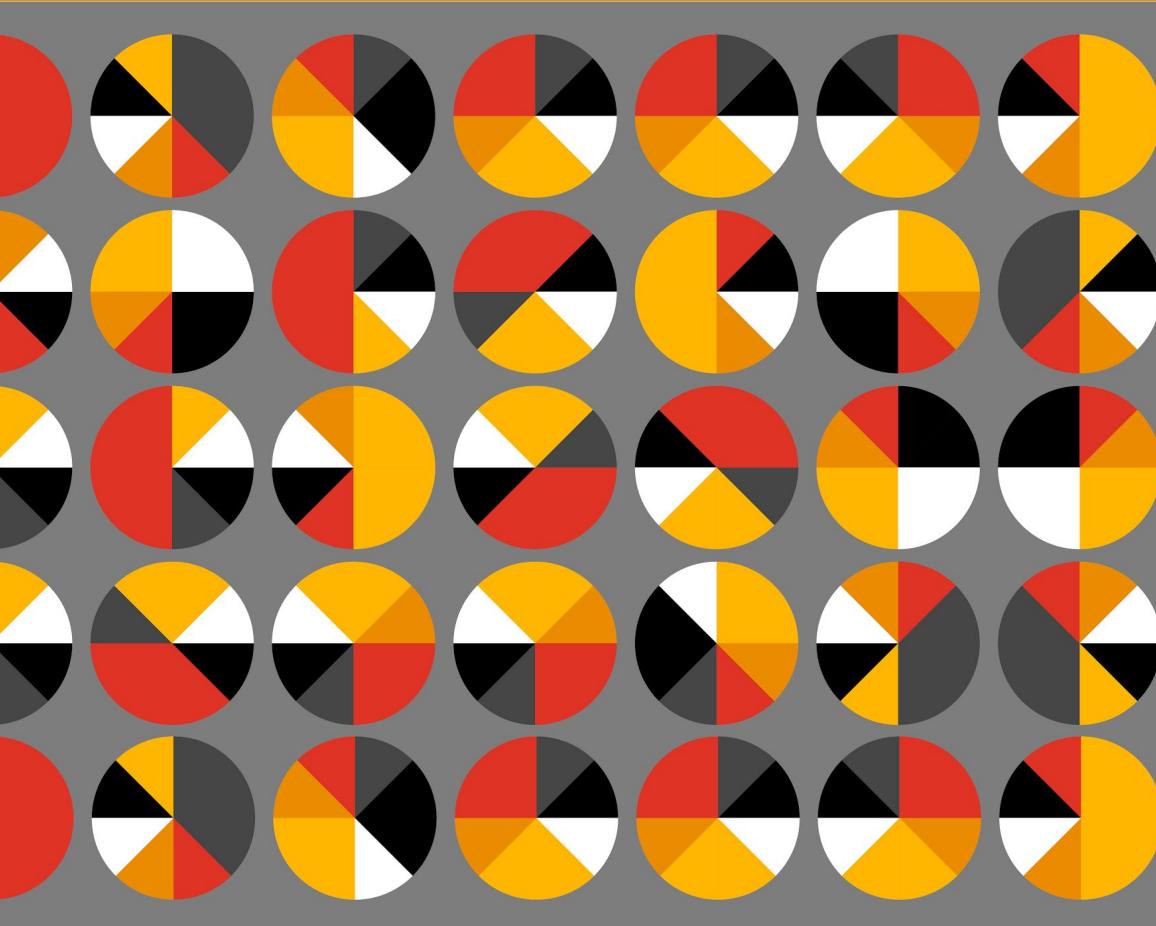


Oman VAT Update: VAT Taxpayer Guide on Financial Service Sector

April 2022



In brief

Following the introduction of Value Added Tax (VAT) in Oman on 16 April 2021, the Oman Tax Authority (OTA) issued on 26 April 2022, a new guide on the application of VAT to the Financial Services sector (the “Guide”).

The Guide confirms that VAT exemption applicable to the supply of financial services provided by banks and financial institutions licensed by the Central Bank of Oman or any other competent authority (including persons licensed to conduct Islamic financial banking activities or life insurance activities by the relevant body in Oman) where the consideration is an implicit margin. It also gives guidance on the application of VAT at the standard rate on financial services remunerated by way of a fee, commission or discount.

The Guide covers the application of VAT to life insurance, transfers of equity and debt securities, insurance services, warranties, etc. The Guide also clarifies certain administrative practices which the taxable persons may follow and that should be acceptable to the OTA.

In detail

Among other things, the Guide sets out guidance on the accepted VAT treatments on many conventional banking products, Islamic financial products, and insurance services. Some of the clarifications and practical approaches discussed in the guide are as follows:

1. General clarifications for the financial services industry

- **Scope of exemption**

The list of financial services stated in the VAT Regulations for VAT exemption is not exhaustive and the exemption can apply to other implicit income earned. The following are a few examples provided in the Guide:

- Implicit margins earned by licensed money exchange providers
- FX differences on dynamic currency conversion
- Discounts on bills
- Interest income on swaps
- Premium on financial options

The guide has also stressed the availability of VAT exemption only to banks and financial institutions licensed by the Central Bank of Oman or any other competent authority (including persons licensed to conduct Islamic financial banking activities or life insurance activities by the relevant body in Oman).

- **Registration obligation for non-resident supplier**

As per the provisions of the Oman VAT Legislation, every person who has no place of residence in the Sultanate of Oman, should register with the OTA, and that is from the date on which such person is obliged to pay the VAT in accordance with the provisions of the Oman VAT Law. However, the Guide clarifies that if a non-resident financial services provider merely has an Omani-resident customer or client who is not registered for VAT, this will not of itself give the non-resident provider a potential VAT registration liability in Oman.

- **Supplies between head office and branch**

Supply between establishments of the same legal entity (e.g. foreign head office to its branch in Oman) is outside the scope of VAT. However, the use of services by the Omani branch (in certain cases) may result in a VAT obligation. For instance, where services are contracted by the head office but passed on to the Omani branch without alteration, this can make the Omani branch liable to account for VAT on such services under the reverse charge mechanism.

- **Real estate related supplies**

Interestingly, financing associated with the provision of real estate (under asset financing arrangement) and insurance taken out over a particular piece of property will be treated as 'real estate related services' and not 'financial services'. This practice is aligned with the practice followed in the KSA, but this is not aligned with the practice followed in the UAE and Bahrain.

- **Speculative trading**

Fees, commissions and commercial discounts will not include trading of an asset with an aim to generate margin while bearing the risk of loss.

- **Compensatory or punitive charges**

The VAT treatment of compensatory or punitive fees, where the fees are typically anticipated in the contractual terms, and form part of the normal revenues received by the financial institution, are subject to VAT at the standard rate (e.g. late payment, early termination fee). However, where the compensation is awarded by a court, arbitration panel, or committee, or received to settle a dispute, the bank or financial institution is not required to charge VAT on such compensation. As such the settlement is outside the scope of VAT. Specific guidance is provided on the penalty charges collected by Islamic financing providers which are typically required to be remitted to a charity; these charges are not subject to VAT.

- **Calculation of the proportional input VAT deduction ratio**

Supply and issuance of equity, debt, and other securities (including Sukuk) are considered as an exempt supply. However, value of these supplies are not required to be considered while calculating the proportional input VAT deduction ratio.

2. Clarifications specific to the banking industry (including Islamic finance)

- **Interest/ profit on deposits**

Interest/ profit received by a bank or financial institution's customer (excluding interest received by a bank or financial institution) on his deposit should be treated as a passive income and therefore, should be outside the scope of VAT.

- **Sale of goods under Murabaha**

A sale of an asset/ goods by a finance provider to a borrower under a Murabaha arrangement is not a supply by the finance provider and is therefore not subject to VAT.

- **Waiving of customer fees**

Waiving of customer fees may not be treated as deemed supply only if conditions such as genuine commercial reasons, no reciprocal purchase of related goods, a waiver for existing customers who separately pay for other services, are met.

3. Clarifications specific to insurance industry

- **Non-life insurance products**

All non-life insurance services are standard rated and warranties will not be considered as insurance services for VAT purposes. As such warranties should be outside the scope of VAT.

- **VAT treatment of deductible under an insurance contract**

The deductible payable by an insured under an insurance contract/ policy is not treated as a consideration for a supply by an insurance company, and as such is out of scope of VAT.

- **Input VAT on repairs under an insurance contract**

In cases where repair and other services are provided directly to the insured, the insurance company will not be eligible to claim an input VAT deduction in relation to payments of monetary claims to the insured. However, if the third-party contracts with and provides services directly to the insurance company, the insurance company will pay the charged VAT to the supplier. In these cases, the insurance company (if eligible) may deduct the VAT in its VAT return provided the insurer is the recipient of the services.

4. Administrative practices clarified in the Guide

- **Provisional partial input VAT deduction percentage**

As an alternative to the quarterly calculation of the partial deduction percentage, the taxpayer can provisionally use the percentage of the previous year subject to certain conditions.

- **Payment date on tax invoices**

In cases where payment is made before the invoice date, a reference to the separate payment date is required on the tax invoice. In all other cases, OTA will accept tax invoices without a separate payment date.

- **Use of exchange rate on tax invoices**

For tax invoices issued in foreign currency, the OTA has permitted the use of the previous day's published forex rates, in cases where tax invoices are issued before the daily rates are published by the Central Bank of Oman.

- **Use of exchange rates**

As per the Oman VAT legislation, a taxable person is required to use the exchange rates published by the Central Bank of Oman on the date of supply. However, the Guide provides for an administrative practice under which the taxable person may seek clarification from the OTA on alternative procedures for currency conversion.

- **Use of bank statement as a summary tax invoice**

A monthly bank statement can be treated as a valid summary tax invoice when it contains the information required in a tax invoice. In cases of uncertainty, the OTA will consider requests to approve the use of specific bank statements on a case-by-case basis.

Let's talk

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

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