

International Tax Bahrain Highlights 2018



Investment basics:

Currency – Bahraini Dinar (BHD)

Foreign exchange control – No

Accounting principles/financial statements – IFRS.
Financial statements must be filed annually.

Principal business entities – These are the With limited liability company (WLL) and single person company (SPC). Other legal forms include a branch of a foreign company, partnership, “*simple commandite*” company and holding company. The minimum capital requirements in the Commercial Companies Law have been reduced for shareholders of a WLL and SPC.

Corporate taxation:

Residence – Residence is not defined. A company engaged in oil, gas or petroleum activities is taxed, regardless of where the company is incorporated.

Basis – There is no corporate tax for most companies in Bahrain, but corporate income tax is levied on the profits of oil, gas and petroleum companies engaged in exploration, production and refining.

Taxable income – Oil, gas and petroleum companies are assessed to corporate income tax on their net profits, calculated as business income less business expenses.

Taxation of dividends – No

Capital gains – No

Losses – Losses may be carried forward indefinitely. The carryback of losses is not permitted.

Rate – A tax rate of 46% is levied on net profits (taxable income) of oil, gas and petroleum companies engaged in exploration, extraction, production and refining.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – No

Interest – No

Royalties – No

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – No

Social security – For Bahraini employees, the employer's social insurance contribution is 12%, which covers old age, disability, death and unemployment. For expatriate employees, the employer's social insurance contribution is 3%, which covers employment injuries. The maximum monthly earnings subject to contributions are capped at BHD 4,000.

Expatriate workers are entitled upon the termination of their contract to a payment equivalent to one half of one month's wages for each year of service for the first three years and to one month's wages for each subsequent year, pro-rated for part years.

Stamp duty – Stamp duty is levied on transfers and/or registration of real estate at a rate of 2% of the property

value. The rate is discounted to 1.7% if the duty is paid within 60 days following the transaction date.

Transfer tax – No

Other – A 10% levy is imposed on the gross turnover of hotels and first grade restaurants. Typically, the charge is passed on by hotels and restaurants to customers via their bills.

A 10% municipality tax is levied on the rental of commercial property and residential property occupied by expatriates.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year or the year specified in the company's articles of association.

Consolidated returns – No

Filing requirements – Oil companies are required to file an estimated income tax declaration on or before the 15th day of the third month of the tax year. Tax must be paid in 12 equal monthly installments, with the first installment payable on the 15th day of the fourth month of the tax year.

Penalties – A penalty of 1% of the tax liability is due for each 30 days that the return or payment of tax is outstanding.

Rulings – No

Personal taxation:

Basis – No

Residence – No

Filing status – No

Taxable income – No

Capital gains – No

Deductions and allowances – No

Rates – No

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on property transfers on the basis of the value of the property.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Bahraini employees are required to make a 7% contribution, which covers old age, disability, death and unemployment. For expatriate employees, the employee's contribution is 1%, which covers only unemployment. The maximum monthly earnings subject to contributions are capped at BHD 4,000.

Other – Excise tax of 100% on tobacco products and energy drinks, and 50% on soft drinks applies as from 30 December 2017.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The employer remits social security contributions (both employer and employee portions) monthly.

Penalties – Penalties of between BHD 100 and BHD 500 apply for failure to provide income information and may be doubled for repeated failures.

Value added tax:

Taxable transactions – Bahrain currently does not have VAT, goods and services tax or sales tax. However, in line with the Gulf Cooperation Council VAT Agreement, VAT is expected to come into force as from 1 October 2018 at a standard rate of 5% and a registration threshold of approximately USD 100,000.

Rates – See "Taxable transactions" above.

Registration – See "Taxable transactions" above.

Filing and payment – See "Taxable transactions" above.

Source of tax law: Bahrain Income Tax Law (Amiri Decree 22/1979).

Tax treaties: Bahrain has concluded 40 tax treaties.

Tax authorities: Ministry of Finance

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