

Bahrain: NBR releases VAT Retail and Wholesale Guide

June 2020



Insights
Tax and Legal Services
PwC Middle East



In brief

VAT Retail and Wholesale Guide

The National Bureau for Revenue (NBR) has published a VAT Retail and Wholesale Guide on their website which provides guidance to businesses operating in the retail and wholesale sector. The Guide includes detail on how to determine the consideration of a supply for VAT purposes and the VAT treatment of vouchers and loyalty programmes. Additional guidance on the VAT implications for inventory and stock and supplies from vending machines is also set out in the Guide.

In detail

The NBR has released a VAT Retail and Wholesale Guide which sets out guidance on the key VAT issues to consider in the retail and wholesale sector. In addition to expanding on some of the general principles already set out in other published Guides and public clarifications, the Guide also provides details on determining the consideration of a supply for VAT purposes, vouchers and coupons, loyalty programmes, inventory and stock and, supplies from vending machines.

Although the majority of supplies made by retailers and wholesalers in Bahrain will be subject to VAT at the standard rate of 5%, there are some complex matters from a VAT perspective impacting the sector. The Guide aims to cover many of these areas to assist taxpayers and we have set out an overview of some of the important areas covered by the Guide below.

Discounts

A discount may be granted in one of two ways, either at the time of supply, or retrospectively (e.g. a rebate). The value of supply must be reduced by the following:

- Discounts provided by a supplier at the date of the supply;
- Subsidies granted to a supplier by government bodies;
- Disbursements paid by a supplier in the name and on behalf of a customer; and
- A refundable deposit paid by a customer, which is not consideration or an advance payment for a supply.

An employer and its employees are considered to be related parties for VAT purposes. Where a supply is provided by an employer to an employee at a discount, the supply will be deemed to take place at fair market value. However, where the same discount is provided to both customers and employees, the discounted price will be considered the fair market value.

Where goods and / or services are provided by an employer to an employee for no consideration, this will be a deemed supply and the employer will be required to account for VAT on such supplies based on the deemed supply rules.

Service charges, tips and gratuity payments

If a service charge is compulsory, it forms part of the consideration for the supply and the VAT treatment applicable to the main supply applies also to the service charge. If the goods or services are subject to VAT at the standard 5% rate, the amount of the service charge should be included in the amount of consideration on which VAT is applicable.

Optional service charges, tips and gratuities are not part of the consideration for the underlying supply and are outside the scope of VAT.

Vouchers / gift cards and coupons

Vouchers are electronic or written instruments, to which a monetary value is attached and that grant their holder the right to receive goods or services equivalent to their face value or a discount on the value of such goods or services. Where a voucher is a Single Purpose Voucher (“SPV”), i.e. a voucher that can be exchanged for goods and/or services subject to the same VAT treatment, its issue and transfer will result in a supply for VAT purposes. No VAT arises when the SPV is exchanged for goods and/or services. The issue of an SPV essentially accelerates the VAT payable on the goods and/or services for which it is eventually exchanged.

Where a voucher is a Multi Purpose Voucher (“MPV”), i.e. a voucher that can be exchanged for goods and/or services that can be subject to different rates, no VAT arises on its issue (unless the consideration paid for it is higher than the face value in which case the excess is subject to VAT). The MPV is essentially treated like cash consideration when it is redeemed for goods and/or services.

Coupons issued for no consideration will not result in a VAT liability. The same applies where a coupon is issued to a customer on condition that the customer buys goods for a certain value provided the goods are sold at their normal price. The sale of coupons for consideration will be treated as the sale of a voucher.

The redemption of a coupon as part of a sale will generally be regarded as a sale at a discount. However, if the supplier is entitled to receive some or all of the discounted amount from a third party, it must account for VAT on the consideration received from the customer and the third party. Where a coupon is accepted as full consideration for goods and/or services without further consideration, the supply will be treated as a deemed supply.

The Guide sets out the invoicing requirements for vouchers and coupons.

Any services provided by a taxable person in relation to the issue or redemption of vouchers, gift cards or coupons will need to be considered in detail.

Profit margin scheme

The Guide clarifies that the profit margin scheme may not be used for secondhand sales of precious metals, precious stones, pearls or watches. Precious metals are silver (including silver plated with gold or platinum), gold (including gold plated with platinum), platinum and any item which contains any of these metals where the value of these metals exceeds 50% of the value of the item. Precious stones are diamonds, rubies, sapphires and emeralds. Precious stones and pearls are not qualifying goods whether or not they are mounted, set or strung.

The Guide also states that, where a taxable person has approval to use the profit margin scheme, that person must use the scheme for all qualifying goods. There is no option to apply the scheme selectively for some goods, but not for others.

Loyalty programmes

It is common practice for businesses operating in the retail sector to operate loyalty program schemes as a marketing tool to increase the sale of their goods and / or services and to maintain customer loyalty. The Guide discusses the VAT implications for loyalty stamps, single vendor schemes and multiple vendor schemes. These are stated to be general principles only and on the assumption that all parties are resident in Bahrain for VAT purposes. Where there are non-residents involved in a loyalty programme, the relevant VAT treatment will need to be considered in further detail.

The VAT implications of loyalty programmes as outlined by the NBR in the Guide essentially involve the following principles:

- No VAT on awarding points for purchases made
- No VAT on handing over goods or performing services solely for the redemption of points previously earned
- No deemed supply on handing over goods or performing services solely for the redemption of points previously earned
- Input tax is deductible on goods and/or services exchanged for the redemption of points previously earned
- VAT is chargeable for fees paid to an operator of a scheme involving more than one party, but this should be deductible as input tax for a scheme participant

Loyalty stamps

When the customer purchases a sufficient number of goods or services at the original price and the purchase is verified through these loyalty stamp cards, the customer is usually entitled to a free good or service upon delivery of the completed card. The scheme clearly links the provision of the “free” good at the end with the consideration paid for during the previous purchases. In this case, the supplier will collect VAT on only the items purchased prior to the “last free good” earned by the customer. There is no deemed supply of the “free” good and no output tax is due on the value of the free good.

Single vendor loyalty scheme

Under a single vendor loyalty scheme, the retailer operates the loyalty scheme by himself, and no third party is involved in the management or operation of the scheme. Customers enrol themselves onto the loyalty scheme and earn points on purchases from the retailer. Once enough points have been accumulated by the customer, they may be redeemed against the purchase of a good / service from the same retailer.

Similar to the loyalty stamps, the provision of the “free” good / service for redeemed points is directly linked to the purchases made previously by the same customer. As such, there is no deemed supply on the “free” good / service and any input tax incurred on the cost of the free good / service can be recovered by the retailer, subject to the normal input tax recovery rules. No output VAT arises on handing over the good or performing the service in exchange for points where no additional consideration is received.

Multiple vendor loyalty scheme

A multiple vendor loyalty scheme typically involves more than one participating vendor who adheres to a scheme promoted and managed by a separate promoter:

- The loyalty programme is initiated and managed by one party (“Operator”)
- Retailers enrol themselves under the scheme as members (“Grantors”) and are charged a fee by the Operator
- Customers sign up for the loyalty programme and earn points on their purchases from Grantors.

While there may be no direct link between the points held by a customer and previous purchases made by that customer, the NBR will regard a direct link to be present between the points held by the customer and all the previous purchases he has made, even where some or all the points earned were earned from a different Grantor of the loyalty scheme than the member who is redeeming them.

As such, no VAT liability should arise on the redeemer handing over the good or performing the service in exchange for points awarded under the multi-party loyalty scheme. Further, there should be no deemed supply by the redeemer on making the supply.

A fee paid by Grantors to the Operator will be taxable at the standard rate. Grantors should be entitled to recover VAT payable to the Operator as input tax.

Inventory and stock

Lost, stolen or damaged goods

A taxable person is not required to adjust input tax claimed relating to goods he has purchased for the purpose of carrying on an economic activity where those goods have been lost, stolen or damaged. This is on the basis that he can evidence the loss, theft or damage.

The Guide provides further detail on the evidence a taxpayer is required to hold in order to support the input tax recovery on these goods and introduces a BHD 1,000 threshold that taxpayers will need to consider, i.e.:

- Internal documentation will be accepted by the NBR as evidence of the loss, theft or damage in respect of the first BHD 1,000 of value of lost, stolen or damaged goods in a calendar year. The internal documentation should set out specific information as set out in the Guide.
- Where the total value of lost, stolen or damaged goods exceeds BHD 1,000 in a calendar year, evidence from a third party (for example, a policy report, insurance claims) will be required by the NBR as evidence of the excess of the loss, theft or damage over BHD 1,000. A report from an auditor will not be regarded as third party evidence.
- Where the total value of lost, stolen or damaged goods exceeds BHD 1,000 in a calendar year **and** both the cost and market value of all individual stock items for which relief is sought do not exceed BHD 1,000, a report from an auditor licensed in Bahrain setting out specific information (as set out in the Guide) will be accepted by the NBR as third party evidence of the loss, theft or damage.

Although the evidence does not need to be shared with the NBR at the time any goods are lost, stolen or damaged, taxpayers are expected to be able to present this information if and when requested.

Obsolete stock

Obsolete stock refers to stock that is no longer used, tradable or is not useable or needed, usually because something newer and better has replaced it. Where obsolete stock is disposed of for no consideration:

- The taxable person is not regarded as having made a supply for VAT purposes; and
- The taxable person is not required to adjust any input tax claimed relating to such stock

In order for this treatment to apply, the taxable person must give advance notice to the NBR of its intention to dispose of such stock at least 30 days before the disposal and not proceed before confirmation from the NBR is provided that it may proceed with disposing of the obsolete stock.

Any obsolete stock that is disposed of without approval from the NBR will result in a clawback of input tax originally claimed in respect of that stock.

There are however a number of exceptions that have been provided in the Guide where prior approval from the NBR will not be required in relation to the disposal of obsolete stock:

- For the first BHD 5,000 of value of obsolete stock a calendar year. Any excess will need to be pre-approved in line with the above;
- Perishable goods no longer fit for human consumption that need to be disposed of quickly to avoid a risk to human health; and
- Hazardous materials required to be disposed of quickly to avoid damage to human health, property etc.

Where one of these exceptions applies, certain information on the obsolete stock must be retained on file.

Other matters relating to stock

The Guide clarifies that stock placed with a customer which can be accessed by a customer and used without prior approval will be treated as having been supplied in its entirety when first placed with the customer. Goods sold on sale or return will also be treated as having been supplied in their entirety when placed at the disposal of the customer (not when the customer makes a decision as to whether to buy or return them).

The Guide also discusses the treatment of consignment stock placed with a consignee for sale to a third party. In such cases, no supply for VAT purposes takes place from the owner of the stock when it is placed with the consignee until the consignee on-sells it to a third party. At that time, two supplies take place simultaneously - one from the owner of the stock to the consignee and one from the consignee to the third party.

Warranties

As set out in the recently published public clarification (VAT/PC/20/1), the Guide also confirms the VAT treatment of repairing goods that are under warranty. Further details on the VAT treatment of warranties can be found in the PwC Newsalert in the public clarification [here](#).

Vending machines and invoicing requirements

For vending machines that accept cash consideration (either cash only or cash and/or payment by card), the tax due date for all supplies will be the date that the cash is collected. For machines that accept card payments only, the tax due date will be the date that each payment is credited to the supplier's bank account.

The Guide confirms that there is no requirement to issue a tax invoice for supplies made through vending machines. Where a taxable person makes supplies through a vending machine, they must issue an internal consolidated document setting out details of these supplies. A list of all of the information that must be included in this consolidated document has been provided in the Guide.

The document must be issued by the fifteenth day of the month following the date that the cash was removed from the vending machine and must be made available to the NBR upon request.

Taxpayers who operate vending machines will be required to review their accounting systems to ensure that they are able to comply with the new guidance issued. There are however no changes for taxpayers who grant a right over land to place a vending machine at their site which remains standard rated as set out in the VAT Real Estate Guide.

VAT treatment of concessions

Some retail stores may allow other retailers to operate concessions within their stores. The arrangements will often differ and depend on the specific contractual arrangements agreed between the parties. The VAT implications will therefore need to be considered on a case-by-case basis and the Guide sets out details for three different types of arrangements that may apply:

- Sale of goods by concessionaire to host store at a discounted price and a sale of goods by host store to customer at retail price
- Sale by concessionaire to host store at retail price, a sale of goods by host store to customer at retail price, and a fee / commission charged by the host store to the concessionaire (often a percentage of the retail price received from the customer), and
- License to occupy or trade in the host's store and the sale of goods by the concessionaire directly to the customer

Link to the NBR website

The NBR has published the VAT Retail and Wholesale Guide on its website. A link to the Guide can be found below:

https://www.nbr.gov.bh/vat_guideline

The takeaway

The VAT Retail and Wholesale Guide issued by the NBR provides guidance on various aspects of VAT relating to the retail and wholesale sectors. The Guide also sets out the conditions and processes that taxpayers must follow in order to determine the VAT liability of their supplies in the retail and wholesale sector.

Suppliers in this sector should review the Guide and ensure that the correct VAT treatment is applied on the supplies that they are making in Bahrain and that they are compliant in relation to their VAT compliance obligations.



Let's talk

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