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Doing Business in Oman



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Welcome

to ‘Doing Business in Oman’

Welcome to Crowe Oman’s “Doing Business in Oman” 2020 guide. This guide forms part of the “Doing Business in Oman” series and provides a quick reference for those interested to invest in Oman. While it is not exhaustive, this guide aims to answer some of the key questions that may arise. When specific issues arise in practice, it will often be necessary to consider the relevant rules and regulations, and to obtain appropriate professional advice.

This guide covers the following areas:

- General Information
- Population
- Government and the Economy
- Tax Structure
- Foreign Investment





Foreword Message from Davis Kallukaran

Dear Friends,

The Sultanate of Oman is politically the most stable country in the Arabian Peninsula. Omani culture always welcome co-operation from other countries. As a resident in Oman for the last three decades I felt that this is one of the best business friendly countries in the Middle East. The diversified geography makes Oman a prominent tourist location. The state of the art infrastructure and steady industrial and economic growth have attracted many foreign businesses to this oil rich country.

A member firm of Crowe Global, the eighth largest global accounting network, Crowe Oman serves a wide spectrum of clients in the Sultanate. The firm was established in Oman in 1995 and is the one stop shop for the business community in Oman. We support various public and private sector organizations, to continuously face the risks and challenges to remain market leaders. As part of our commitment to society, we are involved in training and educating young Omani talents. We are one among the ten firms accredited by the capital market authority of Oman (CMA) to undertake Audit and Assurance services of CMA regulated entities.

This book will give you a quick view of the economic and business environment of Oman, which will help you in decision making regarding investing in Oman.

Let us join together to build a promising future for the Sultanate of Oman

With Best wishes,

A handwritten signature in blue ink, appearing to read "Davis Kallukaran".

Davis Kallukaran

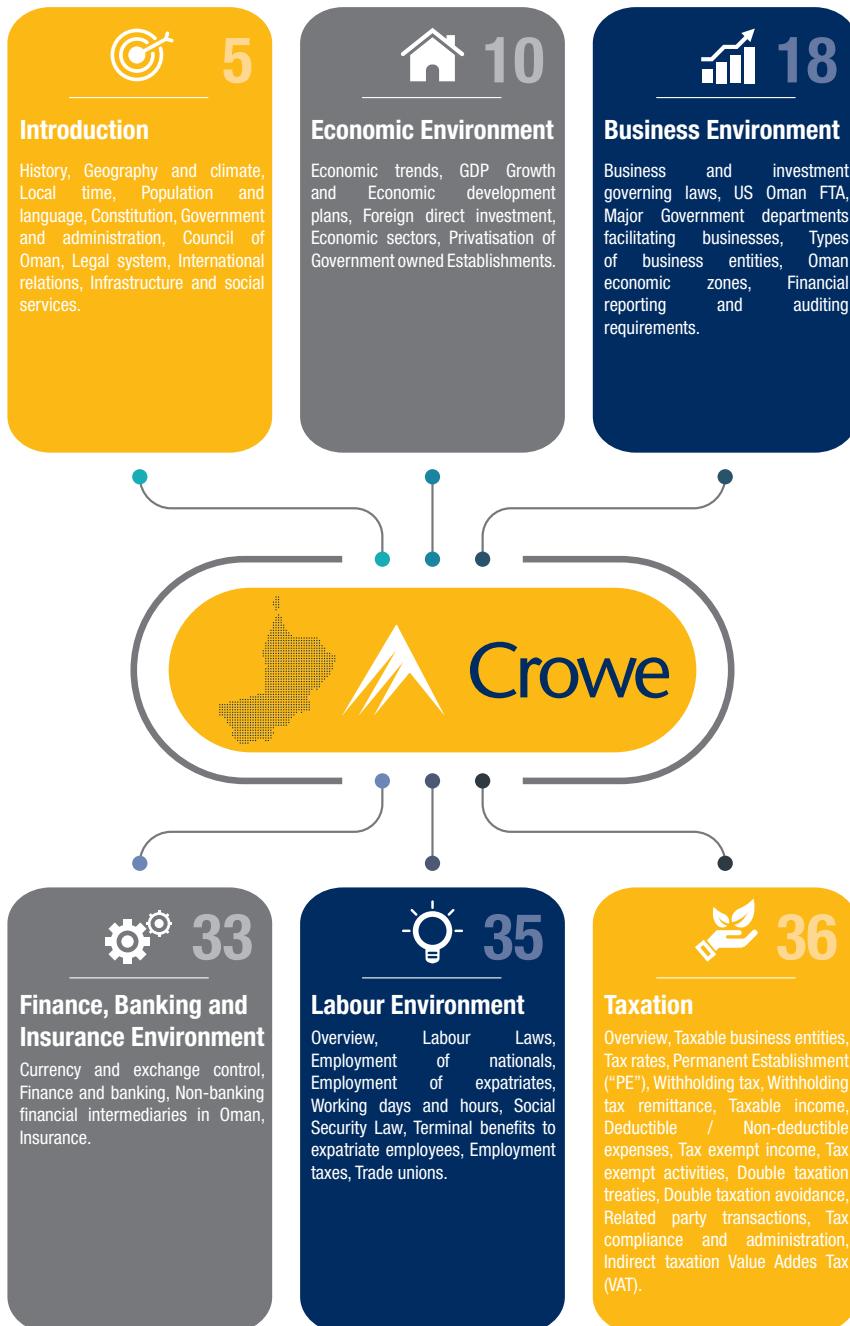
Managing Partner

Muscat, Sultanate of Oman

1st January 2020



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Introduction

History

Sumerian tablets refer to a country called Magan and Akkadian, a name which links Oman's ancient copper resources. Over centuries, tribes from the west settled in Oman, making a living by fishing, farming, herding or stock breeding, and many present day Omani families trace their ancestral roots to other parts of Arabia.

Archaeological evidence suggests that trading, farming and fishing existed in Oman as far back as the 4th millennium BC. In the middle ages, Oman was a thriving centre of commercial activity with a flourishing trade in copper and frankincense.

Oman was exposed to Islam in 630, during the lifetime of prophet Muhammad; consolidation took place in the Ridda Wars in 632.

In 751 Ibadi Muslims, a moderate branch of the Kharijites, established an imamate in Oman. Oman is currently the only country with a majority Ibadi population. Ibadihism has a reputation for its "moderate conservatism".

Between the 7th and the 15th centuries, Oman's maritime trade flourished and its dominance on sea trade routes was extended to Africa and as far as China to

the East and Europe to the West. Due to its key position on lucrative trade routes, the Portuguese conquered Oman in 1507. Oman was reconquered in 1650 by Sultan Bin Saif Al Yarubi, who established colonial possessions in East Africa.

The present Al Busaidi dynasty was founded by Imam Ahmed Bin Said in 1744. In the late 18th century, a series of friendship treaties between Britain and Oman formed the basis of special relationship between the two countries. In the first half of the 19th century, under Sayyid Said Bin Sultan's rule, its maritime trade grew and diplomatic relations were established with several countries. Oman was the first Arab country to send a diplomatic envoy to the USA in the nineteenth century.

After the death of Sayyid Said Bin Sultan, the settlement of a dispute between his two sons resulted in the division of the Omani empire and its isolation from its East African territories, its decline as a trading nation and eventually the loss of its other overseas possessions. The country came to rely on date farming and fishing until economic quantities of oil were first discovered in early 60's and the first exports of crude oil took place in 1967.

Since 1970, when His Majesty Sultan Qaboos Bin Said assumed power, the

country has undergone rapid and far reaching economic and social development while maintaining its rich cultural heritage and natural environment.

Since his accession, Sultan Qaboos Bin Said has balanced tribal, regional, and ethnic interests in composing the national administration. The Council of Ministers, which functions as a cabinet, consists of 28 ministers, all directly appointed. The Majlis Al-Shura (Consultative Council) has the mandate of reviewing legislation pertaining to economic development and social services prior to its becoming law.

Oman's extensive modernization program has opened the country to the outside world and has preserved a long-standing political and military relationship with the United Kingdom, the United States, and others. Oman's moderate, independent foreign policy has sought to maintain good relations with all Middle Eastern countries.

Geography and climate

The Sultanate of Oman (referred to as "Oman") is one of the most fascinating countries in the Middle East, known for its spectacular geographical beauty and cultural diversity. Oman's magnificent coastline, towering mountains, expansive deserts, traditional heritage, friendly people and social environment makes it one of the most popular tourist and business destinations in the world. The country is well developed and boasts of world-class civic amenities and infrastructure.

Holding a strategically important position at the mouth of the Persian Gulf, the country shares land borders with the United Arab Emirates to the northwest, Saudi Arabia to the west, Yemen to the southwest, and shares marine borders with Iran and Pakistan. The coast is formed by the Arabian Sea on the southeast and the Gulf of Oman on the northeast. The Madha and Musandam exclaves are surrounded by the UAE on their land borders, with the Strait of Hormuz (which it shares with Iran) and

Gulf of Oman forming Musandam's coastal boundaries.

Oman with its capital at Muscat, is administratively divided into 11 Governorates - Ad Dakhiliyah, Al Buraymi, Al Wusta, Ad Dahirah, Al Batinah South, Ash Sharqiyah South, Muscat, Musandam, Al Batinah North, Ash Sharqiyah North, and Dhofar.

Like the rest of the Persian Gulf, Oman generally has one of the hottest climates in the world, and receives little rainfall. The climate generally is very hot, with temperatures reaching 50 degree Celsius (122 degree Fahrenheit) in the hot season, from May to September. Annual rainfall in Muscat averages 100 mm (3.9 in) falling mostly in January. Dhofar region is subject to the southwest monsoon, and rainfall up to 640 mm (25.2 in) has been recorded in the rainy season from late June to October.

Local time

The local time is four hours ahead of Greenwich Mean Time (GMT).

Population and language

Oman's population has almost doubled over the past decade and has now finally passed the four million mark. As of August 2019, the total population of Oman had crossed 4.9 million. Citizens constitute around 56 per cent of the population, while expatriates make up the other 44 per cent. The growth in the Omani population ranges from 2.5% to 4.2%.

The vast majority of Oman's population follows the Islamic faith and they are proud of their history and traditions. Omanis are tolerant people and other religions are freely practiced by the sizeable expatriate population of Oman.

The official language of the country is Arabic, though English is an accepted business language. Applications to Government and other official correspondence need to be in Arabic. Royal Decrees, Ministerial

Decisions and Government publications are issued only in Arabic, although unofficial translations are available.

Constitution

The constitution of the Sultanate is enshrined in the Basic Law of the State which came into effect on its promulgation on 6 November 1996. The Basic Law affirms that the Sultanate of Oman is an independent, fully sovereign, Arab and Islamic State. The system of governance is a Sultan (Monarchical) one, and its principles are the rule of law, justice, consultation and equality.

The Basic Law sets out public rights and duties and the principles governing the State's policies in the political, economic, social, cultural and security areas. It provided for equality, before the Law, of all citizens irrespective of gender, origin, colour, language, religion, creed or social status.

Government and administration

His Majesty the Sultan is the Head of State and the Supreme Commander of the Armed Forces. The Basic Law confers wide executive and legislative powers on the Sultan to enable him to carry out his duties. The Sultan is assisted by the Council of Ministers and specialist Councils in framing and implementing the general policies of the state. The Council of Ministers is the principal institution that is charged with the task of implementing those policies in respect of which the ministers are collectively responsible before the Sultan and individually responsible for their respective units. The specialist councils are:

- The Financial Affairs and Energy Resources Council, which formulates financial and energy policies, draws up the national budget and studies resources and financial allocations to economic development projects;
- The Defence Council which is allocated a special role by the Basic Law in confirming the successor to the Sultan in certain circumstances.

- The Tender Board, which is responsible for the award of all major civilian Government tenders, and for following up developments in the implementation of projects from their inception until their completion.

Council of Oman

The Basic Law provides for a Council of Oman (Majlis Oman) composed of two chambers viz., Council of state (Majlis Addawla) and Consultative council (Majlis Ash'shura). The Majlis Oman advises the Sultan on legislative matters. The members of Majlis Addawla are appointed by Royal Decree. The Majlis Ash'shura consisting of elected members are appointed after a process of local nomination and their term is four years.

Legal system

The general law of the land is the Shariaa or Islamic law as embodied in the Holy Quran and Islamic tradition. The Basic Law which was promulgated in 1996 affirms that the Shariaa is the basis of all legislation in the Sultanate. However, like most other Arab and Islamic countries, Oman has developed a substantial body of written law to regulate the economic aspects of the country's life.

The Basic Law confirms the independence of the judiciary and the role of judges in upholding the rule of law and guaranteeing rights and freedoms. Judges are not subject to any authority other than the law and it is a criminal offence for anyone to interfere in or influence the judicial process.

His Majesty the Sultan alone is empowered to promulgate laws through Royal Decrees, which are published in the Official Gazette, and sign or ratify international treaties. The legislative process usually includes a period of intensive consultation among and between the various institutions of the State.

Generally speaking, Royal Decrees are drafted in a very short and concise manner and empower the Minister/s to issue

Ministerial Decisions, regulations and directives to amplify the laws and provide the necessary details for their implementation. However, Ministerial Decisions, which are also published in the Official Gazette, may not conflict with the laws and decrees in force.

Commercial disputes are handled by the Commercial Court, a specialist independent body with primary and appellate divisions. Tax disputes are also resolved by the Commercial Court whose decisions are binding on both the tax authorities and the tax payers.

Disputes relating to employment in the private sector are first handled by regional labour departments of the Ministry of Social Affairs and Labour. If the Ministry of Manpower is unable to achieve an amicable settlement between the employer and the employee, the dispute must be referred to the Commercial Court.

International relations

Oman is a member of the Arab League, the United Nations, the International Monetary Fund, the Islamic Development Bank, World Trade Organisation, Indian Ocean Rim Association and other international organizations.

Oman is one of the founding members of the Gulf Cooperation Council (GCC) which was established in 1981. As a member of the GCC, Oman extends certain privileged rights to citizens and companies from other member countries and these are;

- General exemption from customs duty on imports of GCC origin
- Preference in government tenders for products of GCC origin
- GCC nationals may move freely between member countries without visas and may engage in their professions in the other member countries without work permits
- Cross border ownership of shares is unrestricted

- Real estate may be owned in other GCC countries

Infrastructure and social services

Oman has developed an excellent infrastructure to meet the international and external requirements for economic development. Infrastructure development, which started in 1970, has developed rapidly with public services, roads, hospitals, educational institutions, telephones, water, electricity and other facilities being available widely across the country.

Air

Oman has five international airports: Muscat International Airport, Khasab Airport, Duqm International Airport, Salalah Airport and Sohar Airport. Major expansion works are undergoing. Oman Air is the national airline of Oman and it won the Gold award for the "Airline of the Year" at France's Laurier d'Or du Voyage d'Affaires.

Roads

Oman has developed a network of highways linking almost all parts of the country. Muscat, the capital, is connected to all the interior regions, and also via dual carriageway to the UAE. Due to the increasing population across the country, land transport is vital to the development of Oman and there is an ongoing program of road construction and improvements.

Ports

Oman has 5 Sea Ports viz., Port Sultan Qaboos, Port of Sohar, Salalah Port, Duqm Port and Khasab Port. Port Sultan Qaboos is considered the main maritime gateway to the Sultanate of Oman. Because of its prime location, it is one of the major ports in the region and receives cruise ships.

Sohar industrial port is located just before the Strait of Hormuz, within easy reach of the places like Abu Dhabi, Dubai, Al Ain and Muscat. The port of Sohar has developed

into a world-class port, capable of receiving ships with a draught of up to 18 metres. The Port of Sohar will be linked by the railway to the internal container depot being developed at Barka.

Salalah Port of is one of the most distinguished ports regionally and internationally. Its strategic location on the Arabian Sea plays an important role in attaining this distinguished status.

Duqm Port enjoys a superior and open location. It is a multi-purpose port and its importance has increased after building a dry dock for ship repair to be added to the many facilities already present in the port. Khasab port lies in the District of Khasab in Musandam Governorate and is used for traditional tourist ships.

Health

During the last four decades, the Oman health care system has demonstrated and reported great achievements in health care services and preventive and curative medicine. In 2019, the global wellness index ranked Oman as second amongst ISI Countries in the index.

Omani nationals have free access to the country's public health care, though

expatriates typically seek medical care in private sector clinics and hospitals. Generally, the standard of care in the public sector is high for a middle-income country. The country now has very low rate of disease. The hospitals in Oman generally provide a high quality of health care. Most of the largest and most advanced hospitals and health centres are located in Muscat, such as the Royal Hospital of Oman and the Sultan Qaboos University Hospital.

Education and training

The education of the nationals has been given a high priority in the development of the Sultanate. Two Ministries, the Ministry of Education and the Ministry of Higher Education are responsible for the educational system. The progress in the area of education has been remarkable offering primary, secondary, university and vocational education available to the entire population.

Oman's first university, Sultan Qaboos University, opened in 1986. The University of Nizwa is one of the fastest growing universities in Oman. Some 200 scholarships are awarded each year for study abroad. Vocational training is provided to Omanis by the Ministry of Manpower.



Economic Environment

Economic trends

Over last few decades, Oman has embarked upon an economic development path that has transformed it into a prosperous country. Prudent utilization of oil revenues to develop social and physical infrastructure with substantial investment undertaken in infrastructure, transportation, electric power, water supply, communications and health sector has contributed to a rapid transformation of Oman's economic foundation and structure. Today Oman boasts an impressive physical infrastructure, much improved socio-economic conditions and high standard of living. Oman has also experienced persistent growth in non-oil GDP, financial stability and stable currency despite of severe external trade shocks that resulted from global economic recession and lower oil prices. Oman's Government has taken various steps to increase participation of other business sectors for their contribution towards economic development.

An increase in the crude prices during the year helped the Sultanate to reduce its budget deficit. A decline in prices in the last quarter of 2018 impacted future realizations, however the agreement between OPEC and some non-OPEC oil countries to curb their output will help to provide stability on prices. During the year 2018, both Fitch and S&P rated Oman's credit as sub investment grade at BB+ and BB respectively, however Moody's continue to retain an investment grade rating (Baa3) for Oman.

The Omani economy is projected to achieve continued growth supported by economic diversification efforts on the part of the Government, a revitalized investment environment, rationalization of subsidies, focus on privatization and the progress made in the implementation of the Tanfeeth program for diversification. Given the high degree of interconnectedness between government spending and the domestic private sector, a prolonged lower oil price may have an impact on the financial performance of the local banks.

The country's clear strengths lie in its security and logistical environments. Oman is one of the most politically stable GCC states, with fewer concerns regarding domestic unrest or terrorist attacks. Additionally, with the various Omani road, port and airport projects which are being constructed or planned and low levels of trade bureaucracy for exporters and importers, the country's plans to become a logistics hub are starting to take shape.

The government is using enhanced oil recovery techniques to boost production as oil reserves dwindle and is focusing on economic diversification to reduce reliance on hydrocarbons.

Tourism, shipping, mining, manufacturing, and gas-based industries are key components of the government's diversification strategy.

There is no individual income tax or value-added taxes (VAT) till date. The overall

tax burden equals 8.5 percent of total domestic income. Over the past three years, government spending has amounted to 47.4 percent of the country's output (GDP), and budget deficits have averaged 16.2 percent of GDP. Public debt is equivalent to 44.2 percent of GDP.

Although the government maintains electricity subsidies, cuts in subsidies for petroleum products have led to fuel price increases and rising inflation.

Rule of law

Property rights are well protected, although the judiciary remains subordinate to the Sultan and the Ministry of Justice. Anticorruption laws are enforced effectively.

GDP Growth and Economic development plans

Despite tough economic times, Oman is building for the future. Developments in construction, hospitality, telecommunications and tourism mean the Sultanate stands on the brink of a new era.

Growth is projected to slow to 1.2% in 2019 as Oman's commitment to the December 2018 OPEC+ output cut constrains oil production. There will be a once-off spike in growth to 6% in 2020 as the government plans to significantly increase investment in the Khazzan gas field.

The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term. Inflation is expected to pick up to 1.5% in 2019 reflecting higher consumer spending, and to further accelerate to an average of about 3% in the period 2020-2021 reflecting the possible introduction of indirect taxes beyond 2019.

The budget deficit is projected to rise to 12% of GDP in 2019 due to high public spending amid lower oil prices. The 2019 budget assumes a 3% increase in total expenditure compared to 2018. The introduction of VAT has been delayed to 2020 or beyond.

The economy is seen accelerating in 2019 compared to last year, largely due to higher government consumption and fixed investment. Growth should be particularly strong in 2020, thanks to government plans to significantly raise investment in the Khazzan - Makarem gas field.

Alike year 2018, Oman this year again came up with an expansionary budget despite various challenges. With non-oil revenue budgeted to decline, government is relying heavily on oil and gas prices which have been very volatile in the last year and are expected to remain so on the back of geo political tensions, trade and tariffs related news, technological advancements in shale oil production, governments around the world push towards renewable energy and many other factors.

Apart from that government is relying on borrowing to cover the deficit which will not be as easy as earlier because of hike in interest rates and the recent rating downgrade of Oman by one of the rating agency.

For the first time in many years, non-oil revenue is budgeted to go down in 2019 compared to increasing trend earlier. Despite higher gas production from the newly inaugurated gas field, government this year has allocated OMR 380mn for gas purchase which was not there in previous years, as per budget statement.

Government expects capital revenue to grow up to OMR 165mn compared to budgeted OMR 20mn each during 2015 to 2018. Development expenditure within the investment expenditure which was in the range of OMR 1.34-1.36bn during 2016 - 2018, has been reduced to OMR 1.2bn in 2019.

Subsidy for the petroleum products has been doubled from OMR 20mn to OMR 40mn. Meaning government would incentivize the petroleum industry in the coming year.



Oil revenue

Budgeted oil revenue for 2019 is OMR5.46bn, higher by 12.2% compared to the budgeted amount of OMR4.87bn in 2018. The budgeted amount is higher despite Oman continuing with the output cut (agreed between OPEC and Non-OPEC members).

Expenditure

Oman government has budgeted spending of OMR12.9bn in 2019 which is 3.2% higher than the budgeted spending of last year. The expenditure is divided into current expenditure (84%), investment expenditure (10%), participation, and other expenses (6%).

Investment expenditure has been budgeted at OMR 32bn in 2019 compared to OMR 33.36bn in 2018, lower by 3% on account of lower expenditure on account of drop in developmental expenditure as well as drop in investment expenditure in the gas sector.

Overall the amount of subsidy has been raised to OMR 775mn in 2019 compared to OMR 765mn in 2018. Subsidy on the electricity sector form the major chunk of the subsidy segment at 65%.

Expansion projects

While recent times mean a tough slump in the economy for all countries across

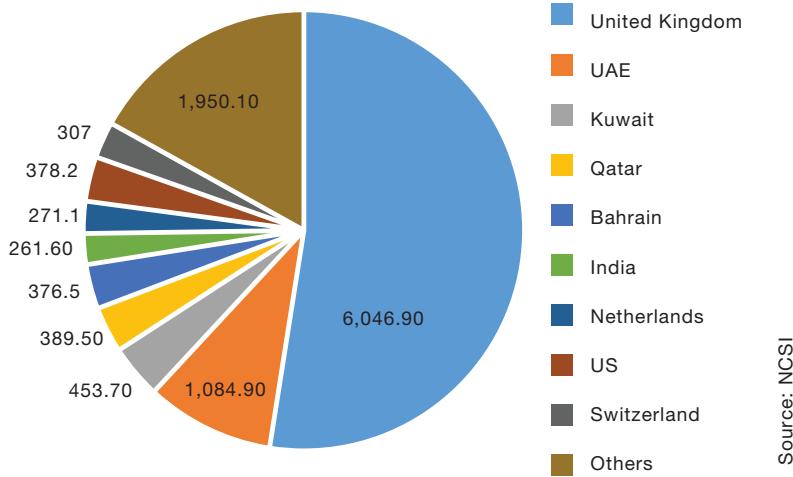
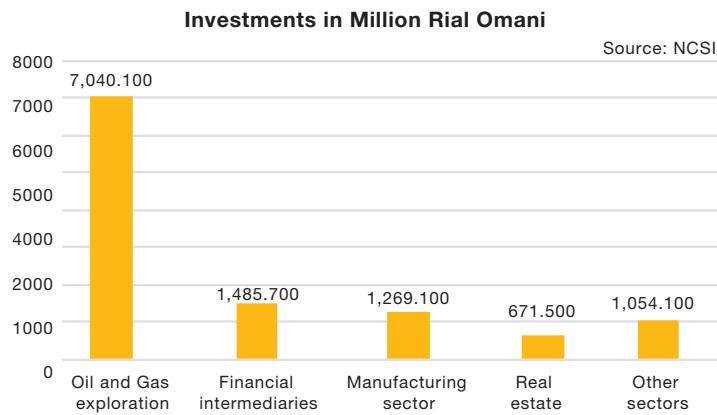
the GCC, including Oman, the Sultanate edged out all of its GCC neighbours in the development of its construction sector in 2018 – a feat that the nation will extend into 2019 as well.

Possibly the most ambitious project in Oman after the newly-opened Muscat International Airport; Madinat Al Irfan is a billion-Riyal development and houses everything from the Oman Convention and Exhibition Centre (OCEC) to five-star hotels and a smart, planned city. The latter will set the investors – Majid al Futtaim and Oman Tourism Development Company (OMRAN) – back RO5billion. The project is expected to start early in year 2019 but should take up to five years to complete. The housing project, which is nicknamed ‘City of the Future’, will span over 250,000 square metres and will include everything from service plots, commercial, residential, educational, healthcare, leisure and hospitality facilities.

Foreign Direct Investment

According to a report by the Public Authority for Investment Promotion and Export Development (Ithraa), the foreign direct investment in Oman crossed OMR 9 billion in the second quarter of 2018. According to Ithraa's report, Oman exported non-oil products worth OMR 3.7 billion by the end of 2018, up from 2017's non-oil exports totalling OMR 3.2 billion.

The sector wise and the country wise investment data:



Oman's external sector during the past couple of years has remained comfortable though the current account surplus was lower than previous years in the recent period. As the global economy improves and as the domestic economy becomes more diversified, it is expected that the performance of Omani exports will be enhanced. It is important that the economy

is able to improve productivity and product diversification so as to penetrate into new markets as the demand for exports grows with the global recovery. The increase in imports in the recent period reflects the increasing domestic demand.

With increasing Omanisation and focus on services sector, it is expected that the outflows under services could be

checked, while at the same time workers remittances abroad will stabilize. The size of capital flows is expected to increase as the fundamentals of the Omani economy continues to remain strong, while at the same time the Government is focussing on attracting larger foreign direct investment. Thus, the balance of payments situation will continue to remain comfortable in the near future.

Oman's FDI stock has been largely restored since the 2010 crisis and remain solid, at USD 22.2 billion (31.2% of GDP). Investment has been accelerating, in particular thanks to the development of the Duqm Special Economic Zone, which involves the construction of a port, an airport, a refinery and tourist facilities. According to data from the Special Economic Zone, the Duqm area alone has attracted USD 11 billion of investments.

According to figures by the National Centre for Statistics and Information (NCSI), the main investing countries were the UK, followed by the United Arab Emirates, Kuwait, Qatar, and Bahrain. The bulk of FDI were directed towards the oil & gas sector, with lower shares going to the financial services, manufacturing and real estate sectors. The Sultanate of Oman seeks to attract investors by offering tax incentives and customs duty exemptions. Oman has a stable political and macroeconomic situation. However, access to a limited number of sectors and government pressure on foreign companies to recruit domestic workers are major obstacles to foreign investments. Oman ranks 78st in the 2019 Doing Business report published by the World Bank, losing seven places compared to the previous year.

The Key Economic Sectors

Oil

The Oil & Gas industry has evolved almost beyond recognition in recent years. The outlook for the global economy remains deeply uncertain and if economic conditions

deteriorate, oil and gas companies have to scale back their spending commitments.

Oil production has substantial consequences on a country's macro-economy. Resource rich countries in general and oil-rich countries in particular reap substantial economic rents that are often much larger than the production costs. In Oman, income generated from oil and gas resources vastly exceeds the total costs of extraction and production.

Oil has been the driving force of the Omani economy since Oman began commercial production in 1967. Oman's national oil company Petroleum Development Oman ("PDO") is the primary oil producer which is 60% owned by the Government and balance 40% being held by foreign partners. Apart from PDO, certain other companies like Occidental, Japex etc., extract significant quantities of oil in Oman.

Natural gas

Gas in Oman was discovered in 1978 in Yibal/ Natih field. In order to meet the Gas demand emanating from power generation and water desalination, gas fields were put on production. Oman government understood the importance of Gas as a greener source of energy and aims to develop local industries for sustained balanced economic growth.

Oman also has natural gas reserves that may play a leading role in fuelling the Sultanate's industrial growth in the coming years. In 2017, BP announced the production of the first gas from its concession at Khazzan. In April 2018, BP and Oman Oil Company Exploration & Production approved the second phase of the onshore Khazzan gas project, which will start output in 2021. Oman's primary processor of natural gas is LNG LLC (OLNG) which is 51% owned by the Government and the balance 49% being held by foreign partners. The liquefied natural gas project is set becoming the country's major non-oil earner and the government has schemes for gas industries.

Minerals

Mining is one of the five sectors identified for driving growth in the long-term and helping the government in its economic diversification strategy. Mining and quarrying have been age-old practices in Oman.

Although numerous quarrying and mining operations are underway in Oman, the Sultanate's mineral resources are still relatively untapped, with large deposits of metals and industrial minerals waiting to be unearthed. Oman's mountains host intact and exposed ophiolites, which could contain metal deposits such as chromite, cobalt, copper, gold, lead, magnesium, manganese and nickel.

Oman is a geological wonder as it is endowed with varieties of mineral resources - metallic minerals such as copper, gold, zinc, chromites, cobalt and iron ores and non-metallic minerals includes, dolomite, limestone, gypsum, clay, silica, ornamental stones and building materials. Its vibrant mining sector is being tapped to spur growth and add up billions of rials to the country's economy as well as generate jobs. Oman is home to scores of mining companies, where the total operating licenses until the end of 2017 is about 479 mining licenses distributed across the various governates of the Sultanate of Oman. The Public Authority for Mining (PAM) issued a total of 291 licenses for conducting mineral exploration operations in 2018. PAM is currently formulating a new mining exploration and development strategy, underpinned by a Single Window System for the issuance of new licenses, to help unleash the potential of the country's prodigious mineral resources.

Manufacturing

The industrial sector started off in small measures focusing on consumer products only. In order to attract private sector investments into the non-hydrocarbon sectors, Government aimed to provide infrastructure facilities such as electricity,

transportation, communication, etc. and established Rusayl Industrial Estate in 1983 as the first Industrial Estate in Oman through The Public Establishment for Industrial Estates (PEIE), established with an aim of planning, operating, managing, and developing the industrial estates across the Sultanate.

The manufacturing sector of Oman has a crucial role to play in the structural transformation of the oil-dependent economy towards a sustainable economy that is competitive in productive activities. Forward-looking government policy envisages that the non-oil industrial sector will be one of the main pillars for continued prosperity.

Oman's traditional industries were silver working, ship building and weaving. New manufacturing industries have been growing like manufacture of building materials, chemicals, plastics, base-metal products, furniture and other wood products, paper products, garments, leather, food and beverages. The manufacturing industries have been encouraged by Government by offering soft loans, subsidized land and electricity, import duty exemptions etc.

Agriculture and fishing

Agricultural sector has potential for development due to the variations in the country's geography and climate. The variety of crop cultivation mainly includes dates and limes, tropical crops are coconuts, papayas, bananas, and other fruits and vegetables. The Government has established research and development centres across the country to promote agricultural mechanisation and the introduction of new farming methods and crops.

3,165 km of coastline renders Oman a lucrative proposition for massive fishing fleets. The fisheries sector is one of the major contributors to non-oil/gas generated income and it is perceived as having an even greater potential with Omani fishing waters being regarded among the richest in the world.

Fisheries has been one of the main natural resources. The fishing industry is growing and the export market has increased substantially through various initiatives of the government by providing fish farms, marine subsidiaries and cold stores etc.,

Construction and projects

Over past few years, the Sultanate of Oman has emerged as one of the most interesting projects markets in the region, offering good business opportunities for contractors, consultants and investors across a range of industries.

With about \$177bn worth of projects planned or underway, the Sultanate has a substantial pipeline of projects needed to support Oman's aims at diversification into logistics, tourism and manufacturing, as well as improving public services and infrastructure.

Oman's diversification drive was boosted in 2017 by the award of contracts worth \$5.7bn on the giant Duqm refinery project. These underpinned a 31 per cent year-on-year jump in the value of projects awarded in Oman, and saw the country emerge as the region's third biggest project market.

The construction and projects market in Oman is in good health. The scale of the construction and infrastructure development projects that have already been committed or under construction are impressive.

The public sector is by far the largest procurer of construction services in the Sultanate of Oman. The chief beneficiaries of the investment programme will be the following sectors:

- Transportation: particularly airports, ports, highways and in the longer term, railways
- Tourism: resort and hotel projects are planned or under construction across Oman
- Oil & gas: number of world class exploration and production projects under development, including

investment - heavy enhanced oil recovery schemes.

Popular Industrial Tenders and Projects in Oman at present include:

- Khazzan & Makarem Gas Fields Development
- Oman National Railway Project
- Liwa Plastics Plant
- Sohar Refinery Improvement project
- Sur Steel Plant Project
- Muscat – Sohar product pipeline
- Madinat Sandan
- Madinat Al Irfan – City of the future
- Al Mahalab Towers and BBH Office Towers
- Fibre Optic Cable in capital area and all over the country
- Wuhan Xiao Long Automotive Technologies Co. Ltd – Oman made Chinese car
- Jumeirah Muscat Bay Oman
- JW Marriot Hotel
- Madina Sultan Qaboos Waterfront
- Dhofar Wind farm
- Mall of Oman – Bausher
- Duqm Oil Refinery - Duqm Refinery and Petrochemical Complex - Phase 1
- Royal Oman Police Hospital Complex - Airport Heights

Tourism

Tourism is already a major industry in Oman, as outlined by a recent report by Tanfeeth's ISFU, with plans to increase its contribution to the nation's GDP to OMR1.5 billion by 2020. The contribution of travel and tourism to GDP in 2017 was OMR849.5 million, or 3.2 per cent of total GDP, according to the World Travel and Tourism Council's annual report in 2018.

A single-entry visa is issued at the point of entry and is valid for one month. There is also an express visa, a multiple entry visa and a common visa with Dubai and Qatar, and GCC resident visa.

The tourist attractions are forts, museums, beaches, water sports and diving, turtle, dolphin and bird watching, desert safari, caving, markets (souqs), trekking and rock climbing.

Privatization of Government Owned Establishments (GOE)

Oman has around 70 GOEs spread over different sectors, some of which, over the years, have witnessed reduced profits, according to the Implementation Support & Follow-Up Unit (ISFU) tasked with overseeing timely execution of economic initiatives.

According to ISFU, the Ministry of Finance had to develop a new privatisation plan through GOEs holding companies. As part of the plan, all holding companies had to submit their five-year privatisation plan to the ministry for reviews. "The plan outlined an aspirational target of OMR700 million for the value of GOEs transferred to private sector owners between 2017 and 2021.

The growing financial demands of various public services would critically derail the

fiscal balance. The government's 2020 vision included selling off most of the public controlled agencies.

With the purse of the state's coffers showing signs of splitting from the hems, the government is giving a closer look at its privatization initiative to give the private sector a bigger role. The government is aware of the importance of sustaining a positive economic growth, which requires continued spending on developmental projects, which is why it is continuing with its policy of expansion in spending while at the same time encouraging both the local and foreign investments.

Oman was the first country in the region to allow foreign companies to generate electricity and own desalination plants. In 1994, Al Manah Power Project had the privilege of becoming the first electricity generating company in any Gulf state to be wholly owned by the private sector. Since then, a series of power plants, including those at Barka, Sohar and Salalah, started generating electricity under the ownership of foreign investors.



Business Environment

Business and investment governing laws

The corporate framework and underlying laws and regulations are not so complex and the basic legal framework for business activity and investment in Oman is provided by the following laws:

Commercial Companies Law

The incorporation of a commercial company in Oman is governed by the Commercial Companies Law, Foreign Capital Investment Law & the Commercial Register Law. Depending on the capital of the business, objectives of the parties involved and the type of business, the most common forms of commercial companies in Oman are: limited liability company (LLC), joint stock company (closed) (SAOC), joint stock company (public) (SAOG), joint venture and general partnership.

- The Commercial Companies Law include regulations covering all businesses in Oman under various business structures such as general partnership, limited partnership, limited liability company, joint stock company, holding company, joint ventures and sole proprietorship.

On 18 April 2019, a new Commercial Companies Law (New CCL) entered into force in the Sultanate of Oman, and the previous Commercial Companies Law that had been in force since 1974 (Repealed CCL) was repealed.

Although the changes are unlikely to have a seismic impact, the New CCL attempts to create a stronger and more transparent corporate governance regime in Oman. It also takes some more measured modernising steps, which aim to make doing business in Oman easier. In this briefing, we provide an overview of the key changes in the New CCL, and highlight some actions that will need to be taken by companies in Oman to comply with its terms. Many of the new provisions have also not yet been applied in practice and will likely be given more meaning and substance by an Executive Regulation which we expect to be published within the coming months.

Following the issuance of Oman's new Commercial Companies Law (CCL) enacted by Royal Decree No 18/2019, the Capital Market Authority (CMA) announced that all the matters related to listed companies [other than registrations] will come under the CMA's jurisdiction as per the new law. The new CCL comes at a time when the sultanate is preparing for 2040 Vision, which focuses on enabling the private sector to take the lead in production processes and effectively contributing to the growth of the economy.

Highlights of The New Commercial Companies Law

The New CCL will create a more robust and transparent corporate governance regime in Oman. The new provisions would be applied in practice when an Executive Regulation

will be published in the coming months.

On 18 April 2019, a New Law of Commercial Companies (New CCL) entered into force in the Sultanate of Oman. The New CCL has 312 articles split into 5 parts:

1. General Provisions (Article 1 to 20)
2. General Partnerships, Limited Partnerships and Joint Venture Companies (Article 21 to 87)
3. Joint Stock Company (Article 88 to 233)
4. Limited Liability Company (Article 234 to 297)
5. Inspection, Penalties and Final Provisions. (Article 298 to 312)



Establishment of a Public Joint Stock Company

- The founders of a public joint stock company may subscribe to no less than 30% of the shares of the company and no more than 60% of the shares. However, if a company is converted into a public joint stock company, the maximum is 75%. Some cases the authority may permit a higher percentage. Companies fully owned by the government and holding companies shall also be exempt from the prescribed percentage. The founders may not dispose their shares before the company has published financials for two consecutive years from its registration date. The period

may be extended to additional one year by the relevant authority. As per the new law, a holding company will take the form of a joint stock company unlike the previous situation where the holding company had the options to be a limited liability company or a joint stock company.

Joint Liability

The Board of directors and the auditors of a Joint Stock Company will be jointly liable for damages caused by their failure to take necessary measures to safeguard the company's capital. In case the company loses 25% of its capital, the Board of Directors need to take necessary measures to remove the reasons causing such loss and restore the company's profitability. If the company loses 50% of its capital, an extraordinary general meeting must be convened to take the necessary decision in this regard. The meeting must be convened within a maximum of 30 days from the date on which the Board has verified the loss in capital.

Board of Directors

Directors and management of Joint Stock Companies must now notify the company in writing of any interest they have in the company within a maximum of 5 days from the date of his/her acquisition of membership or appointment. A director may not participate in the management of another company engaged in identical business. The members of the Board of Directors shall not be less than:

- five for general joint stock companies and three for closed joint stock companies.

In closed and open Joint Stock Companies, the number of Board of Directors cannot exceed 11 members. In the repealed law the maximum members were 12. In the new CCL the Board should be an uneven number. A director is deemed to have legally resigned if he or she fails to attend 3 consecutive meetings, unless there is an acceptable excuse provided to the Board.



Annual General Meeting

The Board shall send to the attendees at least 15 days before the AGM the following documents:

- Invitation for attending the meeting
- Board Reports
- Audited Financial Statements

In the repealed law the notice period was 2 weeks.

Minority Shareholders

A general meeting shall be convened whenever required or if requested by holders representing at least 10% of the capital (in the repealed CCL it was 25%).

The meeting should be held within a maximum of 30 days from the date of necessity or request. If the Board fails to convene the meeting within that period, the auditor shall convene it within 30 days from the expiry of the aforementioned period.

A shareholder representing 5% of the capital can include an item on the meeting agenda (in the repealed CCL it was 10%).

Additionally, if a shareholder representing 5% of the capital is of the opinion that management's handling of the company affair's are detrimental to their interest, they have a right to submit a request to the Concerned Body and take legal proceedings before the competent court. These revisions in the new CCL, will better protect the rights of minority shareholders.

Quorum for Meetings and Minutes of the meetings

Quorum of shareholder meetings:

- Annual General Meeting – 50% share capital represented
- Extraordinary General Meeting – 75% share capital represented

The Minutes of the shareholders meeting now have to be filed within 7 days with competent authority. In the repealed law it was 15 days. The minutes of the meetings

shall be prepared by the secretary appointed by the general meeting. The minutes shall specify the number, percentage of shares capital represented, the deliberations of the meeting, the resolutions adopted, the number of votes supporting such resolutions and anything which the shareholders want to be endorsed in the minutes. The minutes shall be signed by the secretary, the auditor and the legal advisor of the company and approved by the Chairman of the meeting.

Timeline

Companies have less than a year to comply with the provisions of the new CCL. It is vital for companies to review their existing governing policies and systems to ascertain whether they comply with the New CCL. The Memorandum of Association may require to be amended to incorporate the new governance processes, meeting timelines and related party reporting procedures.

The coverage of list of offences have been substantially increased and non-adherence to the New CCL would result to greater penalties and sanctions.

Capital Market Authority Law

Capital Market Authority (CMA) regulates regulations required to develop the capital market and insurance sectors. Capital Market Authority supervises and monitors institutions regulated by Capital Market

Authority to upgrade the efficiency and the level of capital market and insurance sectors in general, and to protect investors and policyholders in particular.

Capital Market Authority is keen to upgrade the efficiency of investors and policyholders and to achieve this, Capital Market Authority spreads awareness in matters related to investment and rights of investors. Moreover, Capital Market Authority enhances awareness of directors and management, establishes saving concept and investment, enhances awareness of the public on the importance of capital markets and dealing therein and enhances awareness on insurance for all the segments of the community through conferences, workshops, and issuing booklets and awareness brochures.

The Capital Market Law regulates listing and share issuance procedures for joint stock companies that are listed with Muscat Securities Market. As per this law, every joint stock company that wishes to issue securities must obtain the approval of the Capital Market Authority. Joint stock companies are required to fulfil various requirements of Capital Market Authority Law in order to maintain their listings.

Muscat Securities Market (MSM)

The Muscat Securities Market (MSM) was established in 1988 and has been restructured in 1998. MSM is an exchange where all listed securities are traded. It seeks to encourage saving, disseminating investment awareness and protect investors and also endeavours to create the climate conducive for the mutual interest of investors and the national economy.

Muscat Securities Market is the stock exchange of Oman. It oversees the flow of funds into securities and develops the local financial market. Membership in the exchange is mandatory for Omani licensed banks, public joint stock companies, and specialised loan institutions whose shares are listed in the securities market. All joint stock companies are required to



be members of Muscat Securities Market (MSM) and have their shares and bonds listed with MSM.

Code of Corporate Governance

Code of Corporate Governance contains specific requirements of the Capital Market Authority governing the corporate governance requirements of companies listed with Muscat Securities Market. Each year, these listed companies are required to have their activities audited by appointed external auditors to report on their corporate procedures for compliance with the code of corporate governance.

Foreign Capital Investment Law

Under this law, non-Omanis are required to obtain a license from the Ministry of Commerce and Industry in order to participate in commercial activities or to own share in an Omani company. Further, foreign participation in capital of an Omani company is permitted up to 70% without specific approval and can exceed 70% in certain circumstances with the approval from Council of Ministers. This law also governs activities relating to operations of branches of foreign companies. Under this law, foreign nationals may not operate businesses in Oman without Omani participation. Sole proprietorships can be established by Omani nationals only. However, foreign nationals of GCC countries may also do business in Oman as sole proprietorships.

The Sultanate's government is planning to bring a new Foreign Capital Investment Law, which may allow foreign companies or individuals to increase their ownership in local companies up to 100 per cent.

Royal Decree no. 50/2019, issued on 1 July 2019, promulgating the Foreign Capital Investment Law includes several clauses that guarantees or protects the interest of foreign investors. The Law will be implemented from 2 January 2020.

It shall be unlawful for an expatriate, whether a natural or juristic person, to conduct an investment business inside the Sultanate except in accordance with the provisions of this Law. Foreign investment shall be carried out through an establishment or company in any of the permitted businesses through the ownership of foreign capital invested in full or through partnership.

Chapter III of the Law covers the various articles that guarantees the rights of a foreign investor:

- Protection from confiscation: An investment project may neither be confiscated, except by a judicial order, nor may its funds be detained, frozen, withheld or taken into custody except by a judicial order. However, this shall not include tax debts payable to the state.
- Protection from expropriation: An investment project may be expropriated (seizure of private property by a public agency) only in public interest in accordance with the Law of Expropriation of Property in Public Interest and against a fair compensation assessed at the time of expropriation of the property. Further the compensation payable shall be paid without delay.
- Protection from termination of contracts: lease contracts may not be terminated in case of allocation of land and real estate, except in accordance with the cases prescribed by Law or by judicial order.
- Protection from cancellation of

approvals and clearances: The relevant authorities may not cancel the approval, authorization or clearance issued to an investment project except by a decision assigning reasons after serving a written notice upon the foreign investor concerning the violation attributed to him and hearing his viewpoint and giving him a grace period not exceeding thirty days from the date of notice for the elimination of the causes of violation.

- Freedom for fund remittance: Without prejudice to the prevailing laws in the Sultanate, a foreign investor shall have the liberty to carry out all transfers related to the investment project from and to the Sultanate at any time.

The remittances shall include the following:

- Foreign investment returns
- Proceeds of sale or liquidation of the investment project, fully or partly
- Proceeds of the settlement of the investment project dispute
- Compensation received as a result of expropriation of investment project in public interest
- Value of premiums on loans or financing obtained by the investment project from abroad
- Any remittances for import and export linked to the business of investment projects.
- Any external entitlements for renting machinery or contracts for provision of services within the framework of the project's business.
- Right to transfer the ownership: A foreign investor may, in accordance with the prevailing laws in the Sultanate, transfer the ownership of the investment project, fully or partly, to another foreign or Omani investor or waive it to its partner in case of partnership or merge or acquire or change the legal shape.

By affirming above rights and protective clauses the new investment Law provides much needed comfort to foreign investors. It also shows that the compliance

environment is moving further toward an investment friendly economy.

Labour Law

Labour Law is prescribed by the Ministry of Manpower. A comprehensive Omani Labour Law was issued by Royal Decree 35/2003 and amendments made by Royal Decree 113/2011. This applies to both the workforce management of local and foreign staff working in companies in Oman.

Income Tax Law

There is no personal income tax in Oman. Only corporate taxes are levied on specific entities with taxable profits. All tax legislations are enacted through Royal Decrees. The Law of Income Tax on companies was first published in 1981 followed by Law of Profit Tax on Commercial and Industrial Establishments in 1981. The legislations governing levy of Income tax were replaced with the new Income Tax Law 2009 (Royal decree 28/2009) which was effective from tax year 2010. This was further amended by RD 9/2017. Until the tax year 2016, no tax was payable up to taxable income of RO 30,000 and income above RO 30,000 was taxed at a flat rate of 12%. The threshold limit of RO 30,000 on which tax was not payable, has been removed and the tax rate has been increased to 15%, w.e.f. 1st Jan 2017 by RD 9/2017. (Any tax year that starts from 1st Jan 2017 or thereafter).

The much-awaited amendments to the Executive Regulations of the Income Tax Law (MD 30/2012) have been issued and published in the Official Gazette on 10 February 2019. The amendments are in line with earlier amendments to the Income Tax Law issued on 27 February 2017 (via RD 9/2017). Consistent with expectations, the amendments to the Executive Regulations provided more clarity on a number of tax law provisions related to withholding tax ("WHT"), deductibility of director remuneration, tax card system, electronic submissions and notifications, donations, tax on enterprises, and other

matters. Most of the provisions introduced by the amendments are effective from the following day from the date of issuance in Official Gazette (i.e. from 11 February 2019), while some of them are effective for tax years starting on or after 1 January 2018.

Tender Law

Since 1984 Oman has had a law requiring certain entities to go out to tender in respect of significant procurement projects. The objective of the law is to ensure that the State gets value for money in its procurement and the process is undertaken on a fair and open basis. The current law, which was drafted by SASLO lawyers, is Royal Decree 36/2008, as amended by Royal Decree 120/2011 and RD 60/2013. The implementing regulations contemplated by that law have been issued by Decision 29/2010.

Given these legislative changes, and the interest of overseas companies in tendering for projects in Oman.

Anti-money laundering law

Anti-money laundering law was enacted through Royal decree 34/02 promulgating the law on money laundering. The executive regulations relating to money laundering is prescribed in Royal decree 72/04.

Land Law

According to Land Law (Royal decree 5/80), only Omani nationals are permitted to own land freely. Other GCC nationals are also entitled to own land, subject to certain restrictions. Further, except in certain circumstances and in certain designated area, foreign companies and individuals are generally not permitted to own land in Oman as per the Land Law.

Intellectual property rights Copyright

Copyright in Oman is regulated by the Law for the Protection of Copyright and Neighbouring Rights issued by Royal Decree No 65/2008 which was later amended by Royal Decree No 132/2008.

This sets out the types of works that may be protected by copyright, which authors can be protected, what rights are given to these authors and penalties for non-compliance. The law applies to authors of original literary, scientific, technical and cultural works, irrespective of their monetary value. Also protected are translators and people who summarize or adapt works, or put them into a new form. No omission, change or addition to a work may be made without the author's approval. There is no time limit on these rights.

Trade marks

The Law of Trade Marks was updated in 2000 by Royal Decree 38/2000, which sets out specific rules as to which trademarks may be registered and provides a list of permitted trademarks. In order to qualify for registration, a trademark must conform to Oman's high standards of decency and must not be of a purely religious nature, incorporate false information, or bear a resemblance to an already established mark or trade name.

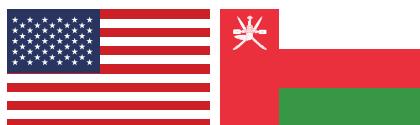
Industrial drawings and patterns

Royal Decree 39/2000 now regulates industrial drawings and patterns. In order to be protected, a drawing or pattern must be registered in the Trade Drawings and Patterns Register at the Ministry of Commerce and Industry. The person who created the drawing or pattern is then deemed to be the owner, unless another party can prove this not to be the case. The design must be original and, again, must conform to Oman's standards of decency, in order to enjoy protection.

Patents

Patents are governed by Royal Decree 82/2000 and the Arab Gulf Co-operation Council States Patents Regulations (AGCC Regulations'). An invention is patentable if it is new, contains a novel idea, and is worthy of industrial application. However, it must

not be inconsistent with public discipline or etiquette, undermine national security or be incompatible with the Islamic Sharia'h.



US-Oman FTA

The US-Oman FTA came into force on January 1, 2009. Under the agreement, US investors and their investments in non-restricted sectors are granted "national treatment", as well as "most-favoured-nation treatment" (MFNT), in Oman.

National treatment means that, in similar circumstances, US investors and their investments are afforded no less favourable treatment than that afforded to Omani nationals. MFNT means that, in similar circumstances, US investors and their investments are afforded no less favourable treatment than that afforded to nationals of any other country in Oman. In the case of companies incorporated in Oman, the application of national treatment under the FTA increases the allowed US shareholding to 100% and reduces the minimum capital requirement to OR 20,000 (\$51,790).

Major Government departments facilitating businesses

Ministry of Commerce and Industry (MOCI)

Ministry of Commerce and Industry is the governmental body in the Sultanate of Oman responsible for regulating commerce and industries.

Oman Chamber of Commerce and Industry (OCCI)

Oman Chamber of Commerce and Industry facilitates trading activities by providing advice and guidance for setting

up businesses to potential investors and provides legal and consultative services to investors. Companies that are successfully formed are required to pay annual membership fees to OCCI.

Export Credit Guarantee Agency

Export Credit Guarantee Agency (ECGA) is a government entity which provides services such as export insurance, financing to exports at low rates, post-shipment financing etc. ECGA charges its customers at a very nominal rate whilst providing adequate level of coverage to exports from Oman.

Muscat Depository and Securities Registration Company

Muscat Depository and Securities Registration Company SAOC (MDSRC) was established in 1998. MDSRC is established as a closed joint stock company which is a

sole provider of the services of registration and transfer of ownership of securities and safe keeping of ownership documents (in its depository). The main functions of MDSRC are to:

- Provide custody for the records of shareholders;
- Depose, register and provide custody for shares;
- Provide concerned authorities with information on shareholders or bearers of securities;
- Restrict and place the securities under pledge and release them;
- Distribute securities returns;
- Provide data protection according to confidentiality laws; and
- Provide risk management information related to trading in capital markets.

Types of business entities

Business may be carried out in Oman in various forms. All types of business entities with the exception of joint ventures and individuals engaged in agriculture and small-scale services must obtain commercial registration and must become members of the Oman Chamber of Commerce and Industry. The Commercial Companies Law of Oman recognizes and regulates different types of business entities. Common business structures in Oman are listed below:

Type of Entity	Description
Sole Proprietorships (Establishment)	<ul style="list-style-type: none"> • Permitted to Omani nationals only. • GCC nationals can carry on proprietorship business in certain permissible activities only.
General Partnership	<ul style="list-style-type: none"> • 2 or more natural persons. • Jointly and severally liable to the full extent of their property. • No partner can transfer the interest without the approval of other partners.
Limited Partnership	<p>The limited partnership company is a commercial company that comprises two categories of partners:</p> <ul style="list-style-type: none"> • One or more general partners jointly and severally liable to the full extent of their property. • One or more limited partners' liability limited to the amount of their contribution to the partnership's capital.

Type of Entity	Description
Limited Liability Company	<ul style="list-style-type: none"> Capital of the company shall be divided into shares of equal value. Minimum 2 and up to 50 natural/juristic persons. Liability is limited to the nominal value of their shares in the capital of the company. Minimum capital is RO 20,000 without foreign participation and RO 150,000 with up to 70% foreign participation. It must retain 10% of their annual profits in a statutory reserve until the reserve reaches one third of the company's capital. The statutory reserve is not available for distribution.
Joint Stock Company	<ul style="list-style-type: none"> Capital is divided into equal negotiable shares. The liability of the shareholders shall be confined to the extent of his contribution in the capital. 3 or more natural/juristic persons. Minimum Capital for Limited Omani joint stock company (SAOC), where no shares offered to public, should be RO 500,000. Minimum Capital for General Omani Joint stock Company (SAOG) should be RO 2,000,000 of which a minimum of 40% and up to 70% must be offered to the public for subscription. Management of the joint stock company shall be entrusted to a Board of Directors. It must retain 10% of their annual profits in a statutory reserve until the reserve reaches one third of the company's capital. The statutory reserve is not available for distribution.
Holding Company	<ul style="list-style-type: none"> A Holding company is a joint stock company which financially and administratively controls one or more joint stock or limited liability companies, which become subsidiary to such company by means of its holding at least 51% of the shares of each such company. Minimum capital of RO 2,000,000.
Joint Venture(s)	<ul style="list-style-type: none"> Formed by two or more juristic or natural persons. Legal relationship between its members without affecting third parties. Joint Venture will have no name, not a separate entity and no registration required.
One person Company	<ul style="list-style-type: none"> A one person company is a limited liability company the capital of which is owned fully by one natural or juristic person. A juristic person may not establish more than one of such company. One person company may not establish another one person company. Owner of the company shall be accountable for its liabilities only to the extent of the capital.
Branches of foreign companies	<p>Branches of foreign companies may engage in certain activities such as:</p> <ul style="list-style-type: none"> carry out government contracts. conduct businesses declared by the Council of Ministers to be necessary to Oman.

Type of Entity	Description
Commercial representative office	Foreign companies are permitted to have legal presence in Oman for the purposes of conducting market research, general advertising, marketing and promotional activities and liaison with commercial entities in Oman.
Commercial agent	Commercial agents are appointed by foreign businesses to export goods and services to Oman. All agencies must be registered with the Ministry of Commerce & Industry



Oman economic zones

The Sultanate of Oman is the second largest country in the Gulf Cooperation Council (GCC). It is one of the most liberalized markets in the region and has invested heavily on economic diversification. The development of Free Trade Zones (FTZ) across Oman has been a centerpiece of the Sultanate's plan to diversify the national economy beyond the oil sector by developing

the growth of value-added, export-focused industries such as manufacturing, shipping and logistics. FTZ serve as catalysts for this growth by providing infrastructure (e.g. roads, ports), regulatory framework and financial incentives (e.g. income tax and customs duty waivers) that encourage high-end foreign and domestic companies to set up operations.

In addition, FTZ aim to build an industrial and trade base in the Sultanate in order to promote sustainable economic growth, using the country's strategically important

position with its commercial harbors of Sohar and Salalah to boost trade, bringing new technologies and creating jobs in higher value-added fields. The goal is to create an economically favorable environment to attract and concentrate companies in a business focused environment. Another goal of establishing free zones is to stimulate the private sector to contribute in the economical and social development.

With each free zone project that was announced, the authorities overseeing and controlling the FTZ have ensured that companies brought in investments into various industries, apart from just oil and gas. Oman's economy has long been reliant on declining oil resources, necessitating the recent diversification drive across numerous sectors.

There are four free trade zones in Oman with unique features and facilities offering incentives such as no paid up capital requirement, 100% ownership by foreign investors, exemption from customs duties

on raw materials and finished products, flexible customs procedures, no income tax, no restrictions on the transfer and repatriation of income.

Oman free zones are suitable for foreign companies intending to use Oman as a regional manufacturing and distribution base. Free zones are mainly for import and export oriented companies who only require an office in Oman.

Oman also has nine industrial estates providing facilities for manufacturing, warehousing, distribution and office spaces to companies.



Salalah Free Trade Zone:

Managed/operated by

- **Salalah Free Zone Company SAOC**

Location

- Adjacent to Salalah port and close to Yemen
- Location is well placed to serve markets in Africa, Asia, the US & Europe
- Provide International ships with fuel
- Exit and entry point for much of the free zone related cargo

Facilities

- Office space for rental
- Business 'incubators' in headquarters,
- Access to deep sea port, international airport

Benefits

- 100% foreign ownership
- 30 years tax holiday on profits and dividends
- No restrictions on the repatriation of capital or profits
- No customs or excise duties
- No minimum capital requirements
- Competitive labour and utilities cost

Industries

- General Trading licence: import, export, distribution and storage
- Trade licence: import, export, distribution and storage of specific items
- Industrial licence: manufacturing, import of raw materials and export of finished products
- Service licence: completion of specified services

Current investors

- Octal Petrochemicals, US based Company
- Salalah Methanol Company, Operated by Oman oil
- Sapphire Marine
- Oswal Caustic soda
- Dunes Oman, owned by Brakes India,
- PGC Textile Corporation, India

Sohar Free Trade Zone:

Managed/operated by

- **Managed by Sohar Industrial Port Company SAOC**
- **Operated by its subsidiary, Sohar Free Zone Company LLC**

Location

- Near Sohar Industrial Port
- 220 Kilometres northwest of Muscat
- 180 kilometers away from Dubai



Facilities

- Easy access to East African Coast and Indian sub-continent
- Offers plentiful land on which to build units
- First 500 hectare phase of the Zone has already been developed with further 4,500 hectares planned
- Equipped with deep-water jetties capable of handling the world's largest vessels, the Valemax class of dry bulk carriers

Benefits

- 100% foreign ownership (minimum two shareholders)
- 10 years exemption from corporate tax extendable to maximum of 25 years
- No customs duties
- No restrictions on sales within the GCC, a standard 5% GCC customs duty applies
- Minimum Omanisation levels of 15%
- Single window licensing procedure

Industries

- Metals and steel
- Logistics and trade
- Light manufacturing and assembly
- Food (cold storage and warehouse facilities available)
- Petrochemicals
- Minerals and aggregates
- Education and services

Current investors

- Oman Petrochemical Industries Company LLC (ORPIC)

- Larsen & Toubro
- Oman Methanol Company LLC
- Oman PolyPropylene LLC
- Jindal Shadeed Iron & Steel LLC
- Sohar Aluminium SA
- Sohar International Urea & Chemical Industries S.A.O.C
- Sohar Power Company S.A.O.G
- Port of Rotterdam in the Netherlands
- VALE International SA
- Majan Electricity Company S.A.O.C
- Omani Qatari Telecommunication Company (Ooredoo) S.A.O.C
- Oman Oil Marketing Company S.A.O.C
- Shell Oman Marketing S.A.O.G
- Al-Batina Power Company S.A.O.G



Duqm Special Economic Zone:

Managed/Operated by

- Special Economic Zone Authority Duqm (SEZAD)

Location

- Located in Central Eastern Oman – 400 Km from Salalah and 450 Km from Muscat
- Near the Al Duqm International Airport

Facilities

- Has land area of 1,777 Sq. kms and 80 km of coastline

- Comprise of sea port, airport, industrial area, town, fishing harbour, tourist zone, logistics centre and education and training zone.

Benefits

- No personal income tax
- Long-term leases and reduced rates
- No restrictions on foreign ownership
- No minimum investment capital
- Waivers and reduction of corporate tax and customs duties
- 100% repatriation of capital and profits

Industries

- Industrial estates
- Warehousing and logistics villages
- Tourist villages and resorts
- Commercial, office and residential complexes



Al Mazunah Free Trade Zone:

Managed/operated by

- Management assigned to Public Establishment for Industrial Estates
- Golden Hala Company also operates the lease of the Al Mazunah Free Trade Zone

Location

- 4 km from the border with Yemen and 14 Km from the Yemeni city Shahn.

Facilities

- Offers trade and storage of vehicles, automotive spares, fruits and vegetables, livestock, fresh and frozen meat, machinery and equipment and other merchandise.
- Plots range from 2,000 – 16,000 sq. m across 100 sectioned areas
- PEIE operates an industrial estate within this zone

Benefits

- Omanisation rates of 10%
- Customs duty exemption
- Exemption from commercial agency law
- 30 year income tax holiday
- 100% capital ownership
- Yemeni employees can work without visas
- No minimum investment required
- Imported goods can be sold into the larger Omani market

Industries

- Industrial: factories, food, plastics, textiles and maintenance
- Commercial: trading and storage of goods, cars and spare parts, livestock, food, machinery and equipment
- Supporting services: transport and logistics, distribution and clearing, handling and commercial correspondence

Industrial Estates:

Managed/Operated by

- Public Establishment for Industrial Estates (PEIE)

Locations

- Russayl
- Sohar
- Raysut
- Sur



- Nizwa
- Buraimi
- Al Mazunah
- Sumail
- Knowledge Oasis Muscat

Facilities

- Offering land and buildings for industrial development
- Nearby Hotel accommodation for guests
- Telecommunications infrastructure, banking facilities

Benefits

- 100% foreign share capital
- 5 years tax holiday for manufacturing/Industrial activity
- No personal income taxes
- Exemption from customs duties
- Special loan terms for joint government projects

Industrial Estate Costs

- Electricity: From RO 0.12/kWh
- Water: From RO 0.003/gallon
- Gas from RO 0.0205/cubic metre
- Rent for land plots: From RO 0.15/sq m a year to RO 0.25/sq m a year
- Rent for building: RO 2-4/sq.m

Knowledge Oasis Muscat: (KOM)

Managed/operated by

- **Managed and operated by Public Establishment for Industrial Estates (PEIE).**

Location

- Near Muscat International Airport
- Near Russayl Industrial Estate and Sultan Qaboos University

Facilities

- 20,000 square meter technology park
- One stop shop facility for handling all administrative services and commercial registration requirement with relevant government entities

Benefits

- 100% foreign ownership
- Highly competitive telecommunication and Internet broadband rates
- Minimum capital investment
- Eligible tenants can be registered on Oman's tender board and bid for government tenders
- No personal Income tax and no foreign exchange controls
- Duty-free access of products from Oman to GCC



Industries

- Digital and mobile media
- Environmental science

- Telecommunications
- Hi-tech engineering and software development
- Internet services and Call centres

Current tenants

- Information Technology Authority
- Microsoft
- Crimson Logic BTE LTD (Oman)
- Cryoto Oman LLC
- Hewlett Packard Arabia
- Qatar Airways
- Oman Air
- Info line
- Indus Novateur LLC
- ITON Software LLC
- Microsoft Corporation LLC

- Eurofunk LLC
- GAVS Technologies
- Gemalto Middle East - Oman branch
- Oracle Systems Ltd – Muscat branch
- Timwe LLC
- Nortal LLC
- Huawei

Financial reporting and auditing requirements

All business entities are required to maintain accounting books under accrual method following International Financial Reporting Standards (IFRS).

All business entities shall, at the end of each financial year, prepare financial statements reflecting the true financial position and the financial performance.

Preparation and submission of financial statements

Type of Entity	Requirements
Joint stock companies	<ul style="list-style-type: none"> • Must prepare and get financial statements audited within 2 months subsequent to the year-end. • Provide audited financial statements to shareholders 15 days prior to the AGM. • AGM must be held within 3 months subsequent to the year-end. • SAOG companies are required to publish condensed financial statements on a quarterly basis and the same has to be filed with CMA.
Limited liability companies	Must prepare, get financial statements audited and submitted to tax authorities along with annual tax return within 6 months after the year-end.
Banks	File audited financial statements to CBO within 1 month after the year-end.
Insurance companies	File audited financial statements to CMA within 2 months after the year-end.
All taxpayers	File audited financial statements along with the final return of income with the Secretariat General for Taxation within 6 months from the end of the accounting period.

Auditors

As per the statutory requirements, auditors should be legally licensed to exercise the accounting and audit profession in Oman and should be independent of the company being audited.



Finance, Banking and Insurance Environment

Currency and exchange control

The currency of Oman, the Omani Rial (RO), divided into 1000 Baiza (bz) is pegged to the US Dollar at US\$ 1 = RO 0.3854. Denominations of 50, 20, 10, 5, 1 Rials and 500 and 100 Baiza are available in notes and 100, 50, 25, 10, 5 Baiza in coins.

Oman does not impose any exchange controls. There are no restrictions on sending remittances abroad of equity capital, debt capital, interest, dividends, branch profits, royalties, management fees, technical fees and personal savings. However, prior approval of the Central Bank of Oman is required for the declaration of dividends of foreign banks to their head offices of any surpluses from their previous year's profits.

Finance and banking

The Central Bank of Oman (CBO) is responsible for maintaining the stability of the national currency the Omani Rial and ensuring monetary and financial stability in a deregulated and open financial system by way of monitoring and regulating banking activities in Oman. The institutional framework of the financial sector falling directly under the jurisdiction of the CBO embodied mainly conventional commercial banks, Islamic banks and Islamic Windows, specialized banks, non-bank finance and leasing companies and money exchange and draft issuing establishments. Besides the above, the financial sector also included

several insurance firms, public and private sector pension funds, primary capital markets, brokerage firms and a stock exchange i.e. the Muscat Securities Market.

Official data reveals that the top three commercial banks contribute around 62% of total sector assets, while leading player Bank Muscat accounts for 37.26% of total sector assets. The three specialized banks Alliance Housing Bank, Oman Development Bank, Oman Housing Bank have been set up to support national development efforts in specific fields such as housing, industry, agriculture, fisheries, tourism, education by providing financial and technical assistance for small, medium and large projects in order to promote economic activity. The 2 Islamic banks are full-fledged sharia-compliant banks and there are also six Islamic windows.

Non-banking financial intermediaries in Oman

Finance and leasing companies are engaged in leasing, hire purchase, debt factoring and similar assets-based financing facilities. There are 21 money exchangers operating under the license of money exchange and remittance business.

Insurance

The Insurance Companies Law issued by Royal Decree No. 12/79 governs the legislations regulating to the insurance sector in Oman and these are closely monitored

by the Capital Market Authority. Subject to the provisions of article 51 of this law, in respect of Foreign companies, no company shall have the right to conduct the insurance business in the Sultanate of Oman unless it fulfils the following requirements: 1) It shall be a public joint stock company established in accordance with Commercial Companies Law to carry out insurance business, 2) It is licensed by the Capital Market Authority in charge of insurance business to carry out all classes of insurance business or any of the classes specified in Article 1, 3) It is a joint stock company possessing minimum capital of not less than RO 10,000,000 (Ten million Rial Omani) as required by this law, and has lodged the required guarantee and maintains margin of solvency during its activity. Insurance company also means the branch office or agency or any other set-up belonging to the insurance company set-up in Oman or abroad and carrying out insurance activities in the Sultanate of Oman.

The Insurance Companies Law Article 1 applies to companies which carry on, within the Sultanate of Oman, insurance business of all or any of the following classes: a) Ordinary life business; b) Industrial assurance; c) Liability assurance; d) Marine, aviation and transport insurance; e) Motor vehicle insurance; f) Pecuniary loss insurance; g) Personal accident insurance; h) Property insurance and i) Other types of insurance not included in any of the above categories. Classes of insurance business in paragraph (1) (a) to (b) are known as "Life Insurance Group" and classes of insurance

business listed in paragraph 1 (c) – 1 (i) known as "General Insurance Group".

As per Article 51 of the Law, an external insurance company may operate in the Sultanate through authorised agents, its branch office or through other service units pursuant to the terms and conditions and requirements set out in the Regulation.

Brokerages may not be carried out in insurance operation except with a company registered in the register of insurance companies in Oman. Requirements for broker business is to submit an application for the license and registration in the insurance brokers register to the Authority along with conditions: a) that he is having an experience in the field of insurance brokers for ten years atleast or having a certificate of completion of primary school plus five years' experience in the field of insurance. B) that he has paid the registration or renewal fees amounting to sixty five Omani Rials to the Authority by enclosing supporting receipts (RO 65); c) to submit to the CMA a bank guarantee amounting to RO 50,000 for one year subject to renewal and to be valid all through the period of currency of the license.

Any person desirous of carrying out insurance agency business shall be a juristic person and shall apply for license on the form prepared by CMA together with following requirements: 1) Proposed name of the insurance agent, legal form and address; 2) name of founders who shall be Omani Nationals; 3) payment receipt of application consideration fees; 4) Evidence that founders and senior management have not been declared, in the five years preceding the application as bankruptcy or convicted in a felony or dishonorable crime or an offense provided for in the Commercial Companies Law, Commercial Law, Capital Market Law or Insurance Companies Law unless rehabilitated; and 5) copy of registration certificate in the Commercial Register, signatories form and copy of the membership in the Oman Chamber of Commerce and Industry.





Labour Environment

Overview

People of Oman are friendly and welcome foreign people to work in the country to make their contribution towards development of the country. Oman labour laws allow expatriate staff to be hired by local companies, provided certain criteria is met.

Labour Laws

The Ministry of Manpower is responsible for proposing and implementing manpower general policies in line with the Government's economic and social objectives.

Omani labour laws provide rules regarding employment of citizens, expatriates and women, contract of work, wages, leaves and working hours etc.

Employment of nationals

Special privilege is given for the employment of the Omani nationals, to provide citizens with opportunities to participate in the economy and nation building process.

Ministry of Manpower issues guidelines which require private companies operating in various sectors to employ Omani nationals as certain percentage of their work force. The Omanisation percentage in various sectors keep changing based on the directives issued by the Ministry of Manpower. Further, certain specified categories of employment are reserved for Omani nationals only.

The minimum monthly salary for the national is RO 325 and minimum monthly salary for the national who is a graduate of any degree is RO 600.

Employment of expatriates

The employers are required to recruit the Omani workers to the maximum possible extent but expatriates may also be employed where there is skill shortage. Prior to recruitment of expatriate, employers are required to obtain necessary labour clearance from the Ministry of Manpower.

Working days and hours

The working days for public and private sector are from Sunday to Thursday with Fridays and Saturdays being weekly holidays. The total maximum working hours per week is 45 hours, but not to exceed 9 hours per day. During Ramadan, the hours of work will be reduced for Muslim employees to 6 hours a day/30 hours per week.

Social Security Law

The Social Security Law is applicable to Omani employees in the private sector. The Public Authority for Social Insurance (PASI) is responsible for implementation of this law. The employer shall undertake to collect the employees' share against their monthly salary and shall be responsible for making payment of the full social insurance contributions to PASI on behalf of all its

Omani employees. The benefits of the social insurance include pensions, end of service benefits, work injury benefits and additional grants.

Employers are required to register all Omani employees with PASI within 15 days from the date of their joining. Monthly social contribution is 7 % of the gross salary from the employee and 11.5% of the gross salary from the employer. PASI sends monthly billing to the employer which is payable on or before the 15th day of the following month.

Terminal benefits to expatriate employees

Employers must pay terminal benefits (Gratuity) to the expatriate employees, provided he is in continuous service for one year, at the rate of 15 days basic salary for every year of service for the first three years

of service and 30 days basic salary for every subsequent year of service.

Leave Salary

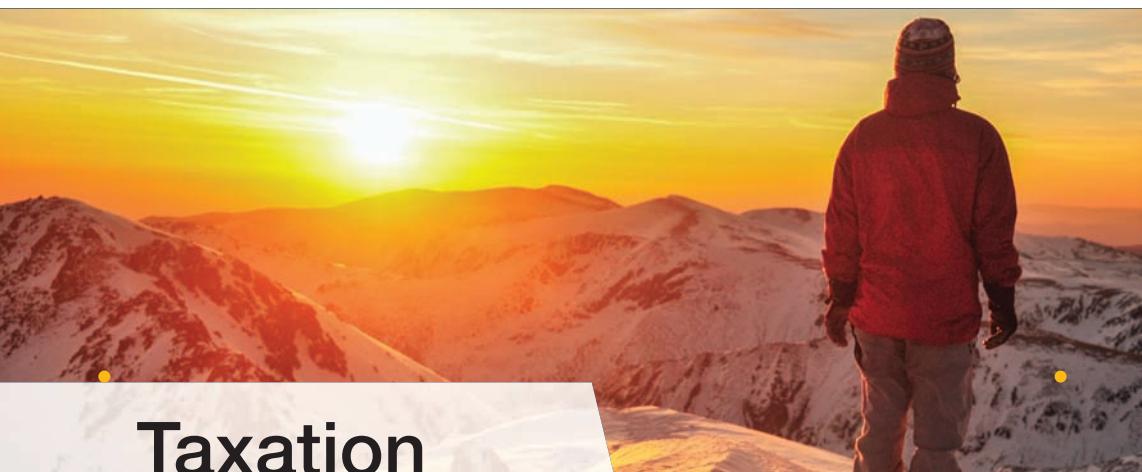
Employees are entitled to 30 days leave with full salary for every year of service. Employees have also the right for 6 days emergency leave annually, with full salary in case of emergencies.

Employment taxes

Income from employment is tax free and can be freely remitted abroad.

Trade unions

The workers may form labor unions to safeguard their interests, defend their rights and improve their materialist and social status and to represent them in all matters relating to their affairs.



Taxation

Direct Taxation

Overview

Taxation regime in Oman is very favourable for businesses in the present global context and provides various incentives for new businesses and foreign investment.

Therefore, taxation system is moderate. Oman levies no personal income tax, estate tax or gift tax. The main tax levied in Oman is the tax on business income. All business entities, both foreign and locally owned, are taxable in Oman.

Oman's Government deserves praise for carrying out reforms of the Oman's tax

structure. The revised tax system provides balanced and identical tax practices for the foreign and local firms operating in Oman. The revised tax system has been effective since January 2010, which has been further amended in February 2017.

Apart from business income tax, Oman has levied only customs duty on imports and certain tourism and municipality tax.

Taxable business entities

The Government of Oman levies income tax on the following business entities:

- Establishment (sole proprietorship business);
- Enterprise (small omani proprietorships and small omani companies fulfilling certain conditions)
- Company established under Omani legislation including partnership, limited partnership, limited liability company, joint venture and joint stock companies;
- Branches and Permanent establishment of foreign companies.

Tax rates

All the business entities shall pay income tax at a flat rate of 15% on the entire taxable income without any basic exemptions.

Companies deriving their income from sale of petroleum are taxed on their taxable income at the rate of 55%.

• Permanent establishment (“PE”)

PE means a fixed place of business through which a business is wholly or partly carried out in Oman by a foreign person either directly or indirectly through a dependant agent or otherwise. PE especially includes: 1) a place of sale, place of management, branch, office, factory or workshop; 2) a mine, quarry or other place of extraction of natural resources;

PE also includes

- a building site, place of construction or an assembly project if it lasts for a period exceeding 90 days.
- any foreign person that provides consultancy service or other services in Oman for not less than 90 days, whether provided directly or indirectly.

Arrangements mentioned below shall not be regarded as PE when the foreign person uses a fixed place of business solely for the following purposes:

- 1) Storage, display or delivery of goods or merchandise belonging to that person;
- 2) The maintenance of a stock of goods belonging to that person for the purpose of storage, display or delivery or processing by another person;
- 3) Purchase of goods, merchandise, or collection of information for the business;
- 4) Carrying on any other activity of a preparatory or auxiliary character for the purposes of the business; and
- 5) The combination of any of the activities mentioned provided that the overall activity of the fixed place of business resulting from that combination is of a preparatory or auxiliary character.

Withholding tax

Withholding tax is a tax charged on the gross amounts of the following specified payments which accrue or arise in Oman to foreign companies which do not have a PE, or which do not constitute a part of the gross income of a PE.

- Royalties
- Management fees or performing services
- Consideration for the use of or right to use computer software
- Consideration for research and development
- Interests
- Dividends on shares

Exclusions from withholding tax

Clarification has been issued in respect of performing services wherein the following categories of payments are excluded for withholding tax purposes:

- conferences, seminars or exhibitions
- training
- transport and shipping of goods and insurance thereupon
- airline tickets and cost of staying abroad
- board meetings
- payments for re-insurance
- services rendered in relation to any activity or property located outside Oman.

There is also an approval from the Oman government for temporary suspension of withholding tax on dividends and interest for 3 years with effect from 06 May, 2019.

Withholding tax remittance

Any taxpayer who pays or credits any of the amounts specified above to a foreign person, shall be liable to deduct 10% as withholding taxes from the gross amount paid or credited, and shall remit the same to the Secretariat General for Taxation, not later than 14 days from the end of the month in which that amount has been paid or credited, whichever is earlier.

The remittance of this tax shall be made to the Secretariat General for Taxation accompanied by a statement in the form prescribed for this purpose. A copy of that form shall be sent to the recipient of the payment.

Taxable income

Taxable income for business entities is their gross income for the tax year after deducting the expenses or allowing any deductions or set off or any exemption under the Income Tax Law or any other law in Oman.

Global basis

The tax law confirms the global concept of tax system, by taxing all income, wherever earned, accruing or arising to a company in Oman.

Income

Income means income of any kind – whether in cash or in kind and includes in particular:

- Profits from any business
- Consideration for carrying on researches and development
- Consideration for the use or right to use of computer software
- Consideration for lease or usufruct of real estate, machinery or other moveable or immovable property
- Profits resulting from granting any person a usufruct of or the right to use a real estate, machinery or any other moveable or immovable property.
- Dividends, interests or discount received
- Royalties management fees or performing services.

Deductible/Non-deductible expenses

Deductible expenses

In determining taxable income for any tax year, all the expenses actually incurred for the purpose of generating the gross income for the tax payer is allowed as deduction.

Deductible expenses subject to limits

Donations

Donations in cash or kind may be deducted, up to 5% of gross income, only if made to organizations approved by the Council for Financial Affairs and Energy Resources, and on fulfilment of the provisions in the Executive regulations.

Bad debts

Bad debts may be deducted only to the extent that the tax authorities consider them bad and irrecoverable. Deduction of bad debts below RO 1,500 is subject to taking recovery procedure and relevant supporting. Deduction of bad debts in excess of RO 1,500 will be allowed only if taxpayers provide documentary proof that he has taken legal steps to recover the debt including judgement by a court of law, debts redemption order or liquidation or bankruptcy proceedings.

Interest costs

Interest expense must be actually incurred to generate the business revenue and not for capitalization of the business. Omani establishments and companies claiming deduction of interest costs on loan from related parties are now required to comply with minimum capital requirements referred to as "thin capitalization rules". Omani establishments and companies which exceed debt to equity ratio of 2:1 is subject to proportionate disallowance of deduction for interest expenses on loans taken from related parties.

Interest costs incurred by foreign branch companies are deductible only if the interest bearing loan is actually borrowed by the head office from a third party lender

or bank for the specific benefit of the Oman branch and the loan is used by the branch for financing its working capital.

Remuneration to directors, members and partners

The remuneration paid to proprietor of an Omani establishment or partner/members of an Omani Company is deductible for tax purposes, as per the following amounts, provided they are full time engaged in management of the business and do not claim this deduction in any other entity.

- actual or RO 1,500 per month per person, or 25% of the taxable income of the entity, whichever is less (In general)
- actual or RO 3,500 per month per person, or 35% of the taxable income of the entity, whichever is less (In case of professionals)

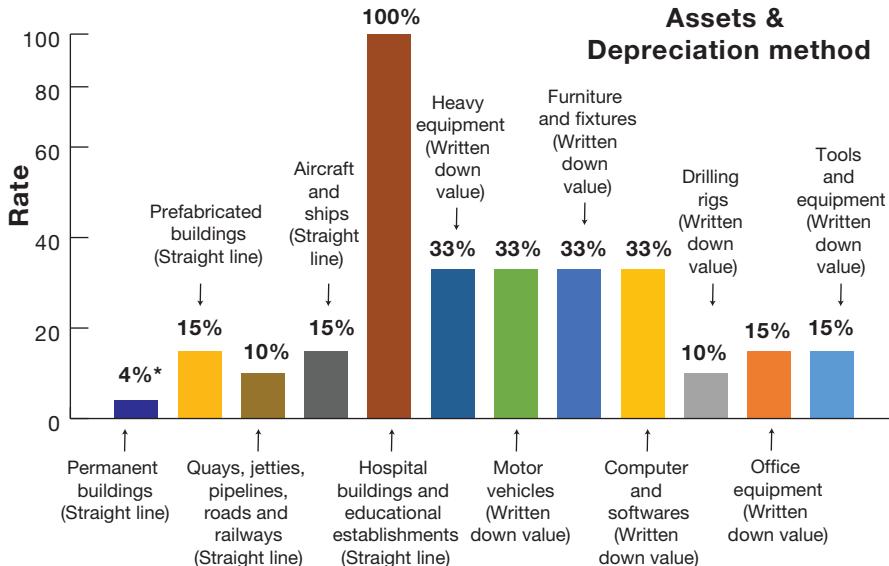
In the case of joint stock companies, the remuneration paid to members of the board of directors of joint stock companies shall be considered as a deductible cost as per the limits specified in Articles 101 of the Commercial Companies Law.

Rental costs

Rental costs are deductible only if the rental agreements are registered with the municipalities.

Depreciation

While computing taxable income of an entity, depreciation is deductible at the rates prescribed by the Income tax law, as follows:



*In case of buildings used for industrial purposes (excluding buildings for housing of employees, office and storage), the stated rates of depreciation shall be doubled i.e. 8 %.)

Amortisation of intangible assets is also allowed at a rate approved by the Secretary General for Taxation.

Loan losses

The loan loss provisions are allowed as deductible expenses to all banking companies and leasing companies as defined in the banking law to the extent specified by Central Bank regulations.

Insurance agency fees

Any insurance commission paid to an authorised agent in Oman by a foreign company is restricted to 25% of the net premium underwritten.

Sponsorship fees

Sponsorship fees paid by a foreign company to carry on its business in Oman is restricted to 5% of the net taxable income before charging such fees and after set

off of tax losses from earlier years. The sponsorship fees must have been incurred for services received and not relate to commission or consideration for other service arrangements.

Head office expenses

In respect of foreign company branches or foreign companies operating in Oman with PE status, the head office expenses are allowed either actually incurred or 3% of the total income whichever is less. This 3% allowance may be increased to 10%, in case of major industrial companies using modern and sophisticated means of productivity.

For branches of foreign banks and insurance companies, the allowance of expenses is either actual or 5% of the revenue, whichever is less.

Loss carryovers

Losses may be carried forward for five years

but may not be carried back. Net losses incurred by business entities benefiting from tax holidays under the tax law may be carried forward without any time limit under certain circumstances.

Non-deductible expenses

The following expenses are not allowed as a deductible expense in computation of taxable income.

- Income tax paid in Oman or in other countries
- Income tax consultancy fees
- Capital expenditure
- Provisions for stock, receivables
- Expenses which may be recovered by virtue of any insurance contract or claim for compensation
- Loss on disposal of securities listed in MSM
- Expenses incurred to generate tax exempt income
- Any expenditure which the Secretariat General for Taxation deems inappropriate

Tax exempt income

The following types of income is fully exempt from tax

- Dividends received from shares of any Omani company when paid to an Omani National, Omani Company or a PE in Oman
- Profits or gains from the disposal of securities listed in the Muscat Securities Market.

Tax exempt activities

Shipping activities

As per the Income Tax Law, 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 funds set up in Oman under the Capital Market Law, or investment fund which is 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 manufacturing and Industrial activity only would be exempt from tax for a period of 5 years with effect from 27th February, 2017. However, tax exemption granted earlier would continue till the end of the period up to which exemption was granted.

The tax exemptions may be granted by a decision issued by the Minister supervising the Ministry of Finance. The exemption provided shall be for a period of five years beginning from the commencement of the business or registration of the company, as applicable.

Double taxation treaties (DTT)

Oman has signed comprehensive double taxation avoidance treaties with many countries: Algeria, Bangladesh, Belarus, Belgium, Brunei, Canada, China, Croatia, Egypt, France, Germany, India, Iran, Italy, Japan, Korea, Lebanon, Mauritius, Moldova, Morocco, Netherlands, Pakistan, Russia, Seychelles, Singapore, South Africa, Spain, Sudan, Switzerland, Syria, Thailand, Tunisia, Turkey, United Kingdom, Uzbekistan, Vietnam, Yemen. Some of these treaties have not been ratified or are not yet come into force.

In application of the provisions of any international agreement for the avoidance

of double taxation, the foreign tax paid in respect of the income which was charged to tax in the country with which Oman has avoidance of double taxation treaty, shall be deducted from the tax payable on its taxable income in Oman of the tax year of which the income charged to the tax in that other country.

Double taxation avoidance

The foreign tax paid in respect of the income which was charged to tax in the country with which Oman has concluded that agreement shall be deducted from the tax payable on its taxable income in Oman of the tax year of which the income charged to the tax in that country forms a part.

The amount allowed to be deducted for the foreign tax, for any tax year, shall not exceed the difference between the amount of tax which would be chargeable on the taxable income for that year before the deduction for the foreign tax, and the amount of tax which would be chargeable on that income after deducting the income for which the deduction is to be allowed.

In all cases, the total amount allowed to be deducted for any tax year for the foreign tax shall not exceed the tax payable for that year.

This relief would be available even in respect of taxes paid in countries with whom Oman does not have DTT.

Related party transactions

The Income Tax Law requires two related parties or persons shall do business or transact with each other on an arm's length basis. Where related persons enter into transactions that result in a lower taxable income or higher losses than would have been the case if it was between independent persons, the actual terms of such transactions shall be ignored in computing the taxable income.

Pricing between related parties:

The pricing of related party transactions is

of importance to business groups and is also a focus area for the tax authorities, not only in Oman but also globally. The Income tax law or its executive regulations does not specify any method or rules for transfer pricing, but still, the tax department is keen on evaluating the reasonableness of pricing of goods and services exchanged between the related parties on a case to case basis. Therefore, having suitable documentation to support a position on pricing for transactions between related parties is a must.

Tax compliance and administration

Tax Authorities

The Secretariat General of Taxation (SGT) at the Ministry of Finance is the authority responsible for the administration, assessment and collection of income tax.

Registration

Business entities must register with the SGT within two months from the incorporation or commencement of business and must update within one month from the date of modification to this information, if any, as per the Law amended by RD 9/2017.

Tax card

Every tax payer must make an application and obtain a Tax Card as soon as a tax payer initiates procedures for registering his commercial activity. Tax card obtained must be renewed after the validity expires. Ministries, Government Departments, Government Bodies and companies with at least 40% ownership by Government, must obtain a copy of the card before dealing with a tax payer. Non-compliance would invite a penalty up to RO 5,000. The date from which provisions relating to Tax card would be implemented is yet to be announced.

Principal officer

Business entities have to designate a principal officer who would be the focal person in respect of Income Tax

Law. Otherwise, Secretary General may designate any person connected with the business as the principal officer.

Financial statements

Business entity's financial statements are to be prepared in accordance with International Financial Reporting Standards and on accrual basis and in the local currency i.e. Rial Omani. The adoption of any other basis of accounting and preparation of financial statements in a foreign currency requires the approval from the SGT.

Preserve the books

The Income Tax Law requires the business entities to preserve all their books of accounts and supporting documentation for at least ten years from the end of the accounting period.

Accounting period

The first accounting period for business entities shall begin on the date it commences business or the date of their commercial registration whichever is earlier.

First accounting period may be of less than twelve months or may extend to a maximum period of eighteen months.

Business entities may with the prior consent of the Tax Authorities, change the date on which the accounting period ends.

Filing of returns and audited accounts

The Income Tax Law requires every tax payer to furnish a provisional and a final return of income for each tax year to the SGT in the forms prescribed for this purpose within the period mentioned below and pay the taxes due as per the returns.

- The provisional return of income (PRI) should be filed within three months from the end of the accounting period relevant to that tax year and pay the advance income tax on the estimated taxable income, if any, for that year.
- The final return of income (FRI) should

be furnished within six months from the end of the accounting period relevant to that tax year, along with audited financial statements of the business entity and the balance tax payable, if any, and the relevant appendices and details.

- If a foreign person carries on business in Oman through more than one PE, a consolidated return must be filed, including the taxable income of all the PE's.

SGT has introduced facilities to file the Income Tax returns and the tax documents through its electronic portal and is operational now.

Relief for Enterprise (lower tax rate)

Tax shall be charged @ 3% for Omani Establishments and Omani Companies which fulfils the following conditions:

- Capital is RO 60,000 or less, the income is RO 150,000 or less and number of staff is 25 or less.
- Not carrying out activities like banking, insurance, mining, public utility projects, air/sea transport and other activities to be included.

Tax shall be charged at Zero %, if the above referred entities are fully owned and managed by Omanis or Omani establishments and they employ at least two Omani citizens.

Such small Omani establishments and Omani companies taking advantage of this provision must submit their Income tax returns within 3 months from the end of the accounting period, and they are permitted to follow 'Cash basis' of accounting.

Eligible tax payers shall submit a request to the tax authorities along with the tax return. After granting a lower tax rate, any conditions specified under the law subject to which relief/benefit was granted are not met, then the benefit/relief of the lower tax rate will be withdrawn and will be brought under the general tax bracket.

Tax assessment

Income Tax assessments may be made within three years from the end of the year in which the tax return is filed or on an application made by a Tax payer. The basis for assessment is the income tax returns filed, audited financial statements, details furnished, documentary evidences, supporting, tax hearings and representations. Self-assessment procedure has been introduced in 2017, with provision for investigation on sample basis. Tax assessments would be done on sampling basis for any tax year on any tax payer that is liable to file a return. A specific provision has been included in the tax law to allow inspection of documents and records at the tax payer's premises.

In cases where income tax returns are not submitted, the assessment shall be made within 5 years from the end of the tax year for which the return of income is required to be submitted. The SGT may rectify/revise/make additional assessments within a period of 3 to 5 years from the original assessments, if there is any mistake or an under assessment.

The SGT serves the notice of assessment on a tax payer, normally by post to its last address known to the Secretariat General. The delivery of a notice/decision through portal to the taxpayer are considered valid. The assessment is made in writing and includes, in particular, the amount of taxable income or loss, along with the date of assessment, the amount of the tax payable and the due date of payment.

Tax disputes

The taxpayer has the right to object to an assessment, if there is any dispute in the assessment completed by the Secretariat General. The objection shall be filed in writing to the Secretary General and shall include the claims of the taxpayer, within a period of 45 days from the date of serving of the assessment order or the decision. The tax payer may submit an application requesting for postponement of payment of objected tax. The Secretariat General

may review the objected assessment and issue a decision confirming, cancelling or modifying the original assessment. A Tax payer may file an appeal/ contestation to the Tax Committee, if aggrieved with the decision on objection.

The Income Tax Law permits the tax payer to file tax suit before the Primary Court against the decision issued by the Tax Committee within 45 days from the date of serving the notification of the committee's decision. Either the Secretary General for Taxation or the taxpayer may contest against a judgment issued by the Primary Court through appeal before the Court of Appeal and then before the Supreme Court. The provisions of the Civil and Commercial Procedures Law shall apply for matters not covered in the Income Tax Law, when hearing and making final judgement over the tax suit.

Payment and collection of the tax payable

The Income Tax Law requires the tax payers to pay the tax due and payable, either as per the Provisional or Final Return or as per the tax assessment on the date specified by the Law, thereto. Non-payment of tax shall result in:

- Imposing an additional tax at 1% per month of the unpaid amount of tax due and payable. This tax is calculated for the period extending from the date on which the tax is due to the date of the payment.
- Collecting the tax by adopting the procedures specified for the administrative enforcement under System for Collection of Taxes, Fees and other amounts payable to the Units of the Administrative Apparatus of the State.

Administrative penalties and criminal prosecution

As per the Royal Decree 9/2017 issued in 2017, non-compliance with tax law requirements would attract stiffer penalties and criminal prosecution.

Failure to file Provisional Return and Final Return of Income - a fine of RO 100 to RO 2,000 may be imposed.

Failure to declare correct taxable income – fine of minimum 1% and maximum not exceeding 25% of the difference between the assessed tax and tax as per final return may be imposed.

Failure to submit any statements, information, financial statements, documents required to be submitted, non-submission of reply to queries related to assessment - Minimum fine of RO 200 and maximum fine not exceeding RO 5,000 may be imposed.

Intentional non-submission of return, documents, information, accounts, records, statements, not preserving the books of accounts for a period of 10 years, failure by the owner of the establishment/PE to designate a principal officer - shall be punishable by an imprisonment for one month to six months for non-submission of returns and six months to 3 years for intentional non submission of documents etc., and a fine of an amount between RO 500 to RO 30,000 and fine amount of RO 5,000 to RO 50,000, respectively.

Indirect taxation Value Added Tax (VAT)

VAT is a new tax for GCC region which had always been a tax-heaven for businesses and consumers. Now with the introduction of VAT, the economics will have significant challenge in societal and behavioural change among the people – a paradigm shift from tax free products to taxed ones. Never the less, the GCC countries are embracing the change and have shown a positive inclination towards the government rules and regulations on VAT.

GCC countries have been discussing VAT for more than a decade, and with the signing of the VAT Framework Agreement, VAT is implemented in three out of the six GCC nations who have signed the GCC VAT

Framework Agreement. The legislations of the remaining three nations (including Oman) is unknown at this time but the legislation of KSA, UAE and Bahrain can be used as an indicator of the content of the legislation in Oman as it is likely that provisions will be similar. GCC VAT framework agreement proposes VAT on tax-registered businesses at a rate of 5 per cent on a taxable supply of goods or services at each step of the supply chain.

The VAT law of Oman is yet to be published however, the administrative machinery system is all set in place to implement once the law is issued. As per the latest news, VAT Law is expected in the beginning of 2021.

In general, there are 3 categories of actions to be taken when readying for VAT.

VAT charge categories and mechanics

- Analyse all sales and purchase transactions to determine whether and how VAT will apply.

VAT Accounting & Records

- Calculate VAT correctly
- Capture all VAT collected and VAT paid
- Make the data easily accessible for the preparation of the VAT return

VAT Management

- Develop a strategy for VAT
- Identify all business functions and stakeholders that are involved in VAT
- Determine objectives for the VAT function
- Allocate responsibilities for VAT to individuals within these functions
- Identify risk areas for VAT and plan how these will be managed
- Develop communication, review and escalation processes
- Create awareness of VAT and touch points across the organization
- Develop controls to ensure accurate and timely VAT return submissions and on-time payments

- Controls to identify relevant changes in the business (new products, change of the supply chain)
- Process to capture non-routine transactions
- Process for tracking in-country legislative developments
- Training of staff
- Use of technology
- Use of external advisers

Excise tax

Oman has followed in the footsteps of Saudi Arabia, UAE, Bahrain and Qatar in imposing a selective tax, dubbed as 'sin tax' on goods and beverages, seen to have a level of harm associated with their consumption.

On 13 March 2019, His Majesty Sultan Qaboos bin Said issued Royal Decree No. 23/2019, approving Oman's Excise Tax Law. The Royal Decree is effective from 15 June 2019 i.e. 90 days from its publication in the Official Gazette, released on 17 March 2019.

Excise tax is introduced as an initiative to control the consumption of products that are considered harmful to health and wellbeing.

The legal framework governing the implementation of excise tax in Oman is the Common Excise Tax Agreement of the States of the Gulf Cooperation Council (GCC) that was agreed by the GCC Member States in November 2016.

The Selective Tax Law levies a tax on tobacco and its derivatives (100 per cent), carbonated beverages (50 per cent), alcohol (100 per cent), energy drinks (100 per cent) and pork products (100 per cent). While these categories are relatively well-defined, a comprehensive listing of beverages and energy drinks subject to the new tax will go a long way in removing any scope for doubt or confusion. In the executive regulations to come, the Ministry will clarify further on the type of beverages that will be subject to Excise Tax and what shall be considered as 'Energy Drinks' for the purposes of the Excise Tax system in Oman.

Indirect taxes and duties

Indirect taxes and duties imposed/not applicable in Oman as tabulated below:

Type of tax	Applicable	Rate
Municipality tax	Yes	5%
Tourism tax	Yes	4%
Electricity bills exceeding RO 50 per month	Yes	2%
Lease agreements	Yes	5%
Custom duty	Yes	5%-100%
Capital duty	No	-
Property (real-estate) tax	No	-
Stamp duty	No	-
Transfer tax	No	-
Excise duty	Yes	50% or 100%
VAT	Expected from 2021	Proposed at 5%



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China	Israel	Peru	USA
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Costa Rica	Japan	Poland	Venezuela
Croatia	Korea	Portugal	Vietnam
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