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Preparing
for VAT in Oman

Lessons learnt from implementation in Saudi Arabia.

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The Government of Oman in October 2020 announced the approval of Royal Decree No. 121/2020, declaring the long-anticipated Value Added Tax (VAT) Law. The Law will be effective from April 2021 and will create significant impact for businesses who operate in the country.

To support businesses with their implementation, the Oman Tax Authority has released the VAT Implementing Regulations on 14 March, which signifies the countdown to implementation in just under 33 days. During a recent webinar organised by Thomson Reuters, focusing on VAT implementation across Oman, industry experts shared their insights on how to prepare effectively. Following on from the session, Tax Expert, Ganesh Nair of Grant Thornton Saudi Arabia shares an overview of the elements which Omani businesses may need to consider, following the lessons learnt during the implementation of VAT across Saudi Arabia.

Acquaint yourself with the wider GCC country specific VAT materials:

We recommend taxpayers read the VAT Law, Implementing Regulations and other industry specific guides released by the United Arab Emirates (UAE), Saudi Arabia (KSA), Bahrain and Oman Tax Authorities. This material will support the taxpayer to understand the requirements of a tax invoice, the circumstances under which debit and credit notes can be issued, how the input tax credit mechanism works, treatment of nominal supplies and free supplies under VAT, and more importantly the contents of a VAT Return.

Conduct a VAT impact assessment study.

Prior to embarking on full implementation, we recommend an impact assessment study is conducted which ascertains the operating procedure changes needed, technical realignment required, impact to finance systems, development of new templates, training of staff and other detailed procedures and protocols which will be impacted by the introduction of VAT.

Furthermore, the study will also enable taxpayers to manage the working capital requirements to account for VAT on the procurement of goods and services, ensure legal contracts are adjusted to account for tax clauses which will need to be factored in and to consider the modifications needed to technology systems for both sales and purchases.

The log of issues identified at the impact assessment stage will aid in mapping the transactions which require immediate attention, whilst supporting the project management team to monitor the progress and work status.

Early development of draft templates

Post the impact and technical assessment, we recommend 4 simple templates are developed based on the country guidelines provided, these would include:

a) Supplies (Sales)
Revenue generated from the stream (including other / miscellaneous income) on which the taxpayer would be required to charge output VAT at the specified rates.

b) Purchases.
The expenses for business purpose, where the taxpayer may be able to recover the VAT paid.

c) Contracts with Vendors & Customers.
Review of contractual terms with Vendors (for Purchases) and Customers (for sales) and to include the additional VAT impact on pricing, if not mentioned earlier. Also, review the wordings of the contract, for e.g., 'the prices mentioned are inclusive of all taxes or exclusive'. Credit period offered to customers will need to be revisited as once the VAT invoice has been generated the value of the VAT due will need to be paid on the due date, hence if a credit period is greater than 30 days then taxpayer will be liable to pay VAT first, then recover the payment from its customers.

d) Employee benefits provided to Staff according to Human resources policies.
Whether a taxpayer can recover any input tax credit on certain expenses incurred for the employee's well-being such as motor vehicles, mobile phones, entertainment expenses, family insurance etc.,

Consider the upgrades required to your systems or invest in Tax Technology.

Once the VAT impact assessment is available, the taxpayer should map and build tax codes into the IT system based on the different types of transactions which include for example, standard rates, exports, zero rated, exempt supplies and so forth. It is highly advisable to NOT have one tax code for both Sales and Purchases.

Likewise, businesses who have access to resources should invest in scalable tax technology which will enable companies to integrate their ERP systems and automate tax rates and rules in order to be VAT compliant.

Once the codes have been identified, planning for User Acceptance Testing is important– employees need to get acquainted with the new system changes so that they are equipped to perform transactions post VAT implementation. We highly recommend businesses conduct as many mock transactions as possible, whilst reviewing the final output to enable a smooth transition to VAT

Communicate with stakeholders.

Not all vendors will have the resources to hire a tax professional, resulting in non-compliance of registration for VAT. If taxpayers continue to purchase from unregistered vendors it may result in a price hike given un-registered vendors cannot claim the input tax credit on their purchases, which may pass on the financial burden to the taxpayer. We recommend a written communication is developed and sent to all vendors and customers informing them of the implementation of VAT and that from the day of implementation, tax invoices shall carry the additional VAT over and above the price fixed. This shall minimise the risk of non-compliance.

Claiming Input Tax Credit

VAT is not a cost for a registered taxpayer, however, to claim VAT input tax credit, the taxpayer needs to have a valid Tax invoice issued by the vendor, having all the mandatory fields prescribed in the Regulations. Failure to adhere to the correct tax invoice template with the required fields may result in rejection by the authorities, which may also be subject to heavy penalties.

Carefully analyse the transition provisions

VAT is due on the earlier of the three i.e., Tax Invoice issued, goods & services delivered or on any advance payment received. However, authorities will release transition guidelines, which for the purpose of VAT may consider only goods & services delivered to the customer. For e.g., a school collects the fees before the implementation of VAT and issues a receipt, however, as the curriculum is served to the student post implementation of VAT, the VAT shall be payable to the Tax authorities.

Focus on staff training

Training should be conducted for a diverse range of functions such as sales, procurements, finance, human resources, information technology and senior executives, enabling the nuances of VAT to be understood, along with the expectations from their role in both implementation and adoption of VAT. More importantly, emphasis on the penalties for any non-compliance should be raised.

Real time updates

In the initial days of VAT implementation, there are likely chances of issuance of public clarifications on any transactions or changes in the VAT regulations or changes pertaining to Citizens through Royal decrees. Taxpayers need to be alert of such updates, along with checking the impact to their business.

VAT implementation is not just a financial change.

VAT implementation must not be treated as a finance challenge but an organisational change programme, specifically given its multiple dependencies and impact across systems, processes and people. Effective preparation and testing ahead of VAT implementation will enable your organisation to move with agility, whilst ensuring compliance and effective business operations.

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Across the globe, companies' tax affairs are facing increasing scrutiny from regulators, communities, and clients. Successful organisations need a proactive approach to tax to show how they are meeting their obligations. A positive tax strategy can also increase your reputation for openness and transparency amongst clients and communities.

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