

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.

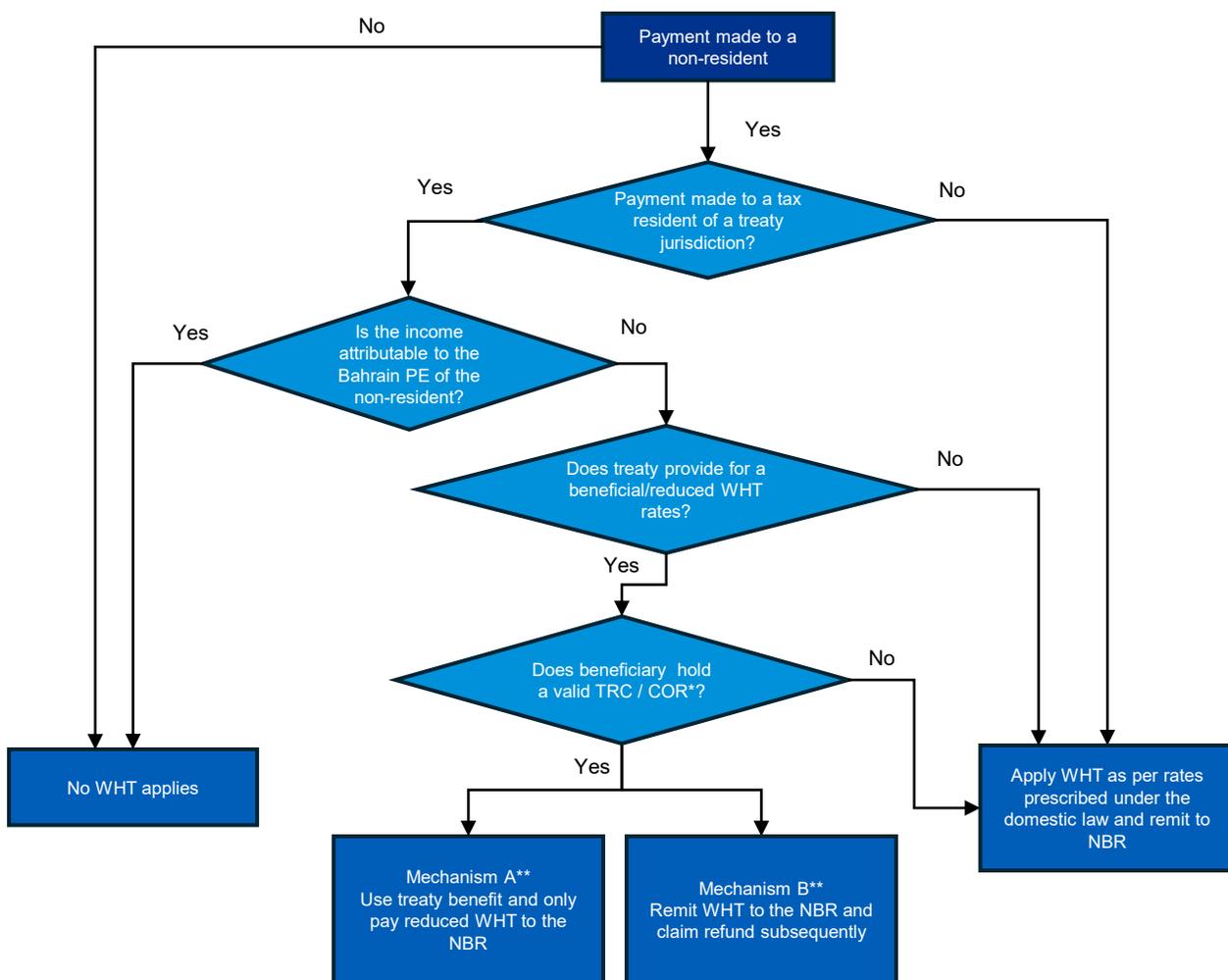
What is Withholding Tax?

- Withholding tax (WHT) is a tax deducted at source from income (dividends, interests, royalties and service payments) derived from a jurisdiction. Whilst WHT can apply on domestic and cross-border payments, in jurisdictions such as KSA, WHT applies only on cross-border payments.
- WHT rates may vary based on the nature of payment and the Bahrain resident person responsible for collecting WHT will be required to file periodic returns and remit the WHT to the National Bureau for Revenue (NBR). Based on news reports we understand Bahrain is likely to apply WHT of 5% on payments to non-residents for royalties, interest and services. We expect that dividends will be subject to 0% WHT.
- Payments made to non-resident persons carrying out business activities in a jurisdiction through a Permanent Establishment (PE) are typically not subject to WHT, where the income is attributable to such PE.

Tax treaties and WHT

- A tax treaty - also called a double tax treaty (DTT) or double taxation agreement (DTA) - is a formal agreement between two countries (typically referred to as Contracting States) that sets out how different income streams are taxed for transactions involving parties from each Contracting State.
- Tax treaties may provide certain benefits including exemptions or reduced WHT rates on specified foreign income that is derived from either of the Contracting States.
- To avail treaty benefits, the eligible party is generally required to obtain and submit a Tax Residency Certificate (TRC) / Certificate of Residence (COR) to substantiate the country of tax residence.
- Treaty benefits can be availed either by a refund mechanism after making payment of the full WHT amount or by way of an upfront exemption where the reduced WHT rate is applied on the relevant payment when conditions are met.

We have outlined below a flow chart on how WHT is likely to apply. Like KSA, we expect that Bahrain WHT will apply only on payments to non-residents.



*The NBR may impose other procedural requirements to avail the treaty benefit.

**Based on other jurisdictions we expect Bahrain to follow one or both mechanisms.

The table below provides a summary of the WHT rates that are expected to apply to cross-border payments made by Bahrain resident entities to recipients who are tax residents of jurisdictions with whom Bahrain currently has an existing tax treaty.

In practice, the applicable WHT rate is generally the lower of the domestic WHT rate, or the rate provided under the applicable tax treaty. The availability for treaty benefits may be subject to specific conditions and requirements under the applicable agreement.

Recipient	WHT %			
	Dividends	Interest	Royalties	Services
Algeria	0	0	0	5
Austria	0	0	0	5
Bangladesh	0	5	5	5
Barbados	0	0/5	0	5
Belarus	0	0/5	0/5	5
Belgium	0	0/5	0	5
Bermuda	0	0	0	0
Brunei Darussalam	0	5	5	5
Bulgaria	0	5	5	5
China	0	5	5	5
Cyprus	0	0	0	5
Czech Republic	0	0	5	5
Egypt	0	5	5	5
Estonia	0	0	0	5
France	0	0	0	5
Georgia	0	0	0	5
Guernsey	0	0	0	5
Hong Kong SAR	0	0	5	5
Hungary	0	0	0	5
Iran	0	0/5	0/5	5
Ireland	0	0	0	5
Isle of Man	0	0	0	5
Jersey	0	5	5	5
Jordan	0	5	5	5
Korea	0	0/5	5	5
Lebanon	0	0	5	5
Luxembourg	0	0	0	5
Malaysia	0	5	5	5
Malta	0	0	0	5
Mexico	0	4.9/5	5	5
Morocco	0	5	5	5
Netherlands	0	0	0	5
Pakistan	0	5	5	5
Philippines	0	5	5	5
Portugal	0	5	5	5
Seychelles	0	0	5	5

Recipient	WHT %			
	Dividends	Interest	Royalties	Services
Singapore	0	5	5	5
Sri Lanka	0	5	5	5
Sudan	0	0	0	5
Sultanate of Oman	0	0	5	5
Switzerland	0	0	0	5
Syria	0	0/5	0/5	5
Tajikistan	0	0/5	0/5	5
Thailand	0	5	5	5
Turkey	0	5	5	5
Turkmenistan	0	0/5	0/5	5
UAE	0	0	0	5
United Kingdom	0	0/5	0	5
Uzbekistan	0	5	5	5
Yemen	0	0	0	5

The information presented in the table above is for general information only and does not consider all applicable treaty conditions, exemptions, or specific anti-avoidance provisions.

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.

To know more about how we can assist, contact us:



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