



Collaboration. Understanding. Ideas and insight.

An Introduction to Value Added Tax



WHAT IS VALUE ADDED TAX

What is VAT



A tax on consumption



VAT flows through a supply chain



VAT 'sticks' with the final consumer



A final consumer could be:

- ❖ A private retail purchaser
- ❖ A business whose activities are exempt from tax
- ❖ A business which is not otherwise required to be VAT registered

VAT@5%

Price: BD 100
VAT: BD 5



Manufacturer



Tax remitted to Government

Output tax = **BD 5**

1

Price: BD 200
VAT: BD 10



Wholesaler



Output tax = **BD 10**

Input tax = **BD 5**

BD 5

2

Price: BD 300
VAT: BD 15



Retailer



Output tax = **BD 15**

Input tax = **BD 10**

BD 5

3

Consumer
pays 5%
VAT only



Consumer

Total amount [1 + 2 + 3]

remitted to tax
authority = **BD 15**

Assumption: VAT 5%

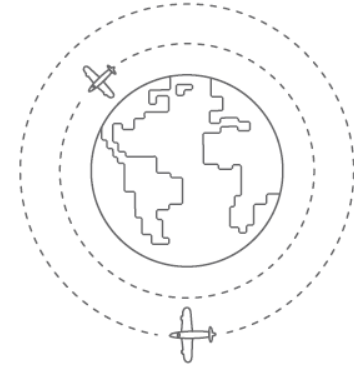
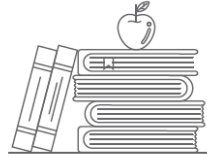
How VAT Works

Registered and Unregistered Businesses

- ❖ If you are a VAT-registered business, in most cases you:
 - ❖ Charge VAT on the goods and services you provide
 - ❖ Reclaim the VAT you pay when you buy goods and services for your business
- ❖ If you are not VAT-registered then you cannot reclaim the VAT you pay when you purchase goods and services.



The Different Categories of VAT



STANDARD-RATED SUPPLIES

Most local supplies of goods and services in a country are generally included in this category

Ex. wholesale and retail sales, the consumption of food in a restaurant, the provision of services by law, and accounting firms.

ZERO RATED SUPPLIES

Goods and services exported out of a country may be zero-rated, that is, are subject to VAT at a rate of 0%.

EXEMPT SUPPLIES

The following businesses are often exempt from VAT in order to reduce the impact on the population: financial services, including both banks and life insurance companies; and sale or lease of residential property.

OUT OF SCOPE SUPPLIES

Supplies where goods and services are delivered by an overseas supplier to another overseas person are generally included in this category as are private and non-business transactions.



Determining Your VAT Liability



VAT Registered Businesses' Roles

VAT is 'self-assessed'

businesses will be required to determine the VAT treatment of their activities

and

Accounting systems

Introduce and manage accounting systems capable of producing accurate VAT accounting data



Input and Output Tax

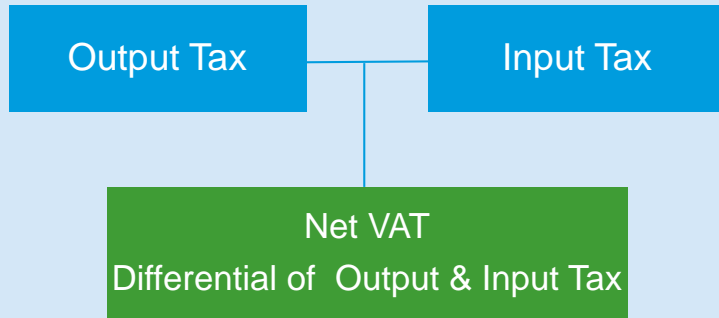
Input Tax

Tax paid by the individual subject to the tax on the goods or services supplied to him/her or that which he or she imports for business activities.

Output Tax

A tax charged or chargeable under the VAT Act by a registered dealer for the sale of goods or services in the course of business.

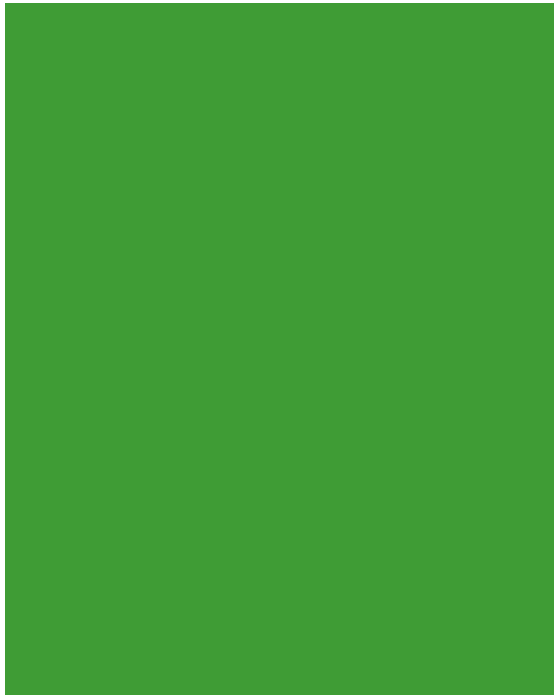
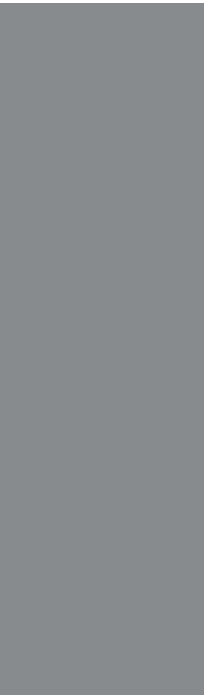
VAT Liability



Payable if Output VAT > Input VAT
Receivable if Output VAT < Input VAT

VAT is based on the value addition to the goods and the related VAT liability of the dealer is calculated by deducting input tax credit from the output tax payable.



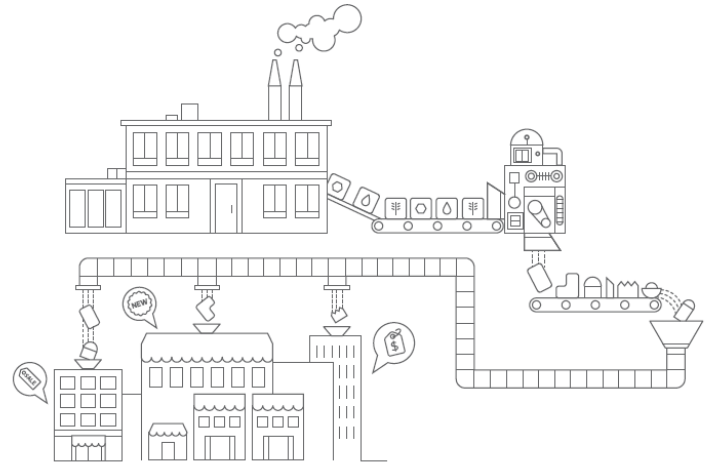


THE IMPACT OF VAT ON YOUR BUSINESS

Impact of VAT on Your Business

Functions affected by VAT

- ❖ Business processes
- ❖ IT and other related systems
- ❖ Supply chain
- ❖ Cash flows
- ❖ Human resources
- ❖ Legal contracts and existing agreements
- ❖ Marketing and pricing
- ❖ Fiscal and accounting



RSM Recommended Approach

Phase I

Impact Assessment

- ❖ Identify taxability on inputs and outputs
- ❖ Review contracts
- ❖ Review information systems
- ❖ Assess training needs

Phase II

Implementation

- ❖ Set up VAT policies and procedures
- ❖ Advise on the system and reports to be generated
- ❖ Testing of the VAT IT system
- ❖ Staff training

Phase III

Support

- ❖ Ensure VAT compliance and efficiency
- ❖ Monitor new developments
- ❖ Ensure that VAT books are well maintained for audits
- ❖ Ongoing training of staff

Contact Us

RSM Bahrain
Audit | Tax | Consulting

3rd floor, Falcon Tower,
Diplomatic Area, Bahrain
T +973 17537787
F +973 17537757
info@rsm.bh
www.rsm.bh

