

## Oman's 2014 budget at a glance

- 4.9 percent economic growth budgeted
- 5 percent increase in expenditure

Revenues	2014			2013	
	RO (million)	Percentage to total	Percentage change in 2014	RO (million)	Percentage to total
Oil revenues	8,150	70	1	8,055	72
Gas revenues	1,500	12	15	1,300	12
<b>Oil and gas revenues</b>	<b>9,650</b>	<b>82</b>	<b>3</b>	<b>9,355</b>	<b>84</b>
Taxes and fees	1,038	9	20	867	8
Other Non Tax Revenues	913	8	5	869	7
Others	99	1	55	64	1
<b>Other current and capital revenues</b>	<b>2,050</b>	<b>18</b>	<b>14</b>	<b>1,800</b>	<b>16</b>
<b>Total revenues</b>	<b>11,700</b>	<b>100</b>	<b>5</b>	<b>11,155</b>	<b>100</b>
<b>Expenditure</b>					
Defence and security	3,700	27	4	3,555	28
Oil and gas production	1,822	13	4	1,755	14
Development expenditure for civil ministries	1,800	13	-	1,800	14
Current and capital expenditure of civil ministries:					
Education	1,422	11	6	1,340	10
Health	587	4	16	505	4
Social Security and welfare	483	4	8	446	3
Housing	518	4	10	469	4
Public Services	537	4	15	466	4
Others	978	7	12	874	7
	<b>4,525</b>	<b>34</b>	<b>10</b>	<b>4,100</b>	<b>32</b>
Participation in domestic, regional and international institutions	211	2	(47)	395	3
Others	1,442	11	15	1,250	9
<b>Total expenditure</b>	<b>13,500</b>	<b>100</b>	<b>5</b>	<b>12,855</b>	<b>100</b>
<b>Deficit</b>	<b>(1,800)</b>		<b>6</b>	<b>(1,700)</b>	
Deficit financed by:					
Borrowings	400			350	
Reserves	400			350	
Use of previous year's surplus	1,000			1,000	
<b>Deficit as a percentage of total revenue</b>		<b>15</b>			<b>15</b>
<b>Daily average oil production</b>	<b>945,000</b>	-	<b>2</b>	<b>930,000</b>	-
<b>Average price (US\$)</b>	<b>85</b>	-	<b>0</b>	<b>85</b>	-

(Source of the Newsletter: Royal Decree Nos. 1/2014, 1/2013, the Minister responsible for Financial Affairs' press statement on 2 January 2014 and the Official Gazettes)

## Highlights of the 2014 Budget and 2013 performance

### **Total revenues to increase by 5 percent**

The total estimated revenues for 2014 amount to RO 11.7 billion (RO 11.2 billion for 2013). This reflects an increase of 5 percent (or RO 0.5 billion) compared to 2013. Oil and gas revenues make-up 82 percent of total revenues. Oil revenues for 2014 are based on an average oil price of US\$ 85 per barrel which is in line with the average oil price reflected in the 2013 budget. The average actual realised price during 2013 was US 105 per barrel. Oil production in 2014 is estimated at 945,000 barrels per day (as against 930,000 barrels per day in 2013).

### **Revenues from taxes and fees projected to increase by 20 percent**

Revenues from taxes and fees are budgeted to be RO 1,038 million for 2014 – an increase of 20 percent from 2013. Revenue from income taxes is expected to rise by 14 percent to RO 400 million (2013: budgeted RO 350 million) while Customs Duty revenues are expected to rise by 23 percent to RO 270 million (2013: budgeted RO 220 million).

KPMG Comment: It could be said that the rise in income tax revenues was to be expected, in light of the increased resources now employed by the Tax Department and the increased focus in specialist teams, such as the Large Taxpayer Unit and the Withholding Tax Unit. It will be interesting to see whether these revenues continue to rise as the Tax Department strengthens the “soft” approach that it has taken with taxpayers, while they were allowed to adapt to the new Income Tax Law. See our comments on “Income tax penalties” on the following page.

### **5 percent increase in expenditure**

Budgeted public expenditure amounts to RO 13.5 billion and reflects an increase of 5 percent (or RO 0.7 billion) compared with 2013. Public expenditure will increase over and above this amount when the standardising of grades and salaries for civil sector employees is approved (as part of the overall Budget approval), with the cost of standardising estimated at RO 800 – 900 million.

### **Social expenditure to increase**

The 2014 budget allocates a sum of RO 483 million for social security and welfare against RO 446 million in the 2013 budget, an increase of 8 percent.

In addition, spending on education will increase by 6 percent, to RO 1,422 million, and on health by 16 percent, to RO 587 million. The budget for housing has increased by 10 percent from RO 460 million to RO 518 million.

### **Deficit budgeted at 15 percent of total revenue**

The estimated deficit between revenue and expenditure amounts to approximately RO 1.8 billion (2013: RO 1.7 billion deficit), which represents 15 percent of the revenue and 6 percent of the GDP (2013: 15 percent of revenue and 5 percent of GDP). It is expected that the deficit will be covered largely by the budget surplus from previous years.

### **Economic growth and inflation rate**

Economic growth during 2013 is expected to be nearly 5 percent, compared with the previous estimate of 7 percent (at the time of the 2013 budget). Economic growth in 2014 is also expected to be nearly 5 percent but this is viewed as a good performance when compared to global economic growth rates of 3 percent in 2013 and forecast growth rates of 3.5 percent in 2014. In addition, the economy is expected to show a surplus in the foreign balance of trade of 8.4 percent in 2013 and 1.6 percent in 2014.

The budget acknowledges the dependence on crude oil as the country’s major source of revenue and, taking account of the cost of standardizing public sector grades and salaries, the breakeven oil price is expected to increase to US\$112 per barrel. The Minister highlights the difficulties that will be faced in trying to build future financial reserves without further work to:

- Curb the rise in government spending
- Develop non-oil revenues and further diversify the economic base
- Promote private sector involvement – and activate public-private partnering – to establish joint economic projects and greater career opportunities
- Encourage domestic and foreign investment.

## Key tax developments in 2013



### Withholding tax on payments for use of computer software

The Oman Tax Department (TD), in a recent training session on withholding taxes in Oman, clarified the definition of royalty payments under the Oman Income Tax Law, in the context of payments for the use of, or right to use, computer software. During the session, the TD confirmed that:

- a) Where the owner of the software transfers full ownership to the customer and retains no right over the software after the transfer, the consideration will be treated as a business receipt, i.e., as a service of developing the software, and withholding tax will not be applicable.
- b) Where the owner of the software grants the right to use some of its proprietary or intellectual property rights to the customer, without divesting itself of these rights, payments made by the acquirer of the software rights would be treated as a royalty and would be subject to withholding tax.
- c) Where the owner of the software grants the customer only the right to use the software itself, without granting it any right to use any other proprietary or intellectual property right in the software, it would be treated as "Consideration for right to use software", which is a category separate from royalty under the domestic law, and withholding tax would be applicable on such payments.

The current domestic rate of withholding on royalty and other specified payments is 10 percent and applies to payments made to a foreign person not carrying on business in Oman through a permanent establishment.

The Tax Department also clarified that where payments are made to countries with whom Oman has Double Tax Avoidance Agreements (DTAA), the DTAA would override the provisions of the domestic Law.

The domestic position on royalty payments is broadly in line with the OECD Model Tax Treaty but, if a DTAA were applicable, any reduced DTAA withholding tax rate would apply.

### Income tax penalties

Although Oman's income tax penalty provisions have been in place for a long time, they have not been enforced in practice, in order to give taxpayers time to adapt to the compliance process. The Tax Department is now taking steps to change this soft approach. His Excellency, The Secretary General for Taxation, in a seminar conducted by KPMG, said that the Tax Department will likely start enforcing the income tax penalty provisions in the near future.

### Secretariat General for Taxation launches website

As part of the Government's efforts to keep pace with technology, encourage a culture of transparency and improve the public's awareness about taxation, the Secretariat General for Taxation at the Ministry of Finance has launched its website [www.taxoman.gov.om](http://www.taxoman.gov.om). The website contains information about profile of the Secretariat General for Taxation, its organizational structure, and jurisdiction and contact numbers. Forms of declarations, returns and applications are also available on the website.



## Key tax developments in 2013

### Oman-France double tax treaty – WHT applicable on royalties paid to French residents

Due to changes to the Oman-France double tax treaty, royalty payments made on or after 1 January 2014 will be subject to withholding tax at the rate of 7 percent (previously nil) if the beneficial recipient of the royalties is a resident of France and does not have a permanent establishment in Oman.



#### If you require further information, please contact:

##### Partners

**Khalid Ansari**  
kansari@kpmg.com

**Ashok Hariharan**  
ahariharan@kpmg.com

**Paul Callaghan**  
pcallaghan@kpmg.com

**Ahmed Tufail**  
ahmedtufail@kpmg.com

##### Directors

**Neil Allmark**  
neilallmark@kpmg.com

**Sudip Gupta**  
sudipgupta@kpmg.com

**Shakaib Mahmood**  
shakaibmahmood@kpmg.com

**Khalid Yousaf**  
kyousaf1@kpmg.com

**Rick Selby**  
rickselby@kpmg.com

##### Address

**KPMG**  
4th Floor, HSBC Building Muttrah  
Business District P. O. Box 641,  
Ruwi 112  
Sultanate of Oman

Telephone: (968) 2470 9181  
Telefax: (968) 2470 0839

The information contained herein is of general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation and circumstances.

© 2014 KPMG, an Oman member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Oman.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.