

VAT for Beginners: Part 2

Preparing for Value Added Tax in Bahrain



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What is the rate of VAT?

- » Each country decides the VAT rate depending on variety of factors such as need of funds for public spending, financial discipline, effect of on business, effect on inflation, etc.
- » Globally, the rate of VAT varies from country to country and in certain countries may also vary from product to product. For example, countries with single VAT are include France (@20%), Australia (@10%), Singapore (@7%). On the other hand countries with dual or multiple rate include India (@ 5%/ 12%/ 18%/ 28%), Brazil (17% / 20%), Canada.
- » Standard VAT rate in GCC will be unanimous across the region i.e. @ 5% in all member states. This is one of the lowest in the world.

Are all goods and services liable to VAT?

- » The answer is: **No.**
- » All the countries have a list of goods and services which are not taxed. These are either classified as "Exempted" or "Zero rated" or "Out of scope" products (goods) / services.
- » In GCC also there will be products/ services that will not attract VAT.
- » An illustrative list of such goods or services under KSA and UAE VAT law are outlined below.

Type of Supplies	Examples – KSA	Examples – UAE
Standard Supply (@ 5% VAT)	All supplies of goods and services except those mentioned below	All supplies of goods and services except those mentioned below
Zero-rated Supply (@ 0% VAT)	<ul style="list-style-type: none"> » Export of goods and services outside KSA » International transportation of goods and passengers to or from outside KSA » Specified medicines and medical equipment » 1st supply of gold, silver, platinum of a prescribed quality 	<ul style="list-style-type: none"> » Primary and Secondary Education » Basic and Preventive Healthcare services » First supply (sale / lease / license) of residential real estate within 3 yrs of completion » Crude Oil & Natural Gas » Export of goods and services outside UAE » International transportation of goods and passengers to or from outside UAE » Specified medicines and medical equipment » Supply of gold, silver, platinum of a prescribed quality
Exempt Supplies (Nil VAT)	<ul style="list-style-type: none"> » Financial Services except by way of fee, commission or commercial discount » Lease or license of residential real estate 	<ul style="list-style-type: none"> » Domestic passenger transportation » Financial Services except by way of fee, commission or commercial discount » Bare Land » Supply of Residential real estate which are not Zero-rated
Out of scope supplies (No VAT)	<ul style="list-style-type: none"> » Services by employee to employment under contract of employment » Sale not as an Economic activity by a non-business (e.g. an individual selling his car) » Service by Government entity in capacity of public authority » Sale of Business as a whole 	<ul style="list-style-type: none"> » Services by employee to employment under contract of employment » Sale not as an Economic activity by a non-business (e.g. an individual selling his car) » Sovereign activities which are not in competition with the private sector undertaken by designated government bodies » Sale of Business as a whole

It can be observed that while there are many similarities in the list of Zero rated and exempted items, there are also differences between the two member states. Such distinction is permitted by the GCC Common VAT Framework Agreement. Each member state, including Bahrain hence will prepare their own list subject to the framework prescribed under the GCC agreement.

(This is part 2 of a multi-part series presented by award-winning VAT Experts Dhruva Advisors – Bahrain. Part 3 of the series will be published on Sunday.)

*****This series is only for educational purposes. To receive advice for a specific business scenario, please consult a Tax expert.**