



## SYNOPSIS OF BAHRAIN VAT EXECUTIVE REGULATIONS

On 13th December' 2018 the Kingdom of Bahrain (Bahrain) issued the Arabic version of the Executive Regulations {Resolution 12 of 2018} (regulations) of the Value Added Tax (VAT) law due to be implemented in the Kingdom w.e.f. 1st January' 2019 (implementation date) in a phased manner. This is in line with the last two weeks of information and guidance released by the Ministry of Finance (MoF) and the National Bureau of Taxation (NBT), Bahrain.

This alert outline synopsis of certain important points which were left to be clarified by the regulations. These regulations help determine the changes that are required to be made by the businesses in their systems, processes, billings, though the time left for the VAT start date is very less.

Key aspects of the Regulations are summarized as below:

### Transition

- Transitional provisions have confirmed that NBT shall follow a phase-wise process for the mandatory registration for VAT for the year 2019 as below:

Phase	Registration Deadline	Effective Date of Registration	Annual Supply Value
1	Dec' 20, 2019	Jan' 1, 2019	> BHD 5 Million
2	Jun' 20, 2019	Jul' 1, 2019	> BHD 500,000
3	Dec' 20, 2019	Jan' 1, 2020	> BHD 37,500

- **Businesses will annual supplies of BHD 18,750 can opt for Voluntary registration.** The NBT has expressed its keenness to allow such registrations if opted and applied by the businesses. Voluntary registrations will help save Input tax cost that a business incurs just because it is not registered for VAT.
- Supplies made after the implementation date shall be chargeable under the VAT regime.

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**VAT shall NOT apply on goods delivered or services completed prior to 1<sup>st</sup> January' 2019.**

- The consideration outlined in the contracts entered prior to implementation date and didn't factor in VAT shall be inclusive of VAT for the period coming under the VAT regime.
- **For calendar year (C.Y.) 2019, Import VAT** applicable on import of goods into Bahrain by VAT registered entities for purpose of their business is not required to be paid in cash at customs but will be **reported and paid (to the extent input deduction NOT available) as per Reverse Charge mechanism (RCM)** in the VAT return to be filed by the entity. This is very beneficial from a cash flow perspective for registered entities when they are eligible for full Import VAT credit.
- NBT shall declare any GCC member state to be considered as implementing state for the purpose of VAT scheme.

### **Registration**

- The person liable to pay VAT is required to obtain VAT registration and will be granted a TAX Registration Number (TRN).
- Threshold (of annual supplies) for mandatory and voluntary registration from CY 2020 onwards is set at BHD 37,500 and BHD 18,750 respectively in line with the Common GCC VAT agreement.
- Application to NBT shall be made within thirty days from the last day of the month in which the annual supplies exceed the mandatory threshold or within thirty days before the month during which the value of supplies expected to exceed the mandatory threshold.
- Businesses opting for voluntary registration cannot opt to deregister for the period of 24 months unless business activities are ceased.

- **Tax group registration:** Regulations allow registrations for legal entities as Tax Group:
  - The legal entities are related persons
  - One of the legal entities will be lead Tax Group representative
  - All the legal entities are already registered for VAT in Bahrain
  - NBT will examine the case and may deny the Tax Group registration in specific cases
  - Government entities cannot become a member of the tax group
  - If Tax Group registration is granted, a new TRN will be issued.

### **Taxability**

- Goods and services liable to VAT and the manner of taxation has been provided in the law. Few aspects clarified by the regulations
- **Structured / Composite supply:** Supply of multiple goods or services for a single price where the various items of supplies are either closely related or where one is main supply and others are incidental or ancillary to the main supply, such supply shall constitute a structured or composite supply. These supplies are likely to be taxed as per the taxability of the main supply component.
- **Multiple / Mixed supply:** supply of multiple goods or services, which do not qualify as structured or composite supply shall be considered as mixed separate supply. These supplies are likely to be taxed as per the individual items supplied.
- Transactions between the **parent company and its branches** or amongst the branches of the same legal entity shall not be considered as a taxable supply.

- **Transfer of going concern:** Transfer of part or all the business / economic activity shall not be considered as a supply subject to certain conditions being met.
- **Gifts:** Gifts up to BHD 50 per person per year shall not be taxable as 'deemed supplies'. Further, if the total value of all such gifts exceeds BHD 1,000 in a year, then the excess will be taxable as 'deemed supply'.
- **Disbursements vs Recharge** for 'Pass Through' costs:
  - Recovery of fees/ expenses paid by the Supplier to a third party, in the name of and on behalf of the customer, is a disbursement and not liable to VAT in the hands of the Supplier
  - Recovery of fees paid by the Supplier to a third party, in its own name and then claimed from the customer is a recharge and is taxable i.e. two supplies - by the third party to the Supplier and a supply from the Supplier to the customer
- **Declared Price:** the price which is declared in the local market (whether online or through conventional promotions, ads, labels, stores, etc.) must include the amount of VAT.  
Industry-specific VAT implications are being outlined in separate Tax Alerts. Kindly refer to those alerts to understand the list of exemptions, zero rating, and conditions related to the same.

### Profit Margin scheme

- The scheme applies to the supply of used assets, artworks, artifacts, other items of scientific, historic or archeological importance which are bought from un-registered vendors or vendors using the same scheme

- Under this scheme, VAT is payable on the difference between the sales price and purchase price, with no input tax deduction.
- The scheme is optional and subject to approval from NBT.

### Tax Due date

As per Bahrain VAT law, the tax due date is earlier of invoice date, date of receipt of payment or date of supply of services/goods. The regulations prescribe rules in case of specific scenarios.

#### • For Service:

- The date of completion of service i.e. express approval or receipt of completion certificate from the customer
- For any secondary services provided after execution of the initial service, the due date shall be the date of completion of the said service without having any relation to the initial supply.

#### • For Goods:

- **Consignment sale:** date of supply of goods deposited by way of consignment.
- **Sale on trial basis:** earlier of acceptance by the purchaser or on the date of issuance of invoice.
- **Operating lease:** due date or the date of actual payment of lease rent, whichever is earlier.
- **Financial lease:** In general, date of supply of the goods to the lessee.
- **Deemed supplies:** on the date of supply, waiver, use or change of purpose or on the date of de-registration.

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- **For Vouchers:**

- In case of **single-purpose voucher**, tax due date shall be the date of supply of the said voucher based on the amount paid for the voucher (this seems to be in contrast with Article 7 of the Bah VAT law under which there is no supply on sale of the voucher at or below the face value)
- In case of a **multi-purpose voucher**, tax due date shall be the date of supply of the goods or services exchanged against the said vouchers.

### Imports

- Requirement for Import VAT payment in cash changed to RCM for Taxable importers for import of goods related to the economic activity in the 1st year i.e. CY 2019.
- For other years, the NBT may authorize the RCM method for import VAT payment for goods, when the following conditions are met:
  - The importer is registered for tax purposes.
  - The Taxable Person is registered at Customs Affairs at the Ministry of Interior.
- VAT shall not be due on the import of goods to the Kingdom via another Implementing (GCC) State if the NBT agrees that the due tax was paid in the said Implementing (GCC) State.
- A person who is not registered for tax purposes in the Kingdom and imports goods, will do so through an agent registered for tax purpose. The agent shall be responsible for payment of the tax due upon import, prior to clearing the said goods.
- Import VAT not applicable:
  - If VAT is exempted / zero rated on the product being imported
  - On import of personal belongings/gifts subject to some conditions

- Import for diplomatic and military purposes, subject to certain conditions
- Import for people with special needs subject to certain conditions

- **Import of services:** Import of services by a registered VAT entity will be payable as per the RCM methods where
  - the place of supply of service is in Bahrain (as per the prescribed rules) and
  - the service provider does not have a place of business in Bahrain

### Exports

- Export of goods is zero-rated. The goods should be exported outside the country within 90 days of the date of supply.
- **Domestic reverse charge mechanism:** Exporters (with 50% of revenue from exports outside Bahrain) can apply for domestic RCM for certain domestic purchase of goods & services by such exporters. This will reduce the amount of Input VAT that these exporters incur and later file for a refund
- **Export of services** is zero-rated subject to fulfillment of following conditions:
  - The services supplied to a customer with no place of residence in Bahrain
  - The customer is outside Bahrain when the service is rendered
  - Where the services relate to physical goods or real estate, these should exist outside Bahrain when services rendered
  - The benefit of services rendered shall be outside Bahrain

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## Input Tax deduction

- Input tax deduction: means availing credit of VAT charged on purchases i.e. by the vendor on goods or services sold to a business.
- Input Tax deduction can be availed for purchases pertaining to:
  - Business of taxable supplies whether sold/supplied within or outside Bahrain
  - supplies made outside Bahrain that would have been taxable in Bahrain.
- Input tax credit of any invoice can be availed anytime up to 5 years from the end of the year in which deduction was 1st available.
- No adjustments to the Input tax be made in case of goods are lost, destroyed or stolen.
- **Non-deductible Input Tax:** The rules in Bahrain are prima facie liberal than KSA e.g. proportionate credit allowed for Motor vehicles and related expenses i.e. repairs, maintenance, and insurance) to the extent used for business purposes
- Other cases of non-deductible Input tax are:
  - entertainment, recreational trips, events,
  - food & beverage, hospitality
  - goods & services for personal consumption of employees
  - purchases meant for exempt business
- For businesses having taxable as well as exempt revenue, the availability of credit related to taxable revenue, is based on the ratio of Taxable Revenue over Total Revenue of the business (deduction rate). While calculating this ratio following are not to be included:
  - sale of capital assets
  - incidental revenue (which is not the main revenue e.g. interest on funds in Bank, sale of scrap, etc.)

- Out of scope revenue

- **Input Tax deduction on Capital goods:** The rules are similar to with KSA rules with some exceptions. Highlights of the scheme are:
  - The adjustment period is 5 years for Intangibles & tangibles moveable assets and 10 years for immoveable tangible assets.
  - The credit in case of capital goods can be taken in the year in which goods are first used.
  - No credit reversal required if the goods are destroyed or lost before the end of the adjustment period. However, intimation needs to be filed before NBT.
  - In case capital goods are sold, adjustment may apply in certain cases.
  - In case of sale of business, adjustments need to be made w.r.t. credit taken on capital goods for which adjustment period is not yet over.

## Refunds

The regulations envisage refund in the following cases:

- For registered Taxpayers where input tax is more than output tax (net tax) in a given tax period. The taxpayer also has the option to carry forward the excess credit to subsequent tax period.
- In case of exporters
- In case of wrong payment of tax
- Refunds to foreign Governments, International organization, Diplomatic, Consular, Military bodies and missions (subject to some conditions)
- To tourists (subject to some conditions)



- To non-resident person in certain cases.

## Invoicing

- Invoice requirements under the Regulations are mainly in line with the KSA law except for mandatory requirement of Arabic language.
- **Tax Invoice** to be issued for taxable supplies in Bahrain or for exports. Tax Invoice should have minimum 14 data fields.
- **Simplified invoice** (with only 5 mandatory data fields) can be issued by the supplier in following cases
  - where the customer is unregistered under VAT,
  - supplies made are less than BHD 500
- **Summary Tax invoice** may be issued for supplies in a month to a single customer by the Registered seller. The contents of the summary invoice are same as the Tax Invoice.
- Input Tax deduction to be allowed basis original Tax invoice of the vendor. In case invoice is lost, vendor can re-issue the invoice and state it as 'duplicate invoice'.
- Subject to fulfillment of certain conditions, a registered customer/buyer may be allowed to issue invoice on behalf of the domestic registered vendor.
- Further, the Taxable person is required to self-bill in case of imports under reverse charge mechanism (import of services, deferment for goods) in order to account tax. This aspect has to be further confirmed since similar requirement in UAE has been not insisted by the Tax office.
- Taxable person is required to issue credit/debit notes in case of any amendment(s) to the original invoice.

- Bank statements are considered to be 'tax invoice' if it contains the following information:
  - Name, address and TRN of the taxable Bank
  - Name and address of customer
  - Issuance date
  - Applicable tax rate
  - Tax amount for each supply
- Summary of requirements in the tax invoice and simplified invoices are given in the below table:

### Minimum requirements for 'Tax Invoice'

1. Should mention the words 'Tax Invoice'
2. Name, address and TRN of supplier
3. Name and address of customer
4. Invoice date
5. Supply date, if different from invoice date
6. Invoice serial number
7. Description of goods/services supplied
8. Unit price exclusive of tax, value of goods or services in BHD
9. Discount value and net supply value in BHD
10. Tax rate and tax amount
11. Total amount due inclusive of taxes in BHD
12. Exchange rate used if currency other than BHD
13. Statement in case tax calculated using profit margin method
14. Reference to exempted supply in the transaction

### Minimum requirements for 'Simplified Tax Invoice'

1. Name, address and TRN of supplier
2. Invoice date
3. Description of goods/services supplied
4. Total value of supply after tax in BHD
5. Tax rate and tax amount in BHD

- In case of fraction of tax amount, it has to be rounded up to the nearest 'fil' as per the rounding rules.

## Returns

- Tax return is required to be filed in electronic form by every taxable person for each 'tax period', no later than the last day of the month following the end of the tax period.
- The 'tax period' for VAT returns is as follows:

	Turnover	Returns
Mandatorily registered in 2019	Over BHD 5 Million	Quarterly (quarter ending on Mar' 19, June' 19, Sept' 19 & Dec' 19)
Voluntary registered in 2019	Business with turnover of: <ul style="list-style-type: none"> <li>• BHD 5 Million &amp; below till 30 June' 19 and</li> <li>• BHD 0.5 Million &amp; below till 31 Dec' 19</li> </ul>	1st Return for the period DOR* to 30 June' 19,  And then 2 quarterly returns (for the quarter ending Sept' 19 & Dec' 19)
In CY 2020 & thereafter	Over BHD 3,000,000	Monthly returns
	Other cases	Quarterly returns

\* DOR – Date of Registration

- Following information for the relevant 'tax period' must be declared in the Tax return:
  - Value of Taxable supply at standard rate and tax due thereon
  - Value of supplies at zero rate
  - Value of RCM transactions and tax paid or due thereon
  - Value of increase in output tax due to adjustments
  - Value of total output tax due
  - Value of purchase done and deductible input tax w.r.t. these purchases

- Excess Input Tax from previous periods
- Deductible tax related to import transactions
- Any adjustments in input deductible tax
- Total value of Deductible tax
- Net due or recoverable tax

- Amendment of Tax return:

- The amended tax return must be submitted when the amount of actual net tax due (Output Tax less Input tax) is more than BHD 5,000 when compared with the net tax due as per return
- The amended tax return is to be filed within 30 days as of the date on which the Taxable Person becomes aware of the error and before the NBT initiates its control and investigation procedures.
- Any errors resulting in a net due tax of less than BHD 5,000 can be reported in any tax period subsequent to the original return period.
- No administrative fines for submitting an amended tax return when the said tax return is submitted within the deadline

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## Records

- Records to be maintained include:
  - Accounting books
  - Profit and loss statement & budget,
  - Records related to salaries and wages,
  - Fixed assets records,
  - Stock records and accounts,
  - Copy of tax invoice, credit notes, debit notes related to output sales and purchases,
  - Tax invoices, debit notes and credit notes received from vendors.
  - Customs documents related to import and export transactions,
  - any other additional records specified by NBT.
- Records can be maintained in Arabic or English language.
- Records may be maintained either in paper or electronic form. The Taxable Person who wishes to issue and keep tax invoices and documents electronically must obtain prior approval of the NBT
- For records to be maintained electronically, they must be easily accessible, not able to be manipulated, be furnished on demand.
- Records can be maintained and preserved by the third party, however, responsibility will always be of the registered taxable person.
- **Period of record retention:**
  - General: 5 years after the end of the tax period to which they relate
  - Capital asset: 5 years from the end of the tax period in which the adjustment period of the asset ends
  - Real estate assets: 15 years after the end of the tax period to which they relate.
- Before the expiration of the periods mentioned above, the NBT may require the person to retain the records for a further period not exceeding five years.
- In case of transfer of business to another entity or due to merger, the transferor (original taxpayer) is still required to maintain the records for pre-transfer date for the balance remaining period as outlined above.

We hope you find this alert useful. Further, industry-specific VAT implications are being outlined in separate Tax Alerts. Kindly refer to those alerts to understand list of exemptions, zero rating and conditions related to the same.

In case of any queries related to VAT in Bahrain, WTS Dhruva will be happy to answer any query/ clarification or provide support in relation to Bahrain and GCC VAT. Please contact [gccvatquery@dhruvaadvisors.com](mailto:gccvatquery@dhruvaadvisors.com) or at +973 1663 1921

### Disclaimer:

Our analysis is based on unofficial translation of the Arabic version of the regulations. Readers are advised to peruse the regulations in conjunction with the Bahrain VAT law & guides and take counsel from WTS Dhruva or other tax advisors, before implementing any of the guidance/suggestions to their business scenarios.





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