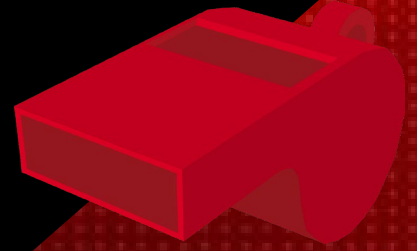


TAX ALERT

June 03, 2025



Bahrain Domestic Minimum Top up Tax – Administrative Guide

Overview

Effective 1 January 2025, Bahrain had implemented the Domestic Minimum Top-up Tax (DMTT) under Decree-Law No. 11 of 2024 and its Executive Regulations. The DMTT aligns Bahrain with the OECD's Global Minimum Tax (Pillar 2) framework and imposes a 15% minimum tax on large Multinational Enterprise (MNE) Groups.

In May 2025, the National Bureau for Revenue has released an Administrative Guide covering the aspects of DMTT.

This alert provides a comprehensive breakdown of compliance obligations, administrative processes, deadlines, and risks.

Scope and Applicability

Who Must Comply?

- MNEs with annual consolidated revenues \geq EUR 750 million in at least two of the four fiscal years preceding 2025 and
- Must have one or more Constituent Entities, Joint Ventures, or Joint Venture Subsidiaries located in Bahrain.

Excluded Entities (Although they may still need to register or retain records):

- Pension funds
- Investment funds (as UPEs)
- Certain real estate vehicles
- Entities substantially owned by the above

Key Administrative Requirements

A. Registration

- **Deadline:** Within 120 days from the start of the fiscal year in scope. For e.g. If FY ends on 31 December 2024, registration is due by 30 January 2025.
- **Who is required to register?** - The designated Filing Constituent Entity (FCE) located in Bahrain.
- **Documents required for registration**
 - UPE details and jurisdiction
 - Ownership structure
 - Revenue figures (last 4 FYs)
 - Written consent from all relevant entities appointing the FCE
 - Proof of revenue threshold met

B. Deregistration

- **Requirement –**
 - Revenue Test is not met for 5 consecutive Financial Years
 - No presence in Bahrain by way of entities
 - Group ceases to be an MNE (e.g., becomes purely domestic)
- **Deadline:** Within 30 days of meeting deregistration condition.

C. Revenue Test Notification

If revenue threshold not met in a year, an FCE must notify the NBR for that fiscal year, even if registered.

No need to file tax return or pay DMTT if Revenue Test not met, but record retention still applies.

Appointment of the Filing Constituent Entity

Every in-scope MNE must appoint a Bahrain-located entity to act as Filing Constituent Entity.

Responsibilities include:

- Registration and deregistration
- Filing DMTT returns and documents
- Calculating and paying DMTT
- Making elections and notifications
- Maintaining tax records

Change of FCE requires notifying the NBR and submitting new consents.

Tax Payment Requirements

A. Advance Tax Payments

- Deadline - Quarterly payments due 60 days after each 3-month period.
- Relief for transition year i.e. FY 2025 - First payment is deferred to align with second installment.
- Mechanism of calculation - Payments based on either:
 - Prior Year Method: Estimate using last year's tax divided by 365 days × days in each period.
 - Current Year Method: Estimate based on current year-to-date performance.

B. Final Payment

- Mechanism of calculation - Final tax liability minus advance payments made
- Deadline - Must be settled by the return filing deadline (to be set in future guidance).

Elections under the DMTT Framework

A. Five Year elections

- Automatically renew unless revoked.
- Revocation only effective after 5 years; re-election allowed after another 5 years.
- Examples:
 - Realisation method for gains/losses
 - Stock-based compensation
 - Use of Presentation Currency
 - Consolidated Adjustment election

B. Annual Elections

- Must be made each year.
- No revocation rules.
- Examples:
 - De Minimis Exclusion
 - Substance-based Income Exclusion opt-out
 - Loss or Debt Release elections

The above treatments of the elections are mentioned in more detail in the guide.

C. Notes

- Elections made by the Filing Constituent Entity via prescribed NBR form.
- Careful planning needed due to binding periods and re-election restrictions

Currency Rules

- Computation Currency = Default: BHD
- If multiple currencies used, can elect to use:
 - BHD or,
 - The UPE's presentation currency (e.g., USD, GBP)

A. Payment & Reporting Currency

- Must report and pay in BHD
- Use average exchange rate for the fiscal year (from CBB or approved sources like Bloomberg, XE, etc.)

B. Conversion of Euro Thresholds

- For Revenue Test and other thresholds stated in Euros, convert using average exchange rate of December prior to relevant FY.

Tax Refunds

A. Available when:

- Overpaid DMTT (advance > actual liability)
- Amended returns reduce liability
- Group fails Revenue Test after making advance payments
- Claim Deadline: Within 5 years of tax payment.
- Processing Time: NBR must respond within 90 days, barring audits or disputes.

Offset Option: Excess tax can be rolled forward or offset against other liabilities/fines.

Joint Liability

All Bahrain-based entities in the same MNE Group are jointly liable for DMTT and penalties.

The NBR may also pursue non-Bahraini group members for recovery of Bahrain DMTT liabilities.

Recordkeeping Obligations

All Bahrain-based Entities (including Excluded) must retain:

- Financials (balance sheet, P&L)
- Payroll, fixed asset, inventory records
- Supporting docs for tax filings
- Contracts, internal ledgers, bank statements
- Transfer pricing documentation

A. Retention Period:

- General: 5 years
- Real estate / capital assets: 10 years
- May be extended by another 5 years at NBR's discretion

Translation Requirements:

- Financials must be in Arabic or English
- Other records may be in any language but must be translated on request.

Audits and Disputes

A. DMTT Audits:

- Can be triggered anytime by NBR
- May occur on-site or via documentation requests
- NBR has broad authority to examine, retain, and mark original documents

B. Post-Audit Assessments:

- Includes detailed breakdown: tax due, fines, deadlines
- Delivered via email/post
- Entities must comply or risk enforcement

C. Disputes:

Can be resolved through:

- Independent review by NBR
- Objection to the Tax Objections Committee
- Appeal to competent Bahraini court

Penalties and Enforcement

A. Expect fines for:

- Failure to register or deregister
- Late payments or underpayments
- Incorrect or late filings
- Failure to maintain records or provide translations

Amounts and structure to be prescribed in NBR penalty schedule on page 40 of the DMTT Administrative guide.



Dhruva's Comments

Bahrain's introduction of the Domestic Minimum Top-up Tax (DMTT) demonstrates its commitment to aligning with the OECD's global tax reform agenda under Pillar Two. This move ensures Bahrain remains compliant with international standards while preserving its competitiveness and transparency. Multinational groups operating in Bahrain should see this as a signal of increasing tax substance and regulatory expectations. Proactive compliance planning will be key to managing both risk and opportunity under the new regime.

Taxpayers will be required to adhere to new compliance obligations, including timely submission of tax returns, advanced payments and supporting documentation.

The NBR have confirmed that they will issue guidance in respect to Tax Returns at a subsequent stage.

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