

## Oman amends income tax regulations

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### Executive summary

On 10 February 2019, the Ministry of Financial Affairs published in the *Official Gazette* Ministerial Decision 14/2019, which amends the Executive Regulations to the Income Tax Law. The amendments include changes to withholding tax, administrative procedures, tax exemptions, deductibility of expenses, on-site inspection procedures and the taxability of enterprises.

The amendments generally apply from 11 February 2019, although some amendments apply retroactively to tax years beginning on or after 1 January 2018. Taxpayers should familiarize themselves with the amendments, and their implications when tax filing tax returns.

### Detailed discussion

#### Withholding tax

Royal Decree 9/2017 amended the withholding tax (WHT) rules in the Income Tax Law (ITL). From 27 February 2017, payments to foreign persons for dividends, interest and the performance of services became subject to WHT. The amendments to the regulations clarify the scope of the WHT rules.

### WHT on services

The term "services" is not defined in the ITL or the regulations. However, the amendments introduce a list of payments that are excluded from WHT:

- ▶ Participation in organizations, conferences, seminars or exhibitions
- ▶ Training
- ▶ Transporting, shipping and insurance of goods
- ▶ Air tickets and accommodation expenses abroad
- ▶ Board meetings
- ▶ Reinsurance payments
- ▶ Any services related to an activity or property outside Oman

### WHT on interest

The amendments define the term "interest" for WHT purposes, and clarify the treatment of returns generated by certain Islamic Finance products. The amendments also exclude certain payments from WHT, including:

- ▶ Interest paid on amounts deposited in banks located in Oman
- ▶ Proceeds of bonds and sukuk issued by the Government or banks located in Oman
- ▶ The benefits of transactions and facilities between banks for the purpose of providing and managing liquidity or financing, where the term for repayment of the debt does not exceed five years

### WHT on dividends

The amendments clarify that the term "dividends" includes dividends distributed by joint stock companies and distributions by investment funds on investment securities.

### Administrative procedures and electronic filing

#### Information to be shared by government bodies and government-owned entities

Government bodies and companies owned by the State are required to notify the Secretariat General for Taxation (SGT) of contracts executed with third parties and provide information related to those contracts. The notification is required to be made in the specified form within the prescribed due date (yet to be established), and duly signed and stamped by a competent authority.

### Form for permanent information

The amendments indicate that Institutions are required provide permanent information to the SGT in a prescribed form. The amendments do not provide any additional detail, so the effect of the amendments will not be clear until the SGT issues further clarification.

### Tax Card

The amendments prescribe a new form that taxpayers must submit to request the issuance of a tax card. The amendments also establish new procedures for applying for a tax card.

### Electronic filing

Under the ITL, all declarations of income, accounts, any registers and other exhibits are required to be submitted electronically on the E-portal of the SGT through the principal officers or authorized representatives of the taxpayer. The amendments clarify that notices and communications that the SGT sends to taxpayers electronically through the E-portal are deemed, for purposes of the ITL, to be notified on the date of posting.

### Tax exemptions

The amendments establish tighter conditions and procedures for claiming a tax exemption, including minimum investment levels for fixed assets and maintaining the required Omanization (nationalization) employment percentage. The amendments also address the temporary issuance and suspension of tax exemptions, and the withdrawal or cancellation of tax exemptions.

### Deductibility of certain expenses

#### Rules for deduction of donations

Donations made "in kind" to approved organizations are allowed as deductible payments. The amendments also establish specific rules for deduction of "in-kind" donations made through funds established by a taxpayer. This amendment is effective for tax years beginning on or after 1 January 2018.

#### Increased limits for deduction of remuneration paid to partners

The limit for deduction of remuneration paid to owners or partners of a company has been increased from OMR3,000 to OMR3,500 per month for companies carrying on

professional activities, and from OMR1,000 to OMR1,500 per month for all other companies. The annual limit on deductible remuneration paid to all owners/partners of a company has been increased from 10% to 35% of the taxable income for the year (calculated before deducting such remuneration). These amendments are effective for tax years beginning on or after 1 January 2018.

### Site inspection rules

The amendments set out the rights and responsibilities of both the taxpayer and the SGT regarding the conduct of an inspection of the taxpayer's business premises during a tax audit. The SGT is generally required to issue advance notification of the site inspection. However, if the SGT suspects tax evasion, enforcement officers may enter the taxpayer's workplace during working hours without advance notification to the taxpayer.

### Tax on enterprises

#### Conditions and procedures for qualifying

Under the ITL, enterprises benefit from a reduced tax rate of 0% or 3%. The amendments broaden the criteria for taxpayers to be treated as enterprises.

### Deductibility of expenses

The amendments clarify that the general rules for deductibility for enterprises are similar to those for other local taxpayers.

An enterprise that does not keep accounts of its expenses is required to submit an annual application along with the tax return and details of revenue during the year. The SGT will determine the deductibility of deemed expenses based on the application, and will limit such deductibility to a maximum of 95% of total revenue of the enterprise.

### Submission of tax declarations

Enterprises are required to submit their tax returns electronically, using Income Tax Form 17. The regulations prescribe a new format for the form.

## Implications

The amendments in Ministerial Decision 14/2019 are far ranging, and include amendments that will impact tax filing for the 2018 tax year. Taxpayers should familiarize themselves with the amendments, and the effect of the amendments on tax compliance requirements.

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