

Bahrain's Expanding Double Taxation Treaty Network

An overview of Bahrain's growing Double Taxation Agreement network and how businesses can leverage treaty benefits for tax-efficient international operations.

Bahrain has been aggressively expanding its network of Double Taxation Agreements (DTAs), now covering over 40 countries. These treaties are a powerful tool for international businesses, reducing withholding taxes, preventing double taxation, and providing certainty for cross-border investment.

WHAT ARE DTAS?

Double Taxation Agreements are bilateral treaties between two countries that determine which country has the right to tax specific types of income. They prevent the same income from being taxed in both the source country and the residence country, and typically reduce or eliminate withholding taxes on dividends, interest, and royalties.

BAHRAIN'S KEY DTA PARTNERS

KEY TREATY BENEFITS

- **Reduced withholding taxes:** Most DTAs reduce withholding rates on dividends to 0-10%, interest to 0-10%, and royalties to 0-10%, compared to domestic rates that could be significantly higher
- **PE protection:** Clear rules on when a physical presence in Bahrain creates a "permanent establishment" that triggers tax obligations
- **Capital gains relief:** Many treaties exempt capital gains from the sale of shares in Bahraini companies if the seller is a treaty-country resident
- **Mutual Agreement Procedure:** A dispute resolution mechanism for cases where both countries claim the right to tax the same income

STRATEGIC USE OF DTAS

For businesses setting up in Bahrain, the DTA network creates opportunities to:

- Establish Bahrain as a regional holding or treasury center
- Route investment flows through treaty-favorable channels
- Reduce effective tax rates on outbound payments
- Mitigate PE risk for mobile workforces

COMPLIANCE CONSIDERATIONS

Treaty benefits are not automatic. To claim relief, businesses typically need to:

- Obtain a Tax Residence Certificate from Bahrain's MOICT
- Demonstrate beneficial ownership of the income
- Meet the Limitation on Benefits (LOB) provisions in many modern treaties
- Maintain substance requirements consistent with the treaty claim

LOOKING AHEAD

Bahrain is actively negotiating new DTAs with several countries. The OECD's Multilateral Instrument (MLI) is also modifying existing treaties to incorporate anti-abuse provisions. Businesses should regularly review their treaty positions to ensure they remain compliant and optimized.

About the Author

Ahmed Khalifa is Director of International Tax at Yasmi Co, advising multinational businesses on cross-border structuring and treaty planning.

team for entity-specific advice.

Yasmi Co Advisory Practice

Tax, VAT, Transfer Pricing, ESR & Corporate Advisory Services

Tel: +973 3356 9008 | Email: info@yasmico.com | Web: www.yasmico.com