

Summary of Oil & Gas Sector VAT Guide

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Oman Tax Authority ('OTA') has published Value Added Tax ('VAT') Oil & Gas Sector Guide ('the Guide'). Amongst several areas, the Guide explains the extent of VAT zero-rating in the upstream, midstream, and downstream activities Oil and Gas Sector along with conditions to avail such VAT zero-rating. The Guide also touches upon certain contentious issues such as applicability of VAT on training levy, recoverability of VAT on catering services and similar.

The Guide provides much needed clarity and addresses the application of VAT on the transactions between Omani Contractors and Oil & Gas Operators and Partners, communicated by Ministry of Energy and Minerals ('MEM') vide letters dated 13 April 2021 and 13 July 2021

While the Guide has provided detailed information about what qualifies as upstream, midstream, and downstream activities and VAT treatment relevant to Oil & Gas Sector Operators and Partners, this update provides a summary of the aspects relevant to Omani Contractors along with the certain aspects relevant to the Oil & Gas Operators and Partners, itself.

Transaction between Oil & Gas Sector Operators / Partners and its customers including Government (Govt.)

- Supply of un-refined crude oil and natural gas in local market, transportation of gas by Govt., recharges by Operator related to upstream cost to be taxed at zero-rate;
- Training levy collected on behalf of Govt. not subject to VAT; and
- Disposal of inventory material, and supply of scrap by an Operator to a third party (not related to upstream/midstream) to be taxed at standard-rate.

Transaction between one Oil & Gas Sector Operators / Partners with other Oil & Gas Sector Operators / Partners in Oman

Type of transaction	Tax rate
<ul style="list-style-type: none"> • Supply under Oman Blend Revenue Distribution Agreement (QBRD) is compensatory in nature; and • Transfer of entire ownership of a block. 	Out of Scope
<ul style="list-style-type: none"> • Revenue earned at agreed percentage as per Service Level Agreements; • Transfer of inventory/provision of services within Oman; and • Supply of electricity. 	Zero-rated

VAT treatment between Sector Specific Omani Contractors and Oil & Gas Sector Operators / Partners

- Contractors are suppliers of material/services to the Operators of upstream and midstream activities;
- OTA to accept Joint Suppliers Registration System (JSRS) certificate as license issued by MEM.
- Contractors supplying to upstream and midstream to submit their JSRS certificates to OTA;
- MEM will submit OTA a list of Operators and Partners engaged in upstream and midstream activities;
- Operators to accept the Tax Invoices with VAT charged by Suppliers/Contractors;
- The local supplies exclusively used for upstream activity to be taxed at zero rate under a declaration from upstream/midstream Operator;
- Goods imported by Contractor/Sub-Contractor/Operator intended for use in an upstream activity will not qualify as zero rate; import supply to be taxed in accordance with the provisions of the Law;
- Transportation of workforce within the project site would be taxed at standard rate;
- Demurrage charges are compensatory in nature not subject to VAT;
- CSR Community spends shall be eligible for input tax deduction if the same relate to taxable activity.

VAT treatment between Sector Specific non-Omani/International Contractors and Oil & Gas Sector Operators / Partners

Contractors receiving services from a non-resident service provider need to record/pay the VAT under Reverse Charge Mechanism ('RCM') as per Oman VAT Law.

Transaction between non-sector specific Omani businesses such as telecom, insurance and Oil & Gas Sector Operators / Partners

- All charges related to medical insurance; services provided by Telecom Companies will be eligible for input tax credit;
- Supply of catering services at field location is not eligible for input tax credit, unless the same is provided at remote premises, where no reasonable alternative exists.

Transaction between sector specific/ non-specific Omani Sub-Contractor and Omani Contractor

The Guide clarifies the extent of VAT zero-rating on supplies made by Omani Contractors to Oil & Gas Operators. However, the Guide also makes it clear that such VAT zero-rating does apply to supplies between Sub-Contractors and Contractors.

Input VAT refund related clarification

Tax-payer Checklist must be filed only in case of a situation where cash refund is requested by the tax-payer.

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The key takeaways from Omani Contractor's perspective

- With guidance provided on as to what activities qualify for up-stream, mid-stream and down-stream in oil & gas sector, Businesses may have to revisit the applicability of VAT on supplies made to Operators and Partners. Qualifying Operators and Partners may enjoy zero-VAT on procurements relevant to upstream and mid-stream activities. However, down-stream activities continue to be taxable at 5%.
- Assuming that eligible supplies are zero-rated then effectively the Contractors are burdened with claiming input VAT refund as supplies from sub-contractors and imports do not enjoy similar zero-rating benefit.
- Claiming input VAT refund could be a time-consuming process (with requirement to submit Tax-payer Checklist along with VAT refund) and could hamper cash flow requirements of the Contractors. In effect, optimizing VAT cash out flow on inward side could be crucial; opting for possible VAT deferral could be explored.
- While relaxations around eligibility to recover input VAT on catering services is welcomed; however, what qualifies as remote site/facility, where no other alternative is available remains subjective and open to interpretation.
- In relation to filing of taxpayer checklist, it is interpreted that the checklist may not be required for carry forward of input VAT credit to the subsequent reporting. However, the same needs to be confirmed by OTA.

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