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International tax

Bahrain Highlights 2016

Investment basics:

Currency – Bahraini Dinar (BHD)

Foreign exchange control – No

Accounting principles/financial statements – IFRS. Financial statements must be filed annually.

Principal business entities – These are the joint stock company, joint stock company (closed), limited liability company, single person company, general partnership, sole proprietorship, holding company, branch of a foreign company and representative office.

Corporate taxation:

Residence – Residence is not defined. A company engaged in oil, gas or petroleum activities is taxed, regardless of where the company is incorporated.

Basis – There is no corporate tax for most companies in Bahrain, but income tax is levied on the profits of oil companies. Corporate income tax is levied only on oil, gas and petroleum companies engaged in exploration, production and refining.

Taxable income – Taxable income for oil and gas companies is net profits, which consist of business income less business expenses.

Taxation of dividends – No

Capital gains – No

Losses – Trading losses may be carried forward indefinitely. The carryback of losses is not permitted (oil companies only).

Rate – The rate is 46% on oil companies.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – No

Interest – No

Royalties – No

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – No

Social security – For Bahraini employees, the employer's social insurance contribution is 12%, which covers old age, disability, death and unemployment. For expatriate employees, the employer's social insurance contribution is 3%, which covers employment injuries.

Stamp duty – Stamp duty is levied on property transfers on the basis of the value of the property.

Transfer tax – No

Other – A levy of 10% is imposed on the gross turnover of hotels and first grade restaurants. Typically, this 10% levy is charged by hotels and restaurants to customers on their bills.

A 10% municipality tax is levied on the rental of commercial property and residential property occupied by expatriates.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – Calendar year or as specified in the company's articles of association.

Consolidated returns – No

Filing requirements – Oil companies are required to file an estimated income tax declaration on or before the 15th day of the third month of the tax year. Tax must be paid in 12 monthly installments.

Penalties – A 1% monthly penalty is imposed for failure to file and pay tax.

Rulings – No

Personal taxation:

Basis – No

Residence – No

Filing status – No

Taxable income – No

Capital gains – No

Deductions and allowances – No

Rates – No

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on property transfers on the basis of the value of the property.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – For Bahraini employees, the employee's contribution is 7%, which covers old age, disability, death and unemployment. For expatriate employees, the employee's contribution is 1%, which covers unemployment.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Monthly returns must be filed for social insurance purposes.

Penalties – Some penalties apply for failure to file the return.

Value added tax:

Taxable transactions – There is speculation that VAT may be introduced in the future, but this has not been confirmed.

Rates – N/A

Registration – N/A

Filing and payment – N/A

Source of tax law: Bahrain Income Tax Law (Amiri Decree 22/1979)

Tax treaties: Bahrain has concluded double taxation agreements (over 35) and foreign trade agreements with a number of countries.

Tax authorities: Ministry of Finance

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