

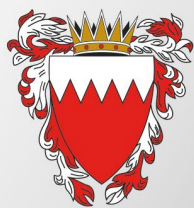
KINGDOM OF BAHRAIN

ENTITIES IN SCOPE OF DMTT GUIDE

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National Bureau for Revenue

Preface

This guide sets out general principles relating to the scope of the Domestic Minimum Top-up Tax (DMTT).

This guide is intended to provide general information only and contains the current views of the National Bureau for Revenue (NBR) on the application of the DMTT Law and Executive Regulations. The content of this guide is not intended to be exhaustive and does not cover every matter that would need to be considered by a Multinational Enterprise Group when assessing the impact of the DMTT. This guide should be read in conjunction with the DMTT Law and Executive Regulations.

The Multinational Enterprise Group may also refer to the Model Rules, Administrative Guidance and Commentary issued by the Organisation for Economic Cooperation and Development (OECD) to date for any additional information.

This guide is not a legally binding document and does not commit the NBR or any other person, including a Multinational Enterprise Group, in respect of any transaction or treatment. This guide does not provide binding interpretative directions and is not a substitute for obtaining competent advice from a qualified professional.

The rules related to DMTT in Bahrain are set out in the DMTT Law and Executive Regulations which are available on the NBR's website, www.nbr.gov.bh.

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Updates to this guide

Version 1.1	12 August 2025	Sections 3 and 4 The updates include additional details on the exclusions and safe harbours, along with currency conversion
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1. Introduction

1.1 Background

In 2018, the Kingdom of Bahrain (“Bahrain”) joined the Inclusive Framework of the Organisation for Economic Cooperation and Development (“OECD”). The OECD introduced Pillar 2 as part of its BEPS 2.0 project to establish a global minimum tax rate to ensure that multinationals are taxed at a minimum level, in all jurisdictions in which they operate. The agreed minimum tax rate is 15%.

As a member of the Inclusive Framework, Bahrain issued Decree-Law No. 11 of 2024 on 1 September 2024 which introduces the global minimum tax (in the form of a domestic minimum top-up tax (“DMTT”)) for Multinational Enterprises (the “DMTT Law”) which takes effect from 1 January 2025. In addition, on 11 December 2024 Bahrain issued Decision No. 172 of 2024 Issuance of the Executive Regulations for Decree-Law No. 11 of 2024 Regarding the Implementation of Tax on Multinational Enterprises (the “Regulations”).

1.2 Purpose of this Guide

The purpose of this guide (“Guide”) is to provide details on the scope of the DMTT Law, i.e. what Entities fall within its scope and what Entities are excluded from scope. This Guide sets out details on matters relating to the scope including definitions of certain Entity types, the application of a revenue test which applies in order to bring Entities within scope and certain “safe harbours” and an exclusion which may reduce the tax liability of in-scope entities to zero.

1.3 Overview of the scope of the DMTT Law

The DMTT Law applies to Constituent Entities of a Multinational Enterprise Group where those Constituent Entities are located in Bahrain and where the Multinational Enterprise Group meets the EUR 750 million Revenue Test. These terms are discussed further below in this Guide.

The DMTT Law also applies to Joint Ventures (as defined) and their subsidiaries. Essentially, a Joint Venture is an entity which is at least 50% owned by the Multinational Enterprise Group, but whose financial results are reported using the equity method in the Consolidated Financial Statements of the Ultimate Parent Entity of the Multinational Enterprise Group.

Certain entities (Excluded Entities) are not within the scope of the operative provisions of the DMTT Law. However, their revenue is taken into account when determining whether the Multinational Enterprise Group has met the Revenue Test, and such entities may be subject to certain administrative obligations under that Law. Excluded Entities are discussed further in section 2.5.

A Multinational Enterprise Group or its Constituent Entities located in Bahrain may benefit from a “De Minimis Exclusion” or certain “safe harbour” provisions which may allow the Multinational Enterprise Group to reduce the tax due under the DMTT to zero. These are discussed in section 4.

All of the components of the scope are discussed further in the following sections of this Guide.

2. Entities within the Scope

2.1 Multinational Enterprise Group

2.1.1 Introduction

In order for a legal entity to be within the scope of the DMTT, it must be a Bahrain located Constituent Entity of a Multinational Enterprise Group that meets the Revenue Test or a Joint Venture / Joint Venture Subsidiary of such a Multinational Enterprise Group. The identification of the Multinational Enterprise Group is therefore a crucial step in determining the applicability and scope of the Tax, as well as the obligations and procedures with which the Multinational Enterprise Group and its Constituent Entities must comply.

Under the DMTT Law, a Group is either:

1. A collection of Entities that are related through ownership or control, such that the assets, liabilities, income, expenses, and cash flows of those Entities are included in the Consolidated Financial Statements of the Ultimate Parent Entity; or
2. An Entity that is located in one jurisdiction and has one or more Permanent Establishments located in other jurisdictions.

In order to be a Multinational Enterprise Group for the purposes of the DMTT Law, the Group must have at least one Entity or Permanent Establishment located in a jurisdiction different from that of the Ultimate Parent Entity (see section 2.2). For example, a Group comprising Entities that are all located solely in Bahrain will not be a Multinational Enterprise Group Entity as there is no Entity or Permanent Establishment located in another country.

A standalone Entity, which is not otherwise part of a Group, that has at least one Permanent Establishment in other jurisdictions, will be considered a Group for DMTT purposes. Therefore, an Entity and its foreign Permanent Establishments will meet the definitions of Group and Multinational Enterprise Group.

When a Sovereign Wealth Fund meets the definition of “Government Body”, it is not treated as part of a Multinational Enterprise Group and is not considered to own a Controlling Interest in any Entity in which it has an Ownership Interest. A Sovereign Wealth Fund is an Entity that has the principal purpose of managing or investing a government’s or jurisdiction’s assets through the making and holding of investments, asset management, and related investment activities for the government’s or jurisdiction’s assets. A subsidiary (even 100% owned) of a Sovereign Wealth Fund can be part of a Multinational Enterprise Group, depending on the circumstances.

Example 1

A Bahrain incorporated Entity (owned by individuals) is tax resident solely in Bahrain and owns 100% of five subsidiaries, all incorporated and tax resident solely in Bahrain. The Entity does not carry on business in any other country.

The Entity and its subsidiaries will not be considered as a Multinational Enterprise Group for the purposes of the DMTT Law as they are all located in Bahrain.

Example 2

Continuing Example 1, one of the subsidiaries acquires a controlling interest in an Entity incorporated and tax resident solely in the UK. As a result of the acquisition of the UK Entity, the Group becomes a Multinational Enterprise Group for DMTT purposes.

Example 3

ABC LLC is a Bahrain incorporated Entity (owned by individuals) and is tax resident solely in Bahrain. It does not own any interest in another Entity, nor does it carry on business in any other country. ABC LLC is not a Multinational Enterprise Group as it is a standalone entity.

On 1 July 2026, ABC LLC establishes a branch in the United Arab Emirates and this branch is regarded as a Permanent Establishment for tax purposes. From that date, ABC LLC and its branch will be regarded as a Multinational Enterprise Group for DMTT purposes, even though the United Arab Emirates branch does not have a separate legal personality.

An Entity is any corporation, partnership, trust, foundation or other legal person or arrangement, including a Permanent Establishment, that prepares or is required to prepare separate financial accounts. Arrangements like partnerships or trusts that are required to prepare separate financial accounts or that, in practice, prepare such accounts are regarded as Entities for this purpose.

A single subsidiary or a Permanent Establishment, even one that does not generate any income, that is located in a jurisdiction other than the jurisdiction of the Ultimate Parent Entity, is sufficient to result in a Group being regarded as a Multinational Enterprise Group for DMTT purposes.

Where a standalone Entity has only a Stateless Permanent Establishment (i.e. a Permanent Establishment that is not located in any jurisdiction under the DMTT rules (see section 5), it will not be part of a Multinational Enterprise Group for DMTT purposes solely due to the existence of that Stateless Permanent Establishment.

2.1.2 Existence of a Group – accounting consolidation

As described above, for DMTT purposes, a Group is a collection of Entities that are related through ownership and control such that the assets, liabilities, income, expenses and cash flow of those Entities are included in the Consolidated Financial Statements of the Ultimate Parent Entity. This means that the financial results of each Entity (including Permanent

Establishments) are consolidated on a line-by-line basis in the Consolidated Financial Statements prepared by the Ultimate Parent Entity.

In determining whether a Group exists for DMTT purposes, the Consolidated Financial Statements of the Ultimate Parent Entity must either be prepared in accordance with an Acceptable Financial Accounting Standard or under a different accounting standard provided that adjustments are made to prevent any Material Competitive Distortions.¹ For the purposes of the DMTT Law, International Financial Reporting Standards (IFRS) is an Acceptable Financial Accounting Standard.

Where an Ultimate Parent Entity does not prepare Consolidated Financial Statements as described above, the Consolidated Financial Statements of the Ultimate Parent Entity are those that would have been prepared if the entity had been required to prepare such statements in accordance with an Acceptable Financial Accounting Standard or another financial accounting standard that is adjusted to take account of any material competitive distortions.

Example 1

Alpha Limited is incorporated in a country that does not require it to prepare Consolidated Financial Statements of any kind. Alpha Limited holds a controlling interest in ten Entities, located in various countries.

As Alpha Limited does not prepare Consolidated Financial Statements, when determining whether a Group of Entities exists for DMTT purposes, accounting standards are applied (either an Acceptable Financial Accounting Standard or another standard which is adjusted to take account of material competitive distortions) to determine which entities Alpha Limited would be required to consolidated on a line-by-line basis.

Under an Acceptable Financial Accounting Standard such as IFRS, Alpha Limited would be required to consolidate the financial results of all ten Entities in which it holds a controlling interest. Therefore, the Group comprises Alpha Limited and all of the ten Entities it controls.

A Group also includes Entities which are not consolidated on a line-by-line basis due to a special reporting treatment under an Acceptable Financial Accounting Standard, such as when the Entity is held for sale or excluded from consolidation based on size or materiality. This type of Entity is still considered part of the Group as long as it remains sufficiently controlled by the Ultimate Parent Entity to fall within the general consolidation requirements of the relevant Acceptable Financial Accounting Standard.

¹ Guidance on what constitutes a Material Competitive Distortion will be provided in due course.

Example 2

Beta Limited is the Ultimate Parent Entity of a Group of ten entities. During the accounting year ended 31 December 2026, Beta Limited has held its interest in Gamma Limited, one of its ten subsidiaries for sale. During this time, Beta Limited still holds a controlling interest in Gamma Limited.

In line with accounting principles, Beta Limited does not consolidate the financial results of Gamma Limited on a line-by-line basis when preparing its Financial Statements for the year ended 31 December 2026.

Although Beta Limited does not include the financial results of Gamma Limited on a line-by-line basis when preparing its Consolidated Financial Statements for 31 December 2026, Gamma Limited will be part of the Group comprising Beta Limited and the other nine subsidiaries in which it holds a controlling interest.

A joint operation (as defined by IFRS) could be a separate Constituent Entity of a Group if it meets the definition of an Entity (e.g. partnership) such that the portion of its assets, income, expenses, cash flows, and liabilities belonging to the joint operators that are other Entities of the Group is included in the Consolidated Financial Statements on a line-by-line basis.

On this basis, Entities reported under the pro rata or proportional consolidation method are Constituent Entities of a Group and, if that Group is a Multinational Enterprise Group which meets the Revenue Test, such Entities will be subject to the DMTT if located in Bahrain. The portion of the Entity's assets, income, expenses, cash flows, and liabilities reflected in the Consolidated Financial Statements of the Ultimate Parent Entity are considered for DMTT purposes (e.g. the consolidated revenue threshold only considers the amount of the Entity's revenue).

2.2 Ultimate Parent Entity

The Ultimate Parent Entity is the Entity at the top of the ownership chain of the Multinational Enterprise Group. There are two types of Ultimate Parent Entities:

1. The Ultimate Parent Entity of a Group consisting of multiple Entities.
2. The Ultimate Parent Entity of a Group that includes a Main Entity (essentially a standalone entity that is not part of a wider Group or controlled by another Entity) and one or more of its Permanent Establishments.

As the Entity at the top of the ownership chain, the Ultimate Parent Entity holds controlling interests in all other Group Entities, and no other Entity in the Group holds a controlling interest in the Ultimate Parent Entity. Where the Group comprises one Entity with one or more Permanent Establishments, the Ultimate Parent Entity will be the Main Entity, i.e. the head office of the Entity. An Ultimate Parent Entity may be located in any jurisdiction.

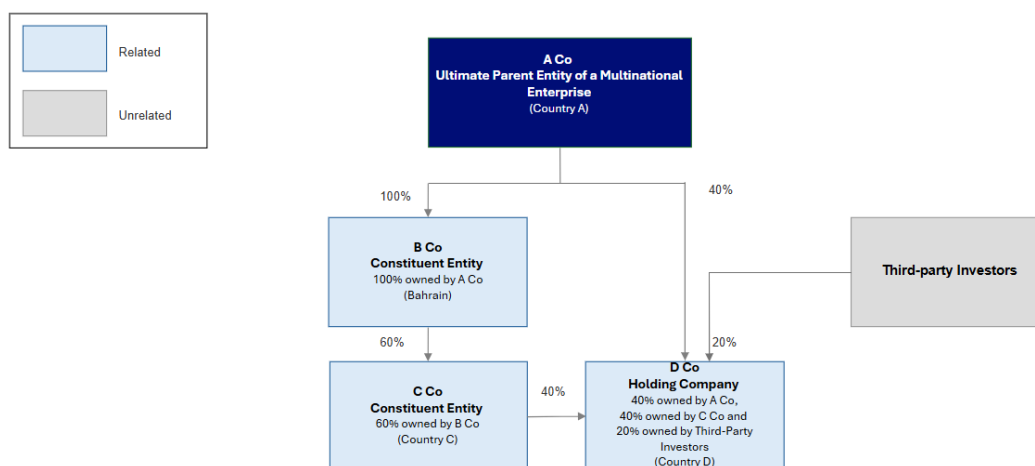
The definition of Ultimate Parent Entity is based on the concept of Consolidated Financial Statements, which present the financial position, performance, and cash flows of a parent and its subsidiaries as if they were a single economic entity. A controlling interest means an

ownership interest in an Entity such that the interest holder is required to consolidate the assets, liabilities, income, expenses, and cash flows of the Entity on a line-by-line basis.

In some cases, a Multinational Enterprise Group may maintain the financial accounts of some Constituent Entities based on a different accounting year than that of the Ultimate Parent Entity. For DMTT purposes, the Fiscal Year for Bahrain located Constituent Entities will always be the accounting period of the Ultimate Parent Entity, even where that Ultimate Parent Entity is located outside Bahrain. Where there is a mismatch in accounting periods between the Ultimate Parent Entity and Bahrain located Constituent Entities, the accounting policy of the group (and in line with the relevant accounting standards) will determine how to prepare Consolidated Financial Statements for the Ultimate Parent Entity and how to incorporate the financial results of Constituent Entities.

A Sovereign Wealth Fund cannot be an Ultimate Parent Entity for DMTT purposes. Whether a subsidiary of a Sovereign Wealth Fund is an Ultimate Parent Entity of a Multinational Enterprise Group is determined without regard to Ownership Interest held by the Sovereign Wealth Fund.

Example 1



A Co is incorporated in Country A. It directly owns 100% of B Co which is incorporated and solely tax resident in Bahrain and 40% of D Co, a Country D company.

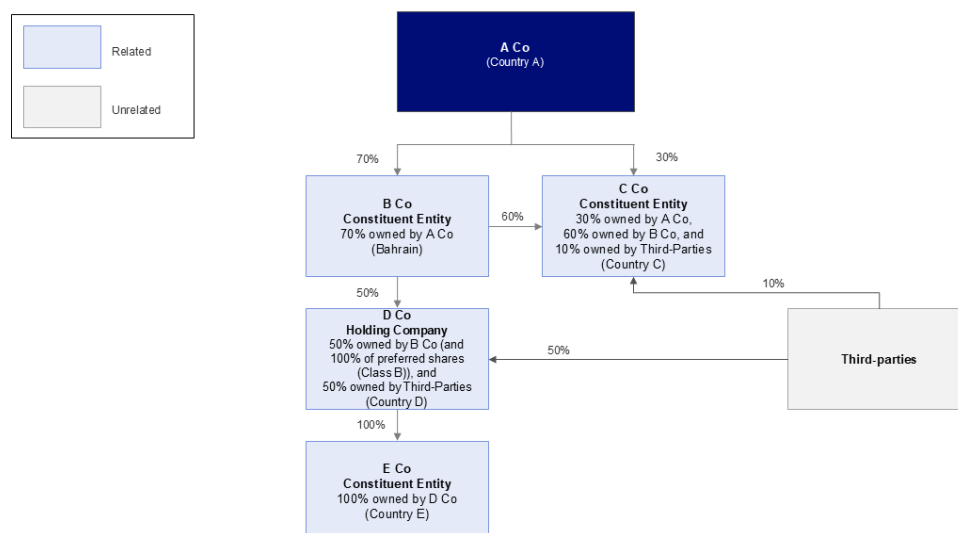
B Co owns 60% of C Co, a Country C company, which owns 40% of D Co. The remaining 20% of D Co (not held by A Co and C Co) is owned by third-party investors.

A Co prepares Consolidated Financial Statements under IFRS, an Acceptable Financial Accounting Standard in Country A.

B Co in Bahrain is directly controlled by A Co. C Co is also controlled by A Co due to B Co's 60% Ownership Interest. D Co is controlled by A Co through its direct holding of 40% and indirect holding through B Co.

A Co is the Ultimate Parent Entity because it prepares consolidated financial statements incorporating the results of B Co, C Co and D Co, and its financial results are not consolidated into any other Entity's financial statements. B Co, C Co and D Co are Constituent Entities in A Co's Group. B Co is within the scope of the DMTT as it is located in Bahrain.

Example 2



A Co is incorporated in Country A. It owns 70% of the shares in B Co, a company incorporated and solely tax resident in Bahrain and 30% of the shares of C Co, a company incorporated in Country C. B Co owns 60% of the shares of C Co.

C Co is operationally independent but effectively controlled by A Co due to the combined voting rights and influence held by A Co and B Co together. B Co also owns 50% of the ordinary shares and 100% of preferred shares (Class B) of D Co, a holding company incorporated in Country D, which owns 100% of the shares of E Co, an operating entity incorporated in Country E. B Co also holds special voting rights in D Co. The remaining 10% of the shares of C Co and 50% of the shares of D Co are owned by third parties.

Despite owning only 50% in D Co, B Co has significant influence over D Co's strategic decisions and has the power to direct the D Co's activities, including the appointment of key management personnel and the approval of major financial and operational policies. Through its substantial involvement in the day-to-day operations and decision-making processes, including the distribution of profits under Class B preferred shares, B Co effectively directs D Co's activities that impact its financial performance and profit distribution. This allows B Co to control and affect the returns generated by D Co.

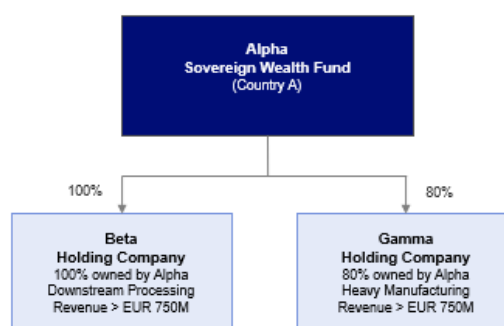
A Co prepares Consolidated Financial Statements under IFRS which is an Acceptable Financial Accounting Standard in Country A. A Co consolidates B Co (Bahrain), C Co, D Co, and E Co as part of its financial reporting obligations. B Co (Bahrain) is fully consolidated by A Co due to A Co's direct ownership of 70% of B Co's shares. C Co, although partially owned by third parties, is also consolidated by A Co because A Co holds a direct ownership of 30% of C Co's shares and an indirect ownership of 42% of C Co's shares through B Co (Bahrain) (70% x 60%), resulting in effective control over 72% of C Co's voting rights.

D Co and E Co are also consolidated by A Co due to B Co's direct ownership of 50% of D Co's shares and B Co's operational control over D Co and E Co. Despite the 50% third-party ownership in D Co, the combination of B Co's 50% ownership interest, along with its ability to exercise significant management and operational influence over D Co's relevant activities, satisfies the IFRS control criteria, thereby requiring full consolidation of D Co in A Co Consolidated Financial Statements.

A Co is an Ultimate Parent Entity for DMTT purposes because it prepares Consolidated Financial Statements in accordance with an Acceptable Financial Accounting Standard that include the financial results of the Entities within its ownership chain, including B Co (Bahrain), C Co, D Co, and E Co. B Co, C Co, and D Co are not Ultimate Parent Entities as they are owned, directly or indirectly, by another Entity with a controlling interest and their financial results are included in A Co's Consolidated Financial Statements.

B Co is a Constituent Entity and within the scope of the DMTT Law as it is located in Bahrain.

Example 3



Alpha is a Sovereign Wealth Fund that is a Government Body based in Country A which has the principal purpose of managing and investing the Country A's assets and does not carry on trade or business. Alpha holds the following investments:

- *100% of the shares of Beta which is a holding company of a group of entities involved in downstream processing. The entities are located in a number of jurisdictions and the Beta sub-group has revenue exceeding EUR 750 million for all of the past four years.*
- *80% of Gamma which is the holding company of a group of entities involved in heavy manufacturing. The entities are located in a number of jurisdictions and the Gamma sub-group has revenue exceeding EUR 750 million for all of the past four years.*

All entities use an Acceptable Financial Accounting Standard to prepare their financial accounts.

For DMTT purposes, a Sovereign Wealth Fund cannot be the Ultimate Parent Entity of a Multinational Enterprise Group. Alpha meets the definition of a Government Body which is an Excluded Entity (so not subject to the DMTT, but with administrative obligations).

Beta will be treated as the Ultimate Parent Entity of the Entities owned and controlled by it. As the Beta subgroup has entities in more than one jurisdiction, it is treated as a Multinational Enterprise Group and, as it meets the Revenue Test, Bahrain located Constituent Entities will be subject to the DMTT.

Gamma will be treated as the Ultimate Parent Entity of the Entities owned and controlled by it. As the Gamma subgroup has entities in more than one jurisdiction, it is treated as a Multinational Enterprise Group distinct from the Multinational Enterprise Group of which Beta is the parent and, as it meets the Revenue Test, Bahrain located Constituent Entities will be subject to the DMTT.

Example 4

The Ultimate Parent Entity and other Constituent Entities in a Multinational Enterprise Group maintain their financial accounts based on a 31 December year end, and foreign subsidiary Constituent Entities maintain their financial accounts based on a 30 November year end.

Some Multinational Enterprise Groups will incorporate the foreign Constituent Entities' financial accounting results for their accounting year end into the Consolidated Financial Statements of the Ultimate Parent Entity during which the foreign Constituent Entities' accounting period ends. The Ultimate Parent Entity would include in its Consolidated Financial Statements the income and taxes of each foreign Constituent Entity for its 30 November Fiscal Year that ends within the Ultimate Parent Entity's 31 December Fiscal Year. Some of the income or expenses reported in the Consolidated Financial Statements will be attributable to transactions before the beginning of the Ultimate Parent Entity's Fiscal Year.

Other Multinational Enterprise Groups will segregate the income of the Constituent Entity based on the Ultimate Parent Entity's Fiscal Year and combine the amounts from the Constituent Entity's two fiscal years that straddle the Ultimate Parent Entity's Fiscal Year. Thus, the Constituent Entity would combine the income and expenses from the last 11 months of the Fiscal Year that ends within the Ultimate Parent Entity's Fiscal Year (i.e. January through November) with those of the first month of the Fiscal Year that begins in the Ultimate Parent Entity's Fiscal Year (i.e. December) and include the resulting combined amounts in the Consolidated Financial Statements.

Ultimately, the individual approach per the accounting policy of the group (and in line with the relevant accounting standards as per above) will determine how to prepare Consolidated Financial Statements for the Ultimate Parent Entity and how to incorporate the financial results of the foreign Constituent Entities.

2.3 Constituent Entities

2.3.1 Introduction

A Constituent Entity is an Entity within a Group, the Permanent Establishment of a Constituent Entity or the Ultimate Parent Entity itself. Each Entity in a Multinational Enterprise Group will be a Constituent Entity, unless it is an Excluded Entity.

The definition of Constituent Entity is broad and encompasses any in-scope Entity within a Group, regardless of its legal form. The DMTT Law provides for certain exclusions and special rules for certain types of Entities, such as Excluded Entities, Flow-through Entities, Investment Entities, Insurance Investment Entities and Hybrid Entities.

2.3.2 Permanent Establishments

A Permanent Establishment is a tax concept that allows countries to tax, under specific conditions, the profit of a non-resident (i.e. foreign company) that conducts business activity

in that country. A Permanent Establishment is, to some extent, broadly analogous to the local branch of a foreign entity.

For DMTT purposes, the definition of the Permanent Establishment comprises four situations when Permanent Establishment exists.

1. A Permanent Establishment will be recognised in accordance with the provisions of a tax treaty, and the income attributed to Permanent Establishment should be taxed accordingly. This means that the country should have a corporate tax system to tax the income attributed to the Permanent Establishment.
2. A Permanent Establishment will be recognised when a country has adopted the definition of Permanent Establishment and taxation rules into domestic law, but there is no tax treaty in force. Here, the income of the Permanent Establishment is taxed in accordance with domestic law.
3. A Permanent Establishment will be recognised when the business activities conducted by a non-resident would be treated as a Permanent Establishment under with the OECD Model Convention, even where there is no corporate income system in the country where the activities are carried out.
4. A place of business (or deemed place of business) not described in 1, 2 or 3 where an Entity carries out operations outside the jurisdiction where it is located, and that jurisdiction exempts the income attributable to those operations.

The term Permanent Establishment refers to business activities conducted by a non-resident in the form of a place of business or a deemed place of business. The place of business or deemed place of business has a meaning which is aligned with international tax practice. A non-resident Entity will have a place of business or deemed place of business in Bahrain for DMTT purposes in any of the following situations:

1. If the non-resident has a fixed or permanent place in Bahrain through which the business of the Non-Resident Entity, or part of it, is conducted.

A fixed place of business refers to a physical location that is used by a non-tax resident enterprise to conduct its business activities. This place must be fixed, meaning it has a certain degree of permanence, and it must be at the disposal of the enterprise. Examples include offices, factories, and workshops. The business activities carried out at this location must be more than merely preparatory or auxiliary in nature to qualify as a Permanent Establishment.

2. Where a person, other than an agent of an independent status, has and habitually exercises an authority to conduct business in the Kingdom on behalf of the Non-Resident Entity.

A dependent agent Permanent Establishment will arise when a person, other than an independent agent, acts on behalf of a non-resident enterprise and habitually concludes

contracts that are in the name of entity or that that are to be performed by the entity or habitually negotiate the contracts which are routinely concluded without material modifications by the entity. If this person habitually exercises such authority, the enterprise is deemed to have a Permanent Establishment in the jurisdiction where the agent operates, even where the non-resident does not have a fixed place of business (or indeed employees or assets) in that jurisdiction.

3. If the non-resident has a building and construction site, assembly, and installation project for more than 12 months in Bahrain through which the business of the Non-Resident Entity, or part of it, is conducted.

Construction Site means a building site, construction, or installation project will constitute a Permanent Establishment only if it lasts more than a certain number of months (12 months as indicated in the Regulations). Such a project can include the construction of buildings, roads, bridges, canals and the installation of new equipment.

4. If the non-resident has any other form of nexus in Bahrain as determined by a decision issued by the Minister.

No decision has yet been issued by the Minister in relation to other form of nexus.

A Non-Resident Entity with a fixed or permanent place of business in Bahrain will not be considered to have a Permanent Establishment if that place is used solely for preparatory or auxiliary activities. These activities include:

- Using facilities exclusively for storage, display, or delivery of goods
- Maintaining a stock of goods for these purposes or for processing by another person
- Maintaining a fixed place of business solely for purchasing goods, collecting information, or other auxiliary activities
- Any combination of these activities provided the overall activities are preparatory or auxiliary in nature.

Example 1

A Non-Resident Entity incorporated in Country A and part of a Multinational Enterprise Group establishes a branch office in Bahrain to manage its Middle Eastern operations. The branch, with a rented office in Bahrain (including employees and office equipment) imports and sells machinery in Bahrain as a principal. This branch will be a Permanent Establishment in Bahrain and is treated as a separate Constituent Entity for DMTT purposes.

A person acting as an independent agent does not create a Permanent Establishment for the non-resident Entity if they conduct business in Bahrain in the ordinary course of their own independent activities. However, this exception does not apply if the agent acts exclusively or almost exclusively for the non-resident Entity, lacks legal or economic independence from the

non-resident Entity, or conducts activities through a fixed or permanent place of business that meets the criteria to be a Permanent Establishment under the DMTT Law.

Example 2

A Non-Resident Entity incorporated in Country A and part of a Multinational Enterprise Group without a fixed place of business in Bahrain engages a representative in Bahrain to expand its regional business. The representative regularly negotiates and concludes contracts in Bahrain on behalf of the Non-Resident Entity, including agreements with customers in Bahrain without requiring substantial modifications by the Non-Resident Entity. Under the DMTT Law, the activities of the representative create a dependent agent Permanent Establishment in Bahrain and the Permanent Establishment in Bahrain is subject to DMTT as a separate Constituent Entity.

Example 3

A Non-Resident Entity incorporated in Country A and part of a Multinational Enterprise Group engages a well-known bank in Bahrain to facilitate M&A transactions. The bank operates as an independent agent, providing advisory and brokerage services to a diverse range of clients as part of its ordinary business activities. While the bank assists the Non-Resident Entity by performing due diligence, structuring transactions and negotiating with sellers in Bahrain, it also performs similar services for multiple other clients in Bahrain and internationally.

Under the DMTT Law, the activities of the bank do not create a Permanent Establishment for the Non-Resident Entity in Bahrain. This is because the bank:

- 1. Acts in the ordinary course of its independent business;*
- 2. Maintains legal and economic independence from the Non-Resident Entity; and*
- 3. Does not act exclusively or almost exclusively for the Non-Resident Entity.*

As a result, the income derived from the Non-Resident Entity's M&A transaction in Bahrain is not attributable to a Permanent Establishment in Bahrain and is not subject to taxation under the DMTT Law.

Example 4

A non-Bahraini resident Entity which is incorporated in Country A is part of a Multinational Enterprise Group that is a major international Engineering, Procurement and Construction (EPC) contractor. The Multinational Enterprise Group has met the Revenue Test.

The non-resident Entity enters into a contract to construct a manufacturing facility in Bahrain. The project involves site preparation, assembly of prefabricated structures, and installation of utilities, with the work scheduled to continue for 18 months.

As the project will continue for more than 12 months, the Non-Resident Entity is deemed to have a construction site Permanent Establishment in Bahrain. Consequently, income attributable to the project is subject to tax under the DMTT Law, and the Permanent Establishment is treated as a separate Constituent Entity for calculating Net Constituent Entity Income and the Effective Tax Rate in Bahrain.

2.3.3 Minority Owned Constituent Entities

A Minority-owned Constituent Entity (MOCE) is a specific type of Constituent Entity for DMTT purposes. An Entity is a MOCE where the Ultimate Parent Entity of a Multinational Enterprise Group holds a direct or indirect ownership interest of 30% or less in the Entity. Although, the Ultimate Parent Entity only owns 30% or less of the Entity, it consolidates the assets, liabilities, income, expenses and cash flow of the Entity on a line-by-line basis, indicating control of the Entity by the Ultimate Parent Entity by means other than the percentage shareholding.

There are a number of different types of MOCE and MOCE groups:

1. Minority-owned Parent Entity (MOPE)

A MOCE may hold, directly or indirectly, controlling interests in one or more other MOCEs. A MOCE holding such controlling interests will be a Minority-owned Parent Entity (MOPE), except where another MOCE holds the controlling interests in the former entity.

2. Minority-owned Subsidiary

A Minority-owned Subsidiary is a MOCE whose controlling interests are held, directly or indirectly, by MOPE.

3. Minority-owned Subgroup

A Minority-owned Subgroup is a MOPE and its Minority-owned Subsidiaries.

It is important to identify Entities that are MOCEs (those listed above plus standalone MOCEs, i.e. those that are not MOPEs, Minority-owned Subsidiaries or part of a Minority-owned Subgroup), for DMTT purposes. This is because their DMTT liability is computed separately from other Constituent Entities in the Multinational Enterprise Group, except where the MOCE is an Investment Entity or Insurance Investment Entity. On this basis:

- A separate DMTT computation should be prepared for a standalone MOCE without regard to any other entity in the Multinational Enterprise Group.
- A separate DMTT computation should be prepared for a Minority-owned Subgroup (comprising a MOPE and its Minority-owned Subsidiaries) without regard to any other entity in the Multinational Enterprise Group. The Subgroup will be treated, for DMTT purposes, as if it were a separate Multinational Enterprise Group for the purposes of the DMTT computation.

2.3.4 Flow-through Entities

A Flow-through Entity is a specific type of Entity for DMTT purposes. Where a Flow-through Entity is part of a Multinational Enterprise Group, it is a Constituent Entity of that Group. Under the DMTT, special allocation rules apply to the Financial Accounting Income or Loss and Covered Taxes of a Flow-through Entity. It is therefore important to identify Flow-through

Entities in a Multinational Enterprise Group to ensure that the relevant DMTT provisions are applied correctly.

An Entity is a Flow-through Entity to the extent it is fiscally transparent with respect to its income, expenditure, profit or loss in the jurisdiction in which it is created. Fiscally transparent means that the income or loss of that Entity is considered as if it was derived or incurred by the owners (direct or indirect) in proportion to their ownership interests in the Flow-through Entity.

There are a number of types of Flow-through Entity relevant to the DMTT. These are a Tax Transparent Entity and a Reverse Hybrid Entity which are defined as follows:

1. A Flow-Through Entity is a Tax Transparent Entity with respect to its income, expenditure, profit or loss to the extent that it is fiscally transparent in the jurisdiction in which its owner is located.
2. A Flow-Through Entity is a Reverse Hybrid Entity with respect to its income, expenditure, profit or loss to the extent that it is not fiscally transparent in the jurisdiction in which the owner is located.

Determining whether an Entity is a Tax Transparent Entity or a Reverse Hybrid Entity is carried out from the perspective of domestic tax law of the jurisdiction in which the direct or indirect Constituent Entity-owner is located. The relevant Constituent Entity-owner for this assessment is a Constituent Entity-owner that is closest in the ownership chain to the Flow-through Entity and is not itself a Flow-through Entity or is the Flow-through Entity that is an Ultimate Parent Entity.

A Flow-through Entity should be treated as Tax Transparent Entity when the domestic tax law of Constituent Entity-owner (direct or indirect) also treats it as fiscally transparent, requiring the income to be recognised by the holder of the Ownership Interest. If the Flow-through Entity is not treated as fiscally transparent from the perspective of domestic tax law of the jurisdiction in which the Constituent Entity-owner is located, it will be a Reverse Hybrid Entity. In this case, the direct holder of the Ownership Interest will not recognise the income of the Flow-through Entity.

Whether the Flow-through Entity is a Tax Transparent Entity or Reverse Hybrid Entity is considered from the perspective of every holder of Ownership Interests that might treat it differently. Therefore, a Flow-through Entity might be both a Tax Transparent Entity and Reverse Hybrid Entity.

2.4 Joint Ventures and Joint Venture Subsidiaries

2.4.1 Introduction

The Multinational Enterprise Group may own a significant shareholding in Entities that are not controlled by an Ultimate Parent Entity. These Entities are referred to as Joint Ventures and Joint Venture Subsidiaries, and they are subject to special rules for DMTT purposes.

Joint Ventures and Joint Venture Subsidiaries are not Constituent Entities of the Multinational Enterprise Group because, under Financial Accounting Standards, their income, expenses, assets, and liabilities are not consolidated with those of the rest of the Group on a line-by-line basis. However, Bahrain located Joint Ventures and Joint Venture Subsidiaries of a Multinational Enterprise Group which meets the EUR 750 million Revenue Test are within the scope of the DMTT Law.

2.4.2 Joint Ventures

For DMTT purposes, a Joint Venture is an Entity whose financial results are reported under the equity method in the Consolidated Financial Statements of the Ultimate Parent Entity where that Ultimate Parent Entity holds, directly or indirectly, at least 50% of its Ownership Interests. This definition may vary from other definitions of the term “joint venture” including those under accounting standards which may not require a minimum 50% ownership interest.

The following Entities are not Joint Ventures:

1. An Entity that is the Ultimate Parent Entity of a Multinational Enterprise Group and which meets the Revenue Test (discussed in section 3) is excluded from being a Joint Venture of another Multinational Enterprise Group.

Example

ABC Limited is the Ultimate Parent Entity of a Multinational Enterprise Group that meets the Revenue Test. It owns a 50% interest in a XYZ LLC, an Entity which is incorporated and solely tax resident in Bahrain. However, this 50% shareholding does not give ABC Limited control of XYZ LLC and therefore ABC Limited reports the financial results of XYZ LLC using the equity method and does not consolidate on a line-by-line basis.

XYZ LLC owns 100% subsidiaries located both in Bahrain and in other countries and the total revenue of XYZ LLC and its subsidiaries exceeds EUR 750 million for two of the four preceding fiscal years. Therefore, it will be treated as an Ultimate Parent Entity of a Multinational Enterprise Group (as the results of its subsidiaries will be consolidated by it on a line-by-line basis and it has Constituent Entities in more than one jurisdiction) meeting the Revenue Test.

*As the Ultimate Parent Entity of a Multinational Enterprise Group meeting the Revenue test, XYZ LLC will **not** be treated as a Joint Venture of the Multinational Enterprise Group of which ABC Limited is the Ultimate Parent Entity. Any Bahrain located Constituent Entities of XYZ LLC will be subject to DMTT separately from Bahrain located Constituent Entities of ABC Limited as ABC and XYZ are separate Multinational Enterprise Groups for DMTT purposes.*

2. An Excluded Entity (see section 2.5).
3. An Entity which is held directly through an Excluded Entity where the Entity is:
 - a. An Entity which operates exclusively or almost exclusively to hold assets or invest funds for the benefit of its investors; or

- b. An Entity which carries out activities that are ancillary to those carried out by the Excluded Entity; or
 - c. An Entity which has its income excluded from the computation of Constituent Entity Income or Loss on the basis that such income comprises Excluded Dividends or Excluded Equity Gains and Losses.²
4. An Entity whose ownership interests are held by an Entity of a Multinational Enterprise Group that meets the Revenue Test which is composed exclusively of Excluded Entities.
5. A Joint Venture Subsidiary (see section 2.4.3).

2.4.3 Joint Venture Subsidiaries

A Joint Venture Subsidiary is an Entity that meets all of the following conditions:

- It is not an Excluded Entity.
- It is not an Ultimate Parent Entity of a Multinational Enterprise Group that meets the Revenue Test.
- It has a Joint Venture that holds, directly or indirectly, a Controlling Interest in the Entity.
- Its assets, liabilities, income, expenses, and cash flows are consolidated by a Joint Venture under an Acceptable Financial Accounting Standard (or would have been consolidated had it been required to consolidate such items in accordance with an Acceptable Financial Accounting Standard). This means that the Joint Venture and Joint Venture Subsidiary are part of the same Group (the Joint Venture Group).

2.4.4 DMTT Treatment of Joint Ventures and Joint Venture Subsidiaries

It is important to identify Joint Ventures and Joint Ventures Subsidiaries of a Multinational Enterprise Group that meets the Revenue Test. This is because a Joint Venture and its Joint Venture Subsidiaries are treated as if they were Constituent Entities of a **separate** Multinational Enterprise Group for computing DMTT, and the Joint Venture is treated as the Ultimate Parent Entity of that Multinational Enterprise Group for that purpose.

2.5 Excluded Entities

2.5.1 Introduction

Certain entities, although they may be Constituent Entities of a Multinational Enterprise Group, are not subject to the operative provisions of the DMTT Law (such as computation of DMTT liability and payment of tax). These entities are called “Excluded Entities”. Although they are not subject to the operative provisions of the DMTT Law, their revenue is still taken into

² Excluded Dividends and Excluded Equity Gains and Losses are dividends and gains/losses meeting certain conditions as described in Article 1 and Article 15 of the Regulations respectively.

account for the purposes of determining whether the Multinational Enterprise Group has met the Revenue Test. Further, they have administrative obligations under the DMTT Law (e.g. registration in certain instances, obligation to file a tax return in certain instances, obligation to maintain books and records).

The identification of Excluded Entities has three practical effects for DMTT purposes:

1. Under the DMTT Law, the rules for including revenue and the rules for insufficiently taxed payments do not apply to Excluded Entities. These rules are specifically applicable to Constituent Entities within the Multinational Enterprise Group. For instance, if an Excluded Entity is the Ultimate Parent Entity of a Multinational Enterprise Group, it is not required to apply the rules for including income. Instead, the responsibility to apply these rules shifts to the next entity in the ownership chain that is a Constituent Entity.
2. The attributes of Excluded Entities (including profits, losses, taxes accrued, tangible assets, and payroll expenses) are removed from the DMTT computations, except for the application of the Revenue Test as described in section 3.
3. Excluded Entities have limited administrative obligations under the DMTT Law.

The types of Excluded Entities are described in sections 2.5.2 to 2.5.8 below:

2.5.2 Government bodies

Government Bodies are Excluded Entities because they are not engaged in profit-making activities, and their income and assets are subject to the sovereign rights and obligations of the government that owns or controls them. An Entity will be an Excluded Entity as a Government Body provided it meets certain conditions as follows:

1. It is part of or wholly-owned by a government (including any political subdivision or local authority of a government); and
2. It has the principal purpose of fulfilling a government function or managing or investing that governments or jurisdiction's assets and does not carry on a trade or business; and
3. It is accountable to the government on its overall performance and provides annual information reporting to the government.
4. Upon termination, liquidation, or dissolution, all assets must be distributed or revert to the government of the Entity's jurisdiction of residence and no portion of net earnings must benefit a private person.

Government Bodies include central government ministries, municipalities and government agencies which carry out government functions.

A sovereign wealth fund is an Entity that has the principal purpose of managing or investing a country's assets through making and holding investments, asset management, and related investment activities. A sovereign wealth fund that meets the requirements above is regarded

as an Excluded Entity as a Government Body for DMTT purposes as it is not engaged in profit-making activities, and its income and assets are subject to the sovereign rights and obligations of the government or jurisdiction that owns or controls it. However, commercial entities in which the sovereign wealth fund invests will not be Excluded Entities and such entities will need to consider whether the provisions of the DMTT Law apply to them.

2.5.3 International Organisations

International Organisations are Entities that are established by a treaty or other instrument governed by international law and that have legal personality under international law. International Organisations are Excluded Entities because their income and assets are derived from or used for the fulfilment of their public international functions and purposes.

In order to be an International Organisation, an Entity must meet all of the following criteria:

1. The organisation must be comprised primarily of governments.
2. There must be a headquarters agreement (or substantially similar) in place with the country where the organisation is established which entitle the organisation's offices or establishments in that country to privileges and immunities.
3. A law or the governing document of the organisation prevents private persons benefiting from the income of the organisation.

2.5.4 Non-profit Organisations

A Non-profit Organisation is typically an Entity established to achieve specific goals or serve a mission that benefits the public or a specific group, rather than to generate profit for its owners or shareholders. Such organisations usually reinvest any surplus revenue into their activities rather than distributing it as dividends or profit.

In order to be an Excluded Entity, a Non-profit Organisation must meet all of the following criteria:

1. It must be established in its country of residence for any of the following purposes:
 - a. Exclusively for religious, charitable, scientific, cultural, athletic, educational or other similar purposes; or
 - b. As a professional organisation, business league, chamber of commerce, labour organisation, agricultural or horticultural organisation, civic league or an organisation operated exclusively for the promotion of social welfare.
2. Substantially all income derived from the activities in paragraph 1 above should be exempt from income tax where the Entity is resident for tax purposes. As Bahrain does not currently have an income tax, this condition will be regarded as having been met for any Entity resident in Bahrain that meets the other conditions to be a Non-profit Organisation.

3. The organisation does not have any shareholders or members with a proprietary or beneficial interest in the income or assets of the organisation. Essentially, this means that such shareholders or members do not have any form of control, ownership or claim over the income or assets of the organisation, or an ability to use, transfer or derive benefits from the income or assets of the organisation.
4. The income or assets of the Entity may not be distributed to or applied for the benefit of a private person or a non-charitable Entity, except in the following circumstances as follows:
 - a. When such distribution or application directly supports or facilitates the Entity's charitable activities in accordance with its stated objectives. This, for example, could be a charity providing assistance to an individual in need, once the provision of such assistance is part of the Entity's normal charitable activities.
 - b. When such distribution or application directly constitutes reasonable compensation for services rendered or for the use of property or capital. This, for example, could be ordinary expenses paid in the course of the Entity's activities including payments for rent, utilities and legal and accounting fees.
 - c. When such distribution or application directly represents payment for property purchased by the Entity, provided the amount paid reflects fair market value. This, for example, can include real property (e.g. a building) and movable property (e.g. desks, IT equipment).
5. When the Entity is wound up, liquidated, dissolved, or undergoes any other form of termination (depending on the legal form of the Entity), all of the Entity's assets must be transferred to another Non-profit Organisation, or revert to the government or a Government Body within the country where the Entity is resident.

Where an Entity that would otherwise be a Non-profit Organisation carries on a trade or business that is not directly related to the purposes for which the Entity was established, it will not be treated as an Excluded Entity.

2.5.5 Investment Funds that are Ultimate Parent Entities

Where an Investment Fund is the Ultimate Parent Entity of a Group, it will be an Excluded Entity. An Investment Fund is defined as an Entity that meets all of the following conditions:

1. It is designed to pool assets (which may be financial and non-financial) from a number of investors (some of which are not connected).
2. It invests in accordance with a defined investment policy.
3. It allows investors to reduce transaction, research, and analytical costs, or to spread risk collectively.
4. It is primarily designed to generate investment income or gains, or protection against a particular or general event or outcome:

- a. Its investors have a right to return from the assets of the fund or income earned on those assets, based on the contributions made by those investors.
- b. The Entity or its management is subject to a regulatory regime in the jurisdiction in which it is established or managed (including appropriate anti-money laundering and investor protection regulation).
- c. It is managed by investment fund management professionals on behalf of the investors.

2.5.6 Pension Funds and Pension Services Entities

Pension Funds are Entities established and operated exclusively to administer or provide retirement or similar benefits to individuals. They must be regulated as pension funds under the laws of the jurisdiction in which they are created. Pension Funds are excluded from the scope of the DMTT Law because they do not engage in profit-making activities, and their income and assets are dedicated solely to providing retirement or similar benefits.

In order to be an Excluded Entity as a Pension Fund, the Entity must meet all of the following criteria:

1. It must be regulated by the jurisdiction, one of its political subdivisions or local authorities.
2. It must ensure that the benefits are secured or otherwise protected under national regulations.
3. It must be funded by a pool of assets held through a fiduciary arrangement or trust, safeguarding pension obligations against insolvency.

A Pension Fund also includes a Pension Services Entity. This latter Entity is one that is established or operated exclusively or almost exclusively for either of the following purposes:

1. To invest funds for the benefit of a Pension Fund (as described above); or
2. To carry out activities that are ancillary to those regulated activities carried out by a Pension Fund (as described above) provided the Pension Services Entity and Pension Fund are members of the same Group.

Exclusively or almost exclusively means that all or almost all of the activities have to fall within paragraphs 1 or 2 above. Paragraph 2 does not require the Pension Services Entity to provide services directly to a Pension Fund. It only requires that its activities are ancillary to the regulated activities carried out by such a Pension Fund and that the Pension Services Entity and the Pension Fund are members of the same Group.

2.5.7 Real Estate Investment Vehicle that is an Ultimate Parent Entity

Real Estate Investment Vehicles are Entities designed for investing in and managing immovable property (generally land and buildings). Where a Real Estate Investment Vehicle

is an Ultimate Parent Entity of a Group, it will be an Excluded Entity. In order to be a Real Estate Investment Vehicle, the following conditions must be met:

1. The Entity must hold predominantly immovable property.
2. The Entity must be widely held. This means that it has many owners that are not connected persons.
3. The taxation of the Entity achieves a single level of tax either in its hands or in the hands of its interest holders, with at most one year of deferral.

For the purposes of paragraph 2 above, a person or enterprise will be connected to another person if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same persons.

A person shall be considered to be connected if one possesses directly or indirectly more than 50 per cent of the beneficial interest in the other (or, in the case of a company, more than 50 per cent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or if another person or enterprise possesses directly or indirectly more than 50 per cent of the beneficial interest (or, in the case of a company, more than 50 per cent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in the person and the enterprise or in the two enterprises.

2.5.8 Other Excluded Entities

Under the DMTT Law, certain holding vehicles can qualify as Excluded Entities if they meet specific ownership and operational requirements.

1. An Entity where at least 95% of the value of the Entity is owned, either directly or indirectly, by one or more Excluded Entities, except a Pension Services Entity or an Entity under 2 below. To qualify under this provision, the Entity must operate exclusively or almost exclusively to hold assets or invest funds on behalf of Excluded Entities, or the Entity must engage exclusively in ancillary activities that support the operations of the Excluded Entities.
2. An Entity where at least 85% of the value is owned, directly or indirectly, by one or more Excluded Entities, except a Pension Services Entity or an Entity under 1 above, and the following applies:
 - a. Most of the Entity's income must primarily derive from gains or losses on shares or equity interests excluded from the computation of Constituent Entity Income or Loss (one of the components of calculating the DMTT liability of Bahrain located Constituent Entities). This provision ensures that an Entity does not lose its status as an Excluded Entity solely because it receives a small amount of income from sources other than dividends or equity returns on controlled companies (e.g. the interest received from a bank on money that passes through the Entity's bank account should not prevent the

Entity from being as an Excluded Entity provided that such interest income represents an insignificant amount of its overall income).

- b. The Entity's activities must primarily involve holding assets or managing investments on behalf of the Excluded Entities.

3. The Revenue Test

3.1 Application of the Revenue Test

3.1.1 Introduction

In order for a Bahrain located Constituent Entity of a Multinational Enterprise Group to be within the scope of the DMTT Law, the Multinational Enterprise Group must meet the Revenue Test. A Bahrain located Joint Venture and any Bahrain located Joint Venture Subsidiaries it owns will also be within the scope of the Multinational Enterprise Group holding the 50% minimum shareholding in the Joint Venture meets the Revenue Test.

A Multinational Enterprise Group meets the Revenue Test for a Fiscal Year if the revenue reported in the Consolidated Financial Statements of the Ultimate Parent Entity is equal to or exceeds EUR 750 million in at least two out of the four preceding Fiscal Years.

If any of the four preceding Fiscal Years is shorter or longer than 12 months, the revenue threshold of EUR 750 million is be adjusted proportionately to reflect the actual length of the Fiscal Year. See section 3.1.4 for further guidance on fiscal year deviations.

The Revenue Test is applied based on a four-year-period in order to reduce volatility in the application of the DMTT Law and means that, where the consolidated revenue of a Multinational Enterprise Group exceeds EUR 750 million in a single Fiscal Year only, none of its Constituent Entities or Joint Ventures / Joint Venture Subsidiaries come within the scope.

The Revenue Test is applied for the four Fiscal Years preceding the current Fiscal Year. The Fiscal Year is not included when applying the Revenue Test to ensure that, at the beginning of any given Fiscal Year, the Multinational Enterprise Group knows whether or not it is within the scope of the DMTT for that Fiscal Year.

Example 1

A Multinational Enterprise Group which consists of an Ultimate Parent Entity located in Bahrain and two foreign subsidiaries needs to determine whether it is in scope of the DMTT for the Fiscal Year starting on 1 January 2025. The revenue for the years ended 31 December 2021, 2022, 2023 and 2024 based on the Consolidated Financial Statements of the Ultimate Parent Entity is:

<i>Fiscal Year 2021</i>	<i>EUR 640 million</i>
<i>Fiscal Year 2022</i>	<i>EUR 760 million</i>
<i>Fiscal Year 2023</i>	<i>EUR 500 million</i>
<i>Fiscal Year 2024</i>	<i>EUR 770 million</i>

The Multinational Enterprise Group meets the Revenue Test because the revenue reported in the Consolidated Financial Statements exceeds the revenue threshold of EUR 750 million in two of the four Fiscal Years preceding the Fiscal Year 2025.

3.1.2 Definition of Revenue for the purposes of the Revenue Test

For the purposes of the Revenue Test, “revenue” is determined in accordance with the Consolidated Financial Statements of the Ultimate Parent Entity. It includes the inflows of economic benefits arising from the ordinary activities of the Multinational Enterprise Group. The Multinational Enterprise Group’s ordinary activities include the delivery or production of goods, rendering of services as well as other relevant activities.

Revenue may be presented differently by different Multinational Enterprise Groups. For example, a Multinational Enterprise Group may report revenue from non-recurring items separately in the Consolidated Financial Statements. Where different types of revenue are separately presented in the profit and loss statement of the Consolidated Financial Statements, these amounts should be aggregated when applying the Revenue Test.

For the purposes of the Revenue Test, “revenue” also includes net gains from investments which are reflected in the profit and loss statement of the Consolidated Financial Statements. If the Consolidated Financial Statements report gross investment gains and gross investment losses separately, the Multinational Enterprise Group should subtract the gross losses from the gross gains when calculating revenues for the purposes of applying the Revenue Test, but only up to the amount of gross gains.

Where the income of an Entity is included in the Consolidated Financial Statements of the Multinational Enterprise Group, the threshold of EUR 750 million is applied to the **total amount** of the Entity’s revenue that is reflected in the Consolidated Financial Statements. This applies even where the Entity is owned by minority interest holders which are not members of the Multinational Enterprise Group. The revenue reflected in the Consolidated Financial Statements should not be reduced by the amount attributable to minority interest holders.

Any revenue derived from transactions with other Group Entities that are eliminated on consolidation is excluded when applying the Revenue Test.

Example

MNE Group 1 consists of an Ultimate Parent Entity located in Bahrain (Company A) and one subsidiary located in the United Kingdom (Company B). Company A directly owns 90% of Company B and the remaining 10% is owned by an unconnected third-party investor. Company A is required to prepare Consolidated Financial Statements in Bahrain which combines all of the assets, liabilities, income, expenses and cash flows of Company A and Company B on a line-by-line basis. An extract from the Consolidated Financial Statements is as follows:

Sales revenue	EUR 700 million
Non-recurring income	EUR 40 million
Gains from investments	EUR 35 million
Losses from investments	EUR 20 million

For the purposes of applying the Revenue Test, the revenue based on the Consolidated Financial Statements is EUR 755 million. The sales revenue, non-recurring income and the net of the gross gains and gross losses from investments are added together ($700 + 40 + (35 - 20)$) to arrive at the consolidated revenue figure.

The above figures include **all** revenue and income earned by Company B during the Fiscal Year. In applying the Revenue Test, **no adjustment** is made for the 10% minority interest held by a third party.

3.1.3 Interaction between the Revenue Test and Excluded Entities

As explained in section 2.5, an Excluded Entity is not a Constituent Entity. However, an Excluded Entity is a Group Entity for the purposes of applying the Revenue Test. Therefore, revenue derived by an Excluded Entity which is part of a Multinational Enterprise Group should be included when determining whether a Multinational Enterprise Group meets the Revenue Test. If the Revenue Test is met, the income, expenditure and taxes attributable to the Excluded Entity are **excluded from** the calculations which are required under the DMTT Law, such as the Computation of Constituent Entity Income or Loss and Covered Taxes.

Example

Company A is a Limited Liability Company located in Bahrain and is the Ultimate Parent Entity of a Multinational Enterprise Group which consists of Company B (also located in Bahrain) and Company C which is located in the Kingdom of Saudi Arabia.

Company B is an Excluded Entity under the DMTT Law. Company A and Company C are not Excluded Entities.

The revenue reported in the Consolidated Financial Statements prepared by the Ultimate Parent Entity (i.e. Company A) for the year ended 31 December 2025 is EUR 790 million. The revenue derived by each of the companies is included below:

- Company A: EUR 390 million
- Company B: EUR 60 million
- Company C: EUR 340 million

In determining the revenue for the Multinational Enterprise Group for the Fiscal Year ending 31 December 2025, the revenue reported in the Consolidated Financial Statements should be used even though this includes revenue derived by Company B, an Excluded Entity). Therefore, the Multinational Enterprise Group will have exceeded the revenue threshold of EUR 750 million in the year ended 31 December 2025.

3.1.4 Fiscal Year Deviations

While most Multinational Enterprise Groups adhere to a standard twelve-month Fiscal Year, variations in the length of the Fiscal Year are common due to changes in reporting practices, mergers, or the specific needs of the Group's jurisdiction.

Where a Multinational Enterprise Group's Fiscal Year is not a twelve-month period, the revenue threshold of EUR 750 million must be adjusted proportionately for the purposes of applying the Revenue Test to reflect the actual length of the Fiscal Year. This adjustment ensures parity in determining whether a Multinational Enterprise Group meets the threshold, regardless of the duration of its reporting period.

For Fiscal Years shorter than twelve months, the threshold is reduced proportionally based on the ratio of the Fiscal Year's duration to the standard twelve-month period. Conversely, for Fiscal Years which are longer than twelve months, the threshold is increased proportionally to reflect the extended period.

Example 1

For a nine-month Fiscal Year, the adjusted revenue threshold is calculated as:

$$\text{Adjusted Threshold} = \text{EUR 750 million} \times 9 \div 12 = \text{EUR 562.5 million}$$

For a fifteen-month Fiscal Year, the adjusted threshold is:

$$\text{Adjusted Threshold} = \text{EUR 750 million} \times (15/12) = \text{EUR 937.5 million}$$

Example 2

GH Group is a Multinational Enterprise Group headquartered in Bahrain. It was established on 1 July 2021. Its Fiscal Years were initially set to align with the calendar year, but were subsequently adjusted for operational convenience:

<i>Fiscal Year</i>	<i>Dates</i>	<i>Revenues (In EUR)</i>
1	1 July 2021 to 31 December 2021 (six months)	400 million
2	1 January 2022 to 31 December 2022 (twelve months)	820 million
3	1 January 2023 to 31 March 2024 (fifteen months)	950 million
4	1 April 2024 to 31 March 2025 (twelve months)	780 million

The Revenue Test is applied as follows:

- *Fiscal Year 1 (six months): The revenue threshold is adjusted to account for the shortened period:*

Adjusted Threshold = EUR 750 million x 6 ÷ 12 = EUR 375 million.

*The reported revenue of EUR 400 million **exceeds** the revenue threshold for this Fiscal Year.*

- *Fiscal Year 2 (twelve months): The standard threshold of EUR 750 million applies. The reported revenue of EUR 820 million **exceeds** the revenue threshold for this Fiscal Year.*
- *Fiscal Year 3 (fifteen months): The revenue threshold is adjusted to account for the extended period:*

Adjusted Threshold = EUR 750 million x 15 ÷ 12 = EUR 937.5 million

*The reported revenue of EUR 950 million **exceeds** the adjusted revenue threshold for this Fiscal Year.*

- *Fiscal Year 4 (twelve months): The standard threshold of EUR 750 million applies. The reported revenue of EUR 780 million exceeds the revenue threshold for this Fiscal Year*

GH Group satisfies the Revenue Test for the Fiscal Year following Fiscal Year 4 because the revenue threshold is met or exceeded for at least two of the preceding four Fiscal Years.

3.1.5 How the Revenue Test applies where Consolidated Financial Statements are not available

Consolidated Financial Statements may not be available in respect of one or more Fiscal Years in the four-year testing period. For example, the Entities that make up the Multinational Enterprise Group may have recently been created and financial statements for such Entities would not exist for prior years. Where this happens, the revenue for the Fiscal Year(s) in which Consolidated Financial Statements are not available are deemed not to equal or exceed EUR 750 million. Therefore, the earliest Fiscal Year in which the Multinational Enterprise Group can come into scope of the DMTT Law is from the third year of operations.

Example

AB group is a Multinational Enterprise Group which was formed on 1 January 2025. It consists of two newly incorporated entities: Company A and Company B. Company A is the Ultimate Parent Entity of the Multinational Enterprise Group and is located in Bahrain. Company B is located in France. The AB Group prepares Consolidated Financial Statements starting from 1 January 2025, and its reported consolidated revenues are as follows:

- *Year ended 31 December 2025: EUR 750 million*
- *Year ended 31 December 2026: EUR 760 million*
- *Year ended 31 December 2027: EUR 780 million*

The Revenue Test is applied as follows:

- *Year ended 31 December 2025: As the AB Group is a newly formed Multinational Enterprise Group, Consolidated Financial Statements for the four prior years are not available, and it lacks*

the necessary historical financial data to apply the Revenue Test. As a result, for the first year of testing, there is no obligation under the DMTT Law because the Revenue Test cannot yet be applied.

- *Year ended 31 December 2026: By this time, the consolidated revenue for the year ended 31 December 2025 is available. However, the Revenue Test requires data from at least two prior Fiscal Years. Since only one year's data is available, the Revenue Test cannot be applied. Therefore, AB Group is not subject to the DMTT Law in the Fiscal Year ended 31 December 2026.*
- *Year ended 31 December 2027: At this stage, consolidated revenue data for two prior Fiscal Years is available. The AB Group exceeds the revenue threshold of EUR 750 million in both the years ended 31 December 2025 and 31 December 2026. Consequently, the AB Group satisfies the Revenue Test, bringing it within the scope of the DMTT starting from the year ended 31 December 2027.*

In the first two Fiscal Years, the AB Group is excluded from the scope of Bahrain DMTT Law due to insufficient prior Fiscal Year data for the Revenue Test. From the third Fiscal Year, the AB Group becomes subject to Bahrain DMTT Law as it satisfies the Revenue Test criteria with consolidated revenues exceeding the EUR 750 million threshold in two prior Fiscal Years.

3.2 Deemed Consolidation Test

3.2.1 Introduction

The Revenue Test is used to determine whether a Multinational Enterprise Group falls within the scope of the DMTT. The Consolidated Financial Statements of the Ultimate Parent Entity are used for the purposes of applying the Revenue Test. However, there may be situations where the Ultimate Parent Entity does not prepare Consolidated Financial Statements.

A “deemed consolidation test” applies where the Ultimate Parent Entity does not prepare consolidated financial statements. This test requires the preparation of a set of Consolidated Financial Statements based on an Acceptable Financial Accounting Standard. This deemed set of Consolidated Financial Statements is then used for the purposes of applying the Revenue Test as well as other rules set out in the DMTT Law and the Executive Regulations.

The deemed consolidation test ensures that Entities which operate under common control are treated as part of the same Multinational Enterprise Group for the purposes of the Revenue Test. This mechanism addresses gaps where Consolidated Financial Statements have not been prepared by the Ultimate Parent Entity, ensuring that the Revenue Test is applied equitably and consistently.

3.2.2 Interaction between the deemed consolidation test and the definition of a Controlling Interest

The deemed consolidation test relies on the principle of common control. In preparing the deemed set of Consolidated Financial Statements, the Multinational Enterprise Group should take into account the assets, liabilities, income, expenses and cash flows of all Entities in

which the Ultimate Parent Entity has a Controlling Interest on a line-by-line basis unless the relevant Authorised Financial Accounting Standard does not require such consolidation.

For DMTT purposes, an Entity with an Ownership Interest (Entity A) in another Entity (Entity B) is treated as holding a Controlling Interest in Entity B where the financial results of Entity B would be required to be consolidated with those of Entity A, had Entity A, in fact, prepared Consolidated Financial Statements.

Example

Company A is a private company located in Country 1. Company A does not prepare consolidated financial statements as it is not required to prepare financial statements in Country 1.

Company B, which is wholly owned by Company A, issued bonds which are traded on a public securities exchange. The regulatory authority in Country 1 requires Company B to prepare financial statements in accordance with IFRS.

Company C is incorporated and located in Bahrain and is wholly owned by Company B. Under IFRS, the Acceptable Financial Accounting Standard in Country 1, Company A would have been required to consolidate its financial results with the financial results of Company B and Company C on a line-by-line basis.

Therefore, for the purposes of the deemed consolidation test, Company A has a Controlling Interest in both Company B and Company C and in preparing a set of deemed Consolidated Financial Statements, Company A should consolidate its financial results with the financial results of Company B and Company C.

3.2.3 Application of the deemed consolidation test to the Revenue Test

When the deemed consolidation test is applied, the financial data of all Entities in which the Ultimate Parent Entity has a Controlling Interest must be combined to determine the Multinational Enterprise Group's total consolidated revenue. The following steps outline the process:

- Step 1: Identify Entities in which the Ultimate Parent Entity has a Controlling Interest

The Ultimate Parent Entity is treated as having a Controlling Interest in an Entity if the Ultimate Parent Entity would have been required to consolidate the assets, liabilities, income, expenses and cash flows of the Entity on a line-by-line basis, had the Ultimate Parent Entity prepared Consolidated Financial Statements.

- Step 2: Simulate Consolidation

Combine the financial results of all the identified Entities, eliminating intra-group transactions and balances to avoid double-counting revenue.

- Step 3: Evaluate against the Revenue Threshold

Apply the Revenue Test by comparing the deemed consolidated revenue for each Fiscal Year with the threshold of EUR 750 million. The threshold should be adjusted proportionately if any fiscal years are shorter or longer than 12 months.

- Step 4: Document the Process

Maintain detailed records of the entities included in the deemed consolidation, the adjustments made to simulate consolidation, and the resulting revenue figure.

Example

Company A is a private company located in Country 1 and is 100% owned by an individual. Company A does not prepare consolidated financial statements as it is not required to prepare any financial statements in Country 1.

Company A holds interests in the following entities:

- 1. Company B: 100% owned directly by Company A and located in Bahrain.*
- 2. Company C: 80% directly owned by Company A and located in Saudi Arabia*
- 3. Company D: 70% directly owned by Company B and located in the United Arab Emirates*

Company A will be the Ultimate Parent Entity of a Multinational Enterprise Group comprising itself, Company B, Company C and Company D.

The Multinational Enterprise Group started operations on 1 January 2022. The revenue reported by each of the companies for the Fiscal Years ended 31 December 2022 (FY22), 31 December 2023 (FY23) and 31 December 2024 (FY24) is as follows:

<i>Company</i>	<i>FY22 Revenue (EUR)</i>	<i>FY23 Revenue (EUR)</i>	<i>FY24 Revenue (EUR)</i>
<i>Company A</i>	<i>40 million</i>	<i>50 million</i>	<i>50 million</i>
<i>Company B</i>	<i>300 million</i>	<i>350 million</i>	<i>350 million</i>
<i>Company C</i>	<i>150 million</i>	<i>200 million</i>	<i>220 million</i>
<i>Company D</i>	<i>120 million</i>	<i>160 million</i>	<i>150 million</i>

Under the deemed consolidation test, the Multinational Enterprise Group needs to take the following steps to determine whether the Revenue Test is met:

- 1. Identify all the entities in which Company A has a Controlling Interest.*
 - Company A (the Ultimate Parent Entity) directly owns and controls Company B and C*
 - Company D is indirectly controlled by Company A (the Ultimate Parent Entity) through Company B*

Based on the above, the Multinational Enterprise Group for the purposes of the deemed consolidation test consists of Company A, B, C and D.

2. Simulate consolidation

- The total reported revenue for FY22 is EUR 610 million
- The total reported revenue for FY23 is EUR 760 million
- The total reported revenue for FY24 is EUR 770 million

3. Apply the Revenue Test

The revenue derived by the Multinational Enterprise Group under the deemed consolidation test does not exceed the revenue threshold of EUR 750 million for FY22, but exceeds it for FY23 and FY24. Therefore, the Revenue Test is met for FY25 because the annual revenue of the Multinational Enterprise Group equals to or exceeds EUR 750 million for two of four Fiscal Years immediately preceding this Fiscal Year. As a result, the Multinational Enterprise Group is within the scope of the DMTT 1 January 2025.

4. Document the process

Maintain a record of the results of the deemed consolidation test.

3.3 Consolidated Revenue Test for Group Mergers and Demergers

3.3.1 Introduction

Corporate restructurings such as mergers and demergers impact the application of the Revenue Test. This is because a merger results in the formation of a new Multinational Enterprise Group through the combination of pre-existing Entities, and a demerger results in the division of an existing Group into two or more separate Groups. This means that the recently merged or demerged Multinational Enterprise Group will not have a single set of Consolidated Financial Statements in respect of prior Fiscal Years which combines the revenue of all Entities which are members of the new Multinational Enterprise Group.

The DMTT provisions contain specific rules on how the Revenue Test applies where a merger or demerger takes place. For the purposes of applying the consolidated revenue test, a merger specifically means any arrangement where:

- All or substantially all of the Group Entities of two or more separate Groups are brought under common control such that they constitute Group Entities of a combined Group; or
- An Entity that is not a member of any Group is brought under common control with another Entity or Group such that they constitute Group Entities of a combined Group.

For the same purposes, a demerger is any arrangement where the Group Entities of a single Group are separated into two or more Groups that are no longer consolidated by the same Ultimate Parent Entity.

3.3.2 Application of the Revenue Test to Mergers

Where two or more Groups merge to form a single Group, the revenue threshold is deemed to be met in a preceding Fiscal Year if the sum of the revenue included in each Group's Consolidated Financial Statements for the relevant Fiscal Years is equal to or exceeds EUR 750 million. This requires a thorough review of the Consolidated Financial Statements of the Groups which have merged to identify revenues attributable to each Entity which is a member of the newly merged Group. In determining the amount of revenue attributable to the newly merged Group, any income or expenses relating to transactions between the Groups during years prior to the merger shall not be taken into account.

Example 1

Group A and Group B merged on 1 January 2025 to form AB MNE Group. The consolidated revenues for Group A and Group B in the years ended 31 December 2021, 2022, 2023 and 2024 are:

<i>Fiscal Year</i>	<i>Consolidated Revenue of Group A (EUR)</i>	<i>Consolidated Revenue of Group B (EUR)</i>	<i>Total (EUR)</i>
<i>FY21</i>	<i>350 million</i>	<i>300 million</i>	<i>650 million</i>
<i>FY22</i>	<i>400 million</i>	<i>350 million</i>	<i>750 million</i>
<i>FY23</i>	<i>410 million</i>	<i>320 million</i>	<i>730 million</i>
<i>FY24</i>	<i>420 million</i>	<i>360 million</i>	<i>780 million</i>

In applying the Revenue Test, the revenue of both Group A and Group B is aggregated to determine whether the AB MNE Group meets the EUR 750 million threshold. AB MNE Group would meet the Revenue Test in the year ended 31 December 2025 because. For two of the four preceding years (i.e. FY22 and FY24), the EUR 750 million threshold is exceeded. Therefore, AB MNE Group would be subject to the DMTT Law from 1 January 2025.

Where two single Entities come together to form a Group, the revenue of each Entity, reflected in the financial statements of each of the Entities for the prior Fiscal Years, is aggregated for the purposes of applying the Revenue Test.

Where a single Entity joins a pre-existing Group, the revenue included in that Entity's financial statements for a given Fiscal Year is added to the revenue reported in the Consolidated Financial Statements of the Group for the same year for DMTT purposes.

If the accounting periods between the Entities or between the Entity and the Group do not align, the revenues of the Fiscal Years should be combined by taking the revenues reported in accounting periods that end with or within the accounting period used by the Group after the merger takes place.

Example 2

A Multinational Enterprise Group that uses a calendar year end acquires a single Entity (Company A) on 1 January 2025. Company A's accounting period is 1 October to 30 September each year.

The revenue of the Multinational Enterprise Group for the four years preceding the Fiscal Year starting on 1 January 2025 is:

- *Revenue for the year ended 31 December 2021: EUR 630 million*
- *Revenue for the year ended 31 December 2022: EUR 590 million*
- *Revenue for the year ended 31 December 2023: EUR 670 million*
- *Revenue for the year ended 31 December 2024 EUR 640 million*

The revenue generated by Company A for the four years preceding the Fiscal Year starting on 1 January 2025 is provided below:

- *Revenue for the year ended 30 September 2021: EUR 90 million*
- *Revenue for the year ended 30 September 2022: EUR 80 million*
- *Revenue for the year ended 30 September 2023: EUR 90 million*
- *Revenue for the year ended 30 September 2024: EUR 100 million*

Company A also generated revenue of EUR 30 million in the period between 1 October 2024 to 31 December 2024.

For the purposes of applying the Revenue Test, the revenue of Company A for the accounting period ended 30 September 2021, 2022, 2023 and 2024 should be combined with the revenue derived by the Multinational Enterprise Group for the accounting period ended 31 December 2021, 2022, 2023 and 2024 respectively. Company A's revenue for the period between 1 October to 31 December 2024 is not included in the computation of the Multinational Enterprise Group's revenue for the calendar years 2024 or 2025.

The Revenue Test is not met for the Fiscal Year starting on 1 January 2025 because the EUR 750 million threshold was exceeded only for 2023 when the consolidated revenue equalled EUR 760 million (670m + 90m). For the 2021, 2022 and 2024 calendar years, the threshold was not met as the total consolidated revenue was EUR 720 million, EUR 670 million and EUR 740 million respectively.

3.3.3 Application of the Revenue Test to demergers

3.3.3.1 Standalone Revenue Test

The provisions in relation to demergers operate differently from those for mergers. A Group which exists following a demerger can only be within the scope of the DMTT if both of the following apply:

- The Group which existed prior to the demerger had been a Multinational Enterprise Group that had met the Revenue Test for the last Fiscal Year ending prior to the demerger; and
- The new Group (i.e. after the demerger) meets a “standalone” Revenue Test (Standalone Revenue Test) as described below. Separate rules apply for the first Fiscal Year ending after the demerger takes place, and the second to the fourth Fiscal Years ending after the demerger takes place. These rules apply separately to **each** of the demerged Groups.

Example 1

Torus Limited is the Ultimate Parent Entity of a Multinational Enterprise Group. It holds 100% of the shares in Square Limited and Circle Limited. Each of these entities owns 100% of the shares in a number of Entities located in various jurisdictions. The consolidated revenue per the Consolidated Financial Statements for all of the four years prior to the demerger was lower than EUR 750,000.

On 30 June 2025, a demerger takes place under which the shares in Square Limited are transferred to the shareholders of Torus Limited in proportion to their shareholding in Torus Limited. Torus Limited retains its 100% shareholding in Circle Limited. All entities, before and after the demerger, use the Gregorian calendar year as their accounting year.

Following the demerger, Torus Limited remains as an Ultimate Parent Entity of a Multinational Enterprise Group. Square Limited is the Ultimate Parent Entity of a Multinational Enterprise Group which came into existence as a result of the demerger.

For the Fiscal Year 2025, the first year ending after the demerger, the applicability of the DMTT provisions needs to be considered separately for the two Multinational Enterprise Groups now in existence.

As the Multinational Enterprise Group existing prior to the demerger did not meet the Revenue Test for at least two of the four years preceding the demerger, no Bahrain located Constituent Entities of either Multinational Enterprise Group will be within the scope of the DMTT.

Example 2

Take the same facts as for Example 1, except that, for the purposes of this example, the Multinational Enterprise Group of which Torus Limited is the Ultimate Parent Entity had consolidated revenue exceeding EUR 750,000 in at least two of the Fiscal Years preceding the demerger.

For the Fiscal Year 2025, the first year ending after the demerger, the applicability of the DMTT provisions needs to be considered separately for the two Multinational Enterprise Groups now in existence.

As the Multinational Enterprise Group existing prior to the demerger met the Revenue Test for two of the four Fiscal Years preceding the Fiscal Year during which the demerger took place, each of the two Multinational Enterprise Groups need to separately consider whether they meet the Standalone Revenue Test for the Fiscal Year 2025 (the first Fiscal Year ending after the demerger). For the Fiscal Years 2026 to 2028, they need to consider whether they meet the Standalone Revenue Test applicable to the second to fourth years following the demerger.

3.3.3.2 First year ending after the demerger

For the first Fiscal Year ending after the demerger, the Standalone Revenue Test is met by a demerged Group if the Group has annual revenue of EUR 750 million or more in the **first** Fiscal Year that ends after the demerger per the Consolidated Financial Statements of the Ultimate Parent Entity of the demerged Group.

The revenue threshold of EUR 750 million should be adjusted proportionately for Fiscal Years which are shorter or longer than 12 months.

Example

MNE Group A has a Fiscal Year which is the same as the Gregorian calendar year. MNE Group A was within the scope of the DMTT Law in the year ended 31 December 2025 and its consolidated revenue for all relevant years exceeded EUR 750 million.

On 30 June 2026, MNE Group A distributed all the shares of Subgroup B (comprising Company B with three subsidiaries, one of which is in a different jurisdiction to the others) to its shareholders. Following the demerger Subgroup B maintains the same year end date and prepares Consolidated Financial Statements for the period 1 July 2026 to 31 December 2026. Subgroup B derived revenue of EUR 400 million during this period.

For the purposes of testing whether Subgroup B meets the Standalone Revenue Test for the first Fiscal Year following the demerger, the revenue threshold is adjusted to EUR 375 million due to the six-month period ($6 \div 12 \times 750$ million).

Subgroup B will remain within the scope of the DMTT for the first Fiscal Year after the demerger because, for that first Fiscal Year (1 July 2026 to 31 December 2026), Subgroup B exceeded the Standalone Revenue Test, as adjusted.

3.3.3.3 Second to fourth Fiscal Years following the demerger

For the second to the fourth Fiscal Years following a demerger, the Standalone Revenue Test is deemed to be met if the demerged Group has annual revenue of EUR 750 million or more in at least two Fiscal Years following the demerger per the Consolidated Financial Statements of the Ultimate Parent Entity of the demerged Group. The Revenue Test for second to fourth Fiscal Years following the demerger includes the annual revenue of the Fiscal Year that is being tested.

The revenue threshold is adjusted proportionately for Fiscal Years which are shorter or longer than 12 months.

Example

Continuing the example at 3.3.3.2 above, the revenue derived by Subgroup B for the years ended 31 December 2026 and 2027 was EUR 400 million and EUR 760 million respectively.

Subgroup B will remain within the scope of the DMTT for the Fiscal Year commencing 1 January 2027 because it exceeded the revenue threshold in Fiscal Year 1 (revenue of EUR 400 million was adjusted into EUR 780 million) and in Fiscal Year 2.

3.4 Identification of Transition Year (first in-scope Fiscal Year)

3.4.1 Introduction

The first Fiscal Year for which Bahrain located Constituent Entities of a Multinational Enterprise Group come within the scope of the DMTT is a Transition Year. The same applies for the first Fiscal Year Bahrain located Joint Ventures and Joint Venture Subsidiaries come within the scope of the DMTT.

The DMTT Law applies to financial years that begin on or after 1 January 2025. This means that any financial year starting from this date onwards will be subject to the provisions of the DMTT Law and the first Fiscal Year will be a Transition Year.

If a company's Fiscal Year begins on or after 1 January 2025, it should fully comply with the DMTT Law from the start of that Fiscal Year. However, companies with Fiscal Years starting before 1 January 2025, are not immediately subject to the DMTT, even if the Fiscal Year extends beyond this date. For example, a Fiscal Year from 1 April 2024 to 31 March 2025, would **not** be considered a Transition Year because the Fiscal Year started before the effective date of the DMTT Law.

The Transition Year is a pivotal element under Bahrain's DMTT Framework, determining the first Fiscal Year for which a Multinational Enterprise Group is subject to the regime.

3.4.2 Identifying the Transition Year

The determination of the Transition Year involves an assessment of whether the Multinational Enterprise Group's consolidated revenue meets or exceeds the EUR 750 million threshold in at least two of the four Fiscal Years preceding the Fiscal Year under review. For existing Groups with a complete financial history, this involves a straightforward evaluation of historical revenue data.

Example 1

XYZ Group, a Multinational Enterprise Group headquartered in Bahrain, operates in multiple jurisdictions and prepares its Consolidated Financial Statements in compliance with an Acceptable Financial Accounting Standard. The Group was established on 1 July 2021 and prepares Consolidated Financial Statements from 1 July to 30 June. The consolidated revenue of the group exceeds EUR 750 million in all relevant Consolidated Financial Statements.

The determination of the Transition Year is crucial to ensure the correct application of the DMTT rules. In order to identify the Transition Year, the Group must determine what is the first Fiscal Year which starts on or after the effective date of the DMTT Law.

*For XYZ Group the first Fiscal Year which starts on or after 1 January 2025 is the Fiscal Year 1 July 2025 to 30 June 2026. As the Revenue Test is met, this is the first Fiscal Year the XYZ Group comes within the scope of the DMTT Law and it will be a Transition Year. The Fiscal Year from 1 July 2024 to 30 June 2025 **cannot** be a Transition Year even though part of the year extends beyond the effective date of the DMTT Law because the Fiscal Year started before 1 January 2025.*

Example 2

Odys Group is a domestic Group headquartered in Bahrain that operates exclusively in Bahrain. The Group prepares Consolidated Financial Statement according to an Acceptable Financial Accounting Standard showing consolidated revenue exceeding EUR 750 million for the last five consecutive years. The Odys Group decided to expand its business activity and acquired a Multinational Enterprise Group, Heros, that carries out distribution activities in more than ten jurisdictions (other than Bahrain) through subsidiaries or Permanent Establishments. The holding company of Heros is

headquartered in country Z and prepares consolidated Financial Statement in accordance with an Acceptable Financial Accounting Standard. The consolidated revenue of Heros is below EUR 750 million for the last four consecutive years. The Groups will merge into Odys-Heros Group with an effective date of merger of 1 January 2026. The table below presents consolidated revenues of both Groups for calendar years ending 31 December 2022, 2023, 2024, 2025.

<i>Fiscal Year</i>	<i>Consolidated Revenue of Odys Group (EUR)</i>	<i>Consolidated Revenue of Heros MNE Group (EUR)</i>	<i>Total (EUR)</i>
<i>FY22</i>	<i>760 million</i>	<i>300 million</i>	<i>1,060 million</i>
<i>FY23</i>	<i>780 million</i>	<i>350 million</i>	<i>1,130 million</i>
<i>FY24</i>	<i>800 million</i>	<i>320 million</i>	<i>1,120 million</i>
<i>FY25</i>	<i>820 million</i>	<i>360 million</i>	<i>1,180 million</i>

For the years before the merger (2022-2025), Odys Group cannot be treated as an in-scope Group since it only carries out business activities in one country, i.e. Bahrain. The Group does not meet the condition of being a Multinational Enterprise Group with at least one Constituent Entity outside of Bahrain. Thus, the consolidated revenue test is irrelevant for Odys Group for these years.

From 1 January 2026, the merged Odys-Heros Group has activities in different countries including Bahrain. This requires that Odys-Heros Group must carry out a consolidated revenue test for the Transition Year which starts from 1 January 2026. For purposes of the revenue test, the separate consolidated revenues of the Odys and Heros groups are added for preceding years. The total of consolidated revenues for the years preceding 2026 exceed the threshold of EUR 750 million.

As a result, the Transition Year for Odys-Heros MNE Group will start from 1 January 2026 and Constituent Entities of that Group located in Bahrain will be subject to Tax from 1 January 2026.

3.5 Currency for the Revenue Test

3.5.1 Introduction

The currency used to apply the Revenue Test is Euros. Multinational Enterprise Groups must convert their consolidated revenues into Euros when assessing whether they have met or exceeded the EUR 750 million threshold for a Fiscal Year.

3.5.2 Currency Conversion

For the purposes of applying the Revenue Test, where a Multinational Enterprise Group reports its revenue in a currency other than Euro, it must be converted into Euro. This conversion should be carried out using the average monthly foreign exchange rate for December in the calendar year immediately preceding the Fiscal Year in respect of which the conversion is required.

The exchange rate used must be derived from reliable sources, such as the Central Bank of Bahrain or other sources set out in the non-exclusive list of approved reliable sources published by the NBR. The current list includes the following sources: Thomson Reuters, Oanda, XE.com, Bloomberg and the exchange rates published by licenced Bahraini banks. The Multinational Enterprise Group must apply the same source consistently across all revenue calculations to ensure comparability.

Example

MNE Group A consists of two companies, Company A and Company B. Company A is the Ultimate Parent Entity of the Group and is located in Bahrain. Company B is located in Saudi Arabia.

The Consolidated Financial Statements of MNE Group A for the years ended 31 December 2023 and 31 December 2024 shows total revenue of BHD 310 million and BHD 320 million respectively. MNE Group A started operations on 1 January 2023 and therefore does not have Consolidated Financial Statements for Fiscal Year prior to the year ended 31 December 2023.

In assessing whether MNE Group A is in scope of the DMTT Law for the Fiscal Year starting 1 January 2025, the revenue figure must be converted into Euro using the average monthly foreign exchange rate for December in the calendar year immediately preceding the Fiscal Year in respect of which the conversion is required.

The average exchange rate for the month of December 2022 and December 2023 according to the Central Bank of Bahrain is EUR 1: BHD 0.398 and EUR 1: BHD 0.406 respectively.

For the purposes of applying the Revenue Test, the amount of revenue derived by MNE Group A for the year ended 31 December 2023 is EUR 779 million ($310m \div 0.398$). The amount of revenue derived for the year ended 31 December 2024 is EUR 788 million ($320m \div 0.406$).

MNE Group A meets the Revenue Test as, for two Fiscal Years prior to the Fiscal Year beginning 1 January 2025, the Group's revenue exceeded the EUR 750 million threshold.

4. Exclusions and Safe Harbours

4.1 Introduction

The DMTT Law and Executive Regulations include safe harbours and exclusions that deem the Tax Due to be nil in the Fiscal Year in which they apply. Such safe harbours and exclusions can be permanent or temporary in nature.

When the Filing Constituent Entity or Multinational Enterprise Group as a whole is eligible for and decides to benefit from one of the safe harbours or exclusions, the Filing Constituent Entity is not required to perform detailed computation of Effective Tax Rate nor calculate Tax Due. It is sufficient to demonstrate that the conditions of the safe harbour or exclusion are satisfied.

Where an exclusion or safe harbour applies, Bahrain located Constituent Entities of a Multinational Enterprise Groups and Joint Ventures and Joint Venture Subsidiaries will still have registration, filing and other DMTT compliance obligations including maintaining records and complying with NBR requests for information.

This section of the Guide describes a de-minimis exclusion, a transitional country-by-country reporting safe harbour and an exclusion from Tax in the initial phase of international activity.

4.2 De Minimis Exclusion

4.2.1 Introduction

The De Minimis Exclusion provides an exclusion under which the Tax for Bahrain located Constituent Entities of a Multinational Enterprise Group will be deemed to be zero for a given Fiscal Year, subject to meeting the conditions in section 4.2.2. Where the conditions are met for a Fiscal Year, the exclusion applies to all Bahrain located Constituent Entities of the Multinational Enterprise Group (with the exceptions as per section 4.4.3).

A Filing Constituent Entity can make an election to benefit from the De Minimis Exclusion where both of the following tests are met for a Fiscal Year: an Average Revenue Test and an Average Income or Loss Test.

For the purposes of determining the applicability of the tests mentioned above, the Average Constituent Entity Revenue and Average Constituent Entity Income or Loss are determined based on the average of the current and the two preceding Fiscal Years.

The exclusion is applied on an annual basis, so the exclusion may apply for one Fiscal Year, but not for a subsequent Fiscal Year. The exclusion is also subject to an election being made.

Joint Ventures and Joint Venture Subsidiaries are treated as if they are Constituent Entities of a separate Multinational Enterprise Group. The De Minimis Exclusion therefore applies to Bahraini located Joint Ventures and their Joint Venture Subsidiaries provided the conditions discussed in this section apply. The tests are applied separately to the Group of Entities comprising the Joint Venture and its Joint Venture Subsidiaries.

Where the De Minimis Exclusion applies and an election is made, there is no requirement for the Multinational Enterprise Group to compute the Effective Tax Rate of Bahraini located Constituent Entities. Further, there is no requirement to prepare a DMTT computation for such entities. However, registration and filing obligations still apply to such Constituent Entities.

4.2.2 Conditions for Exclusion

The De Minimis Exclusion is subject to **both** an Average Revenue Test and an Average Income or Loss Test being met. These are described below:

1. The Average Revenue Test

This test is met when the Average Constituent Entity Revenue of all Bahrain located Constituent Entities is less than EUR 10 million.

The Average Constituent Entity Revenue is determined by applying the same rules used to compute Constituent Entity Income in Bahrain under the DMTT Law and its Regulations. The Constituent Entity Revenue for the current Fiscal Year is averaged with that of the preceding two Fiscal Years for purposes of testing whether the test is met.

2. The Average Income or Loss Test.

This test is met when the Average Constituent Entity Income of all Bahrain located Constituent Entities is less than EUR 1 million or where there is Average Constituent Entity Loss.

The Average Constituent Entity Income or Loss should be determined by applying the same rules used to compute the Net Constituent Entity Income for all Bahrain located Constituent Entities, if any, or the Net Constituent Entity Loss. The Constituent Entity Income is determined based on the average of the current and the two preceding Fiscal Years.

Where there are no Bahrain located Constituent Entities with either Constituent Entity Income or Loss in a Fiscal Year, that Fiscal Year is excluded when applying the above tests. For this purpose, there are no Bahrain located Constituent Entities with such income or loss prior to the first Fiscal Year such Entities come within the scope of the DMTT Law. Therefore, for the first Fiscal Year Bahrain located Constituent Entities come within the scope of the DMTT Law, the above tests will be applied for that Fiscal Year only. For the second Fiscal Year, the tests will be applied using an average of the first two Fiscal Years. For the third Fiscal Year, the tests will be applied using an average of the three Fiscal Years.

If one or more Fiscal Years used in determining the averages under the above tests are shorter than the others, the average is computed by adjusting the corresponding revenue and income (or loss) calculations in proportion to the period covered by the short Fiscal Year over a calendar year.

Example 1

ABC Co is the Ultimate Parent Entity of a Multinational Enterprise Group and is incorporated in Country A. Entities owned by ABC Co operate in five jurisdictions and three Constituent Entities conduct business in Bahrain. The financial year for ABC Co the purposes of its Consolidated Financial Statements aligns with the Gregorian calendar year and the Multinational Enterprise Group meets the Revenue Test for the Fiscal Year ended 31 December 2025.

The total Constituent Entity Revenue and total Constituent Entity Income for all three Entities located in Bahrain for the Fiscal Years ended 31 December 2023, 2024 and 2025 are:

Fiscal Year	Total Constituent Entity Revenue (BHD)	Net Constituent Entity Income or Net Constituent Entity Loss (BHD)
FY23	3 million	500,000
FY24	2 million	(200,000)
FY25	2.4 million	200,000

The amounts are in a currency other than Euro and must be converted into Euro using the average monthly foreign exchange rate for December in the calendar year immediately preceding the relevant Fiscal Year.

The average monthly foreign exchange rates for December 2022, 2023 and 2024 are:

- December 2022: EUR 1: BHD 0.3954
- December 2023: EUR 1: BHD 0.4097
- December 2024: EUR 1: BHD 0.4015

The total Constituent Entity Revenue and Net Constituent Entity Income or Loss converted into Euros is as follows:

Fiscal Year	Total Constituent Entity Revenue (EUR)	Net Constituent Entity Income or Net Constituent Entity Loss (EUR)
FY23	7,587,253 (3 million ÷ 0.3954)	1,264,542 (500,000 ÷ 0.3954)
FY24	4,881,621 (2 million ÷ 0.4097)	(488,162) (200,000 ÷ 0.4097)
FY25	5,977,584 (2.4 million ÷ 0.4015)	498,132 (200,000 ÷ 0.4015)

The Average Constituent Entity Revenue in Bahrain is:

$$\frac{7,587,253 + 4,881,621 + 5,977,584}{3} = \text{EUR } 6,148,819$$

The Average Constituent Entity Income in Bahrain is:

$$\frac{1,264,542 + (488,162) + 498,132}{1} = \text{EUR } 424,837$$

 3

The Average Constituent Entity Revenue of Bahrain is less than EUR 10 million and the Average Constituent Entity Income of Bahrain is less than EUR 1 million. Therefore, the Filing Constituent Entity may make an election to apply the De Minimis exclusion for all Constituent Entities in Bahrain and, if such an election is made, the DMTT liability in Bahrain will be zero.

Example 2

DEF Co is the Ultimate Parent Entity of a Multinational Enterprise Group and is located in Country A. It has one subsidiary GHI LLC located in Bahrain. The Multinational Enterprise Group prepared six-month financial statements from 1 July 2023 to 31 December 2023. Subsequently, it used the Gregorian calendar year as its Fiscal Year. The Multinational Enterprise Group meets the Revenue Test for all relevant Fiscal Years.

The Constituent Entity Revenue attributed to GHI LLC and its Constituent Entity Income attributable in the Fiscal Years ended 31 December 2023, 2024 and 2025 are as follows:

<i>Fiscal Year</i>	<i>Constituent Entity Revenue (EUR)</i>	<i>Constituent Entity Income (EUR)</i>
<i>1 July 2023 – 31 December 2023</i>	<i>5 million</i>	<i>400,000</i>
<i>1 January 2024 – 31 December 2024</i>	<i>11 million</i>	<i>900,000</i>
<i>1 January 2025 – 31 December 2025</i>	<i>7 million</i>	<i>400,000</i>

Where a Fiscal Year is shorter than 12 months, the Constituent Entity Revenue and Constituent Entity Income or Loss is adjusted proportionally to cover a full 12-month period.

Therefore, in the first Fiscal Year the Constituent Entity Revenue is adjusted to EUR 10 million (5 million x 12 ÷ 6) and the Constituent Entity Income is adjusted to EUR 800,000 (400,000 x 12 ÷ 6).

The Average Constituent Entity Revenue in Bahrain is:

$$\frac{10 \text{ million} + 11 \text{ million} + 7 \text{ million}}{3} = \text{EUR 9.33 million}$$

The Average Constituent Entity Income in Bahrain is:

$$\frac{800,000 + 900,000 + 400,000}{3} = \text{EUR 700,000}$$

The Average Constituent Entity Revenue calculated for Bahrain is less than EUR 10 million and the Average Constituent Entity Income is less than EUR 1 million. Therefore, the Filing Constituent Entity may make an election to apply the De Minimis exclusion and, if such an election is made, the DMTT liability in Bahrain will be zero.

4.2.3 Entities that do not qualify for the exclusion

Stateless Constituent Entities, Investment Entities and Insurance Investment Entities. Any revenue or income / loss of such Entities are excluded from the De Minimis Exclusion computation for other Bahrain located Constituent Entities.

4.2.4 Post Filing ETR Adjustments

The Average Constituent Entity Revenue and the Average Constituent Entity Income or Loss of a jurisdiction are computed for each Fiscal Year to determine whether the De Minimis Exclusion applies.

An Effective Tax Rate Adjustment may apply in a subsequent year such that the Effective Tax Rate of a jurisdiction for a previous Fiscal Year is required or permitted to be recalculated. This may also require the re-computation of the Net Constituent Entity Income or Loss for all Bahrain located Constituent Entities located for that Fiscal Year or any intervening Fiscal Years.

When Net Constituent Entity Income or Loss is adjusted under an Effective Tax Rate Adjustment Article, the Constituent Entity Revenue should also be adjusted as appropriate and necessary. Adjustments that **reduce** Net Constituent Entity Income and/or Constituent Entity Revenue for a previous Fiscal Year will **not** make a jurisdiction eligible for the De Minimis Exclusion in a previous Fiscal Year.

Adjustments that increase the Net Constituent Entity Income and/or Constituent Entity Revenue may result in the Average Constituent Entity Income or the Average Constituent Entity Revenue no longer being below the threshold for the De Minimis Exclusion for a previous Fiscal Year or Years.

Where the Net Constituent Entity Income is increased for those Fiscal Years due to post-filing adjustments giving rise to a reduction of the Effective Tax Rate, this may have an impact on the De Minimis Exclusion. If the adjusted Net Constituent Entity Income results in the Average Constituent Entity Income **exceeding** the EUR 1 million threshold for any Fiscal Year, the De Minimis Exclusion would **not** be applicable for those years and the Tax Return would need to be amended and any DMTT liability computed.

4.2.5 Changes in scope of MNE Group

The Average Constituent Entity Revenue and the Average Constituent Entity Income or Loss for the purposes of the tests set out in section 4.4.2 are computed based on the financial accounts used in preparing the Consolidated Financial Statements. This has the following implications:

- When computing the three-year averages, Constituent Entity Revenue and Constituent Entity Income or Loss are not adjusted to take into account period when a Constituent Entity does not belong to a Multinational Enterprise Group.

- If a Multinational Enterprise Group acquires Entities in a merger, the Constituent Entity Revenue and the Constituent Entity Income or Loss of those Entities determined for its Bahrain located Constituent Entities periods prior to the merger are **not** taken into account for purposes of determining the three-year average.
- If a Bahrain located Constituent Entity leaves the Multinational Enterprise Group, the Constituent Entity Revenue and the Constituent Entity Income or Loss of that Entity determined for periods prior to the disposition of that Constituent Entity **are still taken into account** for purposes of determining the three-year averages.

4.3 Transitional Country-by-Country Reporting Safe Harbour

4.3.1 Introduction

The Transitional Country-by-Country Reporting Safe Harbour is a temporary safe harbour that is available for Groups that prepare country-by-country reports which satisfy certain conditions. The safe harbour is limited to Fiscal Years beginning on or before 31 December 2026 excluding Fiscal Years ending after 30 June 2028. If the conditions to qualify for the Transitional Country-by-Country Reporting Safe Harbour are met, the amount of Tax Due under the DMTT Law is deemed to be zero.

The Transitional Country-by-Country Safe Harbour applies if any of the conditions determined in the DMTT Law and its Regulations are met, as discussed in section 4.3.2.

1. Country-by-Country Reporting was introduced pursuant to Action 13 of the OECD's BEPS initiative. Similarly to the DMTT, it applies to large multinational enterprise groups with annual consolidated revenue exceeding EUR 750 million. The ultimate parent entity of the group (or another designated reporting entity in certain circumstances) is required to submit a report setting out certain financial and other information for each jurisdiction in which the group operates. This information includes jurisdiction level revenue, profit, income tax, number of employees, capital and retained earnings and tangible assets.

The Transitional CbCR Safe Harbour leverages the existing easily verifiable and simplified data gathered by a Multinational Enterprise Group for Country-by-Country Reporting purposes. The safe harbour is designed to simplify compliance requirements for Multinational Enterprise Groups during a transition period.

Under the Transitional Country-by-Country Reporting (CbCR) Safe Harbour, Tax is deemed to be zero during the transition period. It is a temporary measure that applies when Constituent Entities of a Multinational Enterprise Group are located in Bahrain and the conditions relating to the safe harbour are met.

The Safe Harbour conditions all look to information on a "Qualified CbC Report". This is a Country-by-Country Report prepared and filed using Qualified Financial Statements. Qualified Financial Statements **are** any of the following:

1. The accounts used to prepare the Consolidated Financial Statements of the Multinational Enterprise Group before any consolidation adjustments eliminating intra-group transactions.
2. Separate financial statements of each Constituent Entity prepared in accordance with either an Acceptable Financial Accounting Standard, or an Authorised Financial Accounting Standard, provided the information contained in these statements is maintained based on that accounting standard and is reliable.
3. For a Constituent Entity that is not included in a Multinational Enterprise Group's Consolidated Financial Statements on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that Constituent Entity that are used for the preparation of the Multinational Enterprise Group's Qualified CbC Report.
4. For of a Permanent Establishment, separate Qualified Financial Statements for that Permanent Establishment.

4.3.2 Conditions to qualify for the safe harbour

A Multinational Enterprise Group can qualify for the Transitional CbCR Safe Harbour if it meets **any** of the following three tests:

1. The De Minimis Test

On a Qualified Country-by-Country Report for the Fiscal Year:

- a. The total revenue of all Bahrain located Constituent Entities must be less than EUR 10 million; **and**
- b. The total profit before income tax for all Bahrain located Constituent Entities must be less than EUR 1 million (or there is a loss incurred by Constituent Entities in current fiscal year in Bahrain).

Total revenue for this purpose means the total revenues in Bahrain of a Multinational Enterprise Group as reported on its Qualified CbC Report. Profit before income tax means the profit or loss before income tax as reported on its Qualified CbC Report.

2. The alternative Effective Tax Rate Test

The alternative Effective Tax Rate of the Multinational Enterprise Group in Bahrain is equal to or greater than 16% for Fiscal Years beginning in 2025 and 17% for those starting in 2026. The alternative Effective Tax Rate is calculated using the formula $A \div B \times 100$ where:

- A is the Simplified Covered Taxes for all Constituent Entities in Bahrain; and
- B is the profit or loss before income tax for all Constituent Entities in Bahrain as reported on the Multinational Enterprise Group's Qualified CbCR Report.

For this purpose, Simplified Covered Taxes means the total income tax expense of Constituent Entities of a Multinational Enterprise Group as reported in its Qualified Financial Statements.

3. The Routine Profits Test

The Multinational Enterprise Group's profit or loss before income tax in Bahrain, as shown on the Qualified CbCR Report, does not exceed the amount of Substance Based Income Exclusion.

The Substance Based Income Exclusion comprises a percentage of certain payroll costs and a percentage of the carrying value of certain tangible assets. Outside the context of the Transitional CbCR Safe Harbour, the Substance Based Income Exclusion impacts the computation of DMTT. While the computation of the amount of Substance Based Income Exclusion is done in accordance with the rules set out in the DMTT Law and Regulations, there may be certain differences in computing the amount for the purposes of the Routine Profits Test and the following should be borne in mind:

- The payroll expenses and tangible assets of Entities that are not Constituent Entities for CbCR purposes (e.g. Entities held for sale) or for DMTT purposes (e.g. Excluded Entities) are not included in the computation of the Substance Based Income Exclusion under the Routine Profits Test.
- If a Constituent Entity is located in different jurisdictions for CbCR reporting and for DMTT purposes, any payroll expenses and tangible assets of that Constituent Entity are excluded when computing the Substance Based Income Exclusion under the Routine Profits Test.

4.3.3 Transition Period

The Transitional CbCR Safe Harbour is available only for a specific period of time, called the Transition Period. The Transition Period means Fiscal Years beginning on or before 31 December 2026, but not including a Fiscal Year ending after 30 June 2028. At the end of the Transition Period, the Safe Harbour expires and no longer applies.

When applying the Transitional CbCR Safe Harbour the approach "once out, always out" comes into force which means that if MNE Group did not apply this Safe Harbour with respect to the jurisdiction in a Fiscal Year in which it is subject to the DMTT Law, the MNE Group cannot apply for safe harbour for that jurisdiction in a subsequent year.

The Transitional CbCR Safe Harbour also takes into account the treatment of certain Entities and Groups that may require special consideration under the DMTT, such as Investment Entities, Insurance Investment Entities, Joint Ventures, Multi-Parented MNE Groups, and hybrid arbitrage arrangements.

Example

A Multinational Enterprise Group, Xenon, with its Ultimate Parent Entity in Country A, established regional operations in Country B, on 1 January 2024. The Xenon group operates across six jurisdictions, including among others Country A and Country B. Xenon Group prepares its Qualified CbCR using Qualified Financial Statements for FY 2025-2027. Assuming that there is no corporate income tax system introduced in Country B for FY 2025-2027, the ETR for Country B will be zero. Additionally, profit before income tax of Constituent Entities located in Country B is higher than SBIE for all relevant FYs. The revenue and profit before income tax (PBT) of Constituent Entities of the MNE Group Xenon located in Country B for the fiscal years 2024 to 2028 are as follows:

Fiscal Year	Total revenue of all Country B CEs (EUR)	Total profit before tax for all Country B CEs (EUR)	Transitional CbCR Safe Harbour thresholds (EUR)	Transitional CbCR Safe Harbour Applied?
FY24	8 million	700,000	Revenue < 10 million PBT < 1 million	N/A
FY25	9.5 million	900,000	Revenue < 10 million PBT < 1 million	Yes
FY26	10.2 million	1.1 million	Revenue > 10 million PBT > 1 million	No
FY27	12 million	1.5 million	Revenue > 10 million PBT > 1 million	No
FY28	15 million	2 million	Revenue > 10 million PBT > 1 million	N/A

For the purposes of applying the Transitional CbCR Safe Harbour in Country B, since the Routine Profit test and Alternative ETR test won't be met for FY 2025-2027, the De Minimis test shall be checked in consideration of Constituent Entities located in Country B. The total revenue and profit before income tax (PBT) of the Constituent Entities located in Country B for each Fiscal Year are compared against the de minimis thresholds of EUR 10 million for revenue and EUR 1 million for PBT. The table above sets out the results of this assessment for Fiscal Years 2024 through 2027.

The DMTT Law in Country B comes into effect on 1 January 2025. Accordingly, the first FY relevant for Transitional CbCR Safe Harbour is FY 2025. For this year, the total revenue of EUR 9.5 million and PBT of EUR 900,000 are below the De Minimis thresholds, meaning the operations in Country B qualify for the Transitional CbCR Safe Harbour. As a result, the DMTT liability for Country B is deemed to be zero for FY 2025 under the Transitional CbCR Safe Harbour.

In 2026, the total revenue of the Constituent Entities located in Country B increases to EUR 10.2 million, and the PBT rises to EUR 1.1 million, exceeding the De Minimis thresholds. As a result and given that MNE Group Xenon does not meet the Alternative ETR Test and Routine Profits Test, the Transitional CbCR Safe Harbour does not apply. For 2027, the revenue and PBT further increases to EUR 12.0 million and EUR 1.5 million, respectively, again not meeting the Safe Harbour criteria. For the year 2028 the Safe Harbour does not apply since the Fiscal Year ends after 30 June 2028.

Without the application of the Transitional CbCR Safe Harbour, the DMTT liability of MNE Group Xenon is determined under the general DMTT rules and Taxable Income of Constituent Entities located in Country B for FY 2026, 2027 and 2028 shall be taxed in Country B.

4.3.4 Exclusions from Transitional CbCR Safe Harbour

The Transitional CbC Reporting Safe Harbour does not apply in the following circumstances:

- If the Qualified CbC Report of the Multinational Enterprise Group does not include all the information of a Multi-Parented Multinational Enterprise Group, or if different CbC Reports are submitted for each of the Groups that comprise the Multi-Parented MNE Group.³
- If the CbC Report does not provide a reliable indication of the income of the Multinational Enterprise Group. One example is when the CbC Report does not include all the information of a Multi-Parented Multinational Enterprise Group.

4.3.5 Other entity types

The below sets out information on certain entity types that may qualify for the Transitional CbCR Safe Harbour, subject to meeting the conditions described above.

- Investment Entities and Insurance Investment Entities

In order to qualify, these entities must apply the same computation rules as under the DMTT Law and its Regulations to determine their Total Revenue, Profit (Loss) before Income Tax, and income tax expense for the purposes of the tests.

Where the Investment Entity or the Insurance Investment Entity are residents in Bahrain for CbCR purposes (Investment Entity Jurisdiction) and a Tax Transparency Election was made under the DMTT Law and its Regulations, the Investment Entity or Insurance Investment Entity is required to carry out a separate calculation for the purposes of the Transitional CbCR Safe Harbour.

If a Tax Transparency election has **not** been made and all Constituent Entity Owners of that Entity are resident in the Investment Entity Jurisdiction, then the Investment Entity or Insurance Investment Entity are not required to prepare a separate calculation for the Transitional CbCR Safe Harbour.

- Joint Ventures and Joint Venture Subsidiaries

³ A Multi-Parented Multinational Enterprise Group refers to two or more groups where the Ultimate Parent Entities have entered into a Stapled-Structure or Dual-listed Arrangement. Broadly, a Stapled-Structure is a corporate structure where two or more entities are bound together so they operate as a single economic unit, and a Dual-listed Arrangement is a structure where two or more entities agree to combine their operations as a single economic entity but maintain separate legal identities, stock listings and shareholder registries.

The Transitional CbCR Safe Harbour provisions apply to Joint Ventures and Joint Venture Subsidiaries as if they were Constituent Entities of a separate Multinational Enterprise Group. Their Total Revenue, Profit (Loss) before Income Tax, and income tax expense for the purposes of the applicable tests should be determined separately from the Multinational Enterprise of which they are a Joint Venture / Joint Venture Subsidiary. Total Revenue and Income or Loss are determined for Joint Ventures and Joint Venture Subsidiaries based on figures reported in Qualified Financial Statements.

- **Multi-Parented Multinational Enterprise Groups**

In order to qualify for the safe harbour, these groups must apply the same rules as under the DMTT Law and Regulations to determine their Total Revenue, Profit (Loss) before Income Tax, and income tax expense for the purposes of the applicable tests.

It is expected that a Multi-Parented Multinational Enterprise Group would submit a combined CbC Report for the entire Multi-Parented Multinational Enterprise Group. However, where different CbC Reports are submitted for each Group comprising the Multi-Parented Multinational Enterprise Group, or where the CbC Report does not include information on one of the Groups comprising it or on Constituent Entities, the Multi-Parented Multinational Enterprise Group will not qualify for the Transitional CbC Safe Harbour.

- **Stateless Constituent Entities**

Stateless Constituent Entities are excluded from the Transitional CbCR Safe Harbour.

Example

A Multinational Enterprise Group headquartered in Country A has subsidiaries in multiple jurisdictions, including Bahrain. The group seeks to benefit from the Transitional CbCR Safe Harbour for the Fiscal Year ended 31 December 2025. Per the Qualified Country-by-Country Report for the Fiscal Year ended 31 December 2025, the total revenue of the Constituent Entities located in Bahrain was EUR 11 million, and the total profit before income tax for such Constituent Entities was EUR 800,000.

In the absence of a corporate income tax regime, the Multinational Enterprise Group was not subject to income tax in Bahrain in the Fiscal Year ended 31 December 2025 and therefore no Covered Taxes were attributable to Bahrain for the Fiscal Year ended 31 December 2025. The total Substance-based Income Exclusion for the Fiscal Year ended 31 December 2025 is EUR 1.2 million due to investments in tangible assets of Constituent Entities located in Bahrain and payroll costs incurred by these Constituent Entities.

- **De Minimis Test**

To meet the De Minimis test, the Qualified Country-by-Country Report must report for Constituent Entities located in Bahrain total revenue of less than EUR 10 million and total profit or loss before income tax of less than EUR 1 million. The Multinational Enterprise Group does not meet the De

Minimis test for Bahrain as the total revenue of the Constituent Entities located in Bahrain is more than EUR 10 million.

- **Alternative Effective Tax Rate Test**

To meet the Alternative Effective Tax Rate Test, must be equal to or greater than 16%. The alternative Effective Tax Rate is equal to Simplified Covered Taxes divided by the profit or loss before income tax (expressed as a percentage). Given that no Covered Taxes are attributable to the Constituent Entities in Bahrain, the alternative Effective Tax Rate in Bahrain is 0% and thus the second condition is also not met.

- **Routine Profits Test**

The Routine Profits Test is met since the total profit in Bahrain shown in the Country-by-Country Report of EUR 800,000 is less than the Substance-based Income Exclusion amount of EUR 1.2 million.

As the Routine Profits Test is met, the Transitional Country-by-Country Reporting Safe Harbour is met for the Fiscal Year ended 31 December 2025 and the amount of DMTT for the Fiscal Year is deemed to be zero.

4.4 Exclusion for the initial phase of international activity

4.4.1 Introduction

The DMTT Law and the Regulations provide for an exclusion for Multinational Enterprise Groups that are in the initial phase of their international activity. The exclusion is a transitional measure intended to reduce the compliance burden and tax liability for Multinational Enterprise Groups in the early stages of international expansion, where a significant foreign presence has not yet been established.

The amount of Tax under the DMTT is deemed to be zero if the Multinational Enterprise Group meets the conditions to obtain the exclusion. If the Multinational Enterprise Group meets the criteria for the exclusion, there is no need to calculate the Tax that would have been due if the exclusion did not apply.

The exclusion for the initial phase of international activity is a temporary exclusion that applies for a five-year period from the first day of the first Fiscal Year in which the Multinational Enterprise Group enters into the scope of the Model Rules.

Where this exclusion applies, the amount of Tax Due for the Fiscal Year will be zero.

The exclusion applies where the Multinational Enterprise Group meets all the following conditions:

1. The Multinational Enterprise Group has Constituent Entities in no more than six jurisdictions (i.e. it has such Entities in Bahrain and up to five other jurisdictions);

2. The net book value of tangible assets of all Constituent Entities located in all jurisdictions, other than the jurisdiction which has the greatest total net book value of tangible assets, is less than or equal to EUR 50 million; and

3. None of the Ownership Interests in the Constituent Entities located in Bahrain are held by a parent entity which applies the Income Inclusion Rule.

4.4.2 Five-year period

The exclusion applies for a maximum period of five years after the Multinational Enterprise Group comes first within the scope of the global minimum tax rules.⁴ However, the conditions to obtain the exclusion must be met in each Fiscal Year during that five-year period in order for the exclusion to apply to that Fiscal Year. After the five-year period has ended, the Multinational Enterprise Group will be subject to the DMTT in the normal manner unless it meets another exclusion or safe harbour under the DMTT Law and its Executive Regulations.

The five-year period is not suspended or interrupted if the Multinational Enterprise Group ceases to be within the scope of the DMTT and subsequently comes back into scope or for any other reason. For example, if a Multinational Enterprise Group ceased to be within the scope for the third year due to the Revenue Test not being met, but then came back into scope for the fourth year, the five-year period is not reset during the fourth year. The exclusion cannot apply for any year after the five-year period ends.

4.4.3 Reference jurisdiction

The conditions to qualify for the exclusion refer to a “Reference Jurisdiction”. A Multinational Enterprise Group considering whether it meets the conditions for exclusion will need to determine its Reference Jurisdiction. For this purpose, the Reference Jurisdiction is the jurisdiction where the Multinational Enterprise Group has the highest value of Tangible Assets. For the purposes of determining the Reference Jurisdiction the following are relevant:

- The Reference Jurisdiction should be identified for the first Fiscal Year for which the Multinational Enterprise Group came within the scope of the global minimum tax rules⁵ in any country. This could be a year before DMTT Law comes into effect. The Reference Jurisdiction remains unchanged for the five-year period during which a Multinational Enterprise Group may benefit from the exclusion.
- The total value of Tangible Assets in a jurisdiction means the sum of Net Book Value of all Tangible Assets presented in the financial accounts of all Constituent Entities that are located in that jurisdiction.

⁴ A Multinational Enterprise Group would be regarded as coming within the scope of the global minimum tax rules if it has a Constituent Entity or Joint Venture / Joint Venture Subsidiary in any country that applies a rule consistent with the Income Inclusion Rule or a Qualified Domestic Minimum Tax Regime.

⁵ A Multinational Enterprise Group would be regarded as coming within the scope of the global minimum tax rules if it has a Constituent Entity or Joint Venture / Joint Venture Subsidiary in any country that applies a rule consistent with the Income Inclusion Rule or a Qualified Domestic Minimum Tax Regime.

- Tangible Assets include property, plant, and equipment, natural resources, a lessee's right-of-use assets, a license or similar arrangement from a government for the use of immovable property or exploitation of natural resources that entails significant investment in tangible assets that are located in the jurisdiction in which the Constituent Entity is located.

4.4.4 Applicable conditions

The conditions to qualify for the exclusion for a Fiscal Year are as follows:

1. Constituent Entities in no more than six jurisdictions

The Multinational Enterprise Group has Constituent Entities located in **no more than six jurisdictions** for a Fiscal Year, including the Reference Jurisdiction. Aside from the Reference Jurisdiction, the other five jurisdictions may change during the five-year period.

2. Limited Tangible Assets outside Reference Jurisdiction

The Multinational Enterprise Group has Tangible Assets of limited value outside the Reference Jurisdiction. For this purpose, limited value means that the sum of the Net Book Values of Tangible Assets of all Constituent Entities located in all jurisdictions other than the Reference Jurisdiction does not exceed EUR 50 million for a Fiscal Year.

The Net Book Value of Tangible Assets means the average of the beginning and end values of Tangible Assets after taking into account accumulated depreciation, depletion, and impairment, as recorded in the financial statements. All Tangible Assets held by all Constituent Entities should be considered when calculating the Net Book Value of Tangible Assets notwithstanding the location of the Constituent Entity.

3. No parent entity that applies the Income Inclusion Rule

None of the ownership interests in Constituent Entities located in Bahrain are held by a parent entity established in a jurisdiction that introduced rules intended to achieve the same result as the Income Inclusion Rule. This condition is not deemed to be satisfied if the Ownership Interests in the Constituent Entities located in Bahrain are held indirectly by a parent entity that applies the Income Inclusion Rule.

Example

A Multinational Enterprise Group headquartered in Country A has recently expanded its operations into the MENA region through a regional headquarters holding company (Company X) established in Bahrain. The group operates in four additional jurisdictions: Countries C, D, E, and F. The group's primary manufacturing and research facilities are based in Country A, while its Bahrain holding company (Company X) serves as a regional headquarters managing investments and overseeing operations in the other jurisdictions. The subsidiaries in Countries C through F focus primarily on distribution, sales and administrative functions.

The Multinational Enterprise Group reports a total Net Book Value of Tangible Assets equivalent to EUR 120 million. Of this, EUR 85 million is located in Country A, and EUR 35 million in Bahrain and the other jurisdictions. The Tangible Assets in Bahrain (EUR 20 million) include leased office spaces and administrative facilities, while the Tangible Assets in Countries C through F (EUR 15 million combined) consist of warehouses, leased distribution centres and minor operating equipment.

Under these circumstances:

- *The jurisdiction with the highest value of Tangible Assets is Country A (EUR 85 million), which is therefore the Reference Jurisdiction.*
- *The Multinational Enterprise Group operates in six jurisdictions: Country A, Bahrain, and Countries C, D, E and F.*
- *The total value of Tangible Assets outside the Reference Jurisdiction (Country A) is EUR 35 million.*
- *The Ultimate Parent Entity located in Country A is not subject to an Income Inclusion Rule, as Country A has not implemented such a rule. Consequently, none of the Bahrain Constituent Entities in the structure (Company X) are owned directly or indirectly by a parent entity applying an Income Inclusion Rule.*

The Multinational Enterprise Group satisfies the criteria for the Exclusion for Initial Phase of International Activity. This exclusion applies for a maximum of five Fiscal Years, provided the group continues to meet the jurisdictional and asset thresholds, and unless the parent company of the Bahraini Constituent Entity (Company X) becomes subject to an Income Inclusion Rule during this period due.

4.5 Simplified Computation Safe-Harbour

The Simplified Computation Safe Harbour is a permanent safe harbour. In a Fiscal Year in which the Simplified Computation Safe Harbour applies, the Tax Due is deemed to be zero.

The Simplified Computation Safe Harbour allows Multinational Enterprise Groups to carry out simplified calculations to demonstrate that no DMTT Tax liability arises for a Fiscal Year.

Details of the Simplified Computation Safe Harbour have not yet been finalised by the OECD. When these have been finalised, further details on the safe harbour and the applicable conditions will be issued.

Where the conditions for the Simplified Computation Safe Harbour are met, the Tax is deemed to be zero and a calculation of Effective Tax Rate and the DMTT liability does not need to be carried out.

The Simplified Computation Safe Harbour applies where the Multinational Enterprise Group meets any of the following conditions:

1. Routine Profits Test

This test is satisfied where the Constituent Entity Income for Bahrain, as determined under a simplified income calculation (details to be provided in the future) is equal to or less than the Substance-based Income Exclusion for that Fiscal Year.

2. De Minimis Test

This test is satisfied when the Bahrain located Constituent Entities for the Fiscal Year and the two preceding Fiscal Years have:

- a. Average annual revenue, as determined under a simplified income computation (details to be provided in the future), of less than EUR 10 million and average Constituent Entity Income of less than EUR 1 million, or
- b. Net Constituent Entity Loss.

3. Effective Tax Rate Test

This test is satisfied if the Effective Tax Rate, as determined under the simplified income and tax calculation (details to be provided in the future) of all Bahrain located Constituent Entities is at least equal to the Minimum Rate of 15%.

5. Location of Constituent Entities, Joint Ventures / Joint Venture Subsidiaries

5.1 The importance of location

The DMTT applies to **Bahrain located** Constituent Entities and Joint Ventures / Joint Venture Subsidiaries of a Multinational Enterprise Group that meets the Revenue Test. It is therefore critical to determine whether any such Constituent Entities, Joint Ventures or Joint Venture Subsidiaries are located in Bahrain.

For DMTT purposes, “location” has a specific meaning and the DMTT Law and Regulations include detailed rules on the location of different types of Entities. Being incorporated in a jurisdiction or being resident for tax purposes in a jurisdiction does not necessarily mean that an Entity is located in that jurisdiction.

The location rules contained in the DMTT Law and Regulations are discussed below.

5.2 General rule for location of Entities

5.2.1 Introduction

The general rule on location applies to all Entities that are not Flow-Through Entities or Permanent Establishments. Under this rule, an Entity is located where it is tax resident in accordance with the national laws of a jurisdiction.

Most jurisdictions define tax residence by reference to the country where the Entity is incorporated or in which the Entity is managed. Under the DMTT Law, an Entity is tax resident in the Kingdom if:

- It is incorporated in the Kingdom; or
- It is incorporated in a foreign jurisdiction and has its “place of effective management” in the Kingdom.

In accordance with international standards and guidance from the OECD, the place of effective management refers to the place where the key management and commercial decisions that are necessary for conducting the business of that Entity are taken.

5.2.2 Location in more than one jurisdiction

An Entity other than a Permanent Establishment may occasionally be located in more than one jurisdiction. This will occur if an Entity is treated as tax resident under the rules of more than one jurisdiction at the same time. The DMTT Law includes tie-breaker provisions that determine which jurisdiction’s classification will prevail for the purposes of determining the location of the entity for DMTT purposes.

The tie-breaker provisions depend to a significant extent on whether the two jurisdictions have a Double Tax Treaty between them.

A Tax Treaty exists	The Entity is located in the jurisdiction where it is resident under the Tax Treaty
No Tax Treaty exists	<ul style="list-style-type: none"> The Entity is located in the jurisdiction where it paid more tax. If the amount of tax paid in both jurisdictions is the same or zero, the Entity is located in the jurisdiction where it has a greater amount of Substance-based Income Exclusion.⁶ If the amount of Substance-based Income Exclusion in both jurisdictions is the same or zero, and the Entity is the Ultimate Parent Entity of the Group, it is located in the jurisdiction in which it was created (e.g. incorporated, legally formed). If the amount of Substance-based Income Exclusion in both jurisdictions is the same or zero, and the Entity is not the Ultimate Parent Entity of the Group, the Entity will be a Stateless Entity.⁷

Where an Entity is treated as tax resident under the domestic law of two countries and there is a Tax Treaty in force, but agreement has not been reached between the two countries on which country the Entity will be treated as solely tax resident in, the location of the Entity for DMTT purposes will be determined as if there is no Tax Treaty. This will also be the case where there is a Tax Treaty, but that treaty does not provide relief or exemption from tax because the Entity is resident of both of the contracting states.

Example 1

Company A is tax resident under the national laws of both Bahrain and France. In accordance with the general principle, the Entity is located in both Bahrain and France. As Bahrain has a Tax Treaty with France, the entity will be located in the jurisdiction of which it is treated as resident under the provisions of the Bahrain-France Tax Treaty.

Example 2

Company B is tax resident under the national laws of both Bahrain and Country B. There is a Tax Treaty in place between Bahrain and Country B. Based on the facts and circumstances, Bahrain and the tax authorities in Country B do not agree in which country Company B is resident under the provisions of the Tax Treaty.

In these circumstances, the location of Company B for DMTT purposes will be determined as if there is no Tax Treaty and the rules explained above will apply.

⁶ The amount of Substance-based Income Exclusion is a percentage of certain payroll related expenditure and the carrying value of certain tangible assets. See Article 10 of the DMTT Law and Article 46 of the Regulations.

⁷ Stateless Entities are not located in any jurisdiction for DMTT purposes. However, they may still have compliance obligations under the DMTT Law.

5.3 Location of a Flow-Through Entity

A Flow-through Entity is located in the jurisdiction where it is established (e.g. incorporated, formed, created) where one of the following two conditions applies:

1. The Flow-through Entity is the Ultimate Parent Entity of the Multinational Enterprise Group;
- or
2. Under the laws applicable in the jurisdiction in which the Flow-through Entity is established, it is required to apply rules consistent with an Income Inclusion Rule in accordance with certain recommendations issued by the OECD.

For the purposes of 2 above, an Income Inclusion Rule is a rule that generally requires the Ultimate Parent Entity of a Multinational Enterprise Group to pay top-up tax on the income of its subsidiaries where such income is not taxed at the global minimum rate of 15%. Whether a Flow-through Entity is required to apply an Income Inclusion Rule will depend on the laws applicable in its country of establishment and needs to be determined on a case-by-case basis by reference to such laws. The DMTT in Bahrain does not constitute an Income Inclusion Rule for this purpose.

If the Flow-through Entity falls under either of 1 or 2 above, the location of the Entity will be the jurisdiction in which it is established (e.g. incorporated, formed, created).

Where neither 1 nor 2 above applies, the Flow-through Entity will be a Stateless Constituent Entity for DMTT purposes. Stateless Constituent Entities are subject to special rules for which further guidance will be issued in due course.

Example 1

The Ultimate Parent Entity of a Multinational Enterprise Group which meets the EUR 750 million Revenue Test directly owns 70% of a Flow-through Entity established under the laws of Bahrain. The Ultimate Parent Entity is located in Country A which treats the Flow-through Entity as tax transparent.

As it is not the Ultimate Parent Entity and its country of establishment (i.e. Bahrain) does not apply an Income Inclusion Rule, the Flow-through Entity will be treated as a Stateless Constituent Entity.

Example 2

A Flow-through Entity established under the laws of Bahrain owns a majority interest in ten companies in various jurisdictions with revenue for the Fiscal Year exceeding EUR 750 million. The partnership is therefore the Ultimate Parent Entity of the Multinational Enterprise Group comprising itself and the ten companies. As the Revenue Test is met, the partnership will be within the scope of the DMTT Law.

As the Flow-through Entity is an Ultimate Parent Entity, it will be treated as located in its country of establishment, i.e. Bahrain.

5.4 Location of a Permanent Establishment

For DMTT purposes, the location of a Permanent Establishment depends on a number of factors including whether there is a Tax Treaty in force and whether there is an income tax system in place in the country where the activities are carried out. The following rules apply in determining the location of a Permanent Establishment:

1. Rule 1

This rule applies where both of the following apply:

- a. There is a Tax Treaty in place between the country where the Main Entity is tax resident and the country where the Permanent Establishment is recognised; and
- b. The country in which activities giving rise to the Permanent Establishment are carried out taxes the income attributable to that Permanent Establishment in accordance with the provisions of Article 7 of the OECD Model Tax Convention.

Under this rule, the Permanent Establishment is located where the Tax Treaty allocates taxing rights due to the activities carried out through this Permanent Establishment and where the income was subject to tax.

2. Rule 2

This rule applies where there is no Tax Treaty and the activity giving rise to the Permanent Establishment is taxed by a jurisdiction under its domestic law on a net basis similarly to the way a resident is taxed.

Under this rule, the Permanent Establishment is located where it is subject to net basis income taxation.

3. Rule 3

This rule applies where there is no corporate income tax system in the country in which the activities are carried out, but where the activities would give rise to a Permanent Establishment under the provisions of the OECD's Model Tax Convention provided that that country would have the right to tax the income attributable to the Permanent Establishment under Article 7 of the Model Tax Convention.

Under this rule, the Permanent Establishment is located in the country where it is situated.

As Bahrain does not have a corporate income tax system, Rule 3 will be most applicable for determining the location of Permanent Establishment in Bahrain for DMTT purposes. Therefore, any activity carried out in Bahrain by a non-resident Entity that would result in a Permanent Establishment under the Model Tax Convention will be located in Bahrain.

The definition of Permanent Establishment for DMTT purposes (as discussed in section 2.3.2) is aligned with that in the Model Tax Convention. Therefore, where a non-resident is regarded as having Permanent Establishment in Bahrain under the provisions of the DMTT Law and Regulations, that Permanent Establishment will be treated as being located in Bahrain.

5.5 Change of location

A Constituent Entity may change its location during the Fiscal Year, e.g. by changing its place of incorporation, place of effective management, or place of business. This may affect the computation and allocation of the tax liability under the DMTT, as the Constituent Entity may be subject to different tax rules and rates in different jurisdictions.

Where an Entity changes its location during the year, the Entity will be treated for DMTT purposes as located in the jurisdiction where it was located at the start of the Fiscal Year. The Entity will be located in the jurisdiction of arrival from the start of the subsequent Fiscal Year, assuming no further change in its location.

Example

Company A, a Constituent Entity of a Multinational Enterprise Group, is tax resident in Bahrain as it is incorporated in Bahrain and its place of effective management is in Bahrain. The accounting period of the Ultimate Parent Entity corresponds with the Gregorian Calendar Year.

With effect from 1 July 2026, Company A moves its place of effective management to Country X. It is then treated as tax resident in both Bahrain and Country X under each country's domestic tax law. Under the Tax Treaty between Bahrain and Country X, Company A will be solely tax resident in Country X following the move of its place of effective management.

For the Fiscal Year ended 31 December 2026, Company A will be treated as located in Bahrain for DMTT purposes, notwithstanding the move of its place of effective management on 1 July 2026. For the Fiscal Year ended 31 December 2027, Company A will be treated as located in Country X for DMTT purposes.

