

Tax alert



25 January 2022

Impact of VAT rate change on import of goods and services

Effective 1 January 2022, Bahrain has increased the standard rate of VAT from 5% to 10% with a one year transitional period. As per the transitional rules, supplies made during 2022 calendar year under a contract signed on or before 23 December 2021 will be subject to VAT at 5% until the expiry, renewal or amendment of the contract, whichever is earlier.

Whilst the initial guidance issued by the NBR covered supplies of goods and services during the transitional period, no specific guidance was available regarding application of the transitional rules on import of goods and services. Recently, the NBR has updated the FAQs available on their website clarifying the application of the transitional rules on the import of goods and services.

The updated FAQs (17.3, 17.4 and 17.5) clarify that the 5% VAT rate will continue to apply on import of goods and services made on or after 1 January 2022 under contracts signed on or before 23 December 2021 – until the earlier of 31 December 2022 or change in contract.

We have summarized below the VAT treatment for transitional import of goods and services.

Import of goods

Date of pre-clearance	Date of release from customs	VAT rate applicable	KPMG comments
On or before 23 December 2021	On or before 31 December 2021	5%	No additional information to be submitted to the NBR.
On or before 23 December 2021	On or after 1 January 2022	5%	
On or after 24 December 2021	On or before 31 December 2021	5%	
On or after 24 December 2021 and on or before 31 December 2021	On or after 1 January 2022	5%	This will apply if the import is under a contract* with the overseas supplier dated 23 December 2021 or earlier. Importers may be required to submit the copy of contract with the overseas supplier to the NBR.
On or after 24 December 2021 and on or before 31 December 2021	On or after 1 January 2022	10%	This will apply where the importer cannot provide sufficient evidence that the import relates to contracts signed on or before 23 December 2021. <i>Payment of additional VAT</i> VAT registered importers – Declaration to be made in the VAT return for the period in which the goods are released. NBR to release additional guidance on the declaration mechanism. Non-VAT registered importers – Email must be sent to vatpayment@nbr.gov.bh along with copy of customs declaration and receipt.

*For guidance on what will be considered as a contract, please refer to FAQ 17.7 on the NBR portal.

Import of services

Import of services must be accounted under the reverse charge mechanism which entails output VAT obligation with a corresponding input VAT recovery (subject to input tax recovery rules).

The transitional rate of 5% will apply (unless the service is zero-rated or exempt) on services imported during 2022 calendar year under contracts signed on 23 December 2021 or earlier until the expiry, renewal or amendment of the contract, whichever is earlier. For services imported during 2022 calendar year under contracts signed on 24 December 2021 or later, VAT at 10% will apply.

Accordingly, businesses in Bahrain who are receiving services from non-resident suppliers will be required to segregate invoices for such services to ensure that the correct VAT rate is applied on such transactions.

The above is for general information only and is not intended to address the circumstances of any particular scenario. Please seek professional advice in relation to your particular circumstances.

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