Tax Insights

Bahrain Corporate Income Tax (CIT)

Deferred Taxes

Background

Multiple public announcements have confirmed that Bahrain's 2025–2026 fiscal budget includes a proposal to introduce a broad-based CIT, a position reiterated by the International Monetary Fund (IMF) in November 2025. On 29 December 2025, during the weekly Cabinet Meeting, a draft law was referred to the legislative authorities imposing 10% tax on local companies. The press release refers to the tax applying on "local companies whose annual revenues exceed BHD 1 million or net annual profits exceed BHD 200,000". It is still unclear whether the reference to "net annual profits" should be a reference to taxable income. We expect Bahrain to introduce a standard CIT regime similar to other GCC countries. The regime is expected to take effect for fiscal years beginning on or after 1 January 2027 with the law and executive regulations expected to be issued in the next few months.

In this publication we cover the basic concept of deferred tax assets (DTAs) and deferred tax liabilities (DTLs). Our tax publications are intended to provide a brief introduction to some of the key concepts which will be relevant once a CIT is introduced. We recommend businesses seek tax and accounting advice in relation to their specific circumstances.

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 is deferred tax?

With the introduction of CIT, one of the key issues that businesses will face is the recognition and measurement of DTAs and DTLs under applicable International Financial Reporting Standards (IFRS) which prescribe the accounting treatment for income taxes.

DTAs / DTLs represent the future tax consequences of temporary differences between the carrying amounts of assets and liabilities on the balance sheet and their tax base, unless these qualify for specific recognition exemptions.

Key consideration	Deferred tax liability	Deferred tax asset
What is it?	Taxes payable in future period(s) in respect of taxable temporary differences	Taxes recoverable in future period(s) in respect of deductible temporary differences, carryforward of unutilized tax losses and tax credits
When does it arise?	- when an item of income is included in accounting profit in one period, but in taxable profit in a later period; or - an expense deduction is claimed earlier for tax purposes than for accounting purposes	- when an item of income is included in taxable profit before it is included in accounting profit; or - an expense is recognised for accounting purposes before it is deducted for tax purposes

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Key consideration	Deferred tax liability	Deferred tax asset
What is an example?	An asset's carrying amount in the financial statements is greater than its tax base (e.g., due to accelerated tax depreciation compared to straight-line accounting depreciation). The entity will have to pay more tax in the future as the asset's remaining value is recovered through use.	An entity recognizes an expense for estimated warranty costs for accounting purposes, but the tax deduction is only allowed when the actual costs are incurred during a later period. This creates a future tax deduction.
How is it disclosed in the financial statements?	It is generally listed on the balance sheet under ‘Non-current Liabilities’	It is generally listed on the balance sheet under ‘Non-current Assets’
When is it recognized?	A DTL is generally recognized for all taxable temporary differences unless it qualifies for exemptions.	A DTA is generally recognized in respect of deductible temporary differences only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilized, subject to certain exemptions.

How do you compute a DTL and DTA?

Temporary Difference = **Carrying Amount** − **Tax Base**

Deferred Tax Asset / (Liability) = **Temporary difference** × **Tax Rate**

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Simplified illustration*

Particulars		Example 1 Amount (BHD)	Example 2 Amount (BHD)
A	**PPE WDV (Accounting carrying value)**	50,000	20,000
B	**PPE Tax WDV (Tax Base)**	30,000	30,000
C	**Temporary difference (A - B)**	20,000	(10,000)
D	**Tax rate (assumed)**	10%	10%
E	**Deferred tax asset/(liability) - (C * D)**	2,000	(1,000)

**The above is only a simplified illustration and the computation of the DTA and DTL should follow the applicable IFRS.*

In example 1, as the accounting depreciation is higher than the tax depreciation, the DTA will be created because the tax calculated on accounting income is more than tax on profit computed as per the tax rules.

In example 2, since the accounting depreciation is lower than the tax depreciation, a DTL will be recognized because the tax on accounting income is less than tax on taxable profit computed as per the tax rules.

This document is for general information only and is not intended to address the circumstances of any particular scenario. Our tax publications are intended only to provide a brief introduction to some of the key concepts which will be relevant once a CIT is introduced. We recommend businesses seek tax and accounting advice in relation to their specific circumstances.

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:

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