

التميمي و مستشاروه
AL TAMIMI & CO.



VAT IMPLEMENTATION IN BAHRAIN

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WHAT IS VAT?

- Value added tax (VAT) is a form of consumption tax imposed on the supply of goods and services.
- VAT is charged on the value added at each stage of the supply chain.
- Businesses act as VAT collectors while the final consumer bears the burden of VAT.

INTRODUCTION OF VAT IN THE GCC

- GCC countries agreed to implement VAT from 1 January 2018.
- The unified GCC VAT Agreement sets out broad principles that should be followed by all the GCC countries in their VAT laws whilst providing flexibility in certain matters. Each GCC country will enact its own VAT legislation based on these common principles.
- The UAE and KSA implemented VAT on 1 January 2018.
- The Council of Representatives and the Shura Council have approved the implementation of VAT effective from 1 January 2019 and the establishment of the Bahrain Tax Authority.

KEY FEATURES

- **Scope:** Taxable supplies of goods and services, most imports of goods and services and deemed supplies would be subject to VAT.
- **Rate:** VAT would apply at the standard rate (5%) or zero rate (0%).
- **Who:** Generally, the supplier is required to account for VAT. In some cases, the recipient of goods and services may be required to account for VAT.
- **VAT Registration:**
 - » **Mandatory:** Businesses are required to register for VAT if the annual value of their taxable turnover exceeds SAR 375,000 (or its equivalent in GCC countries).
 - » **Voluntary:** Businesses may register for VAT if the annual value of their taxable turnover or expenses exceed SAR 187,500 (or its equivalent in GCC countries).
 - » **Non-residents:** Foreign businesses will be required to register for VAT regardless of business turnover if they make taxable supplies in Bahrain.
- **Recovering Input VAT:**
 - » If you make standard-rated or zero-rated supplies, you are generally entitled to recover the VAT paid on expenses incurred in making those supplies.
 - » If you make exempt supplies, you cannot recover the VAT paid on expenses attributable to making those supplies.

HOW WILL VAT AFFECT YOUR BUSINESS OPERATIONS?

The introduction of VAT will be a major change and affect all business functions across the entire organisation including Legal, Finance, HR, compliance, technology, contracts & procurement, sales & marketing and strategy.

Whilst VAT is expected to be borne by the ultimate consumer and should not be a cost to most companies, there will be cash flow implications and the responsibility of accounting for VAT will reside with businesses. There will also be a compliance burden and cost associated with preparing for VAT before its introduction and ensuring that you comply with all your VAT obligations when the VAT law is effective

The penalties for non-compliance can be very high so it is important to comply.

WHEN SHOULD YOU START PREPARING FOR VAT?

Bahrain is expected to implement VAT on 1 January 2019. The preparation for VAT is not straightforward and can be very time consuming. Based on our experience of assisting clients with VAT implementation in the UAE and KSA and our knowledge of VAT implementation in other jurisdictions where a VAT or a similar tax was recently introduced, it typically takes organisations around three to six months to prepare and be ready for VAT depending on their size and the complexity of their business transactions. Therefore, it is recommended that businesses start their preparation immediately and assess the impact of VAT on their organisation.

Given that VAT is a major change, it is important to raise awareness internally within your organisation on the impact of VAT. Existing functions, processes, invoicing, operating models, enterprise resource planning systems, working capital requirements, prices and commercial contracts will need to be reviewed and any changes implemented as soon as possible in order to be compliant with the requirements of the VAT legislation. Companies will also need to communicate and negotiate with their suppliers and customers in relation to existing and future contracts.

THE LEGISLATION IN BAHRAIN HAS NOT BEEN FINALISED OR EVEN PUBLISHED. HOW CAN WE START PREPARING NOW?

Although VAT is being introduced for the first time in Bahrain, VAT is not a new tax. There is a significant amount of information available based on which businesses can commence their VAT preparation. VAT or a similar tax exists in more than 160 jurisdictions across the world. The GCC VAT agreement on which the Bahrain VAT legislation will be based has already been published. The GCC VAT system takes many of its features from the EU VAT system and the GST regime in other Asian countries such as Malaysia. In addition, the VAT legislation in Bahrain will be similar to the VAT legislation in the UAE and KSA and therefore the legislation and practice in these countries can serve as useful guidance on the approach in Bahrain.

It is highly recommended that you start your preparation immediately rather than wait for the final VAT legislation. It would be prudent to undertake the VAT impact assessment now and validate assumptions and confirm positions after the final law is published. Given the timeframe, if you wait for the published law, there is a high risk that you will not be ready for VAT and this in turn will result in non-compliance and penalties. If you fail to adequately prepare, in addition to taking the incorrect VAT positions in the VAT returns and not being able to comply with your VAT obligations, you may also end up bearing the VAT cost instead of your customer.

HOW TO BE READY FOR VAT?



PHASE 1: PREPARATION & REVIEW

- Review legislation
- VAT decision flag
- Transaction flows and process mapping
- VAT impact assessment on business
- Assess IT / accounting impact
- Review sample contracts
- Identify compliance requirements
- Roadmap / implementation plan

- Identify key stakeholders
- Set up steering committee
- VAT awareness workshops
- Review business, functions and as is situation
- Communication plan for staff, suppliers, customers



PHASE 2: IMPACT ASSESSMENT



PHASE 3: IMPLEMENTATION

- Aligning processes and invoicing
- Documentation
- IT design and testing
- VAT technical support
- User training
- VAT manual and procedures
- Reviewing contracts
- Transition planning
- VAT registration

- Review and filing of VAT returns
- Ongoing advice on transactions
- Restructuring
- Litigation

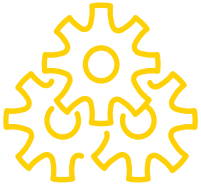


PHASE 4: POST-IMPLEMENTATION

HOW CAN WE HELP?

We have a highly experienced VAT team who are able to guide your organisation through the full cycle of VAT implementation from the planning phase until post-implementation phase. Your organisation will benefit from our in-depth knowledge and experience in advising clients on VAT in the UAE and KSA.

GETTING STARTED



- VAT impact assessment – Analyse the VAT impact on your business operations and assist with VAT implementation in your organisation
- VAT training – Conduct VAT training and workshops for your organisation
- VAT registrations – Assist with preparation, review and submission of VAT registrations
- VAT strategy / risk management framework and policy - Develop a VAT risk management framework and strategy in line with the corporate and business strategy
- VAT manual / procedures – Drafting a manual including all the VAT requirements and procedures

COMPLIANCE

- VAT returns – Prepare and review VAT returns to ensure accuracy of information declared to the tax authority
- VAT health check – Perform VAT health checks to assess VAT profile, compliance status and potential tax risks arising from your business operations
- Transactions review – Analyse the VAT implications of specific transactions



VAT ADVISORY



- Mergers and acquisitions – Purchaser and vendor tax due diligence to identify any potential tax issues / risks and hidden VAT liabilities
- Agreements review – Reviewing business contracts (including intercompany agreements) to minimise VAT risk
- Structuring and planning – VAT efficient transaction structuring of supply chain and advising on the related VAT risks and consequences
- VAT legal opinion – Prepare VAT legal opinion addressing VAT issues faced by your organisation

DISPUTES & LITIGATION

- VAT representation - Represent your organisation before, and negotiating on your behalf with the tax authority in complex tax disputes
- VAT rulings – Obtain clarification from the tax authority on VAT issues affecting your organisation
- VAT audits – Dealing with the tax authority to address any technical queries related to your VAT affairs in the context of a VAT audit
- VAT litigation support



WHY AL TAMIMI & COMPANY?



LARGEST REGIONAL REACH

Al Tamimi & Company is the largest law firm in the Middle East with 17 offices across 9 countries. The firm has unrivalled experience, having operated in the region for over 25 years.



GLOBAL INDIRECT TAX EXPERIENCE

Al Tamimi & Company is the first law firm to establish an international tax practice that focuses on the Middle East region. We have VAT professionals with unrivalled understanding of the tax and legal landscape in the Middle East, combined with significant VAT, GST and sales tax experience from other jurisdictions in Europe and Asia.



REGIONAL VAT IMPLEMENTATION EXPERIENCE

We have assisted clients with VAT implementation in the UAE and KSA across all industry sectors and can draw on this experience to guide you on the VAT implementation in Bahrain.



VAT IS IMPOSED UNDER A LAW

Ultimately, the application of VAT is based on the law. As a law firm with strong VAT expertise, we are in a unique position that allows us to focus on the legal aspects of VAT implementation and as lawyers we are well versed with the interpretation of the provisions of the VAT legislation.

We can advise you on the VAT treatment of your transactions based on how we expect the courts to apply the legislation. We can also draw on our experience of VAT litigation in other more established jurisdictions where similar cases have been tested and the VAT treatment of specific transactions determined.



LEGAL PROFESSIONAL PRIVILEGE

Tax advice obtained from lawyers is typically protected under legal professional privilege. Legal professional privilege does not usually extend to advice obtained from non-lawyers. This means that all your communications with us will be kept confidential.



LEGAL REPRESENTATION FOR TAX MATTERS

In most jurisdictions, only law firms have the right to represent organisations before the courts. We can offer you a one-stop-shop and support your organisation right from the start of a tax dispute, audit or litigation matter to its conclusion. It would be more efficient for you to work with us and seek our assistance for all your VAT requirements from the beginning. This will enable us to proactively address any issues and ensure that your VAT position can be defended.

KEY CONTACTS



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