Economic Substance Rules

Guide to Bahrain's Economic Substance Requirements (ESR). Which entities must comply, reportable activities, substance tests, and penalties for non-compliance.

WHAT ARE ECONOMIC SUBSTANCE RULES?

Economic Substance Requirements (ESR) were introduced across the GCC as part of the OECD's Base Erosion and Profit Shifting (BEPS) framework. These rules ensure that entities benefiting from a 0% tax environment have genuine economic activity in Bahrain — not just a registered address.

Bahrain's ESR regulations are enforced by the Ministry of Industry, Commerce and Tourism (MOICT) under Resolution No. 106 of 2018, as amended.

WHO MUST COMPLY?

ESR applies to Relevant Entities — entities that are tax resident in Bahrain and carry on one or more Relevant Activities:

RELEVANT ACTIVITY	EXAMPLES
Banking	Licensed banking, deposit-taking, lending
Insurance	Underwriting, claims management, brokerage
Fund Management	Asset management, portfolio advisory
Headquarters	Group management, strategic direction
Shipping	Ship management, crew management
Holding Company	Equity holding, dividend receipt
Intellectual Property	Patent/trademark exploitation, licensing
Distribution & Service Centre	Intra-group purchasing, distribution
Finance & Leasing	Intra-group financing, leasing arrangements

THE SUBSTANCE TEST

Entities carrying on Relevant Activities must demonstrate adequate substance by meeting all three requirements:

PEOPLE

Adequate qualified employees physically present in Bahrain

EXPENDITURE

Adequate operating expenditure incurred in Bahrain

PREMISES

Physical office or premises maintained in Bahrain

Additionally, Core Income-Generating Activities (CIGAs) must be conducted in or directed from Bahrain. For IP entities, this is a higher bar — creating, enhancing, maintaining, protecting, and exploiting IP in Bahrain.

FILING REQUIREMENTS

- Annual ESR notification: Filed within 6 months of financial year end
- ESR return: Filed within 12 months of financial year end (if carrying on Relevant Activities)
- Filed to: MOICT via the designated electronic portal
- Information required: Revenue, employees, expenditure, CIGA details, outsourcing arrangements

PENALTIES FOR NON-COMPLIANCE

FIRST FAILURE

Fine up to BHD 50,000 + remediation period to demonstrate substance

SUBSEQUENT FAILURE

Fine up to BHD 100,000 + potential strike-off from commercial register + information exchange with foreign authorities

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