



VAT Update GCC

Real Estate

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The introduction of VAT on the Real Estate sector has its own challenges as the amounts involved are quite significant and there are usually many other forms of taxes already applicable to the transactions. With the daily expansion of Real Estate activities in Bahrain one can see where the introduction of VAT will be a major factor for property developers, and as such a greater degree of attention ought to be given to the interaction of VAT with the Real Estate sector.

What is considered Real Estate for VAT Purposes?

- Any specific area of land over which rights of ownership or possession or other rights can be created;
- Any building structure or engineering work permanently attached to the land; or
- Any fixture or equipment which makes up a permanent part of, or is permanently attached to the building, structure or engineering work.

What is the VAT liability of Real Estate in the GCC?

- The sale or lease of non-residential Real Estate in both KSA and UAE are chargeable to VAT at the rate of 5%;
- First time supply of charity related buildings in UAE are taxed at 0% VAT;
- The sale of residential Real Estate in KSA is standard rated with one notable exception;
- For the leasing of residential Real Estate, this is exempt in both the KSA and UAE subject to certain conditions being met; however
- The UAE has zero rated the first supply of residential Real Estate within 3 years of its construction.

What should owners of businesses within the sector do now?

1. Establish a relationship with a firm of trusted VAT specialists;
2. Arrange a review of your billing & accounting systems to ensure compatibility with VAT accounting & compliance requirements in Bahrain;
3. Review long term contracts as there may be transitional & “grand-fathering” arrangements in the Bahrain legislation;
4. Review the use to which Real Estate is put, whether residential, commercial or mixed use as the Bahrain legislation is likely to specifically address these issues via the Capital Assets Scheme.
5. Ensure that the drafting of contracts between the supplier and buyer of Real Estate includes a clause on VAT;
6. Gain an understanding of the impact of the VAT legislation and the tax point rules on stage payments relating to the supply of Real Estate;
7. Make adequate preparations for the possibility of input VAT directly attributable to the supply of serviced residential accommodation (referred to as “blocked goods”) being non-recoverable.
8. Have the VAT expertise at hand to separately identify mixed and composite supplies especially in relation to security & maintenance supplies for serviced accommodation.

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. It is therefore suggested that businesses engage with VAT specialists in order to protect themselves from applying the wrong VAT treatment to their supplies as this may negatively impact on their cash flows and their tax risk profile with the relevant authorities.

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

VAT is complex,
but you can address the challenges
and reduce disruption and cost to
your business with a pragmatic
and comprehensive approach.

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