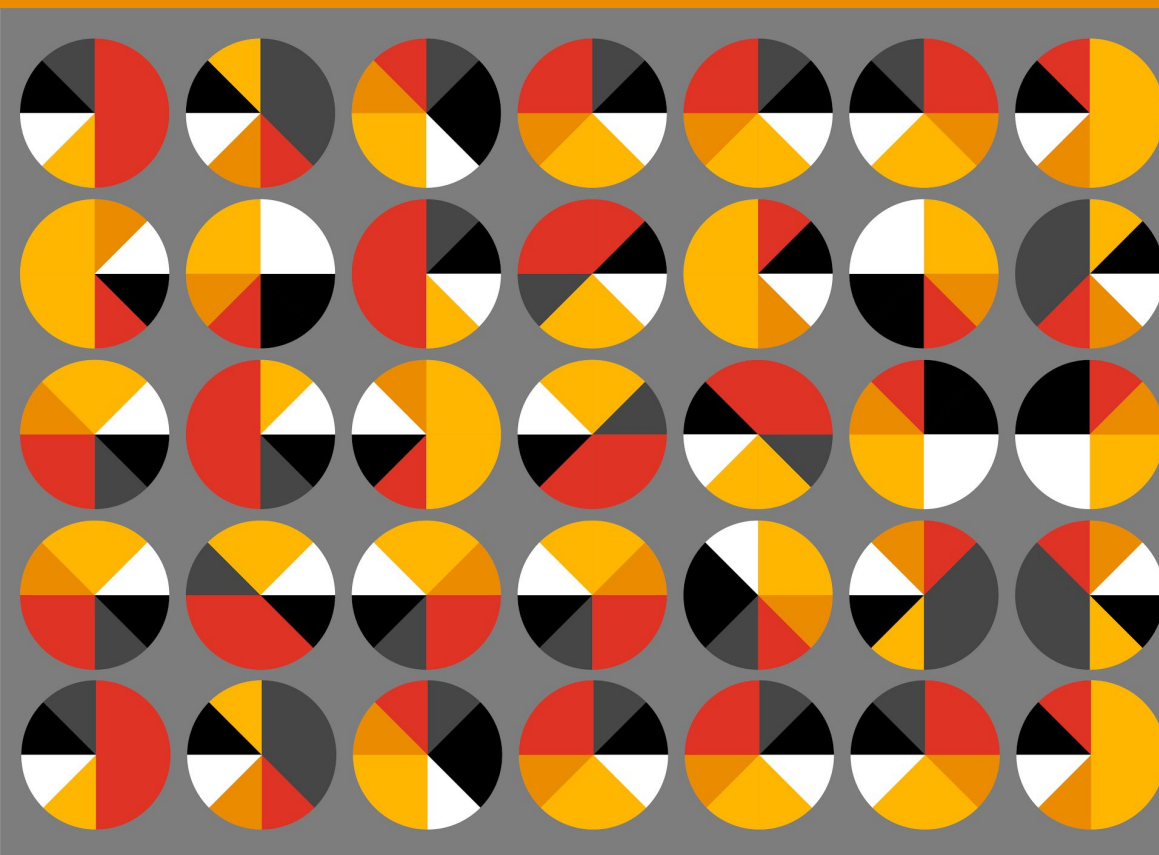


Oman: Incentives announced by the Government as part of Oman Vision 2040

March 2021



In brief

As part of Oman's Vision 2040 and a plan to diversify the economy away from oil, His Majesty Sultan Haitham Bin Tarik approved tax incentives for companies, as part of an economic stimulus plan to enhance growth rates. As per the International Monetary Fund, Oman's economy suffered a 6.4% shrinkage in 2020 after being hit heavily by the COVID-19 pandemic and dipping oil prices. Construction, hospitality, wholesale and retail sectors were particularly affected.

The incentives are aimed at economic diversification and combating the economic slowdown contributed primarily by the ongoing global pandemic situation. It is believed that a long-term growth strategy will facilitate achievement of Oman Vision 2040.

The measures were approved by His Majesty on 9 March 2021 and are expected to be in force from 10 March 2021. Measures include reduction in tax rates and fees for specified sectors, offering long term residency permits for foreign investors, overall Omanisation drive and flexibility to negotiate wage cuts etc.

In detail

With hard hitting consequences, due to the global COVID-19 pandemic and the dipping oil prices, Oman – whose economy was heavily dependent on oil revenues – suffered a major setback in 2020. The Government of the Sultanate has devised the Oman Vision 2040 plan, with a view to achieving better economic growth and diversification.

As part of an economic stimulus plan, His Majesty the Sultan has approved incentives for companies to counter economic slowdown and the impact of COVID-19. These incentives are as follows and aim to ease companies and the economy alike.

Exemption from income tax

Companies that begin operating during the period January 2021 to December 2022, **in sectors aimed at economic diversification**, will be exempt from income taxes. The exemption will be valid for a period of 5 years from the date of registration in the Commercial Registry of the Ministry of Commerce, Industry and Investor Protection (MOCIIP).

Oman focuses on diversification, manufacturing and privatisation to diminish the contribution of the oil sector to the Gross Domestic Product. Tourism and hydrocarbon industries have become the main components of the government's economic diversification strategy.

The specific terms and conditions in this regard will be issued in due course by the Oman Tax Authority.

Further, **hotel establishments** will be exempt from income tax due for tax years 2020 and 2021. This would come as a welcome measure, because hotels and cafes have been among the hardest hit by reason of the pandemic situation and general slowdown.

Incentives relating to payment of income tax

Taxpayers are allowed to settle income tax amounts falling due **during the year 2021 – in instalments**, without application of delay fines on the amounts (instalments) paid beyond the statutory due dates. It is expected that this applies for corporate income taxes that become payable during the course of the year 2021.

In detail (cont'd...)

Incentives relating to payment of income tax (cont'd...)

Taxpayers that file corporate income tax returns and settle income tax amounts **within the prescribed statutory due date**, can deduct the **lesser of** the following – from the amount of tax due:

- (a) 1% of income tax due; or
- (b) OMR 10,000

The above incentives will apply for corporate income tax returns filed and income taxes paid **during the year 2021**.

This measure should be a great relief to taxpayers with an income tax liability, who are already experiencing extensive financial and business disruptions caused by the COVID-19 pandemic.

Indefinite carry-forward for declared tax losses

Tax losses declared **for tax year 2020** can be carried forward for set off against future taxable income, indefinitely – that is, without being restricted to 5 years carry forward as stipulated under the Income Tax Law. It is understood that this applies to all taxpayers that declare a tax loss for tax year 2020. It is understood that tax losses declared for tax years prior to and after tax year 2020 will continue to be subject to the 5-year carry-forward restriction as prescribed under the Income Tax Law.

Further, although there is no mandate that this will apply only to taxpayers that file corporate income tax returns within the statutory due date, it is strongly urged to comply with the prescribed statutory due date in order to benefit from this relief, if applicable..

It is noted that indefinite loss carry-forward is common practice in many countries globally and perhaps this temporary measure could become permanent.

Measures relating to withholding tax (WHT) (on dividends)

The Government has announced **suspension of WHT on dividend** payments (by joint stock companies and funds) for 5 years – from **2020 to 2024**. This supersedes (and effectively extends) the 3-year temporary suspension of WHT on dividend payments announced through the Royal Directive on 6 May 2019.

By virtue of amendments to the Executive Regulations to the Income Tax Law in February 2019, WHT on dividend payments by limited liability companies were excluded from WHT applicability.

Reduction in income tax rates for SME

Income tax rates for small and medium enterprises (SME) will be reduced from 15% to **12%**, for tax years 2020 and 2021.

SME qualifying for this exemption shall be classified as such by the Public Authority for Small and Medium Enterprises Development (Riyada), as well as other similar enterprises not registered with Riyada but registered with the MOCIIP.

In detail (cont'd...)

Reduction in income tax rates for SME (cont'd...)

As per Riyada, SME are required to be mandatorily wholly Omani-owned companies, with one shareholder wholly committed to the business of such company. SME are classified as:

- (a) Micro: Turnover less than OMR 100,000; and workforce of 1-5 workers
- (b) Small: Turnover between OMR 100,000 and OMR 500,000; and workforce of 6-25 workers
- (c) Medium: Turnover between OMR 500,000 and OMR 3,000,000; and workforce of 26-99 workers

It is understood that SME meeting the above criteria (whether registered with Riyada or MOCIIP) will qualify for the reduced income tax rates for tax years 2020 and 2021.

Reduction in rental values

Rental values will be reduced **by 25%** from 1 January 2020 to 31 December 2022 for lands in:

- (a) Special Economic Zone of Duqm
- (b) Industrial zones of Public Establishment for Industrial Estates (Madayn)

Reduction in fees and other taxes

The Government has confirmed a **50% reduction in fees for environmental licenses** that will be renewed in 2021, for the license validity period.

Further, no fines shall be imposed on expired environmental licenses that are renewed within 3 months. This includes commercial and industrial activities that require environmental license from the Environment Authority.

The measures also include an option for fixed tariff on loads for high consumption subscribers (exceeding 100,000 kw/h) who are subject to cost-reflective tariff.

The Government has also announced **exemption** from collection of **municipality tax and tourism tax** by tourism establishments, from **10 March 2021 until 31 December 2021**.

Payment of **municipality tax and tourism tax collected until 9 March 2021**, can be **deferred until 31 December 2021**.

Further announcements and details in this regard are expected from the Ministry of Tourism.

As previously indicated, corporate income tax exemption announced for hotel establishments for tax years 2020 and 2021, coupled with the above measures, are expected to be a huge relief for the worst pandemic hit hospitality industry.

In detail (cont'd...)

Incentives relating to business, investment and labour

Businesses / investors can commence activities upon obtaining a 'preliminary license' to engage in business – that is, without waiting for the final license. This shall be subject to an undertaking to adhere to applicable terms and conditions relating to the business, to be issued by MOCIIP within one month. This shall also be subject to inspections and verification by the concerned departments.

Companies registered as per Foreign Capital Investment Law (FCIL) will be treated at par with Omani companies as regards **fee for commercial registration**. This shall only apply to companies operating **in sectors aimed at economic diversification** and its enabling sectors.

Foreign investment companies shall be granted three (3) licenses for expatriate labour, in line with the terms set by the MOCIIP upon commercial registration.

The measures also include a **reduction in fees** for recruitment / renewal of **non-Omani manpower** (as per recent Ministerial Decision 12/2021) in relation to high and medium level jobs, technical jobs and specialized jobs, as follows:

- (a) 50% for companies adhering to prescribed Omanisation
- (b) 25% for companies employing non-Omani manpower (but not meeting the prescribed Omanisation)

The Government has also set aside **OMR 20 million** in the **2021 budget** for training jobseekers to equip them to join the workforce.

There will also be continuing efforts relating to enforcement of procedures relating to termination or reduction in salaries of Omani employees, until 30 September 2021.

Long term residency permits for foreign investors

Oman plans to offer long term residency permits for foreign investors, in addition to incentives relating to the economy. It is expected that this measure will be implemented only in accordance with guidelines and controls that will be announced in due course, after completion of feasibility studies in this regard and approval by the Council of Ministers.

Banking / financing incentives

Banks will be instructed to accommodate requests for postponement of premium and interest by borrowers who have been affected by disruptions caused by the COVID-19 pandemic without affecting their credit rating, until 30 September 2021.

Central Bank of Oman also strives to ensure credit incentive packages and rescheduling of loans for borrowers without additional fees.

The Takeaway

The incentives are part of the economic diversification vision of the Government, as well as with a view to countering the economic slowdown caused by the ongoing COVID-19 pandemic. It is believed that a long-term growth strategy will facilitate achievement of Oman Vision 2040, as well as diversify the economy away from oil.

Relevant business should analyse potential opportunities and impact of the announced measures, to capitalise on any potential savings and to determine eligibility for the announced incentives.

Further clarity regarding eligibility for some of the announced initiatives is expected in due course.



Let's talk

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

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