

Bahrain: Related party transactions for VAT purposes

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In brief

Calculating related party transactions for VAT purposes

The National Bureau for Revenue (NBR) in Bahrain has published guidance on how to calculate the market value on related party transactions for VAT purposes. As such, all VAT registered business who carry out related party transactions below market value will now need to consider the impact of the latest guidance from the NBR.

In detail

The NBR has issued a technical FAQ on how to calculate the market value of a supply between related parties for VAT purposes. Under Article 22 of the VAT Law and Article 24 of the Executive Regulations, market value should be imposed on a supply between related parties where where the value of the supply is lower than market value and the recipient of the supply cannot claim the related input tax in full.

The FAQ reiterates the provisions of Article 24 of the Regulations which requires that the market value will be the fair price tradeable in the market between independent parties under similar circumstances where:

- Neither the supplier nor the customer is under commercial pressure
- Both supplier and customer work to achieve what is in their best interests
- The transaction is made within a reasonable period of time

Where the market value cannot be determined in line with these three conditions, NBR expects the market value to be determined based on the methodologies set out in the transfer pricing guidelines issued by the Organisation for Economic Cooperation and Development (OECD).

NBR states that it will not provide pre-approval of any methodology used by a VAT registered business to determine the market value of related party transactions. However, VAT registered businesses should keep records and details of the methodology used to determine the market value of supplies made between related persons to provide to the NBR upon request. Where such records are not provided within 30 days, or the NBR determines that the market value should be higher than that calculated by the supplier, the NBR can apply VAT based on the market value.

Where VAT registered suppliers in Bahrain are making supplies to related parties who cannot recover the associated input tax in full (e.g. persons who make exempt or partially exempt supplies), they will need to give careful consideration to the market value of the supplies. Suppliers should ensure to keep adequate records substantiating that the price charged is market value. Where suppliers are making regular supplies to related parties, they should consider implementing a comprehensive transfer pricing policy with full supporting documentation.

Link to the NBR website

A link to the technical FAQs can be found below:

https://www.nbr.gov.bh/t_faq/9

The takeaway

VAT registered business in Bahrain who carry out transactions with related parties who cannot recover the associated input tax in full will need to consider the impact of the latest guidance from the NBR. Such persons will need to account for VAT based on the market value of such transactions and keep supporting documentation. Businesses who make ongoing related party transactions should consider implementing a formal transfer pricing policy.



Let's talk

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

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