



Corporate Income Tax: Ready, Set, Go?



Introduction

Corporate Income Tax or CIT is coming to Bahrain. Are you ready?

"It is a global direction to impose corporate taxes and Bahrain is committed to comply with the move", quoted the Finance and National Economy Minister Shaikh Salman bin Khalifa Al Khalifa on 23 May 2023. Draft legislation to this effect is expected to be issued this year and companies are best advised to get ready for this now.

CIT is coming - how is your business preparing? Following the implementation of CIT, businesses of various sizes and across all sectors will encounter challenges, spanning operational, financial, and other areas. CIT also brings opportunities - do you know what these challenges and opportunities are? PwC can help you understand how CIT may affect your business, the common obstacles you may encounter, lessons learned from CIT implementations in other countries, and give you insights on how to efficiently address CIT here in Bahrain.

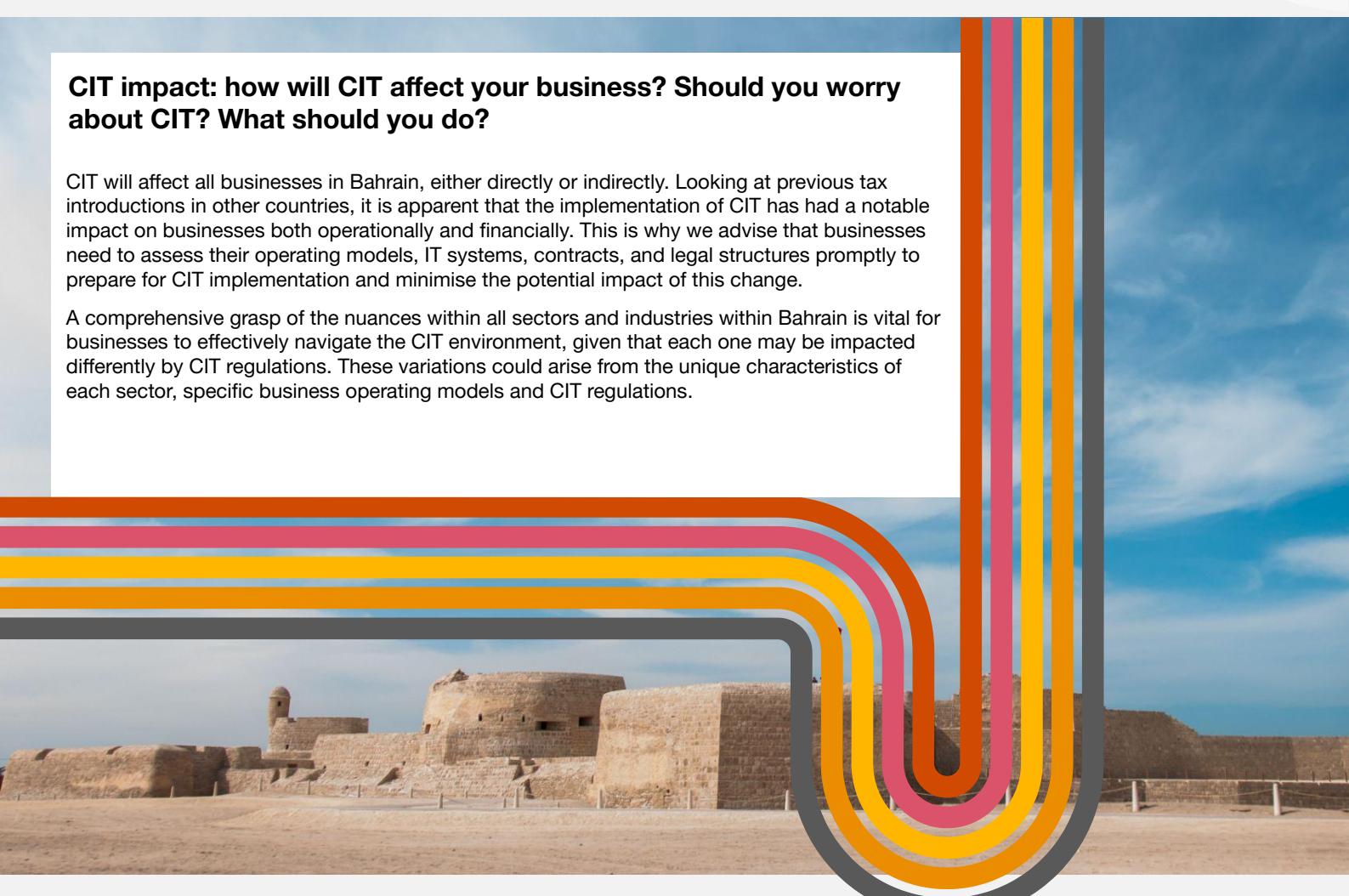


We have recently organized a number of seminars and workshops to help our clients understand how to prepare. Many questions have been raised from these events including what should you do? What resources and budget are needed and just as importantly what not to do? When should you act?

CIT impact: how will CIT affect your business? Should you worry about CIT? What should you do?

CIT will affect all businesses in Bahrain, either directly or indirectly. Looking at previous tax introductions in other countries, it is apparent that the implementation of CIT has had a notable impact on businesses both operationally and financially. This is why we advise that businesses need to assess their operating models, IT systems, contracts, and legal structures promptly to prepare for CIT implementation and minimise the potential impact of this change.

A comprehensive grasp of the nuances within all sectors and industries within Bahrain is vital for businesses to effectively navigate the CIT environment, given that each one may be impacted differently by CIT regulations. These variations could arise from the unique characteristics of each sector, specific business operating models and CIT regulations.





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What are some of the main challenges faced by companies as they prepare for CIT, and which areas should you focus on to ensure a smooth transition?



01

Complexity of regulations: CIT will require significant time and resources to understand and implement correctly given the complexity of regulations. Furthermore, some sectors such as oil & gas and financial services may have special rules under CIT law that require careful interpretation and compliance.



02

System upgrades/changes: Many companies will need to review their systems regarding the ability to access sufficient data from the ERP and other internal sources for CIT related processes/calculations as well as the required level of automation thereof.

The absence of proficient resources results in the presumption that the design of CIT systems falls solely under the role of IT. It is therefore imperative for the IT function to collaborate closely with the finance/tax function to guarantee that systems are adequately equipped at a data level. This disconnect between IT and finance/tax functions presents numerous challenges as without guidance from both, the IT team will remain unaware of the specific data requirements for generating a CIT return.

03

Business impacts: CIT can have significant impacts on your business, affecting various stakeholders. Some considerations below:



Intragroup transactions: With the introduction of CIT, Transfer Pricing regulations are likely to follow. TP rules will have an impact on (cross-border intragroup) transactions both in pricing as well as compliance requirements



Cash flow: CIT payments and refunds can affect cash flow for businesses



Compliance burden: Businesses must ensure compliance with CIT regulations, including record-keeping and reporting. This compliance burden can add administrative costs and complexity to supply chain operations



International trade: CIT rules can vary between countries, impacting cross-border transactions



Risk management: Non-compliance with CIT regulations can lead to penalties and legal consequences. Businesses must manage the risk of CIT-related errors and ensure compliance throughout their supply chains

04

People matter: the people aspect is often undervalued and needs focus when CIT is introduced. There are issues to consider here such as whether to build an internal tax function, to what extent this will be combined with outsourcing if so and the impact on the financial reporting processes. This also requires staff members to be educated and trained on CIT regulations and compliance procedures to ensure that they understand roles and responsibilities.



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What can we share from our experiences in other countries that have implemented CIT?

As we reflect on previous CIT implementations, key lessons have emerged, providing you valuable insights for navigating this complex landscape.



Short time frame for implementation:

Tax authorities may offer a limited window for CIT implementation, presenting notable hurdles. Hence early preparation is key, this will ensure speed and efficiency in operational implementation.



Lack of investment in CIT learning and development:

It's crucial for businesses to provide training for their staff regarding CIT implications and to onboard internal or external CIT specialists to help in implementation and ongoing compliance. This proactive approach helps minimise errors and mitigate the risk of fines.



Gaps in IT implementation strategy:

Due to tight deadlines for putting CIT into action, businesses struggle to figure out how much they need to upgrade and change their systems in the short time they have, so they might end up choosing the wrong vendors or solutions.



Internal documentation for ambiguous CIT areas:

Failure to establish international documentation for ambiguous CIT areas. The best example is in Transfer Pricing, where in our experience businesses might be susceptible to challenges from tax authorities.



Businesses getting ready for CIT in Bahrain need to handle some tough problems and learn from past experiences. Past tax rollouts showed that overlooking important parts of the process can cause big problems. We at PwC can help with our tried and tested methodology to avoid these pitfalls and identify opportunities to manage and mitigate the impact of the introduction of CIT.



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What businesses need to do...

Phase 1: impact assessment

- identify project resources
- assess the impact of CIT and analyse the transfer pricing requirements applicable
- understand your IT framework against CIT requirements
- review the state of relationships with the tax authority

Now, needs 4-6 weeks

How PwC can help...

Phase 1: scope/deliverables

- review the impact of CIT, transfer pricing and systems via a tried and tested process based on many similar projects in the UAE and other tax implementations
- assessment of state of current VAT/Excise Tax compliance
- define a roadmap for implementation

When (draft) legislation issued, needs 8-12 weeks

Phase 2: further analysis and implementation (legislation is published)

- prepare and assist with implementation and update impact assessment
- assistance with IT CIT solution design
- help with CIT registration
- guidance on resolving any outstanding issues with the NBR as relevant

Phase 2: scope/deliverables

- update of impact analysis
- CIT implementation plan
- NBR clarifications and/or disclosures support
- IT testing
- training and CIT manual
- restructuring assistance
- tax registration

Post deployment support

Phase 3: go-live

- ongoing tax compliance and advisory
- preparation/review of CIT and other returns
- assistance with CIT audit
- ongoing CIT and/or other tax training

Phase 3: scope/deliverables

- tax advisory support on an ad-hoc basis
- assist with/review of CIT returns and submission
- report on gaps, lessons learned and way forward
- tax function effectiveness analysis/recommendations
- return compliance dry runs
- tax accounting support

Contact us



Richard Bregonje

Bahrain corporate and international tax partner

T: +973 384 77783
E: richard.b.bregonje@pwc.com



Robert Tsang

Bahrain indirect tax leader

T: +966 547 257272
E: robert.tsang@pwc.com



Manas Arora

Transfer Pricing Director

T: +973 384 77768
E: manas.arora@pwc.com



Gretchen Villanada

Corporate Tax Senior Manager

T: +973 388 18339
E: gretchen.villanada@pwc.com