FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world’s most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
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STRUCTURE OF COUNTRY DESCRIPTIONS

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MEMBER FIRM

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BASIC FACTS

Full name: Sultanate of Oman  Capital: Muscat  Main languages: Arabic, English  Population: 4.0 million  Major religion: Islam  Monetary unit: Omani Rial (OMR)  Internet domain: .om  Int. dialling code: +968

KEY TAX POINTS

- A five-year tax holiday is available to companies carrying out certain specified activities.
- Capital gains are generally taxed as ordinary corporate income, although profits/losses on the sale of securities listed on the Muscat Securities Market are not taxable/deductible.
- Branches in Oman of foreign companies are subject to tax on their profits. Allowance for allocated head office expenditure is on a restricted basis.
- Withholding taxes apply at a rate of 10% to foreign companies with no permanent establishment in Oman receiving certain types of payments including royalties, management fees, research and development, use or right to use computer software.
- There is no personal income or wealth tax in Oman.

A. TAXES PAYABLE

Under the Income Tax Law No. 28/2009 that became effective on 1 January 2010, Oman has adopted a global tax system whereby a company in Oman is taxed on its entire income, wherever earned in the world, subject to provisions in Oman tax law and Double tax treaties to avoid international double taxation.

Executive Regulations to the Income Tax Law
Ministerial Decision (MD) No.30/2012 introduced the Executive Regulation (ER) to the new Income Tax Law which came into force the day after publication, on 29 January 2012. The ER provides the detailed rules which apply to the tax treatment of certain income and expense items and notably introduced thin capitalisation rules and 18 different forms to be completed for tax purposes.

COMPANY TAX

Under the Income Tax Law, income-tax rate applicable to any business establishment, Omani company or permanent establishment (i.e. foreign branch), for any tax year ending after 31 December 2009 would be as under:

<table>
<thead>
<tr>
<th>Taxable / Assessed Income</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to OMR 30,000/-</td>
<td>Tax Free</td>
</tr>
<tr>
<td>Over OMR 30,000/-</td>
<td>Flat rate of 12%</td>
</tr>
</tbody>
</table>
PEROLEUM COMPANIES

The rate of tax for tax payers engaged in petroleum exploration shall be 55% of the taxable income in respect of any income derived from the sale of petroleum.

TAX EXEMPTIONS: SHIPPING ACTIVITIES

Income accruing to an Omani company/establishment from carrying on its activity in the field of shipping shall be exempt from tax. Further, the income from the shipping / air transport activities accruing to a foreign company in Oman shall be exempt from tax, provided similar treatment is accorded on reciprocal basis in the foreign country in which the foreign company is incorporated or where its effective management and controls are exercised.

INVESTMENT FUNDS

Income accruing to investment fund set up in Oman under Capital Market Law or to investment fund set up outside Oman to deal in Omani securities listed in Muscat Securities Market (MSM) shall be exempt from tax.

PRIORITY SECTOR ACTIVITIES

Income accruing to Omani companies / establishments from the following specified activities carried on as their main business (except management contract and project execution contracts) shall be exempt from taxation in Oman.

1) Industry in accordance with the Law of Organising and Encouraging Industry and Mining;
2) Mining in accordance with the Law of Mining;
3) The export of locally manufactured or processed products;
4) The operation of hotels and tourist villages;
5) Farming and processing of farm products, including animals and the processing or manufacturing of animal products and the agricultural industries;
6) Fishing and fish processing, farming and breeding;
7) University education, college or higher institutes, private schools, nurseries or training colleges and institutes;
8) Medical care by establishing private hospitals.

The exemption provided under this Article shall be for a period of five years beginning from the date of production or of the business, as applicable based on application made by tax assessee which is required to be approved by Ministry of Commerce & Industry and Secretary General of Taxation. Such tax exemption may be renewed for a further period not exceeding five years provided various criteria on exports, net profit earned by the company during exemption period vis a vis registered capital of the company, Omanisation (employment of Omani nationals), investment in fixed assets, etc., are fulfilled and the renewal is approved by the Minister in accordance with the regulations issued by the Financial Affairs and Energy Resources Council.

TAX YEAR

The tax year is the calendar year although a special permit can be obtained from the Ministry of Finance for a different fiscal / accounting period.

PROVISIONAL AND ANNUAL RETURNS OF INCOME

Provisional tax is to be paid and provisional return of income is to be filed within three months of the end of the accounting period. Annual return and annual tax settlement is due at the end of six months following the close of accounting period.
The same should be filed along with the audited financial statements prepared in accordance with International Accounting Standards (IAS).

**CAPITAL GAINS TAX**

Capital gains are normally regarded as part of ordinary corporate income and the total income is taxed at the aforesaid applicable corporate income tax rates. However, capital gains realized from sale of shares and securities listed in Muscat Securities Market (MSM) are exempted from income tax. Similarly, capital losses on sale of securities listed in MSM is not allowed as a deductible expense.

**BRANCH PROFITS TAX**

Branches of foreign companies are taxed in Oman at corporate income tax rates. Allowance for allocated head office expenditure is on restricted basis.

**OTHER TAXES**

Municipal taxes and other taxes charged are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel income</td>
<td>5%</td>
</tr>
<tr>
<td>Annual rental of leased premises</td>
<td>5%</td>
</tr>
<tr>
<td>Leisure and cinema income</td>
<td>10%</td>
</tr>
<tr>
<td>Tax on home owners using the drainage system</td>
<td>10%</td>
</tr>
<tr>
<td>Electricity bills in excess of OMR 50/-</td>
<td>2%</td>
</tr>
<tr>
<td>Hotels and restaurant bills</td>
<td>5%</td>
</tr>
</tbody>
</table>

**VOCATIONAL TRAINING LEVY**

Ministerial Decision 84/98 specifies the vocational training levy on employers at Private Sector at OMR 100/- annually per expatriate employee.

**SOCIAL SECURITY PREMIUM**

Employers are required to pay a social security premium equal to 18.5% of the gross salaries of its Omani employees. Of this amount, 7% is recoverable from the Omani employees.

**CUSTOMS DUTIES**

A Common Customs Union exists for the six Gulf Co-operation Council States (“GCC”) namely, Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman. A uniform Customs tariff of 5% is imposed on the importation of goods into a GCC State, payable at the first point on entry into the GCC. Goods can then move freely within the GCC subject to proper documentation being available. Customs duties are levied on certain categories of imported goods. The rates range from 5% to 100%.

**B. DETERMINATION OF TAXABLE INCOME**

Taxable income is computed in accordance with the generally accepted accounting principles/IFRS applied on a consistent and regular basis. The accrual basis is generally to be used although, in special cases, the Director of Income Tax may approve cash basis of accounting. As a basic rule, all
expenses which are incurred wholly and exclusively for the purposes of business and are incurred to generate the gross income of the establishment are allowed to be deducted provided they are reasonable considering value of services received. Any expense or cost incurred to generate income which is exempted from income tax will not be allowed as a deductible expense. Remuneration to working partners and owners is allowed on restricted basis. Certain charges have been specified as not deductible and certain charges have been restricted to specific amounts by the tax law.

**TAX DEPRECIATION - BUILDINGS AND CIVIL WORKS**

(a) Depreciation shall be allowed for any accounting period on capital expenditure incurred in the acquisition of any building used for the purposes of the business during that period. The amount allowed to be deducted shall be determined in accordance with the following percentages:

1. 4% annually for depreciation of buildings constructed with selected materials.
2. 10% annually for depreciation of quays, jetties, pipelines, roads and railways.
3. 15% annually for depreciation of buildings constructed with other than the selected materials mentioned above, or prefabricated buildings.
4. 100% annually for depreciation of buildings used as hospitals or educational institutions. Taxpayer in this case may choose the rate in this Clause, or the rates in the foregoing Clauses (1) and (3).

(b) The percentages of depreciation mentioned in Clauses (1), (2) and (3) of the foregoing para shall be doubled if buildings are used for industrial purposes. These purposes shall not include the use of buildings for the purposes of storage, office, accommodation for workers or for other commercial purposes.

(c) Depreciation shall be allowed for any accounting period at the rate of 15% annually on capital expenditure incurred on the acquisition of any ship or aircraft used for business purposes during that period.

**TAX DEPRECIATION - PLANT AND MACHINERY, FURNITURE / FIXTURE AND OTHER ASSETS**

(a) Machinery and plant shall be allocated to pools with annual rates of depreciation specified for them as follows:

1. 33% annually for the first pool, comprising:
   Tractors, cranes and other heavy machinery and plant similar in nature and use, computers, vehicles and self-propelling machines, fixtures, fittings, and furniture. It also comprises computer software and intellectual property rights.
2. 10% annually for the second pool, comprising drilling rigs.
3. 15% annually for the third pool, comprising any other machinery and plant which are not included in (1) and (2) above.

(b) The amount to be deducted as depreciation in respect of a pool for the accounting period shall be calculated by applying the percentages specified in Para a) above on the depreciation base of that pool. For any accounting period, the depreciation base in the case of any pool shall be determined to be the excess of the amount resulting from applying Clause 1 of this para after deducting the amount resulting from applying Clause 2 of this para as follows:

1. The depreciation base of that pool for the accounting period immediately preceding that accounting period after deducting the depreciation allowed for this pool for the accounting period immediately preceding that accounting period. This depreciation base shall be increased by the total capital expenditures incurred in acquiring the machinery, plant or other assets falling under the same pool during that accounting period.
2. The disposal value of all capital assets falling in that pool that were disposed of during that accounting period.

**STOCK / INVENTORY**

Oman tax regulations do not specifically establish which methods of inventory valuation must be used, nor how inventory flows are to be determined. At present, any of three methods - average, FIFO or LIFO - are deemed to represent the 'actual cost' required by tax rules. Reserves and provisions for inventory shortages and obsolescence are not acceptable as a deductible expense for tax purposes.
but actual losses and write offs are allowed in the year in which they occur provided they are supported with adequate documentation as specified in executive regulation.

DIVIDENDS

Tax is not imposed on dividends received by a company through shares in the capital of the other Omani companies i.e. companies registered in Oman. Dividends received from foreign companies will be subjected to tax at the tax rate applicable to business income.

INTEREST DEDUCTIONS

Interest paid on the bank borrowing used for business purposes is deductible. Interest paid on loans from partners / members / related parties are allowed on restricted basis as specified in the Executive Regulation.

LOSSES

The losses are not allowed to be carried forward for more than five subsequent assessment years. However, companies which are engaged in any of the Priority Sector activities specified in article 118 of the Oman Tax Law can indefinitely carry forward their losses incurred during exempted period of first five years, and deduct in subsequent years until the losses are fully absorbed by set off against the profits of future years. The net loss should first be set off before the losses of the subsequent tax years.

C. FOREIGN TAX RELIEF

Sultanate of Oman has entered into agreements for the avoidance of double taxation (DTA) and the prevention of avoiding income tax with France, India, Tunisia, United Kingdom, Mauritius, Italy, Pakistan, Algeria, Lebanon, China, Yemen, South Africa, Sudan, Seychelles, Iran, Canada, Turkey, Syria, Republic of South Korea, Singapore, Thailand, Uzbekistan, Belarus, Brunei, Netherlands, Moldova, Vietnam, Belgium, Croatia, Germany, Japan, Switzerland and Spain. Some DTAs are not in force as it awaits ratification from respective governments. Currently, most of the foreign airlines carrying on business through establishment in Oman are exempted from income tax either through comprehensive DTAs or through limited DTAs. The foreign airlines which earn income through establishment in Oman, and which do not have comprehensive DTAs or limited DTAs, would be exempted from tax provided reciprocal tax exemption is granted in the airline’s home country. The countries whose airlines have signed agreements for tax relief are India, Kuwait, Jordan, Netherlands, Tanzania, Sri Lanka, Iran, Singapore, Sweden and Switzerland.

Income earned overseas by a company in Oman will be taxed in Oman. Corresponding tax credit in Oman will be given to the extent of Omani tax i.e. 12% or foreign tax paid on that income whichever is lower in respect of DTA countries. In respect of Non DTA countries, tax credit is unilaterally allowed by Oman for tax paid by Omani business entities outside Oman subject to overall limit of Omani tax on Foreign income, on satisfaction of certain conditions.

D. CORPORATE GROUPS

There are no provisions for group taxation or for offsetting losses of one company against another.

E. RELATED PARTY TRANSACTIONS

Transactions with related parties are subject to detailed scrutiny to confirm that prices are at arm's length, and that expenses exclude element of profit in case of transactions between Head Office and branch and 100% subsidiary companies.
F. WITHHOLDING TAX

Withholding tax applies to payments (income to the recipient) made to an overseas company which does not have a taxable presence in Oman or foreign company has permanent establishment in Oman but such payment does not form part of its taxable income in Oman (by an Oman company or Oman branch or permanent establishment of an overseas company) for:

1. The use, or right to use, of computer software (includes using the software of an overseas supplier);
2. Royalties;
3. Management fees;
4. Research and development; and,

Royalties include:
1. Consideration for the use or the right to use of:
   a) Intellectual or proprietary right either for artistic, literary or scientific work, including computer software, cinematograph films, or films or tapes or discs or any other means used for radio or television broadcasting.
   b) Patents, trademarks, design, drawing, models and secret process or formula.
   c) Industrial, commercial or scientific equipment.
2. Consideration for information concerning industrial, commercial or scientific experience.
3. Consideration for granting rights of exploitation of mining or any other natural resources.

The domestic withholding tax rate on the above is 10%. Oman withholding tax may be reduced or eliminated if the overseas company is based (resident) in a country with which Oman has a Double Tax Agreement. Withholding tax must be paid within 14 days following the month of payment or credit, whichever is earlier and Income Tax Form 18 filed with the Tax Authority. The obligation to deduct this tax shall rest with the company or the permanent establishment which pays the above amount.

G. EXCHANGE CONTROL

There are no exchange controls in any form on inward or outward investment or on repatriation of capital or profits, either by nationals or expatriates.

H. PERSONAL TAX

Currently, there is no personal income or wealth tax in Oman.

I. TREATY WITHHOLDING TAX RATES

The following rates for royalties apply wherever DTA’s are ratified by government of both the countries and treaties are in force:

<table>
<thead>
<tr>
<th>Treaty countries</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>7</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
</tr>
<tr>
<td>South Korea</td>
<td>8</td>
</tr>
<tr>
<td>Country</td>
<td>Royalties (%)</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0</td>
</tr>
<tr>
<td>Moldova</td>
<td>10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>10</td>
</tr>
<tr>
<td>Seychelles</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>8</td>
</tr>
<tr>
<td>South Africa</td>
<td>8</td>
</tr>
<tr>
<td>Thailand</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8</td>
</tr>
<tr>
<td>Tunisia</td>
<td>5</td>
</tr>
<tr>
<td>Algeria</td>
<td>10</td>
</tr>
<tr>
<td>Yemen</td>
<td>10</td>
</tr>
<tr>
<td>Sudan</td>
<td>10</td>
</tr>
<tr>
<td>Iran</td>
<td>10</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
</tr>
<tr>
<td>Syria</td>
<td>18</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10</td>
</tr>
<tr>
<td>Belarus</td>
<td>10</td>
</tr>
<tr>
<td>Brunei</td>
<td>10</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>8</td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>8</td>
</tr>
<tr>
<td>Croatia</td>
<td>10</td>
</tr>
<tr>
<td>Spain</td>
<td>8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
</tr>
<tr>
<td>Lebanon</td>
<td>10</td>
</tr>
<tr>
<td>Morocco</td>
<td>10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8</td>
</tr>
</tbody>
</table>