

The background of the top section of the page features a scenic view of the Bahrain skyline, including several modern skyscrapers and a traditional wooden dhow boat on the water in the foreground.

Indirect Tax Update

New Guide issued by the National Bureau for Revenue (NBR) on Digital Economy

Dear Valued Clients and Contacts,

The National Bureau for Revenue ('NBR') has issued VAT Guidelines around the Digital Economy providing an overview of the VAT applicability and procedures to be followed in Bahrain in relation to operators and businesses in the Digital Economy (the 'Guide'). Broadly, the Guide outlines the VAT treatment of various digital economy related supplies, corresponding tax due dates, input tax recoverability and other sector specific issues in respect of VAT.

We have summarized the key aspects.

E-commerce of Goods

Sale of goods located outside Bahrain using an online platform for customers in Bahrain and by a non-resident supplier is in principle outside of scope of VAT in Bahrain. However, if other conditions around value are met, import VAT will be due when the goods are imported into Bahrain.

Tax due date

The tax due date for supply of goods should be the earliest of the date of:

- Supply of goods;
- Receipt of payment;
- The issue of a tax invoice.

The actual date of supply of goods is the earliest of:

- When the transportation starts, if the goods are supplied with transportation and the transportation is supervised by the supplier;
- When the goods are disposed to the customer, if the goods are supplied without transportation or the transportation is not supervised by the supplier;
- When the installation or the assembly of the goods is completed, if the goods are supplied with installation and assembly.

Consignment stock

Under consignment sales, the supply of goods happens when goods are sold to the final consumer. Under this scenario, there are two supplies for VAT purposes – one from the supplier to the business selling the goods online and another from the business selling the goods online to the final consumer. Consequently, both the supplier and the business selling the goods must account for VAT in the appropriate way on the supplies that they make.

Return or refunds

In case of refund or return of a good which was taxable and a tax invoice was issued, the supplier must issue a tax credit note and both parties (whoever is registered for VAT in Bahrain) must make necessary adjustments in their VAT returns.

If the returned goods were originally exported, import of the returned goods into Bahrain will not be subject to import VAT.

If goods were originally imported into Bahrain, the VAT paid at import will not be adjusted, unless the return or refund triggers an adjustment of the customs value of the import.

Electronic Services

What is an Electronic Service?

Any services operated in an automated manner with limited human intervention, impossible to complete without the use of information technology and provided over internet or any electronic platform are electronic services.

Examples of Electronic Services

Electronic services include, but are not limited to, the following:

- Services that provide or support an electronic network, including a website or web page on the internet;
- Digital products, including computer programs and any changes or updates to software programs;
- Services automatically generated by a computer over the internet or an electronic network, as a response to specific data inputs by the receiver;
- Internet Services software for information that allows the communications component to provide an assisting element, for example components that allow access to news, weather or travel reports, web hosting, online discussion and others;
- Supply of a website domain, web hosting and remote maintenance of software and equipment;
- Supply of visual content such as images or texts that are automatically supplied, screensavers, electronic books and other documents and digital files;
- Supply of music, films, television series, games, magazines, newspapers, or other programs upon request;
- Provision of advertising on websites and advertising space on websites and any rights associated with such advertising;
- Provision of online Educational Services;
- Supply of computer programs and updates.

What is not considered an Electronic Service?

Certain services may not be listed as electronic services for VAT purposes, even if provided electronically. For such services, normal VAT rules for supplies of services apply. Examples of such services include:

- Supply of services over the internet requiring human intervention. For instance, professional consultancy services delivered via email, educational or professional courses provided remotely to students where there is direct interaction between the presenter and the students;
- Online booking services for hotels, car hire, tickets for entertainment events or other similar activities;
- Online repair services which are remotely provided to computer equipment;
- Supply of tangible products which are ordered and sold online.

Place of supply

Place of supply of electronic services is determined based on the place of use and enjoyment of the services. Bahrain VAT legislation therefore applies when electronic services are used and enjoyed in Bahrain and within the limit of such use and enjoyment provisions.

- If the receiver of the electronic services is taxable person, the place of use and enjoyment is the place of residence of the customer. If the customer is resident in more than one place, the place of supply is the place of residence most closely connected to the service.
- If the receiver of the electronic services is not registered for VAT in Bahrain, the place of supply is the actual place of the use and enjoyment of the services. In this case, the place where the contract executed and payment made are not relevant.

Supplies by a non-resident person

A non-resident person supplying electronic services in Bahrain to VAT registered customers only is not required to register for VAT in Bahrain, considering its VAT registered customers in Bahrain apply reverse charge mechanism for the electronic services supplied by the non-resident. Even if the non-resident registers for VAT in Bahrain, its supplies to VAT registered customers in Bahrain should still be subject to reverse-charge mechanism.

A non-resident person supplying electronic services to non-registered customers in Bahrain must apply for VAT registration within 30 days of his first supply in Bahrain for which the supplier is required to pay tax.

Online educational services

Supply of online educational services are zero rated if the conditions for zero rated educational services (not supplied) are met.

Tax due date

For one-off supply of electronic services, the tax due date is the earliest of the date of:

- Receipt of payment;
- Completion of services;
- The issue of a tax invoice.

For continuous supply of electronic services, the tax due date is the earliest of the date of:

- Receipt of payment;
- Payment due date as per the tax invoice;
- The issue of a tax invoice.

Transitional rules

If the supply of goods takes place after the effective date of VAT, the taxable person must account for VAT on the value of the supply. The fact of the invoice being issued and the payment being made before the effective date of VAT is not relevant in this case.

In case a supply of electronic services spans the effective date of VAT, the taxable person must account for VAT on the value of the supply after 1 January 2019.

Single vs Multiple supplies

When a supply consists of two or more components, the taxable person must assess whether the supply is a single composite supply or a multiple supply.

Bundled supplies

In case it is clearly provided as part of a promotional or commercial offer, components of bundled supplies provided for free are not to be considered as a separate supply for VAT purposes.

Supplies made through agents

A disclosed agent is an intermediary who acts in the name and for the account of another person. The buying and selling parties know the identity of each other and contract directly between themselves for the supply. The disclosed agent charges the party it represents under in return of supply of agency / intermediary services.

An undisclosed agent is an intermediary who acts in his own name but for the account of another person. Undisclosed agents mainly receive a supply, and provide the same supply to the buyer with certain margin.

Input Tax recovery for agents

An agent is entitled to recover the input tax incurred on costs related to the received supplies. Any input tax incurred by an agent on behalf of another person is not recoverable.

Other aspects covered in the Guide

In addition to the above, the Guide also covers other aspects relevant to digital economy related supplies, i.e., the VAT accounting and reporting requirements such as due date of tax and input tax recovery in relation to the supplies made in digital economy.

[Source](#)

In case of any ambiguity in relation to the VAT treatment of a particular digital economy related supply, a taxpayer may apply for a tax clarification from the NBR seeking guidance on how to interpret and apply specific provisions of the VAT Law where this is uncertain.

For more information, please [contact us](#).

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