

Doing Business in Bahrain



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Andersen Global

Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry and our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

Outstanding client service
has and will continue to be
our top priority.

Our professionals are selected based on quality, like-mindedness, and commitment to client service and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

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The Kingdom of Bahrain is a Middle Eastern country in the Persian Gulf. It is an archipelago east of Saudi Arabia and North of Qatar. The King Fahd Causeway is a highway that was built to link the west coast of Bahrain to the east coast of Saudi Arabia. The country is made up of the main island of Bahrain and two smaller islands, Al Muharraq and Sitrah. Most of Bahrain's 1.8 million inhabitants are concentrated in its capital city of Manama as well as Al Muharraq. Of this, 50% are Arab while the other half consists of expatriate residents (who make up 60% of the labor force). Bahrain is a member of the GCC and its economy is considered the 74th freest economy in the world, with its currency pegged to the US dollar (1 BD to USD \$2.65). Presently, Bahrain is rated to have the 4th fastest-growing economy in the MENA region.

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- Capital: Manama
- Official Language: Arabic (but English is widely spoken)
- Currency: Bahraini Dinar (BD) is the second highest valued currency in the world

- Form of Government: Constitutional Hereditary Monarchy, ruled by the House of Khalifa
- Political System: The Chief is the King of State, His Majesty Shaikh Hamad bin Isa bin Salman Al Khalifa, who appoints a Prime Minister (the Crown Prince, His Royal Highness Shaikh Salman bin Hamad Al Khalifa). Bahrain also has an elected legislative assembly consisting of the Council of Representatives and the Consultative Council.
- Rate of Inflation: 3.5% (May 2022)
- Population: 1,820,272 (7 July 2022)
- Family Remittances: 8.65% of GDP (2018)
- Foreign Exchange Income for Tourism: 9.99% of GDP (2019)

Bahrain's primary exports are refined petroleum products and aluminium goods, with petroleum accounting for 60% of all exports. Other industries include petrochemicals and plastics, food processing and garments. However, with the depletion of oil resources, tourism is the fastest growing sector in Bahrain's Economy.

Bahrain has been a member of the OECD's Base Erosion and Profit Shifting (BEPS) Inclusive Framework since 2018. Therefore, the Kingdom is committed to aligning national regulations and processes



with the international tax framework and implementing the BEPS minimum standards.

In the context of Bahrain Tax, VAT came into force in 2018 at the rate of 5%, with a 100% increase in the applied rate in 2021. Corporation tax is yet to be introduced in Bahrain. The Kingdom has so far, generated

the bulk of its tax revenue from corporate taxes on oil and natural gas companies, allowing other industries to operate in a relatively low-tax environment. Therefore, Bahrain is at present the only country in the GCC which has not introduced the corporation tax.

All commercial companies that are established in Bahrain are subject to the Commercial Companies Law. The following represent the only valid forms of companies recognized by Bahraini legislation.

1. General Partnership Company

This is a company formed without a limitation on liability between two or more natural or corporate persons and managed by at least one individual. The company may be fully foreign owned without a local sponsorship, however this is subject to the type of business activity. There is also no minimum share capital requirement. All partners are jointly responsible (unlimited) for partnership debts and liabilities, to the extent of all their personal assets.

2. Limited Partnership Company

These are known as simple commandite companies, which consist of at least one silent (limited partners), one managing partner (unlimited partners) and two managers/directors of Bahraini nationality. Again, there is no minimum share capital, however foreign nationals can only comprise a maximum of 49% of capital as sleeping partners only and the remaining 51% (the managing partners) are required to be Bahraini. Managing partners are liable to the extent of their entire wealth whereas silent partners are only liable to the extent of the value of their investment. Limited partners may not be listed in the company name, in public records, as it would invalidate the Limited Partnership nature of the company.

3. Limited Partnership by Shares

These companies consist of at least four partners who are either unlimited partners (Joint Partners) or limited partners (shareholders) and a manager. If the number of partners exceeds 10, they require a minimum of three limited partners on the control board. These companies require a minimum share capital of BD 20,000. They can be foreign-owned and a Bahraini sponsorship is only subject to the specific business activities of the company.

4. Association in Participation (Joint Venture)

These companies conceal themselves from others, it is not subject to publication procedures and does not require juristic entities. They establish Memorandums of Association to specify terms and conditions, including the rights and obligations of partners and the manner of profit and loss allocation. These companies do not issue shares. Third parties do not have legal relationships with the company, but rather individual partners who are Bahraini or sponsored by a Bahraini.

5. Bahrain Shareholding Company (BSC) Closed shareholding Companies (BSC (c)):

These companies consist of a number of persons (at least two) that have negotiable shares that are not available to the public. The company is managed by a board of directors determined by the company's *Articles of Incorporation*,



inclusive of independent directors and non-executive directors. The board consists of at least three members who are each given a three-year contract (which is renewable). The minimum share capital required is BHD 250,000. Shareholders are liable for the company's debts and obligations only to the extent of the value of their shares.

Public Shareholding Companies (BSC)

There are a minimum of seven shareholders who underwrite negotiable shares, but these cannot be purchased by subsidiaries. The structure is very similar to that of a closed shareholding company. The minimum share capital required is BHD 1 million. They can be established by foreign capital. If the government or public organization owns at least 30% of shares, they can take out loans – subject to resolutions issued by the general assembly. Loans in the form of convertible debt securities require

approval from the *Extraordinary General Assembly* (subject to their *Memorandum of Association*).

6. With Limited Liability Company (WLL)
These companies consist of partners whose company responsibility is correlated to their shareholding in the company's capital. The companies are administered by one or more managers with full representation powers who can, but are not required to, be a partner. Companies with 10 or more partners, operating without a board of managers, will establish a supervisory board that will act in accordance with the company's *Memorandum of Association*. The company cannot issue public shares. Partners are responsible for the company's debts and obligations, only to the extent of their respective share in the capital.

4. Payroll Charges and Labor Rights

Types of Relationships

Employees are paid wages periodically (daily, weekly or monthly), abide by formal working hours and receive company insurance and GOSI. Usually these are exclusive relationships between the employer and the contractor/employee.

Types of Employment Contracts

After parties have agreed to an employment relationship, it is important to establish the nature of the relationship based on the type of employment contract they will enter. In Bahrain, there are two main types of employment contracts.

Individual Contract of Employment

This is the standard contract used by the private sector. It can be for a definite term if it is for a fixed period or a specified job. It is considered indefinite if:

- There is no duration
- The duration of the original and renewed contract is more than five years
- The contract either is concluded for a period of more than five years

Collective Contract of Employment

This is an agreement regulating the terms, conditions and provisions of employment to establish better conditions, circumstances or benefits for the workers. They usually involve trade unions.

The agreement lasts for a definite period or a period necessary for project completion, not exceeding three years. After the period expires, it can automatically be renewed for one year (or shorter if the parties agree) or it can be terminated.

Working Terms and Conditions

Minimum Wage

Fixed wages according to the employment contract or employment regulations. If it is not fixed, wages should be estimated based on standard professional practice. Wages, paid in Bahraini Dinar, can be calculated hourly, daily, weekly monthly or on a piece-rate or production.

Bonuses

There is no set law on bonuses, thus, bonuses depend on the individual company's standard practice and the amount and timing are therefore at their own discretion.

Work Schedule

Usual Work weeks are Sunday to Thursday, with Friday legally being considered a day of rest. Workers shall work no more than 10 actual hours/day and no more than 11 attendance hours (includes rest periods). Workers do not work more than six continuous hours, intervals are provided during the hours of rest for prayers, having a meal and rest with a total of no less than 30 minutes (outside of actual working hours). Workers shall not actually be employed for more than 48 hours in a week. A Muslim worker shall not be employed during the



month of Ramadhan for more than six hours a day or 36 hours a week. Workers employed on a night shift basis and job duties requirements are paid a job nature allowance. Workers required to work extra hours receive over time payment equivalent to his wage entitlement increased by a minimum of 25% thereof for hours worked during the day and by a minimum of 50% thereof for hours worked during the night.

Holidays and Paid Holidays

- At least one year of service: at least 30 days annual leave on full pay at the rate of two and a half days for each month.
- Less than a year: leave upon a quantum merit in respect of the proportion of service in that year.
- Eid and official occasions: A worker shall be entitled to leave on full pay during, if they are required to work on public holidays, and will be paid 150% of their wage or granted substitute leave (up to the worker's discretion).

Circumstantial Leave

- Maternity leave: 60 days full pay, female employees can obtain a further 15 days unpaid leave. Until the child is six months, the employee is entitled to two periods of care (at least one hour) to breastfeed the new-born. These periods can be combined and are considered as part of working hours. She can also obtain a maximum of six months unpaid leave to provide care for her child (less than 6 years old) in each case and for three times throughout the period of her service.
- Paternity leave: one day off for the birth of their child
- Bereavement leave: 3 days for death of spouses, relatives to the fourth degree or spouses' relative to second degree. Muslim women are given one-month full pay leave to complete Eddah upon the death of her husband, which is taken from her annual leave.

- Sick leave: After three months of service, employees are entitled to sick leave if it's proven or a sick leave certificate is provided.
 - 15 days on full pay
 - 20 days on half pay
 - 20 days without pay
- Pilgrimage: 14 Days paid leave
- Wedding: Three days for employee's first marriages only

Trade Unions

Workers are protected by the *General Federation for Trade Union Workers in Bahrain* in the Bahrain Labour law. They are representatives for workers and are involved in collective bargaining, which aims to improve working terms and conditions, employment provisions, dispute settlements between workers and employers and achieve social and economic development for workers.

Workers are protected by the *General Federation for Trade Union Workers in Bahrain* in the Bahrain Labour law.

Social Security

Bahraini nationals are issued pensions by the General Organization for Social Insurance (GOSI). A deduction is made from Bahraini and expatriate employee's salaries in order to provide insurance to Bahraini nationals in the form of pensions upon retirement or aid after losing their jobs. Expatriate employees are paid indemnity as soon as they are released from their present job and prior to joining their new job.

5. Bahraini Taxes Overview

Bahrain has a standard rate tax 10% and certain goods that are zero-rate and some are exempt goods, while VAT was firstly introduced in 2019 at 5% for SD RATE. Businesses, large or small, are required to register within NBR to obtain certificates and to start collecting 10% VAT.

6. Corporate Income Taxes

Four out of six GCC CONTIRES have applied corporate income tax. However, Bahrain since the introduction of VAT, hasn't applied corporate tax. Moreover, there are some criteria that a company should follow if the business has vatable supply that does not exceed BD 3 million than these are considered (small-medium enterprises) and must follow certain criteria by NBR. While if a company exceeded BD 3 million of Vatable supply, they must follow different criteria reasoning for they are considered large enterprise.

7. Indirect Taxes

As mentioned, value added tax is considered an indirect tax for Bahrain. The standard rate is 10% and some goods are zero-rated, while other goods are exempted and are able to be registered within NBR the mandatory threshold of 37,500.



8. Property Taxes

As of now for Bahrain, property taxes are not applicable, however VAT is incurred on expenses or purchases.

9. Funding Alternatives (Debt x Equity)

Firms in Bahrain have few funding alternatives, such as banks systems and Tamkeen that is supported by the BDB (Bahrain Development Bank).

10. Transfer Pricing

There is no legislation or mechanism for group relief or the taxation of group activities in Bahrain. Additionally, there is currently no specific legislation regarding transfer pricing or thin capitalisation in Bahrain.

11. Low Tax Jurisdiction (LTD) and Privileged Tax Regime (PTR)

Bahrain has low tax jurisdiction due to no applicable corporate taxes nor income taxes.

12. Tax Succession and Tax Penalties

Tax penalties apply to whom fail to register within 60 days after completion of the registration period NBR may apply the administrative penalties of up to BD 10,000, while late for submission of VAT return fine will be 2.5% to 5% of the unpaid vat per month.



Manama

Office Managing Director
Abbas Radhi

Office 184 (18th floor) Business Bay
PO Box: 18198
Bldg: 3232, Road: 4654, Block: 346
Reef Island, Manama,
Bahrain

Tel: (+973) 17104666

Almoayed Chambers Consultancy, Bahrain

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