



Newsletter

Bahrain VAT



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Introduction of VAT

The Kingdom of Bahrain will be the third GCC Member State¹ to implement the unified agreement on Value Added Tax (VAT) on goods and services, following United Arab of Emirates (UAE) and Kingdom of Saudi Arabia (KSA).

On 9 October 2018, the Arabic version of the Decree-Law Number 48 of 2018 (Bahraini VAT Law) was released.² Similar to the UAE and KSA VAT Laws, most of the provisions in the Bahraini VAT Law refer to the to-be published implementing Regulation. The implementing Regulation is expected in the next coming weeks.

The introduction of VAT in Bahrain will impact all economic sectors in the Kingdom, as well as all businesses that has accustomed to tax-free³ operation in Bahrain. VAT will be introduced on 1 January 2019.⁴

As the Bahraini VAT Law is based on the GCC VAT Framework, there are notably similar treatments and provisions as the UAE and KSA VAT law. In this article, we will outline some of the major key points in the Bahraini VAT clauses.

1. VAT Rates

The standard VAT rate of 5% has been agreed by all GCC Member States. It shall be applied on goods and services that are not VAT exempt or zero-rated.

1 The Member States of the Gulf Cooperation Council (GCC), namely: The United Arab Emirates, The Kingdom of Bahrain, The Kingdom of Saudi Arabia, The Sultanate of Oman, The State of Qatar, and The State of Kuwait.

2 The official English translation has not been published yet. Our newsletter is based on an unofficial English translation of the VAT Law.

3 Except for companies involved in operations within oil and gas sector which is subject to income tax, and excise tax on specific products.

4 Based on the official website of the Ministry of Finance of the Kingdom of Bahrain; <https://www.mof.gov.bh/VAT.aspx>

The Bahraini VAT Law subjects a number of specific supplies to the zero-rated VAT or as exempt from VAT as shown in the table below:

VAT Zero Rated supplies	VAT Exempt supplies
Export of goods and services	Financial services (except when fee based)
International transportation and means of transport	Supply of bare land and buildings
Supply of pearls and gemstones (subject to obtaining a certificate)	Importation of exempt of zero-rated goods
Supply of precious metals (gold, platinum, silver with purity not less than 99%; subject to obtaining a certificate)	Importation of goods that are exempt from customs duty (i.e. goods with diplomatic and military exemption, used personal effects of nationals living abroad on return, expatriates moving to live in Bahrain for the first time, and returned goods)
First supply of gold, silver and platinum (for trading)	Personal luggage and gifts carried by travelers
Supply of preventive and basic healthcare services and related goods and services	Necessities for people with special needs
Supply or import of certain medicine and medical equipment	Necessities for people with special needs
Construction of new building	
Supply of educational Services and related goods and services	
Local transportation Oil, oil derivatives and gas	
Supply and importation of food items (based on a list approved by the Financial Economic Cooperation Committee)	

2. VAT Registration Thresholds

To assess whether a business should register for VAT in Bahrain two tests are applied: a historic and a future test.

Using the historic test, the business is required to look at the level of taxable supplies made during the last 12-month period. The future test on the other hand, looks at the value of the taxable supplies for the next 12 months period to determine whether the level of taxable supply will exceed the registration limit. When a business expects that it will exceed the VAT registration threshold within this 12-months-period, it shall be registered for VAT purpose.

Any person⁵ exceeding the annual VAT registration threshold of approximately 37,700 BHD is required to register for VAT mandatorily. They can also opt to register voluntarily even if their taxable supply fall below the mandatory registration limit, but is not less than approximately 18,800 BHD.⁶

Two or more legal taxable persons carrying on a business in Bahrain may also apply for a Tax Group. The conditions and procedures shall be defined by the implementing Regulation.

3. Tax Invoice

The implementing Regulation shall specify the details to be included in the Tax Invoice and other alternative documents, the terms and procedures of its issuance, and the conditions where it is not required to issue a Tax Invoice.

As to the date of issuance, the Bahraini VAT Law, same as KSA VAT Law, allows a tax invoice to be issued until the 15th day from the end of the month when the supply takes place. Meanwhile, in the UAE, the registrant is required to issue a tax invoice within 14 days as of the date of supply.

⁵ Both legal and natural persons.

⁶ Clause 2 of Article 50 of the Unified VAT Agreement of GCC

The original Tax Invoice shall be issued and delivered to the customer. It is expected that the Implementing Regulations will give more guidance in regard the issuance of electronic Tax Invoices. In addition, the alternative documents to the Tax Invoice, events where the Tax Invoice is not required, and the self-billing mechanism will also be covered in the Implementing Regulations.

The Tax Invoice shall be in the local currency, which is the Bahraini Dinars. The Central Bank of Bahrain, as well as KSA and UAE, determines the conversion rate in case a supply was issued in a currency other than Bahraini Dinars, Saudi Riyals or UAE Dirham, respectively.

4. Input Tax Recoverability

Businesses will be able to recover VAT paid or due on the purchases of goods and services provided that those purchases are used to make taxable supplies, and subject to certain conditions.

The amount of recoverable input VAT depends ultimately on the extend of taxable activities performed by the taxable person:

- Input tax can be fully recovered if it relates solely to a taxable supply made;
- Input tax cannot be recoverable if it relates solely to a non-taxable supply made;
- In cases where the input VAT is related to both taxable and non-taxable supply (residual tax) an apportionment method shall be used. The apportionment of input VAT in Bahrain is based on the proportion of the taxable supply against the total supply of the taxable person. The implementing Regulation shall specify the methods in calculating the recovery rate, and other conditions to apply for residual input tax recovery.

5. Transitional Provisions

Supplies, which contracts have been concluded prior to the implementation date of the VAT (1 January 2019) and to be made partially or fully after or on 1 January 2019, are taxable. This is provided that these supplies are not exempt or out of scope of VAT.

Attention shall be given to the formulation of such contracts in order to guarantee that VAT is not cost to the business. In general, the absence of tax exclusive clause, the price agreed shall be regarded as inclusive the VAT. The Implementing Regulations are expected to provide more details as to the possibilities treat the prices exclusive of VAT, in the similar ways as the KSA and the UAE VAT Laws.

6. Penalties and Tax Evasion

Bahraini VAT Law also outlines the penalties that could be imposed for non-compliance such as the following:

Violation	Administrative Penalty
Delay in the submission of VAT return or payment not exceeding 60 days from the prescribed period	Not less than 5% and not more than 25% of the value of tax to be recognized or paid
Failure to register within 60 days from the date of the expiry of registration period or from reaching the mandatory registration threshold	10,000 BHD
Providing false data on the import of goods and services resulting to higher value declared in the tax return	Not less than 5% and not more than 25% of the value of the unpaid tax
Preventing the responsible Authority to inspect, review or access requested documents	5,000 BHD
Failure to notify the Authority for changes in the information of VAT registration or VAT return within specified dates	5,000 BHD
Not displaying the prices of goods and services including tax	5,000 BHD

Failure to provide data required by the Authority	5,000 BHD
Non-compliance to the conditions and procedures related to issuing a tax invoice	5,000 BHD
Violation of other provisions of the law	5,000 BHD

Aside from administrative penalties imposed, the tax authorities can also regard violations as “tax evasion”.

Tax evasion may result in imprisonment for a period of minimum 3 years and not more than 5 years, as well as a fine not less than the tax due and not more than 3 times the amount of the tax due.

Under the VAT Law, these violations are regarded as tax evasion:

- Failure to register within 60 days from the date of expiry of registration period or from reaching the mandatory registration threshold;
- Failure to submit VAT return or payment within 60 days from the prescribed period;
- Unrightfully recovering input VAT;
- Submission of forged or unreal documents to avoid tax payment;
- Failure to provide tax invoice for taxable suppliers;
- Issuance of Tax Invoice for non-Taxable Suppliers;
- Not maintaining organized records/documents as required;

7. Committee for examining grievances and tax litigation

A “Committee for the Examination of Grievances and Tax Litigation” shall be established by a decision from the Minister or his representative.

The Committee will decide on the appeals submitted by taxable persons for the administrative penalties imposed against them. Moreover, the Committee shall also examine various grievances and misunderstanding between Taxable persons and the tax Authority.

For more question and information regarding the development of the implementation of VAT in the Kingdom of Bahrain, please contact:

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