



Introduction

The Member States of the Gulf Cooperation Council (GCC) have signed a Unified Agreement on VAT containing the majority of the regulations for the operation of VAT. Each GCC Member State will complete the rules with their own VAT laws. As Bahrain has just approved the Decree Law on VAT, the content in this newsletter is based on guidelines given under the Decree Law, the Unified Agreement and/or common practices followed by other countries.

VAT Simplified

- VAT is a consumption-based tax levied on every value addition made at each stage of the product cycle.
- The standard rate of VAT as per the Unified Agreement and Bahrain VAT Law is 5%.
- Apart from the standard-rated goods there are exceptions for zero-rated and exempt goods and services. Each State will issue the list of such zero-rated and exempt supplies in its VAT legislation.
- The role of businesses is to facilitate the collection and payment of VAT to the government.
- Net VAT payable = Output VAT (due to be paid on sales at a rate of 5%) – Input VAT (paid on purchases)
- In cases where the outcome of this formula is negative, then such net VAT is refundable from the government or can be carried forward to adjust in the next VAT return.

Construction and Real Estate Industries in Bahrain

Industry Overview

Real estate has long been a mainstay of Bahrain's non-oil economy. The construction industry is a rising star and among the strongest in the region. Bahrain's growing population and its attractiveness as a financial hub in the heart of the Gulf combine to fuel demand for new buildings.

Specific Considerations for the Real Estate Industry

Residential vs Commercial— As per the Unified Agreement on VAT for the GCC, Member States can choose to tax real estate activities at the standard rate or zero rate, or to exempt them. **KSA** has chosen to exempt the supply of residential real estate by way of lease or subsequent sale. All other activities are taxable at the standard rate. There are, however, special considerations for the first time sale of residential new builds. In the **UAE**, the sale of bare land, and lease or sale of residential real estate is exempt. Zero rated activities include the first sale or lease of residential buildings within three years of completion, the first sale or lease of buildings converted from non-residential to residential, and the sale or lease of buildings specifically designed to be used by charities. Commercial real estate activities including sale, rent, or the construction of new buildings are charged at the standard rate of 5%.

Bahrain has chosen to exempt all residential and commercial real estate activities. The construction of new buildings will be charged at the zero rate. Further guidance will be provided in the executive regulations.

Input Credits— Where real estate activities are exempt, developers or construction companies will not be able to claim any input VAT incurred on costs related to these exempt supplies.

Apportionment— In the case of real estate which is used for both commercial and residential purposes (mixed use), the input tax credit must be apportioned accordingly for standard rated, zero rated, and exempt supplies where applicable.

Transition Period— Projects that fall under the transition period may face issues with respect to the extent to which VAT is applicable. The Law and the Executive Regulations provide guidelines on the segregation of work during the transition period and contracts signed prior to the implementation of VAT.

Time of Supply— Determining the time of supply is important for each transaction under VAT as it forms the basic point at which VAT becomes due. For the construction industry, it may be challenging to identify the time of supply. For instance, VAT is due on each payment received even though the invoice is yet to be issued.

Retentions — Another common practice in the construction industry is the retention fee period, whereby even after the project is completed, the client holds back a specified amount and releases it only after the fulfillment of various conditions set among the involved parties. Since the supply has been done and the invoice was issued, the amount of VAT on such retained fee must be paid to the government even if the client has not paid yet.

General Considerations

VAT Grouping— Related businesses have the option to register as an individual taxable person depending on the individual business structure and environment. The main purpose of a VAT group is to disregard the intercompany transactions from a VAT standpoint, and to increase the deduction right of companies carrying out fully or partially exempt activities. Hence, groups which have both residential and commercial real estate activities should consider group registration. A great deal of attention must be paid to the organisation of the group and to the internal implementation of the tax group processes to maximise the benefit and effectiveness of the VAT group.

Human resources— Where it is common practise to provide benefits such as gifts, memberships, and other perks to employees, the implication of VAT on such benefits will be a matter of concern to employers under VAT laws.

Contracts— Businesses should consider revisiting their existing contracts to update or include VAT related clauses.

Why You Need To Start Preparing for VAT Today

A full-fledged, effective, robust and comprehensive VAT implementation takes ample time from planning to execution. Early preparation is recommended, as a short time span to implement VAT may result in an enormous burden on the company and its resources.

Our Services

VAT Implementation

RSM's VAT advisory services focus on understanding our client's activities and needs. This culture leads to developing a more strategic approach to VAT and creating opportunities to measure and improve efficiency our client's processes. Our methodology protects our clients from overstated tax liabilities, interest charges, and heavy penalties; and helps them, on a long term view, to control VAT liabilities. We advise our clients to proceed with a VAT assessment at the earliest to avoid a last minute panic.

Post Implementation Support

We provide our clients with on-demand technical support in the frame of a pre-established budgetary framework.

Customised Training

We design customised VAT training sessions focused on the client's business activities and on the day to day concerns of the internal VAT stakeholders.

Complete VAT Audit

We propose a VAT audit to anticipate tax audit drawbacks and to evaluate the accuracy of the VAT implementation done by the business itself.

VAT Record Keeping

The VAT record keeping process will become key for the VAT safety of businesses.

Contact Us

RSM Bahrain

3rd Floor, Falcon Tower, PO Box 11816, Diplomatic Area, Bahrain

T +973 17537787

F +973 17537757

E info@rsm.bh

www.rsm.bh



DISCLAIMER: This Newsletter, including any material accompanying it, (the "Newsletter") has been prepared by RSM Bahrain (the "Company"). No part of it should form the basis of, or be relied on or considered an inducement to act in connection with, any decision, contract or commitment whatsoever. It and should not be considered as a recommendation by the Company or any of its associates or advisers. The information in this Newsletter or on which it is based is being provided by RSM Bahrain or has otherwise been obtained from publicly available sources. However, RSM Bahrain has not independently verified the information in this Newsletter nor does it purport to be comprehensive or to contain all the information that a recipient may need. No representation or warranty, express or implied, is made as to the fairness, accuracy or completeness or otherwise of the information or opinions contained in this Newsletter and no reliance should be placed on such information or opinions.

No responsibility is accepted by RSM Bahrain in relation to the fairness, accuracy or completeness of this Newsletter or any oral or written communication in connection therewith or as to the reasonableness of any assumption contained therein. You must seek your own legal, financial, tax and other professional advice and make your own independent judgement with respect to any matter contained in this Newsletter. The information and opinions contained in this Newsletter are provided as at the date of this Newsletter and are subject to change without notice. Distribution of this Newsletter does not constitute an opinion or advice, express or implied, by RSM Bahrain or any of their respective representatives that the information in it will be updated at any time. Nobody is obliged to inform you or anyone about any change to any information in the Newsletter or otherwise communicated to you. To the fullest extent permitted by law and regulation, none of RSM Bahrain or their respective representatives accepts any liability whatsoever for any loss howsoever arising, directly or indirectly, from any use of this Newsletter or its contents or otherwise arising in connection therewith.