

**KINGDOM OF BAHRAIN**

**VAT TRANSPORTATION GUIDE**

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**VERSION 1.0**



الجهاز الوطني للإيرادات

National Bureau for Revenue

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# 1. Introduction

## 1.1. Purpose of this Guide

This document sets out the general principles of Value Added Tax (VAT) in the Kingdom of Bahrain (Bahrain). The main aim of this document is to provide the reader with:

- An overview of the VAT rules and procedures in Bahrain and, if required, how to comply with them
- The necessary background and guidance to help you to determine how a supply is treated for VAT purposes

This Guide is intended to provide general information only, and contains the current views of the National Bureau for Revenue (NBR) on its subject matter. No responsibility is assumed for the VAT laws, rules or regulations in the Kingdom of Bahrain. This Guide is not a legally binding document, and does not commit the National Bureau for Revenue or any taxpayer in respect of any transaction. This document should be used as a guideline only and is not a substitute for obtaining competent legal advice from a qualified professional.

Furthermore, this guide should be read together with the VAT General Guide issued by the NBR and which is available on the NBR's website, [www.nbr.gov.bh](http://www.nbr.gov.bh).

## 1.2. About the National Bureau for Revenue (NBR)

The National Bureau for Revenue (NBR) is the government body responsible for the implementation and administration of VAT in Bahrain. The NBR is responsible for the registration of taxpayers and their tax liability, the validation of VAT return filing and the related assessment, the payment of refunds and collection of any amount due, the auditing and processing of any appeal and the monitoring and enforcement of compliance.

## 1.3. Bahrain legal framework for VAT

VAT in Bahrain is codified under the following texts:

- The Unified Agreement for Value Added Tax of the Cooperation Council for the Arab States of the Gulf (the Framework) contains the VAT general principles and rules agreed at GCC level. The Framework was ratified in Bahrain by Decree-Law No. (47) for the year 2018
- Decree-Law No. (48) for the year 2018 regarding Value Added Tax (the VAT Law) provides the main rules and principles relating to VAT in Bahrain
- Resolution No. (12) for the year 2018 on the issuance of the Executive Regulations of the Value Added Tax Law issued under Decree-Law No. (48) for the year 2018 (the Executive Regulations) provide further details on the application of the VAT Law

The NBR may publish documents to provide guidance and/or clarify specific points relating to VAT rules. This may include guides like this one as well as public clarifications and interpretations of the VAT Law and the Executive Regulations.

## 2. Value Added Tax (“VAT”)

Bahrain introduced VAT on 1 January 2019. The standard rate is 5%. Certain goods and services are subject to a zero-rate (0%) of VAT and others will be exempt from VAT.

### 2.1. What is VAT?

VAT is an indirect tax on consumer spending. It is collected on supplies of goods and services as well as on imports of goods and services into Bahrain.

Generally, VAT applies at 5% if a supply of goods and services is made:

- By a taxable person;
- In Bahrain; and
- The supply is not specifically exempted from VAT or subject to the zero-rate.

As a tax on consumption, VAT is paid and collected at every stage of the supply chain, with end consumers of goods and services bearing the cost.

For general information on VAT, please refer to the VAT General Guide issued by the NBR which can be found on the NBR’s website, [www.nbr.gov.bh](http://www.nbr.gov.bh).

### 2.2. How does VAT work?

#### 2.2.1. Overview of the VAT flow

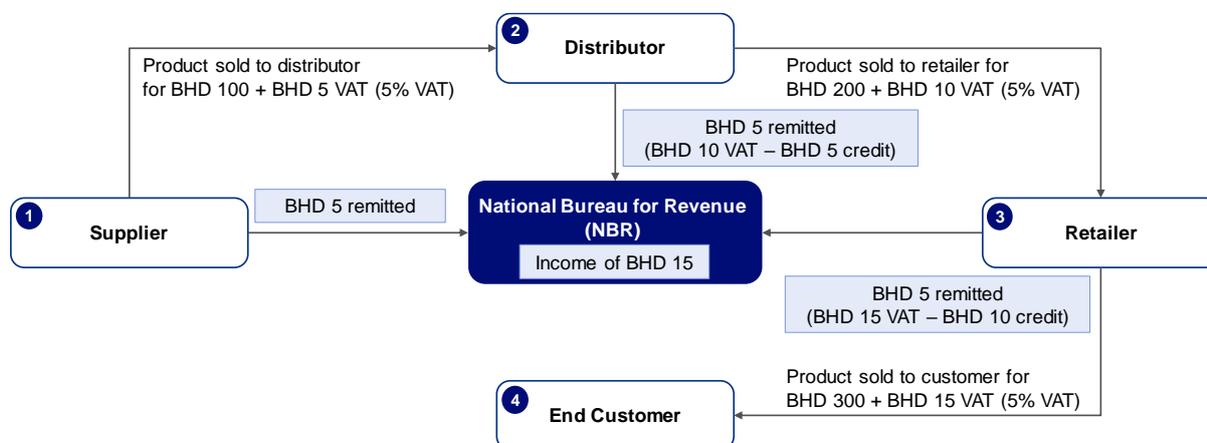
If, as a VAT registered person, you make taxable supplies (i.e. supplies of goods or services subject to VAT), you must charge VAT on your supplies, and pay it to the NBR. This is your “output tax”.

The VAT charged by your suppliers on your business expenses and the VAT you pay on your imports of goods and services is your “input tax”.

As a VAT registered person, you can reclaim from the NBR the input tax incurred on your purchases and imports to the extent that these expenses and imports are used to make taxable supplies. You cannot reclaim the VAT incurred on expenses used for a non-business activity or for making exempt supplies (i.e. supplies of goods or services that are not subject to VAT due to a specific VAT exemption).

On a regular basis, you will file a tax return to the NBR and pay the excess of your output tax over your input tax. If your input tax exceeds your output tax, you can ask for a refund of this difference from the NBR or you can carry it forward as a credit to use against future VAT liabilities. See section 12.2 of the VAT General Guide for more information on how often a VAT registered business must submit a tax return and pay any associated VAT.

**Figure 1: VAT collection across the supply chain**



## 2.3. VAT treatment in Bahrain

A supply of goods or services taking place in Bahrain for VAT purposes can be subject to VAT at the standard rate of 5% or at the rate of 0% unless it falls within the scope of a VAT exemption.

This section provides an overview of the VAT treatment applicable to supplies of goods and services as well as imports of goods happening in Bahrain. If you are a taxable person, it will help you identify the correct VAT treatment applicable to your transactions in Bahrain.

**Table 1: Summary of VAT rates and policies**

Treatment	Overview	Output Tax	Input Tax
Standard rate	5% VAT applied on goods and services	5%	Deductible
Zero-rate	Supplies are taxable, but the VAT rate charged is 0%	0%	Deductible
Exempt	Supplies on which no Tax is charged and for which associated Input Tax is not deducted	N.A.	Not deductible

### 2.3.1. Supplies at the standard rate of 5%

Supplies of goods and services by a taxable person in Bahrain are generally subject to VAT in Bahrain at the standard-rate of 5%, unless they are specifically subject to VAT at the zero-rate or exempt from VAT.

Where a supply of goods or services meets the criteria for zero-rating or exemption of VAT under the VAT Law and its Executive Regulations, this will prevail over the standard-rate of 5%.

The conditions to apply VAT at the rate of 0% or to apply a VAT exemption must be interpreted strictly. Where these conditions are not met, the transaction will be subject to VAT at the standard rate of 5%.

### 2.3.2. Supplies at the rate of 0%

Zero-rated supplies are those which are taxable at the rate of 0%. This means that no VAT is actually charged on the supply, but the supplier can still claim the input tax charged on expenses incurred in making the supply.

Certain conditions must be met for the zero-rate to apply. If these conditions are not met, the supplies will, in principle, be subject to VAT at the standard-rate of 5%, unless a VAT exemption applies.

### 2.3.3. Exempt supplies

Goods and services which are exempt from VAT are usually referred to as non-taxable supplies or VAT exempt supplies. A supplier is not required to charge VAT on these supplies and, as a result, is not entitled to recover the input tax charged on his expenses used in making these exempt supplies.

### 3. Definition of Implementing States

The concept of an “Implementing State” is critical when looking at transactions in the transportation sector for VAT purposes, which are the transactions this Guide considers.

The status of “Implementing State” is given by the VAT legislation to a GCC Member State that has implemented a national VAT legislation compliant with the Framework and that recognizes Bahrain as an Implementing State.

#### Transitional provisions

Bahrain does not currently recognize any other GCC Member States as Implementing States for the purpose of VAT. Until further notice, any transaction involving another GCC Member State is treated, for VAT purposes, as a transaction involving a non-Implementing State.

As a result, any supplies of goods or services from/to a GCC Member State are currently considered as made from/to a non-Implementing State. Also, residents of the GCC Member States are currently subject to the same rules as residents of non-Implementing States.

Intra-GCC supplies of goods (i.e., supplies between Implementing States) will be treated as exports/imports of goods until the Electronic Service System is in place and applied in all Implementing States. It is only then that the specific VAT rules applicable to Intra-GCC supplies of goods will become applicable. The Electronic Service System is the system to be implemented by the GCC member states enabling them to capture the details of all the cross-border transactions happening within the territory of the GCC.

## 4. International transport and certain associated services

### 4.1. Overview

The VAT Law and Executive Regulations set out the VAT treatment of international transportation and certain associated goods and services. In summary, the following are zero-rated:

- The supply of an international transportation service of goods and/or passengers by way of a means of transport
- Certain services that are directly or indirectly associated with a supply of an international transportation service of goods and/or passengers
- The supply of a means of transport and maintaining, repairing and converting a means of transport

A “means of transport” is a defined term for VAT purposes. A means of transport which meets this definition is called a “qualifying means of transport” for the purposes of this Guide. Please see section 5 of this Guide for further details on what is a qualifying means of transport.

### 4.2. Definition of international transportation services

International transportation is the supply of transportation services of passengers and/or goods using a qualifying means of transport which involves one of the following:<sup>1</sup>

- Transport of passengers or goods from Bahrain to a final destination outside Bahrain
- Transport of passengers or goods from outside Bahrain to Bahrain as the final destination
- Transport of passengers or goods carried out in Bahrain where it is part of an international transport of goods or passengers

#### **Example**

*Mohamed purchased an airline ticket from Bahrain to Brazil. The airplane meets the conditions to be a qualifying means of transport. Therefore, the purchase of the airline ticket is taxable at the zero-rate as the supply is one of international transportation.*

Hiring or chartering a plane, vessel or other vehicle is not generally regarded as a transportation service of passengers and goods, unless the agreement effectively operates as a transportation service for passengers and goods. This would need to be determined on a case-by-case basis and will depend on all relevant factors including the terms of the agreement entered into by the parties. See section 5.3.15.5.1 which deals with the VAT treatment of the supply by way of sale, lease or rental of a vehicle, ship or aircraft which may

<sup>1</sup> Article 68(A) of the Executive Regulations

apply to hiring or chartering. See also section 8.1 which deals with the VAT treatment of chartering vessels generally.

### 4.3. Place of supply of international transportation services

The place of supply for international transportation services is where the transportation begins.<sup>2</sup> Where a transportation service has multiple legs or parts (e.g. a bus from Riffa to Bahrain airport followed by an international flight to Dubai, all under one ticket), the transport will be considered as beginning where the first leg starts, i.e. in Riffa. The table below summarizes the position.

**Table 2: Place of supply of international transportation services**

<i>Transport begins</i>	<i>Transport ends</i>	<i>Place of supply</i>
Bahrain	Outside Bahrain	Bahrain
Outside Bahrain	Bahrain	Outside Bahrain
Outside Bahrain	Outside Bahrain	Outside Bahrain

### 4.4. VAT treatment for international transportation services

#### 4.4.1. Rate of VAT

International transportation services of passengers and/or goods are taxable at the zero-rate where the place of supply of such services is Bahrain provided the services are supplied using a qualifying means of transport. Such services will be outside the scope of Bahrain VAT where their place of supply is outside Bahrain. See section 4.3 above for how to determine the place of supply of these services.

International transportation services that are provided other than by way of a qualifying means of transport will be taxable at the standard rate if they are supplied by a taxable person and their place of supply is in Bahrain, unless the service is provided as part of a larger composite supply of international transport services where at least one leg is carried out using a qualifying means of transport.

See section 5.2 of this Guide for what constitutes a qualifying means of transport for VAT purposes.

<sup>2</sup> Article 17(5) of the Law

## 4.4.2. Multi-leg transport services

International transport services of goods and passengers which depart from Bahrain may require multiple types of supplies of transport to complete the service (i.e. collecting goods or passengers from a location in Bahrain, transporting these to a port or airport and transporting them to a destination outside Bahrain using a ship or aircraft). In order to determine the VAT treatment of such services, a supplier must look at the supply on a case-by-case basis to assess the type of service being provided.

Generally, where an international transport service of goods or passengers is carried out entirely by the one supplier, the different components of the supply would be seen as one single supply considered as part of the international transport and thus subject to VAT at the zero-rate. This will be the case, even where one or more components of the supply take place in Bahrain. In order for the zero-rate to apply, one of the legs must comprise the international transport of the goods or passengers using a qualifying means of transport. The local legs of a composite supply for an international transport service do not need to be carried out using a qualifying means of transport in order for the zero-rate to apply to that composite supply.

### Example 1

*Dima books a journey from Bahrain to Ireland from one supplier which issues one ticket to Dima. There are three separate legs to the journey:*

- *A bus journey from Dima's home in Riffa to the airport,*
- *A plane journey from Bahrain to England on a qualifying means of transport, and*
- *A plane journey from England to Ireland.*

*All three segments are carried out by different providers. Dima has a separate coupon or confirmation for each segment of the journey. While the bus ticket relates to the transport of passengers in Bahrain, it is part of an international transport service (the journey from Bahrain to Ireland) because it is carried out in Bahrain, but is part of an international transport service which begins in Bahrain and ends in a final destination outside Bahrain and one of the legs is carried out using a qualifying means of transport.*

*In this case, the entire cost of the ticket (comprising the three separate legs) will be zero-rated.*

*If Dima had separately booked each leg with different providers, the bus journey in Bahrain would be a domestic supply and not part of an international transportation service. The zero-rating for domestic transport may apply for the bus fare (see section 6.3), if the relevant conditions are met.*

### Example 2

*Orange, a local courier company registered in Bahrain, arranges the collection, transportation and shipment of machinery from Bahrain to international locations using a qualifying means of transport. Orange is hired by a company based in Bahrain for the transportation of its machinery from a place in Bahrain to a place in Spain. When the machinery is ready for collection, Orange organizes the collection of the machine, customs and export formalities and the transportation of the machine to Spain. Orange is seen to be providing an international transportation service of the machines to its customer. The place of supply of this service is in Bahrain (i.e. country where the transport service starts) and Orange should charge VAT at the zero-rate.*

### 4.4.3. Subcontracted transportation services

If the supplier subcontracts some or all components of the transportation service to a third party, the supply from each subcontractor to the main supplier needs to be assessed on a standalone basis in order to determine the applicable VAT treatment. If the subcontracted supply meets the criteria to be treated as international transportation of passengers or goods, the zero-rating will apply. Where it is seen as a separate supply that is neither an international transport service of passengers or goods nor a supply associated with international transportation services, it will not be zero-rated under the provisions applicable to international transport of passengers or goods. However it may be subject to VAT at the zero-rate under another specific provision of the VAT Law and Executive Regulations (e.g. local transportation services).

### Example

*A law firm in Germany arranges for an international courier to pick up paperwork from a client in Bahrain. In order to expedite delivery, the international courier subcontracts a local courier to pick up the paperwork and deliver it to the airport. While the service provided by the international courier to the law firm will be international transport subject to the zero-rate of VAT, the service provided by the local courier to the international courier is not an international transport service as it begins and ends in Bahrain. The local courier company will need to consider whether it can qualify for the zero-rate on local transportation services.*

## 4.5. Supplies directly or indirectly associated with a supply of international transportation of passengers and goods

### 4.5.1. Introduction

The zero-rate of VAT applies on supplies of services or goods which are directly or indirectly associated with a supply of international transportation of passengers or goods.<sup>3</sup> The services or goods can be provided by the supplier of the transportation service such as an airline, shipping company, haulier (directly associated with the international transport service), or by

<sup>3</sup> Article 68 (C) of the Executive Regulations

a third party (indirectly associated with the international transport service), whether that third party is:

- A subcontractor (or sub-subcontractor etc) of the supplier of the transportation service; or
- Hired directly by the person receiving the transportation service.

## 4.5.2. Place of supply

### Services

Where the supply is made by the person providing the international transport service, the place of supply of services which are directly or indirectly associated with a supply of international transportation of passengers or goods will be the same as the place of supply for the international transport service. See section 4.3 for how to determine the place of supply of an international transport service.

Where the supply is made by a person other than the person supplying the international transport service, the place of supply of the services will be determined using the place of supply rule in Article 16 of the VAT Law. Please refer to the “Place of supply” section of the VAT General Guide for further information.

### Goods

The place of supply of goods directly or indirectly associated with a supply of international transportation of passengers should be determined in accordance with the rules in Chapter 5 of the VAT Law. Please refer to the “Place of supply rules for supplies of goods” section of the VAT General Guide for further information.

## 4.5.3. Supplies which will qualify for the zero-rate

Article 68(C) of the Executive Regulations sets out a non-exhaustive list of supplies that are directly or indirectly associated with a supply of international transportation of passengers and goods. These are discussed in further detail below. Some of the categories have been expanded to clarify that the zero-rate applies to certain services provided in relation to goods that have been imported as well as those to be exported.

In the following paragraphs in this subsection, references to a “qualifying means of transport” should be interpreted in line with the explanation at section 5.3.2 of this Guide (i.e. the main purpose of a vehicle, ship or aircraft will automatically be deemed to carry out international transport in any case where the specific journey is treated as international transport).

## Supplies of goods and services for use or consumption on board a qualifying means of transport

These supplies must be provided on board a qualifying means of transport as part of the provision of a supply of international transportation.

Examples of supplies falling in this category include food and beverages, seat allocations, priority boarding, luggage check-in, additional or overweight luggage charges, seat upgrades, provision of internet on board and entertainment, where a separate charge to that for the supply of the transportation service is made for these supplies.

### Example

*An airline company sells meals to passengers on short-haul international flights from Bahrain. All the airline company's aircraft are qualifying means of transport for VAT purposes. The catering service is a supply directly associated with international transportation and is subject to VAT at the zero-rate.*

The provision of meals by a third-party caterer to an airline or ship providing international transport services for consumption on board is a supply of goods. On the basis that these will be consumed on board, this supply will be zero-rated.

### Example

*ABC Catering prepares meals in Bahrain and sells these to airlines operating from Bahrain International Airport solely on international routes. The meals are specifically designed and packaged for consumption by passengers and crew on board. The supply of the meals by ABC Catering to the airlines will be zero-rated.*

If supplies of goods and services are provided for no extra charge on board a qualifying means of transport during an international transportation service, they will not be considered as deemed supplies (see section 4.4 of the VAT General Guide) as they are provided together with the international transportation service (i.e. sold together with the ticket) and thus part of a single composite supply.

### Example

*A Bahraini airline company provides different tickets to its customers for travel from Bahrain to abroad:*

- 1. An economy ticket for a total of BHD 50 where the passenger is assigned a seat. On-board food and beverages are not included. The cost of the ticket is zero-rated. Any food and beverages purchased on board will qualify for zero-rating as this is a supply directly associated with an international transport service.*
- 2. An economy plus ticket for a total of BHD 50 plus a BHD 10 additional charge for the passenger to select his/her preferred seat. On-board food or beverages are not included. The cost of the ticket is zero-rated. The BHD 10 additional seat selection charge is also zero-rated as this is a supply directly associated with an international transport service. Similarly to 1, any food and beverages purchased on board will qualify for zero-rating.*
- 3. A business ticket for a total of BHD 100 where the passenger is able to select his preferred seat and is offered food, beverages and entertainment on board for no extra charge. The cost of the ticket is zero-rated. The additional services are provided as part of a single composite supply. Therefore, their provision does not impact the VAT rate applying to the price of the ticket, nor does it result in a deemed supply for the airline.*

Certain goods may also be sold during a supply of international transport departing from Bahrain which are not to be used or consumed on the plane but to be used or consumed later (i.e. duty-free items such as jewelry or perfume). Such supplies will be considered as zero-rated exports of goods in Bahrain if the goods are sold while the qualifying means of transport leaving Bahrain is still within the territory of Bahrain. If the goods are sold over international waters or over a territory other than the territory of Bahrain, the supply will be considered as outside the scope of Bahrain VAT as the place where the goods were placed at the disposal of the customer is outside of Bahrain.

The supply of goods on board a qualifying means of transport arriving in Bahrain will not be subject to VAT. However, the goods may be subject to import VAT at the standard rate upon their entry into Bahrain, unless they are specifically exempt from VAT at import.

### Example

*A flight departs from Bahrain to Sri Lanka. After the plane crosses into international waters, passengers may buy items such as perfumes and jewelry on board. As the items are placed at the disposal of the customer over international waters and not within Bahrain, the supplies are therefore considered as outside the scope of VAT.*

## Supplies relating to loading and unloading

Such supplies include:

- a. Loading goods on a qualifying means of transport where the goods are leaving Bahrain
- b. Unloading goods arriving in Bahrain from a qualifying means of transport

- c. Unloading goods which have arrived at a port or airport in Bahrain which are intended to be processed in preparation for their export, e.g. unloading pallets of goods from a truck which has arrived at Bahrain International Airport, where these goods will be subsequently exported (whether the goods will be exported in their current form, packaged or placed in shipping containers).
- d. Packaging goods intended for export. This includes the goods supplied as part of the packing service (e.g. bubble wrap, plastic wrapping, boxes, containers, pallets) provided these are necessary to transport the goods safely and without damage.
- e. Weighing and/or measuring goods intended for export, already imported or intended to be imported, to the extent necessary for the export or import process, e.g. to validate the amount of goods being received at the airport, port etc, to enable necessary customs and export forms to be completed, to inform the transporter (e.g. airline, shipping company) of the weight and/or dimensions of the goods to enable them to determine capacity, fuel requirements etc.
- f. Monitoring goods intended for export, which have been imported or are intended to be imported. The zero-rate will also apply to monitoring services provided in relation to goods in transit through Bahrain which will not actually be imported. The monitoring services may be carried out using human or technological means.
- g. Expert services relating to the above services of loading, unloading and packing. Such services must relate to specific shipments of goods and relate to the provision of specific advice on how such goods should be treated during transport. Examples include expert advice on how explosives or volatile chemicals should be packaged or stored in preparation for or during international transport.
- h. Services provided by clearing agents to clear goods through customs as part of the import or export process or to arrange customs suspension for goods entering or leaving the country.

The above services (with the exception of g and h) must be carried out at a port, airport or similar facility which receives goods:

- As preparation for their departure from the country;
- On entry into the country; or
- During the transit of the goods through the country, where they are not imported.

The supplier of these services must also be authorized to carry them out at the port, airport or similar facility.

### Example

*A company resident and registered for VAT in Bahrain intends to export pipes to Sudan using a ship that is a qualifying means of transport. To aid with export, the pipe company hires a specialized company, resident and registered for VAT in Bahrain, that will provide the following services:*

- *Packaging the pipes into containers*
- *Weighing and monitoring of the pipes intended for export*
- *Loading the pipes onto a vessel*

*All of the above supplies are services associated with a zero-rated international transportation of goods and should be subject to VAT at the zero-rate provided that they are carried out at a port.*

### Rental of containers and equipment for the protection of goods intended for export

This includes the rental of standard shipping containers and specialized containers (e.g. those providing refrigeration or protection for fragile goods, containers designed to transport liquids, chemicals, etc).

### Example

*Yacob intends to export paintings from Bahrain to Brussels using the services of an international freight provider which will transport the paintings on a qualifying means of transport. To protect and preserve the paintings during transportation, Yacob rents a special shipping container from a third party resident and registered for VAT in Bahrain. The rental of the shipping container is seen as a service associated with a zero-rated international transportation service and is therefore taxable at the zero-rate.*

### Rental of machinery and equipment that is used to transport goods

The rental of machinery or equipment used to transport goods intended for export, that have been imported or are intended to be imported, shall be zero-rated. This is provided the machinery or equipment is used to provide the service within a port, airport or similar facility which receives goods as preparation for their departure from or arrival into the country. This includes the rental of forklifts, dollies and other ground support equipment. This does not include the rental of machinery or equipment used for transportation services of goods from places in Bahrain to a port, airport or similar facility in Bahrain or vice versa.

### Example

*An airport operating in Bahrain provides baggage services to planes whereby baggage is transported between the airport terminal building and the plane. The airport rents large dollies from a Bahraini company that is registered for VAT in Bahrain to provide the baggage services. Since the equipment is being used to transport goods intended for export or which have arrived in Bahrain, the rental of the dollies will qualify for VAT at the zero-rate.*

### Security and storage of goods

The supply of storage services for goods intended for export, which have been imported or which are intended to be imported and are pending collection for export or for delivery to the end customer shall be taxable at the zero-rate. This also includes any security (whether by

human or technological means) provided in relation to the goods. Such services must be carried out within a port, airport or other similar facility and the supplier must be duly authorized to provide the services at the relevant facility.

If the provision of storage involves the rental of a designated space on an exclusive basis to a customer to store goods, where the customer has the right to access the space, this will be an exempt supply of real estate, rather than a zero-rated supply of storage services.

#### **Example**

*Dana wishes to export furniture to England. Prior to its export, the furniture is stored in one of the airport's storage facilities. The storage of the furniture is a supply of service associated with international transportation taxable at the zero-rate.*

### **Packaging of goods that are intended for export**

This includes the goods supplied as part of the packing service (e.g. bubble wrap, plastic wrapping, boxes, containers, pallets) provided these are necessary for the purposes of transporting the goods. Such services must be carried out within or adjacent to a port, airport or other similar facility.

#### **Example**

*A perfume manufacturer resident in Bahrain wishes to export perfume to the Netherlands. Since the perfume bottles are fragile, the perfume manufacturer hires a third party to carefully package them at the port from which they will be exported. The third party provides goods such as bubble wrap and boxes while supplying packaging services.*

*The supply of packaging services, including the goods used to package the goods, is taxable at the zero-rate.*

### **Visa transactions and related services**

The only supplies to which this category applies are those supplied by a government or government agency. However, the issue of Bahraini visas is a sovereign activity of the government of Bahrain and any fees charged by the Nationality, Passport and Residence Affairs for issuing Bahraini visas will be outside the scope of VAT. Further, the issue of visas by a foreign government would not be seen as an economic activity and Bahrain VAT would not be expected to apply on any fees charged for such visas.

Based on the above, no visa transactions and related services are expected to be zero-rated as they are not within the scope of VAT.

Visa related services provided by taxable persons in Bahrain are subject to VAT at the standard rate.

To the extent that a visa agent passes on visa charges made by the Bahrain immigration authorities or a foreign embassy/country, such charges will be disbursements and out of the scope of VAT when recovered from the customer by the visa agent. See the "Disbursements

and Reimbursements” section of the VAT General Guide for further guidance on disbursements.

### Insurance transactions for cargo and passengers

The provision of insurance services for cargo and/or passengers is subject to VAT at the zero-rate when the cargo or passengers are transported as part of an international transport service.

The scope of the zero-rating is limited to the insurance relating to the actual transport of the passengers and/or goods such as insurance covering delayed departure, cancellation of transport, damage to goods or injury to passengers during the transportation service. Other insurance services not directly related to the transport of the passengers and/or goods such as those covering health and injury when abroad, cancellation of accommodation, repatriation of mortal remains etc will not qualify for the zero-rate.

It may be that additional fees are charged to the policyholders as part of the insurance services, for example an administration fee. Such fees, whether charged separately to the participants or netted against their premium, are subject to VAT at the standard rate of 5% when supplied in Bahrain (unless they meet the conditions to be regarded as an export of services and are subject to VAT at the zero-rate).

Where an insurance policy covers passenger or cargo transportation insurance qualifying for the zero-rate and other insurance not so qualifying, the premium should be allocated between the amount payable for each component and the appropriate VAT rate applied. If this is not possible or the insurer chooses not to carry out such apportionment, the entire premium should be subject to VAT at the standard rate.

#### Example

*A ship arrives to Mina Salman from outside Bahrain. The crew members are given two days' holiday. They hire a Bahraini visa agent who is registered for VAT to obtain entry visas to Bahrain. The supply of the visa itself is outside the scope of VAT, but the commission charged by the professional service provider will be standard rated. If the visa agent pays the visa cost to the Bahraini government and passes on this charge, this will be a disbursement and the visa agent should not charge VAT on the visa cost charged by the Bahrain authorities when passing it on to the crew members.*

#### Example

*Nasser contracts with a local Bahraini company to ship his new car to Egypt. Nasser purchases insurance covering the transportation of his car (i.e. damage during transport, delays etc). The insurance provider should account for VAT at the zero-rate as the insurance is a service that is associated with international transportation.*

## Other services

### *Ground handling services and services provided in relation to vessels*

Examples of other services that are taxable at the zero-rate when they are associated with a supply of international transportation of goods or passengers include:

- For aircraft: ground handling services including parking, provision of jet bridges, marshalling, push-back services, provision of power units while on the ground, aircraft cleaning, water and lavatory services, passenger and crew transport between the aircraft and passenger terminals, load control (including weight and balance calculations), communication and coordination between aircraft and ground services.
- For vessels: pilot services, towing, mooring, cleaning and provision of services similar to those listed above for aircraft.

### *Wheelchair services provided at the airport, port or similar facility*

Wheelchair services provided to passengers at a port, airport or similar facility to travelers is a supply associated with international transport and will be taxable at the zero-rate.

### *Lounge access, “meet and greet” services and luggage porter services*

Where a separate charge is made for the following services, the standard rate will apply:

- Lounge access in Bahrain
- Meet and greet services in Bahrain
- Luggage porter services in Bahrain

If one or more of the above services is included in the cost of international transportation (e.g. an airplane ticket) without a separate charge being made or shown by the supplier, the supply will be a single composite supply and the VAT treatment will follow that of the main supply.

### *Car parking charges*

The provision of parking services for cars and other vehicles at an airport or port is not seen as a supply of services directly or indirectly associated with a supply of international transportation. Therefore, the VAT treatment for car parking services will be standard rated unless the parking is provided for more than one month as described in the “Supplies not considered as sale or rental of real estate” section of the VAT Real Estate Guide.

#### **Example**

*A hospitality company offers wheelchair and meet and greet services at the airport to travelers arriving from outside Bahrain. The supply of wheelchair services in the airport is seen as a supply associated with international transportation and will be taxable at the zero-rate while the meet and greet services will be taxable at the standard rate.*

## 4.6. Other matters relevant to international transportation

### 4.6.1. Services provided by travel agents

#### Ticketing services

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.

The general place of supply rules as set out in the “Place of supply rules for supplies of goods” section of the VAT General Guide will apply to ticketing services where remunerated by a commission, service charge or administration fee when provided by travel agents.

Where the travel agent buys and sells international transport services (either as a principal or as an undisclosed agent), the place of supply for the entire supply (including any profit realized by the travel agent) will be where the transport starts. Hence, if the transport starts in Bahrain, the place of supply will be Bahrain and the supply will be zero-rated. If the transport starts outside Bahrain, the place of supply will be outside Bahrain and the supply will be out of the scope of VAT. 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.

#### Tax invoices

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 tax invoice. There is no requirement to identify or separately show the travel agent’s fees on the VAT invoice. The tax invoice must, however, clearly state that the amount being charged includes a zero-rated supply. Where the tax invoice includes supplies subject to VAT at the standard 5% rate, the tax 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 tax 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 tax 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 tax return dealing with purchases from non-registered taxpayers/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.

#### **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.*

#### **4.6.2. VAT treatment of bundle travel packages**

A bundle travel package or tour may include, for example, flights, accommodation, local transportation and other similar services. In such cases, the supplies will need to be considered separately from a VAT perspective and VAT should be accounted for, where relevant.

- a. For any travel packages or tours that relate to travel within Bahrain, supplies such as hotel accommodation will be taxable at the standard rate.
- b. For any travel packages or tours that relate to travel outside of Bahrain, supplies such as accommodation and local transportation will be outside the scope of Bahrain VAT.
- c. The commission charged by the travel agency for arranging the travel package should be split into two components: that relating to ticketing services for international transportation and that relating to all other parts of the package. The commission for the ticketing services for international transportation will be zero-rated if the place of supply is Bahrain (see 4.6.1 above) and the commission for all other supplies will be taxable at the standard rate when the place of supply of the travel arrangement services is in Bahrain.

**Example 1**

*Ali engages a travel agent to book airline tickets to Turkey on a qualifying means of transport, organize a pick-up service from the airport to the hotel in Istanbul. The agent charges a fee of BHD 20, 75% of which relates to ticketing services for the flight and 25% of which relates to the other services. The following are the Bahrain VAT implications:*

- *The airline tickets are zero-rated as they relate to an international transport service on a qualifying means of transport;*
- *75% of the BHD 20 fee (i.e. BHD 15) is subject to VAT at the zero-rate as it relates to international transportation and the remaining 25% (i.e. BHD 5) is subject to VAT at the standard 5% rate.*
- *The fee charged for the pick-up from the airport and drop off to the hotel in Istanbul is outside the scope of Bahrain VAT.*

**Example 2**

A travel agency based in Bahrain launches a bundled travel package for a European trip. The bundled travel package, known as the Golden Travel Package, includes several supplies such as flights, accommodation, tours and more. To ensure that the travel agent is compliant with VAT, he must separate the supplies and charge VAT on the appropriate line items only:

<i>Golden travel package</i>			
<i>Description</i>	<i>Price</i>	<i>Bahrain VAT rate</i>	<i>Price including VAT</i>
<i>Hotel accommodation in destination (outside Bahrain)</i>	<i>BHD 800 (inclusive of charges and foreign VAT)</i>	<i>Out of scope</i>	<i>BHD 800</i>
<i>Tour guide (outside Bahrain)</i>	<i>BHD 160 (inclusive of charges and foreign VAT)</i>	<i>Out of scope</i>	<i>BHD 160</i>
<i>Visa costs (issue costs)</i>	<i>BHD 60</i>	<i>Out of scope</i>	<i>BHD 60</i>
<i>Flights (international)</i>	<i>BHD 230</i>	<i>Zero-rated (0%)</i>	<i>BHD 230</i>
<i>Travel agency commission for arranging the flight</i>	<i>BHD 50</i>	<i>Zero rated (0%)</i>	<i>BHD 50</i>
<i>Travel agency commission for arranging all other components of the package</i>	<i>BHD 75</i>	<i>Standard rated (5%)</i>	<i>BHD 3.75</i>

#### **4.7. Tax invoices for e-tickets, Electronic Miscellaneous Documents and airway bills**

As a simplification measure, the NBR will accept that industry standard e-tickets, Electronic Miscellaneous Documents (EMDs) and airway bills are valid tax invoices where:

1. The supply is made by an airline; and
2. The supply is considered, under Article 68 of the Executive Regulations, to be a zero-rated supply of:

- a. International transport of passengers or goods; or
- b. services and goods directly or indirectly associated with supplies of international transport of passengers or goods

## 5. Qualifying means of transport

### 5.1. Introduction

As discussed at section 4.1 of this Guide, one of the conditions for a supply of international transportation services to be considered as zero-rated is that the transportation is carried out using a qualifying means of transport. The supply of a qualifying means of transport is also zero-rated for VAT purposes.

This section defines a qualifying means of transport for this purpose and explains the VAT treatment relating to supplies of such means of transport.

### 5.2. Definition of a qualifying means of transport

A qualifying means of transport is any vehicle, ship or aircraft requiring a driver, pilot or crew, depending on the circumstances, which is intended for the transport of at least ten persons or for carrying goods on a commercial basis, where its main purpose is to carry out international transport.<sup>4</sup> See section 5.3 of this Guide for a discussion on how to determine whether the “main purpose” test has been met.

Any means of transport converted or used for recreational or personal purposes will not be a qualifying means of transport. A private jet/plane (generally an aircraft which does not operate on a commercial route by an airline on a scheduled basis) or private yacht or similar vessel will be treated as being used for personal or recreational purposes and hence will not be a qualifying means of transport.

#### **Example 1**

*Salman travels from Bahrain to overseas destinations on a private jet with more than 12 passenger seats. Although the transport departs from Bahrain for a destination outside Bahrain, the private jet is not a qualifying means of transport due to its personal use. Therefore, the transportation service will be subject to the standard VAT rate.*

#### **Example 2**

*Salman uses a commercial jet with eight seats to travel from Bahrain to Cyprus. Although the transport departs from Bahrain for a destination outside Bahrain, the commercial jet will not be a qualifying means of transport as the jet cannot transport at least ten passengers. Therefore, the transportation service will be subject to the standard VAT rate.*

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<sup>4</sup> Article 1(2) of the Executive Regulations

## 5.3. “Main purpose” test

### 5.3.1. Introduction

As discussed at section 5.2 of this Guide, one of the requirements for a vehicle, ship or aircraft to be a qualifying means of transport is that it meets the “main purpose” test, i.e. that its main purpose is to carry out international transport. The requirements for the “main purpose” test to be met will be different when considering the application of:

1. The zero-rate for a supply of international transport services, and
2. The zero-rate on a supply of a qualifying means of transport.

### 5.3.2. “Main purpose” test for international transport services

As a simplification measure, where a vehicle, ship or aircraft supplies an international transport service, the “main purpose” of that vehicle, ship or aircraft will automatically be deemed to be carrying out international transport for the purpose of that international transport service.

The use of that vehicle, ship or aircraft does not need to be considered over a longer period of time in order to assess whether the “main purpose” test applies. The mere fact that it is used to supply an international transport service will mean that the test is met for that service.

#### Example

*XYZ Co contracts with a shipping company to transport goods from Bahrain to Dubai. The shipping company uses a vessel that had previously been used solely to provide domestic transport services on a commercial basis. Notwithstanding this, for the purpose of the supply to XYZ Co, the vessel’s main purpose will be regarded as to carry out international transport and the zero-rate will apply on the charge to XYZ Co for the transport service.*

## 5.4. “Main purpose” test for a supply of a qualifying means of transport

### Introduction

For the purpose of determining whether the “main purpose” test has been met on a supply of:

- A vehicle, ship or aircraft to a person intending to use it to supply international transport services; and
- Goods and services associated with maintaining, repairing or converting a vehicle, ship or aircraft for the purposes of Article 68(D) of the Executive Regulations (see section 5.5.2 of this Guide),

any of the following options may be used:

- Option 1: The actual use of all vehicles, ships and aircraft operated by a taxable business on a combined basis;
- Option 2: The actual use of the particular vehicle, ship or aircraft subject to the supply; or
- Option 3: Any alternative method to those in Options 1 and 2 which has been approved in advance by the NBR.

The tests at Options 1 and 2 must be applied at the level of the “Primary Operator”. The Primary Operator is:

- In case of a sale, the purchaser. For this purpose, a sale includes a supply by way of asset financing such as a finance lease, hire purchase arrangement (or Shari’ah equivalent).
- In the case of a lease or charter lasting more than one year, the lessee.
- In the case of any other lease or charter, the lessor.

#### Option 1: Actual use of all vehicles, ships and aircraft

The Primary Operator must prepare a calculation relating to international trips undertaken and total trips undertaken using data for the previous calendar year. For this purpose, an international trip is one that starts in Bahrain and ends outside Bahrain, starts outside Bahrain and ends in Bahrain or starts outside Bahrain and ends outside Bahrain.

The calculation is based on a simple average of the result of the following three calculations:

1.  $A / B \times 100\%$  where:

A is the number of international trips carried out by the Primary Operator using all vehicles, ships and aircraft used to make supplies of transportation services during the previous calendar year, and

B is the total number of trips carried out by that Primary Operator using all vehicles, ships and aircraft used to make supplies of transportation services during that previous calendar year.

2.  $C / D \times 100\%$  where:

C is the distance travelled on international trips using all vehicles, ships and aircraft used by the Primary Operator to make supplies of transportation services during the previous calendar year, and

D is the total distance travelled using all vehicles, ships and aircraft used by the Primary Operator to make supplies of transportation services during that previous calendar year.

### 3. $E / F \times 100\%$ where:

E is the total revenue earned by the Primary Operator from supplies of international transport services during the previous calendar year, and

F is the total revenue earned by the Primary Operator from supplies of all transport services (including short term rentals and charters of the vehicle, ship or aircraft) during that previous calendar year.

Where the simple average of the above three calculations exceeds 75%, the “main purpose” test for all vehicles, ships and aircraft in use by the Primary Operator will be met. If the simple average falls below 75%, no vehicle, ship or aircraft used by the Primary Operator will meet the “main purpose” test.

#### Example

A Bahrain shipping company wants to assess whether the main purpose of its fleet of vessels is to carry out international transport. To do so, it applies the following calculation in respect of all vessels owned by it that are used for transport of goods, domestic and international:

	International	Domestic	Percentage (%)
A. Number of trips	45	5	90%
B. Distance traveled	8,000 km	2,000 km	80%
C. Revenue earned	BHD 115,000	BHD 60,000	66%
Simple average of results from A to C	78.57%		

Given that the simple average is more than 75%, the ship’s main purpose is to carry out international transportation and thus the ship qualifies as a means of transport.

Where Option 1 to determine the “main purpose” test is adopted, in order for the zero-rate to apply on a supply of a qualifying means of transport to a Primary Operator or for an import by or for a Primary Operator of a qualifying means of transport to be exempt from VAT, that Primary Operator must apply to the NBR to be included on a white list (the “White List”). An application to the NBR should include a computation showing that the “main purpose” test has been met for the previous calendar year.

The Primary Operator will remain on the White List until the end of the calendar year during which it was included on the White List. The Primary Operator can apply to renew its inclusion on the White List by applying to the NBR and including a computation showing that the “main purpose” test has been met for the previous calendar year.

## Option 2: Actual use of a given vehicle, ship or aircraft

As an alternative to Option 1, a taxable person can determine the “main purpose” of a vehicle, ship or aircraft by reference to the intended use by the person who will be the Primary Operator of the specific vehicle, ship or aircraft to be sold or subject to the supply or import. To determine whether the “main purpose” test is met under this option, the Primary Operator must prepare a calculation using data relating to the expected use of the vehicle, ship or aircraft over the twelve months following the date it was placed at the disposal of the Primary Operator.

The calculation is based on a simple average of the result of the following three calculations:

1.  $A / B \times 100\%$  where:

A is the number of international trips expected to be carried out by that vehicle, ship or aircraft during the relevant twelve months, and

B is the total number of trips expected to be carried out by that vehicle, ship or aircraft during that twelve months.

2.  $C / D \times 100\%$  where:

C is the distance expected to be travelled on international trips by that vehicle, ship or aircraft during the relevant twelve months, and

D is the total distance expected to be travelled by that vehicle, ship or aircraft during that twelve months.

3.  $E / F \times 100\%$  where:

E is the total revenue expected to be earned from supplies of international transport services using that vehicle, ship or aircraft during the relevant twelve months, and

F is the total revenue expected to be earned from supplies of all transport services (including short term rentals and charters of the vehicle, ship or aircraft) using that vehicle, ship or aircraft during that twelve months.

For the purpose of the above, an international trip is one that starts in Bahrain and ends outside Bahrain, starts outside Bahrain and ends in Bahrain or starts outside Bahrain and ends outside Bahrain.

Where the simple average of the above three calculations exceeds 50%, the “main purpose” test for that vehicle, ship or aircraft will be met. If the simple average falls below 50%, the “main purpose” test will no longer be met.

In the event that the expected actual percentage exceeds 50%, but the actual usage over the relevant twelve month period did not exceed 50%, the “main purpose” test will still be considered to have been met provided the taxable person can demonstrate to the NBR, using information such as bookings, projections, budgets etc, that its expected usage was computed

objectively. If this cannot be demonstrated to NBR's satisfaction, the NBR may seek VAT at 5% on all zero-rated sales transactions, plus fines and penalties if applicable.

### Option 3: Alternative methods for “main purpose” test

If a taxable person believes that, in the context of its business and the vehicle, ship or aircraft used by it, an alternative method for determining whether the main purpose of a means of transport is to carry out international transport is more suitable, he may request the NBR to approve such a method. If such a request is made, the zero-rate cannot be applied on a supply of a means of transport by virtue of its proposed method until the NBR has approved it.

## 5.5. VAT implications of supplying a qualifying means of transport and related goods and services

### 5.5.1. Supply of a qualifying means of transport

#### Supply to a Primary Operator

The supply of a qualifying means of transport to a Primary Operator will be taxable at the zero-rate. A supply for this purpose means a sale or a lease/charter for a period of more than one year. The import of a qualifying means of transport by a Primary Operator for use in its business of supplying international transportation services will be exempt from VAT at import.

In order for a supply of a qualifying means of transport made by a taxable person to a Primary Operator to be zero-rated, the supplier must obtain a certificate on official headed notepaper from the Primary Operator containing the following information:

- a. A detailed description of the vehicle, ship or aircraft with sufficient information to be able to identify the vehicle, ship or aircraft. This should include a unique identification number where available (e.g. vehicle identification number, International Maritime Organization Number, aircraft registration number). It should be clear from the description that the vehicle, ship or aircraft requires a driver, pilot or crew (as the case may be), and it is intended for the transport of at least ten people or the carrying of goods on a commercial basis.
- b. The date (which may be approximate or stated as falling within a range of dates) that the Primary Operator intends the vehicle, ship or aircraft to be placed at its disposal.
- c. A certification that either:
  - (i) The Primary Operator is on the White List on the tax due date of the supply and that the vehicle, ship or aircraft will be used by the Primary Operator to provide transportation services; or
  - (ii) The “main purpose” (in accordance with principles set out by the National Bureau for Revenue in the VAT Transportation Guide) of the vehicle, ship or aircraft supplied to the Primary Operator will be to carry out international transport.

The certificate should be signed by an authorized representative of the Primary Operator.

Notwithstanding what may be stated in the certificate, the supplier of the vehicle, ship or aircraft should ensure that the vehicle, ship or aircraft requires a driver, pilot or crew (as the case may be) and that it is capable of transporting at least ten persons or carrying goods on a commercial basis.

The certificate can be used throughout a chain of suppliers provided each supplier receives either an original certificate or a certified copy of it, and its customer confirms in writing that it is receiving a supply of the vehicle, ship or aircraft with the ultimate intention of making an onward supply of it (either directly or indirectly) in circumstances whereby it will ultimately be supplied to a Primary Operator.

The certificate is a document provided by the Primary Operator. It will not be authenticated or approved by the NBR. Furthermore, the NBR will not accept requests to validate that a certificate is accurate or genuine.

### Supply by a Primary Operator

The supply by a Primary Operator of a qualifying means of transport under a lease/charter not exceeding one year will be subject to the zero-rate in the following cases:

- If the Primary Operator (i.e. the lessor) is on the White List; or
- The specific vehicle, ship or aircraft is a qualifying means of transport where the “main purpose” test has been met under either Option 2 or 3 of section 5.4 of this Guide.

A supply by a person who has been the Primary Operator of a vehicle, ship or aircraft by way of sale or lease/charter for more than one year to any party will be subject to the zero-rate only if purchaser/lessee will itself be a Primary Operator as defined above. If the purchaser/lessee will not be a Primary Operator, the standard rate of VAT will apply.

### Import of a qualifying means of transport

In order for an import of a qualifying means of transport to be exempt from VAT, either:

1. The importer must be on the White List. In such circumstances, the importer should inform Customs that the import is exempt from VAT. Customs will be able to verify that the importer is on the White List and that the exemption applies.
2. If not on the White List, the importer should apply to the NBR for confirmation that the exemption will apply. This will either be on the basis that the Primary Operator (when not the importer) is on the White List or that the vehicle, ship or aircraft meets the “main purpose” test under either Option 2 or 3 above.

In making this application, the importer should provide the same information as on the certificate discussed above (with the exception that the date at b. should be the expected date of import of the vehicle, ship or aircraft). If the NBR is satisfied that the vehicle, ship or

aircraft is a qualifying means of transport, it will arrange with Customs for the import to be exempt from VAT.

### 5.5.2. Supply of goods and services associated with maintaining, repairing or converting qualifying means of transport

The supply of goods and services associated with the maintenance, repair or conversion of a qualifying means of transport, including the supply of spare parts, consumable materials (e.g. oil, lubricant) and other necessary components that are installed or assembled in the qualifying means of transport (e.g. navigation equipment, lifeboats, galley equipment, safety equipment) will also be subject to VAT at the zero-rate. The zero-rate will also apply to the purchase of spare parts to be maintained by the owner of one or more qualifying means of transport as inventory in the event that they need to be used for repairs.

Any goods or services not associated with the maintenance, repair or conversion of a qualifying means of transport will not qualify for zero-rating under Article 68(C) of the Executive Regulations. Examples include food and beverages to be used on board and rental of machinery to be used on board a vessel which is not permanently affixed to the vessel.

The zero-rate only applies where the goods and/or services are received by a person who is on the White List as described at paragraph 5.3.3 of this Guide and who is the Primary Operator in relation to the vehicle, ship or aircraft in respect of which the goods and/or services are received. The Primary Operator will need to provide a certificate to the supplier of the goods and/or services stating that it is on the White List and that the goods and/or services are being used to maintain, repair or convert a vehicle, ship or aircraft in respect of which it is the Primary Operator. The certificate should be on headed notepaper and signed by an authorized person.

The zero-rate will not apply to supplies of goods and/or services which are not made directly to a Primary Operator on the White List. Supplies of goods and/or services further back the supply chain which may ultimately be intended to be used to maintain, repair or convert a qualifying means of transport are taxable at the standard rate.

The import of goods to be used to maintain, repair or convert a qualifying means of transport will be exempt from VAT where the importer is on the White List and the goods will be used to maintain, repair or convert a vehicle, ship or aircraft in respect of which the importer of record is the Primary Operator.

#### **Example 1**

*An airline company is on the NBR White List. It decides to refurbish its fleet (i.e. replaces certain parts, paints the plane, etc.). The goods purchased by the airline company are for repairing and maintaining its aircraft. As the aircraft are qualifying means of transport, the supply of the goods to the airline company will be subject to VAT at the zero-rate.*

### Example 2

*If an individual purchases an old commercial airplane for his/her personal use and decides to repaint and repair the plane, which after repair will be used for personal use, the goods and services used to repaint and repair the plane will be subject to VAT at the standard rate as the plane itself is no longer a qualifying means of transport.*

### Example 3

*X Co takes a charter of a vessel from Y Co for three weeks. The vessel is a qualifying means of transport and will operate in international waters. Y Co's name is on the NBR White List. As part of the agreement, Y Co supplies crew for operating the vessel, a chef and cleaning staff, a mini-submarine, diving equipment and food and beverages. X Co hires additional catering staff from a third party (unrelated to Y Co) and a security detail. It also leases additional diving equipment from this third party.*

*The charter of the vessel together with the crew to operate the vessel will be zero-rated. However, that part of the charter cost relating to the chef, cleaning staff, other equipment and food and beverages will not qualify for zero-rating.*

*The services provided by third parties will not qualify for zero-rating.*

## 5.6. Place of supply of a qualifying means of transport

The place of supply of a qualifying means of transport is as follows:

Supply made to	Place of supply
Taxable customer	Determined by the general place of supply rules
Non-taxable customer	Where the qualifying means of transport are placed at the disposal of the customer

See the general rules under the “Place of supply rules for supplies of goods” section of the VAT General Guide for further information.

## 6. Local transportation services

### 6.1. What is local transportation?

Local transportation is a supply of transportation services of goods and passengers by land, water or air from a place in Bahrain to another place in Bahrain.<sup>5</sup> This includes local taxi services, public buses and school buses.

### 6.2. Place of supply for local transportation services

The place of supply for transportation services is where the transportation begins.<sup>6</sup> As local transportation services will always begin and end in Bahrain, the place of supply of such services will be Bahrain.

#### **Example**

*HIJ Company contracts with Company A for the transportation of goods from Manama to Sitra. The transportation service will be considered as a local supply as the goods are being transported from one place in Bahrain to another place in Bahrain.*

*The place of supply of the transportation service will be Bahrain.*

### 6.3. VAT treatment of local transportation services

The supply of goods and passengers transport services, within Bahrain, by land, water or air is zero-rated. Transportation services will not be zero-rated unless the supplier is regulated or licensed by the relevant body in Bahrain.

#### **Example**

*A soccer team in Muharraq hires a local transportation company to transport the team from its headquarters in Manama to a stadium in Riffa. The local transportation company is licensed by the relevant body in Bahrain to provide transportation services.*

*As the transportation service meets the conditions for local transportation, it will be taxable at the zero-rate.*

<sup>5</sup> Article 78 (A) of the Executive Regulations

<sup>6</sup> Article 17 (5) of the Law

### Example

*A hotel in Bahrain provides a pick up and drop off service from Bahrain International Airport for its guests. The hotel is not regulated or licensed by the relevant body in Bahrain to provide the transportation service.*

*As the transportation service does not meet the conditions for local transportation, it will be taxable at the standard rate.*

The following services do not qualify for the zero-rate:<sup>7</sup>

1. The provision of a rental vehicle (e.g. a hired car to be driven by the hirer) without a driver.
2. The provision of a driver without a vehicle.
3. Transportation services provided for sightseeing or leisure purposes. Such services will include bus tours, a limousine or similar provided with a driver to bring passengers on a pre-agreed sightseeing trip, transportation by boat (whether scheduled or unscheduled) to an island which primarily caters for tourists, a boat-restaurant. This exclusion does not apply where a regular taxi or limousine is hired by a person who directs the driver to certain tourist attractions and the taxi/limousine business or driver does not provide any guidance or input into the itinerary or provide any ancillary services (such as food or beverages).

### Example

*A tourism company in Bahrain offers day tours around Bahrain to individuals for sightseeing in Bahrain. The tour will involve a pick up and drop off to and from the hotel by bus. The following destinations will be covered:*

- *Tree of life;*
- *Qal'at al Bahrain;*
- *Bab Al Bahrain; and*
- *Bahrain National Museum*

*The tour guide will accompany the passengers throughout the day to provide insight on the history and culture of Bahrain.*

*As the services are for sightseeing and leisure purposes, these will be taxable at the standard rate.*

4. Food delivery services when supplied by the person also supplying the food. For the purpose of this exclusion, “food” comprises ready meals that can be consumed immediately upon delivery with minimal further preparation required from the customer. This is because the supply of food and the transport services are considered as a single composite supply where the supply of food (taxable at 5%) is the main supply while the transport services are ancillary to that main supply.

<sup>7</sup> Article 78 (B) of the Executive Regulations

Given that the main supply is taxable at the standard rate of VAT, the ancillary supply of transport is also subject to VAT at the standard rate (i.e. it follows the same VAT liability as the main supply). This is irrespective of whether a charge/fee for transportation services is separately identified and charged by the food supplier.

VAT Treatment	Scenario	Invoicing
Standard rated	A restaurant delivers food to a customer. The entire supply (including the delivery charge, even if listed separately on the bill) will be standard rated.	Single tax invoice from the restaurant
Standard rated	Food delivery service provider arranges the procurement of food from restaurants and delivers the food to the customer as a bundled supply. The entire supply (including the delivery charge, even if listed separately on the bill) will be standard rated.	Single tax invoice from the food delivery provider.
Zero-rated	Customer uses a third party delivery company to pick up and deliver food. The charge made to the customer for delivering the food will qualify for the zero-rate.	Two tax invoices, one from the restaurant (5% VAT for food) and one from the food delivery provider (0% VAT for transportation)

**Example 1**

*Khaled orders food from a restaurant and asks for it to be delivered to his home address. The food delivery service is provided by the restaurant.*

*As the transportation service for the delivery of the food is provided by the restaurant which also supplies the food, it will be taxable at the standard rate of 5%.*

**Example 2**

*Khaled orders food from a food delivery service provider. The food delivery service provider purchases the food from the restaurant and then subsequently sells and delivers it to Khaled.*

*The entire supply, including the delivery service, will be subject to VAT at the standard rate. The food delivery service provider will have to issue a tax invoice in its name to Khaled for the whole supply (i.e. food and delivery).*

### Example 3

*Khaled orders food from a restaurant and asks for it to be delivered to his home address. The food is supplied by a local restaurant which uses the services of DeliverCo, a third party, for the delivery of the food to the customers (i.e. the supplier picks up the food when it is ready and delivers it to the customer).*

*There are two supplies:*

- 1. The transportation service supplied by DeliverCo to the restaurant: zero-rated as it is a local transportation service.*
- 2. The supply of food with delivery from the restaurant to the customer: standard-rated (for the whole amount charged by the restaurant to Khaled) as it is a supply of food with delivery by the person supplying the food.*

*If Khaled had directly contracted with DeliverCo to pick up the food and deliver it to Khaled's home, the delivery service would have been a zero-rated service of local transportation of goods (i.e. the delivery services would have been provided separately, by a person other than the person supplying the food).*

5. Transportation services which are ancillary to a main taxable (standard rated) supply of a good or service (excluding a supply of food under point 4 above), where these transportation services are not priced separately to the main supply. The same logic as for supplies of food with delivery applies here (i.e. the transportation services are ancillary to a main supply which is subject to VAT at the standard-rate). However, where the transportation services are priced separately and can be considered as a separate supply from the supply of the goods or services, these transportation services will follow their own VAT liability and will be subject to VAT at the zero-rate if they meet all the conditions to qualify as local transportation services.

### Example 4

*A company, resident and registered for VAT in Bahrain, owns shops where it sells kitchen appliances to retail customers.*

*When a customer buys a washing machine, he may leave the shop with the machine (or return to pick it up later) or may have the machine delivered at the place of his choice provided it is within a certain radius from the shop warehouse. Whichever option the customer chooses, the amount to be paid by the customer to the supplier remains the same (i.e. the selling price includes the delivery of the machine, if requested by the customer).*

*The transportation services supplied by the shop are not a separate supply from the sale of the washing machine. The transportation services are ancillary to the taxable supply of the washing machine and the total amount charged by the supplier should be subject to VAT at the standard rate (i.e. even if the supplier identifies on its tax invoice a separate charge for the transportation services this charge would still be subject to VAT at the standard rate as the transportation services are ancillary to the sale of the washing machine).*

### Example 5

*A company, resident and registered for VAT in Bahrain, owns grocery shops and launches a new online service whereby customers can shop online and either collect their “basket” at a set pick up point or have it delivered to a place of their choice in Manama.*

*If they choose the delivery option, customers will be charged a delivery fee. If they choose the collection option, they will not be charged any additional amount (i.e. they are only charged for the goods they purchase).*

*As the delivery service (i.e. transportation of goods services) is priced separately from the goods and is an option made available to the customers to the extent they agree to pay a specific charge for it, such service should be treated as a separate supply (as opposed to an ancillary supply to a main supply of goods). Therefore, in this case, the delivery service must follow its own VAT liability and will be subject to VAT at the zero-rate if it qualifies as a local transportation service.*

*The supplier is expected to identify and separately invoice its fee for the delivery services.*

## 6.4. The supply of goods and services related to vehicles used for domestic transportation

The zero-rating provisions for the supply of goods and services (repair, maintenance, conversion, spare parts, etc.), covered above in section 5.5.2 of this Guide, will not apply when these supplies relate to a means of transport which is mainly used for domestic transportation as this means of transport does not meet the criteria to be seen as a qualifying means of transport. The VAT liability of these supplies will need to be considered on a case by case basis depending on the nature of each supply.

### Example

*A company providing shuttle services between Bahrain International Airport and various locations around Bahrain is registered for VAT in Bahrain and regularly purchases spare parts such as tires and batteries. The spare parts are used for the maintenance of the shuttle company’s vehicles. The supply of the spare parts is taxable at the standard rate.*

*The shuttle company will be able to claim input tax on the purchase of the spare parts given that the goods relate to the company’s taxable activity.*

## 7. Input tax deduction for local and international transportation

VAT incurred on costs relating to a taxable activity (i.e. standard rated or zero-rated) will be recoverable in full, subject to the normal input tax recovery rules. The same applies to supplies which are made outside Bahrain which would have been subject to VAT if they had been supplied in Bahrain. Please see the “Input tax recovery” section of the VAT General Guide for further details.

### Example 1

*Transport Co enters into an agreement with AMC Construction Co to transport their employees from their residence to the construction site each day. Both the place of residence of the employees and the construction site are in Bahrain. Further, Transport Co is licensed with the Ministry of Transportation and Telecommunication to provide transportation services in Bahrain.*

*The transportation services provided by Transport Co will be taxable at the zero-rate as they meet the conditions for local transportation services. As the vehicles used by Transport Co are used solely for its taxable activities, input tax on expenses related to the vehicles, such as fuel, repairs and maintenance, will be recoverable in full.*

### Example 2

*An international airline company supplies flights from Bahrain to various locations outside Bahrain. The supply of international transport will be subject to VAT at the zero-rate as it relates to the international transportation of passengers using a qualifying means of transport.*

*In order for the international airline company to render its services, the company purchases:*

- *Uniforms for its crew*
- *Furniture for the offices located in the airport*

*The above expenses will be subject to VAT at the standard rate when purchased by the airline company. Since they are used in the making of taxable supplies (i.e. zero-rated sale of international transportation for passengers), the input tax paid on such expenses is recoverable by the airline company.*

## 8. Other considerations

### 8.1. What is the VAT treatment of chartering services?

Chartering is an activity where an owner hires a vehicle, ship or plane to another person. The charterer operates the vehicle, ship or plane at his/her own discretion, subject to the terms in the charterparty (charter agreement).

The VAT treatment of the charter of a ship, aircraft or vehicle will depend on the nature of the supply and the purpose of the charter:

**Table 3: VAT treatment of chartering services**

Nature of the chartering service	VAT treatment
Ship, aircraft or vehicle intended for personal or recreational use (e.g. leisure or sightseeing purposes)	Standard rated (5%)
Ship, aircraft or vehicle that is a qualifying means of transport	Zero-rated (0%)
Ship, aircraft or vehicle that is not a qualifying means of transport	Standard rated (5%)

A Taxable Person will need to consider the transaction to determine what is being supplied. In each case, the VAT liability should be determined according to the particular nature of the service supplied and not solely on the basis of how it may be described in the charterparty (agreement) between the parties.

The provision of crew along with the supply of the qualifying means of transport (essentially a “wet lease”) will also qualify for the zero-rate provided the functions of the crew relate to operating and/or maintaining that qualifying means of transport or ensuring the safety of the passengers or goods intended to travel on that qualifying means of transport. The crew must be provided by the supplier of the qualifying means of transport in order for the zero-rate to apply; the provision of crew by a third party, even if that party is connected with the supplier of the qualifying means of transport, will not qualify for the zero-rate under Article 68 of the Executive Regulations (unless both parties are part of the same VAT group).

#### Example

*Company ABC in Bahrain charters a ship from Company XYZ, also resident in Bahrain, for the transportation of its cargo to Singapore. Given that the ship is used mainly for international transportation, the ship is a qualifying means of transport. The chartering of the ship is therefore zero-rated for VAT purposes.*

## 9. Tax clarification

While the VAT Law, Executive Regulations and Guides aim to provide clarity on the operation of VAT in Bahrain, there may be instances where some level of uncertainty remains. In such cases, a taxable person (or his tax representative or tax agent) may apply for a tax clarification from the NBR seeking guidance on how to interpret and apply specific provisions of the VAT Law where this is uncertain. A tax clarification should only be sought where the person making the request has carried out detailed analysis on the specific issue and uncertainty remains.

Until the NBR issues a response to a request for tax clarification, it is recommended that the taxable person applies the VAT Law and its Executive Regulations based on the most prudent interpretation.

The NBR will issue guidelines for the tax clarification submission procedure together with the expected timeframes for providing responses.

