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Tax Insights

Bahrain Domestic Minimum Top-up Tax (DMTT) Computation Guide

July 2026

In June 2026, the Bahrain National Bureau for Revenue (NBR) in June 2026 released the DMTT Computation Guide (Guide). The Guide outlines the methodology for computing tax under the Bahrain DMTT legislation. The Guide is intended to provide much needed guidance to in-scope multinational enterprise (MNE) groups for their first annual DMTT return filing for fiscal year (FY) 2025. The Guide is largely aligned with the GloBE Model Rules, Commentary and Administrative Guidance released by the Organization for Economic Cooperation and Development (OECD).

In this publication, we provide an overview of the key contents of the Guide.

1. Computation blending

The Guide confirms that separate DMTT computations should be prepared for the following entities:

- Constituent Entities (CEs)
- Minority Owned Constituent Entities
- Investment Entities and Insurance Investment Entities
- Stateless Constituent Entities
- Joint Venture and Joint Venture Subsidiaries

2. Steps for computing DMTT

Step 1
Determine Financial Accounting Net Income or Loss (FANIL)

Step 2
Adjust FANIL to determine CE income or loss

Step 3
Identify Covered Taxes of each CE

Step 4
Allocate Covered Taxes to other CEs as required

Step 5
Adjust Covered Taxes for temporary differences and losses to arrive at Adjusted Covered Taxes

Step 6
Compute ETR on aggregate basis
- ***Net CE Income = Absolute value of aggregate CE income − absolute value of aggregate CE loss***
- ***ETR = Adjusted Covered Taxes ÷ Net CE Income***

Step 7
If ETR <15%, compute Additional Tax Rate
Additional Tax Rate = 15% − ETR

Step 8
Compute the Substance-based Income Exclusion

Step 9
Compute Taxable Income
Taxable Income = Net CE Income − Substance-based Income Exclusion

Step 10
Compute Additional Current Tax

Step 11
Compute Additional Tax for Permanent Differences

Step 12
Compute the Tax Due
Tax Due = (Additional Tax Rate × Taxable Income) + Additional Current Tax + Additional Tax for Permanent Differences

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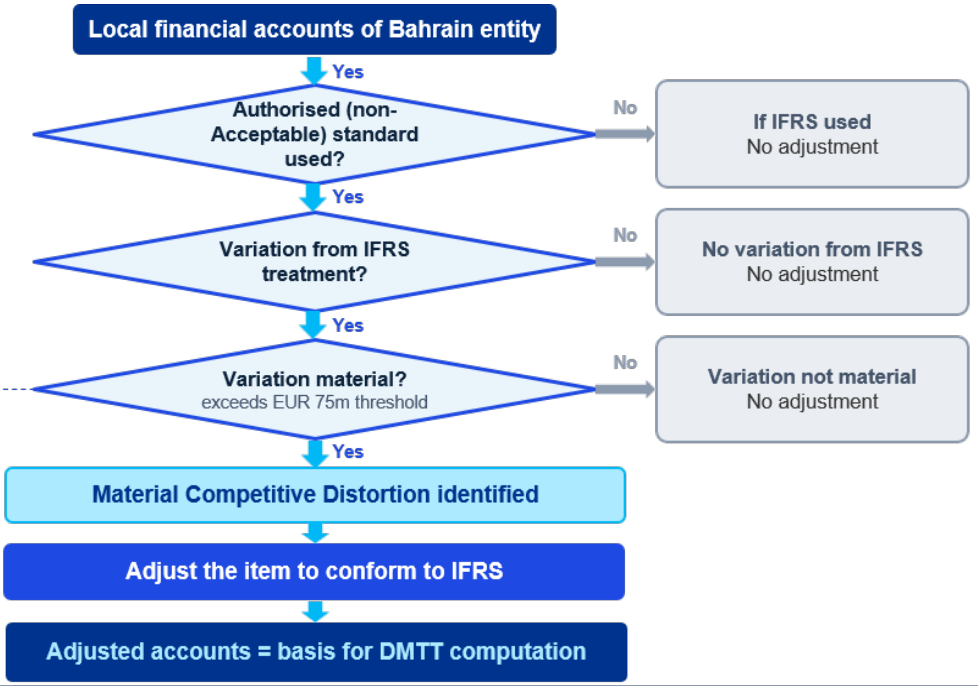
3. Material Competitive Distortions (MCD)

- The NBR recognizes two Authorized Accounting Bodies in Bahrain, the Ministry of Industry and Commerce (MoIC) and the Central Bank of Bahrain (CBB) for the purpose of Authorized Financial Accounting Standards.
- While the MoIC requires entities to prepare financial statements using International Financial Reporting Standards (IFRS), the CBB requires certain entities to prepare financial statements using standards set out by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Whilst AAOIFI standards are considered Authorized Financial Accounting Standards, they are not considered as Acceptable Financial Accounting Standards. Therefore, financial statements prepared using these standards should be tested for MCD.



Materiality thresholds for MCD

For Bahrain CEs

A x B ÷ C
- A is EUR 75,000,000
- B is the aggregate annual revenue of all Bahrain CEs; and
- C is the annual revenue of MNE group.

For Bahrain JVs and JV subsidiaries

D x (E + F) ÷ G
- D is EUR 75,000,000
- E is the aggregate annual revenue of the Bahrain JV and its Bahrain JV subsidiaries (if any);
- F is the aggregate annual revenue of any Bahrain CEs of the MNE group (if any);
- G is the annual revenue of the MNE group.

Whether each variation is material for DMTT purposes would need to be tested. If a specific variation exceeds the materiality threshold, adjustment will be required. However, if sum of the variations exceeds the materiality threshold without any specific variation breaching the threshold, no adjustment should be required.

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4. Aligning the financial accounts data of a CE with FY

The Local Financial Accounting Standard may not be used for the DMTT computation, when there is a deviation between the accounting period of the Ultimate Parent Entity (UPE) and a CE. In such cases, the data should be the data of the CEs that was used to prepare the Consolidated Financial Statements of the UPE for the FY.

5. Allocation of FANIL & Covered Taxes

5.1 Allocation of FANIL

For Permanent establishments (PEs)
Special rules for the allocation of FANIL for PEs are further elaborated to ensure that income or loss is attributed to the appropriate CE or owner that reflects the underlying economic basis. This includes rules for allocating the losses of PE when the foreign tax credit method is used to avoid the double taxation of income derived through a PE.

For Flow-through entities (FTEs)
The FANIL of an FTE must first be reduced by the portion attributable to the ownership interests held directly or indirectly by owners which are not part of the MNE Group, except in certain circumstances.

5.2 Allocation of Covered Taxes

Taxes have been clarified to include compulsory unrequited payments to the general Government. The general government has been further elaborated as the central administration, agencies whose operations are under its effective control, state and the local governments and their administrations.

Key factor in determining whether a payment is a tax is its underlying nature, not its name, collection method, timing of the tax being levied or whether it is collected under a jurisdiction’s tax legislation or a separate legal framework.

Allocation to	Allocation basis
PE	The tax relating to the CE income or loss of a PE, should be allocated to the PE and Covered Taxes allocated to the PE in should be excluded from the Adjusted Covered Taxes of the main entity.
Tax Transparent Entity	When a TTE that is not an UPE records Covered Tax in its financial accounts, each CE owner should be allocated the Covered Taxes included in those financial accounts that relate to the CE income or loss allocated to the CE owner applying the prescribed methodology.
Hybrid entity	A CE that is a hybrid entity is allocated the amount of any Covered Taxes included in the financial accounts of a CE-owner that relate to the CE Income of the hybrid entity. Covered Taxes arising on Passive Income is allocated using the prescribed methodology.
Entity subject to Controlled Foreign Corporation (CFC) rules	A CE is allocated the Covered Taxes included in the financial accounts of its direct or indirect CE-owner(s) under a CFC Regime based on the CE owner’s share of that CE income using the prescribed methodology.
Entity subject to distribution taxation	Separate rules have been prescribed for allocating taxes arising in connection with distributions in respect of ownership interests between CEs.

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6. Adjustments to Covered Taxes

Adjustments should be made to Adjusted Covered Taxes when there are adjustments to the carrying values that are used in the DMTT computation for the following:
- Stock-based compensation
- Fair value accounting
- Transfer pricing
- CE joining or leaving the MNE Group
- Transfer of assets and liabilities

7. Mandatory adjustments to FANIL

Arms Length Principle (ALP)
All transactions and arrangements between CEs, JVs and JV subsidiaries in the same MNE Group are priced consistently and recorded at the same price for DMTT purposes.
Bahrain CEs must make an adjustment to amounts recorded as part of FANIL to ensure that an outcome of a transaction or an arrangement with a cross-border CE of the same MNE Group is consistent with the Arm's Length Principle.
For more information on ALP requirements under the Bahrain DMTT law, please refer to our previous Tax Insights – Bahrain DMTT TP Guide.

Financial instruments
A financial instrument must be classified as either debt or equity consistently by both the issuer and the holder of the instrument where both parties are CEs of the same MNE Group.
- If classified as debt, interest payments are treated as an expense for the issuer and income for the holder.
- If classified as equity, distributions (dividends) are excluded from computation where applicable exclusions apply.

Where the issuer and the holder classify the same instrument differently, the issuer's classification prevails. The holder must adjust its accounting treatment to align with the issuer's classification when computing CE income or loss.

Qualified Refundable Tax Credits and Marketable Transferable Tax Credits
The Guide clarifies that as Bahrain has not issued such tax credits, it is not expected that Bahrain CEs and JVs will need to consider the DMTT treatment of these instruments for their DMTT computations.

8. Elections

The guide clearly outlines the adjustments that are required to be made once the election is made by MNE groups as well as the adjustments required if the election is revoked. Elections are relevant where local tax rules compute deductible amount differently from financial accounting practices.

Assets and liabilities subject to fair value or impairment accounting
A filing CE may choose to limit the election to tangible assets or assets and liabilities of Investment Entities.

Consolidation adjustments
The Guide reaffirms that the election only applies where the CEs are part of a tax consolidated Group for domestic CIT purposes. The election is limited to transactions between Bahrain CEs, other than Investment Entities, Minority-owned CEs and JVs.

Gains from the disposal of immovable property located in Bahrain
Where the election applies and the net gain is spread over the Look Back Period, the ETR and tax in prior FYs will need to be recalculated. The election can be combined with the fair value or impairment accounting election.

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Loss election

- The loss election is an alternative way to treat temporary differences for DMTT purposes. When the election is made, the mechanism described for adjusting Covered Taxes by the Total Deferred Tax Adjustment Amount does not apply.
- When a CE is located in a jurisdiction with no CIT, the election would concern only economic losses incurred that otherwise would not have a corresponding deferred tax asset.
- The election applies at a jurisdictional level and encompasses all CEs in the jurisdiction.
- When opted, a ‘Constituent Entity Loss Deferred Tax Asset’ is established for all Bahrain CEs for each FY with a net CE loss.

9. International Shipping Income (ISI) Exclusion

The exclusion only applies where the CE can demonstrate that the strategic or commercial management of all relevant ships is effectively carried on from within Bahrain.:

- Strategic management includes making decisions related to major capital investments and asset disposals, such as the acquisition and sale of ships. It also involves awarding significant contracts, the formation of strategic alliances, decisions regarding pooling vessels and decisions in relation to foreign operations.
- Commercial management encompasses various activities such as route planning, taking bookings for cargo or passenger services, handling insurance and financing, managing personnel, provisioning and training.

In relation to related expenses the Guide clarifies the following:

- The computation of ISI and Qualified Ancillary ISI requires a thorough allocation of costs.
- Direct costs, such as crew wages, fuel, maintenance, and ship depreciation, can be directly attributed. The direct costs can be deducted from the revenue earned from such activities to determine ISI and Qualified Ancillary ISI.
- Indirect costs, such as shared overhead expenses, must be allocated proportionally based on the ratio of revenue derived from International Shipping Activities or Qualified Ancillary International Shipping Activities to total revenue.

10. Substance based income exclusion (SBIE)

- In relation to eligible employees, the Guide clarifies that independent contractors includes only individuals and such individuals maybe those who are employed by a staffing or employment company but whose daily activities are performed under the direction and control of the MNE Group. The clarification aims at providing administrative ease to a difficult exercise of distinguishing an employee from an independent contractor.
- For considering right-of-use (ROU) assets for computing the eligible tangible asset carve-out, the Guide clarifies the following:
  - Where a tangible asset is leased under a finance lease, the lessee will be permitted to include the accounting carrying value of its ROU asset in calculating its tangible assets carve-out.
  - Where a tangible asset is leased under an operating lease, if the lessee does not recognize a ROU asset in their financial statements, they cannot consider one for DMTT, even if they are part of the same MNE Group as the lessor.
- If a PE does not have or prepare separate financial accounts, the amount of eligible payroll costs and eligible tangible assets should be computed as if the PE had separate financial accounts prepared in accordance with the accounting standard used by the UPE. If the income of a PE is wholly or partially excluded, the eligible payroll costs and eligible tangible assets of that PE are also excluded in the same proportion from the SBIE computation.

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11. Transition Year

- The Guide reaffirms that the first FY in which a MNE Group comes within scope of Bahrain DMTT is the Transition Year for Bahrain DMTT purposes.
- When calculating the ETR of an MNE Group for the Transition Year or any subsequent FY, the deferred tax assets or liabilities of an entity coming into scope of Bahrain DMTT should be taken into account at the lower of 15% or the rate at which the deferred tax item was recorded in the financial accounts.
- Where the rate used to record the deferred tax asset was lower than 15%, the deferred tax asset may be recast at 15% if it can be demonstrated that the deferred tax asset arises from a loss that would qualify as CE loss if the MNE Group had been in scope of Bahrain DMTT at the time the deferred tax asset was recorded.

12. Additional Current Tax

The Guide clarifies the following situations where a re-computation of the ETR and tax due should be made and where Additional Current Tax may arise in relation to prior FYs:

- Carry-back of gains from immovable property
- Temporary differences
- Post-filing adjustments

Next steps for MNE groups

- Test and confirm eligibility for the safe harbors and exclusions.
- Ensure compliance obligations such as registration and advance tax payments have been completed for the fiscal year.
- Review systems and data readiness for the reporting requirements and put in place data governance processes to ensure accurate and efficient reporting processes.
- Review and decide on the elections to be made and model impact on subsequent FYs.
- Track legislative development on account of evolving OECD Administrative Guidance.

The first DMTT filing cycle for FY 2025 will pose practical implementation challenges. Early engagement, data readiness and concluding on the filing positions are essential to a smooth first filing.

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

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