VAT Taxpayer Guide

Capital Assets

Version 1 – June 2023

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. What is this Guide about?

This guide has been issued by the Sultanate of Oman Tax Authority ("TA") to provide additional interpretation and guidance for the application of the VAT Law and its corresponding Executive Regulations surrounding the purchase and use of capital assets.

Capital assets are used in the business activity for an extended useful life. In some cases, the usage of the asset changes over this useful life. Due to the possibility of changes to the asset's use, special rules are prescribed to monitor usage over the useful life and make adjustments to input tax deduction where necessary. This guide explains these special rules, and other relevant considerations for capital assets.

The TA has adopted "Administrative Practices" which are highlighted in italics where relevant – Administrative Practices are administrative approaches accepted by the TA following consultation with the industry, to facilitate taxpayers' compliance with VAT obligations.

This guide is intended to provide a general overview of the rules applying to capital assets. For further guidance on specific transactions, or for matters not addressed by this guide, please get in touch with the TA.

General information about VAT in Oman can be found in the VAT portal of the TA website: www.taxoman.gov.om.

1.2. Who should use this Guide?

You should read this guide if you purchase or use capital assets in your business activities.

1.3. Definitions

• **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. See section 2 of this Guide for details.

• **Adjustment Period:** the deemed useful life of a Capital Asset for VAT purposes, over which the taxable use is monitored (and input tax adjusted if necessary). See section 4.2 of this Guide for details.

• **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. See section 3.1 of this Guide for details.

• **Initial Recovery Percentage:** Proportional deduction of Input Tax made in respect of the purchase of an asset, expressed as a percentage. See section 3.2 of this Guide for details.

• **Annual Recovery Percentage:** Proportional deduction of input tax calculated for each subsequent Tax Year during the Adjustment Period. See section 4.3 of this Guide for details.

• **Tax Year:** Twelve months starting from the first of January and ending on the end of December of every Gregorian year.

• **Final Adjustment:** Adjustment to previously deducted Input Tax in respect of a Capital Asset when that asset is sold, disposed of or surrendered. See section 5.1 of this Guide for details.

2. What are 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. Long-term use could include assets used:

- In the production or supply of goods and services – for example, manufacturing equipment or delivery vehicles.
- For rental to others – for example, a commercial office building held by a landlord which is offered for lease.
- For administrative purposes – for example, a commercial office building used as the headquarters where the business is organized and managed from.

The TA views that allocation for long-term use is reflected by capitalization of the asset in the Taxable Person's financial accounts, as completed in accordance with the relevant accounting standards and – where applicable – 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, even if these assets would typically be held as capital assets by other businesses.

Example: A dealer in commercial vehicles holds new trucks in its business assets as trade inventory. When sold, these assets will typically be capital assets of the purchaser. However, the dealer does not hold these trucks as capital assets.

Capital assets do not include low value assets which are expensed upon purchase under the accounting policies of the business, even if these could be used in the business over an extended period. Examples of low value equipment might include small items of office furniture or fittings, stationery, telephones, personal computer hardware and similar equipment.

Immovable property is explicitly denoted as long-term capital assets in Executive Regulations, being one of the following categories:

1. The acquisition or purchase of land, building or both land and buildings.

2. The construction of any building.

2.1. Value of Capital Assets

The value of tangible Capital Assets is established in accordance with the capitalized expenditures under applicable accounting rules. Typically, this will include the expenditures required to make the asset available for use: purchase price, import duties, transportation, and installation costs.

For VAT purposes, the input tax amount will be the tax (if charged) upon these costs.

Example: *An Omani manufacturing company purchases a piece of manufacturing equipment from a vendor established in China. The asset value, and the value of the tax, is determined as below:*

Item	Value of Asset (Excluding VAT)	Value Added Tax Incurred
Cost of machinery	*OMR 200,000*	-
Cost of international freight	*OMR 10,000*	-
Import duty	*OMR 21,000*	-
VAT imposed at import (paid to Directorate General for Customs)	-	*OMR 11,550*
Local freight in Oman (from port to work site)	*OMR 600*	*OMR 30*
Installation fee charged by local supplier	*OMR 1,600*	*OMR 80*
Total	***OMR 233,200***	***OMR 11,660***

Where a taxable person is constructing the capital asset, all materials and 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, these expenditures will form part of the cost of the capital asset and as such must be adjusted as part of the capital asset.

2.2. Additions to capital assets and refurbishments

After putting a capital asset to use and deducting the initial input tax deduction, the taxable person may incur additional expenditures related to the capital asset.

Where these expenditures are to be capitalized per the accounting and income tax rules in Oman, they will be considered as a separate capital asset for VAT purposes and separate capital asset adjustments must be performed.

Example: *A car dealer arranges for construction of a new showroom building, which is constructed during 2022 and opens for trade in October 2022. Two years later, the business decides to add a workshop to the building to carry out maintenance servicing on the vehicles. The addition to the car showroom in 2024 is a new Capital Asset for VAT purposes.*

3. Input Tax Deduction on Initial Acquisition of Capital Assets

3.1 Deduction - General principles

The Value Added Tax borne by a Taxable Person on the acquisition of a capital asset (through purchase, import or construction) may be deducted as Input Tax at the time when it is incurred. Input VAT is any of the following:

- VAT charged on Taxable Supplies of Goods or Services to the Taxable Person by a VAT-registered supplier in Oman.
- VAT paid to the Oman Directorate General of Customs on the imports of tangible goods into Oman; or
- VAT self-accounted by the Taxable person under the reverse charge mechanism on services purchased from non-residents (which are capitalized as an asset or part thereof).

The taxable person may only deduct input VAT charged on goods and services purchased in the course of carrying on economic activity to the extent that such purchases enable the taxpayer to make either taxable or zero-rated supplies.

Deduction of the total input tax paid on the purchase or acquisition of a Capital Asset is based on the intended use of the Capital Asset at acquisition.

3.1.1. Capital Assets purchased wholly for use in making taxable supplies

For example, a factory used to produce standard-rated or zero-rated products for sale, equipment or intangible property used in performing taxable services, or a vehicle used for delivery of taxable products.

Input Tax is deductible in full. The use of the capital asset must be monitored over the adjustment period. If the use of the capital asset changes to a non-taxable use, an adjustment will be required (see section 4).

3.1.2. Capital Assets purchased wholly for non-taxable use

For example, a new residential property purchased for use by a property management company for exclusive use in a residential rental business (with VAT applied on the purchase). This is intended for use in making exempt supplies of residential rental, and Input Tax is not deductible.

The allocation of the Capital Asset to non-taxable use applies if it is held for exempt use – even though the business could sell the asset (and therefore use it to make a taxable supply) at a later point.

If the Capital Asset is sold during the useful lifetime (the Adjustment Period), an adjustment can be made during the year of sale. See section 5.1 of this guide.

3.1.3. Capital Assets purchased without VAT

For example, a Capital Asset purchased before April 2021, an Asset purchased in an VAT-exempt sale or acquired from a non-Taxable person.

If VAT was not incurred on the purchase of the asset, no Input Tax is deductible by the purchaser. In these cases, no adjustments can be made to reflect the use of the Capital Asset during its lifetime.

3.2 Partial deduction

If a taxable person incurs Input Tax on a Capital Asset which is used, or intended for use, for both taxable and non-taxable use, the Input Tax is only deductible to the extent it relates to Taxable supplies.

The deductible input tax will be determined in accordance with the following rules:

Input VAT directly related to taxpayer's taxable supplies	**Deduction allowed in full**
Input VAT directly related to taxpayer's exempt (or other non-taxable) supplies	**Deduction is not allowed**
Overheads and all other input VAT that cannot be directly attributed	**Partial deduction based on partial exemption method**

If the direct use of a Capital Asset can be identified and allocated between taxable and non-taxable parts, Input Tax is deducted in accordance with that direct allocation.

***Example**: A company purchases a resort building for with multiple units, designed for use in long-term residential accommodation (exempt) and short-term holiday accommodation (taxable). At the time of purchase, the company intends to reserve 25% of the units and value of the resort for use in taxable accommodation. The company is therefore able to deduct 25% of the total Input Tax incurred on the purchase.*

If a Capital Asset is used for both taxable and exempt supplies but cannot be allocated between taxable and non-taxable usage (for example, assets used as business overheads), the costs and expenses must be apportioned to determine costs that relate to the taxable supplies.

3.2.1. Standard apportionment method

The overhead costs/expenses incurred by the taxable person for making both taxable and exempt supplies must be apportioned based on a prescribed default method of proportional deduction that is calculated on the values of supplies made in the tax period, using the following formula:

$$\frac{\text{Total value of Taxable Supplies}}{\text{Total value of Taxable and Exempt Supplies}} \quad \text{X} \quad 100\%$$

If the Capital Asset is apportioned using the default method using the values of supplies during a tax period ending 31 March, 30 June or 30 September, this apportionment is subject to an adjustment at the end of that first calendar year. When preparing the Tax Return for the final period of the Tax Year (the period ending 31 December), the taxable person must calculate an annual partial exemption to determine the deductible input tax amount based on the supplies during that entire taxable year.

The annual partial exemption is calculated based on the following formula, (rounded to three decimal places):

$$\frac{\text{Total value of Taxable Supplies in the Tax Year}}{\text{Total value of Taxable and Exempt Supplies in the Tax Year}} \quad \text{X} \quad 100\%$$

If the Capital Asset is apportioned using the default method, the annual calculation performed at the end of the year of purchase is the only adjustment required in respect of the first annual Adjustment Period. The annual adjustment, described in section 4.3 of this guide, will be required for each subsequent year during the useful life.

3.2.2. Alternative apportionment methods

The TA may approve alternative methods in cases where it is satisfied that these better reflect the actual use of VAT incurred and can be appropriately reviewed on a regular basis.

An alternative method may only be used after formal notice of permission has been provided by the TA. This notice will specify the period for which the alternative method can be used.

3.3. Assets purchased before registration

If a non-Taxable Person purchases Capital Assets and incurs VAT on the purchase, and that Person subsequently registers for VAT and uses the Capital Assets to make taxable supplies, a portion of the VAT incurred is available for deduction as Input Tax.

The portion of deductible Input Tax is calculated based on the Book Value at the time of registration, using the formula:

$$\frac{\text{Total Input Tax on Capital Assets} \quad \times \quad \text{Net Book Value}}{\text{Acquisition or purchase Value of the Capital Assets}}$$

The deemed useful life (Adjustment Period) for the purpose of monitoring taxable use begins from the original purchase date.

Example: *A non-registered business purchases a Capital Asset for OMR 100,000 (plus VAT of 5,000) on 3 January 2022. It registers for VAT on 30 June 2023, at which time the book value of the asset, measured in accordance with applicable accounting standards, is OMR 40,000. The Capital Asset is used wholly for use in making taxable supplies.*

The Input Tax available to the business is:

$$\frac{\text{Total Input Tax on Capital Assets (5,000)} \times \text{Net Book Value (40,000)}}{\text{Acquisition or purchase Value of the Capital Assets (100,000)}} = \text{OMR } 2{,}000$$

The Capital Asset has an Adjustment Period (deemed useful life) of five years, commencing January 2022.

The deductible Input Tax is adjusted if the Capital Asset is used partly for non-taxable use (see section 3.2 above).

VAT incurred before registration must be claimed through a specific application process. Please refer to the Input Tax guide for further details on making such an application.

4. Adjustments for change in use

The Input Tax deduction made at the time of purchase of a Capital Asset must be monitored over its useful life (an Adjustment Period) and adjusted if the taxable nature of that use changes.

4.1. What is a change in use?

A change of use arises if the asset is changed from making taxable supplies to non-taxable supplies, or vice versa, or if the proportion of taxable use changes.

In practice, a change in the taxable nature of the Capital Asset's use occurs if:

a) A Capital Asset directly allocated to taxable, non-taxable, or partly taxable use within the business is changed and allocated to a different use. **Example**: a building used for making supplies of exempt residential accommodation is subsequently changed to make supplies of short-term taxable holiday accommodation.

b) A Capital Asset which does not have a directly allocated use (e.g., is used as a business overhead) changes the portion of taxable use with each year's apportionment calculation. Example: an office building used by a bank as a head office, with the proportional deduction calculated each year.

c) A Capital Asset is sold or disposed of during its useful life, resulting in the Taxable Person making a supply which is different from the business use. Example: a commercial office building used for partly exempt purposes by a bank is sold during its useful life, with the supply being a Taxable sale. See section 5.

There is no change in use for VAT purposes if the business:

- Allocates an asset for wholly taxable use, and subsequently changes its use to another wholly taxable use (for example, a distribution centre used to deliver taxable goods is refurbished to also house sales teams to sell those taxable goods); or
- Makes an asset available for taxable use during a period, but the asset is not physically used during that period (for example, new machinery for additional capacity is available but not required due to lack of demand in that year.

4.2. Adjustment Period

The VAT Executive Regulations detail an Adjustment Period over which the Input Tax must be monitored and adjusted in the event of a change of use. The Adjustment Period can be viewed as a simple proxy to the Capital Asset's useful life for VAT purposes (the length of this period is likely to differ from accounting practice).

The Adjustment Period is:

- **10 years**: For all long-term Capital Assets (those which comprise land, buildings or other immovable property).
- **5 years**: For all other Capital Assets.

The Adjustment Period commences at the start of a Tax Year (1 January), of the year when the Capital Asset was purchased, obtained or constructed. In the case of construction contracts which are progressively invoiced before completion, this means that Input Tax could be incurred before the Adjustment Period commences.

Examples:

Asset Type	***Acquisition / Completion Date***	***Adjustment Period***
Improved Land	*30 January 2025*	*1 January 2025 – 31 December 2034*
Extension to Office building	*12 September 2022*	*1 January 2022 – 31 December 2031*
Delivery truck	*19 December 2022*	*1 January 2022 – 31 December 2026*
Intangible asset	*29 March 2025 * (Purchaser registers for VAT on 1 January 2026)*	*1 January 2025 – 31 December 2029 * (Note: Input Tax is first deductible on registration date in January 2026)*

4.3. Annual adjustment

At the conclusion of each Tax Year within the Adjustment Period (that is, for the VAT return ending 31 December of that year), the use of the Capital Asset must be reviewed. If there is a change in the taxable nature of use, an adjustment is made.

The first year in which a Capital Asset is subject to adjustment is the tax year in which the Capital Asset was first used or became available for use. In practice, this will often be the tax year of purchase – but can be later if an asset is held without use for an extended period after purchase.

Example: *A business anticipates opening a new cryptocurrency trading division in 2024, pending the development of commercial and regulatory conditions in the Sultanate of Oman. It incurs Input Tax on the purchase of specialist intellectual property in 2022 to give it a competitive advantage in this new market, but it is not contractually able to use the intellectual property until the new division commences in 2024. The intellectual property is a Capital Asset but is not subject to adjustment until it is made available for use.*

The taxpayer must review the use of the Capital Asset during the year – whether it was for taxable, non-taxable, or mixed use. If the use is different from the initial use which input tax deduction was based on, an adjustment is made to reflect the change in use for that individual year.

The adjustment is calculated using the following formula:

$$\text{Adjusted Tax} = \frac{\text{Total input tax on capital asset X (Initial Recovery Percentage – Annual Recovery Percentage)}}{\text{Adjustment Period}}$$

In using this formula, the following should be noted.

Total input tax on Capital Asset:	The total amount of VAT incurred by the Taxable Person upon the purchase or acquisition of the Capital Asset.
Initial Recovery Percentage:	The percentage used to calculate the initial input tax deduction. If the deduction is calculated using the standard apportionment calculation, this should be the annual percentage calculated at the conclusion of the first year of purchase. Where the Taxable Person incurred input tax over more than one tax year for the purpose of making the capital asset ready for use, the Initial Recovery Percentage will be calculated as follows: (rounded to three decimal places) $\frac{\text{The total amount of deductible Input Tax incurred in all Tax Years}}{\text{The total amount of Input Tax incurred in all Tax Years}}$ The taxable person may apply to the Tax Authority to obtain its approval to calculate the Initial Recovery Percentage. If the Capital Asset is not used or made available for use in making taxable supplies in the year the asset was purchased, obtained, or constructed, the initial recovery percentage is zero percent (0%).
Annual Recovery Percentage:	The deductible percentage for that specific Tax Year. If the taxable use of the Capital Asset can be directly attributed, this is the deductible percentage for that asset.

	If the taxable use is calculated using an apportionment method, the annual recovery percentage should consider all the activities of the taxable person in that tax year. If the Capital Asset is not used or made available for use in making taxable supplies in any subsequent tax year during the Adjustment Period, the annual recovery percentage for that tax year is zero percent (0%).
Adjustment Period	The number of years in the Adjustment Period (10 years for Long-Term immovable assets, 5 years for all other Capital Assets).

If the Adjusted Tax calculated with this formula is a negative amount, it will represent a further right for deduction. This adjustment is added as a positive amount to Box 6(d) of the VAT return.

If the Adjusted Tax is a positive amount, it has the effect of decreasing the input tax previously deducted. This adjustment is made as a negative amount in Box 6(d) of the VAT return. The amounts are to be adjusted in the first tax period following the end of that tax year.

Worked Example:

A specialist school acquires a new building to be used for the purposes of conducting both tax-exempt education services and rental of commercial properties to other institutes. The cost of the building is spread over two years.

The following table shows details of the building:

Tax Year 1	*Value (OMR)*	*Tax Amount (OMR)*
OUTPUTS		
Taxable Supplies from rental properties for the first tax period of the first tax year (Q1 of Tax Year 1)	*11,000*	*550*
Exempt Supplies from education services for the first tax period (Q1 of Tax Year 1)	*20,000*	*0*
Taxable Supplies from rental properties for the entire first tax year	*36,000*	*1,800*
Exempt Supplies from education services for the first tax period	*80,000*	*0*
INPUTS		
Building construction costs (incurred as a lump sum) during the first tax period of the first tax year	*500,000*	*25,000*

- What is the amount of input tax that the school is entitled to deduct upon purchase (in Q1 of Tax Year 1)?

The Capital Asset is used for both taxable and non-taxable purposes. As direct attribution is not possible, input tax is allocated on a preliminary basis using on the ratio of taxable supplies made in that period.

Total input tax on capital asset:		*OMR 25,000*
Partial exemption (Q1): *= the value of total taxable supplies* *The value of the total taxable and exempt supplies*	*= 11,000* *(11,000 + 20,000)*	*= 35.484%*
Deductible input tax for the tax period = *(Partial exemption x input tax used for taxable and nontaxable supplies)*	*= 35.484% x 25,000*	*= 8,871 OMR*

- What adjustment is required at the end of Tax Year 1?

The preliminary Input Tax deducted in Q1 through the partial exemption calculation is adjusted to reflect the Annual Partial exemption for Tax Year 1

Total input tax on capital asset:		*OMR 25,000*
Annual Partial Exemption: *= the value of total annual taxable supplies* *The value of the total annual taxable and exempt supplies*	*= 36,000* *(36,000 + 80,000)*	*= 31.034%*
Deductible input tax for the tax period = *(Partial exemption x input tax used for taxable and nontaxable supplies)*	*= 31.034% x 25,000*	*= 7,758.500 OMR*

A negative adjustment to Input Tax is required to reduce the Q1 amount to the Annual Partial Exemption for Tax Year 1. The negative adjustment is (7,758.500 – 8,871) = - 1,112.500.

Tax Year 2	***Value (OMR)***	***Tax Amount (OMR)***
OUTPUTS		
Total Taxable supplies from rental properties in the second tax year	*44,000*	*2,200*
Total Exempt supplies from education services in the second tax year	*120,000*	*0*

- When is the first year of the input tax adjustment on capital assets?

The building is purchased in Tax Year 1 and immediately made available for business use. It is subject to adjustment from that first tax year.

However, as an adjustment is already made at the end of the first tax year (reflecting the Annual Partial exemption), the next annual adjustment is made at the end of the second tax year.

- What is the amount of tax to be adjusted at the end of the second tax year?

During the second tax year, the proportion of taxable use falls from 31% to below 27%. An adjustment is made in respect of one tenth of the total input tax, reflecting that the second-year usage is one-tenth of the full Adjustment Period.

initial recovery percentage = The total amount of deductible tax in all years The total amount of tax incurred in all years (rounded to (3) three decimal places)	= 7,758.500 25,000	= 31.034%
Current Recovery Percentage = Total value of taxable supplies in the Tax Year Total value of taxable and exempt supplies in the Tax Year	= 44,000 (44,000 + 120,000)	= 26.829%
Adjusted Tax = Total input tax on the Capital Asset X (Initial Recovery Percentage – Current Recovery Percentage)	= 25,000 x (31.034% - 26.829%)	= 105.125 OMR
Adjustment Period	10	

The Adjusted Tax is a positive amount, meaning that a negative adjustment to decrease previously deducted Input Tax is made in Box 6(d) of the tax return following the year end.

Tax Year 3	Value (OMR)	Tax Amount (OMR)
OUTPUTS		
Total Taxable supplies from rental properties in the second tax year	75,000	3,750
Total Exempt supplies from education services in the second tax year	120,000	0

- What is the amount of tax to be adjusted at the end of the third tax year?

The commercial rental market improves in the third year, and the proportion of taxable use increases above 38%. An adjustment is made in respect of one tenth of the total input tax, reflecting that the third-year usage is one-tenth of the full Adjustment Period. Again, the adjustment compares to the initial recovery percentage from the year of purchase (year 1).

initial recovery percentage = The total amount of deductible tax in all years The total amount of tax incurred in all years (rounded to (3) three decimal places)	= 7,758.500 25,000	= 31.034%
Current Recovery Percentage = Total value of taxable supplies in the Tax Year Total value of taxable and exempt supplies in the Tax Year	= 75,000 (75,000 + 120,000)	= 38.462%
Adjusted Tax = Total input tax on the Capital Asset X (Initial Recovery Percentage – Current Recovery Percentage)	= 25,000 x (31.034% - 38.462%)	= (- 185.700 OMR)
Adjustment Period	10	

The Adjusted Tax is a negative amount, meaning that a positive adjustment to increase previously deducted Input Tax is made in Box 6(d) of the tax return following the year end.

5. Sale or disposal of Capital Assets

The sale or disposal of a Capital Asset marks the completion of the use of that asset in the business, and the end of the useful life within that business. A Final Adjustment is therefore made to reflect the change from the use within the business to the Tax treatment upon sale.

The supply of a used Capital Asset made by a Taxable Person will be subject to tax based on the prevailing rates for that asset (in most cases, 5%, unless zero-rating or exemption applies). The sale of a Capital Asset can therefore be subject to VAT in full, even if it has previously been used for exempt or non-taxable purposes by the seller.

5.1. Disposal of assets during Adjustment Period

A Final Adjustment is required if:

a) a taxable person disposes of a capital asset (with or without consideration) during that asset's adjustment period; or
b) a taxable person ceases to be eligible to be registered during the capital asset's adjustment period.

The Final Adjustment is made in the period of disposal (or the final tax return of a person who ceases to be registered). The Final Adjustment is calculated using the following formula:

$$\text{Total input tax on capital asset} \times \frac{\text{Number of years remaining in Adjustment Period}}{\text{Total years of Adjustment Period}} \times (\text{Final Adjustment Percentage} - \text{Initial Recovery Percentage})$$

Total input tax on Capital Asset:	The total amount of VAT incurred by the Taxable Person upon the purchase or acquisition of the Capital Asset.
Number of years remaining in Adjustment Period:	Includes the tax year in which the capital asset is sold. ***Example***: *Equipment with a 5-year adjustment period was purchased in Q2 2022. It was later sold during Q1 of 2023. The number of years remaining in the adjustment period is 4 years.*
Total years of Adjustment Period:	As described in section 4 above.
Final Adjustment Percentage:	1. One hundred percent (100%) if the disposal of the capital asset was taxable. 2. Zero percent (0%) if the disposal was exempt or the taxable person ceases to be eligible to be registered for tax. 3. In cases where the sale, disposal or surrender resulted in both Taxable and Exempt Supplies, the adjustment shall be calculated based on the ratio of the taxable value(s), to the total value(s).
Initial Recovery Percentage	As described in section 4 above.

No adjustment is required if the Final Adjustment Percentage is the same as the Initial Recovery percentage (the Final Adjustment is zero in this case).

Example: *A business purchases a Capital Asset for use in producing taxable supplies and deducts Input Tax in full at the time of purchase. It sells the asset during its useful life to replace it with a new model, in a taxable sale. In this case, the final sale and the business use are both 100% taxable, and no Final Adjustment is necessary.*

If a sale or deregistration during a Tax Year causes a final adjustment, the Taxable Person is not required to perform an annual adjustment for any usage during that year (before the disposal).

Worked example:

The specialist school from the worked example referred in section 4.3 of the guide sells the building in Tax Year 6 to a commercial purchaser and moves its business operation to a new premise. It charges VAT at 5% on the full value of the premises.

The following table shows details of the sale:

Description	Details
Initial Recovery Percentage	*31.034%*
Total building construction expenses	*500,000 OMR (plus Tax of 25,000 OMR)*
Initial recovery	*7,758.500 OMR*
Years of the remaining adjustment period	*4 years* *(Note: The year of sale, Tax year 6, is not included within the remaining years of Adjustment Period).*
Adjustment period	*10 years*
Sale of the building is subject to tax	*Final Adjustment Percentage is 100%*

- What is the amount of the final adjustment?

$$\text{Total input tax on capital asset} \times \frac{\text{Number of years remaining in Adjustment Period}}{\text{Total years of Adjustment Period}} \times (\text{Final Adjustment Percentage} - \text{Initial Recovery Percentage})$$

$$= 25{,}000 \times \frac{4}{10} \times (100\% - 31.034\%) = 6{,}896.600 \text{ OMR}$$

The positive adjustment increases the amount of deductible tax on the asset. This is included in Box 6(d) of the VAT return in the period of sale.

5.2. Sale of assets after Adjustment Period

If an asset is sold or disposed of after the Adjustment Period is completed, no further adjustment is made to the Input Tax deducted upon sale (and adjusted throughout the adjustment period).

5.3. Obsolete assets

No final adjustment is required if the Capital Asset is lost or damaged beyond reasonable repair before the end of the adjustment period.
In some cases, an asset will become obsolete and will have a negligible value before the end of the Adjustment Period. In these cases, the Taxable Person could elect to take the following commercial actions:

- **Retain ownership / possession of the assets, keeping the assets available for use but with limited ongoing active usage within the business.**
- **Dispose of the obsolete assets without consideration; or**
- **Sell the assets as scrap or for a nominal / trivial value consideration.**

These assets do not have any material impact on how the Capital Asset has been used by the business throughout its useful life.

Administrative Practice:

The TA considers that an obsolete asset can be treated in the same way as an asset which is lost or damaged beyond reasonable repair, whether it is held within the business or disposed of.

A Final Adjustment is not made for a disposal or sale of assets for nominal or trivial consideration.

In all cases, the business should hold records to evidence the usage and the carrying value of any obsolete assets.

***Example**: In 2022, a bank purchases computer hardware for use in its business which consists of making 60% taxable supplies. It has deducted Input Tax on 60% of the VAT incurred on the hardware. At the end of 2025, the hardware is considered obsolete and not commercially feasible for further use by the business. The bank is not required to make a final adjustment for ceasing to use this obsolete asset.*

The business sells the hardware for 100 OMR in December 2025, plus VAT of 5 OMR. Whilst this is a taxable supply, it does not allow the business to make a final adjustment to increase the Input Tax deducted upon purchase.

6. Assigning Capital Assets in other cases

Where a taxable person transfers a capital asset as part of a qualifying transfer of going concern, or joins/exits a VAT group they must make an adjustment on the day prior to the transfer, joining or exit. In effect, the annual adjustment for that tax year will be split in two between the transferor and the transferee.

1. From the beginning of the tax year until day prior to the transfer, joining or exit. This adjustment is to be done by the transferor in the tax period of transfer.
2. From the day of the transfer, joining or exit until the end of the tax year. This adjustment is to be done by the person/VAT group acquiring the asset in the first tax period following end of the tax period of transfer.

The adjustment is to be performed as follows:

$$\text{Adjusted Tax} = \frac{\text{Total input tax on Capital Asset X (Initial Recovery Percentage – Part Annual Recovery Percentage) X no. days/365}}{\text{Number of Years in Adjustment Period}}$$

Where:

- the part annual percentage is the percentage calculated based on use during the periods mentioned in point 1 and 2 above.
- For the transferor the no. of days is the number of days from the beginning of the tax year until the day prior to the transfer. For the transferee it is the day of transfer until the end of the tax year

The transferor is not required to charge VAT or perform any other adjustments since this is not considered as a taxable purchase by the transferee. The transferee will instead be considered to assume the role of the transferor in respect of the capital asset and continue making the remaining annual adjustments and any permanent adjustment if later required. In other words, if there are 3 years remaining for the transferor, there will only be 3 years remaining for the transferee.

7. Further inquiries

7.1. Contact Information

For more information, please contact the TA:

- Tax Authority
- Muscat, Seeb – Mawalih South
- 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

7.2. Forms and Publications

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

7.3. VAT News

For current VAT news and updates, please visit the TA Taxpayer Portal:

www.taxoman.gov.om.