

# Bahrain VAT | CR 'renting'

## Background

### CR 'renting' can be summarised as follows:

- Party A, the CR owner, grants a third-party (Party B) the right to operate a business under Party A's entity (Entity 1). This will include the use of any licence associated with Entity 1.
- Party B will, generally, operate the business independently retaining all the revenue generated from, and be responsible for all the expenses and the day-to-day management of, Entity 1.
- Party A will, generally, charge a fee for 'renting' the CR of Entity 1 to Party B.
- Party A may also lease land and buildings to Party B or Entity 1.
- Party B may only utilize the licence associated with Entity 1 but carry on the business in another entity (Entity 2).

The arrangement may not necessarily have all the characteristics noted above and in some cases Party B may also be a part shareholder/partner in Entity 1 and Party A may be a 'silent' shareholder'.

These types of arrangements give rise to complicated VAT implications that many businesses may not have considered.

With the NBR **scrutinising** these arrangements and **penalising** businesses for incorrect VAT treatment and reporting, we have set out some of the key considerations for businesses operating under such arrangements.

## VAT and other regulatory considerations

- Does Party A have a separate VAT registration obligation in relation to the fee received from Party B?
- What is the VAT treatment of the fee being charged by Party A to Party B?
- What if Party A is also supplying land and buildings to Party B?
- Is the VAT treatment different if Party B is also a joint owner/shareholder in Entity 1?
- If Party B is utilizing the licence associated with Entity 1 but carrying on the business in Entity 2, how should the transactions be reported in each entity's VAT return?

If you have not considered the above, you may be incorrectly reporting the arrangement for Bahrain VAT purposes and may need to make a voluntary disclosure and amend your past VAT returns.

In addition to VAT, the above arrangement also gives rise to regulatory issues and may constitute non-compliance with Bahrain commercial laws and other regulations.

*This is for general information only and is not intended to address the circumstances of any particular scenario. Please seek professional advice in relation to your particular circumstances.*



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