KPMG

Tax Alert

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Introduction of e-invoicing in Bahrain

The National Bureau for Revenue (NBR) has (through the Bahrain Tender Board) invited proposals to support them with the review and enhancement of the legal framework for the launch of e-invoicing in Bahrain. Given this development, Bahrain will be following many other countries around the world and the Kingdom of Saudi Arabia (KSA) in the region which have recently implemented e-invoicing. Based on the KSA e-invoicing model and our experience assisting businesses in KSA, we have set out below key aspects Bahrain businesses should consider in preparation for e-invoicing implementation in Bahrain.

1. Why is e-invoicing being introduced?

As per the NBR tender document, the three core objectives for introducing e-invoicing in Bahrain are:

- To support businesses in Bahrain by creating a level playing field and reducing their administrative burden;
- To enable development and tracking of Bahrain's economic policies by creating more granular economic data; and
- To support Bahrain's fiscal balance program by addressing tax leakages with limited disruptions to economic activity.

E-invoicing will allow the NBR to increase VAT compliance amongst taxpayers, better data collection, reconciliation and transparency.

2. What is e-invoicing?

E-invoicing converts the issuing of paper invoices and credit/debit notes into an electronic process that allows the exchange and processing of invoices, credit notes & debit notes in a structured electronic format between the supplier and customer and between the supplier and the tax authority. This is generally done through an integrated electronic solution. Once an e-invoice is issued it cannot be amended – a debit note or credit has to be issued.

A paper invoice converted into an electronic format through copying or scanning is not considered an e-invoice.

3. Who would e-invoicing be applicable to?

Businesses registered for VAT and any third parties issuing tax invoices on behalf of other taxable persons will need to comply with the e-invoicing requirements, once implemented. The requirements may vary depending on factors such as nature of business, annual value of supplies, number of transactions. The NBR may adopt a phased approach with largest businesses or businesses in certain industries being required to comply first.

4. When will e-invoicing be implemented?

Whilst no formal implementation timeline has been announced by the NBR, we expect e-invoicing in Bahrain to be implemented in the next 18 months. In KSA, during phase 1, all taxpayers (excluding non-resident taxpayers) were required to issue and store e-invoices in a compliant e-invoicing solution. In phase 2, the e-invoicing solution is required to be integrated with the tax authority's systems.

5. What are the technical requirements for e-invoicing solution?

Whilst specific requirements will be announced by the NBR in due course, we expect the following minimum technical requirements for an e-invoicing solution:

- connect with the internet and in-turn an application programming interface (API) published by the NBR for sharing invoices;
- adequate mechanisms for preventing modification or tampering and the ability to record and detect any tampering attempts; and
- compatible with any other Bahrain legal requirements and controls for data/information security.

6. What are some of the challenges of e-invoicing and lessons learnt from KSA?

- Access to high-speed and secure internet connectivity for integration with the NBR platform.
- Integration between point of sale (POS) and ERP systems and in turn integration with the NBR platform.
- Implementing systems security measures to ensure recording of time stamps along with restriction of anonymous user access.
- Restrictions on system/document modification. An e-invoice cannot be modified once issued. Even for a small error on the invoice, it would need to be cancelled by issuing a credit note.
- An e-invoice will have many more fields than the current tax invoice and a prescribed format for all fields. Systems will need to be assessed to cater for this.

7. How can Bahrain businesses prepare for e-invoicing?

Whilst Bahrain businesses await the formal NBR announcement, Bahrain businesses should undertake the following steps in advance for a smooth transition:

- Conduct a gap assessment to determine which systems and processes will be impacted;
- Map all transaction flows to which e-invoicing will be applicable;
- Assess capabilities of existing systems and determine how these systems could integrate with external systems;
- Conduct a gap assessment from a cybersecurity and system integrity perspective;
- Update existing records including customer and vendor information; and
- Provide training to staff.

Next steps

E-invoicing will be a game changer for Bahrain businesses and will require a major change to existing processes and upgrading of systems. We have been assisting businesses comply with the e-invoicing requirements in KSA including:

- Impact assessment and gap identification
- Providing recommendations and implementation roadmap
- Support for e-invoice solution (remediation, vendor selection)
- Implementation support and post implementation readiness review

The above is for general information only and is not intended to address the circumstances of any particular scenario. Please seek professional advice in relation to your particular circumstances.

For a detailed discussion on how the above updates may impact your business, [contact us.]

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