

## 'VAT for Beginners'-Part 9

# Preparing for Value Added Tax in Bahrain



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## VAT FOR BEGINNERS – TAX DUE DATE

We saw in our previous two articles how determining the nature of 'Supply' (Goods or Services) and 'Place of Supply' (Country having the right to tax the transaction) could potentially impact the manner in which an organization's VAT compliance has to be undertaken. Similarly, today we are going to delve into the concept of 'Tax Due Date' and how businesses might face challenges in complying with this aspect of VAT.

## 1. 'Tax Due Date' – meaning and relevance

- 'Tax Due Date' is the point in time at which the tax becomes payable/due to the VAT Authorities.

- It is essentially deciding the month for which the Tax liability can be associated with. Tax associated for a return period (month / quarter) needs to be paid by a particular date e.g. Tax for the month of March will be paid by end of April.

- Every transaction has many aspects i.e.:

- Date of contract or agreement or purchase order (PO)
- Actual date of supply / provision of goods and services
- Date of raising Invoice on customer
- Date of payment(s) from customer
- Question arises which of these events will trigger a VAT

liability.

- On the accounting side, there are 2 broad methods: Cash based accounting and Accrual based accounting. In cash based accounting revenue is recognised only when the customer pays for the goods supplied / to be supplied. However in accrual based accounting, the revenue is recognised when the supply has happened and customer has

accepted the supply. Hence the method of accounting has a direct impact on the revenue and profit that is reported in a given period.

- Similarly, the VAT law / rules prescribe its own method or rule in determining the revenue (tax base) and tax liability thereon to be reported for a particular period by the tax payers.

- Interestingly, the VAT method applicable in most of the

cases is a combination of the cash and accrual principles i.e. the VAT liability or the 'Tax Due Date' or internationally referred as "Point of Taxation" gets fastened on earliest of the following events:

- the date of supply;
- the date of issuance of the invoice on customer;
- the date on which full/partial consideration is received from customer

### VAT will be due on the EARLIEST of the following dates



- The objective of VAT law is clear – collect tax on earliest of the events to prepone the tax collections. This, unfortunately, is in line with practices in many countries.

### Why is Tax Due Date important

- The determination of 'Tax Due Date' is important for taxpayers, since it directly impacts:

- the point when revenue from supplies would have to be reflected in their VAT returns and tax paid on the same.

- An error in determination of 'Tax Due Date' could result in incorrect declaration in the VAT return, which can attract fines/penalties for delayed payment of tax.

- The rate of tax to be applied in case where there is a change in rate of tax (may be relevant for future).

Accordingly, taxpayers must be mindful of the same.

### Lets discuss the item number 4 in the above table.

- 'X' (Customer) goes to a Supplier for purchasing a TV on 31.01.2018 and makes full payment on the same date

- The Supplier, on 1.02.2018 makes delivery of the TV to 'X'.

- In this scenario, the date of supply will be 31.01.2018, and the Supplier will have to reflect the same in the VAT return being filed in the month of January (assuming a monthly return).

- So even if there is no sale in the month of January but since the Supplier received the payment in January '18, VAT liability pertains to the month of January.

- In the month of January, Supplier would only record receipt of advance and no sales (assuming that the Supplier is following an accrual-based accounting). Hence for VAT purposes sales has happened and for accounting no sales has happened. This will necessitate preparation of reconciliation between 'book numbers' and 'return numbers' with proper back up / records to support the difference (the difference due to such cases will occur in 2 months – 1st in the month of receipt of advance and 2nd in the month of sales).

### Illustration of Tax Due Date

Sr. No.	Date of Supply	Invoice date	Payment date	Due Date of Supply
1	1 January 2018	1 February 2018	1 March 2018	1 January 2018
2	1 February 2018	1 January 2018	1 March 2018	1 January 2018
3	1 March 2018	1 February 2018	1 January 2018	1 January 2018
4	1 February 2018	To be raised	31 January 2018	31 January 2018
5	To be delivered	31 January 2018	1 February 2018	1 January 2018
6	1 January 2018	1 February 2018	To be paid	1 January 2018