



Recent Pillar Two Developments

Middle East Updates | **December 2024**



Bahrain's DMTT Regulations Now Officially Published!

On December 15, 2024, the National Bureau for Revenue (“NBR”) officially published the Executive Regulations for the Domestic Minimum Top-Up Tax (“DMTT”) for Multinational Enterprises (“MNEs”) (hereinafter referred to as the “Executive Regulations”). The unofficial translation of the Executive Regulations can be found on the [NBR website](#).

The Executive Regulations supplement the primary [DMTT Law released on September 1, 2024](#). As a general overview, the DMTT Law applies a 15% effective tax rate to Bahrain profits of MNEs with global consolidated revenues of at least EUR 750 million in at least two of the previous four fiscal years. This includes MNEs headquartered in Bahrain as well as foreign MNEs with operations in Bahrain. However, the DMTT Law will not apply to local businesses with operations limited to Bahrain or that do not meet the Revenue test. The DMTT Law will be effective on January 1, 2025.

As anticipated, the Executive Regulations are largely in line with the GloBE Model Rules. Significantly, for affected MNE Groups, **you may be required to register for DMTT with the NBR as early as 30 January 2025**, even if you qualify for any safe harbour or de minimis exclusions. Additionally, **affected MNE Groups will be required to make quarterly advance payments within 60 days after the end of each quarter**, with the first payment during the Transition Year payable on the due date for the second advance payment for the year.

For further details on the immediate steps you need to take to meet your Bahrain DMTT compliance and payment obligations, see our section below titled [“Must-Do Immediate Next Steps”](#).

Key highlights

The Executive Regulations incorporate many of the definitions of the GloBE Model Rules and Commentary into the DMTT law. Notably, this covers the definition of revenue, adjustments to the Constituent Entity (“CE”) income or loss, Covered Taxes, substance-based income exclusion (“SBIE”) and safe harbours. These are discussed in detail below.

Revenue Test

The Executive Regulations provides that “revenue” includes economic benefits from the MNE Group's ordinary activities, such as goods delivery or production, services, or other relevant activities and it is determined based on the Consolidated Financial Statements (“CFS”). This is important for determining whether the MNE Group's revenue exceeds EUR 750 million in two of the four preceding fiscal years to be in scope of the DMTT.

Importantly, as with the GloBE Model Rules, the DMTT includes a broader definition than top-line revenue in the CFS. Revenue also includes realised and unrealised net gains from investments and income that is extraordinary or non-recurring that is in the CFS. If different types of revenue are presented separately in the CFS, they will be aggregated for the Revenue Test.



Adjustments to determine the CE income or loss

The Executive Regulations clarify that the CE income or loss shall be the financial accounting net income or loss, with the following adjustments, amongst others:

- Net taxes expenses
- Excluded dividends
- Excluded equity gains and losses
- Included revaluation method gains or losses
- Gains or losses from the disposal of assets and liabilities excluded under Article 39 of the Executive Regulations
- Asymmetric foreign currency gains or losses
- Illicit expenditure, fines and penalties
- Prior period errors and changes in accounting principles
- Accrued pension expenses
- Transfer pricing adjustments (see [“Transfer Pricing Considerations”](#) section)

The Executive Regulations provide definitions and guidelines for each of these adjustments, which align with the GloBE Model Rules and Commentary. The Executive Regulations also provide key guidelines on the adjustments applicable to the CE of insurance companies and the exclusion of international shipping income. For insurance companies, the Executive Regulations outline specific adjustments related to income and expenses, such as the exclusion of tax amounts charged to policyholders, the inclusion of returns to policyholders not reflected in financial accounting net income, and restrictions on deductions of expenses for reserve movements linked to excluded dividends or equity gains and losses. For international shipping income, the Executive Regulations establish rules on how the income and associated expenses should be treated for DMTT purposes.

Covered Taxes

The Executive Regulations provide that Covered Taxes exclude the following:

- Taxes accrued under a Qualified Income Inclusion Rule (“IIR”) by a Parent Entity.
- Taxes accrued under a Qualified Domestic Minimum Top-Up (“QDMTT”) Tax by a CE.
- Taxes resulting from an adjustment due to the application of a Qualified Undertaxed Payments Rule (“UTPR”).
- Disqualified Refundable Imputation Tax.
- Taxes paid by an insurance company on returns to policyholders.
- Tax imposed under the Law.

Additionally, Covered Taxes relating to net gains or losses from the disposal of immovable property in Bahrain will be excluded from the computation of covered taxes subject to certain rules.

Substance-based income exclusion

The SBIE is calculated based on two components:

- **Eligible payroll costs** for employees performing activities for the CE in Bahrain, with varying percentages set for each fiscal year starting at 9.6% for 2025, decreasing progressively to 5% from 2033 onwards.
- **Eligible tangible assets** located in Bahrain, with percentages starting at 7.6% for 2025, decreasing progressively to 5% from 2033 onwards.

The Executive Regulations define the “eligible payroll costs” as employee compensation (salaries, benefits, etc.), excluding capitalised costs or those related to excluded income (like international shipping income). Eligible employees are those working full or part-time or independent contractors under the control of the MNE. For payroll allocations, an employee is considered to be working in Bahrain if located therein more than 50% of their working time.



SBIE (cont'd)

The “eligible tangible assets” include property, plant, equipment, natural resources and a lessee’s rights of use of tangible assets located in Bahrain and a license or similar arrangement from the Government of Bahrain for the use of immovable property or exploitation of natural resources in Bahrain that entails significant investment in tangible assets.

Exclusions apply to assets held for sale or investment, as well as tangible assets used to derive excluded income. Tangible assets are considered to be located in Bahrain if they are present in Bahrain for more than 50% of the year. If an eligible tangible asset is located in Bahrain for 50% or less of a fiscal year, it will still be considered as located in Bahrain for that year, subject to an allocation mechanism provided in the Executive Regulations. The carrying value of these assets is averaged between the beginning and end of the fiscal year.

It is important to note that the Executive Regulations also contain special SBIE rules for CEs that are Permanent Establishment, Flow-through Entity(s) and Stateless CEs.

Safe Harbours

For fiscal years beginning on or before 31 December 2026 and excluding fiscal years ending after 30 June 2028, the DMTT Law includes the transitional Country-by-Country Reporting (“CbCR”) Safe Harbour, where tax due may be considered “nil” if any of the simplified tests are met, i.e De Minimis Test, ETR Test or Routine Profit Test. The Executive Regulations emphasise that only a “Qualified” CbCR is eligible for this transitional safe harbour. To be considered qualified, the CbCR must be based on “Qualified” Financial Statements. The Executive Regulations provide specific guidelines that are aligned with the GloBE Model Rules.

The DMTT Law also provides for a Simplified Computation Safe Harbour. The Executive Regulations specify that detailed rules and conditions for applying this safe harbor will be issued in due course.

Additionally, the following items were clarified in the Executive Regulations:

Issue	Comment
Application of DMTT based on ownership vs 100%	In line with the GloBE Model Rules, the DMTT should apply on 100% of the jurisdictional Top-up Tax, regardless of the MNE Group’s ownership interest in the CEs, and Minority Owned Constituent Entities (“MOCEs”) and Joint Ventures. That is, even where a Group only owns 51% of a JV, 100% of the JVs excess profit is subject Top-up Tax.
Treatment of Minority-Owned Constituent Entities (“MOCEs”) for ETR calculation	The Executive Regulations provide that the ETR and Top-up calculation for MOCEs (i.e. entities where the UPE has a direct or indirect ownership interest of 30% or less), is computed separately from other CEs. This is in line with the GloBE Model Rules.
Definition of Excluded Entities	The Executive Regulations clearly define each Excluded Entity outlined in the DMTT Law, specifying the criteria and conditions for exemption from its provisions which are largely in line with the GloBE Model Rules.
Definition of Permanent Establishment (“PE”)	The Executive Regulations provide detailed guidelines, broadly aligned with Article 5 of the OECD Model Tax Convention, on what constitutes a PE for DMTT purposes. These guidelines clarify the specific criteria and conditions under which an entity’s activities in Bahrain would be considered a PE and subject to the DMTT.



PwC Observations

The combination of the primary DMTT Law and the Executive Regulations clearly shows an express intent of the Bahrain Government and the NBR to implement to a DMTT Law in accordance with the GloBE Model Rules. Helpfully, the rules incorporate the current elements of the Commentary and Administrative Guidance, whilst also providing mechanisms to update areas where further Administrative Guidance is issued. There are a few areas of additional detail where the DMTT Law contains elements not included in the GloBE Model Rules. However, these largely relate to fact that the DMTT Law is the primary income tax regime in Bahrain. Therefore, such elements are necessary to ensure that the DMTT functions correctly.

Other key areas to note



Administrative procedures

The Executive Regulations outline the guidelines for DMTT registration, filing tax returns, and other compliance requirements. Below are the key areas to note:

- **Registration:** The Filing CE must apply for registration with the NBR within 120 days of the Transition Year's start, or 30 days following the effective date of the DMTT Law if the Revenue Test is met for two of the past four fiscal years. **For some MNE Groups, this means you will need to register for DMTT by the end of January 2025. Penalties for non-compliance are up to BHD 100,000.** The DMTT registration requires submission of details on the MNE, including ownership structure, fiscal year, financial data, and consent from relevant entities. The NBR will issue a registration certificate once accepted.
- **Deregistration:** The CE may de-register under specific conditions (e.g., failure to meet the Revenue Test for five consecutive years, liquidation of CEs) and this must be applied for within 30 days from the date where any of the conditions for deregistration apply, and supporting documents must be provided. If not voluntarily applied, NBR can deregister an entity.
- **Appointment of Filing CE:** The Filing CE must provide written consent from all CEs in Bahrain. If the Filing CE ceases operations in Bahrain or leaves the MNE Group, a new Filing CE must be appointed within 30 days from the date of the occurrence of any of these cases.
- **Tax return:** The Filing CE must submit a tax return within 15 months of the fiscal year's end, including financial details and supporting documents.

Further, the Executive Regulations provide guidelines for **advance payments which must be made on a quarterly basis**. We have summarised the key aspects:

- **Payments in the first Year ("Transition Year"):** The first advance payment for the Transition Year is due on the second advance payment date. For instance, if the MNE Group follows a calendar year, payments for the first and second quarters of 2025 should be made on or before the end of August 2025.
- **Payment Deadline:** Payments are due within 60 days after end of the quarter.
- **Methods:** The Filing CE can choose between the "Prior Year Method" or the "Current Year Method" to calculate advance payments. **The election must be made by the due date of the first advance payment and is irrevocable for the Fiscal Year.** For this purpose, the Prior Year Method shall be based on a reasonable estimate of the prior year's tax, adjusted for the current period and the Current Year Method shall be based on an estimate of the current year's tax due for the period, minus any previous payments.
- **Documentation and evidence:** The Filing CE must maintain documentation showing how advance payments were calculated and provide it to the NBR upon request. Penalties may be imposed for failure to submit such documentation and evidence.
- **Final Tax Payment:** The balance of tax due must be paid within 15 months of the end of the fiscal year.



Administrative procedures (cont'd)

It is also important to note that affected MNE Groups are required to keep and maintain certain accounting records, accounting books, financial statements as well as the relevant supporting documentations for a period of five years from the end of the fiscal year to which they relate.

PwC Observations

Potentially affected MNE Groups will need to quickly assess whether they are potentially subject to the DMTT Law and need to register by the 30 January 2025 deadline. The registration requirement applies to all MNE Groups that operate in Bahrain, regardless of whether they are subject to any safe harbours or de minimis exclusions. The documentation required as part of the registration process is extensive and specific decisions, such as appointing the Filing CE need to be made by the MNE Group as part of the registration process. For detailed information on this, see our [Detailed Guide to registering for the DMTT Law](#).

Rules on computation and payment currency

The Executive Regulations specify that if all CEs of a MNE Group in Bahrain use Bahraini Dinar (“BHD”) as their presentation currency, tax computation will be in BHD. If one or more CEs do not use BHD, the Filing CE must elect to compute tax either in BHD or in the presentation currency of the MNE Group's CFS. Any amounts requiring currency conversion for tax purposes must adhere to the conversion rules set by the relevant accounting standards.

For tax reporting and payment of DMTT, foreign currency amounts must be converted to BHD using the average exchange rate for the fiscal year, as determined by the Central Bank of Bahrain or another reliable source, provided the same source is used. The NBR will publish a list of acceptable sources for exchange rates for such translations.

The Filing CE must apply the same currency conversion method consistently throughout the fiscal year and document the reasons for selecting the method, the rates used, and the applied mechanisms. The election to select the currency for tax computation is a five-year election.

PwC Observations

The five-year election for the currency to be used for tax computation is a unique feature of the Executive Regulations. MNE Groups will need to consider whether to undertake the DMTT calculations in BHD or the presentation currency of the CFS. This will largely depend on the data available with the MNE Group's ERP system and process which the MNE Group would have mapped the appropriate data for Pillar Two compliance and reporting purposes. Given it is a five-year election, getting it wrong could make compliance and reporting a painful experience for MNE Group's operating in Bahrain.

Transfer Pricing considerations

The Executive Regulations highlight that CEs in Bahrain must adjust their income or loss in the books of accounts to align with the Arm's Length Principle when engaging in transactions with CEs located in a different jurisdiction within the same MNE Group. The Executive Regulations provide for five Transfer Pricing methods (i.e. comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method and profit split method) for applying the arm's length principle, in a manner that is consistent with the OECD Transfer Pricing Guidelines.

Further, in case there exists a bilateral or multilateral Advance Pricing Agreement with the relevant competent authority, the adjustment to the income or loss of the CE in Bahrain would have to be applied consistently per the arm's length price agreed under such Advance Pricing Agreement.

In case of any loss on the sale or transfer of asset between CEs located within the Kingdom, the asset value would be required to be adjusted per the Arm's Length Principle whilst determining the income or loss of the those CEs.



Transfer Pricing considerations (cont'd)

Additionally, as part of the required compliances, CEs must prepare and maintain both a local file and a master file in a manner prescribed by the NBR. The Executive Regulations outline the information required to be included in these files, which align with the OECD Transfer Pricing Guidelines.

PwC Observations

The inclusion of the Transfer Pricing considerations in the Executive Regulations introduce the need for Groups to assess their related-party transactions for Bahrain for the first time. MNE Groups will need to reassess their current global and domestic transfer pricing policies in light of these changes. This requirement and the associated documentation requirements will need to be incorporated into their global transfer pricing compliance strategy. Importantly, for DMTT purposes, Groups will also potentially need to consider the transfer pricing implications of domestic transactions, where those transactions are members of the Group that have separate ETR calculations (Minority-Owned Constituent Entities).

General Anti-Abuse Rules (“GAAR”)

The Executive Regulations outline comprehensive GAAR rules for transactions that result in a tax advantage, particularly when there is no valid commercial reason for the transaction and the tax advantage is one of the primary objectives. In determining whether the GAAR will apply, the NBR will evaluate the following:

- The purpose and business rationale behind the transaction or arrangement;
- The circumstances that prompted the decision to proceed with the transaction or arrangement;
- The structure and execution of the transaction or arrangement;
- Whether any artificial or contrived elements are present; and
- Whether there is a discrepancy between the substance and the form of the arrangement

Should the NBR determine that a tax advantage (e.g. decreased CE income, increased CE covered taxes, increased SBIE or any other form that has an impact on the DMTT due) has been gained, it will implement adjustments to eliminate the advantage, ensuring that taxes are calculated as if the transaction was conducted based on legitimate business purposes. These adjustments can be applied to any relevant CE, even if they do not directly benefit from the tax advantage, and may also be extended to future fiscal years where a tax advantage is likely to arise.

PwC Observations

The insertion of the GAAR into the DMTT Law is not mandatory under the GloBE Model Rules or its Commentary, but it does have precedent in other jurisdictions. MNE Groups will need to take into account these new requirements as part of their future planning and contemporaneously document the commercial reasoning of any undertaking where the outcome may directly or indirectly reduce potential Top-up Tax liabilities under the DMTT.

Joint liability

The Executive Regulations state that if an Bahrain entities within an MNE Group a jointly and severally liable for DMTT liabilities and administrative fines. If a CE relocates to another jurisdiction, exits the MNE Group, or ceases to be a member, it remains jointly liable for any tax and liabilities incurred during the years it was part of the MNE Group, including the fiscal year in which it ceased being a member of the group or relocated. These provisions also apply to JVs or JV subsidiaries located in Bahrain.

PwC Observations

Groups will need to carefully consider the joint liability provisions when undertaking M&A transactions that involve Bahrain entities. Potential risks and latent DMTT liabilities should be adequately addressed in the relevant legal documentation.



To comply with the DMTT Law and its Executive Regulations, an MNE Group needs to take several immediate steps to assess whether it is in scope, complete the required disclosures for financial year 2024, register if needed, and plan for both interim and year-end compliance requirements. This also includes reviewing your Transfer Pricing policies and ensuring timely compliance throughout the year. Further, affected MNE Groups should stay alert for ongoing updates, as the NBR may release explanatory guides, clarifications, and illustrative evidence necessary for implementing the DMTT Law and Executive Regulations, aligned with the GloBE Model Rules, Administrative Guidance, and Commentary.

We have outlined some of the immediate steps that need to be taken to ensure compliance with the DMTT Law and its Executive Regulations.

- **Assessment:** Determine whether the MNE Group is in scope of DMTT including undertaking an Impact Assessment and, if required, a Data Gap Assessment, to understand if you need to register and, if relevant, the steps you need to undertake to be able to meet your DMTT compliance, reporting and payment obligations, as well as any related financial statement disclosures. This will involve engaging with the broader business functions (finance, legal, tax, investment teams, etc.) within the group to ensure they understand the impact of the DMTT, and the need for internal stakeholder buy-in and attention to tackle it.
- **Financial Year 2024 disclosure requirements:** Affected MNE Groups must ensure compliance with IAS 12 requirements relating to Pillar Two disclosures. At a minimum, in-scope MNE Groups will need to disclose an assessment of their Pillar Two profile, including the DMTT Law for FY25 purposes. See more in relation to Pillar Two accounting disclosures [here](#).
- **DMTT Registration:** If you are in scope of the DMTT, you must complete the registration with the NBR within the prescribed deadline. For most MNE Groups this could be as early as 30 January 2025. Penalties may be imposed for failure to register in a timely manner. See more in relation to Bahrain DMTT registration process and requirements [here](#).
- **Use Assessment for Compliance Planning and Execution:** Based on your Impact Assessment and Data Gap Assessment, plan for:
 - **Interim Financial Reporting:** Interim financial statement disclosures, if required, for the first quarter of 2025.
 - **Quarterly Advance Payments:** Determine the method and the process to be adopted to meet the “reasonable estimate requirements” to calculate the advance payment liabilities and comply with the accompanying filing requirements.
 - **Year-End Roadmap:** Create a roadmap to ensure end-of-year compliance for tax and financial statement purposes.
 - This will include not only determining the year-end DMTT tax liability, DMTT filing requirements and GloBE Information Return disclosure requirements, but also determining the timing of the DMTT filing, especially in situations where the MNE Group may be in a refund position
 - In addition, MNE Groups will need to consider the processes to be able to determine and provision for DMTT liabilities to ensure compliance with their statutory financial reporting obligations.
- **Transfer Pricing Policies:** Map your group’s intercompany transactions, review and update Transfer Pricing policies to ensure compliance with the Arm’s Length principle, as elaborated in the DMTT Law and its Regulations.
- **Execute Year-End Compliance:** Complete year-end filings and payments on time, and plan for any refunds if applicable and future tax audit.

Contact Us



MNE Groups operating in Bahrain should plan ahead and prepare for the upcoming compliance requirements. Our team is working on impact assessments, readiness, and implementation and compliance support, such as systems and process updates for a variety of businesses in the region in the context of the Pillar Two rules including DMTTs, and will be happy to support you. Please contact us for further assistance.

Stay tuned for any further updates!



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