

Doing Business in Bahrain

2010



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 75 countries throughout the world. Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Bahrain has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at February 2010.

We look forward to helping you do business in Bahrain.

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2. Business environment

Political stability

Bahrain – an archipelago covering 741 sq km in the Persian Gulf, east of Saudi Arabia – has a population of 728,000 Bahrainis plus 235,000 non-nationals (2009 figures).

Chief of state, since 1999, is King Hamad bin Isa Al-Khalifa. He rules the Kingdom as a constitutional monarchy. The monarchy is hereditary and the cabinet is appointed by the monarch.

In 1783, the al-Khalifa family captured Bahrain from the Persians. To secure its governance, it entered into treaties with the UK during the 19th century that made Bahrain a British protectorate. Bahrain gained its independence in 1971.

Bahrain's compact geographical area yet central location among Gulf countries requires it to play a delicate balancing act in foreign affairs among its larger neighbours.

The King has driven economic and political reforms to improve relations with Bahrain's Shia community (Sunnis and Shias comprise 81% of the population). As a result, Shia political societies participated in the last parliamentary and municipal elections in 2006 and Al Wifaq, the largest Shia political society, won the largest number of seats in the parliamentary elected chamber. Sixty-two per cent of the Bahraini electorate voted for Al Wifaq; and, as a result, the society holds 42.5% of seats in the chamber, making it the strongest political party in Bahrain in terms of the numbers of its supporters and representatives in the chamber.

The next elections are due in 2010.

Economic progress

Facing declining oil reserves (some analysts claim oil supplies will run dry in 2010), Bahrain has increasingly turned to petroleum processing and refining, and also diversified into other sectors – most notably, the Kingdom has transformed itself into an international banking centre.

Petroleum production and refining account for more than 60% of Bahrain's export receipts, more than 70% of government revenues, and 11% of GDP (exclusive of allied industries). And Bahrain's strategic location in the Gulf is also an important asset – much of the Western world's petroleum needs to transit its territory to reach open ocean.

As a result, the petroleum industry has underpinned Bahrain's strong economic growth in recent years: 6.7% GDP growth in 2006; 8.4% in 2007; and 6.3% in 2008. GDP per capita is USD 37,400 (2008 figure).

Aluminum is Bahrain's second major export after oil. Another major sector of the economy is the construction industry. The Kingdom's main export partners are Saudi Arabia, India and the United Arab Emirates; its main import partners are Saudi Arabia, Japan, the US and China.

But the development of a strong financial services sector has been the mainstay of Bahrain's diversification programme, focusing on Islamic banking. The world's largest gathering of [Islamic finance](#) leaders converged on Bahrain in 2009 for the 16th Annual World Islamic Banking Conference. The event highlighted the Kingdom's position as a leading global hub for the international [Islamic banking](#) and finance industry. (More detail below.)

Bahrain's continued economic progress has to contend with natural phenomena in a desert region, as well as the side-effects of industrial development – degradation of limited arable land, periods of drought and dust storms; coastal degradation (damage to coastlines, coral reefs, and sea vegetation) resulting from oil spills and other discharges from oil tankers, refineries and distribution stations; and lack of freshwater resources (groundwater and seawater are the only sources for all water needs).

Yet, with a skyscraper skyline, Bahrain is a hugely developed nation – its planned 40 km [Qatar Bahrain Causeway](#), scheduled for completion by 2013, linking Bahrain and Qatar, will confirm Bahrain as a business gateway to the Gulf and a market of more than 100 million people. Construction is due to cost about USD 2.3 billion. The link – comprising bridges combined with roads constructed on causeways – will extend the King Fahd Causeway that connects Bahrain and Saudi Arabia, so networking the entire region.

The country is already home to many other significant structures, such as the [Bahrain World Trade Center](#) and the [Bahrain Financial Harbour](#). Skyscrapers due to be built include the 1,022m, 200-floor [Murjan Tower](#) in the capital, Manama. [Bahrain International Circuit](#) stages the internationally-broadcast Bahrain Formula One Grand Prix.

With its highly developed communication and transport facilities, Bahrain has attracted numerous multinational firms doing business in the Gulf.

Economic reforms & outlook

The Kingdom has been actively pursuing the diversification and privatisation of its economy to reduce the country's dependence on oil (more details below). As part of this strategy, in August 2006, Bahrain and the US implemented the first Free Trade Agreement between the US and a Gulf state. Others followed (more details below).

Continued strong growth hinges on Bahrain's ability to acquire new natural gas supplies as feedstock to support its expanding petrochemical and aluminum industries. The Kingdom will also have to contend with unemployment, especially among the young, and the depletion of oil and underground water resources which are long-term economic issues.

The global financial crisis of 2008-09 resulted in slower economic growth for Bahrain as tight international credit and a slowing global economy caused funding for many non-oil projects to dry up – but that was a short-term economic issue. So too, it seems, is inflation the level of which fluctuated during the period – latest official figures (for 2008) show inflation at 7%, compared with 3.3% in 2007, but monthly figures in mid-2009 showed inflation at just 2.7%, its lowest in two years.

3. Foreign investment

Although the strength of Bahrain's economy is relatively overshadowed by the economy of its neighbours, Saudi Arabia and the UAE, its diversity and openness continue to present opportunities for exporters and investors.

In particular, the Kingdom has ambitious plans to attract inward investment in sectors chosen for diversification away from its dependency on oil and gas – and, as a result, analysts rate Bahrain's economy as the most diversified economy in the Gulf.

Principal sectors where investment opportunities can be found are (these links lead to the Bahrain Economic Development Board, a government-sponsored development agency):

[Financial services](#)

[Business and professional services](#)

[Logistics](#)

[Education and training](#)

[Events and conferences](#)

[Automotive manufacturing](#)

[Information Communication Technology \(ICT\)](#)

[Real estate](#)

[Tourism](#)

Opportunities in financial services particularly stem from the Kingdom's recognition as a global centre for Islamic finance.

Bahrain has been an innovator in Islamic finance ever since it brought [sukuk](#) to the international market. The Kingdom has continued to lead significant growth in this sector and it now has the largest concentration of Islamic financial institutions in the Middle East, including commercial, investment and leasing banks, insurance companies, and mutual funds.

Bahrain also plays host to several organisations central to the development of Islamic finance, including the Accounting and Auditing Organisation for Islamic Financial Institutions; the General Council for Islamic Banks and Financial Institutions; the International Islamic Financial Market; and the International Islamic Rating Agency.

Analysts rate Bahrain's financial sector as having the longest track record of effective financial services regulations in the Middle East. Regulations are governed by a single regulator, the [Central Bank of Bahrain](#) (CBB). The

CBB is recognised for its regulation, innovation, transparency, non-discriminatory treatment, license management and operational efficiency. A comprehensive regulatory rulebook from CBB is regularly updated and provides reassurance to those investing that they are conducting business in a transparent and well-supervised environment. The positive reputation of the CBB, together with key endorsements from the International Monetary Fund and other external bodies, has contributed to Bahrain's continued attractiveness as a hub for finance in the Gulf.

The CBB has created a licence especially for investment businesses – and particularly encourages investment growth in mutual funds, fund administration, project finance, private banking and asset management.

Financial services now contribute approximately 25% to Bahrain's GDP; which compares with manufacturing and the oil & gas industries each contributing about 15% to GDP.

The ICT market in Bahrain is expected to reach USD 375 billion by 2010, because of high demand for IT products and services from both public and private sectors. The growing need for robust IT solutions is also being driven by massive e-government and e-commerce initiatives, aimed at achieving economic diversification.

Opportunities for foreign investment may also stem from Bahrain's programme of privatisation, which includes communications, transport, electricity and water, the ports and airport services.

Bahrain promotes foreign investment by highlighting that:

- The Kingdom is strategically placed to address the emerging market of Iran, which has more than 60 million consumers.
- The Kingdom allows 100% foreign ownership of some company structures, without the need for a local partner or sponsor.
- It has transparent commercial laws.
- The Kingdom is a 'tax-free economy' (no personal, corporate, withholding tax or VAT).
- It enables duty-free access to nations represented within the Cooperation Council for the Arab States of the Gulf (of which Bahrain is a member).
- The Kingdom has no exchange control restrictions on repatriation of capital, profits and dividends.
- It has a stable currency, the dinar, which is linked to the US dollar.
- The Kingdom provides a fast-track, seven-day company registration system, offered by the Bahrain Investor's Centre (see below).

- The Kingdom has no custom duties on imports of raw materials; semi-finished commodities for further processing; imports for developing projects; machinery for manufacturing; or goods imported for re-export.

Bahrain Investors Centre

[The Bahrain Investors Centre](#) (BIC) has emerged as a model in the region by its success in attracting companies with inward-capital investments – it registered 811 companies in one year alone, using its much-promoted fast-track processes.

An investor with a capital of Bahraini dinar 1 million (BD 1m) qualifies to receive tailored services from a dedicated BIC team. The investors are provided with BIC managerial services, and BIC staff visit government ministries on their behalf to obtain licences.

On average, BIC reports that it takes up to 72 hours to get a licence for a new entity in the Kingdom. Ministry representatives and private consultants, or support offices, are available at the BIC premises. Minimum capital requirements, or guarantees (previously BD 20,000 to BD 1 million) are no longer required.

4. Setting up a Business

Local representation

The Kingdom allows 100% foreign ownership of some company structures, without the need for a local partner or sponsor. So, it is not obligatory to have an agent to sell products in Bahrain. However, analysts say it is undoubtedly easier to establish a new business with the help of carefully chosen Bahraini partners or advisors (such as UHY's firm in the Kingdom, UHY Al Bassam & Partner CPAs & Consultants) who are able to keep in contact with customers, seek new business and provide information on the latest market trends.

Registration

Once the necessary authorisations, licenses or permits are granted, a company needs to be registered in the [Ministry of Industry & Commerce's](#) Commercial Register before it can begin operating in Bahrain – a process that constitutes legal incorporation.

In 2006, Bahrain introduced new regulations governing the start-up of businesses in the Kingdom, making it easier, faster and cheaper to set up a business. The rules did away with many of the pre-approvals previously required, and brought in a flat fee of BD20 for most business registrations.

Legislation

Commercial life in Bahrain is broadly divided into the offshore and onshore sectors. In the offshore sector, which consists of exempt companies (see below) and offshore banking units, the rules regarding foreign participation are quite liberal. In the onshore sector, the rules governing each type of business entity impose certain limitations on foreign participation; all the partners of a general partnership must be Bahraini and foreign participation in other forms is limited to 49% ownership. However, there are certain exceptions to these rules.

The Commercial Companies Law allows for the establishment of 100% foreign-owned companies under the following terms:

- The purpose of the company is to establish an industrial enterprise in the country;
- A majority of the company's capital is to be invested in an industrial development project; or
- The company's objective is to use this establishment as a primary centre for the investment of funds related to the distribution of its goods and/or services. If the wholly foreign-owned company is a

joint stock company, it must be a closed joint stock company (see below).

Companies operating in the following sectors qualify for 100% foreign ownership:

Technology

- IT and telecommunications services.
- Cable and telecommunication services.
- Highly specialised technical services, such as centralised services for computer companies and the preparation and marketing of their programmes.

Tourism

- Tourism projects.
- Specialised international management services in areas such as hotels and restaurants, shopping centres, real estate, etc.

Healthcare

- Medical services.

Education and training

- Education and vocational training services.

Services

- Re-assembly, packaging, and shipping of products produced by the company.
- Using bonded areas for storage of products for re-distribution, and catering to the needs of the regional and local agents of these products.
- Providing support services for products produced by the company.

Commercial project development consultants

- Liaison and monitoring of distribution activities for a parent company's goods or services.

Consultancy services

- International courier services for goods such as currencies, precious metals, documents, parcels, samples, etc.
- Services in the marketing, publication, promotion and advertisement of goods and services
- Specialised international exhibition organisers
- Services in the organisation of international conferences and specialised scientific seminars and shows.

Industry

- Industrial projects.
- Industrial support service centres, such as large workshops providing specialised maintenance, reconditioning and repairing, as well as the fabrication and galvanisation of steel.
- Maintenance of sophisticated industrial instruments.

Other

- Highly specialised scientific laboratories.

Certain exceptions to the partnership rules allow some service sector partnerships, such as accounting, architectural and engineering firms, to engage in partnership relations between Bahrainis and foreigners. In the event that there is only one foreign partner, the Bahraini partners must be entitled to at least 51% of the capital and operational earnings; and, if there are several foreign partners, to at least 30% of the capital and operational earnings.

Most of the principal types of business entities in Bahrain are governed by the Law of Commercial Companies, Decree 28, 1975, as periodically amended. This decree contains the law relating to companies, partnerships and branches. In addition, Ministerial Order 25 of 1977 created a specific entity known as the exempt company (more details below), an offshore company introduced to encourage foreign companies to locate their regional headquarters in Bahrain. To further promote Bahrain's goal of being the regional financial centre, many of the offshore entities are banking units and investment banks.

Terms used in Bahraini legislation are sometimes difficult to quantify precisely without local experience. For example, the term 'company' is often used to mean both company and partnership; and the term 'partner' to mean both partner and shareholder.

A company or partnership is defined by the Law of Commercial Companies as a contract under which persons undertake to participate in a financial enterprise with a view to profits, each contributing money or services and dividing the profits or losses resulting from the enterprise.

In addition in Bahrain, the New Commercial Companies Law enables:

- The introduction of the Limited Liability Single Person Company, which allows a single investor to own a limited liability company.
- The introduction of simplified procedures that allow companies to change their legal form.

- The introduction of articles relating to the establishment and regulation of holding companies.
- The ability to establish joint stock companies through a ministerial resolution rather than an Amiri Decree.
- The increase in capital requirements for limited liability and joint stock companies.

Types of business entity

Different legal vehicles exist which the international investor can use for commercial operations in Bahrain. The choice is governed by the nature and size of the business and the requirements of the investors. The vehicles include:

- Limited Liability Company (W.L.L.)
- Single Person Company
- Closed Joint Stock Company
- Public Joint Stock Company
- Branch Office
- Regional Office
- Holding Company

Joint stock companies

A joint stock company is a pure shareholding company in which all of the members are liable for company debts to the extent of the nominal value of their shares. This type of company can take the form of an exempt joint stock company, a closed joint stock company or a public joint stock company. While public joint stock companies require a minimum of 51% Bahraini ownership, exempt and closed joint stock companies may be 100% foreign-owned. All forms of the joint stock company must maintain permanent offices in Bahrain.

Public joint stock companies may be established only by permission from the Ministry of Commerce, and supported by Emir decree. Seven founding shareholders are required to establish a public joint stock company. Together they must subscribe for between 7% and 20% of the shares of the company.

Public joint stock companies are authorised either for a fixed period, or for a period necessary to achieve a specified objective.

A public joint stock company may have a board of directors composed of between three and 12 directors, each nominated for a three-year term. A majority of the directors must be Bahrainis who reside in the country. Shares of a public stock company may be transferred freely. However, Bahraini shareholders can sell their shares only to other Bahraini nationals.

Closed joint stock companies are formed in the same manner as public joint stock companies and may be formed without an Emir decree, provided that the founders submit an affidavit affirming that they undertake to have the company Memorandum and Articles of Association comply with the law; that all shares of the company have been subscribed for by the founders and the value of the shares has been deposited in an authorised bank; that shares paid in kind have been evaluated in accordance with the law and are fully paid up; and that the founders have established the necessary management for the company. Five founding shareholders are required to establish a closed joint stock company.

Exempt joint stock companies are joint stock companies that have been exempted from some, or all, of the requirements of the Law of Commercial Companies by the Minister of Commerce and Agriculture. An exempt company must register and situate its main office in Bahrain, but is set up to conduct its activities outside of Bahrain. This type of company may operate for a maximum 25-year period. The exempt company's activities must be conducted outside Bahrain. No more than 20% of the capital of an exempt company may be owned by Bahraini nationals without the permission of the Minister. The company's name must be followed by the phrase 'Bahraini Exempt Joint Stock Company' and an indication of the entity's capital.

The company's activities may not include insurance, banking or brokerage. It is exempt from the requirements of local Bahraini participation in ownership applicable to most Bahraini companies. Without the consent of the Ministry of Commerce and Agriculture, an exempt company is not allowed to conduct any business or to undertake any commercial activity within Bahrain.

Exempt companies must have at least two members; the maximum number of members is unlimited. Exempt companies are managed by a board of directors, not fewer than two and not more than 10. A percentage of profits of the exempt company must be allocated each year for depreciation, and 10% of the net profits thereafter must be allocated to form a compulsory reserve until the amount of such reserve equals 25% of the capital.

The Directorate of Commerce and Companies' Affairs of the [Ministry of Municipalities and Agriculture Affairs](#) has complete discretion to accept or reject an application for the registration of an exempt company. It may exercise this discretion in accordance with its views on the contribution

that the proposed company will make to the economy of Bahrain and to Bahrain's reputation as an offshore centre for business activity.

Upon its incorporation, the exempt company is required to deposit a portion of its capital with the Central Bank of Bahrain to guarantee any liabilities that might be outstanding upon the company's dissolution, and this deposit must be paid only to the liquidator of the company.

Limited liability companies

The limited liability company – a shareholding company, the shares of which are not open to public subscription – is one of the forms of doing business most commonly used by foreign investors. The company must have at least two, and no more than 50, shareholders who are liable for the debts of the company only to the extent of their respective interest in the capital.

At least one shareholder must be a Bahraini national, and the total shareholdings by Bahrainis may not be less than 51%. The words 'With Limited Liability' must follow the name of the company. The limited liability company must have a limited lifespan not exceeding 25 years, which may be extended by a unanimous resolution of the shareholders.

The company must be managed by one or more managers who need not be partners. There is no legal requirement for a board of directors unless the number of partners exceeds two. A percentage of the company's profits must be allocated on an annual basis for depreciation and a certain rate of the net profits thereafter must be allocated to a legal reserve until the reserve equals 25% of the company's capital. Limited liability companies may not engage in banking, insurance or brokerage activities.

Partnerships

General partnerships – A general partnership must comprise two or more Bahraini nationals. Foreign investors can participate in partnerships, but Bahraini national participation must be at least 51%. In a partnership, the liability of the partners is unlimited, and they are jointly and severally liable for the partnership's obligations to the entire extent of their assets. The name of the partnership must consist of the name of one or more of the partners, together with the words 'Bahraini Partnership', or an indication that a partnership exists.

Limited partnerships – A limited partnership comprises at least one general partner and one limited partner. The extent of a limited partner's

liability for the partnership's commitments is restricted to the amount of capital invested by the limited partner in the partnership. A limited partner may not participate in the management of the business and, if this is done, the limited partner will be jointly and severally liable for the partnership's liabilities in the same way as the general partners. All general partners must be Bahraini nationals and at least 51% of the capital must be owned by Bahraini partners.

Partnerships limited by shares – A partnership limited by shares consists of at least one general partner and at least 10 shareholders. Management is the responsibility of the general partners and they are liable, to the extent of their entire assets, for the debts and commitments of the partnership. The shareholding partners are not responsible for the debts of the partnership, except to the extent of the value of their shares in the partnership. Shareholding partners may not interfere in the management of the partnership, and if they do so, they are personally liable for losses caused as a result.

Joint ventures

A joint venture, also known as an association in participation, is a company that does not enjoy a separate legal personality. Joint ventures are formed by the conclusion of a Memorandum of Association specifying the rights and obligations of the partners and the division of profits and losses. Joint ventures are not subject to any prescribed formalities.

A joint venture affects only the legal relations between the partners; however, it does not acquire legal status recognisable vis à vis its relationship with third parties. Third parties have a right of legal recourse against the partners with whom they deal and the partners may thereafter legally proceed against each other for compensation.

Branch of foreign company

The Law of Commercial Companies provides that companies established outside Bahrain may open branches or offices in Bahrain provided that the approval of the Minister of Industry and Commerce is obtained and a local sponsor is appointed. The Minister will not grant approval unless he is satisfied that the parent company is financially sound and will assume full responsibility for liabilities of the branch. The sponsor must be a Bahraini merchant, either a company or an individual. The Companies Law exempts branch offices of foreign companies from having a Bahraini sponsor if these offices use Bahrain as a regional centre or as a representative office for their business activities.

Regional Office

Like the Branch Office, the Regional Office is suitable for international companies that do not wish to form a separate legal entity in Bahrain. The primary difference between the two is that the Regional Office serves as the regional base for the main company with business activities that cover a geographical area comprising, in addition to Bahrain, the Gulf, or the Middle East, for example.

Holding Company

This type of company is established for the purpose of holding a controlling equity stake in Bahraini or foreign joint stock or limited liability companies, or for the establishment of such companies. A holding company may take any one of these legal forms:

- Joint stock company
- Limited liability company
- Sole proprietorship

Commercial agency

The Commercial Agency Law of 1992 regulates the establishment of commercial agencies in Bahrain. In accordance with this law, overseas companies can distribute or sell their products and commodities in Bahrain through agents who may be either Bahraini nationals or majority-owned Bahraini companies.

There are two types of commercial agency: commission agency and commercial representation. A commission agency is a contract under which an agent acts in his own name for the account of the principal in return for a certain consideration. The agent carries out the commercial activities independently and, consequently, customers have no right of recourse against the principal.

A commercial representation corresponds to a standard agency relationship whereby the acts of the representative bind the principal with respect to third parties. The agency relationship is usually governed by a contract of service or employment.

Incentives for foreign investors

The Kingdom has introduced an industrial incentive programme that applies to both foreign and local investors in private companies who employ locals. Special measures also support new and existing small and medium-sized industries. They include:

- **Labour** – a subsidy of USD 11,925 per year for the first three years, for each Bahraini employed by companies setting up factories in pioneering industries; USD 7,950 per year for ‘downstream’

industries, and USD 2,650 per year for companies setting up factories in existing industries.

- **Electricity charges** – a 50% rebate for the first five years in all industries.
- **Land rental** – a 100% rebate of rental fees in government industrial areas for the first five years, for all industries.
- **Customs duties** – a 100% rebate of customs duties for the first five years, for all industries.
- **Export credit facility** – available to all industries.
- **Tariff protection** – subject to the approval of the National Committee on Tariff Protection, 10% to 20% protection may be given to pioneering 'downstream' industries.

Free trade zones/free trade agreements

'Ring-fenced' free trade zones, as with the other Gulf States, are not needed in Bahrain as the option of 100% foreign ownership of some company structures exists across the whole country.

Bahrain was also the first Gulf country to put into force a Free Trade Agreement (FTA) with the United States and the Kingdom now has bilateral trade and economic agreements with 43 countries – including China, France, India, Singapore and the United Kingdom.

The Cooperation Council for the Arab States of the Gulf (GCC), of which Bahrain is a member, has signed an FTA with Singapore; and also set up an FTA with the European Free Trade Association (Switzerland, Norway, Iceland and Liechtenstein).

The GCC is also setting up FTAs with the European Union, China, Japan, India, Pakistan, Australia, New Zealand and MERCOSUR (South America's premier trading bloc).

For Bahrain-based investors, FTAs present several benefits, the most notable of which is that the agreements offer investors tariff-free exports of their goods to other countries, thereby significantly increasing the size of their potential markets.

Advertising

'Word-of-mouth' reputation of a product carries a lot of weight in Bahrain, but advertising media are increasingly being used. Alcohol cannot be advertised in Bahrain.

Business etiquette

Hospitality lies at the heart of Arabian culture. Punctuality is not always a Bahraini virtue, although this is changing. In business, it is essential to create a mood of trust and to be persistent even when the case is apparently lost. Much time may be spent in light conversation at business meetings, and embarking on business matters before an atmosphere of trust and friendship has been established may cause offence. Decisions are often taken by consensus, according to Arabian tradition, rather than exclusively on the advantages and disadvantages of the case submitted.

In Bahrain the opinions of family and community are revered. However, many younger Bahrainis have been educated in the West and may not always apply traditional values and customs.

It is considered unclean to eat or drink with the left hand. When seated, it is insulting to point the sole of your shoe at a Bahraini. In a traditional household, men may ask after a Bahraini's children but not after his wife. Traditionally the guest will compliment the host on his household but will not compliment the wife on her cooking.

It is polite to accept at least one cup of tea or coffee when it is offered. Coffee, or kahwa, is not just a drink, it is a ceremony for visitors and guests. Drinking coffee together is a symbol of harmony and trust.

When doing business, handshakes are always used and can last a lot longer than you may be used to. Always use the right hand. Holding hands among men is common so do not be surprised if your hand is held while you are led somewhere. If you are introduced to a woman as a male, it is advisable to wait and see if a hand is extended. If it is not, then do not try to shake hands.

Muslims pray five times a day, although shops and offices do not close during the prayer. Alcohol (available in major hotels) and pork are not forbidden by law but are forbidden by Islam and should therefore be used with discretion. During Ramadan, it is forbidden to eat, drink or smoke in public from sunrise to sunset.

5. Labour

Bahrainis are generally well-educated and often multi-lingual – use of Arabic, English, Farsi and Urdu are common. Unemployment stands at 15% (2005 statistics are the latest available) and is becoming an economic issue, particularly among the young. Most of the workforce is in industry (79%) and services (20%) (1997 figures), however, a significant part of the labour force is non-national – 44% of the population in the working age group of 15-64 is non-national (2008 figure).

Bahrain is already home to a skilled and flexible workforce. But under new legislation the Kingdom supports businesses investing in training and development of core and specialist skills for Bahrainis.

New systems are also planned for the registration and monitoring of expat employees, to ensure appropriate skills are brought into the Kingdom.

6. Taxation

Taxation of companies

The sole corporate income tax in Bahrain is levied on only oil, gas and petroleum companies at a rate of 46%. This tax is applicable to any oil company conducting business activity in Bahrain of any kind, including oil exploration, production, or refining, regardless of the company's place of incorporation.

Deductions are allowed for customs and duties. The costs of raw materials, production and management may also be deducted from taxable income. Capital assets may be depreciated over the useful life of assets.

Taxation of individuals

Bahrain has no personal tax regime.

Municipal tax

A municipal tax is payable by individuals or companies renting property in Bahrain. The rate of tax varies according to the nature of the property: unfurnished residential property; furnished residential property; or commercial property.

Social security taxes

Employers who employ more than 10 employees, irrespective of their nationality, must pay 10% of the employee's gross income to social welfare taxes. The employer's contribution is 7% of gross wages, for insurance against old age, disability and death (applicable only to Bahraini employees); and 3% of gross wages, for insurance against employment injuries (applicable to all employees). The employee's contribution is 5% of gross wages, for insurance against old age, disability and death (applicable to Bahraini employees only).

Withholding tax; sales tax

No withholding taxes exist in Bahrain. The only tax on sales or turnover is a tax on gasoline which is levied at a low rate of 12%. Bahrain has no value added tax, property tax nor production tax.

Treaties for prevention of double taxation

While there is no provision in law expressly preventing double taxation, the foreign tax paid on income subject to a foreign country's tax system will generally be deductible from the tax imposed on taxable income in Bahrain.

7. Accounting & reporting

Widely regarded as the best-regulated financial centre in the Middle East, Bahrain has been the region's undisputed financial capital for more than 40 years. The Kingdom has more than 400 licensed financial institutions that have created a large pool of local talent. Of around 14,000 people employed in the industry, 67% are Bahraini, with high levels of financial skill and expertise.

The Central Bank of Bahrain

The sector is supervised by the [Central Bank of Bahrain](#), which since 2002 has functioned as the single regulator for the entire financial system. The Central Bank of Bahrain is generally recognised as the most successful monetary authority in the Arab world in terms of regulation, innovation, non-discriminatory treatment, licence management, and operational efficiency.

The Bahrain Stock Exchange

Since its opening in June 1989, the [Bahrain Stock Exchange](#) has secured its place on the map of Middle East share markets. The stock exchange has several key advantages, the biggest being its close association with the Saudi economy (Saudi Arabia is just 30 minutes from Bahrain by car via the King Fahd Causeway). Another is the fact that Bahrain has been in the business of global finance longer than any other Gulf country.

The Telecommunications Regulatory Authority

The information communication technology sector is regulated by the [Telecommunications Regulatory Authority](#), which is in charge of promoting fair competition among established and newly licensed operators.

The Bahrain Chamber for Dispute Resolution-AAA

The [International Centre for Dispute Resolution](#), the international division of the American Arbitration Association, and Bahrain's [Ministry of Justice and Islamic Affairs](#) have opened an arbitration and mediation centre in Bahrain. The [Bahrain Chamber for Dispute Resolution-AAA](#) administers the arbitration and mediation of domestic and regional commercial disputes, including insurance, construction, financial services and energy disputes.

8. UHY firms in Bahrain

UHY Al Bassam & Partner CPAs & Consultants provides UHY's business centre in Bahrain and also expanded representation in Saudi Arabia. The firm is based in three countries in the Middle East: Saudi Arabia, Bahrain and Qatar.

The firm has five partners and more than 70 staff. Arabic and English are spoken within the firm. Its services comprise 31% audit, 7% tax, 22% corporate finance, 31% management consulting and the remainder a mix of other services.

Its clients are involved in insurance, government, manufacturing, trading and construction. Clients conduct business in Saudi Arabia, Bahrain, Qatar, Canada, the UK, the US, and the United Arab Emirates.

Managing partner Ibrahim Al Bassam is UHY's international contact partner. His firm has achieved growth of more than 20% per annum since it started in 2003. Previously he held positions with Ernst & Young, KPMG and Arthur Andersen. With Ernst & Young he was director of its business advisory division in Jeddah.

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9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com

