

KINGDOM OF BAHRAIN

**VAT RATE CHANGE TRANSITIONAL PROVISIONS
GUIDE**

DECEMBER 2021

VERSION 1.0



الجهان الوطني للإيرادات
National Bureau for Revenue

1. Introduction

Value Added Tax was introduced in the Kingdom of Bahrain in 2019 at a standard rate of 5% on all supplies and imports, with the exception of supplies that are subject to VAT at the zero-rate or exempt from VAT. With effect from 1 January 2022, the standard rate of VAT will be changed to 10%.

This Guide is an explanation of the transitional rules that apply during the transitional period between the 5% VAT rate and the VAT rate of 10%. It provides guidance on how and when to apply the new standard rate of VAT to ensure that the VAT provisions are properly applied.

For the purposes of applying the transitional provisions, the two following dates should be taken into consideration:

1. Law Enforcement Date: the enforcement date mentioned in the Amended VAT Law published in the Official Gazette, which is 24 December 2021.
2. Effective Date of the VAT rate change: the date on which the new VAT rate will be effective, which is 1 January 2022.

In general:

- VAT at 5% will apply on standard rated supplies made before 1 January 2022.
- VAT at 10% will apply on standard rated supplies made on or after 1 January 2022.
- VAT at 5% will apply on standard rated imports made before 1 January 2022.
- VAT at 10% will apply on standard rated imports made on or after 1 January 2022.

2. Relevant definitions

Standard rated supply	A supply of goods and services in the Kingdom of Bahrain which is subject to VAT at the 5% rate or the 10% rate from 1 January 2022.
Continuous supply	A supply of goods or services on an ongoing basis over a period of time which may involve periodic payments of consideration or the issue of multiple invoices.
One-off supply	A supply of goods or services made typically at a point in time which is not a continuous supply.

3. One-off supplies

3.1. Transitional Rule 1: Contracts for one-off supplies entered into before 24 December 2021 where the date of supply is on or after 1 January 2022

Supplies related to contracts for one-off supplies of standard rated goods and services made before 24 December 2021 where the supply takes place before 1 January 2022 will be subject to VAT at 5%.

Under Transitional Rule 1, the 5% rate will also apply on one-off supplies of standard rated goods and services where a contract for their supply was entered into before 24 December 2021, even where the supply is made on or after 1 January 2022.

If, however, changes are made to the contract (see discussion at section 5 below) before the supply is made, or if the supply is made on or after 1 January 2023, Transitional Rule 1 will not apply, and the supply will be subject to VAT at 10%.

Example 1

Blue Motors, a registered VAT payer in the Kingdom of Bahrain, signs a contract to supply Jassim a car (sale) on 15 September 2021. The vehicle is supplied on 8 January 2022. In this case, Blue Motors will charge VAT at 5% on the sale of the vehicle to Jassim. This assumes that no changes to the contract have been made prior to the supply.

3.2. Transitional Rule 2: Contracts for one-off supplies entered into after 24 December 2021 where the date of supply is on or after 1 January 2022

Transitional Rule 2 applies where, under a contract entered into on or after 24 December 2021, but before 1 January 2022, a supplier issues a VAT invoice or receives consideration for a one-off supply of standard-rated goods or services to be made on or after 1 January 2022. Under Transitional Rule 2 the 10% VAT rate will apply on such supplies.

If the supplier issues a VAT invoice before 1 January 2022, he should account for VAT at 10% on the invoice. Where the supplier receives consideration for the supply before 1 January 2022, he should account for VAT at 10% on this consideration. He should also issue a VAT invoice showing VAT at 10% by the 15th day of the month following that in which he received the consideration.

Example 2

Furniture Co, a registered VAT payer in the Kingdom of Bahrain filing returns on a monthly basis, signs a contract on 27 December 2021 to supply a dining table to a customer. The table will not be supplied to the customer until 1 February 2022.

On 28 December 2021, Furniture Co issues a VAT invoice to the customer. As the contract was entered into after 24 December 2021 for a supply to be made after 1 January 2022, Furniture Co should account for VAT at the 10% rate on the VAT invoice. Furniture Co should declare the VAT in relation to this transaction in its VAT return for December 2021.

Example 3

On 29 December 2021, Electric Goods Co, a registered VAT payer in the Kingdom of Bahrain, takes an order from a customer for a new television. The customer pays 50% of the price on 29 December 2021. The television will not be delivered until after 1 January 2022.

Electric Goods Co should account for VAT at the 10% rate on the 50% paid on 29 December 2021 and should declare and pay this VAT with its VAT return for December 2021. Electric Goods Co should also issue a VAT invoice to the customer by 15 January 2022 reflecting the VAT at 10%.

Once the television is delivered, Electronic Goods Co will issue an invoice for the remaining 50% of the purchase price on which VAT will be charged at the rate of 10%.

Where, under a contract entered into after 24 December 2021, a supplier had intended to make a one off supply of goods or services before 1 January 2022, but the supply was not made until on or after 1 January 2022, the following shall apply:

- If the supplier had issued a VAT invoice before 1 January 2022 and had accounted for VAT at 5%, he should cancel that VAT invoice and issue a new VAT invoice and account for VAT at 10%. He will be required to correct this error in the VAT return for the period during which the VAT invoice was issued by excluding the VAT invoice from that VAT return. He should also report the full amount of the newly issued VAT invoice in the VAT period in which the correction took place.
- If the supplier had received consideration for the supply before 1 January 2022, and had accounted for VAT at 5% on the consideration, he should self-amend the VAT return for the period during which he received the consideration by excluding the full amount of the VAT invoice from that VAT return. He should also report the full amount of the new VAT invoice showing VAT at 10% in the VAT period in which correction took place.

4. Continuous supplies

4.1. **Transitional Rule 3: Contracts for Continuous Supplies entered into before 24 December 2021 where some or all of the supply occurs on or after 1 January 2022**

The following apply for contracts for standard rated continuous supplies entered into before 24 December 2021 where some or all of the supply occurs on or after 1 January 2022:

- The 5% VAT rate will apply on the value of goods and services delivered before 1 January 2022;

- The 5% VAT rate will continue to apply on the value of goods and services delivered on or after 1 January 2022 and before 1 January 2023;
- The 10% VAT rate will apply on the value of goods and services delivered on or after 1 January 2023.

See Section 6 for guidance on how to value goods and services delivered before and after a certain date.

If, before 1 January 2023, a contract to which Transitional Rule 3 would otherwise apply expires and is renewed, Transitional Rule 3 will not apply with effect from the date of expiry.

If a contract entered into before 24 December 2021 is changed or renewed after that date, Transitional Rule 3 will cease to apply and the procedures in Transitional Rule 4 described in section 4.2 should be applied. This will mean that the 10% VAT rate will apply on the value of goods or services delivered after the date the contract is changed or renewed (or on the value of goods or services delivered on or after 1 January 2022 if the contract was changed before that date).

See section 5 below for guidance on when a contract will be regarded as having been changed for the purposes of applying the transitional provisions in accordance with this guide.

Example 4

IT Consulting Co, a registered VAT payer in the Kingdom of Bahrain, entered into a three year contract on 20 March 2021 to provide ongoing IT consulting services to a customer.

As the contract is one for continuous supplies, IT Consulting Co will apply VAT at the rate of 5% on services provided under the contract in the period to 31 December 2022, the date on which the Transitional Rule expires. VAT at 10% will apply on services provided after that date. This assumes that no changes were made to the contract during the transition period.

Example 5

If, in the previous example, IT Consulting Co changes the contract (e.g. to change the consideration payable for the services or to extend the contract) on 30 November 2022, Transitional Rule 3 will no longer apply on services provided after that date. With effect from the date the contract is amended, IT Consulting Co would be required to apply VAT on those services at 10%.

4.2. Transitional Rule 4: Continuous supply contracts entered into before 1 January 2022 where Transitional Rule 3 does not apply

This rule applies to contracts for standard rated continuous supplies which cover a period including 1 January 2022 and which were entered into:

1. On or after 24 December 2021; or
2. Before 24 December 2021 but which have been changed or amended on or after that date, but before 1 January 2023.

For supplies made under these contracts:

- VAT at 5% will apply on the value of goods and services delivered before 1 January 2022;
- VAT at 10% will apply on the value of goods and services delivered on or after 1 January 2022 under:
 - Contracts described under 1 above; and
 - Contracts described under 2 above which have been changed or amended before 1 January 2022.
- For contracts under 2 above where the amendment or change takes place after 1 January 2022, VAT at 10% will apply on the value of goods and services delivered from the date the contract is amended or changed;

See section 6 for guidance on how to value goods and services delivered under contracts for the purposes of this transitional rule.

Example 6

BuildCo, a VAT registered Bahraini company that supplies road and bridge building services, entered into a contract on 28 December 2021 to build a new road on private land in the Kingdom of Bahrain. The road does not relate to the construction of a new building and is therefore a standard rated supply. The contract will last for 18 months.

VAT at 5% will apply on the value of the services delivered by BuildCo under the contract from the date of signing to 31 December 2021 VAT at 10% will apply on the value of services delivered on or after 1 January 2022.

Example 7

If in Example 6, BuildCo had entered into the contract before 24 December 2021, but amended the contract on 5 February 2022:

- *VAT at 5% would apply on the value of the services delivered from the start of the contract until 5 February 2022;*
- *VAT at 10% would apply on the value of the services delivered from 5 February 2022.*

Transitional Rule 4 does not affect the VAT due date applicable to supplies. Therefore, a VAT due date on the value of supplies delivered before 1 January 2022 (or the date the contract is changed or amended, if later) will not automatically arise under this rule; a VAT due date will arise on the date of the next invoice, the receipt of consideration or completion of the services (unless one year elapses from the previous VAT due date in which case a VAT due date will apply on the one year anniversary of the previous VAT due date).

Example 8

In Example 6, assume that the value of services delivered by BuildCo before 1 January 2022 amounted to BHD 5,000 and BuildCo has not issued any VAT invoice in respect of these services, nor has it received any payment.

During January 2022, BuildCo delivers services valued at BHD 15,000 and, on 1 February 2022, issues a VAT invoice for the total work delivered so far under the contract. On this invoice, BuildCo will need to apply VAT at 5% on the BHD 5,000 worth of services delivered before 1 January 2022 and VAT at 10% on the BHD 15,000 worth of services delivered after that date. The invoice should clearly show the VAT rate applicable to each part of the supply and the actual VAT amounts at 5% and at 10%.

BuildCo will be required to declare and pay the VAT (charged at 5% and 10% on the invoice) in its VAT return for February 2022.

5. Changes to contracts

For the purposes of these transitional rules, a contract will be regarded as having been changed or amended where a change to the contract terms results in the supplies or consideration being subject to VAT at 5% instead of 10%. This includes, but is not limited to:

- 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 which would otherwise qualify under the transitional rules while compensating the customer in another manner (e.g. discount on another supply, providing a cash rebate).

The intention of the parties in making the change is not relevant and will be disregarded by the NBR.

Other changes (e.g. the method of delivery) which do not impact the original timing, consideration or quantum of supplies to be made, will generally not be regarded as a change or amendment for the purposes of the transitional rules.

6. Valuing goods and services for Transitional Rules 3 and 4

Where Transitional Rules 3 or 4 apply, suppliers will need to value the amount of goods and services delivered under contracts for continuous supplies which cover a period including a certain date (e.g. 1 January 2022, or the date of amending a contract). In these circumstances, suppliers will need to produce evidence of the valuation conducted to the NBR on request.

The value of contracts where the nature or quantity of goods or services supplied do not fluctuate over time (e.g. insurance contracts, gym memberships) will be treated as arising evenly over that period of time. Hence, their value before and after the relevant date can be computed, for example, on a time basis. Days or months are acceptable, but the normal practice of the supplier should determine which are used to compute the value of supplies on a time basis.

Where the nature or quantity of goods or services supplied fluctuate over time (e.g. construction or renovation, consulting services), the value of the goods or services provided must be valued based on the actual amount of goods or services delivered before and/or after the relevant date(s). The methodology to determine the value will vary depending on the nature of the goods and services and the applicable contractual terms. For example, it may be appropriate to use a “percentage of completion” methodology for certain construction or infrastructure projects. Ongoing consulting projects could be valued based on the time spent by the relevant consultant, or reference to completing deliverables under the contract.

Generally, the NBR expects that the valuation methodology will be that normally used by the VAT payer. If a different methodology is used, the VAT payer will need to demonstrate that it was not used to reduce or minimize the VAT payable under the contract.

