



VAT Taxpayer Guide Real Estate

Version 1 - August 2021

Disclaimer:

This information is intended to provide a general understanding of the relevant treatment under the Sultanate of Oman's Value Added Tax Law and aims to provide a better general understanding of taxpayers' tax obligations. It is not intended to comprehensively address all possible tax issues that may arise. While the Sultanate of Oman's Tax Authority ("TA") has taken the initiative to ensure that all information contained in this Guide is correct, the TA will not be responsible for any mistakes and inaccuracies that may be contained, or any financial loss or other incurred by individuals using the information from this Guide. All information is current at the time of preparation and is subject to change when necessary.

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1. Introduction

1.1 Overview

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (“VAT Agreement”) was agreed on by the Sultanate of Oman and the Gulf Cooperation Council (“GCC”) Member States in November 2016. Pursuant to the provisions of the Unified VAT Agreement, the Sultanate of Oman issued Royal Decree No. 121/2020 dated 12/10/2020 (“VAT Law”), and its corresponding Executive Regulations (“Executive Regulations”) on 10/03/2021.

1.2 Sultanate of Oman Tax Authority (“TA”)

The TA carries out the powers granted to it by the law, regulations and decisions issued to implement and administer the VAT in Oman. This includes the VAT registration/de-registration of taxable persons, the administration of VAT return filings, undertaking assessments, audits and field visits and collecting and refunding the VAT. The TA also have the legislative power to levy penalties for non-compliance with VAT legislation.

1.3 What is this guide about?

The purpose of this guide is to provide guidance regarding the application of VAT to Real Estate in Oman, including the sale and rental of residential and commercial properties including services related to Real Estate.

The guide reflects the TA’s interpretation on the application and treatment of VAT with respect to the VAT Law and the Executive Regulations concerning Real Estate at the date of issuance of this document. This is strictly a guideline and may not include some relevant legislative provisions in relation to Real Estate from the VAT legislation. This guide is not binding on the TA, or on any taxpayer in respect of any transaction carried out, and it cannot be relied upon in case of dispute.

For further guidance on specific transactions you may apply for a ruling, or visit the TA’s website at www.taxoman.gov.om

1.4 Definitions

The following terms are dealt with in this guide:

- **Person:** Any natural or juristic person, including joint ventures, and partnership agreements signed outside the Sultanate which do not acquire the form of a company.
- **Taxable Person:** The person who conducts the activity independently for the purpose of generating income and is registered with the Authority or is required to register with it pursuant to the provisions of the Law.
- **Customer:** the person who receives Goods or Services.
- **Output Tax:** The Tax due that is charged on Taxable Supplies of Goods and Services.
- **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 the activity.
- **Standard-Rate (5%):** the VAT rate of 5% applicable to the taxable supply of most Goods and Services. The Taxable person retains the right to deduct the Input tax associated with standard-rated supplies.
- **Zero-Rate (0%):** the VAT rate of 0% is applicable to designated supplies of Goods and Services. The Taxable person retains the right to deduct the Input tax associated with zero-rated supplies.
- **Exempt Supplies:** Supplies which are not taxed and the Input Tax related thereto shall not be deducted in accordance with the provisions of the Law.
- **Taxable Supplies:** The supplies on which Tax is charged at the standard or zero rate, and the Input Tax related thereto is deductible according to the provision of the Law.
- **Consideration:** Everything collected or to be collected by the Taxable Supplier from the Customer or a third party for the Supply of Goods or Services inclusive of the Tax.
- **Goods:** All tangible assets and includes water and all types of energy including electricity and gas
- **Services:** any supply that is not Goods.

- **Reverse Calculation (Charge) Mechanism:** The mechanism under which the taxable Customer is liable to tax on behalf of the Supplier and is responsible for all the obligations stipulated in the Law.
- **Tax Period:** The period of time for which Net Tax must be calculated and Tax Return submitted pursuant to provision of article (71) of the Law.
- **Net VAT or Net Tax:** tax resulting from deducting the deductible VAT from the VAT due within the same Tax period. Net VAT may either be payable or refundable, i.e. Output VAT minus Input VAT.
- **Mandatory Registration Threshold:** The minimum value of actual supplies, and estimated supplies that result in the Taxable Person becoming obligated to register for Tax purposes pursuant to the provisions of the Law, e.g. OMR 38,500.
- **Voluntary Registration Threshold:** The minimum value of actual supplies, and estimated supplies at which the Taxable Person may apply to register for VAT purposes, e.g. OMR 19,250.
- **VAT Group:** two or more Taxable Persons who are registered as a single Taxable Person in accordance with the conditions determined by the Regulations.
- **Place of Supply:** The Place of a Supply of a Good or Service determines whether any VAT should be accounted for on the supply.
- **Place of Business/Workplace:** the place where a business is legally established; or where its actual management center is located where key business decisions are made if different from the place of establishment.
- **Fixed Establishment:** The fixed place of the activity other than the Workplace, through which any foreign person conducts his activity in the Sultanate partially or in full either directly or through an affiliated agent
- **Place of Residence:** The place where the Workplace or Fixed Establishment is located, or the place of usual residence with respect to a natural person that does not have a Workplace or Permanent Establishment, or the place most closely associated with the supply if the person has a residence in more than one State.
- **Capital Assets:** 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 (includes land, buildings, machinery, commercial vehicles etc.)

- **Economic Activity:** An activity that is conducted in a continuous and regular manner, particularly commercial, industrial, professional, artisanal, or service activity.
- **Residential Property:** A residential property means any building, or part of a building, designed and intended for residential purposes and has the required approval from the relevant competent authority.
- **Undeveloped Land:** means land which has no man-made structures, or partially completed structures on it above the surface or in the ground below the surface.
- **Commercial Property:** any land or building, which is not a building designed as a residential building or number of residential buildings or undeveloped land.

2. Registering for VAT

During the transitional period, different rules apply for registration and a separate guide has been prepared for that purpose.

Information in this guide relates to rules that apply after the transitional period.

VAT is a self-assessed tax; therefore, Persons are required to continually assess the need to be registered for VAT. Generally, VAT registration falls into two categories: Mandatory registration and Voluntary registration. If a taxable person exceeds the annual mandatory registration threshold, it is obligated to register; if it exceeds a voluntary registration threshold, it has the option to register.

The following are taken into account for registration:

- Taxable supplies (i.e., standard and zero-rated supplies) less the value of any supplies that are part of the business' capital assets;
- Intra-GCC supplies of Goods and Services; and,
- Value of goods and services supplied to the taxable person in the Sultanate where the Reverse Charge Mechanism is applicable.

Mandatory registration threshold:

Every person residing in the Sultanate is required to register by applying the following tests:

- 1) **Backward Look:** If the total value of supplies made exceeds the mandatory VAT threshold (OMR 38,500) in the current month plus the previous 11 months.
- 2) **Forward Look:** If it is expected that the total value of supplies to be made will exceed the mandatory VAT threshold (OMR 38,500) in the current month plus the next 11 months.

These tests must be carried out on a monthly rolling basis by an unregistered person engaged in an economic activity. If the answer is yes for either test, the person must register for VAT.

A non-resident of a member state making any taxable supply in the Sultanate, is required to register regardless of the turnover.

Voluntary registration threshold:

For the purposes of voluntary registration, a person may register based on the value of supplies or expenses. For example, a business that has not yet fully begun economic activity, but intends to,

and has incurred expenses subject to VAT in excess of the voluntary registration threshold, may opt to register.

Every person residing in the Sultanate is allowed to register voluntarily by applying either one of the following tests:

1) Backward Look:

- a. If the total value of supplies made exceeds the voluntary VAT threshold (OMR 19,250) in the current month plus the previous 11 months.
- b. If the total value of expenses exceeds the voluntary VAT threshold (OMR 19,250) in the current month plus the previous 11 months.

2) Forward Look:

- a. If it is expected that the total value of supplies to be made will exceed the voluntary VAT threshold (OMR 19,250) in the current month plus the next 11 months.
- b. If it is expected that the total value of expenses will exceed the voluntary VAT threshold (OMR 19,250) in the current month plus the next 11 months.

These tests can be carried out on a monthly rolling basis by an unregistered person engaged in an economic activity. If the answer is yes for either test, the person may register for VAT.

3. Supplies of Real Estate

3.1 VAT Treatment of Supplies of Real Estate

Below is summary of the VAT treatment for supplies of Real Estate in Oman as per the provisions of the VAT Law and its Executive Regulations:

Real Estate supply	VAT treatment		
	5%	0%	Exempt
Sale and rent of a commercial property (including hotel apartments, warehouses, stores, and car parking)	√		
First Supply of a residential property	√		
Resale of residential property			√
Undeveloped land			√
Rental of residential property			√
A property located within a special zone (as per the conditions of the Law and Executive Regulations)		√	

3.2 Definition of Real Estate

Real estate is generally considered to be any specified area of land, any building, structure or engineering work permanently attached to the land, including any goods affixed to any building, structure or engineering work.

Type of Good	Is it a Real Estate?	
	Yes	No
Undeveloped land	√	
Buildings permanently attached to the land	√	
Temporary housing that can be moved without damage		√
Furniture and equipment not permanently attached to the property		√
Equipment not permanently attached to the building		√
Car Parking	√	
Mobile homes (caravans)		√
Hospital	√	

3.3 Sale and Rental of Real Estate

For VAT purposes, the VAT treatment for sale of real estate, renting and granting of rights depends on the specifications related to the transactions. The Law provisions will be applicable on a case by case basis.

The time of supply rules under Articles 26 and 27 of the VAT Law should be applied to Real Estate transactions according to the circumstances applicable.

3.4 Other Supplies Related to Real Estate

There are other supplies which are directly connected to real estate, which include:

Engineering, studies, management, and supervision of construction works

Construction and demolition services and services related to construction work

Building trade, management, maintenance and repair work, real estate agents and brokers, real estate experts and others who carry out tasks and work related to real estate.

3.5 Transfer of an Activity

It shall not be considered a Taxable Supply, when a Taxable Person make a sale of properties that form part of the transfer of his Activity – fully or partially - to another Taxable Person, when the conditions stipulated in the Law and Executive Regulations are met. Main conditions are:

- The part of the activity that has been partially transferred is capable of operating by itself
- The transferee uses the assets – including properties to carry out the same type of activity that the transferor is engaged in.
- There must not be a series of consecutive transfers of the assets.

4. Undeveloped land (bare lands)

4.1 Definition of Undeveloped Land

Pursuant to Article 47(4) of the VAT Law, undeveloped land means land which has no man-made structures, or partially completed structures on it above the surface or in the ground below the surface.

4.2 Application of VAT on Undeveloped Land

The supply of undeveloped land is exempt from VAT. As a result, any VAT on costs associated with the supply of undeveloped land e.g. legal fees or agents' fees, shall not be recoverable by the supplier.

Where a plot of land is supplied which does not meet the definition of 'Undeveloped Land', it shall be considered to be commercial land and the supply shall be subject to VAT at the standard rate of 5%. This will be evaluated on a case-by-case basis.

4.3 When a land would be considered as developed land?

Construction would be considered sufficient to represent a partially completed structure when the stage of the construction has progressed beyond foundation level. As a result, the sale of land where a degree of construction has been completed, but the construction has not progressed beyond foundation level shall not be sufficient to classify the land as being covered by a partially completed structure.

Depending on the nature of the construction which has been undertaken in such cases, the construction may nevertheless represent civil engineering works. As a result, the supply of the land may be considered "developed" and therefore subject to VAT at the standard rate.

Where a plot of land has been fenced and walled off to allow construction to commence, the erection of the fence or wall will not cause the land to be considered developed by structures or civil engineering works.

Other cases of developed land include farmland that will normally be covered with some man-made structure required to make it operational as a farm e.g. irrigation systems, roads, utility connections etc.

Also, lands that have been developed to operate as car parking on a permanent basis are considered as developed lands.

However, it is necessary to evaluate each case on a case-by-case basis to ascertain whether these properties and structures are sufficient to classify the land as 'developed land'.

4.4 Leasing undeveloped land for development

Where a landlord leases a plot of land to a tenant who intends to develop on the land, it is important that the landlord identifies whether the landlord is supplying undeveloped land or not to the tenant.

It may be the case that a landlord supplies land to a tenant which meets the definition of "Bare Land" at the point it is first leased to the tenant, however once the tenant begins to develop on the land then the nature of the landlord's supply will change.

As soon as the land becomes covered by completed or partially completed buildings or civil engineering works, the landlord will no longer be making a supply of Bare Land to the tenant. From the point the land ceases to be Bare Land, the landlord should charge VAT at the standard rate at 5% to the tenant.

In such cases, it shall be necessary to calculate the tax on payments relating to the period after the change in the nature of supply.

5. Residential Real Estate

5.1 Definition of a residential real estate

A residential real estate means any property or building, or part of a property or building, designed and intended for residential purposes and has the required approval from the relevant competent authority.

Residential properties do not include the following (this is not an exhaustive list):

- a) Any property or building that is used as a hotel, tourist compound, industrial compound, commercial compounds, bed and breakfast establishment, hospital and all similar buildings;
- b) Any serviced apartment (e.g. hotel apartments);
- c) Any structure that is not fixed to the group and can be moved without damage.

Type of Real Estate	Is it a Residential Real Estate?	
	Yes	No
Hotel		✓
Tourist compound		✓
Commercial compound		✓
Apartment or residential villa	✓	
Mobile homes (caravans)		✓
Non-licensed buildings		✓

5.2 Resale of residential real estate

The resale of a residential property is exempt from VAT. The first supply is subject to the standard-rate of 5% VAT.

Where the supplier of a residential property or building incurs VAT on costs relating to a subsequent supply e.g. brokers fees, or incurs VAT on costs relating to the general upkeep and maintenance of the property after the first supply, then such costs are considered to directly relate to the exempt supply of the property. As such, the supplier will be unable to recover any VAT on such costs via its VAT return.

Only supplies that relate to the first supply of a residential property may be recovered for VAT.

5.3 Rental of residential real estate

Pursuant to Article 47(7) of the VAT Law, the rental of a residential property means any agreement which gives the right to occupy a property for residential purposes provided that:

- a) The right to occupy the property is for a continuous period of more than 3 months; and,
- b) The agreement is in accordance with the relevant tenancy laws in Oman.

The rental of a residential property will not include, but is not necessarily limited to the following:

1. Any property or building that is used as a hotel, tourist compound, industrial compound, commercial compounds, bed and breakfast establishment, hospital, and all similar buildings; and,
2. Any apartment where additional services are included or charged for separately except for general maintenance and cleaning of communal areas.

5.4 VAT treatment of car parking

Generally, the rental of car parking is subject to tax at a rate of 5%, but if it forms part of a single supply of real estate rental for residential purposes, it will be treated in the same treatment applied to the real estate itself.

5.5 VAT treatment of service charges relating to residential real estate

A community master developer or building owner will often make charges to the owners or tenants of units within the community/building in return for the upkeep of the communal areas of the property such as maintenance, electricity, internet, water, administrative services, commissions, etc. Such charges will be subject to VAT at the standard rate of 5%, on the basis that they represent a charge for additional services. If some of these charges will be considered as part of a single supply of real estate rental for residential purposes, it will be treated in the same treatment applied to the real estate itself.

5.6 Single and multiple supplies

If the Taxable Person makes a supply consisting of different goods and services, then the nature of this supply must be determined as a single supply or a multiple supply based on the actual characteristics of the supply, as follows:

Single (or Composite) Supply: any supply made by the Taxable Person to a customer as a single transaction that consists of either multiple goods, a combination of goods and services, or multiple services. To treat the supply as single supply, the following conditions must be met:

1. The Supply is considered commercially as a single Supply
2. The components that make up the Supply are closely related to each other, so that these components constitute objectively a Composite Supply that cannot be split from a commercial and normal perspective
3. All components of the Supply are necessary and essential to carry out the Supply and achieve the commercial aim of the transaction
4. The Supply is made in the normal course of business by one Taxable Person
5. Transactions are not artificially combined to avoid Tax, or to increase any Input Tax recovery.

The Taxable Person must calculate the Tax on the single supply based on the rate applicable on the supply, taking into account the commercial aim of the transaction as per point 3 above.

Multiple Supplies: Two or more separate supplies made together by the Taxable Person to the customer for one total consideration.

The Taxable Person must calculate the tax for the multiple supply on the basis of the tax rate applied to each of the supplies that constitute the multiple supply.

5.7 Real Estate owned by individuals

The Law does not exclude individuals who own real estate in the Sultanate from complying with its provisions.

Therefore, individuals who engage in any economic activity such as renting or selling real estate must determine the extent to which they are subject to the provisions of the law, register for VAT and collect tax on taxable supplies, in addition to ensuring compliance with all provisions of the law.

6. Commercial real estate

6.1 Definition of commercial real estate

Commercial Real Estate is any land or property, which is not one of the following:

- Any building, or part of a building, designed and intended for residential purposes and has the required approval from the relevant competent authority; or
- Undeveloped land.

6.2 VAT treatment of commercial real estate

The supply of commercial real estate - sale or lease - is subject to VAT at the standard rate of 5%. VAT is therefore due on the total consideration received for the supply of commercial real estate.

As a result of making a taxable supply of commercial real estate, any VAT on costs incurred in relation to the supply shall be recoverable in full.

7. Mixed use real estate

7.1 Definition of a mixed use real estate

A mixed-use real estate is a property or plot of land which has clear and distinct sections which are put to different uses; these have a different VAT treatment when supplied. For example, a property which has retail units on the ground floor level, office, or commercial space on the middle floors of the building and residential units on the top floor would be considered a mixed-use real estate.

Where a distinct part of a mixed use real estate is supplied, the VAT liability applicable to the supply depends on the use of the part of the real estate which is being supplied i.e., the supply of a commercial unit shall be taxable at the standard rate, whilst the supply of a residential unit (other than the first supply) shall be exempt from VAT.

Where a mixed-use real estate is sold in its entirety, it is necessary to apportion the consideration received between the different parts of the property. The value of consideration relating to the residential part of the property shall be treated as exempt from VAT (or standard-rated, where the supply is the first supply), and the value of consideration relating to the commercial part of the property shall be treated as standard rated.

7.2 VAT recovery on development costs

Input tax incurred on the development cost of new commercial real estate is recoverable in full, given that all intended supplies of that property are taxable. This means that developers will be able to recover VAT on costs over the duration of the development of the property.

Where a taxable person incurs the costs of constructing a residential building, all of the VAT incurred on the costs of such development shall be recoverable in full on the basis that the costs relate to the standard-rated first supply. Any future supplies of the building by that taxable person (e.g. a subsequent lease, which would be exempt from VAT after the first supply) shall be ignored for the purposes of input tax recovery.

7.3 VAT recovery on repair & maintenance costs

Input tax incurred on the repair and maintenance costs of a property which is used for wholly commercial purposes is recoverable in full.

Input tax incurred on the repairs and maintenance of a property which is used for wholly residential purposes is not recoverable.

Where input tax is incurred on a property which is used for both commercial and residential purposes, the taxpayer is required to directly attribute the VAT on costs incurred as far as reasonably possible.

For example, where a building contains retail shops and residential apartments, any costs incurred which directly relate to the shops can be recovered in full. However, any costs which directly relate to the residential properties are not recoverable. This then leaves an amount of input tax, often called residual input tax, where the cost is used for both parts of the business e.g. roof repairs.

The input tax must be apportioned in accordance with the following method:

- a) Input Tax that relates wholly to supplies where input tax is recoverable (e.g. taxable supplies), is recoverable in full;
- b) Input Tax that relates wholly to supplies where the input tax is non recoverable (e.g. exempt and non-business supplies), is blocked in full;
- c) Input tax that control be allocated under (a) or (b) above (e.g. roof repairs) must be apportioned and is commonly referred to as "general overhead input tax".

The residual input tax identified under point c) above should be apportioned using the following method:

1. Recoverable Tax %=
$$\frac{\text{supplies falling within paragraph (a) above}}{\text{supplies falling within paragraph (a) + supplies falling within paragraph (b)}}$$
2. The percentage calculated under paragraph (1) above is then rounded to the nearest whole number;
3. The percentage calculated under paragraph (2) is to be multiplied by the amount of input tax referred to in paragraph (c) to establish the recoverable proportion of that input tax; and

The total recoverable input tax is then the sum of supplies falling within paragraph (a) plus the answer under paragraph (3).

8. Place of supply

8.1 Place of supply of real estate and related services

It is important to establish the place of supply of goods or services in order that the supplier can confirm whether or not VAT will be applicable to the transaction.

The place of supply of real estate and related services is where the real estate is located. The place of supply is Oman, if the real estate is located in Oman, accordingly, VAT law provisions will apply on such supplies.

A supply of services is deemed to relate to real estate where the supply of services is directly connected with the real estate.

A supply of services directly connected with real estate includes:

- Engineering, studies, management and construction supervision works;
- Building and demolition services and services related to construction works
- The works of trading buildings, management, maintenance and repair works of buildings, real estate agents and brokers, real estate experts and others who carry out tasks and works related to real estate

Services which are not considered to be directly related to real estate shall be subject to the normal place of supply rules.

Some examples of services that are not considered to directly relate to real estate include:

- Staff transport to a building site;
- Consulting services related to land or property markets generally;
- Management of a property investment portfolio;
- The supply of storage of goods in a property without a right to a specific area for the exclusive use of that customer;
- Advertising services, including those that involve the use of signage;
- General legal advice on real estate related contracts.

8.2 Providing Services by Non-Residents

In case real estate related services are provided by a non-resident supplier to a Taxable Person registered in Oman, such taxable person will be required to charge and account for VAT via the Reverse Charged Mechanism.

In case these services are supplied to a non-taxable person in Oman, then the non-resident supplier is obligated to register for VAT in Oman. Taking into account that there is no VAT registration threshold for non-residents who make taxable supplies in Oman.

As noted above, supplies of real estate located within Oman is subject to VAT in Oman, where applicable. Where a non-resident landlord makes any taxable supplies related to any real estate located in Oman, they will be required to register, charge and account for VAT.

Where the real estate property itself is sufficient enough to create a fixed establishment for the non-resident landlord, the non-resident shall be considered resident in Oman and therefore subject to the Mandatory Registration Threshold.

8.3 Real estate within a Special Zone

The place of supply of real estate supplies, which include the sale and lease of real estate is where the real estate is located. Accordingly, place of supply of real estate located in Special Zone is Oman.

The VAT Law and its Executive Regulations state that supplies of real estate made within Special Zones (i.e., Free Zone or Special Economic Zone) will be zero-rated, subject to the conditions attaching to supplies within Special Zones.

Supplies of services related to real estate which are performed in the Special Zone will also be subject to VAT at the zero-rate, subject to the conditions of the Special Zone.

9. Construction industry

9.1 Definition of construction services

Construction services are generally works carried out for the construction of buildings or infrastructure and other properties such as homes, hospitals, factories, bridges, etc., and include demolition and restoration works.

This sector also includes many professions and industries such as architecture, project management and craftsmen.

These services may include supplies of goods as part of them.

9.2 VAT treatment of construction services

Construction services which are supplied in Oman are subject to VAT at 5% - taking into account the provisions related to Special Zones. This VAT treatment will apply regardless of the type of building which is being constructed.

9.3 Tax Due Date for Construction Services

The tax due must be declared in the tax return according to the tax due date, which depends on the nature of the supply.

9.3.1 Tax Due Date for one-off construction services

The normal time of supply rules apply to construction services in the same way as they apply to any other service. Small construction works will be treated as a one-off if there is only one lump sum for the services. The date of supply will be the earlier date of the following:

- Receipt of payment;
- Completion of the services; or,
- A Tax invoice is issued in respect of the supply.

9.3.2 Tax Due Date for construction services with periodic payments or consecutive invoices

Construction services involves supplies which take place over a significant period of time and are therefore subject to stage payments/advance payments/retentions etc. and other performance-related events during the course of the overall supply. Therefore, special rules apply for the continuous supplies of services and apply to construction services where there are periodic payments or consecutive invoices. Article 27 of the VAT Law states on the special rules of determining the tax due date.

Where a contract includes periodic payments or consecutive invoices, the date of supply shall be the earliest of the following:

- The date payment is due as shown on the tax invoice
- The date of receipt of actual payment.

In the event that 12 months has passed and none of the above events has occurred, a date of supply will be determined by the expiry date of 12 months from the date of commencement of supply.

The certification of a construction project at a particular point in time will not trigger the date of supply for VAT purposes. However, certification of a project is often linked to other obligations such as a due date for payment, which may itself trigger the date of supply.

9.4 Retention payments/deposits

It is often the case where large construction projects are concerned that a retention clause will be included within the contract. A retention clause allows the customer to hold back a proportion of the contract price once the work has been completed, pending confirmation that the supplier has done the work properly and has rectified any immediate faults that might be found.

Often the retention amount is not payable by the customer until an agreed period of time has passed, and in some cases where the customer is not satisfied with the quality of the work, the retention payment will be retained by the customer.

There are no special rules for determining the date of supply in relation to retention payments, therefore the date of supply rules applying to continuous supplies under Article 27 of the VAT Law must be applied.

Under Article 27 of the VAT Law, the date of supply shall therefore be triggered at the earliest of:

- The time the retention payment has been made
- The date specified on the tax invoice in relation to the retention; or
- 12 months from the date the work has been signed off as complete (to be determined as per the contract signed between parties).

If, however, the services are considered to be a single supply where to the tax point rules in Article 26 of the VAT Law, the date of supply for the retention will be triggered on the earlier of the date the services were completed (to be determined as per the contract signed between parties), or the date of issuing the tax invoice or The time the retention payment has been made.

9.5 Snagging

In many cases the customer will have held a retention payment in respect of the possible snags that may be identified in the course of construction.

In most cases the builder will be asked to rectify the snag usually at their cost. Alternatively, the developer may invite a different builder to resolve the snags.

Where the original builder corrects the snags at his cost, he will not receive any further consideration. Therefore, there is no further supply being made by the builder and the snagging works are considered to be part of the original supply, then no additional VAT is due.

Where the customer uses another person to correct the snags, or where the original supplier corrects the snags for an additional fee, there is an additional supply of services to the customer and VAT will be due on that supply.

If the customer did not pay the retention payments to the supplier then VAT is not due on that element.

The supplier has the right to issue a credit note to correct the due tax in the event that the tax has already been calculated on it, or to apply the provisions related to bad debts if these payments are still due.

9.6 Partially completed buildings

A building is normally considered complete on the date the building is officially certified as being complete. However, if the building is occupied before this date, the date on which the building is occupied shall be taken to be the date of completion. If a partly completed commercial building sold prior to its completion, the supply will be standard-rated unless it qualifies to be treated as part of a transfer of a going concern.

10. Transitional Provisions

Transitional provisions state the VAT treatment of supplies that extend before and after the date of the law becoming effective.

In case that a person issues an invoice or receives an amount in exchange for the provision of services or goods before the effective date of the law, but the goods delivered or services are performed after this date, these supplies will be subject to tax in accordance with the provisions of Article (104) of the law.

Example: On April 10, 2021, Ahmed agreed with a company to paint the walls of his house in Qurum. On the same day, the company issued an invoice for 500 Omani riyals. According to the agreement, the company started painting work on April 20, 2021. In this case, the paint work will be subject to tax at a rate of 5% because the services were performed after the effective date of the law.

For successive supplies that are partially made before and after the date of the law becoming effective according to a contract concluded before this date, only the part that was made after the effective date will be subject to the provisions of Article (105) of the law, and therefore the supplier must specify the supplies that were made before and after this date.

Example: On January 1, 2021, a company entered into a contract with another company to lease a commercial store in Azaiba for a period of 12 months. In this case, only the portion of the rent that relates to the period from April 16 to December 31, 2021 will be taxed at a rate of 5%.

Article (105) of the law indicated that the consideration will be considered including tax in the event that the contract does not include a text related to tax.

11. Reporting the 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, 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 TA upon request.

With regard to the sale of real estate by public auction, each person who performs the sale procedures for the taxable person must notify the Authority of the exact date of the sale. Notification must be given at least 10 days prior to that date.

11.1 Date of supply

The date of supply is the date under the VAT Law and Executive Regulations when a business must account for VAT. Most businesses will submit a three-monthly return and any supply which has a date of supply within that period must be reported on the return and the VAT due must be paid by the due date of submission of the return.

The VAT Law and Regulations stipulate the due dates on supplies. For the supply of services, VAT becomes due on the date on which the service performance was complete. However, if an invoice is issued by the supplier before the date of completion, VAT becomes due on the earlier date of invoicing rather than completion. If the payment is made before either completion of the service or the issuing of an invoice, VAT becomes due on the date of payment.

Where services are supplied as part of a continuous supply of services over a period of time, then the due date for VAT will be either a payment date or date of settlement mentioned in the tax invoice – whichever is earlier, and at least once every twelve (12) consecutive months.

The payment of a security deposit to a notary or other third party, which is refundable and not made available to the supplier, does not result in VAT becoming due.

11.2 Issuing invoices

A taxable supplier must issue a tax invoice for each taxable supply made to any other VAT-registered person or to any other legal person. A taxable person may issue a simplified tax invoice in the event that the value of the supply is less than 500 OMR or issue a simplified invoice for supplies made to an end consumer.

The tax invoice must clearly detail information specified in the Executive Regulations, including the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.

A simplified tax invoice must clearly contain the following details:

- The term "simplified tax invoice"
- The date of issuance, the date of supply, and the date of payment
- The supplier's full name, address and Tax identification number
- Description of the goods and services
- The quantity of goods
- Total consideration excluding Tax
- The applicable Tax rate
- Any price discounts, or reductions granted to the customer, or subsidies granted by the state that were not included in the value of the consideration excluding Tax
- Taxable value
- VAT due

11.3 Filing VAT returns

Each VAT registered person must file a VAT return with the TA 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 100 OMR and the taxpayer has requested a refund on the specified form then the TA 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 TA 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.

11.4 Keeping records

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:

- 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.

- 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).
- The inventory record, where the inventory items, the budget and the total/result count are recorded.
- Records and documents related to the supplies of imported and exported goods and services.
- Records and documents related to intra supplies of goods and services
- Records and documents related to all customs transactions
- All documents evidencing taxable supplies at zero rate in accordance with the Executive Regulations
- All tax invoices and other documents issued by the taxable person
- All tax invoices and other documents received by the taxable person

The taxpayers should be able to provide the TA 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 TA 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.

11.5 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 TA 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 TA within 30 days of detecting the error or incorrect amount, and the previous return must be amended.

12. Penalties

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

The TA may impose administrative penalties which range from a fine of 500 OMR up to 10,000 OMR depending on the nature of the offence. In addition, the TA may impose a penalty in the region 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 TA may impose a fine of 300% of the tax evaded or attempted to evade.

In more serious cases the TA 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.

13. Further inquiries

13.1 Contact information

For more information, please contact the TA:

Oman Tax Authority:

Muscat

Muscat

P.O. Box: 285, P.C. 100

Hours: Sunday – Thursday | 07:30-14:30

Telephone: +968 2474 6996

Email: info@taxoman.gov.om

13.2 Forms and publications

Further guidance, forms and publications will be issued by the TA and available to the public in due course.

13.3 VAT news

For current VAT news and updates, please visit the TA Taxpayer Portal: www.taxoman.gov.om