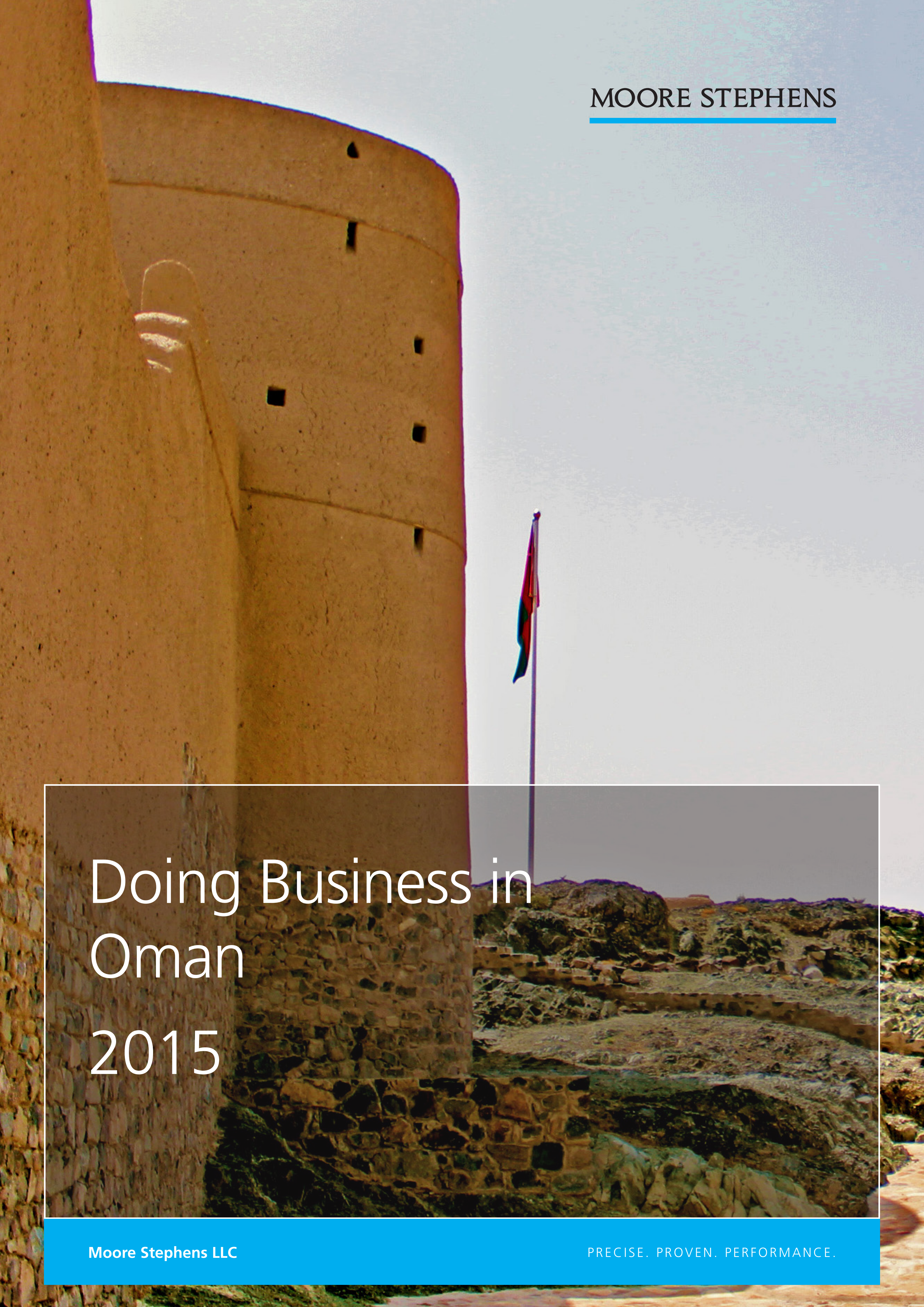

MOORE STEPHENS

Doing Business in Oman

2015

Moore Stephens LLC

PRECISE. PROVEN. PERFORMANCE.

Introduction

The guide is intended to assist those interested in doing business in the Sultanate of Oman and is only a summary as of September 2014. In order to be aware of specific laws and regulations in more detail, it will be necessary to obtain appropriate accounting and legal advice.

This guide is intended to provide an overview of the financial, commercial and legal infrastructure.

March 2015

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1. Country profile

General Information

Geography

The Sultanate of Oman, situated at the south-eastern corner of the Arabian Peninsula covers an area of 309,500 sq km with a 1,700 km coastline overlooking three seas: the Arabian Gulf, the Gulf of Oman and the Arabian Sea. Oman is the second largest country in the Arabian Peninsula after Saudi Arabia.

The Sultanate of Oman borders Saudi Arabia and the United Arab Emirates in the west; the Republic of Yemen in the south; the Strait of Hormuz in the north and the Arabian Sea in the east. The capital of the country is Muscat, which is located in the north of the country.

Languages

Arabic is the official language of Oman. English is widely spoken in the business and Government sectors, although certain official correspondence must be in Arabic. All Ministerial correspondence and Royal Decrees are published only in Arabic, although unofficial English translations are available.

Climate

The climate in Oman is generally hot and dry, especially during summer months between May and August when noon temperatures even go up to 45 degrees (113 degrees Fahrenheit). From December to the end of March, the weather is pleasant with temperatures ranging from 16 to 32 degrees centigrade (61 to 90 degrees Fahrenheit). Rainfall is generally low and irregular with the exception of the Dhofar region, which receives monsoon showers from July to September.

Population and demographic composition

The general census conducted in 2010 indicated that the total population of Oman is 2.773 million of which 1.957 million (71%) are Omanis and 0.816 million (29%) are expatriates.

The National Centre for Statistics and Information has put the country's population at 3.83 million at the end of February 2013 of which 1.68 million is the expatriate population. Of the 1.68 million expatriate population, 1.35 million were employed in the private sector of which 44% were employed in the construction sector. The governorate of Muscat is the most populated followed by the governorate of Al Batinah.

Religion

Islam is the official religion in Oman. Oman is tolerant towards believers of other faith who are allowed to practice their religion.

Administration

The Head of State is His Majesty Sultan Qaboos Bin Said. Oman has two legislature chambers:Majlis Al Dawla (Council of State) and Majlis Al Shura (Consultative Council). The members of the Majlis Al Dawla are appointed by Royal Decree. The Council of Oman advises The Sultan on legislative matters.

The Majlis Al Shura consists of elected members representing all governorates of the Sultanate. The election of the Majlis Al Shura members is conducted through direct secret ballot and according to election law. The term of the Majlis Al Shura is four years.

Legal system

In 1996, a Royal Decree promulgated the Basic Law of the State. In October 2011, certain amendments were introduced by a Royal Decree 99/2011. The law has 7 chapters and 81 articles dealing with every aspect of the State Apparatus and fundamental human rights. The Basic Law guarantees the equality of all citizens before the law, freedom of religion, freedom of speech, a free press and the right to a fair trial. It lays down a legal framework for all future legislation.

The Islamic code – The Sharia Law which is based on the Holy Quran is the general law of the land. However, Oman has developed a substantial body of written law to regulate its economic affairs. The Sultan promulgates laws through Royal Decrees and Ministerial Decisions are issued to amplify the laws and provide necessary details for their implementation. The Royal Decrees and Ministerial Decisions are published in the Official Gazette.

The Basic Law confirms the independence of the judiciary and the role of the judges in upholding the rule of law and guaranteeing rights and freedoms. Oman has a three tier judiciary system – Courts of First Instance, Appellate courts and the Supreme Courts.

Apart from the above, there is also a Court of Administrative Jurisdiction which deals with cases relating to Government employees and the review of administrative decisions.

Labour disputes are handled by the Ministry of Manpower and if there is no settlement the matter is referred to the District Court/Primary Court.

Economy, Industry and Primary Resources

Monetary stability

The monetary unit of the Country is Omani Rial (OMR). Each Rial is divided into 1000 equal units called baizas.

Strategies to ensure monetary stability in Oman have proven effective, with low inflation rates. The Omani Rial (RO) is a freely convertible currency and is fixed against the US Dollar at the rate of RO 0.385. There are no exchange controls for both inward and outward investment and repatriation of capital or profits for both nationals and expatriates.

Trade

Oman thrives on the export of oil and natural gas and boasts of crude oil reserves of approximately 4,803 million barrels and natural gas reserves of about 29.8 trillion cubic feet. Although not a member of the Organization of Petroleum Exporting Countries, Oman is an observing associate and co - operates with the OPEC in achieving stability of oil prices. The Country has a 170 years history of political and economic co - operation with the United States of America and the United Kingdom.

Though Oman's proven oil reserves are small compared to other OPEC countries, almost half of the country's Gross Domestic Product (GDP), two-thirds of its export earnings and three quarters of its Government revenues come from oil revenues. The Sultanate is therefore trying to diversify its trade regime as it seeks to broaden economic opportunities for a fast-growing workforce.

Oman is a member of the Gulf Cooperation Council (GCC), a regional intergovernmental political and economic union, which includes five other Arab countries – Bahrain, Kuwait, Qatar, Saudi Arabia and United Arab Emirates. As a member of the GCC, Oman enjoys several benefits such as free movement between fellow member countries without visas, import of a majority of the goods produced within the GCC countries without duty and allowance to own real estate in other GCC countries.

Oman has also entered into a Free Trade Agreement (FTA) with the United States of America under which all tariffs on consumer and industrial products are waived with effect from 1 January 2009. An FTA with the European Union is also expected soon. These FTAs would effectively help to promote an attractive investment climate, and expand trade in products and services between the participating countries.

Economic trends and performance indicators

The Country's economy relies heavily on revenues from oil production. Oman's GDP for the year 2013 stood at USD 80.57 billion. The petroleum sector accounts for approximately 87% of the budget revenues, 51% of the GDP and 60% of the total exports.

Oman ranks 47 out of 189 economies in the World Bank Group 'Doing Business 2014' survey. The following table summarises the key performance indicators and benchmark against regional and high income averages:

Indicator	Rank
Starting a business	77
Dealing with construction permits	69
Getting electricity	58
Registering property	21
Getting credit	86
Protecting investors	98
Paying taxes	9
Trading across borders	47
Enforcing contracts	107
Resolving insolvency	72

2. Investment vehicles

Business organization and reporting requirements

Business structures: options available

The type of investment vehicle chosen by foreign investors will depend on the industry or service they wish to offer, the geographical market and whether the import of goods or manufacturing is involved.

Business entities

Commercial entities must register with the Ministry of Commerce and Industry and the Chamber of Commerce and normally obtain a License from Muscat Municipality. Other clearances may also be required from relevant authorities, depending on the specific nature of the business.

The various investment vehicles are listed below:

- Public Joint Stock Company
- Closed Joint Stock Company
- Limited Liability Company
- Limited Partnership
- Holding Company
- Sole Proprietorship
- Branch of Foreign Company
- Commercial Representative Office
- Commercial Agent
- Joint venture

Public Joint Stock Company (SAOG)

These are companies with shares listed on the Muscat Securities Market. The minimum capital requirement is RO 2 million. The maximum shareholding of the promoters is 60%, with the balance 40% offered to the public.

Promoters cannot dispose of their shares in a SAOG prior to the publication of two audited balance sheets of the company.

Closed Joint Stock Company (SAOC)

These are closely held joint stock companies. The minimum capital requirement is RO 0.5 million, and the minimum number of shareholders is three. Promoters are not restricted from disposing of their shares prior to the publication of two audited balance sheets.

While shares are not quoted, the transfers of shares are through the Muscat Securities Market, and shareholders' registers are maintained by the Muscat Clearing and Depositary Company SAOC. Shares are represented by numbered transferable certificates.

Limited Liability Company (LLC)

A Limited Liability Company (LLC) is a commercial company with a fixed capital. The minimum capital required is RO 20,000 where no foreign participation is involved. The capital requirement is RO 150,000 if any shareholder is a non-GCC shareholder.

An LLC is formed by submitting a constitutive contract containing the name of the company, the object clause, names and particulars of the members, allocation of shares and authorized signatories. A bank certificate is required if the capital is contributed in cash. If the contribution is in kind, a certificate from an expert valuer must be attached.

Foreign investment companies

Foreign investors who desire to engage in business in Oman generally operate through limited liability companies. The business shall be conducted by an Omani company with a capital of not less than RO 150,000 in accordance with the Foreign Capital Investment Law. Foreign companies which intend on holding shares in a company incorporated in Oman must have been incorporated for a minimum period of three years and must provide evidence of such incorporation as well as submit the foreign company's latest audited accounts in order to demonstrate its financial standing.

Foreign participation in the capital of a company established in Oman shall not exceed 70% of the total capital. In exceptional cases, the Ministry of Commerce and Industry may permit 100% foreign ownership subject to fulfilment of the following conditions:

- The project contributes to the development of the national economy;
- Project's capital shall not be less than RO 500,000.

General Partnership

A General Partnership is a commercial partnership formed by two or more natural or juristic persons and which aims to carry on a business. The partners of a General Partnership are jointly and severally liable for the General Partnership's debts.

The name of the General Partnership can include the name of one or more of the partners and it must be followed by the phrase "General Partnership". A partnership agreement must be registered with the Ministry of Commerce and Industry together with the authorized signatory form.

Limited Partnership

A Limited Partnership is a commercial partnership which comprises two categories of partners: One or more general partners – who are jointly and severally liable for the Limited Partnership's debts to the full extent of their property – and one or more limited partners, whose liability is limited to the amount that has been stated in the Limited Partnership's Memorandum of Association.

Holding company

A holding company can be a Joint Stock Company or a Limited Liability Company which financially and administratively controls one or more other companies. The capital of a holding company must not be less than RO 2 million, and a holding company can neither hold shares of General or Limited Partnership companies nor shares in other holding companies.

Sole proprietorship

A sole proprietorship is a form of business which can be carried out only by Omani or GCC Nationals. The proprietor is personally liable for debts. The minimum capital requirement to form a sole proprietorship is RO 3,000.

Branch of foreign company

A foreign company can set up a branch office on the basis of a contract with the Government or Government bodies. Banking institutions and insurance companies can also be licensed to operate as a branch.

Branches are permitted only when their head office has been in operation for a minimum period of 10 years, and the head office must provide a guarantee for the operations of the branch.

Commercial representative company

Foreign companies are permitted to have a legal presence in Oman for the purposes of conducting market research, general advertising, marketing and promotional activities and liaison with commercial entities in Oman. The Representative Office cannot undertake any commercial activities except importing samples for promotional purposes, and can only be established by companies that have a head office and at least three branches in other countries.

Commercial agent

A Commercial agent is appointed by foreign businesses to export goods and services to Oman. All agencies must be registered with the Ministry of Commerce and Industry. Non-exclusive agencies are allowed even though there is no bar for imports through suppliers other than the agents.

Joint Venture

A joint venture is formed by two or more legal or natural persons establishing a legal relationship between them without affecting third parties. The joint venture must not have a name of its own and its existence must not be raised as a defence against claims made by third parties. It is not registered in the Commercial Register. However, it is considered as a separate entity for tax purposes.

Governing laws

Business and investment in Oman is governed by the following laws:

- Commercial Companies Law, 1974
- The Oman Commercial Law, 1990
- Commercial Registration Law, 1974
- Foreign Capital Investment Law, 1994
- Capital Market Authority Law, 1998
- Commercial Agencies Law, 1977
- Law for Organization and Encouragement of Industry, 1978

In addition, specific industry laws like the Banking Law, Insurance Law etc. shall apply. The registration for all legal entities is carried out at the Ministry of Commerce and Industry. Approvals from relevant ministries are required for specific businesses. Registration with the Tender Board is required for bidding for large Government tenders.

Public Authority for Investment Promotion and Export Development

The Public Authority for Investment Promotion and Export Development (PAIPED) is a Government organization instituted by Royal Decree in 1996. PAIPED aims at primarily boosting private sector participation in the development of industry and commerce and promotion of Omani export overseas.

PAIPED aims at raising the investment share of the private sector – both national and foreign – in order to achieve more employment opportunities for Omanis and enhance the value added to the economy from all sectors, with special emphasis on sectors that exploit indigenous economic resources and utilise modern technology.

Business incentives

Oman offers incentives to foreign investors aimed at guaranteeing their long-term objective as well as that of the country.

The Law for Organization and Encouragement of Industry established by Royal Decree No. 1/ 79 provides for a variety of incentives to foreign investors in Oman. These mainly comprise:

- Interest free or loans with subsidized interest rates;
- Exemption from custom duties on imports of equipment and raw material required for production purposes;
- Exemption from income tax for a 5 year period, which may be renewed for another period of 5 years;
- Planned and serviced industrial plots are provided by the government to establish industrial units including ready-built factories, which can be leased at nominal amounts for 25 years (renewable);
- Recommendation to the Ministry of Electricity and Water for reduction of charges for industrial purposes for eligible industries;
- Survey of industrial investment opportunities and preparation of feasibility studies important to the national economy.

A proposal shall qualify for exemption only if Omani nationals make up 25% of the total labour force, unless the Ministry of Commerce and Industry specify otherwise.

The law has also established an Industrial Development Committee which shall be responsible for the development and consolidation of industrial installations in the Country and raising the level of productivity and efficiency of industries.

Investment in land

Real estate in Oman is regulated by the Land Law promulgated in 1980 by Royal Decree 5/80. In addition to Omani nationals, other GCC nationals, wholly owned Omani corporations and public joint stock companies with 51% Omani shareholding are permitted to hold real estate in the Country under certain conditions. Foreign nationals and other companies may own land only in special designated tourism complexes in accordance with Royal Decree 12 / 2006.

3. Regulations

Accounting and auditing requirements

As per the requirements of the Oman Commercial Law, all commercial entities must maintain proper accounting records for 10 years and in accordance with International Financial Reporting Standards.

Furthermore, all Joint Stock Companies and Limited Liability Companies are required to have annual statutory audits. Brokerage companies licensed by the Capital Market Authority (CMA) must submit half-yearly audited accounts to the CMA.

Tax regulations require that taxable entities with a capital of more than RO 20,000 must attach their audited financial statements to the tax returns. All entities with borrowing facilities exceeding RO 250,000 are required to submit their audited accounts to the banks within four months from the end of their respective accounting year. Joint Stock companies are required to get their accounts approved in their Annual General Meetings, which must be held within 3 months of the year end. Joint Stock Companies must also publish their financial statements in the daily newspapers. Public joint stock companies, banks and insurance companies are required to rotate their auditors after each four year period.

Stock exchange

The Muscat Securities Market (MSM) is a public organization with independent legal status. It was established by the Royal Decree (53/88) to regulate and control the Omani securities market and to participate in the development of infrastructure of the Country's financial sector along with other organizations.

The MSM aims to encourage investment awareness as well as to protect investors. The MSM regulates brokers and listed companies, in addition to serving as an exchange house. All Omani Joint Stock Companies must be members of the MSM and the shares and bonds of Public Joint Stock Companies are listed there. It also facilitates the trading of securities issued by Joint Stock Companies as well as bonds issued by the Government, commercial companies, investment funds' units and any other domestic or foreign securities agreed by the Market. As on December 2013, there were 120 companies listed on the MSM with a market capitalization of OMR 14.155 billion.

The MSM has three markets in operation:
Regular Market – the Regular Market is for securities of public companies that meet specific profitability, capital and shareholding criteria.
Parallel Market – the Parallel Market is for securities of new public companies and those companies that fail to meet the criteria specified for the Regular Market.
Third Market – the Third Market is for share dealings in closed companies and special transactions

The principal index is the MSM 30, which comprises 10 companies each from the banking and investment, industry and services, and insurance sectors.

Capital Market Authority: The Capital Market Authority ('CMA'), established in 1998 in accordance with the Royal Decree No. 89/98, is a regulatory and supervisory government institution responsible for overseeing the capital market and insurance sectors in Oman. The CMA regulates the issuing of shares and trading of securities and supervises the operations of the Muscat Securities Market and Muscat Clearing and Depository Company SAOC and all publicly listed companies. The CMA is also responsible for providing licenses and the supervision of public joint stock companies, companies operating in the securities sector, insurance companies / brokers / agents and credit rating companies. The CMA has developed a Corporate Governance Code and it ensures the implementation of the Code through certification by the statutory auditors. It is now mandatory for public companies to describe the various measures of Corporate Governance in their Annual Report. All listed companies are also mandatorily required to file periodic returns with the CMA.

Muscat Clearing and Depository Company SAOC: This is a Closed Joint Stock Company (SAOC) established in 1999 and is jointly owned by the private sector and the MSM. It acts as the sole provider of registration services, transfer of ownership of securities and safe keeping of ownership documents.

Copyrights

Copyrights are governed by Legislative Decree No. 10 of 1993 which protects authors of creative works which are of literary, scientific, artistic or cultural nature. Oman is regulated by the Law for the Protection of Copyrights and Neighbouring Rights issued by Royal Decree No. 65 / 2008 subsequently amended by Royal Decree No. 132 / 2008. Copyrights are registered with the Intellectual Property Department, Ministry of Commerce and Industry. The term of protection is during the life time of the author and a period of fifty years thereafter.

Trademarks and intellectual property

The law of Trademarks was updated in 2000 by Royal Decree 38 / 2000 which details rules for registration of trademarks and provides a list of permitted trademarks. Oman is a member of the World Intellectual Property Organization that protects trademarks, trade information, trade secrets and trade against illegal competition and infringement. Trademarks include words, letters, signatures, drawings and similar symbols used to distinguish commodities, products and services

Oman is also a member of the Paris Convention for the Protection of Industrial Property. Unauthorized use of a trademark registered under the law, an imitation of such trademark applied on goods or in relation with services of the same class, sale, storing for the purpose of sale, or exhibiting for sale of goods bearing a counterfeit mark, or using a mark duly registered under the law by another person to serve the purpose of unauthorized promotion of goods or services of the same class are offenses punishable under the law.

4. Banking and Finance

The liberalization and modernization of financial institutions and capital markets are among the main objectives of the Sultanate.

The Central Bank of Oman ('CBO') was formed pursuant to the launch of the Banking Law in 1974 (amended vide Royal Decree No. 114/2000) The Central Bank of Omanacts as the depository agency of the Government of the Sultanate of Oman and determines monetary and credit policies. The CBO regulates commercial banks, specialized banks, finance and leasing companies. Money exchange houses are also regulated by the CBO. The CBO is the issuer of the national currency and it supervises its circulation, preserves its value and manages foreign assets. In addition, it also acts as the advisor to the Government on all matters of financial and economic importance.

High capital adequacy and profitability define the banking sector in Oman. Moody's Investor Services have envisaged a stable outlook for the banking system in their report for the year 2014 in view of stable macroeconomic conditions that will support low levels of non-performing loans.

Specialized banks: As at the end of 2010, there were 2 specialized banks in operation. They are Oman Housing Bank and Oman Development Bank and both are owned by the Government.

Other financial service providers: There were also 6 finance and leasing companies licensed by the Central Bank, engaged in hire-purchase activities, leasing, debt factoring and similar credit-based functions. There are also more than 30 money exchange establishments.

Oman Development Bank (ODB): ODB provides financial support to Omani companies for projects in the fields of agriculture, fisheries, manufacturing, export, tourism, education, health, traditional crafts, professional practices, and workshops.

Oman Housing Bank: The aim of the Housing Bank is to support the housing sector by providing soft loans, mainly to low and middle-income Omanis to construct, purchase or expand residential properties.

Islamic Banking: Oman permits Islamic Banking and Islamic banks have been set up in the country. Additionally, existing commercial banks also offer Islamic banking services. The net revenue of Islamic Banks and windows as at June 2014 was estimated at OMR 16.6. million.

Islamic Insurance: The CMA is in the process of developing regulations for Islamic Insurance (Takaful) firms in Oman. Takaful works on the principles of mutual insurance, cooperation and protection under the Islamic Law. As at June 2014, Oman has two Islamic Insurance firms in operation with several more expected to enter subsequent to the introduction of the regulations.

Tender Board

Government contracts are awarded by tender. It is a pre-requisite that entities intending to bid for Government contracts in excess of RO 250,000 are registered with the Tender Board. The Tender Board classifies companies according to their issued capital and determines the maximum and minimum size of contracts for which bids are submitted.

5. Taxation

Income Tax

Introduction

Taxation in Oman applies to companies as well as other commercial activities such as partnerships, joint venture arrangements and permanent establishments of foreign entities.

A new tax law was introduced with effect from 1 January 2010 (Royal Decree 28/2009) to replace the previous 1981 Law. The Executive Regulations providing clarifications to the New Tax Law were issued on 28 January, 2012 by the Secretariat General of Taxation (under the Ministry of Finance).

Taxable entities

The following entities shall be subject to taxation in Oman:

a) Omani proprietorships
b) Omani partnerships
c) Omani companies
d) Joint ventures
e) Branches of foreign companies; and
f) Permanent Establishments (PE) of Foreign Companies and establishments carrying on commercial, industrial or professional activities

The term PE shall include the following:

a) A place of sale, place of management, branch, office, factory or workshop.
b) A mine, quarry or other place of extraction of natural resources.
c) A building site, a place of construction or an assembly project.
d) Foreign person providing consultancy or any other service in Oman, where the presence of the employees (or other individuals under the person's control) in Oman exceeds 90 days in any 12 month period.

Taxation on non-resident companies

A non-resident company is subject to taxation in the following cases:

a) Permanent Establishments
b) Income from subsidiaries / branches of foreign companies
c) Withholding tax in case of non-resident companies without an Omani Permanent Establishment

Withholding tax

Tax shall be charged on the following categories of payments by Oman registered companies which accrue or arise to foreign companies and which are not otherwise subject to income tax:

a) Royalties;
b) Consideration for research and development;
c) Consideration for the use of or right to use computer software; and
d) Management fees.

Tax shall be charged at the rate of 10 % on the gross amount of the aforementioned categories of income, paid or credited to the account of any foreign person. The obligation to deduct this tax shall be on the company or PE which pays the amount and shall be remitted to the Secretariat General not later than 14 days from the end of the month in which the amount is paid or credited, whichever is earlier. A delay in remitting the withholding tax to the tax department will attract a fine of 1% of the tax due, for each month of delay.

Double tax avoidance treaties and credit for foreign tax paid
Foreign taxes paid in respect of overseas income are not tax deductible. However, foreign taxes paid by Omani proprietorships and Omani companies are eligible for a tax credit up to a maximum of the Oman tax that would otherwise be payable on such income.

Tax treaties
Oman has signed treaties for the avoidance of double taxation with the following countries:
Algeria, Bangladesh, Belarus, Belgium, Brunei Darussalam, Canada, China, Croatia, Egypt, France, Germany, India, Iran, Italy, Kazakhstan, Lebanon, Malta, Mauritius, Moldova, Morocco, Netherlands, Pakistan, Russia, Seychelles, Singapore, South Africa, South Korea, Sudan, Syria, Thailand, Tunisia, Turkey, United Kingdom, Uzbekistan, Vietnam, Yemen.

Procedures
Accounting period
The entity has the option of selecting its accounting period. The first period may be less than a period of 12 months or extended beyond 12 months to a maximum of 18 months. The subsequent accounting periods are for 12 months unless the entity is liquidated before the expiry of 12 months.

Tax registration and notification
Taxpayers must register with the Secretariat General of Taxation within three months of the date of incorporation or the creation of PE status (in the case of foreign entities). Exempted from the above requirements are small establishments and Omani companies if the total income does not exceed RO 100,000 and they do not employ on an average more than eight employees (including temporary and incidental employees) and their registered capital does not exceed RO 20,000.

Tax returns
Taxpayers are required to file provisional and final tax returns for every year. If however, the total income of the Establishment or Omani Company does not exceed RO 100,000 and they do not employ on an average more than eight employees (including temporary and incidental employees) and their registered capital does not exceed RO 20,000, they shall be exempt from filing tax returns. These conditions should be satisfied for the particular tax year and two immediate prior tax years to benefit from exemption, along with an approval from the Secretariat General of Taxation.

Provisional tax shall be paid and a provisional return of income shall be filed within 3 months from the end of the accounting period. The Annual return and Annual tax settlement shall be submitted within 6 months from the end of the accounting period along with the audited accounts of the entity.

Penalties
The Secretariat General of Taxation can impose penalties for the following:
- Delays in filing Returns of Income (RO 100 to RO 1,000);
- Delay in payment of tax (1% per month);
- Declaration of incorrect income (25% of the difference between the correct and declared incomes);
- Failures to present financial statements and any other information requested by the tax department (RO 2,500); and
- In the event of fraud and negligence, a penalty not exceeding RO 5,000, or a period of imprisonment not exceeding three years, or both.

Assessment
Assessments shall be completed within five years from the end of the tax year during which the return is filed. In case of failure to submit the income tax return within the specified time or concealment of income, the Secretariat General of Taxation may issue arbitrary assessment orders within ten years from the tax year for which the final return is due.

The Secretariat General of Taxation is authorised to revise and reissue an assessment within 5 years from the date of the first assessment, if the assessment includes an obvious error or mission, or if it is insufficient.

Objections and appeals

Taxpayers may make an objection to an assessment order issued by the Secretariat General of Taxation within 45 days from the date of serving the assessment order. The time limit for considering an objection is 5 months (extendable by a further period of 5 months). It is mandatory to settle the tax on all undisputed amounts prior to filing for an objection.

Tax payers may appeal against a decision of the Secretariat General of Taxation to the Tax Committee designated by the Ministry of Finance. Tax payers may further appeal these decisions to the Primary Courts, Appeal Courts and ultimately the Supreme Court.

Computation of taxable income

Method of accounting and maintenance of records

Financial Statements shall be prepared in accordance with International Financial Reporting Standards. All records and documents shall be maintained for a minimum period of ten years following the end of the accounting period to which the books and records relate. Accounts should be maintained in Omani Rials and advance permission shall be sought from the tax department if the accounts are maintained in any other currency.

The tax authorities are authorized to conduct an examination of the records maintained by the entity at its premises after giving notice to the tax payer of such examination in advance.

Tax rates

Subsequent to the introduction of the new tax law, disparity between Omani companies and foreign branches has been eliminated and uniform tax rates have been introduced. Tax shall be charged at the rate of 12% for all taxable entities with an initial tax-free exemption of RO 30,000. The tax rate for tax payers engaged in petroleum exploration shall be 55% of the taxable income in respect of any income derived from the sale of petroleum.

Taxable income

Taxable income refers to the net profit of the tax payer for the year after adjustment for tax purposes.

Income shall include business profit, rental income, dividend, interest, royalties, management fees or income of any kind, whether received in cash or in kind.

Royalties shall include payment for the use or right to use software; intellectual property rights, patents, trademarks, drawings, equipment rentals, consideration for information concerning industrial, commercial or scientific experience and concession involving minerals.

Tax Exemptions

- Omani Companies primarily engaged in industrial and mining activities, export of locally manufactured goods, hotels and tourism, farming and processing of farm products, fishing and related activities, education and medical care are exempt from income tax for a period of five years from the date of commencing commercial activities(extendable for a further period of five years subject to meeting specific conditions relating to investments in assets, Omanisation and average profit during the exemption period)
- Shipping companies registered in Oman and foreign shipping companies carrying business in Oman through an authorized agent are tax exempt on the condition that reciprocal treatment is granted.
- Income generated by foreign airline companies carrying out their activities in Oman through an established firm is exempt from tax.
- Dividends received in respect of an investment in the capital of a company established in Oman that itself has been subject to tax are exempt from tax.

- Profits on the sale of securities listed on Muscat Stock Exchange are fully exempt from tax.
- Income earned by joint investment accounts/mutual funds registered in Oman under the Capital Market Laws, or established overseas for dealing in shares and securities listed on Muscat Securities Market, is exempt from tax.

Deductible expenses

The law permits the deduction of all actual expenses incurred to the extent that it is fully incurred and necessary to generate the gross income. Any expenses which the tax department determines as excessive in relation to the income will be disallowed.

Depreciation and disposal of capital assets

Capital assets for the purposes of depreciation shall comprise of buildings, ships, aircraft, intangible assets and machinery and equipment. Machinery and equipment includes computer software, installations, furniture, fixtures and fittings, and vehicles, and excludes ships and aircraft. Depreciation is only allowed on capital assets if they continue to be in use for the business at the end of that accounting period.

The new tax law requires the pooling of assets to determine depreciation on machinery and equipment. There are three pools and each asset classified as machinery and equipment has to be allocated to a respective pool. The depreciation for each pool is calculated annually on the reducing balance basis. To calculate depreciation, an opening written down value, plus additions of assets minus sale proceeds of disposals of assets, is taken as the asset base of that pool, and the depreciation rate is applied to it. For machinery and equipment, there is no need to compute a taxable gain or loss on disposal separately, as sale proceeds are taken into account in calculating depreciation.

The following table indicates the depreciation rates allowable for taxation purposes (effective from 1 January 2010):

Assets	Depreciation Method	Depreciation rate
Permanent buildings	Straight line	4%
Quays, jetties, pipelines, roads /and railways	Straight line	10%
Other buildings	Straight line	15%
Buildings for hospitals / education institutions	Straight line	100%
Tractors, cranes, heavy machinery, computers, software, intellectual property, furniture and fittings	Written down value	33%
Drilling rigs	Written down value	10%
Other machinery (including office equipment)	Written down value	15%

In case of buildings used for industrial purposes (excluding buildings for housing of employees, office and storage), the stated rates of depreciation shall be doubled i.e. 8%.

In case of assets depreciated on a straight line basis, if the business ceases, or no assets remain in the pool, and the asset base is more than the disposal value, the excess is considered a balancing allowance. If the disposable value is more than the asset base, the excess is considered as a balancing charge. Gains of losses on the disposal of capital assets other than pool assets are subject to tax as a balancing charge (gain) or balancing allowance (loss).

Related party transactions

Transactions with related parties shall be subject to detailed scrutiny to ensure that they have been conducted at arm’s length. In cases where the related party transactions are found to be unreasonable, adjustments shall be made in the computation of taxable income.

If the related party transaction is conducted with the intent to avoid or reduce taxation on certain transactions and results in lower taxable income or higher losses, the actual terms of the transactions are ignored and the taxable income is computed by assuming the terms on which the transaction would have been entered into by third parties.

When adjustments are made due to related party transactions, the Secretariat General can compute the taxable income of the other related party to that transaction, on the same basis provided that a formal request is submitted within a period of not more than 12 months from the date of assessment.

Head office charges

Foreign companies operating through branches are entitled to a deduction for head office expenses which is restricted to the lower of the following:

- The expenses allocated to the branch or Oman operation; or
- 3% of the total income of the branch or from Oman operations.

For branches of foreign banks and insurance companies, the allowance may be increased to up to 5% of the total income. Branches of industrial companies using high technology may be allowed up to 10% of the total income.

In view of the restriction of head office overheads, foreign companies should keep separate records for expenses incurred for the Oman branch/operations.

Interest

Interest must be genuine and incurred in relation to income earned and not for financing or capitalization of the business and includes interest paid on bank borrowings used for business purposes. Companies claiming interest costs on loans from related parties must comply with minimum capital requirements. Interest paid on loans from partners / members are allowed on a restrictive basis.

Sponsorship / agent fees

Deduction towards sponsorship fee shall be allowed in cases where an agreement exists between the sponsor / foreign company and the entity and a documented relationship exists between the entities. Sponsor's fees are restricted to the lower of the actual sponsorship fees incurred or 5% of the taxable profits before claiming such deduction and after the set off of losses brought forward from earlier years. The fees must have been incurred for services received and shall be supported by a contractual agreement.

Shareholder/Partners' Remuneration

Deduction in respect of remuneration paid to partners, members or owners of an Omani entity shall be the least of the actual remuneration paid, OMR 1,000 per month per Member or 10% of the taxable income before such remuneration and set off of brought forward losses provided that:

- The Member should be in full time employment and engaged in the management of the company and should not be employed elsewhere.
- Where the Member is engaged in the management of more than one company the remuneration is limited to the one chosen by him/her.

Deduction in respect of remuneration paid to Members in professional companies who acquire high technical skills and management efficiency shall be restricted to the lower of the actual remuneration paid, RO 3,000 per month or 30% of the taxable income before such remuneration and set off of brought forward losses whichever is lower.

Remuneration paid to the Members of the Board of Directors of joint stock companies (including sitting fees) shall be deductible subject to a maximum of 5% of the net profits of the year after transfer to legal reserve and optional reserves.

Bad debts

Deduction in respect of bad debts shall be allowed only if such bad debts have been incurred during the course of the business and the entity has ensured adequate steps have been taken to recover the debts before action is taken to write off the bad debt. Deductibility in respect of bad debts exceeding RO 1,500 is allowed if the Tax Department considers that the debt has become bad during the tax year. The legal process required to prove bad debts normally includes a judgement by a court, debts redemption order or liquidation or bankruptcy proceedings.

Non-deductible expenses

The following deductions are not allowed:

- Any amount payable or paid as tax / government dues on income paid in Oman or any other country;
- Stock provisions (although a deduction may be claimed when stock is disposed of below cost);
- Provision for bad or doubtful debts (although a deduction may be claimed for write off of bad debts as explained above)
- Capital expenditure;
- Amounts in relation to any expenditure or loss that may be recoverable through an insurance or compensation claim;
- Donations other than those paid to specified institutions approved by the Financial Affairs Council. Such donations shall be restricted to 5% of turnover;
- Tax consultation fees;
- Any expense or cost incurred relating to income exempt from income tax; and
- Any loss incurred on the sale of securities listed on the Muscat Securities Market.

In addition to the above, the Secretariat General may disallow any expenditure that is deemed inappropriate or unreasonable in relation to the value of services rendered or other consideration provided.

Carry forward losses

Losses can be carried forward for up to five years and can be offset against future profits. Losses incurred by entities benefiting from the tax holiday period shall be carried forward indefinitely.

Other taxes and duties

Other taxes

Municipal tax is levied at 5% on hotel income, 3% on property rents, 10% on leisure and cinema income and 2% on electricity bills exceeding RO 50 per month. A tourism levy of 4% and service charge of 8% are charged on hotel income. A sewerage tax of 10% on water consumption is levied on houses using the drainage system.

Custom duty

Rate of duty

Most imported goods are subject to customs duty at a flat rate of 5% on the Cost Insurance Freight value, except for essential consumer goods including foodstuff, which are exempt. Alcohol and tobacco are subject to higher custom duty of 100% and 50% respectively. As an incentive to the establishment of industrial installations, higher tariffs, generally varying between 15% and 25% are imposed on the import of goods that compete with goods manufactured in Oman, such as pipes, cement, polyurethane products, paints, glass fiber, reinforced plastic, PVC, verified clay and cast iron. Agricultural products (subject to periodical decisions) attract 50% duty.

No customs duties are imposed on goods manufactured in GCC countries or imports from GCC countries on which custom duty has already been paid at the time of its first entry into the GCC.

Licensing requirements

Goods imported into Oman must be accompanied by a certificate of origin and licensed by the Ministry of Commerce and Industry. Certain classes of goods require a special license, e.g. alcohol, firearms, pharmaceuticals and explosives. Pharmaceutical products have to be registered with the Ministry of Health before they can be imported.

Oman does not impose export duties, quotas or other non-tariff trade barriers and has not implemented anti-dumping regulations.

6. Labour laws

Employment

Employment in Oman is guided by the Omani Labour Law issued in 2003, which applies to both national and foreign employees. The law governs wages, overtime, leave, termination, settlement of disputes etc.

Working hours and weekends

The law sets out provisions relating to contracts of work, wages, leave, hours of work, labour disputes, representative committees and punishment. An employee shall not be required to work more than 9 hours a day with at least half an hour break for food and rest subject to a maximum of 45 hours a week.

Work week

Working days for all sectors shall be from Sunday to Thursday with Friday and Saturday being weekly rest days.

Labour market reform and Omanisation

Through the Omanisation policy introduced by the Government of Oman, employment of local work force is encouraged in all sectors. The Ministry of Manpower has set guidelines for Omanisation for certain sectors which stipulate the number of Omanis that are required to be employed by each type of industry. A summary of the prevailing Omanization percentage requirements for the key sectors is indicated below:

Sector	Omanisation %
Manufacturing industries	35%
Banks	90%
Finance	45%
Insurance	65%
Aviation	90%
Travel and tourism	95%
Marine transport	95%
Hotels (3,4,5 stars)	85%
Hotel (1 and 2 stars), lodges	55%

In strategic sectors such as electricity and water, Oman aims at achieving 100% Omanisation gradually by year 2019.

In addition, certain specific job roles are fully reserved for Omani nationals. Employers shall be prohibited from employing expatriate workers in such jobs. The employment of expatriate personnel is also subject to obtaining a labour clearance from the Ministry of Manpower and a resident visa from the Immigration Department.

Salaries, wages and benefits

Some of the important provisions are as follows:

Wages

With effect from July 2013, the Government has revised the minimum monthly wage payable to Omani employees to RO 325.

All Omani employees shall also be eligible for an annual increment pursuant to MD 32 / 2012 at the rate of 3% of the basic wage subject to meeting certain conditions such as satisfactory performance and duration of service.

Social Security

Omani employees employed in the private sector are covered under the provisions of the Social Security Law. The Law is implemented by the Public Authority for Social Insurance and covers employees against injuries, disability, death and old age. In accordance with Royal Decree 61 / 2013, effective from 1 July 2014, private sector employees are required to contribute at a rate of 7% of the monthly wage while the employer shall contribute 10.5% of the employee's wage towards social security. Employers shall contribute an additional amount of 1% of the employee's monthly wage as security against occupational injuries and diseases. The government shall contribute 5.5% of the employee's monthly wage. The Authority invests the contributions received from the entities to pay out the retirement benefits and compensation to the employees covered under the scheme.

Gratuity

Expatriate employees will be entitled to gratuity only on completion of one-year of service. Gratuity is calculated from the date of joining till the last day on payroll and takes into account any part year of service proportionately. Gratuity is equivalent to 15 days basic salary for each of the first-three years of service and one month's basic salary for each year of service thereafter.

Leave

All employees are entitled to leave as per the provisions of the Oman Labour Law.

- Annual leave: Workers have the right to 30 days paid leave based on gross salary for every completed year of service.
- Emergency leave: Workers have the right to paid emergency leave of 6 days per year.
- Sick leave: Workers are allowed sick leave of not more than 10 weeks in one year.
- Special paid leave: Worker is entitled to a special paid leave in case of marriage (3 days), death of son, daughter, mother, father, wife, grandfather, grandmother, brother or sister (3 days); death of uncle or aunt (2 days); Haj (15 days) and examination (15 days)

Overtime

If a worker is asked to work more than the normal working hours, the employer should provide overtime equal to the basic salary calculated according to the overtime hours plus 25% extra payment for day overtime work and 50% extra payment for night overtime work. If work is performed during the weekly day off or on official holidays, the worker is entitled to 100% as an overtime payment, or be given a compensatory day off.

7. Free Zones

The Royal Decree 56/2002 allows the establishment of Free Zones in the country with a view to encourage foreign and local investment and enhance development of the economy. The following Free Zones have been established pursuant to Royal Decrees and are currently in operation in Oman:

Salalah Free Zone

Oman's first Free Trade Zone ('FTZ') was established in Salalah and has been operational since 2005. Located strategically at close proximity to the Salalah Port and enabling ease of access to the Gulf Region, Red Sea, Indian Ocean, Yemen and East Africa, the FTZ has become a successful regional center for distribution. The Salalah FTZ provides for a 50 year lease (renewable), 100% ownership by foreign investors, no minimum capital investment requirement, exemption from customs duties on raw material and finished goods, no restriction on the transfer and repatriation of capital, profits or investment, a 30 year tax holiday, 10% Omanisation requirement and fast track customs and handling and processing. The FTZ offers investors a blend of industrial, manufacturing, logistics, distribution, research and development and other facilities, retail outlets as well as residential space.

Sohar Free Zone

The Free Zone is located just outside the Strait of Hormuz and is strategically located at the centre of global trade routes between Europe and Asia. Sohar is the second largest city of Oman and is located at close proximity to the Hatta border, United Arab Emirates. The Zone is being developed over 4,500-hectare and offers a number of incentives for investors. Integrated with the free zone are multi-modal transport infrastructure comprising of the Port of Sohar, Sohar Airport (currently under construction) and a planned rail line. The FTZ is an ideal location for investors in the following clusters: semi-finished iron and steel products, plastics and rubber; ceramics; chemicals, food and perishables, white goods and furniture; and the automotive industry.

Duqm Free Trade Zone

With a land area of 1,777 sq. km and 80 km. of coastline along the Arabian Sea, the Duqm Special Economic Zone (SEZ) is envisaged to be the largest in the Middle East and North Africa region. Al Duqm is located on the east coast of Oman, 400 Km above Salalah and 450 Km below Muscat. The Al Duqm SEZ will be located near the future Al Duqm International Airport and a crude export terminal with a refinery, a port and a dry dock. The Duqm SEZ shall comprise of a sea port, industrial area, new town, fishing harbor, tourist zone, a logistics center and an education and training zone, all of which are supported by a multimodal transport system that connects it with nearby regions (e.g., the Arabian Gulf countries, Middle East, East Africa and Southeast Asia). The Special Economic Zone is administered, regulated and developed by the Duqm Special Economic Zone Authority, a financially and administratively independent government entity.

Al Mazyouna Free Zone

The FTZ is located in the Dhofar region in the south of Oman close to the Yemen border. Investors are provided with incentives such as tax and import concessions and duty-free access to GCC states. Investors are permitted to enter the zone without visa or other procedural formalities between Oman and Yemen thus providing a wide range of benefits for businesses intending on trading goods between the countries or locating warehouse facilities. Indeed. As at 2013, 21 businesses and an exhibition area are in operation in the free zone.

Knowledge Oasis Muscat (KOM)

KOM is a 20,000 square meter technology park located at Rusayl, approximately 30km from Muscat. It is the Country's flagship technology park and promotes development and investment in high technology, knowledge based firms, international call centers, researchers, blue chip multinationals and educational institutions. KOM is managed by the Public Establishment for Industrial Estates and apart from providing investors with technologically advanced infrastructural facilities, it also provides additional incentives that consist of tax and import duty concessions and duty-free access to GCC states.

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