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Tax Insights

Bahrain Corporate Income Tax (CIT)
Capital gains tax and transitional rules

Background

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". The reference to "net annual profits" is a reference to taxable income which is computed by adjusting the accounting profit or loss. 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 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 is capital gains tax?

Capital gains tax (CGT) is a tax levied on the gain (or 'profit') made when an asset that has increased in value is disposed. CGT typically only applies only when the gain is "realized" through a sale or transfer, not while the asset is simply increasing in value (unrealized gains). We expect that a Bahrain CIT will also contain CGT provisions.

Transitional rules for CGT

The CIT law is also expected to contain transitional rules for computing capital gains on sale of immovable assets, intangible assets or financial assets ('Qualifying assets') to prevent taxation of gains generated prior to CIT go-live. For example, if any Qualifying asset asset was purchased in 2021 and CIT is introduced on 1 January 2027 and the asset was sold in September 2027, it may be unfair for CGT to apply on the gain that relates to the period prior to 1 January 2027.

Overview of UAE transitional rules for CGT

With UAE having introduced CIT recently, in this tax insights we consider how the UAE CIT transitional rules apply for computation of capital gains on Qualifying assets that are recorded on a historical cost basis in the financial statements.

- For UAE CIT purposes, a taxable person's opening balance sheet shall be the closing balance sheet prepared for the period immediately before the date of commencement of the first Tax Period. This establishes the starting point for the application of CIT. For instance, for assets or liabilities recorded on a historical cost basis, the opening balance sheet value will be the net book value as of the last day of the financial year immediately preceding the first tax period, and not the market value at that date or the full original acquisition cost (if it is already partially depreciated or amortized).

- Where such assets are sold during or after their first tax period, taxable persons that use the historical cost method for asset valuation might find themselves realizing gains which are partially associated with periods preceding their first tax period. However, if assets or liabilities are recorded in the books of account on a fair market value basis, the opening balance sheet value in their first tax period will be the market value of the assets on such date, and the gain on disposal will not include any gains related to periods preceding the first tax period.

- Thus, under the UAE CIT rules, where a taxable person applies the historical cost basis, the transitional rules aim to limit the taxable gain to the gain which arises after the start of the first tax period, in relation to certain categories of assets. The UAE CIT rules provide two methods to compute the excluded amount of the gain – valuation method and time apportionment method.

- Under the valuation method, the excluded amount is the amount of gain that would have arisen had the property been disposed of at market value at the start of the first tax period while considering the cost base of the property as the higher of the original purchase cost and the net book value.
- Under the time apportionment method, the excluded gain amount is calculated by pro-rating the gain based on the period elapsed between the date the asset was purchased and the start of the first tax period.

UAE transitional rules for CGT also provide for the use of specific method(s) depending on the asset category.

Asset category	Adjustment applicability	Valuation method	Time-apportionment method
Immovable property	Election on an asset-by-asset basis	Yes	Yes
Intangible Assets	Election applies to all assets	-	Yes
Financial Assets and Financial Liabilities	Election applies to all assets and liabilities	Yes	-

Illustration 1 (UAE transitional rules):

The illustration below demonstrates the application of the valuation method for computing the taxable gain on the sale of a financial asset.

Information related to purchase and sale of a financial asset:

First tax period: 1 January 2027 to 31 December 2027
Purchase date: 1 January 2024
Original cost of purchase: BD 70 million

Market value as on 1 January 2027: BD 100 million
Sale date: 1 January 2028
Sale consideration: BD 120 million

Company elects in its CIT return to exclude the pre-CIT period gain	
Total accounting gain:	BD 50 million (BD 120 million minus BD 70 million)
Excluded gain (Pre CIT period gain):	BD 30 million (BD 100 million minus BD 70 million)
Taxable gain (Total gain minus Excluded gain):	BD 20 million (BD 50 million minus BD 30 million)

In this example, for the sale of the financial asset, applying the valuation method, the taxpayer can exclude the pre-CIT gain of BD 30 million - only if an election is made in the CIT return.

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Illustration 2 (UAE transitional rules):

The illustration below (based on example 15 and 16 in the UAE FTA Corporate Tax Guide | CTGACS1) highlights a key issue for Bahrain businesses to consider with the impending introduction of CIT in Bahrain.

Information related to purchase and sale of a building:

First tax period: 1 January 2027 to 31 December 2027
Original cost of purchase: BD 20 million
Accumulated depreciation: BD 3 million
Net book value: BD 17 million
Purchase date: 1 January 2024
Market value on 1 January 2026: BD 24 million

Property sold: 31 December 2027 for BD 27 million
Closing balance sheet on 31 December 2027: NBV of BD16 million (after accumulated depreciation of BD 3 million and depreciation of BD1 million for YE 31 December 2027)
Total gain before any adjustment: BD 11 million (Sale price - BD 27 million Minus NBV - BD 16 million)

Valuation method		Time apportionment method	
Market value on commencement of first tax period	BD 24 million	Sale consideration	BD 27 million
		Less: Higher of the original cost and the net book value on commencement of first tax period	BD 20 million
Higher of the original cost and the net book value on commencement of first tax period	BD 20 million	Amount of gain that would have arisen assuming cost base is higher of the original cost and the net book value on commencement of first tax period	BD 7 million
		Ratio of period asset was held prior to first tax period to the total period the asset was held	1096 days (1 Jan 24 to 31 Dec 26) /1461 (1 Jan 24 to 31 Dec 27) = 75.02%
Excluded gain	BD 24 million minus BD 20 million = BD 4 million	**Excluded gain**	75.02% of BD 7 million = BD 5,251,400
Taxable gain (Total gain minus Excluded gain)	BD 11 million minus BD 4 million = **BD 7 million**	**Taxable gain (Total gain minus Excluded gain)**	BD 11 million minus BD 5,251,400 = **BD 5,748,600**

In this example, for the sale of the building, applying the time apportionment method has led to a lower taxable gain compared to using the valuation method. Depending on various factors including the holding period of the asset and the market value as on CIT go-live date, there may be scenarios where the taxable gain as per one method may be lower compared to the other method(s).

Whilst this publication refers to CIT rules in other jurisdictions, such reference is only for conceptual understanding and should not be construed as tax advice. This document is for general information only and is not intended to address the circumstances of any particular scenario. Our tax publications are intended to provide a brief introduction to some of the key concepts which will be relevant once a Bahrain 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.

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