Tax Insights

Bahrain Corporate Income Tax (CIT)

December 2025

Background

In May 2023, the Minister of Finance and National Economy confirmed during a parliamentary session that Bahrain is aligned with the global direction to introduce corporate taxation as part of a sustainable fiscal agenda.

On 1 September 2024, Bahrain became the first GCC jurisdiction to announce and implement a Domestic Minimum Top-up Tax (DMTT), effective for fiscal years beginning on or after 1 January 2025. The DMTT applies to Bahrain Constituent Entities of large multinational enterprise groups with consolidated global revenues above EUR 750 million in at least two of the previous four fiscal years.

Bahrain's 2025-2026 state budget has since confirmed the Government's intention to introduce a broad-based Corporate Income Tax (CIT). In November 2025, the IMF publicly supported Bahrain's plan to adopt corporate taxation to increase non-oil revenues and strengthen fiscal balance. On 21 December 2025, the Bahrain executive and legislative authorities held a joint meeting to discuss proposed initiatives to develop public finances with one of the key measures being the taxation of business profits exceeding a specified threshold.

Based on the above, Bahrain is expected to introduce a standard CIT regime similar to other GCC countries. The regime may take effect for fiscal years beginning 1 January 2026 (or 1 January 2027) with the law and executive regulations expected to be issued in the next few months.

What is CIT?

Corporate Income Tax (CIT) is a direct tax levied on taxable income earned by a taxable person during a financial year. CIT is generally assessed through an annual tax return and may be subject to audit by the tax authority.

In Bahrain, taxable persons could include companies, establishments, branches of foreign entities, and individuals-whether or not commercially registered-who are considered to be carrying on a business.

What would Bahrain CIT look like?

Bahrain is expected to apply a standard CIT rate in the range of 8 percent to 10 percent. Key features likely to be reflected in the law include:

CIT is expected to **apply** to all commercial activities. Individuals carrying on business activities, with or without a commercial registration, are likely to fall within scope.

Oil and gas exploration, production and refining activities may remain outside the regime, as they are already taxed under a dedicated framework. Small-business relief may apply below a specified revenue threshold. Employment income and passive investment income earned by individuals should remain outside CIT.

Capital gains on the disposal of assets are expected to be taxable, with potential exemptions subject to meeting conditions (for example, group restructuring). Transitional provisions should prevent taxation of gains generated prior to CIT go-live.

A **participation exemption** may apply to exclude dividends and capital gains received from qualifying domestic or foreign shareholdings from being taxed.

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Withholding tax (WHT) may apply to outbound payments such as dividends, interest, royalties and management fees paid to non-residents. Current GCC practice varies: the UAE applies 0 percent, while Saudi Arabia and others levy rates between 5 percent and 20 percent.

Tax depreciation rules often differ from accounting depreciation, resulting in a variance between an asset's tax base and book value. Some jurisdictions, including the UAE, allow tax deductions based on accounting depreciation, while others, such as Saudi Arabia, require the use of prescribed tax depreciation rates.

Bahrain may also permit **tax consolidation/grouping**, allowing qualifying group entities to be treated as a single taxable person for CIT purposes. While the UAE, Australia and several EU jurisdictions recognize tax grouping, others in the region, including Saudi Arabia and Oman, do not support tax consolidation.

Non-deductible expenditure is expected to include **fines & penalties**; and personal or recreational costs. Certain countries, such as the UAE, permit partial deductibility of entertainment expenditure, up to 50 percent and subject to conditions.

Tax losses may be eligible for carryforward to offset taxable income in future periods-or within a tax consolidated group-subject to conditions. For example, UAE rules allow brought-forward losses to offset up to 75 percent of taxable income. Other regional jurisdictions, including Kuwait and Qatar, impose time limits after which unused losses expire.

Dividends and other **payments to shareholders** and related parties are generally non-deductible. Some countries permit limited deductibility, subject to statutory caps or arm's-length requirements. Oman permits deductions for related-party payments within defined thresholds, Saudi Arabia disallows related-party deductions entirely, and the UAE permits deductions subject to arm's-length/market-value tests.

Charitable donations are usually deductible only when paid to qualifying charitable organizations, sometimes within a prescribed limit. For instance, Oman caps deductibility at 5 percent of gross income and restricts eligibility to specified institutions.

Interest payments under financing arrangements are generally deductible. Deductibility on related-party interest is typically governed by transfer pricing rules. Some jurisdictions impose further limitations, such as caps linked to income (UAE), formula-based limits (Saudi Arabia) or debt-to-equity ratio requirements.

- Generally, a deduction for **employee salaries and benefits** is available subject to certain restrictions. In some jurisdictions, benefits given to employees may be deductible subject to conditions and limits. For example, in Saudi Arabia, school fees paid by a company for children of employees are tax deductible if this benefit is stated in the employment contract and the fee relates to a local licensed school.
- Any tax (including WHT) paid in a foreign jurisdiction may be available as a **foreign tax credit** for offsetting against the CIT liability in Bahrain. This will be subject to conditions prescribed in the Double Taxation Avoidance Agreement (DTAA) between Bahrain and the relevant foreign jurisdiction.
- Specific **transfer pricing** rules will apply to ensure that domestic and cross border transactions between related parties are carried out at arm's length (at market value) to prevent manipulation of taxable income.

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How will CIT impact entities already subject to DMTT?

Currently, the top up tax for Bahrain CEs of an MNE group in-scope for DMTT will be close to 15% as there is no broad-based CIT due to which the current ETR would be close to 0%. However, once Bahrain introduces a broad-based CIT, large MNE groups will need to first compute their tax liability under the CIT legislation and subsequently compute the top-up tax as per the DMTT rules.

What should Bahrain businesses be doing now?

Bahrain businesses should focus on the following:

Assessment and planning
- Conduct a CIT impact assessment on an as-is basis
- Review legal structure, current business operations and future business plans
- Review and identify risks in relation to related party transactions

Implementation (once law and/or regulations are released)
- Consider impact of transitional rules
- Seek clarification on ambiguities or uncertain tax positions
- Review impact of tax accounting adjustments
- ERP setup to support tax calculation and tax return preparation

Administration
- Tax registration
- Tax filing process
- Transfer pricing documentation
- Preparing for tax audits/assessments

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.

Whilst the date of CIT implementation in Bahrain has not yet been announced, our publications are intended to provide Bahrain businesses with insights on leading practice. Businesses that act proactively will be better prepared to deal with the challenges of a rapidly evolving tax landscape.

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

Shashank Chandak
Director, Tax and Corporate Services
KPMG Fakhro
T: +973 3553 1905
E: shashankchandak@kpmg.com