



## Key Highlights of Bahrain VAT Law

### Introduction

Bahrain publishes Value Added Tax (VAT) Law and is set to implement VAT from January 1, 2019

Post approval of the GCC framework agreement by the Bahrain Parliament, Shura Council approved the VAT Law to be implemented from January 1, 2019. The Arabic version of the VAT Law has been released and the same is available on the Ministry of Bahrain's portal. It is expected that the regulations to the VAT Law would be released shortly. Bahrain would be the third GCC country to implement VAT, following Kingdom of Saudi Arabia (KSA) and United Arab Emirates (UAE).

We are in the process of arranging an English translation of Bahrain VAT law, as published. On a reading of the Arabic law, it is observed that the law makers have attempted to keep the interest of the local population in mind as well as borrow best tax practices from the VAT laws of both KSA and UAE. For example, the list of exemption / zero rated products to cover critical sectors such as education, basic health care, food items, transportation, oil and gas etc. which impact public at large.



Many aspects will be clarified once the regulations are issued. For example, for the concession to land / building whether the same will only be for residential or also for commercial / industrial real estate. Similarly, whether;

- All types local transport services will be zero rated?
- Educational services provided by all institution or government or private institution will be zero rated?
- Meaning of preventive and basic healthcare for zero rated treatment

Therefore, the exact coverage of concessions and hence the applicable tax treatment will be determined once the regulations or latest clarifications are issued. Development in this regard needs to be closely monitored.

We are herein outlining the key aspects of the Bahrain VAT Law as below:

### **VAT Registration**

- Mandatory VAT registration for the businesses engaged in taxable supplies if the turnover exceeds the threshold (expected to be BD 37,500) during the last twelve months or expected to cross in next twelve months.
- Option of voluntary registration is available, provided certain conditions are fulfilled.

### **Applicability of tax**

- VAT at the standard rate of 5% will apply on supplies (and import) of all taxable goods and services.
- VAT would also apply on certain deemed transactions such as goods or services provided free of charge (gifts, samples, grants), change in use of goods for non-approved purposes, etc.

### **Zero-Rate Supplies**

Following are some of the supplies will be taxed at zero rate (subject to conditions / restriction / procedures that will be outlined in the regulations to be issued):

- Export of goods outside Kingdom of Bahrain
- Transportation of passengers and goods outside as well as within Bahrain
- Medicines and medical equipment



- Supply of preventive and basic healthcare services
- Educational services
- Specified Basic food products
- Oil and Gas sector
- Precious metals such as gold, silver, platinum of specified purity
- Supply of precious stones and pearls

All the zero rate supplies business may face tax refunds scenario (since the purchases for the business can attract tax). This will entail working capital costs to be appropriately budgeted.

### **Exempted Supplies**

Following are some of the supplies that will be exempted from tax (subject to conditions / restriction / procedures that will be outlined in the regulations to be issued):

- Financial services
- Sale and lease of vacant land / buildings
- Import of goods for specified purposes within the Kingdom of Bahrain

The transactions that are exempted will trigger an input VAT cost/ reversal.

### **Transitional provisions**

- If the supplies are made by way of delivery of goods or completion of services after the implementation date even if the contract was entered or collections done before the said date, these supplies will attract VAT.
- If the contracts entered prior to the implementation date are silent on VAT, VAT would be leviable treating such supplies on an VAT inclusive basis.
- For contracts entered with government prior to Implementation date (i.e. till 31 December 2018), the supplies would be regarded as zero-rated till 31 December 2023 or completion of contract (whichever is earlier), subject to conditions to be specified in the Regulations.



## **Fines and Penalties**

Fines or penalties for the defaults are as follows:

- Failure to register within 60 days of requirement – Penalty not exceeding BHD 10,000
- Delay in submitting the tax return or payment of tax – 5% to 25% of the tax amount
- Providing false data in the return leading to underpayment of taxes – 2.5% to 5% per month of the underpaid tax amount
- Fines up to BHD 5,000 in case of following:
  - Failure to cooperate or prevent the tax authorities
  - Failure to display the prices inclusive of taxes on the products
  - Failure to provide the correct information or documents to the authorities
  - Non-compliance with the invoicing requirements
  - Violation with any other rule of law or regulations

## **Imprisonment for Tax Evasion**

- In case of tax evasions – Imprisonment not less than 3 years but up to 5 years and penalty not less than 3 times the tax amount.
- In case of repetitive tax evasions within 3 years, penalty can be doubled.

## **Key VAT Compliances**

- Taxable person would be required to file VAT return for each tax period by end of the month following the tax period. It is expected that the tax period would be monthly or quarterly.
- Businesses are required to issue tax invoice (containing prescribed fields) within 15 days from end of the month in which the date of supply has occurred.
- Maintenance of records



Above highlights are the key issues based on the Arabic version of the Law and we shall keep releasing more updates to keep our readers apprised. For any clarification or support needed on Bahrain VAT please feel free to contact our Country Tax Head Gaurav Khurana at +973 3442 3043 (email: [gaurav.khurana@dhruvaadvisors.com](mailto:gaurav.khurana@dhruvaadvisors.com))



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