



BDO

**New updates
to Omani Income Tax Law
2017**

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Introduction

Royal Decree 9/2017 was issued, amending the Income Tax Law 28/2009. The Royal Decree has been published in the Official Gazette on 26 February 2017.

The major changes passed by the Royal Decree are:

- ✓ Raising the tax rate to 15% for all companies. However, those entities that meet the definition of a SME, the tax rate will be 3%.
- ✓ Removing the R.O 30,000 exemption limit for all tax payers.
- ✓ Extending the scope of withholding tax to include all services provided by foreign companies and interest and dividend payments.
- ✓ Tax exemption is now only valid to the manufacturing sector under Article 118 for a non-renewable period of five years, and subject to compliance with certain conditions.
- ✓ The law includes provisions regarding the taxation of Islamic financial transactions, in line with conventional banking income streams.
- ✓ All tax payers are liable to obtain a tax card from the Secretariat General of Taxation and it is mandatorily required to show the tax card number in all bills and correspondences.
- ✓ Government entities are now obligated to ask for a copy of the tax card before dealing with a taxpayer. A penalty will be imposed of up to R.O. 5,000 in case of failure to comply with the tax card provision.
- ✓ Royal Decree has introduced more penalties in case of failure to comply with the revised provisions of the Income Tax Law.
- ✓ New electronic tax filing system to submit the annual tax return has been introduced.



New Tax Rates

- ✓ The corporate tax rate has increased from 12% to 15% in respect of the taxable income of any establishment, Omani company or permanent establishment, for any tax year starting after 1/1/2017.
- ✓ Additionally the exemption of RO30,000 has been removed and all income is now taxable. However a lower rate of 3% is to be applied for SMEs who meet certain criteria.



Withholding Tax

- ✓ New scope of withholding tax (WHT) under Article 52 includes services, interest and dividends which will be effectively applied for all transactions that take place starting from the date that the Royal Decree was published in the Official Gazette on 26/2/2017.

- Accordingly, payments for dividends, interest and services to non-residents will attract WHT and if there is a DTA between Oman and the country where the non-resident is domiciled, and the WHT rate is lower than 10%, then the rates in accordance with the DTA between the countries will apply.

We have obtained feedback from the Tax Department that the WHT will be only applied for services that are delivered in Oman by non-residents.

Further, WHT will be only applied only for dividends declared by SAOG & SAOC companies to non-resident share holders but not GCC residents and corporates.

Exemptions

- ✓ The Royal Decree has waived all exemptions for any income that accrues to an establishment, Omani company or permanent establishment from activities of mining, the operation of hotels, farming and processing of farm products and agricultural industries, fishing and fish processing, education activities and medical care.
- ✓ Tax exemption is now only valid to the manufacturing sector under Article 118 for a non-renewable period of five years beginning either from the date of commencement of production or of the business, and subject to compliance with certain conditions.
- ✓ All establishments and Omani companies that have already received the decision of an exemption before the effective date of this law, or have renewed the exemption in accordance with Article 118 are eligible to continue with the exemption from tax until the end of the period specified in these decisions.
- ✓ The Income Tax Law allows an exemption for a non-renewal period of 5 years for any SME that undertakes industrial activities.

Donations

- In determining the taxable income of any tax year, companies shall deduct both of the cash donations and donations in-kind that made during that tax year to entities approved by the Financial Affairs and Energy Resources Council on the condition that the aggregate amount of donations does not exceed five percent of the gross income of the taxpayer for that tax year.



Taxation for Islamic Finance

- ✓ Islamic financial transaction means, in the application of the provisions of Oman Income Tax Law, an agreement or deal which results in financial rights and one of the parties to the transaction is a person licensed to practice Islamic banking business based on the laws in the country that issues the license.
 - ✓ The agreement or deal should comply, in terms of conditions and its impacts and other elements, with the provisions of the Islamic Sharia and should not explicitly or implicitly carry out any other financial treatment.
- a) Exception to the above listed, provisions, is if the capital, income or the average number of employees specified in this law have increased but does not exceed the increased rate decided by the Minister of Finance.
- However these provisions are not applicable for any establishment that carries on activities of air/sea transport, extraction of natural resources, banking, insurance or financial services, public utility concessions or other activities that may be approved by the Minister of Finance after approval by the Council of Ministers.

Taxation for SMEs

- Royal Decree has established new provisions for Omani establishments which meet with the following requirements to be treated as SMEs under the provision of the Income Tax Law:
 - a) The capital that should not exceed R.O 50,000 at the beginning of the tax year.
 - b) Gross income should not exceed R.O 100,000 in any year.
 - c) Average number of employees during the tax year is should not exceeding 15 employees
- A lower tax rate of 3% is now applied for SMEs, which will be effective for the years beginning after 1 January 2017.
 - An Omani SME should prepare the income statement final tax return based on the cash basis and follow the electronic filing system to submit the final tax return within 3 months from the financial year-end.
 - ✓ Any company that meets the conditions of a SME and is full time managed by the owner or one of the partners or recruits at least 2 Omani persons, is exempted from income tax.

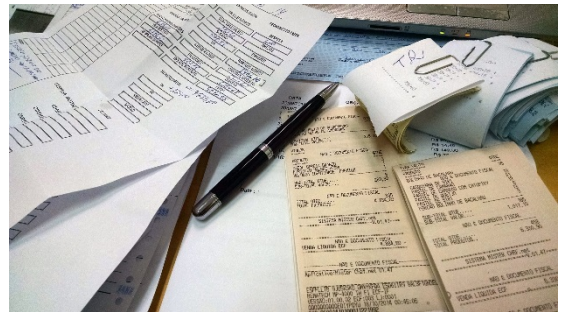
Tax card

- ✓ All tax payers are liable to apply for obtaining a tax card from the Secretariat General of Taxation and are committed to showing the tax card number issued on all bills and correspondences. The Executive Regulations will govern the rules for the issuance, modifying or renewal of the tax card, the data which should be included, validity period and the time needed to apply and collect the card.
- ✓ The Government entities are required to obtain a copy of the tax card before any dealings with the tax payer. Tax payer will be liable for a penalty of up to R.O. 5,000 in case of non-compliance with the relevant tax card provisions in the Income Tax Law.



Permanent establishment

- ✓ Under the provisions of Article 2 of the old Income Tax Law, the definition of Permanent Establishment (PE) included a PE in connection with a building site, place of construction or assembly project. This is now amended to read that a PE is created if the activity been carried out exceeds 90 days in the Sultanate of Oman.



Tax filing and self assessment

➤ Tax filing

- ✓ All tax payers are now mandatorily required to use the electronic tax filing system to submit the tax return in the forms prescribed for this purpose.
- ✓ Additionally, tax payers are liable to submit a revised tax return in case the original tax return includes errors and that should be done within 30 days from the date of error detection.

All exemptions for non-submission of tax return under Article 142 have been cancelled.

➤ Self assessment

- ✓ The self-assessment process has been introduced and tax returns will be inspected by the tax authority on a sample basis only.
- ✓ The assessment will be completed within a period not later than 3 years following the year of filing the tax return instead of 5 years previously allowed.



Penalties

- ✓ Penalties have increased in case there is a default in filing either a provisional or final return of income to be a minimum of R.O. 100 and a maximum of R.O. 2,000.
- ✓ Penalties have increased to be a minimum of 1% but not exceeding 25 % of the difference between the amount of tax on the basis of the correct taxable income and the amount of tax as per the income tax return submitted.
- ✓ Penalties have increased in case of failure to either submit information requested by the tax authority or to attend scheduled hearings to be a minimum of R.O. 200 and a maximum of R.O. 5,000.
- ✓ In case the authoritative officer either fails to submit the tax returns or other requested information, this is punishable with imprisonment for a period of not less than one month but not exceeding 6 months, in addition to a penalty of not less than R.O. 500 but not exceeding R.O. 20,000.
- ✓ In case of a repeat of this offense within 2 years, the period of imprisonment will not be less than 3 months and not exceed 12 months and the penalty will not be less than R.O. 2,000 but will not exceed R.O. 30,000.
- ✓ In the case of intentional failure to submit accurate tax returns or intentional destruction or concealment of documents and records, the punishment that will be imposed will be imprisonment for a period not less than 6 months but not exceeding three years, and the penalty shall not be less than R.O. 5,000 but not exceeding R.O. 50,000.
 - Additionally, tax payers are liable to submit a revised tax return in case the original tax return included errors and that should be done not later than 30 days from the date of error were detected.

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