

Kingdom Of Bahrain


VAT Retail and Wholesale Guide

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Preface

This guide sets out general principles relating to the VAT treatment of persons and transactions in the retail and wholesale sector.

VAT was introduced in Bahrain with effect from 1 January 2019 with a standard rate of VAT of 5%. With effect from 1 January 2022, the standard rate of VAT was revised to 10%. See the VAT Rate Change Transitional Provisions Guide on the NBR website (www.nbr.gov.bh) for an explanation of the transitional rules relevant to the change in rate.

This guide is intended to provide general information only, and contains the current views of the National Bureau for Revenue (NBR) on its subject matter. This Guide is not a legally binding document, and does not commit the NBR or any other person, including a VAT payer, in respect of any transaction. This document should be used as a guideline only and is not a substitute for obtaining competent legal advice from a qualified professional.

The main principles of the VAT system in the Kingdom of Bahrain are set out in the VAT General Guide issued by the NBR which is available on the NBR's website, www.nbr.gov.bh. This document should be read in conjunction with the VAT General Guide.

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Updates to this guide

Version 1.1	1 January 2022	Section 15.2 Update to procedures relating to obsolete stock.
	1 January 2022	Section 17.4 Clarification on certain matters relating to incentives by car dealers and associated VAT invoicing.

1. The retail and wholesale sector

1.1. Introduction

VAT is levied on consumer spending. Generally, consumer spending will occur most frequently in the retail sector, where goods and services are purchased for final consumption (i.e. by non-VATable, private individuals).

In addition, retailers themselves will incur VAT on their purchases from VATable suppliers (generally referred to as wholesalers). In principle, retailers should be able to recover input VAT on their VAT return, subject to the normal rules relating to VAT recovery.

This Guide provides guidance on aspects of VAT in a retail and wholesale context including the place of supply, the time of supply, the determination of the amount chargeable to VAT and how to deal with adjustments, VAT invoicing and rounding rules, and business promotion schemes.

This Guide should be read in conjunction with the VAT General Guide and the VAT Digital Economy Guide issued by the NBR which can be found on the NBR's website, www.nbr.gov.bh.

1.2. Application of VAT in the retail and wholesale sector

Generally, the sale of goods and / or services by retailers, wholesalers and manufacturers registered for VAT in Bahrain is subject to VAT at the standard rate of 10%, unless the supply is specifically exempt from VAT or zero-rated (such as certain food items).

The sale of goods and / or services in the retail and wholesale sector in Bahrain will follow the normal place of supply rules and will generally follow the normal VAT due date rules. Please see the "General rules" and the "General VAT due date rules" sections of the VAT General Guide for more information on these rules.

2. Prices displayed by retailers

In accordance with Article 3 of the VAT Law, prices displayed in the “local market” must be inclusive of VAT, and are deemed to be so. The “local market” in this context is assumed to mean any price displayed in a retail environment, whether this is physical (i.e. in a shop), electronic (i.e. over the internet), printed (i.e. a retail sales catalogue), or any other retail channel.

In order to calculate the VAT amount and the VAT exclusive value of the supply (where it is subject to the standard rate of 10%), the following formulae should be applied:

<i>Value of supply (exclusive of VAT)</i>	<i>Displayed price ÷ 1.1</i>
<i>VAT amount (at 10%)</i>	<i>Displayed price ÷ 11</i>

Notwithstanding the general rule above, a price displayed in a retail context can be exclusive of VAT when it relates to an export of goods or an export of services. In such cases, the supplier must clearly state that the price is exclusive of VAT.

3. Place of supply

3.1. Introduction

It is important to identify the place of supply of the sale of goods and / or services to determine whether they are sold in Bahrain and therefore whether Bahraini VAT will apply.

3.2. Place of supply of goods

Generally, where goods are bought by retail consumers in Bahrain (e.g. in retail stores or supermarkets), the place of supply will also be in Bahrain, and Bahrain VAT Law will apply.

In certain circumstances, the detailed rules on place of supply may also need to be considered. The place of supply rules for goods will depend on factors including whether the supply involves transporting or installing the goods. An overview of the relevant rules is as follows:

<i>Description</i>	<i>Place of supply</i>
Goods supplied without transportation or installation	Where the goods are placed at the disposal of the customer
Goods supplied with transportation where the transportation is carried out by the seller, purchaser or a third party on their behalf	Where the transportation starts
Goods supplied with installation or assembly where the installation or assembly is carried out by the supplier or a third party on his behalf	Where the installation or assembly takes place

Based on the above, where goods are supplied in Bahrain with transport or with installation or assembly, and the transport starts in Bahrain or the installation / assembly is in Bahrain, then the place of supply will be Bahrain.

3.3. Place of supply of services

The general rule for the place of supply of services made by a VAT registered supplier in Bahrain is the place of residence of the supplier (i.e. Bahrain). However, under special rules explained in the VAT General Guide, the place of supply of certain services may, under certain circumstances, be outside Bahrain.

Please see the “Place of supply” section of the VAT General Guide for further details on the rules on the place of supply of goods and services.

4. Consideration for VAT purposes, adjustments to consideration and discounts

4.1. Introduction

Once it is clear that a VAT payer must account for VAT on a supply, he will need to identify the amount on which VAT applies (i.e. the value of the supply) and the date on which this VAT becomes due (i.e. the VAT due date).

The VAT Law and Executive Regulations contain rules to determine the value of a supply and the VAT due date. These are discussed below.

4.2. Value of supply

The value of a supply is the remuneration received on which VAT is applied, either at the standard 10% or zero-rate.

The VAT Law and Executive Regulations provide the rules to be followed when determining the value of a supply and the value of an import of goods for VAT purposes. These are discussed below.

4.3. General valuation principles

4.3.1. Determination of the value

The value of the supply, together with the VAT charged on it, which represents what the supplier receives in exchange for the supply is called the “consideration” for the supply. Under the VAT Law, consideration is all that is received or expected to be received by the VATable supplier from the customer or from a third party in exchange for the supply of Goods or Services, inclusive of VAT.¹

The value of supply includes everything that the supplier receives from the customer or from a third party for the supply, whether in cash, in kind or both. The value of any remuneration received in kind (i.e. non-monetary) should be determined based on its fair market value which is discussed in section 4.3.3 of this Guide.

When computing the value of a supply, the supplier must include all costs and expenses imposed on the customer, including any duties and / or taxes (such as the tourist levy and municipality fees), but not VAT. This includes transportation and insurance costs, packaging, delivery charges, administrative fee(s) and out of pocket expenses.

¹ Article 1 (26) of the VAT Law

Example

A local restaurant provides a meal to a customer for a value of BHD 10 (exclusive of VAT and other charges). The 5% tourist levy is applicable. The consideration subject to VAT, the amount of VAT and consideration payable (including VAT) is as follows:

	BHD
Base price of the meal	10.000
Tourist levy – 5%	0.500
Amount subject to VAT	10.500
VAT @ 10%	1.050
Consideration (inclusive of VAT)	11.550

4.3.2. Discounts and reduction in the value of a supply

In certain circumstances, the value of a supply may be reduced, either at the time of the supply, or subsequently. The value of the supply must be reduced by the following items, and VAT must be calculated after the value is reduced by them:

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

Where the discount is provided after the date of supply, the supplier should issue a VAT credit note for the amount of the discount and the related amount of VAT.

Example

A local restaurant provides a meal to a customer for a value of BHD 20 (exclusive of VAT and other charges). The 5% tourist levy is applicable. At the time of payment at the end of the meal, the restaurant grants a loyal customer discount of 10%. The consideration subject to VAT, the amount of VAT and consideration payable (including VAT) are as follows:

	BHD
Base price of the meal	20.000
Tourist levy – 5%	1.000
Total	21.000
Less: 10% discount	(2.100)
Amount subject to VAT	18.900
VAT @ 10%	1.890
Consideration (inclusive of VAT)	20.790

4.3.3. Remuneration in kind – fair market value

If a supply is remunerated (in part or in full) by a non-cash component, the value of the non-cash component is determined by reference to its fair market value.

The fair market value is the fair price tradeable in the market between two independent parties under similar circumstances at the same date as the date of the supply and in accordance with the following free competition conditions:

- Neither the supplier nor the customer is subject to any kind of commercial pressure;
- Both the supplier and the customer independently work to achieve what is in their best interest; and
- The transaction is made within a reasonable period of time (i.e. no time pressure).

Where the fair market value cannot be assessed using the value of an identical supply in competitive conditions, the supplier may refer to the fair market value of a similar supply. In such conditions, a similar supply would be any other supply of goods or services where the characteristics such as quantity, quality, usage, components or delivery are the same, or closely resemble the supply.

Where the market value cannot be determined in accordance with the fair price tradeable as set out above, it should be determined based on the methodologies set out in the guidelines issued by the Organization for Economic Cooperation and Development (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations). These can be found [here](#). The methodologies should be used notwithstanding that the parties involved may both be resident in Bahrain.

4.3.4. Staff discounts

An employer and its employees are considered to be related parties for VAT purposes. The value of a supply of goods or services between related parties must be the fair market value where the following conditions are met:

- The value of the supply is less than its fair market value; and
- The recipient of the supply is not entitled to recover in full the VAT charged on his expenses.²

As an employee is not entitled to recover VAT on supplies made to him, where a VAT registered employer makes a supply of goods or services at a discount to an employee, the employer must account for VAT on the fair market value of the supply (as opposed to the amount actually charged to the employee).

² Article 22 of the VAT Law

Where an employer provides a staff discount to employees for a supply of goods and / or services, the employer should determine the fair market value of that supply and account for VAT at the appropriate rate on the fair market value. Where the same discount is available both to customers and employees, the discounted price will be considered to be the fair market value when offered to employees. Where the discount is only available to employees, the employer will need to determine whether the discounted value corresponds to the fair market value of the supply and account for VAT accordingly.

Example 1

Electrical Goods W.L.L. is a Bahrain resident and VAT registered company selling electrical goods. It provides a 15% discount to all employees on purchases of its stock for sale.

As the company and the employees are related parties, Electrical Goods W.L.L. will be required to account for VAT on sales to employees based on the market value of the goods sold, i.e. the price the goods are sold to third party customers.

Example 2

Motor Cars W.L.L. runs a promotion for all customers, offering a 10% discount on all cars sold during the holy month of Ramadan. The discount is also available to employees of Motor Cars W.L.L.

VAT on sales to employees of cars as part of the promotion will be based on the discounted price. This is because the promotion is available to the general public as well as employees. The market value of a car sold to an employee will be the discounted price as this is the price for which an unconnected third party could buy the car.

See the “Value of supply” subsection of the VAT General Guide for further details on the value of supply of goods and services.

Where an employer provides free goods or services to an employee (as opposed to providing them for a discounted price), this will be a deemed supply for VAT purposes. Please see section 6 of this Guide for the VAT treatment of deemed supplies.

4.4. Service charges, tips and gratuity payments

It is common practice for many retailers, such as restaurants and caterers, to levy a service charge. These can be compulsory charges or freely given.

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 10% rate, the amount of the service charge should be included in the consideration on which VAT is applicable.

Optional service charges are not part of the consideration for the underlying supply of goods and services and are outside the scope of VAT.

Customers may give additional “tips” to staff in a retail outlet such as a coffee shop or restaurant. If a customer freely gives a tip over and above the total charge for goods and services, this is not further consideration for the underlying supply and the tip is outside the scope of VAT.

4.5. Deposits

Any non-refundable charges, deposits and fees collected from a customer, which are full or part payments for a VATable supply of goods or services, are subject to VAT at the appropriate rate (i.e. 0% or 10%).

Where a customer pays a non-refundable deposit for the supply of VATable goods and services, but does not complete the purchase, the retained deposit will generally remain subject to VAT, but the contractual terms agreed between the parties will need to be considered on a case-by-case basis. VAT becomes due under the normal date of supply rules and the VAT registered retailer or wholesaler must issue a valid VAT invoice to its customer as described at section 18 of this Guide.

Deposits which are refundable (i.e. security deposits) are not considered to be advance payments for a supply of goods and services and are outside the scope of VAT.

4.6. Part exchange and trade-ins

Where a customer part exchange old goods (e.g. phones) for new goods and pays the difference in value in cash, VAT applies on the full selling price of the new goods. The supplier is making a sale in respect of which VAT is due on the total consideration received, including the value of the goods received in exchange.

4.7. Adjustments to the value of a supply and related output VAT

A VATable person should adjust the value of a supply, and therefore the related amount of output VAT, when one of the following events occurs after the date of supply:

- The supply is cancelled or refused (in full or in part);
- The value of the supply is reduced (e.g. a discount is granted after the sale occurs);
- The goods are returned and the supplier accepts the return; or
- Consideration is not received (in full or in part) within 12 months of the date of the supply and the procedure for a bad debt relief has been followed (see the “Bad debts relief” section of the VAT General Guide for more information on relief for bad debts).

Where a VATable person adjusts the value of a supply and the related amount of VAT, he must issue a credit or debit note evidencing this. Please see the “Adjusting a VAT invoice” section of the VAT General Guide on invoicing requirements.

A VATable person is also required to adjust any output VAT that was incorrectly charged on a supply.

4.8. Trade related discounts

Wholesalers and manufacturers often provide retailers with trade related discounts, including retrospective discounts on the price paid for goods, where the retailer meets certain conditions. Examples include:

- (i) Exceeding a certain number or value of purchases over a period of time (also referred to as contingent discounts); or
- (ii) Price off discounts whereby the supplier provides additional discounts to the retailer on certain products sold during a specific period.

Typically, retailers will receive retrospective discounts in the form of a rebate. In this case the wholesaler / manufacturer will be required to issue a VAT credit note to adjust the original value of the supply and any associated VAT.

Example 1

Riffa Retailer W.L.L. is a Bahrain resident and VAT registered company selling electrical goods. It purchases laptops at BHD 250 per unit (excluding VAT) from Manama Wholesaler W.L.L. Under the contractual arrangements, if Riffa Retailer W.L.L. purchases more than 100 laptops per annum, it will be entitled to a rebate of BHD 25 per laptop in excess of 100 laptops.

Riffa Retailer W.L.L. buys 150 laptops over one year from Manama Wholesaler W.L.L. and is entitled to a rebate of BHD 1,250. This will be treated as a contingent discount on the supply of the 50 laptops and Manama Wholesaler W.L.L. should issue a credit note to Riffa Retailer W.L.L. in respect of this discount.

Example 2

Continuing the previous example, Riffa Retailer W.L.L. wishes to quickly dispose of all remaining laptops as more advanced models will shortly be released on the market and intends to discount existing stock. Manama Wholesaler W.L.L. agrees to support the effort to sell the stock by granting an additional discount of BHD 100 per laptop sold which is equal to the discount provided by Riffa Retailer W.L.L. to its customers.

The support provided by Manama Wholesaler W.L.L. is additional discount from a VAT perspective and should issue a credit note or credit notes as the case may be.

Where the supplier of goods is located outside Bahrain, any discount granted by the supplier after the goods have been imported into Bahrain will have no VAT implications unless the customs value of the goods is adjusted. Please see the “Value of imported goods for VAT purposes” section of the Imports and Exports VAT Guide for further information.

Wholesalers and manufacturers may also provide retailers with goods equal to the value of the discount granted. In this case, the discount granted to the retailer has effectively been settled with the additional goods supplied. To ensure correct VAT accounting, the supplier should issue a credit note for the value of the discount and issue an invoice for the goods given.

4.9. Relief for bad debts

There may be cases where a VATable supplier will not receive the consideration due for VATable supplies made (e.g. because of a delinquent customer). In such cases, the VATable supplier will have already paid the output VAT on his supplies to the NBR without having collected it from his customer.

A VATable supplier may claim bad debt relief and recover output VAT already paid to the NBR where he is not able to collect these amounts from his customers. In order to apply bad debt relief, certain conditions must be met. For further details, please see the “Bad debts relief” section of the VAT General Guide.

5. VAT due date for supplies

The VAT due date is important to ensure that VAT is accounted for in the correct period and VAT invoices are raised within the timeframe set out in the VAT Law. The general VAT date rules apply to all supplies of goods and services unless they fall under a special rule.

For supplies, the VAT due date is the earliest of:

- a. The date of the supply of goods or services;
- b. The issue of a VAT invoice for that supply; and
- c. The receipt of full or part payment for that supply.

The date of the supply for the purposes of a above is:

For goods	For services
On the date when the transport starts, if the goods are supplied with transport and the transport is supervised by the supplier	The date on which the services are considered as completed, for example: <ul style="list-style-type: none"> • When the agreed work is completed; or • When the customer receives and explicitly approves the service; or • When the customer issues a certificate of completion.
On the date the goods are put at the disposal of the customer, if the supply is without transport or with transport which is not supervised by the supplier	
On the date on which the installation or the assembly of the goods is completed, if the goods are supplied with installation and / or assembly	
	Where a customer subsequently requests a secondary or additional service, this will be considered as a new supply which will not affect the date of supply of the primary service

In the retail and wholesale sector, different commercial arrangements may be agreed between the parties involved including concession arrangements and consignment stock. Depending on these arrangements, different VAT due date rules may apply. Please refer to sections 10 and 18 respectively of this Guide for a detailed discussion of these arrangements.

See the “VAT due date” subsection of the VAT General Guide for further details on the VAT due date for the supply of goods and services.

6. Deemed supplies – free goods and / or services

6.1. Introduction

The supply of goods or services without consideration (i.e. for free) are generally not considered as supplies of goods or services for VAT purposes. However, the VAT Law and its Executive Regulations list specific cases where a supply of goods or services for free or an event not involving a supply to a third party are considered as supplies of goods or services for VAT purposes, even though they do not meet the general conditions to be treated as such. These transactions are deemed to be supplies of goods and services for VAT purposes.

The purpose of treating goods and services provided for free as deemed supplies is to avoid final consumption of the goods or services without VAT applying.

6.2. VAT treatment of a deemed supply

If a VATable person makes a deemed supply of goods or services, he is required to account for output VAT due on a deemed sale of the goods or services as if he was making a normal VATable supply. He will have to report and pay this output VAT to the NBR.

The “Deemed supplies” section of the VAT General Guide sets out the circumstances in which a VATable person is considered as having made a deemed supply of goods or services.

6.3. Exception for low value gifts and samples

There is no deemed supply if goods provided for free are either low value samples for commercial purposes or low value gifts.

Samples for commercial purposes are specimens of products intended to promote the sale of that product and allowing the characteristics and quality of that product to be assessed without resulting in final consumption, except where the final consumption is essential to the promotion of the product.

In order for samples or gifts not to be deemed supplies, the total market value of samples and gifts must not exceed BHD 50 (VAT exclusive) per recipient per calendar year and the total market value of all gifts and samples per calendar year must not exceed BHD 1,000 (VAT exclusive). Any amount in excess of BHD 1,000 will be regarded as a deemed supply.

Example 1

A local business provides a gift bag once a year to all 100 employees as a “thank you” gift. This is the only gift the business provides to its employees. The market value of the goods in each bag is 20 BHD (VAT exclusive).

The market value of the gift bag per employee per calendar year is less than BHD 50. Therefore, each gift bag qualifies as a low value gift. However, the total market value of all the gift bags for the year is BHD 2,000, i.e. above the BHD 1,000 limit.

The company is therefore obliged to treat the excess (i.e. BHD 1,000) as a deemed supply of goods and to account for, report and pay the output VAT on this deemed supply, assuming it has previously recovered the VAT charged on acquiring the goods gifted to the employees.

Example 2

A local business purchases a kitchen appliance with the intention of selling it to a customer in one of its shops. It recovered the related input VAT.

Subsequently, the business organizes a draw (participation for free, subject to no pre-conditions) where the winning prize is the kitchen appliance. The market value of the kitchen appliance is BHD 100 (VAT exclusive).

Given the VAT exclusive value of this gift (i.e. above BHD 50), the business is required to recognize a deemed supply of goods and to account for, report and pay the output VAT on this deemed supply.

6.4. Free goods and / or services as part of a commercial offer / bundled supplies / “buy one get one free”

When a supplier provides goods and / or services which, for marketing purposes, are designated as supplied “for free” together with a supply made for a consideration (i.e. bundled promotions), the “free” goods / services will not be considered to be a separate deemed supply for VAT purposes provided they are clearly given as part of a promotional or commercial offer requiring the customer to buy a specific supply in order to receive the “free” goods and / or services.

The same applies for businesses making a “buy-one get-one free” or similar promotions to the extent the promotion conditions are clearly defined by a commercial practice and supported by a documented policy

Example 1

Company A is established in Bahrain and is registered for VAT. It sells clothes through its retail store. As part of its end of year sales, it runs a promotion where a customer who buys three items will receive one item for free.

On the basis that the goods are offered to customers as part of a commercial promotion and the customer is required to purchase three items in order to benefit from the free item, the “free” item of clothing will not be a separate supply for VAT purposes. The consideration for the entire supply will be equal to the three items purchased and VAT at the applicable rate will apply on this value.

Example 2

A retailer gives a pair of earphones for free to its customers when they buy a phone. Here, the phone is provided for consideration and subject to VAT. If the earphones are part of a promotional offer and are only given for free where a phone is purchased and this is clearly part of a set of a promotional offer, the free earphones should not be seen as a deemed supply of goods.

Where an offer involves some goods subject to VAT at the standard rate of 10% and others at the zero-rate (e.g. an offer whereby a customer will get a free chocolate bar for every six bottles of still water purchased), the business must apportion the consideration to determine the value of the supply that will be zero-rated and that which will be subject to VAT at the standard rate. A fair and reasonable apportionment should be used and the basis of the apportionment method should be documented by the business.

6.5. Goods and services provided to staff for no consideration

Subject to the conditions detailed in this section of this Guide, a supply of goods and / or services from an employer to an employee for no consideration will be a deemed supply. The employer will be required to account for VAT on these supplies based on the following rules:

Calculating the amount of the deemed supply

On goods	
Where the goods were purchased from a third party	The actual cost of the goods
If the purchase price from a third party is not known or if the goods were not purchased from a third party (e.g. produced by the employer from raw materials)	The total actual cost of the goods at the date of supply to the employer (e.g. cost of raw materials, cost of making and packaging the goods etc)
All other cases	The market value of the goods provided to the employee
On services	
Default rule	The total actual cost of providing the services to the employer (e.g. cost of labor / time together with an allocation of associated costs such as overheads, cost of purchasing services needed to provide the services to the employee etc)
When the total actual cost cannot be determined	The market value of the services provided to the employee

Supplies made to staff for no consideration may fall within the exception for low value gifts discussed at section 6.3 above.

Example

Company B bought a monitor for a price of BHD 220 (VAT inclusive) for the purposes of its economic activity and recovered in full the related VAT (i.e. BHD 20). Three years following the purchase of the monitor, Company B decides to dispose the monitor to one of its employees without consideration. The monitor has a market value of BHD 40.

As no consideration was charged to the employee on the disposal of the monitor to the employee, the disposal will be a deemed supply for the original cost (VAT exclusive) of the monitor, i.e. BHD 200 and the employer will be required to account for output VAT of BHD 20.

If the employer had charged consideration for the disposal, it would not have been a deemed supply. The employer would have been required to account for VAT based on the higher of the consideration charged or the market value of the monitor (as Company B and the employee are related parties for VAT purposes).

The VAT implications of supplies made to staff at a discount are discussed at section 4.3.4 of this Guide.

7. Single and multiple supplies

When a supplier makes a supply that comprises more than one component (e.g. multiple goods or a mixture of goods and services), the supplier will need to assess whether its supply is a “single composite supply” or a “multiple supply” and account for VAT accordingly.

Please refer to the “Single composite and multiple supplies” section of the VAT General Guide for more information on single composite and multiple supplies, and their corresponding VAT treatment.

Example 1

Company A is established in Bahrain and is VAT registered. It sells personalized gifts (for example, jewellery, stationery etc.) through its retail stores.

Ahmed purchases a notebook from Company A's retail store and for the same price (i.e. no additional charge), Company A will personalize the front cover with a message drafted by Ahmed. The price of the notebook and the personalization service cannot be identified separately and, as such, they will be considered as a single supply of goods for VAT purposes and shall be subject to VAT at the standard rate of 10%.

8. Returned goods

The VAT implications of a return of goods will depend on the VAT treatment of the original supply.

If the original supply was subject to VAT and the goods are returned for a refund, a VAT credit note will need to be issued and an adjustment of the VAT initially paid must be made (where VAT was originally charged).

Similarly, if the original supply is replaced with other goods, a VAT credit note must be issued and an adjustment of the VAT initially paid must be made (where VAT was originally charged). In relation to the replaced goods, if the supply is subject to VAT, a VAT invoice will need to be issued for the value of these goods, and output VAT will need to be accounted for on the value of the sale attributable to the replacement goods.

Where goods that have been imported into Bahrain are exported as returned goods to the foreign supplier, this export should qualify for the zero-rate assuming the relevant conditions discussed in the “Exports of Goods” section of the Imports and Exports VAT Guide are met.

See the “Adjusting a VAT invoice” subsection of the VAT General Guide for details on adjusting a VAT invoice and the requirements of a VAT credit note.

9. Supplies through an agent or intermediary

9.1. Introduction

The term “agent” is not defined in the VAT Law or Executive Regulations. From a commercial perspective, an agent is a person who acts on behalf of another person (e.g. a supplier or customer) in relation to a specific supply.

Supplies may be made by an agent who acts as a disclosed or undisclosed agent. See Appendix A.2. of the VAT General Guide for further details on disclosed and undisclosed agents.

9.2. Disclosed agent

A disclosed agent is an intermediary who acts in the name of and for the account of another person. The buying and selling parties know the identity of each other and contract directly between themselves for the supply. The disclosed agent simply facilitates the conclusion of the contract / supply.

For VAT purposes, there are two separate transactions:

- A supply of goods or services directly between the supplying party and the buying party; and
- A supply of agency / intermediary services between the disclosed agent and the person he represents (i.e. either a buyer or a seller).

A disclosed agent who is a VATable person is liable to apply the correct VAT treatment solely on remuneration earned for his intermediation services (i.e. usually in the form of a commission or success fee). He is also generally required to issue a VAT invoice to the person for whom he acts as an intermediary.

The VAT liability for the supply of goods or services lies directly and exclusively with the supplying party and the buying party.

9.3. Undisclosed agent

An undisclosed agent is an intermediary who acts in his own name but for the account of another person, i.e. the agent acts in his own name but for the account of either the person actually supplying the goods or services or the person actually requiring the goods or services.

The undisclosed agent is interposed between the supplying party and the receiving party and these do not know the identity of each other and do not contract directly. The undisclosed agent enters into a contract, in its own name, with, respectively, the supplier and the buyer.

From a VAT perspective, the undisclosed agent is considered to be acting as a principal in the supply of the goods or services to the purchaser (i.e. “buy-and-sell” arrangement). For VAT purposes, there are two separate transactions:

- A supply of goods or services from the actual supplier to the undisclosed agent; and
- A supply of the same goods or services from the undisclosed agent to the actual customer.

From a VAT perspective, the undisclosed agent will recognize a purchase of the goods or services and an on-sale of these goods or services. Any mark-up applied (if any) by the undisclosed agent when re-selling the goods or services is considered part of the value of the supply of these goods or service (i.e. it is not treated as a separate element from the selling price of the goods or services).

As the undisclosed agent is considered as selling the goods or services to the actual customer, he is, in principle, entitled to recover the VAT charged on these goods or services by the actual supplier (subject to all the conditions being met). It is expected that two VAT invoices are issued, one by the actual supplier to the undisclosed agent and another by the undisclosed agent to the actual customer.

Where the principal in the arrangement is not registered for VAT, but the agent is, the agent will be required to account for VAT on the supply to the actual customer. This is notwithstanding the fact that VAT will not be charged to the agent on the supply from the principal.

9.4. Input VAT recovery for agents

The normal input VAT recovery rules, as set out in the “Input VAT recovery” section of the VAT General Guide will apply for supplies made by agents.

In particular, an agent can only recover the input VAT incurred on costs relating to supplies that it receives. If an agent incurs input VAT on costs incurred on behalf of another person, this input VAT will not be recoverable by the agent.

Example

A disclosed agent that is a VATable person in Bahrain acts in the name of a non-resident furniture supplier. The agent introduces the supplier with potential buyers in Bahrain. Once a potential buyer contracts for the purchase of specific furniture, the sale is made between the non-resident furniture supplier and the buyer.

The non-registered customer is the importer of record when the goods are imported into Bahrain. This is however paid by the agent at the time of import and the customer pays the agent for the VAT at the time of delivery.

The import VAT does not relate to the agent's business activities (as they are the customer's goods) and this VAT cannot be recovered by the agent.

10. Concessions in retail stores

10.1. Introduction

Some retail stores may allow other retailers to operate concessions within their stores. In many, but not all, cases, customers of these retail stores (“concessionaires”) can pay for their purchases at any till within the store.

The VAT treatment of these concessionaire sales will depend on the contractual arrangements between the host store and the concessionaire and must be considered on a case-by-case basis. An overview of the VAT treatment of some common concession arrangements is set out below.

10.2. Sale by concessionaire to host store at a discounted price

Under this arrangement, the concessionaire sells its goods to the host store at a discounted price from the retail price. The host store, in turn, resells these goods to the customer at the retail price. The sale from the concessionaire to the host store takes place simultaneously with the sale by the host store to the customer. There are two supplies for VAT purposes:

- From the concessionaire to the host store at the discounted price; and
- From the host store to the customer at the retail price.

Where the host store and the concessionaire are VAT registered persons, the VAT on the value of these supplies is based on the price of each sold item to the concessionaire and the customer, respectively.

The time of supply of each sale for VAT purposes is when the goods are sold to the customer.

10.3. Sale by concessionaire to host store at retail price

In this scenario, there may effectively be three separate supplies for VAT purposes:

- A sale of goods by the concessionaire to the host store at retail price;
- A sale of goods by the host store to the customer at the same retail price; and
- A fee or commission (i.e. a service) being charged by the host store to the concessionaire, usually a percentage of the retail price received from the customer.

Where the concessionaire and the host store are VAT registered persons, the VAT on the value of these supplies is based on the price of each sold item between the parties involved. The time of supply of each sale for VAT purposes is when the goods are sold to the consumer.

VAT is also charged on the fee / commission amount collected by the host store from the concessionaire. The time of supply of VAT is due based on the normal time of supply rules

applicable to continuous supplies of services. See the “Special VAT due date rules” section of the VAT General Guide for further information.

10.4. License to occupy or trade in the host’s store

In this scenario, the host store provides a license to the concessionaire to occupy and trade in the store. Under this arrangement, the concessionaire generally operates his own cash register at the host store.

In this case, there are two supplies for VAT purposes:

- The sale of goods by the concessionaire to the customer; and
- The license fee collected by the host store from the concessionaire.

Where the concessionaire and the host store are VAT registered persons, VAT must be charged on the value of the goods sold and the license fee, respectively.

11. Asset financing

11.1. Introduction

Asset financing refers to the provision of a financing service or credit facility directly linked to the acquisition of a specific asset when a separate charge for this financing is made and disclosed to the acquirer.

Asset financing products may generally take the form of credit sales, conditional sales, hire-purchase arrangements and finance leases:

<i>Product</i>	<i>Description</i>
Credit sale	The goods immediately become the property of the customer even if the price is payable in instalments.
Conditional sale	The goods immediately become the property of the customer even if the price is payable in instalments
Hire-purchase and finance leases	The goods remain the property of the lessor and are hired for periodic payments with the lessee having the option to purchase them. The lessee bears all costs and risks associated with the use of the leased asset.

Operating leases are generally considered as a financing arrangement. However, they are treated differently for VAT purposes. See section 11.8 below.

Financing contracts may be offered to the purchaser of the goods either by the dealer or by banks or finance companies interposed between the dealer and the purchaser.

11.2. Self-financed arrangement

Where the dealer itself offers a financing arrangement to the purchaser of the goods (i.e. self-financed arrangement), the following supplies occur for VAT purposes:

- A supply of goods (the asset), for the price of the asset stated in the agreement; and
- A supply of financing / credit services, for the separate charge.

11.3. Third party financed arrangement

When a bank or finance company is interposed between the dealer and the purchaser (i.e. a third party financed arrangement), the bank or finance company will take title to the goods from the dealer, while the purchaser will be allowed to use the goods. In this case, the following supplies occur for VAT purposes:

- A supply of goods (the assets) by the dealer to the bank or finance company for the price of the assets stated in the agreement;

- An onward supply of the assets by the bank or the finance company to the purchaser for the same price as the one charged by the dealer; and
- A supply of financing / credit services by the bank to the purchaser for the separate charge made and disclosed to the purchaser.

11.4. VAT treatment

11.4.1. Supply of the asset

The supply of the asset is considered as a one-off supply of goods and the fact that the goods will be paid by instalments does not make the supply a continuous supply of goods:

- VAT becomes due on the supply of the goods by the dealer at the time the goods are put at the disposal of the purchaser (unless a VAT invoice is issued or a (partial) payment is received prior to that date). The dealer is required to issue a VAT invoice to either the purchaser or the bank or finance company (depending on whether a bank or finance company is involved).
- VAT becomes due on the supply of the goods by the bank or the finance company to the purchaser at the time the goods are put at the disposal of the purchaser (unless a VAT invoice is issued or a (partial) payment is received prior to that date). The bank or finance company is required to issue a VAT invoice to the purchaser.
- No VAT is chargeable on the instalments paid by the purchaser as this VAT has already been charged upfront.

VAT becomes due on the supply of the asset by the dealer / the bank to the purchaser no later than by the time the asset is put at the disposal of the purchaser. This is irrespective of the fact that the dealer / the bank will remain the legal owner of the asset during the financing period and that the legal title will only pass at the end.

The value of the supply of the asset is the price of the goods as stated in the sale agreement.

When a bank or finance company is involved in an asset financing arrangement and is regarded from a VAT perspective as buying and selling the asset, it will need to consider the impact of the financing of the goods has on its entitlement to claim input VAT.

11.4.2. Supply of the financing service

The supply of a financing service, provided it is remunerated by way of a separate interest or similar charge, is a financial service for VAT purposes. The VAT treatment for these services will be the same as for financing and credit services as analyzed in the “Credit and lending activity” section of the VAT Financial Services guide.

11.5. Other fees and charges related to asset financing

Some fees may be charged as part of the financing arrangement such as an application or a documentation fee. These services follow the general place of supply rules applicable to services. When supplied in Bahrain, VAT at the standard rate of 10% is applicable unless the conditions to apply the zero-rate of VAT (for export of services) are met.

When charged by the dealer to the bank or finance company, the VAT incurred on such fees should not be recovered by the bank or the finance company unless these are recharged by the bank or the finance company to the purchaser. In this case, the VAT charged by the dealer becomes fully recoverable for the bank or the finance company.

11.6. Intermediary / agency fee

Banks or finance companies may also pay a fee or a commission to a dealer for the introduction of a new customer (agency fee or commission). These are regarded as financial services (i.e. intermediation in supplies of financial services) and follow the general place of supply rules applicable to services. When supplied in Bahrain, VAT at the standard rate of 10% is applicable, unless the conditions to apply the zero-rate of VAT (for export of services) are met.

The VAT charged by the dealer on such fees / commission should not be recovered by the bank or the finance company as they are used for the purpose of performing VAT exempt financing supplies.

11.7. Return or repossession of the assets

Sometimes finance agreements do not run their full course and the goods are returned or repossessed. The VAT treatment of returned or repossessed assets will depend on the financing contract under which the asset acquisition is financed. See the “Credit and financing services” section of the VAT Financial Services guide for further information.

11.8. Operating leases

From a VAT perspective, operating leases are supplies of services. They follow the general place of supply rules applicable to services, unless they fall under one of the special place of supply rules. When supplied in Bahrain, VAT at the standard rate of 10% is applicable unless the conditions to apply a zero-rate of VAT or a VAT exemption are met.

When applicable, VAT is charged on the rent received by the lessor and becomes due on the earlier of:

- The due dates of payment of the rents, as agreed in the contract; or
- The date where a payment is received.

Example

Company ABC, wants to acquire new printers for its business and enters into a 48-month hire-purchase agreement with a printer company, established and registered for VAT in Bahrain. At the end of the 48-month period, assuming Company ABC complies with all his payment obligations and legal title of the printers is transferred from the printer company to Company ABC.

The selling price of the printers is BHD 6,000 (VAT exclusive). The printer company will apply a margin (interest) of 4% on each instalment paid by Company ABC:

- *Monthly repayment for the printers (BHD6,000 / 48 months) : BHD 125*
- *Margin (interest) applied (BHD 125 x 4%): BHD 5*

Under these arrangements, the printer company charges 10% VAT on the selling price of the printers (i.e. BHD 600; 10% of BHD 6,000). The printer company will be required to charge VAT on the full selling price of the printers on the day the printers are put at the disposal of Company ABC (unless a VAT invoice is issued or a payment is received beforehand).

The printer company does not charge VAT on the margin realized on the monthly payment (i.e. BHD 5). This is because this margin (interest) is VAT exempt: it is the consideration for a financing service remunerated by way of margin / interest.

The printer company must issue a valid VAT invoice to Company ABC for each instalment once the VAT due date is triggered and include the monthly repayment for the printer together with the margin (interest) applied on each periodic payment and account for VAT on these supplies accordingly. The printer company will account for VAT on the printers (i.e. BHD 600; 10% of BHD 6,000) on the initial VAT invoice issued to Company ABC.

12. Goods and the profit margin scheme

12.1. Overview

The VAT Law provides for a specific regime for the sale of certain used goods, whereby VAT is chargeable on the profit margin earned by a VATable person, rather than the total value of the supply. This is referred to as the “profit margin scheme”. The scheme applies to supplies of used goods, such as used cars, under specific conditions.

This scheme is intended to avoid VAT being applied on that part of the sale value of a good that has already been subject to VAT in circumstances where it could not be recovered.

Use of the profit margin scheme is not mandatory. Suppliers can elect to use their margin as the value of their supplies for the purpose of computing the output VAT due, subject to approval from the NBR.

Where the VATable person does not elect to use the profit margin scheme or does not meet the conditions for the application of such scheme as set out above, VAT on used goods shall be charged based on the principles covered in section 4 of this Guide

12.2. Conditions for the application of the profit margin scheme

The VATable person must obtain the NBR’s approval before applying the profit margin scheme.³ The conditions for the application of the profit margin scheme are discussed below.

The good to be sold (“qualifying goods”) must:

1. Be either:
 - a. A used moveable good suitable for further use in its current state or after repair; or
 - b. A work of art, artifact, or other item of scientific, historical or archaeological interestand
2. Not be precious metals, precious stones or pearls.

For the purposes of 2 above, precious metals are silver (including silver plated with gold or platinum), gold (including gold plated with platinum), platinum and any item where the item is primarily comprised of one or more precious metals. For this purpose, NBR will generally consider that an item is primarily comprised of one or more precious metals where more than 50% of the value of the item is derived from such metals. Precious stones are diamonds,

³ The NBR may request additional information from the applicant in relation to the application. If the information requested is not provided within 30 days of request, the application will automatically be rejected.

rubies, sapphires and emeralds. Precious stones and pearls are not qualifying goods whether or not they are mounted, set or strung.

If any repairs are required before reselling a qualifying good, these repairs must not be significant and must not alter the nature or the use of the good.

The supplier must:

- Have purchased the good in Bahrain
 - From a non-VATable person (e.g. private individual, unregistered business); or
 - From a VATable person who himself sold the good under the profit margin scheme (e.g. a car dealer selling a second-hand car to another car dealer); or
 - From a VATable person who could not recover the VAT charged on the good.
- Not recover the input VAT on the incidental expenses related to the acquisition of the good
- Issue and retain the correct documentation (see section 12.4 below).

A VATable person who has obtained the NBR's approval to use the profit margin scheme must use the scheme in respect of all qualifying goods. The VATable person may not apply the profit margin scheme selectively on some qualifying goods, but not on others.

12.3. Computing the profit margin and the output VAT

The “profit margin” is calculated by deducting the purchase price (including VAT) from the selling price of the good. The profit margin is considered inclusive of VAT. In order to determine the value of a supply (exclusive of VAT) and the output VAT due on a supply under the profit margin scheme, you can apply the following formulae:

<i>Value of the supply (exclusive of VAT)</i>	<i>Profit margin ÷ 1.1</i>
<i>Output VAT due on a supply under the scheme</i>	<i>Profit margin ÷ 11</i>

Where the purchase price exceeds the selling price, no VAT is applicable on the supply of the good.

The selling price is the consideration received for the supply of the good, including incidental expenses directly linked to the supply when charged by the supplier (e.g. commission, packaging, transport or insurance, etc.).

The purchase price is the price paid by the supplier to acquire the good, including the incidental expenses directly linked to the purchase where charged by the supplier of the good.

12.4. Documentation required to apply the profit margin scheme

A VATable person supplying a good subject to VAT under the profit margin scheme must issue a VAT invoice. The VAT invoice must indicate clearly that VAT has been imposed using the profit margin scheme and must not show any VAT amount.

Where the VATable person selling a good under the profit margin scheme purchased this good from a VATable person who applied himself the profit margin scheme, he is required to retain the invoice issued by his seller to evidence the acquisition under the profit margin scheme.

Where the VATable person selling a good under the profit margin scheme purchased this good from a non-VATable person, he is required to self-issue a VAT invoice to evidence that the good was acquired from a non-VATable person. This VAT invoice must be signed by the person from whom he acquired the good, or by his authorized signatory.

See the “Profit margin scheme” section of the VAT General Guide for further guidance on the profit margin scheme.

Example

In October 2021, a VAT registered car dealer purchases a second-hand car from a private individual for BHD 2,000. The private individual had purchased the car in June 2019 and had incurred 5% VAT on its purchase. In January 2022, the car dealer resells the car to another private individual for BHD 3,000 (BHD 2,900 for the car and a BHD 100 administration fee).

The car dealer obtained the NBR approval to apply the profit margin scheme on his supplies of second hand cars. The calculated value of the supply and related VAT (at 10%) is:

- *The margin on this supply is BHD 1,000 (BHD 3,000 – BHD 2,000)*
- *The VAT exclusive value of the supply is BHD 909.091 (BHD 1,000 ÷ 1.1)*
- *The amount of output VAT applicable to this supply is BHD 90.909 (BHD 1,000 ÷ 11)*

13. Vouchers / gift cards and coupons

13.1. Vouchers

13.1.1. Definition of a voucher / gift card and types of voucher

For VAT purposes, vouchers are defined as electronic or written instruments, to which a monetary value is attached (face value), and which grant their holder:

- The right to receive goods or services equivalent to their face value, or
- The right to receive a discount or reduction on the value of such goods or services.

Postage stamps issued by the Bahrain post office are not considered to be vouchers.

For VAT purposes, there is a difference between a “Single-purpose voucher” (“SPV”) and a “Multi-purpose voucher” (“MPV”):

- An SPV is a voucher that can be exchanged for goods or services that are all subject to the same VAT treatment (i.e. place of supply is Bahrain and all goods and services are all 10%, all 0% or all exempt).
- An MPV is a voucher that can be exchanged for goods or services that can be subject to different VAT treatments (i.e. place of supply may be Bahrain or abroad and / or different VAT rates – 10%, or 0% or exempt – may apply to them).

13.1.2. Issue and transfer of a voucher

The issue and transfer of a voucher for consideration may or may not constitute a transaction falling within the scope of VAT. This will depend on the features of the voucher and the consideration paid for the issue or transfer of the voucher.

Where an SPV or an MPV is issued or transferred for consideration that is higher than its face value, the excess of consideration received over the face value is treated as consideration for a separate supply of a service by the issuer or seller of the voucher (i.e. a supply of a voucher). This supply is subject to VAT at the standard rate of VAT if made by a VATable person.

The issue of an SPV and any subsequent transfer of that SPV for consideration is considered as a supply of the underlying goods or services which the SPV can be used to purchase. The VAT due date for that supply is the date of issue of the SPV or its transfer, as the case may be.

The issue of an MPV and any subsequent transfer of that MPV for consideration is not a supply falling within the scope of VAT. A supply that is within the scope of VAT will only occur when the MPV is exchanged for goods or services.

13.1.3. Redemption of a voucher

Where an SPV is used to purchase goods or services which are subject to VAT and their value is less than or equals the face value of the SPV, no VATable transaction occurs. This is because VAT (if any) has already been paid in respect of the amount redeemed.

Where an SPV is used to purchase VATable goods or services and consideration in excess of the face value of an SPV is payable, the excess is a VATable supply by the person redeeming the voucher. In this case, VAT will have been accounted for on issue of the SPV on its issue, so only the value of the additional consideration is a VATable supply on the redemption of the voucher.

When an MPV is redeemed, it is treated as if the goods and / or services for which it is exchanged have been purchased for cash. If the supply of goods and / or services is subject to VAT, VAT will arise when the voucher is redeemed.

13.1.4. VAT invoices

See section 18.5 of this Guide for guidance on VAT invoices for transactions involving vouchers.

The value and VAT due date of supplies involving vouchers are covered in the “Value of supply” and the “Supplies of goods and services” subsections of the VAT General Guide.

Example 1

A retail store in Bahrain issues a gift card showing a face value of BHD 110. It can be used to purchase electrical items in the store, all of which are subject to the standard 10% VAT rate. The price for issuing the gift card is BHD 115.

As the sale price for the voucher exceeds the value of goods and services that can be purchased using it, the excess of BHD 5 is the consideration for a VATable supply of a service (i.e. a supply of a voucher).

As the voucher can only be used to purchase goods from a store in Bahrain which are subject to the same VAT treatment, it will be treated as an SPV. Therefore, on issue of the voucher, there is an immediate supply of goods for VAT purposes at the face value of the voucher (VAT inclusive).

In its VAT return covering the period when the voucher was issued, the store will be required to account for output VAT at the standard rate on the following:

- *On the VAT inclusive consideration for the supply of the voucher, i.e. VAT at 10% on BHD 5.*
- *On the VAT inclusive face value of the voucher (i.e. BHD 110)*

Example 2

A retail store issues a gift card showing a face value of BHD 55. It can be used to purchase goods and services in Bahrain which are subject to the 10% and 0% rates. The price for issuing the gift card is BHD 60.

As the sale price for the voucher exceeds the value of goods and services that can be purchased using it, the excess of BHD 5 is the consideration for a VATable supply of a service (i.e. a supply of a voucher).

As the voucher can be used to purchase goods and services subject to different VAT treatments, it will be treated as an MPV. Therefore, no immediate supply takes place in respect of that MPV. A

supply will take place for VAT at the time of redemption of the voucher (i.e. when it is exchanged for goods or services).

13.2. Coupons / discount vouchers

13.2.1. Definition of a coupon / discount voucher

Coupons or discount vouchers offer a reduction in or money off the price of a future purchase. They can be issued in different ways such as:

- On purchase of a good;
- When goods of a certain value are purchased;
- Electronically (e.g. on a website or sent by an SMS);
- Left in store for customers to pick up; and
- As cut-out coupons in newspapers or magazines.

A coupon includes coupons issued by retailers under their own schemes, or by manufacturers of products sold by retailers.

13.2.2. Issue and sale of coupons

Usually, coupons are issued for no consideration. No VAT liability arises on such coupons.

Where a coupon is issued only where a customer buys goods for a certain value, no VAT liability arises on the issue of the coupon once the goods are sold at their normal price.

Example

Where a customer buys goods of a value exceeding BHD 40, a retail store in Bahrain gives that customer a coupon offering 50% off a certain brand of detergent. The issue of the coupon has no immediate VAT implications even though a customer must purchase BHD 40 before being entitled to receive the coupon.

If a value is given to the coupon by a price differential then the following paragraphs will apply.

If you sell money-off coupons, discount coupons or discount cards, which entitle the holder to discounts, this is treated as the sale of a voucher. In this case, the VAT rules relating to vouchers, discussed at section 13.1 above will apply.

13.2.3. Redemption of coupons

The redemption of a coupon at the time of sale of a good results in the good being sold at a discount. If the retailer is not entitled to recover some or all of the discounted amount (i.e. the discount arising from the redemption of the coupon) from a third party such as the

manufacturer, he should account for VAT on the actual consideration received from the customer.

Example 1

A retail store in Bahrain offers 20% off purchases of a new laptop when a customer prints off a coupon from its website and presents it in store at time of purchase. The offer is available publicly.

A customer prints off the coupon and purchases a laptop which has a regular retail price of BHD 500. The coupon reduces the price to BHD 400 which is paid by the customer in cash.

The retail store should treat the price of BHD 400 (i.e. the amount received from the customer) as VAT inclusive. The VAT exclusive amount is BHD 363.636 and the VAT is BHD 36.364. The store should issue a VAT invoice to the customer on this basis.

If the retailer is entitled to receive a payment from a third party (e.g. the manufacturer of the goods) after the coupon is used by a customer, he must account for VAT on the consideration received from the customer plus the amount he can recover from the third party. The VAT due date for all amounts due in respect of the supply is the date of the supply of the goods to the customer.

Example 2

If, in the previous example, the coupon applied to laptops manufactured by XYZ Laptops which agreed to reimburse the store for any discounts provided on redemption of the coupon, the store would treat the transaction as a sale for BHD 500 (i.e. the amount received from the customer plus the amount that the store can recover from the manufacturer). The VAT exclusive amount is BHD 454.545 and the VAT is BHD 45.455. This VAT is payable in respect of the VAT period during which the laptop was sold to the customer and the sale should be declared in the VAT return for that period.

The retail store should issue a VAT invoice at the time of sale to the customer based on the consideration of BHD 500.

When the retail store reclaims the amount of the coupon from XYZ Laptops, it should not account for VAT on the amount sought, nor should it issue a VAT invoice to XYZ Laptops.

Where a retailer accepts a coupon as full payment for goods or services without any payment due from a third party (e.g. the manufacturer), the supply of the goods or services will be treated as a deemed supply. Please see section 6 of this Guide for further information on deemed supplies.

Example 3

A retail store in Bahrain distributes coupons allowing members of the public who present the coupon to a free bottle of detergent worth BHD 5. The coupon does not require the purchase of any other product in order to be valid.

When a customer presents the coupon and receives a free bottle of detergent, the store will be regarded as having made a deemed supply. At the time of the transaction, the company has already

made free gifts exceeding BHD 1,000 for that year. Hence, the store will be required to account for VAT at the standard rate on the cost to it of the detergent given away for free.

Example 4

If, in the previous example, a customer could only receive a bottle of detergent if he presented the coupon and also purchased at least BHD 50 of other goods, this would not be a deemed supply. Assuming the store was not entitled to recover any amount from a third party such as the manufacturer of the detergent, the goods purchased exceeding BHD 50 plus the “free” detergent is treated as a bundle of goods for the total consideration payable by the customer. Hence, the total amount payable by the customer is treated as VAT inclusive consideration for all of the goods including the detergent. The store is not regarded as making a deemed supply of the detergent to the customer.

13.2.4. Handling charges

If a person charges for handling, promoting or advertising coupons, this is a VATable supply of services and he will be required to account for VAT on the amount charged at the standard rate unless the transaction qualifies to be zero-rated as an export of services.

13.2.5. VAT invoices

Where a coupon is accepted as part payment for a good and the retailer is not entitled to recover any amount from a third party (e.g. the manufacturer of the good), the consideration on the VAT invoice issued to the customer should be based on the actual consideration received from the customer.

Where the retailer may recover an amount from a third party, the VAT invoice should show the full consideration receivable, including that recoverable from the third party, and VAT at the appropriate rate should be applied on the full consideration. When seeking recovery of the amount from the third party, the retailer should not issue a VAT invoice to that third party and should not account for VAT on the amount being recovered.

14. Loyalty programmes

14.1. Introduction

As a widely accepted business practice in the retail sector, VAT registered businesses sometimes operate loyalty program schemes as a marketing tool to increase the sale of their goods and / or services and to maintain customer loyalty. There are various types of loyalty programmes used by these businesses, or by third parties operating these loyalty programmes. These schemes are mainly loyalty stamp cards, single vendor and multiple vendor schemes. A summary of the VAT treatment of these schemes is outlined below.

The VAT treatment outlined below assumes that all persons are resident for VAT purposes in Bahrain and that all persons except the final consumer are VATable persons and that the place of supply of all transactions discussed is Bahrain. The VAT implications of loyalty programmes involving one or more non-resident parties or supplies where the place of supply is not in Bahrain would need to be considered by the parties involved in such programmes.

The VAT treatment below also assumes that the loyalty schemes are established for genuine commercial purposes and are open to all or a significant portion of the customer base of the relevant parties. The schemes may set criteria for membership (e.g. a minimum number or amount of purchases) and may have different levels of membership, but these should be applied across all those eligible to participate in the scheme.

Where the NBR believes that a loyalty scheme has been established or is being used to gain a VAT advantage (e.g. to encourage or facilitate customers acquiring standard rated items using points issued on zero-rated items), the NBR reserves the right to apply a different VAT treatment to that outlined below.

14.2. Loyalty stamp cards

This type of promotion usually involves the provision of a "loyalty" stamp card or token when purchasing a good or service. 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.

This type of program clearly links the provision of the "last" or "free" product or service with the consideration paid for previous purchases.

Example

A customer has a "coffee card" with CoffeeCo, a VAT registered business in Bahrain. The customer will receive a free coffee from CoffeeCo, after buying nine drinks over time for of 1 BHD each, including VAT. The coffee card is stamped after each purchase.

From a VAT perspective, the customer who completes the card and gets a "free" coffee is treated as buying ten drinks over a period of time at a discounted price of 9 BHD (the original price for nine drinks).

CoffeeCo is not treated as making a deemed supply of the "free" tenth coffee when the customer hands in the completed coffee card, since the "free" coffee has been paid for in full when making previous purchases. The delivery of the card is not a form of a non-monetary exchange of supply.

In this case, CoffeeCo will collect VAT on the sale of the first nine coffees, i.e. on 9 BHD (1 BHD for each coffee). This amounts to 0.818 BHD of VAT and will be shown as output VAT. No additional VAT liability arises on the tenth "free" coffee.

In most cases, the loyalty stamp card does not have a separate market value without the customer having made previous purchases, and the completed card is not normally sold to other customers. Therefore, the purchase stamp card will not be viewed as a voucher in the normal course of a business.

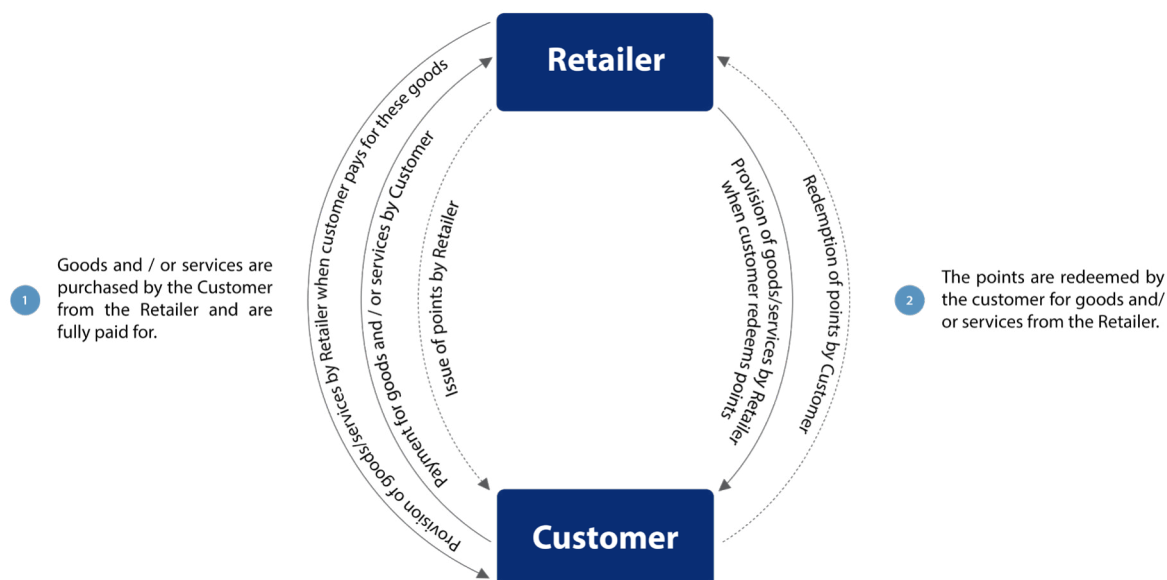
14.3. Single vendor scheme

Under a single vendor scheme, the retailer operates the loyalty program scheme by himself, and there are no third parties involved in the management and / or operation of the scheme.

The typical operation of a single vendor scheme is set out below:

- Customers enroll themselves onto the loyalty scheme which entitles them to earn points on purchases from the retailer. Goods and/or services are acquired by the customer from the retailer and are paid for in full (i.e. Transaction 1). Transaction 1 results in the retailer awarding points to the customer.
- Once sufficient points have been accumulated based on the rules of the program, these points will be redeemable against the purchase of goods and / or services from the retailer (i.e. Transaction 2).

Below is an illustration of how a single vendor loyalty program scheme generally operates.



The transactions and associated VAT treatment can be summarized as follows:

Transaction	Parties involved	VAT implications
Transaction 1	Retailer and customer	Goods and / or services are subject to VAT at the rate applicable to the transaction. No VAT arises on the award of loyalty points where they are awarded solely for purchasing goods / services.
Transaction 2	Customer and retailer	<ul style="list-style-type: none"> No VAT on handing over the good or performing the service in exchange for points awarded in respect of previous purchases by the person redeeming the points. The provision of goods / services solely for the redemption of points (i.e. no additional consideration) is not a deemed supply as the provision of the goods / services is linked to previous supplies made to the person redeeming the points. The retailer may recover input VAT related to the goods / services provided in exchange for the points, subject to the normal rules.

The VAT implications above assume that the provision of the goods or the performing of the service is predominantly linked to points awarded for previous purchases from the same supplier and that these points have no commercial value unless they are redeemed by the customer to whom they were awarded for those purchases under the terms of the loyalty scheme.

Example

Store ABC which runs a single vendor loyalty scheme issues e-cards to its customers and provides 10 points for every BHD 10 of purchases made.

Ali has been a frequent customer of Store ABC, and on March 2019 2022 he joins Store ABC's single vendor loyalty scheme. By December 2019 2022, Ali had accumulated 70 points (equivalent to BHD 70 of purchases made inclusive of VAT). The store maintains a weekly list of items which may be redeemed using loyalty points or purchased using cash in its brochures. Ali redeems 40 of his 70 points for a speaker on this list.

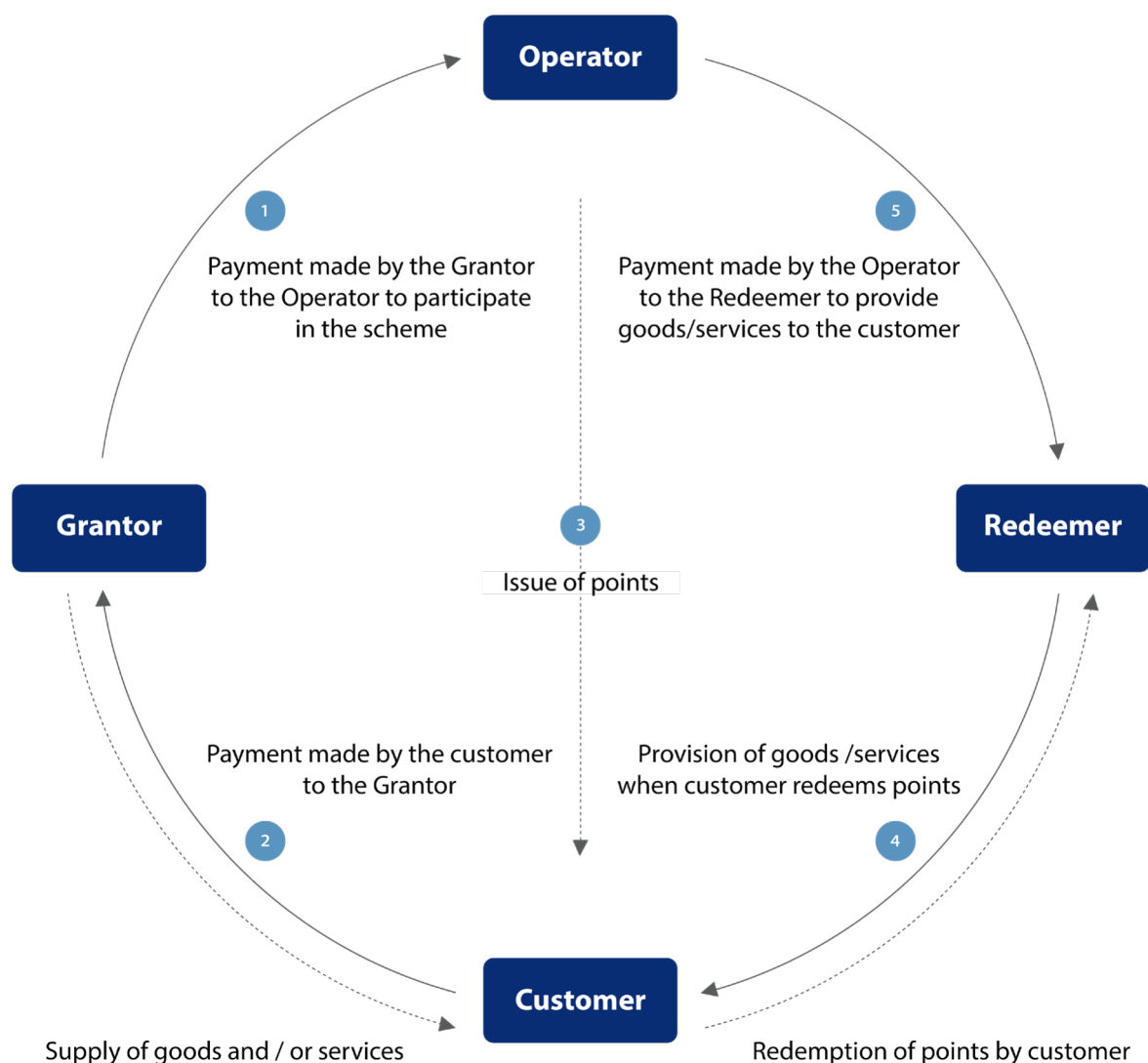
As the goods in the "rewards" program are related to Ali's previous purchases from Store ABC, the provision of the goods redeemed by loyalty points are considered to be related to the previous consideration of the purchases made by Ali. As such, Store ABC is not making a deemed supply (i.e. no VAT implications) when the speaker is redeemed by Ali.

14.4. Multiple vendor scheme

A multiple vendor scheme involves more than one participating vendor who adheres to a scheme promoted and managed by a separate promoter. A typical multiple vendor scheme may operate as follows:

- The loyalty program is initiated and managed centrally by one party ("Operator"). The Operator acts as a facilitator between all the parties involved in the scheme.
- Retailers who want to enrol themselves as members of the scheme ("Grantors") are charged a fee by the Operator. This fee allows a Grantor to participate in the loyalty scheme and is also consideration for the service provided by the Operator for managing the loyalty scheme (Transaction 1).
- Customers sign up to the loyalty scheme which entitles them to earn points on purchases as per the terms and conditions of the scheme. Goods and / or services are acquired by the Customer from the Grantors and are paid for in full (Transaction 2).
- Loyalty points are granted by the Operator to customers when they purchase goods and / or services from the Grantor (Transaction 3).
- Points are redeemable against the purchase of goods and / or services from the Redeemer (Transaction 4). The Redeemer may be a Grantor or may be a third party.
- For every transaction where the Redeemer provides goods or services to a customer in exchange for the redemption of loyalty points, the Operator pays an agreed amount to the Redeemer (Transaction 5).

Below is an illustration of how a multiple vendor loyalty program scheme may operate.



A summary of the likely VAT treatment of the transactions in a multiple vendor loyalty program scheme is set out below. As multiple vendor loyalty programs can vary significantly, the below should be taken as a mere indication of the expected VAT treatment. The transactions in each program need to be considered on a case-by-case basis from a VAT perspective.

Transaction	Parties involved	Likely VAT implications
Transaction 1	Operator and Grantor	<ul style="list-style-type: none"> The fee charged by the Operator is subject to VAT at the standard rate The Grantor may recover the VAT charged by the Operator

Transaction 2	Grantor and Customer	<ul style="list-style-type: none"> The supply of goods and services is subject to VAT at the rate applicable to those goods and services
Transaction 3	Operator and Customer	<ul style="list-style-type: none"> No VAT implications should arise on the issue of points from the Operator to the Customer when the Customer makes a purchase from the Grantor
Transaction 4	Redeemer and Customer	<ul style="list-style-type: none"> No VAT on handing over the good or performing the service solely in exchange for points. The provision of goods / services in consideration solely for the redemption of points (i.e. no additional consideration) is not a deemed supply The Redeemer may recover input VAT related to the goods / services provided in exchange for the points, subject to the normal rules See Note 1 below for further discussion
Transaction 5	Redeemer and Operator	<ul style="list-style-type: none"> The charge by the Redeemer to the Operator to recover the cost of the goods / services provided in exchange for the points is subject to VAT at the standard rate on the basis that it is a service of honouring the obligation to redeem the points under the scheme The Operator may recover the VAT charged by the redeemer See Note 2 below for further discussion

Note 1: In a multiple vendor scheme, there may not be a direct link between points held by a Customer and previous purchases made by that Customer. This is because some or all of the points being redeemed may have arisen from purchases from parties other than the person redeeming them. However, the NBR is prepared, in practice, to regard a direct link as being in existence between points held by a Customer and previous purchases by that Customer, even where some or all of the points were awarded for purchases made by the Customer from other members (Grantors) of the loyalty scheme. This assumes that the Redeemer and all Grantors who issued points who are being redeemed are full members of the multi-party loyalty scheme.

Based on the above, the NBR will generally accept that no VAT liability arises on the Redeemer handing over the good or performing the service in exchange for points awarded under the multi-party loyalty scheme and that the provision of goods / services in consideration solely for the redemption points awarded

under the scheme is not a deemed supply as the provision of the good is linked to previous supplies made to the person redeeming the points.

Note 2: The VAT borne by the Operator on the payment made to the Redeemer is deductible in the hands of the Operator. This amount should be treated as an expense incurred by the Operator for its output transactions which are subject to VAT from a VAT perspective. The Operator is necessarily required to incur this expense without which the scheme will not function and it is therefore a necessary expense resulting in the creation of revenue from VATable activities in the hands of the Operator.

15. Inventory and stock

15.1. Lost, stolen or damaged goods

Where a VATable person has claimed input VAT in respect of goods imported or purchased by him for the purpose of carrying on an economic activity and such goods are lost, stolen or damaged, he is not required to adjust the input VAT claimed provided he can evidence the loss, theft or damage.

The NBR will accept internal documentation as evidence for the first BHD 1,000 in value of all lost, stolen or damaged goods on which a VATable person has claimed input VAT (either fully or partially)⁴ in a calendar year. Such internal documentation should include:

- A description of the stock lost, stolen or damaged (e.g. item code, SKU, description);
- The purchase price of the stock lost, stolen or damaged and the VAT claimed on acquisition of the stock;
- An indication as to whether each stock item was lost, stolen or damaged; and
- Evidence that the stock has been written off in the VATable person's financial statements.

Where the total value of lost, stolen or damaged goods exceeds the BHD 1,000 threshold in a calendar year, evidence in relation to the excess must be from a third party. Third party evidence acceptable to the NBR may include police reports and insurance claims.

Where the total cost of lost, stolen or damaged goods exceeds the BHD 1,000 threshold in a calendar year, but both the cost and market value of all individual stock items for which relief is sought do not exceed BHD 1,000, the NBR will also generally accept a report from an auditor licensed in the Kingdom of Bahrain confirming that the stock which exceeds the BHD 1,000 threshold has been lost, stolen or damaged. Such a report must set out:

- A description of the stock lost, stolen or damaged (e.g. item code, SKU, description);
- The purchase price of the stock lost, stolen or damaged and the VAT claimed on acquisition of the stock;
- An indication as to whether each stock item was lost, stolen or damaged;
- A statement confirming that the cost and market value of each individual stock item covered by the report does not exceed BHD 1,000; and
- A description of the procedures carried out by the auditor as part of confirming that the stock is lost, stolen or damaged.

⁴ Where VAT at the zero-rate applied on the acquisition of the stock, the NBR will not consider the VATable person as having claimed input VAT on such stock.

Internal documentation such as stock reconciliations, memoranda detailing lost, stolen or damaged goods and notes to the financial statements is not considered as sufficient evidence for lost, stolen or damaged goods exceeding the BHD 1,000 threshold.

Third party evidence is not required where the VATable person can prove that goods have been damaged due to their nature. The NBR expects that this will be the case only in very limited circumstances, e.g. for easily damaged goods such as fruit and vegetables. This exception will not apply where fragile goods are damaged due to bad packaging or incorrect handling. In order to avail of this exception, the VATable person should keep detailed records of the nature of the goods, how many were damaged and how the damage took place. If these records are not made available to the NBR, the VATable person will be required to adjust the input VAT originally claimed in respect of the goods.

Example 1

StoreCo, a manufacturer is established and registered for VAT in Bahrain, conducts a stock take at 31 December. It discovers missing stock worth BHD 5,000 approximately. Input VAT was claimed in full on the acquisition of the stock. Two stock items were valued at more than BHD 1,000 each.

StoreCo will need to produce third party evidence of the missing stock such as a police report or an insurance claim. If it cannot, it will need to adjust the input VAT originally claimed on the stock. An auditor's report or internal documents will not be accepted as third party evidence by the NBR.

Example 2

If, in the previous example, the cost and value of all stock items that were identified as missing did not exceed BHD 1,000 (per item), StoreCo can obtain a report from an auditor licensed in Bahrain setting out the details per section 18.1 of this Guide. If full and complete, this will generally be acceptable to the NBR as third party evidence that the stock is missing and StoreCo will not be required to adjust the input VAT claimed on the missing stock.

15.2. Obsolete stock

Obsolete stock means stock that is no longer used, can no longer be traded and is not useable or needed, usually because something newer and better has replaced it. Subject to the conditions below, if a VATable person, during the course of conducting an economic activity, disposes of obsolete stock for no consideration:

- The VATable person will not be regarded as having made a supply of goods for VAT purposes and will not be obliged to account for VAT on the stock; and
- The VATable person will not be required to adjust any input VAT claimed in respect of such stock.

The following information should be retained and produced to the NBR on request:

- A description of the stock disposed of (e.g. item code, SKU, description);
- The purchase price of the stock disposed of and the VAT claimed on acquisition of the stock;
- The reason(s) why the stock was considered obsolete;
- The method of disposal (scrapping, destruction etc);
- Where the goods comprise hazardous materials which were required under Bahraini laws or guidance issued by any competent government authority or agency to be disposed of quickly to avoid damage to human health, property etc, evidence that the goods were disposed of in accordance with the relevant laws or guidance; and
- Evidence that the stock has been written off in its financial statements.

The NBR reserves the right to request reports from relevant competent authorities in Bahrain in relation to obsolete stock disposed of. It may also request information from third parties engaged to carry out the disposal.

The VAT treatment for obsolete stock outlined above will not apply if the VATable person does not dispose of obsolete stock in accordance with Bahraini law or other applicable rules issued by the Supreme Council for Environment, Ministry of Industry, Commerce and Tourism or other competent authority. The NBR may request evidence from the VATable person that relevant rules have been applied when disposing of obsolete stock.

Example 1

AZ Hypermarket, established and registered for VAT in Bahrain, decides to dispose of its expired stock of vegetables for no consideration and provides the appropriate notification to the NBR. As the vegetables are obsolete, their disposal will not be regarded as a supply for VAT purposes and no adjustment will be made to the input VAT claimed on their acquisition.

Example 2

AZ Hypermarket also decides to donate unsold t-shirts stock to a thrift shop. This disposal will be considered as a deemed supply for VAT purposes since the t-shirts will not be considered as obsolete stock.

Example 3

A clothing store, established and registered for VAT in Bahrain, disposes of unsold t-shirts at a minimal price. First option to purchase the t-shirts is given to the store's employees and any unsold stock will be made available to the general public. Under these circumstances, this disposal will be treated as a supply for VAT purposes. As the store and its employees are related parties for VAT purposes, the store must account for VAT on the t-shirts sold to them based on the market value of the t-shirts (if higher than the selling price). For t-shirts sold to the public, VAT will apply on the price received for the goods. The standard rate will apply on all sales.

Example 4

Fruit and vegetables purchased by a supermarket, established and registered for VAT in Bahrain, goes past its use by date and is unsold. The supermarket arranges to dispose of the fruit as it will begin to decay and cause a hazard to human health. Provided the disposal takes place in line with Bahrain law and relevant guidance issued by the Supreme Council for Environment and other relevant competent authorities, and the supermarket maintains the required records, it will not have to account for VAT on disposal of the fruit and will not be required to adjust input VAT claimed in respect of it.

15.3. Stock accessible by customer

Some suppliers make goods available to a customer whereby that customer may access and use these goods without having to obtain prior approval of the supplier. One example is an electronics company that places a stock of spare parts with a third party contractor whereby the contractor uses these parts as and when required. On a regular basis, as agreed between the parties, the contractor provides to the supplier a list of spare parts used by the contractor.

In such a case, the supplier will be deemed to have made a supply of all of the goods to the customer at the time that they are made available for the customer's use, not when the customer actually uses them or notifies the supplier that it has used them. It is not relevant in determining the VAT due date whether legal title to the goods has passed to the customer when those goods are made available to the customer.

Where the customer does not use some of the spare parts and these are returned to the supplier, the supplier should issue a credit note for the goods not used.

15.4. Sale or return

Under a sale or return agreement, goods are supplied on terms that allow the customer to return them at any point up until the time the customer finally agrees to accept ownership of them. In the meantime, ownership remains with the supplier. In some cases the agreement will lay down a time limit within which the goods must either be returned or ownership of them accepted by the customer.

In a sale or return transaction, the supplier will be deemed to have made a supply of all of the goods to the customer at the time that they are made available for the customer's use (i.e.

when the goods are provided to the customer on a sale or return basis), not when the customer makes the decision to use them / not to return them, or acts in a way that indicates that such a decision has been made. It is not relevant in determining the VAT due date whether legal title to the goods has passed to the customer when the goods are provided to him on a sale or return basis.

Where the customer chooses to return some or all of the goods, the supplier should issue a credit note for the goods not used.

15.5. Consignment stock

A consignment stock arrangement involves a supplier (consignor) depositing goods with another person (consignee) for the consignee to sell to a third party. The consignee does not take legal title to or ownership of the consignment stock.

Under a consignment stock arrangement, there are two supplies for VAT purposes:

- A supply from the consignor to the consignee; and
- A supply from the consignee to the third party.

From a VAT perspective, both of these supplies happen simultaneously, when the consignee sells the goods to the third party. This will be the time of supply for both supplies.

Example

A phone manufacturer sends phones to a telecommunication provider on a consignment basis on 3 August. The phones are stored by the consignee for six months and will be returned to the consignor if not sold by the end of that period.

On 5 September, the telecommunication provider sells 50 phones to his customers. This results in:

- *A sale of 50 phones by the phone manufacturer to the telecommunication provider; and*
- *A sale of 50 phones by the telecommunication provider to his customers*

The date of the supply of both of these transactions is on 5 September.

The remaining phones are returned to the manufacturer at the end of the six months. No supply for VAT purposes (either by the telecommunication provider or the phone manufacturer) arises in respect of these returned phones.

16. Warranties

16.1. VAT treatment on supply of warranty

The VAT treatment of a warranty provided with goods depends on the contractual arrangement between the supplier and the customer. If the supplier sells goods to the customer with a warranty for no additional charge, the warranty will not be an additional supply for VAT purposes and, as such, will be outside the scope of VAT. If a separate charge is made for an extended warranty, this will be an additional supply of services that will be subject to VAT at 10%.

16.2. Replacement or repair of goods under warranty

If a supplier replaces goods covered by a warranty for no additional charge, the replacement will be outside the scope of VAT. The supplier is entitled to claim input VAT, if any, incurred on the replacement goods as they relate to the supply of the original goods (i.e. those replaced) made by him.

Where goods under warranty are repaired, rather than replaced, the repair service provided to the person making the claim under the warranty will also be out of scope. The supplier is entitled to claim input VAT on the repair costs (including spare parts purchased).

Where spare parts or replacement goods are received from a foreign supplier and these goods are imported into Bahrain, they will be subject to VAT at 10% at the time of import, regardless of whether or not these goods are intended to replace or repair goods under warranty. On the basis that the import relates to a VATable person's VATable activities and subject to the normal input VAT recovery rules, the VAT registered person may recover the input VAT charged on these imports.

16.3. Goods under warranty repaired by a local supplier for a foreign manufacturer

16.3.1. Introduction

Goods which have been manufactured abroad and sold in Bahrain will often carry a manufacturer's warranty. This means that the liability to replace or repair the goods under warranty rests with the foreign manufacturer. A manufacturer's warranty usually covers the reliability of the goods for a specified period while they are expected to be mechanically sound.

Where goods under warranty are faulty, repairs are often carried out by a dealer on behalf of the manufacturer as part of the after sales service to the customer. The dealer will then seek reimbursement of the cost of repairs undertaken. Such costs include labor and the cost of any spare parts used.

16.3.2. Repair services provided by the dealer to the customer during the warranty period

As the dealer has a contractual obligation to rectify any defaults identified during the warranty period, a repair service provided by a dealer to a customer is out of the scope of VAT. Therefore, the dealer should not charge VAT to the customer on the warranty repair.

Example 1

Luxury Cars W.L.L. is established in Bahrain and is VAT registered. It imports cars in Bahrain which are purchased from Cars Exporters Limited, a manufacturer established in Japan. The cars are sold to customers in Bahrain.

Mohamed, a Bahrain resident, purchases a car from Luxury Cars W.L.L for BHD 50,000. The car is covered by a five-year manufacturer's warranty, which is costed and included in the sales price of the car.

During the warranty period, the car develops mechanical issues and Mohamed brings the car to the garage for the necessary repairs. Luxury Cars W.L.L. uses its employees and spare parts from its stock to repair the car and does not charge Mohamed as the work is covered by the warranty. The cost of the repair to Luxury Cars W.L.L. is BHD 5,000.

As the car is under warranty, the repair service provided by Luxury Cars W.L.L. is not a supply for VAT purposes and is not subject to VAT. Luxury Cars W.L.L. should not issue a VAT invoice to Mohamed and should not account for VAT in respect of the repair service.

16.3.3. Reimbursement of repairs costs paid to the dealer from the manufacturer during the warranty period

When, on behalf of a manufacturer, a dealer undertakes necessary repair services for goods which are under warranty, the dealer will subsequently request the manufacturer to reimburse him for the costs incurred in repairing the goods. NBR considers that warranty repair services are not separate supplies for VAT purposes where VAT has previously been paid on the warranty issued when the goods were sold. This applies where the cost of the warranty forms an integral component cost element of the sales price of the goods:

- a. From the manufacturer to the dealer, and thereafter
- b. From the dealer to the customer.

Based on the above, a reimbursement received by the dealer from the manufacturer relating to the costs incurred by the dealer in providing the warranty repair services is out of the scope of VAT. This applies where the dealer is reimbursed solely for the exact cost of the repairs incurred by him in providing the repair services without adding any margin. Where a margin is added by the dealer, the margin will be subject to VAT at the standard rate as the repair comprises services relating to tangible goods located in Bahrain.

Example

Continuing the previous example, Luxury Cars W.L.L. requests Cars Exporters Limited to reimburse it for the repairs to Mohamed's car.

As the price of the car charged by Cars Exporters Limited also includes the cost of the warranty repair services and VAT has already been paid in Bahrain upon the import of the car and the subsequent sale to the customer, the reimbursement of BHD 5,000 paid by Cars Exporters Limited to Luxury cars W.L.L. does not constitute a separate supply of services from Luxury Cars W.L.L. to Cars Exporters Limited. Hence, the reimbursement is not subject to VAT.

Example

If in the previous example, Luxury Cars W.L.L. charges an additional fee of BHD 500 to Cars Exporters Limited as a margin for the warranty repair services provided, Luxury Cars W.L.L. must account for VAT on this margin at 10% and issue a VAT invoice. Cars Exporters Limited will need to assess whether it can recover this VAT under the provisions for refunding VAT paid in Bahrain by non-resident persons.

Where the cost of a warranty is not included in the sales price of goods, any subsequent warranty repair services in respect of such goods will constitute a separate supply for VAT purposes on which VAT at the standard rate must be charged.

16.3.4. Third party warranty repair services

Where a dealer or manufacturer requests a third party (who is not party to the initial supply of the goods which are subject to warranty) to carry out any repair services for goods within the warranty period, such repairs constitute a supply of services by the third party to the manufacturer or dealer. VAT at the appropriate rate should be charged by the third party conducting the repairs to the dealer or manufacturer as appropriate.

Where a third party repairs goods on behalf of a non-resident, the applicable rate of VAT will be 10%.

16.3.5. Extended warranty periods

A customer may purchase an extended warranty for consideration when the goods are initially supplied, or at a later date (e.g. when the initial warranty period is about to expire). Typically, the dealer acquires the extended warranty from the manufacturer and supplies it to the customer. The provision of the additional warranty is a separate supply for VAT purposes with the following VAT implications:

- a. Where the manufacturer is established outside Bahrain, the dealer must self-account for VAT under the reverse charge mechanism on the consideration paid to the manufacturer for the extended warranty;

- b. Where the manufacturer is established in Bahrain, the manufacturer must account for VAT at the standard rate on the issue of the extended warranty and issue a VAT invoice to the dealer;
- c. The dealer must account for VAT at the standard rate on the issue of the extended warranty to the customer and issue a VAT invoice to the customer.

The VAT treatment of the reimbursement of any warranty repair services provided under an extended warranty will be the same as for services provided under a warranty provided at the time of supply of the goods (outlined above).

16.3.6. Warranty repair services for goods sold prior to VAT implementation date

The VAT treatment of the reimbursement of any warranty repair services will be the same as the one outlined above. The fact that the goods were supplied prior to the implementation of VAT does not impact the VAT treatment of the repair services.

16.3.7. Recovery of VAT incurred by dealer established in Bahrain for the provision of warranty repair services

VAT on costs incurred by a dealer in providing warranty repair services should be fully recoverable as input VAT, subject to the usual rules being met in relation to input VAT recovery. VAT on warranty repair services supplied to a local manufacturer should also be fully recoverable as input VAT in the hands of that manufacturer, again subject to the usual rules being met.

17. Other matters relevant to the retail and wholesale sector

17.1. Contribution by supplier to marketing expenses

There are cases whereby a local dealer acquires products from manufacturers and also performs promotional activities in an effort to persuade consumers in Bahrain of the relative merits of the manufacturers' brand.

The aim of the marketing promotion is to increase awareness and interest in the relevant overseas manufacturers' products which will result in an increase in brand loyalty and eventually an increase in sales of their products. This is considered as a common marketing strategy used in the normal course of a business.

The dealer incurs all the relevant expenses and receives VAT inclusive invoices addressed to it in relation to the cost of promotional activities carried out by it in Bahrain.

If the dealer receives consideration for conducting the promotional activities, they constitute a service provided by the dealer to the manufacturer and the dealer should issue a VAT invoice in respect of this service. This is regardless of the form of consideration received (e.g. cash, discount on goods supplied or to be supplied, set off of amounts owed).

The standard rate of VAT will apply on the service provided by the dealer to the manufacturer, regardless of whether the manufacturer is resident in Bahrain for VAT purposes. The NBR believes that this service will not qualify for the zero-rate for exported services under Article 73 of the Executive Regulations.

17.2. Vending machines

The VAT rate applicable to supplies of goods made through vending machines will be the same as the rate applicable had the goods been supplied in any other way, such as a shop or pharmacy. The place of supply of goods sold through a vending machine located in Bahrain will always be Bahrain.

For supplies through vending machines which receive cash consideration, the VAT due date is the date when the cash received for purchases is collected. Where a vending machine can take cash or a debit / credit card as payment, the VAT due date for transactions paid for by cash and cards will still be the date that the cash is collected. For vending machines that accept card payments only, the VAT due date will be the date that each payment is credited to the supplier's bank account.

VAT invoices are not required to be issued for supplies made through vending machines. However, a consolidated document setting out certain information should be produced by the VATable Person making supplies through the machine. See section 18.6 of this Guide for further information.

17.3. Shelf rental, listing and opening fees

17.3.1. Shelf rental fees

Retailers may sometimes grant shelf space to a manufacturer / third party vendor in their stores to promote a new product, and charge them for the space on the shelf.

Where the shelf space is provided for consideration, and the retailer is registered for VAT in Bahrain, the provision of these services by the retailer is subject to VAT at the standard rate of 10%.

17.3.2. Product listing fees

Retailers may also charge a fee to a manufacturer / vendor to “list” their products with them in order for them to sell their products in their stores.

Where registered for VAT in Bahrain, the fees charged by the retailer to a manufacturer / vendor in Bahrain is subject to Bahrain VAT at the standard rate of 10%.

17.3.3. Account opening fees

Businesses also charge an administrative fee for a vendor to open an account with them in order for them to sell their products in their stores.

Where registered for VAT in Bahrain, the administrative fees charged by the retailer to their vendors in Bahrain is subject to VAT at the standard rate of 10%.

17.4. Incentives by car dealers

17.4.1. Introduction

It is common practice for car dealers to offer incentives and similar promotions to customers when purchasing a new vehicle. The sale of a new vehicle will be subject to VAT at the standard rate of 10%. The VAT treatment of any offers and incentives will vary depending on the party supplying the incentive, and whether these are sold as a package with the vehicle, either as a single composite or multiple supply, or on a standalone basis, either at the time of sale of the vehicle or subsequently.

To be treated as a part of a composite supply, the Executive Regulations require that all components of the supply are supplied by the VATable Person, or the VATable Person does not separately determine the price of the components of the Supply, or impose a different price on each component. Where a component of a supply is not provided by the supplier, these two conditions cannot be met, as the supply is made by a third party to the supplier's customer, and the supplier will have regard to the cost of the third party supply when pricing its own supply. In these cases, that component cannot be treated as a part of a composite supply, and must be treated as a disbursement when it is paid by the supplier, to the third party, on behalf of the customer.

17.4.2. Discounts and cash-reward offered by car dealers

Where a cash or percentage discount is offered on the sale of a new vehicle, VAT will be due on the discounted price. This is sometimes also referred to as a “cash reward”, which is effectively a discount on the selling price. VAT is chargeable on the discounted value.

17.4.3. “Free” servicing and roadside assistance

Provided to the customer by the car dealer

New vehicles may also be sold with a free servicing offer (e.g. for the first three years), and / or free roadside assistance for a period of time. Where these incentives are supplied by the car dealer as part of a specific promotion, which cannot be availed of separately from the purchase of a new vehicle, they will be treated as a single composite supply of a new vehicle and will be subject to VAT at the standard rate. VAT will be due on the total consideration as the consideration charged by the dealer effectively includes as cost component elements of the total price the value of the free servicing and the roadside assistance. Any input VAT incurred by the dealer on the provision of the “free” elements will be recoverable, subject to the normal rules.

Where servicing or roadside assistance is provided completely free of cost, i.e. the cost was not considered when determining the sale price of the new vehicle, or when it is provided free on a standalone basis, the dealer will need to consider the deemed supply VAT rules.

Provided to the customer by a third party

Where free servicing and / or free roadside assistance is supplied to the customer in his own name by a third party, and it is only paid for by the car dealer, who includes the cost within the price of the new car, this will not form a component of a composite supply.

Where a car dealer pays a third party supplier on behalf of the customer, he should treat that payment as a disbursement, which should be separately shown on the invoice to the customer. The car dealer will not be eligible to recover the VAT charged by the third party supplier, as he is not the recipient of the supply.

If the car dealer does not separately show the disbursement on the invoice to his customer, and instead shows a single amount to be paid, this total will be subject to VAT at the standard rate. However, the VAT on the disbursement remains irrecoverable to the car dealer.

17.4.4. Accessories

Any accessories, such as window tinting, enhanced anti-corrosion treatment or other optional extras that are agreed with the customer, or are provided for “free”, and are included in the price of the vehicle, will be treated as a part of a single composite supply of a new vehicle and will be subject to VAT at the standard rate. Any input VAT incurred by the dealer on the provision of the “free” elements will be recoverable, subject to the normal rules.

Any services, such as window tinting, and any accessories or goods purchased separately from the dealer which are not part of the supply of the new vehicle under a promotional offer or as part of overall cost, will be treated as a separate supply and will be subject to VAT at the standard rate.

Where any accessories are provided free of cost, i.e. the cost was not considered when determining a sale price of the new vehicle, or when they are provided free on a standalone basis, the dealer will need to consider the deemed supply VAT rules.

17.4.5. Insurance

Insurance is a service provided by an insurer to the insured party. Unless the insurance is provided under a block insurance policy, a car dealer cannot supply insurance to the car owner, and, where the car dealer pays for the insurance on his customer's behalf, this will be a disbursement for VAT purposes, and cannot be a part of a composite supply.

Where the car dealer offers its customer free car insurance together with the purchase of a new vehicle as a promotional offer and the cost of the insurance was considered when determining the value of the new vehicle, the new vehicle and the car insurance will be treated as a single composite supply and will be subject to VAT at the standard rate of 10%. VAT at the standard rate of 10% will be due on the total consideration received. Any input VAT incurred by the dealer on the provision of a car insurance when selling a new vehicle to its customer will be recoverable as input VAT, subject to the normal rules.

17.4.6. Registration

As part of a promotional offer, a car dealer may offer a customer free registration of a new vehicle for the first year (or other defined period of time). The registration of the vehicle will not be seen as a separate supply, but rather part of a single composite supply of a registered vehicle. The dealer will be required to account for VAT on the consideration received, excluding the car registration costs. The registration fees, which must be separately itemized on the invoice issued, are paid by the dealer on behalf of the customer to a public body who is receiving these fees in its sovereign capacity. Fees paid to a public body are not supplies for VAT purposes and will therefore be a disbursement when the car dealer charges his customer. However, where the registration fees are included in the total consideration of the car without being shown separately in the invoice issued to the customer, the entire consideration received from the customer will be subject to VAT.

17.4.7. Invoicing

Where multiple supplies are provided to a customer (as distinct from a single composite supply being provided), for example a car supplied with insurance cover, the VAT treatment for each supply will need to be considered.

Where a single amount is charged, it will have to be allocated between the component parts of the multiple supply, so that the relevant VAT treatment may be applied to each component.

Where a car is supplied with insurance cover, the supply of a car will follow the VAT treatment applicable to the supply of goods, while the supply of insurance will follow the treatment applicable to a disbursement. The supplier will be required to separately identify the consideration to be received for each supply.

Where the consideration cannot be allocated to each separate component of the supply, then the highest rate of VAT will apply to the total consideration received, irrespective of the fact that some components of the supply should, in principle, be exempt, subject to VAT at the zero-rate, or are disbursements that are outside the scope of VAT.

Example

A local car dealer receives an order for a new car, the retail price of which is BHD 22,000. In addition, the customer agrees to purchase car insurance and roadside assistance arranged by the dealer, and some alloy wheels for BHD550 which are not supplied as standard on the car. The customer also decides to opt for the three year service plan to ensure the car is properly maintained. All of these amounts are VAT inclusive.

The consideration payable (including VAT) would appear on the invoice as follows:

	BHD
Car (BHD 22,000 VAT inclusive)	20,000.000
Alloy wheels (BHD 550 VAT inclusive)	500.000
3 year servicing plan (BHD 2,200 VAT inclusive)	2,000.000
Total	22,500.000
VAT @ 10%	2,250.000
Disbursements: Car Insurance from Insure Your Car W.L.L	1,750.000
Roadside assistance from The Bahrain Towing Service	250.000
Consideration (inclusive of VAT)	26,750.00

The car insurance and roadside assistance are treated as disbursements because the services are supplied directly by the third party suppliers (Insure Your Car W.L.L and The Bahrain Towing Service) to the car dealers' customer. The car dealer is not making the supply and is acting as a paying agent on behalf of the customer.

The same position would arise where, unlike in the above example, the servicing under the three year plan is not supplied by the car dealer, and are supplied to the car owner by a third party garage.

18. VAT invoices

18.1. General rules

Retailers and wholesalers who are registered for VAT and make supplies of goods and / or services in Bahrain are required to issue VAT invoices to their customers. A VAT invoice may be issued in electronic or paper form, and must be delivered to the customer.

Where a VAT invoice is damaged or lost, the supplier may issue a duplicate invoice clearly stating that the duplicate invoice is issued as a substitute to the original VAT invoice. Any copy of an original VAT invoice must clearly be marked with “Duplicate of original”.

A VAT invoice must be issued by a VATable person when making a deemed supply of goods and services. Please see section 6 of this Guide for further guidance on deemed supplies.

For further information on VAT invoice requirements and the obligations on the VATable person in relating to these documents, please see the “VAT invoices” section of the VAT General Guide.

18.2. When to issue VAT invoices

A VAT invoice must, at the latest, be issued by the 15th day of the month following the month during which a VAT due date was triggered. Any delay in the issue of a VAT invoice is subject to penalties.

18.3. Simplified VAT invoices

Generally, a VAT invoice needs to contain detailed information relating to the supplier, the customer and the supply, as described in the “Requirements for a VAT invoice and simplified VAT invoice” section of the VAT General Guide. However, a VATable person, in particular retailers who mainly deal with end consumers, may issue a simplified VAT invoice (which requires less detailed information) in either of the following two situations:

- Where the supply is provided to a person who is not registered for VAT in Bahrain; or
- Where the consideration for the supply does not exceed BHD 500 (inclusive of VAT).

A retailer can assume that a supply is being made to a person who is not registered for VAT in Bahrain where the purchaser of goods does not state that he is VAT registered or does not explicitly ask for a VAT invoice.

Example 1

XYZ Supermarket, established and registered for VAT in Bahrain, sells groceries to a VAT registered business in Bahrain for BHD145. Since the consideration of the supply is less than BHD 500, XYZ Supermarket has the option to issue a simplified VAT invoice instead of a full VAT invoice.

Example 2

An electronics store, established and registered for VAT in Bahrain, sells a computer to a customer who is not registered for VAT in Bahrain, for BHD 600. Since the customer is not registered for VAT in Bahrain, the electronics store is permitted to issue a simplified VAT invoice instead of a full VAT invoice.

18.4. Goods sold under the profit margin scheme

A VATable person supplying a good subject to VAT under the profit margin scheme must issue a VAT invoice. The VAT invoice must indicate clearly that VAT has been imposed using the profit margin scheme and must not show any VAT amount.

18.5. Vouchers

Where a VATable person issues a voucher for consideration in excess of the face value of the voucher, he should issue a VAT invoice in respect of the excess. The description of the supply should include the issue or serial number of the voucher issued.

Where a VATable person issues a single-purpose voucher (see the “Vouchers” section of the VAT General Guide), he should issue a VAT invoice. The description on the VAT invoice should refer to the fact that it is a single-purpose voucher and the issue or serial number of the voucher issued should be quoted.

Where a VATable person redeems a single-purpose voucher and no additional consideration is payable for the goods and / or services exchanged for the voucher, a VAT invoice is not required to be issued. However, the person making the supply should be able to produce to the NBR, upon request, a list of the goods and / or services exchanged and the issue or serial number of the voucher used.

Where consideration additional to a single-purpose voucher is paid for goods and / or services, a VAT invoice should be issued. The VAT invoice should list all of the goods and / or services in the transaction and show that part of the consideration for the supply is satisfied by the voucher. The issue or serial number of the voucher should be included on the VAT invoice in addition to details of the additional consideration payable. VAT should only be calculated on the value of the additional consideration provided in addition to the single-purpose voucher.

Where a VATable person fully or partially redeems a multi-purpose voucher for a VATable supply of goods and / or services, the value of that voucher should be treated as equivalent to cash. There is no requirement to record the issue or serial number of the voucher on the VAT invoice.

18.6. Vending machines

There is no requirement to issue a VAT invoice for supplies made through vending machines. If the person making supplies through a vending machine is a VATable person, he must issue a consolidated document setting out details of these supplies. The document must be issued by the fifteenth day of the month following the date that the cash was removed from the vending machine. The document must contain all of the following information:

- The date of issue of the document;
- The date that the cash was collected from the vending machine;
- The name, address and VAT registration number of the person making the supply;
- Description and quantity of the goods supplied through the vending machine during the period covered by the document;
- The total VAT exclusive value (in Bahraini Dinars) of the supplies made during the period covered by the document. Where different VAT rates apply to supplies, the total of the amount subject to each VAT rate should be stated;
- The rate and amount of VAT applicable on the supplies made;
- The total VAT inclusive amount of supplies made (stated in Bahraini Dinars) during the period covered by the document;
- The exchange rate applied where a currency other than the Bahraini Dinar is used.

The consolidated document must be retained by the VATable person and produced to the NBR upon request.

18.7. Rounding of values

18.8. Introduction

Where the VAT amount due on a VAT invoice is a fraction of a Fils of Bahraini Dinar, the VAT may be rounded to the nearest Fils, based on mathematical rounding rules. These rounding rules differ depending on whether the transaction is a cash transaction or an electronic transaction.

18.9. Cash transactions

As the smallest denomination of coins in Bahrain is five Fils, a VATable person may round to the nearest five Fils. For example:

Examples		
Transaction	VAT on supply before rounding	VAT Rounding
1	50.301	50.300
2	50.302	50.300
3	50.303	50.305
4	50.304	50.305
5	50.305	50.305
6	50.306	50.305
7	50.307	50.305
8	50.308	50.310
9	50.309	50.310

18.10. Electronic transactions

Electronic transactions should be rounded to the nearest Fils.

One VATable supply on a VAT invoice

Where there is only one VATable supply on a VAT invoice, the amount of VAT should be rounded up or down to the nearest Fils.

Examples				
Invoice	Value of supply before VAT	VAT (10%)	Rounding of VAT	Total
1	0.002	0.0002	0.000	0.002
2	0.010	0.001	0.001	0.011
3	0.021	0.0021	0.002	0.023

More than one VATable supply on VAT invoice

Where there is more than one VATable supply on a VAT invoice, the “total invoice rule” should be used. Under this rule, the unrounded amounts of VAT for each VATable sale should be totalled and then rounded to the nearest Fils.

Example of “total invoice rule”

Transaction	Value of supply before VAT	VAT (10%)	Total
1	0.002	0.00020	
2	0.005	0.0005	
3	0.009	0.0009	
4	0.020	0.002	
Total	0.036	0.0036	
Rounding of VAT		0.004	
Total amount inclusive of VAT			0.040

Where the “VAT invoice rule” cannot be applied due to system limitations, the “VATable supply rule” should be followed. Under this rule, where the unrounded amount of VAT has more decimal places than the accounting system can record, the amount of VAT per supply (i.e. for each line item) should be rounded to the nearest fils in accordance with mathematical rounding rules.

Example of “VATable supply rule”

Transaction	Value of supply before VAT	VAT (10%)	Rounding of VAT	
1	1.002	0.1002	0.100	
2	3.505	0.3505	0.351	
3	7.209	0.7209	0.721	
4	3.020	0.3020	0.302	
Total	14.736		1.474	
Total amount inclusive of VAT				16.210

19. Refund of VAT paid by tourists

19.1. Introduction

Tourists to the Kingdom of Bahrain may claim a refund on the VAT paid on purchases of goods made within the country, in accordance with Article 89 of the Executive Regulations. VAT can be reclaimed at a dedicated desk located in the departures area of Bahrain International Airport.

A tourist is any natural person (above 18 years of age) who is not a resident in any of the Implementing States and who is not a crew member of a flight or aircraft leaving the Kingdom. Under current rules, all GCC nationals are eligible for the scheme (except Bahraini citizens residing in Bahrain).

Payments may be refunded by cash or card through an integrated electronic system facilitated by Planet, the administrator of the tourist refund scheme in Bahrain.

Merchants opting to register for the scheme may do so by visiting Planet's registration portal.

19.2. Eligibility criteria for a VAT refund

In order for a tourist to obtain a VAT refund on goods purchased in Bahrain, all of the following conditions must be met:

- The goods are purchased during the tourist's stay in Bahrain;
- The goods purchased are on the list of goods eligible for a VAT refund (see 19.4 below) and are acquired for personal use;
- The goods are purchased from one of a merchants registered for the scheme; and
- The tourist leaves Bahrain within two months from the date of supply of the goods.

19.3. Validation of refund claim at the airport

In order to make a valid claim for a refund of VAT under the scheme, a Tourist must produce the following at Planet's desk in the departures area of Bahrain International Airport:

- An original sales receipt with the VAT refund tag issued by the retailer affixed to the back;
- The goods on which a VAT refund is being sought;
- The tourist's passport; and
- The tourist's travel ticket.

19.4. List of goods eligible for a VAT refund

All goods purchased in Bahrain which are subject to VAT are eligible for a VAT refund under the tourist refund scheme apart from:

- Fully or partly consumed goods;
- Motor vehicles, boats and aircraft; and
- Goods that are not accompanied by the tourist at the time of leaving Bahrain.

For further details regarding the tourist refund scheme you may visit [Planet's website](#).

