

31 July 2019

VAT Public Clarification

Services provided by travel agents

Introduction

Under Article 68(C) of the VAT Executive Regulations, the supply of goods and services directly or indirectly associated with the supply of international transportation of passengers and goods is zero-rated for VAT purposes.

Charges for ticketing services for international travel

With effect from 1 August 2019, where a travel agent provides ticketing services that are directly related to the international transportation of passengers, any commission charges, service charges or administration fees charged by the travel agent, whether to the airline, shipping company etc or to the person travelling will be zero-rated for VAT purposes if the place of supply of the ticketing services is Bahrain.

Where the travel agent buys and sells international transport services (either as a principal or as an undisclosed agent), the entire supply (including any profit realized by the travel agent) will either be zero-rated or out of scope of VAT, depending on the place of supply rules. Hence, no VAT will arise on any profit realized by the travel agent on the buy/sell arrangement.

Where a travel agent acts as a disclosed agent for a passenger and books an international transportation service for that passenger, the cost of the ticket (as charged by the airline), when passed on to the travel agent's customer, will be a disbursement for VAT purposes. As such, it will be out of the scope of Bahrain VAT.

Invoicing and VAT return

By way of concession, when a travel agent passes on the cost of the ticket charged by the airline to its customer plus a booking commission, service charge and/or administration fee, the travel agent may show the total amount payable by the customer (i.e. the cost of the ticket plus fees charged by the travel agent) as one charge on the VAT invoice. There is no requirement to identify or separately show the travel agent's fees on the VAT invoice. The VAT invoice must, however, clearly state that the amount being charged includes a zero-rated supply. Where the VAT invoice includes supplies subject to VAT at the standard 5% rate, the VAT invoice must specify which line items include supplies subject to the zero-rate.

Where a travel agent avails of this concession, the supplies subject to zero-rate VAT reported on its VAT return should only be the amount of its fees/commission relating to international transportation services. The amount of the disbursement (i.e. the cost of the ticket passed on to the travel agent's customer) should not be reported anywhere on the VAT return.

Where the recipient of the service is a person registered for VAT in Bahrain, the total amount charged by the travel agent (including the disbursement) should be included in the section of its VAT return dealing with purchases from non-registered VAT payers, zero-rated/exempt purchases.

This treatment for invoicing and recording the transaction in the VAT returns of the supplier and customer applies only to fees, commission etc charged in relation to international transportation services where the travel agent acts as a disclosed agent.

Other supplies

The normal VAT rules will apply for all other supplies made by a travel agent, including fees, commission etc charged by travel agents on a supply of domestic transportation. Such supplies must be itemized on the VAT invoice and the amount of applicable VAT identified.

Example

TravelCo arranges an airline ticket for Mohammed from Bahrain to London. TravelCo is acting as a disclosed agent. The cost of the ticket is BHD 300 and TravelCo charges Mohammed a fee of BHD 10 for booking the flight.

When TravelCo issues a VAT invoice to Mohammed, it may show one supply of international transportation for a total cost of BHD 310 on one line with a statement saying that all supplies subject to VAT are at the zero-rate.

On TravelCo's VAT return, it must show BHD 10 as a zero-rated. The disbursement to the airline company should not be reported in its return.

Further guidance

Further guidance on VAT in the Transportation sector will be issued by the NBR in due course.

This Public Clarification issued by the NBR is intended to clarify the above matter related to the implementation of the Decree-Law No. 48 for the year 2018 Regarding Value Added Tax and its Executive Regulations.

This Public Clarification states the position of the NBR. It does not serve as an amendment to any provision of the aforementioned legislation.