Tax has been in the spotlight recently, with pressure on the Omani government to diversify revenue sources in the light of lower oil prices and the consequent, significant budget deficit. While upcoming amendments to Oman's corporate tax law and possible withholding tax changes are covered in a separate alert, this news alert covers the latest developments – in Oman and across the GCC – on the proposed introduction of value added taxes (VAT) from 2018 and – possibly – excise taxes from 2017. These taxes will be on top of the existing customs duties imposed by the unified GCC customs law.

What is VAT?
Value added tax (VAT) is a tax that is levied on the import and supply of goods and services at each production and distribution stage. VAT is a consumption tax to be ultimately paid by the end consumer with suppliers (businesses) acting as collecting agents for the tax authorities. VAT is not intended as a tax on the business itself, unlike corporate income tax.

As it is a tax on value added in the supply chain, businesses can deduct the tax paid on inputs from the output tax charged to their customers. However, the input tax on acquired goods or services cannot be recovered if those goods or services are used for VAT-exempt or non-business purposes. Clearly, if the input tax cannot be recovered, it becomes a cost to the business.

GCC update
Unified GCC VAT agreement
The six GCC countries have been debating a common VAT approach for over a decade, in line with the unified GCC customs law adopted by all the member states. This is critical to avoid competitive distortions between the GCC countries arising from six different approaches in the six countries.

Given the challenges in getting a consensus on a unified VAT law, particularly on account of different priorities, a unified VAT framework agreement is expected to be the basis for each country to issue its own national VAT law.

What could be covered in the GCC agreement?
Based on similar agreements in other region in particular the European Union, the GCC VAT agreement could include, amongst other things, the scope of VAT (both goods and services), place and time of supply rules, valuation rules, and rules for getting an input VAT deduction. The GCC agreement is expected to have specific provisions on the intra-GCC supplies of goods which could potentially cause disagreements. While broad rules could be specified in the agreement, individual member states will probably be allowed to have more specific rules on certain matters. The GCC agreement is expected to specify which sectors member states can either exempt or zero-rate. It could also include provisions to ensure uniform interpretation and application.

Registration thresholds
To avoid an increased compliance and administrative burden on both the tax authorities and taxpayers, the agreement is likely to have a relatively high registration threshold. Businesses that are not registered as a VAT taxable person won’t have to collect VAT from customers. However, they also won’t be entitled to a credit for the input tax incurred when buying goods and services.
**Excise tax – another indirect tax**
The GCC states are also believed to be working on a unified GCC excise tax which will be levied on ‘harmful’ products including tobacco and alcohol. As implementing an excise tax is comparatively straightforward, GCC countries could introduce this tax from 1 January 2017.

**When is VAT likely to be introduced?**
- GCC governments have suggested introducing VAT on 1 January 2018. The unified GCC VAT agreement will need to be finalized by 30 June 2016 to give the tax authorities in the member states and businesses enough time to prepare for the tax.
- At least two GCC countries must implement VAT for the GCC VAT agreement to come into effect. All six GCC countries may not be ready to implement VAT from 1 January 2018.

**Challenges in meeting the 1 January 2018 deadline**
Milestones that must be reached before the tax authorities in each GCC country are ready to implement VAT include:

- **A unified GCC VAT agreement:** this should ideally be finalized by the end of June 2016. GCC finance ministries have been having intense discussions over the last few months to thrash out existing differences on areas like intra-GCC supplies. The member states can’t finalize their national VAT laws until the GCC VAT agreement is finalized and adopted by all the GCC countries. If a GCC agreement can’t be reached, GCC countries could decide to implement VAT individually. It remains to be seen whether any GCC country would be prepared to take such a step.

- **National VAT laws:** As the unified GCC tax agreement will only be a framework agreement which sets out the main principles to be followed, each country will need its own national VAT law. Businesses have been promised 12 to 18 months to prepare for VAT implementation, putting in place proper systems to collect VAT and pay it to the tax authorities on a monthly or quarterly basis. Each GCC member will also need to issue relevant executive regulations.

Decreeing new laws in Oman is a consultative process involving the Majlis al Shura, the State Consultative Council and other stakeholders. How long will it take for Oman to decree the VAT law? Can this be achieved by the end of 2016 to give businesses sufficient preparation time so that VAT could be effective from 1 January 2018?

- **IT systems:** Unlike corporate income tax, where returns are filed only once a year, VAT requires monthly or quarterly filing of returns and payments of taxes. The tax authorities will also need to process refunds regularly. The tax authorities across the GCC will need robust IT systems in place to facilitate e-filing and e-communication with taxpayers. A GCC electronic portal will be needed to facilitate tracking of intra-GCC supplies.

Oman’s tax authorities have recently implemented a new IT system which will enable e-filing of corporate tax returns. Adapting the new IT system to integrate VAT requirements – and test the system – may take more time.

- **Recruitment and training of staff:** Since VAT is new, the tax authorities in each GCC country will have to recruit and train sufficient staff. Oman’s tax authorities are already facing a resource crunch, with an existing backlog to clear open tax years. Staff will have to be recruited and trained imminently.
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What should businesses be doing now?
While VAT is not a tax on business, collecting tax for the government and remitting it to the Government will have significant compliance costs. There could also be significant cash flow implications. Supply chains need to be reviewed to understand the impact – if any – of VAT. VAT costs and accounting obligations will need to be identified so they can be addressed.

Adapting to VAT will mean updating or upgrading ERP and IT systems and interfaces to correctly capture input and output VAT.

Governance frameworks may also need to be reviewed and updated to incorporate policies, processes and controls that comply with VAT legislation.

How KPMG’s VAT and indirect tax specialists can support you:
- We provide customized VAT training.
- Our team can analyze the technical provisions of the new laws, advise on their impact and highlight areas of uncertainty. We can also review your existing indirect tax obligations and advise on whether these are being addressed appropriately.
- Our team can map and validate supply chain transactions to identify the relevant VAT accounting treatment.
- Working with your IT teams, we can assist with VAT implementation in your ERP and IT systems, and review VAT reports and applied automated VAT codes to verify these are appropriate.
- Our team can review contracts and recommend changes to tax and VAT clauses.
- Using leading practice, we can help you adapt your governance framework to include VAT and other indirect tax-related processes and controls.

VAT roadmap

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
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<tr>
<td>Get ready</td>
<td>Assess impact</td>
<td>Validate and register</td>
<td>Go live</td>
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<tr>
<td>• Identify project resources</td>
<td>• Review draft legislation to build VAT touch points - classify transactions for VAT</td>
<td>• Validate the impact assessment</td>
<td>• Test exceptions</td>
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<tr>
<td>• Map supply chain</td>
<td>• Build input tax credit allocation model</td>
<td>• Action issues in log</td>
<td>• Prepare and file VAT returns</td>
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<td>• Map business units and systems</td>
<td>• Agree requisite IT changes with IT vendor</td>
<td>• Validate applicable transitional provisions for long-term contracts</td>
<td>• Resolve any teething issues</td>
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<tr>
<td>• Document key VAT touch points – incorporate these into the VAT impact assessment (phase 2)</td>
<td>• Build log to monitor and resolve issues (such as fringe benefits, contract templates and pricing policy)</td>
<td>• Test VAT systems (IT vendor)</td>
<td>• Fine-tune compliance practices</td>
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<td>• Review long-term contracts which straddle VAT implementation</td>
<td>• Log transitional provisions in the long-term contracts register</td>
<td>• Ensure VAT system reports are sufficient for VAT filing</td>
<td>Registration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Train staff</td>
<td>• Register for VAT</td>
</tr>
</tbody>
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Now | July 2016 - December 2016 | January 2017 - December 2017 | January 2018 - onwards |
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KPMG’s VAT experience in Oman

KPMG has been advising Oman’s Ministry of Finance on the design and implementation of a VAT system. We have significant experience on the issues that are relevant across the GCC region and specifically in Oman. Our Oman team has worked closely with KPMG’s international VAT specialists who have extensive experience of helping businesses adapt to new VAT regimes.

Robert Dalla Costa, our VAT Leader, has 20 years’ experience in VAT, having worked for the Australian government and with various “Big 4” firms. Uniquely, Rob was part of the initial Treasury team which developed Australia’s GST policy in the 1990s, then left to advise business on implementation before returning to GST policy development. Rob was also able to apply his extensive knowledge of GST to its implementation in Malaysia in 2015.

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