Bahrain: NBR releases VAT Oil and Gas Guide

May 2020

Insights
Tax and Legal Services
PwC Middle East

In brief

VAT Oil and Gas Guide

The National Bureau for Revenue (NBR) in Bahrain has released a VAT Oil and Gas Guide. The Guide explains the extent of VAT zero-rating in the upstream, midstream and downstream sectors. The Guide addresses the VAT treatment of issues such as granting of exploration and exploitation rights, supply of staff, contractual arrangements and the VAT implications of petrol station operating models.

In detail

Zero-rating

Bahrain VAT Law provides for a broad based zero-rate for many upstream, midstream and downstream oil and gas activities. This includes:

- Supplying oil, gas and other hydrocarbons
- Exploration and exploitation activities
- Oilfield services
- Refining and gas processing
- Distribution, transportation and storage of oil, gas and hydrocarbons
- Supply of consumables used directly and exclusively for making the above supplies
- Purchase or lease of machinery or equipment used directly and exclusively for making the above supplies

The zero-rating stops at a particular point in the supply chain (generally after the initial stages of production or processing). This means that the zero-rate does not apply to the supply of products that are produced using oil, gas and other hydrocarbons as feedstock production and sale of plastics or fertilisers. The Guide states that the zero-rate will apply to the following (non-exclusive list):

- Petroleum oils and oils derived from bituminous minerals such as naphtha, diesel fuel, fuel oil, fuels (e.g. petrol, gasoline, kerosene and lubricants)
- Waste oil, defined as oil that has not been used and is unsuitable for its originally intended purpose
- Petroleum gases and other hydrocarbons, in gaseous or liquefied form such as liquefied natural gas (methane and ethane) and liquefied petroleum gas (butane and propane)
- Other products such as petroleum bitumen and other residues of petroleum oils

The Guide states that the following products are not zero-rated:

- Used oil (defined as oil that has been used and is now contaminated by physical or chemical impurities), such as oil drained from a vehicle engine
- Products such as ammonia, methanol, urea, asphalt concrete

Exploration and exploitation rights

The Guide details the VAT treatment of exploration and exploitation rights. It confirms that awards of rights by the National Oil & Gas Authority (NOGA) is out of scope of VAT as NOGA is acting in a sovereign capacity. The transfer of rights is a taxable supply at the zero-rate. The Guide also deals with “farm in” and “farm out” rights.

Oil field and gas field services

Generally, all oil field and gas field services, including dismantling / decommissioning of infrastructure, securing and restoration of the site after exploitation will be zero-rated. Specialist professional services are also zero-rated, including capital project management, analytics and monitoring services. Catering, accommodation and transport of personnel are not zero-rated.

Supply of equipment and consumables

Importing and supply (including leasing) of equipment and consumables used directly and exclusively for exploration are zero-rated. This includes importing, sale and leasing of oil rigs, specialised tankers, transportation equipment, pipelines and consumables such as spare parts. Where the recipient of the supply uses the equipment or consumables for partly non-qualifying oil and gas activities, the supply will not be zero-rated.

Contractual arrangements (PSAs and JOAs)

The Guide explains the VAT implications for contractual arrangements in the upstream sector, i.e. concession and production sharing agreements (PSAs) and joint operating agreements (JOAs). Three models of joint operating agreements are explored.

Early activities and decommissioning

The Guide clarifies that exploration, development and early production activities will be regarded as economic activities for VAT purposes even where it is not anticipated that revenue will be generated for some time. This means that, subject to meeting certain thresholds, a person engaging in these activities may register for VAT and recover input tax relating to their activities. Where exploration activities are not successful and do not result in taxable supplies, input tax previously recovered will not be clawed back if there was an intention to make taxable supplies had the activities been successful.

Input tax on decommissioning expenses may also be recovered as it relates to the oil and gas activity carried on.

Supply of staff

The supply of technical staff who are exclusively involved in exploration or exploiting activities is zero-rated. If the staff are fully or partially involved in non-technical functions such as management or administration activities, their supply will not be zero-rated.

Other

The Guide also deals with:

- Borrow and return arrangements
- Damaged or lost tools
- Swapping of raw materials / crude oil
- Security deposits for gas containers
- Retailing through petrol stations (including an analysis of the most common models in Bahrain)
- Construction of oil / gas refinery plants, petrol and LNG stations (this may be zero-rated as a supply of construction services in relation to a new building subject to meeting certain conditions)

Link to the NBR website

The NBR has published the VAT Oil and Gas Guide on its website. A link to the Guide can be found below:

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

The takeaway

The VAT Oil and Gas Guide issued by the NBR provides guidance and further clarification on the zero-rating provisions relating to oil and gas. The Guide also sets out more detail on some of the key areas that will need to be considered by taxable persons operating in the oil and gas sector.

Suppliers in this sector should review the Guide and ensure that the correct VAT treatment is applied on the supplies that they are making in Bahrain and that they are compliant in relation to their VAT compliance obligations.

Let’s talk

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

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