

VAT Taxpayer Guide

(Reverse Charge Mechanism)

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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. About this guide.

The purpose of this guide is to provide guidance regarding the application of the Reverse Charge Mechanism principles in Oman, including clarifications regarding the VAT treatment of the supply of services received from overseas suppliers and the VAT obligations which may arise.

The guide reflects the TA's interpretation on the application and treatment of VAT with respect to the VAT Law and the Executive Regulations at the date of issuance of this guide. This is strictly a guideline and may not include some relevant legislative provisions 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 or Contact the call center on 1020.

1.2. Who should use this guide?

You should read this guide if you receive services from non-resident suppliers for use within your activity.

1.3. Definitions

The following defined terms are dealt with in this guide:

- **Taxable Value:** The value used as a base to compute VAT in accordance with the provisions of the VAT Law.
- **Supply:** A supply of Goods or Services for Consideration in accordance with the VAT Law.
- **Supplier:** The person who supplies Goods or Services.
- **Customer:** The person who receives Goods or Services.
- **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 Tax Authority or is required to register with it pursuant to the provisions of the VAT 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 VAT Law.
- **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.
- **Reverse Calculation (Charge) Mechanism:** The mechanism under which the taxable Customer is liable to tax on behalf of the Supplier. (The

customer acts as if he were the supplier and recipient of the taxable goods and calculates the tax due).

- **Place of Supply:** The Place of a Supply of a Good or Service determines whether any VAT should be accounted for on the supply in the Sultanate.
- **Economic Activity:** An activity that is conducted in a continuous and regular manner, particularly commercial, industrial, professional, artisanal, or service activity.
- **Import:** The entry of Goods from outside the GCC region into the Sultanate in accordance with the provisions of the Common Customs Law.
- **Export:** the exit of Goods from the Sultanate to outside the GCC in accordance with the provisions of the Common Customs Law.
- **GCC Member State:** Any other member state of the Gulf Co-operation Council of the Arabic Gulf States, provided this state applies VAT. At the time of issue, no states have yet fully implemented VAT. During the transitional period, all Gulf states should be treated as “non-Implementing States”, equivalent to third country states for VAT purposes.

2. Registering for VAT

During a transitional period upon the introduction of Value Added Tax in the Sultanate, different rules will apply for registration. A separate transitional VAT registration guide has been published for that purpose, available on the Taxpayer Portal of the TA website:

VAT Law VAT Regulation Chairman Decisions Registration Forms VAT FAQ's - VAT - Taxpayer Portal (taxoman.gov.om)

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's turnover exceeds the annual mandatory registration threshold of OMR 38,500, the Person is obligated to register; if it exceeds only the voluntary registration threshold, the Person 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.

2.1 Determining the value of taxable supplies under the Reverse Charge Mechanism for the purpose of registering for VAT

Any person who receives a supply of services from a business or person who is not resident in the Sultanate of Oman is liable to account for the VAT due on the supply if the place of supply is in the Sultanate of Oman.

If the recipient business or person is a taxable person then the recipient must account for the VAT due as set out in this guide and according to the VAT Law and its Regulations.

If the recipient is not a taxable person carrying on an activity (e.g. a private individual), then the recipient will not be able to account for VAT on the supply. However under Article 56 of the Law which defines the value of taxable supplies when determining if a business or person is required to register for VAT the value of any services or goods that are subject to the reverse charge mechanism is included in that definition.

Thus any business or person who is not a Taxable Person who receives supplies of goods or services that are subject to the reverse mechanism charge must include them in calculating the value of their “supplies” for registration purposes.

Example: ABC LLC, a consultancy business, has regular services income of 3,000 OMR per month or 36,000 OMR a year. As this is below the mandatory registration threshold (38,500 OMR) ABC LLC does not have a legal requirement to register for VAT. ABC LLC decides to upgrade the company website and purchases design services from a company based in Egypt. The value of the work is agreed at 4,000 OMR. For registration purposes the total value of taxable supplies by ABC LLC is 40,000 OMR (36,000 OMR yearly income and 4,000 OMR under the reverse charge mechanism). Thus ABC LLC will now need to register for VAT.

Note: If a non-resident supplier makes a supply of goods or services subject to VAT in Oman to a non-taxable person, the Reverse Charge Mechanism does not apply, and the supply will be under the normal liability rule. The non-resident supplier will be required to register for VAT in Oman and charge VAT on its supplies.

3.What is the Reverse Charge Mechanism

Normally, VAT is paid and collected at every stage of the supply chain.

Persons registered for VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers equal to a specified percentage of each eligible purchase.

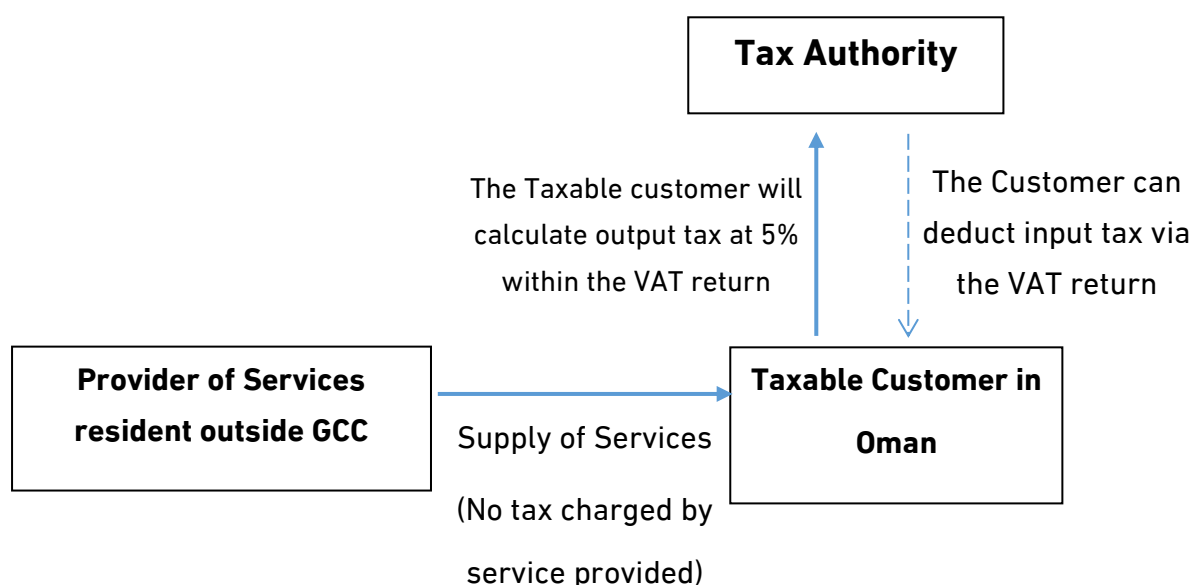
When taxable persons sell a good or provide a service, a VAT must be charged – depends on the rate applicable –and added to the sales price. The taxable persons will account for that VAT that they have collected from all eligible sales separately from its revenue in order to later remit a portion of it to the Tax Authority. The VAT taxable persons collect on their sales is called Output VAT.

That same will apply to purchase transactions by persons subject to VAT, in that VAT will be added to purchases of goods or services from other taxable persons. The VAT a business pays to its suppliers is called Input VAT.

The Omani VAT Law states that Tax is imposed on Tax shall be imposed on the following transactions:

“2. Receiving Goods or Services by the taxable Customer from a Supplier who has no Place of Residence in the Sultanate and is not subject to Tax in the Sultanate in the cases where the Reverse Calculation (Charge) Mechanism is applied”.

Diagram 1: How the Reverse Charge Mechanism works



4. When Reverse Charge Mechanism is Applicable – RCM cases

Reverse Charge supplies refer to supplies on which the Customer is obliged to pay the VAT due under the Reverse Charge Mechanism. Currently, this applies to most types of services received from a non-resident supplier.

Note:

Article 20 of the VAT Law contains two cases in which reverse charge applies:

“In the event that the taxable person receives goods or services supplied to him from a supplier who has a place of residence in any of the GCC states, he shall be considered as if he has supplied these goods or services to himself. Such supply shall be subject to tax according to the Reverse Calculation (Charge) Mechanism.”

“If a taxable person receives services supplied to him from a supplier who has no place of residence in any of the GCC States, he shall be considered as if he has supplied the services to himself. Such supply shall be subject to tax in accordance with the Reverse Calculation (Charge) Mechanism.”

The first of the above-mentioned provisions is not practically applied at the current time due to the transitional rules applicable from other GCC member states being considered as non-implementing states.

4.1 Scope of Reverse Charge Mechanism Application

In general, the Reverse Charge Mechanism is only due when all of the following are met:

- 1) A Taxable Person, being the customer, receives services from a Non-Resident Supplier;
- 2) The supplies are taxable in nature – they are not exempted from VAT in Oman;
- 3) The place of supply rules means the supply is subject to VAT in the Sultanate of Oman; and
- 4) The non-resident supplier is not required to register or already registered for the Tax in the Sultanate of Oman.

The Reverse Charge Mechanism allows the application of VAT to the supply of goods or services by non-resident suppliers, without those suppliers being required to register for VAT in Oman. The requirement to account for Output Tax on the supply is shifted to the Taxable Customer.

The Reverse Charge Mechanism will also apply on intercompany charges from a non-resident of a multi-national company to an Omani company in that same corporate group. Accordingly, the Omani company, receiving that management services from a non-resident group company, would be required to self-account for VAT on receipt of the services via the Reverse Charge Mechanism.

Example: An Omani company operating in Oman and registered for VAT, has entered into a management agreement with another company in the same corporate group located in Singapore. The company in Singapore will provide management services to the Omani company on a quarterly basis with a charge of 2,500 OMR.

The Omani company is required to self-account for VAT on receipt of these services via the Reverse Charge Mechanism at 5% (125 OMR) and report via the VAT returns to the Tax Authority.

Examples of services that fall within the scope of the Reverse Charge Mechanism application are legal and professional services, Management services, or rights in intellectual property.

Reverse Charge Mechanism is not applicable on the following:

- The receipt of exempt services (for example: financial services received from a non-resident supplier). Such supply is not a taxable supply.
- Payment of dividends which solely represent a return on capital (without the receipt of services).
- Services that are directly in connection with the five specific categories of

services outlined in Article 24 of the VAT Law – **where these are exceptions to the basic rule of Place of Supply:**

1. Transport Services of Goods and passengers, and related Services: place of supply shall be at the place where transportation begins.

2. The Services related to real estate: place of supply shall be at the place where the property is located.

3. The rental Services of means of transport by a taxable Supplier to a non-taxable Customer: place of supply shall be at the place where the means of transport are put at the Customer's disposal.

4. The wired and wireless telecommunication Services and electronically supplied Services: place of supply shall be at the place of actual use or benefit of these Services.

5. The place of supply of restaurant and hotel Services, provision of food and beverages, cultural, artistic, sport, educational and recreational Services and Services related to Goods transported and supplied to a non-taxable Customer: place of supply is the place of actual performance.

Example: An Omani company, sends employees to Canada for business, where they stay and dine in a hotel in Vancouver. The services are supplied in Canada and are therefore not subject to the reverse charge mechanism on receipt by the Omani Co. as a taxable person in Oman.

It is important to note that if a transaction takes place between related persons, and the value of supply based on the consideration is less than the market value, VAT is must be calculated based on the market value. More details on Related Persons transaction and VAT application are available within the VAT guide on Related Persons.

4.2 Import of Taxable Services by a VAT-Registered Person

There is no formal import procedure for services, and VAT is not collected on an event of importation of services by The Directorate General of Customs in the same way as for goods.

VAT is charged on services which are supplied in Oman to a Taxable Person by a non-resident supplier by way of the Reverse Charge Mechanism.

A person will be considered as a non-resident person in Oman if he has no Place of Residence Oman.

4.3 Receipt of services from a non-resident supplier

As stated earlier, the Reverse Charge Mechanism applies in cases where a Taxable Person receives, from a non-resident supplier, a supply of services which are supplied in Oman under applicable VAT place of supply rules. The receipt of services by a Taxable Person – when those services are supplied in Oman (under the place of supply rules) – from a non-resident supplier are also subject to VAT under the Reverse Charge Mechanism at the applicable rate.

Under the Reverse Charge Mechanism, the recipient is deemed to have made the supply of services to himself. Therefore, the recipient must report Output VAT, and is at the same time eligible to deduct corresponding Input VAT, provided the standard criteria for deduction are met. Please refer to section 6 below for details.

5. Tax Due Date

The tax due date refers to the date when the VAT on a supply is due and when a Taxable Person must either account for the VAT to the Authority, or in the case of input tax when a Taxable Person is entitled to reclaim the input tax.

The general rules to determine the tax due date are that Tax becomes due on the date of the supply of Goods or Services, the date of issuance of the tax invoice or upon partial or full receipt of the consideration, whichever comes first, and to the extent of the received amount.

These rules apply to most supplies of goods or services which are “one-off”, and not provided on a continuous basis.

Services that involve supplies which take place over a significant period of time and entail the issuance of invoices or payment in a successive manner, are subject to the special rules apply for the continuous supplies of services and apply to services received by a taxable person in Oman from a non-resident provider 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 tax due date shall be the earliest of the following:

- The date payment is due as shown on the invoice
- The date of payment

Tax is due at least once every 12 consecutive months. If 12 months has passed without payment becoming due or being made, tax is due on the expiry date of 12 months from the previous tax due date, or the date of commencement of supply.

Example: An Omani company has an intercompany agreement with a group company in France to receive technical support services, valued at OMR 2,000 per month. A payment is made on 31 December 2021 for services during 2021, and VAT is due under the Reverse Charge Mechanism. No payment is made during 2022, and no invoice requesting payment is issued. The Omani company is required to account for VAT on 31 December 2022, being twelve months from the previous tax due date.

The tax due date takes place may be earlier than the actual date of supply, in cases where a tax invoice is issued, or payment is received before the actual date of supply.

The same rules will apply to the tax due date for supplies made under the Reverse Charge Mechanism.

6. Reporting & Payment of Tax Calculated under Reverse Charge Mechanism

VAT must be reported by the supplier/recipient through the VAT return during the Tax Period in which that date of supply falls.

Whilst each supply has a separate date of tax becoming due, the payment of VAT by the supplier/recipient to the Authority is only required when the VAT return is filed (and the corresponding Net Tax for that entire tax period is due for payment). Likewise, the Input VAT is also claimed (where appropriate) in the Tax Period where the date of supply falls.

Each VAT registered person must file a VAT return with the TA for each quarterly tax 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.

Please refer to the published guide on VAT Return Filing for more details regarding the process of filling VAT returns.

6.1 Output Tax

The VAT accounted for under the Reverse Charge Mechanism must be entered in the following boxes within the VAT return:

- **Purchases of goods / services from the GCC subject to Reverse Charge Mechanism: NOTE - this box is not activated until rules for trade between GCC Implementing States apply.]**
- **Purchases from outside of GCC subject to Reverse Charge Mechanism: Total value of standard rated supplies received (excluding VAT), which are subject to Reverse Charge Mechanism. VAT is calculated automatically at 5% of the taxable value.**

6.2 Input Tax Deduction

The standard timing for a Taxable Person to exercise the right to Input Tax deduction, is the tax period in which the supply takes place. This is usually the date the goods or services are received, and the Tax Invoice or relevant documentation is issued to the Taxable Person.

Deduction cannot be exercised until the Taxable Person, who is the Customer in respect of the supply from a non-resident supplier has valid commercial documents. It is not required that any specific onwards supply has been made (of the goods or services purchased) to be able to deduct the Input Tax on the purchase of those goods or services.

In addition to VAT charged by VAT registered suppliers in Oman, the self-accounted VAT under the Reverse Charge Mechanism on a supply of goods or services in Oman is eligible for deduction.

VAT deduction is available for the VAT due and reported by a taxable person under the Reverse Charge Mechanism, provided that the goods or services received are for the purpose of the taxable person's economic activities in the course of making taxable supplies. The reporting of the reverse charged VAT is a condition for the corresponding deduction.

VAT is treated as Input Tax only for the Customer who has self-accounted for VAT under the Reverse Charge Mechanism. For Customers who are fully taxable, or who have acquired the goods or services for a taxable use, a full deduction of the VAT under the Reverse Charge Mechanism does not result in any payment of tax in the return.

Whilst the Reverse Charge Mechanism involves a deemed supply of services by the recipient, the recipient is not required to issue a tax invoice to itself in respect of the deemed supply. The recipient should however retain the supplier invoice with its business records to support the calculation of VAT under the reverse charge mechanism.

In order to be eligible for the deduction of Input Tax on such a supply, the Omani customer should have commercial documents available to evidence the nature of the supply and the consideration payable on the supply, in addition to the corresponding calculation of tax due on the supply

Box 6(a) of the VAT return must include the total value of all purchases (excluding VAT), this includes reverse charge purchases.

7. Further inquiries

7.1. Contact Information

For more information, please contact the TA:

- 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

7.2. Forms and Publications

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

7.3. VAT News

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

www.taxoman.gov.om