

'Safeguard national unity'

Manama

His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa yesterday called for safeguarding national unity to ward off foreign threats and to preserve the accomplishments of Bahrain and its people.

"The events currently witnessed by the region require more awareness of the importance of preserving and cementing national unity," said HRH the Premier as he received Royal Family members and a number of senior state officials



HRH the Premier with Royal Family members at the Gudaibiya Palace

The kingdom, HRH the Premier said, is resolved to continue strengthening the pillars of its comprehensive

development march, while expressing his pride in the progress boom currently witnessed by the kingdom in various fields

HRH Premier also called for the need to preserve Bahrain's marine wealth and to increase it and take advantage of it in a way that supports the national

economy, especially in the fields of food security, tourism and others.

On regional issues, HRH Premier affirmed that sisterly

Saudi Arabia, under the leadership of the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al-Saud, and the support of the Crown Prince, Deputy Premier and Defence Minister, HRH Prince Mohammed bin Salman Al-Saud, is robust in defending the Arab and Islamic issues.

"Saudi Arabia will remain strong, and the recent attack against it will not affect its efforts in serving its Nation's issues," the Prime Minister said, reiterating Bahrain's unwavering stance in support.

VAT for beginners- Part 6

Preparing for Value Added Tax in Bahrain



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After a short break we have returned to continue our journey into exploring the untraversed landscape of VAT going to be introduced in Bahrain. Before we delve into today's topic, a short recap on the key highlights of the VAT regime expected in the GCC and Bahrain.

Key points:

- » GCC VAT Agreement signed by the 6 GCC countries is the guiding code for the 6 GCC member states to make the VAT laws of their respective countries.
- » Kingdom of Saudi Arabia (KSA) and United Arab Emirates (UAE) introduced VAT w.e.f. 1st Jan' 2018 and primarily modelled their VAT laws on the GCC VAT Agreement.
- » Under the GCC VAT Agreement, supply of goods and / or services in the GCC region is liable to VAT @ 5%.
- » The only exception is when the goods / services or the transaction is exempted (e.g. financial services are expected to be exempted) or zero rated (medical services and supplies are expected to be zero rated, export of goods / services) or out of scope (employer-employee services, service outside the country).

In today's series, we will talk about what is meant by 'Supply of Goods', 'Supply of Services' and the concept of 'Place of Supply'.

What is Supply of Goods and / or Services?

A 'Supply of Goods' means

- » Sale of goods i.e. transfer of ownership in goods (from seller to buyer)
- » Assigning someone the right to dispose the goods as an owner.
- » Arrangements in which ownership in goods will transfer at a later date e.g. Hire purchase contracts
- » Compulsory transfer of ownership in goods under orders of a government authority

Supply of Goods is also deemed to include granting right to use real estate. This is unique sine real estate is not goods, however the GCC VAT agreement has specifically included this in supply of goods.

Examples –

- (i) selling a pen to customer in a super market; or
- (ii) Sale of Television set or refrigerator wherein payment can be made in 12 equal monthly instalments

'Supply of Services' are all such supplies which are not 'Supply of Goods'. Hence this is a very wide definition and what is not supply of goods will be deemed to be supply of services.

- » Interestingly, operating lease or license of goods such as equipment, motor vehicles, plant and machinery will be classified as supply of services.
- » For example – (i) a hotel pro-

viding lodging; (ii) event management services (iii) rent a car for few days / months (iv) legal services (v) medical services (unless zero rated or exempted)

» The nature of contract between the seller / supplier and buyer / customer, in many cases determines the nature of supply i.e. whether it is for Goods or Services. This can be demonstrated with the help of following example:

- ✓ X sells a car to Y for 5,000BHD, requiring Y to make the payment in monthly instalments of 500BHD, and after completion of all the instalments ownership in the car will pass from X to Y. In this situation, even though ownership passes

at a later date, it will be considered as a **supply of goods** from X to Y

✓ X leases his car to Y for a period of 6 months for total consideration of 1,200 BHD, and after expiration of the lease the car must be returned to X. In this situation, there is no transfer in ownership/right to dispose taking place. Accordingly, it is considered as a **supply of service**

The abovementioned example showcases how it becomes important to ascertain the nature of the contract, and the rights which pass from the supplier to the recipient. A supply of car in one example is supply of goods and in another supply of service.

But why this differentiation is necessary:

A question can be raised, why is it important to differentiate between supply of goods and supply of services when both attract VAT @ 5%. The answer lies in the fact that there would be different rules on "Place of supply" or "Point of taxation" or "Transition provisions" w.r.t. goods and services.

Further, we will be happy to receive your feedback/ comments/ suggestions. You can write to the author at gaurav.khurana@dhruvaadvisors.com)

(This is **part 6 of a multi-part series** presented by award-winning VAT Experts Dhruva Advisors – Bahrain. **Part 7 of the series** will be published on Sunday

This series is only for educational purposes. To receive advice for specific business scenario, please consult the author or any other Tax expert.