

BAHRAIN - DRAFT VALUE ADDED TAX (VAT) LAW

Thrive With Change

M | M Al Ali Auditing
Mahesh Management Consultants
Mahesh Goyal & Associates

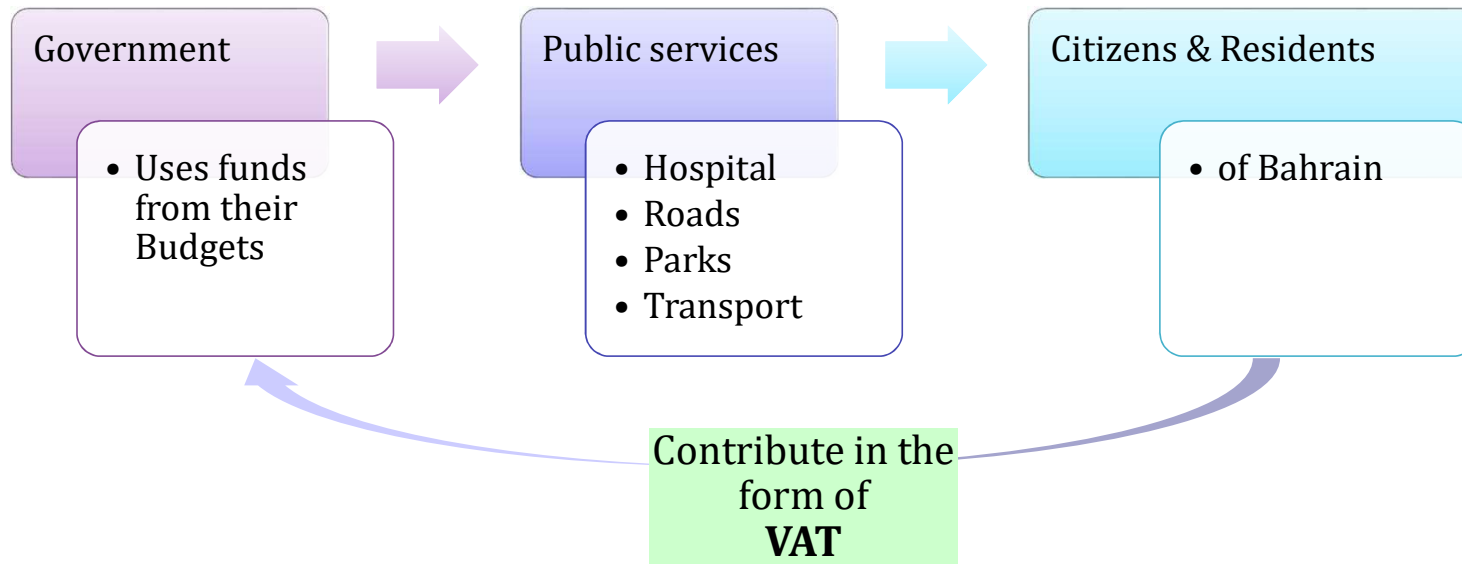
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Why VAT?



VAT - Indirect tax **charged on consumption** and is **levied on the supply and import** of goods and services.

Effective date : 1st January 2019

Legal framework

- Decree-Law Number 47 for the Year 2018 Ratifying The Unified Agreement for Value Added Tax of the Cooperation Council for the Arab States of the Gulf.
- Decree-Law Number 48 for the Year 2018 Promulgating the Value Added Tax Law

Registration

Mandatory Registration

If turnover before 12 months or expected in next 12 months is BHD 37,500.

Voluntary Registration

Business with the minimum threshold revenue of BD 18,750 may choose to register for VAT on voluntary basis.

Registration as a Tax Group

- Two or more person can get register as tax group on an application to tax authorities
- All the group members are liable for tax obligations of the Tax Group arising when grouped.

Exceptions

Person if all his supplies are Zero rated

Deregistration

If one of the following occurs:

- Taxable person ceases economic activity
- Taxable person stops making taxable supplies in consecutive 12 previous months
- Previous year sale value of taxable supplies falls below mandatory thresholds

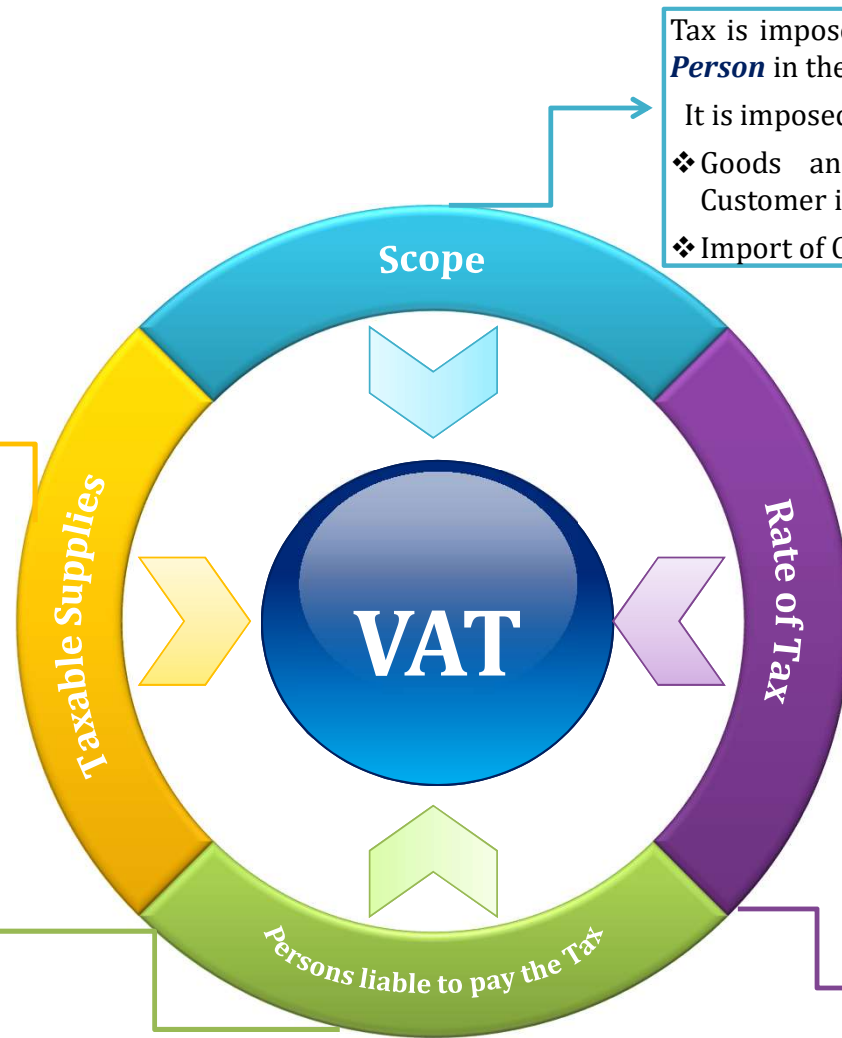
Annual Turnover in Sales	Must Register By	VAT Effective From
More than BHD 5,000,000	20th December, 2018	1st January, 2019
Between BHD 500,000 to BHD 5,000,000	20th June, 2019	1st July, 2019
Between BHD 37,500 to BHD 500,000	20th December, 2019	1st January, 2020

Resident

Non Resident

- Registration is mandatory irrespective of thresholds.
- Register directly or through tax representative

Zero rated - Taxable supplies against which input can be claimed



Tax is imposed on all **Taxable Supplies** by a **Taxable Person** in the **Kingdom**.

- It is imposed on
- ❖ Goods and Services received by the Taxable Customer in Reverse Charge Mechanism
 - ❖ Import of Goods

The Kingdom: The Kingdom of Bahrain including all its lands, subsoil, territorial waters adjacent to it and the seabed, and all that is vested in sovereign rights in accordance with the provisions of international law.

Taxable Person: A Person conducting an Economic Activity independently for the purpose of generating income, who is registered or obligated to register for VAT in accordance with the provisions of this Agreement.

The Standard rate i.e. 5% of the value of the Supply or Import is imposed, unless exempt or zero rated.

Supplies on which Tax is charged whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of this law.

1. Supplier of Goods and Services in the Kingdom;
2. Receiver of Goods and Services in the Kingdom from a Non-Resident Supplier in Reverse Charge
3. Every Person appointed or declared as the Importer as per Unified Customs Law will be liable to pay the Tax due on importation;
4. Every Person that declares a Tax amount on an invoice issued in the Kingdom

Supply



Supply of Goods

- Transfer of ownership of goods
- Transfer of right to use them as the owner



Supply of Services

- Anything that is not Supply of Goods is regarded as Supply of Services



Supply on behalf of a Taxable Person

- Person supplying or receiving goods/services on behalf of taxable person shall be treated as supplier or recipient of goods or services



Supplies from Government Authorities

- Taxable if operated in a non sovereign manner as an Economic Activity in a competitive manner with the private sector.



Deemed Supply

Taxable Person is deemed to have performed a Supply in the following cases:

- Providing services for no consideration
- Changing the use of Goods as non-Taxable Supplies
- Ownership of Goods on the date of deregistration
- Goods used or surrendered for non economic activities
- Free gifts and samples above the threshold



Issuance of voucher & sale of Voucher is not considered to be a Supply unless the Consideration received for the sale or issue exceeds the nominal value recorded on it also supplying the Goods and Services in exchange for the Vouchers is subject to Tax

Time of Supply

Tax point starts on earliest of the following:

- ✓ Date of Issuance of **Invoice**
- ✓ Date of **payment** (whether full or in part)
- ✓ Date of **supply** of goods or services.

Date of Supply of the Goods or Services shall be as follows:

- ✓ Goods are in supervision of supplier-Date of **transportation started**
- ✓ Goods are not in supervision of supplier- Date on which **customer took possession**.
- ✓ Goods are supplied with assembly and installation -Date on which the **assembly or installation was completed**
- ✓ Date of **provision** of services.

Specific cases

1. In case of continuous supply of services date of the provision of such Goods and Services is:

- ✓ Issuance of Tax Invoice
- ✓ Due date shown on Tax invoice
- ✓ Receipt of payment
- Provided, it does not exceed 12 months from supply.

2. **Vending Machine:** Date on which funds are collected.

3. **Deemed supply:** Date of their Supply/ disposal/ change of usage/Deregistration

4. **Voucher:** Date of issuance or Supply thereafter.

5. **Special cases:** When custom duties are due or supposed to be due (Unified Custom Law).

Place of Supply of Goods

It will determine, whether supply is treated as made in Bahrain or outside.

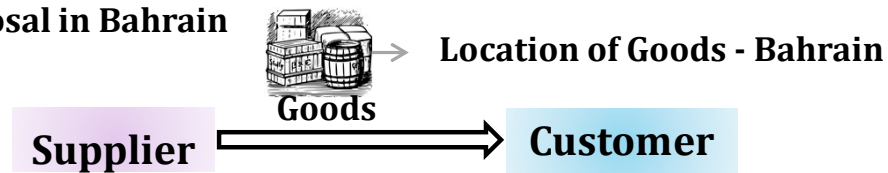
- If it is treated outside: Bahrain VAT will not be charged.
- If inside Bahrain: VAT may be charged.

General rule

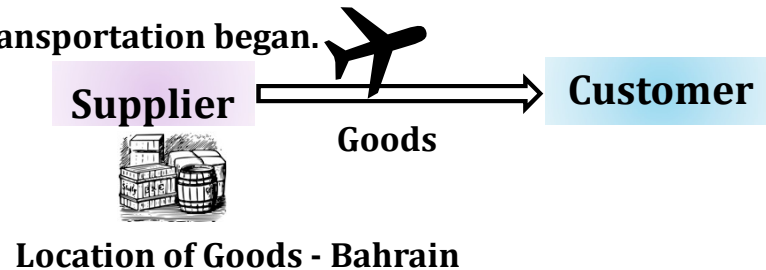
Place of supply is location of goods when supply takes place.

Place of supply shall be in Bahrain:

1. Goods are placed at customer's disposal in Bahrain



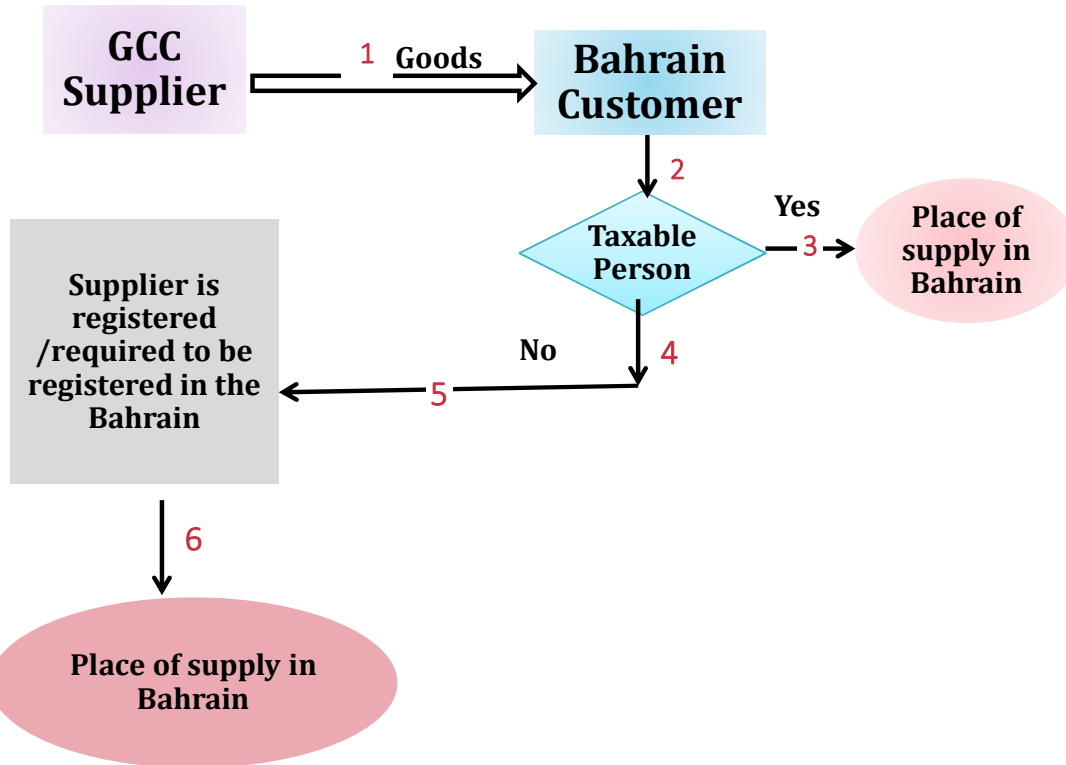
2. Goods are placed in Bahrain, when transportation began.



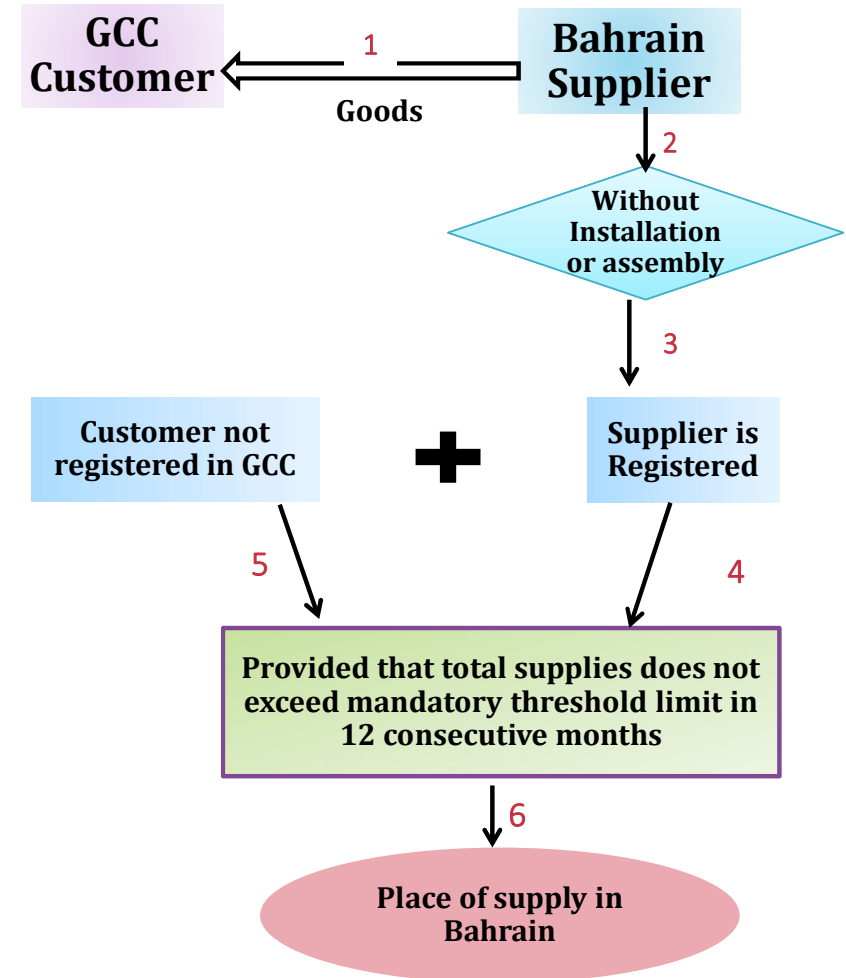
3. Assembly/Installation was done in Bahrain.

Place of Supply in Intra GCC supply of goods

Case 1



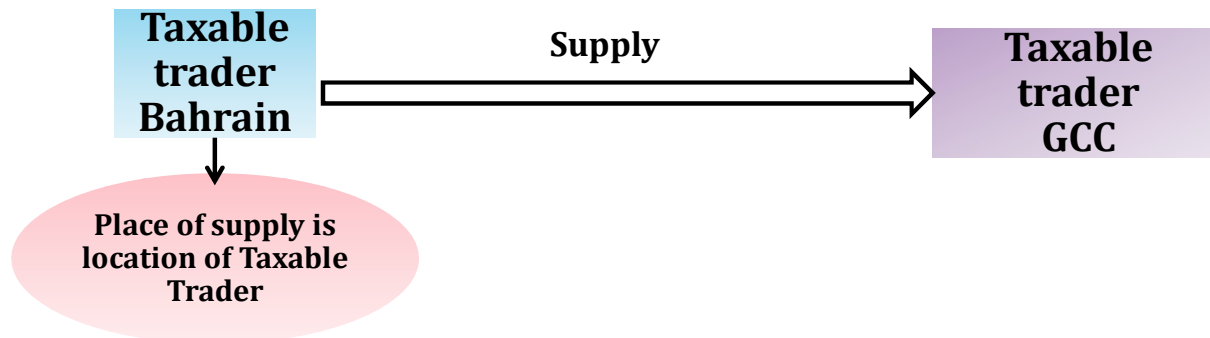
Case 2



Place of Supply of Electricity & Water

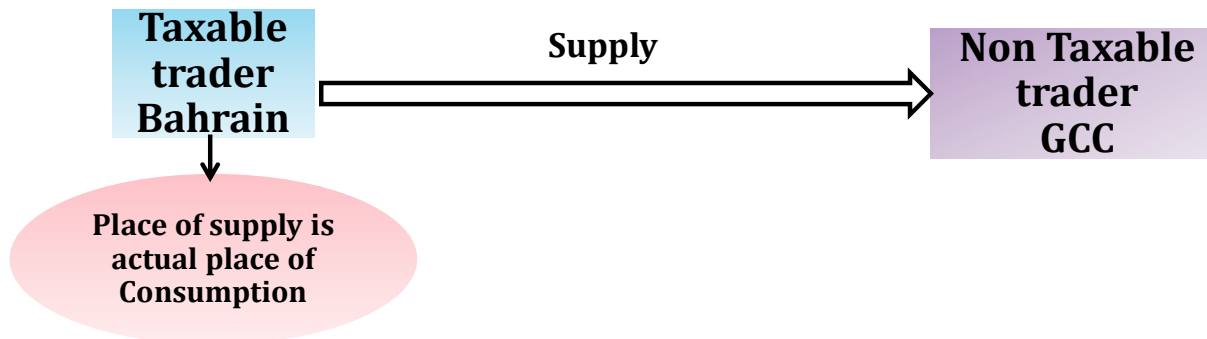
Case 1 :

If supply is from Taxable Person to another Taxable Trader in implementing state, place of supply shall be place of establishment of Taxable Trader.



Case 2:

If supply is from Taxable Person to non Taxable Trader , place of supply shall be actual place of consumption.



Place of Supply of Services

General Rule:

Place of supply is the **place of residence of supplier**

Specific rules



Recipient has a place of residence in implementing state & registered therein – **Place of supply is that Implementing State**



If supplier doesn't have place of residence in kingdom, but recipient is registered – **Place of supply is in the Kingdom**



Supply of means of transport to Non taxable lessee : **Place where means of transport are placed for Lessee's disposal.**



Real estate services: **Location of property.**



Wired / Wireless telecommunication and electronics services : **Place of supply will be the place where services are utilized**



Supply of restaurant, hotel, catering services : **Place of supply shall be place of actual performance**



Supply of cultural, art, educational, sports or similar services: **Place of supply shall be place of actual performance**



Transportation services **Place of supply shall be place where transportation begins**



Place of supply in the case of Imports shall be in the Bahrain if :

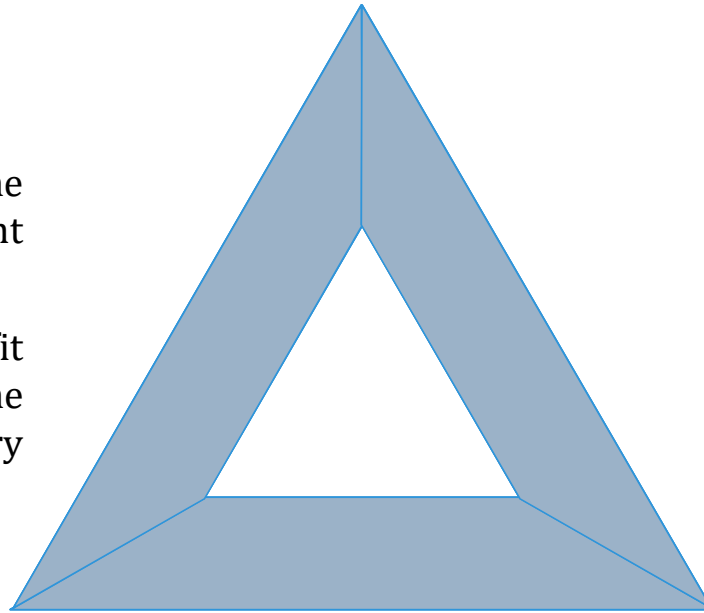
- Bahrain is first point of entry into GCC
- Bahrain is the place where goods are released under custom duty suspension scheme

Value of Supply & Imported goods

Value of supply of vouchers:

Difference between the consideration paid and the amount of advertised value of the voucher

Value of supply based on profit under second hand goods scheme shall be based on Executory notifications



Value of supply after discount

- Discounts granted to the customer
- Subsidies granted to the supplier by the state
- Amount paid by the taxable supplier in the same of or on the account of the customer

Value of re-importing after temporary Transfer and Export of Goods

Goods exported temporarily to implementing state or exported for manufacturing or repair, Final taxable value of these goods is calculated on the basis of increase in their value as per provisions of customs.

Value of Supply & Imported goods

Monetary Consideration

Value of consideration

- including all taxes imposed except VAT,
- Including fees due, and Expenses charged to the customer .as a result of supply

Value of imported goods

- custom value as defined under custom laws including all taxes imposed except VAT
- If above value not available – Value as per rules made under custom laws

Deemed Supply

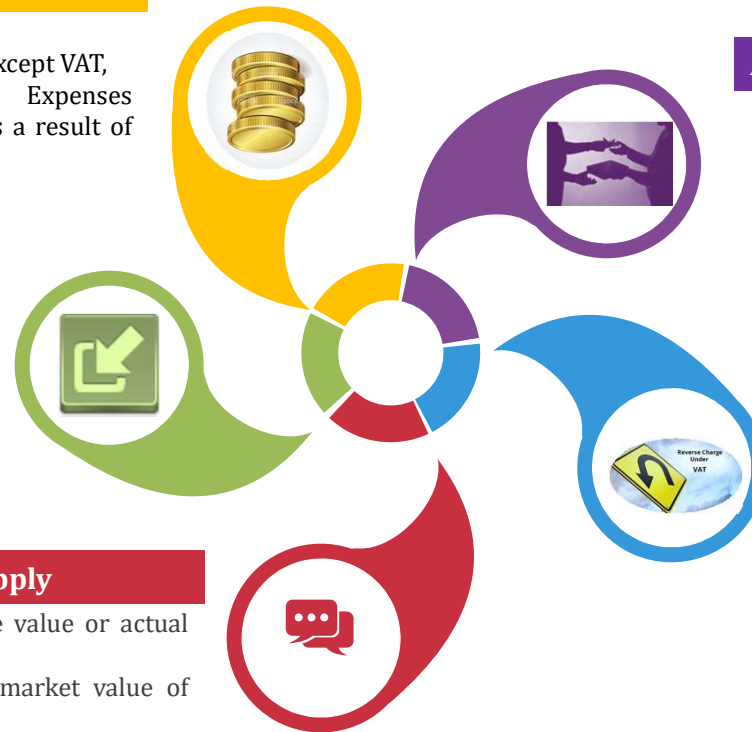
- General rule : Purchase value or actual cost of goods & services
- If not available : Fair market value of goods & services

All or part of the consideration is in kind

- **For Monetary part** : As calculated in Monetary part
- **For non monetary part** : Fair market value of the supply including all the attributes of monetary consideration

Reverse charge mechanism

Value of supply is Purchase Price, If purchase price cannot be determined , Fair market Value of supply on the date the supply took place



Zero rated VAT

Transportation of goods or passengers that initiates/ Ends / Passes through the Kingdom

Exports Outside Implementing state

Supply in Custom duty suspension scheme

Supply or import of Medical Equipment & medicines

Preventive & Basic healthcare services and related goods & services

Re Export of goods after repairs

Supply of services to Non Resident having use outside the kingdom

Supply of precious metals with a purity not less than 99%.

First supply after extraction of gold silver and platinum for trading purpose

Imports of pearls & gemstone

Constructions of new buildings

Education services

Local transport

Supply & import of food items.


Oil, derivate & gas sector

Exemptions



Supply of
Financial
services

Supply of
Bare Land &
Building
Under
Leasing



Import if final
destination
supply is
exempt/zero
rated

Import of goods exempt
under Customs

Goods:
Military/Personal
/Returned/Diplo
matic



Personal
items & Gifts
in traveller's
luggage

Special need
Equipment



Record keeping

Original Tax invoice shall be issued for the following:

- ❖ at the time of making Taxable supply
- ❖ Deemed supply
- ❖ Receives full or part consideration prior to the date of supply.

Important points:

1. Contents of the tax invoice ,conditions and procedure shall be determined as per regulations.
2. Tax invoice shall be issued by no later than 15 days from the end of the month in which supply took place.
3. Currency used on Tax invoice
In general : Bahraini Dinar
If supply is in any other currency :Convert the tax amount in Bahraini Dinar(Approved by central bank of Bahrain).
4. For Amendment in Tax invoice following can be issued:
 1. Credit Note
 2. Debit Note

Tax Refund

Tax Refunds are issued to the following:

1. Taxable person paying excess Vat.
2. Governments and specified organizations.
3. Tax paid by taxable person in another implementing state for the purpose of conducting economic activities.
4. Tourist.

Note: Carry forward the excess Net Tax to subsequent Tax Periods.

The Tax Authority shall have the right to set off between any refund amount with Tax or administrative penalties.

Payment of Tax

Payment of tax due on supply:

Tax is paid with the submission of VAT return

Payment of Tax due on Imports:

1. The Importer should pay the Tax due on importation to the customs Authority of the Ministry of Interior if the Kingdom is considered to be the first entry point for those Goods
2. Notwithstanding 1 above , the Authority can allow to defer payment of the Tax due on imported Goods for Economic Activity.
3. In this case, the Taxable Importer should declare the deferred Tax to be paid in his VAT return. The deferred Tax is considered payable and deductible in accordance with the provisions of this law.

The Regulation shall specify the provisions and rules.

Penalties

01

Delay in return submission / Payment of Tax > 60 days

Penalty can be Minimum 5% and Maximum 25% to tax required to be paid

02

Fails to obtain registration

Penalty BHD 10000

03

Providing false data on the Import or Supply of Goods and Services

Penalty Min 2.5% to Max 5% of the value of the unpaid Tax on each month or part of the month for which tax is not paid.

04

Administrative Penalties

1. Preventing or obstructing the Authority with implementing the provisions of this law.
2. Not notifying the Authority of any changes in registration within specified dates
3. Not displaying the prices of Goods or Services including Tax
4. Failing to provide the information or data required
5. Non-compliance with the conditions and procedures related to issuing a Tax Invoice.
6. Violation of any other provision of the law or regulation.

Transitional Provisions

CASE 1

Date of Supply after the law implementation

- ❑ Transitional rules refer to those transactions which are going to overlap the two periods i.e. period before and after vat implementation. For example, following scenarios are covered under transitional rule:



- ❑ Where a payment is received in respect of a supply of goods or services before the introduction of VAT i.e. before 01st January 2019, but the goods or services are delivered after the introduction of VAT, VAT must be charged on such supplies.
- ❑ Date of Supply shall be :
 - a) Date of delivery
 - b) Date on which performance of services is completed occurred after commencement of law
- ❑ **Intra GCC Supplies**

Internal Supplies that include the movement of Goods from the Kingdom to another Implementing State shall be considered as export of Goods until the establishment of the electronic Services System in all GCC member states.

Transitional Provisions

CASE 2: When there is no clause related to TAX in contract which has been entered before effective date & supply made after the effective date



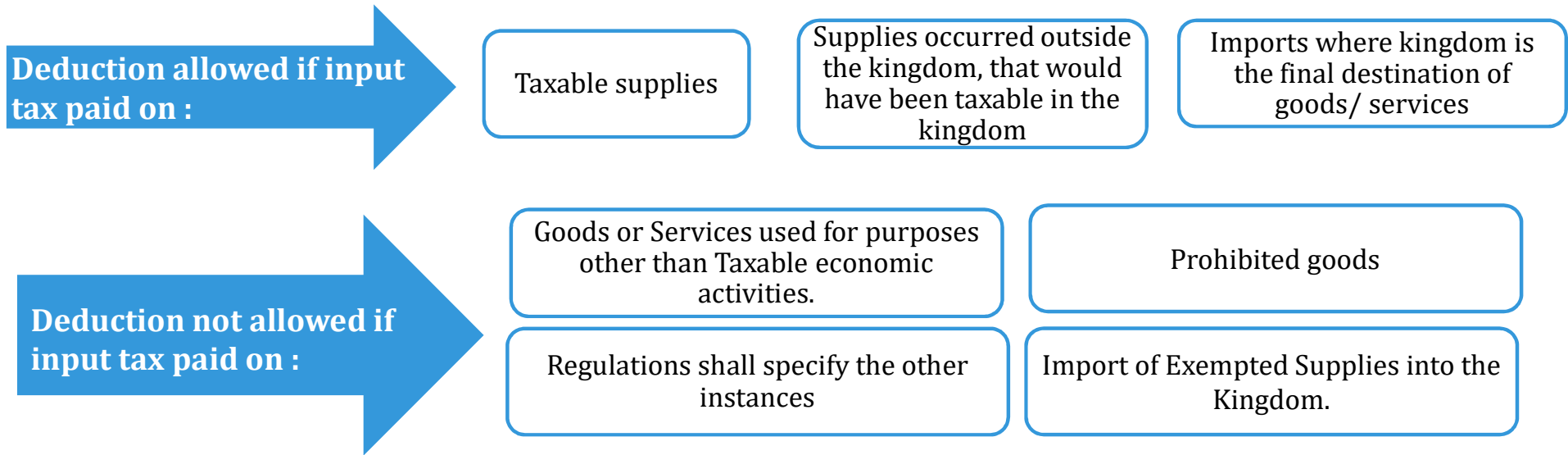
If the contract does not mention VAT, the value of supply shall be treated as **inclusive of VAT**.

CASE 3

Tax is applicable at zero rate on the Supplies made in respect of contract with the government that have been entered into before the implementation of this Law and that are supplied in full or partially after the implementation of this law until the renewal or expiry of the contract or 31 December 2023, whichever earlier.



Input Tax deduction



Conditions :

Taxable Person should receive and keep the Tax Invoices or customs documentation that prove that he is the receiver of the Goods supplied or imported on which the Input Tax is claimable.

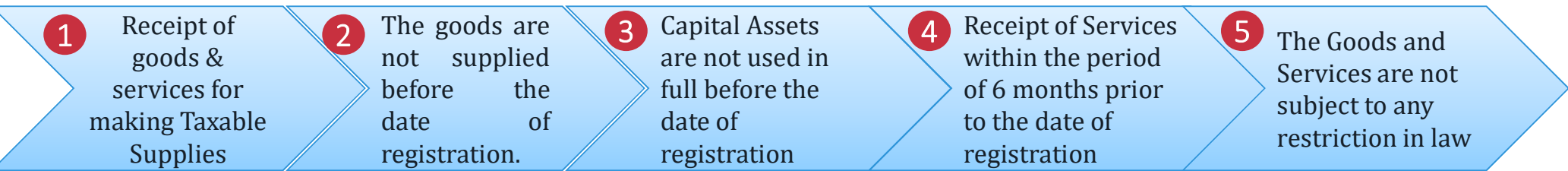
Proportional deduction of Input Tax

Where the Input Tax is related to Goods and Services used to make both Taxable Supplies and Non-taxable Supplies, the Input Tax shall be deducted in proportion of taxable supplies.

Input Tax deduction

Input Tax deduction on expenses paid prior to registration date

In the Tax Return of the first Tax Period provided the following conditions are met:



Adjustment of recoverable input tax:

The Taxable Person shall be liable to amend the Input Tax value previously deducted in the following cases:

- ❖ Cancellation or rejection of a Supply.
- ❖ Discount in the value of the Supply after the date of Supply.
- ❖ Nonpayment towards a Supply in part or in full in accordance to bad debts.
- ❖ The change in use of Capital Assets.

The Taxable Person shall not deduct the Input Tax in the following cases:

- a) Proven loss or damage or robbery of imported or supplied Goods in accordance with the terms and conditions prescribed in the Regulations.
- b) The use of imported or supplied Goods as samples or gifts of small value

Input tax on capital assets:

Input Tax is deducted on Capital Assets in accordance to the net book value on the date of registration. The Regulations shall the Input Tax deduction mechanism for Capital Assets and the duration for record keeping and Capital Asset registers.

Tax Evasion

