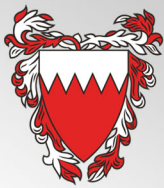


KINGDOM OF BAHRAIN

VAT GENERAL GUIDE

DECEMBER 2018

VERSION 1.0



الجهاز الوطني للضرائب الخالجيّة
National Bureau for Taxation

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Preliminary remark

The year 2019 is a transitional year for VAT in Bahrain. In this respect, specific rules have been put in place. These rules concern:

- The temporary rise of the mandatory VAT registration threshold for the year 2019
- A phased mandatory VAT registration with three registration deadlines depending on the value of annual supplies: 20 December 2018, 20 June 2019 and 20 December 2019
- Longer tax periods (i.e., reporting period) allocated to registered persons for the year 2019
- Special tax due date rules applicable to transactions contracted prior 2019 and spanning 1 January 2019
- Special VAT treatment for contracts signed with Government prior 2019

It is also important to note that Bahrain does not currently recognize any other GCC member states as Implementing States for the purpose of VAT. Until further notice, any transaction involving another GCC member state is treated, for VAT purpose, as a transaction involving a non-Implementing State.

Section 19 of this Guide covers the above rules in detail.

1. Introduction

1.1. Purpose of this Guide

This document sets out the general principles of Value Added Tax (VAT) in the Kingdom of Bahrain (Bahrain). The main aim of this document is to provide the reader (“you”) with:

- An overview of the VAT rules and procedures in Bahrain and, if required, how to comply with them
- The necessary background and guidance to help you to determine how a supply is treated for VAT purposes

This Guide is intended to provide general information only, and contains the current views of the National Bureau for Taxation (NBT) on its subject matter. No responsibility is assumed for the VAT Law, rules or regulations in the Kingdom of Bahrain, and this Guide should be used as a guideline only. This Guide is not a legally binding document, and does not commit the National Bureau for Taxation or any taxpayer in respect of any transaction.

1.2. About the National Bureau for Taxation (NBT)

The National Bureau for Taxation (NBT) is the government body responsible for the implementation and administration of VAT in Bahrain. The NBT is responsible for the registration of taxpayer and their tax liability, the validation of VAT return filing and the related assessment, the payment of refunds and collection of any amount due, the auditing and processing of any appeal and the monitoring and enforcement of compliance. The NBT is a department of the Ministry of Finance and National Economy of Bahrain and works closely with it.

1.3. Bahrain legal framework for VAT

VAT in Bahrain is codified under the following texts:

- The Unified Agreement for Value Added Tax of the Cooperation Council for the Arab States of the Gulf (the Framework) contains the VAT general principles and rules agreed at GCC level. The Framework was ratified in Bahrain by Decree-Law No. (47) for the year 2018
- Decree-Law No. (48) for the year 2018 regarding Value Added Tax (the VAT Law) provides the main rules and principles relating to VAT in Bahrain
- Resolution No. (12) for the year 2018 on the issuance of the Executive Regulations of the Value Added Tax Law issued under Decree-Law No. (48) for the year 2018 (the Executive Regulations) provide further details on the application of the VAT Law

The NBT may publish documents to provide guidance and/or clarify specific points relating to VAT rules. This may include guides like this one as well as public clarifications and interpretations of the VAT Law and the Executive Regulations.

2. Value Added Tax (“VAT”)

Bahrain will introduce VAT on 1 January 2019. The standard rate will be 5%. Certain goods and services will be subject to a zero-rate (0%) of VAT and others will be exempt from VAT.

2.1. What is VAT?

VAT is an indirect tax on consumer spending. It is collected on supplies of goods and services as well as on imports of goods and services into Bahrain.

Generally, VAT applies at 5% if a supply of goods and services is made:

- By a taxable person;
- In Bahrain; and
- The supply is not specifically exempted from VAT or subject to the zero-rate.

As a tax on consumption, VAT is paid and collected at every stage of the supply chain, with end consumers of goods and services bearing the cost.

2.2. How does VAT work?

2.2.1. Overview of the VAT flow

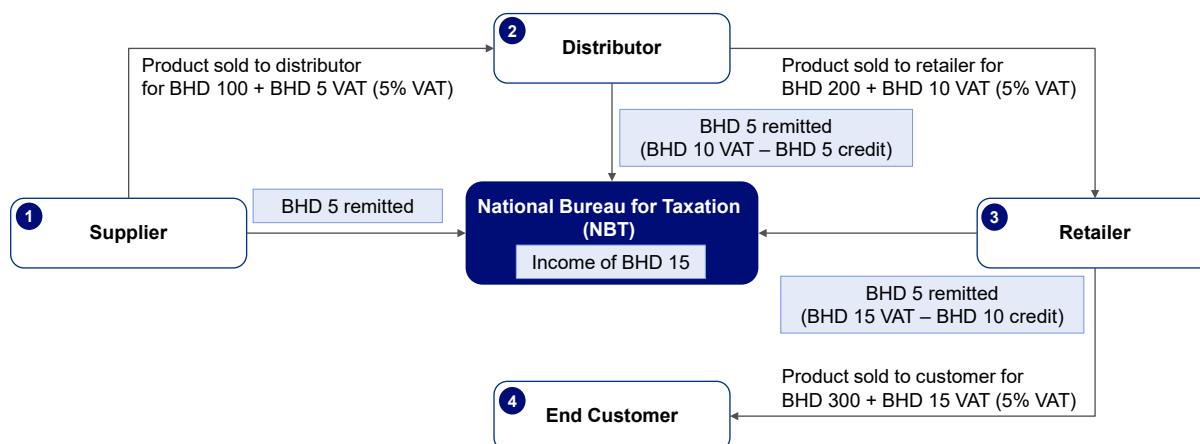
If, as a VAT registered person, you make taxable supplies (i.e., supplies of goods or services subject to VAT), you must charge VAT on your supplies, and pay it to the NBT. This is your “output tax”.

The VAT charged by your suppliers on your business expenses and the VAT you pay on your imports of goods and services is your “input tax”.

As a VAT registered person, you can reclaim from the NBT the input tax incurred on your purchases and imports to the extent that these expenses and imports are used to make taxable supplies. You cannot reclaim the VAT incurred on expenses used for a non-business activity or for making exempt supplies (i.e., supplies of goods or services that are not subject to VAT due to a specific VAT exemption).

On a regular basis, you will file a tax return to the NBT and pay the excess of your output tax over your input tax. If your input tax exceeds your output tax, you can ask for a refund of this difference from the NBT or you can carry it forward as a credit to use against future VAT liabilities. See section 12.2 for more information on how often a VAT registered business must submit a tax return and pay any associated VAT.

Figure 1 shows how VAT works at each stage of the supply chain.

Figure 1: VAT collection across the supply chain


2.2.2. Will VAT affect the price charged to customers?

If you are not in the retail sector, whether you can increase the price of your supplies of goods and services by an additional amount of VAT depends on the contract between you and your customer.

If your contract allows you to add VAT on top of the agreed price, the end price charged to your customer will increase by 5% (assuming the good or service you supply is subject to VAT at the standard rate).

If your contract does not allow you to add VAT on top of the agreed price, the price you charge will not increase, but you will still be liable to account for VAT on your good or service (assuming it is subject to VAT at the standard rate). In this case, the price agreed with your customer in the contract is deemed to already include an element of VAT at 5% (i.e., the price is inclusive of VAT), and you will have to divide the agreed price by 21 in order to obtain the VAT amount due on your supply.

Example

Company A, resident and registered for VAT in Bahrain, entered into a contract to sell and deliver stationery to Company B's offices in Bahrain. The agreed price for this sale is BHD 5,000 with no further information. As the contract does not specify that the agreed price is "exclusive of VAT", this agreed price is deemed to be "inclusive of VAT" at the rate of 5%. In order for Company A to identify the amount of output VAT applicable to its sale the following formula can be applied:

$$\text{Output VAT (at 5\%): } \text{BHD } 5,000 \div 21 = \text{BHD } 238.095$$

Generally, if you make supplies to another VAT registered business which can recover the VAT incurred on its business expenses, that business should accept the additional amount of VAT on top of the agreed price. This is because this customer will not be impacted by the VAT added on its expenses as long as it is entitled to deduct the input tax from the output tax it charges on its supplies.

Only end-consumers, i.e., those who are not registered for VAT, will not be able to recover the VAT charged on their expenses. It will be these end-consumers who will experience an increase on the price of goods and services bought by them which are subject to the standard 5% VAT rate.

A business that is not VAT registered may increase its prices to reflect the cost of VAT paid by it on its purchases that it cannot recover from the NBT. This is usually the case when a supplier wants to protect its margin after the implementation of VAT.

3. Taxable persons and VAT registration

This section will help you determine if you are considered as a taxable person and, if so, whether you are required to register for VAT.

3.1. Am I a taxable person?

Only taxable persons are authorized to charge VAT on their supplies. It is therefore critical for you to determine whether you are a taxable person before you start charging VAT on your supplies.

A “taxable person” is:

“A Person carrying out an Economic Activity independently for the purposes of generating income and who is registered or obliged to register for Tax purposes in accordance with the provisions of this Law.”

In order for you to determine if you are a taxable person, you must assess whether you meet all the criteria set out in the definition of “taxable person”:

(a) You are a person

The VAT Law defines a person as any natural or legal person, whether public or private, or any other form of a partnership.

Examples of “person” include individual traders (establishments), companies (whether private or public), partnerships, charities and government bodies.

(b) You carry out an economic activity independently for the purpose of generating income

An economic activity is an activity that is conducted in an ongoing and regular manner for the purpose of generating income, and includes commercial, industrial, agricultural or professional activities or services or any use of tangible or intangible assets, and any other similar activity.

You must determine if you are performing a regular and ongoing economic activity with the aim of generating income. A one-off transaction is not an economic activity. Further, it is not necessary that the activity is profitable for it to be an economic activity. It is enough if the activity is conducted for the purposes of generating income.

Government bodies and public entities are usually not considered as carrying on an economic activity when they are acting in their sovereign capacity. However, they may also carry out some activities which typically fall within the economic sphere and are in competition with the private sector. If it is the case, such government bodies and public entities may be considered as taxable persons if the other conditions are met.

A charity may be seen as conducting an economic activity even if its aim is not to make any profit. If a charity engages in commercial transactions and receives an income as a result, this could be an economic activity. Activities conducted with a charitable or philanthropic purpose and which are the reserved domain of appointed charities would generally not be an economic activity and charities solely conducting these types of activities do not meet the conditions to be regarded as “taxable persons”.

Charities which also conduct activities that are commercial in nature (e.g., collecting used clothes and goods in order to recycle and sell them in charity shops) will be considered as carrying out an economic activity and may qualify as “taxable persons”, subject to all the other conditions to qualify as such being met. The fact that these activities are not conducted with the aim of making any profit or to raise money for the main purpose of the charity is not relevant.

An economic activity must be carried out in an independent manner. This condition mainly excludes employees (and persons in acting in a similar relationship with the same characteristics) from the scope of the definition of taxable person. When carrying out their duties under their employment contract, employees are not considered as performing an economic activity in an independent way. They are acting upon instructions and under the directions of their employer. Employees therefore cannot be taxable persons when acting in their capacity as employees.

- (c) You are registered for VAT or obliged to register for VAT purposes in accordance with the provisions of the VAT Law.

This is further addressed in Section 3.2

If you meet the above criteria, but are not yet registered, you must assess whether you are required to register for VAT in Bahrain. If you are required to register for VAT on a mandatory basis but have not done so yet, you are still considered a taxable person. The fact that you are required to register for VAT in Bahrain is enough for you to qualify as a taxable person.

3.2. When must I register for VAT?

As mentioned previously, the status of “taxable person” requires this person to be registered for VAT or to be obliged to register for VAT.

There are cases where VAT registration is mandatory and cases where a VAT registration can be applied for on a voluntary basis.

For the year 2019, the VAT registration rules applicable to residents in Bahrain have been adjusted. For more information please see section 19 of this Guide, which provides further details on the 2019 transitional rules applicable for VAT registration of residents in Bahrain.

3.2.1. Mandatory VAT registration

Different rules apply depending on whether the business is resident in Bahrain or non-resident. See Appendix B for a discussion on when a person is regarded as resident or non-resident in Bahrain.

You are resident in Bahrain

Exceeding the mandatory registration threshold of BHD 37,500

When you are resident in Bahrain and meet the criteria to qualify as a taxable person, you are required to register for VAT if:

- The amount of your annual supplies during the previous 12 months exceeds a threshold of BHD 37,500; or
- The amount of your annual supplies to be provided in the next 12 months is expected to exceed a threshold of BHD 37,500.

When must you register?

If you exceed the mandatory registration threshold under one of the above, you must apply to the NBT for VAT registration within 30 days starting from the last day of the month where you exceeded the mandatory threshold or within 30 days prior the first day of the month where you expect to exceed the mandatory threshold. Late application for registration may result in the application of penalties.

The effective date of VAT registration (when you are allowed to charge VAT on your taxable sales) will be confirmed on the VAT registration certificate issued by the NBT.

How to compute if you exceed the mandatory registration threshold

In determining whether you are exceeding the mandatory registration threshold of BHD 37,500 in annual supplies, the following must be taken into account:

- The value of your taxable supplies excluding capital assets: the value of your supplies of goods and services made in Bahrain (i.e., your supplies subject to VAT at the zero-rate or standard rate), including your deemed supplies but excluding the disposal of your capital assets
- The value of the goods and services supplied to you and for which you are liable to account for Bahrain VAT under the reverse-charge mechanism (see section 7.3)

When Bahrain and other GCC member states recognize each other as Implementing States for the purposes of VAT, the value of your Intra-GCC supplies to another Implementing State which would have been subject to Bahrain VAT if made in Bahrain will need to be added to the above to determine if you are above the mandatory registration threshold. However, this is not applicable until further notice.

Related persons

The value of the supplies of goods and services (computed as above) made by related persons should also be added together when computing the mandatory VAT registration threshold. If this combined value exceeds the mandatory registration threshold in cases where a business has been segregated to avoid a mandatory VAT registration, then all of the related parties must register for VAT (even where each of them, taken on a stand-alone basis, do not meet the mandatory registration threshold).

For the purposes of VAT, persons are considered as related where one has the authority to direct and supervise the other(s), where he holds an administrative authority enabling him to influence the work of the other person(s) from a financial, economical or organizational perspective. This includes persons under the authority of a third person who may influence their work from a financial, economical or organizational perspective. Further detail on control conditions can be found in section 3.4 of this Guide.

Exception from registration where all supplies are zero-rated

If you only supply goods or services which are subject to the zero-rate of VAT, and you do not receive services or goods for which you are liable to account for standard rated VAT under the reverse-charge mechanism, you can apply to the NBT for an exception to register for VAT if your zero-rated supplies exceed the mandatory threshold for registration.

If you apply for an exception from VAT registration and this is approved by the NBT, you will not be considered as a taxable person. You will not be entitled to charge VAT on your supplies and you will not be able to recover the VAT incurred on your business expenses (i.e., you will be treated as an end-consumer).

If you have an exception from VAT registration, you must apply to register for VAT with the NBT as soon as you stop meeting the opt-out conditions. You must apply within 30 days from the day you stopped meeting the opt-out conditions. A late application may result in the application of penalties.

You are a non-resident in Bahrain

No mandatory registration threshold

If you are a non-resident taxable person, you must register for VAT in Bahrain as soon as you start making taxable supplies in Bahrain where no one else is liable to account for the VAT due on your supplies. This is generally the case when you supply taxable goods or services in Bahrain to non-VAT registered businesses or end-consumers.

There is no minimum registration threshold for non-resident persons. Making a supply of BHD 1 to a non-registered customer will result in an obligation to register.

When must you register?

A non-resident must apply to register for VAT with the NBT within 30 days of his first supply in Bahrain for which he is required to pay tax. A late application may result in the application of penalties.

You can apply to register for VAT with the NBT either directly or through a tax representative which will represent you for all your VAT related matters in Bahrain.

Use of a tax representative

If you decide to register for VAT through a tax representative, you may appoint a person resident in Bahrain, duly approved by the NBT, to act as tax representative, by way of an official power of attorney.

A tax representative will be held jointly and severally liable for any VAT related liabilities of the taxable person he is representing. For example, if a filing deadline for a tax return is missed or a payment of VAT is omitted, the tax representative can be held responsible for the late submission and the outstanding tax amount and applicable penalties to be paid to the NBT.

See section 18 for more details on appointing tax representatives.

3.2.2. Voluntary VAT registration

Taxable persons who are not required by law to register for VAT in Bahrain (i.e., because their supplies do not exceed the mandatory registration threshold) can still decide to register for VAT on a voluntary basis subject to:

- Their amount of annual supplies and/or annual expenses¹ in Bahrain exceed the voluntary registration threshold of BHD 18,750 in the previous 12 months; or
- Their amount of annual supplies² and/or annual expenses¹ in Bahrain is expected to exceed the threshold of BHD 18,750 in the next 12 months.

When you apply for a VAT registration on a voluntary basis, the effective date of your registration is the date of approval of the registration by the NBT. You must remain registered for at least 24 months before being able to ask for voluntary deregistration.

A person who is not required to register for VAT on a mandatory basis but qualifies for a voluntary registration is not considered as a taxable person until such a time that he becomes registered for VAT purposes on a voluntary basis. Before voluntary VAT registration, that person cannot be considered as a taxable person and he is not entitled to charge VAT on its supplies and cannot recover the VAT incurred on business expenses (i.e., it is treated as an end-consumer). Any person who charges VAT without being registered or before being effectively registered for VAT may be subject to penalties.

3.2.3. Persons not eligible for VAT registration

A person who is not required to register for VAT and which does not qualify for a voluntary registration cannot register for VAT in Bahrain. As a result, that person may not charge VAT

¹ Annual expenses mean business expenses subject to Bahrain VAT at the rate of 5% or at the rate of 0%.

² Annual supplies here have to be understood in the same way as for the purpose of computing the mandatory VAT registration threshold (please refer to section 3.2.1)

on its supplies or recover the VAT incurred on business expenses (i.e., it is treated as an end-consumer).

3.3. How do I register?

In order to register for VAT, you must follow five key steps:

1. Create an NBT profile
2. Populate the NBT form and specify your information, including
 - Taxpayer details (legal name, legal form, address, contact details, VAT eligibility date, etc.)
 - Commercial registration details (CR Number, CR date, subsidiary details, sector, etc.)
 - Financial information (annual value of supplies, expenses, imports and exports)
 - Registrant details (name, identification number, DOB, job title, etc.)
3. Submit your profile creation request. This NBT profile can be created online using the following link: <https://www.nbt.gov.bh/form>
4. If your NBT profile is approved, you will be provided with login details to access the registration form
5. Complete the registration form in a “single click” – which can be accessed using the following link: <https://www.nbt.gov.bh/login>

When the NBT processes and completes your registration, you will receive a VAT registration certificate confirming your registration and your VAT account number (also referred to as your Tax Registration Number (TRN)). This certificate must be placed in a visible spot of your establishment(s).

Figure 2: VAT registration certificate



الجهاز الوطني للضرائب الخليجية
National Bureau for Taxation

VAT Registration Certificate
شهادة تسجيل ضريبة القيمة المضافة



Hereby, the National Bureau for Taxation certifies the effective registration date for the taxpayer below as
 1/1/2019
 يقر الجهاز الوطني للضرائب الخليجية بأن المكلّف اذناه مسجل في ضريبة القيمة المضافة من تاريخ
 ١/١/٢٠١٩

Taxpayer Information:		معلومات المكلّف:
CR Number	0	رقم السجل التجاري:
Taxpayer Name	TP1	اسم المكلّف:
Taxpayer Address	TP Address 1	عنوان المكلّف:
Registration:		التسجيل:
VAT Account Number	2000000000000002	رقم حساب ضريبة القيمة المضافة:
VAT Registration date	10/12/2018	تاريخ التسجيل:

This certificate is sent from an automated system and does not require a signature
 هذه الوثيقة مرسلّة من النظام الآلي ولا تحتاج إلى توقيع

Please ensure that the details on this certificate are correct. You must inform the National Bureau for Taxation of any change on the basis of which you obtained your VAT account number. NBT reserves the right to deregister you for VAT purposes based on the evidence of your non-compliance with registration or deregistration criteria
 يرجى التأكد من صحّة تفاصيل هذه الشهادة. ويجب إبلاغ الجهاز الوطني للضرائب الخليجية بأيّ تغيير بشأن حصولك على رقم ضريبة القيمة المضافة ولأغراض ضريبة القيمة المضافة؛ يحتفظ الجهاز بحق إلغاء تسجيلك في حال ثبوت عدم امتلاكك لمعايير

3.4. Is tax group registration available?

Tax group registration will be available in the course of 2019 if the persons applying for tax group registration meet the following:

- All must be conducting an economic activity
- All must be resident in Bahrain
- At least one is a Taxable person
- Control exists between two or more legal persons where:
 - Two or more persons act in a formal partnership arrangement³; or
 - Each of them has any of the following
 - A voting interest in those entities of at least 50% when added together
 - A market value interest in each of those entities of at least 50% when added together
 - Control by any other means⁴

In addition to the above, the persons applying need to provide evidence⁵ that the tax group control conditions are being met and that group members are related parties.

Cases where the persons do not meet the control conditions mentioned above but consider relevant ties exist for them to be regarded as a group may still apply for tax group registration. The NBT will evaluate these applications on a case by case basis.

3.5. What if I fail to register when required to do so?

If you are required to register for VAT, but have not done so by the relevant deadline, the NBT may automatically register you from the date on which you should have been registered. You will be required to account for all the VAT due on your supplies and purchases of goods and services since your effective date of registration.

If you do not register 60 days after the registration period completion, the NBT may apply administrative penalties of up to BHD 10,000 as well as sanctions in case of offence qualifying as tax evasion as per section 14 of this Guide.

3.6. When should I de-register?

If you no longer meet the criteria to be registered for VAT, you must de-register. A request for de-registration should be made on the NBT's portal.

³ Unless a formal arrangement has been entered into between partners, evidence of the informal nature of the arrangement and the ability for the parties concerned to exercise control will be required

⁴ It is worth noting that common ownership does not necessarily mean that the owner is a member in the Tax group

⁵ For example, group structure including details of shareholdings in subsidiary companies

You will remain a taxable person, liable for all your VAT obligations until the NBT approves your de-registration and notifies you of your effective de-registration date.

3.6.1. Mandatory de-registration

If you are registered for VAT in Bahrain, you must de-register within 30 days of any of the following events occurring:

Table 1: De-registration cases

You are	You must de-register
Resident / Non-resident	<ul style="list-style-type: none"> If you no longer carry out an economic activity in Bahrain; or If you have not made any taxable supplies for a period of 12 consecutive months
Resident	<ul style="list-style-type: none"> If the total value of your annual supplies⁶ and annual expenses⁷ in the last 12 months is below the voluntary registration threshold; and The total value of your annual supplies⁶ and annual expenses⁷ is not expected to exceed this threshold in the next 12 months

3.6.2. Voluntary de-registration

Residents

You may apply to the NBT to de-register on a voluntary basis if:

- The value of your annual supplies during the last 12 months is below the mandatory registration threshold (BHD 37,500) but, together with your annual expenses, exceed the voluntary registration threshold (BHD 18,750); and
- The value of your expected annual supplies in the upcoming 12 months is below the mandatory registration threshold (BHD 37,500) but they, together with your annual expenses, exceed the voluntary registration threshold (BHD 18,750).

A person who registered for VAT on a voluntary basis may not de-register on a voluntary basis until he has been registered for at least 24 months.

Non residents

A non-resident person may not choose to de-register on a voluntary basis.

⁶ Annual supplies have to be understood in the same way as for the purpose of computing the mandatory VAT registration threshold (refer to section 3.2.1)

⁷ Annual expenses mean business expenses subject to Bahrain VAT at the rate of 5% or at the rate of 0%.

3.6.3. What if I fail to de-register when required to do so?

If you do not de-register when required, the NBT may apply administrative penalties as covered in section 14 of this Guide.

4. Transactions within the scope of VAT

4.1. Introduction

If you are a taxable person, you need to consider whether the transactions you are making fall within the scope of VAT as this will be the first step before deciding whether Bahrain VAT is applicable on such transactions.

If a transaction is not an “in-scope” transaction, it is considered as being “outside the scope of VAT” and is disregarded for VAT purposes. If a transaction is an “in-scope” transaction, you will have to assess whether Bahrain VAT is applicable and at which rate.

The VAT Law defines four categories of transactions falling within the scope of VAT:

- Supplies of goods by a taxable person
- Supplies of services by a taxable person
- Imports of goods
- Deemed supplies by a taxable person

Only those transactions falling within one of these four categories are considered in the scope of VAT.

4.2. Supplies of goods and services by a taxable person

4.2.1. Introduction

A “supply”, for the purposes of VAT, is any form of supply of goods or services in exchange for consideration, in accordance with the provisions of the VAT Law. For a transaction to be a supply, it must meet the following criteria:

- It must be made by a taxable person
- It must be made for consideration
- It must consist of a good or a service

These conditions are discussed below.

4.2.2. Supplies made by a taxable person

With regards to this first condition, please refer to section 3 above on taxable persons.

4.2.3. Supplies made for consideration

The VAT Law defines consideration as “all that is received or expected to be received by the taxable Supplier from the Customer or from a third party in exchange for the Supply of Goods or Services, inclusive of tax.”

It is therefore necessary that the supply is made for consideration, in money or in kind, to be received either from the customer or from a third party. Supplies made for free are normally not considered as supplies falling within the scope of VAT. However, the VAT Law and its related Executive Regulations list specific cases where goods or services provided for free are considered as deemed supplies. Please refer to section 4.4 for further detail.

4.2.4. Supplies of goods or services

What are goods?

“Goods” are all types of tangible property, whether movable or immovable. Water and all forms of energy including electricity, gas, lighting, heating, cooling and air conditioning are considered as goods for VAT purposes. The VAT Law lists the following as being supplies of goods:

- (a) The transfer of ownership of goods (on the spot transfer of ownership of the goods)
- (b) The transfer of the right to use goods as the owner (on the spot transfer of the right to use the goods as if the transferee were the owner)
- (c) The disposal of goods under an agreement whereby the transfer of ownership of the goods will happen or will possibly happen at a later date and no later than the date on which the consideration is paid in full (e.g., hire-purchase agreement, sale with instalments)
- (d) The granting of rights in rem deriving from the ownership giving the right to use real estate
- (e) The compulsory transfer of ownership of a good for consideration in accordance with the decision of the public authorities or by law
- (f) The transfer of goods belonging to a taxable person from a place in Bahrain to a place in an Implementing State, except if such goods are transferred either on a temporary basis (in accordance with the Customs Law) or as part of a supply taxable in the Implementing State and happening within 60 days of the transfer (e.g., a supply of these goods with installation)

The circumstances at (f) will not apply until Bahrain recognizes one or more of the other GCC member states as an Implementing State for VAT purpose.

What are services?

“Services” are defined as anything that are not “goods”. Therefore, any supplies made by a taxable person for consideration and which is not of a supply of “goods” is a supply of “services”. Some examples of supplies of services are as follows:

- (a) Services performed on goods (i.e., repair, refurbishment, improvements, etc.)
- (b) Marketing services

- (c) The transfer, granting or licensing of intangible rights (e.g., intellectual property rights, trademarks)
- (d) Consulting, accounting, auditing, legal services
- (e) Transport of goods and passengers
- (f) Operating lease of goods
- (g) Electronic and Telecommunication services
- (h) The making available of a facility or a right
- (i) The granting of the right to perform or the commitment to not perform an activity

4.3. Imports of goods

An import of goods is the entry of goods in the territory of the Implementing States from a place outside that territory if the goods are cleared through customs (i.e., not placed under a customs duty suspension arrangement). Until Bahrain recognizes another GCC member state as an Implementing State, all goods entering into Bahrain that are cleared through customs will be regarded as imports.

The mere fact that goods enter Bahrain and are customs cleared is enough for an import of goods to have taken place for VAT purposes. An import of goods does not require a supply between two distinct parties or for consideration to be paid.

4.4. Deemed supplies

What are deemed supplies?

If you supply goods or services without consideration (i.e., for free), such supplies are generally not considered as supplies of goods or services for VAT purposes. However, the VAT Law and its Executive Regulations list specific cases where a supply of goods or services provided for free or an event not involving a supply to a third party are considered as supplies of goods or services for the purpose of VAT, even though they do not meet the general conditions to be treated as such. These transactions are deemed to be supplies of goods and services for the purpose of VAT.

Why are goods and services provided for free treated as deemed supplies?

The purpose of treating goods and services provided for free as deemed supplies is to avoid a final consumption of the goods or services without VAT applying.

What is the VAT treatment of a deemed supply?

If a taxable person makes a deemed supply of goods or services, he is required to account for output VAT due on a deemed sale of the goods or services as if he was making a normal taxable supply. He will have to report and pay this output tax to the NBT.

Deemed supplies are subject to specific conditions. It is only where these conditions are met that a taxable person is considered as performing a deemed supply of goods or services.

A taxable person is considered as having made a deemed supply of goods or services in either of the following cases:

- (a) He changes the use of its goods so that they are used for a purpose other than its Economic Activity or to make non-taxable supplies. This only applies if input tax was recovered on the goods in the past. In such circumstances, the taxable person is deemed to make a supply of these goods at the time he changes their use.
- (b) He de-registers for VAT and is still in possession of goods on which VAT has been recovered in the past. The taxable person is deemed to make a supply of these goods at the time of de-registration.
- (c) He provides services for no consideration and has recovered the VAT charged on the expenses incurred in performing these services. Here, the taxable person is deemed to make a supply of services at the time he supplies them for free.
- (d) He provides goods for no consideration and has recovered the VAT charged on the expenses incurred on acquiring these goods. Here, the taxable person is deemed to make a supply of goods at the time he supplies them for free. See below for exceptions for certain low value gifts and samples.

Exceptions for low value gifts and samples

There is no deemed supply if goods provided for free are either low value samples for commercial purposes or low value gifts.

Samples for commercial purposes are specimens of products intended to promote the sale of that product and allowing the characteristics and quality of that product to be assessed without resulting in final consumption, except where the final consumption is essential to the promotion of the product.

In order for samples or gifts not to be deemed supplies, the total market value of samples and gifts must not exceed BHD 50 (VAT exclusive) per recipient per calendar year and the total market value of all gifts and samples per calendar year must not exceed BHD 1,000 (VAT exclusive). Any amount in excess of BHD 1,000 will be regarded as a deemed supply.

Example 1

A local business provides a gift bag once a year to all 100 employees as a “thank you” gift. This is the only gift the business provides to its employees. The market value of the goods in each bag is 20 BHD (VAT exclusive).

The market value of the gift bag per employee per calendar year is less than BHD 50. Therefore, each gift bag qualifies as a low value gift. However, the total market value of all the gift bags for the year is BHD 2,000, i.e. above the BHD 1,000 limit.

The company is therefore obliged to treat the excess (i.e. BHD 1,000) as a deemed supply of goods and to account for, report and pay the output tax on this deemed supply, assuming it has previously recovered the VAT charged on acquiring the goods gifted to the employees.

Example 2

A local business purchases a kitchen appliance with the intention of selling it to a customer in one of its shops. It recovered the associated input tax.

Subsequently, the business organizes a draw (participation for free, subject to no pre-conditions) where the winning price is the kitchen appliance. The market value of the kitchen appliance is 100 BHD (VAT exclusive).

Given the VAT exclusive value of this gift (i.e. above BHD 50), the business is required to recognize a deemed supply of goods and to account for, report and pay the output tax on this deemed supply.

Free goods and services as part of a promotional or commercial offer

When you provide a service or good for free together with a supply made for consideration (bundled promotions), this may not be considered as a deemed supply if it is clearly provided as part of a promotional or commercial offer requiring the customer to buy a specific supply in order to receive the free good or the free service.

Example

A retailer gives a pair of earphones for free to its customers when they buy a phone. Here, the phone is provided for a consideration and subject to VAT. If the earphones are part of a promotional offer and are only given for free where a phone is purchased and this is clearly part of a set promotional offer, the free earphones should not be seen as a deemed supply of goods.

The same applies for businesses making a “buy-one get-one free” or similar offer to the extent the promotion conditions are clearly defined by a commercial practice and supported by a documented policy.

4.5. “Out of scope” transactions

“Out of scope” transactions are those which either do not meet the criteria to fall within one of the fourth categories above or are specifically excluded from the VAT scope by a provision of the VAT Law. A taxable person should not account for VAT on an out of scope transaction.

4.5.1. Transfer of a going concern (surrender of an economic activity)

A taxable person (transferor) may transfer its entire business or part of it to another person (transferee) as part of a going concern, either for free or for consideration. This is referred to as surrender of an economic activity in the VAT Law and the Executive Regulations.

The transfer of a going concern, with or without consideration, does not fall within the scope of VAT if all of the following conditions are met:

- The transferor is a taxable person registered for VAT in Bahrain
- The transferee is a taxable person registered for VAT in Bahrain or becomes obliged to register as a result of the transfer
- The transfer must be of a business or a part of a business that enables the transferee to carry out the activity subject to the transfer
- The business or part of business transferred must be immediately used by the transferee to carry out a similar activity to the one that was conducted by the transferor
- The business or part of the business transferred must be subject to actual exploitation and generate revenue, even if such exploitation is not profitable
- Each of the transferor and the transferee must independently notify the NBT of the transfer within thirty days of the date of the transfer

A business or part of business is usually considered as transferred when the transfer includes tangible assets such as fixed assets, rights and other intangible assets, as well as the liabilities related to the business or part of business.

If all the conditions above are met, the transfer will be considered as being outside the scope of VAT and no VAT will apply on the assets transferred.

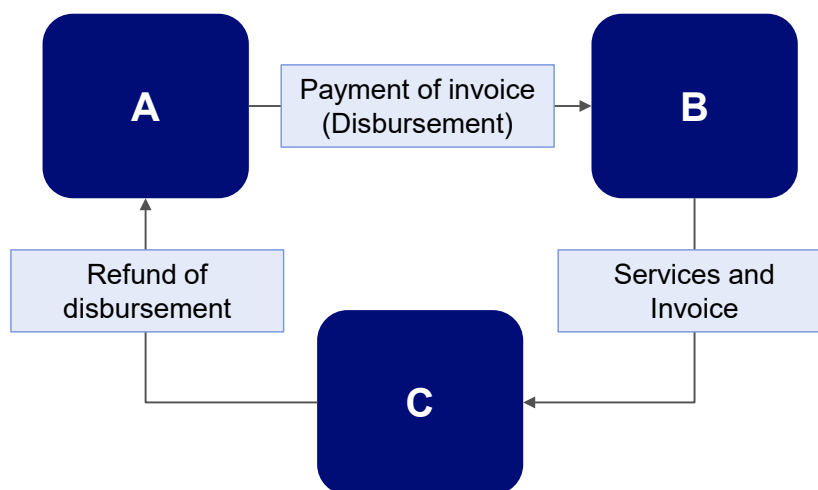
If the conditions above are not met, the transfer will be considered as a transaction falling within the scope of VAT and each part of the business transferred will be treated as a supply of goods or services, as the case may be.

If the conditions are met, but the transferee or transferor or both fail to formally notify the NBT in due time, the transfer will not be outside the scope of VAT and will be a taxable supply.

4.5.2. Disbursements and reimbursements

What is a disbursement?

A disbursement is a transaction where a person (A) makes a payment to a third party (B) in the name and on behalf of another person (C) and later recovers such amount from C.

Figure 3: Disbursement flow

The payment and recovery by A are not supplies falling within the scope of VAT. A is only acting as a paying agent between B and C. The payment flows between A and B and A and C are mere disbursements and are ignored for VAT purposes.

Example

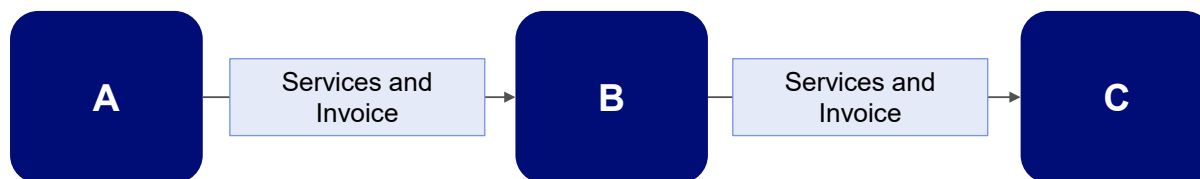
An employee (A) at the request of his employer (C) is attending a training in a hotel (B) and is paying the hotel bill but asks for a reimbursement from his employer through an expense account.

Here, the supply of goods or services actually happens between B and C. If B charges VAT on its supply, A is not expected to recover this VAT and is also not expected to charge VAT to C. A only pays the amount as stated by B and seeks a refund of the exact same amount from C. C will be the one able to recover the VAT charged by B if it is entitled to do so under normal input tax recovery rules.

What is a reimbursement?

A reimbursement is different from a disbursement. For a reimbursement, a taxable person procures a good or a service for its customer and acts as a principal in the procurement chain. The taxable person will procure the good or service from a third party, be invoiced by that third party and will recharge the costs (with a mark-up or not) to its customer.

In this case, the taxable person (B) acts in its own name, as a principal, and is buying the good or service from the third party (A) and on-selling it to its customer (C). Therefore, the taxable person (B) is required to charge VAT on its supply to its customer (C) and is also able to recover the VAT charged by the third party (A), subject to the normal input tax recovery rules.

Figure 4: Reimbursement flow**How do I know if it is a disbursement or a reimbursement?**

In order to determine whether the transaction is a reimbursement (recharge) of costs or a disbursement, a taxable person should consider the following questions:

- Does he contract with the supplier in his own name or in the name of another person?
- Is he considered as receiving the goods or the services from the supplier?
- Who is legally liable to pay the supplier, i.e., in default of payment, who does the supplier sue?
- Who is the “bill to” person on the invoice issued by the supplier? Is the invoice issued in “care of” person?
- Does he record the payment to the supplier as an expense and the refund from the customer as income in his profit and loss account, or does he simply record a receivable in his balance sheet which is credited when the refund is received?

4.5.3. Intra tax group transactions

Transactions between members of the same tax group are outside the scope of VAT as they occur between the same taxable person for VAT purposes.

4.5.4. Head office-branch transactions

Transactions occurring between a head-office and its branches or between the branches of the same head-office are considered as being outside the scope of VAT since they happen within the same legal entity.

This is the case when the head office and the branches are all located in Bahrain, but also when the head office and the branches are not all located in Bahrain (e.g., a head-office in KSA or in the UK with a branch in Bahrain or a Bahrain branch and a UAE branch of a French head-office).

Note that for cross-border movements of good entering Bahrain, an import of goods will be triggered even though they occur between a head office and its branches or between branches.

4.5.5. Other transactions outside the scope of VAT

The below are examples (non-exhaustive) of transactions that do not fall within the scope of VAT:

- Tips paid on top of a bill, where the customer tips due to his own independent choice
- Penalties for late payment or infringement of the law. Such transactions are not consideration for a supply, but merely punitive in nature
- Goods that are returned (e.g., deficient or unsatisfactory). The customer does not supply the goods to its supplier, the return is a reversal of the initial supply
- The receipt of an inheritance through a will
- The replacement of goods under a warranty. The replacement goods are not seen as being separately supplied to the customer, provided the replacement is covered under the warranty
- Receipt of an indemnity payment as part of an insurance contract or in the context of litigation. Such payments are not consideration for a supply of goods or services made by the insured person or by the party to the litigation as they are paid to compensate loss or damage
- The receipt of dividends. This is because the exercise of shareholder rights is generally not considered as an economic activity for VAT purposes

4.6. Vouchers

Vouchers, for the purpose of VAT, are defined as electronic or written instruments, to which a monetary value is attached (face value), and which grant their holder:

- The right to receive goods or services equivalent to their face value, or
- The right to receive a discount or reduction on the value of such goods or services.

Postage stamps issued by the Bahrain post office are not considered as vouchers.

The issue and transfer of a voucher for consideration may or may not constitute a transaction falling within the scope of VAT. This will depend on the features of the voucher and the consideration paid for the issue or transfer of the voucher.

For VAT purposes, there is a difference between a “Single purpose voucher” (“SPV”) and a “Multi purposes voucher” (“MPV”):

- An SPV is a voucher that can be exchanged for goods or services that are all subject to the same VAT treatment (i.e., all 5%, all 0% or all exempt)
- A MPV is a voucher that can be exchanged for goods or services that can be subject to different VAT treatments (i.e., 5%, or 0% or exempt)

The issue of an SPV and any subsequent transfer of that SPV for consideration is considered as a supply of the underlying goods or services (i.e., the goods or services which the SPV can be used to purchase).

The issue of an MPV and each subsequent transfer of that MPV for consideration is not a supply falling within the scope of VAT. A supply that is within the scope of VAT will only occur when the MPV is exchanged for goods or services.

Where an SPV or an MPV is issued or transferred for consideration that is higher than its face value, the excess (i.e., the difference between the consideration received and the face value) is treated as consideration for a separate supply of a service by the issuer or seller of the voucher (i.e., a supply of a voucher). This supply is taxable at the standard rate of VAT.

The value and tax due date of supplies involving vouchers are covered in sections 8.2.1 and 8.3.1 of this Guide.

Example

A company issues a gift card showing a face value of BHD 55. It can be used to purchase goods and services subject to the 5% and 0% rates. The price for issuing the gift card is BHD 60.

As the sale price for the voucher exceeds the value of goods and services that can be purchased using it, the excess of BHD 5 is the consideration for a taxable supply of a service (i.e. a supply of a voucher).

As the voucher can be used to purchase goods and services subject to different VAT treatments, it will be treated as an MPV. Therefore, no immediate supply takes place in respect of that MPV. A supply will take place for VAT at the time of redemption of the voucher (i.e. when it is exchanged against goods or services).

5. Place of supply

5.1. Introduction

For Bahrain VAT Law to apply and for Bahrain VAT to be charged, a transaction must fall within the VAT jurisdiction or “territorial scope” of Bahrain. It is therefore critical to know where a transaction takes place or is deemed to take place for VAT purposes.

The VAT Law provides for specific rules to be followed so that it can be determined whether a transaction falls within the territorial scope of Bahrain VAT. These rules are commonly referred to as “place of supply rules”.

The section below provides you with an overview of the place of supply rules in the VAT Law. You can refer to these rules when you need to identify whether your transaction falls within the territorial scope of the VAT Law.

5.2. Territorial scope of the VAT Law

The Bahrain VAT Law is applicable where a supply takes place in the territory of the Kingdom of Bahrain as a result of the application of the place of supply rules.

The VAT Law defines the territory of the Kingdom of Bahrain as “including its lands and the territorial waters and where the Kingdom of Bahrain practices its rights of sovereignty, in accordance with international law”.

5.3. Place of supply rules for supplies of goods

The VAT Law contains general place of supply rules and special place of supply rules for supplies of goods. The general rules apply when a supply does not fall within one of the special rules. It is therefore critical, as a first step, to analyze the features of a supply of goods and determine whether one of the special rules apply, or whether the supply falls under the general rules.

5.3.1. General rules

The general place of supply rules for goods will depend on factors including whether the supply includes a transport of the goods or their installation. For goods supplied without transportation and without installation, the place of supply is where the goods are placed at the disposal of the customer.

For goods supplied with transportation, the place of supply is where the transport starts. This applies whether the transport is carried out by the seller, the purchaser or a third party on their behalf.

Table 2: Place of supply of goods with transportation

Type of supply	Place of supply
Starts in Bahrain and ends in Bahrain	Bahrain, as the goods are located in Bahrain at the start of their transportation
Starts in Bahrain and ends outside the territory of the Implementing States	Bahrain, as the goods are located in Bahrain at the start of their transportation
Starts in Bahrain and ends in the territory of another Implementing State	Relates to intra-GCC rules covered in section 5.3.2 of this Guide
Starts outside the territory of the Implementing States and ends in Bahrain	<p>Outside Bahrain, as the goods are located outside Bahrain at the start of the transportation</p> <p>There will be an import of the goods for VAT purposes when they enter the territory of the Implementing States and are customs cleared (covered in section 5.3.2 of this Guide)</p>
Starts in the territory of an Implementing State and ends in Bahrain	Relates to intra-GCC rules covered in section 5.3.2 of this Guide

If a supply of goods involves their installation or assembly, the place of supply is where the installation or assembly takes place. For this rule to apply, the installation or assembly must be carried out by the supplier of the goods or by a third party on his behalf.

Table 3: Supply of goods involving installation or assembly

Type of supply	Place of supply
Includes the installation or assembly of the goods	<ul style="list-style-type: none"> In Bahrain if the installation or assembly of the goods takes place in Bahrain Outside Bahrain if the installation or assembly of the goods takes place outside Bahrain

5.3.2. Special rules

Supply of water, energy and electricity

The place of supply of water, oil and gas by a pipeline distribution system and the supply of electricity through the production, transmission and distribution networks follows the following special rules:

Table 4: Place of supply of water, energy and electricity

Type	Place of supply
Supplied to a purchaser qualifying as a taxable trader ⁸	Place of residence of the taxable trader making the purchase
Supplied to a purchaser that is not a taxable trader	Actual place of consumption

Intra-GCC supplies of goods

An intra-GCC supply of goods is a supply of goods with transport where the goods are shipped by a supplier from an Implementing State to a customer in another Implementing State.

The transfer of a good belonging to a taxable person from a place in an Implementing State (e.g., Bahrain) to a place in another Implementing State is also to be treated as an intra-GCC supply of goods, except when:

- The goods are solely transferred on a temporary basis (in accordance with the Customs Law); or
- The goods are transferred as part of a supply taxable in the Implementing State of arrival, provided this supply happens within 60 days of the transfer (e.g., transfer of goods as part of their supply with installation in that Implementing State).

In these two cases, the transfer of the goods is to be disregarded for VAT purposes (i.e., will not in the scope of VAT).

Once the Electronic Service System is in place and applied in all the Implementing States, specific intra-GCC rules will be applicable to define the place of supply for intra-GCC supplies of goods. The Electronic Service System is the system to be implemented by the GCC member states enabling them to capture the details of all the cross-border transactions happening within the territory of the GCC.

The intra-GCC rules are provided in Article 14.B of the Law and Article 20 of the Executive Regulations and will be further explained in due time.

⁸ A Taxable Trader is a Taxable Person in any Implementing State, and whose primary activity is the distribution of gas, oil, water or electricity.

For the time being, the place of supply for intra-GCC supplies of goods shall follow the same general rule as for the supplies of goods with transport, as mentioned above (i.e., where the transport starts).

5.4. Place of supply rules for supplies of services

The VAT Law provides “general rules” and “special rules” for the place of supply of services.

In order to determine the place of supply of a service, you should firstly consider whether the service falls under one of the “special rules” and, if not, apply the relevant general rules.

5.4.1. General rules

There are two general place of supply rules for services. These are based on the place of residence of either the supplier or the customer. (See Appendix B for information on what constitutes a place of residence.) The key differentiator between these two rules is the VAT status of the customer, i.e., whether it is a taxable person or not.

Place of residence of the supplier

As a general rule, the place of supply of a service is considered to be the place of residence of the supplier.

Example 1

A Bahrain resident supplier provides IT services to a customer resident in Spain, the place of supply of these services is in Bahrain as this is where the supplier has its place of residence for VAT purposes.

Example 2

A Bahrain resident supplier provides IT services to a customer resident in Bahrain, the place of supply of these services is in Bahrain as this is where the supplier has its place of residence for VAT purposes.

Place of residence of the customer (taxable person)

Where the customer is a taxable person residing in Bahrain and the supplier is non-resident, the place of supply of the services is the place of residence of the taxable customer (i.e., in Bahrain).

Example

A taxable person who is resident in Bahrain receives a legal service from a law firm resident in the UK. The place of supply of this service is in Bahrain, i.e. the place of residence of the taxable customer. The same rule would apply if the services were received from a law firm established in the United Arab Emirates instead of the UK.

When Bahrain recognizes one or more GCC member states as an Implementing State for VAT purposes, the place of supply rules for services between residents of these countries will change. For now, however, the rule described above will apply to intra-GCC transactions.

Examples of this rule in action are shown in the following table:

Table 5: Customer place of residence (taxable person)

Place of residence of the Supplier	Place of residence of the Customer	Place of supply of the service
Bahrain	Bahrain	Bahrain (where the supplier is resident)
	Outside the Implementing States	
	Other Implementing State - Not a taxable person	
	Other Implementing State - Taxable person	Until further notice: Bahrain (where the supplier is resident) When intra-GCC rules apply (not yet applicable): Other Implementing State, i.e., where the customer taxable person is resident
Outside Bahrain	Bahrain - Not a taxable person	Outside Bahrain - where the supplier is resident
	Bahrain - Taxable person	Bahrain - where the customer taxable person is resident

If a person has a place of residence in more than one country, the place of residence used for applying the general place of supply rules is the place of residence most closely connected to the supply of the services.

Example 1

A US company provides consulting services from its branch in Bahrain to a customer resident in India. The place of supply is in Bahrain (i.e. the place of residence of the supplier) because the branch in Bahrain is the place of residence most closely connected to the supply of the consulting service to the customer in India.

Example 2

A Bahraini representative office of a Saudi Arabian company which is registered for VAT in Bahrain directly receives marketing services from a supplier established in the UAE. The place of supply of these services is Bahrain (i.e. place of residence of the customer taxable person). This is because the Bahraini representative office is the place of residence most closely connected to the supply of the marketing services made the UAE supplier.

5.4.2. Special rules

The VAT Law sets out special place of supply rules for services. These rules are summarized below.

Table 6: Place of supply of services

Service	Place of supply
Rental of a means of transport to a customer who is not a taxable person	Where the means of transport is placed at the disposal of the non-taxable customer
Transport of goods, passengers and services related to such transport	Where the transport starts
Restaurant, hotel, catering, cultural, artistic, sporting or recreational events	Where the service is actually performed
Services related to moveable goods supplied by a supplier in Bahrain to a customer which is a not a taxable person in another Implementing State ⁹	
Related to a Real Estate	Where the Real Estate is located (see below)
Telecommunication and Electronic services	Where the services are used and enjoyed, to the extent of such use and enjoyment (see below)

⁹ Rule not yet operable – will apply when Bahrain recognizes one or more GCC member states as Implementing States

Services related to real estate

Services related to a real estate are defined in the Executive Regulations. These include accommodation services, services related to construction, services by real estate experts, estate agents, auctioneers, architects, engineers and others who perform tasks and work related to real estate.

These services have to be directly connected to specific real estate. In this regard, real estate is defined as any of the following:

- An area of land over which rights or interests can be created
- A building, structure or engineering work permanently attached to the land
- A fixture or equipment which makes up a permanent part of the land or is permanently attached to a building, a structure or engineering works

Telecommunications and electronic services

Telecommunication services are defined in the Executive Regulations as:

“Services relating to the transport, transmission, conversion or reception of signals used for the dissemination of words, images, audio or information by any kind of wire, radio and telephone services, visual telephone services, Voice over Internet Protocol (VoIP), voice mail, call waiting and other call management services, internet access and roaming data, including related transmission services or granting the right to use the ability to convert, transmit, receive or other similar means.”

Electronic services are defined in the Executive Regulations as:

“Services provided over the internet or any electronic platform, and which operate in an automated manner with limited human intervention and which are impossible to complete without the use of information technology.”

The Executive Regulations also provide certain examples of electronic services including:

- The supply of a website, web page on the internet and web hosting services
- The supply of computer and software programs as well as their maintenance and update
- The supply of digital products and visual content, including App, screensavers, e-book and digital files
- Online supply of music, films, television series, games, magazines, newspapers, or other programs
- Supply of advertising space on websites and of any rights associated with such advertising
- Supply of online educational services

The place of supply rule for telecommunication and electronic services is where these services are used and enjoyed at the date they are supplied. Bahrain VAT Law therefore

applies when the services are used and enjoyed in Bahrain, within the limit of such use and enjoyment.

In order to determine the place of use and enjoyment of a given service, the supplier must follow the rules detailed below.

- If the customer is not a taxable person, the place of use and enjoyment is the place where the customer actually uses and enjoys the service. The place where the contract with the customer is executed and the place where the customer pays for the service are not relevant. The following rules should be used to identify the place of actual use and enjoyment of a service:
 - If services are received through a fixed location (e.g., fixed or public telephone services, Wi-Fi services), the place of that fixed location will be the place of actual use and enjoyment
 - If services are received through a mobile network, the country corresponding to the country code of the SIM card used to receive the services will be the place of actual use and enjoyment
 - For international roaming services, the country in which the mobile network is located which the customer uses to receive the services will be the place of actual use and enjoyment
- If the customer is a taxable person, the place of use and enjoyment is the place of residence of the customer. The following rules should be used to identify the place of residence of the customer taxable person:
 - The customer's address as stated on a tax invoice or other documents used for billing
 - Details of the Customer's bank account
 - The Internet Protocol address used to receive the services
 - The country code of the SIM card used to receive the services
 - Any other information of a commercial nature

The place of supply rule for telecommunication and electronic services has to be assessed at the level of each transaction. For example, where a telecommunications service is supplied by a telecom operator to a second telecom operator and this second telecom operator subsequently supplies this service to its customers, each supply will have to be looked at separately when determining its place of use and enjoyment (i.e., each supply will follow its own place of use and enjoyment rule).

5.5. Place of supply rules for import of goods

The place of supply for import of goods is the first point of entry of the goods in the territory of the Implementing States.

Where goods are placed under a custom duty suspension regime¹⁰ upon entering the territory of the Implementing States, the place of supply for the import of these goods is in the Implementing State where the goods will be shipped to (its final destination) when released from their temporary customs duty suspension regime first point of entry.

Example 1

A good shipped from India and entering the territory of the Implementing States in Bahrain, where it is imported, is considered as an import of good falling within the VAT jurisdiction of Bahrain.

Example 2

A good coming from the USA enters the territory of the Kingdom of Saudi Arabia where it is immediately placed under a customs duty suspension regime because the final destination is Bahrain (transit regime). This good is transported to Bahrain where it is released from this suspension regime and imported in Bahrain. The import of this good is falling within the VAT jurisdiction of Bahrain.

¹⁰ For example: Customs warehouse, Temporary admission and Transit.

6. VAT treatment in Bahrain

6.1. Introduction

A supply of goods or services taking place in Bahrain for VAT purposes can be subject to VAT at the standard rate of 5% or at the rate of 0% unless it falls within the scope of a VAT exemption.

This section provides an overview of the VAT treatment applicable to supplies of goods and services as well as imports of goods happening in Bahrain. If you are a taxable person, it will help you identify the correct VAT treatment applicable to your transactions in Bahrain.

Table 7: Summary of VAT rates and policies

Treatment	Overview	Output Tax	Input Tax
Standard rate	5% VAT applied on goods and services	5%	Deductible
Zero-rate	Supplies are taxable, but the VAT rate charged is 0%	0%	Deductible
Exempt	Supplies on which no Tax is charged and for which associated Input Tax is not deducted	N.A.	Not deductible

6.2. Supplies at the standard rate of 5%

Supplies of goods and services by a taxable person in Bahrain are generally subject to Bahrain VAT at the standard-rate of 5%, unless they are specifically subject to VAT at the zero-rate or exempt from VAT. A list of examples of standard rated goods by sector can be consulted through the following link: https://www.nbt.gov.bh/items_subject_to_vat.

Where a supply of goods or services meets the criteria for zero-rating or exemption of VAT under the VAT Law and its Executive Regulations, this will prevail over the standard-rate of 5%.

The conditions to apply VAT at the rate of 0% or to apply a VAT exemption must be interpreted strictly. Where these conditions are not met, the transaction will be subject to VAT at the standard rate of 5%.

6.3. Supplies at the rate of 0%

Zero-rated supplies are those which are taxable at the rate of 0%. This means that no VAT is actually charged on the supply, but the supplier can still claim the input tax charged on expenses incurred in making the supply.

Certain conditions must be met for the zero-rate to apply. If these conditions are not met, the supplies will, in principle, be subject to VAT at the standard-rate of 5%, unless a VAT exemption applies.

Some examples (non-exhaustive) of supplies that fall under the zero-rate are shown on the table below.

Table 8: Zero-rated supplies

Sector / Type	Supply
Exports of goods and services	Supplies to outside of the GCC
	Supply to or within a customs duty suspension regime
Transport	Domestic transportation
	International transportation
Basic needs	Basic food items
Healthcare	Medicines and medical equipment
	Healthcare services
Education	Educational services
Real Estate	Construction services for new buildings
Oil and Gas	Domestic oil and gas
Commodities	Precious stones
	Investment gold, silver and platinum

The supplies falling within the scope of the zero-rate of VAT in Bahrain are further described below.

6.3.1. Export of goods

What is an export of goods?

An export of goods is a supply of goods with transport where the goods are shipped from a place in Bahrain to a place outside the territory of the Implementing States.

What conditions apply for the zero-rate to apply?

For such a supply to be subject to VAT at the rate of 0%, all of the following conditions must be met:

- (a) The goods must be shipped from Bahrain to a destination outside the Implementing States within 90 days of their date of supply;
- (b) The goods must not have been changed, used or sold to a third party before leaving Bahrain; and
- (c) The supplier must retain the commercial and official documents evidencing the shipment. These include: the documentation issued by the Customs Affairs at the Ministry of Interior to confirm the export, the commercial document which identifies the supplier, the customer and the place of delivery of the goods together with the transportation document and the confirmation of the delivery of the goods outside the territory of the Implementing States (i.e., bill of lading, airway bill or certificate of shipment).

The person responsible for shipping the goods to a destination outside the Implementing States per (a) above can be the supplier, the purchaser or a third party acting for the supplier or purchaser.

Retention of evidence of shipping

Where the supplier is not responsible for the shipping of the goods, it is critical that he obtains all the required documentation from the purchaser to support that the goods will be shipped to outside the territory of the Implementing States within the 90 day timeframe, and that they will not be transformed, used or sold by the purchaser before their shipping.

Where the supplier has not obtained any confirmation and evidence from the customer that the conditions for export are met, it is his responsibility to treat the supply as a local supply of goods and to account for VAT at the standard rate of 5%.

Other export transactions subject to the zero-rate

The 0% rate also applies to the following transactions:

- The supply of a good to a suspension regime provided the goods are moved into the customs suspension regime within 90 days from their date of supply and in accordance with the conditions for the customs suspension regime to apply
- The supply of goods within a customs duty suspension regime provided the conditions for the customs suspension regime are all met (e.g., supplies of goods within a duty-free shop or within a customs warehouse)
- The re-export of goods temporarily imported into Bahrain for repair, conversion, restoration and processing: the zero-rate of VAT applies to the goods that became part of these goods as well as to those which became unusable or worthless as a result of their use for the repair, restoration, conversion or processing. The goods covered here

are those charged by the supplier of the repair, restoration, conversion or processing services (i.e., as part of the costs of the supply).

6.3.2. Export of services

An export of services is a supply of services provided to a recipient who is not resident in Bahrain and in any other Implementing States, provided a certain number of conditions are met.

In any case, services falling under Articles 17 and 18 of the VAT Law (section 5.4.2 of this Guide), when their place of supply is in the Kingdom, are excluded from the scope of the zero-rate for exported services (e.g., services of hotels, restaurants, catering, access to events, services related to a real estate, etc.).

In order to apply the zero-rate, the resident taxable person must ensure that the following conditions are all met:

- (a) The customer receiving the service is not resident in Bahrain and in any Implementing States

“Customer” must be understood as the person actually receiving the services, based on the actual nature and substance of the supply (i.e., the customer must be the actual recipient of the services).

Where there is a discrepancy between the contracting party and the actual recipient of the services, the contracting party must be disregarded and the services are to be considered as supplied to the actual recipient (i.e., the customer for the purpose of applying the condition (a)).

With regards the “residency” condition, the residency of a customer with multiple places of residence for VAT purposes has to be assessed based on the customer’s place of residence that is the most closely connected to the supply of services at stake (i.e., the place of residence actually receiving the services). In this respect, a customer with a place of residence outside the Implementing States and a place of residence in Bahrain (or in an Implementing State) will be considered as non-resident in Bahrain and in the Implementing States if, for that specific supply of services, the place of residence the most closely connected is the one located outside the Implementing States. If it is not possible to assess with certainty the place of residence that is the most closely connected to the supply, the customer will be considered as resident in the Implementing States for that specific supply of services.

The assessment of the actual recipient of the supply as well as of his place of residence the most closely connected to the supply has to be made based on the actual nature and substance of the supply and evidence of such assessment has to be kept by the supplier.

- (b) The customer must not be present in Bahrain at the date the services are performed

“Presence” in Bahrain does not mean having a place of residence in Bahrain. If the customer is physically present in Bahrain, he will be considered as having a “presence” here. However, a customer will not be considered as present at the time the services are performed when his presence in Bahrain is not the most closely connected to the services received.

- (c) The services do not relate to tangible goods or a real estate located in the territory of the Implementing States at the time the services are performed

Services related to tangible moveable goods are those which have the tangible goods as the central part of the services (e.g., repair, alteration, storage services).

Services related to real estate are those which have a real estate as the central part of the services but which do not qualify as “directly connected with the real estate” under article 16 of the Executive Regulations.

These services cannot be treated as zero-rated exported services, unless they are actually subject to VAT in the Implementing State where the goods or the real estate are located at the time of the supply.

- (d) The services shall be enjoyed outside the territory of the Implementing States

The services must be received and “consumed/used” by the customer at a place of residence which is outside Bahrain and the territory of the Implementing States.

Where the customer has either a place of residence in Bahrain/Implementing States or a presence in Bahrain at the time of the supply, the place of residence/presence the “most closely connected” will have to be identified so as to determine whether the services are actually “consumed” in Bahrain or in the territory of the Implementing States.

Finally, the services must not be actually received by and benefit a person, other than the customer, who is resident in Bahrain or in an Implementing State. With regards the assessment of this condition, we refer you to the explanations given above under condition (a) regarding the notion of “customer” and “actual recipient” of the supply.

6.3.3. International transport services, supply of qualifying means of transport, related services

What international transport services qualify for the zero-rate?

The international transport of goods, international transport of passengers and related services are zero-rated. In order to qualify as international transport, the services must be made using a qualifying means of transport and which involves one of the following:

- Transport of passengers or goods from Bahrain to a final destination outside Bahrain
- Transport of passengers or goods from outside Bahrain to Bahrain as final destination
- Transport of passengers or goods carried out in Bahrain when it is part of an international transport of goods or passengers from Bahrain or to Bahrain

What is a qualifying means of transport?

A qualifying means of transport must meet all of the following:

- It is a vehicle, ship or aircraft requiring a driver, pilot or crew, depending of the circumstances, to be operated;
- It is intended for the transport of at least ten persons or for carrying Goods on a commercial basis;
- Its main purpose is to carry out international transport;
- It is not converted or used for recreational or personal purposes.

What related services qualify for the zero-rate?

Services related to the international transport of goods or passengers are also subject to VAT at the rate of 0%. Such services include the following:

- The supply of goods and services for use or consumption on board of the means of transport;
- Loading and unloading of machinery and equipment used for the transport of the goods, the loading of products, unloading, transporting, stowing, packaging, weighing, measuring, monitoring;
- The rental of machinery, containers and equipment used for the protection of goods intended for export;
- The security, storage, packaging of the goods intended for export;
- The formalities necessary for an export transaction, when carried out by an approved clearance agent of the Customs Department;
- Visa transactions and related services for passengers;
- Insurance for passengers.

Supply of qualifying means of transport and related services and goods

The supply of a qualifying means of transport, as defined above, is subject to VAT at the rate of 0%. The supply can be by way of sale or rental.

Example

A taxable person rents out a private jet for a private use, this lease will not be considered as a supply of a means of transport intended to be used for the international transport of passengers. Therefore, this supply will be subject to VAT at the standard-rate of 5% if it takes place in Bahrain.

The supply of goods and services related to the maintenance, repair, or conversion of a means of transport, including the supply of spare parts, consumable materials and other necessary components that are installed or incorporated in the means of transport are also subject to VAT at the 0% rate.

6.3.4. Local transport services

The supply of goods and passengers transport services, within Bahrain, by land, water or air is zero-rated, unless, such a supply relates to any of the following:

- The services of a rental vehicle without a driver
- Transportation services provided for sightseeing or leisure purposes
- Transportation services for the delivery of food by a person supplying food
- Transportation services which are ancillary to a main supply which is subject to VAT at the standard-rate and is not priced separately (refer to section 6.7 for further detail on single composite supplies)
- The supplier is not regulated or licensed by the relevant authorizing body in the Kingdom

The main differences between international and local transportation zero-rating is summarized in the table below.

Table 9: Summary of zero-rate applicability for transport

Transport nature	Zero-rate on transport service	Zero-rate on qualifying means of transport	Zero-rate on related services
International	✓	✓	✓
Local	✓	✗	✗

6.3.5. Supply of basic food items

The supply of food items included in the list ratified by the Financial and Economic Cooperation Committee are subject to the zero-rate provided they are not supplied by caterers, restaurants, coffee shops or other similar establishments.

The list of basic food items qualifying for the zero-rate can be accessed through the following link: https://www.nbt.gov.bh/pdf/basic_food_list.pdf.

In order for the zero-rate to apply, the basic food items must be for human consumption.

6.3.6. Supply of medicines and medical equipment

The supply of medicines and medical equipment included on a list published by the National Health Regulatory Authority is zero-rated. For additional information please visit <http://www.nhra.bh/>.

6.3.7. Healthcare services

The supply of preventive and basic healthcare services and associated goods and services is zero-rated.

In order to benefit from the zero-rate, the healthcare services must be qualifying medical services provided by qualified medical professionals or qualified medical institutions to a patient during the course of his treatment.

Qualifying medical services

For instance, the following healthcare services, subject to being provided to a patient during treatment by a qualified medical professional or at a qualified medical institution, would be considered as “qualifying medical services”:

- General medical health services
- Specialist medical health services, including surgery
- Dental services
- Services related to the treatment of mental illnesses
- Occupational or surgical health services
- Speech therapy prescribed by a qualifying medical professional
- Physiotherapy prescribed by a qualifying medical professional
- Sight and hearing tests
- Nursing care (including home nursing care)
- Services relating to diagnosing an illness, including the analysis of any samples and x-rays to determine a diagnosis
- Vaccinations
- Health testing and/or screening that is undertaken under a local law, documented policy or contractual obligation

With regards cosmetic surgery, it is not considered as a “qualifying medical service” unless it is provided as part of treating a medical condition as prescribed by a qualified medical professional.

Qualified medical professionals and institutions

Qualified medical professionals include persons licensed as practitioners by the National Health Regulatory Authority (NHRA) or placed under any other authorized medical body in the Kingdom.

Qualified medical professionals include notably:

- Medical practitioners
- Midwives
- Nurses
- Mental health specialists
- Dentists

- Opticians
- Radiologists
- Pathologists
- Paramedics
- Pharmacists

Qualified medical institutions include institutions licensed by the National Health Regulatory Authority (NHRA), or those placed under the supervision of the Ministry of Health.

A qualified medical institution is defined as hospitals, physiotherapy centers, medical centers, private clinics, alternative medical centers and clinics for practicing any supporting medical professions licensed by the National Health Regulatory Authority (NHRA), or under the supervision of the Ministry of Health.

Associated goods and services

Any goods that are used in the course of performing qualifying medical services such as bandages and drugs are zero-rate.

The zero-rate also applies to services provided to the patient, such as for example accommodation, catering and transportation of patients.

Entertainment services, lodging outside the medical institution, catering and transportation of non-patients and catering for employees do not qualify for the zero-rate. These will be subject to the standard rate of 5%.

6.3.8. Education services

The supply of educational services and related goods and services by kindergartens, pre-primary education, primary, secondary and higher education institutions are subject to VAT at the zero-rate.

The educational institutions must be licensed by a competent authority in the Kingdom and the educational services must be provided to a student who is enrolled in that school or institution.

Professional education and vocational training (unless the vocational training is provided by a polytechnic educational institution licensed by the relevant authority in Bahrain) does not qualify as educational services for the purpose of applying the zero-rate. These services are therefore subject to VAT at the standard VAT rate of 5%.

Below are some examples of “associated goods and services” qualifying for the zero-rate when provided by qualifying educational institutions:

- Subscription fees, application fees or any form of administration fee
- Printed and digital books and reading material which are educational in nature and are directly related to the curriculum

- Student accommodation supplied by the educational institution to students enrolled with the educational institution provided that such accommodation has been constructed or adapted specifically for use by students
- Activities and trips organized by the educational institution for its students if these form part of the curriculum and are not predominantly recreational in nature

6.3.9. Construction of new buildings

Regarding the construction of new buildings, the following goods and services are zero-rated:

- Construction services relating to new buildings;
- Goods supplied by the person supplying the construction service in the course of constructing a new building.

Construction of a new building includes an extension of an existing building, but excludes other work on existing buildings such as refurbishment, restoration and conversion.

A building is defined in the Executive Regulations as a "...residential, commercial or industrial building, such as a dwelling, offices, factories, workshops, retail stores, multi-storey car parks, power stations, oil refineries, liquified natural gas stations or oil fields." A building is considered as "new" when it has not been occupied yet.

The Executive Regulations set out examples of services that qualify for the zero-rate as well as examples of services that do not qualify – as shown in the below table.

Table 10: Zero-rate applicability for construction services

Qualifying for the zero-rate	Not qualifying for the zero-rate
<ul style="list-style-type: none"> • Construction works • Site clearance • New extension to an existing building • Services provided by engineers and surveyors and similar services of a supervisory nature 	<ul style="list-style-type: none"> • Demolition of existing buildings on the land on which the new building will be constructed • Architects' and interior design fees • Restoration works • Any services supplied after the building has been completed

Goods qualifying for the zero rate are those which are supplied by the person constructing the new building in the course of the construction services. These goods must be used, installed or incorporated into the building or the land.

The Executive Regulations set out examples of goods that qualify for the zero rate as well as examples of goods that do not qualify – as shown in the following table.

Table 11: Zero rate applicability for construction goods

Qualifying for the zero-rate	Not qualifying for the zero-rate
<ul style="list-style-type: none"> • Building materials (e.g., concrete, building blocks, wood etc.) • Materials to construct raised flooring for computer server rooms • Fixtures and fittings to the extent they are permanently affixed to the building and cannot be removed without causing damage to the building or the fixtures • Goods for civil engineering works necessary for the development of the building including sewerage works, piping, roads and paths necessary for the proper use and enjoyment of the building and car parking for use by the building's occupants and visitors • Goods to connect the building to water supplies and telecommunications services • Solar cells and related equipment to produce electricity and hot water for the building 	<ul style="list-style-type: none"> • Fixtures and equipment which are not permanently affixed to the building and which can be removed without damage to the building, or the fixtures or requirements, including: <ul style="list-style-type: none"> - Furniture that is not affixed to the building - Goods supplied for landscaping works - Swimming pools - Decorative lighting - Paintings, murals and other artwork - Carpets - Moveable partitions • Any goods supplied after the building has been completed

It is expected that construction contracts for new building have some components that are subject to VAT at the zero-rate and others that are subject to VAT at the 5% standard rate. Where it is the case, it is required to apportion the agreed consideration, based on the fair market value, between the goods and services subject to VAT at the zero-rate and those subject to VAT at the 5% standard rate.

6.3.10. Oil, oil derivatives and gas sector

The upstream, midstream and downstream activities for the oil, oil derivatives and gas sector are generally zero-rated. As an exception, zero-rating does not apply to specific downstream activities such as import or supply of oil, oil derivatives and gas by products for example plastic and fertilizers.

The zero-rating will apply to the following supplies:

- Import and supply of oil, gas and other hydrocarbons (whether processed or unprocessed)
- The grant of a right to use, explore or exploit any part of the Kingdom to search for, extract or produce oil, gas or other hydrocarbons
- Oil and gas exploration services
- Oilfield and gas field relate services such as design, drilling, rig set-up, drilling, extraction, recovery, separation, evaluation, feasibility analysis, testing, seismic and geophysical surveys and repair and maintenance services
- Specialist professional services where they are required for the exploration or exploitation of existing and / or potential oil and gas sites
- Oil refining or gas processing services, including regasification of liquefied natural gas
- Distribution or transportation of oil, gas or other hydrocarbons
- The storage of oil, gas or other hydrocarbons
- Import or supply of consumables that are used directly and exclusively for the making of the above supplies
- The import, purchase or lease of machinery or equipment which is used directly and exclusively for the making of the above supplies

6.3.11. Supply of gold, silver and platinum

The following supplies of gold, silver and platinum are zero-rated in either of the following cases:

- The first supply after extraction when this supply is carried out for trading purposes, i.e., purchased by a person who intends to use the metal for business purposes, such as to purify it, use it in a manufacturing process, etc.
- The supply of investment gold, silver or platinum. Investment gold, silver and platinum are metals with a purity of at least 99%, which are tradable on global bullion markets and which are certified by the Ministry of Industry, Commerce and Tourism (MoICT) or a licensed entity by the MoICT

6.3.12. Supply of pearls and precious stones

The supply of pearls and precious stones is zero-rated, subject to having a certificate of quality issued by the Ministry of Industry, Commerce and Tourism (MoICT) or a licensed entity by the MoICT.

6.4. Exempt supplies

Goods and services which are exempt from VAT are usually referred to as non-taxable supplies or VAT exempt supplies. A supplier is not required to charge VAT on these supplies and, as a result, is not entitled to recover the input tax charged on his expenses used in making these exempt supplies.

In Bahrain, the supplies presented below are exempt from VAT.

6.4.1. Real estate supplies

The sale, lease or license of a real estate is an exempt supply, regardless of whether the real estate is residential, commercial or land (e.g., bare land). Accordingly, any VAT incurred on expenses or purchases (i.e., professional legal fees, refurbishment, etc.) that is attributable to the making of exempt supplies will not be recoverable by the taxable person.

For the purposes of place of supply rules, “real estate” has been defined to include:

- Any area of land over which rights, interests or services can be created
- Any building, structure or engineering work permanently attached to the land
- Any fixture or equipment which makes up a permanent part of the land or is permanently attached to a building, a structure or engineering works

The sale or lease of real estate shall not include the supply of the following:

- Hotel accommodation
- Rental of function rooms and halls
- Car parking rental for periods less than one month
- Serviced offices where the customer does not have the right to use a designated space on an exclusive basis
- Management services, utilities, telecommunications, internet and television charged separately and in addition to rent

Where residential accommodation is provided in the form of furnished or semi-furnished, the entire consideration will be seen as a supply of real estate, unless a separate charge for the furniture is made.

Furniture, fittings, plant and apparatus that are not attached to land or a building and which can be removed without damaging the property are not considered as real estate.

Additional information is provided in the Real Estate Guide.

6.4.2. Financial services

Financial services which are not provided in exchange for an explicit fee, commission, discount or rebate, are VAT exempt.

For instance, interest income generated by the granting of a loan, as well as the equivalent income under a Shari’ah compliant product, are considered as financial services exempt from VAT in Bahrain.

Transactions in financial instruments, the purpose of which is to generate a margin while bearing the risk of loss (e.g., currencies trading, derivatives trading), are generally

transactions qualifying for the VAT exemption, when they are not remunerated by way of a fee.

On the other hand, services such as remittance and transfer of money, issuance of cheques, account administration or the use of an ATM, which are typically remunerated by way of a fee (e.g., flat fee or a percentage of the underlying amount), do not qualify for the VAT exemption applicable to financial services. They are therefore subject to VAT at the standard rate of 5%, unless they meet the conditions to be subject to VAT at the zero-rate as exported services.

Brokerage and intermediary services (e.g., agency services for the trading of securities) as well as discretionary asset management (e.g., private banking type services) are typically remunerated by way of a fee or commission (e.g., transaction fee, management fee fixed and variable). When it is the case these services do not qualify for the VAT exemption applicable to financial services

A credit card typically generates both taxable income (e.g., membership fee) and exempt income (interest on the credit granted). It is also the case for letter of credits to which can be attached both various fees (e.g., issuance fee, administration fee) and an interest income.

The provision of life insurance contracts and life reinsurance contracts as well as the transfer of such contracts are exempt financial services supplies, irrespective of the form of consideration payable for them.

The provision of general insurance is considered as a service which cannot benefit from the VAT exemption applicable to financial services.

The transfer of ownership of an equity security or a debt security is an exempt financial services supply, irrespective of the form of the consideration payable for it.

For the purpose of applying the VAT exemption, Islamic finance products provided under a written contract in accordance with the principles of Shari'ah which simulate the intention and achieve effectively the same result as a non-Shari'ah compliant financial product are treated in a similar manner as the equivalent non-Shari'ah financial products.

Additional information is provided in the Financial Services Guide.

6.5. Supplies which can be either zero-rated or VAT exempt

If a supply can fall in the scope of both the zero-rate and a VAT exemption (e.g., financial services provided to a non-Implementing States resident), the zero-rate treatment prevails over the VAT exemption and the supply will therefore be zero-rated.

6.6. Imports of goods

Imports of goods, when imported into Bahrain, are generally subject to VAT at the standard rate of 5%, unless they are exempted from import VAT. Imports of goods are exempt from Bahrain VAT in the following circumstances:

- Goods imported in Bahrain which are either zero-rated or VAT exempt when they are supplied locally in Bahrain
- Import of necessities and equipment for persons with special needs, where the importer possesses the relevant documentation issued and certified by the competent authorities
- Goods imported which are exempt from customs duties in accordance with the Customs Law:
 - Diplomatic exemption
 - Military exemption
 - Returned goods
 - Import of used personal belongings and household appliances by Bahraini citizens residing abroad and foreigners who are coming to reside in Bahrain for the first time
 - Import of personal effects and gifts accompanied by a traveler

6.7. Single composite and multiple supplies

If your supply is made of more than one components (e.g., two services or a service and a good) you will need to assess whether your supply is a “single composite supply” or as “multiple supplies”.

6.7.1. Single composite supply

A single composite supply occurs when a supplier provides various goods or services (components) to a customer as a single transaction. Generally, a single fee is charged to the customer for such a supply (with or without a breakdown per component).

There is usually a single composite supply where the transaction is seen by the supplier and the customer as comprising one main supply (i.e., the component the customer specifically sought from the supplier, also known as the “principal supply”) together with other ancillary items which are either necessary or essential for making the principal supply or to help with receiving that principal supply.

Example

A taxable person in Bahrain provides international transport services (by plane) and, as part of the fare, also provides access to business lounge and supply of food and beverages. The lounge and catering services are provided together with the sale of the international ticket (embedded in the business fare) and one charge is made for everything supplied. In this scenario, the international flight is the main or principal supply customers are seeking from the supplier, while the lounge and catering are simply ancillary to the international flight.

On the basis that the different components supplied are considered to form a single supply for VAT purposes, a single VAT treatment will apply to the transaction as a whole. The VAT treatment applicable to the whole supply will be the one of the main component of that

supply (i.e., the principal supply). In order to identify the correct VAT treatment, it is therefore critical to identify which component of the supply is the main one.

In the above example, the main component being the international flight, the single composite supply thus follows the VAT treatment applicable to the supply of international transport of passengers.

There is also a single composite supply when it would be artificial to separate between the various components of a transaction, as connecting them gives the transaction its specific character. In this case, the VAT treatment will have to be determined based on the nature of the supply considered as a whole.

6.7.2. Multiple supplies

There are multiple supplies when a supplier provides various goods or services (“components”) to a customer and each component can be split and “consumed” separately. In this case, each component can be identified separately and the performance of one component is not necessarily dependent upon or critical to the performance of the other(s).

Generally, even when a single fee is charged, it is possible for the supplier to actually break down this fee against each component without such a breakdown being artificial. The transaction is usually viewed by the supplier as well as by the customer as made of multiple separate supplies which have all been specifically sought by the customer.

Example

An airline company provides international transport services and gives the option to the customers to buy an insurance covering the price of the ticket as well as any other risks or liabilities occurring during the holidays (e.g. medical, legal, cancellation, theft, etc.). Although the insurance is provided together with the purchase of the ticket, it will be considered as a separate supply which is optional (“add-on”) and upon which the supply of transport does not depend. In this scenario, the customer is deemed to receive two supplies from the supplier, one of transportation and one of insurance.

Where multiple supplies are performed for the benefit of a customer, the VAT treatment for each supply will need to be considered.

Where a single fee is charged, this fee will have to be split in order to allocate to each supply the relevant portion of the consideration and apply the relevant VAT treatment.

In the above example, the supply of transport will follow the VAT treatment applicable to the supply of international transport of passengers while the supply of insurance will follow the treatment applicable to insurance. The supplier will be required to separately identify separately the fee to be received for each supply.

Where the amount invoiced cannot be split and allocated to each separate supply, then the highest rate of VAT shall apply on all the supplies, irrespective of the fact that some supplies should, in principle, be exempt or subject to VAT at the 0% rate.

7. Person liable to pay VAT

7.1. Introduction

This section covers the principles to identify the person liable to pay Bahrain VAT due on a given transaction (output tax) to the NBT.

The person liable for output tax is the person responsible for accounting for the VAT due on a taxable transaction, reporting this VAT as output tax in its Tax return and paying it to the NBT.

7.2. Supplies of goods and services - General rule: Supplier is liable

Unless the special rule applies, the person liable for the Bahrain VAT applicable on a taxable supply of goods or services, including a deemed supply, is the supplier.

Also, any person who charges an amount of VAT on an invoice is liable to pay this VAT to the NBT, irrespective of whether this VAT was duly or unduly applicable.

7.3. Supplies of goods and services - Special rule: Customer is liable (Reverse-charge mechanism)

Under this special rule, the Bahrain VAT liability for certain taxable transactions is shifted from the supplier to the customer.

In such cases, the customer becomes the one liable to account for the VAT due on the supply as output tax and to report it in his tax return. This is called the reverse-charge mechanism.

There are cases where the reverse-charge mechanism is by default and cases where it is an option subject to the NBT's approval.

7.3.1. Reverse-charge mechanism for supplies made by non-resident suppliers

In Bahrain, the reverse-charge mechanism is applicable by default in the following circumstances:

- Supplies of services subject to VAT in Bahrain when purchased by a taxable person in Bahrain from a supplier who is not resident in Bahrain
- Supplies of goods subject to VAT in Bahrain when purchased by a taxable person in Bahrain from a supplier who is not resident in Bahrain

From a practical point of view, this reverse charge mechanism allows for a non-resident supplier to supply goods or services subject to VAT in Bahrain without being required to register for VAT in Bahrain.

Where a non-resident supplier supplies goods or services subject to VAT in Bahrain to customers who are not taxable persons, the reverse charge mechanism does not apply. In this case the supply falls within the general liability rule and the non-resident supplier will likely be required to register for VAT in Bahrain in order to charge Bahrain VAT on his supplies.

7.3.2. Reverse-charge mechanism for local supplies

The VAT legislation provides for a reverse charge mechanism to apply on certain domestic supplies. In order for it to apply, certain conditions must be met, an application must be made to the NBT and the NBT must approve this application.

Once the NBT approves the application, the supplier can apply the reverse-charge mechanism on the services and goods purchased from local suppliers which are specified in the approval, provided he can recover the related input tax in full.

The conditions to be met in order to be eligible to apply for the domestic reverse charge mechanism to apply on the receipt of certain goods and services are as follows:

- The applicant must be a taxable person
- The applicant must evidence that the total amount of his intra-GCC supplies and exports exceeds 50% of the total value of his supplies
- The applicant must provide reasonable grounds that he will be in a recurring net tax recoverable position and that this will have a material impact on his financial position

Where the application is approved, the NBT issues a certificate allowing the taxable person to apply the domestic reverse charge mechanism. The taxable person will need to give a copy of this certificate to his suppliers so that they do not charge VAT on supplies made to him.

The taxable person must notify the NBT within 30 days when he ceases to meet the conditions to benefit from the domestic reverse charge mechanism. The NBT will then revoke its approval.

This domestic reverse-charge mechanism allows taxable persons with significant supplies either subject to VAT at the rate of 0% or occurring outside the territorial scope of Bahrain VAT to mitigate the negative cash flow impact of the VAT incurred on their business expenses.

7.3.3. Reverse-charge mechanism and input tax recovery

Output tax due by a taxable person under the reverse-charge mechanism is also input tax for that taxable customer (i.e., it is VAT incurred on his business expenses). Therefore, the taxable person may also be able to claim this input tax in his Tax return (subject to the normal input tax recovery rules).

As a result, if the taxable person is entitled to full recovery of input tax, the reverse charge mechanism will lead to a full net-off cash position where the amount of output tax due under the reverse-charge mechanism can be fully netted against the same amount reported as recoverable input tax.

Example

A taxable person in Bahrain receives interior design services in relation to his offices in Bahrain from a non-resident supplier. As the services relate to a real estate located in Bahrain, their place of supply is in Bahrain (i.e. where the real estate is located). Under the VAT Law, such services are subject to VAT at the standard rate of 5%.

As the supplier is non-resident and the customer is a taxable person in Bahrain, the person liable for the VAT due on these services is the customer, under the reverse-charge mechanism.

The fee for the services is BHD 20,000. The customer will self-account for VAT at 5% (i.e. BHD 1,000), will record this amount on the invoice received from the supplier and will treat this VAT as output tax due.

If the customer can recover input tax in full:

The customer is using this expense for the making of taxable supplies and can therefore recover the VAT charged on it in full. The customer will therefore be able to treat BHD 1,000 as recoverable input tax.

The net amount of VAT due by the customer to the NBT for this specific supply is nil since the output VAT due is fully netted against the same amount as recoverable input tax.

If the customer can only partially recover input tax:

If the customer is only entitled to recover 50% of the VAT incurred on this business expenses (i.e. it uses the expense for performing both taxable and exempt supplies), he will only be able to recover BHD 500 as recoverable input tax (i.e. 50% of BHD 1,000).

The net amount of VAT due by the customer to the NBT on this supply will therefore amount to BHD 500 (i.e. BHD 1,000 output tax less BHD 500 recoverable input tax).

7.4. Import of goods - Importer is liable

The person liable to pay Bahrain VAT on importing goods is the importer of records for customs purposes.

8. Value of supply and tax due date

8.1. Introduction

Once you have identified that you must account for VAT at 5%, you now need to identify the amount on which VAT applies (i.e., the value of supply) and the date on which this VAT becomes due (i.e., the due date).

The VAT Law and Executive Regulations contain rules to determine the value of a supply and the tax due date. These are discussed below.

8.2. Value of supply

The value of supply is the amount on which the 5% rate of VAT is applied. The value of a supply is always considered exclusive of VAT (since VAT applies on top of it).

Any prices displayed in the local market are always deemed to be inclusive of VAT. For such prices, in order to calculate the VAT amount and the VAT exclusive value of the supply (where it is subject to the standard rate of 5%), the following formula should be applied:

- Value of supply: $\text{Displayed price} \div 1.05$
- VAT amount (at 5%): $\text{Displayed price} \div 21$

The only case where a displayed price can be considered as being exclusive of VAT is when it relates to an export of goods or an export of services and it is clearly stated that the price is exclusive of VAT.

The VAT Law and Executive Regulations provide the valuation rules to be followed when determining the value of a supply and the value of an import of goods for VAT purposes.

8.2.1. Supplies of goods and services

8.2.1.1. General valuation principles

Determination of the value

The value of a supply of goods or services corresponds to the total remuneration earned by the supplier for the supply he performed.

The value of the supply together with the VAT charged on it are called the “consideration” for the supply. The VAT Law defines “consideration” as

“All that is received or expected to be received by the taxable supplier from the customer or from a third party in exchange for from the Customer for the supply of Goods or Services, inclusive of Tax.”

Therefore, the consideration is usually understood as being inclusive of VAT. In this respect, prices publicly displayed are to be considered as VAT inclusive.

The value of supply for supplies of goods and services includes everything that the supplier receives from the customer or from a third party for the supply, whether in cash, in kind or both. The value of the remuneration received in kind (i.e., non-monetary) should be determined based on its fair market value which is discussed later in this section.

When computing the value of a supply, the supplier must include all the costs and expenses imposed on the customer, including any duties and/or taxes, but not VAT. This includes transportation and insurance costs, packaging delivery charges, administrative fee(s) and out of pocket expenses

Discount and reduction in the value

The value of the supply must be reduced by the following amounts, and VAT must be calculated after the value is reduced by them:

- Any discounts provided by the supplier where the discount is granted at the date of the supply
- Subsidies granted to the supplier by government bodies
- Disbursements paid by the supplier in the name and on behalf of the customer
- Any compensation or punitive amount paid to the supplier as a result of the customer's default
- Deposits which are refundable and are not considered as an advance payment for the supply

Where the discount is provided after the date of supply, the supplier should issue a tax credit note for the amount of the discount and the related amount of VAT.

Example

A local restaurant provides a meal to a customer for a value of BHD 5 (exclusive of VAT) with a service charge of 2% and a discount of 10% for loyal customer:

- *The value of the supply is BHD 4.6 (i.e. $5 + 0.1 - 0.5$)*
- *The VAT due is BHD 0.23 (i.e. $5\% \times 4.6$)*
- *The consideration for the supply (i.e. inclusive of VAT) is BHD 4.83*

Remuneration in kind - fair market value

If a supply is remunerated (in part or in full) by a non-cash component, the value of the non-monetary component is determined by reference to its fair market value.

The fair market value is the fair price tradeable in the market between two independent parties under similar circumstances at the same date as the date of the supply and in accordance with the following free competition conditions:

- Neither the supplier nor the customer is subject to any kind of commercial pressure

- Both the supplier and the customer independently work to achieve what is in their best interest
- The transaction is made within a reasonable period of time (i.e., no time pressure)

Where the fair market value cannot be assessed using the value of an identical supply in competitive conditions, the supplier may refer to the fair market value of a similar supply. In such conditions, a similar supply would be any other supply of goods or services where the characteristics such as quantity, quality, usage, components or delivery are the same, or closely resemble the supply.

Example 1

A coffee shop that is a taxable person in Bahrain launches a commercial campaign whereby customers can exchange one used book for a smoothie and a pastry. The book given by the customer is considered as remuneration in kind for the goods supplied by the coffee shop. The value of the coffee shop's supply of goods to the customer is the fair market value of the book received from the customer and VAT applies on this value.

Example 2

Company A supplies a computer to another taxable person, Company B. In exchange for this supply Company B gives a set of routers to Company A. Both Company A and Company B are taxable persons.

From a VAT point of view, this exchange of goods qualifies as a barter transaction which is considered as two distinct supplies. As neither of these two distinct supplies are made for cash consideration, but for payment in kind, the value of these two supplies has to be assessed based on the fair market value of the payment in kind received:

- *Company A's supply of computer is valued as the fair market value of the internet routers received from Company B*
- *Company B's supply of internet routers is valued as the fair market value of the computer received from Company A.*

If the market value amounts to 80 BHD for the internet routers and 100 BHD for the computer, Company A will have to account for VAT of BHD 4 on its supply of computer to Company B (i.e. 5% of 80 BHD) and Company B will have to account for VAT of BHD 5 on the supply of internet routers to Company A (i.e. 5% of 100 BHD). Each company will be required to report the respective taxable supply in its tax return.

Value in a foreign currency

When the value of a supply is expressed in a foreign currency, it must be converted into Bahraini Dinars using the relevant exchange rate at the tax due date as approved by the Central Bank of Bahrain. The VAT amount must be shown in Bahraini Dinars.

8.2.1.2. Specific valuation rules

Supplies subject to the reverse-charge mechanism

For supplies where the recipient is liable to pay the VAT due under the reverse-charge mechanism, the value of these supplies is the purchase price paid by the recipient to the supplier.

Where the purchase price cannot be determined, the value of the supply will be its fair market value on the date it is received. The fair market value in this instance is determined using the same criteria as for remuneration in kind explained above.

Supplies between related persons

The value of a supply of goods or services between related persons must be the fair market value where the following conditions are met:

- The value of the supply is less than its fair market value; and
- The recipient of the supply is not entitled to recover in full the VAT charged on his expenses.

Fair market value in this instance is determined using the same criteria as for remuneration in kind as discussed above.

The VAT Law defines related persons as:

“Two or more persons where one has the authority to direct and supervise the other Person(s), where he holds an administrative authority enabling him to influence the work of the other Person(s) from a financial, economic or organizational point of view.”

Example

A Bahrain bank receives IT services from its 100% owned Bahrain subsidiary which owns and operates the IT infrastructure used by the bank.

VAT due on this supply must be accounted on the fair market value of the services.

The NBT can request evidence that the VAT has been calculated based on the fair market value of the goods or services. If this is not provided with evidence within thirty days from the date of the request, or if the NBT finds that the value used is lower than the fair market value, the NBT can substitute the value used with the fair market value and calculate the VAT due on this basis.

Vouchers

See section 4.6 for information on the VAT treatment of vouchers.

The value for the supply of a voucher (i.e., where a voucher is issued or sold for a consideration higher than its face value) is the difference between the consideration received

by the issuer or seller of the voucher and the face value of the voucher. This difference (i.e., the mark-up) is considered to be inclusive of VAT.

Therefore, to segregate the value of the supply of the voucher from its attached amount of VAT (at 5%) the following formulae apply:

- Value of the supply: $\text{Mark-up} \div 1.05$
- Related amount of VAT (at 5%): $\text{Mark-up} \div 21$

The value of a single purpose voucher is the consideration received by the issuer or seller of the voucher, without exceeding the voucher's face value. As the consideration is considered inclusive of VAT, the following formulae applies in order to segregate the value of the single purpose voucher from its attached amount of (at 5%):

- Value of the supply: $\text{Consideration received (not exceeding face value)} \div 1.05$
- Related amount of VAT (at 5%): $\text{Consideration received (not exceeding face value)} \div 21$

The value of a multi-purpose voucher is the last consideration paid to acquire the voucher that is exchanged. When such consideration is not specified, the value of the voucher is its face value. As the consideration is considered inclusive of VAT the following formulae applies in order to segregate the value of the single purpose voucher from its attached amount of (at 5%):

- Value of the supply: $\text{Last consideration paid for the voucher or Face value} \div 1.05$
- Related amount of VAT (at 5%): $\text{Last consideration paid for the voucher (or Face value)} \div 21$

Supplies made under the profit margin scheme

For supplies of goods made under the profit margin scheme, VAT is due on the margin realized by the supplier. The margin is the difference between the selling price of the goods and their acquisition price. This margin is considered inclusive of VAT.

To segregate the value of a supply under the profit margin scheme the VAT amount (at 5%), you should apply the following formulae:

- Value of the supply: $\text{Margin} \div 1.05$
- Related amount of VAT (at 5%): $\text{Margin} \div 21$

Please see section 16 of this Guide for more details on the profit margin scheme.

Single composite supplies and multiple supplies

For a single composite supply (covered in section 6.7 of this Guide), the value of the supply is the value of the main supply together with the value of any ancillary supplies.

Where there are multiple supplies and the supplier cannot allocate a value to each supply, VAT is applicable on the total value of the supplies, indistinctly.

Value where the price is not fixed at the date of supply

For supplies of goods and services where the value of the supply is not certain at the date of the supply because of factors still unknown at that date based on the terms and conditions of the contract, the value of the supply must be based on the expected value of the supply.

An adjustment should be made once the value is ultimately finalized. This adjustment should be evidenced and recorded by the supplier issuing a tax debit or a tax credit note.

Example

A taxable person contracts with a third party for a supply of goods. They agree that the selling price of these goods (exclusive of VAT) will be fixed 90 days after their delivery, based on a specific market index.

The date of supply of these goods is the date when they are delivered to the purchaser. Therefore, VAT becomes due at that time on a value which is not fixed yet by the parties. The value of the supply for VAT will therefore be based on the expected value of the goods.

Once the final value is known (after 90 days) the supplier will be required to adjust the value initially used and to issue a tax credit note (where the final value is lower than the expected one) or a tax debit note (where the final value is higher than the expected one).

Deemed supplies

The value of a deemed supply of goods or services is determined as follows:

- Purchase price or, if not known, total actual cost incurred for the goods;
- Total actual cost incurred for the services (i.e., all the costs incurred by the taxable person so as to provide the services)
- Where none of the above is available, the fair market value of the goods or the services.

The same valuation rules apply where a taxable person transfers his own goods to an Implementing State from Bahrain, or vice versa, and this transfer is treated as a supply of goods.

Where a deemed supply of goods occurs as a result of a taxable person ceasing his economic activity, the value of the deemed supply is the fair market value of the goods held at the time of the taxable person's deregistration.

Example 1

A taxable person bought a watch for a price of BHD 630 (VAT inclusive) and recovered in full the related VAT (i.e. BHD 30). The taxable person presents this watch as a gift to a retiring employee. The gift is a deemed supply of goods and the taxable person is required to account for VAT on it. The value of the deemed supply corresponds to the purchase price of the watch, i.e. BHD 600. Therefore, the taxable person has to account for VAT on the BHD 600 (i.e. BHD 30), report this VAT in his tax return as output tax to pay it to the NBT.

Example 2

Where a taxable person repairs watches for free as an incentive to win future customers, it will be considered to be as providing a deemed supply of services. It should assess the value of the services based on their actual cost. Where it is not possible to determine the actual cost of the services, the amount of the deemed supply will be their fair market value. The taxable person supplier will be required to account for VAT on this value, report it in its tax return as output tax to pay it to the NBT.

8.2.1.3. Adjustment to the value of a supply and related output VAT

A taxable person should adjust the value of a supply, and therefore the related amount of output VAT, where there is a modification or material change in the nature of the supply which leads to an increase of the amount of VAT due.

A taxable person may adjust the value of a supply, and therefore the related amount of output VAT, when one of the following events occurs after the date of supply:

- The supply is cancelled or refused (in full or in part)
- The value of the supply is reduced (e.g., discount granted after the sale occurs)
- The goods are returned and the supplier accepts the return
- The payment of the consideration is not received (in full or in part) within 12 months of the date of the supply and the procedure for a bad debt relief has been followed (see section 15 for more information on relief for bad debts)

Where a taxable person adjusts the value of a supply and the related amount of VAT, he must issue a credit or debit note evidencing this. Please see section 9.9 on invoicing requirements.

A taxable person is also required to adjust any output VAT that was incorrectly charged on a supply.

8.2.2. Imports of goods

Value of imported of goods

The value of imported goods is the customs value as determined under the Customs Law. The following need to be added to the customs value in order to determine the value of the goods which is subject to VAT:

- Customs duties
- Excise tax

Value of goods re-imported after a temporary export

Where goods are re-imported into Bahrain after having been temporarily exported outside of the territory of the Implementing States for repair, completion of manufacturing or any other similar services, the value of the goods at re-import corresponds to the value added to the goods while they were temporarily exported, in accordance with the provisions of the Customs Law.

Example

A Bahrain based machinery is exported temporarily for repair in Europe. Upon re-importation of the machinery into Bahrain, import VAT will be applicable on the value added to the machinery while it was in Europe, in accordance with valuation under the Customs Law.

Adjustment in the value of goods imported

If, after the goods have been imported, the supplier of these goods grants a discount, such discount will not affect the value of the goods as initially used for computing the Bahrain VAT due at import, unless the customs value of these goods is itself adjusted because of such a discount. Where no adjustment of the customs value is triggered, the VAT liability of the importer will not be impacted and the importer should not make any adjustment to his tax return to reflect the discount.

8.3. Tax due date

The tax due date refers to the time when VAT becomes chargeable on a taxable transaction.

This is particularly important in order to determine the timeframe for charging VAT, issuing documentation such as tax invoices, tax credit notes and tax debit notes and, reporting in the relevant tax return and payment of VAT to the NBT.

The VAT Law and Executive Regulations set out the general rules in order to define the tax due date for supplies of goods and services as well as the special rules applicable to certain types of transactions. Imports of goods have their own tax due date rule.

8.3.1. Supplies of goods and services

8.3.1.1. General tax due date rules

The general tax due date rules applies for all supplies of goods and services unless they fall under a special rule.

For supplies of goods, the tax due date is the earlier of:

- The date of the supply of goods
- The issue of a tax invoice for that supply
- The receipt of a payment for that supply (to the extent of the amount received)

The date of the supply of the goods is:

- On the date where the transport starts, where the goods are supplied with transport and the transport is supervised by the supplier
- On the date the goods are put at the disposal of the customer, where the supply is without transport or with transport which is not supervised by the supplier
- On the date on which the installation or the assembly of the goods was completed, where the goods are supplied with installation and assembly

Example

A taxable person resident in Bahrain sells goods in Bahrain for BHD 1 Million (excluding VAT) to a customer in Bahrain. The customer paid BHD 100,000 as an advance payment on 1 March. The goods were delivered on 15 March and a tax invoice was issued on 28 March. The customer is obliged to pay this invoice within 30 days.

Here, there are two tax due dates for this supply:

- 1. The advance payment received on 1 March: VAT becomes due on the advance payment of BHD 100,000;*
- 2. The delivery of the goods to the customer on 15 March: VAT becomes due on the amount remaining to be paid (i.e. BHD 900,000).*

Precisions with regards some specific supplies of goods:

- Supplies of goods with payment by instalment generally follow the general tax due date rules explained above.
- For goods deposited with another Person to sell them, i.e., where the supplier (consignor) deposits goods with another person (consignee) for that person to sell them: the date of the supply of the goods by the consignor to the consignee is the date of the supply of the goods by the consignee to his customers.

Example

A phone manufacturer sends phones to a telecommunication provider on a consignment basis on 3 August. The phones are stored by the consignee for six months and will be returned to the consignor if not sold by the end of that period. On 5 September, the telecommunication provider sells 50 phones to its customers. The date of the supply of the phones between the phone manufacturer and the telecommunication provider is on 5 September, for the 50 phones.

For supplies of services, the tax due date for this supply is the earlier of:

- The date of the supply of the services
- The issue of a tax invoice for that supply
- The receipt of a payment for that supply (to the extent of the amount received)

The date of the supply of the services is the date on which the services are considered as completed, for example:

- When the agreed work is completed; or
- When the customer receives and explicitly approves the service; or
- When the customer issues a certificate of completion.

Where a customer subsequently requests a secondary or additional service, this will be considered as a new supply which will not affect the date of supply of the primary service.

Example

A taxable person in Bahrain provides an alteration service to a customer located in Bahrain. The services are finished on 28 February. On that same day the customer comes, checks and picks up the goods and also pays for the services supplied. Here, the tax due date for the supply of the alteration services is the date of supply of the services, i.e. 28 February.

Two weeks later, the customer asks the taxable person to change the alteration work originally carried out. This request does not impact the tax due date for the supply of the initial alteration work already completed.

8.3.1.2. Special tax due date rules

In certain cases, supplies of goods and services follow special tax due date rules. These special cases and their relevant rules are listed below:

Table 12: Special tax due date rules

Supply	Special rule	Example
Continuous supply involving periodic payments or consecutive invoices	<p>Tax due date is the earlier of:</p> <ul style="list-style-type: none"> • Date of issue of tax invoice (to the extent of the amount invoiced) • Due date for payment as specified on the tax invoice (to the extent of the payment due) • Date of receipt of the payment (to the extent of the amount received) <p>When none of the above occurs within 12 months of the start of the supply, a tax due date will be triggered at the end of this 12-month period and at the end of any subsequent 12-month periods if none of the above occur in the meantime.</p>	<p>On 5 April, a customer enters into a contract for the provision of water and electricity for his house, with a monthly direct debit on the 15th of each month.</p> <p>A tax due date will be triggered every 15th of each month to the extent of the amount actually paid, unless a tax invoice is issued before that day.</p>

Supply	Special rule	Example
Supply of goods deposited, and supply of goods pledged as collateral	<p>Tax due date is the earlier of:</p> <ul style="list-style-type: none"> • The bailee or creditor selling the goods • The bailee or creditor deducting a cash amount deposited as a bond in order to definitively acquire the Goods 	<p>In January 2019, Company A (bailor) pledges a property in order to be granted a loan with Company B (bailee), a VAT registered company.</p> <p>If Company A defaults and Company B seizes and sells the property, a tax due date will be triggered at the time Company B sells the property.</p>
Supply of goods provided on a trial basis	<p>Tax due date is the earlier of:</p> <ul style="list-style-type: none"> • The buyer accepting the goods on a definitive basis • The date of issuance of an invoice 	<p>A company sells innovative kitchen appliances. It usually places the goods with prospective customers for a given trial period of 30 days and, at the end of this period, the customers can either keep the goods or return them.</p> <p>The general terms and conditions applicable to the trial clearly state that if the goods are not returned at the expiry of the trial period, the customers are considered as having accepted the goods on a definitive basis.</p> <p>One of the customers did not return the goods at the expiry of the 30-day trial period. The company issues an invoice the day after.</p> <p>The tax due date is triggered on the day the trial period ends, as the customer is viewed as</p>

Supply	Special rule	Example
		having accepted the kitchen appliance on a definitive basis.
<p>Operating lease</p> <p>(Contract whereby the lessee benefits from the use of an asset for a specified period of time where, at the end of the lease period, the asset is returned to the lessor and the lessee does not bear any risk related to the ownership of the asset)</p>	<p>Tax due date is the earlier of:</p> <ul style="list-style-type: none"> • The due date of each instalment under the contract • The date an instalment is paid 	<p>A taxable supplier leases a car to a company. The leasing contract signed on 15 September contains quarterly billing with a first payment due on 1 October, and subsequent payments due on 1 January, 1 April and 1 July, each of them for a value equal to three months' rent.</p> <p>The tax due dates are respectively 1 October, 1 January, 1 April and 1 July, unless a payment is received beforehand where the tax due date would be the date the payment is received.</p>
<p>Finance lease</p> <p>(Contract for the lease of an asset under which the lessor transfers substantially all the risks and rewards relating to the ownership the asset to the lessee).</p>	<p>Tax due date is the date of the supply of the goods</p> <p>(Where the contract contains a purchase option exercisable at the end of the contract, VAT becomes due on the purchase value of the goods on that tax due date)</p>	<p>A bank finances the acquisition of a drilling machine under a hire-purchase agreement. The machine is delivered to the customer on 1 February 2019 with instalments to be collected every month until July 2020.</p> <p>The tax due date for the supply of the drilling machine by the bank to its customer is on 1 February 2019, i.e., the day it is put at</p>

Supply	Special rule	Example
		the disposal of the customer (for the purchase value of the machine).
Supply of goods with a right of refund	Tax due date is the date of the supply of the goods.	<p>A taxable person sells goods to a customer on 9 May 2019. These goods can be returned and refunded as per the conditions of the contract.</p> <p>The tax due date is 9 May, when the goods were put at the disposal of the customer.</p>
Supply of goods through a vending machine	Tax due date is the date where the amount stored in the vending machine is collected.	<p>A company sells water bottles through a vending machine. The machine is filled with bottles on 2 March 2019. Between 2 March and 15 March, 32 bottles are sold. On 15 March, an employee comes to collect the money stored in the vending machine.</p> <p>The tax due date for the 32 water bottles is on 15th of March.</p>
Compulsory supply of goods	Tax due date is the date of supply of the goods.	<p>On 8 June, the Authorities notify a taxable person of the decision to buy part of that taxable person's assets. The assets must be disposed of by 8 August. The taxable person sells the assets on 2 August. The tax due date is on 2 August.</p>

Supply	Special rule	Example
<p>Supply of a voucher</p> <p>(i.e., where a voucher is issued or sold for a consideration higher than its face value)</p>	<p>Tax due date for the supply of the voucher is the date of issue of the voucher.</p> <p>If it is subsequently sold, the tax due date for that sale is the date of that subsequent sale.</p>	<p>A company is in possession of a voucher with a BHD 55 face value. The company sells this voucher to a third party at a price of BHD 60.</p> <p>The mark-up of BHD 5 charged by the seller of the voucher (i.e., BHD 60 - BHD 55) is the consideration for the sale of the voucher.</p> <p>The tax due date for the sale of the voucher is the date of its supply by the company.</p>
<p>Single purpose voucher (SPV)</p>	<p>Tax due date is the date of issue of the SPV.</p> <p>If it is sold onwards, the tax due date for that sale is the date of that subsequent sale.</p>	<p>A customer purchases a voucher for internet data (for local use only) on 14 July 2019 and exchanges the voucher on 4 August.</p> <p>The tax due date for the supply of the SPV is 14 July, the day the voucher was purchased by the customer.</p> <p>No tax event happens at the time the customer exchanges the SPV against the services as the tax event occurred earlier (i.e., at the time the customer acquired the SPV).</p>
<p>Multi purposes voucher (MPV)</p>	<p>Tax due date is the date on which the MPV is exchanged for the goods or the services.</p>	<p>On 20 June 2019, a customer purchases a gift card which qualifies as a MPV (i.e., it can be used to buy electronics as well as</p>

Supply	Special rule	Example
		<p>food items).</p> <p>A few weeks later, on 10 July 2019, the gift card is used to buy a certain number of items.</p> <p>The tax due date for the supply of the MPV is on 10 July 2019, i.e., the date of exchange of the voucher against the goods.</p> <p>No tax event occurs at the time the customer purchases the MPV.</p>
Deemed supply	<p>Tax due date is:</p> <ul style="list-style-type: none"> • For goods or services provided for no consideration: where the goods are made available to the third party or where the services have been completed • For goods the taxable person retains upon deregistration: the effective date of deregistration • For transfer of the taxable person's own goods from Bahrain to another Implementing State or vice versa: date of start of the transfer • For the change in the use of a good: date where the change occurred. 	Where a company offers awards and gifts to its employees (above the low value gifts threshold), the tax due date will be the date on which the goods are given to the employees.

What is a continuous supply?

A supply is generally considered as continuous when it is provided on a continuous or recurrent basis for a period of time and under terms that provide for the consideration to be determined and/or payable periodically or from time to time.

Continuous supplies are typically supplies which cannot be considered as “finished” or “completed” until such a time that either the contract ends (if the contract is agreed for a specific duration) or one of the parties decides to terminate it (if the contracts is open ended).

Examples of continuous supplies include:

- Membership of a club
- Subscription to a newspaper
- Management services
- Insurance services
- Ongoing/retainer for professional services
- Phone and internet plan
- Water and electricity contract (as utilities for consumption purposes)
- Recurring delivery of goods under a specific contract (e.g., six-month contract for the weekly delivery of stationery, payable on a monthly basis)

The supply of a specifically agreed project (e.g., a one-off supply such as the delivery of a specific study report or the construction of a specific good) is not, in principle, a continuous supply even if the completion of this project may take a certain amount of time. It therefore follows the general tax due date rules. However, if the project is subject to staged or periodic payments (e.g., milestone payment per stage of completion) agreed between the parties, the one-off project will be considered as a continuous supply and will therefore follow the tax due date rules applicable to continuous supplies.

An example of such projects is an Engineering Procuring Contract (EPC) for the construction of a plant, which envisages completion by phases with milestone payments.

A good supplied with a payment of its price by instalments (with or without an additional financing charge), does not qualify as a continuous supply. This supply is subject to the general tax due date rules. If a financing element is attached to the sale (e.g., credit sale), this financing component will qualify as a continuous supply of services.

8.3.2. Imports of goods

The tax due date for imports of goods is the date on which customs duties on these goods are due in accordance with the Customs Law (or on the day where they would due where none apply).

Customs duties are due:

- When a good enters the territory of the Implementing States and is imported; or
- When a good is released from a customs duty suspension arrangement, if it was placed under one of these arrangements upon its entry in the territory of the Implementing States.

8.4. Payment of tax due

Once you have identified that VAT is due on your supply of goods or services or on your import of goods, you have to make sure that you pay this VAT to the NBT in accordance with the relevant payment procedure.

8.4.1. Payment of output tax due on supplies of goods and services

The payment of output tax to the NBT is made through filing periodic tax returns.

The person liable to pay the VAT applicable on a taxable supply of goods or services or on a deemed supply (see section 7 which deals with the person liable for output tax in Bahrain) is required to declare and pay this output tax to the NBT by reporting it in the tax return covering the tax period during which the supply occurred, in accordance with the relevant date of supply rules.

Any adjustment in the value of a supply and related amount of output tax should also be reported in the tax return covering the tax period during which the adjustment took place.

The declaration and payment requirements above apply to:

- Any taxable person liable to charge Bahrain VAT on his supplies of goods or services;
- Any taxable person making deemed supplies of goods and services in Bahrain;
- Any taxable person purchasing goods or services subject to Bahrain VAT and liable to account for that VAT under the reverse-charge mechanism.

8.4.2. Payment of tax due on imports of goods

General rule

VAT due on imports of goods is payable by the importer of record to Bahrain Customs at the point of import before they are released for general circulation. Bahrain Customs Affairs will collect the VAT using the same procedures for payment of customs duties and Excise Tax.

Agents acting on behalf of a non-registered person

When an agent who is registered for VAT in Bahrain, imports goods on behalf of a person who is not registered for VAT in Bahrain, that agent is obliged to pay the VAT due on the import prior to the release of the goods.

The agent is not entitled to claim the recovery of that import VAT in his tax return. Instead, that agent should seek a refund of that VAT directly from his client.

Payment of import VAT by a person registered for VAT in Bahrain

The taxable person registered for VAT in Bahrain can claim the VAT paid on his imports of goods provided the conditions for input tax recovery as provided by the VAT Law and the Executive Regulations are all met (please see section 10 for further detail).

In practice, import VAT can be recovered as “input tax” in the taxable person’s tax return for the tax period during which all the conditions for input tax recovery are met. It is expected to be the tax return for the tax period during which the import of the goods took place and import VAT was paid to the Bahrain Customs Affairs.

Deferral of import VAT for importers that are taxable persons in Bahrain

The payment of import VAT by an importer who is a taxable person in Bahrain may be deferred to the submission of the importer’s next tax return. The taxable person who wants to use the deferral must seek authorization from the.

The NBT may allow the deferral of payment of VAT on import if the following conditions are met:

- The importer is registered for VAT purposes in Bahrain
- The importer is bound by Customs Affairs records at the Ministry of Interior
- The importer undertakes:
 - To maintain, and submit upon request, records and documents enabling the NBT to verify the import procedures and the correctness of the calculation of the VAT due
 - To cooperate and comply with any requests made by the NBT in relation to imports
 - To declare the VAT due on the tax return for the tax period during which the import occurred

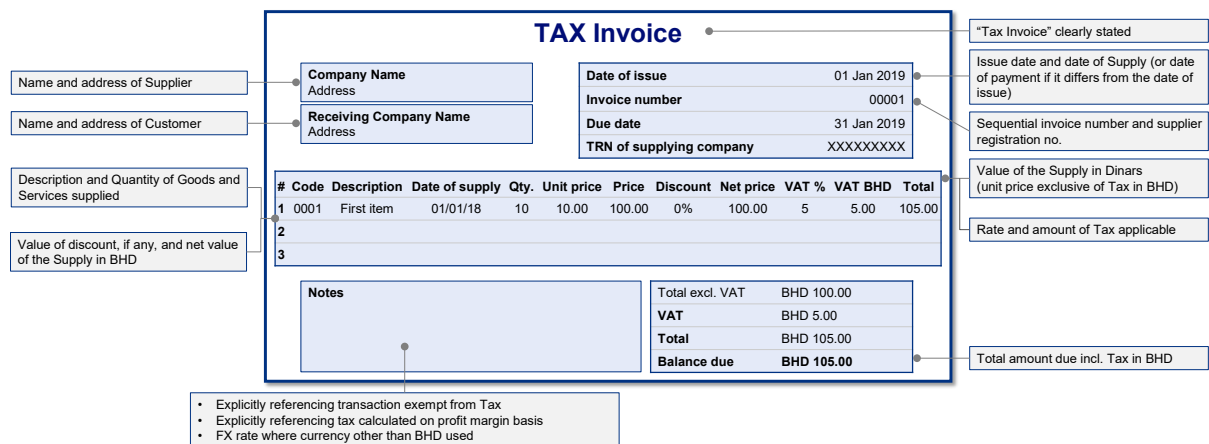
Where the importer has received authorization to defer import VAT, he must provide his VAT Account Number (also referred to as Tax Registration Number (TRN)) to the Bahrain Customs Affairs in order for the goods to be released.

The importer taxable person is required to account for the VAT due on his imports of goods (as output tax). He may also be eligible to recover this VAT as input tax (subject to the normal input tax recovery rules). In this case he will be able to also report this VAT as recoverable input tax within the same tax return (provided all the conditions for recovery are met at that time, including the customs documentation supporting the deferral of payment).

9. Tax invoices

If you are a taxable person making supplies of goods or services in Bahrain, you will be required to issue tax invoices and, depending on the circumstances, other documents. The purpose of this section is to highlight the obligation of a taxable person to issue this documentation together with the requirements that these documents must meet.

Figure 5: Tax Invoice example (illustrative)



9.1. Principles

9.1.1. Who must issue a tax invoice?

A taxable person must issue tax invoices in respect of the supplies of goods and services made by him in Bahrain, whether these supplies are made to resident persons or to non-resident persons. Furthermore, a tax invoice must be issued by a taxable person when making a deemed supply of goods and services. A tax invoice must be delivered to the customer.

A tax invoice may be issued in an electronic form or paper form (subject to specific conditions and approval from the NBT).

Where a tax invoice is damaged or lost, the supplier may issue another identical invoice setting out clearly that the replacement invoice was issued as a substitute to the original tax invoice. Any copy of an original tax invoice must clearly be marked with "Duplicate of original".

9.1.2. When to issue a tax invoice?

A tax invoice must be issued at the latest by the 15th day of the month following the month during which a tax due date was triggered. Any delay in the issue of a tax invoice is subject to penalties.

9.1.3. Simplified tax invoice

Generally, a tax invoice needs to contain detailed information relating to the supplier, the customer and the supply, as described below. However, a taxable person may issue a simplified tax invoice (which requires less detailed information) in either of the following two situations:

- Where the supply is provided to a person who is not registered for VAT in Bahrain; or
- Where the consideration of the supply does not exceed BHD 500 (inclusive of VAT).

9.2. Requirements for a tax invoice and simplified tax invoice

The list of information to be included on a tax invoice for it to be considered compliant with the VAT legislation depends on whether the tax invoice is a full tax invoice or a simplified tax invoice. The table below provides the list of requirements for both a tax invoice and a simplified tax invoice.

Table 13: Information to be included in the tax invoice

Description	Full tax invoice	Simplified tax invoice
The label "Tax Invoice"	✓	✗
The name of the Supplier	✓	✓
The address of the Supplier	✓	✓
VAT Account Number (also referred to as Tax Registration Number (TRN)) of the Supplier	✓	✓
The name of the Customer	✓	✗
The address of the Customer	✓	✗
A Sequential Tax Invoice number	✓	✗
The date of issue of the Tax Invoice	✓	✓

Description	Full tax invoice	Simplified tax invoice
The date of the supply or the date of payment, if different from the date of issue of the Tax Invoice	✓	✗
A description of the supply provided	✓	✓
Quantity of the goods provided	✓	✗
The value of the supply and unit price in Bahraini Dinars (exclusive of VAT)	✓	✗
The value of discounts, if any, and the net value in Bahraini Dinars (exclusive of VAT)	✓	✗
The VAT rate and amount of VAT due in Bahraini Dinar (per line item where the VAT rate is different per line item)	✓	✓
The total amount due, inclusive of VAT, in Bahraini Dinar	✓	✓
The exchange rate applied when a foreign currency is used	✓	✗
Where a transaction is exempt from VAT, it should be clearly stated	✓	✗
Where the profit margin scheme is used, a reference that VAT has been charged based on the profit margin mechanism	✓	✓

9.3. Bank statements

A bank statement issued by a bank can be treated as a valid tax invoice when it contains the following information:

- The name, address and TRN¹¹ of the bank
- The name and address of the customer
- The date of issue of the bank statement
- The VAT rate applicable for each supply

¹¹ VAT Account Number (also referred to as Tax Registration Number (TRN))

- The amount of VAT due for each supply

Bank statements treated as tax invoices have to be issued within the deadline for tax invoices, i.e., by the 15th day of the month following the month during which a tax due date was triggered.

9.4. Summarized tax invoice

Where a taxable person makes several supplies to the same customer over a period of time not exceeding one month, he may issue a summarized tax invoice. The summarized tax invoice will be treated as a valid tax invoice provided that all the requirements of a tax invoice are met.

9.5. Self-issued tax invoice

In certain cases, the issue of a tax invoice by a taxable supplier may not be practical. In such cases, the taxable customer may issue a tax invoice on behalf of his taxable supplier subject to all of the following conditions being met:

- There is an agreement in writing between both parties allowing the issue of tax invoices by the customer
- The supplier undertakes not to issue any tax invoice when a transaction is subject to self-invoicing
- There is a mechanism whereby the supplier is able to approve every tax invoice issued by the customer on his behalf
- The tax invoice clearly states that it is issued by the customer on behalf of the supplier
- The customer retains a copy of every tax invoice issued on behalf of the supplier
- The invoice issued by the customer on behalf of the supplier meets all the conditions to qualify as a Tax Invoice

Where self-invoicing is used, the taxable supplier remains responsible for the tax invoice issued by the taxable customer.

9.6. Invoices for supplies subject to the reverse-charge mechanism

A taxable person liable to pay Bahrain VAT under the reverse-charge mechanism on a given supply must record the VAT amount due, in Bahraini Dinars, on the invoice issued to him by the supplier. The VAT amount can be written in pen.

9.7. Intra-Tax Group transactions

Transactions between members of the same tax group are disregarded for VAT purposes. Accordingly, there is no requirement to issue tax invoices for these transactions.

9.8. Supplementary information

9.8.1. Invoices issued in foreign currency

Where a tax invoice is issued in a foreign currency, the taxable person must convert the amounts stated on the tax invoice to Bahraini Dinars. The exchange rate approved by the Central Bank of Bahrain as at the tax due date must be used.

As part of the transitional measures, if the exchange rate approved by the Central Bank of Bahrain is not available, a reliable source of foreign exchange rates should be used. The Taxable Persons should use the same source consistently until the exchange rates approved by the Central Bank of Bahrain are available.

9.8.2. Rounding rules

Where the VAT amount due on a tax invoice is a fraction of a Fils of Bahraini Dinar, the value may be rounded to the nearest Fils, based on mathematical rounding rules.

Example

A company makes a taxable supply of BHD 45.67, subject to VAT at the standard rate. The VAT due amounts to BHD 2.284. The company may round the VAT amount to BHD 2.285

9.9. Adjusting a tax invoice

A tax invoice that has been issued may need to be revised due to changes in the value of the supply. Where the VAT due on the tax invoice is overstated or understated and needs to be amended, the taxable person must make adjustment by issuing a credit note or debit note depending on the circumstances.

The taxable person needs to maintain adequate records to support these transactions in the event of any future audits by the NBT.

9.9.1. Issue of a debit note

Where a change in a taxable supply leads to an increase in output tax, a debit note must be issued. This may arise where the value of the original supply is amended to a higher value.

A debit note must be issued no later than by the 15th day of the month following the month during which the adjustment was done.

9.9.2. Issue of a credit note

Where a change in a taxable supply leads to a reduction of output tax, a tax credit note must be issued. This may arise where:

- The supply is either returned, cancelled or rejected;

- The original value of the supply is amended (e.g., post-sale discount is provided to the customer because of high quantity purchased over the year, etc.)
- The supplier adjusted the output tax under the bad debt relief provisions.

Example

A company, VAT registered in Bahrain, supplies 100 books for a total value of BHD 500 to a customer located in Bahrain. The supply is subject to VAT at the standard rate, i.e. BHD 25.

After delivery, the customer decides to return 20 books to the supplier. The supplier adjusts the value of the supply and reduces it by BHD 100. The amount of output tax related to this reduction is adjusted, i.e. BHD 5. The supplier will thus issue a credit note in respect of the 20 books returned, i.e. for a value adjustment of BHD 100 and a VAT adjustment of BHD 5.

A credit note must be issued no later than by the 15th of the month following the month during which the adjustment was done.

9.9.3. Requirements for debit and credit notes

Tax debit and credit notes should contain the following:

- The label “Credit Note” or “Debit Note”, clearly displayed on the document
- The name, address and TRN¹² of the supplier
- The name and address of the customer
- The date of issue of the debit note or credit note
- The sequential number of the credit note or debit note
- The sequential number of the original tax invoice which is being adjusted
- The adjusted value of the supply and the adjusted amount of VAT in Bahraini Dinars

¹² VAT Account Number (also referred to as Tax Registration Number (TRN))

10. Input tax recovery

10.1. Introduction

The purpose of this section is to allow you, as a taxable person, to understand the conditions you must meet in order to be able to recover input tax incurred on your purchases and expenses. This section also covers the various input tax recovery adjustment requirements, including adjustments under the capital assets scheme.

10.2. General principles applicable for input tax recovery

As a general principle, VAT charged on expenses is recoverable based on the use of these expenses:

- VAT charged on expenses used for the purposes of an activity that is not an economic activity as defined for VAT purposes cannot be recovered
- VAT charged on expenses incurred for the purposes of an economic activity can be recovered (in whole or in part) to the extent these expenses are used (in whole or in part) for making taxable supplies (i.e., supplies taxable at 5% or 0%)

The recovery of input tax is subject to conditions that must be met before you may recover this VAT in your VAT return.

10.3. Conditions for input tax recovery

In order to be able to recover the VAT charged on your expenses, you must meet all the following conditions:

- You are a taxable person
- The expenses on which VAT is charged were incurred for the purpose of your economic activity
- The recovery of input tax on the expenses is not specifically disallowed by the VAT Law (covered in section 10.5.2 of this Guide)
- These expenses are used for making taxable supplies (i.e., supplies which are not exempt from VAT)
- You have the supporting original tax invoices which comply with the requirements of the Law (see section 9 of this Guide for further detail) or the relevant import documentation
- You claim input tax within the time limit set by the VAT Law, i.e., five years (see section 10.4 of this Guide for further detail)

10.4. Timing for input tax recovery

Input tax on an expense becomes recoverable when VAT becomes chargeable on the supply, i.e., on the tax due date. However, input tax can only be recovered (via the filing of a tax return) when all the conditions for recovery are met. This includes being in possession of an original tax invoice or import documents.

As a result, the recovery position for your input tax on a given expense is the recovery position existing in the tax period (and related annual adjustment where required) where the VAT on this expense became chargeable and payable to the NBT (please consult section 8.3 of this Guide for further detail).

This is the case even if you can only formally claim that input tax in the VAT return for a later tax period (when for instance you were not in possession of a valid tax invoice on time to claim it in the VAT return for the tax period where VAT became chargeable on the supply).

Where you did not recover the input tax in the relevant tax period, you are still entitled to claim it within five years from the end of the calendar year where that input tax became recoverable, provided all the conditions to recover that input tax are met.

Example

A bank incurs VAT on a business purchase during a tax period where its input tax recovery ratio was 67% (i.e. due to its partially exempt activities the bank is only entitled to recover 67% of the input VAT on this expense). However, it does not receive a compliant tax invoice for this purchase until one year later, when its input tax recovery ratio is 85% (i.e. at the time it receives the invoice the bank can recover 85% of the input tax on its expenses). The bank can only ask for the recovery of the input tax on this purchase at the time it receives the compliant tax invoice but it should use the 67% recovery rate (which corresponds to the recovery ratio at the time that input VAT became recoverable).

10.5. Methodology to compute the recovery of input tax

The methodology to apply and the rules to follow in order to recover the correct amount of input tax on your expenses is described below.

10.5.1. Identification of expenses used for economic activity vs non-economic activity

Only VAT charged on expenses used for the purpose of an economic activity is considered as input tax and can be included in the input tax recovery computation.

As a result, if you incur expenses used only for the purpose of your non-economic activity (e.g., you hold shares as a passive investment and you incur specific costs for the purpose of this passive shareholding activity), these expenses must be excluded from the recovery computation and the VAT charged on them cannot be recovered.

If you incur expenses which relate to both your economic and your non-economic activities, you are required to apportion these expenses between their economic use and their non-economic use, using an allocation that reflects their fair use. Only the VAT on the portion of the expenses allocated to your economic activity will be regarded as input tax and can be included in your recovery computation.

10.5.2. Input tax disallowed by law

Once you have identified the expenses used for your economic activity, you need to identify, whether the input tax on these expenses is disallowed under the VAT Law and the Executive Regulations.

Input tax recovery is always disallowed when it relates to goods which are illegal to trade in Bahrain.

The VAT Law also lists certain expenses for which input tax can never be recovered. The reason for disallowing VAT on these expenses is generally because these, even if incurred for genuine business purposes, have a significant “private use” element attached to them. Therefore, allowing recovery of input tax on these expenses may lead to final consumption free of VAT.

Table 14: Expenses for which input tax is disallowed by Law

Expenses for which input VAT recovery is blocked	Examples
Input tax paid on entertainment expenses incurred for staff and non-staff members	Accommodation, hospitality, food and drinks when not provided within the course of a meeting or as normal refreshments (for example, tea, coffee, etc.)
Input tax paid for accessing events or functions, and for trips for recreational purposes	Concerts, shows, social dinners or outings, team building events and activities when not provided as part of a business meeting
Input tax paid on goods and services to be used by employees for free for personal use, except when these are required by labor law or other laws in Bahrain.	<p>Providing goods or services for free to employees for them to also use in their private capacity (e.g., mobile phones which can be used for business and private calls, gym subscriptions paid by the employer as part of salary package, etc.)</p> <p>Any goods or services for free to employees for their dependents, unless this is required by Law in Bahrain</p>

Expenses for which input VAT recovery is blocked	Examples
<p>Input tax paid on vehicles provided to employees and on related services (maintenance, repair, insurance) to the extent of non-business use of the vehicles and related expenses.</p> <p>The conditions on how to compute the business versus non-business use will be contained in a decision to be issued by the NBT</p> <p>There is no input tax restriction on vehicles and related expenses when the vehicles are for civil defense purposes (i.e., ambulance, fire, police vehicles) or are the taxable person's business tools (e.g., fleet vehicles owned by car rental business, taxis and buses licensed with the Ministry of Transportation and Telecommunications, buses, trucks, cranes or other specific vehicles used for economic activities).</p>	<ul style="list-style-type: none"> • Purchase or leasing of cars put at the disposal of employees or executives for both business and private use • Repair, maintenance and insurance expenses for these cars <p>The taxable person must identify the non-business use portion on all these expenses and is not permitted to recover the VAT related to this portion.</p>

If input tax on these expenses can be recovered anyway, you would be required to recognize a deemed supply for each of these expenses, resulting in an obligation to pay to the NBT 5% VAT on the value of these supplies (see section 4.4 on deemed supplies and section 8.2 on the value of deemed supplies).

10.5.3. Direct attribution of expenses to taxable and exempt supplies

Once you have excluded expenses on which you cannot recover input tax under the provisions of the VAT Law, you should identify the expenses which are directly and exclusively used for (or directly attributable to) making either taxable supplies or exempt supplies.

- Input tax on expenses used directly and exclusively for the purpose of making taxable supplies can be recovered VAT in full
- Input tax on expenses used directly and exclusively for the purpose of making exempt supplies cannot be recovered

For the purposes of direct attribution "taxable supplies" include the following:

- Taxable supplies in Bahrain at the VAT rate of 5% or 0%

- Intra-GCC supplies
- Out-of-territorial scope supplies which would be taxable supplies if made in Bahrain (e.g., you held a conference in Spain for which you charged an entry fee)

For the purpose of the direct attribution “exempt supplies” include the following:

- Exempt supplies in Bahrain
- Out-of-territorial scope supplies which would be exempt supplies if made in Bahrain (e.g., you receive rent for a residential property in London)

Based on the above, where your economic activity is fully taxable, you should be in a position to recover in full the input tax charged on your expenses (other than those specifically disallowed, see section 10.5.2).

If your economic activity is fully exempt, you will not be in a position to recover input tax charged on your expenses.

10.6. Apportionment of input tax on residual expenses

Some taxable persons have an economic activity which is partly taxable and partly exempt (e.g., banks). These persons are referred to as carrying on “partially exempt businesses”. It is expected that some expenses incurred by such persons cannot be directly and exclusively attributed to either their taxable supplies or their exempt supplies. Such expenses are usually called “residual expenses”. To determine the amount of input tax which can be recovered on these residual expenses, an apportionment will be necessary.

The standard method of apportionment is set out in the Executive Regulations and is the method applicable by default to any partially exempt persons. The VAT Law and Executive Regulations also allow the use of special methods of apportionment provided prior approval for their use is obtained from the NBT.

10.6.1. Standard apportionment method

In order to determine the amount of input tax on residual expenses that can be recovered during a tax period, you should apply an apportionment formula which provides the percentage of input tax on residual expenses you can claim. The formula is an allocation between the taxable supplies (sales) and the exempt supplies (sales) of the taxable person for that tax period and is as follows:

$P = A \div (A+B)$ where **P** is the percentage of input tax on residual expenses you can claim. **P** should be rounded up to the nearest decimal number.

The total value of supplies, made during the tax period, that allow input tax recovery including:

- A.** Taxable supplies in Bahrain at the VAT rate of 5% or 0%;
- Intra-GCC supplies;

- Out-of-territorial scope supplies which would be taxable supplies if made in Bahrain.
- B.** The total value of supplies, made during the tax period that do not allow input tax recovery. This includes:
- Exempt supplies in Bahrain; and
 - Out-of-territorial scope supplies which would be exempt supplies if made in Bahrain.

The following should not be included when computing the input tax recovery percentage:

- (a) The value of supplies of capital assets used for carrying out the economic activity. Including these supplies may distort the ratio as these are “exceptional” supplies and are not part of the core daily activity of the taxable person
- (b) The value of supplies which are incidental and do not constitute the core activity of the taxable person. Again, including these supplies may distort the ratio as these are “exceptional” supplies and are not part of the core daily activity of the taxable person

Example

A taxable person whose activity is selling furniture grants a bridging loan to a group company that needs cash at short notice. It earns interest income on this loan. The interest income is exempt from VAT, but should not be included in the value of supplies in computing the input tax recovery percentage as it is an incidental supply.

- (c) The value of supplies made by an establishment of the taxable person located outside Bahrain
- (d) Transactions that do not qualify as supplies for the purposes of VAT (i.e., outside the scope of VAT). These transactions do not fall within the scope of VAT and must not be taken into account to compute the ratio relevant for the apportionment between taxable supplies and VAT exempt supplies

Transactions outside the scope of VAT include dividends, accounting adjustments, receipt of indemnity payments and donations (where they are not received in exchange for a specific service or benefit like sponsoring).

10.6.2. Special apportionment methods

Alternative apportionment methods may be accepted by the NBT if the taxable person is able to support that the standard apportionment method is impractical, or if the percentage resulting from this standard method does not represent, in a fair and reasonable, way the apportionment between his taxable and VAT exempt activities.

Special apportionment methods can be based on factors relevant to the business such as headcounts (e.g., number of staff working on taxable activities compared to the number of staff working on exempt activities) and transaction counts (number of taxable and exempt supplies, rather than their values).

A taxable person wishing to use a special apportionment method should make an application to the NBT. Until the NBT provides its approval, the taxable person must continue to apply the standard apportionment method.

If the NBT approves a special apportionment method, it will also confirm the effective date for using it and, if relevant, the time limit and conditions associated with its use. If the alternative special method is rejected by the NBT, the taxable person must continue to apply the standard apportionment method.

The NBT may also direct a taxable person to use a special apportionment method where the standard method does not provide a fair and reasonable reflection of the taxable person's economic activity.

10.6.3. Annual adjustment of the apportionment ratio

The apportionment ratio has to be computed by tax period, using the actual values of supplies during that tax period.

At the end of its tax year, the taxable person must conduct an annual adjustment of the input tax recovered throughout the tax year. This is needed to ensure that input tax has been recovered in a consistent way during the tax year and to prevent abuses of the input tax recovery rules.

At the end of its tax year, the taxable person is therefore required to apply the apportionment formula as explained on sections 10.6.1 and 10.6.2 above using the total value of its supplies to total residual expenses incurred during the tax year. If a special apportionment method is used, that method should be applied to the taxable person's total residual expenses for the year.

If the amount of recoverable input tax using the yearly formula differs from the sum of input tax recovered in each tax period of the tax year, the taxable person must make an adjustment of the input tax corresponding to that difference. This adjustment may result either in an additional amount of input tax to be recovered, or in an amount of input tax to be repaid to the NBT.

The annual adjustment should be reported either in the tax return for the last tax period of the tax year or in the tax return for the first tax period of the subsequent tax year.

For the purposes of applying the annual formula, the tax year of a taxable person corresponds to the calendar year (i.e., 1 January – 31 December).

10.6.4. Recovery of input tax on pre-VAT registration expenses

A taxable person may recover, in accordance with the input tax recovery rules explained above, VAT charged on expenses incurred before his effective date of VAT registration provided the following conditions are met:

- For goods: The goods were acquired or imported within a period not exceeding five years prior to the effective date of registration and they are still in the taxable person's possession on the effective date of registration.
- For services: The services were acquired within a period not exceeding six months prior to the effective date of registration.

VAT on pre-registration expenses should be claimed in the tax return for the first tax period following the effective date of registration. The taxable person should provide the NBT with the following documents:

- A list of the purchases for which input tax recovery is sought
- An inventory of the stock of goods and raw materials still at his disposal on the effective date of VAT registration (nature, quantity and value, date of purchase and amount of the input tax paid)
- Copies of the tax invoices issued by the suppliers for the goods and services acquired
- Customs declarations for imports.

10.7. Recovery of import VAT paid on goods imported in another Implementing State

A taxable person registered in Bahrain can recover in its Bahrain VAT return the import VAT paid in another Implementing State for goods imported in that other Implementing State (as first point of entry of the goods) when the final destination of these goods is in Bahrain (as final destination point of entry of the goods), subject to the general input tax recovery rules.

This rule is not in application yet since Bahrain currently does not recognize any other GCC member state as Implementing State.

10.8. Adjustment to input tax recovered

There are instances where input tax recovered on expenses has to be adjusted. These are set out in the VAT Law and the Executive Regulations and are summarized below.

10.8.1. Change in the value of the supply received

Where the value of supplies of goods or services received is amended and this triggers a change in the amount of input tax recoverable, the taxable person must adjust the amount of input tax initially recovered.

Such an adjustment is mandatory under the following circumstances:

- Cancellation or refusal of the supply received;
- Reduction in the value of the supply received, after the date of the supply.

In these cases, it is expected that the supplier will issue a tax credit note and the adjustment can be done on this basis.

The adjustment of input tax should be reflected in the tax return for the tax period during which the change in value occurred and the supporting documentation is received.

Example

A supplier issues a tax invoice for a supply amounting to BHD 150 and output tax of BHD 7.5. The registered customer fully recovers the input tax of BHD 7.5.

The value of the supply is subsequently amended with the supplier granting a reduction of BHD 50. The supplier issues a tax credit note for BHD50 with VAT of BHD 2.5 VAT.

The taxable customer should adjust the input tax recovered by BHD2.5 and pay this amount back to the NBT on his VAT return for the tax period during which the reduction in value occurs.

10.8.2. Failure to pay the consideration for the supply received

The entitlement to recover input tax assumes that the recipient of the supply intends to pay the consideration for the supply. Where the consideration is not paid (in part or in full) within 12 months of the date of the supply and the supplier follows the procedures to obtain bad debts relief, the recipient of the supply is required to adjust the input tax initially recovered by an amount corresponding to the unpaid amount of VAT (please see section 15 on the relief for bad debts for further detail).

The adjustment of the input tax initially recovered should be reflected in the tax return for the tax period during which the bad debt relief is granted to the supplier. It is expected that the supplier will issue a tax credit note.

If, at a later stage, the recipient taxable person pays the consideration due to the supplier (in full or in part), he will be entitled to re-adjust and seek recovery of the input tax paid, in accordance with the input VAT recovery rules, in the VAT return for the tax period during which the payment was finally made.

10.8.3. Change in use - Capital assets scheme

Input tax on purchase of a capital asset

When purchasing a capital asset, a taxable person can recover the input tax paid on this asset based on the use or intended use of the capital asset at the time of purchase:

- Where the capital asset is purchased for making of taxable supplies only, the input tax on this asset is fully recoverable
- Where the capital asset is purchased for making of exempt supplies only, the input tax on this asset is not recoverable
- Where the capital asset is purchased for making both taxable and exempt supplies, the input tax on this asset is partially recoverable

What is the capital assets scheme?

As capital assets are used for a long period of time, their use may change over time. An asset originally bought solely to make taxable supplies could, after some time, be used to

make exempt supplies. The taxable person will have claimed 100% of the input tax on buying the asset.

The capital assets scheme is designed to ensure that the correct amount of input tax is recoverable by the taxable person based on the use of that asset over its lifetime, i.e., it is determined by whether it is used to make taxable supplies, exempt supplies or a mixture of both.

Where the use of a capital asset, over a certain time, differs from its initial or intended use, the taxable person is required to adjust the input tax has initially recovered.

What is a capital asset for this purpose?

A capital asset is a tangible or intangible asset that is assigned by the taxable person for long-term use as a business instrument (i.e., it is not stock for sale).

For how long does the capital assets scheme apply?

The capital assets scheme applies during the lifetime of the relevant capital asset which is as follows:

- For intangible assets and movable tangible assets, their lifetime is no less than five years
- For immovable tangible assets, their lifetime is at least ten years

The adjustment period relating to capital assets is:

- Five years for movable tangible capital assets and intangible capital assets
- Ten years for immovable tangible capital assets

The first year of the adjustment period corresponds to the tax year during which the capital asset was first used. Each subsequent year of the adjustment period starts following the end of the preceding tax year. Tax year has the same meaning as for the annual adjustment of the apportionment ratio as discussed at section 10.6.3.

Any change in the use of a capital asset once its adjustment period has expired does not trigger the requirement to adjust the amount of input tax recovered.

Computation of the adjustment

Article 60 of the Executive Regulations provides the step by step adjustment methodology as well as the formulae to be used in making an adjustment.

The adjustment under the capital asset scheme, where required, has to be reported either in the tax return for the last tax period of the adjustment tax year or in the tax return for the first tax period of the subsequent tax year.

Maintenance of records relating to capital assets

Taxable persons are required to keep and maintain a record of their capital assets and of the related input tax recovery position throughout the adjustment period.

Input tax on capital assets acquired before registration

Input tax can be recovered on capital assets acquired before a taxable person's effective date of VAT registration. The following conditions are met:

- The capital assets must have a positive net book value on the effective date of registration
- The capital assets must have been acquired or imported by the taxable person for the purposes of his economic activity and there must be a right to deduct input tax, in accordance with the input tax recovery rules.

The maximum input tax that can be recovered is equal to an amount of VAT calculated on the basis of the net book value of the capital assets on the effective date of registration of the taxable person. The net book value is determined in accordance with the accounting practice of the taxable person.

For the purpose of computing the adjustment period applicable to these capital assets, the first year of the adjustment period starts on the date of first use of the capital asset by the taxable person.

A taxable person who wishes to recover VAT on capital assets acquired before registration should provide the NBT with the following documents:

- An inventory of all the capital assets in his possession on the effective date of VAT registration (detailed description, date of purchase and amount of the tax paid);
- Copies of the tax invoices issued by the suppliers;
- Customs declarations for imports.

10.8.4. Cases where adjustment of the input tax is not required

An adjustment of the input tax initially recovered is not required in the following two cases:

- The goods purchased or imported have been lost, damaged or stolen, as long as evidence can be provided of the loss, damage or theft
- The goods purchased or imported have been used to provide low value gifts or samples (see section 4.4 on deemed supplies for further information on low value gifts and samples)

10.9. How to claim recoverable input tax?

Input tax is recovered through tax returns where the amount of input tax recoverable reduces the amount of output tax payable by a taxable person. There may be cases where a taxable person has more input tax to recover from the NBT than output tax to pay to the NBT, i.e., he has an "excess of recoverable input tax".

Some taxable persons, due to their business profile, are expected to have an excess of recoverable input tax on a recurring or ongoing basis. This would notably be the case for taxable persons carrying out mainly zero-rated activities.

Some taxable persons will only have an excess of recoverable input tax from time to time, e.g., when they incur significant capital expenditure.

A taxable person with an excess of recoverable input tax has two options:

- He can ask the NBT for a refund of this excess
- He can carry forward this excess to its subsequent tax periods.

The NBT may offset the excess of recoverable input tax against any tax or administrative fines due by the taxable person under the provisions of the VAT Law or any other tax Law until the excess is exhausted.

See section 12 for more details on tax returns and the process for recovering excess recoverable input tax.

11. Special refund schemes

VAT legislation allows certain persons to obtain a refund of Bahrain VAT they incur on their expenses and imports of goods irrespective of whether they qualify as taxable persons or meet the general conditions for input tax recovery. These are called “Special refund schemes”.

The persons listed below can benefit from a special refund scheme:

- Tourists
- Foreign governments, international organizations, institutions, consular and military bodies and missions
- Business visitors from non-Implementing States
- Taxable persons from other Implementing States

Each special refund scheme follows specific conditions and a specific refund application process.

Further information on these schemes will be published in due course.

12. Tax period, Tax return and Payment

The purpose of this section is to give you guidance on how to comply with your obligations to file your tax returns and pay VAT due.

12.1. Understanding the Net Tax position

If you are a taxable person, you are to assess your net tax position for a given tax period, based on the output tax and recoverable input tax to be reported in the tax return form for that tax period.

Below are some of the terms commonly used in the VAT process and their impact on a taxable persons' net VAT position.

12.1.1. Output tax

Output tax refers to the VAT amount charged by a taxable person on his taxable supplies (sales), including deemed supplies (covered in section 4.4 of this Guide) and on the supplies received that are subject to the reverse charge mechanism (covered in section 7.3 of this Guide).

Output tax should be accounted for at the relevant tax due date (covered in section 8.3 of this Guide). The tax due date will determine the tax period in which the supply and related output tax should be reported to the NBT for payment.

12.1.2. Recoverable input tax

Input tax is the VAT incurred by a taxable person on any goods or services purchased or imported by him for the purpose of his business. If the taxable person is registered, he may be able to recover this input tax from the NBT, subject to the conditions for input tax recovery (please see section 10 of this Guide for further detail).

Input tax that can be recovered can be claimed from the NBT in the tax period when all the conditions for its recovery are met.

Example

A taxable person purchased a new IT server for the purpose of storing confidential data related to his clients. This person carries out a fully taxable business and is therefore entitled to recover input tax in full on its business expenses. The taxable person will be able to claim recovery of the input tax charged on the acquisition of the server in the tax period where it is in possession of the valid original tax invoice for this purchase.

12.1.3. Calculating Net Tax position

The taxable person is required to assess his net tax position for a given tax period, based on the output tax and the recoverable input tax to be reported in the tax return for that tax period.

A taxable person's net tax position is the difference between the output tax and the input tax recoverable in a given tax period, plus or minus any corrections (if any). This difference leads either to a net tax payable position or to a net tax refundable position, as illustrated in the table below.

Table 15: Understanding the net tax position

Output tax – Input tax	Net tax position
Where output tax exceeds input tax ¹³ :	The taxable person is in a Net Tax payable position and is required to pay this net amount to the NBT
Where input tax exceeds output tax ¹⁴ :	<p>The taxable person is in a Net Tax refundable position and is entitled to a refund of this excess amount of recoverable input tax</p> <p>The taxable person may either request a refund from the NBT or carry the excess forward to the subsequent tax periods and offset it in against any other tax or tax penalty</p>

12.2. Tax periods

The year 2019 is a transitional year for VAT in Bahrain. In this respect, specific rules have been put in place. For further detail on 2019 rules ('transitional period') please consult section 19 of this Guide, as the tax periods for the year 2019 follow different rules than the ones presented below.

The details provided below will be applicable from 1 January 2020, after the transitional period concludes.

A tax period is the period for which a taxable person is required to:

- (a) Report and pay output tax due to the NBT, and
- (b) Report and claim recoverable input tax from the NBT.

At the end of each tax period, a tax return summarizing the output tax due and input tax recoverable for that tax period must be prepared and submitted to the NBT.

Taxable persons with annual taxable supplies exceeding BHD 3 million will have monthly tax periods, corresponding to Gregorian calendar months. Taxable persons with annual taxable

¹³ Positive amount

¹⁴ Negative amount

supplies not exceeding BHD 3 million will have tax periods corresponding to Gregorian calendar quarters (i.e., ending 31 March, 30 June, 30 September and 31 December), unless the NBT notifies a given taxable person that it should use an alternative quarterly period (e.g., from 1 February to 30 April).

A taxable person with annual taxable supplies not exceeding BHD 3 million may ask the NBT to have monthly tax periods. If the NBT accepts the request, it will notify the taxable person of the effective date of the change in tax period.

The NBT may adjust the tax period of a taxable person (e.g., from quarterly to monthly). In this case, such a change will be notified at least three months before the effective date of the change.

A tax return for each tax period is due by the last day of the month following the end of the last day of the tax period. The associated tax due should also be paid by that date.

Figure 6: Tax periods and payment

Taxable Person (Annual Supplies in BHD)	> 3,000,000	Monthly filing	<p>Tax period Dec. Jan. Feb. Mar. Apr. May Jun. Jul. Ago. Sep. Oct. Nov.</p> <p>Filing period <input type="button" value="Jan."/> <input type="button" value="Feb."/> <input type="button" value="Mar."/> <input type="button" value="Apr."/> <input type="button" value="May"/> <input type="button" value="Jun."/> <input type="button" value="Jul."/> <input type="button" value="Aug."/> <input type="button" value="Sep."/> <input type="button" value="Oct."/> <input type="button" value="Nov."/> <input type="button" value="Dec."/> <input type="button" value="Dec."/></p> <p>Filing deadline Last day of the month</p>
	≤ 3,000,000	Quarterly filing	<p>Tax period Jan. – Mar. Apr. – Jun. Jul. – Sep. Oct. – Dec.</p> <p>Filing period <input type="button" value="Apr."/> <input type="button" value="Jul."/> <input type="button" value="Oct."/> <input type="button" value="Jan."/> <input type="button" value="Jan."/></p> <p>Filing deadline Last day of the month</p>

12.3. Tax return

The Tax return is the official document summarizing for a given tax period, the total output tax due and the total input tax recoverable. This form, prepared by the NBT, has to be populated by all the persons registered for VAT in Bahrain. The form is the same, whether you are subject to quarterly tax periods or monthly ones.

12.3.1. Submission and payment due date

A taxable person should submit a tax return using the NBT's online portal and make the payment of the tax due by the last day of the month following the end of the tax period. Taxable persons should ensure that payments are made in proper time for it to be received by the NBT on that day.

Where there are no transactions to be reported in a given tax period, a taxable person should still submit a tax return showing no output or input tax.

Late submission of tax return form or late payment will result in application of penalties by the NBT. Please consult section 14 of this Guide for additional information on the applicable penalties.

When a taxpayer failed to submit his VAT return form in the prescribed delay, the NBT has the right to make an estimate of the net tax due for a given tax period.

12.3.2. Electronic filing

All tax returns should be submitted through the NBT's online portal by the taxable person, or by a person authorized to do so on behalf of the taxable person (i.e., its agent or its tax representative). Where a Tax Agent submits tax returns on behalf of a taxable person (resident), tax liability will remain on the latter (i.e., the taxable person).

On submission of a tax return, the NBT sends immediately a receipt through electronic mail. This receipt is the official confirmation of the submission of the tax return through NBT's portal shall be the actual date of submission of the tax return.

12.3.3. Amending a tax return

Amending a tax return for a taxpayer error in establishing its tax liability (like the taxpayer didn't include 10 sales invoices in the tax period) is different than amending a tax return to reflect a change of liability resulting from a business transaction (like a return of good). Taxpayer errors leading to an understatement of tax liability is subject to penalty. Adjustment of liability triggered by a change in a business transaction is not.

If the taxpayer error led to an underpayment of net tax due of less than BHD 5,000 and is discovered early enough, the taxable person may correct that error directly in the tax period following the original tax return.

Where a taxable person identifies an error in a tax return that has been submitted, and this error results in a change of the net tax payable/refundable amount of 5,000 BHD and more, he is required to submit an amended tax return (called a self-amendment) to the NBT within 30 business days of becoming aware of the mistake. The amended Tax return should be submitted electronically on NBT portal and replaces the previously submitted tax return.

No penalty will apply if the amended tax return is filed within 30 business days of becoming aware of the error provided the NBT has not already initiated an audit.

The adjustment of an amount of VAT due or VAT recoverable resulting from a change in the value of a supply and supported by a tax credit note or a tax debit note is not to be considered as a "error". It does not trigger the obligation to submit an amended tax return. Such adjustment is to be reported in the tax return for the tax period during which it took place.

12.3.4. Payment process for net tax payable

The amounts of VAT due to the NBT will be notified to the taxpayer electronically.

When making a payment, the taxable person will provide directly or indirectly his Tax Registration Number and the tax period for which the tax is paid.

12.3.5. Payment by instalments

You may request the NBT to allow you to pay tax by instalments for a tax period provided you can prove that you are unable to pay the amount of tax due in full by the due date. Your application should include:

- The amount of VAT due to the NBT
- The tax period to which this VAT amount relates
- The reason for being unable to make the payment on time or supporting the fact that you will face challenges as a result of making payment in full by the due date.

Given the payment deadline, you should apply early enough in order to be notified of the NBT's decision before the time limit for payment.

If payment by instalments is approved by the NBT, any deviation from the agreed payment schedule will trigger an immediate obligation to pay all the remaining instalments.

13. Record keeping

This section describes the record keeping requirements including the type of records to be maintained for VAT purposes together with the length of time these records must be retained.

13.1. Requirements

13.1.1. What documents must be kept?

A taxable person, or its tax representative (where applicable), is required to retain the following documents:

- Accounting books related to the taxable person's transactions (the transactions must be maintained in chronological order)
- Records of all supplies and imports of goods and services, including:
 - All tax invoices and alternative documents received
 - All tax credit/debit notes and alternative documents received
 - All tax invoices and alternative documents issued
 - All tax credit/debit notes and alternative documents issued
- Balance sheet and profit and loss accounts
- Wage and salary records
- Fixed assets (capital assets) records
- Inventory records and statements including the quantities and values for each tax period
- All customs documents related to import and export transactions
- Any other records as determined by the NBT

It is advisable to also keep records of the following:

- Records of goods and services that have been disposed of or used for non-business purposes
- Records of goods and services purchased in respect of which input tax was not recoverable
- Records of any deemed supplies
- Records of corrections of errors

The records and documents relating to tax should be kept either in Arabic or in English.

During a verification, review, audit or appeal, the NBT may request the taxable person to translate into Arabic some or all of the records maintained in another language than Arabic or English.

A taxable person may appoint a third party to retain its records and documents. However, the responsibility remains with the taxable person who shall face penalties where these records are not compliant with the Law.

13.1.2. Where must records be kept and in what format?

Taxable persons must keep their documents and records in good condition and free from any damage. The documents may be kept electronically, subject to the following conditions:

- The records and documents can be easily accessed from the computer system when requested by the NBT
- The hard copies of the documentation that support these books and records can be obtained
- The computer system has sufficient security to ensure the documents cannot be tampered with or manipulated.

13.2. Timeframes

A taxable person must maintain the relevant records for a period of five years after the end of the tax period to which they relate or from the end of the tax period where the adjustment period ends (for capital assets).

Records which relate to real estate must be kept for a period of 15 years after the end of the tax period to which they relate.

The NBT may notify the taxable person to retain these records for a longer period, without this additional period exceeding five years.

Where a taxable person ceases to carry out his taxable activities because of a transfer of his business or a merger, he will still be required to retain the records related in accordance with the VAT Law.

Where a taxable person is declared bankrupt or in the event of insolvency, the taxable person's legal representative must retain records of such a person for a period of not less than 12 months from the date on which those proceedings have been finalized.

13.3. VAT accounts

As a result of submitting tax returns and either paying VAT to the NBT or obtaining VAT refunds from the NBT, a taxable person will have to set up VAT accounts in its books in order to record the VAT payable to the NBT and the VAT receivable from NBT across the different tax periods.

14. Non-compliance with tax obligations

This section covers the various penalties to be imposed by the NBT on a taxable person for non-compliance with the VAT Law and the Executive Regulations. Below is a list of the existing penalties, specific to VAT:

Table 16: Applicable administrative fines

Offence	Associated administrative fine
Failure to apply to register with the NBT (within 60 days from the date of expiry of the registration period)	Fine not exceeding BHD 10,000
Late submission of the Tax Return (not exceeding 60 days)	Fine between 5% and 25% of the value of the Tax declared or paid
Late payment of the Tax due (not exceeding 60 days)	
Submission of false data on imports or supplies where their value is higher than the value declared in the tax return.	Fine between 2.5% and 5% of the unpaid Tax, per month (or part of month) where the Tax is not paid.
Preventing or obstructing the NBT's staff or those mandated to implement the provisions of the Law and Regulations from carrying out their duties	
Failure to notify the NBT of any changes to the information in the submitted VAT registration application or a tax return	
Failure to display prices of the goods or services inclusive of tax	A fine not exceeding BHD 5,000
Failure to provide information requested by the NBT	
Failure to comply with the conditions and procedures of issuing a tax invoice	
Breaching of any other provision of the Law or the Regulations	

An administrative fine may be imposed by the NBT and is collected together with the amount of tax due (if any due).

A taxable person is entitled to contest the application of an administrative fine by filing an objection to the Tax Appeal Review Committee, in accordance with the procedure explained in section 17.3 of this Guide. The Tax Appeal Review Committee must submit a recommendation to the Minister or his authorized delegate within 30 days of submission of the objection, and the Minister or his authorized delegate has then 15 days to issue a decision on the objection.

The criminal sanctions applicable under the VAT Law are described below.

Table 17: Criminal sanctions associated to tax evasion

Tax evasion (Criminal case)	Penalties and punishment
Failure to apply to register with the NBT (exceeding 60 days from the date of expiry of the registration period)	Natural person: <ul style="list-style-type: none"> Imprisonment for a period of not less than three years and not exceeding five years; and
Late submission of tax return (exceeding 60 days)	<ul style="list-style-type: none"> A fine of not less than the amount of the tax due but not exceeding three times this amount.
Late payment of tax due (exceeding 60 days)	The fine is doubled if the offence is repeated within three years from the date of the final conviction.
Recovery of input tax without any right and in violation of the rules of input tax recovery prescribed under the provisions of the Law	The offender or multiple offenders are jointly liable for the payment of the tax due.
Unlawfully and knowingly claiming a refund of tax, in whole or in part	Legal person:
Provision of forged or artificial documents, records or invoices with the intention of avoiding payment of tax payment, in full or in part	Without prejudice to the criminal responsibility of a natural person, a legal person is subject to double the maximum fine applicable to a natural person if a tax evasion crime is committed in his name, on his behalf or for his benefit.
Non-issue of tax invoices by a taxable person, in violation of the provisions of this Law	Reconciliation:
Issuing tax invoices which include an amount of tax in respect of non-taxable supplies	Upon written request of the accused, the NBT may accept reconciliation before the lawsuit is filed, during the hearing and before the judgment is given provided the accused pays an amount equivalent to the minimum fine for the crime as well as the value of the tax.
Failure to maintain the appropriate records, tax invoices and accounting books in a systematic way in violation of the provisions of Article 69 of the Law.	The reconciliation results in the termination of the criminal case. In all cases, the crime of tax evasion is considered an offense against honor and honesty.

15. Bad debts relief

There may be cases where a taxable supplier will not receive the consideration due for his taxable supplies (e.g., because of a delinquent customer). In such cases, the taxable supplier will have already paid the output VAT on his supplies to the NBT without having collected it from his customer.

The VAT Law and its Executive Regulations allow a taxable supplier to adjust and recover output tax already paid to the NBT where he was not able to collect these amounts from his customers.

Before applying this relief, the supplier has to meet the following conditions:

- The payment of the consideration due by the customer must be pending (in part or in full) for at least 12 months from the date of supply. This 12-month period does not apply where the customer has not paid due to bankruptcy.
- The taxable supplier must be able to prove that he has taken all necessary measures to collect the debt (e.g., emails, calls, registered letters, notification for payment, etc.) and must have initiated legal proceedings against the customer at the very least.
- The taxable supplier has written off (partially or fully) the debt in his books.

Where all the conditions above are met, the supplier can adjust the related amount of VAT in the tax return for the tax period during which he meets the conditions. The supplier taxable person will also be required to issue a tax credit note to the customer showing the adjustment.

Where the consideration is received (in full or in part) from the customer after a bad debts adjustment was made, the supplier taxable person should make another adjustment and pay the output tax due on the amount received in the tax return for the tax period during which the late payment was received. The supplier should also issue a tax debit note reflecting this.

16. Profit margin scheme

The VAT provides for a specific regime whereby VAT is chargeable not on the total value of a supply, but only on the profit margin earned by the supplier taxable person. This is the “profit margin scheme”. The scheme only applies to specific supplies of goods and under specific conditions.

This regime is intended to avoid VAT being applied on that part of the sale value of a good that has already been subject to VAT where it cannot be recovered.

This regime is not mandatory. Suppliers can elect to use their margin as the value of their supplies for the purpose of computing the output VAT due, subject to the NBT approval.

16.1. Conditions for the application of the profit margin scheme

The taxable person must obtain the NBT’s approval before applying profit margin scheme. The conditions for the application of the profit margin scheme are discussed below.

- The good to be sold must:
 - Be a used good suitable for further use in its current state or after repair; or
 - Be a work of art, artefact, or other items of scientific, historical or archaeological interest;

If any repairs are required before reselling the good, these repairs must not be significant and must not alter the nature or the use of the good.

- The supplier must:
 - Have purchased the good in Bahrain
 - From a non-taxable person (e.g., private individual); or
 - From a taxable person who himself sold the good under the profit margin scheme (e.g., a car dealer selling a second-hand car to another car dealer); or
 - From a taxable person who could not recover the VAT charged on the good.
 - Not recover the input tax on the incidental expenses related to the acquisition of the good
 - Issue and retain the correct documentation

16.2. Computing the profit margin

The “profit margin” is calculated by deducting the purchase price from the selling price of the good.

The profit margin is considered inclusive of VAT. In order to determine the value of a supply (exclusive of tax) under the profit margin scheme, you can apply the following formula:

$$\text{Profit margin} \div 1.05$$

In order to determine the output VAT due on a supply under the profit margin scheme, you can apply the following formula:

$$\text{Profit margin} \div 21$$

Where the purchase price exceeds the selling price, no VAT is applicable on the supply of the good.

The selling price is the consideration received for the supply of the good, including incidental expenses directly linked to the supply when charged by the supplier (e.g., commission, packaging, transport or insurance, etc.).

The purchase price is the price paid by the supplier to acquire the good, including the incidental expenses directly linked to the purchase where charged by the supplier of the good.

Example

In June 2020, a VAT registered car dealer purchases a second-hand car from a private individual for BHD 2,000. The private individual had purchased the car in June 2019 and had incurred 5% VAT on its purchase. In August 2020, the car dealer resells the car to another private individual for BHD 3,000 (BHD 2,900 for the car and BHD 100 of administration fee).

The car dealer obtained the NBT approval to apply the profit margin scheme on his supplies of second hand cars. The calculated value of the supply and related VAT (at 5%) is:

- *The margin on this supply is BHD 1,000 (BHD 3,000 – BHD 2,000)*
- *The tax exclusive value of the supply is BHD 952.38 (BHD 1,000 ÷ 1.05)*
- *The amount of output VAT applicable to this supply is BHD 47.62 (BHD 1,000 ÷ 21)*

16.3. Documentation required to apply the profit margin scheme

A taxable person supplying a good subject to VAT under the profit margin scheme must issue a tax invoice. The tax invoice must indicate clearly that VAT has been imposed using the profit margin scheme and must not show any VAT amount.

Where the taxable person selling a good under the profit margin scheme purchased this good from a taxable person who applied himself the profit margin scheme, he is required to retain the invoice issued by his seller to evidence the acquisition under the profit margin scheme.

Where the taxable person selling a good under the profit margin scheme purchased this good from a non-taxable person, he is required to self-issue a tax invoice to evidence that the good was acquired from a non-taxable person. This tax invoice must be signed by the person from whom he acquired the good, or by his authorized signatory.

16.4. Input tax recovery while using the profit margin scheme

VAT charged on goods sold under the profit margin scheme cannot be recovered by the purchaser of the goods.

A taxable person supplying goods under the profit margin scheme is not entitled to recover input tax on his incidental expenses relating to the acquisition of goods where these expenses are included in the selling price of the goods.

16.5. What happens if the NBT challenges the profit margin scheme application?

Where the use of the profit margin scheme is challenged by the NBT, the supplier is required to compute the output tax on the total value of the supply of the good (as opposed to the profit margin) and to adjust the output tax amount accordingly. He is also required to issue a valid tax invoice/credit note to support this adjustment.

The supplier can also claim the recovery of input tax on incidental expenses related to the acquisition of the goods, to the extent all the conditions for input tax recovery are met (please see section 10 of this Guide for further detail).

17. Tax Administration

This section provides an overview of the various tax administrative processes related to VAT, including the submission of tax clarification requests, tax assessments and the objection procedures.

17.1. Tax clarification

The VAT Law, Executive Regulations and guides aim to provide clarity on the operation of VAT in Bahrain. However, in some instances, there may be areas of uncertainty relating to VAT.

A taxable person (or his tax representative or tax agent) may apply for a tax clarification from the NBT seeking guidance on how to interpret and apply specific provisions of VAT Law where this is uncertain. A tax clarification should only be sought where the person making the request has carried out detailed analysis on the specific issue and uncertainty remains.

Until the NBT issues a response to a request for tax clarification, it is recommended that the taxable person applies the VAT Law and its Executive Regulations based on the most prudent interpretation.

The NBT will issue guidelines for the tax clarification submission procedure together with the expected timeframes for providing responses.

17.2. Tax audits

17.2.1. What is a tax audit?

A tax audit is the procedure whereby the NBT will assess the general compliance level of a taxable person with the VAT legislation and whether the net amounts of VAT declared and paid by that taxable person are correct. An NBT assessment or audit can cover one or more tax periods.

During an audit, the NBT will examine the records and documents that a taxable person is required to maintain.

When the audit is complete and the NBT has determined that an additional amount of tax is payable, the NBT will issue a tax assessment seeking payment of that tax.

17.2.2. How often can a taxable person be audited?

The frequency of audit will vary from a taxable person to another depending notably on the expected risk to revenue collection. The frequency of tax audits may vary based on factors such as:

- The size of the business or its complexity
- The track record of the taxable person in complying with his tax obligations

- Whether the taxable person is in a refund position (e.g., recurring refundable position, significant amount of net tax refundable, unusual refundable position given the taxable person's profile, etc.).

The NBT cannot re-assess the net tax relating to a tax period that has already been assessed, unless there is discovery of new information that was not available at that time and this information requires a new assessment.

17.2.3. Where and when does a tax audit take place?

A tax audit may be carried out either at the taxable person's premises or from the NBT's offices.

Tax audits will usually be conducted during the NBT's official working hours. However, in exceptional cases, a tax audit may be carried out outside official working hours. Exceptional cases may include where a taxable person is suspected of tax fraud or there is urgency to finalize the tax audit.

17.2.4. How will a taxable person know they will be subject to a tax audit?

For distance audits, the taxable person may receive a request from the NBT for additional information and documents to be provided for the purpose of the audit and providing a specific deadline for sharing these documents with the NBT.

For on-site audits, the NBT may inform the taxable person about the visit in advance. The notice provided by the NBT to the taxable person in relation to the intention to carry out an on-site audit may include the expected start date, location of the tax audit and the records that the taxable person should make available for review. This should allow sufficient time for the taxable person to prepare the relevant records for review and ensure that relevant employees are available during the tax audit period.

Unannounced tax audits may also take place notably for taxable persons who are suspected of tax evasion or other serious crimes.

17.2.5. What powers does the NBT have during a tax audit?

The purpose of a tax audit is to check the overall compliance of the taxpayer in fulfilling his tax return declaration, in terms of the validity of the transactions, its completeness and accuracy. To perform its duty, the NBT may:

- Request access to books, records and other documents such as tax invoices, either in a printed or in an electronic format and request copies of such documents where necessary
- Take a sample of the taxpayer databases, accounting system and any other files that is needed to validate the accuracy of the VAT transaction reporting

- Take or request samples of any goods found within means of transport or places used for the supply of goods
- Enter into the taxable person's work premises or any other place of business for inspection
- Access any means of transport used for the carriage of goods
- Take all necessary steps to gather the evidence to examine the extent of the taxable person's compliance
- Question employees on the taxable person's business affairs and procedures
- Close a taxable person's business on a precautionary basis in order to carry out the inspection
- Record any violations noticed during the on-site visit and prepare the necessary reports

17.2.6. Results of a tax assessment

Where a tax audit evidences non-compliance with the VAT legislation, a tax assessment decision will be notified to the taxable person. The assessment notice issued to the taxable person must include the following:

- The reasons for the assessment, facts, information and the legal basis
- The value of the net tax due, tax differences and penalties where applicable
- The date of payment for the tax due and penalties where applicable

The NBT must notify the decision by e-mail and post. The date of receipt of the assessment notice is considered the date on which the NBT sent it to the taxable person or his tax representative.

A taxable person aggrieved by the decision of the NBT, with regards to a tax audit, has the right to object this decision to the Tax Appeals Review Committee. Additional information on the appeal process is discussed in section 17.3 below.

17.3. Objection to the Tax Appeals Review Committee

Once a taxable person receives an assessment notice decision or a decision for administrative fines from the NBT, he may object to the Tax Appeals Review Committee within thirty days from the date of notification of the decision.

The date of notification of the NBT's decision is the date on which the NBT sent it to the taxable person or his tax representative.

While objecting the decision of the NBT, the taxable person is required to pay, if applicable:

- The tax due when the objection relates to the decision to impose an amount of tax
- The administrative fine where the objection relates to the decision to impose an administrative fine

- The prescribed fee
- The objection submitted to the Tax Appeals Review Committee must include, at the minimum, the following information
 - Name of the objector (taxable person objecting the decision), his VAT Account Number (also referred to as Tax Registration Number) and address of place of business or postal address
- A summary of the objection, together with the reasons for the objection and the legal basis
- The tax period to which the objection relates
- Documents or any other information supporting the objection
- The email address of the tax representative or tax agent of the objector, where applicable

The Tax Appeals Review Committee will notify the objector of the hearing date of the objection at least ten days beforehand.

The Tax Appeals Review Committee will issue its recommendation on the objection to the Minister or his delegate, within thirty days from the date of the submission of the objection. The Minister or his delegate will then have to approve, amend or cancel the recommendation within fifteen days from the receipt of the recommendation.

Where the objector does not receive any communication from the NBT within the prescribed period, the objection shall be considered rejected.

A taxable person may appeal against a decision of the Tax Appeals Review Committee with the competent Court in Bahrain within sixty days from the date of notification of a rejection of his objection.

17.4. Deadlines

The VAT Law provides specific deadlines to ensure reasonable compliance with the VAT administration. If such deadlines are not met, penalties and sanctions will be imposed.

A deadline provided by the VAT legislation or a notice issued by the NBT is always based on the Gregorian calendar and must be computed in accordance with the following guidelines:

- The date of the notification is not to be considered within the deadline (for example, if a taxable person receives an e-mail from the NBT requiring an action to be completed within five days, the day of receipt of the e-mail does not count as part of the five days);
- All timelines are calculated from the start of the day at midnight and to end at 11:59pm, unless specified otherwise.

17.5. Statute of limitations

The statute of limitations is five years:

- No claim for additional tax due can be made by the NBT after five years from the end of the tax period to which the additional tax due relates
- No claim for tax wrongfully recovered can be made by the NBT after five years from the date the tax was paid

The statute of limitation is interrupted in the following cases:

- The taxable person receives an assessment notice from the NBT
- The taxable person receives a request of payment from the NBT
- The taxable person submits a refund request to the NBT
- Tax Appeals Review Committee dispute
- Any causes of interruption as provided for in the Civil Code

18. Appointing a tax representative or a tax agent

A non-resident person required to register for VAT in Bahrain may appoint a tax representative to fulfil his tax obligations in Bahrain. A tax representative must be licensed by the NBT prior to being appointed to act on behalf of a non-resident person. On being licensed, the tax representative will receive a unique VAT Account Number (also referred to as Tax Registration Number).

The NBT shall communicate its decision on an application to appoint a tax representative within 30 days from the date of the submission of the application.

A tax representative is jointly liable for all VAT (and penalties) due by the taxpayer and replaces the taxpayer in the relationship with the NBT.

Resident taxable persons in Bahrain may appoint a tax agent to represent them in their dealings with the NBT. The tax agent does not assume any of the taxable person's liabilities or tax obligations.

The appointment of a tax representative or a tax agent must be made on a form to be submitted to the NBT, together with an official power of attorney.

Once appointed, the tax representative or tax agent must keep all information received from a taxable person confidential and must refrain from planning or participating in acts that violate the Law or Regulations.

A taxable person must notify the NBT of the removal or termination of a tax representative or tax agent within thirty days.

A tax representative or tax agent must meet the following conditions:

- They must be resident in Bahrain
- They must be of good conduct and reputation (no sentence to a restriction of freedom in a crime against honor)
- If an individual, he/she must possess of a university degree or accounting or legal qualification which has been certified and approved by the Ministry of Education
- If a legal person, he must have a valid and current commercial registration
- They must pay the fee prescribed by the NBT

19. Transitional rules

The year 2019 is a transitional year for VAT in Bahrain. In this respect, specific rules have been put in place. This section intends to give you the tools to anticipate and prepare your business to become VAT compliant from 1 January 2019.

19.1. VAT registration requirements for the year 2019

The calendar year starting 1 January 2019 is considered as a transitional year for VAT purposes. In this respect, the requirements to be registered for VAT from 1 January 2019 (mandatory registration) have been defined as follows:

Mandatory VAT registration on 1 January 2019

- Taxable persons with annual supplies for 2019 exceeding or expected to exceed BHD 5,000,000 must register for VAT with an effective date of 1 January 2019
- Taxable persons with annual supplies for 2019 exceeding or expected to exceed BHD 18,750 but lower or equal to BHD 5,000,000 may still register for VAT with an effective date of 1 January 2019

Registration applications have to be submitted to the NBT no later than by 20 December 2018. The submission of the application on time is not enough to be considered as a taxable person. The NBT has to review the application and it is only when an application is approved and a registration certificate is issued that a person will be considered as a taxable person.

Mandatory VAT registration on 1 July 2019

- Taxable persons with annual supplies for 2019 exceeding or expected to exceed BHD 500,000 but lower or equal to BHD 5,000,000 must register for VAT with an effective date of 1 July 2019
- Taxable persons with annual supplies for 2019 exceeding or expected to exceed BHD 18,750 but lower or equal to BHD 500,000 may still register for VAT with an effective date of 1 July 2019

Registration applications have to be submitted to the NBT no later than by 20 June 2019.

VAT registration during the year 2019

- Taxable persons exceeding the BHD 5,000,000 threshold during 2019 (where they did not forecast exceeding this threshold) must register for VAT
 - Within 30 days of the last day of the month where they breached the threshold; or
 - Within 30 days prior to the first day of the month where they expect to breach the threshold.
- Taxable persons exceeding the BHD 500,000 threshold after 1 July 2019 (where they did not forecast exceeding this threshold) must register for VAT
 - Within 30 days of the last day of the month where they breached the threshold; or

- Within 30 days prior to the first day of the month where they expect to breach the threshold.
- Taxable persons with forecasted annual/actual value of supplies exceeding the BHD 18,750 threshold but below the BHD 5,000,000 threshold during 2019 (where they did not forecast exceeding this threshold) may register for VAT with an effective date in 2019.




VAT registration on 1 January 2020

- Taxable persons exceeding the mandatory registration threshold of BHD 37,500 on 1 January 2020 (based either on the 12 previous months test or on the 12 upcoming months test) will be required to register with an effective date of 1st January 2020.

Registration applications have to be submitted to the NBT no later than by 20 December 2019.

The information presented above is summarized in Figure 7.

Figure 7: Registration phasing and thresholds

		Transitional period		Steady state
		Dec 20 th 2018	June 20 th 2019	Dec 20 th 2019
Registration deadline				
Mandatory Registration	Annual Supplies in BHD	> 5,000,000	> 500,000	> 37,500
Voluntary Registration		>18,750	>18,750	>18,750

19.2. Tax periods for the year 2019

In order to facilitate the compliance process for the first year of VAT, the following tax periods will apply for 2019:

Table 18: 2019 tax periods during 2019

Annual Supplies in BHD	Registration dates	Tax Periods	Filing Periods
> 5,000,000	Nov. – Dec. 2018	Jan. – Mar. 2019	April 2019
	Nov. – Dec. 2018	Apr. – Jun. 2019	July 2019
	Nov. – Dec. 2018	Jul. – Sep. 2019	October 2019
	Nov. – Dec. 2018	Oct. – Dec. 2019	January 2020
5,000,000 ≥ > 18,750		Jan. – Jun. 2019	July 2019 (a)
	Jan. – Jun. 2019	Jul. – Sep. 2019	October 2019 (b)
		Oct. – Dec. 2019	January 2020
	Jul. – Sep. 2019	Jul. – Sep. 2019	October 2019
		Oct. – Dec. 2019	January 2020
	Oct. – Dec 2019	Oct. – Dec. 2019	January 2020 (c)

- (a) For Taxable Persons whose registration takes effect after 1 Jan. 2019 but before 1 Jul. 2019, the first Tax Period starts on the effective date of their registration and ends on 30 Jun. 2019, regardless of value of annual supplies
- (b) For Taxable Persons whose registration takes effect on or after 1 July 2019, but before 1 Oct. 2019, the first Tax Period starts on the effective date of their registration and ends on 30 Sep. 2019, regardless of value of annual supplies
- (c) For Taxable Persons whose registration takes effect on or after 1 Oct. 2019 but before 31 Dec. 2019, the first Tax Period starts on the date of their registration and ends on 31 Dec. 2019, regardless of value of annual supplies

After 31 December 2019, these transitional tax periods will no longer be applicable and every taxable person will be required to follow the tax periods prescribed in the VAT Law and its Executive Regulations (please consult section 12.2 of this Guide for further detail).

19.3. Contracts signed prior 2019 spanning 2019

The VAT Law contains specific transitional rules regarding the supplies of goods and services carried out after 1 January 2019 under contracts signed before that date. The relevant rules are different depending on whether the contract is signed with the Government or not.

19.3.1. Contracts signed with the Government

Supplies made under contracts signed with the Government prior to 1 January 2019 and which should in principle be subject to Bahrain VAT at the standard rate of VAT from 1 January 2019 are subject to VAT at the rate of 0%.

The application of the 0% VAT rate will cease, and these supplies will become subject to VAT at the standard rate, on the earlier of:

- The contract renewal or expiration; or
- 31st December 2023.

“Government” is defined as Bahrain Ministries, Government agencies, institutions and public bodies.

An amendment to the contract will be considered as a renewal for the purposes of the above.

19.3.2. Contracts not signed with the Government

Supplies made under contracts not signed with the Government and which should in principle be subject to Bahrain VAT at the standard rate of VAT from 1 January 2019 are subject to VAT at the standard rate.

If the contract does not include a specific tax clause or provision stating that the consideration agreed in the contract is exclusive of VAT, this consideration is deemed inclusive of VAT. The supplier is not allowed to add VAT on top of the already agreed consideration unless it is agreed with the customer and they have confirmed that they will pay the VAT. To identify the VAT component of the consideration (when it is subject to VAT at 5%), the following formula can be applied:

$$\text{VAT amount (5\%): Consideration} \div 21$$

If the contract includes a specific tax clause or provision stating that the consideration agreed in the contract is exclusive of VAT, the supplier is entitled to add VAT on top of the already agreed consideration.

19.4. Transitional tax due date rules - Supplies spanning 1 January 2019

Complications may arise in determining the VAT liability of supplies of goods or services made under contracts signed before 1 January 2019, but which span 1 January 2019.

In order to assess the VAT liability of these supplies, the tax due date rules such as the ones covered under section 8.3 of this Guide should, in principle, be followed. However, the VAT Law contains a specific change to these rules.

Where a payment was received, or an invoice was issued before 1 January 2019, this payment or invoice should be ignored if the supply of the goods or services, to which the

payment or invoice relates, actually takes place (in full or in part) on or after 1 January 2019. In this case, the (portion of) supply actually performed in 2019 must be subject to VAT (unless it is VAT exempt).

Example

A company sells a gym membership starting on 1 October 2018 and ending on 30 September 2019 for BHD 200. The membership fee is paid in full on 1 October 2018.

As the contract constitutes a continuous supply of services, its tax due date should in principle be 1 October 2018 (i.e. date where the payment was received by the supplier) and no VAT should be applicable on the full fee received. However, in accordance with the VAT transitional rules, this payment triggers a tax point in 2018 for a supply to be partially performed in 2019. Therefore, this payment must be ignored and the portion of the supply taking place in 2019 is subject to VAT at the rate of 5%.

The membership contract is silent on the tax position. As a result, the company will have to consider the fee as tax inclusive and it will not be entitled to charge an additional amount of 5% VAT on top of the fee already received. On this basis, the company will be required to report the following in its tax return for the tax period covering 1 January 2019:

- *Consideration received for the portion of the supply performed from 1 January 2019 to 30 September 2019 (VAT inclusive): $BHD\ 200 \times 9 \div 12 = BHD\ 150$*
- *Value of the supply subject to 5% VAT: $BHD\ 150 \div 1.05 = BHD\ 142.86$*
- *Output VAT due: $BHD\ 150 \div 21 = BHD\ 7.14$*

The table below summarizes several examples of the transitional rules:

Table 19: Tax due date under transitional period and steady state

Supply	Tax due date (under steady state rules)	Tax due date and value of supply (under transitional rules)
Supply of Goods and Services (not continuous)	Prior to 2019: When goods supplied/service completed and payment(s) received prior to 1 January 2019	No change: no VAT due
	Prior to 2019: When goods supplied/services completed prior to 1 January 2019 but payment(s) received on or after that date	No change: no VAT due
	Prior to 2019: When payment(s) received prior to 1 January 2019, but goods supplied/services completed on	Change: tax due date is moved to when the goods supplied / services completed. VAT is due on the total value of the supply,

Supply	Tax due date (under steady state rules)	Tax due date and value of supply (under transitional rules)
	or after 1 January 2019	including the payment(s) received prior to 2019 (unless 0% applies or the supply is exempt).
Continuous supplies	Prior to 2019: Payment prior to 1 January 2019, covering performance of the supply on and after 1 January 2019 (in full or in part)	Change: tax due date becomes 1st January 2019. No VAT due on the portion of the value of the supply performed prior to 1 January 2019 VAT due on the portion of the value of the supply performed on or after 1 January 2019 (unless 0% or exemption applies).
	On or after 1 January 2019: Payment and tax invoice on or after 1 January 2019, covering performance of the supply prior to 1 January 2019 (in full or in part)	No change: tax due date on the earlier of receipt of payment, issue of a tax invoice or payment due date mentioned on the tax invoice; and in any case no later than by 31 December 2019. No VAT due on the portion of the value of the supply performed prior to 1 January 2019 VAT due on the portion of the value of the supply performed on or after 1 January 2019 (unless 0% or exemption applies).
Supply of goods deposited and supply of goods pledged as collateral	Tax due date is the earlier of the bailee or creditor selling the goods or the bailee or creditor deducting a cash amount deposited as a bond in order to definitively acquire the Goods	No change
Supply of goods provided on a trial basis	Tax due date is the earlier of the buyer accepting the goods on a definitive basis or the date of issuance of an invoice.	Date of buyer accepting the goods on a definitive basis

Supply	Tax due date (under steady state rules)	Tax due date and value of supply (under transitional rules)
Operating lease	Agreed date of payment / payment received prior to 1 January 2019	<p>Change: tax due date becomes 1 January 2019.</p> <p>No VAT due on the portion of the value of the supply performed prior to 1 January 2019</p> <p>VAT due on the portion of the value of the supply performed on and after 1 January 2019 (unless 0% or exemption applies).</p>
	Agreed date of payment / payment received on or after 1 January 2019	<p>No change: on or after 1st January 2019</p> <p>No VAT due on the portion of the value of the supply performed prior to 1 January 2019</p> <p>VAT due on the portion of the value of the supply performed on and after 1 January 2019 (unless 0% or exemption applies).</p>
Financial lease	Tax due date of supply is the date of the supply of the goods.	No change
Supply of goods through a vending machine	Tax due date is the date where the amount stored in the vending machine is collected.	No change
Supply of goods with a right of refund	Tax due date is the date of the supply of the goods.	No change

Supply	Tax due date (under steady state rules)	Tax due date and value of supply (under transitional rules)
Compulsory supply of goods	Tax due date is the date of the supply the goods.	No change
Supply of a voucher (i.e., where a voucher is issued or sold for a consideration higher than its face value)	Tax due date is the date of issue of the voucher / the date of its subsequent supply.	No change
Single-purpose voucher (SPV)	Tax due date is the date of issue of the SPV / the date of its subsequent supply.	No change
Multi-purpose voucher (MPV)	Tax due date is the date on which the MPV is exchanged for goods or services	No change
Where the supply is a deemed supply	<p>Tax due date is:</p> <p>For goods or services provided for no consideration: where the goods are made available to the third party or where the services have been completed</p> <p>For goods the taxable person retains upon deregistration: the effective date of deregistration.</p> <p>For transfer of the taxable person's own goods from Bahrain to another Implementing State or vice versa: date of start of the transfer.</p> <p>For the change in the use of a</p>	No change

Supply	Tax due date (under steady state rules)	Tax due date and value of supply (under transitional rules)
	good: date where the change occurred.	

19.5. Implementing States status and Intra-GCC VAT rules

The status of “Implementing State” is solely given by the VAT Law to a GCC Member State that has implemented a national VAT legislation compliant with the Framework and that recognizes Bahrain as an Implementing State. In this respect, an announcement of the GCC Member States recognized by Bahrain as Implementing States for VAT purposes will be made by the NBT.

A GCC member state that is not an Implementing State, is treated as a non-Implementing State. As a result, any supplies of goods and services to and from such a country are considered as made to and received from a state outside the Council’s territory. Residents in these GCC Member States are also considered as residents from outside the Council’s territory and subject to the same rules as the residents of non-GCC Member States.

With regards to Intra-GCC supplies involving the transfer of goods between Implementing States, such supplies will be treated as exports/imports of goods until such a time the Electronic Service System is in place and applied in all the Implementing States.

20. Final note

This Basics of VAT Guide is subject to amendment and updates to cover any new regulations, clarifications or updates from the VAT Law in Bahrain.

Appendix A. VAT common issues

This section covers common VAT issues that taxable persons may face when assessing their VAT liability on their taxable supplies or expenses.

Head-Office – Branch relationships

Transactions occurring between a head-office and its branch(es) are considered as being outside the scope of VAT since they happen within the same legal person. This is the case when the head office and the branches are all located in Bahrain, but also when the head-office and the branches are not all located in Bahrain.

We set out below some of the VAT consequences arising from a head-office / branch relationship:

- A Bahrain head-office and its Bahrain branches are registered under a single Tax Registration Number and report all their transactions in the same VAT return on a consolidated basis
- Allocations of costs between a head-office and its branches are disregarded for VAT purposes, whether these allocations are local or cross border
- A representation office/branch in Bahrain of a foreign entity, the activity of which is solely to support its head-office, is entitled to recover the VAT charged on its expenses for supporting its head-office provided the head-office's activity would have been taxable if carried out in Bahrain
- When a supply of services is made by a Bahrain supplier to a foreign entity with a Bahrain branch, the foreign entity will be considered as "non-resident" in Bahrain for the purpose of that specific supply if its Bahrain branch(es) is not the most closely connected to the supply (i.e., the branch is not the "recipient" of the services)
- When a foreign entity with a branch in Bahrain supplies services to recipients in Bahrain, it will be considered as "non-resident" in Bahrain for the purposes of that specific supply if its Bahrain branch is not the most closely connected to the supply (i.e., the branch does not supply the services)

Disclosed Agent vs Undisclosed Agent

Where a person acts as an agent or an intermediary, it is important to identify whether he acts as:

- A “Disclosed” Agent; or
- An “Undisclosed” Agent (or “Commissionaire”).

The VAT treatment applicable to each of these agents is very different and is summarized below.

It is therefore critical to identify, based notably on the terms of the existing agreements, whether a taxable person acts as one or the other.

Disclosed agent

A “disclosed” agent is an intermediary who acts in the name and for the account of another person.

In a supply of goods or services, a disclosed agent can act either in the name and for the account of the “buying” party or in the name and for the account of the “supplying” party.

In any case, the “buying” and “selling” parties know the identity of each other and contract directly between themselves for the supply; while the disclosed agent simply facilitates the conclusion of the contract/supply.

For VAT purposes, there are two separate transactions:

- A supply of goods or services directly between the “supplying party” and the “buying party”; and
- A supply of agency/intermediation services between the disclosed agent and the person he represents (i.e., either the buyer or the seller).

The disclosed agent, taxable person, is liable to apply the correct VAT treatment solely on remuneration earned for his intermediation services (i.e., usually in the form of a commissions or success fee). He is also required to issue a tax invoice to the person for whom he acts as an intermediary.

The liability for the supply of goods or services lies directly and exclusively with the supplying party and the buying party.

Example

A private individual wishes to take out car insurance. He asks an insurance broker in Bahrain to provide him with a list of the best insurance products matching his requirements. Once the private individual chooses the insurance policy, the broker assists him with signing the insurance contract. The insurance contract is signed directly between the private individual and the insurance company. The broker will receive a commission (usually a percentage of the premium paid by the policy holder) in exchange for his services.

The broker acted as a disclosed agent, in the name and on behalf of the private individual, in this supply of insurance services. There are two supplies for VAT purposes:

- *A supply of insurance services between the insurance company and the private individual. The insurance company will apply 5% VAT on the premium charged to the private individual.*
- *A supply of intermediation/brokerage services between the insurance broker and the private individual. The broker will apply 5% VAT on his brokerage fee charged to the private individual.*

Undisclosed agent

An “undisclosed” agent is an intermediary who acts in his own name but for the account of another person. In a supply of goods or services, an undisclosed agent always acts in his own name but for the account of either the person actually supplying the goods or services or the person actually requiring the goods or services.

The undisclosed agent is interposed between the supplying party and the receiving party and these do not know the identity of each other and do not contract directly. The undisclosed agent enters into a contract, in its own name, with respectively the supplier and the buyer.

The undisclosed agent is considered to be acting as a principal in the supply of the goods or services to the purchaser (i.e., “buy-and-sell” arrangement). For VAT purposes, there are two separate transactions:

- A supply of goods or services from the actual supplier to the undisclosed agent; and
- A supply of the same goods or services from the undisclosed agent to the actual customer.

From a VAT perspective, the undisclosed agent will recognize a purchase of the goods or services and an on-sale of these goods or services. Any mark-up applied (if any) by the undisclosed agent when re-selling the goods or services is considered part of the value of the supply of these goods or service (i.e., it is not treated as a separate element from the selling price of the goods or services).

As the undisclosed agent is considered as selling the goods or services to the actual customer, he is, in principle, entitled to recover the VAT charged on these goods or services by the actual supplier (subject to all the conditions being met). It is expected that two tax invoices are issued, one by the actual supplier to the undisclosed agent and another by the undisclosed agent to the actual customer.

Example

A local computer company, taxable person, wishes to sell computers in Bahrain. It contracts with a local retail company, who will offer the computers for sale in its shops. It is agreed that the selling price to customers in the shops must not exceed BHD 100 (VAT inclusive) per computer (BHD15 more than the VAT exclusive price agreed between the computer company and the retail company, i.e. BHD 85).

When purchasing the computer, the customers will have a contractual relationship with the local retail company, which sells the computer at BHD 100 each (VAT included).

The retail company itself is considered as purchasing the computers from the computer company for the agreed amount of BHD 85 (plus VAT) each.

The computer company is required to charge 5% VAT on the BHD 85 per computer (i.e. BHD 4.25 VAT) and to issue a tax invoice to the retail company. The retail company is required to charge 5% on the selling price to the customers and to issue a tax invoice to the customer (BHD 95.24 + BHD 4.76 VAT). The retail company will be able to recover the VAT charged by the computer company.

Appendix B. Residence and place of residence

The place of residence of a person is defined in the VAT Law as either the “place of business” or a “fixed establishment” or the “usual place of residence”.

Place of Business

The place where the business is legally established or the place of its actual management, where the key decision relating to the business operations are taken, when different from the place of establishment.

For example, when a company is legally incorporated in Bahrain and is effectively managed and operated from Bahrain, its place of business is in Bahrain.

Fixed Establishment

Any fixed location for the business other than the Place of Business, where business is conducted, and which is characterized by the permanent presence of human and technical resources in a capacity that enables the Person to supply or receive goods and services.

Branches and representative offices usually qualify as “fixed establishments” for VAT purposes, to the extent they meet the criteria listed in the definition.

If a company is not legally incorporated in Bahrain but rents offices in Bahrain with local employees performing business from these offices all year-long, the company is considered to have a fixed establishment in Bahrain.

Usual place of residence

The place where a natural person usually resides where he/she does not have a place of business or a fixed establishment.

Where a person does not have a place of residence in Bahrain (neither by way of place of business, nor by way of fixed establishment or usual place of residence), it shall be considered as a non-resident for Bahrain VAT purposes.

