

Guide on Bahrain's end of Service Gratuity System

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A Comprehensive Guide on Bahrain's end of Service Gratuity System

The Kingdom of Bahrain has recently implemented significant changes to its leaving indemnity system, marking a pivotal moment in the country's commitment to enhancing labor rights and fostering a conducive business environment. Spearheaded by His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, the end of service gratuity system introduces fundamental adjustments aimed at streamlining processes and ensuring timely disbursement of end-of-service gratuity system to employees.

Understanding the Changes

The most fundamental change brought about by the end of service gratuity system is the requirement for employers to remit end-of-service gratuity contributions to the Social Insurance Organisation (SIO) on a monthly basis. This marks a departure from the previous system where employers directly paid leaving indemnity upon termination or resignation, shifting the responsibility to the SIO.

Key Provisions

The Resolution introduces several provisions aimed at enhancing the end-of-service gratuity system for non-Bahraini employees:

I. Data Submission Deadline

Employers are mandated to submit all necessary wage data for insured workers, including non-Bahraini employees, to the SIO within one month of the resolution's effective date of 1 March 2024.

II. Employer Responsibility

Employers will continue to bear the cost of employees' end-of-service contributions, even if they are temporarily seconded to another establishment.

III. Gratuity Calculation

The calculation of gratuity remains unchanged, with rates set at 4.2% of the employee's annual salary for the first three years of employment and 8.4% for subsequent years until termination.

IV. Payment Schedule

Employers must make relevant contributions into the system within the first fifteen days of each month. Failure to do so will result in interest being accrued at a rate of 5%, along with an additional penalty of 20% of the unpaid contributions.

V. Penalties for Non-Compliance

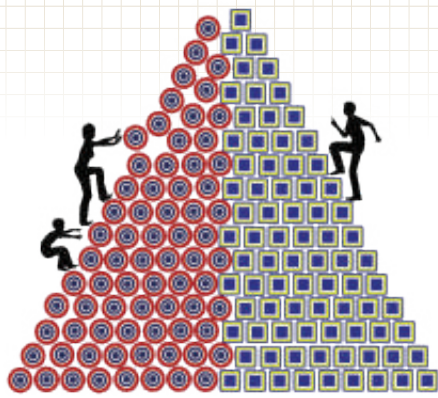
Non-compliance with the resolution may result in penalties ranging from BHD 100 to 500, with doubled penalties for repeated offenses. Providing false or inaccurate information may also lead to sanctions.



Implications for Employers

These regulatory changes have significant implications for employers, particularly in terms of financial management and compliance. Many employers currently adopt internal accrual practices to set aside monthly funds for end-of-service entitlements. However, with the new resolution requiring contributions to the SIO fund on a monthly basis, this practice will no longer be applicable.

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*"Security is always excessive until it's not enough."
- Robbie Sinclair*

Furthermore, these changes aim to protect employees against the risk of employers failing to pay end-of-service entitlements upon termination or resignation without lawful excuse.

Navigating the Changes

In light of the Resolution coming into effect on 1 March 2024, employers are advised to take proactive measures to ensure compliance:

I. Data Submission

Employers are required to provide the SIO with current and precise information regarding the salaries of non-Bahraini employees by the conclusion of February 2024.

II. Financial Planning

Employers need to verify that their financial status permits them to make monthly contributions to the SIO to avoid incurring interest or penalties.

III. Leaving Indemnity Payment

Employers are obligated to ensure the payment of leaving indemnity for the entire duration of employment before the effective date upon resignation or termination, as this responsibility persists despite the Resolution being passed.

Conclusion

The Leaving Indemnity Resolution represents a significant step towards enhancing labor rights and ensuring the timely disbursement of end-of-service entitlements to employees in Bahrain. Employers must proactively adapt to these changes to remain compliant and uphold their obligations towards their employees. By understanding the key provisions and implications of the Resolution, employers can navigate the transition smoothly and contribute to fostering a fair and equitable business environment in Bahrain.



STA Law Firm's offices across GCC

Abu Dhabi Office

Advocates and Legal Consultants
23 A, Level 23 Tamouh Towers
Marina Square, Reem Island
Abu Dhabi, United Arab Emirates
Tel: +971 2 644 4330
Fax +971 2 644 4919

ADGM Office

3517, Al Maqam Tower
Abu Dhabi Global Markets Square
Abu Dhabi
United Arab Emirates
Tel: +971 2 644 4330
Fax +971 2 644 4919

Dubai Office

Advocates and Legal Consultants
Office 1904, Level 19, Boulevard Plaza,
Opposite Burj Khalifa
Dubai, United Arab Emirates
Tel: +971 4 368 9727
Fax +971 4 368 5194

Sharjah Office

48-1F, Next to Abu Dhabi Islamic Bank
Near Hamriyah Free Zone Headquarters,
Hamriyah
Sharjah, United Arab Emirates
Tel: +971 6 513 4270
Fax: +971 6 526 4027

Bahrain

Advocates and Legal Consultants
Level 22, West Tower
Bahrain Financial Harbour
King Faisal Highway
Manama
Kingdom of Bahrain
Tel: +973 1750 3045

Qatar

Level 22, Tornado Tower
West Bay, Doha
Qatar
PO Box – 27774
Tel: +974 44294827

RAK Office

Office 501-A, Level 5, Building 4
Ras Al Khaimah Free Trade Zone
Ras Al Khaimah,
United Arab Emirates
Tel: +971 7 204 2180
Fax: +971 7 204 2181

Fujairah Office

Creative Tower
Creative City - Media free zone
Fujairah,
United Arab Emirates
Tel: +971 7 204 2180
Fax: +971 7 204 2181

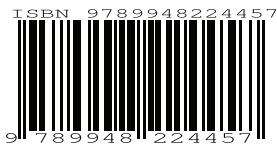
For a free subscription request, you can e-mail us at:

corporate@stalawfirm.com

with your name and address.

www.stalawfirm.com

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STA

Office 1904, Level 19,
Boulevard Plaza, Tower 1,
Opp. Burj Khalifa, Dubai
United Arab Emirates
Tel: +971 4 368 9727
corporate@stalawfirm.com
www.stalawfirm.com

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