

Key investment legislative reforms in Oman

Ahmed Al Barwani - Head of Office - Oman - Corporate / Mergers & Acquisitions / Commercial
a.albarwani@tamimi.com - Muscat

Richard Baxter - Senior Associate - Corporate / Mergers & Acquisitions / Commercial / Capital Markets / Projects
- Muscat

With the exportation of crude oil still the primary driver of the Omani economy, the continued rise of its price (now over USD 60 per barrel) will, together with the completion of key infrastructure projects, accelerate the size of investment in Oman by foreign and local investors. Important infrastructure projects in this regard include improving the network of roads connecting main commercial cities and their ports, the completion of Muscat International Airport, development of commercial cities and free zones (like Sohar, Duqm and Salalah) – all of which has paved the way for the private sector to play a bigger role in the development of its economy.

Historically, the Omani government was the primary participant in the Oman market, and controlled the award of large projects to international companies to invest in Oman. This role will be diminished from 2018 – with the aim of achieving a sustainable economy less reliant on oil exports, providing more room for foreign investors to deal with companies operating in the private sector.

The relatively neutral position Oman has adopted in regional and international conflicts has contributed to its reputation as a stable jurisdiction for investment. In support of this proposition, a number of companies (particularly from 2017 onwards) began moving their regional headquarters to Oman. The move assisted in easing their operational requirements and international transfer of funds. It is anticipated this trend will continue in 2018 given the political and economical stability which Oman has and which investors around the globe are looking for in one of the areas which has biggest oil reserves, taking into consideration the geographical location of Sultanate of Oman in the South-eastern coast of the Arabian Peninsula with all of its main ports and dry-dock overseeing the Indian ocean which make them safe hubs for any goods or shipments to be loaded or ships to be serviced.

Parallel to the increase in the oil prices and the political stability enjoyed by Oman, a number of key laws have been reconsidered. This article presents an overview of key legislative reforms in Oman.

Ownership of Land by Real Estate Investment Funds

Another key law which may further encourage foreign investment and assist foreign investors to exercise more direct control through their investments is ministerial decision number 95/2017 issued by the Minister of the Ministry of Housing which regulates the conditions of ownership in real estate investment funds (the “Ministerial Resolution”) and came to force on 16 November 2017. Real Estate Investment Funds (“REIFs”) will be regulated and licensed by the Capital Market Authority, and will take the form of a closed fund with fixed share capital. REIFs may own properties necessary for the conduct of its licensed activities. In particular, the Ministerial Resolution has provided an alternative structure for local investors and extended the very limited rights of non-GCC (foreign) nationals and/or entities to own real property in Oman, albeit only in respect of developed land. Prior to the passing of the Ministerial Resolution:

- i. local investors could not readily access exposure to property investment; and
- ii. foreigners in Oman were all but excluded from outright ownership of land (access to leases and usufruct rights being more readily available) other than:

a. ownership rights, permitted for development and onward sale, in favour of SOAGs (public joint stock companies) which required 30% Omani participation; or

b. in respect of residential units in integrated tourist complexes.

REIFs may own properties necessary for the conduct of its licensed activities through purchase subject to the following conditions:

1. that the property intended to be owned has already been built and completed with a certificate of completion issued by the relevant municipality;
2. that the ownership shall be limited to properties of commercial use, commercial residential, industrial or tourism. It shall be permitted as well to own residential complexes provided that the area of the residential complex is OMR 10,000 square meter at least; and
3. it shall not be permitted for REIF's to own vacant lands as well as ownership of properties with a agriculture use.

REIFs that are not wholly owned by Omanis are not permitted to own properties in Musanddam, Al Dahira, Al Buraimi, Dhofar (except Salalah state), Liwa, Shinas, Al Duqm, Al Jabal Al Khdar, Jabal Shams, islands, historic districts, concession areas and other areas which are not approved by the Ministry of Housing.

The Ministerial Resolution clearly sets out the legal basis for REIFs to be established and operated within the parameters noted above. The Ministerial Resolution does not contain any material further detail in respect of the form or regulation of REIFs and further detail, from the Capital Markets Authority, should follow in due course. The practice of establishing such funds, and securing the relevant licences from the Capital Markets Authority, is yet to be tested. Experience shows that practice will, to some extent, develop as the first funds are established.

Tax Reform

The introduction of VAT and the tax reforms throughout GCC countries will further reshape business and will have an impact on the prices of goods and services. Sultani Decree 9/2017 issued on 19 February 2017 and published in the Official Gazette on 26 February 2017 (the "Income Tax Law") has made notable changes to Oman's income tax law. Oman has increased the income tax rate from 12% to 15%. Additionally, small and medium business will start paying tax in 2018 at a rate of 3% with the threshold of OMR 30,000 being removed. Accordingly, annual net profits will be taxed regardless of amount. There are some exemptions from the provisions of the Income Tax Law, including tourism, mining, fishing and education.

Other Laws

The Foreign Capital Investment Law will, once issued, permit better ownership and control of companies which are incorporated in Oman by local investors. It is envisaged that 100% foreign shareholding will be permitted in some sectors, such as industry and tourism. Legislative procedures have been amended through the issuance of Sultani Decree 99/2011 which gives Shura and the State Councils the right to review any draft laws and provide comment.

Conclusion

With the positive developments in the political, economical and legislative fields, there is a growing interest in investing in the Sultanate of Oman – being described by some commentators as the "Switzerland of the Gulf". Oman continues to secure itself in this position, believing that investors eventually, regardless of the size of their respective investment, are looking for a stable jurisdiction where they can plan and grow their business.