

Oman: 20/20 Vision

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The Sultanate's oil wealth has been a traditional pillar for growth of the economy which approximates to 90% of government revenues and accounts for more than 50% of GDP; however, the Government has been actively making efforts to diversify its reliance on oil sector and focus on a development plan of diversification, tourism, industrialization and privatization. Oman Vision 2020 has laid out plans to boost industrialization within the Sultanate and to encourage the private sector to take a more active role in the economy and generate employment opportunities, both of which are measured as key drivers for growth. During the last decade, the Government has laid down significant reform programs aimed at developing and diversifying the economy through increased government spending on key sectors and stimulating private investment in prominent sectors such as tourism, agriculture and aquaculture, and manufacturing.



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As a result of the falling oil prices, the Oman economy is expected to slow down with GDP growth forecasts at average of 3.3 per cent a year for 2015-2017¹. However, growth is likely to be sustained by the government's spending efforts and economic diversification initiatives. Though Oman's solid performance in 2013-2014 was reflected in a "stable" rating by Standards & Poor (S&P) rating agency then was lowered to 'A-/A-2' from 'A/A-1' in its latest update; however, the international rating agency has affirmed that the outlook is stable.²

With key objectives such as to build a non-oil economy, introduce cost efficiency on various project investments and expand on the various programs that were initiated, the Oman Government is formulating a new long-term economic strategy, provisionally known as Vision 2040 which is expected to build on the goals laid out in Vision 2020.

Taxes and fees have been a key component of Oman's effort to move forward with its development agenda. According to Oman's 2015 state general budget, revenues from taxes and fees are budgeted at OMR1.3 billion for 2015, representing a significant increase of 28.5 percent over 2014. Further, it is estimated that revenues from income tax are expected to rise by 25 per cent to OMR500 million in 2015, from OMR400 million in 2014 – a significant increase compared to previous budgets. The other components of taxes and fee include customs duties, commercial registration fees, labour license fees etc.

GROWTH POTENTIAL

The industrial sector has for long been the foundation of Oman's long-term diversification strategy as it is also capable of meeting the country's social development needs and generating more employment opportunities. There is no doubt that the contribution from industry to the Sultanate's GDP at 16.6 per cent, has played a significant role in shaping the Sultanate's economy in terms of accelerated growth, diversified and sustainable development with an aim to generate employment opportunities. There has been a steady rise in the industrial activity along with strong investment growth in this sector. In 2014, almost 46% of the total FDI investments were towards manufacturing sector.³

The mineral industry in Oman, for instance, is on a strong growth path. Oman's mineral resources include chromite, zinc, limestone, gypsum and silicon amongst others. A large number of investors have been drawn into the sector as it is potentially expected to contribute significantly to the country's GDP. Several industries have been developing around the mineral sector as part of the national development process, which as a result, has boosted the employment opportunities for a young Omani workforce as well as contributing to the nation's GDP. Mineral products, which comprise the largest component of non-oil exports, jumped 51% to \$1.73bn in the first eight months of 2013, up from \$1.15bn in 2012.⁴

¹ Standard & Poor's credit rating

² Standard & Poor's credit rating

³ National Center for Statistics and Information report 2014

⁴ National Center for Statistics and Information

Sectors such as tourism and gas-based industries, banking and finance, healthcare and insurance, agriculture, retailing and aviation even, have also been key components of the government's diversification strategy.

One of the benchmarks for sustainable development and increased private investment is increased investment in infrastructure. Accordingly, the continuous development of Oman's infrastructure and the availability of investment funds for such development projects is a determinant factor for the future growth of the economy. Government spending during the past few years on infrastructure projects such as roads, airports, seaports, hospitals and health centers are substantial. According to Oman's 2015 state general budget, investment expenditure is budgeted at OMR 3.21bn (US\$ 8.3bn) with some significant infrastructure projects set to be undertaken. The Government is keen to emphasise that the falling oil price will not halt any development projects.

OMANISATION AND DEVELOPMENT OF OMANI NATIONALS

Omanisation as a national objective is regulated and monitored in the public sector and, most recently, in the private sector as well. The government, along with various industry segments has initiated training and development programs to enhance the skills and competencies of nationals in various fields and promoting the employment of nationals in the private sector. The aim has been to match the supply of labor locally with the market requirements. It is intended to see Omani nationals playing a leading role in all areas of employment – both in trade and the professions. A key prerequisite to a successful Omanisation program is the proper focus and the prioritization of education and training. The primary focus is to ensure that expat managers adequately train their Omani staff to ensure a successful and smooth transition of their managerial and operational responsibilities. The statistics released by Ministry of Manpower show that high-class institutions have achieved the highest Omanisation rate - by over 40 per cent - in the first quarter of 2015, followed by premier institutions (26.26 per cent) and consulting firms (24.12).

IN-COUNTRY VALUE (ICV) STRATEGY

In 2012, the Government initiated a pilot program aimed at stimulating the economy through the enhanced domestic service input into the oil and gas sector and the In-Country value (ICV) strategy was developed. With a focus on the energy sector, ICV aims at enhancing the value of goods, services and skills in the sector and stimulating local production and manufacturing in order to reduce the imports of goods and enhance the provision of services in Oman, thereby reducing dependency on external experts and enhancing the skills and capabilities of Omani nationals by increasing their contribution to the activities of the oil and gas sector. Under the ICV development blueprint, the Government is aiming to create 50,000 new Omani jobs and generate \$64bn in domestic oil and gas productivity through 2020.

DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SMEs)

The past few years have witnessed greater focus on the growth and development of small and medium enterprises (SMEs) to compete in the international arena, beyond the domestic markets. The Public Authority for Small and Medium-sized Enterprises Development (PASMED), which was launched by royal decree in 2013, has a mandate to encourage Omanis to establish and develop SMEs. The authority is considered to be a key component of the government's long-term economic diversification plans.

PASMED goals include establishing a culture of entrepreneurship in Oman's school system; encouraging technology transfer between established firms and start-ups; ensuring that entrepreneurs and SMEs have access to finance; and advising SMEs on growth strategies and sustainability. PASMED is set to encourage young entrepreneurs and to provide support in terms of technical, financial, training, marketing and management, all necessary fields for aiding these enterprises during the coming periods. The Oman government anticipates sizeable expansion of jobs created from the development of SMEs. The planned expenditure on the SME sector in 2013 was estimated at OMR 12.9bn, almost 30 percent up from 2012.

CONCLUSION

In a mid-sized, open economy in which the biggest driver of growth so far had been oil, managing the transition to a more diversified economy is challenging. At the same time, the declining oil prices have compressed the Government's revenue base. Fortunately, Oman's government has taken a number of steps in terms of efficient economic planning and the implementation of various social development initiatives that have contributed to the success of the Omani economy. Further, the Government has been planning for a steady increase in expenditure during the coming years especially with a large scale infrastructure programs.

Other factors that have contributed to Oman's success include the significant rise of foreign investment in many sectors as a result of competitively low tax rates in the region. The development of the Small and Medium Enterprises (SME) together with ICV strategy lays a foundation for self-reliant industry and modernization of economy. Despite the various challenges within the region and the country, Oman's economy is set on the right path of sustainable growth, development, diversification and progress.

Vision 2020

The Omani economy has been on a steady transformation course through development plans beginning with the first Five-Year Plan (1976–1980). At the instruction of His Majesty Sultan Qaboos bin Said, Vision 2020, a plan for Oman's economic future up to the year 2020 was set, outlining the country's economic and social goals over the next 25 years which includes:

- Economic and financial stability
- Reshaping the role of government in the economy and broadening private sector participation
- Diversifying the economic base and sources of national income
- Globalization of the Omani economy
- Upgrading the skills of the Omani workforce and developing human resources

Development projects

Although development projects in Oman span all sectors and industries such as Oil and Gas, Tourism and Trade, Banking and Finance, Capital Markets, Education and Healthcare, Insurance, Agriculture and Poultry, Retailing, Aviation, Information Technology, Real estate, Telecom, Manufacturing and Logistics, Power, Infrastructure, the table below highlights some of the most important ones.

INDUSTRY

- Developments in the Duqm area constitute a major pillar of Vision 2020 and are expected to generate a number of logistical, warehousing, distribution and re-export opportunities. With its plans to become a hub for heavy, medium and light industries, the need to attract investors is key to the success of the special economic zone and also fundamental to sustainable development.
- The Duqm region is the industrial area growing in prominence with a port and Industrial Zone project that will transform the area into a major economic development center in which the port will act as facilitator unlocking the potential growth opportunities.
- Duqm offers significant geographical advantages, located just outside the Strait of Hormuz, the sole passageway into the Gulf, through which 20% of all oil and 35% of oil traded by sea passes. Its geostrategic location is the driving force behind the construction of the Middle East's second-largest dry dock at the port, for additional repair and maintenance purposes. This port is also equipped with ship repair yard & dry-dock facility, which is the first of its kind in Oman.
- Oman has also started its efforts to build a rail network that is expected to link major ports, industrial areas and free zones at Sohar, Salalah and Duqm with a wider GCC network.

- An accelerated program to add significant new capacity to increase the supply of power and water to meet the rising demand in the Sultanate, essential for sustained growth and development.
- Development of industrial estates in Sohar, Sur, Salalah, Nizwa and Buraimi.
- The provision of natural gas to the industrial estates in Sohar and Salalah has helped to promote expansion of those industries reliant on significant users of energy.
- The investment in petrochemicals through ORPIC and the recent award of the bitumen refinery project in Sohar are trends in the positive direction
- Tax exemptions are an incentive to the development and expansion of the industrial sector, which contributes significantly to the country's GDP currently, at 16.6 per cent.

TOURISM

Tourism is being developed as an important and sustainable socio-economic sector of the Sultanate of Oman in a manner that reflects the Sultanate's history, cultural and natural heritage and spirit of traditional hospitality. Tourism will facilitate economic diversification, the preservation of cultural integrity and the protection of the environment of the Sultanate.

According to the latest statistics, in 2013 tourism as a whole contributed approximately 6.4% to Oman's GDP, and this figure is estimated to jump to 8.2% by 2024. There is a significant increase in investment in tourism sector creating considerable jobs. In 2005 the government set up Omran, a development company tasked with managing the tourism sector's infrastructure. Omran has also recently undergone a restructuring, with an eye to adding more value-added projects to its portfolio.

TAXATION

In 2009, Oman introduced a new tax law that consolidates a number of ministerial decisions, interpretations and practices arising from the 28-year old law prior, along with the introduction of certain new tax regulations.

One of the noteworthy changes brought into the new tax law was the elimination of the discrimination in tax rates between the branches of foreign companies and Omani companies/ establishments and the introduction of a unified rate of 12 percent applicable to all establishments. Further, under the U.S. Free Trade Agreement, American companies can register a limited liability company with 100% foreign ownership without the involvement of local partner.



The reduction in tax rates, the amendment to the definition of "permanent establishment" which is now in line with the Organisation for Economic Cooperation and Development (OECD) and the free trade agreements entered into by Oman, has encouraged and increased foreign investment in Oman.

Another major change introduced by the new tax law is a shift from a territorial system of tax to a global system of tax, whereby revenue earned outside Oman is also taxed and which, consequently, increases the government's revenue from tax.

The New Executive Regulations to the New Income Tax Law that came into force in the tax year 2012 and apply to all accounting years ending after January 1, 2012, provide clarifications and specify guidelines and rules in relation to the provisions of the new tax law.

As a part of simplifying the compliance and thereafter the assessment process, the tax authorities introduced 18 new different tailor-made forms enabling them to collect relevant information on a timely basis at the time of compliance, which is expected to speed up the assessment process. It is worth noting that the new provisions also include exemptions for small businesses for

filing returns and financial statements and from mandatory tax registration and compliance on fulfillment of certain conditions. Tax deductions now require more detailed documentation than in the past. Provisions of penalty for non-compliance introduced in the new tax law are likely to be implemented soon.

With the implementation of Islamic finance regulations, the tax authorities are currently reviewing the tax laws and are likely to introduce amendments to accommodate the effect of the Islamic finance transactions.

Various service improvement measures to tax payers have already been, or are in the process of being implemented. These include establishing a Large Tax Payers Unit (LTPU), online portals and revamping of the tax system among others.

Whilst there has been some debate around the introduction of new taxes, a possible increase of the income tax rate, amendment to payments attracting withholding taxes, tax exemption provisions etc., there have been no announcements to date. Any changes that are introduced during the year would only be reflected in tax collections in future years.

Personal taxation

There is no personal taxation in Oman.

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