

Bahrain publishes VAT executive regulations

On 13 December 2018, Bahrain published (resolution no 12 of 2018) the long-awaited Executive Regulations (ERs) to the Bahrain VAT law. The 114 articles of the ERs provide clarification to businesses seeking to comply with their VAT obligations, ahead of VAT implementation on 1 January 2019.

Bahrain's Ministry of Finance and National Economy (MoFNE) and the National Bureau of Taxation (NBT) has previously confirmed transitional mandatory registration deadlines as follows:

- Taxable turnover above BD5m – registration deadline of 20 December 2018 with an effective date of 1 January 2019
- Taxable turnover above BD500k and less than or equal to BD5m – registration deadline of 20 June 2019 with an effective date of 1 July 2019
- Taxable turnover above BD37.5k and less than or equal to BD500K – registration deadline of 20 December 2019 with an effective date of 1 January 2020
- No concessionary threshold for non-residents who meet the requirement to register – they have an immediate requirement to register upon making their first taxable supply.

In comparison with the VAT laws in KSA and the UAE, there are some key differences in the application of VAT in Bahrain. We examine below some of the key impacts on businesses in Bahrain.

Oil and gas

The zero-rating applies for the oil and gas sector is wide – applying to supplies of crude oil and natural gas, similar to the UAE, in addition to mid-stream oil and gas products and services.

The zero-rate in Bahrain applies to specialist professional oil and gas services, exploration, processing, storage and the purchase of goods (and leasing of goods) in connection with those activities. Fuel at the pump will also subject to the zero-rate, which will be welcome news to Bahrain's consumers, who benefit from a number of additional VAT reliefs, not applied to date elsewhere in the GCC. Beyond midstream, the relief will not apply, meaning plastic products and fertilisers will be standard rated.

Many oil and gas businesses with significant exports or local zero-rated supplies are likely to be in a net VAT refund position for each reporting period. Affected businesses may wish to apply to the authorities to apply the zero-rate (reverse charge) to their imports, which may remove a significant cash-flow disadvantage vs paying VAT on importation and claiming through the VAT return.

Oil and gas business with significant exports may also be able to benefit from the domestic reverse charge, as will other businesses exporting (including internal supplies) greater than 50% of their supplies by turnover value. Again, subject to approval from the NBT, these businesses will be given a certificate to present to their suppliers, allowing their supplier to zero-rate otherwise standard-rated supplies.

Financial services

The ERs confirm extensive financial services provisions, with application of the exemption to:

- Supplies of securities;
- Life insurance and life reinsurance;
- ForEx spread;
- Islamic finance products intended to achieve the same objective as their conventional equivalents.

As with the UAE and KSA, there is likely to be some complexity and uncertainty as to how fiscal neutrality is to be achieved between Islamic and conventional finance products, particularly where such arrangements include one or more underlying taxable transactions. However, as a starting point, the profit element (akin to interest) earned on Islamic finance will be VAT exempt.

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As with UAE and KSA, supplies which would otherwise be VAT exempt if supplied locally will be subject to the zero-rate, if made to persons outside the GCC. If made to taxable persons in other GCC countries such supplies will be out of scope, without recovery of associated input tax (effective exemption). If supplied to individuals in other GCC countries, the supply will be VAT exempt. Bahrain will announce the conditions required for other GCC member states to be considered 'within GCC' for VAT purposes – for now, all GCC countries (including KSA and the UAE which have implemented VAT) are treated as outside the GCC for VAT purposes.

Many FSIs will make exempt supplies, and will be unable to recover associated input tax, incurred in the course of making those supplies. There will be total block on wholly, directly attributable costs, and a proportional blockage on overhead, residual costs.

The ERs confirm that the standard method for attribution of VAT on overheads will be based on the following formula:

$$\frac{\text{Total taxable supplies}}{\text{Total taxable supplies} + \text{exempt supplies}}$$

The calculation is performed based on actual figures per period, with an annual adjustment required at the end of each year. Use of other, non-standard methods of attribution will be permissible, but must first be authorized by the authorities.

The following should be excluded from the calculation:

- The value of capital assets disposed
- Incidental supplies which are not part of the core activity of the taxpayer
- Supplies from a fixed establishment located outside Bahrain
- Transactions outside the scope of VAT

Use of bank statements as invoices: A question frequently asked by financial institutions in KSA and UAE was whether bank invoices could be used as tax invoices. The Bahrain ERs explicitly confirm that banks statements may be used, though FSIs should ensure the prescribed details

are included on the invoice, and may wish to consider whether this is desirable from a data protection/privacy perspective.

Notably, this concession does not extend to adjustments and reversals so FSIs will still be required to issue credit/debit notes separately.

Land and property

Bahrain has significantly extended the application of the exemption for the real estate sector as compared to the UAE and KSA, applying it widely to the sale and lease of both commercial and residential property (including bare land). Exceptions where the standard rate will apply include:

- Hotel accommodation
- Supply of short-term car parking (less than 1 month)
- Serviced office space, where the recipient is not allocated a dedicated, exclusive space
- Lease of event and exhibition halls and similar spaces
- Separately identified recharges of utilities, telecoms, securities and service/management charges

The broad application of the exemption will have the effect of pushing some businesses out of the obligation or, indeed, the right to register for VAT. For example, a commercial or residential property developer is likely to not be eligible to register for VAT in Bahrain. In addition, the exemption will mean that property businesses making such supplies will not be able to recover any VAT incurred in the course of making those supplies, suffering similar (if not greater) impact than FSIs.

Suppliers of exempt land and property will be relieved that services of property construction (and associated building materials), including new extensions, will be zero-rated – the zero-rating applies to the construction of new residential and non-residential property, including refineries, LNG plants and power plants. The services of engineers, surveyors and those supervising construction will also be zero-rated where

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provided as part of the zero-rated construction service.

The services of architects, construction of roads, demolition works, renovations, construction of swimming pools, decorative landscaping, carpets and other household appliances not integral to the structure of the building will be standard rated.

The standard rating will apply, even where the above are supplied as part of a contract for which the predominant supply is zero-rated property construction, requiring suppliers to apportion the VAT chargeable between zero- and standard-rated supplies, on a fair and reasonable basis. This will remove the ability for standard-rated supplies to be routed through the main contractor as part of a 'design-and-build' contract, meaning that property developers will find some VAT sticking cost unavoidable.

Retail and leisure

As mandated by the GCC VAT treaty, and enacted in the ERs, local market prices are required to include VAT, meaning that supermarkets, clothing shops, restaurants and other retail and leisure establishments will be required to display tax-inclusive prices.

As outlined in the VAT law, certain food items will be subject to VAT at the zero rate, and the application of the zero-rate to 94 basic food items has been clarified by Bahrain's Ministry of Finance. The limited application of the zero-rate, which focusses on essential food items, will create complexity for food retailers also supplying standard rated products, as they will be required to accurately determine the applicable VAT rate, and segregate products by rate.

The ERs confirm that the zero-rate does not apply to supplies of catering in restaurants, cafes and other similar establishments, and VAT will be charged on top of total bill, including government levy and service charge in restaurants.

In respect of invoicing, suppliers may issue simplified VAT invoices for supplies of goods and services not exceeding BHD500. Details of the

minimum requirements for simplified invoices are included in the administration section below.

Retailers selling goods under hire-purchase or finance leases will be pleased to learn that VAT will not be due on instalments received after the date of implementation of VAT, for goods already provided to the customer before that date. This will be particularly good news for automotive retail, but also for the banking industry, in respect of *ijarah* and other rent/lease-to-own arrangements.

In respect of finance leasing arrangements, tax will be due by reference to the date when the goods were made available to the customer, on the full value of the principal amounts to be recouped by the supplier over the term of the agreement. Whilst this means no VAT on goods supplied prior to the implementation date of VAT, suppliers will find cashflow negatively impacted if they do not take a deposit equal to the VAT due on the supply of the goods, as this will be due in full to the authorities on the date of supply.

Operating leases and rentals will not be subject to the above concession – if the supply is taxable, VAT will be due on lease/rental payments due after 1 January 2019 (provided the supplier is VAT registered) on the earlier of:

- Issue of a tax invoice for the payment
- Receipt of payment
- Due date of payment

Customers should, however, carefully check their agreement with the lessor. If the contract is silent on VAT, the Bahrain VAT law explicitly states that the price agreed is inclusive of VAT. This means the supplier must declare VAT on the supply and will not be entitled to unilaterally increase the price charged to the customer unless the contract allows for the supplier to increase the price or can be amended.

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Healthcare

The zero-rating for healthcare is very broad. Subject to the service being provided to a patient during treatment by a qualified medical practitioner or at a qualified medical institution the ERs seem to provide for a zero rating on all healthcare services (except elective cosmetic surgery). The zero rating applies to:

- General medical health services
- Specialist medical health services, including surgery
- Dental services
- Services related to the treatment of mental illnesses
- Occupational or surgical health services
- Speech therapy prescribed by a qualifying medical professional
- Physiotherapy prescribed by a qualifying medical professional
- Sight and hearing tests
- Nursing care (including home nursing care)
- Services relating to diagnosing an illness, including the analysis of any samples and x-rays to determine a diagnosis
- Vaccinations
- Health testing and/or screening that is undertaken under a local law, documented policy or contractual obligation
- Any goods that are used in the course of performing qualifying medical services such as bandages and drugs are zero rated, together with services including accommodation, catering and transportation of patients
- Cosmetic surgery provided as part of treating a medical condition as prescribed by a qualified medical professional

Cosmetic surgery when not provided to restore health will be standard rated. The standard rate in the healthcare sector will also apply to accommodation, catering and transportation of nonpatients, entertainment services and catering provided to employees.

Certain medicines and medical equipment (list to be published by the authorities) will also be zero-rated, and is expected to be in line with the

application of the zero-rate in both KSA and UAE, who have both published their lists.

Education

Again, the application of the zero rating is very broad, from nursery to university education, provided the provider is licensed by the relevant authority in Bahrain. Professional or vocational education will be standard-rated, unless provided by a licensed polytechnic institution.

Certain goods and services supplied in connection with zero-rated supplies of education will also be subject to the relief, including books and other printed materials educational in nature and related to the curriculum, school trips that are part of the curriculum and not predominantly recreational and student accommodation provided that such accommodation has been constructed or adapted specifically for use by students.

The zero-rating will not apply to uniforms, stationery, school/university catering or electronic devices, even if used exclusively for education purposes.

Telecommunications and electronic services

The place of supply of telecommunications and electronic services will be determined by the place where use and enjoyment of those services takes place, if the customer is not a taxable person. If the customer is a taxable person, the place of supply is the place where the recipient has established its business.

The use and enjoyment of telecommunications services may be determined by:

- The location of a fixed telephone, public phone, Wi-Fi hotspot, where the service is utilized in a particular fixed location
- The country code of the sim card used to receive the service, if the service is provided via the mobile network
- The country where the relevant mobile network is located, where the service is related to international roaming

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The rules mean that non-resident telecommunication suppliers providing roaming services to non-taxable persons using and enjoying those services in Bahrain will be required to register for Bahrain VAT and account for VAT at 5% on those supplies.

Transportation

In line with the GCC VAT treaty, the supply of international transportation of passengers and goods is zero-rated. The zero-rate also applies to services associated with such supplies, including:

- Supply of goods and services for use or consumption aboard qualifying means of transport
- Loading and unloading machinery and equipment used for the transport of goods, loading of goods, unloading, transport, stacking, packing, weighing, measurement, control and expert services
- Hire of containers and equipment to protect goods destined for export
- Hire of machines and equipment used for the transport of goods destined for export

In addition, Bahrain has elected to apply the zero-rate of VAT to local transportation – by comparison KSA applies the standard rate, whilst in the UAE local transportation is VAT exempt.

In Bahrain, the zero-rate applies to transportation of goods and passengers by land, sea or air, within the Kingdom. The zero-rate does not apply to:

- Transport services provided by a person unregulated or unlicensed to provide the services
- Car rental without a driver
- Transport services for sightseeing or recreation
- Food delivery services by the person supplying the food
- Transport services for the supply of goods or services taxable at the standard rate, not priced separately

The application of the zero-rate would therefore appear to be broad, covering not only local bus

transportation, but taxi and courier services, typically standard rated in other jurisdictions.

Exporters and importers

Exports

The exports of goods to a place outside the GCC will be subject to the zero-rate of VAT, in line with the provisions of the GCC VAT treaty. The supply of goods to or under a duty suspension arrangement is also zero-rated. The application of the zero-rate in both circumstances is subject to the following conditions:

- The goods are actually exported to a place outside the GCC or supplied to or under a duty suspension arrangement within 90 days of the date of supply
- The goods are exported or supplied to or under a duty suspension arrangement by the taxable supplier or the customer directly for their own account
- The goods are not altered or used in Bahrain or supplied to a third person between the date of supply and the date of export, or supply to or under a duty suspension arrangement. Use or alteration does not include preparation for export.
- The taxable supplier keeps appropriate documents to evidence the removal of the goods to a place outside the GCC or their supply to or under a duty suspension arrangement

Documents which may be used to evidence removal of the goods from the GCC include:

- Documents issued by the Ministry of Interior's Customs Affairs
- Commercial documents identifying the supplier and customer, place of delivery and destination of goods, including airway bills, bills of lading, certificate of receipt and other relevant documents.

Where the export of goods, or supply to or under a duty suspension arrangement cannot be evidenced to the NBT, it may refuse to allow application of the zero-rate.

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Services supplied by a taxable supplier in Bahrain, to a customer residing outside the GCC are zero-rated, provided:

- The services are supplied to a customer with no place of residence in any GCC state and who was outside Bahrain when the service was rendered
- The services relate to physical goods or real estate existing outside the GCC at the time the service was rendered
- The services are rendered outside the GCC
- The benefit of the services is outside the GCC

Where the above conditions cannot be met, the supply will be subject to the appropriate local rate in Bahrain.

Imports

VAT will be payable on imported goods to Customs, at the time of importation, and subsequently recovered through the VAT return, if the goods are used in the course of making taxable supplies. The delay between paying import VAT and claiming will create an adverse cashflow impact, particularly for those in regular refund positions, who will also need to await payment of the refund amount.

By concession, the ERs allow a taxpayer to apply the reverse charge on import VAT, subject to authorisation by the NBT. The import VAT must be fully recoverable and the taxpayer must meet certain other conditions prescribed in the ERs. This concession will be of significant interest to businesses in a regular VAT refund position. Businesses with export transactions exceeding 50% by turnover value will also be able to apply for permission to reverse charge local purchases, as detailed in our comments on the Oil and gas industry.

Deferral of import VAT – as a transitional measure, between 1 January and 31 December 2019, Bahrain has indicated that special provisions may apply in respect of accounting for VAT on imports, potentially allowing deferral of import VAT due at Customs and payment via the VAT return. The NBT is yet to make an announcement in relation to these provisions.

Imported services – Services imported by a taxable person, where the supplier is located outside of the Kingdom, will be subject to the reverse charge by the supplier – effectively the supplier will declare a payable amount of VAT, due to the NBT, on the value of the importer service, and may make a corresponding recovery adjustment (receivable) if using the services for a taxable business purpose. For non-VAT registered businesses, the value of goods and services subject to the reverse charge will count towards the VAT registration threshold, and therefore must be carefully monitored.

In respect of administration, VAT will be applicable on the value of the service supplied by the foreign supplier. A requirement specific to Bahrain is that the customer must manually amend the supplier's invoice to record the amount of VAT chargeable on the supply – this is likely to have to be done by hand on the relevant invoices.

Territory of the GCC – transitional rules

Under the Bahrain VAT law, all countries within the geographical territory of the GCC will be considered outside of the GCC for VAT purposes, until they have implemented VAT and complied with the provisions of the GCC VAT treaty. The regulations state that the NBT will issue a statement declaring any GCC countries treated as implementing states (e.g. within the GCC for VAT purposes). However, in the absence of such a declaration, all other GCC countries are currently treated as outside the GCC for VAT purposes.

Intra-GCC supplies

Once a country is treated as within the GCC by Bahrain for VAT purposes, the supply of goods and services to persons in that country will cease to be treated as exports, and the VAT treatment will depend on whether the recipient is a taxable person (B2B) or non-taxable (B2C). The general rules for the VAT treatment of intra-GCC supplies will be as follows:

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Supply	Taxable customer	VAT treatment
Goods	Yes	Outside scope of Bahrain VAT, customer required to self-account for arrival of goods via the reverse charge in their jurisdiction
Goods	No	Local Bahrain VAT at the prevailing rate. If supplies to a particular jurisdiction exceed the MRT, the supply will revert to be out of scope of Bahrain VAT, but the supplier must register and account for local VAT at the prevailing rate in the destination territory
Services	Yes	Outside scope of Bahrain VAT, customer required to self-account for import of services via the reverse charge in their jurisdiction, unless the supply is subject to a specific place of supply rule which deems place of supply to be in a country other than where the customer is located
Services	No	Local Bahrain VAT at the prevailing rate, unless the service is subject to a specific place of supply rule, which may require the supplier to register in another jurisdiction, depending on place of supply

In respect of intra-GCC sales of goods, the taxable supplier must retain proof of transportation, evidence of removal from Bahrain within 60 days, proof of the GCC state of destination and proof of the customer's VAT registration status to apply the outside of scope VAT treatment. In relation to both goods and services, the taxable supplier must be able to evidence whether the customer is a taxable person, for which the best evidence is a copy of the customer's VAT registration certificate in their country of residence.

Non-sector specific developments

Incidental exempt supplies – The provisions which related to proportional recovery of VAT (attribution of VAT on overheads) state that incidental exempt supplies, which do not form part of the person's main business activities will not form part of the calculation. This will be good news for businesses engaging in small amounts of exempt activity, such as exchange rate hedging or a lease of a property (where for example, their core business is retail). Whilst VAT wholly attributable to those activities will not be recoverable, it will not impact the recovery rate for overhead, residual cost. We will need to wait for guidance on what constitutes incidental and whether the NBT will set a de minimis test.

Motor vehicle expenses – The ERs have outlined that VAT on expenses related to motor vehicles may be recovered by reference to their proportional taxable vs non-taxable use. The provision may, however, be restricted to certain expenses, and may not apply to the lease or purchase of the vehicle – further clarification will be required from the NBT on this.

The NBT will publish the controls and conditions for claiming input tax in relation to vehicle expenses. The conditions are likely to include an obligation to perform careful and accurate monitoring of vehicle use, which may involve use of:

- Key holding arrangements
- Mileage records
- Return of vehicles to business premises outside certain hours
- Board resolutions stipulating acceptable private use

The fact that there is no complete block is likely to be welcome news for businesses with significant expenses in relation to company cars, or vehicles otherwise provided to employees – in KSA and UAE, if it cannot be evidenced that vehicle expenses are incurred in relation to vehicles exclusively used for business purposes, all associated VAT is blocked.

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It is important to note that the blocking provisions do not apply to:

- Vehicles rented by vehicle rental agencies
- Vehicles registered and used for emergencies – police cars, ambulances, fire trucks, etc.
- Taxis and buses licensed by the Ministry of Transportation and Telecommunication
- Buses, trucks, cranes and any other similar vehicles which can only be used as part of the economic activity

Capital assets – Bahrain has followed KSA in its definition of capital assets, defined as assets assigned for long term business use, capitalized on balance sheet. VAT on capital assets is recoverable on the full value of tax incurred, by reference to the intended taxable use, in the first available VAT return. However, the use of such assets must be monitored and an adjustment made to the input tax originally recovered, if taxable use increased (positive adjustment) or decreased (negative adjustment) in the relevant tax year. The monitoring period is 5 years for intangible or moveable capital assets and 10 years for immovable capital assets. This will mean that businesses will need to maintain a capital asset register for VAT purposes.

Gift rule - deemed supplies – Businesses may give away goods or services (e.g. for sampling purposes or as a gift) as long as the market value of those goods or services does not exceed BHD50 per person per calendar year, subject to a total annual maximum of BHD1,000.

If these amounts are exceeded, VAT must be declared based on the cost of the goods or services, if ascertainable, or market value. There is no indication in the law as to whether VAT applies to the full value, or the amounts exceeding the thresholds. We recommend a prudent approach, in the absence of clarity.

No deemed supply will occur where the supplier has not deducted input tax in respect of the goods or services supplied, or if the supply itself is VAT exempt.

Bad debt relief – Taxpayers will be entitled to adjust output VAT previously declared on

supplies if the consideration remains unpaid by their customers. Affected taxpayers will be entitled to make a negative adjustment to their VAT payable in the period in which the right arises, if payment is not received 12 months from its due date. Businesses must, however, have taken all necessary measures to collect, which may include legal action, and must have written-off the amounts owed in their business records. The recipient of the supply is required to make a corresponding adjustment to their input tax claim.

Transfer of going concern – The transfer of a business as a going concern, in whole or in part, may be treated as outside the scope of VAT, provided all of the following conditions are met:

- The transfer must put the transferee in possession of a business capable of separate operation
- The transferor must be registered for VAT in Bahrain
- The transferee must be registered for VAT in Bahrain, or required to register by virtue of the transfer
- The transferee must use the assets transferred to conduct the same business activity as previously conducted by the transferor, immediately, without a significant break in trade

Tangible and intangible property, rights and debts may also be included as part of the transfer, and will also be treated outside the scope of VAT – this may include property, equipment and machinery and order books/books of business and goodwill.

Both the transferee and transferor must notify the National Bureau of Taxation within 30 days of the transfer, in the form specified by the Bureau, otherwise the VAT treatment will be determined according to the standard VAT rules.

Second-hand margin scheme – businesses supplying certain second-hand goods may apply to the NBT to apply VAT on the profit margin, calculated as the difference between the purchase price and sale price, excluding other costs – e.g. improvement or repair of the goods.

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The margin-based calculation may be applied to:

- Second-hand goods, meaning tangible moveable property that is suitable for further use as it is or after repair
- Art works, antiques, or other items of scientific, historic or archaeological interest

The goods must have been purchased from:

- A person not registered for VAT in Bahrain
- A taxable person permitted to calculate the tax on the goods based on the profit margin
- A taxable person who was not entitled to deduct VAT initially incurred on the goods

The taxable person is not permitted to deduct any input tax built into the cost of the goods, although will be permitted to recover VAT on other associated costs under the normal rules. The supplier must also note on his tax invoice that the tax was calculated by reference to the profit margin. He must also keep detailed documents and records including the details of goods sold under the scheme.

Administration

Registration – All businesses exceeding the mandatory VAT registration threshold of BHD37,500 are required to be registered for VAT. When assessing turnover for the purposes of registration, business must include:

- Taxable supplies (standard or zero rated), excluding capital assets
- Value of imported services subject to reverse charge
- Deemed supplies
- Internal supplies, if they would have been taxable in Bahrain

These values should be determined based on market value in respect of supplies between related persons.

By concession, only businesses with taxable turnover exceeding BD5m will be required to register from 1 January 2019 – those with lower turnovers will be required to register throughout 2019, but may elect to register if they meet the conditions. For 2019, the mandatory VAT registration thresholds are:

Taxable revenue threshold	Registration deadline	Effective date of registration
>BHD 5m	20 December 2018	1 January 2019
>BHD 500k – BHD 5m	20 June 2019	1 July 2019
>BHD 37,500	20 December 2019	1 January 2020

Note: Non-residents have an immediate requirement to register upon making their first taxable supply. The transitional rules and thresholds do not apply to them.

Businesses with taxable turnover of BHD18,750 and above will be entitled to register for VAT on a voluntary basis. The registration application is made through a portal on the website of the National Bureau of Taxation.

Businesses are required to monitor their taxable turnover (based on a clear action plan) to determine their VAT registration eligibility.

Notwithstanding the transitional VAT deadlines above, under the ERs, a person obligated to register for VAT must submit a VAT registration application to the NBT within the following deadlines:

- Thirty days from the last day of the month in which the value of annual supplies in Bahrain exceeded the MRT
- Thirty days before the month during which the value of annual supplies in Bahrain is expected to exceed the MRT

VAT group registration – Two or more taxable legal persons (companies) may register as a tax group and be treated as one taxable person for VAT purposes. To register as a tax group, they must be related persons – e.g. one must control the other(s) – and each must be separately registered for VAT in Bahrain on the date the application for VAT grouping is made. One

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company may not be a member of more than one VAT group at any one time and, once grouped, must be grouped for a minimum period of 12 months.

Supplies between group members are disregarded for VAT purposes, meaning that no VAT is chargeable, and the transactions are not reported on the VAT return, nor are invoices generated in respect of them. As such, VAT grouping can have cash-flow and administrative advantages. However, all group members are jointly and severally liable for the VAT debts of the group, for the period in which they were members of the group. Also, consideration will need to be given to whether members within a group are making exempt supplies as this will

recover the overall VAT recovery position of the group.

Filing frequency – From 1 January 2020, businesses with turnover exceeding BHD3m will be required to file monthly VAT returns. All other businesses will be required to file quarterly. A business may seek permission, or be required by the NBT, to file monthly tax returns.

Transitional filing frequency – In 2019, VAT return filing for businesses exceeding BHD5m will be quarterly. Other taxpayers may have up to 6 months to file their first return, depending on when they register, with quarterly returns thereafter. We set out the transitional VAT return filing requirements for all businesses below:

Taxable turnover	Effective date of VAT registration (EDR)	Tax periods
>BHD 5m	1 January 2019	1 January 2019 to 31 March 2019 1 April 2019 to 30 June 2019 1 July 2019 to 30 September 2019 1 October 2019 to 31 December 2019
≤BHD 5m	1 January 2019	1 January to 30 June 2019 1 July 2019 to 30 September 2019 1 October 2019 to 31 December 2019
All taxpayers	2 January 2019 to 30 June 2019	EDR to 30 June 2019 1 July 2019 to 30 September 2019 1 October 2019 to 31 December 2019
All taxpayers	1 July 2019 to 30 September 2019	EDR to 30 September 2019 1 October 2019 to 31 December 2019
All taxpayers	1 October to 31 December 2019	EDR to 31 December 2019

Filing deadlines – Tax returns must be submitted, with payment, by the last working day of the month following the end of the tax period. If this day is not a working day, the deadline is the first business day thereafter.

Tax invoices – Tax invoices must be issued for taxable supplies made in Bahrain, and for supplies of goods or services made to non-resident persons, and must be issued by the 15th day of the month following the month of supply. Tax

invoices can be in English or Arabic, but must contain the following details:

- The words 'tax invoice' clearly displayed
- Name, address and VAT registration number of the taxable person
- Name and address of the customer
- Date of issue and date of supply or due date of payment, if different from issue
- Invoice serial number
- Description of goods or services

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- Quantity of goods supplied
- Value of supply in BHD, and tax exclusive unit price
- Value of discounts, if any, in BHD
- Rate and amount of tax charged
- Total tax inclusive amount due in BHD
- Exchange rate applied, if a different currency is used
- Indication that VAT is calculated on the profit margin, if the profit margin scheme is used
- Reference to exclusion of exemption of supply from tax

Credit and debit notes – Where the value of a supply is adjusted after a tax invoice has been issued, the adjustment must be accompanied by issue of a valid VAT debit or credit note, which must contain the following:

- The words ‘credit note’ or ‘debit note’, clearly displayed
- Name, address and VAT registration number of the supplier
- Name and address of the customer
- Serial number of the credit/debit note
- Date of issuance of the credit/debit note
- Serial number of the tax invoice or original document subject of the correction
- Amended value of supply and value of tax to be adjusted, in BHD

Simplified VAT invoices – As outlined in our section on retail and leisure, simplified VAT invoices may be issued for supplies where the total consideration does not exceed BHD500 or for supplies to non-taxable persons and must contain the following minimum details:

- Name, address and VAT registration number of the supplier
- Date of issue of invoice
- Description of goods and services supplied
- Total value of supply after tax in BHD
- Total amount of VAT in BHD

Tax invoices received from foreign suppliers – in respect of services supplied by foreign suppliers, subject to the reverse charge, the customer must manually amend the supplier’s invoice to record

the amount of VAT chargeable on the supply – this is likely to have to be done by hand on the relevant invoices. VAT will be applied, depending on the local VAT treatment of the supply, based on the total consideration payable on the invoice.

Content of the VAT return – In preparation for VAT, businesses have been coding their systems and general ledgers to capture the data required to complete their VAT returns. The ERs explicitly state the figures that must be reported on the VAT return with values required for:

- Taxable supplies and the applicable tax
- Zero-rated supplies
- Reverse charge goods and services and the applicable tax
- Imports subject to tax deferral and the applicable tax
Increase in tax due as a result of adjustment
- Total tax due
- Purchases and tax claimed
- Net tax recoverable from previous periods
- Tax deductible on imports
- Increase in deductible tax as a result of adjustment
- Total deductible tax
- Net tax due or recoverable

Record-keeping – A taxpayer is required to retain the books and records relating to VAT for the period prescribed by law. These records include:

- Accounting books related to the activities of the taxable person
- Budget and profit and loss statements
- Records of salaries and wages
- Fixed asset records
- Stock records and accounts at the end of each tax period
- Copies of tax invoices, credit notes and debit notes issued and received
- Customs documents related to imports or exports by the taxable person
- Addition records specified by the authorities

The record keeping requirements vary, depending on the supplies to which they relate and are set out below:

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Supplies to which documentation relates	Document retention period
Moveable capital assets	5 years from the end of the tax adjustment period relevant to the assets
Immoveable capital assets	15 years from the end of the tax period to which the assets relate
All other goods and services	5 years from the end of the tax period to which the supplies relate

Tax agents/representatives

A taxpayer resident in Bahrain may appoint a tax agent to act on its behalf, in its name, in respect of its tax affairs and liaise directly with the authorities. The taxpayer or the agent must notify the authorities within 30 days of appointment. A tax agent is not jointly liable for the tax position of the principal taxpayer.

Non-resident taxpayers can appoint a tax representative to handle their tax affairs directly with the authorities, although are not obliged to do so, and can liaise directly with the authorities themselves, in respect of their tax obligations. Tax representatives are jointly and severally liable for the tax position of their taxpayer principals.

Tax agents and representatives are required to be licensed by the National Bureau of Taxation. In order to obtain a licence, the agent or representative must:

- Be resident in Bahrain
- Be of good conduct and reputation, not previously convicted with a penalty of restriction in liberty in a crime of moral turpitude or dishonesty, unless rehabilitated
- Hold an appropriate university degree or professional qualification, certified by the Ministry of Education in cases where the licensee is an individual
- Conduct his business under a Commercial Registration, where the applicant is an individual
- Pay the required fee to the authority
- Be appointed via a power of attorney to act on behalf of his principal in respect of all tax obligations

Next steps

Businesses in Bahrain must carefully examine their activities and assess the impact of VAT on their operations. With the registration deadline looming, businesses should have evaluated taxable turnover for the purposes of registration, and understand their obligations. Businesses should bear in mind that the turnover figure for VAT registration purposes does not just include local taxable supplies, but also imported goods and services subject to the reverse charge and deemed supplies.

If annual taxable turnover is (or is expected to be) greater than BD5m, then businesses must register online with the NBT by 20 December 2018, if not already automatically registered. The penalties for failing to register are severe, with potential prison terms for failure to register with 60 days of being required to do so.

If turnover is below BHD5m, but above the voluntary registration threshold, a business may wish to consider registering, but will have to carefully evaluate whether VAT can be charged to customers in addition, and whether the recoverable input tax outweighs the costs of compliance.

Businesses with high taxable costs, such as importers and manufacturers, are likely to have a greater incentive to register than businesses with non-taxable inputs, such as consulting or manpower suppliers where the majority of expenses relate to salaries.

Some businesses, particularly those making supplies to individuals who cannot recover their VAT, may see a significant upside in deferring registration, particularly those supplying price-sensitive goods and services.

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Non-residents have an immediate requirement to register upon making their first taxable supply. The transitional rules and thresholds do not apply to them.

This document is not intended to be an exhaustive analysis of the recently Bahrain VAT regulations and are based on a translation of the Arabic regulations. We expect further clarification and detail in relation to the full application of the tax in the coming weeks, particularly as the NBT starts to publish guidance and clarifications. As always, if you have any questions, or would like to discuss any of the issues raised in this VAT brief, please get in touch with your Keypoint VAT contact.

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