

**Chandrawat
& Partners**

Doing business in Bahrain

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Introduction



Bahrain is a small and prosperous island nation located in the Persian Gulf, known for its strategic location and liberal economic policies. Its diversified economy, pro-business environment, and favorable taxation system make it an attractive destination for foreign investment and a hub for doing business in the Middle East.

The strategic location of Bahrain, at the crossroads of major trade routes, has historically made it a center of economic activity. Today, it continues to leverage its position, serving as a gateway between the East and the West. Its well-developed transportation and logistics infrastructure, including a modern port and well-connected international airport, facilitate the movement of goods and people.

Bahrain's legal system is based on Islamic law, but it also incorporates elements of British common law. The country has a modern and transparent legal framework, which provides a stable and predictable environment for businesses to operate in.

Foreign companies looking to set up operations in Bahrain are required to register with the Ministry of Industry, Commerce, and Tourism, and obtain the necessary licenses and permits. Bahrain also has several free economic zones, which offer a range of incentives and benefits to foreign investors, including tax exemptions and streamlined procedures.

Bahrain's commitment to innovation and technology has led to the growth of sectors such as fintech and ICT. The Bahrain Fintech Bay, a leading fintech hub in the region, showcases the government's dedication to nurturing innovation and entrepreneurship. This approach aligns with Bahrain's Economic Vision 2030, which focuses on sustainable economic growth, competitiveness, and human development.

Economic Overview

The economy of Bahrain is heavily dependent upon oil and gas. The Bahraini Dinar is the second highest-valued currency unit in the world. Since the late 20th century, Bahrain has heavily invested in the banking and tourism sectors.

The national accounts data shows that annual GDP growth more than halved to 2.0% in the first quarter of 2023 (Q4 2022: +4.1% yoy). As expected, the non-oil sector remained the engine of growth, expanding 3.5% year on year. Transport and communications, real estate, and financial corporations were the key contributors to growth. Moreover, softer price pressures supported household budgets and thus consumption.

The oil sector—which accounts for roughly 15% of GDP—posted a nearly 6% year-on-year decline in Q1. This was largely due to lower production amid maintenance work. In Q2, available data allows for tempered optimism amid an improved oil sector performance; in April–May, oil production expanded 4% yoy—largely on a base effect—while natural gas production posted a shallow contraction.

Inflation came in at 0.7% in April (March: -0.1%)—the latest month for which data is available—on stronger price increases for food and transport. Conversely, housing and utilities prices fell at a steeper pace. On 26 July, the CBB mirrored the Fed and delivered a 25-basis point hike, bringing the key policy rate to 6.25%. Inflation will more than halve from 2022 this year.



Foreign Direct Invest (“FDI”) Policy

Bahrain has a relatively open foreign direct investment (“FDI”) policy and has been actively promoting itself as a hub for business and investment in the Gulf region. The government of Bahrain has implemented a range of measures to attract foreign investment, including the following:

100% foreign ownership: Foreign investors are allowed to own 100% of a business in Bahrain, without the need for a local partner.

Liberalized trade regime: Bahrain has a liberalized trade regime, which means that there are minimal barriers to entry for foreign companies seeking to operate in the country.

Tax incentives: The Bahraini government offers a range of tax incentives and exemptions for foreign investors, including exemptions from corporate income tax and customs duties.

Investment promotion agency: The Bahrain Economic Development Board (“EDB”) is responsible for promoting investment in Bahrain and offers a range of services to foreign investors, including assistance with company registration, permits, and licenses.

Free zones: Bahrain has several free zones, including the Bahrain International Airport Free Zone and the Bahrain Investment Wharf, which offer tax exemptions and other incentives to businesses operating within their boundaries.

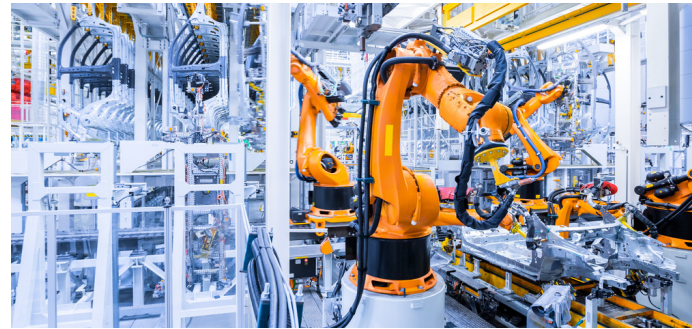


Key sectors

Financial services: Bahrain is known as the financial hub of the Gulf region, and it has a well-established banking and financial sector. The country is home to the Central Bank of Bahrain, the Bahrain Bourse, and many international banks, insurance companies, and investment firms.



Manufacturing: Bahrain has a strong manufacturing sector, particularly in industries such as aluminum production, petrochemicals, and food processing. The country has a well-developed infrastructure, including a modern seaport and airport, which makes it an ideal location for manufacturing companies.



Information and Communication Technology (“ICT”): The Information and Communication Technology (“ICT”) sector is a growing industry in Bahrain, with a focus on software development, telecommunications, and e-commerce. The government has taken initiatives to promote the ICT sector and attract foreign investment.



Tourism: Bahrain has a rich cultural heritage and a variety of tourist attractions, such as historical sites, museums, and beaches. The government is investing in the development of the tourism sector to attract more visitors and increase the contribution of tourism to the economy.



Education: Bahrain has a well-established education system, with a focus on higher education and vocational training. The government is investing in the development of the education sector to meet the growing demand for skilled workers and to attract foreign students.



Advantages of doing business in Bahrain



Bahrain is a small island nation located in the Persian Gulf, and it offers several advantages for doing business. Here are some of them:

Strategic location: Bahrain is in a strategic location at the heart of the Gulf region, providing easy access to other Gulf Cooperation Council (“GCC”) countries and markets. It has a modern and efficient transport and communication infrastructure, making it an ideal location for businesses looking to expand into the region.

Business-friendly environment: Bahrain has a liberal and open economy, with a solid commitment to economic diversification and development. It offers a favorable business environment, with low taxes, minimal bureaucratic red tape, and a streamlined regulatory framework that makes it easy to do business.

Well-developed financial sector: Bahrain is home to a well-developed financial sector, with many banks, investment firms, and insurance companies. It has a strong regulatory framework and is known for its stable financial system, making it an attractive destination for financial institutions and investors.

Highly skilled workforce: Bahrain has a highly skilled and educated workforce, with a literacy rate of over 92.30%. It also has a strong focus on education and training, with several universities and vocational training centers, ensuring that businesses have access to a competent and qualified labor pool.

Cultural openness: Bahrain is a diverse society, with a long tradition of cultural openness and tolerance. It is a fluxing pot of different cultures, with a large expatriate community, making it easy for businesses to operate in a diverse and multicultural environment.

Types of Business in Bahrain

Limited liability companies

Shareholders have limited liability in Bahraini limited liability companies. Up to 50 members can have a shareholding in this type of entity, and foreigners are also allowed to have ownership in a limited liability company in Bahrain.

Joint-stock companies

Bahraini joint-stock companies can offer shares to the public and have two types of entities – closed joint-stock companies and public joint-stock companies. However, members have limited liability, and foreigners can have shares in this entity type.

Companies limited by shares

This entity involves two categories of partners, the joint partner, and the silent partner. A minimum of four founders are required to form this type of business entity.

Partnership companies

A partnership company thrives on an agreement between two or more people who share the company's profits. A minimum of two partners must form this business entity with unlimited liability.

Single-person companies

As evident from the name, a single-person company is owned by a single individual, while there is no minimum capital requirement to form a single-person company, it requires external audits. Foreigners can operate a single-person company.

Holding companies

A holding company is typically formed as a separate entity for a Bahraini public limited company or a foreign joint-stock company. These entities essentially offer assurance concerning company guarantees to third parties.

Free Zone Company

Free Zone Company is a business entity established in a free economic zone. An area in which companies are taxed lightly and leniently or thoroughly exempted to encourage economic activity. For foreign investors who wish to set up a company in a free trade zone first need to acquire a trade permit by appealing to the Trade Zone Authority before commencing any business activity. Free Zone Company also structures import and export companies despite the requirement of only an office in Bahrain. Free Zone Companies enjoy several benefits such as zero customs duties rebates from the government and lesser taxes.

Branch Office

A branch office stems from a company or an organization. Despite being physically disconnected from the central office, it is not a separate legal entity. In Bahrain, the Commercial Companies Law authorizes the registration of a Bahraini branch by a foreign company. The subsidiary can be 100% foreign owned if their industry of operations is fully authorized and open to the formation of an LLC by foreign shareholders.

To register a branch, the following procedures must be undertaken:

- The audited financial statements.
- A Board Resolution affirming the opening of the branch.
- Issuance of a power of attorney, in favor of the general manager.
- Certificate of Incorporation and a Memorandum of Association.

Note that all the over-mentioned certificates, statements, and letters must be legalized and translated into Arabic.

A branch office holds the best in the fields of engineering and financial services.

Representative Office

In general terms, a Representative Office is a legal office established by an organization or a company to operate in countries where a branch office or subsidiary is not permitted. The Commercial Companies Law grants the establishment of Representative Offices in Bahrain. To register a Representative Office in Bahrain, it is necessary to appoint a local agent or distributor to represent the foreign company within Bahrain.

Minimum eligibility criteria for company registration

Minimum capital requirement: The applicant for company registration in Bahrain must satisfy the minimum capital requirements. For a joint stock company, the minimum capital required is 2,50,000 BD and for a limited liability company, the minimum capital required is BD 20,000.

Minimum shareholders: The minimum number of shareholders for a company registered in Bahrain must be satisfied. A minimum of two shareholders is required for company registration in Bahrain.

Minimum directors: Minimum numbers of directors must be appointed in Bahrain. For Bahraini Joint Stock companies, a minimum of three directors are required. However, for a limited liability company, a minimum of one director is required. For a Single Person company, only the individual would be the sole director of the company. A foreign branch office would require appointing at least one director.

Evaluation certificate: For the capital requirements of the company, an evaluation certificate has to be provided. This certificate must be provided by a competent auditor or an external evaluator.

Capital deposit certificate: The Company must provide a certificate relating to the capital deposited. This certificate is known as the capital deposit certificate. Such a certificate would state that the minimum capital requirements of the company have been carried out.

Commercial name registration: The name of the company must be reserved and chosen for the process of company registration in Bahrain. The name of the company must be unique and must not violate any rules related to religion or government bodies. The name chosen for the company must not violate any rules related to carrying out business.

How to set up a business?

Business idea: Determine the business idea and ensure it aligns with local market needs.

Legal structure: Choose a suitable legal structure for the business, such as a sole proprietorship, partnership, or company.

Business name: Register the business name with the Ministry of Industry, Commerce, and Tourism (“MOICT”) in Bahrain.

Commercial registration: Apply for commercial registration with MOICT. This establishes the legal presence as a business entity in Bahrain.

Location: Secure a physical location for the business operations and obtain any necessary permits or approvals.

Capital requirements: Meet the minimum capital requirements based on the chosen legal structure and business activity.

Visa and residency: If one is a foreign national, apply for the appropriate business visa and residency permits.

Company registration: Register the business with the Commercial Registration Directorate at MOICT.

Trade license: Obtain the required trade license for the specific business activity. This is obtained from the MOICT as well.

Tax registration: Register for the Value Added Tax (“VAT”) if the business activities require it.

Labor Market Regulatory Authority (“LMRA”): Register the business with LMRA to obtain work permits for the employees.

Bank account: Open a local business bank account in Bahrain.

Social Insurance: Register with the General Organization for Social Insurance (“GOSI”) for social insurance purposes.

Customs procedures: If the business involves importing/exporting goods, familiarize with customs procedures and obtain the necessary approvals.

Environmental approvals: Depending on the business type, one might need environmental approvals from relevant authorities.

Health and safety regulations: Ensure the business premises meet health and safety regulations.

Intellectual property: Consider trademark registration for the brand if needed.

Employment contracts: Prepare employment contracts and ensure compliance with Bahraini labor laws.

Market research: Conduct thorough market research to understand the target audience and competitors.

Marketing and launch: Develop a marketing strategy and launch the business.



Taxation



The Kingdom of Bahrain currently has a limited corporate tax (46%) that only applies to companies engaged in the exploration, production, or refining of hydrocarbons. For all other entities operating in the Kingdom, the corporate tax rate is zero percent (0%). The Kingdom also does not impose a personal income tax. In line with this, all profits, dividends, and other income are 'tax-free'.

Value Added Tax ("VAT")

The Kingdom has one of the lowest rates of VAT at 5% with an extensive list of exemptions and zero ratings. The Kingdom also has no 'exchange control' regulations with no restrictions on the repatriation of capital, profits, dividends, interest, and royalties.

Personal Income Tax

In Bahrain, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labor, pensions, interest, and dividends. The benchmark we use refers to the Top Marginal Tax Rate for individuals. Revenues from the Personal Income Tax Rate are an important source of income for the government of Bahrain.

Corporate Income Tax

There are no taxes in Bahrain on income, sales, capital gains, or estates, with the exception, in limited circumstances, of businesses (local and foreign) that operate in the oil and gas sector or derive profits from the extraction or refinement of fossil fuels (defined as hydrocarbons) in Bahrain. For such companies, a tax rate of 46% is levied on net profits for each tax accounting period, irrespective of the residence of the taxpayer.

Accounting standards

Tax year

From January 1 to December 31, unless otherwise specified in the company's articles of incorporation.

Accounting standards

There is no local GAAP in Bahrain. All companies must prepare their financial statements according to international accounting standards ("IFRS"). Small and medium enterprises can use the IFRS for SMEs standard (a simplified version of the normal IFRS standards).

Accounting reports

The Bahrain Commercial Companies Law requires each registered entity to produce a balance sheet, a profit-and-loss account, and the director's report for each financial year.

Publication requirements

Article 286 of the Bahrain Commercial Companies Law of 2001 requires all companies incorporated in Bahrain to maintain proper books of accounts and prepare - for each financial year and within at least three months from the end thereof - the company's balance sheet, profit, and loss account, and a report on the company's activities and financial position, together with their recommendations as regards profit distribution.

Professional accountancy bodies

Bahrain Accountant Association ("BAA")

Bahrain Chapter of the Institute of Chartered Accountants of India ("BCICAI")

Certification and auditing

All public and private joint-stock companies, limited liability companies, and "exempt companies" must be audited annually. Auditors appointed at the annual meeting of shareholders must be registered with the Ministry of Commerce.

Employment and labor laws



Employment contracts: Employment contracts must be in writing and signed by both parties. They should contain the basic terms and conditions of employment, including the job title, salary, working hours etc.

Working hours: The maximum working hours per week are 48 hours, with a maximum of 9 hours per day. Overtime must be paid for any work done beyond these hours.

Annual leave: Employees are entitled to a minimum of 30 days of paid annual leave after one year of continuous service.

Sick leave: Employees are entitled to a maximum of 15 days of paid sick leave per year. If an employee is unable to work due to illness for more than 15 days, the employer may terminate the contract.

Maternity leave: Female employees are entitled to 60 days of fully paid maternity leave.

Termination: Employers must provide employees with a notice period or payment instead of notice if they wish to terminate their employment. The notice period varies depending on the length of service, with a minimum of one week for employees who have worked for less than one year.

End-of-service gratuity: Employees who have worked for more than one year are entitled to an end-of-service gratuity payment, which is calculated based on their basic salary and length of service.

Discrimination: Discrimination based on race, gender, religion, or national origin is prohibited by law.

Employment Policies



Recruitment agencies:

Companies may use recruitment agencies to find suitable candidates for their open positions. These agencies will help with the entire recruitment process, including advertising the job, screening resumes, conducting interviews, and shortlisting candidates for the company.

Online job portals:

Many companies in Bahrain advertise their open positions on online job portals. Job seekers can create profiles and apply for positions that match their qualifications and experience.

Direct application:

Some companies allow candidates to apply for positions directly through their website or by sending their resumes and cover letters via email.

Employee referrals:

Companies in Bahrain may also rely on employee referrals to fill open positions. Employees may refer their friends or family members for job openings, and the company will consider their applications alongside others.

Once a candidate has been selected for a position, they will typically be required to provide the necessary documentation and undergo a background check before being officially hired.

How we can help?

For individuals willing to set up business locally and companies that have ambitions beyond their local market, our firm offers a diverse range of market entry consulting services, Counseling Services, and Required processes for establishing the business in another country including a wide range from implementing impactful market entry strategies to setting up a complete business, and industrial operations.

1. Market research and analysis: Our firm conducts thorough research to evaluate the target market's potential, including market size, competition, consumer behavior, and regulatory framework. This information helps businesses make informed decisions about market entry strategies.

2. Business entity setup: Our firm guides businesses through the process of selecting the appropriate legal structure for the new entity, such as a subsidiary, branch office, joint venture, or representative office.

3. Tax and financial planning: Our firm helps businesses in understanding the local tax system and devise tax-efficient structures. Our firms assist with financial planning, including budgeting, forecasting, and ensuring compliance with accounting standards and reporting requirements.

4. Ongoing support: Our firms often offer ongoing support even after the business is set up. This includes assistance with ongoing compliance, regulatory changes, expansion strategies, and general business advisory services.

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