

VAT Public Clarification: VAT/PC/19/3
Date: 30 December 2019
Subject: Proportional Deduction Ratio for Input VAT

This clarification sets out the position of the National Bureau for Revenue on how financial institutions should calculate their income on margin transactions for the purposes of determining their proportional deduction ratio for input VAT under Article 59 of the Executive Regulations of the VAT Law issued by Decree-Law No. 48 of the year 2018.

The “Apportionment of input VAT on general expenses” section of the VAT General Guide sets out how to compute deductible input VAT on residual expenses where a VATable person makes both VATable and exempt supplies.

Where a financial institution uses the standard apportionment method outlined in the VAT General Guide, the value of supplies arising on margin transactions carried out by the institution should be the “absolute value” of such transactions. Where the transaction results in a profit, the absolute value is the amount of the profit. Where the transaction results in a loss, the absolute value is the loss converted into a positive amount (i.e. drop the negative sign).

Example 1

Bank A has the following margin transactions:

	Accounting Value	Value of Supplies for VAT purposes
1	BHD 250 (profit)	BHD 250
2	(BHD 175) (loss)	BHD 175
3	BHD 300 (profit)	BHD 300
Total	BHD 375 (net profit)	BHD 725

Financial institutions should use the absolute value to compute the value of their supplies on margin transactions effected from 1 January 2019 (or the effective date of their registration for VAT purposes, if later). There is no requirement for financial institutions to submit amended VAT returns for previous VAT periods. However, when computing the proportional adjustment ratio based on the actual value of supplies made for 2019 in accordance with Article 59(G) of the Regulations, the value of margin transactions included in the supplies used in the ratio should be their absolute value.

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