



The introduction of value-added tax (VAT) in Bahrain

Summary of the VAT Law

October 2018

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In October 2018, the government of the Kingdom of Bahrain published the VAT Decree-Law No. (48) in the official gazette. The Law was published after both the Shura Council and Parliament voted in favor of the VAT bill to be introduced on 1 January 2019 in line with the GCC Unified Agreement for VAT.

This means VAT will soon be a reality and companies need to comply with the new regulations that govern the application of the new tax system in the Kingdom of Bahrain. The Law consists of 79 articles that businesses need to understand to ensure their VAT readiness.

In this publication, KPMG in Bahrain summarizes the VAT Law in the Kingdom of Bahrain and highlights the key implications on businesses across the main economic sectors.



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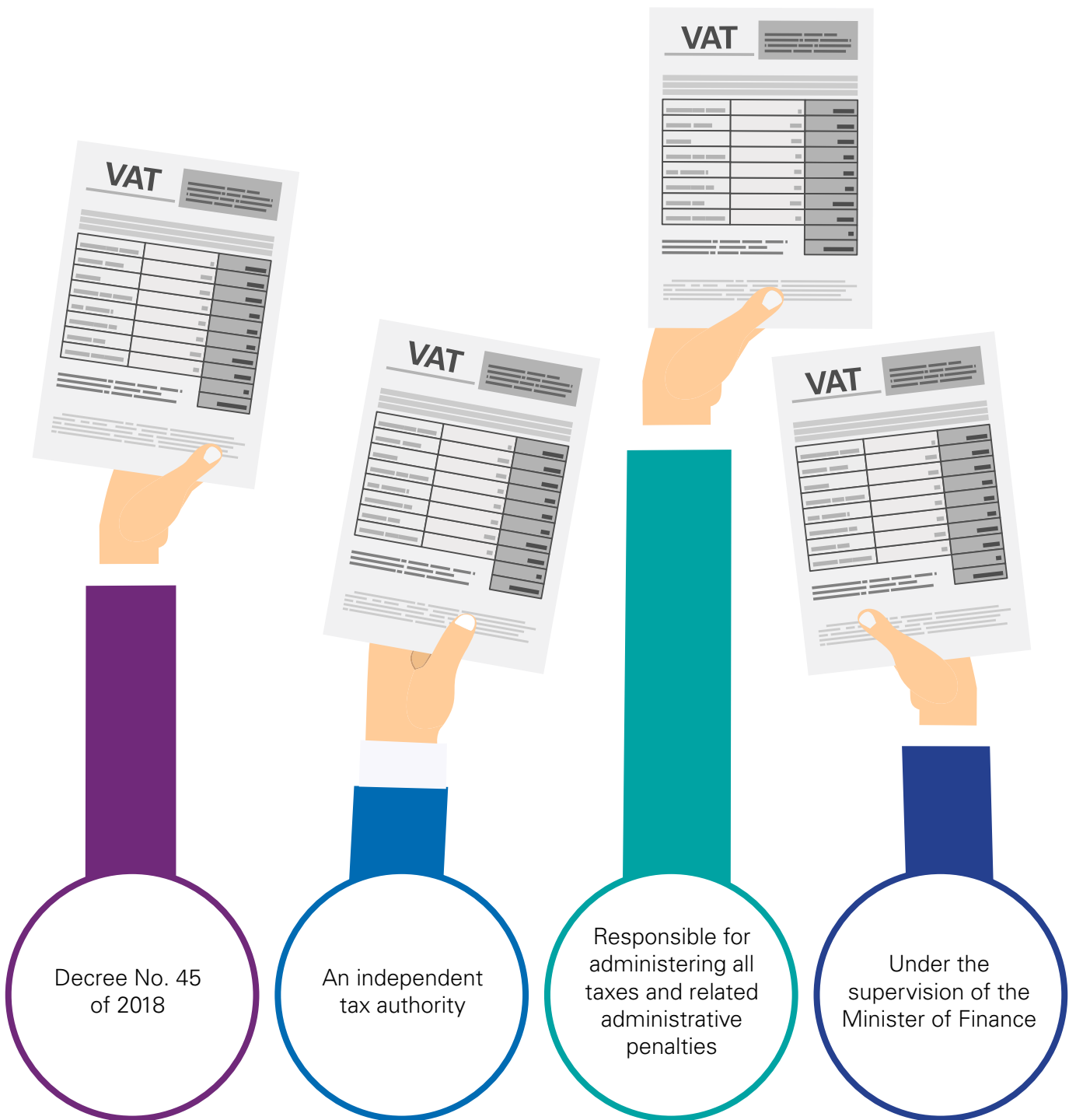
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Bahraini VAT law — Key highlights



Key highlights

Date of Implementation

1 January 2019
(Article 4 of the VAT law)



Rates of VAT

- 5 percent
- 0 percent
- VAT exempt



Tax periods

- Not less than a month (no further specification in the VAT law)
- Possibly monthly and quarterly tax periods based on value of annual taxable supplies made



Deadline for tax invoice issuance

The 15th of the month following the month in which the supply took place



Scope of VAT

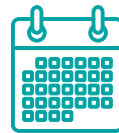
- Local supplies of goods and services
- Imports of goods
- Imports of services by a VAT registrant



Date of Supply

whichever comes first:

- issuance of invoice
- partial or the full receipt of payment
- delivery of goods or services



Tax filing deadline

Last day of the month following the end of the tax period



Currency used in tax invoices

Foreign currency amounts to be converted to BHD based on CBB-approved exchange rate applicable on the date of supply



An aerial night view of a city skyline, likely Dubai, featuring several prominent skyscrapers illuminated with lights. The city is reflected in a body of water in the foreground. The image is overlaid with a blue geometric design consisting of diagonal bands and a pattern of white icons representing various business and financial concepts like charts, graphs, and documents.

Place of supply rules

Place of supply – Supplies of goods

VAT is charged on supplies of goods and services at the place where their consumption takes place. The VAT Law contains rules for determining the place where supply takes place, formally known as the Place of Supply rules. These rules dictate whether Bahraini VAT is to apply to any particular supply of goods and services.



Supply of goods without transportation

Location of goods when they are placed at the customer's disposal



Supply of goods with transportation

Location of goods when the transport of the goods commences



Supply of goods with installation/assembly

Location of goods when installed/assembled



Special rules:

- *Intra-GCC supply of goods
- Supply of gas, oil, water and electricity

*Applicable once all GCC states implement VAT





Place of supply – Supplies of services



General rule:

Place of residence of supplier



Special rules:

- If the customer is registered for VAT in another GCC Implementing State
- B2C leasing of means of transport
- At the place of actual performance for certain services (e.g., restaurant and hotel services, B2C services related to transported goods, real estate-related services, transportation services)
- Wired and wireless telecommunication and electronically supplied services





VAT registration

VAT registration

Mandatory tax registration



For residents:

Required if the value of taxable supplies during the past 12 months exceeds the mandatory registration threshold (USD100,000) or is expected to exceed it over the next 12 months



For non-residents:

Required if the non-resident is liable to pay tax without regard to any threshold; registration is done directly or through a tax representative



Voluntary tax registration

Possible if the value of taxable supplies made or received exceeds the voluntary registration threshold (USD50,000)

VAT grouping

Possible for two or more taxable legal persons who are residents of Bahrain, subject to certain conditions (to be outlined in the VAT Executive Regulations); tax group members are jointly liable for the VAT obligations of the group



Import tax — Import of goods

Import tax – Import of goods



Payable on import of goods at the customs authority



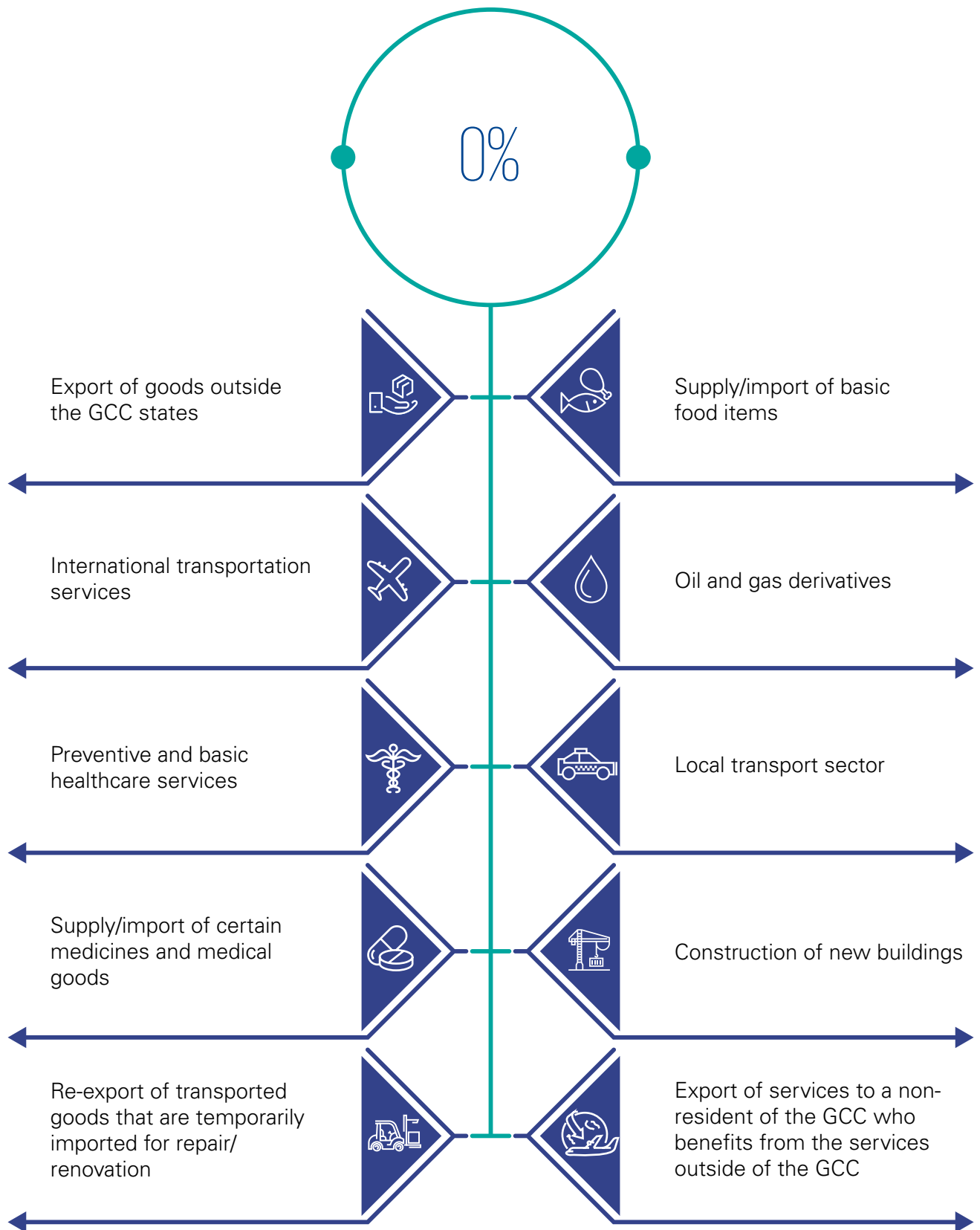
Possibility of payment of import tax to the tax return (subject to certain conditions to be outlined in the VAT Executive Regulations)





Zero-rated supplies

Zero-rated supplies



(The above may have additional conditions attached to their zero-rating, to be specified in the VAT Executive Regulations.)

The background features a teal-to-blue gradient with a repeating pattern of white financial icons such as bar charts, pie charts, and line graphs. In the lower portion, there is a close-up photograph of several gold-colored coins, with one coin standing upright in the background and others scattered in the foreground. A dark blue diagonal banner is overlaid across the middle of the image.

Exempt supplies

Exempt supplies





Supplies by government entities

Supplies by government entities

VAT is applicable to supply rendered by government entities acting in a non-sovereign capacity and in competition with the private sector.

A decision from the prime minister specifying the list of government entities, their taxable supplies and other details will be issued.





Transitional supplies

Transitional supplies

Date of Supply: Date on which the supply physically takes place
For Goods: Date on which the goods are delivered to the customer
For Services: Date on which the provision of services is completed

The VAT Law contains special rules outlining the application of VAT to contracts without a tax clause, which are signed before the VAT implementation date. These transitional rules apply differently to contracts concluded with government entities and to contracts concluded with other persons.

1. With government entities: Zero-rated until the expiry or renewal of contract, or by 31 December 2023 (whichever is earlier)
2. With other persons: Consideration deemed VAT-inclusive
The VAT Regulations will outline the special guidelines governing these rules (likely to be VAT-exclusive if customer is VAT-registered — UAE approach)

Intra-GCC supplies of goods are treated as exports of goods until all GCC States implement the Electronic Service System.

GCC States that do not recognize Bahrain as a VAT Implementing State will be treated with reciprocity.

Supplies between persons located in Bahrain and such other GCC States will be treated as exports of goods and services.





Penalties

Penalties

- Delay in VAT return filing/payment of due tax: Between 5 and 25 percent of VAT payable

- Failure to register within 60 days of the deadline provided for registration: Less than BHD10,000

- Understating the value of imports or supplies of goods and services: Between 2.5 and 5 percent of the unpaid tax for every month in which it is outstanding













- An administrative penalty not exceeding BHD5,000 is imposed for persons involved in the following:
 - Failure to cooperate with the tax authority's employees in their duties to enforce the provisions of the VAT Law
 - Failure to disclose to the tax authority changes in the applicant's registration status or VAT return-related information
 - Failure to display VAT-inclusive prices on products and services in the local market (retail sales)
 - Failure to submit information requested by the tax authority
 - Failure to abide by the rules and conditions surrounding the issuance of tax invoices
 - Violation of any other provision of the VAT Law and VAT Regulations



VAT treatment on selected industries



VAT treatment on selected industries

	VAT rate
 Education	
(Includes private education for nursery, kindergarten, primary, secondary and higher education)	0%
 Healthcare	
Basic healthcare	0%
Preventive healthcare	0%
Other healthcare services (e.g., cosmetic healthcare)	5%
Qualifying medicines and medical goods	0%
Other medicines and medical goods	5%
 Oil and gas	
Oil and gas	0%
 Transportation	
Domestic passenger transportation	0%
Domestic transport of goods	(to be confirmed)
International transportation of passengers and goods	0%
Supply of a means of transport (e.g., airplane)	0%
Supply of transport-related goods and services	0%
 Real estate	
Construction of new buildings	0%
Sale or lease of commercial real estate	(to be confirmed)
Sale or lease of residential real estate	(to be confirmed)
Hotels, motels and serviced accommodation	5%
Sale or lease of bare land	Exempt
 Financial services	
Margin-based products (e.g., interest on loans)	Exempt
Fee and commission-based products	5%
 Investment metals	
Investment in gold, silver and platinum	0%
 Insurance	
Insurance and re-insurance	5%
Life insurance and re-insurance	(to be confirmed)
 Food and beverages	
Basic food items (within the approved list)	0%
Other food items	5%
 Telecommunications and electronic services	
Telecommunications and electronic services	5%
 Government activities	
Sovereign activities that are not in competition with the private sector	Out of scope
Activities that are not sovereign and are in competition with the private sector	5%
 Other	
Export of goods outside the GCC Implementing States	0%
Supply between members of a Tax Group	Out of scope
Supply of services to a non-resident of the GCC	0%
Activities undertaken by employees in the course of their employment	Out of scope





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