

## UNOFFICIAL TRANSLATION

### AMIRI DECREE NO. 22/1979 WITH RESPECT TO REPEALING PROVISIONS OF AMIRI DECREE NO. 8 OF 1955 AND AMENDMENTS THEREOF WITH RESPECT TO INCOME TAX

We, Isa bin Salman Al Khalifa, Amir of the State of Bahrain, after referring to the Constitution, and to Amiri Order No. 4/1975 and to Amiri Decree No. 8 of 1955 with Respect to the Bahrain Income Tax, as amended by Amiri Decree No. 1 (Finance) of 1966 and Law No. 1 of 1977, and upon the submission of the Minister for Development and Industry and after the approval of the Council of Ministers, hereby decree:

#### Article 1

With effect from 1st January, 1979 the attached Bahrain Income Tax Law shall replace the Amiri Decree with respect to the Bahrain Income Tax Law No. 8 of 1955 and amendments thereof. The provisions of the aforesaid Amiri Decree No. 8 of 1955 and amendments thereof shall continue to be enacted in respect of any taxable year, which ends on or before 31st December 1978.

#### Article 2

Subject to the provisions of Amiri Decree No. 8 of 1955 and amendments thereof and the provisions of the attached Law, the period commencing from the first day of the annual accounting period determined by the taxpayer for keeping his books and records and ending on 31<sup>st</sup> December 1978 shall be considered a complete taxable year in respect thereof. The period commencing from 1st January 1979 and ending on the last day of the annual accounting period shall be considered another complete taxable year for the taxpayer.

#### Article 3

The Minister for Development and Industry shall implement the attached Law, which shall come into effect from the date of its publication in the Official Gazette.

Signed: Isa bin Salman AL Khalifa  
Amir of the State of Bahrain

Issued at Rifa'a Palace on 8th Muharram,  
1400 Hijra corresponding to  
28th November 1979.

# **BAHRAIN INCOME TAX LAW**

## **DEFINITIONS**

### **ARTICLE 1**

When used in this Law -

- a) the term "taxpayer" means any body corporate, establishment or company subject to the income tax imposed by this Law;
- b) the term "Minister" means the Minister of Finance and National Economy or any other Minister assigned with the task of overseeing State taxation in addition to his functions;
- c) the term "duties" does not include duties payable in respect of imports for the personal account of employees of the taxpayer, or for the purposes of the taxpayer if the imports are subsequently sold in Bahrain;
- d) the term "income" means the aggregate gross income derived by the taxpayer in each taxable year from sales of crude oil or other natural hydrocarbons produced from the ground in Bahrain or of finished or semi-finished products manufactured in Bahrain from crude oil or other natural hydrocarbons, and compensation for any refining operations performed in Bahrain, and from amounts receivable by reason of an interest in crude oil or other natural hydrocarbons produced from the ground in Bahrain or the proceeds thereof, reduced by the deductions allowed under Article 4 hereof;
- e) the term "property" means any tangible or intangible asset the cost of which is chargeable to capital account;
- f) the term "ground in Bahrain" includes all the subsoil within the jurisdiction of Bahrain, including that under the seas;
- g) the term "sale" includes exchange or barter and the term "sold" includes exchanged or bartered;
- h) the term "exploratory well" means (1) a well primarily drilled for the purpose of discovering a previously unknown reservoir of crude oil or other natural hydrocarbons, or (2) a well drilled for geological

purposes, but not a well drilled with reasonable assurance of producing economic quantities of crude oil or other natural hydrocarbons due to its location in the vicinity of previously drilled wells producing from the same formation; provided that when crude oil or other natural hydrocarbons are regularly produced (other than for test purposes) from any well described in (1) or (2) above, it shall no longer be an exploratory well;

- i) the term "intangible costs of each exploratory well" means all costs of drilling such well, including the costs of tubing and casing below (and including) the casing head flange;
- j) the term "crude oil" includes casing head petroleum spirit (condensate) but does not include gas or hydrocarbon liquids extracted from gas by other than ordinary oil field processes.

### **Article 2**

Income tax shall be levied at the rate of forty-six per cent (46%) on the income derived in each taxable year by each body corporate, establishment or company, wheresoever established or incorporated, directly engaged in exploration for or production of crude oil or other natural hydrocarbons from the ground in Bahrain for its own account or in refining crude oil owned by it or by others, wheresoever produced, in its facilities in Bahrain.

### **Article 3**

There shall be deducted from the tax otherwise payable pursuant to the preceding Article an amount equal to all taxes (other than the tax imposed by this Law), duties, imposts and other exactions of a like nature, which accrue or are paid to the Government of the State of Bahrain in connection with the trades or businesses of the taxpayer from which income taxable under this Law may be derived; provided that no such exaction shall be deducted more than once.

### **Article 4**

In the computation of income the following items, wheresoever incurred, shall be allowed as deductions:

- a) The reasonable cost to the taxpayer of crude oil or other natural hydrocarbons produced from the ground in Bahrain, and of finished or semi-finished products manufactured in Bahrain from crude oil or

other natural hydrocarbons, sold in the taxable year whether or not produced, extracted, or manufactured previous to the taxable year.

- b) Reasonable expenses which accrue against or are paid by the taxpayer (exclusive of the amounts provided for in Article 3, of amounts which are capital expenditures, and of amounts which are to be included in cost referred to in paragraph (a) above) in the taxable year in connection with the trades or businesses of the taxpayer from which income taxable under this Law may be derived, including, without in any way limiting the generality of the foregoing, administrative overheads and establishment expenses; interest; royalties; rentals; contributions; and remunerations or rewards for services rendered by others, whether they accrue or are paid directly to the person rendering the services or to other persons in respect of insurance, pension, or other plans established for the benefit of the persons rendering the services. Cost of exploration, drilling, and development in respect of petroleum or other hydrocarbon properties in Bahrain which the taxpayer does not deduct under this paragraph or under paragraph (a) of this Article shall be treated as capital expenditures coming under the provisions of the next paragraph (c); provided that the taxpayer shall accumulate all of its intangible costs of every exploratory well incurred in taxable years beginning after 31<sup>st</sup> December 1964, and then deduct in the computation of its income in respect of each year, whether or not such well is abandoned, an amount equal to twenty percent (20%) of such costs until one hundred percent (100%) of such costs has been deducted or until the taxable year in which such well ceases to be an exploratory well, in which year the remaining balance of such costs shall be deductible, it being understood that no more than one hundred percent (100%) of any such costs will be deducted in the aggregate in any event;
- c) Reasonable amounts for the depreciation obsolescence, exhaustion, and depletion during the taxable year of properties used by the taxpayer in trades or businesses from which income taxable under this Law may be derived - such amounts for each taxable year shall be equal during the estimated remaining years of useful life of the properties or determined on such other basis as may be approved by the Minister and the taxpayer - provided that such amounts in the aggregate shall not exceed the value of the respective properties as defined in Article 5 hereof - and provided that, except as otherwise provided in paragraph (b) of this Article, the amounts deducted in respect of any property used in the production and extraction from the

ground in Bahrain of crude oil and other natural hydrocarbons may, at the option of the taxpayer, be amounts representing in each taxable year that fraction of the value of the property as defined in Article 5 hereof which equals the fraction which the crude oil produced and extracted from the ground in Bahrain in the taxable year represents of the estimated total potential production and extraction of crude oil from the ground in Bahrain by the taxpayer as from the beginning of the taxable year. For the purposes of this paragraph, expenditures, which are capital in nature and are made in connection with the acquisition of any interest in crude oil or other natural hydrocarbons in the ground in Bahrain are recoverable in accordance with the aforesaid manner. Amounts shall not be deducted under this paragraph if they are to be included in cost under paragraph (a) of this Article.

- d) Losses sustained in the taxable year in connection with the carrying un of trades or businesses from which income taxable under this Law may be derived to the extent they are not compensated for by insurance or otherwise, including, without in any way limiting the generality of the foregoing, bad debts, losses arising out of claims for damages against the taxpayer, and losses resulting from damage to or the destruction or loss of stock in trade or any property used in such trades or businesses. Such losses shall be calculated in a reasonable manner;
- e) An amount equal to the excess of deductions allowed under this Article for any prior taxable year over the aggregate gross income specified in Article 1 (c) hereof for such year, less any amount deducted under this paragraph for any other prior taxable year; provided that the deduction allowed under this paragraph for any taxable year shall be limited to the amount by which such aggregate gross income for such year exceeds the deductions allowed under this Article (other than any deduction under this paragraph) for such year.

## **Article 5**

The value of properties on the basis of which the amount of deductions for depreciation, obsolescence, exhaustion, and depletion under the preceding Article 4 (c) and the amount of deductions for property losses under Article 4 (d) are determined, shall be the original cost of the property increased by the amount of all expenditures chargeable to capital account and decreased by losses and by depreciation, obsolescence, exhaustion, or depletion

allowable in the manner provided for herein in respect of the property. Where an amount has been allowed for any taxable year for depreciation, obsolescence, exhaustion, or depletion in respect of any property that amount shall be the same amount previously allowable for that taxable year under this Article. In the case of property acquired by a taxpayer prior to the first taxable year during which such taxpayer was liable to the income tax imposed by this Law, the adjustment for depreciation, obsolescence, exhaustion and depletion previously allowed shall, for the purposes of this Article, be computed as if this Law entirely had been in force and had been applicable during the period in which the acquisition of the property was effected.

### **Article 6**

The taxable year for which income tax is imposed under this Law shall be the annual accounting period used by the taxpayer in keeping its records. The taxpayer shall keep its records on the basis of a Gregorian calendar year, unless the Minister has authorized the taxpayer to keep its records on the basis of a different annual accounting period.

### **Article 7**

Income shall be computed as provided by this Law and in accordance with the method of commercial accounting regularly employed by the taxpayer in keeping its records. If the method so employed does not fairly reflect the taxpayer's income, the computation shall be made in accordance with such method as does fairly reflect its income. The accrual method of commercial accounting (that is, the method under which items of incomings and items of deduction are taken into account in the taxable year in which they accrue, that is to say, in which the right thereto or the liability therefore arises and the amount thereof becomes reasonably determinable) shall be considered as fairly reflecting income. The taxpayer shall be entitled to use the method regularly followed in its records for converting one currency to another, provided that such method is generally recognized in commercial accounting.

The terms "accrue or are paid" "accrue against or are paid by", and "derived", when used in this law, shall be applied and construed in accordance with the method of commercial accounting upon the basis of which income is computed. Accordingly, if income is computed on the accrual method of commercial accounting, all items of incomings shall be taken into account for the taxable year in which they accrue to the taxpayer,

and all item of deduction shall be deducted for the taxable year in which they accrue against the taxpayer, while, if income is computed on the cash receipts and disbursements method of commercial accounting, all items of incomings shall be taken into account for the taxable year in which they are received and all items of deduction shall be deducted for the taxable year in which they are paid by the taxpayer.

## **Article 8**

Every taxpayer shall file with the Minister at the office designated by him for that purpose an estimated income, tax declaration on or before the 15<sup>th</sup> day of the third month of the taxable year concerned. The amount of income tax shown in each such estimated income tax declaration shall be paid in twelve equal monthly instalments beginning on the fifteenth day of the month following the month in which the declaration was due to be filed; provided that on the fifteenth day of the third, sixth, ninth and twelfth months of such 12 months the taxpayer will, unless a final income tax declaration for the taxable. year concerned has been filed, file an amended estimated income tax declaration for such year. The amount of income tax shown in an amended estimated declaration or in a final declaration, less the amount of income tax previously paid in respect to the same taxable year, shall be apportioned equally between the remainder of the twelve monthly instalments, including the instalments due in the month in which such amended or final declaration is filed. If the tax shown on the final income tax declaration is less than the amount previously paid in accordance with the estimated income tax declaration for the same taxable year, the amount of such excess payment shall be credited against the first of any income tax payments due thereafter from the taxpayer, provided that any amount which has not been so credited against income tax payments due from the taxpayer by the end of two months after such final income tax declaration is filed shall be promptly refunded to the taxpayer by the Minister. If the final income tax declaration is filed after all twelve, instalments of the estimated income tax have been paid, and the amount of income tax shown on the final declaration exceeds the amount previously paid in respect to the same taxable year, the amount of such unpaid tax shall be paid at the time the final income tax declaration is filed. The Minister may grant a reasonable extension of time for filing the declarations and paying the income tax imposed by this law, when the taxpayer shows to the Minister's satisfaction that such extensions are necessary. In case of failure to file the declaration or to pay the amount of income tax due in accordance with the provisions of this Article, except where such failure is due to reasonable cause in the

opinion of the Minister, there shall be added to the amounts due a fine amounting to one per cent (1%) thereof for each thirty days or fraction thereof during which such failure continues.

### **Article 9**

The taxpayer shall enter in the records of its accounts all items of incomings and of deductions and all other items affecting the amount of its income tax for the taxable year. The taxpayer shall file its declaration on the basis of records which are correct and which fairly reflect its income. If an internationally recognized firm of accountants, approved for the taxable year by the Minister certifies that the records for the taxable year are correct and fairly reflect the taxpayer's income computed as provided by this Law, and that the declaration is in conformity with such records, the declaration shall, in the absence of proof to the contrary established by the Minister, be accepted as correct, and the income tax shown by such declaration shall be taken to be finally determined. The Minister shall issue in each taxable year a list of two or more internationally recognized firms of accountants, which are approved by him for such year. In default of the certification for which provision is made in this Article, the Minister may for the time being accept the taxpayer's declaration as correct or, may decide to dispute the declaration and seek amendment to the amount of income tax stated in the declaration.

### **Article 10**

The Minister shall administer and enforce the provisions of this Law. He shall collect the income taxes due and pay them promptly to the account of the State's Public Treasury. When requested, the Minister shall deliver to the taxpayer a receipt certifying the amount of income taxes paid by the taxpayer and the year or years for which such taxes were paid. The taxpayer's records and books, upon the request of the Minister, shall be made available for inspection by the Minister and the appropriate body so authorized by him for the purpose of carrying out the provisions of this Law, at any time deemed proper by the Minister.

### **Article 11**

Declarations of the taxpayer shall be confidential and shall not, without the consent of the taxpayer, be open to examination or inspection by any person other than the Minister and the appropriate body so authorized by him. It shall be unlawful for them, without such consent, to divulge or make known to any person other than themselves the amount or particulars of items of any incoming or deduction or other items set forth or disclosed in any



declaration or in the taxpayer's records and books, or to permit any declaration or copy thereof or any record or book containing any abstract or any particulars thereof to be seen or examined by any person other than themselves.

### **Article 12**

Any person who knowingly falsifies the taxpayer's records, or makes any false statement affecting any declaration or certificate required for the purposes of this Law shall be guilty of an offence against this Law and on conviction shall be punishable under Article 271 of the Penal Code of 1976.

If the records of any taxpayer have been so falsified or if any false statement has been so made affecting the declaration or certificate of such taxpayer by the taxpayer or any person for whose conduct the taxpayer is legally responsible, the taxpayer also shall be guilty of an offence against this Law and on conviction shall be liable to a fine not exceeding BD 500.

### **Article 13**

The Bahrain Law Courts alone shall be the exclusive authority to consider any dispute or disagreement between the Government and a taxpayer arising from the application and implementation of the Provisions of this Law or in respect of the amount of income tax due or to be paid there under.