

Doing Business in Bahrain





Preface

This guide has been prepared by Baker Tilly, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Bahrain.

Baker Tilly International is the world's 8th largest network of independent accounting and business advisory firms by combined fee income, and is represented by 154 firms in 133 countries and 27,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Bahrain has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Bahrain matters can be obtained from Baker Tilly, contact details can be found at the end of this guide.

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1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 15 June 2015.

Geography

Location:	Middle East
Area:	760km ²
Land boundaries:	None
Coastline:	Persian Gulf
Climate:	Arid, mild and pleasant winters with very hot and humid summers
Terrain:	Mostly low desert plain rising gently to low central escarpment
Time zone:	GMT +3

People

Population:	1.3 million (2013)
Religion:	Muslim 70.3%, Christian 14.5%, Hindu 9.8%, Buddhist 2.5%, Jewish 0.6%, folk religion <1%, unaffiliated 1.9%, other 0.2% (2010 estimates)
Language:	Arabic is the official language

Government

Country name:	Kingdom of Bahrain
Government type:	Constitutional monarchy
Capital:	Manama
Administrative divisions:	4 governorates

Political situation

The bicameral National Assembly consists of the Consultative Council (Majlis al Shura) with 40 seats and the Council of Representatives (Majlis al Nuwab) with 40 seats. The Head of State is the monarch. The Head of Government is the Prime Minister, who is appointed by the monarch. The cabinet is appointed by the monarch.

Economy

GDP – per capita:	US\$24,689.1 (2013)
GDP – real growth rate:	5.3% (2013)
Labour force:	738,890 (2013)
Unemployment:	3.8% (2014 estimate)
Currency (code):	Bahraini dinar (BHD)



2 Business Entities and Accounting

The main company types in Bahrain are the limited liability company and the joint stock company. Other business forms include single person companies, partnerships, branches, joint ventures (association in participation), and individual establishments. Holding companies are also available.

Companies and partnerships (joint ventures are excluded) are required to draw up their articles of association in Arabic. The articles of association must also be legalised by the notary public. Companies and partnerships (excluding joint ventures) are required to be registered in the Commercial Registry.

2.1 Companies

2.1.1 Limited liability companies

A limited liability company may be formed by two or more persons (partners). The maximum number of partners is 50. If the number of partners falls and remains below two, the company becomes a single person company. The liability of partners is generally limited to the extent of their share in the capital of the company. The minimum capital requirement is generally BSD20,000. The capital of the company is divided into shares of equal value. The value of each share must not be less than BSD50.

Limited liability companies may not offer their shares to the public. A limited liability company may not undertake banking or insurance activities, nor fund investment for the account of third parties in general.

Limited liability companies are administered by the general assembly of the partners, and are managed by one or more managers who may or may not be partners. The company's memorandum of association may also provide for the appointment of a management board. If the company has more than 10 partners and does not have a management board, a control board made up of at least three of the partners must be appointed. One or more external auditors must also be appointed.

2.1.2 Public joint stock companies

A public joint stock company may be formed by at least seven persons who subscribe to the company's shares. The founders of a joint stock company are required to apply to the Ministry of Commerce and Industry in order to incorporate a joint stock company. A public joint stock company may offer its shares to the public.

The shareholders of a joint stock company must be Bahraini nationals. Members of Gulf Cooperation Council (GCC) countries may also establish and own joint stock companies in Bahrain. The Ministry of Commerce and Industry may permit a public joint stock company to be founded with foreign capital or expertise. The liability of shareholders is generally limited to the extent of the value of their shares.

The minimum share capital requirement for a public joint stock company is generally BSD1m.

Joint stock companies are administered by the general assembly of the shareholders, and are managed by a board of directors with at least five directors. One or more external auditors must also be appointed.

2.1.3 Closed joint stock companies

A closed joint stock company may be formed by at least two persons who subscribe to the company's shares. A closed joint stock company may not offer its shares to the public. The legislative provisions applicable to public joint stock companies apply to closed joint stock companies except where there are conflicting provisions.

The minimum share capital requirement for a closed joint stock company is generally BSD250,000.

Joint stock companies are administered by the general assembly of the shareholders, and are managed by a board of directors with at least three directors. One or more external auditors must also be appointed.

2.1.4 Single person companies

A single person company is formed where the capital of the company is wholly owned by a single natural or legal person. The liability of the owner is generally limited to the extent of the company's capital. The capital of the company must not generally be less than BSD50,000.

A single person company is managed by the owner or by one or more appointed managers. One or more external auditors must also be appointed.

2.2 Partnerships

2.2.1 General partnerships

A general partnership may be formed by two or more partners. Partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership.

2.2.2 Limited partnerships

A partnership limited by shares may be formed by two or more partners. There must be at least one general partner and at least one sleeping partner. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of sleeping partners is generally limited to the extent of their share in the capital of the partnership. General partners must be Bahraini and must own no less than 51% of the partnership's share capital. Sleeping partners may not take part in the management of the partnership. If they do so, they become liable for the debts and obligations of the partnership in respect of their management as if they were a general partner.

2.2.3 Partnerships limited by shares

A partnership limited by shares may be formed by four or more general/sleeping partners. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of sleeping partners is generally limited to the extent of their share in the capital of the partnership. The capital of a partnership limited by shares is divided into negotiable and indivisible shares of equal value, and the minimum share capital requirement is generally BSD20,000.

Limited partners may not take part in the management of the partnership where this relates to business with third parties. If they do so, they become liable for the debts and obligations of the partnership in respect of their management as if they were a general partner. Sleeping partners may take part in the internal management of the partnership as per the partnership's memorandum of association. If there are more than 10 sleeping partners, a partnership limited by shares is required to appoint a control board consisting of at least three members from amongst the sleeping partners. One or more external auditors must also be appointed.

2.3 Branches

A foreign company may generally establish a branch, office or agency in Bahrain if certain conditions are satisfied, including:

- Obtaining a licence to establish a branch, office or agency in Bahrain from the Ministry of Commerce and Industry, and
- Having a Bahraini sponsor.

The Ministry of Commerce and Industry may permit an exemption from the requirement to have a Bahraini sponsor if the branch or office uses Bahrain as a regional centre or representative office for the company's activities.

The branch, office or agency is required to be registered in the Commercial Registry.

2.4 Joint Ventures

The memorandum of association of a joint venture (association in participation) is required to include the rights and obligations of the joint venture partners, how profits and losses of the joint venture are to be distributed, and any other terms and conditions. Joint ventures may not issue shares or other tradeable instruments. A joint venture is not a separate legal entity and is not subject to publication requirements.

2.5 Individual Establishments

Bahraini citizens and citizens of GCC countries that are resident in Bahrain may undertake business activities in Bahrain as an individual establishment. An individual establishment is not a separate legal entity and the individual owner is liable for the debts and obligations of the business with all of their assets.

2.6 Audit and Accounting Requirements

Companies are required to prepare a balance sheet, profit and loss account, and an annual report within three months of the end of the financial year.

Companies and partnerships that have appointed an external auditor (see 2.1 and 2.2) are required to have their financial statements audited.

Financial statements must generally be prepared in accordance with the International Financial Reporting Standards (IFRS), or IFRS for SMEs.

2.7 Filing Requirements

Limited liability companies, single person companies, public joint stock companies and closed joint stock companies are required forward a copy of their balance sheet, profit and loss account, annual report, and auditor's report to the Ministry of Commerce and Industry.

Public joint stock companies are required to publish their balance sheet, profit and loss account, a summary of the annual report, and the full auditors' report, in one local daily Arabic language newspaper at least 15 days before the annual general assembly meeting.



3 Finance and Investment

3.1 Exchange Control

There are no foreign exchange controls.

Anti-money laundering legislation requires certain natural persons and entities, including those whose business involves lending, financial leasing, money brokering, insurance transactions, real estate transactions, or audit and accountancy, to retain information regarding customers and transactions and to report suspicious transactions to the Enforcement Unit and to other relevant entities.

3.2 Banking and Sources of Finance

The Central Bank of Bahrain (CCB) is responsible for (amongst others) monetary policy, managing gold and foreign currency reserves, issuing national currency, and supervision of the regulated financial services sector.

Commercial banks operating in Bahrain provide the majority of financial services.

There are generally no restrictions on foreigners opening bank accounts in Bahrain (certain documentation and minimum deposit may be required), or on accounts containing foreign currency.

Bahrain's stock exchange, Bahrain Bourse, provides a marketplace for listing and exchanging securities.

Private equity and venture capital investors provide investment in Bahrain.

3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

Certain business activities may only be undertaken in Bahrain by Bahraini or GCC citizens and companies. These include real estate services, newspaper and magazine publication, land transportation of goods or passengers, and car and motorcycle rental services. Certain business activities are subject to minimum Bahraini participation requirements and/or Bahraini partner requirements. These include trade and retail, travel and tourism offices, and pharmacies. Certain business activities are not permitted in Bahrain, including gambling, and the manufacture of weapons narcotics, alcoholic drinks or cigarettes.

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in Bahrain (certain exclusions apply), including maximum daily and weekly working hours, rest periods, paid annual leave entitlement, paid sick leave entitlement, and maternity leave rights.

A contract of employment must generally be concluded in writing and be drawn up in Arabic. If the contract is concluded in a different language then an Arabic version must accompany it. There must be two copies of the contract, one for each party. An employment contract must include:

- Employer's name, business address and commercial registration number
- Employee's details, including name, address, date of birth, qualification, occupation or position, and nationality
- The nature of work and the type of employment
- Duration of the contract (for fixed term contracts), and
- Agreed wages and benefits-in-kind and the method and time of payment.

A contract of employment may include a probationary period not exceeding three months. A probationary period of up to six months may be permitted for certain occupations by Ministerial Resolution. The probationary period must be specified in the contract of employment. Either party may terminate the contract of employment during the probationary period if its continuance is not appropriate by providing at least one days' notice.

A contract of indefinite duration may be terminated by either party by providing 30 days' written notice. An employee is generally entitled to compensation if the contract is terminated by the employer without a legitimate cause. An employer may terminate a contract of employment without notice and without providing compensation in certain circumstances, including where the employee has failed to perform their essential duties, or where the employee is under the influence of alcohol or drugs whilst at work. An employee may terminate a contract of employment without notice in certain circumstances, including where employee has been assaulted by the employer or by the employer's representative.

4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

4.2 Visas

Citizens of GCC countries do not require a visa for visits to Bahrain.

Visas available for entry into Bahrain include:

- Visiting and tourist visa
- Work visa, and
- Family visa.

For further information on Bahraini visa requirements, visit www.evisa.gov.bh.

Foreigners may own real estate in Bahrain in specified zones. Foreigners may generally lease real estate in Bahrain.

4.3 Trade Unions

One or more trade union organisations may negotiate and conclude collective contracts of employment with an employer, a group of employers, or one or more employers' organisations. Collective bargaining may take place at the establishment level, at the business, industrial or professional level, or at the national level.

5 Taxation

Facts and figures as presented in section 5 are correct as at 15 June 2015.

5.1 Corporate Income Taxes

Income tax in Bahrain is levied on bodies corporate, establishments or companies (regardless of their place of establishment or incorporation) that are directly engaged in the exploration for or the production of crude oil or other natural hydrocarbons from the ground in Bahrain for their own account or in refining crude oil owned by that entity or by others, wherever produced, in its facilities in Bahrain. Other businesses in Bahrain are not subject to tax.

The corporate income tax rate is 46% on gross income (after deductions) from:

- Sales of crude oil or other natural hydrocarbons produced from the ground in Bahrain
- Sales of finished or semi-finished products manufactured in Bahrain from crude oil or other natural hydrocarbons
- Compensation for any refining operations performed in Bahrain, and
- Amounts received due to an interest in crude oil or other natural hydrocarbons produced from the ground in Bahrain or the associated proceeds.

Unutilised losses can generally be carried forward indefinitely. There are no provisions for the carry back of losses.

Group tax consolidation is not available in Bahrain; consequently losses cannot be offset against the profits of another company in the same group.

The tax year is the calendar year. A different accounting period may be authorised by the relevant Minister.

Taxpayer's are required to file an estimated income tax declaration by the 15th day of the third month of the tax year. Twelve equal monthly advance payments of tax are payable on the 15th day of each month from the fourth month of the tax year. The advance payments are based on the amount of tax in the estimated income tax declaration. Taxpayers are generally required to file amended estimated income tax declarations by specified dates unless a final income tax declaration is filed. The advance payments should be adjusted taking into account the advance payments already made and any amended estimated income tax declarations. If the advance payments exceed the eventual tax liability, the excess is credited against advance payments in the following tax year. Any excess that is not utilised by the end of two months after filing the

final income tax declaration is refunded to the taxpayer. If the final tax liability exceeds the advance payments, the excess is payable by the same deadline as for filing the final income tax declaration. Legislation does not provide a filing date for the final income tax declaration. Extended filing dates for income tax declarations and tax payments may be granted by the relevant Minister if the Minister is satisfied that an extension is necessary.

5.2 Personal Taxes

There are no direct taxes on personal income in Bahrain.

5.3 Employment Related Costs and Taxes

5.3.1 Fringe benefits

There is no fringe benefits tax.

5.3.2 Social security costs

Employers and employees are generally required to make social security contributions based on employee monthly salary at the following rates:

Type of Employee	Employer Rate	Employee Rate
Bahraini employees (in respect of old age pension, unemployment, disability and death)	12%	7%
Expatriate employees (in respect of employment related injuries)	3%	1%

5.3.3 Training levy

A training levy is imposed on companies with more than 50 employees if employee training is not provided. The levy is based on the employee's gross monthly salary at the rate of 1% in respect of Bahraini employees and at the rate of 3% in respect of expatriate employees.

5.4 Withholding Taxes on Payments Abroad

There are no withholding taxes on payments made abroad by companies.

5.5 Value Added Tax (VAT)

There is currently no VAT or sales tax in Bahrain.

5.6 Other Taxes

5.6.1 Stamp duty

Stamp duty is generally levied on real estate transfers/registrations at the following rates:

Real Estate Value	Rate
Up to BHD70,000	1.5%
BHD70,001 – BHD120,000	2%
Over BHD120,000	3%

5.6.2 Property rental tax

Municipalities generally levy a tax on property rentals to expatriates at the rate of 10%.

5.6.3 Excise duties

There are no excise duties in Bahrain.

5.7 Tax Incentives for Businesses

5.7.1 Bahrain International Investment Park

Qualifying companies engaged in manufacturing and international services operations established in the Bahrain International Investment Park (BIIP) benefit from incentives, including:

- 0% corporate income tax for 10 years
- No minimum capital requirements
- 100% foreign ownership
- Duty free imports of raw materials and equipment
- Duty free access to GCC countries
- 100% repatriation of capital, and
- Renewable 50 year leases.

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