

VAT Public Clarification: VAT/PC/20/2

Date: 25 August 2020

Subject: VAT due date relating to loans subject to a six month payment holiday under circulars issued by the Central Bank of Bahrain

Introduction

This clarification sets out the position of the National Bureau for Revenue (NBR) on the VAT due date for loans (including amounts advanced on credit cards) subject to a six month payment holiday from March to August 2020 under circulars issued by the Central Bank of Bahrain (CBB).

Under the CBB circulars, Bahraini nationals and businesses are entitled to receive a payment holiday on interest / profit and capital arising on certain loans, including credit advanced on credit card accounts (together “Relevant Loans”). Payments on these loans will restart at the end of the six month period. Essentially, the Relevant Loans will be extended for up to six months without any additional charge being made to borrowers.

VAT due date

Under the principles set out in the VAT Law and its Executive Regulations, the VAT due date for supplies of credit is the earliest of:

1. When the consideration (e.g. interest or profit) becomes due and payable by the borrower;
2. The date a VAT invoice is issued in respect of the supply; and
3. The date of payment of the consideration (e.g. interest or profit) by the borrower.

As set out in the VAT General Guide, where none of the above three occurs within a twelve month period, a VAT due date will be triggered at the end of that twelve month period.

The NBR takes the position that, by virtue of the CBB guidelines, the terms and conditions of Relevant Loans have been changed so that no interest or profit is due and payable during the six month payment holiday. Therefore, where no VAT invoice has been issued in respect of interest or profit on a Relevant Loan during the payment holiday and a debtor has not actually paid interest or profit on such a loan, there will be no VAT due date on the Relevant Loan during the holiday period.

Generally, a VAT due date in respect of a Relevant Loan will arise when interest or profit deferred under the CBB circulars ultimately becomes due and payable by the debtor. Where, however, no VAT due date had otherwise arisen in respect of a Relevant Loan for a twelve month period ending during the holiday period, the VAT due date will be the day after the end of the holiday period, i.e. 1 September 2020.

Implications

This has the following implications:

1. Financial institutions subject to the CBB circulars should not recognize any supply in respect of Relevant Loans as taking place during the six month payment holiday except where a VAT invoice has been issued or payment has been received.
2. When computing the amount of input VAT claimable on residual expenses for a VAT period falling within the six month payment holiday, interest or profit payments deferred under the CBB circulars should be excluded from the computation (except to the extent that a VAT due date arises after the end of the payment holiday and within the relevant VAT period).

Financial institutions who have recognized a supply in respect of Relevant Loans as having occurred during the holiday period should, where relevant, amend VAT returns submitted to the NBR.

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