



**Premier
Brains**
Accounting + Auditing

ARE YOU VAT READY?

02 March 2021



PANEL OF SPEAKERS



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AGENDA OF TODAY'S SESSION



VAT session – "Are you VAT ready?"



**Premier
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Agenda:

Welcome message and Introduction	Rishi Chawla
GCC VAT framework Introduction to VAT <ul style="list-style-type: none">VAT overviewConcept of Input and Output VATTaxable supplies (standard vs exempt vs. Zero rate) VAT on cross border transactions Special VAT rules and implications on businesses Transitional provisions VAT Compliance, reporting and record keeping <ul style="list-style-type: none">VAT registrations	Bhawna Chopra
How to prepare for VAT implementation?	Rishi Chawla
Q & A	



GCC VAT FRAMEWORK



CURRENT VAT FRAMEWORK

- **GCC VAT agreement** - signed by all 6 GCC countries back in 2017
- Common VAT rate – 5 % for all GCC countries (except recent increase in KSA to 15%)
- VAT came live in **UAE and KSA on 01 Jan 2018**, in **Bahrain on 01 Jan 2019**
- In **Oman** VAT to be implemented from **16 Apr 2021**
- Kuwait (expected in 2021) and Qatar (no defined date as yet)
- Oman VAT law published, Executive regulations still to be issued.
- First phase of VAT registrations started from 1 Feb 2021.
- IMF expects VAT contribution between 1.5% to 3% of non-oil GDP
- Media reports expect around annual contribution of OMR 300 m (\$780 m)



INTRODUCTION TO VAT



OVERVIEW OF VAT

WHAT IS VAT?

- Value added tax is a tax levied on all goods and services.
- Over 160 countries in the world use VAT. It started in France in 1954. Though concept was devised by a German industrialist. Global average rate is 17%
- It is a form of indirect tax – levied on person who consumes the goods
- VAT is actually very well defined by its name.
- It is calculated on the value added to the goods and services by a trader at each stage of the production and distribution chain.

VAT terminology - Concept of Input and Output VAT

- VAT has two components – Input VAT and Output VAT.
- In simple terms, Output VAT comes from your **Revenues** while Input VAT comes from your **Expenses**.
- **Input VAT** is paid to the **Suppliers** and **Output VAT** is received from the **Customers**.
- VAT registered businesses charge VAT on their sales ("output tax") and recover VAT on their purchases and expenses ("input tax") and settle the difference with tax authorities.

$$\text{Output VAT} - \text{Input VAT} = \text{VAT payable}$$

OVERVIEW OF VAT

Example: Furniture Industry



100+5

150+7.5

200+10

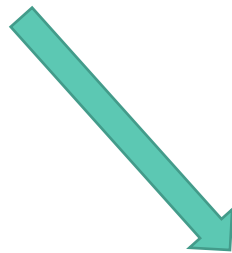
$7.5 - 5 = 2.5$

$10 - 7.5 = 2.5$

5

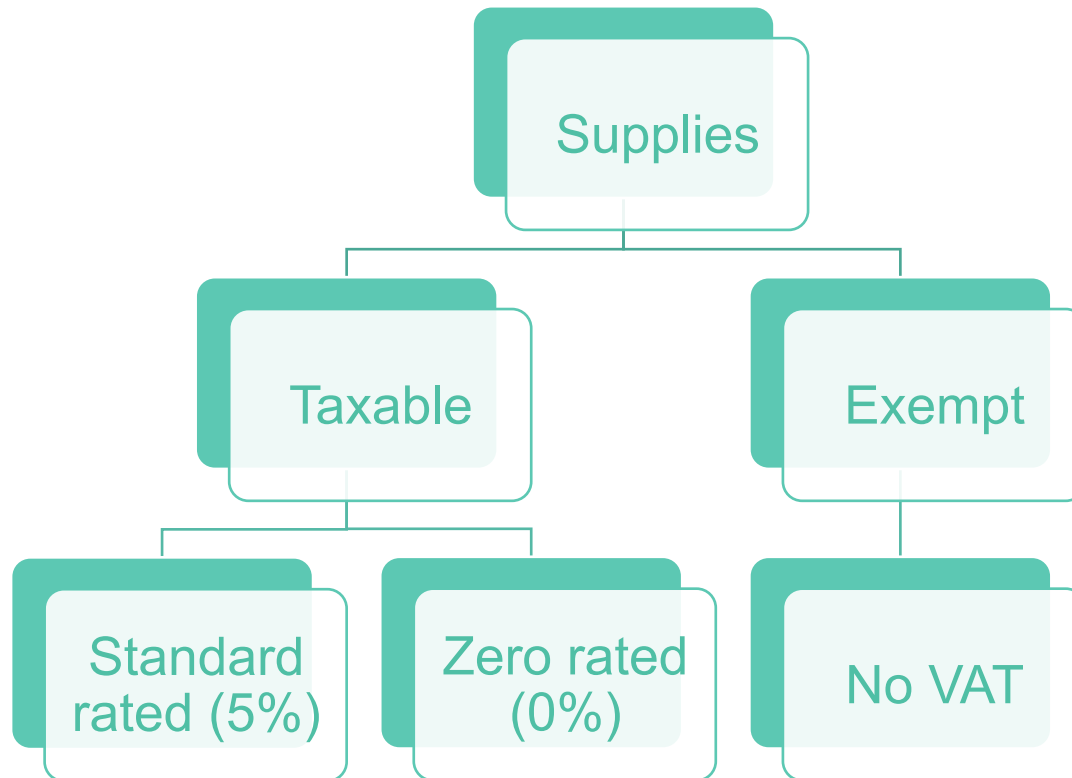


Tax collected by Govt = $5 + 2.5 + 2.5 = 10$



TAXABLE SUPPLIES

- VAT rate will be 5% or 0% or exempt.
- In a VAT system, there are two kinds of supplies, taxable and exempt.



Standard rate vs Zero rate vs Exempt

Standard rate	Zero rate	Exempt
VAT rate – 5%	VAT rate – 0%	No VAT
VAT Charged	No VAT charged	No VAT charged
VAT credit available	VAT credit available	No VAT credit available
Examples – Most goods and services	Examples – specialized food, medical etc.	Examples – local passenger transport, some specific financial services etc.



ZERO RATE, EXEMPT AND OUT OF SCOPE SUPPLIES IN OMAN



Zero rated supplies



Exempt supplies



- Financial services



- Healthcare services and related goods and services



- Educational services and related goods and services



- Undeveloped land (bare land)



- Resale of residential properties



- Local passenger transport



- Renting of properties for residential purposes

Out of scope supplies



Supplies by non-taxable person

01



Supply between insurer and insured for settlement of insurance claim

02



Supply made outside Oman

03



Supplies not in course of economic activity

04



Transfer of business as a going concern

05



Supply made between members of same Tax group

06



VAT ON CROSS BORDER TRANSACTIONS



CROSS BORDER TRANSACTIONS – PLACE OF SUPPLY (GENERAL RULE)

Goods

Where the ownership of the goods being transferred

*POS of intra GCC supply of goods will be specified in the executive regulations**



Services

Provided by taxable supplier to Non-taxable customer in GCC

Suppliers place of residence

Provided by taxable supplier to taxable customer

Customer's place of residence

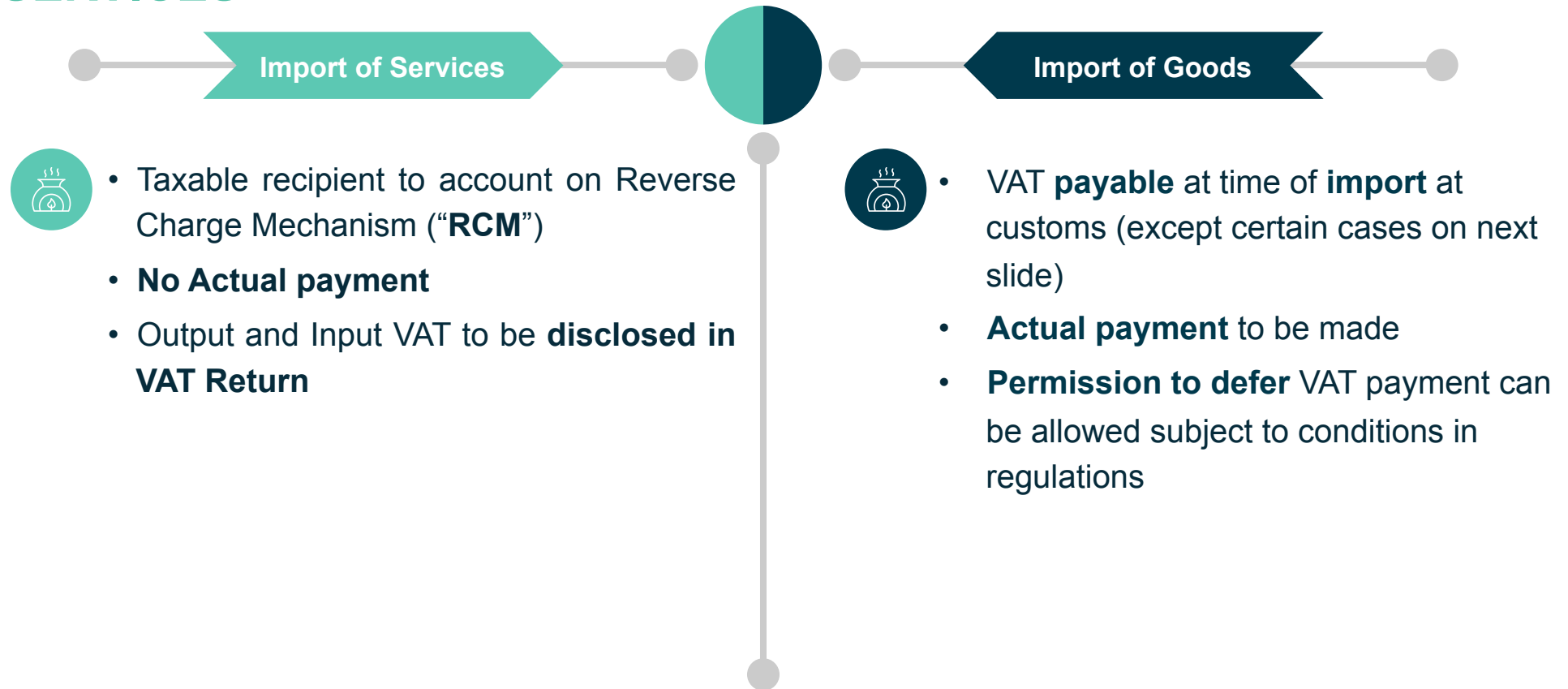
* Its expected that till the time all GCC countries implement the Electronic services system, same rules as for outside GCC countries will apply

CROSS BORDER TRANSACTIONS

Special Place of supply rules for certain services:

Services	Place of supply (Article 24)
Goods and passenger transportation and related Services	where the transportation begins
Real estate	where the property is located
Wired/wireless telecommunication or electronically supplied services	place of actual use or benefit
Hotels and catering	where actually performed
Artistic, cultural, sport, educational, entertainment services	where actually performed
Leasing means of transport to a non-taxable customer	Where means of transport placed at customer's disposal

CROSS BORDER TRANSACTIONS – IMPORT OF GOODS OR SERVICES



Import of Services

Import of Goods



- Taxable recipient to account on Reverse Charge Mechanism (“RCM”)
- **No Actual payment**
- Output and Input VAT to be **disclosed in VAT Return**



- VAT **payable** at time of **import** at customs (except certain cases on next slide)
- **Actual payment** to be made
- **Permission to defer** VAT payment can be allowed subject to conditions in regulations

PB Remarks

Impact on cash flow due to VAT payment on import needs to be considered

CROSS BORDER TRANSACTIONS

Reverse Charge Mechanism – example

- Oman business takes accounting service from Oman accounting firm:

Oman accounting firm charges OMR 5,000 plus 5% VAT

- Accounting firm declares OMR 250 as Output tax in return
- Oman Business declares OMR 250 as Input tax paid to accounting firm

- Oman business takes accounting service from UK accounting firm:

UK accounting firm charges OMR 5,000

- UK accounting firm is not registered in Oman and does not file return
- Oman Business declares OMR 250 as Input tax and OMR 250 as Output tax in its return

CROSS BORDER TRANSACTIONS

Import of below goods not subject to VAT



Goods subject to VAT at **Zero rate** (or) **exempt** from tax in **final destination** country



Goods for use by **diplomatic** bodies, international organizations etc on **condition of reciprocity**



Goods imported for **armed forces and security forces**



Used personal items and household appliances



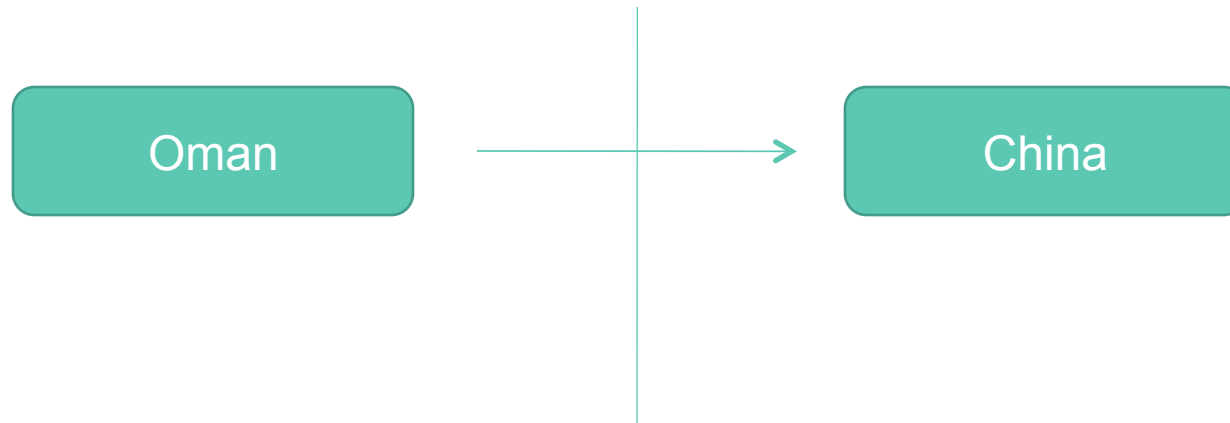
Requirements for non-profit organizations



Return of exported goods

CROSS BORDER TRANSACTIONS

Export of goods to buyers outside GCC



- Exports outside GCC – zero-rated
- For all customers – B2B or B2C



SPECIAL VAT RULES



SPECIAL VAT RULES

When to account for VAT in your VAT return?

Tax point will be date of supply of goods or services, which shall be earlier of:

Date on which
goods transferred
or services
completed

Date of issue of
Tax invoice

Date of receipt of
payment (to
extent of
receipt)

Note 1: Exception included for first time application under Transitional rules

Note 2: Exception in case of supplies of a repetitive nature

For supplies of a repetitive nature leading to the repetitive issuance of invoices or payments of Consideration, the tax is due on the date mentioned in the **invoice or the date of actual payment, whichever comes first**, and happens at least **once every (12)** consecutive months

TRANSITIONAL PROVISIONS

Contractual period
before the effective
date

Date of enforcement
of local law
“Effective Date”

Contractual period
after the Effective
Date

No VAT

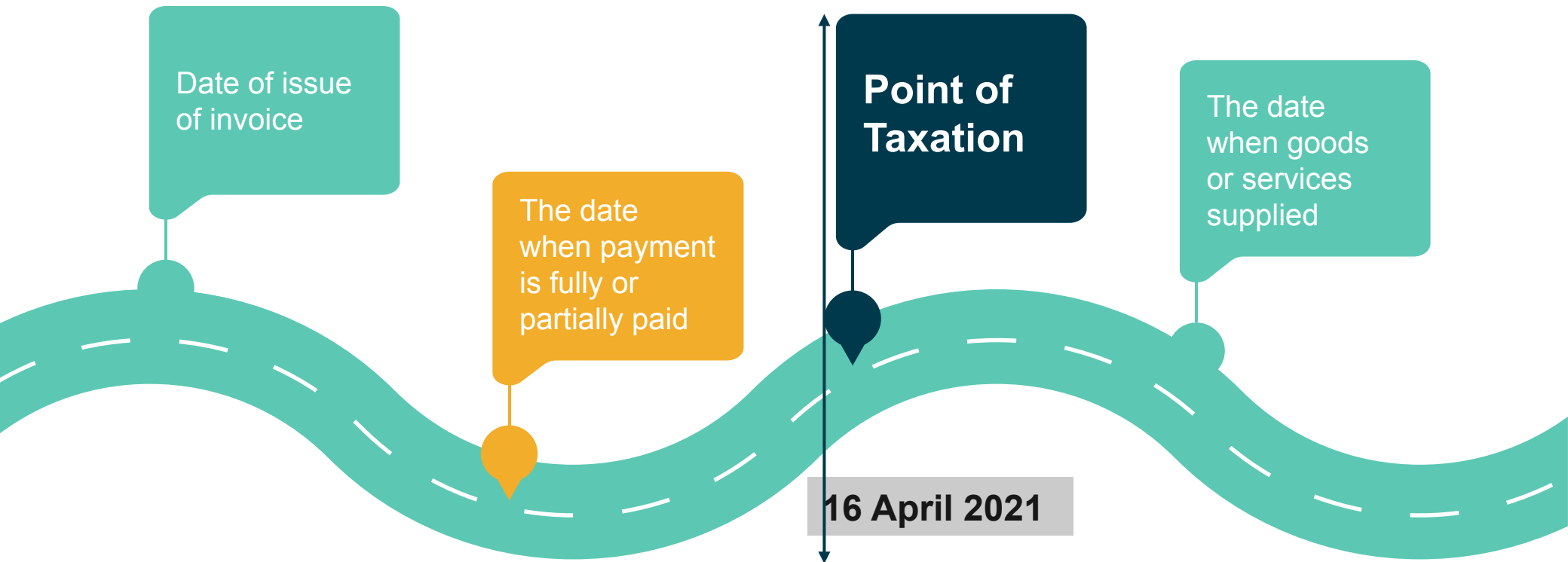
April 2021

VAT



- **Contract entered prior to date of VAT law enforcement (16 Apr 2021) but supply made after 16 Apr 2021:**
 - ❖ VAT will be due on supply taking place after 16 Apr 2021
 - ❖ If contract does not mention VAT, then price in contract will be treated as **inclusive of VAT**.

TRANSITIONAL PROVISIONS



Notwithstanding the “time of supply” rules, if an invoice is issued or payment is received in respect of a supply of goods or services before the implementation of VAT, but the goods or services are delivered after the introduction of VAT, it means that VAT will have to be charged on such supplies.



VAT COMPLIANCE



COMPLIANCE REQUIREMENTS UNDER VAT



KEY VAT Compliance Considerations:

- **Responsible person**
 - Every tax registrant need to appoint a responsible person (manager/owner/partner)
 - If responsible person staying outside more than **90 days** (to notify or change)
- The final *responsibility* and accountability **to comply** with law is **on the business**.
- **In case of Non Compliance there will be Penalties, investigation and legal proceedings**
- **Compliance Starts with registering and getting a VAT number**
- **Charge** and **remit VAT** collected to Tax **Authority** on a monthly or quarterly Basis, (regulations to define). VAT returns to be submitted
- VAT **records** to be maintained for 10 years (15 years in case of real estate)



VAT REGISTRATION



REGISTRATION THRESHOLDS

Taxable supplies by person

- Exceed **OMR 38,500** (US\$ 100k)
- Registration **Mandatory**

Taxable supplies by person

- Above **OMR 19,250** (US\$ 50k) but below **OMR 38,500**
- Registration **Voluntary**

Taxable supply by non-resident supplier to non taxable customer

- **Any value**
- Registration **Mandatory**

VAT Group

- Person doing wholly zero rated supply, may apply for exemption
- To **determine registration requirement**, person should check below
 - Past check: **Current month + previous 11 months**
 - Future check: **Current month + next 11 months**
- **First phase of registration started from 1st Feb 2021**

MANDATORY REGISTRATION – PHASED APPROACH

1st Feb 2021 to
March 15 2021

- Annual taxable supplies exceed or expected to exceed **OMR 1million**
- Effective date of registration **16th April 2021**

1 Apr 2021 to May
31 2021

- Annual taxable supplies exceed or expected to exceed **OMR 500,000 and up to OMR 1million**
- Effective date of registration **1st July 2021**

1 July 2021 to
August 31, 2021

- Annual taxable supplies exceed or expected to exceed **OMR 250,000 and up to OMR 499,999**
- Effective date of registration **1st Oct 2021**

1 Dec 2021 to 28
Feb 2022

- Annual taxable supplies exceed or expected to exceed **OMR 38,500 and up to OMR 249,999**
- Effective date of registration **1st April 2022**

Voluntary registration also available from 1st Feb 2021 for taxable persons with annual supplies or expenses exceeding or expected to exceed OMR 19,250

REGISTRATION PROCESS

- Persons with Commercial registration number (CRN) can register through online portal
- Residents with no CRN and Non-residents have to fill the excel form available on OTA website and email to VAT@tax.oman.gov.om along with the required documents such as details of the annual supplies and expenses, copy of identification documents of principal officer etc.
- How to register via online portal
 - Visit OTA portal (<https://taxoman.gov.om/portal/ar/home>)
 - Login via digital certification service
 - Fill the online registration form

REGISTRATION PROCESS

1- When logged in to portal select Taxpayer Registration.

The screenshot displays the Sultanate of Oman Tax Authority website interface. At the top left is the logo of the Sultanate of Oman Tax Authority. The navigation bar includes links for Home, Laws & DTA, Tax system in Oman, VatIn, E-services, and Help & Support, along with a search bar. A sidebar menu on the left contains a hamburger icon. The main content area features a tree diagram of services. The 'Taxpayer Registration' service is highlighted with a red oval and a red arrow pointing to it. Other services listed include 'Taxpayer List', 'Taxpayer's representatives list', 'Excise product standard prices', 'Excise Transitional Return', and 'Feedback'. A central blue circle labeled 'Taxpayer portal eServices' is connected to the main service branches.

REGISTRATION PROCESS

2- In the field “Commercial Registration No”, enter commercial registration number of the company and then select “Register” button.



REGISTRATION PROCESS

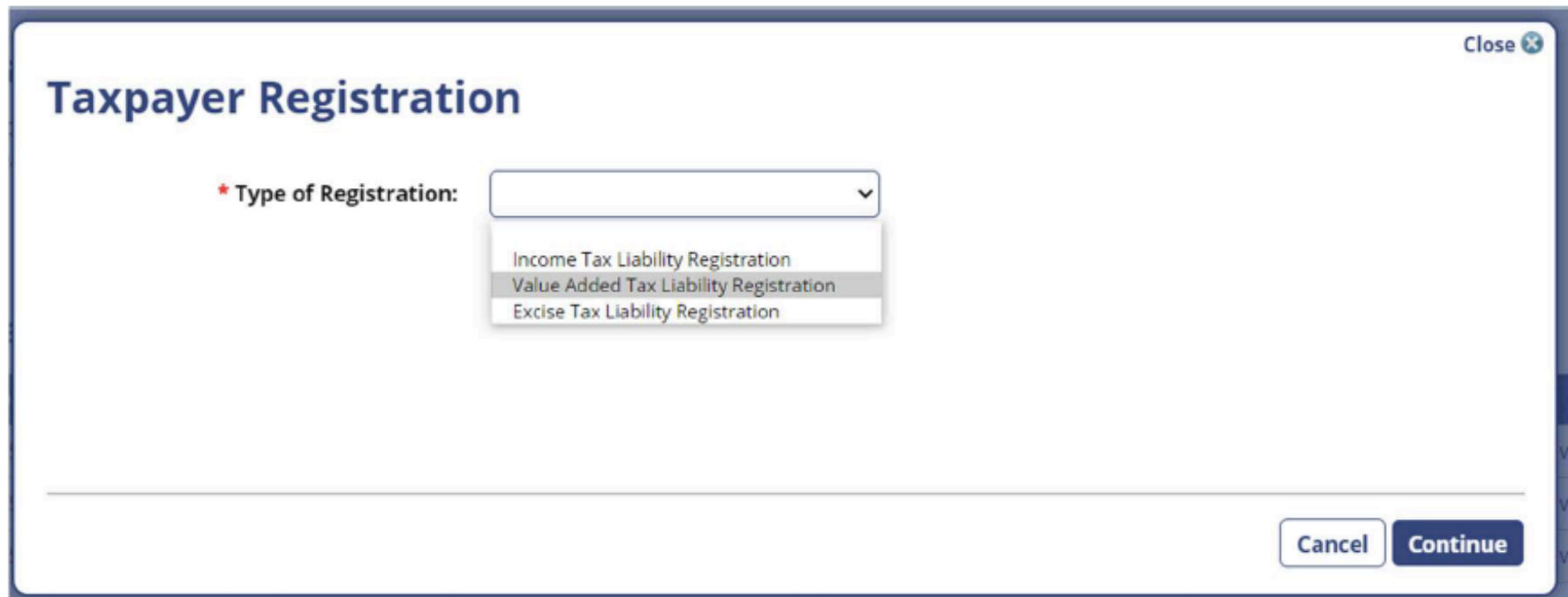
- 3- “Taxpayer Registration” window will appear. From the drop-down list of “Type of Registration” select “Value Added Tax Liability Registration” and then select “Continue” button.



The screenshot shows a window titled "Taxpayer Registration" with a "Close" button in the top right corner. The main content area contains a label "* Type of Registration:" followed by a dropdown menu. The dropdown menu is open, showing three options: "Income Tax Liability Registration", "Value Added Tax Liability Registration" (which is highlighted), and "Excise Tax Liability Registration". At the bottom right of the window, there are two buttons: "Cancel" and "Continue".

REGISTRATION PROCESS

- 3- “Taxpayer Registration” window will appear. From the drop-down list of “Type of Registration” select “Value Added Tax Liability Registration” and then select “Continue” button.



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4- If successful, system will display “New Registration of VAT Liability” form.

New Registration of VAT Liability

Document No.: Document Type: Registration of VAT liability	Document Date: 28/01/2021 Document Status:	VATIN Person:
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Application Form

Details of the Taxable Person

Commercial Registration No.: 8585
TIN:
EXTIN:

Customs Identification Number:

*** Legal name:**

Legal name in English:

Trade name:

*** Legal form of the business:**

Special zones registration: Activities falling within the free zones or special economic zones

Customs suspension situations:

*** Business address:** Sultanate of Oman, Al-Buraimi, Dank, Wadi Al Amd, 512, 123456, Elm Street, 456, 123 | **Enter**

*** Contact phone:**

REGISTRATION PROCESS

- Form includes various details to be filled such as:
 - Details of the business – name, legal form, address, contact
 - Details of the principal officer – ID, name and designation
 - Details of the business activity
 - Bank account details
 - Details on category of VAT registration threshold
 - Documents to be uploaded such as copy of business registration and license, ID documents of Principal officer



EXPECTED VAT CHALLENGES



EXPECTED VAT RELATED COMPLEXITIES

Purchase invoices

Recovery status of VAT

- Input VAT (VAT on purchase invoices) can be fully recoverable, partly recoverable or non-recoverable
- Recovery depends on what the purchase has been used for.

Fully recoverable – if expense incurred for taxable supplies

Not recoverable – Exempt supplies

Partly recoverable – Mixed supplies

Other exceptions (VAT cannot be recovered on):

- Business entertainment expense - its blocked
- Private expense (not made for business purpose) – its blocked

No Input VAT to be reversed in case of theft (or) loss of goods (or) goods given as samples or gifts (subject to limits expected in regulations)

EXPECTED VAT COMPLEXITIES

Getting the timing right

Buyer – cannot claim input VAT credit without valid VAT invoice

- If you pay your supplier on basis of quote/proforma invoice, input vat cannot be claimed
- If you claim Input credit on supplier's invoice, but supplier not paid on time (e.g.in UAE, if you fail to pay supplier within 6 months then you normally have to repay the VAT.) Oman executive regulations might include further details on this.

Note: There might be bad debt relief rules as well. If you are charging VAT to customer and he doesn't pay you then there will be provisions in law which will allow you to claim back subject to certain conditions.

EXPECTED VAT COMPLEXITIES

Getting the timing right – When to account for VAT in your VAT return?

Tax point for Goods – when goods are made available to customer.

Tax point for Services

- Date on which performance of services is complete
- Regulations will define the time frame within which invoice to be raised
- In case of receipt of advance, tax point become date of receipt of funds

Challenge: For continuous supplies e.g. Construction services

- ❖ Basic rule is to tax earlier of payment or issue of VAT invoice

EXPECTED VAT COMPLEXITIES

VAT on part-exchange transactions

- Consideration is not just money but money's worth as well
- Even barter transactions are covered

Special Economic zones – Article 54 mentions concessionary treatment for supplies within, to and from SEZ (executive regulations to provide further details on this)

Deemed supplies

- There will be specific rules for deemed supplies and samples
- Business Gifts might be treated as though have been sold as taxable supplies.
Expected some exemptions for low value gifts
- If you take items out of business for personal use, this might count as deemed supply



HOW TO PREPARE FOR VAT IMPLEMENTATION



FOUR STAGES FOR VAT READINESS/ COMPLIANCE

STAGE 1: IMPACT
ASSESSMENT






STAGE 2: DESIGN

STAGE 3:
IMPLEMENTATION

STAGE 4: OPERATE

Stage 1: Impact Assessment

2. Key VAT considerations

	<p>PROCUREMENT AND IMPORTATION Supplier Pricing and AP processing times Additional back up documentation Supplier VAT awareness Considerations for purchase from non-vat registered supplier Within GCC and outside GGC imports Temporary Imports and VAT deferment schemes on imports</p>
	<p>ERP AND IT SYSTEMS Programme changes for VAT coding on all Customer Invoices VAT input fields in GL, AP, AR, and Procurement sub-ledgers System testing System for Back up retention and Retrieval of Tax invoices and backup Trail for VAT Audit, Queries and Input Credits</p>
	<p>SALES AND CONTRACTS Pricing strategy, Invoices and credit notes Communication with customers Agency sales, royalty fees Inter-company transactions</p>
	<p>LEGAL AND HR Review/Inclusion of relevant clauses for VAT protection Internal and External Communication plans Staff Trainings Fringe Benefits, Employee Allowances and Expense claims</p>
	<p>FINANCE, TAX AND FISCAL COMPLIANCE Updates of policy and procedures manual Cash flow impact, VAT deferment schemes for cash flow improvement Timely Registration of Entities Compliance to Vat filing time lines, queries and audits Asset sales, Long term leases and scrap sales considerations</p>

Stage 1: Impact Assessment

ISSUES TO BE ADDRESSED IMMEDIATELY

- Review all **legal** and Commercial agreements
- Need to **train staff** on VAT understanding and implications (apply to all departments and not only to accounts/finance)
- Appoint a "**VAT Champion**" AND Set Up Steering Committee (representatives from each department)
- Look at the legal setup and relationships in case of multiple entities and attention to intercompany trade and tax planning
- Deep dive to understand at operational level, the factors impacting VAT

Stage 2: Design Phase

Scoping, planning and lead times

- Deep Dive to finalize **scope of changes** required within your **business for VAT**
- List changes to be made to your **IT systems** like **Additional account codes, invoice redesign** for VAT registration number etc.
- Build up a mechanism for **storing VAT invoices** and **back up** documentation including supplier and Intercompany invoice
- Look at your **business specific** items like leases, intercompany and **assess if are fit for the new model**
- Impact on **Cash flows**, and **financial position** (costs and margins) on GCC operations.
- Any **unrecoverable VAT impact and assessment**
- Review of **governance framework** to see where **policies, procedures & controls** to be updated
- Advise on **IT systems VAT adoption**
- **Training** of Personnel
- Finalize **VAT Risk and Opportunity register**

Stage 3 & 4 - Implement and Operate Phase

Phase 3 & 4– Implement and Operate

- Implement new or **Test the IT system modifications**
- Conduct **trainings** for **supplier and customers** who are part of food chain
- Implement **new policies and procedures to comply with VAT**
- **Conduct trainings for staff** and keep eye on clarifications by Tax authority
- Have the **documentary back up for VAT fillings**
- Prepare **documentation and audit trail** for VAT queries by authorities
- Decide whether to **hire a consultant** to assist with **Quarterly compliance review, filing returns and VAT registrations**
- Regular VAT **return filings**
- **Communicating with tax authorities**



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THANKS

This material is for information purposes only and for broad guidance on the VAT preparation process and is not intended to be relied upon as professional advice. This has been written in general terms and therefore cannot be relied on to cover specific situations, application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice.