



Bahrain VAT rate increase to 10%

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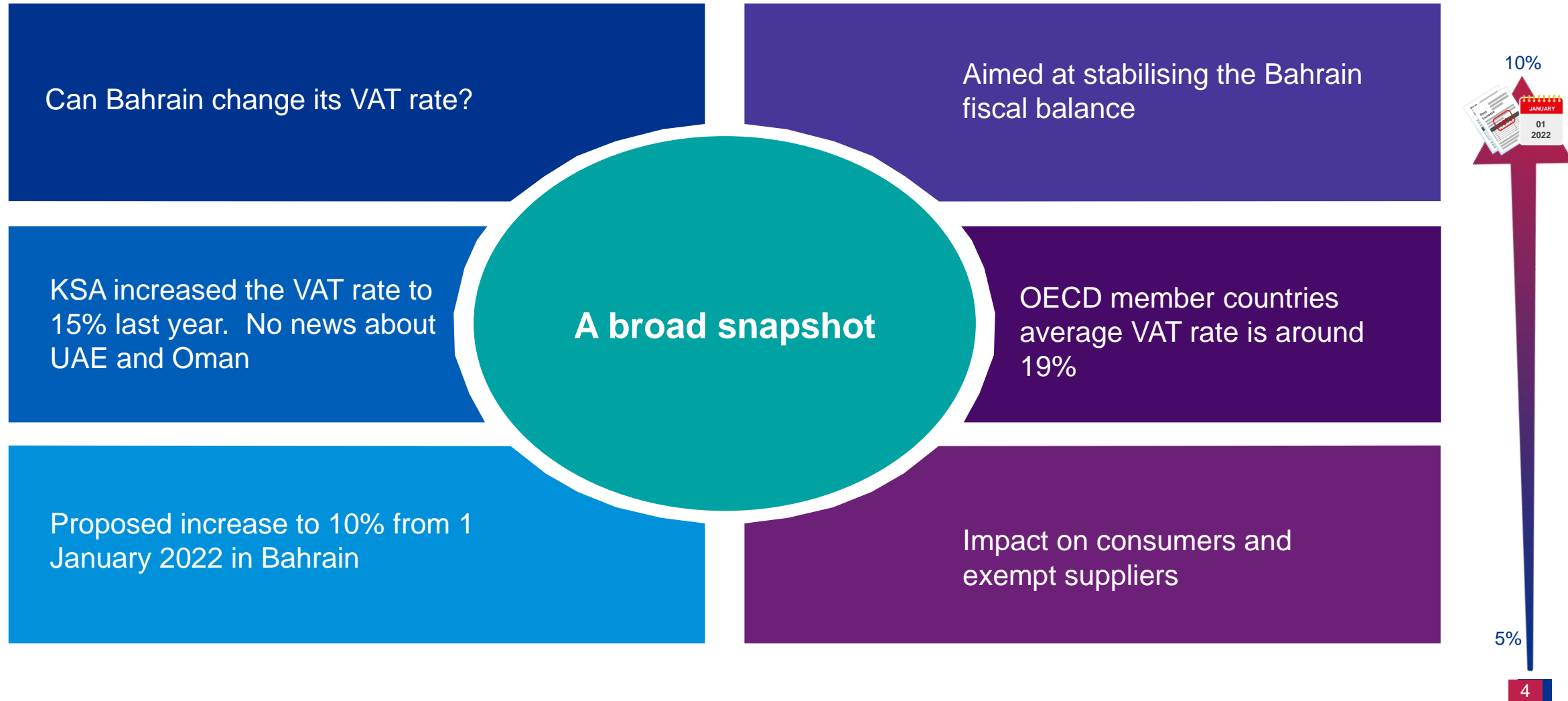
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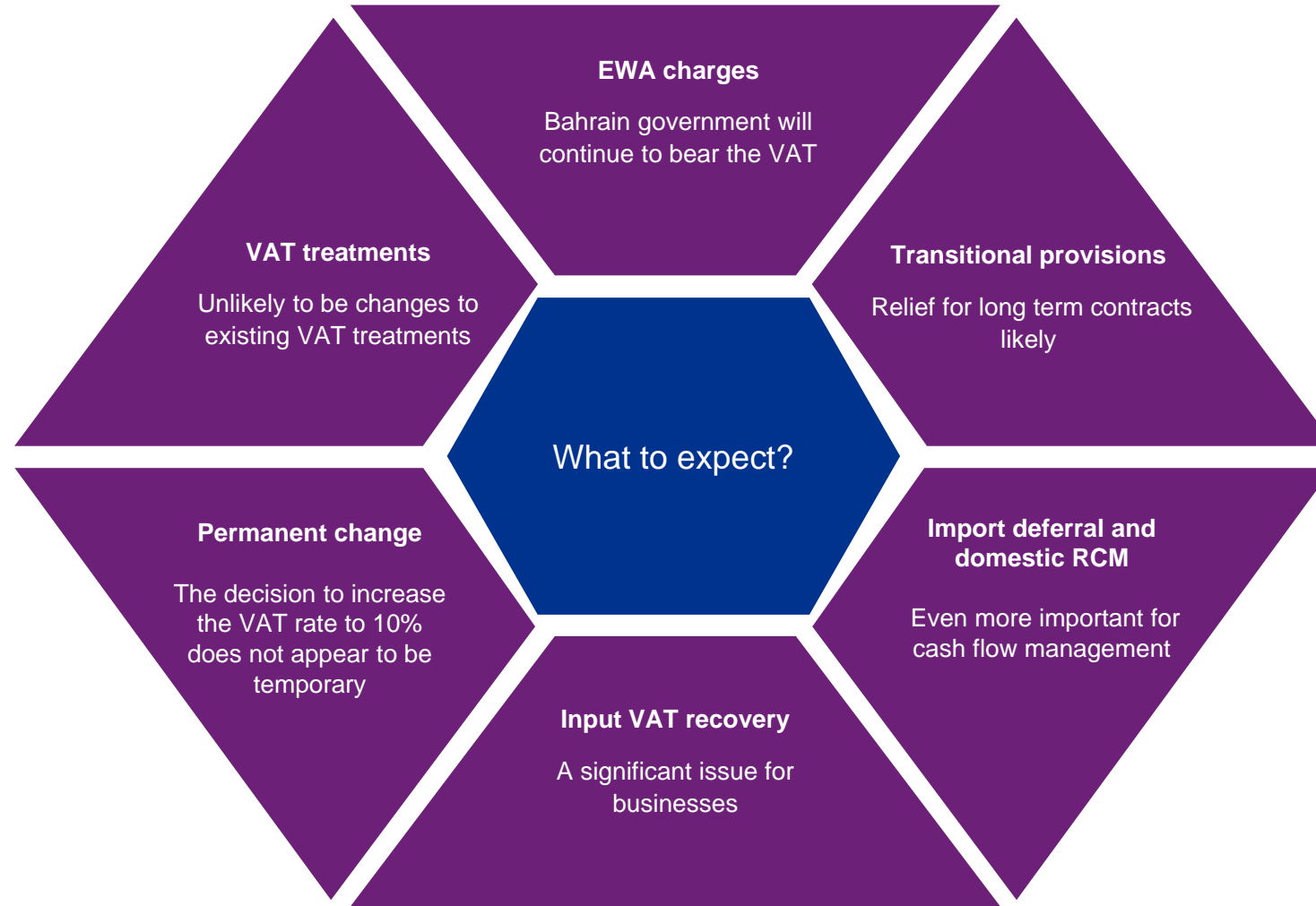
Agenda

- Overview and what to expect
- Potential transitional rules
- Impact areas for businesses
- Practical steps to take to ensure readiness prior to 1 January 2022
- Other important updates

Overview



Key expectations



Potential transitional rules

How will the transitional rules look like?

Will it be 10% on all supplies made from 1 January 2022?

If not, will there be a transitional relief period?

If yes, will there be a contract, invoice or general rule?



Potential VAT treatments

Rules applicable	Contract rule		Invoice rule		Transitional relief period*		
	Contract entered into		Invoice issued		Supply made (apportionment to be considered)		
	on or before announcement date	after announcement date	on or before announcement date	after announcement date	before 1 January 2022	during transitional period	after transitional end date
General rule	No	Yes	No	Yes	5%	10%	10%
General rule**	Yes	No	No	Yes	5%	10%	10%
Invoice rule	Irrelevant	Irrelevant	Yes	No	5%	5%	10%
Contract rule***	Yes	No	Irrelevant	Irrelevant	5%	5%	10%

Notes (*Bahrain may or may not have a transitional relief period. The proposed VAT rate change effective date is 1 January 2022):

The table above is based on the KSA VAT increase transitional rules:

- KSA had a contract rule, invoice rule and transitional period.
- Announcement date in KSA was 11 May 2020. Bahrain has not yet made an official announcement.
- Transitional period in KSA was 1 July 2020 to 30 June 2021. Bahrain has not specified this.
- Interactions between contract rule and invoice rule, as well as apportionment issues will need to be considered.

**Where conditions to apply contract rule cannot be met.

***On the assumption that the customer is eligible to recover VAT in full (with evidence).



10%

5%

Example 1: general rule (continuous supply)

Contract signed after the announcement date (assumed 1 October 2021) and there is a transitional period of one year till 31 December 2022

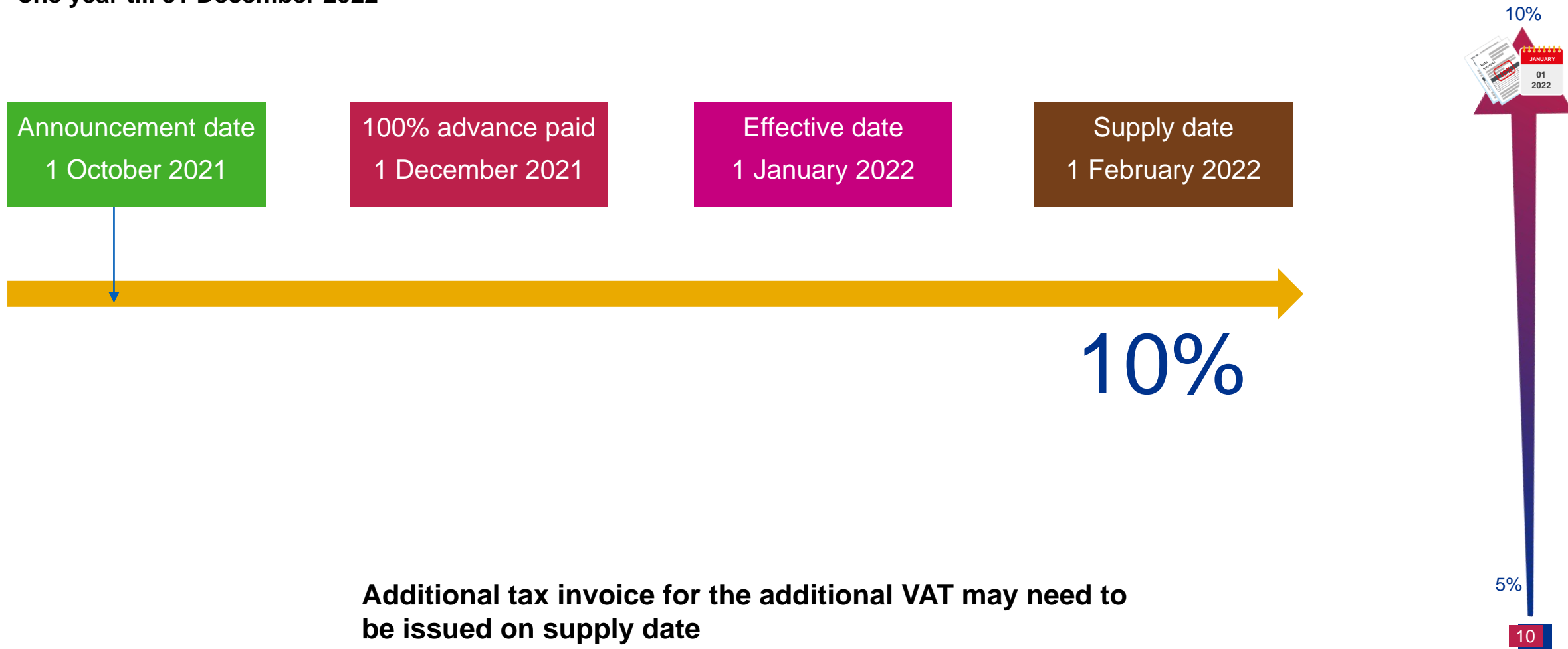


- apportionment to be considered
- additional tax invoice to be issued on 1 January 2022 for the differential 5% VAT



Example 2: general rule (one-off)

Invoice issued after the announcement date (assumed 1 October 2021) and there is a transitional period of one year till 31 December 2022



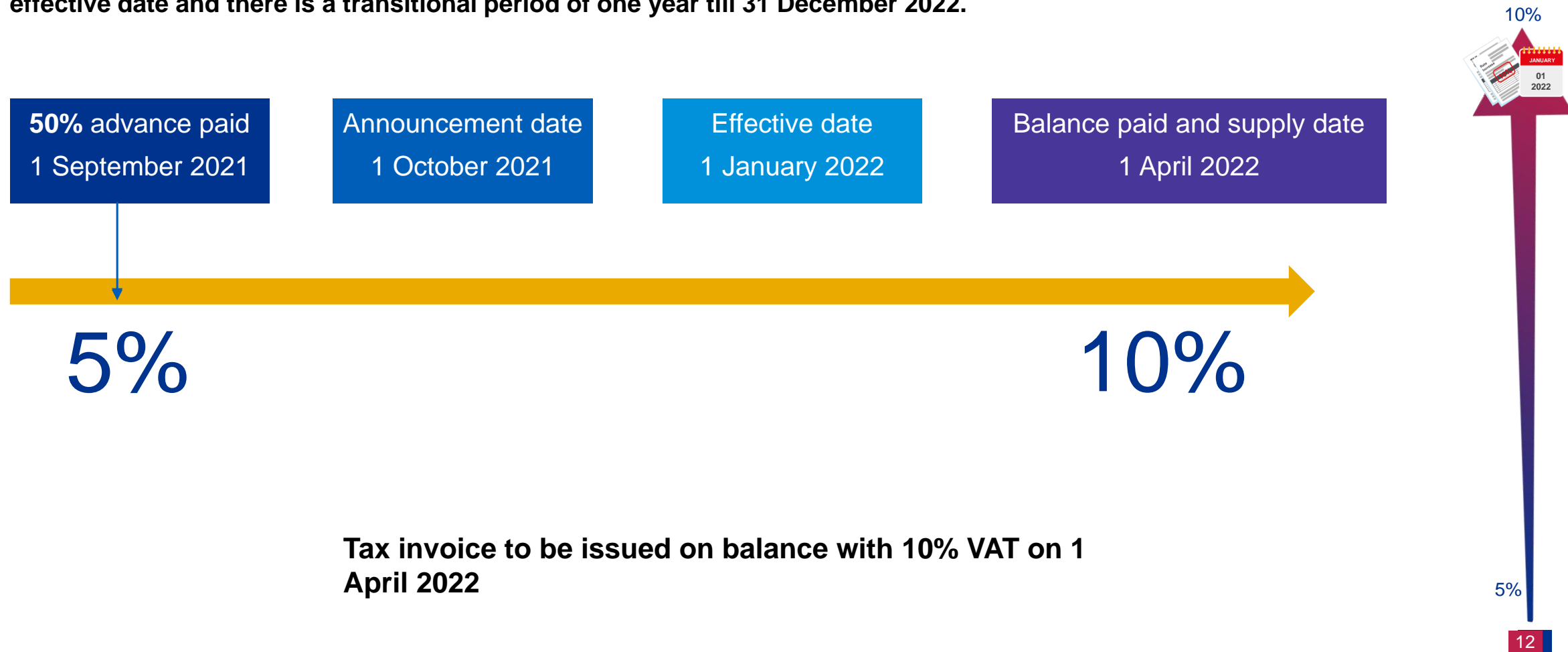
Example 3: invoice rule (one-off)

Invoice issued before the announcement date (assumed 1 October 2021) and there is a transitional period of one year till 31 December 2022



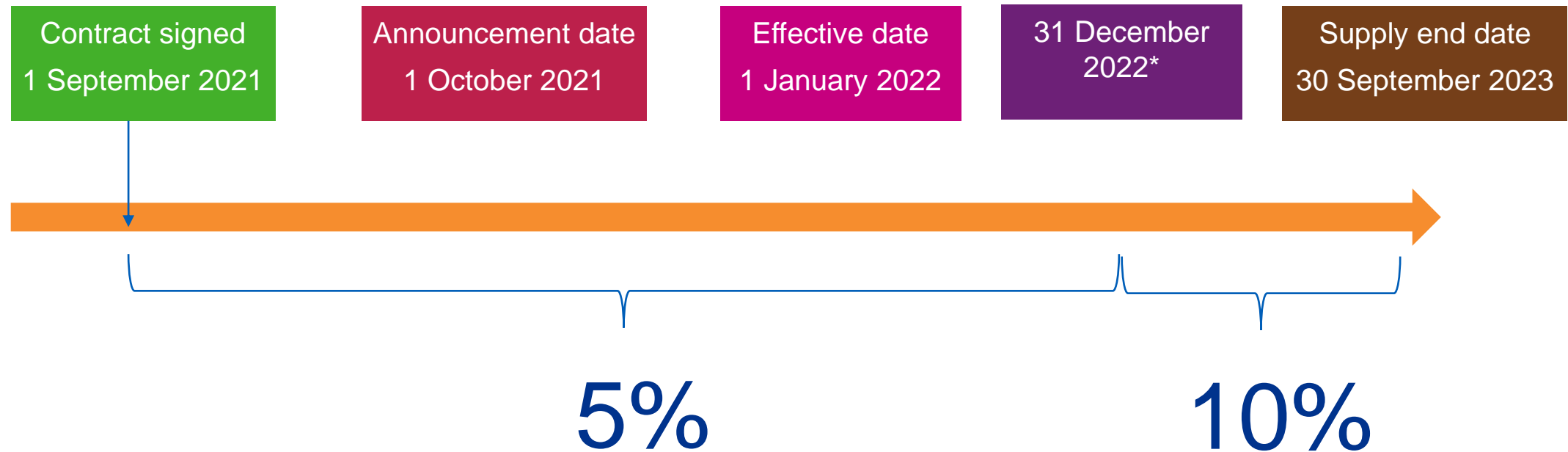
Example 4: invoice rule (partial payment)

Part invoice issued before the announcement date (assumed 1 October 2021) and balance invoiced after the effective date and there is a transitional period of one year till 31 December 2022.



Example 5: B2B contract rule (continuous supply)

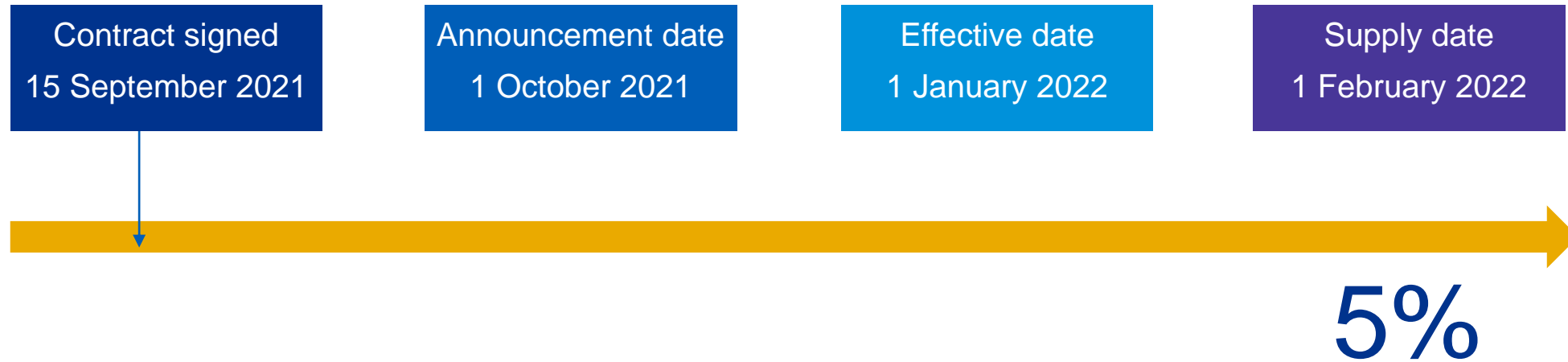
Contract signed before the announcement date (assumed 1 October 2021) and there is a transitional period of one year till 31 December 2022.



- apportionment to be considered
- additional tax invoice to be issued on 1 January 2023 for the differential 5% VAT
- this rule may apply only where the customer is entitled for full input tax recovery

Example 6: B2B contract rule (one-off)

Contract signed before the announcement date (assumed 1 October 2021) and there is a transitional period of one year till 31 December 2022



This rule may apply only where the customer is entitled for full input tax recovery



Transitional invoicing

Supply coverage period: 1 September 2021 to 31 August 2022
 Proposed VAT rate change effective date: 1 January 2022

Original tax invoice extract

Description	Amount in BHD
Value of supply	12,000.00
VAT @ 5%	600.00
Total amount payable	12,600.00

Additional tax invoice extract (to be issued on 1 January 2022 for continuous supplies and on supply date for one-off supplies)

Description	Amount in BHD	VAT amount in BHD
Value of supply	12,000.00	
- Supply subject to VAT at 5% up to 31 December 2021 (12,000 x 4/12)	4,000.00	200.00
- Supply subject to VAT at 10% from 1 January 2022 (12,000 x 8/12)	8,000.00	800.00
Total VAT payable		1,000.00
- VAT already paid		(600.00)
Outstanding VAT to be paid		400.00
Total amount inclusive of VAT	13,000.00	

**The illustration is based on the transitional relief not being available*



Impact areas

Sector specific impacts

Insurance

- Unearned premium reserves (UPRs) and long-term commissions

Banks

- Explore alternative PE ratios
- Ability to increase bank tariffs

Construction and real estate

- Impact on retention payments
- Impact on taxable service charges

Retail

- Revisit pricing strategy
- Marketing and promotion strategy

All sectors – Imports

- Impact of RCM on long term service contracts with foreign vendors
- Cut-off date for customs clearance



General business impacts

Systems

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.

Unregistered entities

VAT at 10% will mean a bigger impact on their expenses.

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.

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.

VAT refunds

VAT refund claims for non-residents and other eligible persons 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.



VAT clause

Does your contract have a VAT clause?

If yes, does it specify the rate?

Is it inclusive of VAT?

Is your customer eligible for input VAT recovery?



Next steps

What should businesses do now?

Supply transactions that straddle the transitional period

1

- Assess:
 - time of supply
 - VAT rate applicable (5% or 10%)
 - potential risk areas
- Review potential additional VAT liability due to time gaps between agreed payment terms (considering accounting principles) and VAT time of supply rules

%

Purchase Transactions

2

- Assess:
 - timeframe and VAT rate for input tax claim
 - partial exemption cost attribution
 - treatment of transactions subject to the reverse charge mechanism
 - potential risk areas



Systems

3

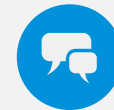
- Review system capabilities at a high-level to ascertain if the system can assign the appropriate:
 - Input VAT claim rate
 - Input VAT adjustment rate
 - Output VAT rate
 - Output VAT rate following an adjustment
- Review existing tax codes
- Conduct UAT



VAT clauses and VAT documents

4

- Review contracts
- Review document templates



Other important updates

Tax updates

NBR prior approval not required for obsolete stock disposal

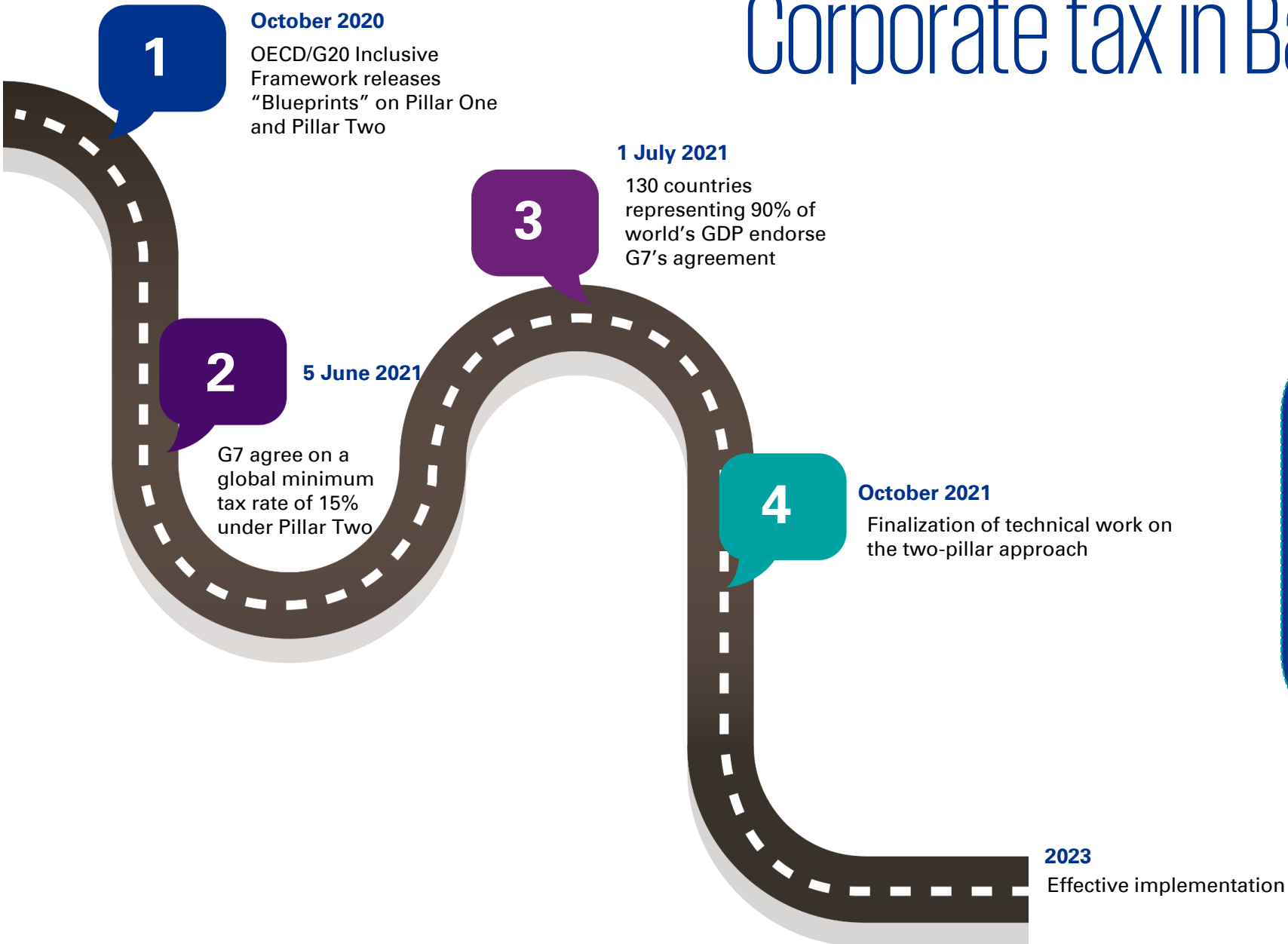
Conciliation scheme for tax evasion crimes activated

Violation notices and suspensions for ESR defaults

CbC notification due on 31 December 2021



Corporate tax in Bahrain?



What should businesses in Bahrain do?

- monitor developments
- assess impact
- track implementation



Thank you