



Economic Substance Requirements

12 October 2022

The Ministry of Industry, Commerce and Tourism (MOICT) vide circular dated 11 October 2022 has issued a communication regarding Economic Substance Requirements (ESR) submission for the fiscal year end of 2021. The circular has been issued in accordance with the Ministerial Order No. 106 of 2018 (MO 106) which require entities subject to the ESR to file their return for the year ended 2021 on the [International Tax Information Exchange System \(ITIES\)](#).

First ESR compliance was introduced for the year ended 2019 as part of the Bahrain's commitment as a member of the OECD Inclusive Framework. Since then, the MOICT has updated the guidance and has clarified their expectations from Bahrain entities in meeting ESR compliance.

What are the relevant activities for ESR filing?

The ESR requires Bahrain entities including individual establishment and sole ownership that carry out relevant activities to maintain and demonstrate an adequate "economic presence" in Bahrain for the activities they undertake. Relevant activities are as follows (for MOICT regulated entities):

- Distribution and Service Center activities
- Headquarter activities
- Holding Companies
- Leasing activities
- Shipping activities
- Intellectual Property activities

What are the reporting requirements?

Bahrain entities that carry out relevant activity must demonstrate adequate substance in Bahrain by satisfying the following Economic Substance Tests:

- Core Income Generating Activities (CIGA) test for proving core activities of the business are conducted within Bahrain;
- Adequacy test for having sufficient employees, income, expenses, assets and business premises in Bahrain for conducting relevant activity;
- Management test requiring direction and management of entity in Bahrain in respect of relevant activity;
- Outsourcing test for covering contracting or delegation of CIGA to third parties in Bahrain; and
- Other requirements to regulate changes in relation to shareholders, directors.

When is the filing due?

The reporting window for filing ESR for fiscal year end 2021 will be from **11 October 2022 to 11 November 2022**. The filing shall be completed through the [ITIES](#).

What are the penalty implications for non-compliance?

Penalties for non-compliance will be in line with the measures provided MO 106 which includes suspension of commercial registration, imposition of administrative fine, omission of commercial registration and administrative investigation.

How BDO can help?

If you are concerned whether your business falls under the scope of ESR, whether it meets the ESR tests, or if you need assistance with your compliance obligations, our team of specialists can help on the following:

- Assess whether ESR applies to your business (checking the ESR covered activities vis-à-vis your Company's business operations)
- Conduct GAP assessment under ESR tests for identifying any gaps and provide recommendations
- Advise on submission of supporting documentation
- Online filing of ESR return along with supporting documentation
- Support in responding to the queries or clarifications required by MOICT

Our Bahrain based Tax experts shall be happy to schedule a call/ meeting where they can discuss your queries regarding ESR filing obligations. Following are the contact coordinates of Tax team.

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