

## International Tax Bahrain Highlights 2020

Updated January 2020



### Recent developments:

For the latest tax developments relating to Bahrain, see [Deloitte tax@hand](#).

### Investment basics:

**Currency** – Bahraini Dinar (BHD)

**Foreign exchange control** – There is no foreign exchange control in Bahrain.

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

**Principal business entities** – These are the 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.

### Corporate taxation:

**Residence** – Residence is not defined. A company engaged in oil, gas, or petroleum activities in Bahrain is subject to tax, regardless of where the company is incorporated.

**Basis** – Tax is levied only on the taxable income of oil, gas, and petroleum companies engaged in exploration, extraction, production, and refining activities in Bahrain.

**Taxable income** – Oil, gas, and petroleum companies are assessed tax on their net profits from taxable activities in Bahrain, calculated as business income less business expenses.

**Rate** – The tax rate is 46% on taxable income.

**Surtax** – There is no surtax.

**Alternative minimum tax** – There is no alternative minimum tax.

**Taxation of dividends** – There is no tax on dividends.

**Capital gains** – There is no tax on capital gains.

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

**Foreign tax relief** – There is no foreign tax relief.

**Participation exemption** – There is no participation exemption.

**Holding company regime** – There is no holding company regime.

**Incentives** – There are no tax incentives.

### **Compliance for corporations:**

**Tax year** – The tax year is a calendar year or the year specified in the company's articles of association.

**Consolidated returns** – Companies may not file consolidated returns.

**Filing and payment** – Oil, gas, and petroleum companies are required to file an estimated income tax return on or before the 15th day of the third month of the tax year. Tax must be paid in 12 equal 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** – Rulings may not be requested.

### **Individual taxation:**

There is no individual income tax in Bahrain.

### **Withholding tax:**

There are no withholding taxes in Bahrain.

### **Anti-avoidance rules:**

**Transfer pricing** – There are no transfer pricing rules.

**Interest deduction limitations** – There are no interest deduction limitation rules.

**Controlled foreign companies** – There are no controlled foreign company rules.

**Hybrids** – There are no anti-hybrid rules.

**Economic substance requirements** – Economic substance rules were introduced in 2019. These rules align with economic substance regulations issued recently by other jurisdictions with a similar tax environment, i.e., "no or only nominal tax jurisdictions" (NOONs). The Bahraini legislation is based on the three common key pillars that a resident entity (a local company or branch of a foreign company) undertaking a relevant activity must satisfy to demonstrate economic substance (i.e., the company should be directed and managed from Bahrain, "core income generating activities" (CIGA) should be undertaken in Bahrain, and the company should have an adequate number of qualified employees, office space, and annual expenditures in Bahrain).

Companies are subject to compliance obligations including the filing of annual notifications and returns. Noncompliance of any of the legislative provisions may lead to monetary penalties as well as suspension from the commercial register.

**Disclosure requirements** – There are no disclosure requirements.

**Exit tax** – There is no exit tax.

**General anti-avoidance rule** – There is no general anti-avoidance rule.

### Value added tax:

#### Rates

<b>Standard rate</b>	5%
<b>Reduced rate</b>	0%

**Taxable transactions** – VAT applies on supplies of goods and services as from 1 January 2019.

**Rates** – The standard rate is 5%. Certain supplies are zero rated.

**Registration** – Businesses with an annual VAT taxable turnover exceeding or expected to exceed BHD 37,500 must register for VAT within 30 days of the date when the threshold is exceeded or expected to be exceeded. Taxable persons may voluntarily register for VAT if the annual VAT taxable turnover and/or annual expenses subject to VAT in Bahrain exceeds or is expected to exceed BHD 18,750.

Nonresident businesses supplying goods or services in Bahrain to non-VAT registered customers must register for VAT within 30 days from the date of the first taxable supply regardless of the amount of goods or services supplied (i.e., there is no minimum threshold before registration is required).

**Filing and payment** – Tax returns must be submitted using the National Bureau for Revenue's (NBR) online portal. The submission and payments are due by the last day of the month following the end of the tax period.

VAT payers can settle their dues to NBR in one of three ways: via online and mobile banking, via the BENIFITPAY mobile application, or at a bank branch.

As from 1 January 2020, taxpayers with annual VAT taxable turnover exceeding BHD 3 million must file monthly tax returns; all other taxable persons must file quarterly tax returns.

### Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals.

**Social security contributions** – For Bahraini nationals, the employer's social insurance contribution is 12% and the employee's contribution is 7%, which covers old age, disability, death, and unemployment. For expatriate employees, the employer's social insurance contribution is 3%, which covers employment injuries. Expatriate employees contribute 1%, which covers unemployment. The maximum monthly earnings subject to contributions are capped at BHD 4,000. The employer remits social security contributions (both employer and employee portions) on a monthly basis. Penalties of between BHD 100 and BHD 500 apply for failure to provide income information and corresponding contributions, which may be doubled for repeated failures.

Upon the termination of their contract, expatriate workers are entitled 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.

**Payroll tax** – There is no payroll tax.

**Capital duty** – There is no capital duty.

**Real property tax** – There is no real property tax.

**Transfer tax** – There is no transfer tax.

**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.

**Net wealth/worth tax** – There is no net wealth/worth tax.

**Inheritance/estate tax** – There is no inheritance/estate tax.

## **Other**

### **Levy on hotels and restaurants**

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.

### **Municipality tax**

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

### **Excise tax**

Excise tax of 100% applies on tobacco products and energy drinks and 50% on soft drinks.

**Tax treaties:** Bahrain has concluded approximately 40 tax treaties.

**Tax authorities:** Ministry of Finance and National Bureau for Revenue

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