

# Bahrain VAT rate increase: Issues to consider

28 September 2021

The Bahrain Cabinet has approved an increase in the standard rate of VAT from 5% to 10% with a proposed effective date of 1 January 2022. The announcement comes in response to the impact COVID-19 has had on the Bahrain economy and is aimed at stabilising the Fiscal Balance for Bahrain.

Businesses may have taken VAT cost less seriously as errors at 5% or the inability to claim input VAT may have not had a material impact on their finances. However, with the rate set to double, VAT should become a material consideration for most businesses - with VAT at 10%, errors and the inability to claim input VAT is likely to have a significant impact on businesses.

## General business impacts

- **Systems:** Amendments may be required to identify AP and AR transactions which have different VAT rates. Is the current system capable of running multiple VAT rates for the same transaction type?
- **Tax codes:** Will new tax codes be required to differentiate between invoices received before and after the effective date of 1 January 2022?
- **Contracts:** Will need to be reviewed to confirm if VAT can be charged at the new rate to existing customers.
- **Time of supply:** Supplies straddling the effective date and during the transition period will need to be carefully considered to determine the correct VAT rate to be applied.
- **Transitional:** For continuous supplies or supplies invoiced prior to the effective date but delivered after the effective date, an additional invoice may need to be issued.
- **Unregistered entities:** VAT at 10% will mean a bigger impact on their expenses.
- **Non-residents:** VAT refund claims will become more critical.
- **Input VAT:** Businesses suffering blocked input VAT or businesses that were not claiming input VAT due to poor documentation or other issues will need to reassess the impact.
- **Errors:** Businesses will suffer a bigger impact if they do not get things right.

## Sector specific impacts

- **Partial exemption calculation:** Should businesses explore alternative partial exemption ratio methods to optimise VAT recovery position?
- **Insurance and financial services:** How should revenue streams such as unearned premium reserves (UPRs) and long-term commissions on contracts spanning the effective date be treated?
- **Regulatory restrictions:** Will the CBB allow fee increases on retail financial products?
- **Islamic banking:** How will the increased rate impact cashflow on certain transactions?
- **Retail businesses:** How will the rate increase affect pricing strategy – are businesses able to pass on the entire increase on or will they need to absorb some of the increase?

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## Sector specific impacts (cont.)

- **Commercial and residential rents:** VAT at 10% will increase non-recoverable costs for landlords. Will they be able to pass this cost on? Will they be able to increase rents before the contract expiry to cover these increased costs?
- **Returned goods:** What will be the VAT treatment for returned goods? How will this be monitored?
- **Cash flow:** What will be the impact on the timing of stock and capital asset purchases? Should businesses be expediting high value purchases? Businesses that are in a refund position will need to consider impact on their cash flows.

## What can businesses do now to prepare?:

- Assess the impact that a standard VAT rate of 10% will have on their business
- Review processes and systems
- Perform a gap assessment of the existing IT and accounting systems to assess readiness
- Plan for changes to documentation templates such as invoices, credit notes and debit notes
- Review existing contracts
- Consider any immediate changes to marketing/pricing strategy

*This document 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. To know more about how we can assist, contact us:*



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