VAT Taxpayer Guide

The Profit Margin 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 Profit Margin Mechanism principles for calculating Value Added Tax on sales of used Goods in Oman, including clarifications regarding the VAT treatment related to the sale of used Goods within the scope of the Taxable Person's regular activities.

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.

1.2. Who should use this guide?

You should read this guide if the activity of buying and / or selling used goods is within your scope of usual 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.
- **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.
- **Tax Invoice:** Every written document, or electronic, the Taxable Person must issue, and in which the details must be stated pursuant to the provisions of the VAT Law.
- **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.
- **Output Tax:** The Tax due that is charged on Taxable Supplies of Goods and Services.

- **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 - in particular - water and all types of energy including electricity and gas.

- **Used Goods:** Definition specified in sub-section 3.2.2. of this guide.

2. Registering for VAT

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.

For the purpose of calculating the annual turnover, the supply of Used Goods is a taxable supply. The total value of the supply (i.e. the sale price of Used goods) counts towards the VAT registration threshold. The Profit Margin of those supplies is not relevant for the registration test.

For further guidance on VAT registration requirements, please visit TA's website at www.taxoman.gov.om.

3. What is the Profit Margin Mechanism?

3.1. Overview

The Profit Margin Mechanism is a special calculation method which may be applied to supplies of Used Goods by a trader in those goods. The mechanism enables the seller to pay output tax on the difference between the goods' selling price and purchase price (i.e. their profit margin), instead of on the full amount of consideration received.

This is most relevant for businesses that deal in used (second-hand) goods, such as car traders or antique dealers.

This mechanism addresses the possible burden of double taxation on Used goods which have previously been subject to a non-deductible VAT cost (charged on the original or earlier sale).

Under Oman VAT legislation, the mechanism is in principle open to all Taxable Persons to use, provided all the conditions listed in the VAT Executive Regulations are met (including approval from the Tax Authority). Once approved, the Taxable Person using the mechanism shall calculate VAT based on the profit margin made on the sale of Used Goods. Other supplies made by an approved Taxable Person (other than qualifying sales of Used Goods) shall have VAT calculated as normal on the full consideration payable.

3.2. Conditions for use of Profit Margin Mechanism

In order to be able to use the mechanism there are a number of conditions that need to be meet. These include the approval from the Tax Authority based on the seller's activity, the type of goods that can be sold under the method, the type of person selling the goods as well as a number of strict invoicing and record keeping requirements.

3.2.1. General Conditions

- **The activity of buying or selling Used Goods is within the scope of the Taxable Person's usual activity**: the transactions of buying or selling used goods should not be in a private capacity of the taxable person or being an incidental activity.
- **The Tax Authority Approval**: A Taxable Person who would account for Tax payable on a supply of Eligible Used Goods using the profit margin method must obtain an approval from The Authority to use the Profit Margin Mechanism to calculate the Tax, on the form prepared for such purposes.

  The Taxable Person may not use the calculation under the profit margin mechanism until it has received notification from the Authority that it is approved.

3.2.2. Supply Conditions

In addition to the goods being categorized as used goods (details in next sub-section), a supply of used goods must meet all of the following criteria:

- **The Used Goods must be located in the Sultanate**: the goods that are sold under the mechanism must be located in Oman when purchased and when sold. Any goods that are imported into Oman for onward sale are not eligible to be sold under the mechanism.
- **The Used Goods must have been purchased from a specified person (a Person who was unable to deduct Input Tax on their original purchase)**. These must fall within one of the following categories of persons:
  - A Non-Taxable Person in the Sultanate (i.e. a private individual or non-registered business).
  - A Taxable Person who calculated the Tax on these Used Goods according to the Profit Margin Mechanism under the approval of the Authority (i.e. another trader in Used Goods).
  - Taxable Person who is not allowed to deduct Input Tax on these Goods according to the provisions of Article (56) of the Regulations and Article (42) of the VAT Law. This category includes a Person whose ability to deduct input tax was blocked due to the nature of goods and services. In practice, this is likely to apply to sales of used company vehicles.

In all cases, the Taxable Person must not deduct any Input Tax on his purchase of the Goods – which will be sold under the profit margin mechanism. Input Tax incurred on expenditure to improve the item or costs of sale can be deducted in the normal way, subject to usual conditions for deduction.

3.2.3. Types of Used Goods

Article 42 of the VAT Executive Regulations has defined and specified Used Goods for the purposes of applying the Profit Margin Mechanism to include the following:

1. Tangible moveable property, that is suitable for further use as it is or after repair provided it has not gone through adjustments or repairs that change its basic character.
2. Antiques that are more than (50) fifty years old, art works or other items of scientific, historical or archaeological importance.
3. The assets of collectors including stamps, coins, banknotes, collections and collectors' pieces of zoological, botanical, mineralogical, anatomical, historical, archaeological, paleontological, ethnographic or numismatic interest.

Additionally, Article 42 specifically excludes the following items to be classified as used goods:

- Precious stones and pearls of different ages but not strung, mounted or set (refer to Harmonised System classification codes starting in 7101 to 7104),
- Live animals (HS codes starting in 01)
- Live plants (HS codes starting in 06).

4. Calculating the VAT due under the Profit Margin Mechanism

Under the Profit Margin Mechanism, VAT is only due on any gross profit margin the Taxable Person makes on the sale of that particular item.

The VAT due is calculated on the profit margin achieved on the sale. The profit margin is calculated per item on a gross basis:

Profit Margin for Item = Total consideration for sale of Used Good (Selling Price) less Purchase cost

The margin therefore excludes any expenses or other amounts incurred by the Taxable Person in respect of the supply. The profit margin calculated is treated as including VAT, and the VAT due is calculated as the margin multiplied by the rate of VAT and divided by the rate of VAT plus 100:

$$\textbf{VAT due} = \frac{\textbf{Profit Margin X Tax Rate}}{\textbf{(100\% + Tax Rate)}}$$

Most Used Goods will have an applicable Tax Rate of 5%. In these cases, VAT is calculated by multiplying the Profit Margin by (5/105).

<u>The Selling price</u> should include all consideration payable to the seller for the sale of the Used Goods, whether that consideration is received from the buyer or a third party.

It includes Consideration for incidental costs or expenses which are directly linked to the sale and cannot be supplied separately from the underlying Used Goods. Examples of such incidental expenses include:

- Cost of transportation of the Used Goods provided by the Supplier to the Customer, and related costs such as packaging.

- Mandatory sales commissions charged by the Supplier to the Customer.
- Non-optional accessories fitted to the Used Goods prior to the sale and included within the price offered to the Customer, provided these are incidental in nature and do not change the basic character.
- Standard (non-optional) insurance or warranties which are provided by the Supplier and included within the price offered to the Customer.

Optional extras sold with the Used Goods do not form part of the selling price. For example, a new stereo system installed within a Used Car at the request of a Customer, or an optional extended warranty. These items must have VAT charged separately on the full consideration payable. A separate Tax Invoice should be issued for these items.

Disbursements do not form part of the selling price; these should be accounted for separately outside the Margin mechanism. For example, a Seller of used furniture does not offer transportation, but on Customer request it arranges a third-party transportation on behalf of the Customer, and passes on the cost as a disbursement. These amounts should also be invoiced outside of the margin scheme.

The purchase price is the original price the seller paid for the good. Any costs incurred in bringing the good to sale must not be included. As such, the purchase price does not include the cost of any repairs, refurbishment, accessories or business overheads.

For example, if the seller purchases new parts and fits them to a car, these costs must not be added to the purchase price of the car. The original price paid for the car must be used when calculating the margin for the purposes of the mechanism.

Example: ABC Used Goods Co. purchases a vintage second-hand bedroom set (closet and bed) from a private individual for 50 OMR. It is purchased and offered for sale as a combined set and is treated as a single "item" for Profit Margin purposes.

ABC Used Goods Co. furnishes the bed in a different material and pays 10 OMR (plus VAT) for the material.
ABC Used Goods Co. sells the bed and the closet for a price of 150 OMR.

The VAT due under the Margin Method is calculated as follows:

- The Profit Margin is calculated as 150 – 50 = 100 (the material costs for refurbishment are ignored)
- The VAT due is calculated as 100 x (5 / 105), being 4.761 OMR
- ABC Used Goods Co. is eligible to deduct input tax of 0.5 OMR on purchase of the material.

<u>Goods sold at a loss or zero profit</u> are not liable to output tax under the mechanism. But it is important to note that any loss cannot be offset against profits made on other goods. Profit and loss need to be measured on an individual item basis, rather than collective.

<u>Example:</u> XYZ LLC Co. operates a business selling used cars. It sells four cars in its Q1 Tax Period using the margin mechanism; details of sale as follows:

Used Car	Purchase Price (OMR)	Sale Price (OMR)	Profit Margin (OMR)	Tax Due (OMR)
Alpha 001	2,900	3,000	100	4.761
Beta 002	1,000	1,020	20	0.952
Gamma 003	4,500	4,500	0	0
Delta 004	6,170	6,000	(-170)	0
Total	**14,570**	**14,520**	**(-50)**	**5.713**

Although XYZ LLC Co. has made an overall loss in its Q1 VAT period of 50 OMR, the business still has a VAT liability from the two cars that were sold at a profit. Therefore, VAT of 5.713 OMR is due as Output tax.

5. Special Requirements

5.1. Record Keeping Requirements

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.

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.

A Taxable Person applying the Profit Margin Mechanism must comply with the above record keeping requirements and retention periods. In the event the Used Goods are not sold at the end of these periods, and the Taxable Person intends to sell them in accordance with the Profit Margin Mechanism, then the records must be kept until the date the goods are sold.

In addition to all other records the Taxable person is required to keep, the taxable person must keep the following additional records:

- Registers that include description of the goods bought under the profit margin mechanism, the purchase price, the selling price, the profit margin, Tax due and the date of Supply. This is the minimum amount of information that the taxable person is required to keep in a register.

- Copies of all self-issued “profit margin invoices” for purchases,
- Copies of all purchase invoices from Taxable Persons for used goods bought under the profit margin mechanism per the approval of the Authority,
- Copies of all invoices for supplies of the Taxable Person issued under the profit margin mechanism.

Example of Margin Scheme Register:

Stock #	5549
Description of Goods	Wooden Table and 6 chairs – Lambda brand
Purchase Reference – Profit Margin Invoice No	P0103
Purchase Price (OMR)	55.000
Sales Invoice Reference	ABD105
Selling price (OMR)	105.000
Profit Margin (OMR)	60.000
VAT due (OMR)	2.857
Date of Sale	03/09/2021

5.2. Invoicing Requirements

5.2.1. Sales Invoices

A Tax invoice must be issued for any sales made for Used Goods sold under the Profit Margin Mechanism. The Tax Invoice for a Profit Margin Supply does not show the value of VAT charged on the supply.

Instead, Tax Invoices issued for supplies of Used Goods by a Taxable Person must clearly refer to the Taxable Person's use of the Profit Margin Mechanism i.e., to include wording to indicate that the VAT has been calculated under the Profit Margin Mechanism.

Other than above, the Tax Invoice shall include all the remaining invoice details and requirements specified by the VAT law and Executive Regulations for tax invoices.

5.2.2. Self-Issued Profit Margin Invoice for Purchases

A Taxable Person shall issue a "Self-Issued Profit Margin Invoice" when purchasing used goods from a non-taxable person. A copy of the Self-Issued Profit Margin invoice must include the following details:

1. The name, address and tax identification number of the Taxable Person purchasing the goods.
2. The name and address of the non-taxable person from whom the Taxable Person purchased the used goods.
3. The serial number specified to profit margin invoices issued by the Taxable Person.
4. The date of purchase.
5. Details of the goods purchased including any identification number for the good, if available.
6. The value of consideration of the purchased goods.

7. The signature of the non-taxable person from whom the Taxable Person bought the used goods

A copy of the signed Self-Issued Profit Margin Invoice must be retained with the business records.

6. Special Cases

6.1. Goods sold under part exchange

A part exchange is a type of contract, where instead of one person supplying goods/services for monetary consideration from the other, both parties make a supply of goods/services. The “customer” in the part exchange might provide partly monetary consideration and partly goods/services (non-monetary consideration). For example, a person purchases a new car for 13,000 OMR of monetary consideration plus his used vehicle.

For VAT purposes, a supply of an old car in part exchange for a new one, is two separate supplies of goods, and must be recorded as such by the car dealer. The customer is making a "supply" for the discount given, providing the old car for an amount equal to the monetary discount, and the dealer is also making a "supply" for the full price, providing the new car for its full sale price. Therefore, VAT is due on the full price of the new car (including the value of monetary and non-monetary consideration).

This is applicable on all types used goods as described in this guide.

A pure barter transaction occurs when parties agree to exchange goods or services without the use of any monetary consideration. If both persons are Taxable Persons, each supply within the barter can be a taxable supply (with the same Fair Market Value).

7. Input Tax Deduction

The Taxable Person who applies the Profit Margin Mechanism is not entitled any Input Tax deduction on the cost of purchase of the Used Goods.

However, Input Tax incurred on other costs associated with sales of Taxable Used Goods (such as sales costs or improvement costs) should be deductible in accordance with standard rules for input tax deduction.

Please see the Input Tax guide for further general information on Input Tax deduction.

8. Further inquiries

8.1. 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

8.2. 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.

8.3. VAT News

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