

Two-digit VAT in Bahrain from 1 January 2022

24 December 2021

VAT RATE CHANGE FROM 1 JANUARY 2022

In line with the approval of The Shura Council for doubling of VAT rate from 5% to 10%, Kingdom of Bahrain has published in the Official Gazette the Law No. (33) for the year 2021 for amending certain Articles of the Decree Law. No. (48) for the year 2018 regarding Value Added Tax (VAT). The Gazette publication was effected on the evening of 23 December 2021 which was followed by publication of VAT rate change Transitional Provisions Guide and FAQs by the National Bureau for Revenue (NBR) on its website.

The newly inserted Article 4 of the amended VAT law has provided for transitional relief for standard rated contracts straddling into 1 January 2022, which is further elaborated and explained by the NBR in the transitional guidelines & FAQs published on its website.

The standard rate of VAT will change from 5% to 10% with effect from 1 January 2022 which means effective 1 January 2022, all taxable goods or services supplied, goods imported, as well as certain services supplied by non-residents to residents (imported services), are subject to the revised VAT rate of 10%, unless the supplies are covered under the transitional rules. Needless to mention that exception of supplies that are subject to VAT at the zero-rate or exempt from VAT or out of scope continues to be unaffected as there is no update in either zero-rated, exempted or out-of-scope supplies.

VAT RATE CHANGE TRANSITIONAL RULES

The following dates and periods are crucial for application of the transitional rules:

- **Law Enforcement Date:** 24 December 2021 which is the enforcement date mentioned in the Amended VAT Law published in the Official Gazette.
- **Effective Date of the VAT rate change:** 1 January 2022
- **Transitional Period:** From 1 January 2022 to 31 December 2022

Transitional Rule	Date of contract	VAT Treatment		
		Date of Supply Before 1 January 2022	Date of supply during 1 January 2022 to 31 December 2022	Date of supply on or after 1 January 2023
Rule 1: One-off supplies	Before 24 December 2021	5%	5%*	10%
Rule 2: One-off supplies	Between 24 December 2021 to 1 January 2022	5%	10%**	10%
Rule 3: Continuous supplies	Before 24 December 2021	5%	5%*	10%
Rule 4: Continuous supplies	On or after 24 December 2021	5%	10%	10%
	On or after 1 January 2022	Not applicable	10%	10%

*The supplier may charge 5% VAT on the supplies under such contract until the earliest of:

- (a) Date of expiry of contract
- (b) *Date of change or renewal of the contract (Please refer 'impact of change or amendment to the contractual terms')*
- (c) 31 December 2022

****It is important to note that where an invoice is issued or consideration is received before 1 January 2022 for a one-off supply to be made on or after 1 January 2022, the supplier should account for VAT at 10% on the date of issuance of such invoice or receipt of consideration. Supplier should declare VAT at 10% in the quarterly or monthly return filed for the period December 2021. Supplier should issue new tax invoice to account for VAT at 10% and correct error in the VAT return which is submitted with VAT at 5%.**

IMPORT OF GOODS

Article 4 of the amended VAT law includes the word 'import' when applying the transitional rules. However, the transitional guidelines published by NBR are silent on the specific VAT treatment of goods imported into Bahrain after 1 January 2022 under a contract dated before 24 December 2021. Instead, the guidelines in general mention VAT at 10% will apply on standard rated imports made on or after 1 January 2022. It will be worthwhile to see the VAT rate applied by Bahrain Customs Authorities for imports on and after 1 January 2022.

IMPACT OF CHANGE OR AMENDMENT TO THE CONTRACTUAL TERMS

Where a contract for one-off supplies dated before 24 December 2021 is changed or amended after this date but before the date of supply, the transitional rule 1 will cease to apply.

Where a contract for continuous supplies dated before 24 December 2021 is changed or amended after this date, the transitional rule 3 will cease to apply. Instead, the supplies would be subject to:

- VAT at 5% on the value of goods and services supplied before 1 January 2022;
- VAT at 10% on the value of goods and services supplied from 1 January 2022 where the changes or amendment to contract is made till 31 December 2021; and
- VAT at 10% on the value of goods and services supplied from the date the contract is changed or amended where such change or amendment takes places after 1 January 2022.

NBR Transitional Guidelines have highlighted certain circumstances which may be seen as a change or amendment to contractual terms such as:

- Extending the duration of the contract so it applies to additional goods and/or services;
- Including additional supplies of goods and/or services within the terms of the contract; and
- Increasing the consideration payable under a contract would otherwise qualify under the transitional rules while compensating the customer in another manner.

This is only an indicative list of changes which could impact the VAT treatment under transitional rules 1 and 3. Prior to making any changes to the contractual terms, businesses should assess the potential impact on case-to-case basis in order to evaluate if the change will be regarded as a change or amendment for the purposes of transitional rules.

VALUING GOODS AND SERVICES IN RELATION TO CONTINUOUS SUPPLIES PRE AND POST RATE INCREASE

Nature or quantify of goods or services supplied	How to value/
Fixed	On time basis considering the days or months involved
Fluctuating	Actual amount of quantity of goods or services delivered before and/or after the relevant dates

As mentioned by NBR, it will accept the valuation methodology used in the normal course of business by a VATpayer. Where a different valuation methodology, the VATpayer is required to demonstrate to NBR that it was not applied to reduce or minimise the VAT payable under the contract.

BDO Comments

As the run-up to the actual effective date of VAT increase is pretty short, it would be interesting to understand the nuances around the transitional period; specifically surrounding those circumstances where businesses are required to issue Tax invoice with 10% VAT and also, account for the same in December 2021 VAT return including those where long-term contracts are executed and/or whether the price agreed is VAT inclusive.

Businesses should begin to understand the impact of this change on their business and what next steps they should take in order to be compliant with the requirements of transitional rules. In this regard, please refer to our publication for '[Key Considerations for VAT Rate Change](#)'.

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.

Ashish Athavale

Tax Partner

T: +973 1753 0077 Ext.5115

E: ashish.athavale@bdo.bh

Devina Ogale

Senior Tax Consultant

T: +973 3443 9464

E: devina.ogale@bdo.bh

Bader AlBastaki

Senior Tax Consultant

M: +973 3620 8208

E: bader.albastaki@bdo.bh

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