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Insights on Bahrain VAT Law

**“Let’s walk together on this
Journey to VAT...”**



Audit | Tax | Advisory

Insights on Bahrain VAT Law

Introduction

The Royal Decree-Law no. 48 of 2018 on Value Added Tax (VAT) in Arabic was released on 9th October 2018 in the Kingdom of Bahrain. The date of implementation is announced as 1st January 2019. This alert covers the highlights based on our translation of the Decree Law no. 48.

To contextualise, as you are aware, VAT shall be applicable on supply of goods or services. The generic rate of tax is proposed @ 5% except for certain category of supplies which would be exempt or zero-rated.

For ease in understanding the law announced, we have summarised some of the important provisions of the law, as below -

- A. Basic Concepts
- B. Zero-rated and Exempt Supplies
- C. Input Tax Credits - Restrictions
- D. Transitional Provisions
- E. Compliances
- F. Penal Provisions

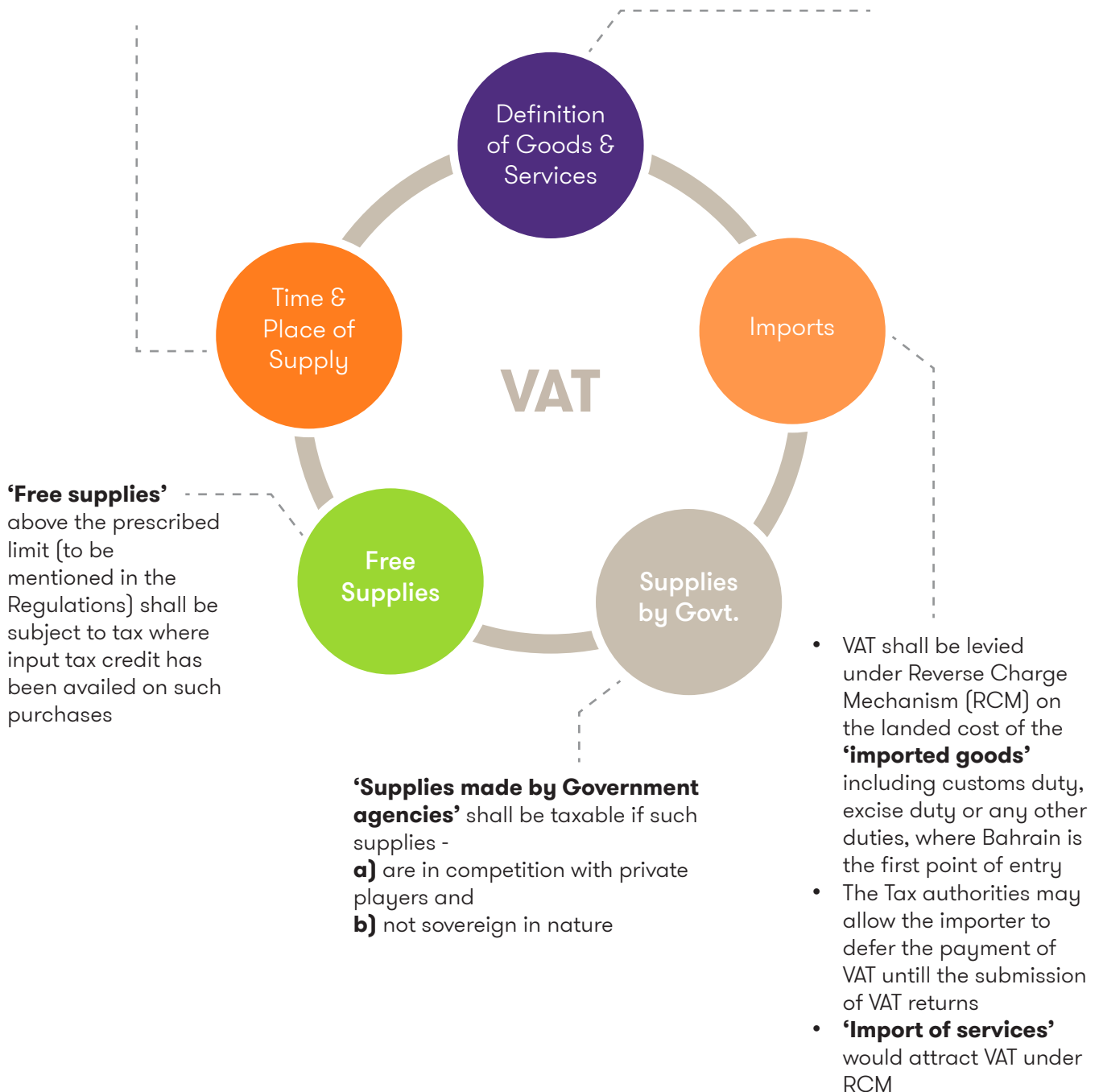


A. Basic Concepts

VAT is to be levied on the value-addition at each stage of supply. The important factors to be considered are as under -

- **'Time of supply'** shall be earliest of -
 - a) Delivery of goods/completion of service
 - b) Date of issuance of Tax invoice
 - c) Date of receipt of payment
- **'Place of supply'** rules would determine the levy of VAT in Bahrain

- **'Goods'** covers all material assets including water and all forms of energy including electricity, gas, heating, refrigeration and air conditioning
- Everything that is not goods will be considered as a **'Service'**



B. Exempt and Zero-rated Supplies

The following category of supplies are construed as exempt or zero-rated supplies. The below list is subject to the conditions, controls and procedures to be specified in the Regulations awaited:



Input tax credit not available



Exempt Supplies

- Provision of financial services as to be specified in the Regulations, unless the payment is expressly made by way of fee, commission or trade discount
- Supply of bare land and buildings by way of sale or lease
- Import of goods which are exempt or zero rated in the country of final destination
- Import of goods exempted from Customs Duty as per terms and conditions specified in the Unified Customs Law, as follows:
 - a. Diplomatic exemptions
 - b. Military exemptions
 - c. Import of used personal effects and household appliances by nationals living abroad on return and expatriates moving in Bahrain for the first time
 - d. Import of goods returned
- Personal luggage and gifts carried by passengers
- Equipment for special needs

Zero-rated Supplies

- Supply or import of medicines and medical equipments in coordination with the concerned medical authorities in Bahrain
- Supply of preventive and basic healthcare services and related goods and services
- Supply and import of food commodities as per the unified list of goods approved by the Financial and Economic Cooperation Committee
- Supply of education services and related goods and services to nursery, preschool, elementary education, secondary and higher education
- Oil sector and oil & gas derivatives (retail distribution may be taxable – clarification awaited)
- Construction of new buildings
- Local transport sector
- International transportation of passengers or goods services and supplies related to means of transport
- Export of goods outside the territories of the implementing states (however, all inter GCC supplies shall also be treated as exports until the electronic service systems in all GCC states are effective)
- Export of services to customers residing outside implementing states
- Import of exported goods temporarily in Bahrain for repair, conversion or treatment, and the services included therein
- Supply of goods under a customs duty suspension scheme
- The first supply after the extraction of gold, silver and platinum for the purposes of trade
- Supply or import of gold, silver and platinum investment with a purity level of 99% which is negotiable on the Global Bullion Market based on the certificate issued by the competent authority
- Supply and import of pearls and precious stones based on the certificate issued by the competent authority



Input tax credit available

C. Input Tax Credit (ITC) - Restrictions

ITC shall not be allowed if such goods are:



D. Transitional Provisions

- I. VAT shall be applicable on supplies which are effectively made after the VAT implementation date. Consider the below scenario:

Issuance of invoice	Receipt of money	Delivery of goods / services	VAT applicability
Before / after implementation date	Before / after implementation date	After implementation date	✓
Before / after implementation date	Before / after implementation date	Before implementation date	✗

- II. For supplies covered under a contract, consider the below scenario:

Contract entered	Performance of contract	Tax Clause in the contract	VAT impact
Before implementation date	After implementation date	No	Contract would be considered inclusive of VAT (refer note*)
Before implementation date	After implementation date	Yes	VAT can be charged in addition to the contract price

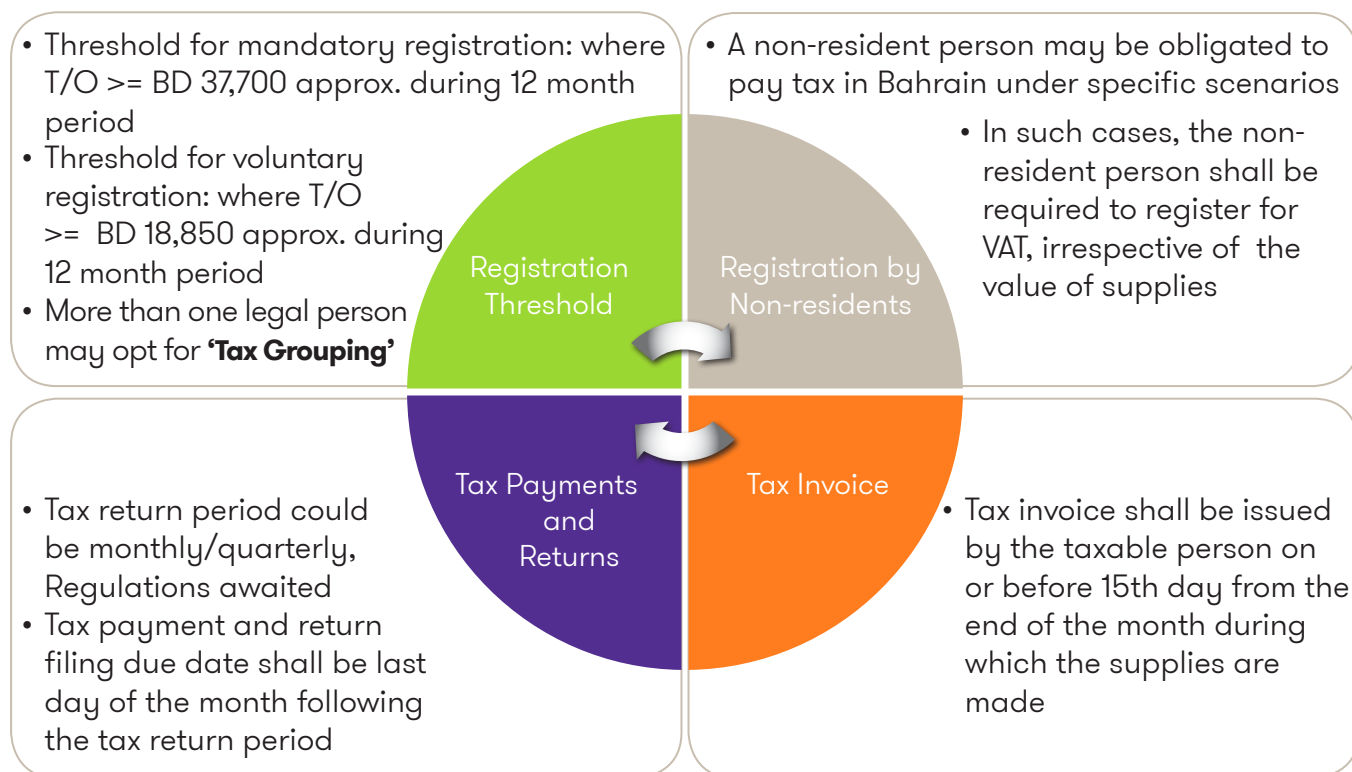
* Tax clauses need to be revisited / negotiated

- III. For supplies covered under contracts entered with the Government

Contract entered	Performance of contract	VAT impact
Before implementation date	After implementation date	Zero rated until the renewal or expiry or 31 December 2023, whichever is earlier



E. Compliances



F. Penal Provisions

Nature of Offence	Nature of Punishment
Delay in filing of returns or payment of taxes for a period not exceeding 60 days	Fine up to 25% of the value of the tax liability
Failure to apply for registration within 60 days from the date of applicability or from the date of reaching mandatory registration limit	Fine up to BD 10,000
Any of the following offences could be regarded as tax evasion: a) Failure to register within 60 days b) Failure to pay tax within 60 days c) Failure to provide a tax invoice d) Issuing of Tax invoice on non taxable items e) Non maintenance of records according to the provisions	Fine up to 100% of tax liability and imprisonment up to 5 years

How we can help

Our Approach to VAT Implementation

Grant Thornton's customized solution has been broken down into distinct Delivery Modules in order to facilitate progressive integration of the new strategy function. The three different phases of our approach are:

1. Business Review & Impact Assessment

- Strategic discussion with top management
- Meetings with functional teams
- Undertake the business impact
- Way forward

2. Design and Implementation Support

- Scenario Analysis
- Risk Evaluation and Benefits
- Contractual Agreements
- ERP & IT Support
- Revision of policies
- Related Party Transactions
- Advice on VAT legislative updates
- Initial Compliance Requirement
- Training and Awareness

3. Post- Implementation review and support

- Training
- Communication
- Compliance Support

Our team



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