

Top 10 Tax Compliance Mistakes Businesses Make in Bahrain

Common tax compliance pitfalls for businesses in Bahrain and how to avoid them. Expert guidance from Yasmi Co on VAT filing, record-keeping, and NBR obligations.

After reviewing hundreds of businesses' tax affairs, we've identified the most common compliance mistakes that lead to penalties, interest charges, and unnecessary stress. Here's how to avoid them.

1. LATE VAT RETURN FILING

The most common mistake. VAT returns must be filed within 30 days of the end of the tax period. Late filing attracts penalties of BHD 500 for the first offence, escalating to BHD 10,000 for repeat violations. Set calendar reminders at least 2 weeks before deadlines.

2. INCORRECT SUPPLY CLASSIFICATION

Misclassifying supplies as zero-rated when they're standard-rated (or vice versa) is extremely common. Financial services, healthcare, and real estate are frequently misclassified. Always verify classifications with the NBR's published guidance.

3. POOR RECORD-KEEPING

Bahrain's VAT law requires businesses to maintain records for 5 years. Records must include all tax invoices, import documents, contracts, and accounting entries. Digital records are acceptable but must be readily accessible for audit.

4. NON-COMPLIANT TAX INVOICES

Tax invoices must include 12 mandatory fields under Bahrain law — including TIN, sequential invoice number, date of supply, and VAT amount. Missing a single field can invalidate the invoice and block input tax recovery for the buyer.

5. FAILING TO REGISTER ON TIME

Businesses must register for VAT once their taxable supplies exceed or are expected to exceed BHD 37,500 in a 12-month period. Late registration means backdated liability — you owe VAT from the date you should have registered.

6. IGNORING THE REVERSE CHARGE

When importing services from outside Bahrain, the buyer must self-account for VAT under the reverse charge mechanism. Many businesses overlook this, leading to under-reported output tax and significant assessment risk.

7. OVERCLAIMING INPUT TAX

Input tax can only be recovered on purchases directly related to taxable supplies. Common overclaims include: entertainment expenses, purchase of motor vehicles (unless for resale), and costs relating to exempt supplies.

8. NOT ADJUSTING FOR CREDIT NOTES

When goods are returned or prices adjusted, credit notes must be issued and VAT adjusted accordingly. Failure to issue proper credit notes results in over-reported output tax or under-adjusted input claims.

9. MIXING PERSONAL AND BUSINESS EXPENSES

Solo entrepreneurs and small businesses often claim input tax on personal expenses. NBR auditors specifically look for personal items (home utilities, personal phones, family vehicles) in business VAT claims.

10. NOT SEEKING PROFESSIONAL ADVICE

Perhaps the most costly mistake — many businesses try to handle complex VAT matters in-house without adequate expertise. The cost of professional advisory is almost always less than the cost of penalties, interest, and corrective filings.

QUICK COMPLIANCE CHECKLIST

- ✓ Set filing deadline reminders (14 days before)
- ✓ Review supply classifications quarterly

-  Maintain 5-year digital record archive
-  Audit tax invoices for 12 mandatory fields
-  Monitor registration threshold monthly
-  Apply reverse charge on imported services
-  Separate personal from business expenses
-  Engage professional tax advisor annually

About the Author

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