

## VALUE ADDED TAX ('VAT') & FREQUENTLY ASKED QUESTIONS

Standard Chartered Bank has embarked on a Value Added Tax ('VAT') implementation initiative to comply with the Government of Bahrain's recently issued "Decree-Law Number 48 for the Year 2018 Promulgating the Value Added Tax Law" and "Resolution No. 12 of 2018 Related to Issuing the Executive Regulations of the VAT Law" (together "VAT Law") to be introduced in the Kingdom of Bahrain effective from 1 January 2019, with the objective of ensuring a smooth transition to the VAT regime.

Details of Standard Chartered Bank's VAT Account number is as follows:

Legal Entity: Standard Chartered Bank

VAT Account Number: 200000411500002

The following are the frequently asked questions ("FAQs") in relation to VAT. Standard Chartered Bank will continue updating its website ([www.sc.com/bh](http://www.sc.com/bh)) with new developments relating to the introduction of VAT in the Kingdom of Bahrain. In the meantime, for further information please visit the website of the National Bureau for Taxation ('NBT'), which contains information and guidance on the VAT Law as well as some FAQ's on the introduction of VAT. The latest announcements and information available will first be published on the site below:

- NBT: <https://www.tax.gov.bh>

### General Overview

1	<p><b>What is VAT?</b></p> <p>VAT is a transaction based indirect tax, and commonly referred to as a type of general consumption tax. In a country which has a VAT system, it is imposed on most supplies of goods and services that are bought and sold. VAT is charged at each step of the 'supply chain'. Ultimately, end-consumers generally bear the VAT cost while registered businesses collect and account for the tax, in a way acting as a tax collector on behalf of the government.</p>
2	<p><b>What is the rate of VAT?</b></p> <p>There are two VAT rates applicable within Bahrain:</p> <ul style="list-style-type: none"> <li>• the standard rate of VAT – 5%; and</li> <li>• the zero rate of VAT – 0%.</li> </ul> <p>In addition, a certain category of supplies will be "exempt" from VAT.</p>
3	<p><b>How is VAT added to goods and services?</b></p> <p>VAT is charged on the value of goods and services. When adding VAT to the price of goods or services, the registered business should multiply the amount by the applicable VAT rate (e.g. 5%). If the price already includes VAT, divide the price by 21 (for the 5% VAT rate) to find out the VAT amount. Subtracting this amount from the VAT-inclusive price, will give the VAT exclusive value of the supply.</p>

Standard Chartered is licensed by the Central Bank of Bahrain as a Conventional Retail and a Wholesale bank.

4	<p><b>Is Standard Chartered Bank required to charge VAT?</b></p> <p>Yes. Standard Chartered Bank, as a VAT registered business, is required to charge and collect VAT on its taxable supplies of goods and services made in Bahrain. The VAT charged will then be remitted to the NBT who is responsible for the collection and administration of VAT in the Kingdom of Bahrain.</p>
5	<p><b>Are services rendered by Standard Chartered Bank subject to VAT?</b></p> <p>The supply of Financial Services by Standard Chartered Bank where the consideration for the service is explicitly determined as a fee, commission or commercial discount shall be subject to VAT. However, other supplies of Financial Services, if remunerated by way of an implicit margin or similar shall be exempt from VAT (for example, interest on loans).</p> <p>The VAT treatment for Islamic financial products that are Shariah compliant shall be treated as the equivalent non-Shari'ah product if their intended objective is similar, and materially achieve the same result.</p> <p>Where services are supplied to a recipient that does not have a place of residence in Bahrain, and the benefit of the services rendered is outside Bahrain, these supplies may be zero-rated for VAT purposes.</p>
6	<p><b>When I repay an amount borrowed from the Bank (for example a loan or an amount on credit card), will I be required to pay VAT in addition to the amount borrowed?</b></p> <p>The repayment of the principal amount borrowed from the Bank will not constitute consideration for a supply and hence will fall outside the scope of VAT. This means that VAT would not be payable in addition to the principal amount borrowed.</p> <p>However, if additional services are rendered as part of the transaction (for example administration fees), these may be subject to VAT.</p>
<h2>Accounts</h2>	
7	<p><b>Is VAT applicable on withdrawals made from Current, Deposit or Savings Accounts?</b></p> <p>Any deposits into or withdrawals from current, deposit or savings accounts shall not be subject to VAT. However, if there is a service charge or fee imposed by the Bank, then these services shall be subject to VAT.</p>
8	<p><b>Will I be notified of the fees and charges that are subject to VAT prior to the transaction? For example, in ATM, branches or online banking, etc</b></p> <p>No. However, for further details of fees and charges you may refer to the Service and Price Guides published in the Bank's website. Please note that prices which are displayed to clients which are not registered for VAT are generally inclusive of VAT.</p>
9	<p><b>Will the VAT treatment for transactions performed via different channels be treated differently?</b></p> <p>No, the VAT treatment for a fee should be similar irrespective of the channel.</p>

10	<p><b>How will Standard Chartered Bank apply VAT on its charges?</b></p> <p>Taxable goods and services are charged VAT at the rate of 5%. The frequency of VAT entries shall correspond with the frequency of bank charges. Where, for example, a fee is being imposed on a monthly basis, VAT will be imposed on a monthly basis as well, where applicable. For other fees, such as credit card fees, VAT will be charged as a separate entry for each transaction, where it is applicable.</p>
11	<p><b>Will VAT charges be refunded if my transaction is cancelled or unsuccessful?</b></p> <p>If a taxable fee or charge is cancelled and/or unsuccessful, the corresponding VAT amount paid by the customer shall also be refunded. Kindly note that there could be a processing or administrative fee associated with the cancellation which may be subject to VAT.</p>
12	<p><b>A Bahraini Priority Client requests to set-up a Standing Order facility, where Standard Chartered Bank levies a charge of 1 BHD. How will be VAT computed?</b></p> <p>Taxable goods and services are subject to VAT at the rate of 5%. Say, for example, if Standard Chartered Bank levies a VAT exclusive fee of 1 BHD for set-up, VAT on this service fee would be <math>1 \text{ BHD} * 5\% = 0.050 \text{ BHD}</math>. Total amount payable to Standard Chartered Bank inclusive of VAT would be <math>1 \text{ BHD} + 0.050 \text{ BHD} = 1.050 \text{ BHD}</math>.</p>
13	<p><b>Can Standard Chartered Bank waive the VAT amount payable by me?</b></p> <p>VAT is a Governmental Tax. The imposition of VAT is governed by the VAT Law. Banks are not allowed to waive the imposition of VAT payable in respect of taxable supplies provided to its customers.</p>
<h2>Remittances</h2>	
14	<p><b>Is VAT applicable for all local payments made and / or received (e.g. telegraphic transfers &amp; Online Banking)?</b></p> <p>Supply of financial products/services by Standard Chartered Bank conducted in return for an explicit fee, charge, discount, commission, or similar shall be subject to VAT. Where Standard Chartered Bank levies explicit fees for Outward/ Inward Remittance Advice Requests, VAT may be applicable.</p>
15	<p><b>How will VAT be charged where I have paid fees in a foreign currency?</b></p> <p>Where fees are paid in a foreign currency, the VAT amount payable to Standard Chartered Bank would be in foreign currency.</p>
16	<p><b>How are foreign currency exchange transactions treated from a VAT perspective?</b></p> <p>Foreign currency exchange is typically on an implicit margin basis and would be exempt from VAT. Any service fees relating to the foreign currency exchange, will however be subject to VAT.</p>
17	<p><b>If VAT is reversed on a fee paid in a foreign currency, which exchange rate will be used to reverse the VAT amount?</b></p> <p>Where a reversal of a transaction is applied, the original exchange rate shall be used for</p>

	reversal of the VAT amount.
<b>Custody</b>	
18	<p><b>What is the VAT treatment of safe keeping and custodial services?</b></p> <p>Financial services conducted in return for a fee, commission, discount, rebate or similar shall be subject to VAT. As a vast majority of services provided by our Custody department such as Safe Keeping Fees, Portfolio Fees, Trade settlement fees, Transaction fees etc. is fee or commission based, VAT would be applicable.</p>
<b>Cash Management</b>	
19	<p><b>How is VAT charged on Cash management products and services?</b></p> <p>Products offered by our Cash division follow the same rules for financial services as our other products. In general, all fees and commissions such as Domestic transfers RTGS and Cashier Order charged by the Bank shall be subject to VAT. However, if you are established outside Bahrain and the benefit of the services rendered is outside Bahrain, VAT may not apply as the services are likely to be treated as “exported” from a VAT perspective meaning it qualifies for a zero-rated treatment.</p>
<b>Trade</b>	
20	<p><b>Are Trade Finance products subject to VAT?</b></p> <p>Generally, all fees and commissions charged for trade finance products and services such as Trade structuring fees, facility fees, commission on issuance of guarantees etc. are subject to 5% VAT. Exported services, however, will be subject to 0% VAT (‘zero-rated’). The interest / profit charged on the financing of the trade finance product and services is VAT exempt.</p>
21	<p><b>I am a business established outside Bahrain, acquiring services from the trade division of Standard Chartered Bank, would I need to pay VAT in Bahrain on the services I am acquiring?</b></p> <p>Where Standard Chartered Bank is providing services to non-resident customers, who benefit from these services, and are established outside Bahrain, may qualify for zero rated treatment.</p>
22	<p><b>An Iraqi company recently won a project to develop power plants in Baghdad from the Iraqi Government. The company is required to furnish a bank guarantee to ensure the project is completed satisfactorily and on time. Will the commission charged on bank guarantee issued by Standard Chartered Bank to an Iraqi company be subject to VAT</b></p> <p>Where the bank guarantee is issued to a business customer established in Iraq and, benefitting from these services outside Bahrain, it is regarded as an exported service. Hence, there will be no VAT charge on the commission since this is a zero-rated supply.</p>

## Financial Markets

### 23 Will VAT be applicable on Derivatives, Foreign Currency Exchange or Swaps?

VAT should only be applicable on financial services where these are conducted against an explicit fee or commission. Where financial services are conducted on an implicit margin, interest- or spread-basis, these services should be treated as VAT Exempt.

With Derivatives, Foreign Currency Exchange services or the provision of Swaps typically the latter is the case and, as such, no VAT should be applicable on these products. However, where there is an administration / processing type fee associated with one these products, which are both examples of explicit fees, VAT would be applicable on the fees charged.

## Wealth Management

### 24 What is the VAT treatment for Wealth Management products?

VAT is applicable on financial services where these are conducted against an explicit fee or commission. Where financial services are conducted on an implicit margin, interest or spread-basis, these services should be qualified as VAT Exempt.

With Wealth Management products, such as Bonds, Mutual Funds, Structured Notes & WRAP products, bank charges are often in the form of an upfront commission. VAT may be applicable on the commission which the bank charges to its clients.

## Islamic Finance

### 25 What is the VAT treatment for Islamic banking products?

Islamic banking products are subject to the same VAT treatment as conventional products in order to ensure tax neutrality. Where, in example, a service charge or fee (including Wakalah fee) is being charged to the customer, it shall be subject to VAT.

## Transitional period

### 26 Are supplies / services performed before 1 January 2019 subject to VAT?

No VAT shall be due on supplies of goods and/or services which have been completed before 1 January 2019. Where, however, the supply continues from 2018 into 2019, VAT may be payable on the portion of the service rendered in 2019.

### 27 I am a Standard Chartered Bank corporate customer and have paid a commission on Trade guarantee issuance on 01 December 2018. Will Standard Chartered Bank impose VAT on guarantee issuance commission?

	<p>The VAT Law prescribes that commission on issuance of trade guarantees shall be subject to 5% VAT. Commission on Trade Guarantee issuance is charged by banks to their customers to cover the continuous risk during the lifetime of this product and therefore, are in scope of the transitional rules.</p> <p>Therefore, where payments are received in 2018, but effectively relate to services in 2019, VAT may be payable on the portion of the service received in 2019 (if any). Therefore, Standard Chartered Bank will be required to raise an additional invoice for VAT on fees paid in 2018 but which relate to services also performed into 2019.</p>
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## Other Information

28	<p><b>Whom should the customer contact in case of any query related to VAT?</b></p> <p>In case of any queries, please send your queries to your usual points of contact or <a href="mailto:straight2bank.bh@sc.com">straight2bank.bh@sc.com</a>.</p> <p>Standard Chartered Bank will continue updating its website (<a href="http://www.sc.com/bh">www.sc.com/bh</a>) with new developments relating to the introduction of VAT in Bahrain.</p> <p>For further information please visit the website of the NBT - <a href="https://www.tax.gov.bh">https://www.tax.gov.bh</a></p>
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Further, these FAQs do not purport to constitute tax advice and should be used as a guide only. For all updated pricing of our fees and products, please refer to our Service & Price Guides.