

Personal Income Tax Law

Sultanate of Oman

In continuation with our release on the Personal Income Tax regime of Oman here is a summary of the Law (Royal Decree 56/2025) ("Law") released on 22 June 2025 along with our analysis thereon:

Effective Date of the Law: 1 January 2028

1. Introduction

Oman has issued a new Personal Income Tax (PIT) regime vide the Law, to be effective from 1 January 2028. This marks a significant policy shift, aiming to diversify government revenues and enhance fiscal sustainability. It has been further stated that the Executive Regulations (ER) to the Law i.e., the procedural aspects of the Law would be issued within one year from the date of the publication of the Law in the Official Gazette.

2. Taxpayer Scope and Residency

- ▶ **Tax Year:** Follows the calendar year starting January 1
- ▶ **Tax Resident:** A natural person present in Oman for 183 days or more (consecutively or not) in a tax year.
- ▶ **Non-Tax Resident:** A natural person not meeting the above criteria.
- ▶ **Taxable Persons:** Global incomes (i.e. incomes earned in Oman and from outside of Oman) to be taxed in the hands of a Tax Resident of Oman, whereas, only Oman sourced incomes will be taxed in the hands of a non-tax resident.

3. Taxable Income and Rate

- ▶ **Taxable Income Threshold:** Net income exceeding OMR 42,000 (approx. USD 109 thousands) annually post deductions/ exemptions, costs and losses, as available per the provisions of the Law.
- ▶ **Tax Rate:** Flat rate of 5% on taxable income.
- ▶ ER to set out details of the procedural aspects, forms and timelines under the Law. The Law is without prejudice to Double Taxation Avoidance Agreements entered into by Oman and benefits

under such agreements would prevail if more beneficial to the taxpayer than provisions of the Law.

4. Gross Income Sources

Tax applies to incomes derived from the following sources:

- ▶ Salaries and wages
- ▶ Self-employment
- ▶ Rental income
- ▶ Royalties
- ▶ Interest
- ▶ Dividends, Incomes from investment sukuk and capital gains
- ▶ Gains from real estate disposals
- ▶ Pensions and end-of-service benefits
- ▶ Prizes
- ▶ Grants and donations
- ▶ Board/ Council member remuneration

The above income sources are quite extensive and includes all such heads of incomes as are taxed in tax matured jurisdictions.

For incorporating the thresholds of the Tax Residency for a natural person under the Law, clause (1) of Article 18 bis of the extant Income Tax Law has been amended.

Below is a detailed look at taxable income sources and related provisions:

Salary and Wages

- ▶ All incomes received by a person in return for their employment, including salaries, wages, allowances, overtime payments, bonuses, incentives, grants, shares in profits, and all kinds of cash and in-kind benefits.

- ▶ **Compensation for loss of salary or wages** is also included under this head of income, though pensions are to be considered separately.
- ▶ The definition of “in-kind benefits” is contained in Article 1 of the Law which classifies it as non-cash benefits whether received from the employer or others. It remains to be seen whether the ER would mention Valuation Rules for such perquisites to be taxed.

Employer includes inter-alia individuals, state units, public/private companies and charitable organizations operating in Oman.

Self-Employment or Business Incomes

- ▶ Income from commercial, industrial, professional, artisanal, tourism etc.
- ▶ Deductions allowed:
 - 15% of gross income, or
 - Actual expenses incurred in earning the income

The choice for the claim of either of the above would need to be made every 3 years. The proposition of a 15% deduction gives this income source a character of presumptive taxation, as is prevalent in tax matured jurisdiction.

Rental Incomes

- ▶ Income from renting real estate, machinery, equipment, or any other fixed or movable asset.
- ▶ Deductions allowed:
 - 15% of gross rental income, or
 - Actual expenses incurred

Choice every 3 years is available here as well.

Royalties

- ▶ Income from Licensing/ transferring rights to use intellectual property (e.g., copyrights, trademarks, patents, trademarks, designs, drawings, model, trade secrets etc.)
- ▶ Use of specialized knowledge or expertise in and Use of industrial, commercial, or scientific knowledge or equipment
- ▶ This definition is on the lines of the definition of Royalty per the Income Tax Law for Corporates

No expenses associated with the above incomes are deductible.

Interest Incomes

- ▶ Earnings from Bank deposits, savings accounts, loans, Investment certificates, treasury bills, and government bonds

Profits from Shares, Sukuk & their Disposal

- ▶ Dividends from joint-stock companies
- ▶ Share of Capital from LLCs, partnerships, and sole proprietorships
- ▶ Income and capital gains from sale of shares/ equity interests, sukuk and bonds

Expenses actually incurred for earning the above income are deductible.

Capital gains are defined as the consideration received on transfer over the costs of acquisition of the asset.

Disposal of Real Estate

- ▶ Income from the sale or transfer of ownership of real estate or usufruct rights
- ▶ Taxable Gains include value appreciation over time between the acquisition and disposal, and value increases on improvements made to the assets.
- ▶ **Deductions allowed:**
- ▶ Acquisition costs, legal fees, actual improvement costs and interest cost for primary residence.
- ▶ **Exemptions:**
 - **Primary residence** owned and used as a main residence of the taxpayer. Further to avail of the said exemptions, the taxpayer would need to declare it as primary residence to the Tax Authorities prior to 2 years of the sale. It seems exemption may be available on multiple occasions for sale of primary residence, if declared on time.
 - **Secondary residence** - (owned by taxpayer, prior notification declaring it as a temporary or seasonal residence - exemption limited to **once in a lifetime**)

Pensions & End-of-Service Benefits

- ▶ Income from Pensions, retirement entitlements from pension schemes and end of service gratuities

Prizes and Speculative Income

- ▶ Cash or in-kind rewards from authorized raffles or draws, irrespective of whether any entry fee was paid or not

Grants & Endowments

- ▶ Cash/ In-kind Benefits received **without any obligations or a recourse to return** though not from an employer

Board Membership Remuneration

- ▶ Income in cash or in kind of a Board/ Council member serving the State Council, Shura Council, Municipal Councils including serving the Board of public authorities, government institutions public or private funds, associations and charitable entities

5. Exemptions

The followings are exempt from the levy of Personal Tax under the Law in addition to any beneficial provisions of extant Double Taxation Avoidance Agreements signed by Oman:

- ▶ Salaries received by Diplomats in Oman on a reciprocal basis
- ▶ Additional allowances paid to Omani tax residents, working in diplomatic and counselor missions abroad, to cover their cost of living.
- ▶ Foreign sourced income of a repatriating tax resident of Oman for 18 consecutive months post the period of his non-residency (once in a lifetime) - generally available to new expatriates in Oman post January 1, 2028 for a period of one and a half tax years.
- ▶ Employment income of Omani tax residents earned outside Oman possibly to cater to work from home scenarios, a event of a digital service PE
- ▶ Contributions to retirement and end-of-service schemes by a tax resident (up to two schemes)
- ▶ Education and healthcare expenses (self and eligible family members) need to wait for the ER for greater details including limits and expenses if any in the home country in cases of expatriates.
- ▶ Zakat and qualifying donations.
- ▶ Sale of primary and secondary residences (available once in a lifetime) as covered above.
- ▶ Incomes from government offered Sukuk distributions and gains therefrom and incomes from government bonds and treasury bills
- ▶ Compensations received for any reason (excluding on salaries)
- ▶ Income from Inheritance, grants and donations from spouses and first-degree relatives (to be defined in ER)
- ▶ Interest paid on Bank Loans for purchase/ building primary residence (once in a lifetime to be covered in ER)
- ▶ Incomes from Registered industrial property rights (as defined earlier under Royalty) up to 5 years from registration

6. Losses

losses may be carried forward and deducted annually from Income of the same source for up to five (5) consecutive tax years and losses to be adjusted on a FIFO basis to be detailed in the ER. This applies on

the following sources of incomes only:

- ▶ Self-employment, rental incomes, disposal of real estate assets and disposal of shares, equity interests, sukuk, and bonds.

7. Allowable Deductions

Taxable income would need to be calculated for each source of Income as above after, allowing:

- ▶ Exemptions
- ▶ Actual or deemed expenses (15% of gross income) for rental and self-employment, actual costs for profits from shares etc. and cost on disposal of real estate.
- ▶ Losses (up to 5 years carry-forward for specific categories of incomes)

8. Foreign Tax Credit

- ▶ Foreign taxes on foreign-source incomes may be credited up to the Omani tax due for tax Residents, subject to treaty provisions. Unused FTC to expire and not carried forward.

Compliance

9. Tax filing and tax payment

- ▶ **Annual Return Due:** To be filed electronically within 6 months from the end of the tax year within 30th June of the succeeding year.
- ▶ **Tax Payment:** Due along with the tax return.
- ▶ **Income Tax Clearance Certificate:** Required at least 60 days before departure from Oman and within 180 days in case of death, to be applied for by the trustee in the later case.

Employer Obligation: If a person only earns salary, wages, membership remuneration or pensions, they may request the employer to file a tax return on their behalf along with a declaration that they have no other income source.

10. Withholding Obligation

- ▶ Employer to withhold and pay tax due on their employees' salaries, wages, member's remuneration and pensions after applying deductions and exemptions related to salaries and wages only.
- ▶ Entities (private/ public companies, establishments etc.) may be required to withhold on gross payments made to third party residents and non-residents, (excluding salaries, wages, pensions, end-of-service benefits, and membership fees), and remit taxes in accordance with the applicable provisions at prescribed rates (see below) subject to specified conditions to be prescribed in the ER.

I. For Tax Residents of Oman:

WHT to be deducted: 20% of the tax due
→ Effective WHT = 1% (i.e., 20% of 5% tax due)

Applies only if the **total income from a particular source exceeds OMR 20,000**

I. For Non-Residents:

WHT to be deducted in full:
→ Effective WHT = 5%

Applies **irrespective of the threshold**.

The above withholding would however not affect the taxpayers right to claim refunds for additional exemptions/ definitions applicable under the Law or to carry forward and against losses per the provisions of the Law, in which case, the tax return may be requirement to be filed by the taxpayer himself. Tax return to be filed are (qua) form prescribed in the ER and to clearly state the gross income, the net income, the taxable income and tax due and payable. Further tax return filings to continue unless the gross income of the taxpayer falls below OMR 42,000 in a tax year in which case such filing can be discontinued by filing a notice along with the tax return for the concerned year.

Amounts withheld must be regularly remitted to the TA in accordance with procedures set out in the Regulations. Late payment of tax is subject to penalty of 1% monthly on unpaid amount. The Tax Authority may waive it partially or fully under certain conditions to be detailed in ER

11. Tax Refund

- ▶ Refunds must be requested for within 5 years.
- ▶ Authority to process within 30 days of refund request.

12. Assessments, Audit, and Prohibitions

- ▶ Filing of return is considered as self-assessment.
- ▶ In case of error/ omission, self-amendment is allowed within 3 years of the return deadline of the relevant tax year. Corrected return is required to be filed within 30 days of discovering the error/ omission by the taxpayers.
- ▶ Tax assessments allowed within 3 years (5 years in case of fraud).
- ▶ Best judgement assessments in case of failure to file tax return or submission of sought documents.
- ▶ Revised return cannot be filed if an assessment has started.
- ▶ Revised return filed within timeline would be

deemed to be an original return.

- ▶ Taxpayers must submit the required documents within 45 days from the date of receiving the request from the Tax Authorities.

13. Objections, Appeals and Tax Litigation

- ▶ An objection may be filed within 45 days of the date of decision, on an assessment. In case of force majeure, this period will be suspended till the date of its removal. Appeal after 45 days will not be entertained.
- ▶ The Tax Authority must decide within 90 days from the date of submission of objection, otherwise the objection stands rejected.
- ▶ Taxpayer may request deferral of tax payment within 30 days of filing an objection. The Authority must respond within 30 days, otherwise it would be considered as rejected.
- ▶ Taxpayers can appeal on the decision of Tax Authorities on an objection to the Income Tax Appeals Committee, and file a tax case under the applicable provisions of the Income Tax Law.

14. Retention of Record

- ▶ Records to be retained for a period of 5 years from the date of submission of declaration.

15. Penalties and Offenses

- ▶ **Fines:** OMR 1,000 to 5,000 for non-compliance of the individual taxpayer.
- ▶ **Criminal Penalties:** Up to 3 years imprisonment and/or fine up to OMR 20,000 for fraud.
- ▶ **Double Penalties for Legal entities:** If offenses are committed by legal entities, maximum penalties will be doubled.
- ▶ **Repeat Offenses:** If a taxpayer commits repeated offences, both the minimum and maximum penalties will be doubled.
- ▶ **Resolution before Final Judgement:** Resolution prior to final judgement, subject to full payment of tax + ½ of the total fine.
- ▶ **Administrative Fines:** Not exceeding OMR 5,000.

Key Take Aways:

The Tax Authority is mandated to issue the ER within one year. In addition, they have signaled that guidance manuals will be released progressively and possibly the ER will be put up for public consultation.

This landmark development underscores the importance for businesses and high-income individuals to proactively monitor updates related to personal income tax, ensuring timely readiness for the upcoming changes.

This is also important for organizations who would need to be ready with proper systems to ensure compliances on the WHT and returns (both tax and WHT filing fronts).

We would be pleased to engage with you to discuss the potential implications for both individuals and businesses.

How We Can Assist You:

The introduction of the Personal Income Tax regime marks a transformative shift in Oman's fiscal landscape, impacting a broad range of income sources and compliance obligations. Our dedicated tax advisory team is here to support you at every step on:

- ▶ Guidance on Residency rules;
- ▶ Assessing the taxability of various income streams;
- ▶ Understanding your compliance and filing responsibilities;
- ▶ Assist with impact assessments;
- ▶ Training sessions for HR and finance teams;
- ▶ Draft/ Review of employment agreements and compensation structures;
- ▶ Strategic planning for individuals and businesses;

- ▶ Specific guidance for incoming and existing expatriates;
- ▶ Review of payroll systems on conformity with the new regime.

With deep regional experience and a nuanced understanding of Oman's evolving tax environment, we are well-positioned to help you navigate these changes with confidence and clarity.

Feel free to reach out to us to discuss your specific needs.

Followed by a generic analysis from Double Tax Avoidance Agreements (DTAA) perspective, please stay tune.

Contact Us



Asrujit Mandal
Partner Tax
Tel.: +968 9204 0253
Asrujit.mandal@bdo.bh



Vijay Chandra
Senior Manager Tax
Tel.: +968 9429 7428
vijay.chandra@bdo.com.om



Muhammad Hanzla
Assistant Manager Tax
Tel.: +968 79261238
muhammad.hanzla@bdo.com.om

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