

VAT alert | Ministry briefs advisors

3 December 2018 | Manama | Kingdom of Bahrain

Bahrain's Ministry of Finance (MoF) briefed advisors and other stakeholders today (3 December 2018). Key highlights from the briefing include:



VAT deadlines

- There will be three mandatory VAT registration deadlines:
 - 20 December 2018 for businesses with turnover over BD5m - effective date 1 January 2019
 - 20 June 2019 for businesses with turnover over BD500k - effective date 1 July 2019
 - 20 December 2019 for businesses with turnover above the mandatory revenue threshold of BD37,500 - effective date 1 January 2020
- Legal entities within a company group (for example, a holding company with multiple subsidiaries) may need to aggregate their turnover to see if they meet the BD5m threshold
- A company with multiple branches or divisions is considered - from a VAT perspective - to be a single legal entity
- There will be no threshold for non-residents who meet the requirement to register - their registration deadline will be 20 December 2018 with an effective date of 1 January 2019

Filing of returns

- Businesses with turnover over BD5m will file quarterly in 2019
- Businesses with turnover under BD5m will file every six months in 2019
- From 2020, businesses with turnover over BD3m will be required to file monthly returns
- From 2020, businesses with turnover under BD3m will be required to file quarterly returns

Voluntary registration

- The National Bureau for Taxation (NBT) will launch a website shortly to allow business below the BD5m threshold and above the voluntary registration threshold of BD18,750 to register voluntarily
- The MoF has not specified when voluntary registration applications will be approved
- Businesses that are not registered for VAT are unable to claim any input VAT
- Once registered, some pre-registration input tax may be recoverable subject to meeting strict conditions in the VAT law
- We recommend businesses obtain advice on what records they need to keep and what input taxes can be reclaimed

Group registration

- The NBT will make an announcement about group registration shortly
- For the time being, each legal entity will need to register separately
- Without further clarity on when group registration applications will be accepted by the NBT, companies should initially be prepared to account for VAT as individual taxpayers

Tax agents

- Tax agents will have access to the web portal on behalf of their clients to register for VAT and file returns
- Registration for tax agents will - according to MoF - be "more straightforward" than it has been in the UAE and Saudi Arabia



Real estate

- Construction of all buildings - both residential and commercial - will be zero-rated (the goods and services that will benefit from the zero rating will be specified in the implementing regulations (IRs))
- The sale or lease of bare land and buildings - both commercial and residential - will be exempt from VAT
- The decision to zero-rate construction of all buildings and to exempt the sale and lease of commercial real estate is a significant difference to the UAE and Saudi Arabian rules
- The zero-rating concession will not apply to services such as interior design or architects' fees

Utilities

- The zero-rating for oil and gas is broad and will apply up to mid-stream activities
- It was confirmed that fuel at the pump will be zero-rated
- Zero-rating does not apply to electricity supplies

Government entities

- Under the law, a list of government entities - as well as list of taxable activities - will be issued
- It was confirmed that the Electricity and Water Authority is considered a taxable person
- It was confirmed that some government-owned entities run as commercial enterprises will not be treated as government entities - this will mean the zero-rating concession under the transitional rules will not apply

Food

- A clear list of zero-rated food items will be issued shortly
- Zero-rating on food items will be determined by HS codes
- VAT is in addition to government levies in restaurants and other catering outlets

Financial services

- It was confirmed that the supply of life insurance is exempt from VAT
- Islamic and conventional financial services - including *takaful* - are to be treated equally - meaning preservation of fiscal neutrality
- In line with Saudi Arabia, and unlike the law in the UAE, dividends are out of scope of VAT
- In line with practice in Saudi Arabia, the principal component of financial leases or *ijarah* instalments received after implementation for assets made available prior to implementation are not taxable - the finance element is VAT-exempt
- The standard method for partial exemption is based on turnover

Invoices

- Invoicing requirements are similar to requirements in Saudi Arabia - although there is no requirement for invoices to be in Arabic
- Simplified invoices can be issued for supplies under BD500/-
- Banks may use bank statements as invoices as long as a number of additional details are added - full details are expected in the IRs



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VAT readiness survey

- A survey will be shared with large businesses starting tomorrow (4 December 2019), helping both businesses and the MoF to determine VAT readiness

Implementing regulations

- The MoF and NBT hope to release the IRs in December
- The IRs will be released in English and Arabic
- An official English translation of Bahrain's VAT law will be released this week

Import VAT

- Import VAT will apply from 1 January 2019
- We have been informed that the Customs Authority is ready to apply import VAT
- There will be an ability to account for VAT through the VAT return, subject to meeting certain conditions to be specified in the IRs

Support from the NBT

- The NBT has pledged to support taxpayers
- Large taxpayers will be assigned relationship managers
- The NBT will also host events, share information on social media and develop a list of FAQs with answers

Important note

The information in this document is based on translations of the VAT laws of Bahrain, the United Arab Emirates and Saudi Arabia, the implementing regulations of the UAE and Saudi Arabia, the GCC VAT framework, guidance provided by Bahrain's Ministry of Finance and general VAT principles. It is provided for information purposes only. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.

With less than 20 working days left until VAT is implemented in Bahrain, there is limited time for businesses with turnover of BD5m or more to ensure people, systems and the organisation itself are prepared for one of the most significant economic changes in Bahrain in living memory.

Businesses with less than BD5m in revenues should be carefully considering whether they should voluntarily register for VAT. All businesses - whatever their size - should be preparing for VAT well in advance of their mandatory registration date.

To discuss these developments or any VAT issues, please contact a senior member of the Keypoint VAT team.