became effective from 21 September 2020.

Please refer to below link for our news alert with details on the above

[amendments-income-tax-law-provisions-automatic-exchange-information](#)

## Economic developments in Oman Middle East

### Oman Tax initiative to improve its tax framework (continued)

#### Country by Country Reporting (“CbCR”)

Oman introduced CbCR requirements in September 2020 and has activated exchange relationships with 19 jurisdictions (as at 8 October 2020). CbCR is one of the ‘minimum standards’ that Oman (as a member of the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting) has committed to implement to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. The OTA may use the CbCR information to evaluate transfer pricing risks, and gain insight into how Omani headquartered businesses structure their operations. The requirements, broadly aligned to the OECD model legislation, are summarised below:

- CbCR threshold - Omani Riyal (OMR) 300 million (approx. EUR 670 million / USD 780 million) of consolidated revenue of the Multinational Group (MNE Group) in the preceding year.
- CbCR filing obligation – (i) Ultimate parent entities (UPE) of MNE Groups in Oman; (ii) Option to file under Surrogate Parent Entity (SPE) filing mechanism, in case certain conditions are fulfilled; and (iii) Requirement for entities other than UPE / SPE to file, in case certain conditions are fulfilled (i.e. secondary filing).
- Notification filing obligation – UPE/ SPE/ Other constituent entities, which are tax residents in Oman.
- Due dates – CbCR notification to be filed on or before the last day of the reporting year (i.e. 31 December 2020 for the year ended 31 December 2020) and CbCR to be filed within 12 months from the last day of the reporting year (i.e. 31 December 2021 for the year ended 31 December 2020).

Please refer to below link for our detailed news alert in this regard.

[Oman-country-reporting-cbcr-requirements](#)

Due to prevailing situation caused by COVID-19 spread and to ease its impact on taxpayers, the OTA has extended the due date for filing CbCR notification for the reporting year ended 31 December 2020 up to 30 April 2021.

#### Common Reporting Standards (“CRS”)

The OTA implemented the CRS regime for automatic exchange of information, effective from 1 July 2019, with the reporting for calendar year 2019 already completed.

The introduction of the CRS regime required reporting financial institutions to implement significant changes to their onboarding, operations, IT and governance departments to ensure compliance with the CRS requirements. The OTA and financial regulators including the Central Bank of Oman and the Capital Markets Authority are committed to the ongoing monitoring and enforcement of Omani reporting financial institutions.

The effectiveness of the CRS administration and enforcement regime is expected to be reviewed by the Organisation for Economic Cooperation and Development (“OECD”) ongoing forward.

The first exchange of information took place in 2020. In May 2020, the OTA informed Omani regulators that the CRS reporting deadline has been extended to 31 July 2020 due to the current COVID-19 pandemic.



## Economic developments in Oman Middle East

### Oman Tax initiative to improve its tax framework (continued)

#### Removal of Oman from the EU Blacklist

On 6 October 2020, Oman was removed from the EU list of non-cooperative jurisdictions for tax purposes (the "EU Blacklist"). Oman was previously included on the EU Blacklist on 12 March 2019 for not making enough progress in implementing information exchange protocols. This positive development comes after the recent steps taken by Oman to improve its tax framework and implement exchange of information protocols including the Introducing CbCR and CRS.

In respect of the above and to allow for information collected from CRS and CbCR to be exchanged with relevant foreign competent authorities, Oman also:

- Enacted domestic legislation to facilitate automatic exchange of information; and
- Activated formal bilateral relationships to enable the exchange of information between relevant jurisdictions.

Based on the above, the EU Code of Conduct Group considered that Oman has demonstrated sufficient efforts to comply with its commitments to increase transparency in Oman. Please refer to below link for our detailed news alert in this regard.

[oman-removed-from-eu-blacklist](#)

#### Implementation of the Tax Card

Following the amendments to the ITL issued back in 2017 mandating obtaining tax card by all taxpayers and the amendments to the ER to the ITL issued back in 2019 providing further details with regard to the Tax Card, such as the form to be used for application of the Tax Card, details to be included in the Tax Card, validity period, renewal procedure and surrender of the Tax Card, The OTA issued a decision in 2020 for implementing the provisions of Tax Cards effective from 1 July 2020. Please refer to below link for our detailed news alert in this regard.

[oman-tax-card-provisions-made-effective-1-july-2020](#)

#### Mandatory electronic filing

Furthermore, following the amendments to the ITL issued in 2017 which introduced electronic filing of tax returns, the OTA notified the taxpayers that all tax returns must be submitted electronically and no manual tax return will be accepted from 15 March 2020 onwards.

#### Organisation of the Tax Authority

On 31 March 2020, His Majesty Sultan Haitham bin Tariq issued an RD (No.42) which have put into effect by official proclamation the Tax Authority in Oman and approved its Organizational Structure. It stated that the Chairman of the Tax Authority shall exercise the powers set for the Minister Responsible for Financial Affairs in the ITL, the Excise Tax Law and any competencies related to determining exemption from Income Tax.

Furthermore, the Chairman shall issue the regulations and decisions necessary for the enforcement of provisions of this decree. Until then, without prejudice to the above, the existing regulations and decisions would continue. Please refer to below link for our detailed news alert in this regard

[2020-organisation-tax-authority-multilateral-arrangements](#)

#### Appointment of the members of the Tax Grievance Committee

In line with the amendments to the ITL introduced via RD 118/2020, a decision by the OTA (No. 113) was issued by the Chairman of the Tax Authority on 24 November 2020 appointing the Chairman, Deputy Chairman, and three members of the newly formed TGC. The decision became effective from 30 November 2020. Please refer to below link for our detailed news alert in this regard.

[Oman-appointment-tax-grievance-committee-members](#)

## Economic developments in Oman Middle East

### Oman Tax initiative to improve its tax framework (continued)

#### Indirect Tax reforms

##### Excise Tax Law Executive Regulations

In support of the Oman Government's efforts to promote healthier consumption habits and prevent diseases linked to the consumption of specific products, excise tax was introduced in Oman with effect from 15 June 2019. The scope of the Excise Tax Law ("ETL") was limited to : alcoholic beverages, carbonated drinks, energy drinks, tobacco and pork products. During 2020, the OTA has reversed the temporary reduction of the excise tax rate applicable on alcoholic beverages from 50% to 100%, effective from 1 July 2020. Please refer to below link for our detailed news alert in this regard.

[oman-increase-excise-tax-rate-alcoholic-beverages](#)

Effective from 1 October 2020, the OTA, in line with other GCC member states, expanded the scope to include Sugar Sweetened Beverages ('SSBs') at a rate of 50%. Please refer to below link for our detailed news alerts in this regard.

[PwC.excise-tax-implemented-sugar-sweetened-beverages](#)

[50-percent-excise-tax-on-sugar-sweetened-beverages](#)

Further, in year 2020, the OTA issued the Excise Tax Executive Regulations (" ETL ER") to set out the rules and procedures for the implementation of the law. The ETL ER included details on the procedures and conditions relating to the implementation of excise tax in Oman. These provide clarity around issues such as:

- Procedure for registration and deregistration
- Computation of excise tax
- Provisions and conditions around the operation of an excise tax warehouse
- Tax suspension arrangements and exemption from payment of excise tax
- Conditions for the transfer of goods held under Customs suspension arrangements
- Procedure for filing of excise returns
- Provisions for the payment and refund of excise tax
- Conditions relating to the maintenance of records and accounting books

- Procedure for conducting assessments and appeals
- Levy of administrative penalties and fines

Please refer to below link for our detailed news alert in this regard.

[oman-publication-excise-tax-executive-regulations](#)

##### Value Added Tax ("VAT") Law

On 12 October 2020, His Majesty, Sultan Haitham bin Tariq, issued RD 121/2020 in relation to the implementation of VAT in Oman. The VAT Law will be effective from 16 April 2021. The introduction of VAT is one of the key tax reforms announced during 2020.

Following the introduction of VAT in the KSA, the UAE and Bahrain, Oman became the fourth GCC country to implement VAT in the region. The standard rate of VAT in Oman is 5% and consistent with the GCC Unified Agreement, and there are provisions for zero rating and exemptions in the Oman VAT Law.

By global standards, 5% is one of the lowest VAT rates implemented in the world. The online registration for VAT is not yet live but is likely to commence from early 2021.

The VAT Law sets out the general principles for the application of VAT in Oman in line with the Unified GCC Agreement for VAT. The VAT Executive Regulations will provide more detail on specific areas of the Law and are expected to be published by early 2021. Please refer to below links for our detailed news alerts in this regard.

[Oman-vat-law-published-in-official-gazette](#)

[oman-vat-to-be-implemented-from-april-2021](#)

## Economic developments in Oman Middle East

### Reforms aimed at improving the business environment and investment climate

#### Indirect Tax reforms

##### VAT Law (continued)

Although the information currently available is limited, the Oman Tax Authority has begun to issue some information on the VAT Law through its social media channels, including that the following categories will not be subject to VAT at the standard rate of 5%:

1. Basic food commodities.
2. Medical care services and associated goods and services.
3. Education services and associated goods and services.
4. Requirements for people with disabilities.
5. Supplies for charities.
6. Financial services.
7. Undeveloped lands (vacant lands).
8. Resale of residential properties.
9. Passenger transport services.
10. Renting out real estate for residential purposes.
11. Supply of medicines and medical equipment.
12. Supply of investment gold, silver and platinum.
13. Supplies of international transport and interchange of goods or passengers, and the supply of associated services. The supply of marine, air and land transportation means intended for the transport of goods and passengers for commercial purposes, and the supply of goods and services associated with transport.
14. Supply of rescue and aid aircraft and vessels.
15. Supply of crude oil, petroleum derivatives and natural gas.

## Economic developments in Oman Middle East

### Reforms aimed at improving the business environment and investment climate

#### Economic and other reforms

##### Establishment of a Cyber Defense Centre

In June 2020, His Majesty Sultan Haitham Bin Tarik, issued RD (No.64) establishing the Cyber Defense Centre as a division that follows the Internal Security Service (ISS). The Cyber Defence Centre system gives absolute control to the ISS over communication networks and information systems in the country with the aim of ensuring data protection especially at this age of digital advancement worldwide. Although very short, the RD represents one of the latest developments concerning the data protection and cybersecurity landscape in Oman. Please refer to below link for the our detailed news alert in this regard.

<https://www.pwc.com/m1/en/media-centre/articles/oman-latest-developments-data-protection-cybersecurity.html>

##### Government Restructuring

2020 witnessed major government reforms with the aim of creating a more efficient and lean government in line with Oman's vision 2040. 28 RDs were issued in August that became effective from date of issuance, announcing the long-awaited restructuring of the state's administrative apparatus and realigning of the government. The RDs gave effect of decentralizing the government, delegating more of HM roles that were previously reserved for him to Ministerial decisions. The government restructuring included the reduction in the number of Ministries to achieve optimum government efficiency. The changes as per the RDs included the appointment of a new Finance Minister and a new Foreign Affairs Minister. The changes further included the re-establishment of the Ministry of Economy. The Ministerial changes also included the establishment of the Ministry of Labor, which merged the formerly known Ministry of Manpower, Ministry of Civil Service, National Centre for Employment and National Training Fund under one government entity. The RDs also consolidated the Ministry of Technology and Communication and Ministry of Transport to form the new Ministry of Transport, Communications, and Information Technology. These changes further included changes in competencies of ministries obligations and responsibilities and with renaming of some government bodies. The Ministry of Commerce and Industry shall now be known as the Ministry of Commerce and Industry and Investment Promotion, the Ministry of Housing is now the Ministry of Housing and Urban Planning and the Ministry of Oil and Gas is now the Ministry of Energy and Minerals.

In light of the above changes, the Royal Decrees dissolved the Public Authority for Privatisation and Partnership (PAPP) and transferred its competencies to the Ministry of Finance (MOF). With Public Private Partnerships (PPP) leading the way in which Oman is likely to invest in much of its future infrastructure projects (with a number of PPP projects already in process under the authority of the now dissolved PAPP), the MOF's adopted approach will be a key factor in flagging the privatization plan for Oman.

##### Job Security Scheme

In March 2020, the Sultanate has announced the establishment of the Job Security Scheme, designed to protect Omani nationals in the face of the significant challenges currently being faced in the region. The fund has been bolstered by a 10 million Omani Rial contribution from the Government. The scheme aims to provide social protection for Omani nationals whose services are terminated for reasons beyond their control, by providing a temporary source of income and financial aid as they seek new roles.

Starting from January 2021, a monthly salary contribution will be applied to all Omani employees, at the rate of 1 rial per 100 rials of monthly salary (or 1% of payment). Contributions of equivalent value (i.e. 1 rial per 100 rial of monthly salary or 1%) will also be due from the employer, meaning that both employer and employee will make equal contributions to the fund. Upon implementation, employers who are terminating the contract of Omani nationals must give the Public Authority for Social Insurance (PASI) 3 months' notice of the termination, after which the employee will be eligible for a payment of 60% of their average salary (based on the prior 24 months of employment) whilst they search for a new role. This will be paid for a maximum period of 6 months, during which the National Employment Centre will support the individual in finding an alternative job (support with finding a replacement role will begin upon notice of the termination). Please refer to below link for our detailed news alert in this regard.

[oman-job-security-scheme.html](#)

##### National Support Scheme

According the fiscal balance plan, in order to ensure that the support reaches those who need it, the government has developed a support system, the "National Support Scheme".

## Economic developments in Oman Middle East

Reforms aimed at improving the business environment and investment climate (continued)

### Economic and other reforms

#### National Support Scheme (continued)

This includes fuel subsidies, electricity and water tariff subsidies, in order to provide protection to the citizens most vulnerable to being affected by the financial burdens of the state's general budget. The National Support Scheme provides a social protection umbrella for citizens with limited income and who meet the conditions for entitlement to support.

The gradual lift off subsidies that were previously directed to water and electricity are believed to enhance the state budget and decrease the deficit. This is a move from the government to weather down the financial impact that was caused by the slump in oil prices starting from the year 2014.

#### Water and Electricity Subsidies

The Medium Fiscal Plan (2021-2024) revealed the timeline for directing government subsidy in the "electricity and water" sectors to those who deserve it. The latter mentioned direction of the subsidy will be gradually redirected from January 2021 to 2025. The plan defines the categories from which the subsidy will be lifted. With regards to water bills, the subsidy will be gradually lifted from next January up to unsubsidized tariff by 2024. To ensure that the subsidies are delivered to the targeted segments, the government has developed the National Subsidy System, a platform which includes fuel, electricity, and water subsidy to provide protection for the citizens deemed most vulnerable as a result of the fiscal measures taken in the aftermath of falling oil prices and the COVID-19 pandemic.

#### Other labor reforms in Oman

As part of labor reforms introduced in 2020 is abolishing the requirement for expatriate workers to obtain permission to transfer to new employers. In 2020, Oman announced that effective from January 2021, the transfer of an expatriate employee from an employer to another in Oman will be allowed without the requirement of obtaining a no-objection-certificate ("NOC") from employer. This is a significant development in the Oman labour policy and will have a very positive impact on the labour market of Oman in terms of attracting overseas talent from across the globe who may wish to work in a country that has employment opportunities with least restrictions.

The requirement for expatriate workers to have a no-objection certificate (NOC) from their current employer in Oman to join another company has been in force since 2014 under the Law on the Residence of Foreigners. Please refer to below link for our news article in this regard.

[www.arabianbusiness.com/how-will-things-change-under-proposed-labour-law-reforms-in-oman](http://www.arabianbusiness.com/how-will-things-change-under-proposed-labour-law-reforms-in-oman)

#### Bankruptcy Law

A new bankruptcy framework was introduced in Oman through the Bankruptcy Law, promulgated by RD 53/2019 which became effective in July 2020.

Prior to the Bankruptcy Law, the laws and regulations on bankruptcies in Oman were fragmented and only partially addressed in existing laws such as the Commercial Law promulgated by Royal Decree No. 55/1990 ("Commercial Law") and the Commercial Companies Law promulgated by Royal Decree 18/2019 ("Commercial Companies Law").

The Bankruptcy Law formally repeals Chapter V of the Commercial Law, in addition to any provisions in the Commercial Law which conflicts with the Bankruptcy Law. The purpose of the Bankruptcy Law is to establish a clear, comprehensive and progressive framework for the regulation of bankruptcies and liquidations in Oman for individuals and legal entities. This new law has introduced the concept of a "Restructuring Plan" and restructuring procedures with the aim of helping businesses overcome the debt stage, reach a compromise with debtors, and avoid bankruptcy. It also introduced provisions on establishing a committee of experts who will assess restructuring petitions 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. Aside from the provisions on restructuring and preventative composition, which are methods designed for debtors to avoid bankruptcy, the Bankruptcy Law also contains revamped provisions regarding the Bankruptcy procedure itself. Please refer to below for our detailed news alert in this regard.

[oman-bankruptcy-law](http://oman-bankruptcy-law)



## Economic developments in Oman Middle East

Reforms aimed at improving the business environment and investment climate (continued)

### Economic and other reforms

#### Foreign Capital Investment Law Executive Regulations

The new Foreign Capital Investment Law (the New FCIL) was published in July 2019, effective from 1 January 2020, and replaced the earlier Foreign Capital Investment Law issued by Decree 102/1994 (the Old FCIL). The New FCIL has significantly relaxed the rules and restrictions on foreign investment, streamlined the registration and licensing procedures for foreign investors and aligned foreign investors' rights and incentives to those given to local investors. One of the biggest changes in the New FCIL was allowing 100% foreign ownership in number of sectors.

In June 2020, the Ministry of Commerce and Industry, Oman (MOCI) has issued the Executive Regulations of the new FCIL, specifying provisions in relation to registration of the foreign investment projects, benefits available to specified projects, allocation of land for investment purposes and inspection of the projects by the competent authority, etc. Please refer to below link for our detailed news alert in this regard.

[Oman-new-foreign-capital-investment-law-executive-regulations](#)

Furthermore, in December 2020, The Minister of Commerce, Industry and Investment Promotion (MOCIIP) - formerly MOCI - issued Ministerial Decision (MD) No. 209/2020 determining the list of activities which foreign investors are prohibited from engaging in, limiting them to Omani investors in order to protect national products and entrepreneurship projects. Please refer to below link for our detailed news alert in this regard.

[Oman-new-foreign-capital-investment-law-prohibited-activities](#)

#### Visa Free entry

Before the end of 2020, and with the aim of boosting tourism in Oman and help in recovery of the economy from COVID-19 impact, the Royal Oman Police has recently announced that nationals of 103 countries will be exempt from needing a tourist visa, for a stay of up to 10 days, which will boost tourism into the country. Visitors must have:

- A confirmed hotel reservation;
- A confirmed health insurance from an insurance provider; and
- A return ticket out of the Sultanate of Oman.

At the timing of writing this article, it is not yet clear when the same will come into effect, especially with the spread of the new strain of COVID-19 that forced major lockdowns in a number of cities around the world.

[Gcc-immigration-roundup-dec2020](#).

#### Establishment of Oman Investment Authority ("OIA")

Part of the major government reforms in 2020 is the establishment of the OIA which is a merge of the two investment funds of the Sultanate which are the State General Reserve Fund (SGRF) and the Oman Investment Fund (OIF).

This merger has several benefits including avoiding the difficulties of having two similar investment funds with the same remit, economies of scale and avoiding each fund having duplicate functions. The aim of both funds was to make profitable investments and to encourage more inward investment into Oman, creating more jobs for Omanis and helping to diversify the economy away from its dependence on oil.

## Economic developments in Oman Middle East

### Reforms aimed at improving the business environment and investment climate (continued)

#### Economic and other reforms

##### **Establishment of the Energy Development Oman SAOC company (“EDO”)**

With the aim of offsetting the impact of lower oil prices, the EDO was established by an RD issued in December 2020. The main objective of establishing the Company is to invest in conventional as well as renewable and alternative energy resources. EDO acquires majority of shareholding in Petroleum Development Oman (“PDO”) as well as significant interest in the prolific Block 6 that contributes the bulk of the state’s hydrocarbon production. This will help raising economic activities and value added of oil activities and improving Oman’s financial performance indicator and sovereign credit rating by reducing the deficit.

With the establishment of EDO, the burden of expenditure related to oil and gas sector has shifted from the state’s budget to EDO resulting in a cut in the budget of around OMR 2.2 billion.

##### **The announcement of the Medium-Term Fiscal Plan (MTFP) 2020-2024**

Through the plan, the Sultanate of Oman seeks to enhance fiscal sustainability as one of the most important enablers of Oman 2040 Vision. The plan also aims to support economic growth, strengthen the social protection system, rationalize and raise the efficiency of government spending, and stimulate and diversify government revenue sources. The plan includes a set of initiatives, some of which have entered into implementation, while other initiatives will be implemented according to priority and readiness, taking into account the need to gradually implement these measures to take into account the economic and social impacts resulting from them, as a comprehensive social protection system has been developed for low-income people from the influence of some financial policies.

The implementation of the fiscal balance plan would reduce the debt ratio of GDP, which the Ministry of Finance estimated would reach 124% if the plan is not adhered to, while the balance plan works to keep the debt ratio at 80 % of GDP by 2024. The plan is expected to result in a gradual reduction in deficit to reach 1.7% by year 2024.

## Economic developments in Oman Middle East

### Key developments expected in FY 2021 and beyond

#### Revenue from Excise Tax and VAT

The implementation of VAT from April 2021. The FY21 Oman budget includes revenue from VAT of OMR 300 million and revenue from excise tax at OMR 113 million (total of OMR 413, which is 51% of revenue forecasted from taxes & fees). This is four times the revenue achieved from indirect tax in year 2020 (OMR 100 million).

The implementation of VAT is a key measure for economic diversification, and to reduce the reliance on the oil and gas sector. The Executive Regulations to the VAT Law are expected to be issued in early 2021.

#### Fiscal and financial sustainability initiatives

In view of current economic and financial challenges, the government is expected to continue implementing initiatives that aim at improving general financial efficiency of the government and enhancing the economic growth. Those initiatives includes:

- Implementing the MTFP 2020-2024
- Introduction of the Public Debt Law
- Unifying Treasury Account
- performance-driven incentive fiscal plan
- Unifying the government financial system.

#### Restructuring of government companies & revising salaries structures

In line with the spending rationalisation plans, it is expected that major restructuring will continue to take place in the government companies as well as in the salary scheme for those companies. Part of that is dissolving of Oman Aviation Group and Transom, as recently announced by the OIA.

#### Labour law reforms

Oman recently announced plans to amend labour laws, to significantly reduce or end long standing subsidies and introduce new taxes, while at the same time, ensuring protection of low-income families. Part of that is the announcement on introducing a personal income tax regime for higher wage earners beginning 2022.

We can expect more fiscal measures in the medium to long term as Oman continues to diversify its economy outside of oil and gas, while maintaining an attractive business environment for both foreign investment and talent in challenging (post) pandemic times. Please refer to below link for our detailed news article in this regard.

[www.arabianbusiness.com/how-will-things-change-under-proposed-labour-law-reforms-in-oman](http://www.arabianbusiness.com/how-will-things-change-under-proposed-labour-law-reforms-in-oman)

In addition, The Ministry of Finance has issued a financial circular canceling a number of allowances and privileges for ministers, Under-Secretaries and some employees in government institutions. This is part of continuation of efforts to review the spending in ministries and government units which comprised a major element of the state's budget. The same is effective from 1 April 2021.

This initiative is expected achieving better management of the government's expenditures. Besides, a new Labour Law is expected to be issued in 2021 that serves the objectives of the 10th FDP and vision 2040.

## Economic developments in Oman Middle East

### The takeaway

Although of the economic challenges resulted from dual shock of COVID-19 pandemic and fall in oil price, Oman's 2021 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.

Together with the 10th FDP, the budget is paving the roadmap to Oman's 2040 vision which is based on four pillars :

- Creating wealth through economic diversification and private sector partnership
- Ensuring balanced governorates development
- Preserving environment sustainability
- Building world-class Infrastructure and livable cities

The budget indicates that the Government is putting efforts to improve Oman's credit rating by reducing public debt and containing the deficit within sustainable levels.

Strategic steps to diversify the economy, such as widening the tax base scope and outsourcing of various Government services to the private sector 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, Bankruptcy Law, and labour law reforms should facilitate an increase in foreign direct investment (FDI) which is expected to boost the economy, in addition to the key government reforms initiated that are expected to bear fruitful results in years to come.

Economic developments in Oman  
Middle East

**Let's talk**

For a deeper discussion of how the 2021 Oman budget might affect your business, please contact:

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