

Sultanate of Oman

VAT Taxpayer Guide
for Input Tax

June 2023





In brief

The Oman Tax Authority has published the much-anticipated VAT Guide for Input Tax. The guide provides clarifications/ guidance on key matters relating to input tax credit.

The Guide is available both in Arabic as well as English and can be accessed [here](#)

In detail

The Oman VAT Guide for Input Tax provides guidance on the following matters:

1. Steps to deduct input tax
2. Ineligible input tax claim (For e.g. Foreign VAT incurred)
3. Conditions for input tax deduction
4. Taxable person's economic activity (for claiming input tax)
5. Intention of the taxable person
6. Time of deduction
7. Evidence required to deduct input tax
8. Recipient of a supply (who is eligible to claim input tax)
9. Input tax incurred by employees
10. Input tax incurred by a non-registered person (Pre-registration input tax claim)
11. Mixed use for economic and non-economic activities
12. Blocked input tax
13. Mixed use for taxable and exempt supplies
14. Alternative apportionment methods
15. Adjustment of input tax
16. Loss, theft or damage
17. Input tax related to capital assets

A summary of key clarifications relating to input tax, is provided in the table hereafter.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
1.	Amounts that are not considered as input tax	<ul style="list-style-type: none">• Common examples of amounts that are not input tax<ul style="list-style-type: none">– Incorrectly charged VAT (such as VAT charged on a zero-rated food item, or VAT charged by a non-registered supplier).– Foreign VAT (i.e. Equivalent VAT applied in the GCC or in other countries).– Amounts related to prohibited goods in the Sultanate of Oman. <p>Thus, input tax paid on the above amounts cannot be claimed.</p> <p>The guide also clarifies that input tax incurred in making intra-group supplies (which are outside the scope of VAT), will be treated as general overheads and thus input tax on such expenses can be claimed.</p>
2.	Taxable person's economic activity	<ul style="list-style-type: none">• A taxable person will only be considered to have incurred input tax if the purchases relate to their economic activity (i.e. an activity that is conducted in a continuous and regular manner, particularly commercial, industrial, professional, artisanal, or service activity).• Most common examples of expenditures that are not related to a taxable person's economic activity are expenses that relate to:<ul style="list-style-type: none">– The owner's personal home or personal assets.– Personal interests such as recreational and sporting activities.– The personal benefit of company's employees, managers and directors.



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S.No.	Description	Clarification/ Guidance provided
2.	Taxable person's economic activity (Contd...)	<ul style="list-style-type: none">• In most cases, the connection between an expenditure and the economic activity is clear and straightforward.• In other cases, the taxable person will be required to clarify to the Tax Authority how the expenditures relate to their economic activity.• The following indicators may assist the taxable person in determining whether the expenditures relate to their economic activity:<ul style="list-style-type: none">– The intent of the taxable person when purchasing the goods or services.– The historic use of the goods or services (how similar goods and services have been used in the past).– The expenditure is not for non-business or private purposes.– The expenditure is incurred in the course of undertaking the supplies made by the taxable person.– The expenditure is typically incurred by other businesses in the same sector for economic purposes.– The assets are owned by the taxable person.– The assets are included in the taxable person's financial statements.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
3.	Time of Deduction	<ul style="list-style-type: none">• The taxable person is only allowed to deduct the input tax through their VAT return when all conditions are met (such as receiving the tax invoice, required documentation in the case of imports and supplies accounted for per the reverse charge mechanism).• Where the taxable person does not deduct the input tax immediately, their right to claim the input tax shall be extinguished after 3 years from the end of the tax period during which the right to deduct was created (i.e. the maximum time limit for claiming the input tax is 3 years from the end of the tax period during which right to deduct was created).• Where input tax is deducted in future tax periods, the input tax apportionment ratio shall be used for the same tax period during which the right to deduct was created and not for the tax period during which the input tax was actually deducted (i.e. where the taxable person chooses to deduct input tax related to indirect costs, general expenditure of the business or overheads in subsequent VAT returns, they must use the apportionment ratios related to the period in which the VAT was chargeable on the supply).



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
4.	Input tax on imported goods	<ul style="list-style-type: none">• VAT paid on imported goods may only be deducted by the importer of record, provided they have imported these goods for the purpose of their economic activity.• Where a taxable person imports goods in the name of another person, both persons will not be allowed to claim the import VAT (i.e. in case where goods are cleared by an agent as the importer of record, the input tax paid on import of goods cannot be claimed by the taxable person).• However, where an agent acts in their own name on behalf of a third party, the importing and supplying of goods on behalf of the third party will be considered to have been made by the agent as a principal. The input tax on these supplies maybe deducted by the agent provided the agent properly accounts for VAT on the onward supply from them to the third party.
5.	Input tax incurred by employees	<ul style="list-style-type: none">• Supplies made to a person in their capacity as an employee will be considered to have been made to the employer.• Most common supplies include:<ul style="list-style-type: none">– Fuel and motor vehicle repair expenses.– Meals and accommodation while on a business trip.– Miscellaneous low value goods and services such as materials and tools, up to a maximum value of OMR 500.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
5.	Input tax incurred by employees (Contd...)	<ul style="list-style-type: none">• The taxable employer must ensure that these purchases are made for the purpose of the economic activity and keep records (such as an expenditure log) to document the business nature of the goods or services purchased. Based on this, input tax may be recovered subject to the normal rules. Any portion related to private use must be excluded.• Input tax may not be deducted when incurred by the employer or employee for the personal benefit of the employee.
6.	Blocked input tax	<ul style="list-style-type: none">• Goods or Services used for the purpose of entertainment services:<ul style="list-style-type: none">– Includes admission to sporting, cultural, artistic events, or goods and services used in holding such events, and ancillary goods and services.– Events which are primarily of an educational or business nature would not typically be considered entertainment.– Any expenditure which was primarily entertainment related should not be deducted.• Motor vehicles and related goods and services for private use:<ul style="list-style-type: none">– The taxable person must identify and not deduct the private use portion of expenditure on motor vehicles. For example, where the employee is allowed to keep the car after working hours with them, only the portion related to working hours will be deductible.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
6.	Blocked input tax (Contd...)	<ul style="list-style-type: none">• Provision of food and beverage catering services:<ul style="list-style-type: none">– Includes all provision of food and beverages intended for onsite consumption.– This does not include food and beverages provided at taxable person's site for sustenance of employees, either under prevailing laws in Oman or at remote locations where alternatives are not reasonably available.– In addition, it does not include food and drinks when provided within the course of a meeting or as normal refreshments (such as dates, chocolates, tea, coffee, etc.) • VAT incurred in relation to prohibited supplies or imports<ul style="list-style-type: none">– Any expenditures related to goods or services that are prohibited per laws in Oman. • Goods bought under the profit margin mechanism:<ul style="list-style-type: none">– Where eligible goods are bought and sold in accordance with the profit margin mechanism the input tax that forms part of the purchase cost may not be deducted.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
7.	Alternative methods for input tax apportionment	<p>The procedure and conditions for adopting an alternative method for input tax apportionment, is already mentioned in the Oman VAT Executive Regulations.</p> <p>However, the VAT Guide for Input Tax provides a listing of some common alternative methods for input tax apportionment, as mentioned below:</p> <ul style="list-style-type: none">• Transaction Count method: Apportionment based on a ratio of number of taxable transactions to total transactions.• Floorspace method: Apportionment based on a ratio of floorspace used for taxable supplies to total floorspace.• Expenditures method: Apportionment based on expenditures used for taxable supplies to total expenditures.• Headcount method: Apportionment based on no. of staff dedicated to taxable supplies to total no. of staff.• Sectoral method: Dividing the economic activity into discrete divisions and applying the most suitable method for each sector.



VAT Guide for Input Tax – Key Clarifications

S.No.	Description	Clarification/ Guidance provided
8.	Administrative practice for claiming input tax credit (based on supplier's tax invoices)	Input Tax deduction will not be disallowed for minor errors or omissions in the Tax Invoice, provided that the invoice clearly identifies the supplier, customer, nature of supply and it is clear that VAT was charged correctly.
9.	Tax Invoice for Exempt Supplies	The Guide for Input Tax clarifies that a taxable supplier must issue a tax invoice for each supply made in the course of its activities. This includes exempt supplies as well.

The takeaway

The VAT Guide for Input Tax provides key clarifications/guidance on matters relating to input tax, especially relating to input tax incurred by employees, blocked input tax, alternative methods for input tax apportionment, administrative practices for claiming input tax based on supplier's tax invoices. Thus, businesses shall take this into consideration for claiming the right amount of input tax and ensuring compliance with VAT obligations in Oman.

In relation to alternative methods mentioned for input tax apportionment, businesses engaged in making both taxable as well as exempt supplies, may carry out an analysis of input tax apportionment as per standard method vs. alternative methods; and determine if there are any cost savings opportunities therein.

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Let's talk

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

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