PKF UAE

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Guide to Conducting Marketing and Financial Feasibility Studies in the UAE

PAGE 03

TAX UPDATE

VAT, Corporate Tax and Excise Updates

PAGE 05

OMAN UPDATE

VAT on Educational Services

PAGE 10

A quarterly newsletter from PKF UAE and PKF Oman

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In this issue

Our Vision

We will be the first choice for companies in their selection of professional advisors

Our Mission

We will provide quality service to our clients by focusing on client-specific needs and providing solutions to business problems, thereby adding value through expertise whilst maintaining integrity, professionalism and independence.

From the Managing Partner – UAE

"Success is not final; failure is not fatal.
It is courage to continue that counts"

- Winston Churchill

This year 2023 was a rollercoaster year globally with lot of happenings.

The war between Russia and Ukraine is actually no longer front-page news, as the Palestine and Israel tensions rage.

High energy prices throughout the year 2023 pushed up inflation, which in turn pushed up the interest rates. This year also experienced India overtake China as the most populous country also came as a lesson for the world – it made good sense to invest to invest in solar, hydrogen and nuclear energy instead of expending resources on war.

In the final quarter of 2023, the UAE demonstrated Robust growth, driven by strategic diversification initiatives. Key sectors such as technology, renewal energy and tourism experienced notable expansion, contributing to the overall economic resilience.

The recently concluded COP28 UAE underlined the message: Action Delivers Hope. At COP21 in 2015, the world agreed to limit global warming to 1.5°C compared to pre-industrial levels by 2050. COP28 UAE came with the prime opportunity to rethink, reboot, and refocus the climate agenda. Located in a region where heat is already extreme and fresh water scarce, the UAE has long understood that climate change poses a grave risk that must be defeated. The UAE is now a regional energy and sustainability leader, as the first among its neighbors to pledge national emissions reductions, while committing billions towards a clean energy transition across the world.

The first issue of 2024 kicks off with an inhouse article on conducting feasibility studies in the UAE. This is followed by an interview with the charismatic Mr. Anil Chandirani of Satguru Travels. We also have important updates on UAE taxes and Oman VAT law and a piquant article on the possibility of DIFC law being applied across all Dubai based free zones.

Do write to us (update@pkfuae.com) for expressing your opinion on any matter included in the newsletter.

Stany Pereira

Guide to Conducting Market and Financial Feasibility Studies in the UAE

Introduction

In the dynamic business landscape of the United Arab Emirates (UAE), where opportunities abound, conducting a meticulous and thorough market and financial feasibility study is imperative for any aspiring entrepreneur or seasoned business professional as well as established corporates. Whether a new project or expansion plan, feasibility studies assist promoters to get an unbiased view regarding the commercial and financial viability of the venture. This article aims to shed light on the key steps and methodology involved in this process, emphasizing the importance of both primary and secondary market research, financial projections, profitability analysis, and project return indicators.

Broadly, the components of feasibility study could be segmented into three streams:

Market study

- Understand the product/service, ecosystem and industry value chain
- Assess potential market size
- Market segmentation
- Competitive landscape
- Regulatory assessment
- Demand supply analysis and opportunity assessment

Market attractiveness and demand-supply gap analysis

Market entry

- Entry options
- Site analysis
- Supply chain analysis
- Manpower requirement
- Management team
- Target markets/customers
- Pricing and promotion
- Distribution strategy
- Marketing strategy

Go/no go, Go-to-market roadmap

Financial evaluation

- Capital requirements
- Financing
- Revenue streams
- Cost assumptions
- Working capital requirement
- 5-year P&L, balance sheet, cash flow
- Break even, IRR, payback period, scenario analysis

Economic viability and investment return analysis

The detailed approach for conducting a feasibility study is outlined below:

Understanding the UAE Market Landscape

Before delving into the intricacies of a feasibility study, it is crucial to comprehend the unique market landscape of the UAE. The country's diverse economy, driven by sectors such as oil and gas, tourism, real estate, and technology, presents a multitude of opportunities. Additionally, the cultural nuances and regulatory environment must be thoroughly understood to ensure a successful market entry. Through the analysis of the market landscape, promoters also understand the key stakeholders in the value chain including potential customers, competitors and regulators.

Primary Market Research

After understanding the deliverables of the product/service and the expectations of the promoters it is imperative to conduct primary research. Primary market research involves gathering firsthand information directly from potential customers, competitors, and industry experts. In the UAE, this can be achieved through surveys, interviews, and focus group discussions. Understanding consumer preferences, behaviour, and demands is essential for crafting a product or service that resonates with the local market. Given the lack of published and reliable data in the region in general and UAE in particular, primary research forms an important element of the feasibility study.

Secondary Market Research

Supplementing primary research with secondary data enhances the depth and accuracy of a feasibility study. Government reports, industry publications, and statistical data provide valuable insights into market trends, demographics, and competitive landscapes in the UAE. Utilizing this information aids in making informed decisions and mitigating risks associated with market uncertainties.

Financial Projections

Accurate financial projections based on the findings of the primary and secondary research are the backbone of any feasibility study. Promoters must meticulously forecast revenues, expenses, and cash flows over a specified period, usually five years. It is imperative that the financial projections are developed in an easy-to-use format, detailed, and tailored specifically for the project. In the UAE, factors such as cost structure, tax regulations, currency fluctuations, and local market dynamics must be considered including demographics. Interacting with professionals who are familiar with the UAE's financial ecosystem as well as industry experts for the specific project is advisable to ensure realistic projections.

Profitability Analysis

Determining the profitability of a venture involves analysing the relationship between costs and revenues. In the UAE, with its diverse markets, understanding the pricing dynamics and cost structures specific to the industry is critical. Factors such as labour costs, regulatory compliance, and market demand should be carefully examined to assess the sustainability and profitability of the planned business.

Project Return Indicators

Key performance indicators (KPIs) are essential tools for evaluating the success of the project. Return on Investment (ROI), Net Present Value (NPV), payback period, breakeven analysis and Internal Rate of Return (IRR) are commonly used indicators in the UAE's business landscape. For project's with debt component, Debt Service Coverage Ratio (DSCR), Interest Coverage Ration (ICR), and debt to equity ratio are some of the important financial indicators. These metrics help gauge the financial viability of the proposed venture and provide insights into the potential returns over time.

Regulatory Compliance and Legal Considerations

Navigating the legal landscape is crucial in the UAE, where regulations can vary across emirates. Understanding licensing requirements, trade regulations, and compliance standards is paramount. Engaging legal experts familiar with UAE business laws ensures that the proposed venture operates within the bounds of the law, mitigating legal risks.

Cultural Sensitivity

Cultural nuances play a significant role in business success in the UAE. Entrepreneurs must be attuned to local customs, traditions, and business etiquette. This cultural sensitivity not only aids in building strong relationships with local stakeholders but also enhances the overall reputation and acceptance of the proposed business in the market.

Conclusion

Conducting a thorough market and financial feasibility study in the United Arab Emirates is a strategic investment that lays the foundation for a successful business venture. By combining primary and secondary market research, accurate financial projections, profitability analysis, and diligent consideration of project return indicators, entrepreneurs can navigate the complexities of the UAE market with confidence. In this dynamic and vibrant business environment, those who approach feasibility studies with precision and cultural awareness are poised for success in the thriving landscape of the United Arab Emirates.

PKF UAE has an experienced team in place who can conduct market and financial feasibility studies to help you reach an informed decision. Our market and financial feasibility reports have been accepted by leading banks and financial institutions in the UAE in the past.

(This article is compiled by Sriram Ramakrishnan, Director, Management Consulting Division)

MEET OUR
TEAM MEMBER

Sunita S Bhandarkar

She is an Associate Chartered Accountant (ACA) from the Institute of Chartered Accountants of India and also holds a Master's Degree in Commerce from Mumbai University, India.

Sunita is a Manager in the External Audit department and has been working with PKF since 2016. Prior to relocating to Dubai, she was with S R Batliboi & Company (a member firm of Ernst & Young) in Mumbai, India and has experience in external audit and tax compliance reporting of companies across various industries – media and entertainment, business services, hospitality, consulting in India.

As Manager, she has overall responsibility of the audits including planning, programming and supervision. She has knowledge of various sectors which includes real estate companies, trading companies, travel business, hospitality sector and facilities management companies.

Sunita's husband, Shashank is into hospitality sector. They are blessed with a son, Sidhya who is 13 years and currently in Grade 9. She loves to travel, dance, eat and watch movies. She also loves to play cricket with her son in her free time.

VAT, Corporate Tax and Excise Updates

The curious case of Free Zone entities and impact of Corporate Tax Regime

In the United Arab Emirates, free zones have a long history dating back to 1985, when Dubai's Jebel Ali neighbourhood became the first free zone to be established. Thereafter, more than 40 free zones have been formed impacting a variety of industries, from IT and commodities trading at prestigious centers like the Dubai Multi Commodities Center (DMCC) to development of creativity-based industry in Dubai Creative Cluster Authority (DCCA). According to the UAE's National Economic Register, there were approximately 60,600 businesses registered in the country's free zones as of mid-February 2021, demonstrating how successful the plan has been for the UAE government.

One of the reasons for the tremendous expansion of free zone enterprises was due to the incentives provided by the UAE government, which included things like 100% foreign ownership in the company, speedy approval process, extended leases, a 50-year promise of a tax-free environment, infrastructure and connectivity, legal protection, and many more. The advantages of starting a business in one of Dubai's free zones therefore extend far beyond the breathtaking skylines of the city. In turn, this has drawn companies and investors from all over the world, resulting in an increase in job opportunities, competitive incomes, a solid knowledge base, and an overall level of excellence.

On Friday, December 9, 2022 the Federal Tax Authority (FTA) released the Federal Decree-Law No.47, on the taxation of Corporations and Businesses, providing that its implementation would support the strategic goals of the UAE. The Corporate Tax will be effective for financial years starting on or after 1 June 2023 and will be levied at a headline rate of 9% on Taxable Income exceeding AED 375,000. Further, it also included transfer pricing (TP) provisions that are broadly aligned with organization for Economic Co-operation and Development (OECD) principles.

The implementation of Corporate Tax has raised concerns for entities established in various free zones about their tax liability and compliance requirement, as one of the key incentives for setting up new entity in a free zone was a 50-year tax-free environment and low compliance demand. Acknowledging their concerns, the federal decree law has provided a relief of 0% Corporate Tax rate for certain free zone entities (termed as 'qualifying free zone persons') subject to satisfaction of certain prescribed conditions. It is pertinent to note that not all free zone entities established and formed in free zone are subject to 0% corporate tax. Free zone entities not qualifying or failing to satisfy the prescribed conditions would be liable to pay corporate tax at 9%.

To distinguish between entities eligible for 0% corporate tax rate, FTA has come up with a 'Cabinet Decision' and a 'Ministerial Decision' outlining the activities that are considered as Qualifying activities (such as manufacturing, headquarter services, logistics services, and few others) and Excluded activities (such as banking, insurance, and few others) with further detailed conditions. To qualify for 0% corporate tax rate, companies in free zone must determine if the activities undertaken by it falls under the umbrella of activities specified. A Qualifying Free Zone Person (QFZP) is also required to have "Adequate Substance" in a free zone, which includes undertaking its core revenue-generating activities, possessing adequate assets, having adequate number of qualified personnel, and incurring an adequate level of operational expenses. Further, the Ministry of Finance has also recently released a 'Public Consultation document' providing scope of each qualifying activity and excluded activity, setting out number of examples relating to both such activities and providing businesses with additional guidance as to whether their activities can fall within the proposed conditions.

Further, it is also pertinent to note that regardless of whether an entity qualifies for a 0% corporate tax rate, all entities conducting business activities (including free zone companies) are mandatorily required to get Corporate Tax registration, undertake prescribed compliances such as filing of Corporate Tax return, and applicable Transfer Pricing compliances.

Therefore, considering all the complexities involved, it is very important to find out whether a free zone entity could be eligible for 0% Corporate tax rate. Thus, a detailed evaluation needs to be carried to evaluate this eligibility of free zone relief and to ensure that all the prescribed conditions for the eligibility are met.

(This article is compiled by Shailesh Kumar, Director-Tax Services and Kunal Bafna, Senior-Tax Services)

Interview with **Mr. Anil Chandirani,** Founder, Satguru Travel

Anil Chandirani is the Chairman and Founder of Satguru Travel Group.

His dedication to service excellence has helped Satguru become a globally leading travel service provider to travelers, corporates, Airlines, hotels and travel agency partners. Through the years, Satguru Travel has expanded its presence across 78 countries. Mr. Chandirani's vision has been to continuously bring world class services to all the stakeholders of the travel ecosystem globally.

In a freewheeling interview with us, Mr. Chandirani spoke about his journey, his family, and the journey with Satguru Travels.

Q. What key factors would you attribute Satguru Travel's success to – local expertise, international synergies or simply good governance?

There isn't one attribute that contributed to the success of our group, from a service perspective we have tailor made our services to the different segments of the travel spectrum we serve keeping in mind their requirements that drive customer satisfaction. Our B2C brand Travel wings is an online travel agency that serves the requirements of this generation of customers who prefer booking their tickets online, our brand Satguru Travel serves corporate customers and delivers services that corporate organizations need and retail services that require physical service interactions. Top Travel Trip, our B2B brand serves the requirements of more than 10000 small and mid-Size agents. Itvar our representation brand that manages the operations of more than 30 airlines across 70+ stations and promote travel ancillary products globally. Satguru DMC our destination management company delivers world-class local services for visitors across 10+ countries.

In all the countries that we operate, we work as a local company and ensure we are a part of contributing to the success of the community through our businesses and this has contributed to developing long term successes in many countries.

Last but not the least; I have an amazing team of 3000+ members who work tirelessly and passionately to deliver our customer's requirements, which has led to this success.

Q. The travel industry is a continuously competitive field. Please talk us through your enduring stint as someone whose name is synonymous with the Satguru Travel group.

Competition has been a part of our journey till date. Over the last 34 years, we have seen competition enter the market and we as a company have learned what to better from the successful ones and what not to do from the unsuccessful ones. Despite all the competition our dedicated service, innovating ourselves to suit the changing requirements of customers and ensuring our people are trained and equipped to manage the customer has kept in brought to where we are today.

Q. Your group website proudly says – 'Think Travel, Think us'. Can you elaborate on this?

The entire group works under this motto. We are constantly identifying what our clients are looking for as a service and we thrive on the thrill and passion of developing and delivering that service and this is the reason we can confidently claim this that if you are looking to travel and if you need a service you will find that within the Satguru Travel group.

Q. How much did UAE's ease of doing business help in molding the group's decision to persevere with the UAE as the principal business hub? Were there other deciding factors?

The UAE has played a key role in the success of the group. The vision of its rulers and the support of the citizens has motivated not only the group to make this country the base of our head office but also my home.

The UAE has always tried to constantly be innovative and the leader in providing a favorable business environment. the flexibility of doing business anywhere in the country through free zones, industrial areas and commercial building. The environment UAE sets up through the visa system and various incubator programs attract the best talent from across the globe, investment incentives, open economy and the political stability were reasons which contributed very strongly for the success of our group and a no brainer to make UAE our home.

Q. The pandemic hit international travel the hardest. Did Covid-19 alter the growth plans for Satguru Travels? How did the pandemic alter the future of the travel industry? Do you think that the travel industry can ever reach their pre-covid standards again?

The initial impact for us was severe with closure of international borders, limited flights and travel restrictions, but as I said we are always looking at what we can do to enhance our service to our customers and during this time we catered to the demand for charter flights across Africa/ USA Europe to bring citizens back to their home countries, we started delivering supplies to our corporate clients.

We also took this time to relook at our business model, understand the change COVID was bringing with consumer behavior and preferences and used this time to focus on how we can bring more technology driven solutions to our consumer, take necessary measures to address the health and safety of travelers, identified changes to the types of destinations passengers were choosing and building products around it.

COVID has made us invest more into technology to improve the overall booking experience with us and we have started investing into enhancing lines of business we thought the post COVID customer would want, e.g. Destination management companies, enhance our car fleet, partner with alternate partners for modes of transport and wellness products.

The travel industry is a very agile and adaptable one, we have already seen a growth in leisure travel exceeding pre COVID periods and will slowly see the corporate business also come to pre COVID levels as people have realized that to do business irrespective of the technology available, people to people interaction is still key to build lasting business relationships.

Q. Tell us about the support you got from your family. How much can that support count towards professional and business success?

The support of my family has been the key to my achievement of building this organization. The support of my wife to take a major part of the responsibilities at home gave me the mental strength to focus and grow business. Knowing that I had the support of my family gave me the confidence and strength to take steps to move strongly in the business world. I am a strong believer of family and the importance of it if you need to succeed and our group is an example of an organization that has grown because of the family support.

Q. Satguru won quite a few accolades at the recent World Travel awards. Satguru won the "Leading Travel Agency or Travel Management Company in 2023 for various countries in Africa, Asia, Europe and the Middle East. Can you talk us through the backroom work that has gone into winning these awards?

The key to us winning these awards is just a recognition of the service we offer, the innovativeness we bring into the travel system and the passion of the team to deliver world class services. We do not do any special work to win these awards but of course are deeply grateful when we are recognized for the work we do.

Q. Any parting words of wisdom for budding entrepreneurs who want to make it big in this line of business, in this part of the world?

Persevere, work hard, stay honest and keep learning.

Did you know?

Origin of Calibri

Calibri is a digital sans-serif typeface family in the humanist or modern style. It was designed by Luc(as) de Groot in 2002–2004 and released to the general public in 2007, with Microsoft Office 2007 and Windows Vista. In Office 2007, it replaced Times New Roman as the default typeface in Word and replaced Arial as the default in PowerPoint, Excel, Outlook, and WordPad. De Groot described its subtly rounded design as having "a warm and soft character". Calibri's proportions allow high impact in tightly set lines of big and small text alike.

Figs and wasp

Unlike other flowering plants, figs and their wasps are more than symbiotic benefactors, they are partners. When a fig is ready to be pollinated, it emits a scent alluring only to the fig's partner wasps. A female wasp, reaching one of these figs, tunnels her way through a needle-sized opening at the fig's base. Each time a wasp does this she unknowingly commits the ultimate sacrifice. As she wriggles her way down the narrow hole, her wings and antenna get ripped away, rendering her flightless. She will live out the rest of her two-day lifespan inside the fig, never to take flight again. Over the next few weeks, the eggs develop and the male hatchlings emerge first. The males use their jaws to bite through the fig's flesh, creating exit routes for their female siblings. Completing their life's work, the males crawl back inside the fig's cavern to die. The female wasps laden with pollen, carry with them the next generation of wasps.

Events and Happenings

PKF Annual Gala Event

Much anticipated get-together event of the year, PKF UAE annual staff party in Bollywood style, was celebrated on 25 November 2023, wherein staff and their family unleashed their inner Bollywood star with a memorable night filled with glitz, glamour, and unforgettable moments. A variety of fun-filled events and activities were held to entertain all, create unforgettable memories, as the staff and family members danced all night. The event was thoroughly enjoyable, which boosted bonding amongst team and family members to understand each other better.

Mental Health and Well Being

PKF UAE in collaboration with Docsy, an employee mental wellness company, conducted an enriching and insightful session on mental health through the MindScape MicroSessions. This series was a unique opportunity for staff to engage in topics crucial for mental well-being, as well as personal and professional growth. This session featured an expert doctor discussing a pertinent topic in mental health, chosen to benefit all: Psychology to Physiology: Exploring the link between Mental Health, Loneliness, & Lifestyle Diseases.

Expanding DIFC law across all Dubai based free zones – ambitious/too soon/too late?

The Dubai Government is on the verge of enacting a change that will potentially redefine the legal landscape in Dubai based free zones.

Currently, Dubai operates under two separate legal systems:

- Federal Laws of the UAE, applicable throughout Dubai and all the other Emirates; and
- Laws of the Dubai International Financial Centre (DIFC), founded on the common law principles of English law.

Dubai is now contemplating extending the jurisdiction of DIFC courts and/or laws to encompass all free zones within Dubai. This ground-breaking proposal, currently open for public opinion, could bring about a tectonic shift, aligning the legal systems within Dubai's free zones with a common law framework. Such a move aligns with Dubai's broader vision, as outlined in the Dubai Economic Agenda D33, that envisions Dubai as one of the world's top 3 global economic hubs and demonstrates Dubai's commitment to enhancing its economic appeal and business environment.

Existing legal framework in Dubai free zones

DIFC is the only free zone in Dubai that has its own civil and commercial laws and courts, which allows the DIFC to operate with its own distinct civil and commercial legal system operating independently of UAE federal law. As it stands, businesses within these zones are governed by a mixed system that melds Free Zone regulations with overarching UAE laws. While companies may in some cases opt for contracts to be governed by alternative laws, if no such alternative is specified or are not permitted, then UAE federal law takes precedence.

Government survey

In line with their progressive vision, the Government of Dubai has shared a public survey to explore the application of DIFC laws beyond the DIFC itself. The survey offers two potential options:

1. **Hybrid System: DIFC Courts having jurisdiction with UAE laws as default:**

   Under this framework, the DIFC Courts would be responsible for overseeing civil and commercial disputes within the Free Zone where you operate. UAE laws will be applicable by default to the dispute. However, for matters concerning litigation procedures and evidentiary rules, the DIFC laws will take precedence. This means that while disputes would be adjudicated by the DIFC Courts, the foundational laws of the UAE would influence guide the decisions in court cases.

2. **Standalone System: Extended Jurisdiction of DIFC to Selected Free Zones:**

   In this setup, the entire legal framework of DIFC's civil and commercial laws (excluding licensing regulations) would extend to the selected Free Zone. This would mean that companies in these zones would function entirely under DIFC Laws and regulations (company law, bankruptcy law, employment law, etc.), with the DIFC Courts handling all respective disputes.

Practical implications

Whilst the hybrid system offers the convenience of the English language being used in litigation, it may not bring about significant changes given that UAE federal laws would still apply. Well-advised companies should already be giving consideration to their dispute resolution clauses and carefully selecting the applicable jurisdiction, such that the introduction of the hybrid system may have a limited effect. The slightly higher costs associated with conducting litigation in the DIFC Courts as compared to the Dubai Courts could also be seen as a financial barrier to litigation by some claimants.

The standalone system, in contrast, represents a substantial departure from the status quo by introducing a unified and comprehensive set of laws and regulations for all Dubai free zones. This approach is likely to find favour among foreign investors, offering them some comfort of a legal system rooted in principles of common law and allowing companies to streamline their internal procedures and requirements where they have companies established in various free zones in Dubai.

The practicalities of the standalone system however, are not so straight forward

- Will all free zones create or modify their portals to mirror that of the DIFC? – currently there are significant differences in the way investors or consultants can navigate through different free zone portals as compared to the DIFC company portal

- Will all free zones homogenize their corporate documents, including all employment contracts? – again, there are significant differences in the way standard documents like the memorandum or articles of association are drafted, with many free zones choosing a lean model giving as little and basic information as possible.
- Will all the benefits of capital structures and different share classes also be available to be utilised? – DIFC and ADGM with DMCC recently joining in, remain the only free zones that currently offer different classes of shares or variation in the rights among classes of shares. This is a great distinction point and matter of hinderance for many investors who are used to this in more established jurisdictions in Asia and Europe.
- Whilst the licencing regulations of free zones remain untouched or will any of those licencing activities fall under the regulatory authority of the Dubai Financial Services Authority? – DIFC is touted as a financial free zone while most other free zones in Dubai boast their respective 'niche' areas of expertise when it comes to licensing and permissible activities. Will this see a change?

The extent to which these changes, alongside other procedural modifications, will be embraced by businesses in the free zones will most likely hinge on their administrative capacity and the cost-effectiveness of the free zones in adapting to such alterations. Nonetheless, the objective of simplifying the business environment in free zones would potentially have long-term positive effects, not only for the businesses but also for the free zones themselves. Most will benefit from the Industry best practices followed by the DIFC.

Conclusion....so far

More details will be needed to examine how the hybrid system would work in practice for an accurate assessment of its likely impact.

The standalone system promises a degree of familiarity and comfort for overseas investors. The stability of DIFC laws and regulations, tried and tested over time, is likely to be a welcome change for businesses looking to establish themselves in free zones outside the DIFC.

In an environment where most companies can now be 100% foreign-owned onshore and with the complexity of corporate tax applicable to various free zones-based companies, the introduction and publication of more unique privileges available to free zones should enable them to differentiate their offerings to investors.

The survey remains open, and the outcome of this consultation may take some time to materialise. Nevertheless, Dubai's proactive approach to adapt and lead in embracing change is evident, reflecting its commitment to achieving its vision of becoming one of the world's top 3 global economic hubs.

For those currently operating within a free zone in Dubai outside of the DIFC, they can have your say through the "Common Law Beyond DIFC: Evaluating Proposed Legal Frameworks for Free Zone Jurisdictions" survey on

https://polls.dsc.gov.ae/index.php?r=survey/index&sid=499643

(This article is compiled by Chaitanya G. Kirtikar, Associate Director, Structuring Services)

OMAN UPDATE

VAT Guide on education services

Background and applicability

The Value Added Tax (VAT) Law of the Sultanate of Oman issued by Royal Decree No. 121/2020 exempts Educational Services and related Goods and Services as stated in the Article 47 under Chapter Six of the Law read with Article (81) of the VAT Executive Regulations.

The Tax Authority (TA) in the Sultanate of Oman (Oman) has issued the guide on the application of VAT law to the education sector in June 2023.

This guide explains the TA's interpretation of key provisions of the VAT Law relevant to the provisions of education and of related goods and services.

It is applicable to the supplier of any education services within Oman, or a provider of related goods and services within the industry.

Brief introduction on VAT exemption in the education sector

In accordance with Article 81 of the Executive Regulations & pursuant to the provisions of item (3) of Article (47) of the Law, Educational Services and related Goods and Services supplied by educational institutions licensed by Competent Authorities (MoE) in the field of education in the Sultanate are exempted from tax, with the exception of courses provided outside the approved school curriculum.

This interprets to the following:

1. Licensed educational institutions are not required to register if they only make exempt supplies.
2. Licensed educational institutions do not charge VAT on revenues received for providing education, and related goods and services.
3. Third party suppliers apply VAT as normal to the goods and services they supply to licensed educational institutions.
4. Licensed educational institutions are not eligible to deduct any Input VAT incurred on costs which relate to their exempt activities.

Place of Supply Rule

Nature of supply	Place of supply
Education is delivered or made available through classes, lectures or other in person teaching	The place of supply is where this education is **actually performed**
Education is delivered or made available through "electronically supplied services" i.e., "on demand" written, audio-visual and other electronic content such as automated learning programs	The place of supply is in the **country of actual usage of services** (can be clearly established by the IP address, or customer's residence address)

Exempt Education Services and Vatable Education services

(A) General cases of exemption (Specified in Article 81 of Executive Regulations)

1. Education in Pre-primary and kindergarten stages.
2. Education in all stages.
3. Higher education.
4. Vocational and technical education (theoretical or practical education to qualify persons to practice a profession or a craft).
5. Adult education for adults who did not attend formal schools.
6. Education for people with special needs, including the blind, deaf and dumb.
7. Teaching languages.
8. Vocational institutes.

(B) Specific cases of exemption (Specified in the guide)

1. Education provided in Oman by state schools and international schools approved by MoE for specific curriculum (e.g., Admission fees, tuition fees, registration fees, boarding fees)
2. Education provided by one institution to another institution's students
3. Service provided by teaching staff of one institution to another institution
4. Digital learning provided within Oman (Live lecture through audio or video steaming, online conferencing, digital content & online exam).
5. Supply of residence, food & drinks (On site or educational residential facility)
6. Organizing cultural, educational or professional activities or seminar (relating to curriculum only and limited to students only)
7. Organizing trips (related to specific curriculum)
8. Supply of educational materials
9. Supply of transport to students provided by the school (Not applicable for 3rd party seller)
10. Supply of school uniforms (Not applicable for 3rd party seller)

(C) Applicability of VAT in specific cases (Specified in the guide)

1. Free educational material (Deemed supply without consideration) considered as Zero Rated
2. Professional training provided to companies
3. Private tutorship
4. Rent of facilities by school
5. Donations & Advertisement by educational institutes
6. Goods & Services provided to general public
7. Administrative services i.e., cost sharing by education institute
8. Supply of services of distance learning to Oman from an overseas institution in connection with non-approved curriculum

Input Tax Credit (ITC) Analysis

Revenue Stream	ITC allowability
Input VAT directly and only used for the purpose of taxable supplies	Full ITC allowed
Input VAT directly and only used for the purpose of exempt supplies	No ITC Allowed
Input VAT that is used both in making Taxable and Exempt supplies – including overheads or costs which cannot be directly attributed	Partial ITC allowable

1. The partial exemption deduction is calculated at the end of each Tax Period, based on the supplies made during that period, using following formula:

   Total value of Taxable Supplies / Total value of Taxable and Exempt Supplies X 100%

2. The annual partial exemption is calculated based on the following formula:

   Total value of Taxable Supplies in the Tax Year / Total value of Taxable and Exempt Supplies in the Tax Year X 100%

Disclaimer and Conclusion

The above mentioned is strictly a guideline and may not include some relevant legislative provisions from the VAT legislation.

For further guidance on specific transactions, a professional tax opinion should be taken or a ruling need to be obtained with the tax authority.

(This article is contributed by Saumil Sanghavi, Manager, PKF LLC Oman)

RANGE OF SERVICES

Audit, Assurance & Advisory

- Statutory audit
- Other assurance services including Agreed-upon Procedures
- Compilation of financial statements
- Agreed-Upon Procedure for RERA
- Unified In-Country Value certification (ICV) for ADNOC, ADDED, Aldar, Abu Dhabi Ports, ENEC and Mubadala
- Training, consulting and implementation of IFRS
- Internal audit including compliance for DFSA and ADGM regulated entities
- Enterprise risk assessment
- Internal control review
- Risk management review
- Finance and Accounting Procedures Manual
- Business process review
- Due diligence reviews
- Forensic and other investigations
- Delegation of authority matrix
- Information technology / cyber security review

Corporate Finance

- Financial due diligence
- Market analysis and feasibility studies with financial forecasts
- Business & share valuations
- Identification & valuation of intangible assets on a business acquisition (purchase price allocation)
- Impairment reviews
- Preparation of Business Plans and Information Memoranda
- Fund raising
- Advice on partner/share holder entry/exit
- Review of financial models
- Sale of business

Business Structuring Services

- Book keeping and accounting services
- Payroll and HR management and processing
- Confidential processing of payroll
- Short term placement of accounting staff
- Outsourced accounting & payroll services for DIFC companies
- Fixed asset management
- Inventory verification and reporting

Structuring Services

- Entry strategy
- Free zone, mainland and offshore company formation
- Company liquidation / de-registration services
- Registered agent and registered office services
- Company re-domiciliation / migration services
- Visa services (application and renewal)
- Conversion of mainland LLCs to 100% foreign ownership
- Identification of local agent for mainland professional licenses
- Succession planning
- Statutory compliance services for UAE based entities

Tax Advisory and Compliance

- Tax Advisory Services
- VAT and Excise Tax Implementation support
- VAT and Excise Tax registrations, amendments and deregistration
- Assistance in preparing and filing of VAT and Excise Tax returns
- Diagnostic reviews and health checks for VAT and Excise
- Represent / liaison with relevant authorities on taxation matters
- Tax Agency Services
- Assistance in evaluation, preparation & filing of reports under UAE ESR & CbCr regulations
- Cross-Border tax advisory
- Tax due diligence
- Training on tax matters

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PUBLICATIONS

- Practice Profile
- Doing Business in the UAE
- Credentials
- Free Zones in the UAE

All the foregoing publications can be obtained from any of the offices in UAE and Oman