

Sector spotlight | VAT and the automotive sector

Kingdom of Bahrain | 22 November 2020



Bahrain's National Bureau for Revenue (NBR) released its retail and wholesale guide on 4 June 2020, which includes a number of points particularly relevant to car dealers.

Marketing contributions

If a dealer receives consideration (irrespective of whether it is monetary, non-monetary or as a set off or discount) from a manufacturer for conducting promotional activities, this constitutes a supply of services from the dealer to manufacturer (and so a tax invoice is required). The NBR states that the standard VAT rate applies, regardless of whether the manufacturer is resident in Bahrain for VAT purposes, disqualifying this service as a zero-rated export of services.

It appears the NBR is suggesting the zero-rated export of services provisions will not apply in all circumstances. In our view, if the promotional activities are general in nature, not in relation to specific goods in Bahrain and the other zero-rated export of services conditions are met, any consideration received by a dealer from an overseas manufacturer should be zero-rated. If this scenario applies to you, we recommend you seek further guidance.

Profit margin scheme

The guide states that, once a taxable person has obtained the NBR's approval to use the profit margin scheme, the scheme must be used in respect of all qualifying goods. This requirement was previously absent from Bahrain's VAT law and the NBR guides.

Incentives offered by car dealers

Discounts and cash rewards offered by car dealers

If a discount is offered, the discounted value is subject to VAT.

Free servicing and roadside assistance

Where free servicing and roadside assistance is offered as part of a specific promotion and cannot be enjoyed separately, it is a single composite supply of a car. The amount paid for the car is taken to include a cost component attributable to the additional service. If the incentive is offered completely free of cost (that is, the cost was not considered when determining the sale price or when the incentive is provided free on a standalone basis), the deemed supply rules apply.

Accessories and insurance

Any accessories (such as window tinting, anti-corrosion treatments and other optional extras) or insurance included in the price of the vehicle are treated as a single composite supply. If purchased separately, they constitute a separate supply. If provided completely free of cost, the deemed supply rules may apply.

Car registration

If, as part of a promotion, the dealer covers car registration costs for a defined period, the provision of the registration is a single composite supply. The dealer must account for VAT on the consideration received, excluding the car registration costs. The registration fees must be separately itemised on the tax invoice as an out of scope disbursement. If registration fees are included in the total consideration without being separately itemised, the entire consideration received is subject to VAT.

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The NBR is differentiating between additional items a car dealer may 'throw in' to close a sale and items that may be genuinely provided 'completely free of cost' when selling a car. Experience suggests that a car dealer including additional items completely free of charge is rare. The words completely free of cost suggest that a nominal charge should not trigger deemed supply rules (assuming the transaction is between unrelated parties).

Retrospective discounts and rebates

Where a manufacturer provides a retrospective discount to a retailer as an incentive for meeting targets, the manufacturer is required to issue a credit note to adjust the value of the supply. Where the supplier of the goods is located outside Bahrain, discounts granted by the supplier after the goods have been imported into Bahrain have no VAT implications unless the customs value of the goods is adjusted.

Generally, customs values are adjusted where an item has been classified or valued incorrectly. If a manufacturer provides a discount to a retailer by providing goods of equal value to the discount granted, the manufacturer is required to issue a credit note for the value of the discount and a tax invoice for the goods provided.

Financing arrangements

The guide illustrates two common finance arrangements:

Self-financing arrangement

- A supply of goods for a price stated in a contract – a taxable supply - the dealer must issue a tax invoice to the buyer
- A supply of financing or credit services charged separately – supply of financial service

Dealer sells a car to a customer subject to finance:

- Sale of car from a dealer to a bank or finance company – a taxable supply – the dealer must issue a tax invoice to the bank or finance company
- Sale of car from a bank or finance company to a customer – a taxable supply – the bank or finance company must issue a tax invoice to the customer
- Supply of financing or credit services by a bank or finance company to a customer – supply of a financial service

Any fees charged to a bank or finance company by a dealer are subject to VAT at the standard rate.

VAT is due on the supply of the car no later than when it is put at the buyer's disposal – irrespective of any instalment payments or who the legal owner is.

Staff discounts

Where a VAT-registered dealer discounts goods or services to an employee, the dealer must account for VAT on the fair market value of the supply (not the amount actually charged to the employee). If the discount is available to both employees and customers, the discounted price is considered to be the fair market value.

Repairs during the warranty period

The guide reiterates the NBR's position outlined in public clarification VAT/PC/20/1.

Disclaimer: This sector spotlight is based on our review of the NBR's retail and wholesale guide, our understanding of Bahrain's VAT legislation and the GCC framework agreement and general VAT principles and is for general information only. Seek professional advice in relation to your particular circumstances.