

Bahrain tax summary

August 2021

Value added tax (VAT)

Bahrain introduced a VAT that applies to supplies of goods and services from 1 January 2019. VAT is administered by the Bahrain tax authority – the National Bureau for Revenue (NBR).

Registration: All businesses with an annual taxable turnover exceeding BHD 37,500 are required to register within 30 days of the date the threshold is exceeded or is expected to be exceeded – note that this is a rolling test and businesses need to look back 12 months and look forward 12 months to assess whether they have exceeded or will exceed the threshold. For non-resident businesses (where the place of supply of goods or services is Bahrain) there is no registration threshold. In essence, non-resident businesses supplying goods or services to non-VAT registered customers in Bahrain must register within 30 days of their first taxable supply regardless of the value of goods or services supplied. Businesses may voluntarily register if the annual taxable turnover exceeds or is expected to exceed BHD 18,750.

Filing: VAT returns are to be filed monthly (businesses with taxable turnover exceeding BHD 3 million) or quarterly (other businesses). Resident businesses with a taxable turnover of less than BHD 100,000 may apply to the NBR to file on an annual basis. VAT returns are to be submitted online through the NBR portal – submission and payments should be made by the last day of the month following the end of the tax period.

Invoicing requirements:

Issuance	Adjustment	Record keeping
By the 15 th day of the month following the month in which the supply took place	Issuance of debit or credit notes	<ul style="list-style-type: none"> Records shall be kept for 5 years. Records relating to capital assets shall be kept for 5 years after end of capital asset adjustment period. Records relating to real estate shall be kept up to 15 years.

VAT rates: The standard VAT rate is 5% with certain goods and services subject to VAT at 0%. A limited number of supplies, such as margin based financial services and real estate services are exempt from VAT. Below is a general summary of the industry specific treatments – please note that specific conditions need to be met to apply the relevant VAT rate.

Food		Healthcare		
Basic food	Other food/ restaurant/ catering	Qualifying medicines and medical goods	Essential/ preventive healthcare	Other healthcare
0% (94 basic food items)	5%	0%	0%	5%

Education			Transportation	
Nurseries/ preschools	Elementary education	Higher education	International transportation	Local transportation
0%	0%	0%	0%	0%

Bahrain tax summary

Oil and gas		Financial Services	
Crude and natural gas	Oil, oil derivatives and gas	Margin-based products	Explicit fees, commission, discounts
0%	0%	Exempt	5%

Real estate

- Sale and lease of bare land and/or buildings (residential & commercial) – VAT exempt
- New building construction – 0%

Other taxes:

Bahrain has a limited tax regime. Below is a summary of the other taxes, levies and related compliance obligations for businesses in Bahrain.

Type of tax/regulation	Summary
Corporate tax	Bahrain has a limited corporate tax at 46% that only applies to entities engaged in the exploration, production or refining of hydrocarbons in Bahrain. Bahrain does not impose capital gains tax, withholding taxes or other taxes on the repatriation of profits.
Personal income tax	Bahrain does not impose personal income taxes.
Social insurance	Bahraini nationals – employer contribution of 12% and employee contribution of 7%. Expatriate employees – employer contribution of 3% and employee contribution of 1%. The maximum monthly income subject to the contribution is capped at BHD 4,000.
Property transfers	Bahrain levies a 2% levy on the value of the property on the transfer or registration of real estate. If the levy is paid within 60 days of the transaction date the levy is reduced to 1.7%.
Levy on hotels and restaurants	A 5% levy is imposed on hotels and restaurants classified as 'tourist' restaurants by the Ministry of Industry, Commerce and Tourism (MoICT). Typically, this 5% levy along with a 10% service charge is passed on by hotels and restaurants to customers.
Excise tax and customs duties	Excise tax of 100% on tobacco products, 100% on energy drinks and 50% on soft drinks. Customs duties range from 5% to 125%
Tax treaties	Bahrain has concluded approximately 45 double tax treaties

Bahrain tax summary

Type of tax/regulation	Summary
Transfer pricing	<p>There are no transfer pricing rules but Bahrain has introduced Country by Country Reporting (CbCR) for financial years commencing 1 January 2021. Bahrain has ratified the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of CbC reports - published in Official Gazette No. 3508 of 28 January 2021. Bahrain has also issued the resolution for the exchange of CbC reports – Ministerial Order (MO) No (28) of 2021 dated 3 February 2021 with respect to CbC Reporting.</p> <p>CbCR applies to all businesses that have a legal entity or branch in Bahrain and are members of a multinational enterprise groups with annual consolidated revenue of at least BHD 342 million.</p> <p>An entity that is a member of an MNE group that had at least BHD 342 million consolidated group revenue in the preceding financial year is required to file a CbC notification and/or a CbC report. An entity subject to the CbCR rules is referred to as a Constituent Entity (CE).</p> <p>Each CE of an MNE Group resident in Bahrain for tax purposes will be required to submit a notification no later than the last day of the reporting financial year of the MNE Group. The notification should identify whether it is the Ultimate Parent Entity (UPE) of the MNE Group. Where the CE is not the UPE, the notification should include the identity and tax residence of the Reporting Entity (RE). In essence, the CbC notification obligation applies to all Bahrain resident entities that are part of a MNE Group whether or not headquartered in Bahrain. For MNE groups with a financial year end of 31 December 2021, the first notification deadline is 31 December 2021.</p> <p>Each UPE (ie a RE) resident in Bahrain is required to file its CbC report complying with requirements in Article 5 of the MO no later than 12 months after the last day of the reporting financial year of the MNE group. In essence, the CbCR filing obligation only applies to Bahrain headquartered groups. For MNE groups with a financial year end of 31 December 2021, the first Bahrain CbC report filing deadline is 31 December 2022.</p> <p>As Bahrain is a non-reciprocal jurisdiction, the MO does not include a requirement for a Bahrain resident CE of a MNE Group headquartered outside Bahrain (UPE outside Bahrain) to submit the CbCR under the secondary filing mechanism (only a notification is required for these entities).</p>
Foreign exchange controls	Bahrain does not impose foreign exchange controls.
Financial reporting	Bahrain follows IFRS and financial statements must be filed annually with the MoICT.
Municipality tax	Ranging from 7% to 10% is applicable on the rental amount.

Bahrain tax summary

Type of tax/regulation	Summary
Economic substance rules	<p>The MoICT and the Central Bank of Bahrain (CBB) issued a Directive OG/499/2018 (CBB Directive) on 22 November 2018 and a Ministerial Decision no. 106 (MO 106) on 27 December 2018 (collectively 'ES rules' or 'ESR') imposing substance requirements for Bahraini entities undertaking geographically mobile activities in, from or through Bahrain. The ES rules apply to entities (corporations, branches and partnerships) that are carrying on one or more of the following relevant activities:</p> <ul style="list-style-type: none"> – Distribution and service centre – Headquarters – Holding company – Leasing – Shipping – Intellectual property (IP) – Banks – Financing companies – Insurance – Investment firms (CBB categories 1 & 2) – Fund administrators <p>Some of the above activities are regulated by the CBB and therefore those CBB regulated entities will need to report to the CBB. Entities undertaking one or more of the relevant activities must meet the ES tests – they must prove that they have genuine commercial operations and management in Bahrain. The deadline to file the ES return for Bahrain entities is three months from the end of their financial year. For the financial year ended 31 December 2020 the deadline was 31 March 2021. However, the NBR has introduced a new online portal from August 2021 and extended the deadline to 12 September 2021. Businesses that have already filed their returns will need to refile through the new updated online portal.</p>
Ultimate beneficial ownership (UBO) rules	<p>The MoICT has issued a Ministerial Order which requires all Commercial Registration (CR) holders in Bahrain to disclose the information of the UBO for each corporate shareholder via the MoICT's online portal (Sijilat). The UBO is a natural person who ultimately owns or controls a CR, and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise effective control over a legal person or arrangement and have control on any CR through means other than ownership.</p>

This document 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. To know more about how we can assist, **contact us:**



Mubeen Khadir
 Partner
 Head of Tax and Corporate Services
 KPMG Fakhro
 T: +973 3222 6811
 E: mubeenkhadir@kpmg.com