

Bahrain: NBR issues Public Clarification on Proportional Deduction Ratio

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In brief

NBR issues Public Clarification for financial institutions on proportional deduction ratio for input tax

The National Bureau for Revenue (NBR) has published guidance on how financial institutions should compute income from margin transactions for the purposes of determining their proportional deduction ratio for input tax. The income from these supplies for VAT purposes should be the “absolute value” of these transactions, a loss arising on a transaction is treated as a gain.

In detail

The NBR has issued a Public Clarification setting out how financial institutions should compute their income arising from margin transactions for the purposes of determining their proportional deduction ratio for input tax under Article 59 of the Executive Regulations of the VAT Law (“Regulations”).

Where a financial institution uses the standard apportionment method of input tax based on turnover, the income arising from these transactions from a VAT perspective should be the “absolute value”. This means that:

- Where the transaction results in a profit, the absolute value is the amount of the profit.
- Where the transaction results in a loss, the absolute value is the loss converted into a positive amount.

Financial institutions should use the absolute value method to compute the income from margin transactions effected from 1 January 2019 (or the date of registration for VAT if later). There is no requirement for financial institutions to submit amended VAT returns for previous VAT periods.

Financial institutions will need to prepare the absolute value when preparing their last VAT returns for 2019. They will also need to apply the absolute value when computing their actual proportional deduction ratio for 2019 (with any adjustment to be made in the last VAT return for 2019 or the first VAT return for 2020).

The application of the absolute value for margin transactions will result in higher exempt income where the underlying supplies are exempt, resulting in lower input tax recovery on general overheads. Where the supplies are zero rated (supplied to a non-resident and meeting the conditions for zero-rating), the amount of taxable income will increase, resulting to higher input tax recovery on such overheads.

Financial institutions will need to analyse margin transactions for 2019 to ensure that they apply the absolute value in order to ensure that their proportional recovery ratio for general overheads is correct. They should ensure that the absolute value is used for all margin transactions effected in the future.

The takeaway

The latest guidance from NBR will mean that financial institutions will need to re-compute their income on margin transactions for 2019 to ensure that their proportional input tax recovery ratio is correct. They will also need to apply the absolute value for all future margin transactions.

The public clarification from the NBR has been published on its website. A link to the public clarification can be found below:

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



Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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