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Oman Tax flash

Tax Flash News – Oman ratifies Double Tax Treaty with Luxembourg and Estonia

Background

On 16 October 2024, the Sultanate of Oman (Oman) signed the Double Taxation Avoidance Agreement (DTAA) with the Grand Duchy of Luxembourg (Luxembourg). On 27 October 2024, Oman also signed the DTAA with the Republic of Estonia (Estonia).

The DTAA with Luxembourg was ratified by Oman *vide* Royal Decree 64/2024 dated 18 December 2024, however, it is yet to be ratified by Luxembourg. The DTAA with Estonia was ratified by Oman *vide* Royal Decree 62/2024 dated 10 December 2024, however, it is yet to be ratified by Estonia. These DTAAs are not yet in force and will be effective in Oman from the following dates:

- For withholding taxes: the first day of January following the year in which this DTAA enters into force.
- For other taxes: the tax year commencing on or after first day of January following the year in which this DTAA enters into force.

What are the key provisions of the DTAA with Luxembourg and Estonia?

	Oman-Luxembourg DTAA	**Oman-Estonia DTAA**
Applicability	• Residents of Oman or Luxembourg (as defined in the DTAA)	• Residents of Oman or Estonia (as defined in the DTAA)
Nature of income covered	• Like other DTAAs, the Oman-Luxembourg DTAA and the Oman-Estonia DTAA cover the taxability of various streams of income such as dividends, interest, royalties, capital gains, and business income earned by a Permanent Establishment (PE), etc.	
PE-related provisions	• Broadly aligned with the OECD model • Covers fixed place PE, construction/installation PE, agency PE and service PE	
Tax rates under the DTAA for certain types of income	• The withholding tax rate on income received by non-residents is 10% (under the Oman Income Tax Law) or the rate under the DTAA, whichever is lower or more beneficial.	
	The withholding tax rates under the Oman-Luxembourg DTAA are: • Royalty at 8% • Interest at 0% • Dividend at 0% if the beneficial owner is a company directly holding at least 10% of the capital of the paying company and 10% in all other cases*	The withholding tax rates under the Oman-Estonia DTAA are: • Royalty at 8% • Interest at 5%* • Dividend at 0% if the beneficial owner is a company directly holding at least 20% of the capital of the paying company and 10% in all other cases*
	** As per the Royal Directive issued on 11 January 2023, withholding tax on dividends and interest payments by a payor in Oman to non-residents is*	

	Oman-Luxembourg DTAA	Oman-Estonia DTAA
	ceased indefinitely and will prevail over the tax rate under the DTAA.	
Special provisions for certain institutions	• Under the Oman-Luxembourg DTAA, dividends received by the following Omani institutions, among others, are exempt from tax in Luxembourg: a) Oman Investment Authority b) Pension fund c) Central Bank of Oman d) Local authority e) Any statutory body or institution wholly or mainly owned by the Government of Oman	• Under the Oman-Estonia DTAA, dividends received by the following Omani institutions, among others, are exempt from tax in Estonia: a) Oman Investment Authority b) Pension fund/scheme c) Government of Oman d) Central Bank of Oman e) Oman Development Bank f) Export Credit Guarantee Agency SAOC g) Any statutory body or institution wholly owned by the Government of Oman, as may be agreed
Alignment with international tax reforms	The Oman-Luxembourg DTAA and the Oman-Estonia DTAA reflect Oman's commitment to implementing the Base Erosion and Profit Shifting (BEPS) minimum standards and include: • Mutual Agreement Procedure provisions (BEPS Action 14) for resolving issues arising from the interpretation of the DTAA; and • Principal Purpose Test (BEPS Action 6), which aims to deny treaty benefits under certain circumstances.	

Who will be impacted by the DTAA?

It is important for Omani businesses to consider the impact of these DTAAs on transactions with companies based in Luxembourg and Estonia, respectively, from a corporate tax perspective and vice versa. This may impact the taxability of various payments made in relation to both inbound and outbound investments, e.g., provision of services, royalty payments, and other transactions between the two countries.

How can KPMG help your organization?

The interpretation of DTAAs is continuously evolving, and their applicability may change over time as relevant authorities develop new interpretations. It is crucial that the articles of the DTAA are correctly interpreted, particularly since businesses have become increasingly digitalized and tax administrations are focusing on collecting more taxes and imposing penalties on aggressive tax positions based on interpretation of DTAAs. Additionally, the conditions for availing benefits under DTAAs are being scrutinized in detail by tax administrations. For instance, based on recent practices now require taxpayers to obtain formal confirmation from the Oman Tax Authority before availing treaty benefits in Oman.

KPMG has a dedicated team of experienced corporate tax specialists based in Oman, supported by a larger regional team that can help evaluate whether you can use DTAAs to optimize the tax incidence on your business. If you need assistance interpreting DTAAs and the implications they may have on your business, please reach out to your advisors at KPMG or the contacts listed below.

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