

# Bahrain's new Transfer Pricing Guidelines: Another step towards DMTT implementation

June 2026

A decorative graphic consisting of two orange parallelogram shapes. The first shape is on the left, and the second shape is on the right, overlapping the first one. Both shapes are slanted upwards from left to right.

## In brief

In June, the National Bureau for Revenue (“NBR”) of Bahrain issued its first Transfer Pricing Guide under the Domestic Minimum Top-Up Tax (“DMTT”) framework, providing further guidance on Transfer Pricing for Multinational Enterprise (“MNE”) groups that fall within the scope of the Bahrain DMTT Law and its Executive Regulations.

The guide builds on Article 13 of the Bahrain DMTT Law which sets out requirements in relation to the arm’s length principles and transfer pricing documentation requirements. It is broadly aligned with the Organisation of Economic Co-operation and Development (“OECD”) Transfer Pricing Guidelines and refers to Guidelines for further guidance on applying the concepts and mechanisms of the arm’s length principle.

This alert provides an overview of the key areas covered in the guide, the practical implications for in-scope businesses in Bahrain, and the steps MNE groups should consider as they prepare for compliance.

## In detail

### Who and what is within the scope of the TP Guide?

**Entities under the scope:** Members of MNE Group’s which fall under the scope of the DMTT Law in Bahrain. This includes:

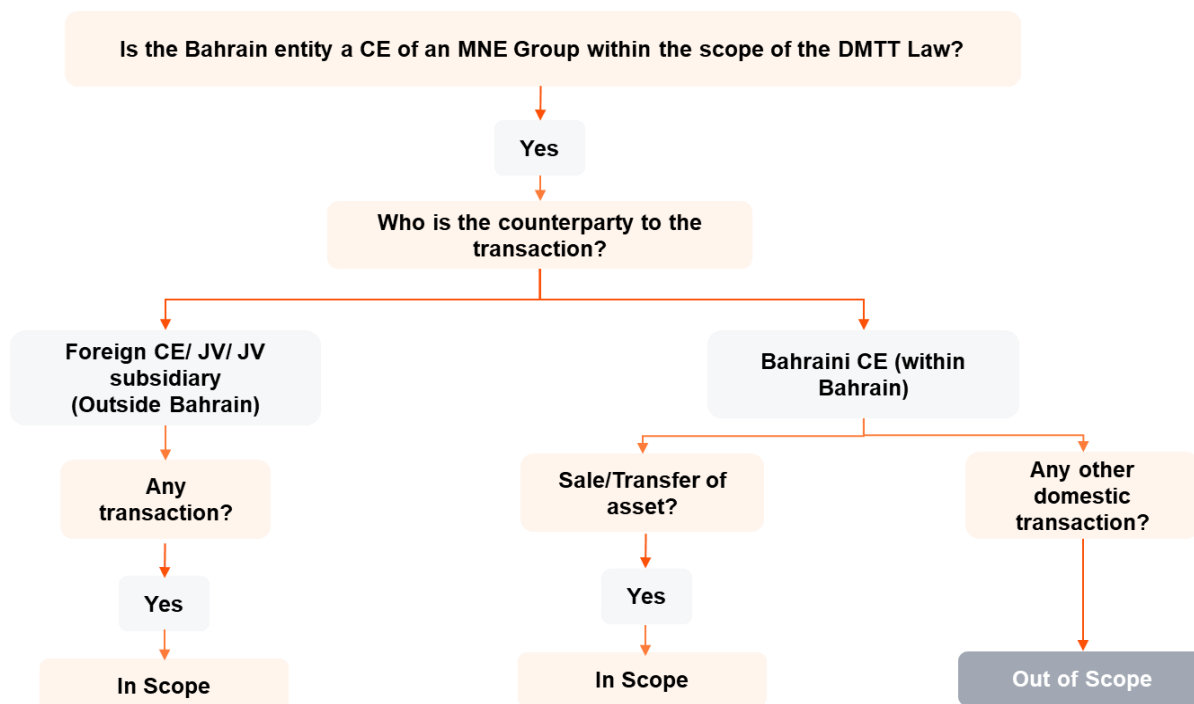
- Bahrain Constituent Entities (“CEs”) of the MNE Group, and
- Joint Venture (“JV”) or JV subsidiary (provided that the Ultimate Parent Entity (“UPE”) of the JV or JV subsidiary is the UPE of the MNE Group).

**Transactions covered under the scope:** Consistent with Article 13 of the Bahraini DMTT Law, the following transactions are covered under the scope of this TP Guide:

- Transactions carried out between Bahrain CEs or JV, or JV subsidiaries and other CEs, JVs or JV subsidiaries (where the UPE of the JV and JV subsidiaries is the UPE of the MNE Group) located in jurisdictions other than Bahrain.
- Domestic transactions between Bahraini CEs or JV, or JV subsidiaries (where the UPE of the JV and JV subsidiaries is the UPE of the MNE Group) which involve the sale or transfer of assets within Bahrain. Other domestic transactions between these entities are excluded from the scope of the TP Guide.

**In summary**, the CEs, JVs and JV subsidiaries (where the UPE of the JV and JV subsidiaries is the UPE of the MNE Group), which are parties to a transaction covered under the scope above, are considered as “**related parties**” and the transactions between these related parties will be considered as “**related party transactions**”.

The following flowchart illustrates the entities and transactions covered:



## What does the TP Guide mean for in-scope Bahrain entities?

Entities which are subject to the Bahraini DMTT Law should ensure that their related party transactions comply with the arm's length principle. Where **transactions are not conducted on an arm's length basis, entities should make appropriate adjustments to their financial statements** to ensure that they are undertaken on an arm's length basis.

It is important to consider that any pricing adjustments made to transactions could result in additional tax DMTT obligations in Bahrain – **consequently, it is key that entities proactively assess and/or modify their existing related party arrangements to ensure compliance with the arm's length principle per the TP Guide.**

## High-level overview of the key components of the TP Guide

The TP Guide is structured around **three key components**:



## Deep dive into the key components

### A. The Arm's Length Principle

The Arm's Length Principle ("ALP") requires that an entities income or loss arising from related party transactions should reflect pricing that would have been obtained between independent enterprises in comparable transactions and made under comparable circumstances.

This ensures that related parties within the same MNE Group are treated as independent entities when determining the prices of intercompany transactions for DMTT purposes.

Compliance is demonstrated through the following two key analyses:

## 1. Comparability Analysis

The TP Guide summarises two key components of the **comparability analysis**:

- a. To identify the **commercial or financial relations** and circumstances between related parties to accurately delineate the related party transaction; and,
- b. To compare the **conditions of the delineated transaction** with those of comparable independent transactions.

Delineation of the transaction refers to **identifying the real substance** of a related party transaction before testing whether the pricing is at arm's length. It refers to identifying the substance of the arrangement rather than just the actual form in which the transaction takes place.

For accurate delineation of a related party transaction, focus should be given to the contractual terms, commercial and economic circumstances, characteristics of the goods or services exchanged, business strategies pursued by related parties and the functional analysis of the related parties.

## 2. Functional Analysis

A functional analysis involves identifying the functions undertaken, risks assumed and assets owned/utilised by related parties in a related party transaction. Higher rewards are often associated with performing more valuable functions, using more assets and assuming greater risks. Therefore, **a related party performing significant functions, taking high risks and owning/utilising significant assets is expected to achieve a higher return from a related party transaction.**

### Key takeaways

- The TP guide reinforces the need for robust TP analysis to demonstrate that related party transactions are conducted on an arm's length basis.
- It also places a clear emphasis on substance over form. In-scope entities should not solely rely on contractual terms but should also consider the actual conduct of the parties, including functions performed, assets used, and risks assumed.

## B. Transfer Pricing Methods

Transfer pricing methods provide the framework for testing whether the conditions assessed above for a related party transaction are consistent with those between independent parties. The Transfer Pricing method chosen is expected to be aligned with the nature of the transaction, functional analysis, the availability of reliable comparables, and the economic circumstances of the parties.

The TP Guide (in line with the OECD TP Guidelines) sets out the following specific methods for applying the Arm's Length Principle for the purposes of applying the DMTT Law:

**Traditional Methods: These methods are used to test the actual price or the gross profit margin of the related party transaction**

**Comparable Uncontrolled Transaction (“CUP”) Method**

- Requires a comparison of prices for property or services transferred between related parties against those between independent parties.
- Usually applied where the CE or the related party of the CE have entered into a similar transaction (and no material differences exist for which reasonable adjustments cannot be made).
- Requires a very high degree of comparability between related and unrelated party transactions.

**Resale Price Method (“RPM”)**

- Used to determine a transfer price by reference to the price at which a product purchased from a related party is resold to an independent party.
- Typically used for the resell of goods where the reseller does not engage in value-added activities contributing to the intangible assets.

**Cost Plus Method (“CPM”)**

- Used to analyse the mark-up earned on costs (direct and indirect) incurred for provision of related party transactions (e.g., provision of services.)
- Typically used for the provision of services or manufacturing of goods where the supplier does not engage in value-added activities contributing to the intangible assets.

**Transactional Profit Methods: These methods are used to test the profit earned in the related party transactions (usually at a net profit level)**

**Transactional Net Margin Method (“TNMM”)**

- Analyses the net profit (using an appropriate base such as costs, sales or assets) generated from related party transactions.
- Can be further adopted to test overall net profitability of the entities involved in the related party transaction.
- Primary focus is on functional comparability and not product comparability.

**Profit Split Method (“PSM”)**

- The PSM aims to split profits between related parties based on an analysis of how the profits would have been distributed between two independent parties.
- It is a useful method where the business operations are highly integrated, the transactions involve unique and valuable contributions and where risks are shared between related parties pursuant to a transaction.

## Key takeaways

- The Transfer Pricing Methods prescribed in the TP Guide **are broadly consistent** with the OECD TP Guidelines.
- The TP Guide confirms that there is **no strict hierarchy of methods**, although traditional transaction methods may be preferred where they can be applied with equal reliability.
- The CUP method is favoured in cases where the CUP method can be applied with equal reliability to other TP methods (such as RPM, CPM, TNMM or PSM).
- The TP Guide, as consistent with OECD TP Guidelines, clarifies the applicability of the CUP method for commodity transactions where exchange-quoted prices (e.g., Dubai Mercantile Exchange for oil, GCC market indices for natural gas) serve as reliable benchmarks.
- The guide does not separately refer to Other Methods in instances where the prescribed five TP methods are not applicable. However, the Bahrain TP Guide refers to the OECD TP Guidelines for further guidance, which may indicate that consideration of Other Methods (if needed) could still be considered as complaint from a Bahraini perspective.
- In scope entities should review their related party transactions carefully and **evaluate and document the selection of the most appropriate TP method**, as well as the reasons for rejection of the other TP methods.

## C. Transfer Pricing Documentation

The entities under the scope are required to prepare and maintain a TP Local File and Master File in a manner prescribed in the Bahrain DMTT Law and the TP Guide.

The TP Guide provides for the key details to be included in the Local File and Master File, which are largely aligned with the requirements under the OECD TP Guidelines.

The following table provides a high-level overview of the requirements under the TP Guide of contents to be covered in the Local File and Master File:

<b>Local File</b>	<ol style="list-style-type: none"><li>1. Information about the CE in Bahrain such as overview of its business, management organisation chart, information on any business restructuring, etc.)</li><li>2. Information about the Related Transaction(s) such as description of the transaction, functional analysis, transfer pricing policy, intercompany agreement, etc.</li><li>3. Financial information such as relevant financial indicators of independent enterprises used for arm's length testing, financial information of the CE, etc.</li></ol>
<b>Master File</b>	<ol style="list-style-type: none"><li>1. Organisational structure of the MNE Group comprising of ownership details and geographical structure.</li><li>2. General description of the MNE Group's business such as important profit drivers, description of the supply chain, main geographic market where the group operates, functional analysis of the MNE Group's entities, etc.</li></ol>

## Master File (continued)

3. Description of Group intangibles such as overall strategy for the development, ownership and exploitation of Intangibles, list of intangibles, transfer pricing policies related to intangibles, etc.
4. Details of Group's financial activities such as description of central financing functions within the MNE Group, transfer pricing policies relating to such financing arrangements within the MNE Group, etc.
5. Financial and tax related details such as group financial statement, information of any existing advanced pricing arrangements with tax authorities or any tax rulings, etc.

### Key takeaways

- A robust Local File and Master File will help the entities under the scope to demonstrate compliance with Bahraini TP regulations, support arm's length pricing of the transactions, and provide a supportable position in case of future TP audits in Bahrain.
- The TP Guide only discusses the requirement and contents of TP Local File and Master File. It does not include any clarification of preparation and/or submission deadline as this will be governed by the existing Bahrain DMTT Law, which currently does not include any submission deadline for these documents.

### Next steps

To ensure compliance with the requirements set out in the TP Guide and the Bahrain DMTT Law, MNE Groups should undertake a thorough review and assessment of their existing transfer pricing framework and policies. This process involves evaluating current practices, identifying any gaps or areas requiring adjustment, and implementing necessary changes to align with the new legal requirements.

It is essential to incorporate appropriate transfer pricing policies and benchmarking analyses, ensuring that all the transactions of the MNE Group between CEs are conducted at arm's length and are properly documented as required under the TP Guide. We have outlined some of the immediate steps that must be taken to ensure compliance with the requirements:



#### High level impact assessment

Map related party transactions, identify potential TP risks and assess the impact on Bahrain DMTT obligations.



#### TP policy design & implementation

Review or update transfer pricing policies, intercompany agreements and pricing mechanisms, supported by appropriate benchmarking analysis.



#### Compliance

Prepare and maintain Local File and Master File documentation in line with the requirements set out in the TP Guide.

## How can PwC help you with Transfer Pricing compliance and documentation requirements?

### TP Impact Assessment

1

We can assist businesses in assessing the implications of the Bahrain TP Guide by identifying potential compliance risks, evaluating existing arrangements and highlighting opportunities to enhance the effectiveness of their transfer pricing framework.

### TP Policy: Preparation / Update

2

Our team of specialists can develop or refine transfer pricing policies for related party transactions and help design tax-efficient and commercially aligned transfer pricing models that are consistent with the Bahrain TP Guide and OECD Transfer Pricing Guidelines. We can also advise on enhancements to existing pricing policies, including those arising from business restructurings and value chain transformations.

### Implementation of TP Policy

3

We can assist businesses with the practical implementation of transfer pricing policies by aligning intercompany agreements, pricing mechanisms, accounting processes, and governance frameworks with the requirements of the Bahrain TP Guide. We can also help establish monitoring and control procedures to support ongoing compliance and consistent application of transfer pricing policies.

### Benchmarking Study

4

For the purpose of determining an arm's length range of margins, our team can help prepare benchmarking studies by formulating relevant strategy, undertaking an in-depth analysis of comparable companies and reviewing identified companies to assess that related party transactions are in line with local requirements.

### TP Documentation

5

We have expertise and experience in assisting businesses in preparing and maintaining transfer pricing documentation, including Local Files and Master Files, in accordance with the Bahrain TP Guide and OECD TP Guidelines. We can also review existing documentation to identify gaps, strengthen technical positions, and enhance audit readiness.

## Contact us

MNE groups operating in Bahrain and within the scope of the DMTT should assess how the new transfer pricing requirements may affect their related party transactions, documentation and compliance obligations.

Our specialists are supporting businesses across the region, including in Bahrain, with DMTT impact assessments, readiness reviews, systems and process updates, and practical implementation support.

Please contact us to discuss how these requirements may apply to your business.



**Jochem Rossel**

Middle East  
Tax and Legal Services Leader  
[jochem.rossel@pwc.com](mailto:jochem.rossel@pwc.com)



**Mohamed Al Mahroos**

Bahrain Country Senior Partner  
[mohamed.almahroos@pwc.com](mailto:mohamed.almahroos@pwc.com)



**Richard Bregonje**

Bahrain Corporate Tax Leader  
[richard.b.bregonje@pwc.com](mailto:richard.b.bregonje@pwc.com)



**Steven Cawdron**

Middle East Transfer  
Pricing Leader  
[steven.cawdron@pwc.com](mailto:steven.cawdron@pwc.com)



**Gretchen Villanada**

Bahrain Corporate Tax  
Senior Manager  
[gretchen.villanada@pwc.com](mailto:gretchen.villanada@pwc.com)



**Rajat Agarwal**

Bahrain Transfer Senior  
Manager  
[rajat.rr.agarwal@pwc.com](mailto:rajat.rr.agarwal@pwc.com)



**Ghaida Hussein**

Middle East Transfer  
Pricing Senior Manager  
[ghaida.hussein@pwc.com](mailto:ghaida.hussein@pwc.com)



**Nishith Bhuvalka**

Middle East Transfer Pricing  
Senior Manager  
[nishit.b.bhuvalka@pwc.com](mailto:nishit.b.bhuvalka@pwc.com)



**Mohit Suthar**

Middle East Transfer Pricing  
Manager  
[mohit.ashok.suthar@pwc.com](mailto:mohit.ashok.suthar@pwc.com)



# Thank you

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