



Bahrain VAT Regulations – Synopsis for Real Estate Sector

The stage is set for implementation of Value Added Tax (VAT) in phased manner in the Kingdom of Bahrain (Bahrain) with the release of the Arabic version of the Executive Regulations (regulations) on 13th December 2018. As indicated in the VAT law released in October'18, real estate has been given the its due importance and most of the activities in this sector have been kept in the exempted and zero-rated category.

The impact of VAT on real estate sector has been analyzed by us on the basis of un-official translation of the Arabic version and the sector specific presentations released by the National Bureau of Taxation (NBT) and Ministry of Finance (MoF), Bahrain. Readers are advised to peruse the regulations and take counsel from WTS Dhruva or other tax advisors, before implementing any of the guidance / suggestions in their businesses.

Bahrain VAT on Real Estate Sector

Taxability	Coverage
Zero rated	Construction of new buildings or related to expansion of existing buildings whether residential or commercial
Exempted	Sale or Lease of: <ul style="list-style-type: none"> • Bare land • Residential building • Commercial building
Standard Rate @ 5%	Transactions other than above and some specific examples (as discussed later in the alert)



The details about the above zero rating and exemption benefits is outlined below.

Zero Rating of Construction activities

The following table help in understanding the terms and conditions linked to zero rating and taxability of Construction activities.

Particulars	Details
Meaning of “Building”	“Building” shall mean residential, commercial or industrial buildings, including houses, offices, plants, workshops, retail shops, multi-story parking lots, power plants, oil refineries, LNG plants or oil fields.
Construction & other supplies eligible for Zero rating	<p>Building construction services include the following:</p> <ul style="list-style-type: none"> • Construction works • Site permit services. Site clearance services • Expansion of existing buildings • Services rendered by engineers and surveyors, and any other similar supervisory services. <p>Further it also includes supply of goods in connection with the construction of new buildings include those used, installed or integrated in the building or its site, including the following:</p> <ul style="list-style-type: none"> • Construction materials • Materials required for the construction of raised floors for server computer rooms • Equipment and machines that are permanently installed as part of a building and cannot be removed without causing damage to the building, or machines and equipment • Goods required for: <ul style="list-style-type: none"> - Sewage systems - Pipes - Roads, pathways - Parking for building’s occupants and visitors - for water and communication services - Photovoltaic cells and other devices for generation of power and hot water for the building
Activities and supplies related to construction which is NOT eligible for zero rating benefit	<p>Building construction for the purpose of zero-rating services do not include the following:</p> <ul style="list-style-type: none"> • Demolition of existing buildings built on lands on which the new building will be erected. • Fees of architects and interior designers. • Renovation works <p>Further zero rate benefit is not available to any goods, equipment and machines that are not permanently installed as part of the building and that can be removed without causing damage to the building or equipment or machines, including:</p> <ul style="list-style-type: none"> • Furniture not fixed to the building. • Goods used for landscaping purposes • Swimming pools • Decorative lighting • Paintings, murals and other artworks • Carpets • Wall partition • Products supplied after completion of construction



Open Issues in zero rating benefit

- What is meant by “expansion” in the case of an existing building for the purpose of zero-rating benefit has not been clarified.
- Will the services of engineers and surveyors provided by any engineering / consulting firm or individual(s) to the contracting company (which does construction) also be eligible for zero rating benefit? If yes, whether any specific procedure to be followed?
- Will the supply of construction material, equipment that will be become part of the building, by vendors to the contracting company (which does construction) also be eligible for zero rating benefit? If yes, whether any specific procedure to be followed?

Exemption on sale or lease of Real Estate

The following table help in understanding the terms and conditions linked to exemption on sale or lease of bae land and buildings.

Particulars	Details
Benefit	Sale or lease of bare land and buildings (residential or commercial) is exempted
What is not covered in the exemption	Following do not form part of Lease of residential/commercial buildings: <ul style="list-style-type: none">• Accommodation in hotels.• Supply of parking lots for a fee, depending on the duration of use, provided that such period is not more than one month.• Lease of equipped office space where the customer shall not have the right to use a certain space exclusively (e.g. Business Centres)• Lease of event halls, exhibitions or a similar establishment.• The services of management, utilities, telecommunications, internet and television shall be calculated separately in addition to the rent of the real
Taxability of furnished & semi furnished accommodations	If value of rent is split between rent for the accommodation and the furnishings, then value pertaining to furnishings will be liable to VAT.



Open issues for exempted scenario

- In case of real estate rentals where a consolidated rent is being charged, whether it is mandatory to split the said consolidated rent into rent for the property and the service charges related to management of property, utilities, telecom, internet and television, etc.

WTS Dhruva's Comments:

- The regulations have given detailed explanation on what is exempted or zero rated or taxable in real estate sector.
- However, few aspects are still required to be clarified e.g. what qualifies as expansion of an existing building for zero rating benefit, whether charges for maintenance & other services need to mandatorily be separated from the lease rentals.
- Where the supplies by contracting company or real estate company, is liable to VAT @ 5%, zero rate as well as exempted, the contracting / real estate company shall split the contract value into what is taxable @ 5%, zero rate and exempted. The split should be based on fair market value of the goods / services.
- For exclusion from VAT on the construction work completed before VAT start date i.e. 1st January' 2019, obtaining the completion certificate is necessary.

Please read this alert in conjunction with our alert on Synopsis on the Bahrain VAT Executive regulations. WTS Dhruva will be happy to answer any query/ clarification or provide support in relation to Bahrain and GCC VAT. Please reach out to us at gccvatquery@dhruvaadvisors.com or at +973 16631921.



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