

# *“Self-evaluation is a step forward towards compliance of Laws”*

A quick guide on Self-Evaluation to understand the basic requirements under Bahrain VAT Law which is now approved for introduction from 1<sup>st</sup> January 2019

## **Background**

VAT is recently introduced in UAE and KSA. As per the common VAT agreement of states of GCC, the same will be introduced in Kingdom of Bahrain as well.

So far the question in everyone's mind was “When”? Well, the VAT law is now approved by Parliamentary Finance and Economic Committee to be introduced from 1st January 2019. The executive regulations are expected to be issued 15 days after its adoption.

This is the right stage to have a self-evaluation to understand the applicability of VAT on your operations, its initial requirements and the way forward for a smooth preparation at your end. This brief article will discuss the preliminary common concerns which as a business owner/manager you may have with regards to the applicability and requirements for VAT, ahead of publication of the Law and its regulations.

## **1. Does my business operations require registration under VAT?**

There are two types of registration – Mandatory and Voluntary. The answer to the type of registration can be tested as below, based on your annual invoicing:

### **1.1 Mandatory - Invoicing More than mandatory threshold**

If your past 12-month invoicing or within next 30 days is/ will be more than mandatory threshold (considering UAE, where mandatory threshold is equivalent of USD 100,000 – then you need to register mandatorily under VAT Law.

### **1.2 Voluntarily- Invoicing more than voluntary threshold**

If your past 12-month invoicing or within next 30 days is / will be more than voluntary threshold (Considering UAE, where voluntary threshold is equivalent of USD 50,000), then you may (optional) register voluntarily under VAT Law.

## **2. Does my goods / services are taxable under VAT?**

Generally speaking, majority of goods and services will be covered under VAT. However certain goods / services are specifically exempted by the VAT law.

In simple words, if your goods / services are not under exempt category, then these will be subject to VAT (either at standard rate or at zero rate).

## **3. What will be the rate of VAT?**

The taxable goods and services will be subject to standard rate of tax i.e. 5%. However, if the goods / services will be under zero rate, the rate will be 0%. The exempt goods and services will not be taxable under VAT.

## **3. Do I need to change my accounting application / software system for VAT compliance?**

The accounting software may not require to be changed, however it would require modification to ensure that system is capable to work as per VAT law. The major areas of system amendments will be:

- 3.1 Invoicing / Credit notes as per VAT law
- 3.2 Accurate recording of VAT input recoverable and VAT output payables & Reverse Charge Tax Accounting.
- 3.3 Supplier and Customer master amendments.
- 3.4 Automated process for report generation for net VAT payable (Output VAT – Input VAT).
- 3.5 Item master amendments to record rate of tax to be charged based on goods / services categories.

## **4. Will there be any penalties if I do not register or comply with VAT laws?**

Certainly, there will be several penalties that can be imposed on business owner for non-compliance even from the very first day of introduction of VAT. As a business owner / manager, you should be VAT ready from day 1, provided the present level of business is above the mandatory threshold limit.

## **5. What about the existing contracts / committed supplies of goods / services?**

The rule is simple, any supply of goods / services after introduction of VAT will be subject to VAT. However, there will be few transition rules (exception in initial period), which will allow you to invoice items without VAT, subject to certain conditions.

However, even if you had accepted advance from your customer for supply of goods / services, which is not yet delivered / completed, most likely these transactions will be subject to VAT to be charged to customers.

#### **6. Will I need to pay VAT on imports of goods / services?**

VAT is due on imports of goods / services from abroad. However, there are certain procedures (viz. reverse charge) which will explain the method to pay / record VAT liability. Value Added Tax is a Tax on Import and Supply of Goods and Services which are taxable supplies.

#### **7. When I have to pay VAT – Monthly or Quarterly and how it will be paid?**

The due VAT amount is required to be paid on monthly / quarterly basis (as the case may be), which is based on the business turnover. Most likely, the payment of VAT will be online and the payment details has to be mentioned in VAT return as well.

#### **8. What Training do I need?**

Training is a vital aspect which is required to fulfill the required compliance of the VAT law. The initial training to owners of the business and employees is essential in order to conduct the VAT Impact Study. The areas include VAT applicability, invoicing, accounting of transactions, sales & sales return, system procedures, maintenance of records, filing of Tax Returns and payment of tax dues.

#### **9. Do I need separate registration for many businesses?**

Every business is required to be registered as per mandatory threshold limit under VAT Law. However generally VAT law provide an option to group of businesses under same Management to register as one tax group (subject to certain conditions). If you register as one tax group, then all the businesses under the same group will form part of consolidated compliance and regulatory reporting under VAT law.

#### **10. What records do I need to maintain?**

As per VAT law, the business needs to maintain all the records i.e. purchase and sales invoices, debit / credit notes, VAT payment evidences, inventory records including quantitative particulars, Expenses, etc. in order to provide the VAT officials for their verification, whenever it is required by them. These records should be kept in proper manner for review purposes.

#### **Conclusion**

The above basic concerns are related to all the business owners / managers which are very common at this stage

i.e. before VAT laws is issued. However, the law requirements are very comprehensive and required to be complied by everyone concerned.

To conclude, as business owners/managers you should not delay the initial working towards the implementation of VAT, so that from very first day your business is well capable to implement the VAT requirements.

At this preparation stage, major aspects which you need to be focused upon and start working towards VAT implementation are listed below:

- ✓ VAT Impact assessment by a professional
- ✓ Analyzing the cash inflow / outflow impact
- ✓ Accounting / POS Software Changes
- ✓ Testing the software changes to ensure that these changes are as per law
- ✓ Training to staff
- ✓ Understanding the VAT requirements specific to your business operations.

Moreover, if your annual business turnover is more than mandatory threshold limit then, you MUST do the following to ensure your compliance from very first day of implementation of VAT law:

- a) Registration under VAT
- b) Adequate configuration & testing of billing system
- c) Changes to invoice format & other stationeries
- d) Update the customer contracts for VAT clause
- d) Asking / notifying VAT registration details from suppliers / to customers
- e) Preserving the required records as per VAT law

Please be advised that law has specific provisions for financial penalties for non-compliance of law which can be as high as 300% of tax amount. Some of the reasons which may lead to pay penalties includes:

- Late registration for VAT
- Issuing incorrect invoices i.e. not as per VAT law
- Incorrect charging or not charging VAT as per law
- Providing incorrect details on your invoices to customers
- Incorrect computation of VAT payable amount
- Submitting incorrect information to VAT authority
- Delays in submitting the VAT returns
- Delay in payment of Tax to the Tax Authority
- Failure to maintain proper records

This brief article is provided for self-evaluation of businesses, to access the requirements at an early stage and to work towards the necessary change management for smooth transformation towards VAT, successfully, without any difficulties.

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