

**VAT Public Clarification:** VAT/PC/20/1  
**Date:** 10 March 2020  
**Subject:** Warranty repair services

## Introduction

This clarification sets out the position of the National Bureau for Revenue on the VAT treatment to be applied on amounts claimed by a Bahraini dealer from a manufacturer for repair services undertaken on faulty goods sold by the manufacturer to a Bahraini dealer for onward supply to his customers where the repair services are covered by a manufacturer's warranty.

## General

VAT is a tax levied on supplies of goods and services which are taxable supplies for VAT purposes. The question whether a payment is consideration for a supply is factual and requires the taxpayer to consider the underlying contractual arrangements that give rise to the payment in order to determine whether the payee has provided anything in return for the payment.

## Warranty repair services

A manufacturer's warranty usually covers the reliability of the goods for a specified period while they are expected to be mechanically sound.

Where goods under warranty are faulty, repairs are often carried out by a dealer on behalf of the manufacturer as part of the after sales service to the customer. The dealer will then seek reimbursement of the cost of repairs undertaken. Such costs include labor and the cost of any spare parts used.

### *Repair services provided by the dealer to the customer during the warranty period*

As the dealer has a contractual obligation to rectify any defaults identified during the warranty period, a repair service provided by a dealer to a customer is out of the scope of VAT. Therefore, the dealer should not charge VAT to the customer on the warranty repair.

### *Reimbursement of repairs costs paid to the dealer from the manufacturer during the warranty period*

When, on behalf of a manufacturer, a dealer undertakes necessary repair services for goods which are under warranty, the dealer will subsequently request the manufacturer to reimburse him for the costs incurred in repairing the goods. NBR considers that warranty repair services are not separate supplies for VAT purposes where VAT has previously been paid on the warranty issued when the goods were sold. This applies where the cost of the warranty forms an integral component cost element of the sales price of the goods:

- a. From the manufacturer to the dealer, and thereafter
- b. From the dealer to the customer.

Based on the above, a reimbursement received by the dealer from the manufacturer relating to the costs incurred by the dealer in providing the warranty repair services is out of the scope of VAT. This applies where the dealer is reimbursed solely for the exact cost of the repairs incurred by him in providing the repair services without adding any margin. Where a margin is added by the dealer, the margin will be subject to VAT at the standard rate as the repair comprises services relating to tangible goods located in Bahrain.

Where the cost of a warranty is not included in the sales price of goods, any subsequent warranty repair services in respect of such goods will constitute a separate supply for VAT purposes on which VAT at the standard rate must be charged.

### **Third party warranty repair services**

Where a dealer or manufacturer requests a third party (who is not party to the initial supply of the goods which are subject to warranty) to carry out any repair services for goods within the warranty period, such repairs constitute a supply of services by the third party to the manufacturer or dealer. VAT at the appropriate rate should be charged by the third party conducting the repairs.

Where a third party repairs goods on behalf of a non-resident, the applicable rate of VAT will be 5%.

### **Extended warranty periods**

A customer may purchase an extended warranty for consideration when the goods are initially supplied, or at a later date (e.g. when the initial warranty period is about to expire). Typically, the dealer acquires the extended warranty from the manufacturer and supplies it to the customer. The provision of the additional warranty is a separate supply for VAT purposes with the following VAT implications:

- a. Where the manufacturer is established outside Bahrain, the dealer must self-account for VAT under the reverse charge mechanism on the consideration paid to the manufacturer for the extended warranty;
- b. Where the manufacturer is established in Bahrain, the manufacturer must account for VAT at the standard rate on the issue of the extended warranty and issue a tax invoice to the dealer;
- c. The dealer must account for VAT at the standard rate on the issue of the extended warranty to the customer and issue a tax invoice to the customer.

The VAT treatment of the reimbursement of any warranty repair services provided under an extended warranty will be the same as for services provided under a warranty provided at the time of supply of the goods (outlined above).

### **Warranty repair services for goods sold prior to VAT implementation date**

The VAT treatment of the reimbursement of any warranty repair services will be the same as the one outlined in the previous sections of this Clarification. The fact that the goods were supplied prior to the implementation of VAT does not impact the VAT treatment of the repair services.

### **Recovery of VAT incurred by dealer established in Bahrain for the provision of warranty repair services**

VAT on costs incurred by a dealer in providing warranty repair services should be fully recoverable as input VAT, subject to the usual rules being met in relation to input VAT recovery. VAT on warranty repair services supplied to a local manufacturer should also be fully recoverable as input VAT in the hands of that manufacturer, again subject to the usual rules being met.

This Public Clarification is issued in accordance with the provisions of Article 114 of the Executive Regulations of the Value Added Tax Law issued by Decree-Law No. (48) of the year 2018.