

# VAT brief | Imports and exports | Goods

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Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain has confirmed implementation on 1 January 2019, with the other GCC countries expected to follow over the next 12 months. Business leaders should now be more aware than ever that we have entered a new tax era. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

## What is VAT?

- VAT is a tax on consumption.
- The GCC countries have agreed a standard VAT rate of five percent.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold is the equivalent of US\$100,000 - as set out in the GCC VAT treaty. The voluntary registration threshold is the equivalent of US\$50,000.
- Registered businesses account for VAT on the price charged for the goods or services they supply and pay it to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope with recovery) be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

## How does VAT impact exporters?

- Until the electronic services system (ESS) is in place, supplies of goods which involve their removal from their GCC jurisdiction of origin will be treated as exports - and so zero-rated.
- Once the ESS is in place, supplies of goods from a registered business in one member state to a registered customer in another member state will be out of scope. Supplies of goods from a registered business in one member state to a non-registered customer in another member state will be standard-rated.
- When a registered business in a member state supplies goods to non-registered customers in another member state, the supplier must charge local VAT until the registration threshold in the destination member state is exceeded, at which point it needs to register in the other member state and account for VAT in the other member state.
- Exporters must have evidence goods have been removed to support zero-rating - the tax authority will ask to see this.
- As customers pay import VAT at the destination jurisdiction if they are acting as the importer of record, they may pressure exporters to zero-rate their goods or services.



- Customers may collect goods from producers ex-works and export indirectly. This complicates matters - although zero-rating is still permissible subject to meeting the relevant conditions.
  - Where customers are exporting indirectly, evidence of removal must be obtained and retained as if you exported the goods.
  - Suppliers may wish to hold an amount equal to the VAT in escrow until the customer provides documentation evidencing removal within the required time-frame.
  - Although supplies to other GCC countries will be treated as outside the scope of VAT once the ESS is introduced, strict time-frames for removal and retention of proof of export remain in place.
- Importers must ensure their documentation is correct to facilitate input tax recovery – in the UAE, Saudi Arabia and Bahrain, import VAT is recoverable as input tax, subject to the normal conditions and to holding a valid customs bayan in the name of the party seeking to recover the VAT.
  - VAT on imports is accounted for by way of reverse charge in the UAE and charged at the point of importation in Saudi Arabia and Bahrain. The VAT laws of both Saudi Arabia and Bahraini allow the application of the reverse charge to imports – once permission has been granted. In Saudi Arabia, a taxpayer must have been fully compliant for the previous 12 months for permission.
  - When using a freight forwarder to clear goods, ensure that the recipient of the goods is named as the importer of record on the import documentation or input tax recovery may be blocked.
  - After the ESS is implemented, imports from other GCC countries will be subject to a reverse charge by the importer of record – similar complications will occur with regard to the recovery of input tax.

#### **How does VAT impact importers?**

- Import VAT is charged at the standard rate (5%) on almost all imported goods - buying goods from abroad offers no VAT benefit.
- Bahrain has specified that certain essential goods (a list will be released) will be zero rated.
- Importers want to ensure this import VAT does not become a stuck cost – this can occur when another party imports and is named on the relevant customs documentation as the importer of record, but is neither supplier nor recipient in the supply chain.

#### **What should exporters be doing now?**

Examine supply chains to:

- Understand where zero-rating may be required
- Predict where conflicts may occur with customers
- Assess where financial security may be required
- Identify other processes required to avoid assessment and penalties
- Check the value of supplies to non-registered customers in other member states



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**What should importers be doing now?**

Review import arrangements to:

- Evaluate import VAT recovery positions
- Ensure that VAT does not become a sticking cost to the business
- Consider applying a reverse charge and, where not automatic, consider benefits of seeking permission (KSA and Bahrain)

**Both exporters and importers must:**

- Consider how the introduction of the ESS will impact supply chains
- Get ready for the change-over to the ESS

**Important note**

The information in this document is based on translations of the draft Bahrain VAT law, the VAT laws and regulations of the UAE and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. As the draft Bahrain VAT law has been recently released and is still being reviewed in detail, any comments on this law are preliminary in nature and are likely to change. 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.