

TaxAlert | Bahrain seeks to double standard VAT rate

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In an effort to bridge the gap between government spending and revenue as it navigates its way into a post-COVID 19 world, Bahrain's cabinet of ministers has approved a plan to double the standard rate of VAT in Bahrain from 5% to 10%. While the proposed increase still needs parliamentary approval, it looks likely that a VAT rate of 10% will be imposed from 1 January 2022.

Can Bahrain change its standard VAT rate?

- The standard VAT rate was specifically set at 5% in article 25 of the GCC framework agreement. According to article 77, any amendments to the rules in the framework agreement should be agreed at a GCC level. Ultimately, however, VAT laws are implemented at a national level - and there is no indication that Saudi Arabia's increase in its standard rate of VAT to 15% was agreed externally.

Should we expect the UAE or Oman to increase their standard rate of VAT?

- At the moment, there is nothing to suggest they will – but given Saudi Arabia increased its rate to 15% from 1 July 2020, it is possible that other GCC countries are reviewing their standard rate of VAT - although an Omani revision to the standard rate of VAT may be unlikely as VAT has only recently been introduced.

What can Bahraini businesses learn from the Saudi Arabian example?

As the only Bahrain-based professional service firm that offers market-leading advice in Saudi Arabia, Keypoint advised a number of Saudi businesses on the implications of a higher standard rate of VAT. Based on our experience in Saudi Arabia, we expect Bahraini businesses to find challenges with:

- Transitional provisions - we anticipate Bahrain will have transitional rules allowing VAT to continue to be charged at 5% in specific circumstances

- Customer pressure - particularly where VAT is non-recoverable, businesses may be pushed to apply transitional rules. Where application is optional, this can cause conflict
- Continuous supplies straddling the rate change will need to be carefully considered
- The reverse charge must be correctly applied to foreign purchases
- The tax authority may challenge the application of transitional rules - particularly in grey areas

What should I do now?

Bahraini businesses need to be increasingly diligent with their VAT processes and compliance.

- A 10% error is significant – as are the penalties that could be imposed.
- If you currently pay Bahraini VAT, you should prepare for the rate increase by re-assessing your budget – particularly if you are an exempt supplier.
- You may need to make significant changes to your systems to cater for the new rate percentage.
- You may need to assess whether you can pass the increase in VAT on to customers.
- If VAT has been a cost to you, you may wish to see how you can optimise your VAT position.

We strongly suggest you speak to your VAT adviser to understand what exactly your business needs to do.

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