Newsletter

Vol 3, 2019

Audit / Tax / Advisory / Risk / Forensic

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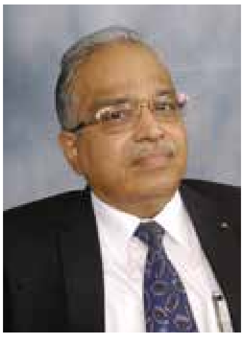
Message from the Managing Partner



Davis Kallukaran
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Managing Partner
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Dear Friends,

The greatest challenges to our businesses today are arising out of corruption, bribery, data protection, gifts, hospitality, bullying, harassment, conflict of interest and late payments. The past few years have highlighted the costs of acting unethically with a spate of business failures, public distrust, and increasing public protests against corporate failures.

Institute of Chartered Accountants of Oman (ICAO)

World over accounting and auditing Institutions play a key role in the development of human capital by inculcating the core values of objectivity, integrity and honesty. These institutions are responsible for administering training and examinations for students, and conducting continuing professional education (CPE) for its qualified auditors and accountants. They contribute to the national development by enabling entities to fulfil their duties by being accountable and transparent to the public and ensures integrity and instill confidence among citizens and stakeholders. They also support the governance responsibilities of oversight, insight and foresight.

The accountants are the custodians of the national wealth and they are the conscience keepers of the economy. Let us develop such an institution which will uphold and inculcate the core ethical values - **"Institute of Chartered Accountants Of Oman".**

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Tax Alert

Tax impact highlights on IFRS 9, 15 implementation

The implementation of IFRS 9 and IFRS 15 have impacts on the financial performance, financial position, financial ratios and financial indicators of the financial statements due to the mandatory adoption with effect from 01 January, 2018. While the corporate entities focus on the financial impacts, it is also equally important and relevant to look at the tax impact due to the mandate adoption. While the tax impacts at the time of transition may not be very significant, the tax impacts due to the implementation would be highly significant and deserve more attention.

IFRS 9 Financial instruments:

The two key accounting impacts of IFRS 9 are (i) Classification and measurement (ii) Impairment. Under classification and measurement the financial assets are measured at amortized cost or fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Even though IFRS 9 will by and large increase the number of financial instruments to be measured at fair value which would have impact on book profit or loss. There will not be significant tax impact either at the time of transition or moving forward. It is only the unrealised gain/loss of reporting at fair value will be eliminated for tax purposes.

Impairment of financial assets are to be recognized based on the Expected Credit Loss model (ECL). Under ECL method the impairment is arrived at by applying a formula which has scientific method, mathematical calculation, historical analysis, statistical data and macroeconomic forecast. The impairment or provisions thus arrived at are still estimates and not actual and therefore obviously these would not be allowed/considered in the computation of taxable income under Income tax law even though there is a strong basis for considerations.

The Impairment provision though will have a significant tax impact on the financial sector, still the other corporate sector would also be affected as they essentially hold some financial instruments such as loan and trade receivables. Due to the application of the recommended model, there are chances that impairment provisions are either larger or recognised earlier as the ECL is booked under different stages 12 month ECL at stage 1 and lifetime ECL at stage 2 and stage 3.

Further in the case of the financial sector where certain impairment/provisions prescribed by the Central Bank, may be allowed as per tax laws, the impairment provisions in excess of the prescribed limits may come under general provision and still be disallowed for tax purposes.

IFRS 15 Revenue from contract with customers:

The standard provides guidance of how and when a revenue to be recognised, this applies to all contracts, except Lease contracts and Insurance contracts for which separate standalone standards IFRS 16 and IFRS 17 will apply respectively.

As per the standard, a five step model is applied whereby revenue is recognised as and when the entity satisfies a performance obligation. The standard will have an impact on certain situations like milestone payments, bundled products, warranties etc., due to a difference in the timing of revenue recognition.

There will not be any significant tax impact due to the adoption of the Standard. However, there shall be tax impact during the transition period due to the re-statement of comparatives.

Excise duty in Sultanate of Oman effective from 15th June 2019

The Royal Decree Law was published on March 13, 2019. The Decree Law comes into effect after 3 months from the date of publication. Accordingly, excise tax will come into effect from 15 June, 2019 in the Sultanate of Oman.

What is an excise tax and how it is imposed?

Excise tax is a consumption tax and is triggered upon the release of excise goods for consumption. It is a single-stage indirect tax imposed on specified goods.

Which goods fall under excise tax?

The Decree Law does not specify which goods will attract excise tax. The details of such goods will be specified in a decision from the minister responsible for financial affairs and approved by the council of ministers.

However items like alcohol, carbonated drinks, energy drinks, pork and tobacco products shall be subject to excise tax.

Excise tax rates applicable:

Alcohol – 100 %
Energy drinks – 100 %
Pork and pork products – 100 %
Tobacco and tobacco products – 100 %
Carbonated drinks – 50 %

Who it may be applicable to:

- Importers of excise goods
- Manufacturers of excise goods
- Supermarkets
- Pharmacies
- General stores
- Restaurants
- Hotels
- Theaters

Tax registration and filing of returns

Any person who engages in the following activities in Oman must register for excise tax: “

- Production of excise goods;
- Import of excise goods;
- Possession of excise goods, on which the excise tax due has not been paid; and
- Licensed to establish a tax warehouse.

According to the Decree Law, an excise tax return and payment is due within 30 days of the end of the tax period. The tax period is a period of 3 calendar months. The first tax period starts from the date of registration and each subsequent tax period starts from the next day after the end of 3 calendar months.

How excise tax is computed

According to the Common Excise Tax Agreement of the States of the GCC and based on precedence in the GCC, excise tax is computed on the higher of:

- The retail sale price; or
- The standard price list periodically published by the tax administration in the member state.

Consequences of non-compliance

The Decree Law provides for penalties of between OMR 1,000 to 10,000 or imprisonment for a period between two to twelve months, or both, in case of:

- Failure to nominate a responsible person
- Failure to appoint another responsible person in case of absence of the originally nominated responsible person from Oman for more than 90 days.
- Failure to comply with the requests of the Secretariat General.
- Release of excise goods from a tax warehouse without payment of excise tax.
- Failure to examine excise goods at the time of receipt and prior to placing or storing them in a tax warehouse.
- Failure to maintain regular accounting records and books.
- Prevention or obstruction of employees of the Secretariat General from carrying out their responsibilities and duties.
- Failure to submit excise tax returns.
- Unsealing or removal of seals or distinguished signs in violation of the provisions of the Decree Law.

The Decree Law also provides for more stringent penalties of between OMR 5,000 to 20,000 or imprisonment for a period between one year to three years, or both, in case of:

- Failure to notify the Secretariat General of details of inventory in case of levy of excise tax or increase of the excise tax rate on excise goods.
- Failure to register with the Secretariat General.
- Failure to report correct details in the excise tax returns.
- Submission of forged excise tax returns, documents or records to evade payment of excise tax.
- Destruction, concealment or disposal of any documents, records, accounts, statements or other information requested by the Secretariat General within one year from the receipt of the notice from the Secretariat General.

Immediate Action required for the applicable tax payers:

- Stock to be taken on 14 June, 2019
- Excise Registration to be done between 15 June to 30 June, 2019
- First Excise Tax return is to be filed between 15 June, 2019 to 30 June, 2019
- For commercial entities like hotels, restaurants, retail shops are required to file one-time transitional excise return is must and it is online.
- For importers, producers and excise warehouses, registration is must.

Crowe can help the clients:

- For online registration
- For online tax filing

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Impairment under IFRS 9: A cross-functional challenge

The advent of IFRS 9 Financial Instruments has impacted the business world profoundly. One of the most challenging and contentious provisions of the standard is the recognition of expected credit losses (ECL) for the impairment on financial assets.

Formerly under IAS 39, credit losses were only recognised to the extent that there was objective evidence of impairment. In other words, a loss event needed to have occurred, before an impairment loss could be recognised. But IFRS 9 introduces a new impairment model based on ECL, resulting in the recognition of a loss allowance before the loss event occurs. Under this approach, entities require to book ECL based on its historic default rates, adjusting for current conditions with forward-looking macro-economic information.

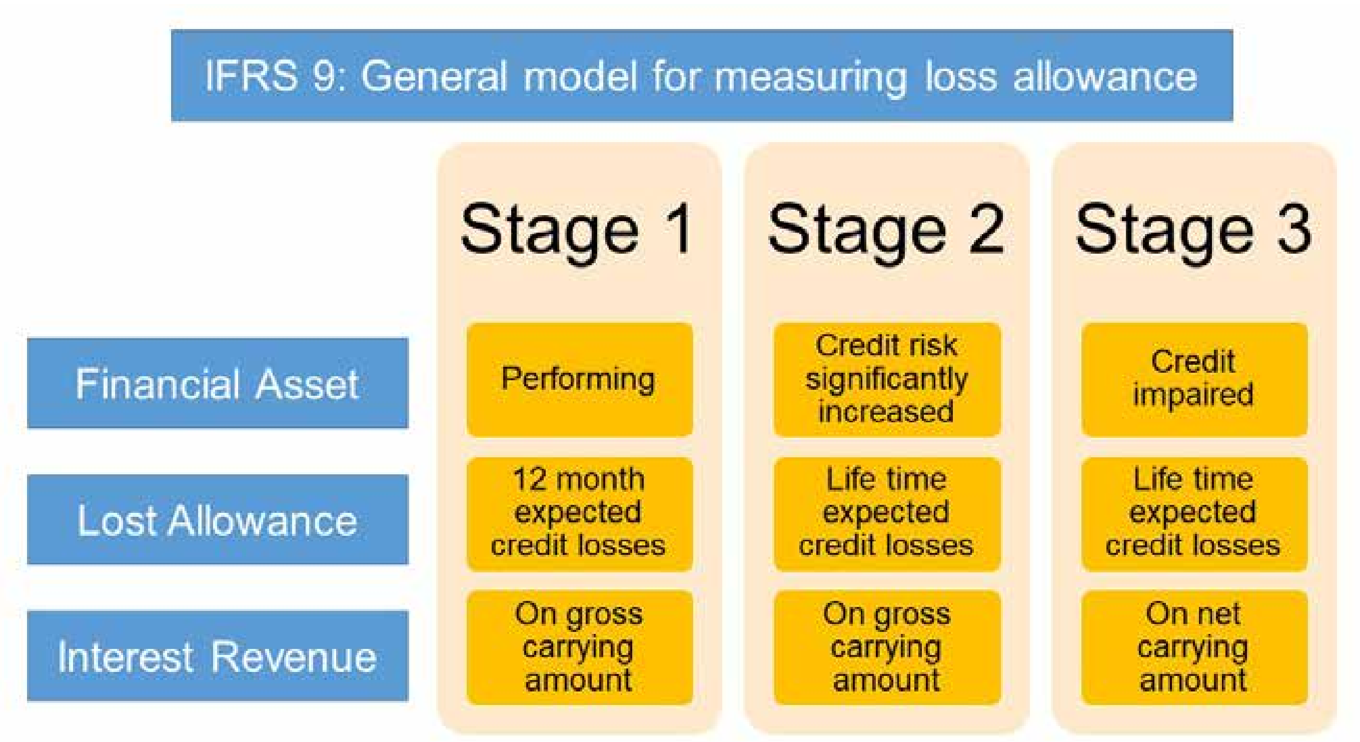
Impact on banking sector

IFRS 9 prescribes two approaches for recognising and measuring the ECL, namely, General Approach and Simplified Approach. General Approach is largely applicable to banks and financial institutions. This approach outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognistion to compute '12-month loss' or 'lifetime loss'.

Banks for many years have been subject to Basel Accords and have been using credit risk-weighted assets to test capital adequacy. Hence for them the infrastructure to compute the ECL has already been in place. The data, models and the processes used for risk disclosure can now be used for ECL computation with necessary fine-tuning and be incorporated into the financial statements.

Impact on non-banking sector

This is not the case for all other non-banking businesses, which have to use the Simplified Approach to compute ECL on trade receivables, due from related parties, cash and bank balances. Though the standard prescribes lifetime ECL under the Simplified Approach, it provides neither any model nor methodology to compute the ECL. Unlike the banks, these



entities do not have their own models nor any data structure to compute ECL. However, IFRS 9 provides very vaguely that ECL shall reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; time value of money; and forecasts of future economic conditions.

Key indicators used by stakeholders for comparing banks under IFRS 9

Moreover IFRS 9 does not directly define the term 'default'. Instead it provides that there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. As entities generally face a huge delay in collection these days, they invariably rebut this presumption to justify a delay as long as one or two years.

Complex simulations

IFRS 9 does not directly prescribe how the simplified approach is to be applied to determine ECL, instead it provides a practical expedient to use a provision matrix. A provision matrix might specify fixed provision rates depending on the number of days a trade receivable is past due. But IFRS 9 remains silent on how to compute these rates used in the provision matrix. The standard also requires the estimate of ECL to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may be a complex exercise involving detailed simulations of multiple scenarios.

Another requirement for ECL computation is the adjustment for forward-looking macroeconomic factors such as property prices, commodity prices, etc. This may involve applying intricate statistical models which fall outside the scope of accounting function.

Cross-functional approach

Thus, the impairment provisions under IFRS 9 require a cross-functional approach synthesising finance and risk methodologies. Ironically finance function is driven by facts and figures while risk function is driven by stochastic statistics making ECL computation all the more complex.

As the management is bracing itself to meet these challenges for the first time in the preparation of financial statements, they invariably seek the help of external consultants. In the coming years, they should be in a position to build their own models and data structure with in-house skillset to comply with the requirements of ECL under IFRS 9.

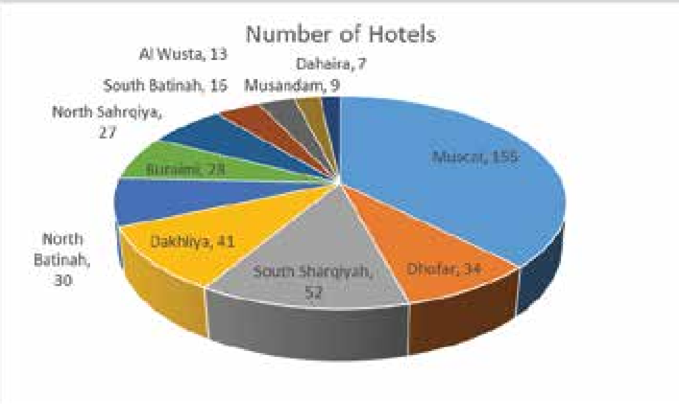
James Ravi FCA, CPA

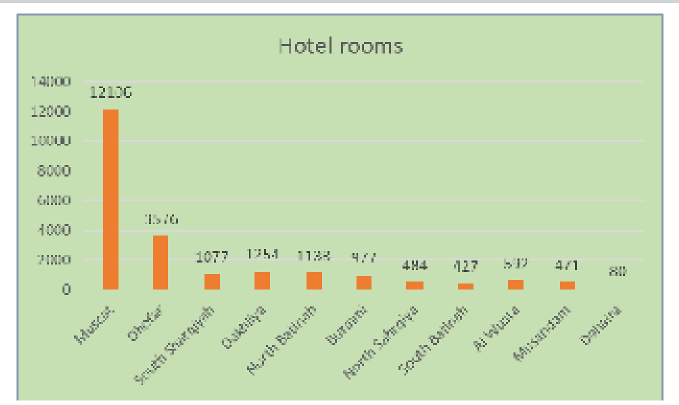
Director – Audit & Assurance, Crowe Oman.

Role of Horwath HTL in Oman's Hotel industry

Non-oil sectors in Oman economy is in the growth path, thanks to the government's diversification drive. The rally is led by tourism sector. The Ministry of Tourism is expecting the contribution of tourism to GDP will rise to 10 per cent from 6 per cent in 2019.

Hotel rooms in Oman is witnessing rapid increase in the number. At the end of 2018 Sultanate had 412 hotels and 22182 hotel rooms.:





Several hotel projects are in pipe line and it is expected to drive a 12% CAGR (Compound Annual Growth Rate) in the next three years. Starwood Hotels & Resort's 175 room Aloft Muscat, 250 room W, 200 room Novatel Muscat Azaiba, 320 room JW Marriot in Muscat Convention Centre etc., are few names.

We expect that Horwath HTL, an associate of Crowe Global, can play a major role in this growth drive. Horwath HTL ('HTL') is the world's largest and most experienced hospitality consulting brand.

Starting in New York in 1915, HTL have been providing impartial, specialist advice to our clients for over 100 years and are recognized as the market leader in all areas of hotel, tourism and leisure consulting. As the founders and original authors of the Uniform System of Accounts, the industry standard for hospitality accounting, Horwath HTL wrote the book on how the industry measures financial performance in hotels.

At Horwath HTL, focus is one hundred percent on hotel, tourism and leisure consulting. HTL's services cover every aspect of hotel real estate, tourism and leisure development.

Clients choose HTL because we have earned a reputation for impartial advice that will often mean the difference between failure and success.

Each project HTL's help is different, so we need all of the experience we have gained over our 100-year history.

HTL are a global brand, who have successfully carried out over 20,000 assignments for private and public clients.

Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors, international lenders, including several major international and domestic hotel chains such as Oberoi, Taj, ITC Hotels, Marriott, Hilton, Hyatt, Starwood, IHG, Four Seasons, Shangri La, Century Hotels, Accor, Mandarin Oriental, Leela, Langham, Best Western International, Choice Hotels, Carlson, Bharat Hotels, ITDC etc. and their associates.

HTL offers wide range of services, includes but not limited to:

Market and Financial Feasibility Studies for:

- Hotels
- Serviced apartments
- Resorts (including spa and golf resorts)
- Clubs and similar leisure projects
- Mixed-use developments (with strong hospitality base)

Contract Work:

- Operator selection and contracting
- JV / license / branded residence agreements applicable)
- Writing new management contracts
- Tax structuring for contracts

Services also includes:

- Strategic planning - for hotel chains and investors
- Site evaluations
- Best Use advice
- Hotel Valuations
- Advice on tenders and bids
- Financial structuring & project funding
- Acquisition and vendor due diligence
- Asset Management
- Litigation Support
- Statutory, Internal and Operational audits
- Internal audits, primarily based on processes and controls
- Acquisition and pre-sale diligence

Crowe member firms engaged in the field of consulting to the Hotel, Tourism and Leisure industry are recognized as being the premier consultants to this industry, providing practical and well-reasoned professional advice to their clients.

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Corruption & Bribery

Are you ready to tackle the challenges?

Implement ISO 37001 Standards to protect yout business.

For Certification & Implementation contact our forencic team experts.

Upcoming events

2019 Leadership Academy Level 2 - EMEA
June 26 - June 28, 2019
Sainte-Marguerite, France

2019 Middle East Audit Update - Muscat
June 30 - July 1, 2019
Muscat, Oman

2019 GVA European Valuation Training - Level 1
July 1 - July 3, 2019
Porto, Portugal

2019 Asia Pacific Tax Academy
September 9 - September 10, 2019
Singapore

2019 Audit Centre Update (CaseWare & Data Analytics) - EMEA
September 10 - September 11, 2019
Rome, Italy

2019 Audit Conference - EMEA
September 12 - September 14, 2019
Rome, Italy

2019 Africa Audit Seminar
September 18 - September 19, 2019
Nairobi, Kenya

2019 Audit & Tax Meeting - Americas
September 25 - September 27, 2019
Miami, USA

2019 Global Conference
October 27 - October 30, 2019
Sydney, Australia

Welcome to Crowe Oman – Our new Resources

AMAL AL KHABORI

An accounting professional with robust experience in various industries and large corporations in Oman such as Al Barami Global Chemicals, Samatel, Al Taher Group, Protiviti, to name a few. Amal is an expert in creating an environment conducive to continuous improvement and implementing systems to nuture excellence for corporates. She has joined Crowe Oman in the risk advisory services.

CA NAVEEN KUMAR

An Associate Member of The institute of Chartered Accountant of India, Naveen is having 5 Years plus experience in Statutory Audit, Taxation (Both Direct and Indirect taxation) in Various National and Multinational Companies of various Sectors. Naveen has worked in India with many Entities for implementation of Goods and Services Tax (GST/VAT since its inception in India. Has joined Crowe Oman as a Senior Auditor.

NIHAD MASOUD SAID AL JABRI

A graduate from Higher College of Technology, Nihad had attended training from Omantel's Finance Department. She is working with Crowe Oman as an Auditor

OLA MOHAMMED ALI AL SULAIMI

Ola Mohammed Ali Al Sulaimi is a graduate from Nizwa College of Technology, and her specialization is bachelors in accounting. An Auditor with Crowe, Ola is engaged in the Statutory audit and Internal Audit.

CA BALAKRISHNAN MADHAVAN NAIR,

An Associate member of The Institute of Chartered Accountant of India, Balakrishnan has previously worked for Deutsche Bank in India. He has also 3 years' experience in audit and taxation. He has joined Crowe Oman as a Senior Auditor.

About us

Crowe Global is ranked among the top 8 global accounting networks with more than 216 independent accounting and advisory services firms with 764 offices and more than 35,000 professionals and staff in over 129 countries around the world. Crowe Global's member firms are committed to impeccable quality service, highly integrated service delivery processes and a common set of core values that guide decisions daily. Each firm is well established as a leader in its national business community and is staffed by nationals, thereby providing a knowledge of local laws and customs which is important to clients undertaking new ventures or expanding into other countries. Crowe Horwath International member firms are known for their personal service to privately and publicly held businesses in all sectors and have built an international reputation in the areas of audit, tax and advisory services.

Our Services

- Audit & Assurance
- Tax Advisory
- Internal Audit
- Forensic Accounting
- Due Diligence
- Business Valuation
- Accounting Services
- Company Incorporation
- ISO Consulting
- Strategy Consulting
- Policies & Procedures
- Market Research
- Feasibility Studies
- HR Consulting
- Corporate Training
- Corporate Advisory

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