



VAT IN OMAN

What is VAT?

Value Added Tax (VAT) is an indirect tax based on consumption. VAT applies to all goods and services that are bought and sold for use or consumption. Goods which are sold for export or services which are provided to customers abroad are normally not subject to VAT. Conversely imports are taxed. It is a tax that is applied to all commercial activities involving the production and distribution of goods and the provision of services. Under any VAT regime, the ultimate burden of tax is borne by the end consumer.

How does VAT work?

Typically, VAT is levied, collected and paid by a taxable supplier to the credit of the relevant Government. VAT charged to a taxable receiver is generally recoverable on the basis of a taxable invoice issued by the taxable supplier. In certain specific cases, VAT is to be paid by the receiver "consumer" as deemed supplier, which is referred to as Reverse Charge Mechanism (RCM). VAT paid under RCM can be recovered by a taxable supplier.

VAT in World

According to Organisation for Economic Co-operation and Development (OECD), VAT is operational in 166 countries throughout the world in some form or the other (i.e. VAT, GST, SST, Consumption Tax, Indirect Tax).

In spite of the concept of VAT being simple, the application has become extremely complex due to country demographics, politics, etc. VAT all over the world is in constant state of evolution and is subject to litigation.

VAT in GCC Countries

VAT is being introduced in the GCC region under the GCC VAT agreement approved by the six GCC member states. UAE and KSA were the first two GCC member states to implement 5% VAT on January 1, 2018. Kingdom of Saudi Arabia implemented VAT in a phased manner. The first phase of VAT came into effect from January 1, 2018, and the second phase from January 1, 2019. Further the VAT rate in Kingdom of Saudi Arabia increased from 5% to 15% with effect from July 1, 2020. Kingdom of Bahrain implemented the first phase of VAT on January 1, 2019, while the second and third phase come into effect from July 1, 2019 and January 1, 2020, respectively.

Draft law(s) for the respective countries were released about three months prior to the implementation date followed by the release of the executive legislation very close to the implementation date.

Under GCC unified VAT agreement, the member states have the discretion to establish their own rules and regulations in respect of certain aspects of VAT. There may be levels of variances in application of these provisions which are likely to create differences in the VAT

rules and compliance requirements when comparing one GCC member state to the other. This is clearly evident when comparing the national legislation of the three implementing states i.e. UAE, KSA and Bahrain.

GCC VAT framework

Below are key features of the GCC VAT framework:

- The standard rate of tax is 5% on the supply of goods and services; exports subject to 0%; certain activities are exempted from VAT.
- Businesses with an annual revenue of not less than USD 100,000 are required to register for VAT purposes;
- Each member state shall have the discretion to zero rate or exempt following supplies from VAT;
 - Education
 - Health
 - Real estate
 - Financial services
 - Local transport
 - Food products
 - Oil and gas.
- Modalities of VAT compliance requirements are left to the discretion of each member state;
- Intra-GCC and international transport of goods and passengers are subject to zero rate VAT;
- Supply of goods and services from a VAT registered person in one-member state to a VAT registered person in another member state may be subject to RCM in the receiver state.
- Import of goods from outside of the GCC are liable to VAT at point of entry into the state (in addition to the customs duties, if applicable); and
- Exports of goods and services to outside the GCC are treated as zero rated supply.



Key learnings from KSA, UAE and Bahrain VAT implementation

KSA

KSA VAT was implemented in two phases - businesses having turnover in excess of SAR 1,000,000 from January 1, 2018, and the others (above SAR 375,000 and below SAR 1,000,000 from January 1, 2019).

The implementation schedule is as under:

Turnover	Registration Deadline	Effective date of registration
Above SAR 1,000,000	December 20, 2017	January 1, 2018
SAR 375,000 to SAR 1,000,000	December 20, 2018	January 1, 2019
SAR 187,500 to SAR 375,000	Voluntary registration irrespective of the timeline specified for the above categories	

Although, KSA was the first Gulf country to ratify the unified GCC VAT agreement governing the new tax regime, they had released the final VAT law relatively late. Given this, most of the businesses did little to prepare themselves ahead of time. When VAT was implemented, there was a panic to get the required advice they needed. The companies assumed that they would be given more time before VAT was implemented.

As per information published by KSA's General Authority for Zakat and Tax (GAZT), numerous VAT violations were

committed by businesses since the introduction of VAT on January 1, 2018. The violations committed by businesses include, but are not limited to:

- Issuing invoices without the required VAT information;
- Charging VAT at a rate above or below 5%

The GAZT considers these violations to be an indication of serious non-compliance with the VAT Implementing Regulations and has empowered consumers to report to the GAZT via a mobile app, any violations they have identified while transacting business with suppliers.

UAE

Given the challenges, VAT roll out in UAE has been well managed and relatively smooth affair. The UAE was preparing for the introduction of VAT one year prior to the date of implementation with the Government creating a robust legal framework, necessary tax regulations and a competent tax authority to implement the new tax. However, the business holders faced clarity issues for free zone application.

Bahrain

Phased implementation of VAT in Bahrain was a welcome move, giving more time for businesses having turnover of less than BHD 5 mn to be VAT compliant. The implementation schedule was as under:

Turnover	Registration Deadline	Effective date of registration
Above BHD 5,000,000	December 20, 2018	January 1, 2019
BHD 500,000 to BHD 5,000,000	June 20, 2019	July 1, 2019
BHD 37,500 to BHD 500,000	December 20, 2019	January 1, 2020
BHD 18,750 to BHD 37,500	Voluntary registration irrespective of the timeline specified for the above categories	

The National Bureau for Revenue (NBR) is committed in its endeavour to create awareness amongst businesses and consumers by organising VAT workshops, seminars,

offering timely clarifications to queries raised, etc. NBR is expected to issue sector specific guides, addressing the practical difficulties and concerns faced by businesses in implementing VAT.

Lesson for Oman VAT preparation

Omani businesses have time to plan and ensure smooth roll out of VAT similar to that of UAE. Demographically, Oman is different than other GCC member states. Oman has less dependence on oil/petroleum products and increasing focus on export of agricultural produce (dates, seafood etc.), speciality chemicals and expanding tourism/hospitality industry.

With the GCC VAT framework and laws of three-member states available, it is good time to commence VAT implementation with conducting broad VAT impact analysis (technical & fiscal), feasibility study for system/ERP changes and preparation of action plan for transitioning into the VAT regime.

Due to recent developments around COVID-19 pandemic, implementation of VAT in Oman appears to be put on fast-track. Royal Decree associated with VAT is expected to be published by September of 2020 and with possible date of VAT implementation being either from April 1, 2021 or July 1, 2021.

Our international experience

Oman will be able to benefit from our experience of countries such as the UAE, KSA, Bahrain and India where VAT/GST has been recently introduced.

Our support not only includes conducting VAT impact analysis but also includes validating changes to business model/supply chain/procurement, updating processes, guidance on upgrading ERP systems, handholding during implementation phase, VAT advisory, obtaining VAT registration and managing on-going VAT compliances.

BDO provides the aforesaid services by using our in-house team of qualified chartered accountants, cost accountants, lawyers, management consultants, business analysts and engineers.

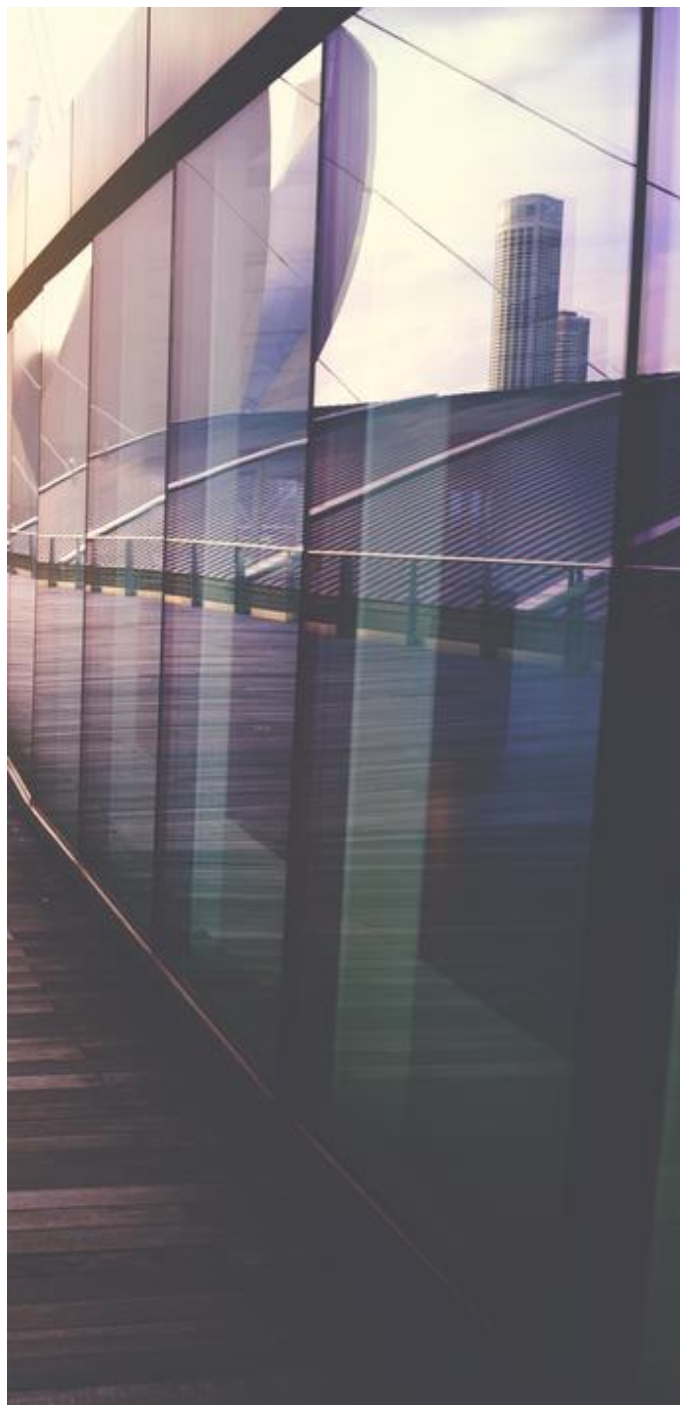
BDO shall use a mix of on-site and off-site teams with maintaining a single point of contact for all your VAT needs in Oman and larger GCC region.

Key impact areas

From our experience in implementation of VAT over the last few decades in other countries, there are some key impact areas of the VAT law:

Key VAT Impact Areas

- Finance and accounting
- IT and systems
- Supply Chain Management
- Sales and marketing
- Ongoing Contracts
- Compliance



Our Indicative Service offerings

Broad Impact Assessment



- Performing simulated calculation of potential VAT impact on business (revenue, expenses & cash flows);
- Identifying positions, processes and systems that may require change;
- Estimating costs in implementing, managing and complying with VAT regulation;
- Identifying changes to on-going contracts leading into VAT implementation due date.

What-if/ Scenario analysis



- Identifying possible scenarios under which VAT fiscal impact could be optimized;
- Short-listing realistic scenarios that could be implemented for VAT preparedness keeping in mind commercial attributes.

Transition Management



- Custom-designing changes that need to occur in ERP, processes, internal controls and accounting;
- Suggesting changes in documentation, processes and policies to meet VAT requirements;
- Conducting functional trainings with the key stakeholders of VAT management function;
- Reviewing the changes made to ERP.

Implementation Assistance / compliance



- Assistance in obtaining VAT registration;
- Assistance in meeting first cycle of VAT compliances (invoice formats, returns, etc.);
- Practical VAT training for the key stakeholders who have either a responsibility or a role to play in the organisation's VAT management function.

About BDO Global

BDO is a leading professional services organisation and are global leaders of the mid-tier, operating in more than 160 countries. Our firms across the organisation cooperate closely and comply with consistent operating principles and quality standards.

We endeavour to deliver truly exceptional client service through a tailored solutions approach, while partnering with our employees and clients globally. It is the dedication and commitment to our clients that helps us deliver a distinctively different value proposition



1
Leading consolidation in the mid tier
165+
Over 1800 offices in more than 165 countries
85,000 +
Over 85,000 highly skilled partners and staff worldwide
US \$9.6 bn
BDO posted global revenues of \$9.6 billion in 2019

KEY CONTACTS

BIPIN KAPUR

Managing Partner
Tel: +968 2495 5100
GSM: +968 9390 6701
Bipin.Kapur@bdo.com.om

MANVINDER SINGH

Audit Partner
Tel: +968 2495 5135
GSM: +968 9535 8780
Manvinder.Singh@bdo.com.om

ASHISH D ATHAVALA

Tax Partner
Tel: +968 2495 5115
GSM: +968 9562 9852
Ashish.Athavale@bdo.com.om

TUSHAR A KASHIKAR

Tax Manager
GSM: +973 3646 5990
Tushar.Kashikar@bdo.bh

MEHUL MODHA

Assistant Tax Manager
GSM: +968 9385 4300
Mehul.Modha@bdo.com.om

HAARIS PATEL

Assistant Tax Manager
GSM: +968 9425 0344
Haaris.Patel@bdo.com.om

DEVINA OGALE

Senior Tax Consultant
GSM: +973 3443 9464
Devina.Ogale@bdo.bh

PALAK DOSHI

Senior Tax Consultant
GSM: +968 9066 0584
Palak.Doshi@bdo.com.om

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Oman to discuss these matters in the context of your particular circumstances. BDO Oman, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLC, is a member of BDO International Limited, a UK Company Limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the International BDO network and for each of the BDO Member Firms.

BDO LLC

Suite No. 601 & 602, Pent House,
Beach One Bldg, Way No.2601
Shatti Al Qurum, PO Box 1176,
Ruwi 112, Muscat, Sultanate of Oman
Tel: +968 24955100
Fax: +968 24649030
www.bdo.com.om