THE TAX POINT.

Transfer Pricing Country Profile BAHRAIN

A decision-oriented overview of BAHRAIN Transfer Pricing - implications, risks, and strategic considerations

1 BAHRAIN's Transfer Pricing Framework

The introduction of the Domestic Minimum Top-up Tax (DMTT) applicable to large multinational enterprise (MNE) Groups from 2025, Bahrain has incorporated transfer pricing principles into its tax framework. The DMTT Executive Regulations require constituent entities in Bahrain to apply the arm's length principle for transactions with related entities located in other jurisdictions. The rules are stated to be consistent with the OECD Transfer Pricing Guidelines.

The DMTT applies to MNE groups with consolidated global revenues of at least EUR 750 million in at least two of the four preceding fiscal years.

Definition of Related Parties

Under various tax and regulatory frameworks, including DMTT and VAT rules.

Generally, related parties include:

- Entities that directly or indirectly control another entity.
- Entities that have greater than 50% common ownership
- Parent companies and subsidiaries.
- Entities forming part of the same multinational enterprise group.
- Parties having significant ownership interests or voting rights in another entity

2 Transfer Pricing Methods

- Comparable Uncontrolled Price (CUP)
- Resale Price Method (RPM)
- Cost Plus Method (CPM)
- Transactional Net Margin Method (TNMM)
- Profit Split Method (PSM)

3 Transfer Pricing Documentation

Master & Local File

Under the DMTT framework, there is no specific local quantitative revenue threshold that is clearly defined for Master File / Local File standalone obligation in the legislation.
Bahrain constituent entities of in-scope multinational groups are required to prepare and maintain:
. Master File
. Local File
The documentation requirements generally follow OECD BEPS Action 13 standards and the OECD Transfer Pricing Guidelines.

Country-by-Country Reporting (CbCR)

Bahrain introduced Country-by-Country Reporting requirements in line with OECD BEPS Action 13. Applicable to MNE groups with at least one entity in Bahrain and consolidated group revenue with BHD 342 million consolidated group revenue (preceding year)
MNE Groups in-scope must:
. File CbCR notifications where required.
. Submit CbC reports or ensure reporting through the designated reporting entity.
. Comply with Bahrain's automatic exchange of information obligations.

Requirements

. TP documentation is generally maintained contemporaneously.
. Documentation must be available for review by the relevant authorities upon request.
. CbCR filings and notifications must be submitted within the prescribed deadlines under Bahrain's CbCR regulations

4 Key Areas of Focus

Bahrain tax authorities and regulators are expected to focus on:
. Compliance with DMTT transfer pricing requirements.
. Cross-border related-party transactions within multinational Groups.
. Arm's length pricing of intercompany arrangements.
. Transfer pricing documentation (Master File and Local File).
. Country-by-Country Reporting compliance.
. Intra-Group financing arrangements.
. Intercompany service charges and management fees.
. Transactions involving low-tax jurisdictions and BEPS risk areas.

Dispute

Potential areas of challenge include:
. Functional and risk analyses.
. Selection of comparable companies.
. Intercompany financing arrangements.
. Management service fees.
. Valuation of related-party transactions.

5 Compliance, Disputes & Outlook

Compliance Requirements

. In-scope multinational groups subject to DMTT must apply the arm's length principle.
. Master File and Local File must be prepared and maintained.
. CbCR obligations must be satisfied where applicable.
.Taxpayers should maintain supporting documentation evidencing transfer pricing policies and pricing methodologies.
. Documentation should be retained and made available to authorities upon request.

Penalties:

As Bahrain's DMTT and transfer pricing framework is relatively new, specific penalties depend on the applicable DMTT legislation, and compliance failures involved. Potential consequences may include:
. Additional tax assessments under the DMTT regime.
. Administrative penalties for non-compliance with filing obligations.
. Penalties for inaccurate reporting or failure to maintain required documentation.
. Increased audit scrutiny and adjustments to arm's length pricing.

HOW CAN WE HELP?

TP Governance and Strategy

Designing robust frameworks and strategic advisory

·Economic Substance & TP Policy Design
·TP Policy, Restructuring & Planning
·Value Chain Analysis and TP / Tax Optimization
·Intangible Property Structuring

TP Reporting and Compliance

Ensuring compliance with evolving regulations

·TP Documentation (Local File, Master File, TP Disclosure Form)
·Benchmarking Analyses
·Country by Country Reporting
·Permanent Establishment (and profit attribution)

TP litigation and Controversy

Protecting your position across the audit lifecycle

·Mock Tax Audits & Pre-audit Strategy
·Defense File Preparation
·Tax Rulings & Advance Pricing Agreements (APA)
·Mutual Agreement Procedure (MAP)
·Post-audit Assessment & Implementation Support

GET IN TOUCH

THE TAX POINT.

contactus@thetaxpoint.com

www.thetaxpoint.com

+971 585 854 811

Dubai: The Meydan Grandstand, Level 6th, Dubai, The United Arab Emirates
Abu Dhabi (Meeting Office): Hub71, Al Khatem Tower, 15th floor, Al Maryah Island, Abu Dhabi

At The Tax Point, we support groups operating in the UAE where transfer pricing is not a compliance checkbox, but a strategic control tool.