



VAT IN THE GCC

VAT in World

Value added tax (VAT) is a tax system used by a number of governments around the world as a means of raising additional revenue. The tax is quite simplistic in its concept, as it is only charged on taxable supplies made by taxable persons in the course or furtherance of a business.

However, despite its simplistic concept, its application has become very complex over the years as evidenced by the continuous court litigations and updates to already existing VAT laws in Europe. It is for this reason that businesses should give special attention to its introduction and ongoing developments in Bahrain.

The political popularity of a value added tax system is of such that it currently exists in approximately 166 countries according to the Organisation for Economic Co-operation and Development (OECD). The application of VAT raises large amounts of revenue because it applies to a significant proportion of economic activity.

Using the United Kingdom (UK) as an example, the VAT revenue raised by the Treasury in quarter 4 of 2017 was approximately BHD 17 billion (31 billion pounds).

VAT has existed in the UK for over 40 years and the lessons learned from its introduction and application is of benefit to Bahrain and other GCC States.

Bahraini businesses must adequately prepare for the introduction of VAT in Bahrain, and update their technology to comply with compliance and e-filing requirements.

Businesses should keep in mind that a well-planned transition is important. The introduction of such a tax requires adequate administrative capacity, training and technology, and it is equally important that business owners should take a long-term rather than short-term view to be effective during and after the implementation period.

SECTOR :

Indirect Tax

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What is VAT?

VAT is an indirect tax, meaning it is based on the consumption/acquisition of goods and services. It is a tax that is applied at each stage of the supply chain on taxable supplies made by taxable persons in the course of business. At each stage of the supply chain, the VAT levied is collected by supplier businesses on behalf of the Government. In this arrangement, VAT is ultimately incurred and paid by the end consumer. Although VAT will apply to most goods and services there are some likely exceptions and these exceptions depend on each country's VAT legislation.

How does VAT work ?

VAT registered businesses charge and add VAT to the value of goods and services they supply. Such businesses can also reclaim VAT incurred on goods and services acquired for business purposes (subject to some restrictions) such as the purchase of raw materials and other consumables used for the purposes of business.

VAT in GCC Countries:

Each GCC Member State has signed up to and is bound by the Common VAT Agreement (CVA) of the States of the Gulf Cooperation Council; similarly to how the European Union Member States are bound by the Principal VAT Directive (PVD).

Each Member State of the GCC will establish their own separate domestic legislation in the spirit of the guiding principles found within the CVA. The drafting of different national legislations is likely to create differences in the VAT rules and compliance requirements when comparing one GCC Member State to the next. This is clearly evident when comparing the national legislation of the two implementing States, Saudi Arabia and the United Arab Emirates. This reality alone makes it impossible to predict the detailed VAT rules of the Bahraini legislation which is yet to be made public. As such we outline below an overview of the expected general underlying VAT compliance requirements.

An inherent feature of VAT is its self-assessment nature, meaning every business which is VAT registered (or required to be VAT registered) must record, assess and report its VAT obligations and entitlements, in accordance with the law, to the tax authorities. Other requirements of VAT will include:

- **Mandatory registration for VAT for all Bahraini businesses making taxable supplies exceeding the mandatory VAT registration threshold of BHD 37500**
- **Filing of periodic VAT returns with the tax authorities (either monthly or quarterly).**
- **Remitting any VAT payable by a specified date.**
- **Record keeping in respect of all business transactions:**
 - **Tax invoices**
 - **Debit or credit notes**
 - **Import and export records & Intra-GCC supplies**
 - **Records of goods/services provided for free or allocated for private use**
 - **Zero rated or VAT exempt supplies and purchases**

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VAT in Bahrain:

The Minister of Finance said in a meeting of the ministry held on 9th of January, 2018 that the Kingdom of Bahrain will be officially implementing VAT in early October of this year. However, there are subsequent unconfirmed reports suggesting that the implementation date may be delayed until the end of 2018. Businesses are however advised to use the time available to modify their systems and commence dialogue with VAT experts in order to ensure a smooth transition to VAT once it is implemented.

A standard rate of %5 VAT will be implemented on many types of goods and services in the Kingdom. However some supplies by particular sectors may be charged at a rate of %0 or be exempt from VAT.

According to IMF forecasts, the Kingdom of Bahrain will earn revenues of over BD 200 million from the introduction of VAT.

These revenues from VAT will be used for the establishment of a high network of infrastructure, which includes construction of roads, streets, and bridges. VAT will also contribute to the improvement of transport and communications, construction of hospitals, educational facilities and other essential services provided by the State.

Impact of VAT on Business:

Value added tax (VAT) is not just an accounting or tax challenge. It impacts every part of the business with regard to cash flow, costing of capital, pricing of products and services, financial reporting, tax accounting, compliance processes, supply chain, procurement and contracting. In addition, there will be significant training needs for personnel to understand and operate effectively under a VAT regime.

The planning for readiness program to implement VAT will require proactive and timely preparation. Companies will need to start by understanding key areas of impact to their business model, and preparing different scenarios for the design and application of VAT. The implementation of changes will have to be managed through robust program management across various company stakeholders in the entire value chain.

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Our Approach:

VAT is complex, but you can address the challenges and reduce disruption and cost to your business with a pragmatic and comprehensive approach. We have organized VAT work streams that involve impact assessments, service design and implementation, as well as ongoing VAT technical analysis, advisory, training, project and change management. We can help you through all phases of implementation, providing advice and recommendations for managing VAT compliance, addressing VAT costs and avoiding significant penalties:

Phase 1: VAT impact assessment

Phase 2: Planning, preparation and implementation

Phase 3: Post-implementation assistance

Our Team:



STEPHEN KITCHING
VAT Director

Steve is our Director of VAT in the Tax practice of the Firm. He has over 20 years of industry experience in the commercial accountancy environment where Steve was the Financial Controller for the UK's postal operation and logistics services in London. Steve has also been a VAT inspector of taxes for the UK government where he used to be responsible for performing VAT audits of business accounts and control systems and raising VAT assessments and penalties to businesses who were not VAT compliant to the UK VAT legislation.

For the past 13 years Steve has been employed at senior positions in VAT for Ernst & Young, Deloitte and Grant Thornton where he has specialized in the Communications sector, land & Construction sector, retail and leisure and for the past 6 years Oil & Gas major clients such as Wood Group, Suncor and Nexen, Schlumberger and Aker Solutions.

Steve has a wealth of VAT knowledge where he has been able to go into businesses and perform VAT reviews and implementation projects which assist with cash-flow savings and greater VAT controls and procedures. Steve has strong negotiation skills which help to settle compliance issues between clients and the tax authority.

Steve has also been involved in numerous VAT disputes and court cases against the tax authorities whereby the EU VAT legislation has been correctly applied by the UK tax authority. This has led to many successful outcomes both in the UK but also in other EU member states. Steve leads the BDO local VAT practice based in Bahrain supported by other VAT professionals in Bahrain and the wider BDO network.

Steve's professional qualifications include VAT BTEC Diploma Advanced, Qualified Industrial Engineer and NVQ Level 3 Management.

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MARLON APPLETON
Senior Manager VAT

Marlon is our Senior Manager of VAT in the Tax practice of the Firm. He has over 10 years' experience in a variety of sectors including; construction, land and property, financial services, manufacturing and local government.

Prior to joining BDO Marlon was a regular writer for the Law Society in the United Kingdom, producing valuable insights on VAT and Stamp Duty Land Tax in relation to the local property market.

Marlon was also a private VAT & Indirect Tax Consultant for the retail and hospitality sectors and regularly holds seminars to provide guidance on VAT & Indirect Tax.

At the management level he has worked with companies such as Grant Thornton, Ernst & Young, Mitsubishi Hitachi Power Systems, GE Capital Europe, EDF Energy, UPS SCS UK Limited and Pignone Engineering.

Marlon's mixed background in VAT has generated an acute sense of commercial awareness and other transferable skills which will be beneficial for negotiating with the tax authorities, improving the cash savings of businesses, providing clear guidance and training to management and staff of client businesses and using VAT legislation to produce effective tax planning.

Marlon's professional qualification is as follows: Fellow Member of the Association of Chartered Certified Accountants (ACCA).

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