VAT for beginners- Part 4

Preparing for Value Added Tax in Bahrain

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What is the difference between Exempt and Zero-rated products/services?

Zero-Rated Supplies:	Exempt Supplies:
• Zero-rated supplies are treated as taxable supplies but charged VAT (output VAT) @ 0%. • When a transaction is zero-rated, this means that the Input VAT credit (on eligible goods or services bought by that business) will be available as input credit or as refund.	• In an exempt supply, NO VAT is chargeable or payable but, unlike zero-rated supplies, related tax input is not recoverable. • Hence the cost of exempt supplies gets increased due to non recoverable Input VAT paid on purchases from different type of vendor

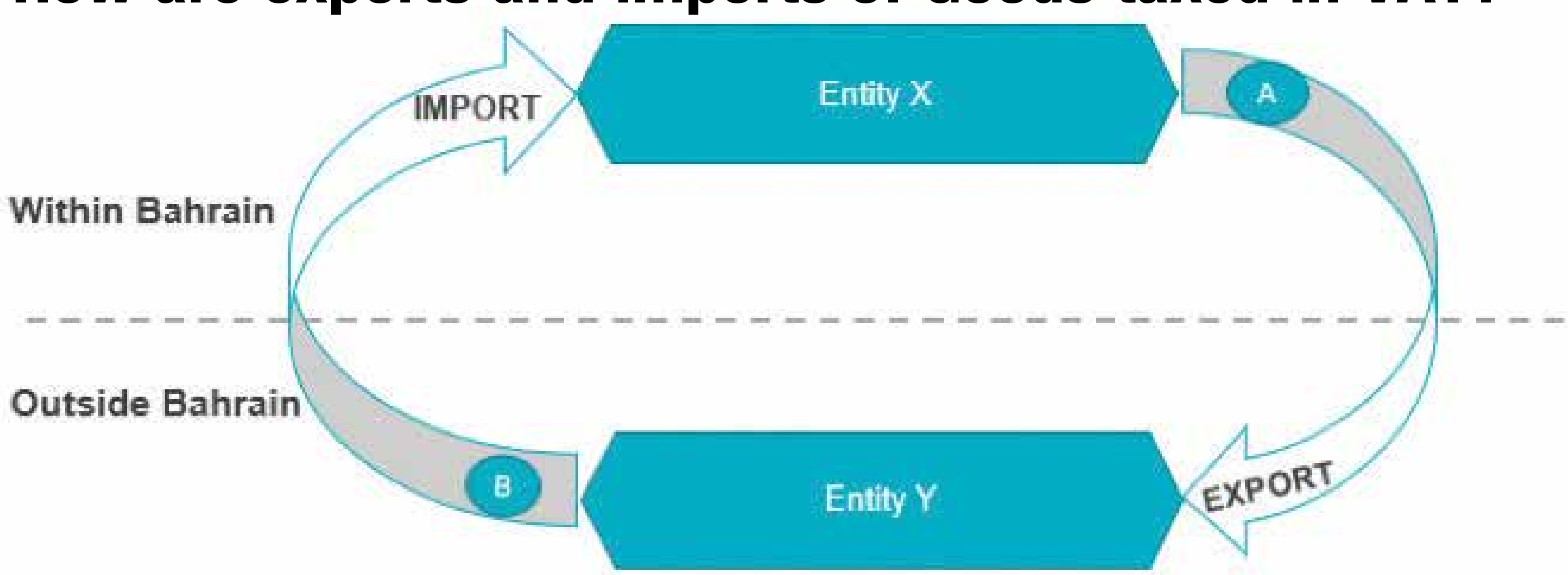
Note:

- *Where a business makes both taxable supplies and exempt supplies, then the said business will not be able to recover all its input tax (i.e. those relatable to exempt supplies).*
- *The GCC VAT Agreement suggests that member states can decide granting exemption or zero rated status for certain key sectors such as education, healthcare, real estate, oil and gas.*

What is Reverse Charge VAT? In which cases does it apply?

- **VAT is normally paid to the Government / Tax authority by the Seller. Seller collects this tax from the Buyer**
- **In exceptional cases, it is the Buyer and not the Seller who is required to pay VAT**
- **These cases are called Reverse Charge transactions and these are reported as taxable purchases by the Buyer in its VAT return**
- **Generally, Reverse Charge is applicable on the import of goods and services. In certain countries certain domestic transactions are also subjected to Reverse charge VAT.**
- **In the KSA and UAE, the Reverse Charge mechanism is applicable on imported goods and services from outside the respective country.**

How are exports and imports of Goods taxed in VAT?



- **The guiding principle of VAT system of taxation is – Destination based tax (in most of the cases)**
- **This principle is applied on Export and Import of goods**
- **In the above diagram, there are 2 scenarios: A and B**
- **In scenario A, Entity X is exporting supplies from Bahrain to Entity Y (outside of Bahrain). In such a case:**
  - **export by Entity X will be treated as non-liable to VAT in Bahrain**
  - **at the same time, import of the supplies will attract Import VAT (Reverse Charge VAT) and payable by Entity Y in the destination country.**
- **In Scenario B, Entity X is importing supplies in Bahrain from Entity Y. The tax implication is reverse:**
  - **No VAT payable by Entity Y in origin country**
  - **Import VAT (Reverse charge VAT) payable by Entity X in Bahrain (destination country)**

(for the above example, it has been assumed that VAT is applicable in Bahrain).

*(This is **part 4 of a multi-part series** presented by award-winning VAT Experts Dhruva Advisors – Bahrain. **Part 5** 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.*