

Does VAT expected to affect Entrepreneurs in Sultanate of Oman?

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ABSTRACT

INTRODUCTION

The implementation of Value Added Tax (VAT) in Oman signifies a major change in the fiscal strategy of the nation. The VAT legislation that was enacted by His Majesty Sultan Haitham Bin Tariq via Royal Decree No. 121/2020123, was made public in the Official Gazette 1362 on 18 October 2020 and the law became operational 180 days after its publication in the Official Gazette which was on 16 April 2021 (Decree, 2020). The VAT implementation process in Oman has been intricate which necessitated a substantial modification to business systems and procedures. Businesses have had to revise their accounting systems, educate their personnel, and alter their pricing and invoicing practices but despite these hurdles, the introduction of VAT is projected to significantly enhance the economy by augmenting government revenues as well as fostering economic stability (Akram, W., 2023). Value-Added Tax (VAT) is a consumption tax that is levied on a product as value is increased at various stages of the supply chain from the stage of production to final sale, while entrepreneurship involves starting a business and assuming financial risks so that one could make a profit (Alotaibi, 2021). The government has been encouraging entrepreneurship actively as a crucial factor when it comes to diversifying the economy beyond the oil and gas sector and in 2021 a substantial fiscal reform was initiated by the government in Oman in turn introducing Value Added Tax (VAT) that was set at 5% for most goods and services provided in the country (Arslan, A. et al., 2023)

The implementation of VAT in Oman affects all businesses, including Small and Medium Enterprises (SMEs) which are vital to the economy of the country and may face significant impact from the tax change and even though VAT may raise prices for goods and services as well as impact the competitiveness of SMEs it could also boost government income that can be used to benefit SMEs as well as the economy (Deloitte, 2020). The introduction of VAT could have several impacts on entrepreneurship whereby it could increase the cost of doing business. Entrepreneurs, particularly those in SMEs, may face increased costs as they are required to pay VAT on their inputs and may need to pass these costs onto consumers in the form of higher prices which could potentially reduce demand for their products in the process impacting their profitability and growth (Erero, 2021). The study is focused on investigating the influence of VAT on entrepreneurship in Oman and aims to comprehend the ways in which the implementation of VAT has impacted entrepreneurs in Oman, the obstacles that they encounter, and the tactics that they use to navigate this new tax environment. This study has been framed to study the significance of VAT, to understand SMEs' awareness on VAT, to identify the SMEs' knowledge on VAT and to determine the SMEs' attitude on VAT system in Oman on their sustainability.

STATEMENT OF THE PROBLEM

The introduction of the Value Added Tax (VAT) in Oman is a major fiscal change that is anticipated to broaden the economic base as well as boost government income (Duseja, 2022). VAT, as a consumption tax, is applied at each stage of the supply chain, from production to the point of sale and the revenues that are generated from VAT can be substantial in turn contributing to the ability of the government to invest in public services, infrastructure,

as well as other areas that can stimulate economic growth (De Camillis & Goralczyk, 2013). The revenues that are generated from VAT could lead to increased government spending in areas that support entrepreneurship, for example education, infrastructure, as well as business support services which could potentially create a more conducive environment for entrepreneurship in turn stimulating the creation of new businesses and also the growth of existing ones (Chan, et al., 2017).

However, while the potential benefits of VAT are clear, its impact on entrepreneurship which is a key driver of economic growth in Oman, is not fully understood (Thomas, B. J., 2018). Entrepreneurship plays a role that is crucial in Oman's economy which contributes to job creation, innovation, and economic diversification. Entrepreneurs, particularly those in Small and Medium Enterprises (SMEs), are often at the forefront of innovation and economic change as they create new businesses, develop new products and services, as well as drive economic growth (William, G., 2016). However, the specific impact of VAT on entrepreneurship in Oman is complex and depends on a range of factors which include the nature of the business, the sector in which it operates, and the ability of the business to pass on the cost of VAT to consumers which is why further research is needed to fully understand this impact and also to develop strategies so that to support entrepreneurs in navigating this new tax landscape which forms the basis of the problem statement for this study.

RESEARCH METHODOLOGY

Even there are studies on the impact of VAT on the economy and businesses at large, there is a dearth of research that is specifically focusing on the impact of VAT on entrepreneurship in Oman therefore this study aims to fill this gap. Stratified random sampling method has been used to ensure that the sample is representative of the population (Mujere, 2016). In stratified random sampling, the population is divided into non-overlapping groups whereby random samples are taken from each stratum. The strata are usually formed based on one or more characteristics that are believed to influence the variable being studied. Primary data refers to the first-hand data collected by the researcher themselves which is collected specifically using structured questionnaires (Ajayi, 2017). Secondary data refers to data that has been collected by someone other than the researcher which is data that is not collected specifically for the study at hand but can provide valuable insights and context for the research (Taherdoost, 2021).

The data collected in this study analyzed using both qualitative and quantitative methods (Castleberry & Nolen, 2018). Quantitative data from the questionnaires analyzed using statistical methods which could involve descriptive statistics so that to summarize the data and inferential statistics so that to generalize about the population based on the sample data. The study used measures of central tendency to summarize the impact of VAT on various aspects of the businesses, and measures of dispersion to understand the variability in the impact of VAT across different businesses (Mishra, et al., 2019). The scope of the data in this study will cover entrepreneurs and SMEs in Oman from various sectors which includes sectors such as manufacturing, services, retail, and others. The study expects to expansive range of experiences and viewpoints in turn recognizing that the impact of VAT may vary across different sectors.

DATA ANALYSIS AND INTERPRETATION

It is found that majority of the respondents are female participants, and the data collected it was found that age between the range of 20 and 29 were the highest participants. It was found that a bachelor's degree is the highest level of education among the participants. , it is clear that the majority of respondents had an income below one thousand rials. T-test shows it is moderately agreed that the customers understand the concept of VAT, have received formal training and information about VAT system in Oman and VAT rate of 5% is perfect when compared to other countries. However, the SMEs disagree the VAT system in Oman has an impact in the business sustainability, update of knowledge of VAT system in Oman and the awareness of VAT is a business advantage. It is fairly agreed that customers can explain how the VAT system works in the Sultanate of Oman and that they are completely confident in understanding the system. Customers know how to calculate the value-added tax on products or services. They are also aware of the penalties for non-compliance with the tax, and if they have any questions or problems related to the tax system, they know where to seek help. It is moderately agreed that customers support changes to the VAT system in Oman and are fully prepared to comply with the VAT system in the Sultanate. However, they do not believe that the value-added tax system is beneficial to their business and feel bad about the impact of the tax system on business costs. They also believe that the value-added tax system in Oman is unfair, inequitable, and not beneficial to companies.

There is no meaningful relationship between the income of the respondents and awareness of SMEs on VAT as the p value is 0.243, therefore H_0 has been accepted and H_1 has not accepted. There is no meaningful relationship between the education of the respondents and awareness of SMEs on VAT as the p value is 0.481, therefore H_0 has been accepted and H_1 has not accepted. There is no significant relationship between the education of the respondents and knowledge of SMEs on VAT as the p value is .023, therefore H_1 has been accepted and H_0 has not accepted. Moreover, there is no significant relationship between the gender of the respondents and knowledge of SMEs on VAT as the p value is .888, therefore H_0 has been accepted and H_1 has not accepted. There is no meaningful relationship between the gender of the respondents and attitude of SMEs on VAT as the p value is .695, therefore H_0 has been accepted and H_1 has not accepted. The analysis shows the above table No. shows that there is no significant relationship between the education of the respondents and attitude of SMEs on VAT as the p value is .648, therefore H_0 has been accepted and H_1 has not accepted.

CONCLUSION

The main objectives of this research were to examine the theoretical and empirical approaches to VAT and its impact on entrepreneurship in Oman. Another objective was to analyse the challenges that are faced by entrepreneurs due to the implementation of VAT. It was also identified that one objective was to understand the conceptual framework of VAT and its implications for entrepreneurship. Finally, the research aimed to investigate if there is a correlation between VAT implementation and the rate of new entrepreneurial ventures in Oman. The possible advantages of VAT are evident, but it is unclear how it would affect entrepreneurship—which is a major force behind Oman's economic progress. In Oman's economy, entrepreneurship plays a critical role that supports innovation, job growth, and economic diversification. Due to their ability to start new companies, produce novel goods and services, and stimulate the economy, entrepreneurs—especially those in Small and Medium Enterprises (SMEs)—are frequently at the vanguard of innovation and economic transformation.

The implementation of Value Added Tax (VAT) may have several effects on entrepreneurship, one of them being an increase in operating expenses. Due to the requirement to pay VAT on their inputs, entrepreneurs—especially those in SMEs—may incur higher costs. These costs may then need to be passed on to customers in the form of higher prices, which may result in decreased demand for their products and ultimately have an adverse effect on their profitability and growth. As per the survey however, the customers knew how to calculate the value-added tax on products or services. They are also aware of the penalties for non-compliance with the tax, and if they have any questions or problems related to the tax system, they know where to seek help. The money collected from the Value Added Tax (VAT) may be used to fund more government initiatives that encourage entrepreneurship, such as infrastructure, education, and business support services. These initiatives may improve the environment for entrepreneurship and encourage the start-up and expansion of already-existing businesses. The impact of Value Added Tax (VAT) on entrepreneurship in Oman is intricate and contingent upon various factors, such as the type of business, industry it operates in, and the business's capacity to transfer VAT costs to customers. Therefore, additional research was necessary to gain a comprehensive understanding of this impact and to devise strategies that aid entrepreneurs in manoeuvring through the novel tax landscape and this research was able to provide insightful findings.

RECOMMENDATIONS

Since the VAT is a key component of fiscal policy initiatives, its proper implementation is imperative. But Oman's growing economic problems cannot be solved by the VAT alone; over the next few months and years, much more progress on fiscal measures will be needed. Maintaining investor trust in the sultanate, which is now in a precarious situation, depends on a prompt and seamless implementation of the VAT in Oman. S&P Global Ratings maintained its stable outlook and reaffirmed Oman's B+/B long- and short-term foreign and local currency sovereign credit ratings on April 2. Any last-minute adjustments, particularly implementation delays, would probably cause greater economic harm than eliminating the tax entirely. Maintaining investor trust in the sultanate, which is now in a precarious situation, depends on a prompt and seamless implementation of the VAT in Oman. The government may lower its borrowing costs by meeting its obligations, lowering its significant borrowing requirements, and improving the creditworthiness of its financial ledgers. But Omanis face a difficult economic journey ahead of them if they are unwilling to pay a five percent value added tax. Therefore, the government needs to create awareness of the importance of tax reforms and also how to conduct tax filings, implement technological systems to streamline the process, and also ensure that strategic partnerships are formed that would

ensure that businesses will be able to corporate with one another, and that transparency and accountability can be fostered to enhance the overall economic status of the nation.

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