Bahrain: Introduction of VAT
Effective from January 1, 2018 it is anticipated that Bahrain, along with the other member states of the Gulf Cooperation Council (GCC) will introduce a broad Valued Added Tax (VAT) at a rate of between 3-5%.

Who will be affected by the new tax?
All businesses in Bahrain will be affected since VAT will impact most sales of goods and services within Bahrain, where it is anticipated there would be limited exemptions and consumption tax relief. There will be a right for businesses to claim a credit for VAT paid on their expenditures, relating to their business activities.

Top key questions on VAT

| Who? | Taxable person refers to person liable for remitting VAT to tax authority  
|Taxpayer is the person on whom the final tax burden falls (i.e. the final consumer) |
| What? | VAT generally applies to all commercial activities divided in two categories:  
Supplies of goods:  
- EU VAT directive definition (similar in other jurisdictions)  
- the transfer of the right to dispose of tangible property as owner  
- sale of tangible property  
- occasional deeming rules—electricity, certain leases  
Supplies of services:  
- EU VAT directive definition (similar in other jurisdictions)  
- any transaction which does not constitute a supply of goods  
- everything that does not qualify as “goods”  
- includes also intangibles and transfer of rights  
| Where? | Distinction between two principles of sourcing:  
- origin: where production occurs  
- destination: where consumption occurs  
Goods:  
- generally taxable where consumption occurs  
- follows flow of goods  
- exports are not taxed  
- imports are taxed  
Services:  
- due to intangible nature, proxies must be used  
- e.g., where customer is established, immovable property is located, work is performed  
| When? | Time of supply may vary depending on type of transaction  
- E.g. importation in principle together with customs  
Other elements may influence timing  
- Payment methods: e.g. prepayment  
- Timing of invoice  
| How much? | Taxable amount includes everything constituting consideration obtained or to be obtained  
- Can be non-monetary consideration  
- Determination of what is included and not:  
  - taxes  
  - incidental expenses, such transport and insurance costs  
  - price discounts and rebates  
For importation of goods, customs value is used as basis, including customs duty
VAT readiness
The GCC countries are expected to sign the GCC Framework Agreements for VAT and Excise Duties in June 2016. The Ministry of Finance in Bahrain is likely to announce the VAT legislation, practical guidance and executive regulations regarding the new VAT law during the months that follow. Businesses should thus start preparing for the change despite the lack of specific guidance.

VAT review process

Impact review
• Taxability of sales
• Recoverability of VAT on purchases

Requirements review
• Registration and invoicing requirements
• Exemption certificates or bonds
• Indirect tax processes and controls
• Record-keeping requirements

Implementation
• VAT returns
• Training of staff
• Address issues beyond tax

Beyond tax
Such a fundamental change in the indirect taxation structure of Bahrain should be viewed from a holistic point of view, rather than focusing on the direct financial implications. It is will impact businesses in the following areas.

| Business processes | • Order-to-cash, procure-to-pay, and record-to-report processes will be impacted by the reform
• New forms (e.g., invoices) may need to be created for the order-to-cash process and new reports in the record-to-report process may need to be designed to facilitate completion of tax returns |
| Accounting/IT systems | • IT systems may need to be reconfigured to facilitate compliance with the new regime
• Vendor and customer master data may need to be changed, tax condition logic may need to be updated, and new tax code/GL accounts may need to be created |
| Supply chain | • The company’s supply chain may not be structured in the most efficient way under the new regime, resulting in a cash cost suffered by the business
• Indirect tax costs may arise from the wrong party acting as the importer of record |
| Contracts | • Contracts may need to be reviewed to help ensure compatibility under the new regime
• Key clauses may need to be added or amended (tax, pricing, change in law, etc.) |
| Product pricing | • Product or service price points may need to be reviewed
• If the customer cannot recover any tax charged, consideration may need to be given to whether the supplier wants to absorb some of the economic cost of the tax |
| Treasury | • Cash flow forecasts may need to be updated
• With credits arising under the new regime, company cash flows may change |

How KPMG can assist?
KPMG professionals can assist organizations with preparing for the implementation of VAT in Bahrain from a consulting, compliance, and technology standpoint.

• Consulting: our indirect tax professionals based in Bahrain, together with our international offices, are able to assist clients with any question relating to the upcoming changes, including, but not limited to, nexus study, taxability review, supply chain analysis, and review of compliance requirements.

• Compliance: our local Compliance Center will be able to assist clients with the preparation and filing of the new VAT returns.

• Technology implementation: our Transactions Tax Systems team can assist clients that are implementing automated solutions to their transaction tax compliance processes.