



Bahrain Tax Alert

Draft Bahrain Corporate Income Tax (CIT) Law

March 2026

On 29 December 2025, during the weekly Cabinet Meeting, a draft CIT law was referred to the Bahraini legislative authorities imposing 10% tax on local businesses. Subsequently, on 23 February 2026, the Bahrain Chamber of Commerce and Industry (BCCI) invited representatives from the Bahrain business community to provide a brief overview of the draft CIT law. The BCCI also shared an Arabic copy of the draft CIT law as part of a closed consultation process inviting inputs on the draft law.

The draft CIT law comprises a total of 61 Articles which are divided into 11 Chapters. As anticipated, it indicates that the Bahrain CIT regime will be similar to those in other GCC countries. The law will be administered by the National Bureau for Revenue (NBR) and is expected to take effect for fiscal years beginning 1 January 2027 with the final law and executive regulations expected to be issued in the next few months. The executive regulations and decisions (Regulations) for the implementation and enforcement of the CIT law are not yet available in the public domain. We have outlined below certain key features of the draft CIT Law.

Key aspect	Details
Scope	<p>CIT will apply on the following:</p> <ul style="list-style-type: none"> • Taxable income derived from business activities conducted inside or outside Bahrain by resident legal and natural persons; • Taxable income derived from business activities carried by a non-resident through a Permanent Establishment (PE) in Bahrain; and • Income arising in Bahrain derived by a non-resident - subject to Withholding Tax (WHT) <p>A resident person or a PE that meet any of the following conditions will be in scope:</p> <ul style="list-style-type: none"> • Revenues exceed BHD 1 million; or • Taxable income exceeds BHD 200,000. <p>The threshold test does not apply to a non-resident deriving income arising in Bahrain which will be subject to WHT.</p> <p>Personal employment income, real estate investment income, and personal real estate investment income will not be considered as taxable income. Further details on what constitutes real estate investment income should be provided in the Regulations.</p>
Tax Residency	<p>A resident is -</p> <ul style="list-style-type: none"> • A legal person created under the laws of Bahrain • A legal entity that has been established under the laws of a foreign jurisdiction and has its place of effective management (POEM) in Bahrain • A natural person who is physically present in Bahrain for a period or periods totaling more than 183 days during the calendar year. <p>A legal or natural person not meeting the conditions above will be considered a non-resident person.</p>
Rates	<p>CIT rates</p> <ul style="list-style-type: none"> • 0% on taxable income up to BHD 200,000 • 10% on taxable income exceeding BHD 200,000 <p>WHT rates</p> <ul style="list-style-type: none"> • 0% on dividends • 5% on interest, royalties and services

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Exempt persons	<ul style="list-style-type: none"> • Government entities • Non-profit organizations • Government investment fund excluding owned entities • Licensed pension fund by the competent authorities <p>If any of the above engages in a business activity that is neither essential for fulfilling its main purpose nor incidental to the main purpose, the income generated from such activity will be subject to CIT.</p>
Exempt income	<ul style="list-style-type: none"> • Dividends and other profit distributions received “by a” resident legal entity (it is unclear whether this should be ‘from a’ resident legal entity which will be consistent with the UAE CT law for treatment of dividends received from domestic entities) • Dividends, other profit distributions, and capital gains arising in relation to a ‘participation interest’. Specific conditions prescribed for an ownership interest to qualify as a participation interest. • Income of a foreign PE meeting certain conditions • Income generated by a non-resident from operating aircraft or ships in international transportation • Income realized and applied for public benefit purposes • Government grants • Income from financial services, professional services, or logistics services • Any other income specified in a Ministerial Decision <p>The conditions, procedure and scope for the above exemptions will be prescribed in the Regulations.</p>
Calculation of taxable income	<p>Tax period is the 12-month period for which the taxpayer prepares financial statements. The taxable income for a tax period is the accounting income adjusted for the following –</p> <ul style="list-style-type: none"> • Tax losses • Fair value gain or loss related to assets or liabilities • Capital gains or losses on disposal of assets or liabilities • Allowable depreciation and amortization • Exempt income • Non-deductible expenses (see next page) • Transfer pricing adjustments • Tax incentives <p>Further details on the above adjustments will be provided in the Regulations.</p>
Calculation of tax due	<p>CIT liability for a tax period will be the taxable income multiplied by the tax rate. Subject to conditions, following amounts may be deducted from the CIT liability for a tax period:</p> <ul style="list-style-type: none"> • Foreign Tax Credit • Tax paid under the Oil & Gas tax regime. • Specified tax incentives and facilities. <p>Further details on the above will be provided in the Regulations.</p>
Tax losses	<ul style="list-style-type: none"> • Tax losses may be carried forward to subsequent tax periods. • Tax losses can be utilized up to 50% of the taxable income for the future tax period. • Tax losses can be utilized on a First-In-First-Out basis. <p>Further details on tax loss carry forward and utilization will be provided in the Regulations.</p>

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Transfer pricing	<p>Transactions with related parties should adhere with the Arms Length Principle. Related persons have been defined as -</p> <ul style="list-style-type: none"> • Two or more persons where one person participates directly or indirectly in the management control or capital of the other person or where the same person participates directly or indirectly in the management control or capital of both persons. • A person and its PE
	<p><u>Deductible Expenses</u></p> <ul style="list-style-type: none"> • Expenses incurred fully and exclusively for taxpayer's business activities will be deductible. • Expenses that cannot be specifically allocated towards taxable income, an appropriate proportion or percentage of such expenses determined on a fair and reasonable basis must be determined. • Depreciation and amortization expenses calculated based on rules and conditions to be prescribed under the Regulations
Expense deductibility	<p><u>Non-deductible Expenses</u></p> <ul style="list-style-type: none"> • Expenses earned to generate exempt income, except interest expense • Capital expenditure • Depreciation and amortization expenses recorded in the financial accounts • Entertainment expenses as specified in the Regulations • Fines and penalties • Illegal expenses or unlawful payments • Recoverable input VAT • Donations, grants and gifts except those specified in the Regulations • Bad debts that do not meet conditions • CIT payable under the Bahrain CIT Law and any income tax paid in a foreign jurisdiction • Dividends, profit distributions or similar benefits paid by the taxpayer • Amounts withdrawn from the business activities of a natural person subject to CIT • Any other expenses specified in the Regulations
Interest deduction limitation	<ul style="list-style-type: none"> • Net interest expenses exceeding 30% of positive accounting Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) (excluding exempt income) will be non-deductible. • Non-deductible net interest expenses can be carried forward and deducted from taxable income during the 5 subsequent tax periods. • The limitation only applies if the net interest expenditure for the relevant tax period exceeds BHD 1.4 million. • The definition of interest is broad and covers Islamic finance income equivalent to interest. • Interest deduction limitation will not apply to banking and insurance activities.
Tax grouping	<ul style="list-style-type: none"> • Tax grouping is permitted for resident persons and Bahrain PEs of non-residents. A member of a tax group should have at least 75% ownership interest in the other member(s) or both members should be directly or indirectly owned at least 75% by a common person. • Tax loss incurred by a member of the tax group may be utilized to reduce the taxable income of other members of the same tax group for that same tax period, subject to conditions and limits. • Gain or loss on the transfer of assets or liabilities between members of the same tax group will be disregarded for computation of taxable income.

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Financial statements	<p>Financial statements must be prepared in accordance with any of the following accepted accounting standards:</p> <ul style="list-style-type: none"> • International Financial Reporting Standards (IFRS) • Standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) • Any other generally accepted accounting principles permitted under the laws of Bahrain and acceptable by the NBR <p>The Regulations will specify persons that will be required to prepare and maintain audited financial statements and submit such financial statements to the NBR.</p>
Transitional provisions	<ul style="list-style-type: none"> • The transitional financial position of the taxpayer will be the closing financial position at the end of the last accounting period before the first tax period subject to the CIT law. • We expect the Regulations to contain specific transitional rules for computing capital gains on assets acquired prior to the CIT effective date to prevent taxation of pre-CIT gains.
Withholding Tax (WHT)	<ul style="list-style-type: none"> • Any resident person (except natural persons not carrying on a business) or a Bahrain PE of a non-resident making payment of income arising in Bahrain to a non-resident will be responsible for computing, collecting and remitting WHT to the NBR. • Payments made to non-resident persons having a PE in Bahrain will not be subject to WHT, where the income is attributable to such PE. • Tax treaties provide certain benefits including exemptions or reduced WHT rates on specified foreign income. The NBR may impose other procedural requirements to avail the treaty benefits. <p>For more details on applicability of WHT, impact of tax treaties and the WHT rates that are expected to apply to cross-border payments made by Bahrain resident entities, our Tax Insight article on WHT can be accessed here.</p>
Administration	<ul style="list-style-type: none"> • Taxpayers and persons obligated to apply WHT must register with the NBR. The form, procedures and timelines for the registration will be specified in the Regulations. • Taxpayers will be required to submit a tax return to the NBR for each 12-month tax period. The form, procedures and timelines for submission of the annual tax return will be specified in the Regulations • Persons responsible for collecting WHT will be required to file quarterly WHT returns. The form, procedures and timelines for submission of the quarterly WHT returns will be specified in the Regulations • The NBR may conduct audits to verify accuracy of tax returns or withholding tax returns. • Advance tax payments will be required. The frequency of the payments and methodology for computation of the advance tax liability will be specified in the Regulations. • Even those businesses below the relevant thresholds may be required to register and file nil returns.
Penalties	<p><u>Administrative penalties</u></p> <ul style="list-style-type: none"> • Failure to apply for registration within the prescribed period – up to BHD 10,000 • Failure to submit a tax return or WHT declaration within the prescribed period – up to 30% of the tax that should have been declared • Failure to pay tax within the prescribed periods - 1% of the value of unpaid tax or unpaid advance tax for each month or part of a month, with the total fine not exceeding 70% of the payable tax. <p>In addition to the above, there are administrative penalties prescribed for other offences. <u>Tax evasion offences</u> may attract imprisonment of up to 5 years and fines of up to 3 times the tax amounts involved.</p>

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Miscellaneous provisions	<ul style="list-style-type: none"> • Specific provisions for qualified business restructurings and provisions for special tax incentives and reliefs. • Natural person who is a taxable person may make an irrevocable election to calculate taxable income on a deemed profit basis (manner to be specified in the Regulations). • Targeted and general anti-tax avoidance rules wherein if the NBR concludes that a transaction or arrangement lacks genuine commercial reasons, the NBR may disregard the arrangement and assess tax on income from such an arrangement. • The Chief Executive of the NBR may issue a decision specifying circumstances in which one may request a tax opinion or advance pricing agreement. • Taxpayers may appoint Tax Agents authorized by the NBR to act on behalf of a taxpayers. • Trusts, local partnerships that do not have a separate legal personality from its partners, investment funds will be tax-transparent i.e. the entity or arrangement will itself not be subject to CIT but any partner, member, beneficiary, or other identifiable person with a transparent beneficial interest will be subject to CIT. • Specific provisions which allows taxpayers and persons responsible for WHT that discover errors in the submitted tax return or WHT return to amend the tax return or WHT return. • Joint and several liability for payment of tax dues and administrative fines in certain scenarios. • Review and appeals process: <ul style="list-style-type: none"> ✓ A person against whom a decision has been issued by the NBR can submit a review request to the NBR. ✓ An objection against the decision of the NBR review may be submitted to the Tax Objections Committee. ✓ An appeal against the decision of the Tax Objections Committee may be submitted to the competent court. • The provisions of CIT law will not override Bahrain’s international obligations under treaties and agreements with foreign states, international/regional organizations, or any other multilateral/bilateral protocols or agreements to which Bahrain is a party.

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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