Doing Business in Oman

Published by Al Tamimi & Company

Oman office

Al Assalah Towers Building 223
Block 237 Office 409, Street 3701
Ghubrah South
Muscat, Oman

Al Tamimi, Al Barwani & Co is trading under the registered trade mark of "Al Tamimi & Co" Registration Number: 2013/73M

T: +968 2421 8554
E: infooman@tamimi.com

Head office, DIFC

6th Floor, Building 4 East
Dubai International Financial Centre
PO Box 9275
Dubai, UAE
T: +971 (0) 4 364 1641
F: +971 (0) 4 364 1777
E: info@tamimi.com

Contributors:

Ahmed Al Barwani
Head of Oman Office

Design:
Noura Haggag

www.tamimi.com

Contents

Doing Business in Oman

Our guide to 'Doing Business in Oman' has been produced to provide companies and individuals with information on operating in the Sultanate of Oman. The guide seeks to answer some of the most important questions that investors may have with regards to their business structures based on the differing business activities. We have also aimed to provide an insight into the key employment issues for companies and employers alike.

We trust you will find the information presented of value and that it provides you with a greater understanding of both the business and legal aspects of operating in Oman. We look forward to the opportunity to work with you to ensure your success when doing business here.

Essam Al Tamimi
Senior Partner

Husam Hourani
Managing Partner

Ahmed Al Barwani
Head of Office - Oman

About Al Tamimi & Company

As the largest law firm in the Middle East, Al Tamimi & Company knows more than just the law. We pride ourselves on understanding the business environment in which we operate ultimately benefiting the clients we work with.

Established in Dubai in 1989, we have offices in Bahrain, Iraq, Jordan, Egypt, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates with more than 330 lawyers and over 670 staff. We are proud of where we have come from and excited about where we are heading.

As a full service law firm, we specialise in a range of practice areas - each being a genuine strength. We provide not only professional expertise but superior client service and quality strategic advice. We combine internationally qualified and experienced lawyers with lawyers who have deep local roots. Along with this, the ability to practice local law in each of the jurisdictions we are present, rights of audience before local courts, and licensed litigators in each of our offices, really sets us apart.

We have advised on some of the most complex legal issues and continue to be at the forefront of business and legal challenges facing our clients.

www.tamimi.com

Our Regional Footprint

With a focus on the Middle East, we have a strong understanding of the business environment that our clients operate in. This, combined with our full range capabilities, ensures that clients receive sound, strategic legal advice.

With lawyers in 17 offices across 9 countries in the region who are dedicated to working together interactively, we can respond knowledgeably and efficiently on any legal aspect across the region.

Our unified approach illustrates our ability to work together with our clients, address their issues and identify reasonable commercial solutions by building close relationships with them. We recognise the importance of being easily accessible, commercially aware and at the leading forefront of market developments.

UAE
Abu Dhabi
Dubai, DIFC
Dubai Internet City
Dubai, The MAZE Tower
Ras Al Khaimah
Sharjah

BAHRAIN -Manama

EGYPT- Cairo

IRAQ
Baghdad
Erbil

JORDAN- Amman

KUWAIT- Kuwait City

OMAN- Muscat

QATAR - Doha

SAUDI ARABIA
Al Khobar
Jeddah
Riyadh

About Oman

Why do business in Oman?

Since rising to power in 1970, Sultan Qaboos has presided over a phenomenal transformation in Oman's social and economic structure. Sultan Qaboos undertook an extensive modernisation programme which resulted in the average per capita income increasing more than 5,000 per cent and literacy rates soaring.

Oman receives vast revenues from oil production which fuel the economy. Diversification is now a government priority with a major emphasis being placed on tourism which is a key source of revenue. Diversification and foreign investment are evidenced by places like Sohar, which has developed an integrated port, freezone, industrial zone and airport project called Gateway Sohar. The government has made extraordinary allocations for developmental projects expected to be awarded between 2017 and 2020 which will benefit numerous sectors in the Oman economy.

Oman has a free-trade agreement with the U.S. which eliminates tariff barriers on all consumer and industrial products. It also provides for strong protections for foreign businesses investing in Oman. Other attractive developments in Oman relate to a prudent credit rating with Oman enjoying smart ratings, namely A and A1 by Standard & Poor's and Moody's. The American investor is treated mutually as the Omani investor and can enjoy 100% ownership with no capital limitation.

OMAN

Location:

Oman is bordered by the United Arab Emirates ("UAE") to the northwest, Saudi Arabia to the west and Yemen to the South West. The peninsula of Musandam is separated from the rest of Oman by the UAE.

The capital city Muscat is located on the South East coast, the main cities Sohar and Sur in the North and Salalah in the South. The landscape of Oman is varied with a vast desert covering most of central Oman and dramatic mountain ranges along the north and southeast coast. Oman is highly regarded for its pristine coastline, which is 2,092 km.

Government:

In response to the growth and expansion of Oman as a competitive global economic hub under the leadership of Sultan Qaboos, the government strives to represent, support and protect the interests of the business community. Politics in Oman take place in a framework of an absolute monarchy whereby the Sultan of Oman is the head of state and the head of government.

Laws:

Sharia (Islamic law is the source of all legislation. Oman has strong laws and regulations, which are constantly amended to provide a flexible and up to date legal frame work to do business in.

Political Stability:

According to international indices, Oman is one of the most developed and stable countries in the Arab world. The country's political and social fabric is very strong and the governmenOman has scored zero in the global terrorism index, which reflects well on its safety and security against terrorist threats, according to the Global Terrorism Index 2015 released recently by the Economics and Peace Institutet's focus is social and economic growth and development.

Currency:

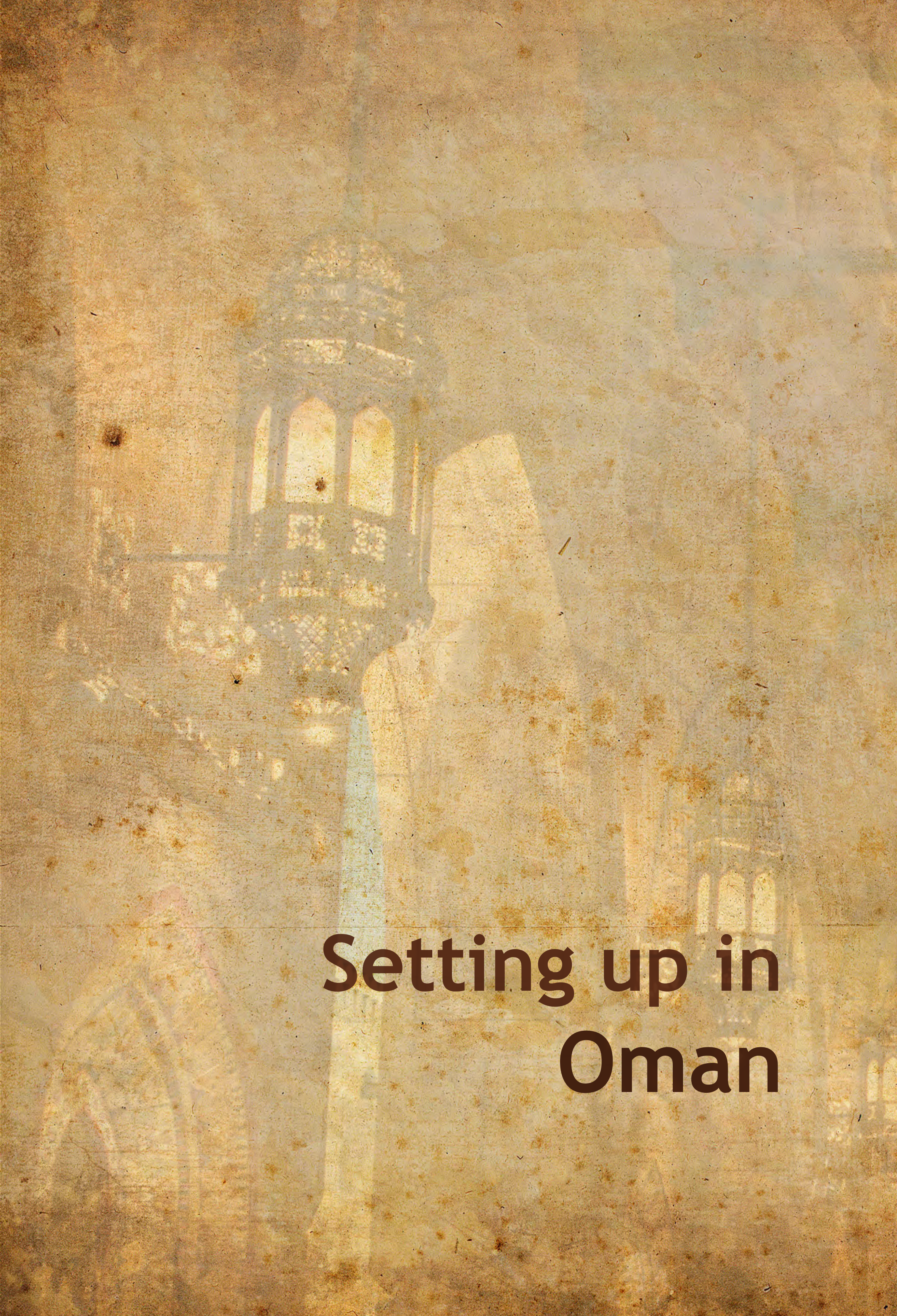
The currency of Oman is the Omani Rial.

Language:

The official language of Oman is Arabic, however English is widely used in business circles. Baluchi, Urdu, and Indian dialects are also commonly spoken.

Population:

Oman's population is approximately 4 million.



Setting up in Oman

Setting up in Oman

Strategically located on the south east of Arabic Peninsula Sultanate of Oman is considered the gate to the Arabian Gulf through the Strait of Hurmuz which connects it to the Arabian Sea. About a third of the petrol traded by sea pass through the Strait of Hurmuz making it one of the important places in the world for international trade. The fact that the Sultanate has a coastline of 2,092 KM open to the Indian Ocean enables the establishment of industrial and free zones in cities along the coast and its proximity of place and time with other countries has presented Oman as a unique and secure place for investment. Beside oil and gas which is the main source of income for the government of Oman, Oman is progressively developing the sectors of tourism, mining, fisheries, manufacturing, and logistics as other sources of income and encourages foreign investors to invest in those fields. The government of Oman is making huge investment in a public transportation network including a railway project to connect Oman with the other GCC member states providing another option for the movement of people and goods between Gulf states.

Oman has acceded to a number of international agreements including WTO agreements and the FTA with the United States. An additional FTA is being negotiated with the Europen Union which would contribute to the enhancement of the legal framework for investment in Oman. These agreements typically provide incentives to investors from countries to those agreements including customs exemptions, lower tax rates and in some sectors, similar treatment to put these investors on par with nationals.

This chapter aims to outline the various structures and corporate forms for setting up business in Oman depending on the products or services the business will offer.

There are two main options for investors to start up business, the first being in mainland Oman and the second in one of the free zones that Oman has to offer.

Legal Structures

There are three main legal structures available to companies, which will provide both a direct and indirect business presence in Oman. From a direct perspective, these are available through a sole proprietorship or through a corporate entity. From an indirect perspective, businesses can be carried out through commercial agents.

Sole Proprietorship

A sole proprietorship is a simple business method whereby an individual trades on his own account pursuant to a trade license issued in his own name. This form of business entity is referred to as an 'establishment' rather than a company and the sole proprietor is personally liable to the full extent of his assets for the liabilities of the business. The establishment will not have an independent legal entity from that of the owner.

Mainly Omani nationals and nationals of GCC countries (subject to certain conditions) are permitted to form sole proprietorships in Oman. A practice has, however, arisen in recent years whereby an Omani national obtains a trade license for a sole proprietorship and leases it to expatriates who then take on all the management functions of the business and retain all the profits. However, this type of arrangement is not recommended as it is essentially unlawful and problems can arise if the business relationship between the parties breaks down. Further, the legal holder of the license will be 100% liable for debts vis-à-vis third party, who may have no knowledge of the private arrangement.

The main procedure for establishing a sole proprietorship is to submit an application together with the relevant documents to the One Stop Shop at the Ministry of Commerce and Industry where the Chamber of Commerce and the Municipality has representation to issue relevant licenses (with the main trade license being issued by the Ministry of Commerce and Industry).

Corporate Forms

Various legal corporate forms are available for the establishment of a business presence in Oman. The table[1] below provides an overview of the various corporate vehicles available to set up in Oman and certain salient comparative features of each, which are based on the provisions of the Commercial Companies Law (CCL), Sultani Decree number 4/1974, as amended, which is the primary law governing corporate entities:

Corporate Forms	Structure of partners / shareholders	Minimum Capital Requirement
General partnership	Two or more partners who have joint and unlimited liability	None
Limited partnership	Limited partnership comprises two categories: (a) One or more general partners who shall be jointly and severally liable for its debts to the full extent of their property; (b) One or more limited partners whose liability for the partnership's debts shall be limited to the amount of their contribution to the partnership's capital, provided such amount has been stated in the contract limited partnership	None

1) *It is advisable to consult with relevant authorities and legal advisors with respect to the up-to-date information in this regard.*

Corporate Forms	Structure of partners / shareholders	Minimum Capital Requirement
Joint venture company / joint participation	Two or more natural or juristic persons, and establishing legal relationships among its members without affecting third parties. The joint venture shall not have a name of its own and its existence may not be raised as a defense against claims made by third parties.	None
Joint stock company	Joint stock company is a commercial company the capital of which is divided into negotiable shares of equal value transferable in the manner prescribed in the law. A joint stock company must consist of at least three natural persons or juristic entities. A joint stock company can be closed or public.	Public (OMR 2,000,000) Closed (OMR 500,000)
Limited liability company	Two or more partners who have limited liability not to exceed 40 partners	OMR20,000 (for Omanis or GCC) OMR 150,000 (for mixed shareholding with foreigners)
Holding company	A holding company is a joint stock company or a limited liability company, which controls one or more companies, which become subsidiaries of it, through its ownership of at least 51% of the shares of such company or companies, whether they are joint stock or limited liability companies.	OMR 2,000,000
Branch Office	Owned by the parent company	None
Representative Office	Owned by the parent company	None

Additional information on the corporate forms listed is as follows:

General Partnership

A general partnership is an arrangement between two or more partners whereby each partner is jointly and severally liable without limitation for the company's liabilities. Oman or GCC nationals are permitted to be partners in a general partnership. This form of business organization is therefore not appropriate for foreign investors wishing to set up in Oman.

Limited Partnership

The CCL defines a simple limited partnership or a partnership as a "company formed by one or more general partners liable for the company liabilities without limit, and one or more limited partners liable for the company liabilities to the extent of their respective shares in the capital only."

Thus, a simple limited partnership is essentially a modified general partnership. As in a general partnership, only Oman and GCC nationals may be general partners in a simple limited partnership, although foreigners may be silent partners, who essentially do not have a role in the management as opposed to the administration of the company regarding third parties. In addition, their liability is limited to the extent of their share capital in the partnership.

Silent partners should of course ensure that they do not lead third parties to believe that they are anything other than a silent partner,otherwise their limited liability will cease. The management of a simple limited partnership is vested in the general partners. As non-Oman or GCC nationals are excluded from assuming any form of business organization, this is seemingly inappropriate for foreign investors.

Joint Participation Venture

The CCL governs the establishment of joint participation ventures or consortium companies, and are defined as a "company between two or more parties to share the profits or losses of one or more commercial businesses being performed by one of the partners in his personal name. The company shall be confined to the relationship between the partners and will not be effective towards third parties."

From the above, it is clear that the existence of such a company is restricted to the arrangement between the partners therein and must not be made known to third parties. Between the partners themselves, the arrangement is essentially a partnership. Each partner conducting business will generally do so in his own name and will not declare the interest of the other partners. The liability of the partners who are conducting business is unlimited regarding the liabilities of the company. If the liability of the other partners is disclosed, the venture will be treated for every purpose as a general partnership.

Joint participation ventures are popular with foreign companies who wish to set up in Oman on a short-term basis, for example, to carry out a specific project. They are often formed where there is some participation by government bodies.

These are no registration formalities for this type of company as it is not a distinct legal entity.

Joint Stock Company

A Joint Stock Company (JSC) is governed by the CCL, which defines a JSC as "any company whose capital is divided into equal value negotiable shares." A shareholder's liability is limited to the paying of the value of the shares which he has subscribed, and the shall be answerable for the debts of the company only to the extent of the nominal value of the shares which he has subscribed. JSC can be public or closed in accordance with the CCL.

Public Joint Stock Company (PJSC)

A PJSC is very similar to the public limited company in the United Kingdom. According to the CCL the shareholders of PJSC are liable only to the value of their shares in the capital of the company. The nominal value of each share of a PJSC should not be less than 100 Baiza and not more than OMR 1, and the minimum share capital requirement is OMR 2 million for a general company, OMR 20 million for a banking entity and OMR 5 million for insurance company.

Among the requirements for the establishment of a PJSC is a prospectus and an offering invitation for public subscription supported by an overall business plan/feasibility study and a bank's certificate evidencing payment of the founders contribution, the Memorandum and Articles of Association and a copy of the agreement between the company and the underwriters. Further, the name of the intended company must end with the words 'Public Joint Stock Company'.

A PJSC must have at least three founder members and its management should be vested in a board of directors consisting of a minimum of five and a maximum of twelve persons whose term of office may not exceed three years. Directors can be re-elected when their term of office has expired. A public joint stock company is required to have a chairman of the board of directors who must be elected in the first board of directors meeting following the general meeting in which the board was elected.

At least 10 percent of the net profit should be allocated to a reserve account until such reserve account amounts to half of the total paid-up capital of the company.

In addition, Oman or GCC nationals should hold at least 30 percent of the share of the PJSC. The founding members must subscribe to a minimum of 30 percent and a maximum of 60 percent of the share capital of the company. If new shares are issued, the existing shareholders should be offered the opportunity to subscribe for such shares in accordance with their existing shareholdings.

There are additional requirements for the incorporation and operation of a PJSC stipulated under the CCL which should be considered by interested investors. However, given the fairly restrictive rules and controls governing the establishment and management of a PJSC and the substantial capital requirement, it is not regarded as a suitable business vehicle for most foreign investors.

Notwithstanding that, the PJSC has become increasingly popular in the recent years and there are currently more than 150 PJSCs in Oman. In addition, as it is the only business vehicle which allows shares to be offered to the public, it enables businesses to raise substantial amounts of capital, particularly where large-scale projects are concerned. This allows small foreign and local investors to participate in such projects.

It should also be noted that, where one is contemplating a business venture which involves insurance, banking or investment of funds on behalf of third parties, the establishment of JSC is a legal necessity and no other type of company may be established for such activities.

Closed Joint Stock Company

A closed joint stock company is essentially the same as a PJSC, with the following differences:

- The minimum capital requirement is OMR 500,000;
- The shares of a closed joint stock company cannot be offered to the public; and
- The shares of a closed joint stock company are listed on the third market, whereas the shares of a PJSC are listed on the primary market.

Considering the lower capital requirement of OMR 500,000, closed joint stock companies are popular with foreign investors.

It is worth noting that the procedures for setting up a closed joint stock company are similar in many respects to a PJSC.

Limited Liability Company

A Limited Liability Company (LLC) is governed by the CCL. LLCs are popular and often the most suitable method of establishing a business in Oman by foreign investors. LLCs are similar to private limited liability companies in the United Kingdom. However, as mentioned earlier, where the intended business involves banking, insurance and/or investment activities conducted on behalf of third parties, an LLC is not legally permitted to practice such activities. In this case, a PJSC will instead have to be established. CCL defines LLC as a company "with limited liability…where the number of partners may not exceed forty and should not be less than two. Each of the partners shall only be liable to the extent of his share in the capital. The partners' participation should not be represented by negotiable certificates."

In addition, the following may be noted with regards to an LLC:

- Public subscription for raising capital is not permitted;
- A foreign partner is generally permitted to own a maximum of 70 percent of the capital of the company and the day-to-day management of the company may be vested in a foreign manager;
- Managers may be one or more of the partners or any other parties (including foreigners) ;
- In practice, national partners often play no part in the operations of the company and may well give the foreign partner a power of attorney authorizing him to vote in the general assembly on his behalf on matters permitted by CCL;
- It is possible to provide in the Memorandum (called the Constitutive Contract under CCL) that profit and losses will be shared in a ratio different to the share capital ratio;
- It is necessary to appoint an auditor who must be accredited in Oman; and
- The auditor should be appointed by the general assembly (which is essentially a meeting of all the shareholders of the company).

Holding Company

Holding companies are not popular due to their structure and the high capital requirement, which is OMR 2,000,000. Further, the objects of a holding company shall include the following:

- management of its subsidiary companies, or participation in the management of other companies in which it has shares;
- investment of its funds in shares, bonds and securities;
- provision of loans, guarantees and funding to its subsidiary and other companies; and

- holding of patents, trademarks, concessions and other incorporeal rights, the exploration thereof and the leasing out of the same to its subsidiary and other companies.

There are special rules, issued by the Ministry of Commerce and Industry, which regulate holding companies and their subsidiaries. Therefore, foreign investors do not choose the legal form during their initial investment unless the business develops and there is a requirement to include one of the objects above mentioned.

Branch Office of a Foreign Company

A very popular way for foreign companies to benefit from 100 percent foreign ownership is to establish a branch office of the parent company. The Foreign Capital Investment Law, promulgated by Sultani Decree number 102/94, contains provisions regulating the establishment of branch offices of foreign companies in Oman.

A branch office is legally part of and an extension to its parent company; it does not therefore have a legal identity distinct from its parent company. Therefore, the name of a branch office will be the same as that of the company of which it is a part.

For the establishment of a branch of a foreign company it is essential that the foreign company has a contract with one of the government entities or companies wholly owned by the government. The foreign company must provide an undertaking with the registration documents, which stipulates that it undertakes to bear the liabilities of the branch and the acts of its manager of the branch.

The branch period is limited to the period of the project which shall be sufficient for its execution in Oman, and accordingly it is not permitted to carry out any other type of work for any third parties. The activities of the branch must be similar to the activities of its parent company and it is not permitted to carry out any other activity unless approved first by the parent company and registered with the Ministry of Commerce and Industry.

Representative Offices of Foreign Companies

Representative offices are governed by the Representative Office

Regulatory Law, promulgated by ministerial decision number 22/2000. A representative office of a foreign company is legally distinct form a branch office of a foreign company in that it is only permitted to promote its parent company's activities. Therefore, if a parent company deals in the sale and/or production of certain products and opens a representative office in Oman, the office will only be able to promote and market the sale and/or production of such products and facilitate contracts in Oman, as distinct from conducting the sale and production itself.

It should be noted that in addition to the above limitations, representative offices have other restrictions in that they are not allowed to obtain credit facilities or put forward offers.

In order to establish a representative office in Oman the parent company must provide a certified copy of the articles of association, a certified copy of the commercial registration certificate, authorization for the manager of the representative office to manage the office and a letter of undertaking to bear all liabilities of the office.

Commercial Agents

Foreign companies can trade in Oman through importers and traders. However, such arrangements are not particularly well suited to continuous, high volume trading. Overseas manufacturers or traders who wish to import goods into Oman in large quantities and on a regular basis may wish to appoint a local trader or commercial agent through the establishment of a commercial agency.

The commercial agency has to be registered in the commercial agency register maintained by the Ministry of Commerce and Industry.

Registered Commercial Agent

A Registered Commercial Agency is defined by the Commercial Agency Law, Sultani Decree number 26/1977 as amended, (Agency Law), as "any agreement by virtue of which a merchandise or a commercial company undertakes to sell or promote a product or provide services whether in his or its capacity as an agent or a representative or a mediator on behalf of the supplier or the principal in consideration to a commission or profit". This in particular applies to travel and tourism agencies, international insurance agencies in the Sultanate, land and maritime transportation agencies and advertisement and promotion agencies. ”

Under the Agency Law there are some benefits of a registered service agency for the agent, discussed below:

Exclusivity

Registered agents have the exclusive right to import the goods which are the subject matter of the agency agreement. If the principal or any other person distributes or markets the specified products or services within the territory, they will be liable to compensate the trade agent. Where exclusivity of the agent is not a concern for the principal, the restriction on import of the said goods by any third party is of course also a protection of the interests of the principal.

Commissions

Registered commercial agents are entitled to receive commissions on both the sales they make as well as the direct sales made by the principal or other parties, regardless of whether or not the agent has contributed towards such direct sales. The principal should consequently ensure that the agency agreement clearly defines the products which constitute the agreement and the territory concerned.

Jurisdictions

The laws of Oman permit various types of corporate vehicles and structures as discussed above, which may be set up in a couple of jurisdictions. Besides the conventional jurisdiction of the mainland, Oman has three free zones where entities can be incorporated. These free zones are geographically located within Oman but are considered distinct legal jurisdictions, usually having their own regulatory laws.

Licenses

All business activities in Oman, conducted by any type of entity, regardless of whether it is set up in mainland Oman or in the free

zones, require one or more licenses. Certain regulated activities may require additional licenses from specialist regulatory authorities and/or certain ministries. For example, banks and financial institutions require special approval from the Central Bank, media companies require special approval from the Ministry of Information, and manufacturing companies require special approval from the Ministry of Commerce and Industry.
For entities set up in mainland Oman the license is issued by the Directorate of Trade and Directorate of Industry. The three main types of licenses are as follows:

- Commercial license (all kinds of trading);
- Industrial license (manufacturing or industrial); and
- Professional license (professions, services and craftsmen).

For entities set up in one of the free zones the licenses issued by the One Stop Shop in the free zone itself are discussed below:

General Trading License

Allows the holder to import, export, distribute and store items but not in mainland Oman.

Trading License

Allows the holder to import, export, distribute and store the particular items specified in the license.

Industrial License

Allows the holder to import raw materials, carry out the manufacture of specified products and export the finished products.

Service License

Allows the holder to carry out services specified on the license within the free zone.

Oman Free Trade Zones

Since the issuance of Sultani Decree number 56/2002 relating to the regulation and establishment of free zones in the Sultanate, three free zones have been established, namely, Salalah Free Zone, Sohar Free Zone and Al Mazyunah Free Zone in strategic locations which provide investors with unique advantages in terms of reach, enabling global sourcing and exporting from and to the world.
Companies setting up in free zones in Oman are eligible for various incentives and facilities as follows:

Free Zone Status

- Exemption from personal, income and corporate taxes
- Exemption from customs duty for goods and services
- 100% foreign ownership
- Full repatriation of profits and capital are permitted
- Low start-up capital

Business-friendly environment

- Simplified incorporation process
- Hassle-free and business-friendly company laws and legal framework
- One-stop–shop service that provides business partners with a variety of government services, including licensing, visa, traffic and postal services
- Quick access to knowledge workers due to fast-track immigration process

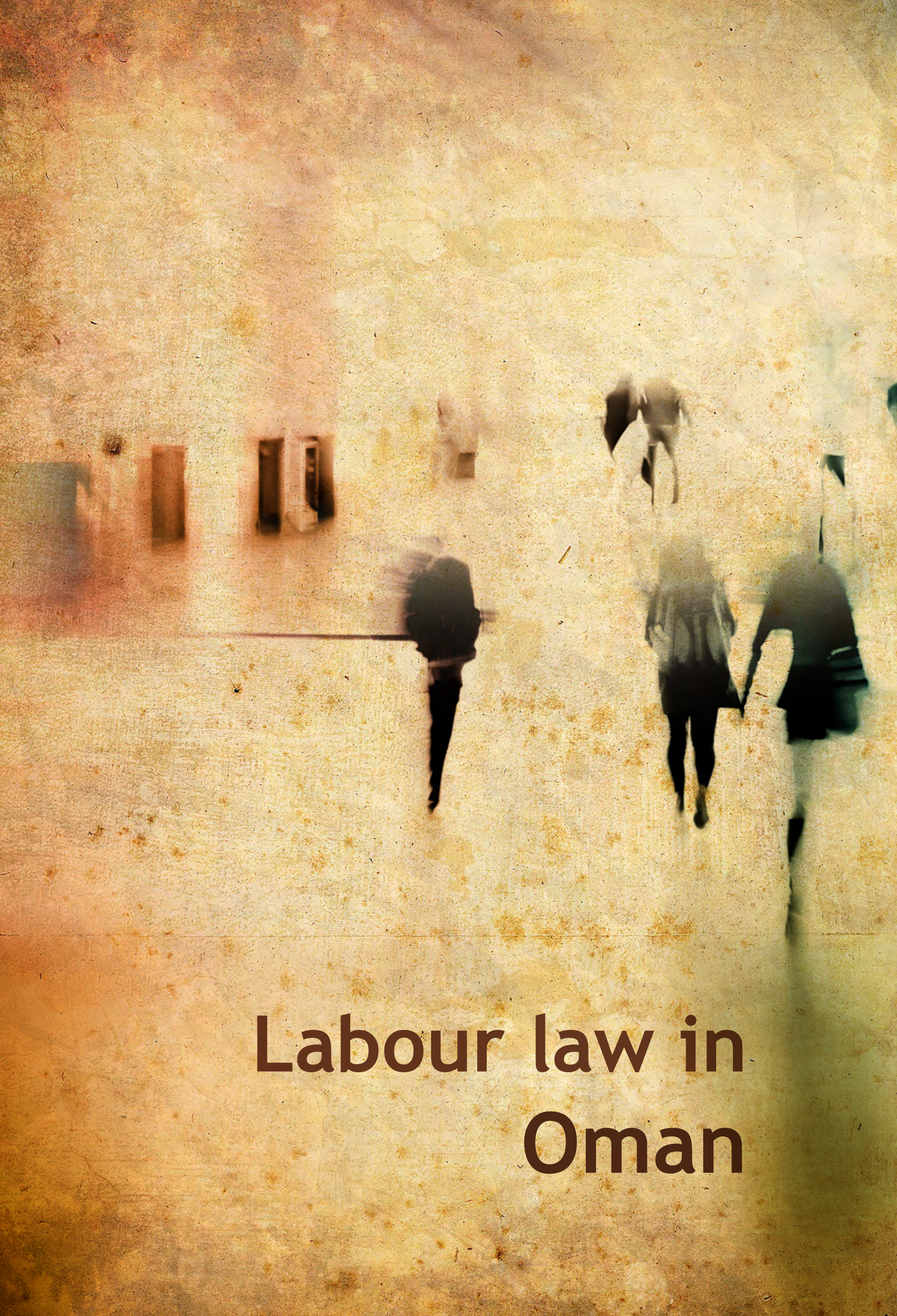
The only legal form available for investors to set up in the free zones in Oman is a limited liability company which must have at least two shareholders.

The Public Establishment for Industrial Estates

The public establishment for industrial estates (PEIE) was established in 1993 through issuance of Sultani Decree number 4/93 with the objective of planning, establishing, administering and developing industrial estates across Oman. There are currently eight industrial zones managed by PEIE in addition to Knowledge Oasis Muscat (KOM) where PEIE head office is located. The industrial estates managed by PEIE are located in Rusayl, Sohar, Raysut, Sur, Nizwa, Buraimi, Smail and Al Mazyunah.

There are number of incentives that PEIE offers to the investors in the industrial zones including:

- Tax Benefits: All industrial projects are exempted from income tax for a period of five years renewable;
- Exemption from Customs Duties: Manufacturing companies are exempted from payment of customs duties on import of machinery and equipment for setting up the plant, raw materials and semi-processed inputs for the first five years renewable subject to the approval of the minister of finance; and
- Loans: Government of Oman, represented by Oman Development Bank, offers loans on attractive terms for joint projects involved in fisheries, agriculture, health and traditional handicraft activities.



Labour law in Oman

Employment relations in Oman are governed by Employment Law promulgated by Sultani Decree number 35/2003 (as amended) ("Oman Labour Law") which sets out a minimum standard of employment conditions that are obligatory for all employers in the Sultanate of Oman. The provisions of Oman Labour Law apply to all private sector employers based in Oman, unless exempted by a special provision under Oman law, including those that are established in a free zone and the private education institutions whether they are national or foreign. Oman Labour Law gives the employer the right to carry out projects through which employees can obtain further benefits than those stipulated in Oman Labour Law or to enter into agreements with the employees which are more beneficial to them.

Overview of employment in Oman

Contracts

Oman Labour Law provides that contracts of employment must be in writing and executed in Arabic language or a certified translation of the English version of the employment contract executed in English. The contracts can be for a fixed or unlimited period. If the parties to a fixed employment contract continue the execution of the contractual obligation following its expiry it is renewed automatically for unlimited period with the same conditions.

Probation

A probationary period can be for a maximum period of three months for those who receive monthly salary and for a period of not more than one month other than that and it cannot be extended beyond this period. Either party to an employment contract may terminate it during the probationary period by giving the other party one week notice. When an employee has completed his probationary period successfully and continues employment, the probationary period is counted towards his overall period of service.

Salary/wages

There is a statutory minimum salary in Oman for Omanis which is reviewed periodically and increased according to the economic circumstances of the country by the Council of Ministers. The current minimum monthly salary is OMR 325.

There are no statutory provisions governing matters such as the provision by employers of itemized pay slips. These matters are governed by individual employment contracts. Employees are typically paid weekly, fortnightly or monthly.

Employers are required to pay salaries to the employees through transfer to their individual accounts in one of the local licensed banks, and if there is any exemption shall be determined by the minister.

Public Holidays and Annual leave

Public holidays are not fixed and may consist of up to 13 days on eight different occasions. Employees are entitled to leave with full pay on the following public holidays (declared for the private sector):

1. Al-Hijra (Islamic New Year) – one day
2. 1 January (Gregorian Calendar New Year) – one day
3. Mouloud (Birth of the Prophet) – one day
4. Al Meiraj (Ascension of the Prophet) – one day
5. Eid al-Fitr (End of Ramadan) – three days
6. Renaissance Day (July 23)
7. National Day – one day (November 18)
8. Eid al-Adha (Feast of the Sacrifice) – three days

Certain holidays, e.g. Eid al Fitr, are based on local sightings of the moon. Accordingly the authorities provide an indicative date for the holiday which is then confirmed, closer to the time.

Public and private sector employees are both entitled to the public holidays.

In addition to the public holidays listed above, employees are entitled to annual leave. Under Oman Labour Law an employee cannot take annual leave until he/she has completed 6 months of service. Where an employee has more than one year of service he/she is entitled to 30 calendar days annual leave, which is equivalent to approximately 22 working days.

Under Oman Labour Law an employee cannot lose his/her annual leave entitlement as this is a statutory benefit which vests in the employee. As such, accrued but unutilised leave must either be carried forward or paid out (either at the end of the holiday year) or upon the termination of employment.

Working Hours and Overtime

Oman Labour Law provides that the maximum working hours for employees is 9 hours per day with a maximum of 45 working hours per week. In respect of mandatory rest breaks, the reference made to this by the Oman Labour Law is that employees must not work over six consecutive hours without a break time of half an hour. During Ramadan the normal working hours are reduced by two with a maximum of 30 working hours per week for muslims.

As provided by the Labour Law, overtime should not exceed 3 hours per day. Overtime is calculated as 125% of the normal hourly rate or 150% where the employee works overtime during the hours of 9.00pm and 5.00am, or on a Friday or other rest day, otherwise the employer may grant a leave to the employee equal to the additional hours he worked in order to compensate him provided the employee agree in writing to this.

Sick leave and Health Insurance

Sickness absence entitlement under Oman Labour Law is 70 calendar days as follows: full pay for the first two weeks, three quarters pay for the third and fourth weeks, half pay for the fifth and sixth weeks, one quarter for the seventh to tenth weeks.

An employer may legitimately terminate an employee’s contract of employment, should the employee fail to resume their duties at the end of the sick leave entitlement. Termination during sick leave is not permitted.

There is currently no statutory requirement in Oman to provide employees with private medical insurance or a medical allowance. However, it is normal practice for employers to provide employees with either benefit.

Maternity leave

Employees are entitled to 50 days maternity leave with full pay for three times during their employment. The leave may be taken before and after confinement takes place.
It is not permissible for the employer to dismiss a female employee by reason of an illness proved by a medical certificate that it is resulting from pregnancy or delivery and that she cannot resume work by reason of such illness, provided that the total period of absence is not more than six months.

Haj leave

An employee is entitled to Haj or pilgrimage leave once during the course of his service. This is with full pay and should not exceed a period of 15 days.

Annual return ticket

There is no requirement under Oman Labour Law to provide an annual flight home, however this is customary market practice. The employer may use their discretion to extend this entitlement to the employee's family if deemed appropriate.

Termination

Without notice

There are limited grounds under which an employer may validly terminate an employee's services without notice (and without payment of end of service gratuity (see below)). These exhaustive grounds are if the employee:

- assumes a false identity or nationality, or produces fake documents or certificates to obtain work;

- commits a mistake resulting in grave loss to the employer on the condition that the employer informs the Ministry of the incident within three days from the date on which he becomes aware of it;
- does not comply with the instructions made for the safety of the workers and the work site, in spite of being given a written warning, provided that such instructions are in writing and fixed in a conspicuous place;
- is absent for more than ten days without lawful execuse in any one year or more than seven consecutive days, provided that the dismissal is preceded by written warning given by the employer to the worker for a previous case of absence for five days;
- divulges secrets belonging to the place in which he works;
- rendered with a final judgment against him for committing a misdemeanor or a crime concerning breach of trust or honour or for committing a misdemeanor at his place of work, or while carrying out work;
- is found in an obvious state of drunkenness or under the influence of a narcotic substance during working hours;
- commits an assault on his employer or the responsible manager or if he commits grievous assault on one of his supervisors during or by reason of work, or if he strikes one of his colleagues at the place of work causing sickness or delay of work for than then days; or
- commits a gross breach of his obligation to perform the work agreed upon in his contract of employment.

Unlimited term contract

If the contract of employment is for an unlimited term, both the employer and the employee may terminate the employment contract for any legitimate reason provided they give a minimum of 30 days notice or any other period as stipulated in the employment contract. The contract of employment will continue to be valid during the course of the notice period and the employee is required to continue working for this period. However an employer can opt to make a payment in lieu of notice if it so chooses.

If the employer or the employee fails to give the required period of notice prior to terminating the employment contract, the party in breach will be liable to pay the other compensation in lieu of notice. This holds true even where such failure has caused no loss to the other party. Compensation in lieu of notice is calculated as the amount equal to the employee's wage for the notice period in full (or in proportion to the diminished part if some notice has been provided).

Termination of an employee's services may be considered arbitrary if the reason for dismissal given by the employer does not relate to the grounds stated above. Oman Labour Law provides for compensation for arbitrary dismissal which is minimum of three months calculated with reference to the last full monthly salary.

In addition to the above, an employer may not terminate the employee's services for health reasons before the employee has taken the period of sick leave he is entitled to and any agreement made to the contrary is null and void.

Fixed term contract

In the event that an employer terminates a fixed term contract prior to the expiry of the fixed term period, it is liable to pay the employee early termination compensation equivalent to three months' salary at least but not more than twelve months. If the employee terminates a fixed term contract prior to the expiry of the fixed term period, he is not liable to pay the employer early termination compensation unless the employer proves that it incurred damages.

End of service gratuity

In Oman, an employee who is not subject to the provisions of Social Insurance Law and who has completed at least one year of continuous service is entitled to an end of service gratuity payment on termination of employment, which is calculated with reference to the last basic salary (excludes any allowances) as follows:

- Fifteen (15) calendar days' basic pay for each year of service for the first three (3) years; and

- Thirty (30) calendar days' basic pay for each year of service above three (3) years.

In Oman, employers have the option to divide salary into "basic salary" and "allowances", together comprising an employee's remuneration. However, there is no legal obligation to break down salary this way. It is common practice to set basic salary at 70 to 80% of the total salary. In this way employers reduce their end of service liability.

With respect to bonus and commission schemes, you should be aware that if the bonus/commission scheme is akin to a fixed payment to employees there is a risk that it could be included in any end of service gratuity calculation, thus increasing the employer's liabilities. Therefore, we would recommend making it clear and unambiguous in the employment contract that the bonus/commission payments are discretionary, not fixed, and will not form part of the end of service gratuity calculation.

Should the employer wish to provide a pension scheme to non-nationals, the employees are entitled to select either the pension scheme or the end of service gratuity (whichever is more favourable to the employee). Employers offering pensions should expressly specify that any pension provided is in lieu of the employer's obligation to pay end of service gratuity (pensions offered in lieu cannot be less favourable than end of service gratuity), otherwise, the employee is entitled to collect both payments on termination.

Pension for Oman nationals

Employers are legally obliged to pay a state pension for all eligible Oman national employees, and an end of service gratuity payment for non-eligible GCC and foreign national employees (and expatriate employees). There is no legal obligation to provide non-eligible GCC and foreign national employees with a private pension, however, as discussed above in certain circumstances, eligible employer maintained pension schemes may replace the obligation to pay end of service gratuity.

Individuals are free to take out their own personal pension insurance policies or open pension savings accounts. Personal pensions may also be provided by employers.

Repatriation ticket

Where an employer terminates employment, it should provide the employee with a repatriation ticket to the employee's home country. There is no requirement to provide repatriation if the employee takes up alternative employment in Oman.

Residency visas and sponsorship

In order to live and work in Oman, all expatriates must have a residency card issued by Royal Oman Police. In order to be issued with a residency card a foreigner must have an employment visa, which will be sponsored by the employer. This will ordinarily involve the employer and employee entering into a standard form employment contract prescribed by the Ministry of Labour.

Other GCC nationals do not require residency card but must be registered with the relevant authority (Ministry of Labour or free zone authority) for work permit/free zone ID card purposes.

Legal Notice

The contents of this booklet do not constitute legal advice. In particular, the contents are subject to revision, update and amendment and readers should take legal advice before applying the information in this booklet to specific issues or transactions. If you wish to discuss any of the matters in this booklet, please speak to your usual contact at Al Tamimi or any of the contacts on page 36.

التميمي و مشاركوه
AL TAMIMI & CO.