

# VAT Taxpayer Guide

## Input Tax

1st Version – May 2023

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## **1. Introduction**

### **1.1 What is this guide about?**

This guide is issued by the Sultanate of Oman Tax Authority (“OTA”) to provide additional interpretation and guidance for the application of the VAT Law and its corresponding Executive Regulations to input tax and when it can be claimed.

This guide explains the Tax Authority’s interpretation of key provisions of the VAT Law relevant to healthcare services and the provision of related goods and services.

This guide is intended to provide a general overview of the rules applying to the subject. For further guidance on specific transactions, or for matters not addressed by this guide, please get in touch with the Tax Authority. General information about VAT in Oman can be found in the VAT portal of the Tax Authority website: [www.taxoman.gov.om](http://www.taxoman.gov.om).

## 1.2 Definitions

The following terms shall have the meanings specified for the purposes of this guide:

- **VAT Law:** The Value Added Tax Law of the Sultanate of Oman issued by Royal Decree No. 121/2020 dated 12/10/2020.
- **Executive Regulations:** Regulations to the Value Added Tax Law issued by Tax Authority Decision No. 53/2021 dated 10/03/2021, and as amended by Decision No. 456 of 2022.
- **Input Tax:** The Tax borne by the Taxable Person in respect of the Goods or Services supplied to him or imported for the purpose of conducting their economic activity.
- **Output Tax:** The Tax due that is charged on Taxable Supplies of Goods and Services.
- **Standard Rated Supply:** Taxable supply of goods or services with VAT applied at 5%. Input Tax related thereto is deductible according to the provision of the VAT Law.
- **Zero-Rated Supply:** Taxable supply of goods or services with VAT applied at the rate of 0%, as specified in VAT Law. For example, supplies of oil and oil derivatives, or exports of goods outside Oman. Input Tax related thereto is deductible according to the provision of the VAT Law.

- **Exempt Supply:** Supply of goods or services which are specified by the VAT Law to be exempt. For example, interest earned on a financial product. Input Tax related thereto shall not be deducted in accordance with the provisions of the VAT Law.
- **Transactions not subject to VAT:** Transactions which do not involve a supply of goods or services for VAT purposes (such as compensation), or which are specifically excluded from VAT (such as supplies between VAT group members).
- **Reverse Charge Mechanism:** A mechanism where the VAT reporting obligation is shifted from the seller/supplier to the buyer, because the seller/supplier has no- workplace or fixed establishment in Oman. The buyer notionally reports Output Tax and offsets deductible Input Tax in the same VAT return.
- **Import of Goods:** The entry of Goods from outside the GCC region into the Sultanate in accordance with the provisions of the Common Customs Law.
- **Importer:** The person acknowledged as an Importer pursuant to the Common Customs Law.
- **Export of Goods:** The exit of Goods from the Sultanate to outside the GCC in accordance with the provisions of the Common Customs Law.

- **Taxable Person:** The person who conducts the activity independently for the purpose of generating income and is registered with the Tax Authority or is required to register with it pursuant to the provisions of the VAT Law.
- **Tax Year:** (12) Twelve months starting from the first of January and ending on the end of December of every Gregorian year.
- **Tax Period:** The time period (3-month periods corresponding with calendar quarters) for which net tax must be calculated and tax return submitted.
- **Blocked Input Tax:** is an Input tax incurred by a taxable person on certain goods and services is not deductible, unless the goods or services are later supplied (example: purchasing entertainment tickets for resale would be deductible).

## **2. Input tax deduction**

### **2.1 Introduction**

Per the VAT Law, a person registered for VAT may deduct the VAT they incurred on their purchases (“input tax”) from the VAT they must charge on supplies they make (“output tax”). The deduction will be made through the taxable person’s periodic VAT return (using boxes 6a, b, c, d and e of the VAT return). Please refer to the VAT return guideline for more details on reporting. VAT guidelines are available at [www.taxoman.gov.om](http://www.taxoman.gov.om).

A taxable person can deduct the input tax it has incurred on goods or services that forms a cost component of the taxable supplies they make (as a direct cost or general overhead cost). In other words, deduction is based on the recipient’s use of the expenditures.

The following sections describe how to deduct input tax, conditions that are to be met and any required adjustments to made after initial deduction.



## **2.2 Steps to Deduct Input Tax**

For a taxable person to determine the amount of input tax they may deduct, they must take the following steps (in order):

1. Identify expenditures that are considered as input tax for VAT purposes.
2. Attribute and apportion input tax between economic and non-economic activities.
3. Identify and exclude the amount of blocked input tax, (if any).
4. Attribute and apportion input tax between taxable and exempt activities.
5. Claim the deductible input tax in their periodic VAT return.

## 2.3 Is it Input Tax?

Not all VAT paid by a taxable person will automatically be considered input tax. In principle, only expenditures used for the purpose of an economic activity will be considered as input tax.

### **A taxable person will be considered to have incurred input tax if:**

- In the case of a domestic purchase, taxable goods or services have been made to the taxable person claiming the deduction; or
- In the case of an import of goods, the goods have been imported by the taxable person (i.e., the taxable person is the importer of record); or
- In the case of VAT accounted through the Reverse Charge Mechanism, the taxable person has properly accounted for the VAT per the reverse charge mechanism on supplies they have received.

### **The following criteria must also be met.**

- The place of the supply (or import) is in Oman.
- The supply or import was subject to VAT in Oman (at 5%).
- The taxable person intends to use the goods or services for the furtherance of their economic activity.
- For domestic purchases, the supplier was a taxable person at the time of the supply and properly accounted for Oman VAT on the supply.

### **Common examples of amounts that are not input tax:**

- An amount called VAT is incorrectly charged (such as VAT charged on a zero-rated food item, or VAT charged by a non-registered supplier).
- Equivalent Value Added Taxes applied in the GCC or in other countries.
- Amounts related to prohibited goods in the Sultanate

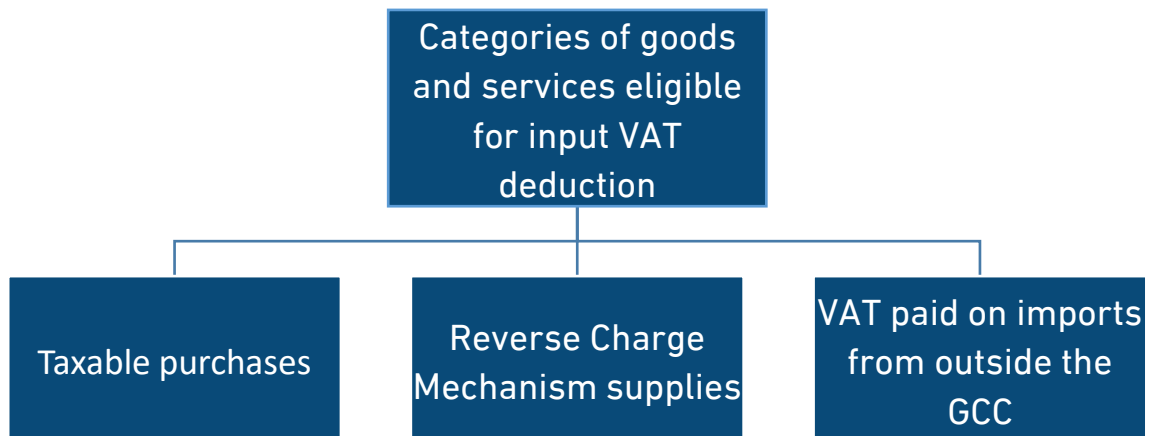
Generally, the cost components of supplies are either direct costs or general (overhead) costs. Direct costs are costs that are directly attributed to the supply such as transportation, raw materials, and inventory. General (overhead) costs are related to more than one good or service made by the taxable person in the course of their economic activity such as rent and general insurance. To deduct an expenditure, it must be a direct or general cost that relates to a taxable supply.

Note: VAT incurred to make intra-group supplies that are outside the scope of VAT will be treated as general overheads.

## 2.4 Conditions for input tax deduction

To deduct input tax, the following conditions must be met:

- 1) Input tax must be correctly incurred, either being:
  - properly charged by another taxable person on taxable supplies of goods or services,
  - correctly self-accounted by the recipient per the Reverse Charge Mechanism, or
  - correctly paid to the Directorate General of Customs for goods imported by the taxable person (or properly accounted for by the taxable person if VAT import postponement is applicable).



- 2) The goods or services are supplies to, or imported by, the taxable person who is claiming the input tax.

3) The supplies are received for the purpose of the taxable person's economic activity.

4) Input tax has been incurred to make standard rated or zero-rated supplies in Oman or would have been taxable if supplied in Oman.

5) The taxable person retains:

- A valid tax invoice for purchases (issued pursuant to the provisions of the Law and its Regulations – this could be a standard tax invoice, a simplified tax invoice, or summary tax invoices)
- documents evidencing the import of goods and VAT paid on these imports. This includes commercial documents such as supplier invoice, contracts, and transportation bill of lading. In addition, official documents issued by the Directorate General of Customs.
- the records and VAT returns that show the output tax charged on supplies subject to the reverse charge mechanism, or output tax relating to postponed VAT on imported goods.

**Administrative Practice:** Input Tax deduction will not be disallowed for minor errors or omissions in the Tax Invoice, provided that the invoice clearly identifies the supplier, customer, nature of supply and it is clear that VAT was charged correctly.

6) The nature of the supplies must not be subject to input tax restriction (“blocked input tax”) per the provisions of the VAT Law and Executive Regulations:

- Goods or Services used for the purpose of entertainment services.
- Motor vehicles and related Goods and Services that are available for personal use. Motor Vehicles mean any vehicle which is designed or adapted for carrying not more than ten (10) passengers including the driver. Motor Vehicles shall not include vehicles used in a vehicle rental business to customers or vehicles registered as an emergency vehicle.
- Provision of food and beverage catering services.

7) The expenditure is not related to goods or services that are prohibited per the Laws in Oman.

8) The expenditure is not related to a good purchased under the profit margin mechanism.

## 2.5 Taxable Person's Economic Activity

A taxable person will only be considered to have incurred input tax if the purchases relate to their economic activity (an activity that is conducted in a continuous and regular manner, particularly commercial, industrial, professional, artisanal, or service activity).

The taxable person must determine the purpose for purchasing supplies before claiming the related input tax. Thus, they must be clear on the nature of the economic activity they are undertaking and its purposes.

The input tax may only be claimed when there is a real, immediate, and direct connection between the input VAT and the taxable person's economic activity.

**Most common examples of expenditures** that are not related to a taxable person's economic activity are expenses that relate to:

- The owner's personal home or personal assets.
- Personal interests such as recreational and sporting activities.
- The personal benefit of company's employees, managers and directors.

**In most cases**, the connection between an expenditure and the economic activity is clear and straightforward. In other cases, the taxable person will be required to clarify to the Tax Authority how the expenditures relate to

their economic activity. The following indicators may assist the taxable person in determining whether the expenditures relate to their economic activity:

- The intent of the taxable person when purchasing the goods or services.
- The historic use of the goods or services (how similar goods and services have been used in the past).
- The expenditure is not for non-business or private purposes.
- The expenditure is incurred in the course of undertaking the supplies made by the taxable person.
- The expenditure is typically incurred by other businesses in the same sector for economic purposes.
- The assets are owned by the taxable person.
- The assets are included in the taxable person's financial statements.

Where the taxable person deducts the input tax and the Tax Authority (after looking reviewing the relevant facts and circumstances) is not satisfied that the expenditure is related to the economic activity, the Tax Authority may reject the deduction. **Note:** Input tax incurred to make exempt supplies will be related to the economic activity of the taxable person, however this input tax is not deductible.



## **2.6 Intention of the Taxable Person**

VAT incurred by a taxable person can be claimed only if they intend to use the expenditures to make taxable supplies. They can deduct the input tax when they incur the cost provided all conditions are met; thus, they do not have to wait until they make the onward supply. The taxable person should provide objective evidence of how the expenditures have a direct and immediate link with the intended taxable supplies.

If the taxable person later uses the purchases for purposes other than making taxable supplies, they may be required to adjust any input tax previously deducted and/or charge VAT as a deemed supply.

However, where the taxable person does not make taxable supplies at a future date because the goods purchased are destroyed, stolen, become obsolete or due to unforeseeable circumstances, the taxable person will not be required to adjust any input tax previously claimed.

Where the taxable person deregisters before making taxable supplies, they may need to account for output tax as per the deemed supply rules.

## 2.7 Time of Deduction

The taxpayer has the right to deduct input tax that arises on the VAT due date of the supply as determined by the VAT Law and Regulations (when the VAT became chargeable and payable to the Tax Authority). However, the taxable person is only allowed to deduct the input tax through their VAT return when all conditions are met (such as receiving the tax invoice, required documentation in the case of imports and supplies accounted for per the reverse charge mechanism).

Where the taxable person does not deduct the input tax immediately, their right to claim the input tax shall be extinguished (3) three years from the end of the tax period during which the right to deduct was created.

**Note:** where the taxable person chooses to deduct input tax related to indirect costs, general expenditure of the business or overheads in subsequent VAT returns, they must use the apportionment ratios related to the period in which the VAT was chargeable on the supply.

**Example:** A school incurs input tax on overheads during Q3 of 2022, and its proportional deductible ratio was 20% for that period. However, the school only received a valid tax invoice in Q2 2023, when the applicable proportional deductible ratio was 50%. The school will be allowed to deduct the input tax in Q2 of 2023 at a ratio of 20%. The school would be permitted to deduct in a subsequent period but must deduct the input tax within 3 years from the end of Q3 2022.

## 2.8 Evidence Required to Deduct Input Tax

To claim any input tax, the taxable person shall keep the following documents:

**1. A valid tax invoice issued pursuant to the provisions of the Law and its Regulations – this could be a standard tax invoice, simplified tax invoice or summary tax invoices. If the taxable person is unable to provide the Tax Authority with a valid tax invoice, the deduction may be refused.**

**2. Documents proving the Import and the payment of any Import VAT on goods.**

**3. Tax Returns and records of Output Tax in the case of Tax declared under the Reverse Charge Mechanism or deferment of Import Tax.**

These documents must include all the required information stipulated in the VAT Law and Executive Regulations. In addition, they must be made in the name of the taxable person and include the correct VAT treatment for the supply.

**Administrative Practice:** Input Tax deduction will not be disallowed for minor errors or omissions in the Tax Invoice, provided that the invoice clearly identifies the supplier, customer, nature of supply and it is clear that VAT was charged correctly.

The taxable person should take all practical and reasonable steps to ensure that the documents they receive are valid and meet the requirements of the VAT Law and Executive Regulations.

## 2.9 Recipient of a Supply

For the taxable person to deduct input tax, the related supply must be made to them, regardless of the person making the payment.

In principle, the recipient is the person who bears the cost of the VAT (i.e. contractually liable to pay):

<b>Local purchases</b>	The Customer	As evidenced by: A valid Tax Invoice in Customer's name
<b>Imports of goods</b>	The importer	As evidenced by import documentation in importer's name
<b>Reverse charge VAT</b>	The Omani customer	As evidenced by commercial invoice and Tax Return.

The taxable person cannot deduct input tax on goods or services which are in fact supplied to someone else.

VAT paid on imported goods may only be deducted by the importer of record, provided they have imported these goods for the purpose of their economic activity. Where a taxable person imports goods in the name of another person, both persons will not be allowed to claim the import VAT.

Where an agent acts in their own name on behalf of a third party, the importing and supplying of goods on behalf of the third party will be considered to have been made by the agent as a principal. The input tax on these supplies maybe deducted by the agent provided the agent properly accounts for VAT on the onward supply from them to the third party.

## **2.10 Input Tax Incurred by Employees**

Supplies made to a person in their capacity as an employee will be considered to have been made to the employer. Most common supplies **include:**

- **fuel and motor vehicle repair expenses.**
- **meals and accommodation while on a business trip.**
- **miscellaneous low value goods and services such as materials and tools, up to a maximum value of OMR 500.**

The taxable employer must ensure that these purchases are made for the purpose of the economic activity and keep records (such as an expenditure log) to document the business nature of the goods or services purchased. If so, input tax may be recovered subject to the normal rules. Any portion related to private use must be excluded.

Input tax may not be deducted when incurred by the employer or employee for the personal benefit of the employee.

## 2.11 Input Tax Incurred by a Non-registered Person

Input tax incurred by a non-taxable person may not be deducted.

If a non-registered person incurs input tax, and then later registers for VAT, they are allowed to claim certain expenditures they incurred before registering for VAT.

**The taxable person** may deduct the input tax incurred on goods supplied to them or imported by them prior to the effective date of registration, as per the following conditions:

1. The goods are supplied to, or imported by, the taxable person within a period not exceeding three (3) years, counting back from the effective date of registration and are still available for use on the effective date of registration.
2. The taxable person has the right to deduct input tax on these goods in accordance the VAT Law and the Executive Regulations.

**A taxable person** may deduct the input tax incurred on services supplied to them prior to the effective date of registration as per the following conditions:

1. The services are supplied to the taxable person within a period not exceeding six (6) months prior to the effective date of registration.

2. The person has the right to deduct input tax on these services is in accordance with all the provisions of the VAT Law and Executive Regulations.

The deductible input tax on any capital assets which are acquired prior to the effective date of registration shall be determined according to the **following:**

**Total Input Tax on Capital Assets x Net Book Value**  
**Acquisition or purchase Value of the Capital Assets**

In the event that the capital assets were used - fully or partially - for other than the purposes of the activity or for exempt supplies, the input tax shall be apportioned. Please refer to the Capital Assets taxpayer guide published by the Tax Authority for more details.

**A taxable person** who wishes to deduct any input tax they incurred on goods and services before the effective date of registration, must submit a pre-registration input tax application to the Tax Authority on the form prepared for such purposes within thirty (30) days of the effective date of registration, provided the following details and documents are included:

1. Description of the goods and services for which input tax is claimed.
2. Purchase invoice numbers and dates for each good and service.
3. Amount of tax paid on each invoice.

4. Total amount of input tax claimed.
5. Name and address of the supplier for each good and service.
6. Tax Identification Number of each supplier of goods and services.
7. Inventory list of all goods in the claim as at the day prior to effective date of registration, in the event the value of these Goods exceeds fifty thousand (50,000) Omani Rial, it must be audited by an auditor recognized in the Sultanate.
8. The Documents set out in Article (55) of the Executive Regulations as relevant.
9. Any other details and documents determined by the Tax Authority.

The Tax Authority will make a decision on the application within thirty (30) days of receiving the details and documents, the decision shall include the approved value of deductible input tax. Where the period passes without a reply, it shall be deemed as a rejection of the application.

The taxable person may make the input tax deduction, starting from the tax return, for the tax period following the period during which they were notified of the Tax Authority's approval using Box 6(e) of the VAT return.



## **2.12 Mixed Use for Economic and Non-Economic Purpose**

A taxable person may purchase goods and services with an intention of using them for both economic and non-economic purposes such as private consumption. An economic activity includes both taxable and exempt supplies.

Common examples of supplies purchased for both private and economic activity purposes are leasing of real estate that includes both an office space and personal accommodation, laptops, and telecommunication services.

The taxable person must determine the amount of input tax they are eligible to deduct on these expenditures. Only the portion related to the making of taxable supplies can be deducted.

In order to determine the portion of incurred VAT that is related to the taxable person's economic activity they must first attribute the goods and supplies that are directly related to the economic activity and then apportion the residual VAT between economic and non-economic activities.

## **Attribution**

The taxable person must identify expenditures that are directly related to their:

- Economic activities: (considered as input tax and will be deductible if related to taxable supplies).
- Non-economic activities such as private purposes: (not considered input tax and is fully non-deductible).
- Out of territorial scope supplies i.e., supplies made outside Oman (except for supplies in a GCC implementing State that would have been taxable if supplied in Oman): (input tax related to these supplies is fully non-deductible).

## **Apportionment**

The input tax that cannot be attributed will be considered residual VAT and must be apportioned.

Apportionment of the input tax between economic and non-economic purposes must be made on a fair and reasonable basis based on the actual use of the goods or services concerned.

A taxable person does not have to request TA's approval for the apportionment method used. However, they may be required to justify its

results. The taxable person may agree with the Tax Authority method by submitting a request explaining the method to be used and providing the basis of calculation with practical examples.

**Example:** An electronic devices dealer, who sells electronic devices, is registered for VAT and carries on most of his business activity from home. He has a phone installed for his home office and has a fixed monthly cost. The phone is also used to make private calls. From the bill the dealer can work out the number of hours of use for business and private calls.

**The following table shows details of the activities:**

<i><b>Description</b></i>	<i><b>Details</b></i>
Landline bill	105 OMR (includes tax 5 OMR)
The number of hours used for the purposes of carrying out the activity of selling electronic devices (economic activity)	100 hours
Number of hours used for personal usage (non-economic activity)	10 hours

### What is the amount of input tax the dealer is entitled to deduct?

Since the merchant uses the telephone service to perform both economic and non-economic activities, he must apportion the input tax based on the actual use of the services, as follows:

<i><b>Deduction ratio = <u>number of hours used in economic activity</u></b></i>	<i><b>= <math>\frac{100}{110} = 90.91</math></b></i>
<i><b>Total number of hours</b></i>	
<i><b>Deductible Input Tax = Input Tax x Deduction Ratio</b></i>	<i><b>= <math>90.91\% \times 5</math></b></i> <i><b>= 4.545 OMR</b></i>

## 2.13 Blocked Input Tax

After determining the portion of input tax related to economic activities the taxable person must exclude the input tax restricted from deduction by the VAT Law and Executive Regulations.

Blocked input tax is an Input tax incurred by a taxable person on certain goods and services is not deductible, unless the goods or services are later supplied (example: purchasing entertainment tickets for resale would be deductible). Generally, these are goods and services that have a significant private use element, as such deemed to have been incurred outside the scope of the economic activity. The VAT Law and Executive Regulations have stated that the following expenditures are not to be deducted as input tax:

- **Goods or Services used for the purpose of entertainment services:**

Includes admission to sporting, cultural, artistic events, or goods and services used in holding such events, and ancillary goods and services. Events which are primarily of an educational or business nature would not typically be considered entertainment. Any expenditure which was primarily entertainment related should not be deducted.

- **Motor vehicles and related Goods and Services for private use:**

Motor Vehicles mean any vehicle which is designed or adapted for carrying not more than ten (10) passengers including the driver. Motor Vehicles shall not include vehicles used in a vehicle rental business to customers or vehicles registered as an emergency vehicle.

The taxable person must identify and not deduct the private use portion of expenditure on motor vehicles. For example, where the employee is allowed to keep the car after working hours with them, only the portion related to working hours will be deductible.

- **Provision of food and beverage catering services:**

Includes all provision of food and beverages intended for onsite consumption. This does not include food and beverages provided at taxable person's site for sustenance of employees, either under prevailing laws in Oman or at remote locations where alternatives are not reasonably available. In addition, it does not include food and drinks when provided within the course of a meeting or as normal refreshments (such as dates, chocolates, tea, coffee, etc.)

- **VAT incurred in relation to prohibited supplies or imports:**

Any expenditures related to goods or services that are prohibited per laws in Oman.

**In addition**, where eligible goods are bought and sold in accordance with the profit margin mechanism the input tax that forms part of the purchase cost may not be deducted.

## **2.14 Mixed Use for Taxable and Exempt Supplies**

After determining the portion of input tax related to economic activities of the taxable person and excluding blocked input tax, the taxable person must further apportion the remaining input VAT amount between taxable and exempt supplies.

Where a person intending to use the expenditures for only taxable supplies no further apportionment is required as the input tax will be deductible in full. Similarly, where a person intends to use the expenditures for only exempt supplies no apportionment is required as the input tax will not be deductible.

However, where a Taxable Person incurs input tax on goods or services used in making both taxable and exempt supplies, they must apportion the input tax.

### **Attribution**

The taxable person must determine the input tax directly related to their:

1. goods and services only used for the purposes of taxable supplies (fully deductible).
2. goods and services directly and only used for the purposes of exempt supplies (fully non-deductible).

### **Taxable supplies for the purpose of input tax deduction include:**

- standard rated or zero-rated supplies in Oman.
- supplies in a GCC implementing State that would have been taxable if supplied in Oman (during the transitional period no State is considered as a VAT implementing State).

Input tax that cannot be directly attributed is considered residual input tax and must be apportioned.

### **Apportionment**

#### Periodic Apportionment

Residual input tax incurred on goods and services used in making both taxable and exempt supplies, must be apportioned.

Apportionment is made at the end of every period based on a standard apportionment method (rounded to three decimal places):

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



## Where:

- **Total value of taxable supplies during the period:**
  - includes total value (excluding VAT) of standard rated and zero-rated supplies in Oman and supplies in a GCC implementing State that would have been taxable if supplied in Oman (during the transitional period no State is considered as a VAT implementing State).
  - excludes out of territorial scope supplies made outside Oman, supplies accounted for per the reverse charge mechanism, sale of capital goods and any incidental non-recurring supplies that are not part of the taxable person's core activities.
- **Total value of exempt supplies during the period:**
  - includes value of exempt supplies made in Oman.
  - excludes out of territorial scope supplies made outside Oman, sale of capital goods and any non-recurring incidental supplies that are not part of the taxable person's core activities.

This periodic apportionment will be considered preliminary and must be adjusted at the end of the tax year per the annual apportionment method.

The total initial periodic input tax deduction =

Input tax directly attributed to taxable supplies + Residual tax apportioned to taxable supplies

**Example:** *A School provides education services (that are exempt from tax) and rental of commercial properties (that are a taxable supply).*

The following table shows details of the school's activities:

Description	Value (OMR)
<b>Expenses</b>	
Maintenance supplies are used to lease real estate	2,100 (includes tax 100)
Stationery used for educational services	105 (includes tax 5)
General expenses used to carry out all activities	3,150 (includes tax 150)
<b>Income</b>	
Supplies from rental of commercial real estate	11,000 plus tax 550
Supplies from education services	20,000 (tax 0)

- What is the amount of input tax that the school is entitled to deduct?

Expense	VAT treatment
Maintenance supplies are used to lease real estate	Fully recoverable – only taxable use
Stationery used for educational services	No recovery – exempt use
General expenses used to carry out all activities	Partial Exemption applies

Since the school uses overhead expenses to make both exempt and taxable supplies, it must deduct the input tax according to partial exemption method, as follows:

Full deduction of input tax incurred on goods and services used directly and exclusively for the purpose of undertaking commercial property leasing	100 OMR
Partial exemption = the value of total taxable supplies x 100 The value of the total taxable and exempt supplies	$= 11,000 \times \frac{100}{35.484\% (11,000 + 20,000)}$

<b><i>Partial Input tax</i></b> = partial exemption x input tax that was incurred for both taxable supplies and exempt supplies	= (35.484% x 150) = 53.266 OMR
<b><i>Deductible input tax</i></b> = partial input tax + input tax incurred on goods and services used directly and exclusively for the purpose of undertaking commercial property leasing	= 53.266 + 100 = 153.226 OMR

### **Annual Apportionment**

The taxable person must, at the end of every tax year, calculate the annual partial exemption to determine the deductible input tax amount that they are entitled to deduct for the tax year.

Annual apportionment is made at the end of every tax year based on a standard apportionment method, (rounded to three decimal places):

$$\frac{(\text{Total value of taxable supplies in the tax year}) \times 100\%}{(\text{Total value of taxable and exempt supplies in the tax year})}$$

### **Where:**

- Total value of taxable supplies during the tax year:
  - Includes total value (excluding VAT) of standard rated or zero-rated supplies in Oman and supplies in a GCC implementing State that would have been taxable if supplied in Oman (during the transitional period no State is considered as a VAT implementing State).
  - excludes supplies out of territorial scope supplies made outside Oman, sale of capital goods, supplies accounted for per the reverse charge mechanism and any non-recurring supplies that are not part of the taxable person's core activities.

➤ **Total value of exempt supplies during the tax year:**

- Includes value of exempt supplies made in Oman.
- excludes out of territorial scope supplies made outside Oman, sale of capital goods and any non-recurring supplies that are not part of the taxable person's core activities.

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

1. The taxable person must add all the preliminary input tax deducted during the tax year per the periodic partial exemption method.
2. Where the amount added in point (1) is less than the result of the annual apportionment the difference will be deemed as an additional deduction that may be claimed by the taxable person in the first tax period of the following tax year.
3. However, where the amount added in point (1) is greater than the result of the annual apportionment the difference must be adjusted as a decrease in input tax in the first tax period of the following tax year.

**Example:** A School provides education services that are exempt and rental of commercial properties that is taxable.

The following table shows details of the school's activities for a **full tax year**:

Description	Value (OMR)
<b>Expenses</b>	
Maintenance supplies are used to lease real estate	4,200 (includes tax 200)
Stationary used for educational services	525 (includes tax 25)
General expenses used to carry out all activities	10,500 (includes tax 500)
<b>Income</b>	
Total supplies from rental properties in the tax year	44,000 plus tax 2,200
Total supplies of education services in the tax year	100,000 (includes tax 0)

The table below shows the Tax recovered and the Partial Exemption recovery amount for every period in the Tax Year

Period	Full recovery	Partial Exemption	Partial Exemption Recovery percentage
1	100	53.266	35.484
2		17.441	23.254
3	100	34.079	27.263
4		29.453	19.635
<b>Total</b>	<b>200</b>	<b>134.239</b>	

### What is the annual adjustment for the partial exemption?

$\frac{\text{Total value of taxable supplies in the Tax Year}}{\text{Total value of taxable and exempt supplies in the Tax Year}} \times 100$	$= \frac{44,000}{44,000 + 100,000} \times 100 = 30.556\%$
Deductible input tax for the year = (partial exemption x input tax used for taxable and non-taxable supplies)	$= 30.556\% \times 500 = 152.780 \text{ OMR}$
Tax Adjustment = Deductible input tax for the year - Input tax deducted during the year	$= 134.239 - 152.780 = -18.541$

***Accordingly, the tax difference (- 18.541 OMR) can be claimed from the Tax Authority through the tax return for the first tax period following the end of the tax year.***

## 2.15 Alternative Apportionment Method

The Taxable Person may use an Alternative Method to calculate Partial Exemption instead of the standard method the following conditions are met:

1. The alternative method to calculate partial exemption gives an acceptable apportionment.
2. The method is based on actual use of the goods and services.
3. The method must include an annual adjustment of the exemption.

**A taxable person must obtain the Tax Authority's approval to use an alternative method by applying in writing and including the following details and documents:**

1. General details of the taxable person and his Tax Identification Number.
2. The name and address of the responsible person.
3. The reasons why the taxable person does not wish to use the standard method.
4. Full description of the alternative method to calculate partial exemption.
5. The date from which the alternative method to calculate partial exemption will take effect, not being a date prior to the date of application.
6. Worked examples for the alternative method to calculate partial exemption based on figures for previous Tax Years, compared to the standard method.

The Tax Authority shall decide on the application within thirty (30) days from the date the applicant provides all information and documents. Otherwise, the application for a partial exemption alternative method is deemed to be rejected.

The Taxable Person may not apply any alternative method of calculating the partial deduction unless he obtains the Tax Authority's approval and is notified of the approval decision.

The Tax Authority has the right to withdraw the decision to use the alternative method if it becomes evident that the input tax is not properly proportioned, provided the taxable person is notified. The taxable person in this case must use the standard method.

*Common alternative methods include:*

- **Transaction Count method:** Apportionment based on a ratio of number of taxable transactions to total transactions.
- **Floorspace method:** Apportionment based on a ratio of floorspace used for taxable supplies to total floorspace.
- **Expenditures method:** Apportionment based on expenditures used for taxable supplies to total expenditures.
- **Headcount method:** Apportionment based on no. of staff dedicated to taxable supplies to total no. of staff.
- **Sectoral method:** Dividing the economic activity into discrete divisions and applying the most suitable method for each sector.



## 2.16 Adjustment of Input Tax

The Taxable Person must adjust the Input Tax previously deducted when receiving Goods or Services supplied to them in the following cases:

1. Cancellation of the supply -partially or in full- after the tax due date of supply (the taxable person must adjust the input tax in their VAT return per the debit note received from the taxable supplier).
2. Reduction in the value of the supply, after the tax due date of supply (the taxable person must adjust the input tax in their VAT return per the credit note received from the taxable supplier).

**Example:** *An Electronics supplier received a credit note related to a tax invoice that they had previously deducted. The electronics supplier fully deducted the input tax at the time of purchase as it relates only to taxable supplies.*

**The following table shows details of the credit note:**

Description	Details
The date of receiving the credit note	5/5/2022
The tax amount included in the credit note	50 OMR

- *What is the amount of the input tax adjustment?*

*50 OMR, as the taxable fully deducted the input tax at the time of purchase.*

- *How and when should the adjustment be made?*

*In the tax return for the period from 1/4 to 30/6.*

3. Non-payment of the Consideration –partially or in full- (where a taxable person does not pay the consideration due on a supply within

12 months, their taxable supplier will request bad debt relief. Thus, the taxable customer will receive a notice from the taxable supplier to adjust the input tax previously claimed). If in later stage the taxable person does indeed pay the consideration due, they will be allowed to readjust the input tax provided conditions of deduction are met.

#### 4. Changing the use of capital assets.

The Taxable Person is not required to adjust the Input Tax in cases of proven loss, damage or theft of goods, or in case the goods are used as commercial samples or gifts.

The taxable person may adjust the input tax previously claimed where they receive a debit note from taxable supplier due to increase in the value of the supply, after the tax due date of supply.

## **2.17 Loss, theft or damage**

No input tax adjustment is required if goods are lost, stolen or damaged beyond reasonable repair, provided:

- The Taxable Person notifies the Tax Authority within a period not exceeding (30) thirty days from the date of their knowledge.
- Attach the reports and documents specified by the Authority including the documents evidencing the loss, damage or theft and reasons, and report of the resulting damages.
- The Tax Authority may inspect the workplace, to establish the occurrence of loss, expiry or theft within thirty (30) days from the date of receiving the aforementioned notification. The loss, damage or theft shall be documented in the inspection report.
- In the event the Taxable Person's workplace is not inspected by the Tax Authority within the stipulated period, they are not required to adjust the Input Tax for the lost, damaged or theft goods.

In the event that the Taxable Person fails to notify the Tax Authority within the stipulated period, or the Tax Authority proves that the reports and documents submitted by them are not correct, they must make an adjustment to the Input Tax on the lost, damaged or theft goods.

## 3.Capital Assets

### 3.1 Input Tax related to Capital Assets

Capital Assets are tangible and intangible assets that form part of the business assets of a Taxable Person, allocated for long-term use as a business instrument or means of investment (this is reflected by capitalization of the asset in the Taxable Person's financial accounts, as attached to the Income Tax return for the year). Capital assets do not include assets held for resale in course of the normal economic activity of the taxable person.

#### **Common capital assets include the following:**

1. The acquisition or purchase of land, building or both land and buildings.
2. The construction of any building.
3. Equipment dedicated for long term use such as heavy machinery
4. Aircrafts, buses, and ships

Input VAT deduction is allowed in full or partially at the time of purchase depending on the intended use of the asset.

A taxable person with an intention to use the capital assets for both economic and non-economic purposes and/or for both taxable and exempt supplies may only deduct the input tax related to the making of taxable supplies. Apportionment of the input tax must be done per the apportionment steps highlighted in prior sections of this guideline.

The total value of input tax incurred on the capital asset will equal the VAT charged on all expenditures that are capitalized per the accounting and income tax rules followed in Oman. These are generally all expenditures that are required to make the asset available for use such as transportation and installation costs.

Where a taxable person is constructing the capital asset, all construction works that are capitalized will be regarded as input tax incurred on the capital asset. Input tax on construction and expenditures before an asset is available for use may be deducted as they are incurred, however, will form part of the cost of the capital asset and as such must be adjusted as part of the capital asset.

The use of the capital assets must be monitored, and the input tax initially deducted shall be adjusted annually over ten (10) years for long term Capital Assets (land, building or both land and buildings), or five (5) years in respect of all other Capital Assets. The capital assets Adjustments start from the beginning of the tax year during which the capital assets were purchased, obtained, or constructed.

Input tax adjustments related to capital assets must be done in accordance with the Executive Regulations.

More details on Capital Assets are available within the guide published by TA.

## 4.Reporting VAT

As a Taxable Person, you have an obligation to assess your own VAT liability, and to comply with your VAT obligations. This includes registering for VAT when required, filing tax returns, correctly calculating the amount of net tax you have to pay, paying tax on time, keeping all necessary records, and cooperating with officers of the Tax Authority upon request.

Should you require further information on the scope of your obligations, you should contact the TA.

### 4.1 Place of Supply

Place of Supply is a location where the supply of Goods or services takes place for VAT purposes. All supplies of goods made within Sultanate of Oman for consumption within Sultanate of Oman the standard VAT rate will apply.

Services will typically have a place of supply in Oman if:

- The supplier is resident in Oman.
- The supplier is a non-resident, but the services are received by a Taxable Customer in Oman. In these cases, the VAT is reported by the Customer using the Reverse Charge Mechanism.

Certain types of services, such as accommodation and other travel and expenditure items provided and consumed outside Oman, do not have a place of supply in Oman. Further detail will be provided in a separate taxpayer guide.

## 4.2 Imports of Goods and Equipment to Oman

VAT applies on the import of goods (including any products, equipment and any other tangible items) into the Sultanate of Oman. VAT becomes due at the point of release to free circulation either:

- at importation, once the goods have been cleared by the Oman Directorate General of Customs; or
- on release from customs suspended premises or Special Zone. Further details on Special Zones are provided in a separate taxpayer guide.

Any VAT due on imported goods is collected by the Directorate General of Customs along with Customs duties, other taxes and fees that may be applicable on the imported goods. Customs declaration and collection shall be made via the Bayan Portal. The portal will also calculate VAT payable on the imported goods, plus normally enable the payment and collection of VAT.

If the goods are standard rated under Oman VAT Law, the tax charged will be calculated at 5% of the taxable value of the imported goods in question. Tax is paid to the Directorate General of Customs, and Input Tax deduction is made by the importer through the VT return.

An importer registered in VAT may apply online to the Tax Authority to defer VAT payment in relation to imports to the time of submission of the VAT return. This allows the Output Tax due on import to be offset against the deductible Input Tax – meaning no net payment is required for imports by a fully taxable business.

The Tax Authority will review the application and decide on deferment within 30 days of receipt of complete request information and documents. If the taxable person does not receive a reply, the request will have been considered rejected and VAT shall be collected at the time of import by Oman Customs.

**Certain conditions must be met to obtain and keep the right of deferment:**

- The taxable person shall be registered for VAT with Tax Authority and must be compliant with the VAT Law and Regulations.
- The taxable person will have to not have been previously convicted of crime stipulated in the Law.
- The imported goods are for the purpose of the taxable person's activity.
- The application is submitted one month before entry of goods.
- Provide a guarantee in accordance with the Executive Regulations

The Tax Authority will notify the taxable person and the Directorate General of Customs of the approval of deferment.



### **4.3 Issuing Tax Invoices**

A taxable supplier must issue a tax invoice for each supply made in the course of its activities. This includes standard-rated and all exempt and zero-rated supplies.

The tax invoice must clearly show the information specified in the Executive Regulations.

A Taxable Person may issue a simplified tax invoice in the event that the value of the supply is less than OMR500 or any other case specified by the Authority. Further, the Taxable Person may issue a Summary Tax Invoice that includes all supplies of goods and services provided to the same customer within a month.

In all cases, the Tax invoice must be issued at the latest within fifteen (15) days following the date on which any of the events requires the taxable person to issue a tax invoice occurred.

### **4.4 Filing VAT Returns**

Each VAT registered person must file a VAT return with the Tax Authority for each monthly or quarterly tax period. The VAT return is considered the Taxable Person's self-assessment of tax due for that period. The VAT return must be filed, and the corresponding payment of net tax due made, no later than the 30th day of the month following the end of the tax period to which the VAT return relates.

If the VAT return results in VAT due to the taxpayer of more than OMR 100 and the taxpayer has requested a refund on the specified form then the Tax Authority is required to make payment of said amount within 45 days of filing the return or the due date of the return, whichever is later.

The Tax Authority will carry out a process of due diligence of the validity of the return. In some cases, this may result in an inspection before payment.

For more details, please refer to the published guideline on VAT Return Filing.

#### **4.5 VAT Payments/Refunds**

The payment of net tax due from the VAT return must be made on the same due date as for filing (no later than the 30 days following the end of the tax period).

If the VAT return results in VAT due to the taxpayer of more than OMR 100, the taxpayer may request refund from the Tax Authority. If a refund is requested, the taxpayer must complete certain steps and fulfill specific requirements.

## 4.6 Keeping Records

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

- 1) Daily Record in which the taxable transactions are recorded day by day according to their chronological and sequential manner and keep all the documents that enable the control of the accuracy/validity of these activities.
- 2) The Master Record which monitors the opening of accounts and the transactions based on this account, provided that there is a separate account for each type of supplies (taxable or exempted).
- 3) The inventory record, where the inventory items, the budget and the total/result count are recorded.
- 4) Records and documents related to the supplies of imported and exported goods and services.
- 5) Records and documents related to intra supplies of goods and services
- 6) Records and documents related to all customs transactions
- 7) All documents evidencing taxable supplies at zero rate in accordance with the executive regulations. This should include confirmation of exclusive upstream/midstream use for zero-rated supplies made by Contractors.
- 8) All tax invoices and other documents issued by the taxable person
- 9) All tax invoices and other documents received by the taxable person

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

Records may be kept in physical copy, or electronically where the conditions specified in the Executive Regulations are met to do so but must be made available to the Tax Authority on request.

All records must be kept for at least the standard retention period of ten (10) years. A longer minimum retention period is required for invoices or records that relate to assets that are deemed capital assets for the purpose of VAT and this can be up to 15 years.

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

## **4.7 Correcting past errors**

If a Taxable Person becomes aware of an error or an incorrect amount in a filed VAT return, or of any other non-compliance with the VAT obligation, the Tax Authority should be notified immediately, and action taken to correct the error by amending the VAT return. Errors resulting in a net understatement of VAT must be made known to the Tax Authority within 30 days of detecting the error or incorrect amount, and the previous return must be amended.

## **4.8 Administrative Penalties**

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

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

In the cases of tax evasion, the Tax Authority may impose a fine of 300% of the tax which was evaded or attempted to evade.

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

## 5. Contact Information & Forms

Please contact the Tax Authority if you have questions which are not addressed by this guide, require further clarification regarding the application of VAT to your activities, or require more information.

Oman Tax Authority:

- Al Mawaleh South, Seeb
- P.O. Box: 285, P.C. 100
- Hours: Sunday – Thursday | 07:30-14:30
- Telephone: +968 2474 6996 / Call Center:1020
- Email: [info@taxoman.gov.om](mailto:info@taxoman.gov.om)

Further guidance, forms and publications will be issued by the Tax Authority and made available to the public at the Tax Authority Taxpayer Portal.

For current VAT news and updates, please visit the Tax Authority Taxpayer Portal: [www.taxoman.gov.om](http://www.taxoman.gov.om)