



# **Transfer Pricing Country Summary**

## **Bahrain**

January 2022

1. Introduction .....	3
2. Laws & Regulations.....	3
a) References to OECD/EU/Local Rules .....	3
b) Definition of Related Party .....	3
c) Nature of Transfer Pricing Documentation .....	4
d) Tax Havens & Blacklists .....	4
e) Advance Pricing Agreement (APA) .....	4
f) Audit Practice .....	4
3. Transfer Pricing Documentation .....	4
a) Level of Documentation.....	4
b) Industry Analysis.....	4
c) Company Analysis .....	4
d) Functional Analysis.....	5
e) Choice of Transfer Pricing Method.....	5
f) Economic Analysis – Benchmark Study.....	5
g) Inter-company (IC) Legal Agreement.....	5
h) Financial Statements .....	5
i) Production Process for TP Relevant Returns, Documents, Forms and Financials.....	5
j) Mandatory Language.....	6
k) Notification Requirement .....	7
l) Record Keeping .....	7
m) Penalties and Interest Charges .....	7

## 1. Introduction

Bahrain is not a member of OECD and it has no TP regulations in domestic laws.

## 2. Laws & Regulations

### a) References to OECD/EU/Local Rules

Bahrain joined the Base Erosion and Profit Shifting (BEPS) Inclusive System of the Organisation for Economic Co-operation and Development (OECD) in May 2018, pledging to conform with the international tax framework and execute the BEPS minimum criteria.<sup>1</sup>

CbCR norms were applied on 1 January 2021, releasing Ministerial Decision No. 28 of 2021, which establishes CbCR rules for MNEs doing business in the country. The resolution follows the OECD Model Legislation outlined in the Action 13 report and Annex III of Chapter V of the OECD Transfer Pricing Guidelines in broad terms. According to the new requirements, if a business or branch in Bahrain is a member of an MNE group with consolidated group revenue of at least BHD342 million in the previous fiscal year, it must file a CbC report and/or CbCR notification in Bahrain. The new reporting requirements will be in effect for fiscal years starting on or after January 1, 2021. A Constituent Entity is an entity that is subject to the CbCR rules.<sup>2</sup>

Bahrain is a member of the BEPS Inclusive Framework (BEPS IF) and hence adheres to the BEPS minimum level for CbCR regulation implementation.<sup>3</sup>

Furthermore, in December 2019, Bahrain signed the Multilateral Competent Authority Agreement (MCAA) on the Sharing of CbC Reports, which establishes a mechanism for the automatic exchange of CbC reports among members.

In January 2021, Bahrain ratified the MCAA on the exchange of CbC reports.<sup>4</sup>

In addition to CbCR, Bahrain has an existing value added tax statute that recognizes the OECD transfer pricing guidelines 'arm's length concept' for valuing transactions between related parties.

These features shed light on Bahrain's perspective on the importance of fully established, well-documented intercompany transfer pricing agreements.<sup>5</sup>

### b) Definition of Related Party

Market value shall be imposed on a supply between related parties where the value of the supply is less than market value and the recipient of the supply cannot claim the corresponding input tax in full, according to Article 22 of the VAT Law and Article 24 of the Executive Regulations.<sup>6</sup>

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<sup>1</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)

<sup>2</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)

<sup>3</sup> [ey-worldwide-transfer-pricing-guide-10-september-2020 \(2\).pdf](#), p. 48

<sup>4</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)

<sup>5</sup> [Bahrain Country by Country Reporting \(CbCR\) requirements \(pwc.com\)](#)

<sup>6</sup> [Bahrain: Related party transactions for VAT purposes \(pwc.com\)](#)

### c) Nature of Transfer Pricing Documentation

Bahrain joined the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) Inclusive System in May 2018.<sup>7</sup>

The Kingdom of Bahrain (Bahrain) has issued Resolution No. 28 for the year 2021 (dated February 4, 2021), which established rules for Country-by-Country Reporting (CbCR). Bahrain has committed to implementing the four minimum criteria, including CbCR, as part of the Organisation for Economic Cooperation and Development's (OECD) and G20's inclusive framework on Base Erosion and Profit Shifting (BEPS) project.<sup>8</sup>

### d) Tax Havens & Blacklists

European Union ministers agreed a blacklist of 17 non-EU tax havens on Tuesday, including the United Arab Emirates, Bahrain, and Tunisia.

Following the OECD's decision to develop a list of "uncooperative tax havens," the list is the latest worldwide effort to combat tax avoidance, which is increasingly recognized as a moral issue.<sup>9</sup>

### e) Advance Pricing Agreement (APA)

APAs are not applicable.<sup>10</sup>

### f) Audit Practice

Not applicable.

## 3. Transfer Pricing Documentation

### a) Level of Documentation

Not applicable.

### b) Industry Analysis

By identifying value drivers for the relevant industry, a first indication of the level of profitability common in the industry is being given.

### c) Company Analysis

A description of the management structure of the local entity, a local organisation chart, and a description of the individuals to whom local management reports and the country(ies) in which such individuals maintain their principal offices.

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<sup>7</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)

<sup>8</sup> [Bahrain Country by Country Reporting \(CbCR\) requirements \(pwc.com\)](#)

<sup>9</sup> [EU blacklists UAE, Bahrain and Tunisia as tax havens | Middle East Eye](#)

<sup>10</sup> [ey-worldwide-transfer-pricing-guide-10-september-2020 \(2\).pdf](#), p. 50.

A detailed description of the business and business strategy pursued by the local entity including an indication whether the local entity has been involved in or affected by business restructurings or intangibles transfers in the present or immediately past year and an explanation of those aspects of such transactions affecting the local entity.

#### d) Functional Analysis

In conducting a functional analysis, an assessment is made of the significant activities and responsibilities that are performed by the related parties relevant to the Intercompany Transactions under review, the tangible and intangible assets that are employed and the risks that are borne in undertaking the business activities. Such an assessment is consistent with the recommendations that have been made in the OECD Guidelines at paragraph 1.51.

#### e) Choice of Transfer Pricing Method

Not applicable.

#### f) Economic Analysis – Benchmark Study

Not applicable.

#### g) Inter-company (IC) Legal Agreement

Although an Inter-company legal agreement formalizes the business and financial relationship between group entities, the legal agreements have a lower ranking since the OECD 2017 Guidelines made the “conduct of parties” the prevailing concept.

#### h) Financial Statements

Not applicable.

#### i) Production Process for TP Relevant Returns, Documents, Forms and Financials

In the chart below, the existence of the filing requirements with the details of which format is used, the latest filing date, notification requirement and its deadline, thresholds to be applied in case it exists, and the required languages are demonstrated. This information can be seen respectively for CIT, master file, local file, CbCR, local forms, annual accounts and segmented P&L documentations.

	Prepare or File?	Format	Deadline	Notification Deadline*	Threshold* (Yes/No)	Local Language (Yes/No)*(If "No", it can be filed in English)
<b>Corporate Income Tax</b>	File	Local GAAP	15 March	n.a.	No	n.a.
<b>Master File</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Local File</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>CbCR</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Local form X</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Local form Y</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Local form Z</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Annual Accounts</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Segmented P&amp;L</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

\* Bahrain has signed the MCAA agreement for the filing of CbCR.

\* Bahrain does not request as much and detailed information from smaller and less complex enterprises (SME's included) than it does from large and complex enterprises.

#### j) Mandatory Language

There is no requirement for local language.

#### k) Notification Requirement

A Bahraini Constituent Entity must send a notification no later than the last day of the MNE group's reporting fiscal year. This notice should state if the Constituent Entity is the MNE group's Ultimate Parent Entity (UPE). If the Constituent Entity is not the UPE, the Reporting Entity's identity and tax domicile must be included in the notification. The first Bahrain notification deadline for MNE groups with a fiscal year end of December 31, 2021 will be December 31, 2021.<sup>11</sup>

#### l) Record Keeping

Not applicable.

#### m) Penalties and Interest Charges

Failure to comply with the CbCR responsibilities outlined in the ministerial decision may result in administrative fines of up to BHD100,000 and/or the suspension of the company's commercial registration for a term not exceeding six months.<sup>12</sup>

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<sup>11</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)

<sup>12</sup> [Bahrain introduces Country by Country Reporting | EY - Global](#)