The introduction of value-added tax (VAT) in Bahrain

Summary of the VAT Law

October 2018

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In October 2018, the government of the Kingdom of Bahrain published the VAT Decree-Law No. (48) in the official gazette. The Law was published after both the Shura Council and Parliament voted in favor of the VAT bill to be introduced on 1 January 2019 in line with the GCC Unified Agreement for VAT.

This means VAT will soon be a reality and companies need to comply with the new regulations that govern the application of the new tax system in the Kingdom of Bahrain. The Law consists of 79 articles that businesses need to understand to ensure their VAT readiness.

In this publication, KPMG in Bahrain summarizes the VAT Law in the Kingdom of Bahrain and highlights the key implications on businesses across the main economic sectors.
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National Bureau for Gulf Taxation

Decree No. 45 of 2018

An independent tax authority

Responsible for administering all taxes and related administrative penalties

Under the supervision of the Minister of Finance
Bahraini VAT law —
Key highlights
The introduction of value-added tax (VAT) in Bahrain

Key highlights

**Date of Implementation**
1 January 2019
(Article 4 of the VAT law)

**Scope of VAT**
- Local supplies of goods and services
- Imports of goods
- Imports of services by a VAT registrant

**Date of Supply**
whichever comes first:
- issuance of invoice
- partial or the full receipt of payment
- delivery of goods or services

**Rates of VAT**
- 5 percent
- 0 percent
- VAT exempt

**Tax periods**
- Not less than a month (no further specification in the VAT law)
- Possibly monthly and quarterly tax periods based on value of annual taxable supplies made

**Tax filing deadline**
Last day of the month following the end of the tax period

**Deadline for tax invoice issuance**
The 15th of the month following the month in which the supply took place

**Currency used in tax invoices**
Foreign currency amounts to be converted to BHD based on CBB-approved exchange rate applicable on the date of supply
Place of supply rules
VAT is charged on supplies of goods and services at the place where their consumption takes place. The VAT Law contains rules for determining the place where supply takes place, formally known as the Place of Supply rules. These rules dictate whether Bahraini VAT is to apply to any particular supply of goods and services.

**Supply of goods without transportation**
Location of goods when they are placed at the customer’s disposal

**Supply of goods with transportation**
Location of goods when the transport of the goods commences

**Supply of goods with installation/assembly**
Location of goods when installed/assembled

**Special rules:**
- *Intra-GCC supply of goods*
- Supply of gas, oil, water and electricity
  
  *Applicable once all GCC states implement VAT*
The introduction of value-added tax (VAT) in Bahrain

Place of supply — Supplies of services

General rule:
Place of residence of supplier

Special rules:
- If the customer is registered for VAT in another GCC Implementing State
- B2C leasing of means of transport
- At the place of actual performance for certain services (e.g., restaurant and hotel services, B2C services related to transported goods, real estate-related services, transportation services)
- Wired and wireless telecommunication and electronically supplied services
VAT registration
The introduction of value-added tax (VAT) in Bahrain

**Mandatory tax registration**

**For residents:**
Required if the value of taxable supplies during the past 12 months exceeds the mandatory registration threshold (USD100,000) or is expected to exceed it over the next 12 months.

**For non-residents:**
Required if the non-resident is liable to pay tax without regard to any threshold; registration is done directly or through a tax representative.

**Voluntary tax registration**
Possible if the value of taxable supplies made or received exceeds the voluntary registration threshold (USD50,000).

**VAT grouping**
Possible for two or more taxable legal persons who are residents of Bahrain, subject to certain conditions (to be outlined in the VAT Executive Regulations); tax group members are jointly liable for the VAT obligations of the group.
Import tax — Import of goods
Import tax — Import of goods

Payable on import of goods at the customs authority

Possibility of payment of import tax to the tax return (subject to certain conditions to be outlined in the VAT Executive Regulations)
Zero-rated supplies
Zero-rated supplies

Export of goods outside the GCC states

Supply/import of basic food items

International transportation services

Oil and gas derivatives

Preventive and basic healthcare services

Local transport sector

Supply/import of certain medicines and medical goods

Construction of new buildings

Re-export of transported goods that are temporarily imported for repair/renovation

Export of services to a non-resident of the GCC who benefits from the services outside of the GCC

(The above may have additional conditions attached to their zero-rating, to be specified in the VAT Executive Regulations.)
Exempt supplies
Exempt supplies

- Financial services, except those payable by way of an explicit commission/fee
- Supply of bare land and buildings by way of sale or lease (to be clarified in the VAT Executive Regulations)
Supplies by government entities
Supplies by government entities

VAT is applicable to supplies rendered by government entities acting in a non-sovereign capacity and in competition with the private sector.

A decision from the prime minister specifying the list of government entities, their taxable supplies and other details will be issued.
Transitional supplies
Transitional supplies

**Date of Supply:** Date on which the supply physically takes place

**For Goods:** Date on which the goods are delivered to the customer

**For Services:** Date on which the provision of services is completed

The VAT Law contains special rules outlining the application of VAT to contracts without a tax clause, which are signed before the VAT implementation date. These transitional rules apply differently to contracts concluded with government entities and to contracts concluded with other persons.

1. With government entities: Zero-rated until the expiry or renewal of contract, or by 31 December 2023 (whichever is earlier)
2. With other persons: Consideration deemed VAT-inclusive
   The VAT Regulations will outline the special guidelines governing these rules (likely to be VAT-exclusive if customer is VAT-registered — UAE approach)

Intra-GCC supplies of goods are treated as exports of goods until all GCC States implement the Electronic Service System.

GCC States that do not recognize Bahrain as a VAT Implementing State will be treated with reciprocity.

Supplies between persons located in Bahrain and such other GCC States will be treated as exports of goods and services.
Penalties
Penalties

- Delay in VAT return filing/payment of due tax: Between 5 and 25 percent of VAT payable
- Failure to register within 60 days of the deadline provided for registration: Less than BHD10,000
- Understating the value of imports or supplies of goods and services: Between 2.5 and 5 percent of the unpaid tax for every month in which it is outstanding
- An administrative penalty not exceeding BHD5,000 is imposed for persons involved in the following:
  - Failure to cooperate with the tax authority’s employees in their duties to enforce the provisions of the VAT Law
  - Failure to disclose to the tax authority changes in the applicant’s registration status or VAT return-related information
  - Failure to display VAT-inclusive prices on products and services in the local market (retail sales)
  - Failure to submit information requested by the tax authority
  - Failure to abide by the rules and conditions surrounding the issuance of tax invoices
  - Violation of any other provision of the VAT Law and VAT Regulations
VAT treatment on selected industries
### VAT treatment on selected industries

<table>
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<tr>
<th>Industry</th>
<th>VAT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong> (Includes private education for nursery, kindergarten, primary, secondary and higher education)</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Healthcare</strong></td>
<td></td>
</tr>
<tr>
<td>Basic healthcare</td>
<td>0%</td>
</tr>
<tr>
<td>Preventive healthcare</td>
<td>0%</td>
</tr>
<tr>
<td>Other healthcare services (e.g., cosmetic healthcare)</td>
<td>5%</td>
</tr>
<tr>
<td>Qualifying medicines and medical goods</td>
<td>0%</td>
</tr>
<tr>
<td>Other medicines and medical goods</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Oil and gas</strong></td>
<td>0%</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td></td>
</tr>
<tr>
<td>Domestic passenger transportation</td>
<td>0%</td>
</tr>
<tr>
<td>Domestic transport of goods</td>
<td>(to be confirmed)</td>
</tr>
<tr>
<td>International transportation of passengers and goods</td>
<td>0%</td>
</tr>
<tr>
<td>Supply of a means of transport (e.g., airplane)</td>
<td>0%</td>
</tr>
<tr>
<td>Supply of transport-related goods and services</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Real estate</strong></td>
<td></td>
</tr>
<tr>
<td>Construction of new buildings</td>
<td>0%</td>
</tr>
<tr>
<td>Sale or lease of commercial real estate</td>
<td>(to be confirmed)</td>
</tr>
<tr>
<td>Sale or lease of residential real estate</td>
<td>(to be confirmed)</td>
</tr>
<tr>
<td>Hotels, motels and serviced accommodation</td>
<td>5%</td>
</tr>
<tr>
<td>Sale or lease of bare land</td>
<td>Exempt</td>
</tr>
<tr>
<td><strong>Financial services</strong></td>
<td></td>
</tr>
<tr>
<td>Margin-based products (e.g., interest on loans)</td>
<td>Exempt</td>
</tr>
<tr>
<td>Fee and commission-based products</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Investment metals</strong></td>
<td></td>
</tr>
<tr>
<td>Investment in gold, silver and platinum</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>Insurance and re-insurance</td>
<td>5%</td>
</tr>
<tr>
<td>Life insurance and re-insurance</td>
<td>(to be confirmed)</td>
</tr>
<tr>
<td><strong>Food and beverages</strong></td>
<td></td>
</tr>
<tr>
<td>Basic food items (within the approved list)</td>
<td>0%</td>
</tr>
<tr>
<td>Other food items</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Telecommunications and electronic services</strong></td>
<td></td>
</tr>
<tr>
<td>Telecommunications and electronic services</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Government activities</strong></td>
<td></td>
</tr>
<tr>
<td>Sovereign activities that are not in competition with the private sector</td>
<td>Out of scope</td>
</tr>
<tr>
<td>Activities that are not sovereign and are in competition with the private sector</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
</tr>
<tr>
<td>Export of goods outside the GCC Implementing States</td>
<td>0%</td>
</tr>
<tr>
<td>Supply between members of a Tax Group</td>
<td>Out of scope</td>
</tr>
<tr>
<td>Supply of services to a non-resident of the GCC</td>
<td>0%</td>
</tr>
<tr>
<td>Activities undertaken by employees in the course of their employment</td>
<td>Out of scope</td>
</tr>
</tbody>
</table>
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