



# TWO-DIGITS VAT IN BAHRAIN FROM 1 JANUARY 2022

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## KEY CONSIDERATIONS FOR VAT RATE CHANGE

### NATURE OF CONTRACT

VATpayer to determine whether a contract qualifies as a one-off supply or continuous supply from VAT perspective. This is crucial for applying correct VAT rate where the supply of goods and services is made during the transitional period and beyond.

### CHANGES TO CONTRACT

Certain changes or amendments made to a contract on or after 24 December 2021 could result in losing the entitlement to transitional rules. VATpayer should specifically pay attention to changes which affect duration of contract, quantities supplied and agreed consideration as it may result in supplies subject to VAT at 10%.

### DATE OF SUPPLY

The VAT rate to apply depends on the date of supply rules. In simple terms, this is the date on which the supply of goods or services is considered to occur according to the VAT Law. The general time of supply rule is the earliest of when:

- an invoice is issued;
- payment is received; or
- date of completion of services or delivery of goods

However, some transactions have different date of supply rules such as continuous supplies. Business should evaluate the applicability of the revised rate based on the time of supply of goods and services vis-à-vis the date of contract.

### VALUE OF SUPPLIES STRADDLING 1 JANUARY 2022

Apportionment of value of continuous supplies straddling

the relevant dates under transitional rules will be driven by the nature of contract i.e. whether the value of contract is fixed or whether the value of contract is fluctuating.

### DISPLAYED PRICES

All prices advertised or quoted by VATpayer for taxable supplies should be inclusive of VAT at the standard rate (unless the supply is zero-rated). VATpayer must therefore check that all price tickets, labels, quotations, advertisements, etc., to reflect the new VAT rate of 10% from 1 January 2022 to avoid under declaration of output tax as a result of incorrect VAT rate used.

### CONTRACTS AND COMMUNICATION

VATpayer may generally recover the price increase as a result of the increase in VAT rate from their customers. However, some challenges could be faced where the contract price is inclusive of VAT or the contract explicitly mentions the old VAT rate.

Advisable to re-visit contracts spanning the Law Enforcement Date and Effective Date of VAT rate change to assess the potential commercial impact.

Existing and potential customers should be informed of the increase in the total contract price as a result of the increase in the VAT rate (where applicable).

### BILLING SYSTEMS, ISSUANCE OF TAX INVOICES, DEBIT AND CREDIT NOTES

VATpayer must ensure that billing systems are updated to include VAT at 10% as new VAT rate may be applied even before 1 January 2022 under certain circumstances. If not, the VATpayer may be required to amend the VAT return. The billing systems should be able to deal with dual rates during the changeover period and on adjustments/ credit notes.

VATpayer should test the systems for errors, and check that transactions are processed and reflected at the correct VAT rate.

Tax invoices issued from 1 January 2022 should reflect the correct VAT rate. This will generally be 10% unless transition rule applies.

VATpayer issuing debit or credit notes from 1 January 2022 must ascertain that the correct VAT rate is applied. Typically, adjustments may follow the VAT treatment of original supply of goods or services.

### ACCOUNTING SYSTEMS

Accounting systems and other administrative systems must be updated to correctly reflect the VAT amount when capturing any document on the system to safeguard against an over or under claim of the VAT amount.

VATpayer should test the systems for errors, and check that transactions are processed and reflected at the correct VAT rate, in order to any penalties due to an under declaration or an over claim in the return.

## KEY CONSIDERATIONS FOR VAT RATE CHANGE (CONTINUED)

### PROCUREMENTS

Over the transitional period, VATpayer may receive both Tax invoices where 5% VAT is charged and on where 10% VAT is charged. VATpayer should have sufficient processes in place to ensure input tax recovery matches to the VAT amount actually paid and VAT amount stated on the tax invoice.

VATpayer should devise strategies where the input tax credit was not claimed on the consideration that the initial 5% VAT was not impacting the top-line majorly, due to non-compliant invoices from vendors, errors in accounting, procurement made relates to employees, etc.

VATpayer having exempt supplies can evaluate options where input tax credit is disallowed or partially allowed as an additional VAT could have financial impact for the organization.

### IMPORT OF GOODS

Worthwhile to see the VAT rate applied by Bahrain Customs Authorities for import of goods on and after 1 January 2022.

### REVERSE CHARGE MECHANISM (RCM)

For purchases received from non-resident suppliers for which the recipient of the supply (the customer) is obligated to account for the VAT due via reverse charge mechanism, it will be worthwhile to see if the transitional rules can be applied to determine the appropriate rate of VAT to account for on the supply received.

### INTER-COMPANY TRANSACTIONS

Assess the impact of Increased VAT rate of 10% on the inter-company transactions and recovery of expense made from associated companies. An additional VAT could have a cash-flow impact and in certain cases, even a financial impact where credit is disallowed or partially allowed.

Thus, VATpayer can evaluate the option of VAT Grouping.

### UNREGISTERED BUSINESSES

Increase in the VAT rate will lead up to increase in costs of unregistered businesses. Business may re-visit their VAT registration obligations and consider getting a mandatory VAT registration (BHD 37,500) or voluntary VAT registration (BHD 18,750).

### PEOPLE

Create awareness amongst the key stakeholders about the potential implications and associated risks.

### VAT RETURNS

VATpayer may have transactions subject to the VAT rate of 5% and 10% which must be correctly reflected on the VAT return.

We expect the VAT return will be updated to reflect the new VAT rate of 10% for VAT reporting periods starting from December 2021.

Furthermore, the VAT return and related systems will be updated to process the relevant calculations at the new rate of 10%.

VATpayer to make sure to apply the correct VAT rate when calculating the input tax on goods or services acquired, or adjustments before and on or after 1 January 2022 respectively.

### ERRORS IN SUBMISSION OF VAT RETURN

Be careful in submission of VAT return as any error in declaration of net VAT due or VAT refundable may have an increased significant impact.

### CASHFLOW

Analyse cashflow impacts due to timing difference in payment by customer and VAT payment to NBR.

Where required, evaluate alternative options to optimize the potential impact of rate increase.

## How can BDO help you?

BDO can help you in getting ready for the VAT rate increase by:

- Reviewing contracts in force from prior to Law Enforcement Date, between Law Enforcement Date and the Effective Date of VAT rate change and later
- Drafting amendment to VAT clauses
- Advising Treatment of advances received before the Law Enforcement Date and/or before the Effective Date of VAT rate change for supplies spanning into the periods after
- Advising on treatment of supplies; whether continuous supplies vs one-off supplies for the transition period
- Preparing vendor and customer communication material regarding the VAT rate increase
- Organizing VAT training session for the staff to cover an overview of VAT rate increase and its likely impact areas for the business
- Assessing the impact of VAT rate increase on inter-company transactions and recoveries
- Providing guidance on Tax Grouping as an option to reduce cash-flow impact on inter-company transactions and recoveries
- Designing commercial strategies to support market competitiveness
- Evaluating alternative options where prices agreed are VAT inclusive
- Evaluating alternative options to reduce or mitigate the impact of VAT rate increase specifically for the situations where input tax credit is disallowed

Our Bahrain based VAT experts shall be happy to schedule a call/ meeting where they can discuss your queries or address any clarifications required regarding the impact of VAT rate increase to your business. Following are the contact coordinates of VAT expert team.

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### Bahrain Tax Team



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