

A wide-angle photograph of the Bahrain skyline is positioned at the top of the page. It features several modern skyscrapers, with the most prominent being the two towers of the Bahrain World Trade Center, which are connected by a skybridge. The sky is clear and blue.

# Corporate Income Tax in Bahrain - Things to know

## Introduction and Background

Bahrain is all set to implement a Corporate Income Tax on Bahrain based businesses and a withholding tax on non-residents.

## What is a Corporate Income Tax ('CIT') ?

A tax on income of business calculated for a tax period by multiplying the amount of taxable income by the tax rate.

### I. Commencement

CIT will apply to the first tax period that begins on or after the date on which the CIT laws comes into effect.

### II. In-scope persons:

The persons specified at (i), (ii) and (iii) hereunder fall within ambit of the CIT where the below specified threshold is met and for persons specified at (iv) it applies regardless of specified threshold:

- i. Resident legal persons conducting business activities inside or outside Bahrain;
- ii. Resident natural persons conducting business activities in Bahrain or outside where it is connected with Bahrain based activity;
- iii. Non-resident person conducting business in Bahrain through a permanent establishment; and
- iv. Non-resident person deriving Bahrain sourced income.

### III. Threshold:

- i. Revenue exceeding BHD 1,000,000; or
- ii. Taxable income exceeding BHD 200,000.

### IV. Key Concepts

#### ► Tax Period:

- i. Twelve-month period corresponding to financial statement preparation; or
- ii. Calendar year where financial statements are not prepared or required.



▶ **Resident person:**

- i. A legal person who is established under laws of Bahrain;
- ii. A legal person who is established under laws of foreign jurisdiction but has a place of effective management in Bahrain; or
- iii. A natural person who is physically present in Bahrain for a period or periods aggregating more than 183 days during a calendar year.

▶ **Non-resident person:** a person who is not a resident person.

▶ **Revenue:** gross amount of recognised income during a tax period in accordance with an acceptable accounting standard.

▶ **Accounting income:** the net accounting profit or loss before any income taxes for the relevant tax period, in accordance with the financial statements prepared under an acceptable accounting standard.

▶ **Taxable Income:** Accounting income adjusted for the following:

- i. Fair value adjustments
- ii. Gains/losses on disposal of assets and liabilities
- iii. Depreciation & amortisation
- iv. Exempt income
- v. Disallowed / adjusted expenses
- vi. Related party (transfer pricing) adjustments
- vii. Tax incentives and reliefs
- viii. Other adjustments as may be prescribed

**V. Tax Rate:**

- i. 0% on taxable income not exceeding BHD 200,000.
- ii. 10% on the amount of taxable income in excess of BHD 200,000.

**VI. Exemptions:**

Following entities are exempt from CIT subject to certain conditions and limitations

- i. Government entities;
- ii. Non-profit organisations;
- iii. Sovereign investment funds (excluding their subsidiaries);
- iv. Licensed pension funds; and
- v. International organisations.



Following incomes are exempt from CIT subject to certain conditions and limitations:

- i. Dividends and profit distribution;
- ii. Capital gains ;
- iii. Income of a foreign permanent establishment;
- iv. Income earned by a non-resident taxpayer from operating aircraft or ships in international transport;
- v. Income realised and allocated for public benefit;
- vi. Government grants;
- vii. Personal employment income;
- viii. Real estate and personal real estate investment income;
- ix. Incomes related to financial service, professional service and logistics service; and
- x. Incomes as may be specified.

## What is a Withholding Tax ('WHT')?

Withholding tax due is computed by multiplying the gross payment amount of Bahrain-sourced income by the withholding tax rate and is required to be withheld by the withholding person for deposit with National Bureau for Revenue. This constitutes the final tax for Bahrain source income.

### I. Key Concepts

- ▶ **Bahrain Source Income:** interest, dividends, royalties, or consideration received for services by a non-resident person arising in Bahrain but not connected to a permanent establishment of such person.
- ▶ **Withholding person:**
  - i. a resident person or
  - ii. a permanent establishment of a non-resident that pays Bahrain-source income.
- ▶ **Withholding tax period:** Three consecutive months of a calendar year starting from first day of the calendar year relevant to payment of Bahrain source income.
- ▶ **Withholding Tax Statement:** A statement required to be filed by a withholding person for each withholding tax period.

### II. Rate

Subject to application of double tax treaties between Bahrain and other jurisdictions the rate of withholding tax would be as follows:

- i. 0% on dividends.
- ii. 5% on royalties, payment for services and interest excluding interest paid by a government entity.

## How can we assist?

BDO Bahrain's tax experts are here to ensure your readiness for right adoption of the CIT:

- ▶ Understanding the scope and requirements of CIT;
- ▶ Assessing the impact of CIT on your business;
- ▶ Identification of compliance gaps;
- ▶ Reforming the processes for CIT compliance; and
- ▶ Optimizing your tax position.

## Call to Action

Contact BDO Bahrain today for expert guidance on CIT impact and corrective measures.

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