

# Bahrain VAT | Considerations for the transport and logistics sector

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**COVID-19 has significantly impacted global travel since 2020. Countries have now started opening their borders again which in turn should lead to a rise in bookings with travel agents. We have outlined some key considerations related to services provided by travel agents that are directly or indirectly associated with supply of international transportation services.**

## International transportation services

International transportation services for passengers and/or goods are taxable at the zero-rate where the place of supply of such services is in Bahrain provided the services are supplied using a qualifying means of transport.

## 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.

## Place of supply of international transportation services

The place of supply for international transportation services is where the transportation begins. Where a transportation service has multiple parts, the transport will be considered as beginning where the first part starts.

## Common errors

There appears to be a misconception among some international transport operators and travel agencies registered for VAT in Bahrain that all international transportation services are subject to VAT at the zero-rate or the standard rate, irrespective of the place of supply rule and if such services are passed on in the form of a disbursement.

## Ticketing services

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 to the airline or 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 place of supply for the entire supply (including any profit realized by the travel agent) will be where the transport starts (i.e. transport starts in Bahrain, the place of supply will be Bahrain and the supply will be zero-rated). Should the transport start outside Bahrain, the place of supply will be outside Bahrain and outside the scope of VAT.

In case 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 and outside the scope of Bahrain VAT.

To apply the correct VAT treatment (i.e. zero-rated or outside the scope of VAT) travel agents should determine if they are acting as principal (undisclosed agent) or a disclosed agent since this would impact the invoicing and reporting in the VAT return.

## Travel agent's invoice

The travel agent usually passes on the cost of the ticket charged by the airline to its customer plus a booking commission and service charge. In this case, 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.

It is not a requirement for the travel agent to identify or separately show the fees on the

tax invoice. However, the tax invoice should clearly state the amount being charged includes a zero-rated supply.

Where the tax invoice includes supplies subject to VAT at the standard rate, the tax invoice must specify which line items include supplies subject to the zero-rate. Failure to do so would lead to non-compliance with the VAT Law and Executive Regulations and the imposition of penalties.

## Travel agent VAT return reporting

When the travel agent reports the supplies subject to zero-rate in its tax return, it should only report the amount of the service fees and charges relating to international transportation services. The cost of the ticket passed on to the travel agent's customer should not be reported anywhere on the tax return since it would qualify as a disbursement (i.e. outside the scope of VAT).

## Travel agent's customer VAT return reporting

Where the travel agent's customer is registered for VAT in Bahrain, the total amount charged by the travel agent, including the disbursement, should be included in line 12 of the tax return "purchases from non-registered taxpayers/zero-rated/exempt purchases".

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

## Bundle travel packages

A bundle travel package or tour may include flights, accommodation, local transportation and other similar services.

These supplies will need to be considered separately from a VAT perspective and be accounted for accordingly, where relevant.

Travel packages or tours for travel within Bahrain should be taxable at the standard rate. Separately, going by the specific place of supply rule, travel packages or tours for travel outside Bahrain should be outside the scope of Bahrain VAT.

Commission charged by the travel agency for arranging the travel package should be split into ticketing services for international transportation and all other parts of the travel package i.e. VAT at zero-rate will only apply on ticketing services related to international transportation, if the place of supply is in Bahrain.

Please contact our Tax and Corporate services team should you require our assistance.



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