



Bahrain VAT Regulations – Synopsis for Consumer Retail 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, most of the activities in consumer retail sector have been kept in the standard rated category.

The impact of VAT on consumer retail sector has been analyzed by us based on unofficial 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 Consumer Retail Sector

Taxability in Consumer Retail Sector	
Taxability	Illustrative coverage
Standard Rate 5%	This will cover majority of goods/services.
Zero Rated	This will cover few offerings e.g. basic food stuff, specific medicines/ medical equipment's
Exempt/Out of Scope	This will cover few offerings. e.g. interest or margin financing to customers; multi-purpose vouchers, lease of real estate



We have listed a few scenarios that need attention by the businesses involved in the consumer retail sector as these may have considerable operational impact.

Particulars	Impact
Consideration received in parts (E.g. EMI schemes)	VAT will be payable at the time of delivery, irrespective of payment terms. Any interest would be treated as financial service, which is exempt
Advances	If any amount is paid before sale i.e. advance, VAT will be paid to the extent of that amount
Import VAT not to be paid in cash by registered tax payers	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. For subsequent years, special approval can be taken.
Cashbacks	Clarification provided by NBT suggests that cashbacks should also be treated as discounts. This needs further examination
Warranties	Manufacturing warranty not to be treated as an additional supply and hence not liable to VAT. However, warranties for separate price may be taxed; would need examination.
Vouchers	Single Purpose Vouchers: VAT will be payable on the point of sale (need to see how this reconciles with Bah VAT law)
	Multi-Purpose Vouchers: VAT will be payable when the voucher is redeemed for supply of goods or service
Simplified Invoice	Simplified invoice may be issued for transactions below 500 BHD or when customers are non-taxable
Zero rated products	About 94 food products which will be zero rated. This benefit will not apply if these items are supplied by caterers, restaurants, coffee shop etc.
	Specific medicines and medicals products will be zero rated. The list will be shared shortly.
Price Display	The price displayed on shelves, banners, hoardings, leaflets, on-line ads etc. must be inclusive of the VAT value.
FOC products/samples/gifts	Any supply made FOC will be considered as a deemed supply when its value is above BHD 50 per person per year. Further such supplies exceeding BHD 1,000 in total will also be treated as deemed supply
Loyalty schemes, Promotional schemes	The treatment of loyalty points, coupon discounts, other complex promotional schemes need to be analysed carefully to determine the exact taxability and amount of VAT payable.
Composite Supply of two or more items	Taxability to be based on the supply of main item when the other items are ancillary or incidental or so integrally linked to the main product and a common price is charged for all the items supplied. (e.g. mouse provided with sale of laptop)



WTS Dhruva's Comments:

- Blanket approval for discharge of Import VAT on of goods through the RCM method in CY 2019 is a very positive step from a cash flow perspective. For subsequent years, special approval can be taken.
- Taxability of vouchers in the VAT law seems to be in contrast with the treatment given in the regulations, thus supply or vouchers and redemption of vouchers against supply of goods/services need a careful consideration to determine the taxability and changed required in the IT systems & business processes.
- The treatment of loyalty point schemes, coupon discounts, other promotional schemes need to be analysed carefully to determine the exact taxability and amount of VAT payable.
- Display of the prices inclusive of VAT would pose a considerable operational challenge in the initial months.
- Special care needs to be given to goods supplied FOC to ascertain if they are part of a composite/ taxable supply (whether current or in past) or they constitute deemed supply.
- Major challenge to configure point of sale systems to handle vouchers, loyalty points, advances, returns, composite supplies etc.

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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