



VAT Update GCC

Financial Services



Bahrain is widely recognized, within the region, as the principal center for Islamic Financial Services (IFS) and it is home to some of the industry's leading financial institutions.

► VAT Update GCC - Financial Services

The Kingdom's financial sector has long been a dominant player in the region, and despite increasing competition from emerging financial centres in the region, continues to benefit from an advanced regulatory framework, an educated workforce and a relatively low-cost environment. All this is however likely to be impacted by the introduction of VAT and if we are to use Europe as a model, one can appreciate that VAT in the Financial Services sector can be extremely complex.

► What are Financial Services?

Financial services are defined as "...services connected to dealings in money (or its equivalent) and the provision of credit and include for instance the following";

- a) The exchange of currency, whether effected by the exchange of bank notes or coin, by crediting or debiting accounts, or otherwise.
- b) The issue, payment, collection, or transfer of ownership of a cheque or letter of credit.
- c) The issue, allotment, drawing, acceptance, endorsement, or transfer of ownership of a debt security.
- d) The provision of any loan, advance or credit.
- e) The renewal or variation of a debt security, equity security, or credit contract.
- f) The provision, taking, variation, or release, of a guarantee, indemnity, security, or bond in respect of the performance of obligations under a cheque, credit, equity security, debt security, or in respect of the activities specified in paragraphs (b) to (e) above.
- g) The operation of any current, deposit or savings account.
- h) The provision or transfer of ownership of financial instruments such as derivatives, options, swaps, credit default swaps, and futures.
- i) The payment or collection of any amount of interest, principal, dividend, or other amount whatever in respect of any debt security, equity security, credit, and contract of life insurance.
- j) Agreeing to do, or arranging, any of the activities specified in paragraphs (a) to (i) above, other than advising

► What is the VAT liability of Financial Services in the GCC?

- In both the UAE & KSA, by default, Financial Services are exempt from VAT if remunerated for an implicit margin, for example, equity security & life insurance contracts;
- Islamic Financial products which are certified as Islamic Shari’ah compliant and which simulate the same effect as a non-Shari’ah product will be treated the same as non-Shari’ah Financial Services for VAT purposes in both the UAE & KSA;
- Supply of Financial Services to recipients outside the GCC is zero rated for VAT;
- Supply of investment grade precious metals (example; gold, silver, platinum) at purity level of 99.9% and tradeable in global bullion markets are taxable at 0% VAT;
- In both UAE & KSA Financial Services remunerated by way of an explicit fee, discount, commission, rebate or similar charge will be subject to VAT at the 5% rate. Example:

Operation of Bank Account	Money Transfers	Card Related Services	Mortgages
Withdrawal fee Cheque Book fee Replacement Card fee Account Opening fee	Transfer Fee Swift transfer	Card Fee Lost Card Fee Overdraft Fee ATM Transaction Fee Balance Transfer Fee	Application Fee Early Repayment Fee Valuation Fee Refinancing Fee Variation Fee

► How will Financial Services Institutions be affected?

- The operational structures within the Financial Services sector is of such where there are numerous services provided for varying fee structures. Fee structures based on implicit margins will be exempt and this will impact the recovery of input VAT.
- The complexity of VAT in this sector may impact on the tax risk profile of Financial Services businesses;
- Compliance costs involved in getting internal systems configured & staff fully trained and ready for the introduction of VAT in Bahrain;
- The requirement to undertake complex calculations such as Partial Exemption and the Capital Assets Scheme calculations and keeping VAT records for extended periods between 6 - 15 years;
- VAT liability of intermediary services and outsourcing;
- The inevitability of VAT being a real cost to the sector as it relates to exempt supplies where input VAT on expenditure may be blocked from recovery in whole or in part;
- Unlike fully taxable business sectors, the Financial Services sector may be unable to recover all its input VAT associated with reverse charge on table services obtained from outside Bahrain;
- The risk associated with the VAT treatment of composite and multiple supplies;
- The challenge in identifying the tax point for continuous supplies of services;

► What should Financial Services Institutions do now?

1. Establish a relationship with a firm of trusted VAT specialists;
2. Arrange an IT review of your accounting systems to ensure its compatibility with VAT accounting & VAT compliance requirements in Bahrain;
3. Review long term contracts as there may be transitional & “grand-fathering” arrangements in the Bahrain legislation, especially where capital assets projects are concerned that has an element of continuous supply of services;
4. Review the use to which the Real Estate is put to use, that is, the extent to which they are used for taxable and exempt supplies as the Bahrain legislation is likely to specifically address these issues via the Partial Exemption & Capital Assets Schemes;
5. Make adequate preparations for the likelihood of input VAT being recoverable which will increase the cost base of the company;
6. Understand the potential VAT impact on the transfer of goods as part of a financial product or as collateral as part of a financing arrangement;
7. Have VAT expertise at hand to separately assist with determining the VAT liability of the company’s various supplies to ensure, VAT compliance as well as the avoidance of penalties being levied on the company by the tax authorities;
8. Consider the most tax efficient type of VAT registration, example, single registration or VAT grouping.



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Please note that the production of this document serves only as a high level guide to businesses operating in the KSA, UAE, and Bahrain and must not be taken as official VAT advice. The VAT treatment of an institution's income is rarely straightforward and it is always beneficial to take professional advice. If you have concerns around the VAT treatment of your income and purchases streams it is prudent to engage with VAT specialists in order to protect yourselves from applying the wrong VAT treatment.

BDO has a global presence and is experienced in providing support in relation to technical VAT issues. If any of the points raised in this alert have implications for your business then we can provide assistance with:

- A review of the income streams to assess any potential VAT liability;
- VAT registration of businesses;
- Quantification, compilation and submission of VAT returns to the Tax Authorities;
- Negotiations with the Tax Authorities