



# Doing business in Oman

An executive's guide to doing business in Oman

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Ernst & Young  
P O Box 1750  
Ruwi, Postal Code 112  
Muscat, Oman  
Telephone: [968] 24 559 559  
Facsimile: [968] 24 566 043  
E-mail: [eymct@omantel.net.om](mailto:eymct@omantel.net.om)  
[Muscat@om.ey.com](mailto:Muscat@om.ey.com)

## Preface

*This book was prepared by Ernst & Young, Oman. It was written to give the busy executive a quick overview of the investment climate, taxation, forms of business organization, and business and accounting practices in Oman. Making decisions about foreign operations is complex and requires an intimate knowledge of a country's commercial climate, with a realization that the climate can change overnight. In particular, it should be recognised that Oman is in the process of liberalising its economy. As a result, major changes are expected to take place in laws governing foreign capital investment, commercial companies and corporate taxation. Companies doing business in Oman, or planning to do so, are advised to obtain current and detailed information from experienced professionals. This book reflects information current as at 31 October 2007.*

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# A. Oman – executive summary

## A.1 Regulatory Constraints and Reliefs

### Exchange controls

Oman does not impose exchange controls, except for certain restrictions on the foreign-currency holdings of commercial banks.

### Foreign ownership of businesses

A foreign national wishing to engage in a trade or business in Oman or to acquire an interest in the capital of an Omani company must obtain a license from the Ministry of Commerce and Industry. In general, the ministry grants a license if the paid-up capital of the Omani company in which the investment is made is at least RO 150,000 (US\$ 390,000) and if the foreign ownership of the company does not exceed 49%. In certain circumstances, the Ministry may increase the permissible level of foreign ownership to 70%, in accordance with a commitment provided to the World Trade Organisation (WTO). In general, foreign companies and foreign nationals may not own land for business purposes in Oman. The government makes certain exceptions for Gulf Co-operation Council (GCC) nationals.

## A.2 Government Attitude and Incentives

The government encourages foreign participation– particularly foreign expertise and technology– that develops, diversifies and privatizes certain areas of the economy and helps Oman benefit from its natural resources. Government incentives to encourage local and foreign investment include tax exemptions; the provision of industrial plots in industrial zones for nominal charges; preference in the allocation of government land; interest-free or subsidized loans with longer terms for repayment; reduced charges for water, electricity and fuel; financial assistance for the development of economic and technical feasibility studies; and the expedited arrangement of immigration visas and permits for foreign workers.

The Economic Development Council, established in November 1999, aims to facilitate private sector participation in the Omani economy.

## A.3 Tax system

Oman does not impose personal income tax. Income tax is levied on entities that are wholly owned by Omani nationals, entities with foreign participation, branches and permanent establishments of foreign companies and Omani sole proprietorships.

### Rates

All companies incorporated in Oman irrespective of the extent of foreign ownership and branches of companies registered in the other member states of the Gulf Co-operation Council (Bahrain, Qatar, Kuwait, Saudi Arabia and the United Arab Emirates) are taxed at a rate of 12%, for income exceeding RO 30,000. A single tax rate applies to branches of foreign companies, at rates ranging from 0% to 30%. Petroleum companies are subject to tax under specific provisions and rates. Omani sole proprietorships are taxed at a rate of 12%.

## **Social security and termination benefits**

The Omani Labor Law requires employers to pay end-of-service benefits to expatriate employees. The Social Security Law requires private-sector employers and their Omani employees to pay monthly contributions to an insurance fund for old age, disability and death benefits. Employers pay an additional monthly contribution to insure their Omani employees against occupational injuries and diseases.

## **A.4 Financial reporting and audit requirements**

Omani law requires enterprises to maintain certain books and records and to follow International Financial Reporting Standards. In general, auditing principles and practices are not codified in Oman. Omani law regulates the accounting and auditing profession. Certain taxable entities are required to file audited financial statements with their annual income tax returns. Statutory audits are required for certain business entities, including joint stock companies, limited liability companies, banks and insurance companies operating in Oman.

## B. Business environment

### B.1 Business and Investment Environment

Oil has been the driving force of the Omani economy since Oman began commercial production in 1967. The oil industry supports the country's high standard of living and is primarily responsible for its modern and expansive infrastructure, including electrical utilities, telephone services, roads, public education and medical services. In addition to extensive oil reserves, Oman also has substantial natural gas reserves, which are expected to play a leading role in the Omani economy in the Twenty-first Century. The state owns majority stakes in the country's oil and gas companies (see Section B.7, page 13, for further details on the oil and gas sector).

To reduce Oman's dependence on oil, the government employs five-year development plans to encourage private-sector diversification into other industries. Approximately 53% of the country's gross domestic product (GDP) is now generated outside the oil and gas sector, as compared to 33% in 1975, when the first plan was implemented. Oman's Seventh Five-Year Development Plan (2006-2010) continues the policy of promoting private sector investment into non-oil and non-gas industrial activities. (For further details concerning five-year development plans, see Section B.5, page 11.) For foreign investors, investment opportunities are available in priority areas targeted for development by the government, including agriculture, fishing, light industrial production, public utility projects, education, health and tourism. The government particularly encourages industrial production that is export-oriented or that will replace imported products. (See Section C.3, page 18, for information on investment incentives).

Although the economy once depended on infrastructure projects executed by large multinational contractors, Omani companies are increasingly becoming established and now play a leading role in areas once dominated by foreign companies. The growth of the Muscat Securities Market is evidence of the expansion and diversification of the Omani economy. The value of the shares listed on the exchange reached RO 6.221 billion (US\$ 16.16 billion) in 2006, compared to RO 378 million (US\$ 982 million) in 1989 when the exchange opened, and the number of listed companies reached 150 in 2007, compared to 83 in 1989.

### B.2 Economic trends and performance

The Omani economy continues to grow rapidly. The Seventh Five-Year Development Plan, (published in 2006) aims to attain average economic growth rates of not less than 3% (in fixed price terms) and to raise the ratio of investment to GDP to 24% from 16% during the previous plan period.

Oil revenues in the 2006-2010 period are forecast to be approximately RO 12.8 billion (US\$33.2 billion), which is a 9.73% decrease over comparable revenues in the previous plan period (2001-2005). Other government revenues in the 2006-2010 period are forecast to be approximately RO 5.75 billion (US\$ 14.91 billion), which is a 4.29% decrease over comparable revenues in the 2001-2005 period.

Total government revenues available to finance government projects in the 2006-2010 period are forecast to be approximately RO 18.6 billion (US\$ 48.4 billion), which is a 5.38 % decrease over comparable revenues in the 2001-2005 period. The 2006-2010 plan is expected to generate a deficit of approximately RO 2,260 million (US\$ 5.8 billion); however, the expected deficit is approximately 12.13 % of total revenue available to the government, compared with 0.17 % in the 2001-2005 period.

Appendix 1, page 53, provides a table of leading economic performance indicators for the Omani economy covering the period 2001-2006.

### **B.3 Currency**

The Omani unit of currency is the Omani rial, abbreviated RO. The rial is divided into 1,000 baizas.

The Omani rial is freely convertible. Since 1986, the exchange rate of the rial against the US dollar has been fixed at RO 1 = US\$2.60. Appendix 2, page 54, provides a table of the exchange rates of the rial against selected world currencies covering the period 2002 to 2006.

### **B.4 Economic structure**

The government employs 16% of the workforce. Oil revenues account for 64.2% of the government's revenues. The government directs the development of Oman's economy through five-year development plans (see Section B.5, below, for details).

In the past four decades, the Omani economy has evolved from one based largely on subsistence farming and fishing to one driven by the production of oil. To reduce the country's dependence on oil revenues, the government is restructuring the economy by directing investment to non-oil activities in the private sector. (See Sections B.1, page 10, and B.2, page 10, for statistics on economic diversification; see Section B.7, page 13, for information on Oman's essential industries.)

### **B.5 Relationship of government and business**

#### **Five - year development plans**

Since 1976, the government has directed the development of the Omani economy through five-year development plans. The Seventh Five-Year Development Plan (2006-2010) has planned a major diversification exercise with private sector taking the larger role. Social development of Omanis and economic development, have been given equal emphasis.

The diversification of the economy requires the government to direct investment to non-oil and nongas income-generating sectors, including agriculture, fishing, mining, light industry and services. In addition to economic diversification, the plan also emphasizes austerity; the government seeks to achieve a balanced budget by lowering public expenditure and increasing public savings.

#### **Privatization**

The private sector is expected to play a vital role in the country's free-market economy. The government continues to encourage the privatization of certain infrastructure projects having lead the region in many privatization initiatives, including several power projects, water projects, waste water and telecommunication services. Through the privatization policy, the government is set to

direct its stake in state owned companies. In November 1999, the Economic Development Council was established to facilitate private-sector participation in the Omani economy. The council performs an advisory role, and is not a government liaison organization. (see Government Liaison Organizations, page 12).

#### **E-Government:**

Oman has recently launched Oman, an initiative from the information technology technical secretariat (ITTS) with an aim to create an effective government community - citizen infrastructure for information flow between government and citizens.

#### **Government contracts**

Oman awards government contracts through tender. Under the Government Tenders Law (Royal Decree No. 86 of 1984), companies wishing to bid on contracts in excess of RO 100,000 (US\$

260,000) must register with the Tender Board. The Ministry of Defence and the Royal Oman Police have their own tender boards, as do Petroleum Development Oman LLC and Oman LNG LLC.

The Tender Board classifies companies according to their issued capital, which determines the maximum and minimum sizes of contracts for which they may bid. The board classifies Omani companies according to the following scheme.

Classification	Minimum capital RO	Tender value RO
Excellent	250,000	650,000 and up
One	100,000	250,000 to 950,000
Two	50,000	50,000 to 350,000
Three	25,000	15,000 to 75,000
Four	15,000	Up to 15,000

Branches of foreign companies with issued capital of at least RO 500,000 (US\$ 1.3 million) receive international-grade classifications. Oman does not limit the tender value for contracts awarded to international-grade branches.

Although architects and engineering consultants must register with the Tender Board, they are not subject to the Board's minimum capital requirements.

### Government liaison organizations

All business entities engaging in economic activities in Oman must register with the Oman Chamber of Commerce and Industry (OCCI). The chamber effectively represents the needs of the business community to the government. Its committees meet regularly and interact effectively with companies in various sectors of the economy.

The Oman Center for Investment Promotion and Export Development (OCIPED), which operates under the auspices of the Ministry of Commerce and Industry, functions as a valuable source of information for foreign investors.

## B.6 Financial sector

### Banking System

Established in 1974, the Central Bank of Oman controls the country's monetary policy and regulates its commercial banks and foreign branches.

Other specialised Omani banks include the Oman Development Bank and two housing banks.

### Securities market

The Capital Market Authority, established in 1998, regulates the securities market. Muscat Securities Market, which began operations in 1989, oversees the flow of funds into securities and develops the local financial market. The capitalization of the market and the number of companies listed on it continue to grow. By December 2006, the value of listed shares has reached RO 6.221 billion (US\$ 16.16 billion) and the trading volumes amounted to RO 1,128 million.

Membership in the exchange is compulsory for Omani licensed banks, specialized loan institutions, authorized financial intermediaries, joint stock companies and Omani public authorities whose shares are registered on the securities market.

## Investment funds

Commercial banks and joint stock investment and brokerage companies registered in Oman may establish investment funds called joint investment accounts. The accounts are listed on the Muscat Securities Market. The funds are exempt from taxation.

## B.7 Essential industries

### Oil

The government forecasts that net oil revenues in the 2006-2010 period will be RO 12.8 billion (US\$ 33.2 billion), which is a 9.73% decrease over comparable revenues in the 2001-2005 period. The seventh plan aims at investing RO 2.7 billion on oil production during the five year period. The average daily production of oil in the 2006-2010 period is estimated to be 827,000 barrels per day, compared to 908,000 barrels per day in the 2001-2005 period. The production of crude oil and condensates was 269.2 million barrels and the production of natural gas was 1,051.7 billion cubic feet in 2006. Recent discoveries have steadily boosted Oman's known oil and gas reserves. Oman's proven oil and condensate reserves stood at 4.917 billion barrels in 2006.

The country's primary oil producer is Petroleum Development Oman LLC (PDO), which was established when commercial production began in 1967. The Omani government owns 60% of the company and foreign partners own 40%.

In 1982, Oman established its first oil refinery, Oman Refinery Company LLC, and ended its dependence on importing refined oil products for domestic consumption. The second refinery, in the coastal town of Sohar, Sohar Refinery Company shipped its first product in July 2006. The crude unit capacity of the refinery is 116,400 barrels per day. In September 2007, Oman Oil Refinery Company LLC was established by merging Oman Refinery Company LLC and Sohar Refinery Company LLC.

### Gas

Reserves of natural gas were first discovered during the search for oil. The country's extensive reserves are estimated to be over 35 trillion cubic feet in 2006. The government continues to accord high priority to the exploration for natural gas. The seventh plan aims at investing an additional RO 2 billion on production of gas.

Now a major source of power countrywide, natural gas is used to fuel industrial projects, power stations and other similar facilities. Output has increased to meet the rapid rise in demand.

The country's primary processor of natural gas is Oman LNG LLC (OLNG). The Omani government owns 51% of OLNG and foreign partners own 49%.

In 1999, Oman completed its first major liquefied natural gas project. The project is composed of upstream and downstream development facilities. The upstream facility, which produces gas and condensate, is fully owned and financed by the government. The downstream facility, which is owned and financed by OLNG, performs gas liquefying, shipping and marketing activities. The annual capacity of the downstream facility is 6.6 million tonnes, and the first cargo was exported in April 2000. The third train, Qalhat LLNG with an additional 3.3 million tonnes of liquefied gas started production at the end of 2005.

### Minerals

Oman's chromite reserves are estimated to exceed 2 million tonnes. The Oman Chromite Company has mined these reserves since 1991. Its 2006 production was 67,000 tonnes.

Oman's commercial processing of gold ore began in 1994. The country's 2006 production was 4,640 ounces.

The area located near the city of Sur contains coal deposits in excess of 122 million tonnes. The coal may be used as fuel for electricity generation.

The Mining Law, issued in 2003, regulates concession for mining activities.

## Manufacturing

Under the Seventh Five-Year Development Plan, the government forecasts 7.5% annual GDP growth in the non-oil and non-gas sectors. Total investment in these sectors is projected to reach US\$ 14.5 billion by 2020.

Through encouraging light industry, the government continues to replace reliance on imports with locally manufactured products. Local companies manufacture building materials, chemicals, plastics, base-metal products, furniture and other wood products, paper products, garments, textiles, leather, food and beverages.

Oman's most significant industry outside the production of oil, gas and minerals is currently the production of cement through plants operated by public companies located near Muscat and Salalah. The combined annual capacity of both plants is 2 million tonnes.

A fertilizer project near Sur, to produce 1.65 million metric tonnes of urea annually in addition to 250,000 tonnes of ammonia, has commenced production in 2006.

An aluminum smelter has been established in Sohar, with a planned capacity of 326,000 tonnes per year. Other projects in progress in Sohar include private sector owned petrochemicals, aromatics, fertilizer, polypropylene, methanol and steel plants.

## Agriculture and fishing

Although agriculture yields far less revenue than oil production, agriculture nonetheless employs a substantial part of the population. Oman's principal agricultural exports are dates and limes.

Government and private-sector initiatives including fish processing plants, fish farms, marine subsidiaries and cold stores, have revitalized the fishing industry. The already substantial export market shows signs of rapid future growth.

## Tourism

The government encourages foreign participation to develop the country's tourism industry. Since the mid-1980s, the government has gradually opened its desert, mountains and coastlines to foreign tourists and the Ministry of Tourism has participated in various international tourism exhibitions to introduce Oman to the world tourist trade. Recent changes to visa regulations allowing tourist visas on arrival for a large number of nationalities are expected to significantly increase the flow of tourists into the country. During the sixth plan period, the tourism sector recorded an average growth of 9.9%. The planned expansion of the Seeb International Airport continue to increase the tourist potential of the country. A new Tourism Ministry was set up in 2004 to provide thrust to this sector. Under the seventh five year plan the tourism sector is expected to grow by 7%. Major tourism projects in the pipeline across the Sultanate are the Blue city, Yiti REssort, Muriya Master plan and the Wave.

(see Section H.5, page 42)

## B.8 Energy, minerals and other natural resources

Oil and natural gas continue to be Oman's most significant energy and natural resources.

Oman mines chromite, gold and marble. Although the country has deposits of other minerals, including asbestos, coal, copper, gypsum, manganese, quartzite and silica sand, these deposits have not been mined.

See Section B.7, pages 13 and 14, for further details on the production of oil and gas, and the mining of minerals.

## **B.9 Foreign trade**

### **Trading partners**

Oman's primary trading partners are the United Arab Emirates, Japan, Korea, the United Kingdom and the United States. Oman's trade with other countries in Africa, Asia, Europe and the Americas continues to grow.

### **International and regional trade associations**

Established in 1982 to promote economic and industrial cooperation among member countries, the Gulf Cooperation Council (GCC) includes Oman and the other five Arab countries of the Arabian Gulf—Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. As a member of the GCC, Oman enjoys the following benefits:

- ▶ A majority of goods produced in GCC countries may be imported duty free into other member countries;
- ▶ Nationals of GCC countries may move freely between member countries without visas, and may engage in their professions in the other member countries without work permits;
- ▶ Cross-border ownership of shares is unrestricted and
- ▶ Real estate may be owned in other GCC countries.

The GCC Customs Union came into effect on 1 January 2003. Under the Customs Union, Oman imposes a tariff of 5% on the majority of foreign imports. Under the Union arrangements, customs duty is imposed at the port of first entry within the GCC.

Oman has strong relationships with most countries in the Western world, including the United Kingdom.

## C. Foreign investment

### C.1 Exchange controls and debt-to-equity requirements

With the exception of certain restrictions on the foreign-currency holdings of commercial banks, Oman does not impose exchange controls.

In general, Oman does not restrict the remittance abroad of equity or debt capital, interest, dividends, branch profits, royalties, management and technical service fees, and personal savings. However, the following commercial bank transactions require prior approval from the central bank:

- ▶ Declarations of dividends by locally incorporated banks; and
- ▶ Remittances by foreign bank branches to their head offices of any surpluses from the previous year's profits.

Oman does not impose rules on debt-to-equity ratios.

### C.2 Restrictions on foreign investment

#### Levels of foreign investment

The Foreign Capital Investment Law (Royal Decree No. 102 of 1994) governs foreign investment in Oman. Under this law, foreign entities wishing to invest in Omani companies must file applications for licenses with the Ministry of Commerce and Industry. In general, the ministry grants licenses to applicants if both of the following conditions apply:

- ▶ The paid-up capital of the Omani company in which the investment is made is at least RO 150,000 (US\$390,000).
- ▶ The foreign ownership of the company does not exceed 49%.

The Ministry may, subject to a recommendation from the Foreign Capital Investment Committee, increase the permissible level of foreign ownership of an Omani company to 65%. In accordance with a commitment provided to the World Trade Organization, approvals are granted for foreign ownership of up to 70% under certain circumstances. If a project has capital of at least RO 500,000 (US\$1.3 million) and contributes to the development of the national economy, the Ministry may recommend to the Council of Ministers that the permissible percentage of foreign ownership be increased up to 100%.

The Ministry may exempt the following entities from the licensing conditions specified above:

- ▶ Companies conducting business through special contracts or agreements with the government;
- ▶ Companies established by Royal Decree; and
- ▶ Parties conducting a business that the Council of Ministers declares necessary to the country.

In practice, contracts awarded by the government, Petroleum Development Oman LLC (PDO) and Oman LNG LLC (OLNG) (see Section B.7, pages 13 and 14) enable foreign companies to establish branches in Oman by registering the branches with the Ministry of Commerce and Industry. Such foreign companies are exempt from registering an Omani company.

Foreign companies and establishments engaged in certain sectors may open commercial representative offices in Oman. For details concerning commercial representative offices, see Section D.6, page 24.

Oman's restrictions on foreign ownership do not apply to Gulf Co-operation Council (GCC) nationals investing in or pursuing activities, other than a few that are specifically prohibited.

## Land ownership

Under the Land Law (Royal Decree No. 5 of 1980), companies and foreign nationals may not own land, except in certain exceptional circumstances. Other GCC nationals, companies wholly owned by Omanis, and general joint stock companies with at least 51% Omani shareholding may own land in certain circumstances. Royal decree 12/2006 allows non Omanis to own real estate in the country within the specified integrated tourism complexes. Prior to this only GCC nationals were allowed to buy land in Oman.

The Ministry of Housing, Electricity and Water may grant to a company or a foreign national the right to use a certain property for operations that promote the economic development of Oman. For example, a lease and a right of use may be assigned or mortgaged. However, unlike a lease, a right of use expires on the death of the beneficiary. On expiration of a right of use, the beneficiary must be compensated for the value of any improvements constructed during the terms of the right of use.

## Industrial licenses

Investors wishing to establish industrial installations that cost more than RO 20,000 (US\$52,000) must apply to the Ministry of Commerce and Industry for industrial licenses.

## C.3 Investment incentives

The Organization and Encouragement of Industry Law (Royal Decree No. 1 of 1979) governs the provision of incentives to foreign investors in Oman. The law established the Industrial Development Committee, which seeks to promote increased productivity and efficiency, as well as the development and consolidation of industrial installations. Proposals qualify for incentives only if Omani nationals make up 25% of their total workforce, unless the Ministry of Commerce and Industry specifically rules otherwise.

Investment incentives include the provision of industrial plots in industrial zones for nominal charges (see Industrial Zones, below); preference in the allocation of government land; interest-free or subsidized loans with long terms for repayment; reduced charges for water, electricity and fuel; financial assistance for the development of economic and technical feasibility studies; and the expedited arrangement of immigration visas and permits for foreign workers.

## Tax exemptions

Tax exemptions from corporate tax and customs duty may be granted by the Ministry of Finance. Tax exemptions are available for entities engaging in manufacturing, mining, agriculture, fishing, fish farming, fish processing, aquaculture, animal breeding, tourism, the export of manufactured and processed products and public utilities. Exemptions are granted for five-year periods effective from the date when production begins or services are first rendered; a five-year extension may be granted. Management agreements and construction contracts do not qualify for tax exemptions.

Companies engaged in the activities listed above may also obtain an exemption from the payment of customs duty on exports and on imports of equipment, spare parts and raw materials.

Foreign airlines and foreign shipping companies are exempt from taxation based on reciprocal treatment. Investment funds registered with and regulated by the Muscat securities market, operation of colleges, universities, higher education institutes, private schools, training institutes, private hospitals are exempt from tax.

## Industrial zones

The Ministry of Commerce and Industry has created industrial estates at Raysut, Rusayl, Sohar, Nizwa and Buraimi. The industrial estates are managed by the Public Establishment for Industrial Estates (PEIE). The Ministry plans to establish additional industrial zones at Khasab and Sur. The industrial

zones have fully developed plots with appropriate infrastructure facilities. Investment incentives include the provision of industrial plots in industrial zones for nominal charges.

### **Free-trade zones**

Oman has recently established a free zone in Salalah. The free zone is adjacent to the super hub port of Salalah which is located closer to the equatorial trade route. The Salalah free zone is managed by Salalah Free Zone company SAOC. The zone offers host of investment friendly incentives which include low initial cost of setting up and one-stop shop arrangement for licences, permits visas and customs clearances.

In addition, Oman has established a free-trade zone located along the borders between Oman and Yemen. The zone is located in the town of Al Mazyouna, 260 kilometers from Salalah.

## **C.4 Sources of finance for foreign investors**

Oman's commercial banks are the primary source of short, medium, and long-term credit. Because no restrictions apply to obtaining credit abroad, commercial banks in the neighbouring Gulf countries are also significant sources of credit.

The Oman Development Bank, provides finance to corporate small and medium-size companies, small projects and handicrafts. With an increase in lending ceiling to RO 1 million, the bank will finance new projects in agricultural and industrial sectors. Two housing banks cater to special financial requirements.

Investors may also obtain financing from the Gulf Investment Corporation located in Kuwait. Established by the GCC, the Gulf Investment Corporation is a major financial institution whose purpose is to invest in the equity of, and provide loan funding to, new companies in various sectors.

In certain circumstances, the government provides loans with long terms for repayment to finance projects. In addition, general joint stock companies may issue shares and bonds to the public through the Muscat Securities Market (for details on joint stock companies, see Section D.1, page 22; for details on the securities market, see Section B.6, page 13).

## **C.5 Importing and exporting**

### **Restrictions**

#### **Imports**

The import of goods into Oman requires an import license. The import of certain classes of goods, including alcohol, firearms and explosives, requires a special import license.

Goods entering Oman must have certificates of origin. Oman follows Arab boycott rules, which forbid the import of goods originating from Israel.

#### **Exports**

Oman does not restrict exports. However, the export of items of historical value requires an export license.

### **Customs duties**

Most imported goods are subject to customs duty levied at a flat rate of 5% on their cost-insurance-freight (CIF) value. Consumer goods, including foodstuffs are exempt from customs duty. Alcohol and tobacco are subject to higher rates of duty. Exemption from customs duties has been granted to imports of certain materials, imported in the name of specialized Ministry or the internal security services.

Goods produced within the GCC generally may be imported duty-free. In certain circumstances, Oman may permit contractors to import duty-free equipment and materials for use on government, PDO and OLNG projects.

Oman implemented the directives of the GCC Customs Union from 2003 (see section B.9, page 16 for further details).

Oman does not impose quotas or other non-tariff trade barriers, and has not enacted antidumping regulations.

Oman does not impose export duties.

Oman has entered into a Free Trade Agreement with the United States of America in late 2005.

## **C.6 Registration of intellectual property**

### **Patents**

A new law on patents was issued in October 2000. The law establishes a facility for the registration and protection of patents. Patents may be registered for a term of 20 years. The law is silent on the renewals of patent terms.

### **Trademarks**

Royal Decree No. 38/2000 promulgates the law 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.

Both local companies and foreign companies with no physical presence in Oman may apply to the Department of Trademarks for trademark protection. Trademarks are protected for renewable 10-year periods from the date of their registration with the Ministry of Commerce and Industry.

Penalties for trademark violation range from the seizure or destruction of trademarks and anything associated with their production to fines and imprisonment.

### **Copyrights**

Royal Decree No. 37/2000 promulgated the law on copyrights and related rights. Penalties are imposed for breach of the law.

## D. Structure of business entities

*The Commercial Companies Law (Royal Decree No. 4 of 1974, as amended) and the Commercial Register Law (Royal Decree No. 3 of 1974) govern business entities in Oman. Recent amendments to the Commercial Companies Law provide for more sophisticated and efficient corporate structures and encourage wider share ownership and public participation in joint stock companies.*

*A new Commercial Companies Law is currently being finalized and is expected to be issued in the near future.*

*The Foreign Capital Investment Law (Royal Decree No. 102 of 1994) governs the participation of non-Omani nationals in a trade or business in Oman. The law specifies capital requirements and levels of Omani participation in capital and profits (see Section C.2, page 17, for details).*

### D.1 Companies

#### Joint stock companies

A joint stock company is formed by three or more individuals or entities, whose liability is limited to the nominal value of their shares in the company's capital. If at least 40% of a company's shares is issued for public subscription, it is considered a general joint stock company (société anonyme Omani general, or SAOG); if a company's shares are not issued for public subscription, it is considered a closed joint stock company (société anonyme Omani closed, or SAOC).

Companies seeking to conduct insurance, banking, investment of funds for third parties, solicitation of savings or capital from the public or commercial air transportation businesses must be organized in the form of joint stock companies.

Joint stock companies must register in the commercial register of the Ministry of Commerce and Industry.

#### Limited liability companies

Foreign investors usually choose to conduct their operations in Oman through limited liability companies (LLCs). An LLC is a private company formed by a minimum of two and a maximum of 40 natural or legal persons, whose liability is limited to the nominal values of their shares in the company's capital.

LLCs must register in the commercial register of the Ministry of Commerce and Industry. For a list of information that applicants must supply for registration, see Appendix 3, page 55.

### D.2 Partnerships

#### General partnerships

A general partnership is formed by two or more individuals or entities who are jointly and severally liable for the partnership's debts. One or more individuals manage a general partnership; these persons need not be partners.

Partnership interests may be transferred only with the approval of all partners or in accordance with conditions specified by the partnership agreement. The death, insanity, bankruptcy or withdrawal of a partner causes the partnership to dissolve unless the remaining partners decide unanimously to continue the partnership. Their decision must be registered in the commercial register.

The name of a partnership consists of the name of one or more partners and the designation “general partnership.” General partnerships must register in the commercial register of the Ministry of Commerce and Industry.

### **Limited partnerships**

A limited partnership is formed by one or more general partners who are jointly and severally liable for the partnership’s debts, and by one or more limited partners whose liability for the partnership’s debts is limited to their contributions to the partnership’s capital. General and limited partners may be either individuals or entities. Limited partners may not participate in the management of the partnership or act in the partnership’s name. The death, insanity, bankruptcy or withdrawal of a limited partner does not cause the partnership to dissolve unless the partnership agreement provides otherwise.

The name of a limited partnership may not include the names of its limited partners. Limited partnerships must register in the commercial register of the Ministry of Commerce and Industry.

## **D.3 Joint ventures**

A joint venture is formed by two or more individuals or entities. A contract governs the objective of the venture and the terms between its members. A joint venture does not carry a name, nor does it have the legal status of a business entity. It can not be registered in the commercial register.

## **D.4 Holding companies**

A holding company is a joint stock company or an LLC that holds at least 51% of the shares of another company (or companies) and thereby controls the other company financially and administratively.

A holding company may engage in the following activities:

- ▶ Manage subsidiary companies or participate in the management of other companies in which it is a shareholder;
- ▶ Invest its funds in shares, stocks and securities;
- ▶ Provide loans, guarantees and finances to its subsidiaries; and
- ▶ Own patent rights, trademarks, franchises and other intangible rights, and use and lease these to its subsidiaries and to other companies.

A holding company may not own shares in a general or limited partnership or in another holding company. The capital of a holding company shall not be less than Rial Omani two million.

A holding company must obtain a license from the Ministry of Commerce and Industry and must include in its name the words “holding company” in all of its papers, advertisements and other documents.

## **D.5 Sole proprietorships**

Under the Foreign Capital Investment Law, foreign nationals may not operate businesses in Oman without Omani participation in capital and profits. However, foreign nationals of Gulf Cooperation Council (GCC) countries may do business in Oman through sole proprietorships.

## D.6 Operations of foreign companies

### Branches

Branches of foreign companies may engage only in the following activities:

- ▶ carry out government contracts.
- ▶ conduct businesses declared by the Council of Ministers to be necessary to Oman.

Their activities are not subject to Omani-participation requirements and increasingly foreign companies are able to register branches without having to appoint Omani agents (see Agents, below). To register with the Tender Board (see Section B.5, page 12), a branch must provide evidence of sponsorship by an Omani agent.

Branches of foreign companies must register in the commercial register. For a list of information that applicants must apply for registration in the commercial register see Appendix 3, page 55.

Contracts awarded by the government, Petroleum Development Oman LLC (PDO) and Oman LNG LLC (OLNG) enable foreign companies to establish branches in Oman by registering the branches with the Ministry of Commerce and Industry. The registration is allowed because the contracts are with government or semi-government organizations.

### Foreign commercial representative offices

Foreign companies engaged in the trade, industry and services sectors may open commercial representative offices in Oman. A foreign commercial representative office may not import, export or sell its products; promote productions or services other than those produced by the company it represents; or communicate directly with consumers. These offices may obtain visas necessary for their expatriate employees, but are subject to rules stipulated for Omanization.

### Agents

Under the Commercial Agencies Law (Royal Decree No. 26 of 1977), foreign entities are required to do business through agents, who may be Omani nationals, companies or government bodies. Branches doing business in Oman, as well as foreign entities engaged in the retail and wholesale trades, including those whose sole interest is the exportation of goods to Oman, must have Omani agents. Depending on the regulations of the government bodies with jurisdiction over their activities, other foreign entities may also be required to have agents. Effective representation by an agent may be useful for both practical and commercial reasons.

However, in practice, the above regulations are not enforced strictly consequent to Oman joining the World Trade Organisation (WTO).

Companies operating as agents must be registered in the commercial register and with the Oman Chamber of Commerce and Industry (OCCI). Their business objectives must include the conduct of commercial agency business. The level of Omani ownership in an agency company must be at least 51%. To be valid, agency agreements must be registered with the Register of Agents and Commercial Agencies.

## D.7 Structures used by foreign investors

Foreign corporations or partnerships may register to operate in Oman by establishing branches or by participating in the formation of joint stock companies or LLCs. In addition, foreign companies and establishments engaged in certain sectors may open commercial representative offices in Oman (see Section D.6, page 24). Because branch registrations are temporary in nature, foreign businesses planning to establish a long-term presence in Oman generally choose to operate through LLCs.

To form an LLC with foreign participation, an applicant must file a constitutive contract in a prescribed format, in Arabic, with the Ministry of Commerce and Industry, and submit an application to the Foreign Investment Committee, which issues licenses for foreign investment. The formation of an LLC is completed when the constitutive contract of the company is signed by all members, all shares are fully paid up and the company is registered in the commercial register. A shareholders' agreement setting forth the intentions of the parties is also generally prepared. See Section D.8, below, for further information on the procedures for establishing a corporation.

## **D.8 Establishing a corporation**

### **Registration procedures**

Before business entities begin doing business in Oman, they must be registered in the commercial register of the Ministry of Commerce and Industry. Business entities must also register with the Oman Chamber of Commerce and Industry (OCCI).

Joint stock companies must obtain licenses from the Ministry of Commerce and Industry. LLCs do not need a license if they have no foreign participation. To apply for a license, a company must submit copies of its memorandum and articles of association and a bank certificate. Companies with foreign participation also must obtain licenses from the Foreign Investment Committee.

### **Time required**

The time required to establish a business depends on the extent of foreign participation. Registration and licensing requirements normally take between two and four months.

### **Permissible types of shares**

Joint stock companies may issue registered or bearer shares. These types of shares carry equal rights unless the company's articles of association stipulate otherwise. The minimum nominal value of each share must be 100 Baizas, and shares may not be issued at a price less than their nominal value.

The period of subscription for shares of a public joint stock company is 30 days. The Ministry of Commerce and Industry may extend this period by an additional 30 days.

Subject to certain conditions, a joint stock company may buy its own shares.

Private placement of shares is permitted subject to regulations issued by the Capital Market Authority.

### **Shareholders**

Joint stock companies must have a minimum of three shareholders, with no maximum limitation imposed. LLCs must have a minimum of 2 shareholders, and a maximum of 40 shareholders.

### **Initial capital requirements**

The Commercial Companies Law specifies minimum capital requirements to establish the following legal entities:

- ▶ General joint stock company: RO 2 million (US\$5.2 million);
- ▶ Closed joint stock company: RO 500,000 (US\$1.3 million);
- ▶ LLC with foreign participation: RO 150,000 (US\$390,000);
- ▶ LLC wholly owned by Omani nationals: RO 20,000 (US\$52,000); and
- ▶ Holding company: RO 2 million (US\$5.2 million).

The Central Bank of Oman has prescribed minimum capital requirements for banks.

At least 50% of the shares of a joint stock company must be paid up on subscription, and the balance must be paid up within three years. Contributions to capital may be made in cash or in kind. Share offers may be underwritten. At an extraordinary general meeting, the shareholders of a joint stock company may increase the authorized capital, and the board of directors may increase the issued capital within the limits of the authorized capital. In the event of such an increase, certain shares may be allocated to the company's employees, but the allocation may not exceed 5% of the issued capital.

The full amount of the share value of an LLC must be paid up on subscription. Contributions to capital may be made in cash or in kind. Capital may not be increased by public subscription. Members may offer their shares to non-members only after they first offer these shares to the other existing members of the company.

## **Management**

A joint stock company is managed by a board of directors. Shareholders elect the first board at a general meeting held within 30 days following the end of the subscription period. The board must be composed of between 5 and 12 individuals. If a company's articles of incorporation permit, the board may include non-shareholders. The board must register the company in the commercial register within 30 days following the general meeting.

There are several restrictions in respect of transactions between the members of the board of directors and a joint stock company. In addition, extensive disclosure requirements are in place to report transactions between the directors and a joint stock company.

The Capital Market Authority has introduced a number of measures to improve transparency, corporate governance and investor protection. In addition, there are a number of additional disclosure requirements for public joint stock companies.

An LLC is managed by one or more designated managers who must be individuals, but who are not required to be shareholders of the company.

## **D.9 Annual requirements for corporations**

### **Registration fees**

Business entities must periodically pay registration fees to the Ministry of Commerce and Industry. The amount of the fees and the frequency of their payment depend on the type of business entity and the amount of authorized capital. Omani registered companies with an authorized capital in excess of RO 1 million pay an initial registration fee and an annual renewal fee of RO 200, while companies with authorized capital less than RO 1 million pay RO 100 as initial registration fee and an annual renewal fee.

Public joint stock companies pay annual listing fees to the Muscat Securities Market.

Annual fees must also be paid to the OCCI. The amount of initial fees range from RO 33 to RO 625, and annual renewal fees range from RO 25 to RO 625, depending on the classification of the business entity.

### **Income tax filing**

Business organizations, including those wholly owned by Omani nationals, must file provisional and annual income tax returns. For details concerning tax return filing requirements, (see Section F.1, page 32).

### **Audit requirements**

Taxable entities of a certain size must undergo annual audits to produce the financial statements that accompany their annual income tax returns. Certain entities must undergo statutory audits. For details

concerning financial reporting requirements, see Sections G.1, page 39 and G.3, page 39. For details concerning audit requirements, see Section G.4, page 40.

### **Annual shareholders meetings**

Joint stock companies must hold annual shareholders meetings within four months after the end of their financial year. LLCs must hold annual shareholders meetings within six months after the end of their financial year.

### **Legal reserves**

Joint stock companies and LLCs must set aside 10% of their net profits as a legal reserve annually until the reserve reaches one-third of the company's capital. The reserve is not available for distribution.

## **D.10 Conversions and mergers**

### **Conversions**

The Commercial Companies Law regulates the conversion of a company from one legal form to another. A company may convert to another legal form only after it publishes at least three audited balance sheets. The conversion of a closed joint stock company to a general or limited partnership requires the unanimous decision of the shareholders during an extraordinary general meeting. Conversions must be registered in the commercial register.

Conversions do not establish new and separate legal entities. Companies that undergo conversions continue to have the same rights and obligations they had before conversion. For example, the conversion of a partnership into a joint stock company does not release the general partners from liabilities that may have existed before the conversion, unless the partnership's creditors accept a release.

### **Mergers**

The Commercial Companies Law governs mergers, which occur if one or more companies join another company or if two or more companies join to form one new company.

## E. Labor force

### E.1 Labor supply and relations

#### Availability of skilled workers

Business operations in Oman have traditionally been staffed with skilled and semi-skilled workers from abroad, and the need to obtain workers with certain specialized skills from other countries continues. However, the government has taken several steps to equip Omani nationals with skills to gradually replace expatriate workers. Foreign nationals are prohibited from employment in certain sectors.

The government has established a register for the national workforce. No organization may employ an applicant unless the applicant proves that he/she is registered with the National Workforce Register. All employers are required to report new employees for registration within the stipulated period.

Official statistics on unemployment are not available.

#### Required levels of Omani employment

To ensure that the local population is employed to the greatest extent possible, the government encourages staffing with Omani nationals. Guidelines issued by the Ministry of Manpower require private companies operating in specified sectors to employ Omani nationals as a certain percentage of their labor force.

#### Labor legislation

The comprehensive Omani Labor Law issued in 2003 applies to Omani and foreign employers and employees. The law governs work contracts, wages, overtime pay, leave, work hours, industrial safety, labor disputes, vocational training, and the employment of Omani and foreign nationals. Amendments have been made in the year 2006 to protect the rights of employer and employees. Employees are allowed to establish associations subject to certain regulations.

#### Workweek

The typical working week is 45 hours and generally runs from Saturday through midday on Thursday.

#### Wages

The government has recently revised the minimum monthly wage from RO 100 to RO 120 for unskilled Omani employees. The minimum monthly wage for Secondary school passouts is RO 150. In addition, employers must pay their Omani employees a monthly accommodation allowance of RO 10 and a monthly transportation allowance of RO 10.

### E.2 Payroll taxes and employee benefits

The Social Security Law (Royal Decree No. 72 of 1991) introduced a system of social security to insure employees against old age, disability, death, and occupational injuries and diseases. The law currently applies only to Omanis working in the private sector. Under the law, private-sector employers must make monthly contributions to the Public Authority for Social Insurance at a rate of 9.5% of each Omani employee's monthly wage. Covered employees contribute at a rate of 6.5% of their monthly wages. Employers contribute an additional 1% of each Omani employee's monthly wage as security against occupational injuries and diseases. The government contributes 2% of each Omani employee's monthly wage. The Public Authority for Social Insurance invests all funds received, and it pays out sums due to employees on their retirement and as compensation for injuries and diseases.

In accordance with the Labor Law (Royal Decree No. 35 of 2003), employers must pay an end-ofservice benefit (ESB) to their foreign employees. ESB is calculated on an employee's final wage and paid according to the following guidelines :

- ▶ For the first three years of service: the equivalent of 15 days' basic pay for each year worked; and
- ▶ For each subsequent year, the equivalent of one month's basic pay.

### **E.3 Special requirements for foreign nationals**

For each non-Omani employed, an employer must make an annual contribution of RO 100 towards a vocational training levy.

See Section H.5, page 42, for information on work and residence permits for foreign nationals.

# F. Taxation

## F.1 Principal taxes

### Introduction

The Omani government imposes tax on the following entities:

- ▶ Joint stock companies;
- ▶ Holding companies;
- ▶ Limited liability companies;
- ▶ General and limited partnerships;
- ▶ Joint ventures
- ▶ Branches of foreign companies and
- ▶ Civil companies

In addition, the following individuals are treated as taxable entities:

- ▶ Non-Omani individuals carrying out revenue-generating business activities and
- ▶ Omani sole proprietors.

Citizens of other Gulf Cooperation Council (GCC) countries are treated as Omani residents for tax purposes if they are engaged in specified economic activities. For details on these economic activities, see Section C.2, page 17.

### Direct and indirect taxes

Direct taxes in Oman are income tax imposed on companies and trading and industrial establishments and certain municipal taxes. No personal income tax is assessed in Oman.

Customs duty is the only indirect tax imposed in Oman. For details, see Section C.5, page 20.

### Sources of tax law

The Income Tax Decree 1971 introduced taxation in Oman. This decree was superseded by the Law of Income Tax on Companies (Royal Decree No. 47/81), which was published in 1981. The Law of Profit Tax on Commercial and Industrial Establishments (Royal Decree No. 77/89), which was published on 16 September 1989, introduced a tax on business establishments that are wholly owned by Omani citizens. However, subsequent decrees exempted these businesses from the tax until 31 December 1993. The Law of Profit Tax also introduced a tax on commercial and industrial establishments that are owned or operated by non-Omani individuals.

All tax legislation is enacted by Royal Decree. Provisions that implement the tax law are introduced by Ministerial Decisions.

### Tax administration

#### Registration

Establishments may register with the tax authorities by filing a declaration form specifying certain business information. A foreign establishment may register with the Office of the Secretary General for Taxation (SGT), which is a department of the Ministry of Finance, even if the establishment has not formally registered with the Ministry of Commerce and Industry.

## **Filing and payment**

Taxpayers must use a 12-month period to prepare their financial statements for tax purposes. In general, taxpayers use the calendar year. For a taxpayer's first accounting period, the taxpayer may elect to use a period of up to 18 months.

All tax returns must be prepared in Arabic, although returns prepared in English are in practice accepted. Provisional income tax returns must be filed within three months after the end of the accounting period. The return must state the taxpayer's estimated taxable income and must be accompanied by payment for the amount of tax due. Annual income tax returns must be filed within six months after the end of the accounting period. If any tax is due (the tax liability exceeding the amount of tax paid with the provisional return), payment for the excess amount must be submitted with the annual return. Delayed payment of taxes is subject to a penalty at a monthly rate of 1% of the amount of tax overdue. Tax overpayments may be carried forward or may be refunded. Tax overpayments may be offset against tax owed only if the overpayment is determined by an assessment.

Certain companies must submit audited financial statements and other information with their final tax declarations. For details concerning financial statements, see Section G.1, page 39. For details concerning audit requirements, see Section G.4, page 40.

## **Assessments and appeals**

If a taxpayer fails to file the required tax declarations or conceals income, the SGT may issue arbitrary assessments at any time. If declarations are filed, assessments must be made within five years after the year in which the declaration is filed.

Taxpayers may appeal an assessment at five levels. Taxpayers contesting assessments may present their arguments to the SGT. The decision of the SGT may be appealed to a Tax Committee designated by the Ministry of Finance. Taxpayers may appeal these decisions to the Primary Court, Appeals court and finally to the Supreme Court.

## **Penalties**

In addition to the penalty for late payments of tax (see Filing and Payment, above), the tax law imposes penalties for tax evasion and for other failures to comply with the tax law.

## **Tax inspection field audits**

Currently, tax inspection field audits are not conducted. The tax law requires taxpayers to maintain accounting books and records for 10 years after the end of the accounting period to which the books and records relate.

# **F.2 Resident corporations**

## **Tax rates**

Companies are taxed at a single rate of 12% in respect of taxable income exceeding RO 30,000. For details, see Appendix 4, page 56.

Special tax provisions apply to petroleum companies. In general, companies deriving income from the sale of petroleum are taxed on their taxable income derived from such sales at a rate of 55%, subject to certain conditions. However, the tax provisions contained in the concession (production sharing) agreement generally override the tax rules. Such agreements specify the method of computing taxable income and obligate the government to settle the concessionaire's tax liability.

## **Territoriality**

Companies conducting business in Oman are subject to tax on Omani-source income. Foreign entities are subject to tax if they have a “permanent establishment” in Oman. The term “permanent establishment” is widely interpreted, but generally means a fixed place of business where an establishment carries on all or part of its business.

For the tax treatment of foreign entities, see Section F.3, page 33.

## **Determination of taxable income**

Taxable income is the net profit reported in the audited financial statements, adjusted for tax purposes. It includes gross income less deductions that are generally incurred by a commercial enterprise.

## **Gross income**

Tax is assessed on income that is realized or arises in Oman, or that is deemed to be realized or arising in Oman by the SGT. Income includes business profits, interest, royalties and income from other sources.

International Financial Reporting Standards and generally accepted methods of commercial accounting must be followed. The accrual method must be used to determine income, unless the SGT permits the taxpayer to use a different method, for example, the cash or modified accrual method.

## **Dividends**

Dividends are not taxed.

## **Capital gains**

Capital gains derived from the sale of fixed assets and intangible assets are taxed at the same rates as ordinary income. Capital gains realized from dealing in securities listed on the Muscat Securities Market are not taxed.

## **Compensation for services**

Income from services rendered in Oman is subject to tax if the recipient has a permanent establishment in Oman, regardless of whether the payments are received outside Oman.

## **Supply and Turnkey contracts**

No tax is imposed on profits derived from a supply contract that terminates before or upon reaching an Omani port if the supplier has no activity within Oman.

Taxpayers must report the full amount of income received under turnkey (supply and installation) contracts. Turnkey contracts generally involve the following distinct phases:

- ▶ Design ;
- ▶ Supply;
- ▶ Installation;
- ▶ Supervision and
- ▶ Commission.

The first two phases, design and supply, are generally performed offshore, however if these two phases are determined to be the subject matter of a single contract, income attributed to these two phases is included in Omani taxable income.

## **Interest**

If a limited liability company (LLC) advances funds to a shareholder or other related party interestfree or at a below-market rate, the tax authorities may deem that the company earned interest income on the advancement of funds at market rates.

## **Long - term contracts**

The percentage-of-completion method must be used to account for long-term contracts.

## **Foreign source income**

No provisions exist for taxing foreign-source income. However, Omani companies with foreign branches and foreign source income that arise from economic dependency in Oman are taxed on that income.

## **Valuation of assets**

### **Fixed assets**

Fixed assets must be valued at cost. Revaluations are ignored for tax purposes.

### **Inventory**

The tax law does not stipulate a required method of accounting for inventories. In general, inventories are valued at the lower of cost and net realizable value, with cost determined using the weighted-average or first-in, first-out (FIFO) method. Any provisions made in the financial statements to lower the value to net realizable value may not be deducted in computing an entity's taxable income.

## **Deductions**

In general, commercial deductions are allowed for tax purposes.

### **Depreciation and amortization**

Depreciation must be calculated in accordance with the rates listed in Appendix 5, page 57. Certain start-up costs may be amortized over a three- to five-year period.

### **Bad debts**

Doubtful debts may be deducted only to the extent that the SGT considers them bad and therefore irrecoverable. The taxpayer must demonstrate that it has taken all possible steps to recover the debt, and that the debt is, in fact, a bad rather than doubtful debt.

### **Reserves**

Reserves are generally not deductible.

### **Provisions**

Provisions are generally not deductible, including provisions made for the following items:

- ▶ Doubtful debts (see Bad Debts, above);
- ▶ Maintenance;
- ▶ Future losses for contractors and
- ▶ Obsolete and slow moving inventory.

However, insurance companies may deduct unexpired risk reserves (technical provisions based on net premiums). In addition, loan loss provisions are deductible for commercial banks, to the extent approved by the Central Bank of Oman.

Disallowed provisions are allowed as deduction when the expense is actually incurred or the provisions are reversed.

### **Donations**

Donations may be deducted, up to 5% of gross income, only if made to organizations identified by the Council for Financial Affairs.

### **Insurance agent fees**

Under certain circumstances, insurance agent fees paid by branches of foreign insurance companies are deductible, up to 25% of the net premium amount.

### **Interest expense**

Interest paid to affiliates of shareholders is generally not deductible, particularly if the tax authorities believe the borrowing company is under capitalized.

### **Tax representation fees**

Tax representation fees paid to professional advisors are not deductible for tax purposes on the basis that the expense is not incurred for the purpose of generating revenue.

### **Remuneration to directors, shareholders and partners**

In general, remuneration paid to directors, shareholders and partners is deductible for tax purposes, subject to certain conditions.

### **Rental costs**

Rental costs are deductible only if the rental agreements are registered with the government authority.

### **Expenses incurred to generate tax exempt income**

These are not deductible.

### **Tax incentives**

Tax exemptions may be available for companies engaged in certain activities. For further details concerning tax incentives, see Section C.3, page 18.

### **Foreign tax relief**

The tax authorities may allow relief for foreign taxes paid on a case-by-case basis.

### **Loss carryovers**

Losses may be carried forward for five years but may not be carried back. Net losses incurred by companies benefiting from tax holidays may be carried forward without any time limit under certain circumstances.

### **Treatment of groups of companies**

Omani tax law does not contain specific rules for the taxation of groups of companies under common ownership. Each company within a group is taxed as an independent entity.

Omani tax law addresses the possibility that related parties may seek to avoid or reduce taxation on certain transactions. The SGT may recharacterize a transaction if it determines that an avoidance or reduction of tax has occurred. Deductions of amounts paid to related parties are scrutinized, and a portion of these amounts may be added back to net income.

### **Dividends, interest and royalties paid to foreign affiliates**

Oman does not impose withholding tax on dividends and interest paid to foreign affiliates. Royalties are subject to withholding tax at a rate of 10%.

### F.3 Nonresident companies

Omani tax law does not distinguish between resident and nonresident companies. If a company derives income from Oman that involved only occasional visits to the country, this income is taxable. If the payer is an entity taxable in Oman, transactions may be identified through the tax authorities' examination of the payer's file.

#### Income from subsidiaries

An Omani subsidiary of a foreign-owned company is taxed at a single rate in excess of RO 30,000. For details, see Appendix 4, page 56.

#### Branches of foreign companies

Branches of foreign companies are taxed at a single tax rate that varies depending on the entire amount of the branch's taxable income. The applicable tax rate applies to the branch's total taxable income. For a table of these rates, see Appendix 4, page 56.

For a sample tax calculation for a branch of a foreign company, see Appendix 6, page 58.

#### Deductions for branches of foreign companies

The deductibility of expenses incurred by branches of foreign companies is subject to certain limitations, which are summarized below.

*Head Office Charges.* Ministerial Decision No. 91 of 1984 addresses an Omani branch's ability to deduct expenses that are incurred by its head office but cannot be directly attributed to the Omani branch from the books of account and other records. These expenses may be deducted at the lowest of the following amounts:

- ▶ Expenses allocated by the head office;
- ▶ Average amount of these expenses, as approved by the SGT during the prior three years; or
- ▶ 3% of the total income of the branch (5% of the total income for branches of foreign banks and insurance companies [the total income of insurance companies for this purpose is total premiums net of reinsurance] and 10% of the total income for branches of major industrial companies in highly technical fields).

*Sponsorship Fees.* Sponsorship fees paid by branches of foreign companies to Omani agents are deductible up to 5% of taxable income. No deduction is allowed if a loss is reported.

*Interest.* Interest paid to a head office is disallowed, whether it is paid on a current account balance or is a portion of head office interest costs.

Interest on bank loans and borrowing may be deducted if it is demonstrated that the loan was obtained and exclusively used by the Omani branch.

#### Foreign exchange fluctuations

Foreign exchange fluctuations arising from transactions between a branch of a foreign entity in Oman and its head office or any affiliate are generally ignored for purposes of Omani taxation. Consequently, foreign exchange losses are not allowed, and foreign exchange gains are not taxed.

#### Nonresident companies without Omani permanent establishments

If a foreign company does not have a permanent establishment in Oman, only the following categories of Omani-source income are taxed:

- ▶ Royalties;
- ▶ Rent of equipment;

- ▶ Management fees;
- ▶ Fees for transfers of technical know-how; and
- ▶ Fees for research and development.

Income in the categories listed above is taxed at a flat rate of 10%. The tax is final, withheld at source and remitted to the SGT. The foreign company has no tax filing obligations in respect of tax deducted.

## F.4 Partnerships and joint ventures

### Partnerships

Partnerships are treated as taxable entities and are taxed at corporate rates. For details concerning corporate tax rates, see Section F.2, page 32.

### Joint ventures

Joint ventures are treated as taxable entities and are taxed at corporate rates. For details concerning corporate tax rates, see Section F.2, page 32. The share of after-tax profits arising from the joint venture is treated as taxed dividend income; therefore each partner to the joint venture is not taxed again separately on such income.

## F.5 Taxation of individuals

Personal income, excluding business income, is not taxable in Oman.

Only an Omani national or, under certain circumstances, a national of a GCC-member country may operate a business as a sole proprietor in Oman. Sole proprietors are taxed on Omani-source income only according to the following rates.

Net taxable income	Rate %
First RO 30,000	0
Excess over RO 30,000	12

Capital gains relating to intangible assets or to the fixed assets of a sole proprietorship are subject to tax as business profits. Capital gains arising from dealings in securities listed on the Muscat Securities Market are exempt from tax.

## F.6 Withholding taxes

Oman does not impose withholding tax on dividends or interest.

Withholding tax at a flat rate of 10% is withheld for royalties and certain other categories of income received by a foreign company that does not have an Omani permanent establishment. For details concerning these types of income, see Section F.3, page 37. The payer of these types of income must withhold and remit such tax to the government on a monthly basis. Penalties are imposed for delays in payment. The withholding tax is a final tax to the recipients; therefore, such recipients are not required to submit tax declarations.

## **F.7 Other taxes**

Oman does not impose estate tax, gift tax or dividends tax. Municipalities may impose certain consumption taxes, including tax on the income categories outlined below:

- ▶ 5% on hotel and restaurant bills;
- ▶ 4% on hotels, motels and tourism restaurants;
- ▶ Tax at a rate of 2% on electricity bills exceeding RO 50 per month; and
- ▶ Tax at a rate of 3% on lease agreements, payable by landlords.

In addition, a border toll fee is levied on all vehicles across all the entry points of the Oman border.

## **F.8 Tax treaties**

Oman has entered into double tax treaties with Algeria, Canada, China, France, India, Italy, Lebanon, Mauritius, Pakistan, Seychelles, Singapore, South Africa, South Korea, Sudan, Syria, Thailand, Tunisia and the United Kingdom and Yemen. Oman has signed double tax treaties with Belarus, Egypt, Iran, Morocco, Moldova, and the Russian Federation, and Turkey but these treaties are not yet in force. The double tax treaties signed with Brunei, Germany, and Kazakhstan have not been yet ratified.

Under Omani domestic law, withholding tax is not imposed on dividends or interest. Under certain treaties, no withholding tax is imposed on royalties paid to companies resident in the contracting countries if such companies do not have a permanent establishment in Oman, subject to certain conditions.

# G. Financial reporting and auditing

## G.1 Statutory requirements

### Required Books and Records

The Oman Commercial Law requires all business enterprises to maintain the following books at a minimum:

- ▶ A day book maintaining a daily record of all activities related to the commercial enterprise and a monthly record of personal withdrawals (for proprietorships and partnerships); and
- ▶ A stock book listing inventory, by quantity and by value, held at year end.

Under the law, the Ministry of Commerce and Industry must attest to the records listed above. However, this requirement is temporarily suspended. The Secretary General for Taxation (SGT) has the right to inspect accounting records.

Accounting records must be maintained in Omani rials, unless the taxpayer obtains permission from the Ministry of Finance to use a foreign currency. Accounting records may be maintained in Arabic or in other languages.

### Method of accounting

Enterprises must use the accrual method of accounting unless the SGT has granted approval to use another method.

### Financial statements

Companies with capital exceeding RO 20,000 (US\$52,000) must submit audited financial statements and other information with their final tax declaration. The minimum capital requirement applies to the capital of the entire company, not only to the capital of the foreign branch. Financial statements must be prepared in Arabic.

## G.2 Sources of accounting principles and practices

Omani law requires enterprises to follow International Financial Reporting Standards. Otherwise, principles and practices of accounting are not codified.

## G.3 Financial reporting

Joint stock companies must prepare audited financial statements within three months following their year-end and provide their shareholders with audited balance sheets and profit and loss statements 21 days before the annual shareholders meeting. Annual shareholders meetings must be held within four months of the year end.

If a limited liability company (LLC) appoints an auditor, the LLC must prepare audited financial statements and provide its shareholders with audited balance sheets and profit and loss statements within six months after its year end.

Banks must file their audited financial statements with the Central Bank of Oman within one month after their year-end. Insurance companies must file their audited financial statements with the Commissioner of Insurance at the Ministry of Commerce and Industry within five months after their year-end.

Companies listed on the Muscat Securities Market (see Section B.6, page 13) are required to publish unaudited financial information on a quarterly basis and should comply with certain disclosure standards, mandated by the Capital Market Authority.

All borrowers from the Omani banking system in excess of certain limits are required to file audited financial statements with their banks four months of their year end.

## **G.4 Audit requirements**

Joint stock companies, as well as LLCs that have more than 10 shareholders or capital exceeding RO 50,000 (US\$130,000), are required to have annual statutory audits. Other LLCs must have statutory audits if required by their articles of association or if requested by shareholders holding at least 20% of the capital of the company. In addition, companies with capital exceeding RO 20,000 (US\$52,000) must file audited financial statements with their tax returns. For details concerning tax return filing requirements, see Section F.1, page 32.

Public Joint stock companies must rotate their auditors after each four-year period.

## **G.5 Accounting profession**

The Law Regulating the Accountancy and Auditing Profession sets forth conditions of registration, qualifications and other requirements for accountants and auditors.

Omani law requires that audits be performed by authorized auditors. A list of authorized auditors is prepared by the Ministry of Commerce and Industry, and includes all firms that are registered to operate in Oman. Auditors must be independent of the company being audited and may not provide technical, administrative and consulting services to the company on a regular basis.

Auditors appointed by joint stock companies should be accredited by the Capital Market Authority.

# H. General

## H.1 Geography and climate

Oman, the second largest country in the Arabian Peninsula, is situated at the peninsula's southeast corner, south of the Strait of Hormuz. Its coastline faces the Gulf of Oman and the Arabian Sea. Oman is bordered by the United Arab Emirates to the north, by Saudi Arabia to the west and by Yemen to the south.

Oman is a mountainous country. The Hajar mountain range, which runs parallel to the northeast coast, dominates northern Oman. Although the range is noted for its aridity, its valleys often sustain vegetation because of the flooding that occurs from the winter rainfall. The intensively cultivated Batinah plain stretches between the Hajar mountain range and the coast, from the country's capital, Muscat, to the border of the United Arab Emirates. To the south and west of the Hajar mountain range lies an extensive desert of stony plains and sand dunes. In the far south, the Dhofar region turns lush and green during the summer monsoon season.

Two major climatic zones influence Oman: the Mediterranean from the north, and the tropical from the south. In the winter, cool, dry winds blow across the Musandam peninsula and the north coast, sometimes bringing rain. The winds are less strong in Dhofar.

Blown by southwesterly winds that have traveled over extensive desert, Oman's northern areas are much warmer in the summer than in the winter. Muscat is one of the world's hottest capitals. In June, the hottest month, its temperature averages 38° C (100° F) and often rises to 45° C (113° F) or even 50° C (122° F). By contrast, the temperature of Salalah in Dhofar averages 32° C (90° F) in May, the hottest month. Although the heat subsides, Dhofar can be oppressively humid from June until September.

Spring and autumn occasionally bring wind and rain, which can cause terrible damage. Annual precipitation is uneven, and years of drought can follow several stormy winters. Because the infrequent rainfall is torrential and is slowed by sparse soil or vegetation, flash floods are common.

## H.2 Population and language

In 2006, the total population of Oman was estimated to be approximately 2.58 million, of which approximately 2.1 million were Omanis. The population is growing annually at an estimated rate of

3.3%. The majority of the non-Omanis is concentrated in the capital area, where they comprise 46% of the population. In most other areas, Omanis represent 75% or more of the population. Fortythree percent of the population is 14 years of age or younger. People older than 65 years of age comprise only 2.6% of the population.

Arabic is the official language of Oman. However, English is widely used in both commercial and government communications.

## H.3 Government and political system

Oman is a Royal sultanate. The Council of Ministers, or cabinet, is the country's highest executive authority. The council derives its powers from, and is responsible to, His Majesty, the Sultan.

Oman's specialized councils are created by Royal Decree and include the Council of Oman, which includes the Council of State and the Majlis As'Shura (a consultative body); the Council of Financial

Affairs and Energy Resources; the Council of Water Resources; and the Council of Defense. Other significant bodies created by Royal Decrees include the Muscat Municipality and the ministries.

## H.4 Legal environment

Oman's Basic Law (Royal Decree No. 101 of 1996) states that the Islamic code– the Sharia– is the basis for Omani legislation. The Sultan issues laws consistent with the Basic Law through Royal Decrees.

Judicial power lies with the courts, which are independent of the executive authority. The Commercial Court has jurisdiction over commercial disputes. In enforcing agreements between partners and reaching decisions based on the Sharia, the court applies Omani laws established by Royal Decrees.

The Judicial Authority Law organizes the following different courts in Oman:

- ▶ The Supreme Court
- ▶ The Appellate Courts
- ▶ The Preliminary courts (Court of First Instance)
- ▶ The Courts of Summary Jurisdiction

Other components of the legal system include the Administrative Judicature Court, the Supreme Judicial Council and the Public Prosecution Authority.

## H.5 Entry visas and work permits

The government of Oman has issued visas procedures, which are aimed at liberalizing the entry regulations into Oman. The salient features of the visa procedures are as follows:

- ▶ Citizens from countries mentioned in List Number One such as Austria, France, Germany, Italy, United Kingdom and United States of America will be eligible to obtain single entry visits visas on arrival on all ports of entry into the country.
- ▶ Citizens from countries mentioned in List Number Two such as India, Iran, Egypt, Tunisia, and Morocco will also be able to obtain single entry visit visas by applying for the same at Oman's diplomatic missions in the respective country.
- ▶ Citizens of countries on both the lists can obtain multiple entry visits from Oman's diplomatic missions or Commercial Representative offices in these countries. It is however, not possible to extend this visa.
- ▶ In addition, for countries not covered under these lists, express visas can also be issued within 24 hours of application.
- ▶ In all cases, there is an overstay penalty of RO 10 per day beyond the validity of the visa.

Employers wishing to employ foreign nationals must obtain labor clearances and NOCs from the Ministry of Manpower. An employer may engage a foreign employee only in the jobs specified by the labor clearance.

## H.6 Living in Oman

Because Oman imports most of its goods, the country's cost of living is comparatively high.

### Time

Oman's time zone is four hours ahead of Greenwich Mean Time. Oman does not observe Daylight Saving Time. The following table presents time differences between Oman and selected world cities.

City	Hours ahead of or behind Oman
Beijing	+4
Buenos Aires	-7
Cairo	-2
Cape Town	-2
Frankfurt	-3
Hong Kong	+4
London	-4
Los Angeles	-12
New Delhi	+1.5
New York	-9
Paris	-3
Singapore	+4
Sydney	+6
Tokyo	+5
Toronto	-9

### Business hours

The business week is from Saturday through Thursday morning. Friday is usually a day of rest, although certain shops may be open for restricted hours. During Ramadan, the holy month of fasting, business hours are restricted. The following table presents the business hours of selected sectors.

Sector	Hours	
	Saturday through Wednesday	Thursday
Banking	8.00am - 12.00noon	8.00am - 11.30am
Commercial	8.00am - 5.00pm	8.00am - 1.00pm
Government	7.30am - 2.30pm	Closed
Retail	8.30am - 12.30pm 4.00pm - 8.00pm	8.30am - 12.30pm 4.00pm - 9.00pm

### Public holidays

Because the Islamic calendar is based on the lunar year, Muslim holidays recur 10 or 11 days earlier each Gregorian calendar year. The following table presents Oman's public holidays and their dates of observance for 2008 and 2009. Because the observance of holidays is based on lunar sightings, the dates are approximate.

<b>Holiday</b>	<b>2008</b>	<b>2009</b>
Muharram (Muslim New Year)	10 January & 27 December	15 December
Mawalid al-Nabi (Prophet's Birthday)	18 March	9 March
Renaissance Day	23 July	23 July
Al-Mi'raj Journey to Heaven)	(Prophet's 29 July	Night 18 July
Eid Al Fitr (End of Ramadan)	2-5 October	21-23 September
National Day	6-7 December	24-25 November
Eid al Adha (Feast of the Sacrifice)	8-11 December	25-28 November

- ▶ The date of observance for National Day is determined annually.

## Transportation and communications

### Transportation

Oman's climate and the layout of its capital make using a car essential. Cars for hire are readily available at reasonable rates and may prove cheaper than taxis. A network of paved roads provides excellent driving conditions throughout the capital and beyond. Driving is on the right-hand side of the road.

The Oman National Transport Company provides long-distance bus transportation from the capital to other parts of the country. Oman Air and several international airlines provide passenger and cargo air transportation to international destinations.

Oman has commercial ports in Muscat, Salalah and Sohar. A large container terminal is operational in Salalah.

### Communications

Direct dialing is available for national and international telephone calls. Mail is delivered to post office boxes.

### Education

Although schooling is not compulsory, education is now almost universal. Oman offers primary, secondary and single-sex schools throughout the country, except in remote villages. During the school year 2005-2006, Oman had 1,046 government schools with 292,477 male and 275,597 female students and 37,500 teachers; by comparison, in 1970, Oman had three boys' schools with 909 students and 30 teachers. To improve its educational system, the government accords priority to educating Omanis to become teachers.

In 1986, Sultan Qaboos University was established near Seeb, just outside the capital, and in 2006, 13,386 students were enrolled, 50% of whom were female. In 1993, the College of Commerce and Economics was established and the College of Law and Sharia was established in 1997. Oman operates technical and industrial colleges, teacher-training colleges, vocational training centers, an Institute of Health Science, an Institute of Banking and Financial Studies and several private colleges for engineering, commerce and business management. The government offers adult education to improve general literacy and to upgrade the written and spoken Arabic-language skills of Omanis.

## **Medical services**

Oman has 58 hospitals and 897 health centers/ Dispensories/ Clinics.

Vaccination and preventive medicine are available throughout the country. Infant mortality has dropped dramatically as a result, and malaria, trachoma and gastroenteritis are considerably less prevalent than in the past. Doctors, nurses and paramedical staff receive training both within and outside Oman. The University Teaching Hospital, which specializes in advanced medicine, was established in 1989 and graduated its first class of 48 Omani doctors in 1993.

A private medical college has been recently established.

## **Housing**

Foreigners are now allowed to own land or property in Oman, only within the specified integrated tourism complexes. Modern housing, often with large living spaces, is generally available for rent in Muscat and the surrounding area. Rents range from RO 225 a month for apartments in Muscat to RO 1000 a month for villas in other districts; larger villas in better residential districts may cost more than RO 2,000 a month. In light of the considerable increase in property rents in the Sultanate, council of ministers has recently stipulated an upper limit of 15% of existing rental over the next two years. All apartments and houses have air-conditioning.

## **Leisure and Tourism**

Muscat has libraries, several museums, an aquarium and other leisure facilities. A variety of sports and recreational facilities are also available. Oman's beaches, mountain scenery, old forts and colorful villages offer many opportunities to pursue outdoor activities. Driving through wadis (valleys) and mountain passes is a popular weekend pursuit. In addition, the souks (markets) offer a great variety of goods, including brass, copper, gold, silver, spices and cloth. Oman has recently restored a variety of national heritage monuments, including 14 historic forts, which are now open to the public. The government is establishing a permanent Heritage Village in Nizwa.

There are a number of world class hotels in Oman catering to the needs of business and leisure travelers. See useful Addresses and Telephone Numbers on page 51 and 52.

## **Social and business customs**

Oman is a devout Muslim country, and its local customs should be respected. Dress is generally conservative; it should cover the shoulders and the tops of the arms, and should extend to below the knees. Photographing individuals, particularly women, is often viewed with disapproval; therefore, permission to take photographs should always be sought. Because the misuse or abuse of alcohol may cause offense, alcohol should not be consumed in public places, unless these places are licensed to serve alcohol.

During the holy month of Ramadan, observant Muslims fast from sunrise until sunset. Eating, drinking or smoking in public places during daylight hours is forbidden. All non-Muslims in the presence or sight of a Muslim should avoid these activities during the period of the fast.

# I. Useful addresses and Telephone numbers

When telephoning from an international location, the caller must use the international country code for Oman, 968, as a prefix. A number of new ministries were created in September 2007 by reorganizing existing ministries. The process has not been completed at the time of printing this publication.

Ministries involved in the reorganization are indicated with \*

Central Bank of Oman	P O Box 1161 Ruwi Postal Code 112 Telephone: 24 702222 Facsimile: 24 795961
Oman Telecommunications Company (SAOG)	P O Box 789 Ruwi Postal Code 112 Telephone: 24 631000 Facsimile: 24 697066
Ministry of Agriculture* Ministry of Fisheries*	P O Box 467 Muscat Postal Code 113 Telephone: 24 696300 Facsimile: 24 696271
Ministry of Commerce and Industry	P O Box 550 Muscat Postal Code 113 Telephone: 24 813500 Facsimile: 24 817238
Ministry of Defence	P O Box 113 Muscat Postal Code 113 Telephone: 24 312605 Facsimile: 24 702521
Ministry of Finance	P O Box 506 Muscat Postal Code 113 Telephone: 24 738201 Facsimile: 24 736324
Ministry of Foreign Affairs	P O Box 252 Muscat Postal Code 113 Telephone: 24 699500 Facsimile: 24 696141
Ministry of Health	P O Box 393 Muscat Postal Code 113 Telephone: 24 602177 Facsimile: 24 601430
Ministry of Housing	P O Box 173 Muscat Postal Code 113 Telephone: 24 693333 Facsimile: 24 695710

Ministry of Manpower	P O Box 895 Muscat Postal Code 113 Telephone: 24 816864 Facsimile: 24 816692
Ministry of National Economy	P O Box 881 Muscat Postal Code 113 Telephone: 24 698900 Facsimile: 24 696285
Ministry of Oil and Gas	P O Box 551 Muscat Postal Code 113 Telephone: 24 603333 Facsimile: 24 693508
Ministry of Regional Municipalities and water resources	P O Box 323 Muscat Postal Code 113 Telephone: 24 692550 Facsimile: 24 694015
Ministry of Social Development	P O Box 560 Muscat Postal Code 113 Telephone: 24 602444 Facsimile: 24 602722
Ministry of Tourism	P O Box 200 Medinat Qaboos Postal Code 115 Telephone: 24 588700 Facsimile: 24 492114
Ministry of Transport and Telecommunications	P O Box 338 Ruwi Postal Code 112 Telephone: 24 697888 Facsimile: 24 696670
Muscat Municipality	P O Box 79 Muscat Postal Code 113 Telephone: 24 704800 Facsimile: 24 708713
Muscat Securities Market	P O Box 3265 Ruwi Postal Code 112 Telephone: 24 823600 Facsimile: 24 81 6353
Capital Market Authority	P O Box 3359 Ruwi Postal Code 112 Telephone: 24 81 7609 Facsimile: 24 81 6691

<b>Oman Center for Investment Promotion and Export Development (OCIPED)</b>	<b>P O Box 25 Al Wadi Al Kabir Postal Code 117 Telephone: 24 81 2344 Facsimile: 24 81 0890</b>
<b>Oman Chamber of Commerce and Industry (OCCI)</b>	<b>P O Box 1400 Ruwi Postal Code 112 Telephone: 24 707684 Facsimile: 24 708497</b>
<b>Oman Development Bank</b>	<b>P O Box 3077 Ruwi Postal Code 112 Telephone: 24 812507 Facsimile: 24 813100</b>
<b>Public Establishment for Industrial Estates</b>	<b>P O Box 200 Al Rusayl Postal Code 124 Telephone: 24 155113 Facsimile: 24 449094</b>
<b>Secretary General for Taxation (SGT)</b>	<b>P O Box 285 Muscat Postal Code 113 Telephone: 24 815146 Facsimile: 24 811581</b>
<b>Sultan Qaboos University</b>	<b>P O Box 50 Al Khoud Postal Code 123 Telephone: 24 141111 Facsimile: 24 413 255</b>

**Hotels**

Al Bustan Palace Inter continental Muscat	P O Box 1998 Muttrah Postal Code 114 Telephone 24 799666
Al Falaj Hotel (Mercure Al Falaj)	P O Box 2031 Ruwi Postal Code 112 Telephone 24 702311
The Chedi	P O Box 964 Alkhuwair Postal Code 133 Telephone: 24 524400
Best Western	P O Box 3951 Ruwi Postal Code 112 Telephone: 24 692121
Crowne Plaza Muscat	P O Box 1455 Ruwi Postal Code 112 Telephone 24 660660
Holiday Inn	P O Box 1185 Seeb CPO Code 111 Telephone 24 487123
Grand Hyatt	P O Box 951 Shatti Al Qurum Postal code 133 Telephone 24 641234
Intercontinental Muscat	P O Box 398 Muttrah Postal Code 114 Telephone 24 680000
Sheraton Oman Hotel	P O Box 3260 Ruwi Postal Code 112 Telephone 24 772772
Ruwi Hotel	P O Box 2195 Ruwi Postal Code 112 Telephone 24 704244
Golden Tulip	P O Box 69 Seeb CPO Code 111 Telephone 24 510300
Radisson SAS	P O Box 939 Al Khuwair Postal Code 133 Telephone:24487777
Shangri La Barr Al Jissah Resort & Spa	P O Box 644 Muscat Postal Code 113 Telephone:24776666

# Appendix 1: Key economic performance indicators

The following table presents leading indicators of the Omani economy for 2001 through 2006.

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006*</b>
GDP at current prices (billions of rials)	7.670	7.815	8.376	9.516	11.856	13.710
Change in consumer prices (%)	0.1	(0.5)	(0.3)	0.7	1.9	3.2
Exports (billions of rials)	4.258	4.296	4.487	5.131	7.187	8.299
Imports (billions of rials)	2.281	2.421	2.615	3.382	3.449	4.251
Overall trade balance (billions of rials)	1.977	1.875	1.872	1.749	3.738	4.048

Source:

*Central*

*Bank*

*of*

*Oman.*

\*Preliminary

## Appendix 2: Foreign-exchange rates

The following table provides the year end exchange rates for the Omani rial against selected world currencies for 2002 through 2006.

### Omani Rials Per Unit of Foreign Currency

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Bahraini dinar	1.019	1.020	1.020	1.020	1.020
British pound	0.616	0.684	0.741	0.662	0.753
Canadian dollar	0.244	0.297	0.319	0.331	0.330
Euro	0.402	0.483	0.524	0.455	0.508
Japanese yen	0.003	0.003	0.003	0.003	0.003
Kuwaiti dinar	1.284	1.304	1.304	1.317	1.330
Qatari rial	0.105	0.105	0.105	0.106	0.106
Saudi rial	0.102	0.102	0.102	0.103	0.103
Swiss franc	0.277	0.309	0.339	0.292	0.316
United Arab Emirates dirham	0.104	0.104	0.104	0.105	0.105
US dollar	0.3845	0.3845	0.3845	0.3845	0.3845

Source: Central Bank of Oman.

## Appendix 3: Documentation required for registration in the commercial register

The following information must be submitted to register an Omani limited liability company in the Commercial Register of the Ministry of Commerce and Industry:

- ▶ name of the company;
- ▶ legal form of the company;
- ▶ objectives of the company;
- ▶ principal place of business of the company;
- ▶ addresses of the company's branches or agencies located in Oman and abroad ;
- ▶ names, nationalities, dates and places of birth of all shareholders;
- ▶ The names of those persons authorized to sign on behalf of the company and the extent of their authority;
- ▶ capital of the company;
- ▶ value of the contributions-in-kind;
- ▶ dates of formation and, if applicable, termination and
- ▶ Authorization from the Ministry of Commerce and Industry concerning non-Omani shareholders.

In addition to the information listed above, the following additional information must be submitted to register a branch of a foreign company in the Commercial Register of the Ministry of Commerce and Industry:

- ▶ Names of those persons authorized to sign for the branch, and the extent of their authority;
- ▶ A power of attorney from the head office to the authorized person in Oman; and
- ▶ A letter of guarantee from the head office confirming that it is responsible for all liabilities in Oman.

## Appendix 4: Company income tax rates

The following tables present the company income tax rates effective from tax year 2003. The tax year runs from January through December. If a company's financial year end falls within the tax year, the tax rates applicable to the tax year apply to the entire income relating to that year.

The following table presents the income tax rates for 100% Omani-owned companies, companies incorporated in Oman irrespective of the extent of foreign ownership and branches of companies registered in the other member states of the Gulf Co-operation Council (Bahrain, Qatar, Kuwait, Saudi Arabia and the United Arab Emirates).

<b>Taxable income</b>	<b>Rate %</b>
First RO 30,000	0
Excess over RO 30,000	12

Foreign companies that do not have a permanent establishment in Oman are subject to a flat tax of 10% of gross income on the following types of income: royalties; management fees; rent for equipment; fees for transfers of technical know-how; and research and development fees.

Branches of foreign companies (other than those registered in the member states of the Gulf Cooperation Council states) are taxed at a single tax rate according to the entire amount of the branch's taxable income, at the following tax rates.

<b>Taxable income</b>		
<b>Exceeding RO</b>	<b>Not Exceeding RO</b>	<b>Rate%</b>
0	5,000	0
5,000	18,000	5
18,000	35,000	10
35,000	55,000	15
55,000	75,000	20
75,000	100,000	25
100,000		30

\* The tax rate applies to the branch's entire amount of profits. For example, tax at a rate of 25% applies to taxable income of RO 80,000. The amount of tax due is RO 20,000 (RO 80,000 x 25% = RO 20,000). Marginal relief is available if the branch's or Omani company's taxable income slightly exceeds the tax bracket; the amount of taxable income exceeding the tax bracket is treated as tax, and is paid to the Ministry of Finance in full.

## Appendix 5: Depreciation rates

The following table presents acceptable depreciation rates for tax purposes.

<b>Asset</b>	<b>Rate (%)</b>
Permanent buildings	4
Prefabricated buildings	15
Bridges, platforms, pipelines, roads and railways	10
Heavy equipment	33 1 /3
Motor vehicles	33 1 /3
Furniture	33 1 /3
Other equipment and tools	15
Aircraft and ships	15
Hospital buildings and educational establishments	100
Scientific research equipment	100
Intangible assets	Rate determined by the Secretary General for Taxation

The rates must be applied to cost in accordance with straight-line depreciation. For industrial buildings, the rate is doubled. For equipment that is used continuously for three shifts a day, an accelerated rate of depreciation up to 150% of the regular rate may be allowed.

## Appendix 6: Tax calculation for a branch of a foreign company

The following is a sample tax calculation for a branch of a foreign company.

	RO	RO
<b>Calculation of Taxable Income</b>		
Gross receipts or gross sales (RO 100,500 less returns and allowances of RO 500)		100,000
Less: Cost of goods sold and/or operations		(50,000)
Gross profit		50,000
Add :		
Interest and discounts	1,000	
Gross rents	1,000	
Royalties	1,000	
Balancing charges	1,000	
Income from other sources	<u>1,000</u>	<u>5,000</u>
Total income		55,000
<b>Less allowable deductions:</b>		
Salaries and wages	10,000	
Minor repairs and maintenance	500	
Bad debts written off*	1,000	
Rents	1,000	
Interest (on money borrowed wholly and exclusively for the purpose of producing gross income)	1,000	
Contributions to pension plans or other similar approved plans	500	
Balancing allowances	500	
Advertising	500	
Other deductions	<u>10,000</u>	<u>(25,000)</u>
Taxable income before net operating loss deduction and special deductions (RO 55,000 - RO 25,000)		30,000
Less: Net operating loss deduction – Taxable income		30,000
<b>Calculation of tax</b>		
Tax on RO 30,000 at a rate of 10%		3,000
Credit: Estimated tax paid		<u>(2,500)</u>
		500

\* Provisions are not allowed; only actual write-offs are allowed.

# Ernst & Young in Oman

Ernst & Young is one of the leading professional services firms in Oman committed to providing the highest quality professional accounting, auditing, taxation and consultancy services. With more than 180 professionals and support staff at 31 October 2007, we provide integrated services to private enterprises and public agencies.

Our combined professional and industry knowledge, experience, and resources enable us to provide an outstanding level of service to our clients.

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- ▶ **Assurance & Advisory Business Services:** We have developed our Assurance & Advisory Business Services to meet changing business needs and growing expectations. We deliver practical business insights and ideas on financial and business risks on a continual basis.
- ▶ **Business Advisory Services:** We have highly skilled and experienced Business Advisory personnel positioned into five specialized sub-service lines as
  1. Transaction Advisory Services
    - ▶ Lead Advisory Services
    - ▶ Transaction Support Services
    - ▶ Statutory Advisory Services
  2. Privatisation & Restructuring
    - ▶ Industry Sector Restructuring & Regulatory Framework
    - ▶ Business Strategy Facilitation
    - ▶ Program Management
  3. Business Management Advisory Services
    - ▶ Enterprise Systems
    - ▶ Enterprise Transformation
    - ▶ Human Capital
  4. Technology Security and Risk Services
    - ▶ Security & Technology Solutions
    - ▶ IT Risk & Management Assurance
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  1. Compliance : Registration of taxable entities with taxation authorities as well as preparation, review and advice on the tax returns.
  2. Consulting : Implementing tax solutions and employing innovative corporate tax planning opportunities that are integrated with the client's operational plans and business objectives.
  3. International Tax Services: Solving cross-border tax issues, developing regional tax solutions, and formulating inbound and outbound investment strategies so as to minimize the tax implications related to these strategies.

In Oman, Ernst & Young serves organizations of all sizes, from major multinational corporations to medium-size companies and small family-owned businesses. Our clients comprise entities in many legal forms, including public and private companies, partnerships, non profit organizations, mutual funds and public bodies. We have clients in virtually every industry.

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- ▶ **Worldwide Corporate Tax Guide:** an annual publication summarizing the corporate tax systems in more than 130 countries.
- ▶ **Worldwide Executive Guide:** an annual publication summarizing the personal tax systems and immigration rules and procedures in more than 130 countries.
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### **Local and Regional Publications**

**Summary of Recent Developments:** An annual publication providing information on tax and other business developments in Oman.

**Business Brief:** A mid year update on tax and other business developments in Oman.

**Middle East Tax Review:** A periodic publication with articles of interest to people doing business in Oman and elsewhere in the Middle East.

**Corporate Taxation in the Middle East:** A publication summarizing taxation in Oman and other countries in the Middle East.

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