

Indirect Tax Update

Apportionment Methods for Input VAT on Vehicles and Mobile phones

3 July, 2019

At the outset, we wish to reiterate that as per the VAT Executive Regulations ('Regulations'), any input tax relating to vehicles provided by a Taxable Person to employees will be deductible only in proportion to their use for business purposes.

In this context, the NBR has now prescribed the alternative apportionment methods that the Taxable Person may use in relation to vehicles and mobile phones provided to employees that are for both business and personal use.

We have outlined below the key highlights of the alternative apportionment methods that the NBR has prescribed:

1. Actual use method

- Apportionment should be carried out on a fair and reasonable basis, by reference to actual usage and under written policies and procedures in the manner outlined below:
 - Motor vehicles - Distance travelled for business and personal purposes. This should be evidenced by written logs documenting each journey.
 - Mobile phones - Cost of personal use. This should be evidenced by written records documenting how this is calculated.
- When computing the allowable input VAT at the time of purchase, input VAT should be claimed based on expected business and personal use. An adjustment will be required at the end of each VAT year to reflect the actual business and personal use.
- With respect to mobile phone related expenses, no input VAT can be claimed in the following cases:
 - Phone related expenses where there is no bill (e.g. prepaid phone credit)
 - Where the actual business usage of the phone does not exceed 50%

2. Simplified fixed recovery method

- The NBR has prescribed the following fixed percentage input VAT recovery for motor vehicles and mobile phones provided to employees which are used for business and non-business purposes:
 - Motor vehicles - Fixed input VAT recovery rate of 40% on all costs
 - Mobile phones - Fixed input VAT recovery rate of 60% on all costs
- A Taxable Person may choose to apply simplified methods for both categories or opt to use only one (for instance, simplified method for motor vehicles, but not for mobile phones or vice versa).
- If a Taxable Person chooses to use one of the fixed input VAT recovery rates, it will be obliged to use it for all assets in the relevant category.

- Mobile phones that do not have business use exceeding 50% are not eligible for the simplified method as no input VAT can be claimed in such cases.
- There is no requirement to obtain pre-approval from the NBR or to intimate the NBR for using the fixed input VAT recovery rates. However, the NBR reserves the right to disqualify any Taxable Person from using the simplification measure where it forms the view that it is being abused.
- A Taxable Person who chooses to use the fixed recovery rate would be obligated to do so for a period of 2 years. The Taxable Person may apply to the NBR to change to actual basis prior to the end of the 2 years.

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

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

Philippe Norre
Partner
T: +973 17201400
E: pnorre@kpmg.com
KPMG Fakhro

Ali AlMahroos
Senior Manager
T: +973 17201459
E: aalmahroos@kpmg.com
KPMG Fakhro

Adria Bugeac
Manager
T: +973 17201403
E: abugeac@kpmg.com
KPMG Fakhro

Maciej Turzanski
Manager
T: +973 17224388
E: maciejturzanski@kpmg.com
KPMG Fakhro

Insha Jairumi
Manager
T: +973 17222364
E: inshajairumi@kpmg.com
KPMG Fakhro

Nik Faiziman Affandi
Manager
T: +973 17201457
E: naffandi@kpmg.com
KPMG Fakhro

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