

## Oman VAT implications for Real Estate Sector:

VAT impacts the real estate companies in various ways and this sector comprises certain types of complex transactions.

### Impact of VAT on different categories of real estate:

**Bare Land:** Bare land is usually considered as a land, which is not covered by either completed, partially completed buildings or civil engineering, works.

Generally, across the VAT jurisdictions, the supply of bare land is exempted subject to its eligibility to qualify as a bare land.

As per Article 47 of Oman VAT law, the supply of undeveloped land (bare land) will be treated as an exempt supply.

Where real estate activity is exempt, input vat will not be allowed to be claimed on costs related to these exempt supplies.

**Residential real estate:** A residential building is a building, which is intended and designed for human occupation.

As per Article 47 of Oman VAT law, the resale and rental of residential properties will be treated as an exempt supply.

It is expected that more details on the conditions and control attached to this treatment will be explained in the Executive regulations (still to be issued by Oman tax authority).

Where real estate activity is exempt, input vat will not be allowed to be claimed on costs related to these exempt supplies.

**Commercial real estate:** Any building, which is used for commercial purposes such as office spaces, warehouses, hotels and restaurants, malls etc. This is basically property, which is not designed for residential purposes.

Globally, sale and lease of commercial properties are treated at standard rate of VAT and VAT registered business will be able to claim the input VAT. Similarly it is expected to be treated at standard rate (5%) of VAT in Oman as well.

**Mixed-use buildings:** Where a property is used for both residence and commercial purpose, for example certain floors are used as commercial spaces and some floors are dedicated residential units in a building, it is considered as a mixed-use property.

VAT liability will depend on the use of the part of the building, which is being supplied, e.g. supply of commercial unit shall be taxable at standard rate, whereas supply of residential unit shall be exempt from VAT.

Where input tax is incurred on a property which is mixed use, VAT registered business will need to look at the costs which can be directly allocated to commercial use, in which case input can be recovered in full. However, any input

costs directly related to residential units are not recoverable.

There would be some amount of common costs, where cost is used for both parts of the property (residential and commercial), in which case Input vat apportionment method will need to be used.

It is expected that Oman executive regulations will contain further details on input vat apportionment.

### **Place of supply of real estate:**

It is important to determine the place of supply to confirm the applicability of Oman VAT.

In real estate, place of supply is considered as the place where property is located. Therefore, any supply of property located in Oman will be subject to Oman VAT law.

Further, as per Article 24 (2) of Oman VAT law, the place of supply of services related to real estate shall be at the place where the property is located.

Usually, the services are considered related to real estate if they are directly connected with real estate.

### **Some VAT considerations for real estate sector:**

1. Issues related to long-term leases
2. Cash flow considerations
3. Complications related to input tax recoverability for mixed use developments
4. Treatment related to any lease incentives, rent-free periods etc.
5. Issues related to transitional provisions e.g. periodic payments made in relation to a real estate supply before and after the implementation date of VAT in Oman

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