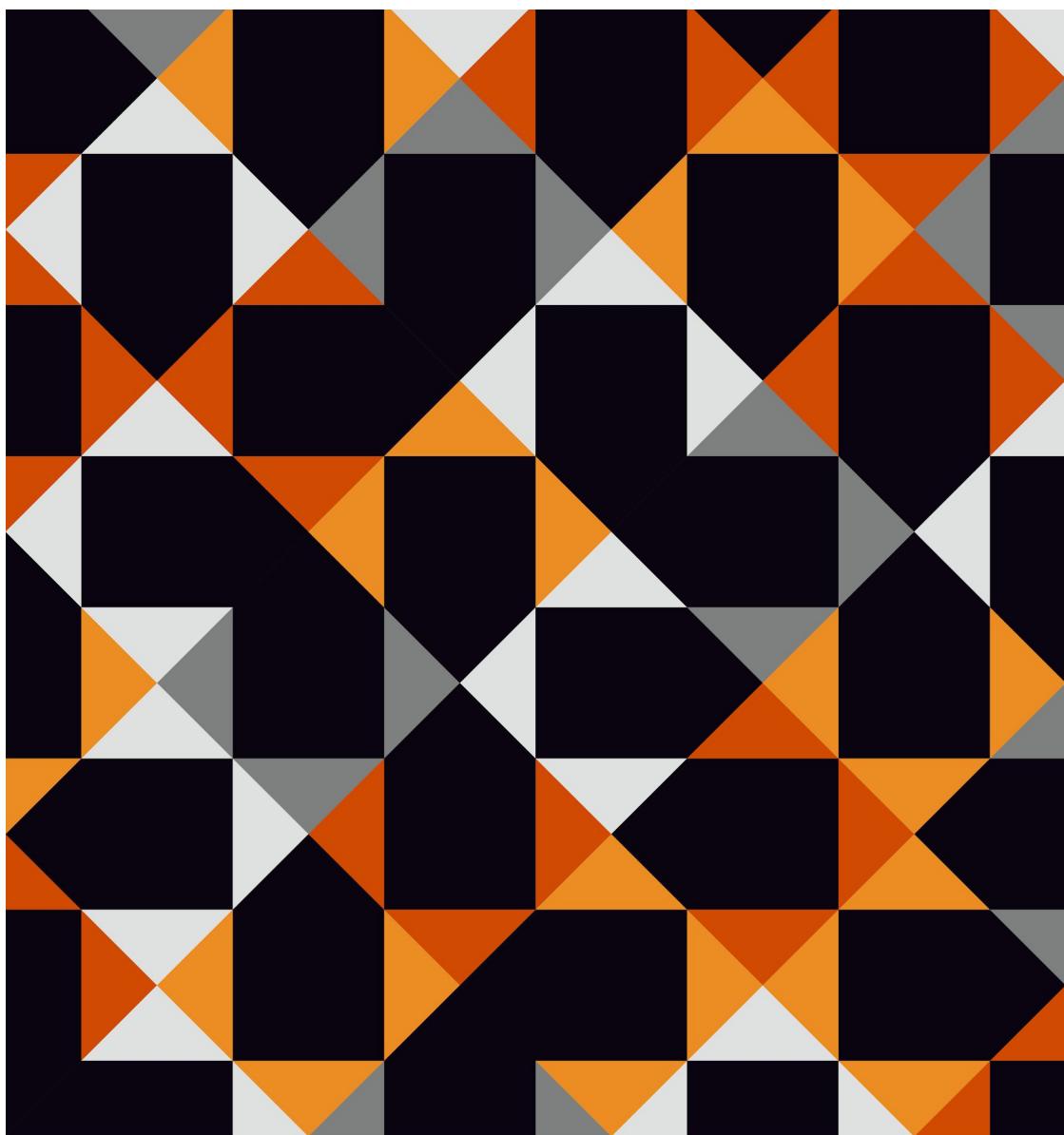


VAT rate increase in Bahrain

September 2021





We understand that the standard VAT rate in Bahrain will increase from 5% to 10%

In brief

We understand that the Council of Ministers in Bahrain has approved an increase in the standard rate of VAT from 5% to 10% with effect from 1 January 2022. This is to re-stabilise the Fiscal Balance Programme which was impacted by Covid 19.

We expect that the zero-rate applicable on supplies including basic food, healthcare, education, the oil and gas sector, the construction of new buildings, local and international transport, and investment metals will not be affected. We also expect that the VAT exemption for certain financial services and real estate will continue.

Details of transitional rules, if any, have not yet been published.

Businesses will need to manage the impact of the proposed rate change, in particular on their cash flow, as they continue to navigate a challenging economic environment. Businesses need to take action to ensure compliance by the effective date.

Getting ready for the rate increase

Businesses in Bahrain should start by assessing the impact on their operations, and complying with the legal requirements in terms of charging and reporting the correct amount of tax due to the NBR.

Getting ready for the rate change involves more than simply changing the standard rate in an ERP system. The transitional rules, if any, will need to be considered carefully and it may be necessary to review all contracts with suppliers and customers which extend past 1 January 2022 to assess whether any special rules apply.

Businesses need to look at a number of other important areas including:

- IT systems enhancement, including possible automation of any transitional rules.
- Cash flow in terms of VAT being due before payment is received from creditors. The cash flow impact may be higher for businesses in a constant refund position such as certain exporters.
- Legal considerations such as the impact on existing contracts and the necessity to change terms with suppliers and customers.
- Transitional considerations including the impact of orders for goods and services received before 1 January 2022 which are fulfilled on or after that date.



How we can help you?

To help you understand the impact of the rate increase and prepare in readiness for the transitional period, we can help by:

- Reviewing your business and functional requirements and undertaking a gap analysis
- Preparing you for the transitional period together with implementation support from both a VAT technical and systems perspective
- Building resilience into your operating models and change management support
- Providing support with potential restructuring and VAT grouping considerations
- Improving your business processes, technology and data quality to create efficiencies within your organisation's workflow
- Reviewing your input tax recoverability position to maximise cash flow and consider VAT costs that may be increased for partially exempt businesses
- Evaluating pricing, documentation and legal considerations
- Preparing communications / awareness training sessions for key stakeholders and staff on the impact of the rate increase on your business.

Why PwC?

We have extensive VAT and systems implementation experience

During 2020, we helped clients in all major business sectors manage the VAT rate increase in Saudi Arabia. We understand the impact of VAT rate changes and can help businesses navigate all of the steps they need to take to become compliant with the change with minimal impact on business as usual.

Having a team of experts in the region who have carried out this work before means that we know the pitfalls and challenges you may face and how to successfully navigate them. We have tried and tested methodologies which have been applied to successfully deliver similar projects to clients. You are in safe hands with us.

Subject matter experts

PwC is able to provide a dedicated team of global indirect tax specialists based across the Middle East to serve your needs. We have industry specific specialised tax professionals that have experience in helping clients to get ready for VAT rate changes.

The takeaway

Businesses should act from now to ensure compliance

Businesses will have around three months to assess the impact of the proposed rate change on their supplies and purchases and to implement systems and business process changes. They will also need to assess the impact of any transitional rules. For many businesses, implementing the change will be complex, and they will need the full three months to make an assessment and to carry out the changes needed. For this reason, businesses should start this work now to avoid the risk of non-compliance.

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Let's talk

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



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