

Indirect Tax Update

Update on Bahraini VAT – GCC Funded Projects

23 June, 2019

The National Bureau for Revenue ('NBR') held a seminar on Thursday, 20th June 2019 at the Ministry of Finance on the applicability of VAT on supplies to GCC funded projects.

We have outlined below the key clarifications provided by the NBR representatives from this session for your reference:

- **Eligibility:** The NBR is in the process of finalizing a list of projects which will be eligible for the VAT benefit. While this list will not be made available to the public at large, such list will be forwarded by the NBR to the relevant Ministries/ Government entities. Subsequent to the receipt of such list, the relevant Ministries/ Government entities will issue letters, which will be attested by the relevant Ministry/ Government entity and the NBR, identifying the project name, main contractor, and the duration of the project.
- **VAT exemption on imports:** All imports made for the execution of identified GCC funded projects will be exempt from VAT. For this exemption, the abovementioned list of GCC funded projects will be forwarded to the Customs Affairs. Further, a mechanism has already been put in place by Customs Affairs to identify the imports made for the GCC funded projects and no VAT is being charged on such imports. It was clarified that in case an import is made for any GCC funded projects and VAT is charged thereon by the Customs Affairs, it is the responsibility of the importer to bring it to the attention of the Customs Affairs for correction.
- **Supplies by main contractor:** Supplies made by the main contractors identified for the GCC funded projects will be subject to VAT at 0%, regardless of the nature of supplies made to the GCC funded projects. While the supplies made by the main contractors to the GCC funded projects will be zero rated, NBR is still in the process of finalizing the invoice format i.e. whether such invoice would be a tax invoice at 0% or whether it would be a 'Commercial Invoice' with no reference to VAT.
- **Supplies by sub-contractor:** Supplies in relation to the GCC funded projects made by contractors other than the identified main contractors (sub-contractors) will not be zero rated by default. Such sub-contractors will be required to independently examine whether any supplies made by them qualifies for zero rating in accordance with Article 53 of the Bahrain VAT Law read in conjunction with the relevant VAT Executive Regulations. Where supplies made by the sub-contractor do not qualify for the zero rate as per the VAT legislation, such supplies would be subject to VAT at 5%.
- **Invoices already raised with 5%:** Regarding the tax invoices which have already been raised with 5% VAT for supplies made by the main contractors to the GCC funded projects, it was clarified that the main contractors have the right to cancel such invoices by way of a credit note and issue fresh invoices with 0% VAT. This transaction should subsequently be reported as an adjustment in the subsequent VAT return.
- **Fast tracked refunds:** The NBR anticipates that the main contractors making supplies to the GCC funded projects would be in a VAT receivable position eligible for refunds. Therefore, for expediting such refunds to mitigate any adverse cash flow impact on such contractors, the NBR has set up a dedicated team for auditing and processing the refunds for contractors making supplies to the GCC funded projects.

The NBR representatives also indicated that detailed Guidelines regarding the VAT treatment on supplies made to GCC funded projects would be released soon.

You may reach out to your respective Project Manager in case of queries on any of the above.

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

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