

VAT brief | Tariff classifications

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As VAT consultants to both hypermarkets and their suppliers, it is clear that a number of retailers are selling goods with the wrong VAT treatment: goods that should be standard-rated (VAT added at five percent) are being sold VAT-free – as well as the other way around. Applying the correct VAT treatment can be complex as not all items fit neatly into the NBR's zero-rated harmonised system (HS) list. Systems - and staff - need to be able to differentiate between chillies and capsicum; mixed salad and other vegetables; grated, powdered and fresh cheese; and sweet potatoes, yams, taro and russet potatoes.

Classifying products

Products must be classified on an individual basis, according to the accepted classification methodology governed by the 'six general rules of tariff interpretation order' (known as the general rules of interpretation (GRI)). Applying this methodology will determine each product's HS code as well as its resulting VAT treatment. Applying the GRI based on the 'explanatory notes (ENs) to the harmonised system' is the **only** methodology accepted by the World Customs Organisation (WCO), which includes Bahrain's customs agency.

Bahrain's customs tariff classification list may not assign a specific HS code to each item you sell – and there may be no further guidance as to which HS code a particular item falls under. Where this occurs, the WCO's ENs, adopted by customs services worldwide, explain HS codes and help ascertain whether similar items fall within a particular tariff category.

What are the risks of getting VAT treatments wrong?

When the NBR audits a business, they will ask if tariffs have been classified for each product. If not, businesses are likely to be applying the wrong VAT treatment on some goods - which could result in significant penalties.

How can Keypoint help?

Our VAT team comprises members with extensive customs experience who have classified tariffs on a product-by-product basis following the WCO methodology for both cross-border clearances and customs ruling applications. We follow governing GRI principles as well as the WCO's ENs to accurately match each product or SKU carried by your business to tariff codes. Because our tariff classifications follow the WCO process, justifications are already in place if a classification is challenged by the tax authorities or customs.

Next steps

To understand the tariff classification process in greater detail, arrange a meeting with our indirect tax experts.

Important note: The information in this document is based on Keypoint's understanding of customs protocols 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.