

VAT alert | Implications of staggering

1 December 2018 | Manama | Kingdom of Bahrain



On 28 November 2018, the Ministry of Finance (MoF) announced that it is staggering the registration of VAT for businesses in Bahrain. We understand this announcement means that only businesses with turnover of over BD5m will need to register for VAT by 1 January 2019. These businesses must submit their registration before 20 December 2018. **What does the Ministry of Finance announcement on staggered registration mean for businesses?**

What should these 'larger' businesses be doing now?

Businesses with turnover above BD5m should be continuing (on a fast track basis) with their preparations to be ready for the implementation of VAT by 1 January 2019. If you haven't received the form from the MoF, you should urgently contact the MoF or speak to your advisor.

Has the Bahrain government changed the mandatory registration threshold (MRT)?

No, the Bahrain VAT law clearly refers to the MRT as BD37,500 (approx. USD100,000) as set out in the GCC VAT treaty. The voluntary registration threshold (VRT) also remains at BD18,750 (approx. USD50,000). The announcement from the MoF does not change the MRT or the VRT.

Does the announcement mean the Bahrain government is going to apply the VAT law differently to smaller businesses?

No, the announcement is only a staggering of the registration which appears to effectively be a staggering of the introduction of VAT in Bahrain. Saudi Arabia did something similar but used a much lower threshold of SAR1m. The MoF has not announced any changes to the application of the VAT law.

What should businesses with turnover above the MRT but BD5m or less do?

It appears these 'smaller' businesses have some extra time to get ready for VAT. Based on the announcement to stagger, it would appear that these businesses will likely not be implementing VAT on 1 January 2019. However, there has been no announcement on how much extra time they have – these businesses will need to wait for clarity from the MoF on when they need register for VAT or whether these businesses will be able to voluntarily register.

What does this actually mean?

In simple terms, these 'smaller' businesses will not charge VAT on any of the supplies they make until they are registered – hopefully the MoF will announce an effective date of VAT for these businesses soon.

Will these 'smaller' businesses still have to pay VAT?

All businesses importing goods into Bahrain or purchasing any services or goods from a larger business (that is, with turnover over BD5m) that is registered for VAT in Bahrain will still pay VAT.



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If a business is not registered can it recover VAT?

In short, no. Until businesses below the BD5m threshold are allowed to register, VAT will likely be a cost to these businesses as they won't be able to recover any input VAT they pay on their expenses. However, the Bahrain VAT law does allow for the recovery of input VAT paid prior to registration subject to meeting the conditions specified in section 44 of the Bahrain VAT law – hopefully, the regulations will provide more clarity on this. We recommend businesses retain copies of tax invoices received and make sure that these are valid (as prescribed by the Bahrain VAT regulations) to protect their position on pre-registration input VAT claims.

Should 'smaller' businesses stop preparing for VAT?

Assuming the go live date for these businesses is being delayed, these businesses will have more time to prepare – will this be one month, six months or longer? We currently do not know. While smaller businesses may be able to slow down their preparations for implementation of VAT, we do not know how much “breathing space” the MoF has decided to provide so our strong recommendation to these businesses is that they do not stop preparing. All the MoF has announced is a staggered registration (which in effect appears to be a staggered introduction). See also the answer to the question above – businesses still need to know what to do to protect their position on input VAT incurred prior to registration. They will not be able to do this unless they have an understanding of how the VAT law applies.

To discuss this development – or any VAT issue – with one of our VAT specialists, please contact a senior member of the Keypoint VAT team.

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 Bahrain, the UAE and Saudi Arabia, the GCC VAT framework 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.