

# Sector spotlight | VAT and the retail sector

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**Bahrain's National Bureau for Revenue (NBR) released its retail and wholesale guide on 4 June 2020. In this brief, we highlight key areas for FMCG and other retailers that are either new or that clarify VAT positions.**

## **Lost, stolen or damaged goods**

First BHD1,000 of value in a calendar year

Taxable persons are not required to adjust the input tax claimed on goods that are lost, stolen or damaged – providing this can be evidenced. The NBR has stated that internal documentation regarding any loss, theft or damage is sufficient for the first BHD1,000 in a single calendar year. The documentation should include a description of the stock (such as an item code, SKU or description); its purchase price and the VAT claimed on its acquisition; an indication as to whether items were lost, stolen or damaged; and evidence that the stock has been written off in the taxable person's financial statements.

Total value exceeds threshold in a calendar year

Where the total value of lost, stolen or damaged goods exceeds the annual BHD1,000 threshold, evidence must be from a third party. Third-party evidence acceptable to the NBR may include police reports and insurance claims.

Total value exceeds threshold but market value of individual items is under BHD1,000

If the total annual cost exceeds BHD 1,000, but the individual stock item is valued (both market value and cost) less than BHD1,000, the NBR will generally accept an auditor's report including the evidence required for the first BHD1,000 in a financial year; a statement that the value of each individual good is less than BHD1,000; and the steps taken by the auditor to confirm the loss, theft or damage.

Stock reconciliations; memos detailing lost, stolen or damaged goods; or notes to financial statements are not considered sufficient.

If stock – such as fruit and vegetables – naturally spoils, evidence is not required as long as the taxpayer retains records of the nature of the goods, the quantity damaged and how the damage occurred.

## **Obsolete stock**

Obsolete stock is stock that is no longer marketable or usable, generally because a newer item has replaced it. Taxable persons do not need to adjust any input tax initially claimed provided they give the NBR at least 30 days' notice before disposing of obsolete stock. The notice should include a description of the stock (such as an item code, SKU or description); its purchase price and the VAT claimed on its acquisition; a reason for considering it obsolete; the method of disposal; and confirmation that it has been - or will be - written off in the taxable person's financial statements. The NBR may require the disposal to be observed by its representatives or, if observed by a licensed auditor, a report from the auditor confirming its attendance and observation. If disposal takes place without giving NBR notice, any input VAT claimed in relation to the goods must be repaid.

The notification requirement is not required for perishable goods, hazardous materials or for the first BHD5,000 in value disposed in a single calendar year. However, certain information may need to be supplied to the NBR if requested.

## **Marketing contributions**

If a retailer receives any consideration from a manufacturer for conducting promotional activities, this constitutes a supply of services, requiring a tax invoice. 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 do not apply in all circumstances. In our view, if promotional activities are general in nature and are not in relation to specific goods in Bahrain and the other conditions for zero-rated exports of services are met, the consideration received by the retailer from an overseas manufacturer should be zero-rated. If this scenario applies to you, we recommend you seek further guidance on this matter.

## **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 NBR's guides.

The NBR has also clarified that the profit margin scheme is not applicable to the sale of precious metals and stones, pearls or watches.

## **Sales through vending machines**

The tax due date for supplies through vending machines is typically when cash received for purchases is collected. However, the guide further clarifies that, for vending machines that accept card payment only, the tax due date will when payments are credited to the supplier's bank account.

## **Retrospective discounts and manufacturers' rebates**

Where a manufacturer provides a retrospective discount to a retailer as a reward for meeting targets, the manufacturer is required to issue a credit note to adjust the value of the supply. Where the supplier 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.

## **Staff discounts**

Where a VAT-registered dealer supplies discounted goods or services to an employee, the dealer must account for VAT on the fair market value of the supply (as opposed to 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.

## **Sale or return arrangements and consignments**

A sale or return arrangement is where goods are placed at a customer's disposal but title is retained by the supplier until the customer accepts ownership – sometimes with a time limit. The NBR views the time of supply as when the goods are provided to the customer, not when the customer confirms their purchase. If a customer returns some or all of the goods, the supplier should issue a credit note for the goods not accepted.

# Your success is our business

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The VAT treatment for stock that is accessible by customers but does not require prior approval from a supplier is similar.

With a consignment arrangement, where there are back-to-back sales from the consignor to the consignee and from the consignee to the customer, the time of supply is when the sale happens.

### Concessionaire arrangements – license to occupy

Where a host store allows a concessionaire to occupy a space and trade in their store, the license fee charged by the host store is standard-rated. The NBR's real estate guide states that the provision of space for retail or promotional stands for one month or longer is an exempt supply.

### Time of supply for concessionaires' sales

When goods are sold by the concessionaire to the host and then by the host to consumers, the time of supply is when the goods are sold to the consumer. Concessionaires must ensure that they are informed of all sales transacted by the host.

### Repairs during the warranty period

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

### Loyalty programmes

#### Loyalty (stamp) cards

Supplies redeemed by customers through loyalty cards should not be treated as deemed supplies for VAT purposes. Concessionaires must ensure that they are informed of all sales transacted by the host.

#### Single vendor schemes

Where a retailer operates a loyalty programme themselves and there are no third-parties involved, neither the award of loyalty points nor handing over rewards when redeeming points are subject to VAT.

#### Multiple vendor schemes

When more than one vendor participates in a scheme managed by a separate promoter, each transaction between multiple parties needs to be individually evaluated:

- Fees charged by the scheme's operator to participants (*grantors*) – subject to VAT
- The award of loyalty points to customers – not subject to VAT
- Handing awards to customers redeeming points – not subject to VAT
- The redeemer recovering the cost of goods or services from an operator in exchange for supplies – subject to VAT at the standard rate (viewed as honouring the obligation to redeem points)

**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.