جهاز الضرائب
TAX AUTHORITY

VAT Taxpayer Guide

Financial Services Sector

April 2022 - English

Disclaimer:

This Guide is intended to provide an understanding of the relevant treatment of financial services under the Sultanate of Oman's Value Added Tax ("VAT") Law and aims to provide a better general understanding of taxpayers' tax obligations. It is not intended to comprehensively address all possible tax issues that may arise – taxpayers are reminded that it is their responsibility to ensure that their obligations are met in their own facts or circumstances. While the Sultanate of Oman's Tax Authority ("TA") has taken the initiative to ensure that all information contained in this Guide is correct, the TA will not be responsible for any mistakes and inaccuracies that may be contained, or any financial loss or other loss incurred using the information from this Guide. All information is current at the time of preparation and is subject to change.

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Table of Contents

1. Introduction 5
   1.1. What is this Guide about? 5
   1.2. Who should use this Guide? 5
   1.3. Definitions 5
2. Registering for VAT 7
3. Place of Supply 9
   3.1. Supply of goods or services 9
   3.2. Place of supply 9
   3.3. Place of supply of financial services during transitional period 10
   3.4. Services relating to real estate 11
   3.5. Supplies of financial services to customers outside the GCC 11
4. VAT treatment of financial services 13
   4.1. Taxable financial services 13
   4.2. Exempt financial services 13
   4.3. Zero-rated and out-of-scope financial services 14
   4.4. Compensatory/punitive fees 14
   4.5. Conventional Banking Products 14
   4.6. Waiving of customer fees 20
   4.7. Composite supplies 21
5. VAT treatment of Islamic financial services 22
   5.1. Overview 22
   5.2. Murabaha 22
   5.3. Musawama 23
   5.4. Mudaraba 24
   5.5. Ijara Muntahia Bittamleek 24
   5.6. Service Ijara 24
   5.7. Mushakara 25
   5.8. Diminishing Musharaka 25

5.9. Salam ... 25
5.10. Savings and Current deposits - Qard and Mudaraba/Wakala based ... 26
5.11. Term deposits Mudaraba/Wakala based ... 26
5.12. Wakala Bil Istithmaar ... 27
5.13. Istisna’a ... 27
5.14. Ujra credit cards ... 27
5.15. Sukuk ... 28
5.16. Takeover of conventional loans ... 28
6. Insurance services ... 29
6.1. VAT treatment of Insurance services ... 29
7. Reporting the VAT ... 31
7.1. Tax Due Date ... 31
7.2. Charging VAT ... 31
7.3. Issuing invoices ... 31
7.4. Filing VAT returns ... 33
7.5. Records ... 33
7.6. Certificate of VAT registration ... 34
7.7. Correcting past errors ... 34
8. Input Tax ... 35
8.1. Overview ... 35
8.2. Application of input VAT deduction to financial services ... 35
8.3. Partial deduction: Apportionment of input VAT ... 36
8.4. Seeking an alternative proportional recovery method ... 38
8.5. Capital assets ... 39
8.6. Input tax deduction for Islamic Asset Financing ... 39
9. Penalties ... 40
10. Further inquiries ... 41
10.1. Contact Information ... 41
10.2. Forms and Publications ... 41

10.3. VAT News 41

1. Introduction

1.1. What is this Guide about?

This Guide has been issued by the TA to provide additional interpretation and guidance for the application of the VAT Law and its corresponding Executive Regulations to the financial services sector. It has been drafted with input from the banking, insurance and Islamic financial products sectors by regulators, industry bodies and others. The Guide will be updated from time to time.

This Guide explains the TA's interpretation of key provisions of the Law relevant to financial services and outlines how the TA's administrative policies pertain to transactions made by financial institutions or any business that provides financial services as part of its activities. Specifically, "Administrative Practices" are highlighted in italics where relevant – Administrative Practices are administrative approaches accepted by the TA following consultation with the industry, to facilitate taxpayers' compliance with VAT obligations. Administrative Practice may in some cases differ from strict application of the text of Executive Regulations, but the TA will accept these approaches if adopted by taxpayers in accordance with the text and conditions.

1.2. Who should use this Guide?

You should read this Guide if you make supplies of financial services (including banking services, money exchange and other regulated services, insurance services, and Islamic financial services) to customers in and outside Sultanate of Oman.

1.3. Definitions

The following terms are dealt with in this guide:

a) **Financial services:** The services provided primarily by the finance industry, which includes a broad range of activities that relate mainly to money such as conventional and Islamic banking, financing, debts, financial securities, fund management and insurance.

b) **Economic activity:** Activity that is conducted in a continuous and regular manner, particularly commercial, industrial, professional, artisanal, or service activity.

c) **Financial Instruments and Securities:** For the purposes of interpreting the Law, securities and financial instruments includes derivatives, deferred contracts, debt and equity securities, shares, options, futures, swaps, credit default swaps and underwriting/subscriptions.

d) **Taxable Person:** Person who conducts economic activity independently for the purpose of generating income and is registered with the TA (or is required to register pursuant to the provisions of the VAT Law).

e) **Life Insurance:** Any contract of conventional insurance or takaful (or another form of Islamic insurance) which results in the payment of a sum contingent on death or another significant event of human life.

f) **Place of Residence:** The place where the Workplace or Fixed Establishment is located, or the place of usual residence with respect to a natural person that does not have a Workplace or Permanent Establishment, or the place most closely associated with the supply if the person has a residence in more than one State.

g) **VAT Law:** The VAT Law of the Sultanate of Oman issued by Royal Decree No. 121/2020 dated 12/10/2020 promulgating the VAT Law.

h) **Executive Regulations:** Regulations to the VAT Law issued by the TA in Decision No. 53/2021 dated 10/03/2021.

i) **GCC Member State:** Any other member state of the Gulf Co-operation Council of the Arabic Gulf States, provided this state has fully implemented the provisions of the Unified VAT Agreement for the Co-operation Council for the Unified Arab States of the Gulf. At the time of issue, no states have yet fully implemented this Agreement. During this transitional period, all Gulf States should be treated as third country states.

2. Registering for VAT

Note: During a transitional period upon the introduction of VAT in the Sultanate, different rules will apply for registration and a separate guide has been prepared for that purpose. Information in this guide relates to rules that apply after the transitional period.

VAT is a self-assessed tax; therefore businesses are required to continually assess the need to be registered for VAT and to ensure that they meet and live up to their obligations under the VAT Law.

VAT registration falls into two categories: mandatory registration and voluntary registration.

If a taxable person's total annual value of supplies exceeds the mandatory registration threshold, it is obligated to register. If the value does not exceed the mandatory registration threshold but exceeds a voluntary registration threshold, the person has the option to register voluntarily.

The following are taken into account to calculate the annual value of supplies for registration:

- Taxable supplies (i.e., Standard Rated and Zero-Rated supplies) less the value of any supplies that are part of the business' capital assets;
- Intra-GCC supplies of goods and services; and
- Value of goods and services supplied to the taxable person in the Sultanate where the Reverse Charge Mechanism is applicable.

Mandatory registration threshold:

- Every person residing in the Sultanate is required to register by applying the following tests:

  i) **Backward Look:** If the total value of supplies made exceeds the mandatory VAT threshold (OMR 38,500) in the current month plus the previous 11 months.

  ii) **Forward Look:** If it is expected that the total value of supplies to be made will exceed the mandatory VAT threshold (OMR 38,500) in the current month plus the next 11 months.

These tests must be carried out on a monthly rolling basis by an unregistered person engaged in an economic activity. If the answer is yes for either test, the person must register for VAT.

A non-resident of a GCC member state, making any taxable supply in the Sultanate, is required to register regardless of the turnover (but see 3.2 below).

Voluntary registration threshold:

For the purposes of voluntary registration, a person may register based on the value of supplies or expenses. For example, a business that has not yet fully begun economic activity, but intends to, and has incurred expenses subject to VAT in excess of the voluntary registration threshold, may opt to register.

- Every person residing in the Sultanate is allowed to register voluntarily by applying either one of the following tests:

i) Backward Look:

a. If the total value of supplies made exceeds the voluntary VAT threshold (OMR 19,250) in the current month plus the previous 11 months.

b. If the total value of expenses exceeds the voluntary VAT threshold (OMR 19,250) in the current month plus the previous 11 months.

ii) Forward Look:

a. If it is expected that the total value of supplies to be made will exceed the voluntary VAT threshold (OMR 19,250) in the current month plus the next 11 months.
b. If it is expected that the total value of expenses will exceed the voluntary VAT threshold (OMR 19,250) in the current month plus the next 11 months.

These tests can be carried out on a monthly rolling basis by an unregistered person engaged in an economic activity. If the answer is yes for either test, the person may register for VAT.

3. Place of Supply

3.1. Supply of Goods or Services

Determining whether the supply is one of goods or services is essential to the correct application of VAT, as it affects the place where a supply is viewed to be made, the applicable VAT rate, the manner in which VAT is collected, and the tax due date.

Supplies in the financial services sector are typically supplies of services. The applicable rules are discussed below.

3.2. Place of Supply

The VAT Law only applies to supplies of goods and services made in Sultanate of Oman. The provisions of the Law include place of supply rules to determine whether a supply is made in Sultanate of Oman.

The place of supply for services is typically determined based on the residence country of the supplier and/or the customer.

Non-residents, who are carrying on business in Oman, and are making taxable supplies in Oman, including financial services, may be required to register for VAT and charge VAT on their taxable supplies made in Oman. A non-resident person who has a fixed establishment in Oman, or is carrying on business through an agent or representative (whether a related party or unrelated party) is treated as a resident of Oman and is subject to the same VAT obligations as a domestic supplier in respect of activities carried on through that permanent establishment, agent or representative.

However, if a non-resident financial services provider merely has an Omani-resident customer or client who is not registered for VAT, this will not of itself give the non-resident provider a potential VAT registration liability in Oman.

Place of supply and branch activities:

It is possible that a single legal person will have more than one establishment and therefore be resident in two or more different jurisdictions for VAT purposes. This will often occur in the financial services sector where one legal entity will have branches across different countries.

In these cases, the branch or fixed establishment which is most closely connected to the supply of goods or services will be where the legal person is resident for determining the place of supply. Note that the provision of goods and services between establishments of the same legal entity (e.g. from a foreign head office to a branch in Oman) is not a supply for VAT purposes, but the use of services by an Omani branch may result in VAT obligations for that branch (see examples).

Example1: A French head office supplies internally generated administrative support services to its Omani branch (within the same legal entity). This is not subject to VAT. The Omani branch does not account for VAT under the Reverse Charge Mechanism.

Example2: The French head office acquires marketing services from a French marketing consultancy, but for the benefit of the Omani branch. The services are contracted through the head office but passed without alteration to the Omani branch. In this case, the Omani branch is more closely connected with the services received from the third-party supplier. It must account for VAT in Oman using the Reverse Charge Mechanism.

3.3. Place of Supply of Financial Services During Transitional Period

The general rule is that the place of supply of financial services is in the Sultanate if the taxable supplier or taxable customer have a Place of Residence in the Sultanate. However, if the customer is VAT registered in a GCC State the place of supply will be in that State.

At the time of issue of this Guide, no Gulf States are understood to be considered to be implementing GCC States.

The table below illustrates how this main rule will be applied in Oman during the transitional period:

From Supplier to Customer	Country where supply takes place	Oman reporting requirements
Oman Taxable Supplier to Oman Taxable Customer	Oman	Supplier charges VAT to customer if VAT is applicable on the supply
Oman Taxable Person to Oman non-taxable (not registered) Customer	Oman	Supplier charges VAT to customer if VAT is applicable on the supply
GCC VAT registered business Supplier to Oman Taxable Customer	Oman	Customer accounts for VAT using reverse charge mechanism if VAT is applicable on the supply
Non-GCC supplier to Oman Taxable Customer	Oman	Customer accounts for VAT using reverse charge mechanism if VAT is applicable on the supply
Oman Taxable Person to non-GCC Customer or Customer in non-Implementing Gulf State	Oman	Supplier charges VAT to customer if VAT is applicable on the supply (zero-rating as exported service may apply)

If financial services are provided by a resident taxable supplier, the supplier must charge VAT at the appropriate rate (unless they are exempt financial services).

If financial services are provided by a non-resident person to an Oman VAT registered recipient, the recipient is responsible for accounting for VAT at the appropriate VAT rate upon receipt of the services through the reverse charge mechanism unless the services are VAT exempt.

The taxable supplier is required to charge VAT as appropriate on all supplies made in Oman. A supply of services made in Oman, including financial services, may be zero rated under the export provisions of the Law (subject to meeting the conditions) where supplies are made in Oman to a non-resident person.

3.4. Services Relating to Real Estate

As an exception to the general rules above, services related to real estate are subject to VAT in the country where that real estate is located

Real estate related Services are services which affect the area of the real estate or are related to a specific area of real estate. As well as construction and other physical services, the definition includes the granting, assignment or leaving of any rights connected with the real estate.

There are some cases where financial services may be considered within this category:

- The provision of real estate and associated financing under an asset financing arrangement has the provision of a specific area of real estate as the central part of the service. Therefore, this is a supply of "real estate related services" for the purpose of determining the place of supply.
- Any insurance taken out over a particular piece of property is also a real estate related service.

3.5. Supplies of Financial Services to Customers Outside the GCC

Supplies of financial services are subject to the zero-rate where they are supplied to a non-resident of the GCC who benefits from the service outside of the GCC.

To apply the zero rate, the supplier must ensure it can meet each of the following conditions:

a) The Services are not supplies relating to real estate (or other supplies as set forth in article (24) of the VAT Law);
b) The Customer does not have a Place of Residence (its main place of business or any other fixed establishment) in a GCC State; and
c) The Customer benefits from the service outside the GCC States.

If the Customer does not have a Place of Residence in the GCC States, and does not have employees or tangible assets situated in the GCC States which could benefit from services, it is expected that the conditions for zero-rating should be met for most supplies of financial services.

4. VAT treatment of financial services

4.1. Taxable financial services

Taxable financial services are those that do not qualify for the exemption provided by the Law.

Financial services supplied in the Sultanate for a fee, commission or commercial discount are subject to VAT at the standard rate of 5% unless they qualify for zero rating as an export of services. Generally, fees, commissions and commercial discounts are consideration for actual performance of a service by the supplier and do not involve the trading of an asset with the aim to generate a margin, while bearing the risk of loss.

Example: A bank charges its customers 100 baizas to transfer funds to other accounts. This explicit fee will be a standard rated supply. The funds transferred will not be subject to VAT.

For the sake of clarification, the premiums for the supply of Life insurance (and life reinsurance) will be considered as consideration for a VAT exempt financial service.

4.2. Exempt financial services

Article 79 of the VAT Executive Regulations specifies that exemption for financial services applies to services provided by banks and financial institutions, licensed by the Central Bank of Oman or any other competent authority, which are established to conduct banking activities, with the exception of financial services where the payment of the consideration is as a fee, commission or commercial discount. Specific examples of financial services that are exempt from VAT are included in those Regulations:

1- Providing and transferring loans and advances.
2- Credit including credit instalments in rental or lease-to-own purchase transactions and credit guarantees.
3- Depositing money into current, savings and deposit accounts.
4- Supply and issuance of financial instruments such as derivatives, deferred contracts and similar options and transactions.
5- Supply and issuance of shares, bonds, and other securities.
6- Transfer of ownership of any securities or derivatives related to any securities.
7- Life insurance services.

The list above is non-exhaustive, and exemption can apply to other implicit margins earned by financial institutions licensed by the Central Bank of Oman, including for example licensed money exchange providers.

Financial supplies which are made within an Islamic financial arrangement are treated with the same treatments applied to non-Islamic financial products. Provided that among the parties of the transaction is a person licensed to conduct Islamic financial banking activities or other in accordance with the laws in force.

4.3. Zero-rated and out-of-scope Financial Services

Supplies with a place of supply outside Oman will be considered outside the scope of VAT.

Supply of Services by a taxable Supplier that has a Place of Residence in the Sultanate to a Customer that does not have a Place of Residence in the GCC States will be zero-rated, provided that the customer benefits from this service outside the GCC States (see 3.5 above). Zero-rating will not apply to the services set forth in article (24) of the VAT Law.

4.4. Compensatory/Punitive Fees

Fees charged by a financial institution to an existing customer are often described in a compensatory or punitive nature: for example, a late payment fee or early termination fee. Despite their descriptions, these fees are typically anticipated in the contractual terms, and form part of the normal revenues received by the financial institution. These fees represent consideration for the broader scope of services provided by the financial institution to the customer. These fees are therefore subject to VAT.

The restitution of actual damages incurred is not though consideration for a supply. If a financial institution is awarded an amount of damages by a court, arbitration panel, or committee, or agrees to settle a dispute by accepting payment of damages, it is not required to charge VAT on the receipts. The settlement is outside the scope of VAT.

Penalty charges collected by Islamic financing providers are typically required to be remitted to charity. In such cases, if these funds collected as penalties are not available to financing providers as income and are required to be paid to charities in full, they are not subject to VAT.

4.5. Conventional Banking Products

Banks in Oman usually operate under a banking licence issued by the Central Bank of Oman (CBO) to undertake commercial, investment banking and other activities.

The following tables outline guidance on the current accepted VAT treatment of many of the conventional banking products provided by banks in Oman. This treatment only applies when the Place of Supply is in the Sultanate and, if conditions are met, may be zero-rated as export of services. Once again, the VAT treatments indicated are for guidance only - there may be transactions which fall outside of these general treatments which should be analyzed on a case-by-case basis.

Product	Consideration	VAT Liability
Cash and Cash equivalents held by banks	Interest income from cash and equivalents	Exempt
	Interest / discount income on/due from banks	Exempt
	Overdue interest on Due from Banks	Exempt
	Commitment fees for placements	5%
	Late payment charges on due from banks	5%
Advances made between banks	Placement syndication fees	5%
	Marked-to-market placements	Out of scope
	Premium on placements	Exempt
	Upfront fees	5%
	Brokerage fees on placements	5%
	Correspondent bank charges	5%
	Interest income on debt	Exempt
	Discount income on Treasury bills or similar instruments	Exempt
Investment securities	Dividend income	Out of scope
	Marked-to-market adjustments of investments	Out of scope
	Realized profit/loss on investments	Exempt
	Broker charges on investments	5%
	Interest income on credit cards	Exempt
	Interest on overdue amounts on cards	Exempt
	FX differences on dynamic currency conversion	Exempt
	FX income on cards mark-up	Exempt
	Card subscription / renewal charges	5%
Credit cards	Card replacement fees	5%
	Late payment fees	5%
	Over credit limit fees	5%

	Prepaid card fees	5%
	Cash advance fees	5%
	Cash withdrawal charges	5%
	Balance enquiry charges	5%
	Statement fee	5%
	Charge for copy of sales voucher commission	5%
	Incentive income on volumes	5%
	Merchant commission	5%
	POS terminal charges	5%
	Interchange on issuing and acquiring	5%
	Transaction authorisation expenses	5%
	Payment gateway fees for issuing and acquiring business	5%
	Volume rebates to Merchants	5%
	Issue of Loyalty/Reward Points and Cashback on cards	Out of scope
Retail loans	Interest income on retail loans	Exempt
	Interest Overdue on retail loans	Exempt
	Processing fees	5%
	Top up loan processing fees	5%
	Nil liability certificate fees	5%
	Charges for removing from caution list	5%
	Loan deferral charges	5%
	Rescheduling of loan fees	5%
	Variance confirmation certificate	5%
	Special waiver charges	5%
	Prepayment penal charges	5%
	Insurance premium collected from customers on behalf of insurer (disbursement)	Out of scope
	Interest income on corporate and trade loans	Exempt

Corporate and Trade loans	Interest overdue on corporate loans	Exempt
	Discounts on bills	Exempt
	Commitment fee for corporate loans	5%
	Market disruption yield adjustment	Exempt
	Upfront fees on corporate loans	5%
	Processing fees	5%
	Prepayment penal charges	5%
	Arrangement / participation fees	5%
	Underwriting fees	5%
	Commission on loans syndications	5%
	Rollover / extension fees	5%
	Security placement fees	5%
	Covenant charges	5%
	Change of Guarantor charges	5%
	Charges for removing name from caution list	5%
	Nil liability certificate fees	5%
	Credit and other reports	5%
Trade Finance Non funded Products	Guarantee commissions	5%
	LC commissions	5%
	Advising commissions	5%
	Negotiation commissions	5%
	Risk participation commissions	5%
	Documentary collection charges	5%
	Agency fees	5%
	Postage/courier charges explicitly charged or recovered	5%
	Transaction banking fees	5%
	Risk participation charges paid	5%

Derivative assets and Liabilities	Interest income on swaps	Exempt
	FX - on and off-balance sheet revaluations	Exempt
	FX – commodity	Exempt
	FX - option premiums	Exempt
	Upfront derivative fees (structuring/issuing/cancellation/advising and similar)	5%
	Marked-to-market of derivatives	Out of scope
	Interest on swaps	Exempt
	Premium on financial options	Exempt
	Brokerage paid on FX deals	5%

Product	Consideration	VAT Liability
Bank Borrowings	Marked-to-Market of hedged borrowings	Out of scope
	Interest on borrowings and Vostro accounts	Exempt
	Upfront commission paid on bank borrowings	5%
	Late payment charges on bank borrowings	5%
	Brokerage charges paid	5%
	Debit card subscription an annual charge	5%
	Debit card replacement charges	5%
	ATM cash withdrawal charges	5%
	Ledger folio service charges	5%
	Cheque issue charges	5%
	Postdated cheque handling charges	5%
	Standing order charges	5%
	Stop payment charges	5%
	Cheque return penal charges	5%
	Balance confirmation/enquiry	5%

Customer deposits	Statement charges	5%
	Dormant account charges	5%
	Account closing commissions	5%
	Transaction banking commissions	5%
	Handling commissions (utilities / others)	5%
	Documentation & security charges	5%
	Salary processing charges	5%
	Safe deposit locker rents	5%
	Document collection commission	5%
	Security agency fees	5%
	Charges on cash deposits	5%
	Direct debit arrangement fees	5%
	Cheques for collection charges	5%
	Photocopy of paid cheques charges	5%
	Marked-to-market of hedged deposits	Out of scope
	Interest received by customer on their deposits	Out of scope
	Charges and commission reversal	5%

Product	Consideration	VAT Liability
Wholesale funding	Marked-to-market of hedged wholesale funds	Out of scope
	Interest on wholesale funds	Exempt
	Upfront commissions paid on wholesale funds	5%
	Dividend on perpetual tier I capital funds	Out of scope
Investment Advisory, Asset Management and Private Equity	Corporate finance advisory fees	5%
	Fund management fees	5%
	Private equity management fees	5%
	Commissions on investment collections	5%

	Rebate and trail fees	5%
	Custody and administration fees	5%
	Fees and commission paid IBD/AMD	5%
Bancassurance	Bancassurance commissions (Life or Non-life)	5%
	Business volume incentives	5%
Remittance and Collection services	FX – remittance charges	Exempt
	Rebates on remittances	5%
	Swift charges (SHA and OUR)	5%
	Mail / speed transfers charges	5%
	Inward telex charges	5%
	Travellers' cheques	5%
	ACH commissions	5%
	RTGS commissions	5%
	Draft issuance and cancellation charges	5%
	Pay order issuance and cancellation charges	5%
	Cheque for collection charges	5%
	Vostro cheque payment charges	5%
	Direct debit arrangement charges	5%

4.6. Waiving of Customer Fees

Banks or financial institutions may elect to waive fees payable for services by a particular customer or class of customer.

A supply of services for no consideration could require the bank to account for VAT on a deemed supply if it has deducted Input Tax related to those services. However, the provision of bank services often does not require the bank to purchase any directly related items – and it can often be difficult to establish if Input Tax has been so deducted.

Administrative Practice [1]: The TA accepts that a deemed supply does not arise on the waiving of a customer fee payable for the provision of services, provided that each of the following are met:

1. Fees are waived for genuine commercial reasons (a policy or decisions to waive fees should be retained with business records);
2. The services relating to the waived fees do not require the purchase of any directly related goods or services;
3. The fees are waived for existing customers of the bank or financial institution (who have separately paid, or will in future pay, consideration for other services).

4.7. Composite Supplies

A single supply occurs when a supplier provides various goods or services (elements) to a customer as a single transaction. There is usually a single supply where the transaction is seen by the supplier and the customer as comprising one main supply (i.e., the element) the customer specifically sought from the supplier, (also known as the "main or composite supply") together with other incidental items which are either necessary or essential for making the principal supply or to help with receiving that main or principal supply.

For the purposes of the VAT Law and Executive Regulations, where a taxable person makes a supply that consists of either multiple goods, a combination of goods and services, or multiple services, such a supply will be treated as a single (or composite) supply and the Tax must calculated on the value of the whole supply provided all the following conditions are met:

1. The Supply is considered commercially as a single Supply
2. The components that make up the Supply are closely related to each other, so that these components constitute objectively a Composite Supply that cannot be split from a commercial and normal perspective
3. All components of the Supply are necessary and essential to carry out the Supply and achieve the commercial aim of the transaction
4. The Supply is made in the normal course of business by one Taxable Person
5. Transactions are not artificially combined to avoid Tax, or to increase any Input Tax recovery.

If the different elements supplied are considered to form a composite supply for VAT purposes, a single VAT treatment will apply to the entire transaction (as a whole). The VAT treatment applicable to the whole supply will be the one of the main element of that supply (i.e. the principal supply).

Where these conditions are not met, then the transaction will be treated as multiple supplies and Tax shall be accounted based on the different types of supply made.

In cases of uncertainty, the taxpayer can seek clarification on particular arrangements from the TA.

5. VAT treatment of Islamic financial services

5.1. Overview

While providers offering Shariah-compliant supplies of financing will, in form, often enter into contracts to buy and sell taxable goods, the principle is that VAT should apply on a basis which aligns with the same outcome with that of non-Shariah products with an interest or margin charge. Thus, the implicit profit earned by Islamic finance providers on these products should be treated as an outcome of an exempt supply.

(Note: for contracts for financing provided to non-residents, the profit income might instead be subject to VAT at the zero-rate if it meets the conditions for export of service).

This general rule of equivalence for Islamic financial products places substance over form in specific circumstances to avoid an unanticipated VAT charge.

The following sections provide descriptions of the most common Islamic financing products offered in Oman based on definitions in the Islamic Banking Regulatory Framework, and their corresponding treatment for VAT. In certain cases, the structure of a particular product offered by an Islamic financing provider might differ to the general description. In such situations the VAT treatment must be determined on a case-by-case basis with reference to the distinct commercial arrangements.

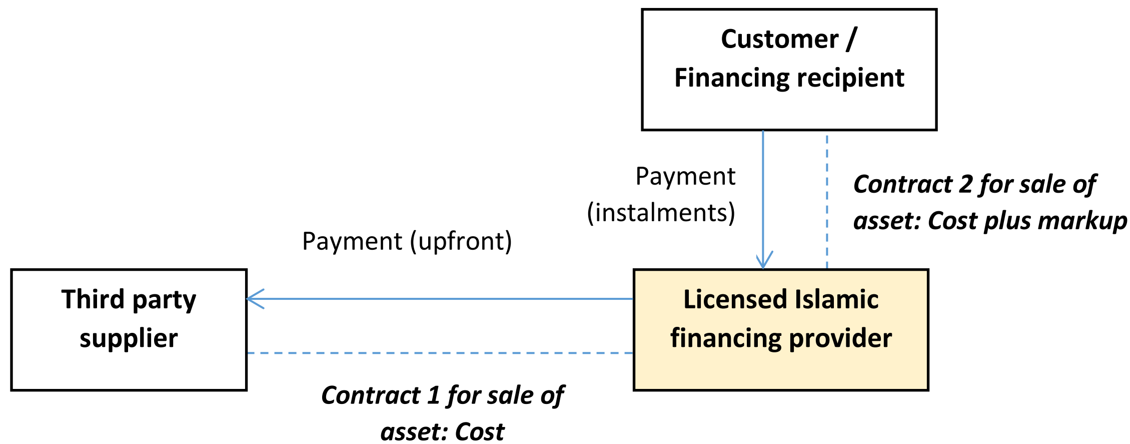
For the application of VAT to specific Islamic financial products please review the guidance below. This guidance is based on standard product descriptions from industry sources; alternative treatments and approaches may apply to specific products based on consultation with industry bodies, banks, or individual financial institutions.

5.2. Murabaha

A Murabaha contract in Islamic banking is similar to a conditional sale financing arrangement provided in non-Islamic banking. Murabaha refers to a sale of goods by a person to another under an arrangement whereby the seller (Licensed financing provider) is obliged to disclose the cost of goods sold to the buyer (Customer). The sale can either be on cash basis or deferred payment basis and clearly mentions the margin of profit included in the sale price of the goods sold.

The purchase of goods by the financing provider and the ultimate sale of the goods to the customer shall all be transactions independent of each other and shall be so separately documented. The invoice issued by the supplier of the goods is - following regulatory requirements for Murabaha - in the name of the financing provider. (See section 8.6 for the customer's right to input tax deduction).

Diagram: Murabaha Contract



The Murabaha involves two separate contracts for the sale of goods, and upon completion two separate transfers of ownership. Depending on the nature of the asset, the transfer to the financing provider shall have VAT applied at the appropriate rate. Some assets (for example an existing residential dwelling) are exempt from VAT and this purchase will not attract any VAT.

However, the TA accepts that the broader commercial arrangement involves the financing provider entering the purchase contract (1) as agent, on instruction from the customer. It therefore views that the financing provider acts as agent in acquiring and disposing of the cost price of the asset for VAT purposes. The asset can be viewed to be supplied directly from the third party supplier to the financing recipient.

The sale of the asset under contract (2) is not a supply by the financial institution and is not subject to VAT. The profit margin earned by the Islamic financial institution from these contracts is considered an exempt financial service.

All explicit fees related to the contract such as administration fees are standard rated.

5.3. Musawama

Musawama is a kind of sale where the price of commodity / asset to be traded / sold is agreed between the seller and the buyer without any reference to the price or cost of the commodity / asset to be sold or traded.

The musawama displays characteristics of a financing provider acting on his own account for the purchase and sale of goods. The TA requests that finance providers seeking to offer musawama in

respect of a taxable asset seek individual clarification to determine the corresponding VAT treatment.

5.4. Mudaraba

Mudaraba is an investment transaction in which one party participates with its money / capital (called Rabb ul Maal) and another with its efforts / managerial skills (called Mudarib) for sharing in profit from investment of these funds in an agreed manner.

The contract can be used for structuring deposit and financing products. Profit shares earned by the Rabb ul Maal or the Mudarib are exempt from VAT.

5.5. Ijara Muntahia Bittamleek

Ijarah (Islamic leasing) is a contract whereby the owner of an asset (the lessor), other than consumables, transfers its usufruct (right to use) to another person (the lessee) for an agreed period for an agreed consideration. The leased commodity remains in the ownership of the lessor and only its usufruct is transferred to the lessee.

The more commonly used form for Ijarah is "Ijarah Muntahia Bittamleek" which refers to "a lease agreement that ends with transfer of ownership to the lessee" either through sale at nominal price or through gift.

Provided that a financing provider purchases a specified asset on instruction from an end consumer, for the purpose of transferring under ijarah, the TA views that the financing provider acts as agent. The VAT implications are therefore similar to the Murabaha contract:

- The financing provider purchases an asset from a third-party supplier (on instruction from the customer). If the asset is taxable in nature, this supply will include VAT. The financing provider pays VAT on the purchase, on behalf of the customer. The financing provider is unable to deduct Input Tax on the purchase, or on costs associated to the asset (such as insurance during the ijarah term).
- Any profit realised by the financing provider is treated as an exempt supply of financial services.
- The gift or nominal sale at the end of the ijara is not a supply by the financing provider.

VAT considerations arising from the early termination of a lease, or transfer of a contract to another customer, must be determined based on examination of the specific facts.

In all cases, explicit fees related to the contract such as administration fees are standard rated.

5.6. Service Ijara

Service Ijarah is an arrangement under which the bank will first enter into a service acquiring agreement with the service provider to appoint the service provider to provide the defined services to the bank's appointed customer for an agreed cost price to be paid by the bank directly to the

service provider. Subsequently the bank enters into a service Ijarah agreement with the customer to provide the defined services to the customer through the identified service provider at an agreed service fee to be paid in instalments.

The service ijara has the same treatment as outlined for the Ijarah Muntahia Bittamleek.

5.7. Mushakara

Musharaka is a type of Investment relationship established under a contract by the mutual consent of the parties for sharing of profits and losses arising from a joint enterprise or venture. Investments come from all partners to a contract, and all partners share in the profits and losses as per agreed arrangements.

The contract can be used for structuring deposit and financing products. As for the Mudaraba, Profit shares earned by the partners are exempt from VAT.

5.8. Diminishing Musharaka

Diminishing Musharaka (DM) is a form of co-ownership in which two or more persons share the ownership of a tangible asset in an agreed proportion and one of the co-owners undertakes to rent the other owner's share in the joint asset and at the same time buy in periodic installments the proportionate share of the other co-owners until the title to such tangible asset is completely transferred to the purchasing co-owner.

The DM takes place through three steps:

- Creation of joint ownership between the co-owners. Assuming the asset is taxable in nature and purchased from a third-party supplier, VAT will be charged on the purchase. The financing provider pays VAT on the purchase made as agent and does not deduct Input Tax.
- Renting out the use of the financing provider's share to the customer. As for the standard Murabaha and ijarah, the TA accepts that the financing provider has purchased its share of the asset as agent – and it does not make a supply of the underlying asset for VAT purposes.
- Selling the financing provider's share in periodic installments to the customer. As above, the TA accepts the financing provider does not make a supply of the underlying asset for VAT purposes.

All profit realised by the Islamic financial institution under a musharaka contract will be treated as an exempt financial service.

5.9. Salam

Salam is a kind of sale whereby the seller undertakes to supply specific goods to a buyer at a future date in consideration for a price fully paid in advance at the time the contract of sale is made.

The buyer shall pay the price in full to the seller at the time of signing the Salam agreement, however, the specific asset / commodity will be delivered to the buyer at an agreed later date.

The buyer in this case is usually the bank, who then resells the commodity in the open market or to a pre-agreed buyer for cash to settle its outstanding financing facility.

The financing provider must apply VAT at appropriate rates when selling assets to the open market or to third party buyers. VAT implications on the upfront purchase of the asset depends on the nature of the customer (whether a taxable person) and the nature of the agreements. Further clarification should be sought where necessary on a case-by-case basis.

5.10. Savings and Current Deposits - Qard and Mudaraba/Wakala Based

This is an arrangement where the customers provide their money (deposits) and the bank uses its banking platform to invest in sharia compliant financing/investment activities. Profit is paid to customers on a regular basis as determined in the contract.

Some variants of saving deposits being offered are:

a. Child saving account
b. Ladies saving account
c. Profit bearing saving account
d. Current account (profit bearing)

The profit realised by the Islamic financial institution under savings and current deposits will be an exempt financial service.

The profit realised by the customer under these accounts will be treated similar to interest received from a savings account: generally this is as passive income that is outside the scope of VAT.

5.11. Term Deposits Mudaraba/Wakala Based

Mudaraba based: The underlying contract is mudraba (customer provides money and bank uses its banking platform). Profit is paid to customers on periodic basis or at maturity depending upon the feature of the product.

Wakala based: an agency contract, where the account holder (principal) appoints an Islamic bank (agent) to carry out investment activities. This fixed deposit contract provides more flexibility to Islamic banks as compared to Mudaraba based fixed deposits. However, ultimately both fixed deposits products (Mudaraba and Wakala) serve the same purpose and provide fixed term investment opportunities to customers.

The profit received by the bank's customer should generally be treated as passive income outside the scope of VAT.

5.12. Wakala Bil Istithmaar

An agreement between two parties whereby one investor (the "Rabb Ul Maal") provides a certain amount of money (the "Wakala capital") to an agent acting as investment manager (the "Wakeel"), who invests the Wakala capital for investment in agreed investment opportunities for an agency fee.

The profit realised by the customer under a Wakala contract will be treated similar to interest received from a savings account: generally, as passive income that is outside the scope of VAT.

Any profit income realized by the bank will be considered as exempt. This profit typically includes the wakala / agency fee but remains exempt due to its nature.

5.13. Istisna'a

Istisna'a is a kind of sale whereby the buyer places an order to manufacture, assemble or construct, or cause so to do anything to be delivered at a future date.

The commodity/ asset must be known and specified to the extent of removing any ambiguity regarding its specifications including kind, type, quality, and quantity etc.

Price of the goods to be manufactured must be fixed in absolute and unambiguous terms and the agreed price may be paid in lump sum or in installments in the matter mutually agreed between the parties. Purchases from third parties of materials and services will be subject to VAT. In commercial substance, the financing institution makes these purchases on behalf of the customers – it is accepted that this should be reflected in the VAT treatment. The financing institution pays VAT on behalf of the end customer. When the asset is completed and transferred, this does not constitute a supply by the financing provider and is not subject to VAT.

The profit margin earned by the Islamic financial institution is considered an exempt financial service.

All explicit fees such as processing and commitment fees are standard-rated.

5.14. Ujra Credit Cards

These are Islamic banking credit cards based on the concept of Ujra.

The basic working model is similar to conventional cards. However, customers are charged an "Ujra fee" every month. If customer will not utilize the card in any month or has utilized but has paid the bill within due date, the fee charged at start of month is reversed. If the bill is not paid within due date, Ujra fee is not refunded.

The profit margin earned by the Islamic financial institution from providing credit through Islamic bank cards is considered an exempt financial service.

All explicit fees (such as annual subscription charges, cash advance fee, international transaction fee) are standard rated as for conventional banking practice.

5.15. Sukuk

A sukuk is an Islamic financial certificate, like a bond, that complies with Sharia principles. In a sukuk arrangement, the investors become an owner in the underlying assets whereas traditional bonds are a debt obligation. There are multiple steps involved during the processing, structuring and issuance of Sukuk certificates under different structures; and multiple transactions of sale, purchase or lease take place.

The transactions giving rise to the issuance and sale of Sukuk certificates will be considered a financial service exempt from VAT.

Profit margins earned by the bank from Sukuk are exempt from VAT.

5.16. Takeover of Conventional Loans

Islamic banks use either (a) Sale and Lease Back or (b) Sale followed by DM arrangements for taking over loans granted by conventional banks to an individual or entity, who wishes to convert existing loans to Islamic finance.

For the above transactions, the Islamic bank purchases an existing fixed asset from the customer and then leases it back to the customer against payment of rentals, using either Ijarah on DM contracts.

Under these circumstances, the purchase of a fixed asset from a customer and its onward supply back to that same customer (by lease or ownership) as part of the Islamic financing arrangement are not subject to VAT.

6. Insurance services

6.1. VAT Treatment of Insurance Services

There is no definition of insurance in the VAT Law and Executive Regulations.

Generally, insurance service is a contract which provides cover to the policyholder (the insured) against an uncertain event in the future. When the uncertain event materializes, the insured or beneficiary of the policy can make a claim against the insurance company. In other words, the insurer and insured enter a contract where the insured will pay a premium and become entitled to something on the occurrence of some uncertain event. The premium forms the consideration paid by the insured for the insurer.

Depending on the insurance contract, a deductible may apply. The deductible is the amount the insured must pay out-of-pocket as a threshold before the insurance company will pay out any claim. The deductible is not consideration for a supply by the insurance company, and as such is out of scope VAT purposes.

Generally, all non-life insurance services provided in Oman are standard-rated. This includes general insurance, health insurance and any corresponding reinsurance, insurance brokerage services and other insurance-related services. Note that warranties are not normally considered as insurance services for VAT purposes.

Life insurance:

The provision of life insurance is exempt from VAT. For VAT purposes, life insurance and life reinsurance contracts (conventional or Islamic) that are lawfully entered and licensed by the relevant body in Oman will be eligible for exemption from VAT. This includes both the savings element and the protection element of these policies.

Additional explicit fees charged to the policy holders as part of a life insurance or life reinsurance contract such as administration fees are subject to VAT at the standard rate of 5% when supplied in Oman.

Reinsurance:

Reinsurance is the practice of insurance companies choosing to insure their portfolio, to protect itself from risk. The reinsurance provider will charge a premium for covering the insurance company's portfolio and pay an agreed amount for any covered losses by the insurance company. In essence, it is like any other insurance contract.

The reinsurance of a life insurance contract will also be VAT exempt, if provided in Oman.

Insurance brokerage:

Insurance brokers will act in the name and on behalf of their customer (insured) to obtain insurance services (whether life or other insurance) for the insured from the insurance company i.e. the insurance broker is acting as a disclosed agent. Insurance brokers will usually charge a commission or a fee to the insured for their intermediation services. Intermediary services – including broker services, management services, advisory services, administration services, safekeeping services, custody and debt collection services (for which a fee is charged) – do not qualify for exemption. These commissions or fees are subject to VAT at 5% if they are made in the Sultanate unless they qualify as a zero-rated export of service.

Payment of claims:

A settlement made by the insurer in respect of an insurance claim may either be by way of financial indemnification (payment of a monetary claim), or in-kind where the insurer agrees to replace the good, arrange or pay for repairs. In principle, settlements made by the insurer in respect of an insurance claim are outside the scope of VAT.

Where a third party carries out repairs covered by an insurance contract, the third party will generally be considered as providing services directly to the insured, but the third party may request payment directly from the insurer.

In cases where repair and other services are provided directly to the insured, the insurance company cannot claim an input VAT deduction in relation to payments of monetary claims to the insured. Therefore, generally, insurance contracts with Taxable Persons who are eligible to deduct input VAT will state that claims are to be paid exclusive of VAT. However, for other persons the claims will be paid by the insurance company inclusive of VAT as the insured is not able to deduct the VAT.

If the third-party contracts with and provides services directly to the insurance company, the insurance company will pay the charged VAT to the supplier. In these cases, the insurance company (if eligible) may deduct the VAT in its VAT return provided the insurer is the recipient of the services.

7. Reporting the VAT

7.1. Tax Due Date

The tax due date is the point in time when VAT becomes chargeable on a taxable supply.

For one-off supplies of goods or services (including financial services), the tax due date is the earlier of:

- The date on which the service is completed or date of supply of the goods
- The date the invoice is issued by the supplier; or
- The date payment is made by the customer, to the extent of this payment.

This means that a receipt of a customer deposit will require VAT to be charged on the deposit amount, unless the deposit is a refundable security deposit.

Where the financial services are standard rated and considered as supplies of services which entail the issuance of invoices or payments in a successive manner per article (27) of the Law, the Tax due date is the date of payment specified in the invoice or the date of payment, whichever is earlier, and at least once every twelve (12) consecutive months.

7.2. Charging VAT

For supplies made within Oman, the supplier is responsible for the correct application of VAT on supplies they make.

Thus, where a supply is made by a supplier with a place of residence in the Sultanate, that supplier is responsible for charging VAT at the appropriate rate, provided they are registered for VAT. The supplier must issue a tax invoice for all supplies with a place of supply in the Sultanate.

If a supply of services is made by a non-resident supplier to a taxable person who has a place of residence in Oman, the supplier should not charge VAT. The recipient is responsible for reporting VAT (at the appropriate rate) on their VAT return through the reverse charge mechanism.

For taxable supplies subject to the standard 5% rate, VAT is charged at 5% of the taxable value of the supply. The Taxable Value shall be the value of the Consideration without VAT (or 100/105 of the total Consideration). The Taxable Value shall include all expenses charged by the taxable Supplier to the customer, any fees or taxes due as a result of the supply except for deductions, subsidies and grants.

7.3. Issuing Invoices

A taxable supplier must issue a tax invoice for each supply made to any person. The tax invoice can be issued physically or in electronic form which makes the invoice available to the customer (for example, making the tax invoice available on an electronic platform).

The taxable person may alternatively issue a simplified tax invoice instead in the event that the value of the supply is less than OMR 500 excluding VAT. Further, the Taxable Person may issue a Summary Tax Invoice that includes all supplies of goods and services provided to the same customer within a month. In all cases, the TA expects that the invoice should be issued within fifteen days of the supply or the month end (in case of a summary Tax Invoice).

The tax invoice may be issued in English, provided an Arabic translation is provided upon the Authority's request. It must clearly show the following information:

1- The term "Tax Invoice".
2- The date of issuance of the Tax Invoice, the date of supply, and the date of payment (where this is earlier).
3- The sequential number of the Tax Invoice.
4- The supplier's full name, address and Tax Identification Number.
5- The customer's full name, address and Tax identification number, if any, or its equivalent in his country of residence if he has no place of residence in the Sultanate.
6- Description of the supplied goods and services.
7- The quantity of goods.
8- Payment date of advance payment, if any,
9- Total consideration excluding Tax.
10- The applied Tax rate.
11- Any price discounts, or reductions granted to the customer, or any subsidies granted by the State that were not included in the value of the consideration excluding Tax.
12- Taxable value.
13- Value of the Tax due, in Omani Rials.

Administrative Practice [2]: If the payment has not been made on the date the invoice is issued, the TA accepts it cannot be shown on the invoice. Reference to a separate payment date will only be required in practice in cases where payment is made before the invoice date.

Rounding of the Tax Amount on tax invoices must be to the nearest Baisa. Rounding shall be performed at the total value of each line item level (for each separate description of goods or services supplied), after applying the quantity supplied.

If a tax invoice is issued in a foreign currency, it must show the TAX amount converted to OMR and the approved exchange rate used for the conversion. The exchange rate shall be based on the average purchase and sale price of the currency published by CBO at the Tax due date.

Administrative Practice [3]: If the tax invoice is issued on the date of the supply, but before daily rates are published for the day, the TA will accept the use of the previous day's published rates. Taxable persons may seek clarification from the TA on alternative procedures for currency conversion.

A monthly bank statement issued by a bank can be treated as a valid summary tax invoice when it contains the information required in a tax invoice. In cases of uncertainty, the TA will consider requests from financial institutions to approve use of specific bank statement types (format and information fields) on a case-by-case basis.

7.4. Filing VAT Returns

Taxable Persons must file a VAT return with the Tax Authority within 30 days from the end of each tax period. The VAT return is considered the taxable person's self-assessment of tax due or refundable for that period.

The VAT return must be filed, and the corresponding payment of net tax due made, no later than the 30 days following the end of the tax period to which the VAT return relates.

Administrative Practice [4]: If the VAT return due date falls on a weekend or a public holiday, the return and payment will be accepted if filed on the next wording day.

If the VAT return results in VAT due to the taxpayer of more than OMR 100 and the taxpayer has requested a refund on the specified form then the Tax Authority will, generally, subject to standard and other audit checks, make payment of the refund request within 45 days. The TA will carry out a process of due diligence of the validity of the return. Please note that in some cases, this may result in an inspection before payment.

7.5. Records

All taxpayers are required to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to prepare a VAT return. The information and documents shall include:

1) Daily Record in which the taxable transactions are recorded day by day according to their chronological and sequential manner and keep all the documents that enable the control of the accuracy/validity of these activities.

2) The Master Record which monitors the opening of accounts and the transactions based on this account, provided that there is a separate account for each type of supplies (taxable or exempted).

3) The inventory record, where the inventory items, the budget and the total/result count are recorded.

4) Records and documents related to the supplies of imported and exported goods and services.
5) Records and documents related to intra supplies of goods and services
6) Records and documents related to all customs transactions
7) All documents evidencing taxable supplies at zero rate in accordance with the executive regulations
8) All tax invoices and other documents issued by the taxable person
9) All tax invoices and other documents received by the taxable person

The taxpayers should be able to provide the TA with information about any transactions they had and include all details and information that is necessary to determine the correct treatment of the supplies.

7.6. Certificate of VAT Registration

A taxable person must display the VAT registration certificate to show they have been registered in the VAT system in a place visible to the public at all places where they carry out the activity.

In the event of a breach of this provision, the person shall be liable to the penalties provided for in the Law and Regulations.

7.7. Correcting Past Errors

If a taxable person becomes aware of an error or an incorrect amount in a filed VAT return, or of any other non-compliance with their VAT obligations, they must notify the Tax Authority immediately and take the appropriate action to correct the error. A Taxable Person shall file a revised Tax Return if they become aware of an error or omission in the Tax Return previously submitted. The revised Tax Return shall be filed within (30) thirty days following the discovery of error or omission.

8. Input Tax

8.1. Overview

A taxable person may deduct input VAT it bore during the Tax Period in the course of carrying on its economic activity. Input VAT is any of the following:

- VAT charged on Taxable Supplies of Goods or Services to the Taxable Person by a VAT-registered supplier in Oman;
- VAT self-accounted by the Taxable person under the reverse charge mechanism on services purchased from non-residents; or
- VAT paid to Oman Customs (or reported in the Tax Return) on the imports of goods into Oman.

The taxable person may only deduct input VAT charged on goods and services purchased in the course of carrying on economic activity to the extent that such purchases enable the taxpayer to make either:

- Taxable supplies – including supplies subject to the zero rate; or
- Supplies made to outside the Sultanate - in any of the GCC Implementing States - and which would have been taxable if made in the Sultanate.

Deductible input VAT is a credit entered on the VAT return which is offset against the VAT due on supplies made during that period. Input VAT may only be deducted on purchases within Oman where the taxable person holds a valid supplier tax invoice for that purchase. If Input VAT arises from imports of goods or services, official evidence of the payment of reporting of VAT through the VAT return is used to document the deduction.

Input Tax deduction is subject to the following restrictions:

- Input VAT which is related to the taxpayer's VAT exempted activities, such as exempt financial services, is not deductible as input VAT.
- Input VAT may not be deducted on any costs not incurred or used as part of the economic activity.
- Some expenditure types, such as entertainment expenditures, food and beverage catering services, or costs relating to company vehicles, are also prohibited from deduction.

8.2. Application of Input VAT Deduction to Financial Services

As a first step the taxable person must exclude any input tax incurred for non-economic activity purposes such as private use. A taxable person that incurs input tax on goods or services that are used fully or partially for a non-economic activity purposes, is required to determine the portion of input tax that is attributed to the non-economic activity. The Taxable Person may use a fair and reasonable basis for this apportionment that reflects the actual use of the goods or services concerned.

Input tax incurred by the taxable person on the following goods and services may not be deducted, (unless part of an onward supply of the same good or service):

1. Any goods or services used for the purpose of entertainment services.
2. Any motor vehicles and related goods and services for personal use. Motor vehicles are any vehicle which is designed or adapted for carrying not more than ten (10) passengers including the driver. Motor vehicles shall not include vehicles used in a vehicle rental business to customers or vehicles registered as an emergency vehicle.
3. Any provision of food and beverage catering services.

In general, an input VAT deduction is allowed based on the intended use of the goods or services. Provided the taxpayer can show that the expenses relate to (current or future) taxable transactions they may be deducted in the tax period where the goods and services were purchased.

Before claiming any deduction, the taxable person must be in possession of the following documents:

1- Original Tax Invoices.
2- Documents proving the Import and the payment of any Import VAT.
3- Tax Returns and records of Output Tax in the case of Tax declared under the Reverse Charge Mechanism or deferment of Import Tax.

The Taxable Person's right to claim Input Tax deductions shall be extinguished (3) three years from the end of the Tax Period during which the right to deduct was created.

8.3. Partial Deduction: Apportionment of input VAT

VAT incurred which relates to a taxpayer's VAT exempt activities, such as exempt financial services or rent of real estate for residential purposes, is not deductible as input VAT. A person making both taxable and exempted supplies, can only deduct the input VAT related to the taxable supplies. If a taxable person incurs general costs or expenses (overheads) in the making of both taxable and exempt supplies, the costs and expenses must be apportioned to determine costs that relate to the taxable supplies.

The recoverable input tax will be determined in accordance with the following rules:

Input VAT directly related to taxpayer's taxable supplies	Deduction allowed in full
Input VAT directly related to taxpayer's exempt supplies	Deduction is not allowed
Overheads and all other input VAT that cannot be directly attributed	Partial deduction based on partial exemption method

Taxable Supplies for the purpose of input tax deduction include standard rated supplies, zero rated supplies, supplies made to any of the GCC Implementing States and which would have been taxable if made in the Sultanate.

The overhead costs/expenses incurred by the taxable person for making both taxable and exempt supplies must be apportioned based on a prescribed default method of proportional deduction that is calculated on the values of supplies made in the tax period, using the following formula:

$$\frac{\text{The value of taxable supplies made by the Taxable person in the tax period}}{\text{The total value of taxable supplies and exempt supplies made by the Taxable person during the tax period}}$$

See the end of this section 8.3 for additional notes on this calculation.

The deducted input tax shall be deemed as an initial deduction and the taxable person must, at the end of every tax year, calculate the annual partial exemption in order to determine the deductible input tax amount that he is entitled to deduct for the taxable year.

Administrative Practice [5]: As an alternative to the quarterly calculation, the TA accepts that licensed providers of financial services may instead during the first, second and third quarter of a financial year, use the partial deduction percentage calculated from the previous year's annual partial exemption calculation, provided that:

- The nature of products and services offered by the licensed financial services provider has not materially changed since the previous year;

- The alternative method is used in each of the first, second and third quarters, and

- For the fourth quarter of the financial year, the annual partial exemption calculation must be completed using actual figures, as required in article 60 of the Executive Regulations.

Banks and financial institutions wishing to make use of this simplification are not required to notify the Tax Authority but must apply a consistent practice.

The annual partial exemption is calculated based on the following formula, (rounded to three decimal places):

$$\frac{\text{(Total value of Taxable Supplies in the Tax Year)}}{\text{(Total value of Taxable and Exempt Supplies in the Tax Year)}} \times 100\%$$

Determining the deductible input tax in a tax year is as follows:

1- Where the calculated amount as a result of applying the partial exemption annual recovery percentage exceeds the total of values calculated per initial exemption for the tax period, the difference may be deducted in the tax return for the tax period that follows the end of the tax year.
2- Where the calculated amount is less than the total values calculated per initial exemption for the tax period, the difference must be returned to the Tax Authority through the tax return for the first tax period that follows the end of the tax year.

The following should be noted when computing the annual and periodic partial exemption:

- The value of supplies of capital assets used for carrying out the economic activity are not included from taxable supplies. This includes supplies of assets under any conventional or Islamic asset financing contract.
- The value of exempt supplies made by licensed financial services providers is only the net interest, profit margin or implicit margin / spread realized for financial services. Exempt supplies shall not include the value of issuing new equity and debt securities, or the principal amounts of loans.
- Incidental non-recurring supplies, that are not part of the Taxable Person's core activity, shall be excluded.
- The value of taxable supplies arising from applying the Reverse Charge Mechanism to purchases from non-residents shall be excluded.

8.4. Seeking an Alternative Proportional Recovery Method

Alternative proportional attribution methods may be sought (for overheads or non-attributable expenditure only), using other cost drivers than the value of supplies used in the default method. A taxable person may submit an application to use an alternative method, in cases where that alternative method is more accurately reflects the use of inputs than the default method.

To request an alternative method, a submission must be made to the TA outlining:

1- General details of the Taxable Person and his Tax Identification Number.
2- The name and address of the Responsible Person.
3- The reasons why the Taxable Person does not wish to use the default method.
4- Full description of the Alternative Method to calculate Partial Exemption.
5- The date from which the Alternative Method to calculate Partial Exemption will take effect, not being a date prior to the date of application.
6- Worked examples for the Alternative Method to calculate Partial Exemption based on figures for previous Tax Years, compared to the default method.

The TA may approve alternative methods in cases where it is satisfied that these better reflect the actual use of VAT incurred, and can be appropriately reviewed on a regular basis.

An alternative method may only be used after formal notice of permission has been provided by the TA. This notice will specify the period for which the alternative method can be used.

8.5. Capital Assets

Capital assets are tangible and intangible assets that form part of the business assets of a Taxable Person, allocated for long-term use as a business instrument or means of investment (this is reflected by capitalization of the asset in the Taxable Person's financial accounts, as attached to the Income Tax return for the year). Input VAT deduction is allowed in full of partially at the time of purchase depending on the intended use of the asset.

Taxpayers are required to monitor the usage over ten (10) years for Long term Capital Assets, or five (5) years in respect of other Capital Assets. Buildings and real estate are generally considered long-term capital assets. Adjustments must be made to the initial deductions where actual use differs from the intended use.

8.6. Input Tax Deduction for Islamic Asset Financing

A Taxable Person who acquires any taxable asset using either a conventional or Islamic financing product has the equivalent right to deduct input tax. The TA is aware that the regulatory requirements under Islamic asset financing (for the original Tax Invoice to be issued to the financing provider) requires a different approach to evidencing Input Tax deduction.

Administrative Practice [6]: The purchaser of an asset through an Islamic financing product can evidence the incurrence of Input Tax on the asset by providing the original Tax Invoice issued to the financing provider, and the Islamic financing contract which relates to the asset, and a written undertaking from the financial institution that it has not deducted Input Tax on the asset purchase.

The customer must fulfil all other requirements to be able to deduct input tax on the asset.

9. Penalties

The TA may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Executive Regulations.

The TA may impose administrative penalties which range from a fine of OMR 500 up to OMR 10,000, depending on the nature of the offence. In addition, the TA may impose a penalty in the region of 1% to 25% of any tax incorrectly declared on a tax return (this includes an understatement of output tax or an overstatement of input tax).

In the cases of tax evasion, the TA may impose a fine of 300% of the tax evaded or attempted to evade.

In more serious cases the TA may request a prosecution of the taxpayer which can result in fines ranging from OMR 1,000 to OMR 20,000, and possible imprisonment of between two months and three years depending on the offence committed. These penalties can be doubled in the case of recurrence.

10. Further inquiries

10.1. Contact Information

For more information, please contact the TA:

Tax Authority

Muscat

Muscat, Ruwi

P.O. Box: 285, P.C. 100

Hours: Sunday – Thursday | 07:30-14:30

Telephone: +968 2474 6996

Email: info@taxoman.gov.om

10.2. Forms and Publications

Further guidance, forms and publications will be issued by the TA and available to the public in due course.

10.3. VAT News

For current VAT news and updates, please visit the TA Taxpayer Portal:

www.taxoman.gov.om