

Doing Business in Bahrain

A tax and legal guide



Table of Contents

Welcome to this guide	4
Country Introduction	4
Overview	4
Legal and regulatory framework	4
Establishment of business	4
Introduction	4
With Limited Liability (W.L.L.)	5
Partnership company	5
Bahrain shareholding company (B.S.C.) – public	5
Bahrain shareholding company (B.S.C.) – closed	5
Simple commandite	5
Single person company (SPC)	5
Branch of a foreign company	6
Holding company	6
Business License Integrated System (BLIS)	6
Free trade zones	6
Key considerations	6
Taxation	7
Corporate income tax (CIT)	7
Withholding taxes (WHT)	7
Transfer pricing	7
Value added tax (VAT)	7
Capital gains tax (CGT)	7
Municipality tax	7
Stamp duty	7
Personal income tax	7
Payroll taxes	7
Customs duty	7
Key considerations	7
Additional legal considerations	8
Immigration	8
Employment	8
Real Estate	8
Dispute resolution	8
Anti-bribery and corruption	8
Bahrain key tax indicators	9
PwC services	10
Contacts	12

Welcome to this guide

As a place to do business, Bahrain continues to be relevant and attractive to investors from around the world. Bahrain maintains its position in the GCC due to its liberal business environment, easy access to the rest of the Middle East and supportive visa policies.

The recently issued amendment to the Commercial Companies Law ("New Law") introduced further business friendly reform to Bahrain's corporate environment. The New Law reforms are in line with economic diversification plans and Bahrain's Economic Vision for 2030. The reforms include quicker procedures for company registration, formal recognition of Foreign Direct Investment and strengthening corporate governance.

Foreign direct investment flows into Bahrain continued to grow in 2015 despite concerns in oil prices and rising debt levels. We believe this is partly due to reforms in the process of doing business in Bahrain.

This guide is intended to provide an introduction to the taxation and legal aspects of doing business in Bahrain, particularly from the perspective of matters an inbound investor will have in mind.

Dean Kern

Middle East - Tax and Legal Services Leader
November 2015

Country introduction

Overview

- Bahrain's position at the centre of the Gulf allows easy access to every market in the Middle East.
- Bahrain's economy has grown in the past number of years. Though oil revenues continue to provide the largest portion of GDP, the country is diversifying its economy, seeking to be a key regional and global hub for business, trade and finance. Furthermore, the government is targeting private investment to improve its infrastructure.
- In comparison to other GCC member states, Bahrain maintains the lowest basic costs, such as rent for offices and industrial land.
- Bahrain maintains a diverse and multicultural population, with approximately 50% expatriates. It also has supportive visa policies, considered as one of the most flexible in the region.
- According to experience, access to local authorities in Bahrain can be easier than in neighboring countries.
- Arabic is the national language, with English widely spoken and used in business.

Legal and regulatory framework

The legal system in Bahrain derives from a combination of Islamic Shari'ah Law, Egyptian civil, criminal and commercial law and English common law. The Bahrain civil code regulates civil transactions, particularly when dealing with business negligence lawsuits and practices.

The primary source of the law is the legislation, and in cases where the legislation is silent, customary law takes precedence. In the absence of a provision in the customary law, the court will apply the principles of the Shari'ah law. However, conditions and circumstances may vary depending on the type of legal case. Finally, in the absence of such principles, the judge will apply natural justice and rules of equity.

The judicial structure in Bahrain branches into two key streams of Ordinary courts - Civil and Islamic Courts. The Civil Courts in Bahrain are divided into four tiers: Lower Courts, the Higher Civil Courts, then the Higher Appellate Civil Court and, finally, the Court of Cassation as the supreme Civil Court in Bahrain.

Bahrain also launched a new arbitration centre, the Bahrain Chamber for Dispute Resolution (BCDR). The BCDR provides arbitration and mediation services that result in a final resolution of commercial disputes. Disputes, in order to be heard by the BCDR, need to meet certain criteria.

The Islamic Courts are divided into three tiers: the Lower Islamic Court, the Higher Islamic Court and the Appellate Islamic Court which is the Supreme Islamic Court in Bahrain. In addition, each Islamic court is distinguished under two main categories: Sunni and Jaffari. These courts regulate disputes between Muslims, with the exception of matters relating to estates, which fall under the jurisdiction of Civil Courts.

Bahrain does not have a specialised administrative court system. The Supreme Council of the Judiciary is the highest judicial authority, which is responsible for ensuring the proper administration of the courts and their supporting streams. Furthermore, the Court of Cassation is portrayed as the highest court in Bahrain; its function is to ensure order and legal justice is applied by the lower courts.

Establishment of a business

Introduction

There are essentially eight options available to foreign investors who are looking to undertake business/commercial activities in Bahrain:

- With limited liability company
- Partnership company
- Bahrain shareholding company (B.S.C.) – public
- Bahrain shareholding company (B.S.C.) – closed
- Simple commandite company
- Single person company
- Branch of a foreign company
- Holding company

The time required for incorporating a company or establishing a branch varies depending on the type of entity selected. We estimate the time required for incorporation of a company or establishment of a branch generally to range between two and four weeks after receipt of all fully attested required documentation.

With Limited Liability (W.L.L.)

A with limited liability company consists of two or more shareholders who share the burden of the company's debts to the extent of their share of capital. However, the number of shareholders in a limited liability company cannot exceed 50, and transfer of shares is restricted.

Key features:

- Local operations are allowed
- Local office presence is required
- The minimum share capital required is US\$53,000 (BHD20,000)
- The minimum number of directors required is two
- An external auditor is required
- 100% foreign ownership is allowed (depending on activities)

Partnership company

A partnership company is a company without limited liability. A general partnership is an association of two or more parties trading together under a specific collective trade name for commercial purposes. The partners assume joint liability to the extent of their entire property for the partnership's debts.

There are no provisions in the law concerning the minimum or maximum capital required of a partnership or the maximum number of partners allowed. However, the partnership should have a minimum of two partners. Other types of partnerships include Limited Partnerships and Partnership Limited by Shares.

Key features:

- Unlimited liability
- Banking, insurance and investment arrangement activities are not allowed
- Business operations are allowed in Bahrain
- Local office presence is required
- No minimum share capital
- The minimum number of partners required is two
- The minimum number of directors required is two
- 100% foreign ownership is allowed

Bahrain shareholding company (B.S.C.) – public

A Public Shareholding Company consists of a number of promoters (not less than two) who subscribe by way of negotiable shares. Shareholders are liable for the company's debts and obligations to the extent of the value of their shares. GCC nationals and foreign investors are permitted to own company shares. Moreover, US nationals are treated similarly to GCC citizens.

Key features:

- Limited liability
- Commercial, banking, insurance and investment activities are allowed
- Local office presence is required
- Minimum share capital required is US\$2,652,520 (BHD 1,000,000)
- Minimum number of founding shareholders is seven
- Minimum number of directors is five
- Annual submission of audited financial statements to MOIC is required

Bahrain shareholding company (B.S.C.) – closed

A Closed Shareholding Company consists of a number of persons (not less than two) who subscribe by way of negotiable shares which are not offered to the public for subscription. GCC nationals and foreign investors are permitted to own company shares. Moreover, US nationals are treated similar to GCC citizens.

Key features:

- Limited liability
- Banking, insurance and investment activities are allowed
- Local operations are allowed
- Local office presence is required
- Minimum share capital required is US\$663,130 (BHD 250,000).
- A minimum of 50% of the capital must be paid initially at the time of incorporation; the remaining to be paid within three years.
- The nominal value of each share shall not be less than US\$0.265 (BHD0.100) and shall not exceed US\$265 (BHD 100)
- The minimum number of shareholders required is two
- The minimum number of directors required is three
- Annual submission of audited financial statements to MOIC is required

Simple commandite

A Simple Commandite company is a limited partnership company established by one or more partners who are jointly liable to the extent of their entire personal wealth for the company's obligations and other partners who have invested in the company but are not involved in its management, i.e. "limited partners". Limited partners are held responsible for the company's obligations only to the extent of the capital contributed by them.

Key features:

- Limited liability - there are two types of partners: limited partners and partners with unlimited liability
- Local office presence is required
- Banking, insurance and investment arrangements are prohibited
- Business operations are permissible in Bahrain
- There are no minimum capital requirements
- Foreign ownership is limited to 49%

Single person company (SPC)

An SPC is a limited liability company that is fully owned by a single natural person. The shareholder's liability is limited to the extent of their capital in the company.

Key features:

- 100% foreign ownership is permissible (eligibility is limited to the type of business activity)
- Banking, insurance and investment activities are permissible
- Business operations are permissible
- Local office presence is permissible
- Minimum shareholder capital of US\$132,625 (BHD50,000)
- The minimum number shareholders, promoters and directors is one
- Annual submission of audited financial statements to MOIC is required

Branch of a foreign company

A branch of a foreign company which is incorporated and registered outside Bahrain may be registered as an operational office, representative office or a regional office. A Bahraini in the same industry must act as a sponsor, unless the branch or office is being set up in Bahrain as a regional goods or services distribution centre.

Key features:

The parent company shall bear all liability of its branch in Bahrain.

- Business operations are allowed only for an operational office
- Representative and regional offices are only permitted to undertake marketing and promotion
- Banking, insurance and investment arrangement activities are allowed (operational office only)
- Local office presence is required
- No minimum share capital is required
- A branch manager is required
- A local sponsor is required for an operational office, with the exception of branches licensed by Central Bank of Bahrain (CBB) and the Committee for Organising Engineering Professional Practice (COEPP)

Holding company

The purpose of a holding company is to own shares in a foreign or Bahraini joint stock company or limited liability company. A holding company can take the form of a Closed or Public shareholding company, Limited Liability Company or a Single Person Company. The commercial company registration requirements of a holding company depend on its legal form.

Business License Integrated System (BLIS)

The Ministry of Industry and Commerce (MOIC) recently introduced the “Business License Integrated System”, known as the BLIS internet portal. This is an online system which provides all information related to rules, instructions and procedures that should be followed to obtain commercial registrations (CRs) in Bahrain.

Free trade zones

Bahrain International Investment Park (BIIP)

BIIP is a wharf that facilitates foreign businesses looking to invest in manufacturing and industrial operations in the Middle East. As a facility for direct foreign investment, BIIP offers a tax free site with stamp duty exemptions to the GCC and other Arab markets. Although BIIP is not a Free Zone, products manufactured in Bahrain and sold into GCC are free of import duties (i.e. provides a 5% margin).

Key features:

- 100% foreign ownership
- 0% corporate tax (10 year guarantee inclusive)
- Exemptions from import duties on raw materials and equipment
- No minimum capital requirements

Bahrain Logistics Zone (BLZ)

The BLZ is a platform for third party logistics services that specialise in storage and distribution activities, seeking either to export or re-export their products. Qualifying logistics services include product assembly, packaging, testing and repairing.

BLZ is the region’s first logistics area and occupies 100 hectares of real estate. The BLZ offers local, regional and international companies a base to operate in the GCC and take advantage of Bahrain’s strategic access to the Northern Gulf and GCC markets. While logistics firms are favoured, other retailers and distributors are also welcomed.

Businesses are evaluated against selection criteria, which comprise three core elements: economic, industrial and financial proficiencies. Economically, companies are evaluated on their ability to support and leverage Bahrain’s regional logistics hub, attracting employment vacancies, endorsing direct foreign investments and generating innovative business concepts/solutions to the region. Industrially, companies are to demonstrate an import and export oriented environment, enhance industrial focused activities in the wharf and to comply with the health and safety standards. Finally, it is mandatory for all businesses to maintain exceptional standards that depict professional experience, positive cash flow and legal compliance.

Key considerations



A range of legal vehicles are available to do business in Bahrain, and the type of vehicle will be determined by the nature and size of the business, as well as the requirements of the investors.

The most common vehicle in Bahrain is the With Limited Liability Company (“WLL”). Under the current Bahrain Commercial Companies Law, a WLL can have between two to fifty shareholders and management of the WLL is given to either a manager or an appointed board of directors consisting of at least two natural persons which can include foreign shareholders or third parties.

In comparison to other GCC member states, the cost of setting up a company in Bahrain is relatively low. The time-frame required for incorporating a company or establishing a branch varies depending on the type of entity to be set up.

Taxation

Corporate income tax (CIT)

There are no taxes in Bahrain on income, sales, transfer, capital gains or estates, unless a company is involved in operations within the oil and gas sector, in which case it will be subject to a tax rate of 46% on its net profits for each accounting period.

Profits from branch income are taxable in Bahrain, at the rate of 46% if they are derived from activities in the oil and gas sector. Profits from branches derived from other activities are not subject to corporate income tax.

The introduction of a Corporate Income Tax is presently being considered by the Bahraini Government. However, no official communication has been made by the Bahraini authorities as to when such tax might be implemented.

Withholding taxes (WHT)

Currently, there is no WHT in Bahrain. As such, any payments of interest, royalties or dividends are not subject to WHT in Bahrain. Again this could change if a Corporate Income Tax regime is introduced as per the above.

Transfer pricing

There is currently no transfer pricing regime in the Bahrain. If CIT is implemented, we expect Bahrain to implement transfer pricing rules.

Value added tax (VAT)

There is currently no VAT system in Bahrain. However, the GCC States, including Bahrain, have been studying the potential implementation of a VAT system for some time.

Capital gains tax (CGT)

There is no capital gains tax regime currently in place in Bahrain. Direct or indirect transfer of shares or assets should not attract any Capital Gains Tax.

The potential implementation of a Corporate Income Tax regime could result in Capital Gains Tax.

Municipality tax

Municipality tax at 10% levied on the rental of commercial and residential property to expatriates and is payable by the owner of the property.

Stamp duty

Stamp duty in Bahrain applies to the transfer and/or registration of real estate only, and is levied on 2% on all property sales, regardless of the purchase price. There is a 15% discount for the registration fee for applications submitted within 60 days of execution of the sale agreement.

Personal income tax

There is currently no personal income tax in Bahrain on earnings from employment. However, social insurance applies in Bahrain as described below.

Payroll taxes

Social Insurance applies to every person who is employed in Bahrain. The employer contribution is calculated at the following rates (on the employees' monthly salaries):

- 12% for Bahraini workers.
- 3% for non-Bahraini workers.

Employees are also required to contribute for Social Insurance at the following rates (calculated on monthly salaries):

- 7% for Bahraini workers.
- 1% for non-Bahraini workers.

* The above rates apply up to an income ceiling of BHD 4,000 per month. No contributions are payable for income above this ceiling.

Customs duty

The general rate of customs duty is 5% of the value in cost, insurance, and freight (CIF) except for alcoholic beverages (125%) and cigarettes (100%).



Key considerations

There are no taxes in Bahrain on income, sales, transfer, capital gains or estates, unless a company is involved in operations within the oil and gas sector. Moreover, there is currently no VAT system in Bahrain. However, the GCC States, including Bahrain, have been studying the potential implementation of a VAT system for some time now.

Social insurance applies to every person in Bahrain, where both the employer and employee are required to contribute.

Additional legal considerations

Immigration

A visa is required for all expatriates, with the exception of GCC nationals, to live in Bahrain. A visa may be sponsored or non-sponsored.

Sponsorship requirements include obtaining a residence visa or work permit. A residence permit is required for foreign investors or workers living in Bahrain.

Nationals of many countries who wish to enter Bahrain on a tourist or business visa can obtain such a visa via an online access-point, also known as an e-visa. E-visas limit a stay in Bahrain to two-weeks. A visa on arrival may be obtained without prearrangements or a local sponsor.

Other nationals are required to obtain entry visas from the embassies of Bahrain in their respective country of residence, or visas issued by the General Directorate of Nationality, Passport and Residence.

Employment

In general, hiring a non-national or foreign expatriate is not complicated or difficult, provided the requisite approvals have been obtained from the Labour Market Regulatory Authority (LMRA).

Bahrainisation policies apply to a local entity if it hires ten or more expatriates. Under these policies, work permits for expatriate employees may be subject to certain restrictions as set by the LMRA in Bahrain.

Real Estate

Bahrain recently implemented a new real estate development law to balance the interests of both developers and buyers. The law emphasises the regulation and structuring of real estate development projects in Bahrain to establish efficiency, compliance and a positive cash flow for investors.

GCC nationals and wholly-owned GCC entities are entitled to own land in Bahrain on a freehold basis and have broadly equivalent rights to those of Bahraini nationals.

Generally, non-Bahrainis, whether a person or legal entity, can own real estate and land on a freehold basis in areas designated for foreign ownership.

With regard to vacant lands, foreign ownership is permissible (mostly residential development) depending on the purpose of the use of such lands.

Dispute resolution

Bahrain launched an arbitration centre in January 2010, the Bahrain Chamber for Dispute Resolution (BCDR).

The BCDR provides arbitration and mediation services that result in a final resolution of commercial disputes.

Disputes are heard by the BCDR under the following circumstances:

- **Statutory arbitration:** automatic jurisdiction over any claim exceeding US\$1.32 million (BHD500,000) which involves either a non-Bahraini party in a commercial dispute or a party licensed by the Central Bank of Bahrain.
- **Consensual arbitration:** the BCDR will also have jurisdiction if the parties have agreed in writing to refer any dispute for resolution under the BCDR rules.

Anti-bribery and corruption

Among other GCC member states, Bahrain has signed and ratified the United Nations Convention against corruption.

Article 186 of the Bahraini Penal Code defines bribery as “when a civil servant or officer entrusted with public service asks for or accepts a gift, privilege or promise to be given in consideration of doing an act or omitting to do an act involved in the duties of his office”. It can be money, objects of value, advantages or merely a promise.



Bahrain key tax indicators

Tax indicators	Resident	Non-resident *
Fiscal year end	Calendar year	Calendar year
Companies		
Income tax	Generally no corporate tax, except a %46 tax on net profits of companies in oil and gas, fossil fuel extraction, hydrocarbons industry.	Not Applicable
Tax on capital gains	Not Applicable	Not Applicable
General sales tax	Not Applicable	Not Applicable
Value added tax	Not applicable. However, a VAT system is under review at the GCC level.	Not applicable. However, a VAT system is under review at the GCC level.
Individuals		
Individual marginal tax rate (max)	Not Applicable	Not Applicable
Basis of taxation	Not Applicable	Not Applicable
Withholding tax		
Dividends	Not Applicable	Not Applicable
Interest	Not Applicable	Not Applicable
Royalties	Not Applicable	Not Applicable
Management service fees	Not Applicable	Not Applicable
Customs	Standard rate is 5%. Other rates (0%, 20%, 100%, 125%) apply depending on the nature of the goods.	
Exchange controls	Not Applicable	Not Applicable
Thin capitalisation	Not Applicable	Not Applicable
Transfer pricing	Not Applicable	Not Applicable
Double tax treaties	Algeria, Austria, Barbados, Belarus, Belgium, Bermuda, Brunei, Bulgaria, China, Cyprus, Czech Republic, Egypt, Estonia, France, Georgia, Iran, Ireland, Isle of Man, Jordan, Republic of Korea, Lebanon, Luxembourg, Malaysia, Malta, Mexico, Morocco, the Netherlands, Pakistan, Philippines, Seychelles, Singapore, Sri Lanka, Sudan, Syria, Thailand, Turkey, Turkmenistan, the United Kingdom, USA, Uzbekistan and Yemen	
Treaties awaiting conclusion or ratification	Tajikistan, Hungary	

* Not resident in Bahrain and no permanent establishment in Bahrain.

About PwC Middle East

Our services

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax and advisory services.

Established in the Middle East for 40 years, PwC has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with over 3,000 people. We provide a comprehensive set of services covering:

- Assurance and Audit
- Consulting
- Deals
- Tax and Legal

Tax and Legal

The Middle East Tax & Legal practice offers expertise in jurisdictions across the region with over 500 professional staff. We can provide assistance with the following areas:

- Indirect taxation (VAT and customs) and fiscal reform
- International taxation
- Global mobility and Human Resource Services
- Legal
- Mergers and Acquisitions
- Services for U.S. citizens and Green Card holders
- Tax and Zakat advisory
- Tax compliance, management and accounting services
- Transfer pricing

Contacts

Ken Healy, Bahrain

Partner

+973 1 711 8886

ken.a.healy@bh.pwc.com

Dean Kern, Dubai

Middle East Tax and Legal Leader

+ 971 4 304 3575

dean.kern@ae.pwc.com

Jochem Rossel, Dubai

Middle East International Tax Services Leader

+ 971 4 304 3445

jochem.rossel@ae.pwc.com

Jonathan Gibson, Dubai

Middle East PwC Legal Leader

+971 4 304 3424

jonathan.s.gibson@pwclegal.co.ae

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2016 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

CDC 993/022016