



Taxation in Bahrain

Oil resources in Bahrain are limited by comparison to other Gulf States and, since the mid 1970s, the government has sought to encourage new investment to diversify the economic base. In this regard, Bahrain has been relatively successful at developing trade, industry and financial markets. Certain alternative industries developed, such as aluminum, have proved to be extremely successful.

Bahrain is recognised as a major banking and financial centre in the region, with a particular emphasis on investment and Islamic banking activities.

Foreign investment is encouraged in Bahrain. Although major industries such as oil, gas, aluminum and others connected with the infrastructure are usually majority-owned by the government, there is an increasing trend towards privatisation and no industry is closed to foreign investors. Foreign firms receive the same incentives as those available to Bahraini companies.

To carry out any commercial activity in the Kingdom of Bahrain, a legal vehicle should be established in accordance with the Bahrain Commercial Companies Law No. (21) of 2001.

Corporate Income Tax

Except for certain taxes imposed on oil companies, Bahrain levies no taxes on income, capital gains, sales, estates, interest, dividends, royalties or fees. It is therefore, an attractive country in which to establish a Gulf head office.

The only corporate income tax in Bahrain is levied on 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, and refining, regardless of the company's place of incorporation.





Deductions are allowed for taxes and customs duties paid by the taxpayer. 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.

Investment incentives

The government encourages foreign expertise and technologies in many fields with a view to develop and diversify the economy, privatise infrastructure projects, promote tourism, and develop medium to small size industries.

Some of the major attractions to foreign investors are summarised as follows:

- Absence of personal, corporate and withholding taxation;
- No restriction on repatriation of capital, profits, royalties and dividends;
- A developed infrastructure with excellent transportation and communication systems;
- 100% foreign ownership of a company permitted in certain cases;
- Foreigners (other than GCC citizens) able to own high-rise commercial and residential properties as well as property for tourism, banking, financial and health and training projects in specific geographic areas;
- Seven well established industrial zones with another being prepared at Hidd (the new seaport of Bahrain);
- Well defined set of laws and regulations; and
- Intellectual property rights recognized and respected, with registration of trademarks.





Manufacturing investment incentives include:

- Subsidies for nationals hired;
- Electricity rebates: 50% rebate for the first five years for all industries;
- Land rental rebates: 100% rebate of rentals in government industrial areas for the first three years, for all industries;
- Export credit facilities: available for all industries;
- Tariff protection: 10% to 20% protection may be given to pioneering or downstream industries; and
- Duty-free import of machinery and raw materials to be used in new industries or for processing in Bahrain.

Free Zones

Currently, two free trade zones exist in Bahrain. Mina Salman, Bahrain's major port, provides a free transit zone to facilitate the duty free import of equipment and machinery. Another free zone is located in the North Sitra Industrial Estate. The same facilities in the two free zones are used for the temporary import of goods for re-export.

Manufacturers in free zones are exempt from customs duties on the import of raw materials and capital equipment. Leases run for 25 years and rentals are subject to re-adjustment every five years. In a government move to assist industry, ground rents in the industrial free zones are at very low rates.

Foreign-Exchange Controls

There are no exchange control restrictions on converting or transferring funds.





PERSONAL INCOME TAX

There are no personal income taxes in Bahrain.

Social Insurance

Social insurance contributions are payable for Bahrainis at a rate of 12% of basic wages of which 7% is the employer's contribution and 5% is the worker's contribution. An additional 3% of basic wages, borne by the employer, is paid for all workers (both Bahrainis and expatriates) to provide cover against employment injuries.

Training levy

Companies with 50 or more employees must have a training facility approved by the Ministry of Labour and Social Affairs. If not, such companies are required to pay a training levy at the rate of 3% of the payroll (basic pay) for expatriates and 1% for Bahrainis.

Withholding Taxes and Sales Taxes

No withholding taxes exist. A sales tax on gasoline is levied at 12 percent. Persons using hotel facilities are normally charged a government levy of 5% and a 15% service charge is generally added to the total bill amount. Bahrain has no value added tax, property tax or production tax.

Municipal Tax

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

Customs Duties

See Appendix 1: GCC Customs Union.





Tax Treaties

Bahrain has entered into double taxation agreements with Algeria, China, Egypt, France, Iran, Jordan Malaysia and Morocco. Discussions with India, Lebanon, Sudan, Syria, Tunisia and United Kingdom are in progress and finalisation of agreements is expected in the near future.

