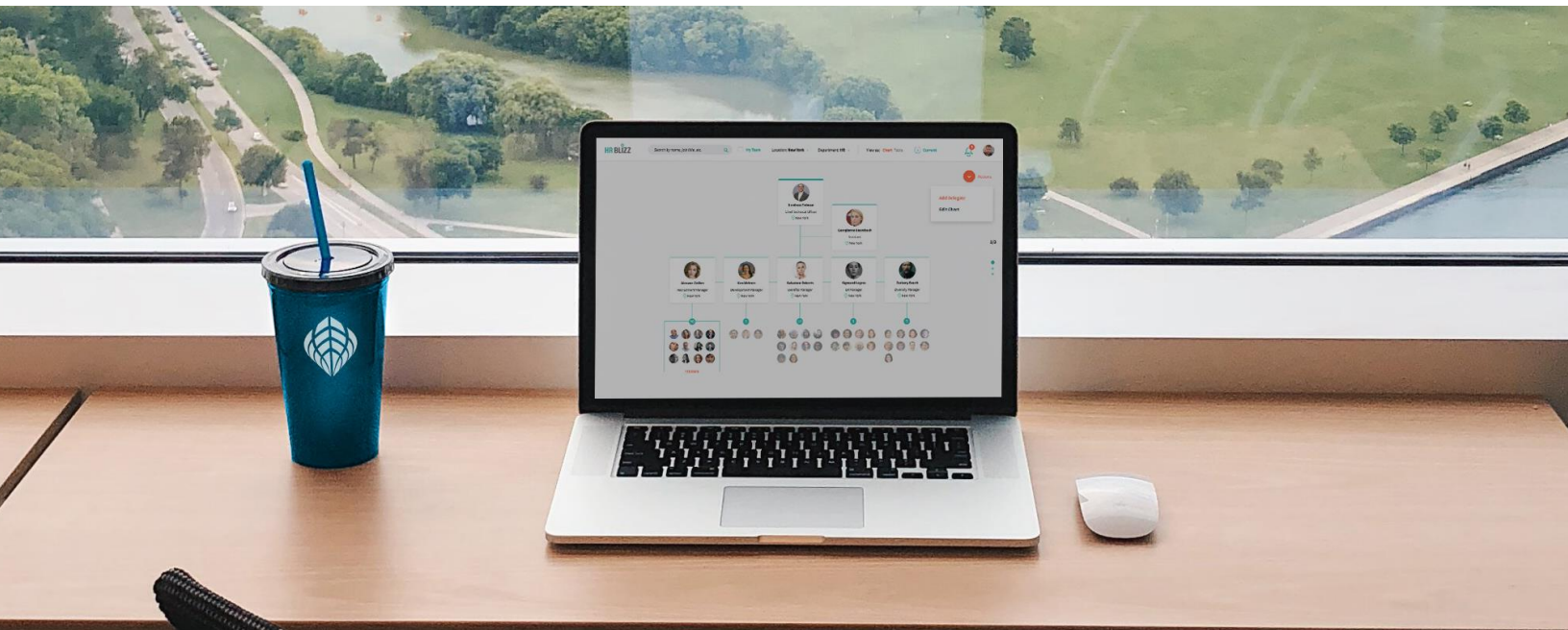




Simplifying Employment
Tasks Worldwide

BAHRAIN Payroll & Tax Highlights

2020 Global Payroll Country Guide for Bahrain



BAHRAIN



February 24, 2020



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5k+ Customers Worldwide	97% Client Retention Rate	1.5X Annual Revenue Growth
25k+ Largest Single Country Payroll	2.5M+ Pay Slips per Annum	0 Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.



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Bahrain – on a path to a balanced budget.

Bahrain's economy is closely linked to the fluctuation in global crude oil prices as the rest of the region. However, its impact is much narrower compared to other Gulf countries due to the relatively diverse nature of the Bahraini economy. As such, the economy grew by 3.8% in 2017 despite a sizeable contraction of the oil industry. Economic growth was subdued in 2018, with GDP growth rate of 2.5%, amid slowdowns in the non-oil sector.

The non-oil economy is expected to grow 2.2 on average percent over 2020-2021, with GCC investment supporting elevated infrastructure spending. This will offset continued oil sector weakness and keep headline growth around 2 percent. Bahrain's budget deficit is projected to gradually narrow in line with reforms outlined in the Fiscal Balance Program (FBP).

Continuing fiscal reforms and emphasizing better-targeted subsidies under the FBP will help to narrow the fiscal deficit to 7.7 percent of GDP in 2020. Bahrain's market constitutes one of the most diversified economies in the region. The country is very open to foreign trade, which accounts for 140% of the GDP. Petrochemical products account for nearly 45% of Bahraini exports, a share that is relatively low compared to the rest of the region.

Like other Gulf Cooperating Council member states, Bahrain has high share of working-age population. The country has sought to encourage the recruitment of its citizens in the private sector by subsidizing salaries and providing financial support for businesses. The recently announced National Employment Program, is designed to make citizens the first choice of employment in the private and public sectors, and increase the fees on expatriate labor.

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Doing Business in Bahrain

Entity Registration & Incorporation Requirements

All companies operating in Bahrain must establish a local legal entity in order to employ staff.

A commercial company established in accordance with the Commercial Companies Law No. 21 of 2001 is the most common form of business vehicle used in the Kingdom. It is possible for foreign investors to own 100% legal interest in certain Bahraini business vehicles, but there are sector-related restrictions which may apply.

Some sectors and activities are only allowed to be carried out by Bahrainis or entities fully owned by Bahrainis or GCC or US nationals. Further, some business activities may require a minimum Bahraini or GCC investment, such as 51%.

The sectors in which a business vehicle cannot be 100% foreign owned generally include construction, press, publishing and distribution, car and motorbike rental, fishing, foreign manpower supply, land transportation of goods and passengers, trading, foreign manpower, commercial agencies, certain real estate services, gas bottling and distribution and gas cylinder distribution.

Foreign ownership restrictions will apply in relation to companies that are engaged in trading activities (i.e. export, import and sale), the restrictions differ depending on whether or not there is a GCC or US shareholding element in the corporate vehicle. The restrictions are as follows:

- Companies that include a GCC or US shareholder(s), excluding a Bahraini national, may be owned 100% by the GCC or US shareholder(s); and
- Companies that include a foreign non-GCC or US shareholder(s), must also include a Bahraini (or national of any other GCC state) shareholder holding a minimum of 51%.

Please note that where the intention is to satisfy the 51% GCC requirement by utilizing a corporate shareholder which is GCC owned, then (i) the corporate shareholder must itself be 100% owned by GCC nationals; and (ii) the corporate shareholder must itself be established in a GCC jurisdiction.

The following table provides an overview of some of the corporate vehicles available in Bahrain:

Corporate Forms	Structure of Partners/ Shareholders	Minimum Issued Share Capital
Single Person Company ("SPC")	A single shareholding company where the liability of the shareholder is limited to the extent of the capital of the company.	BHD 50
General Partnership	2 or more partners who assume joint responsibility in the partnership to the extent of their entire personal assets for the partnership's debts and liabilities.	None
Bahrain Shareholding Company ("BSC")	A public listed company comprising of 2 or more shareholders where their respective liabilities for the company's	BHD 1 Million



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	debts and obligations are limited to the extent of the value of their respective shareholding.	
Closed Joint Stock Company ("BSC(c)")	Comprising of 2 or more shareholders where their respective liabilities for the company's debts and obligations are limited to the extent of the value of their respective shareholding.	The minimum capital requirements of a BSC(c) company undertaking financial related activities will depend on the requirements of the Central Bank of Bahrain, and will vary depending on the type of regulated activity the entity will engage in. A BSC(c) undertaking non-financial related activities has a minimum issued share capital of BHD 250,000.
Holding Company	May take the form of a BSC/ BSC (c), a WLL or an SPC. Please see relevant forms for shareholder structure.	Depends on the form of company selected.
With Limited Liability Company ("WLL")	Comprising of 2 to 50 shareholders where their respective liabilities for the company's debts and obligations are limited to the extent of the value of their respective shareholding.	BHD 100
Foreign Company Branch	The parent company must guarantee the liability of its branch in Bahrain.	None
Shelf Companies	A shelf company may take any corporate form. The validity of a shelf company is 1 year during which all approvals and licenses must be obtained. A shelf company is not considered active unless all approvals are obtained.	Depends on the form of company selected.
Protected Cell Companies ("PCC")	A PCC is a single legal entity made up of a core and one or more parts called 'cells'. Once incorporated a PCC can have unlimited cells.	To be determined by the Central Bank of Bahrain on a case by case basis.
Investment Limited Partnerships ("ILP")	The limited partnership is the vehicle of choice worldwide for closed-ended investment funds.	To be determined by the Central Bank of Bahrain on a case by case basis.

All documents prepared or assembled outside Bahrain and which are used for incorporating an entity in Bahrain or seeking a license to carry out business must be:

- Notarized by a notary public in their country of origin;
- Stamped by the Ministry of Foreign Affairs and the Embassy of Bahrain (or designated Bahraini consulate in the region) at the country of origin; and
- Further be stamped at the embassy of the concerned country in Bahrain and the Bahraini Ministry of Foreign Affairs.



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Bahrain is a signatory to the Hague Apostille Convention. Therefore, if the documents were issued from another signatory country, there is no need to go through the legalization process under paragraphs (ii) and (iii) above after obtaining the Apostille stamp.

Upon their receipt in Bahrain, if the documents are not in Arabic, they will need to be translated into Arabic by a recognized translation firm in Bahrain.

Banking

It is mandatory to have a local employment contract and salary transfer in Bahraini dinars.

Bank opening days and hours vary from branch to branch. Generally opening days are Saturday – Wednesday or Sunday to Thursday and general opening times are from 07:30-13:00 and then 16:00 – 18:00.

Working Week

The working week in Bahrain tends to vary between 40 and 48 hours depending on company policy. Office hours are usually from 08:30 or 09:00 to 17:30 or 18:00. There are no differences in time keeping between summer and winter. In the month of Ramadan, the working day is reduced to six hours and legally this should apply to all staff, but many companies only apply it to Muslims who fast during daylight hours.

Friday is the Muslim rest day and if your company has a five-day working week the other day off will probably be either Thursday or Saturday. Saturday is the more popular choice for international companies as taking Thursday off would mean a reduction in the number of operational days in common with much of the rest of the world. Conversely, other companies insist on Thursday as the school 'weekend' is Thursday and Friday.

Payroll requirements

Payroll requirements are governed by the Bahrain Labor Law. There is no specific guidance for payslips; however, in general practice, payslips are released to employees monthly. It is mandatory to have a local employment contract and a salary transfer in Bahraini dinar.

An annual health insurance fee of BHD 22.5 must be paid by the employer for Bahraini nationals only on an annual basis.

Basic Facts

Official State Name	Kingdom of Bahrain
Population	9.702 million
Capital	Manama
Major Languages	Arabic
Currency	Bahraini dinar (BHD)
Main Industries	Aluminum, Petrochemicals and Plastics, Food Processing, Garments Industries sector Engineering, Handicrafts, Small and Medium Industries
GDP Growth	3.9%
Internet Domain	.BH
International Dialing Code	+973
Dates & Numbers	Dates are usually written in the day, month and year sequence. For example, 1 July 2020 or 1/7/20.



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Tax & Social Security

Personal Income Tax

There is no individual income tax in Bahrain.

Social Security

All foreign and local staff are required to be registered with the Social Insurance Organization (SIO). The documents required for registration are:

- Copy of employer's Central Population Registry (CPR)
- Copy of the Certificate of Registration (CR)
- Copy of company contract

Usually, all registrations related to the SIO and employment contracts are made online, but it is necessary to be physically present to get a username and a password (admin access). All other tasks can be done online from the admin account. After completing the first step, the proceeding formalities can be carried out online (i.e., registering of local employees, expats are registered at the LMRA and not the SIO, annual update of salaries, payment of health insurance, payment of monthly social insurance or contributions). Social insurance must be paid in local currency. There is no charge to register employees in the database.

The Labor Market Regulatory Authority (LMRA) regulates and controls work permits for expatriate employees and the self-employed, in addition to issuing licenses for manpower and recruitment agencies.

Social security employer contributions are calculated based on the below rates, which are applied to employees' monthly basic salary including commissions, bonus, and allowances:

- Bahraini workers: 12%
- Non-Bahraini workers: 3%

Employees are required to contribute to social insurance based on the below rates, which are applied to employees' monthly basic salary including commissions, bonus, and allowances:

- Bahraini workers: 7%
- Non-Bahraini workers: 1%

The above rates apply up to an income ceiling of BHD 4,000 per month, subject to a maximum monthly contribution of BHD160. For employees whose salaries exceed BD4,000, the actual wages will be registered in the SIO records while the subscription or contribution will be calculated on the basis of a maximum wage amounting only to BD 4,000.

Monthly social security contributions must be paid by the 15th of every month.



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Reporting

The ongoing compliance of the pension scheme is monitored by SIO on the basis of the criteria set in the provisioning law of SIO.

New Hires

Employers must register their employees in the Kingdom of Bahrain with the Ministry of Labor and Social Affairs and receive a certificate of registration. The employer must also register its employees with SIO and contributions must be paid monthly for compulsory insurances against old age, disability and death (for Bahraini employees only), and against work-related injuries including death (for all employees).

Leavers

On the termination of employment of a foreign national two items must be considered.

- An end-of-service indemnity must be paid, which will depend on length of employment and whether the employee or employer terminated the employment.
- Employers must provide for a plane ticket for the employee to leave the country to a location specified in the employment contract or to the country of the employee's nationality.



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Payroll

Payroll requirements are governed by the Bahrain Labor Law. There is no specific guidance for payslips; however, in general practice, payslips are released to employees monthly.

Reports

All payroll records should be retained for a period of at least five years. The records can be maintained either in English or Arabic.

Payslip Example



EMPLOYEE PAYSIP

Employer Employer address Country Pay period		Your net pay for this period is: BHD 2,417.00	
Employee name Client empl. ID System empl. ID		Email Hire date Payment method	
		01/06/2017 Bank Transfer	

Summary					
Pay currency	Entitlements	Deductions	Net pay	Bank account/currency	
BHD	2,417.00	0.00	2,417.00	████████████████████	
Details					
Entitlements	Amount	Currency	Deductions	Amount	Currency
Basic Salary	1,767.00	BHD			
Rent Allowance	450.00	BHD			
Travel Allowance	200.00	BHD			

Memo:

Banking details					
Bank name	SWIFT	Beneficiary name	Acc. Number	Account currency	Type
HSBC				BHD	Primary



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Employment Law

Employment relations in the Kingdom of Bahrain are principally governed by Labor Law No. 36 of 2012 (the “Labor Law”). The Labor Law reflects Bahrain’s efforts to come in line with international standards, and it has aligned Bahrain’s domestic law with various Arab and international labor treaties and conventions to which it is a signatory. The Labor Law broadly seeks to protect the employee as the weaker party in an employment relationship and sets out the minimum rights of employees.

Employment Contract

The Bahraini Labor Law provides that contracts of employment may be for an unlimited or fixed period. A fixed term contract must specify a start and an end date. It may be terminable on notice, or upon the execution of a specific project or can be renewed following the expiry of the agreed fixed term period. The employment terms and conditions must be in writing. Any term or condition that does not conform to the Labor Law will be deemed null and void except to the extent that it is more favorable to the employee. There is no specific template for employment contracts to be followed by employers in Bahrain. However, the law provides for certain information to be included in all employment contracts, such as the name, position, length of contract, monthly salary, etc.

Probation Period

A probationary period is permitted for a maximum of three months. During the probationary period, either the employer or the employee can terminate the contract by giving at least one day’s notice to the other party. On completion, the probationary period is counted towards an employee’s overall period of service.

Annual Leave

All employees are entitled to 30 calendar days annual leave with full pay. An employee may not waive this entitlement, postpone it, or receive payment in lieu except in accordance with the law and on termination of employment.

An Employer is permitted to schedule the date of annual leave. Such leave, other than the first half of the prescribed entitlement, may be taken at intervals with the consent of the worker.

An Employer may approve the deferment of the annual leave entitlement at the written request of a worker for a period not exceeding three years provided the worker shall take 10 consecutive days of his annual leave entitlement in each year.

Under the Labor Law an employee cannot lose his/her annual leave entitlement as this is a statutory benefit which vests in the employee. As such, accrued but untaken leave must either be carried forward to the next leave year or paid out every two years or upon termination of employment.



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Maternity Leave

A female employee is entitled to maternity leave of 60 days on full pay and this period may be extended by a further 15 calendar days without pay. On her return, the employee will be entitled to an additional two hour each day for nursing, until the child reaches six months of age to two breastfeeding periods of not less than 1 hour each.

Paternity Leave

Paternity leave entitlement is up to five days after the birth. There are no additional benefits.

Sickness

Sickness absence entitlement under the Bahrain law is 55 calendar days as follows: full pay for the first 15 days, half pay for the next 20 days, and no pay for the remaining 20 days. An employee on probation is not entitled to any sick leave.

Where an employer requires an employee to work overtime, the employee is entitled to his wage for this day and an overtime wage equivalent to a certain percentage of the employee's wage. This depends on whether overtime falls on a weekend or a weekday.

Pilgrimage

A Muslim employee who has spent five consecutive years in employment is entitled to a leave of 14 working days with full pay to perform Hajj once during his/her period of service; provided that the employee has not availed of this leave in previous employment.

Expenses

In Bahrain, expenses are not required processed through the payroll.

Public Holidays

Employees are entitled to leave with full pay on the following public holidays (declared for the private sector):

Public Holiday	Number of Days
New Year's Day	1 Day
Labour Day	1 Day
Eid Al Fitr	3 Days
Eid Al Adha	3 Days
Al Hijra New Year	1 Day



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Ashoora	2 Days
Prophet's Birthday	1 Day
National Day	1 Day
Accession Day	1 Day

Certain holidays (e.g. Eid Al Fitr) are based on local sighting of the moon. Accordingly, the authorities provide a predictive date for the holiday and this is then confirmed closer to the time.

Private sector companies can, decide whether or not to grant time off during public holidays. If employees work, they have the choice of having another day off in lieu or receiving a payment of 150% of salary in addition to their normal wage. If a public holiday happens to fall on a weekend (i.e. Friday or Saturday) an employer is obliged to provide employees with a day off in lieu.



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Immigration

In order to live and work in Bahrain, all expatriates must have an employment residency visa issued by the immigration authorities. In addition, all expatriates are required to have a work permit from the Labor Market Regulatory Authority ("LMRA").

GCC nationals do not require residency visas but must be registered with the LMRA for work permit purposes.

Anyone wishing to enter Bahrain requires a visa except for GCC citizens. There are various visas that may be obtained in Bahrain including:

- Visa on arrival: certain country nationals may obtain visas on arrival this includes U.K nationals, U.S nationals, Japanese nationals, Hong Kong nationals, Russian nationals and Malaysian nationals. This visa is valid for a period of 3 months and must be renewed every 2 weeks. Renewal may take place whilst the individual is in Bahrain.
- Business visas: issued to individuals visiting Bahrain for business purposes and representing a company. Visa lengths vary based on the nationality of the passport holder and are subject to change. Individuals in possession of a business visa are only permitted to carry out official company business during their stay. The individuals are not entitled to look for alternative employment or take up any form of employment with another company in Bahrain.
- Tourist visas for Bahrain: Foreigners visiting Bahrain for holiday or those on a short fact-finding trip prior to accepting an expat contract will need to apply for a tourist visa. Some travelers, depending on their nationality will be entitled to a visa upon arrival at the airport in Bahrain, provided that they are in possession of a valid passport and an onward or return ticket. This arrangement is only applicable to citizens of Australia, Canada, Hong Kong, Japan, the USA and all countries within the EU/EEA. A tourist visa does not permit the holder to carry out any form of economic activity during their stay.
- 72-Hour visa: Obtained on arrival at the Bahrain International Airport or at the King Fahad Causeway. 72-hour visa on arrival may be granted to certain nationalities including foreign nationals who have lived for 6 months in a GCC country. This visa is mainly intended for business visits, trade delegations, attending exhibitions and seminars. Apart from the passport, the individual must possess a confirmed return or onward journey ticket for his/her visa application to be processed.
- Work visas: Applied for by the sponsor on behalf of the foreign employee. If the employee is in Bahrain at the time of application (on an arrival or business visa), the employment contract must be signed by both parties and stamped by the sponsor. In cases where the employee is outside of Bahrain, there is a requirement for a medical report to be sent over from an LMRA approved health center in the employee's home country in addition to the employment contract.

Note that passport holders of some countries are prohibited from entering the Kingdom of Bahrain.



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Work Visa

Submitted to: Labor Market Regulatory Authority

Issued by: Labor Market Regulatory Authority.

Visa Application Requirements:

- Visa Application Form
- Employee's passport
- Passport size photograph
- Sponsorship Letter: a letter of employment indicating employer's name/organization, commercial registration number, employee's capacity, salary, contract duration, employee's name, birth date and nationality
- Copy of the contract
- Health record from an authorized clinic
- Fee of BHD 100

Residency Permit (Family Visa)

Submitted to: Labor Market Regulatory Authority

Issued by: General Department for Nationality & Passport Residence

Residency Permit Requirements:

- Application Form
- Copy of the Employee & Employees family's passport
- Employee's Sponsorship Letter
- Employee's Contract
- Family health record from an authorized clinic
- Fee of BHD 22 per applicant

CPR Card (Identification Card)

Submitted to: Central Informatics Organization

Issued by: Central Informatics Organization.

Requirements:

- Employee (or spouse) passport
- Sponsorship letter stating names of dependents
- Marriage certificate (for spouse) and birth certificate (for children)
- Fee of BHD 1 per applicant



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