

VAT for beginners- Part 3

Preparing for Value Added Tax in Bahrain



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Are all businesses/suppliers liable to pay VAT?

• The answer is No.

- The following businesses/suppliers are or may not be liable to pay VAT:
 - ▶ A business operating below the VAT threshold is not liable to pay VAT. For GCC, the threshold is approximately BHD 37,500 (i.e. USD 100,000). Hence a small cold store or a tailor shop having annual revenue less than BHD 37,500 may not be liable to pay and collect VAT.
 - ▶ Businesses that only supply exempt goods or services.
 - ▶ Businesses that only supply zero-rated goods or services.
 - ▶ Business only having transactions subjected to Reverse Charge VAT – in such cases Buyer pays VAT and not Seller.
- Rest all business are liable to VAT and need to undertake the prescribed compliances.

What are the implications (and prescribed compliances) of being liable to VAT?

If a business is liable to VAT, it needs to undertake compliances as outlined below:

-  Taking VAT REGISTRATION number
-  Monthly PAYMENT of VAT (Output VAT less Input VAT) and filing of VAT RETURN
-  Issuance of correct TAX INVOICE on all supplies
-  Maintenance of RECORDS (invoices, accounts, sales / purchase list, export & import documents, VAT returns, etc) for 6-20 yrs
-  Check / review (ASSESSMENT) of VAT returns with books of accounts by Tax office
-  Keeping track of CHANGES IN LAW & complying with the same

Note: Non-VAT registered businesses should maintain their books and records to demonstrate (when required) that they are not liable to VAT and hence not registered.

If a person is not liable to VAT, can he still register for VAT purposes?

Yes. Under the GCC agreement there is an option for voluntary registration, provided that the annual supplies in the relevant Member State is not less than the voluntary registration threshold.

The voluntary registration threshold is 50% of the mandatory registration, which is equivalent to approx. BHD 18,750 (USD 50,000).

What are the benefits of VAT registration?

A registered VAT business can benefit from the below:

Collect VAT from its buyers. If a business is unregistered but exceeded the mandatory registration threshold of BHD 37,500, it will still be liable to pay VAT but not eligible to collect the same from its Buyer.

Claim input VAT credit on purchases made from registered VAT businesses

Can issue VAT invoice to its Buyers who can (subject to their conditions) claim Input VAT credit (and reduce its costs of operations).

Be compliant with law.

(This is **part 3** of a multi-part series presented by award-winning VAT Experts Dhruva Advisors – Bahrain. **Part 4** of the series will be published on **Wednesday**)

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