



VAT in Bahrain

Updates and news February 2018

Bahrain's Minister of Finance H.E. Shaikh Ahmed bin Mohamed Al Khalifa signed the unified Gulf Cooperation Council (GCC) Value Added Tax (VAT) Framework Agreement back in 2015.

The Minister also signed the GCC's unified law system on selective excise taxes. In Bahrain, selective excise taxes have been levied on tobacco as well as sugar sweetened beverages including soft drinks and energy drinks. These excise taxes are introduced on 30 December 2017. The excise levies applied to 924 products 50% on carbonated drinks and a 100% tax on cigarettes and energy drinks.

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Recent Update on Bahrain VAT:

Bahrain will go ahead with imposing a value-added tax to strengthen state finances, Minister of Finance Sheikh Ahmed bin Mohammed Al Khalifa said on 22 February 2018.

“We’ll be working with parliament on VAT and aim to have everything set up by the end of 2018”, Sheikh Ahmed told an investment conference in Manama, without giving a firm date for when the tax would be launched.

Key features of the GCC VAT framework:

- The standard VAT rate will be 5% unless a zero rate or exemption applies.
- The Member States have the right to subject the following sectors to a zero rate or to exempt them from VAT:

Education

Health

Real estate

Local transport

- The Member States have the right to subject the oil sector, petroleum derivatives, and gas to a zero rate of VAT.
- Individual GCC countries have the right to subject certain food products to a zero rate of VAT.
- The Member States have the right to subject medical supplies to a zero rate of VAT.
- Intra-GCC and international transport will be subject to a zero rate of VAT.
- The export of goods to jurisdictions outside of the GCC Member States will be subject to a zero rate of VAT.
- The Member States have the right to exempt financial services from VAT.

The term financial services is not defined but broadly the exemption will generally relate to dealings in money, securities, foreign exchange and the operation and management of loan accounts, deposits, trade credit facilities and related intermediary services.

The exemption is not expected to extend to fee based services transacted by a financial institution. However, Member States may choose to apply different VAT treatments to financial services if they wish.

- Supplies of goods and services from a VAT registered person in one Member State to a VAT registered person in another Member State are subject to the reverse charge mechanism.
- VAT grouping is permitted between two or more legal persons resident in the same Member State, subject to certain conditions.
- The treatment of GCC free zones is not addressed and it is left to each Member State to determine its own VAT treatment for free zones. However UAE have announced 20 free zones as designated zones and provided certain exemptions.
- Businesses with an annual taxable revenue of over BHD 37500 will be required to register for VAT purposes with certain exceptions.
- Businesses with an annual taxable revenue or taxable expenses between BHD 18750 and BHD 37500 will have the option to register for VAT purposes.

Way forward

Bahrain businesses should initiate a VAT impact assessment immediately in order to determine the impact that VAT will have across their operations. This assessment should consider the impact of VAT on the following key areas:

- Finance and accounting
- IT and systems
- Tax and compliance
- Supply chain - goods and services
- Contracts
- Sales and marketing
- Legal structure
- Human resources

The impact assessment should be used to develop a clear plan as to the steps that must be taken to be ready for VAT from Go-Live date.

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