

Guidance

Under provisions of Iran's Foreign Investment Promotion & Protection Act (FIPPA), foreign investors investing within the framework of contractual arrangements such as buy-back shall also have the right to make transfers abroad by using the mechanism of purchasing foreign exchange from the banking system of Iran. In consideration of their specific nature of investment and as stipulated in the Note of Article (23) of the Implementing Regulations of FIPPA, these investors also have the privilege to make the transfers through export of goods, without giving up the right to purchase foreign exchange from the banking system.

- **Q&A**
- **Chapter one**
- **General information**

1. Is Foreign Investment permitted in Iran?

Foreign investment is permitted in accordance with the prevailing laws and regulations of the Country. All foreign investors are permitted to invest, for the purpose of development and producing activities, in all areas of industry, mining, agriculture and services. However, from the standpoint of the Iranian government, only those investments shall be eligible to enjoy the privileges and protections under the Foreign Investment Promotion and Protection Act (FIPPA) that have obtained the required license under the FIPPA.

2. What objectives are to be achieved by foreign investment?

The main objectives are:

- Enhancing economic growth;
- Increasing employment opportunities;
- Access to and development of new technologies and managerial skills;
- Upgrading quality of products and boosting export capabilities.

3. Under what legal or contractual framework, foreign investment may be admitted in Iran?

Foreign investment in Iran is admitted under all forms of legal participation (Foreign Direct Investment) and/or contractual arrangements. By contractual arrangements we mean all forms of project financing methods within the framework of civil participation, buy back arrangements, and different types of Build, Operate and Transfer (BOT) schemes.



4. How do you define foreign investment?

Foreign investment is defined as employment of capital in an activity in which a level of risk involved. FIPPA classified foreign investment under two broad categories :

a) Legal participation (direct investment): is defined as a direct involvement of a foreign investor in the equity capital of a new or existing Iranian company. There is no restriction on the level of shareholding as well as percentage of shares belonging to foreign investors in Iranian companies. The right of foreign investor to run and control a company emanates from and is dependent upon his direct contribution in the equity capital of the concerned company.

b) Contractual arrangements: is defined as a set of mechanisms under which the utilization of foreign capital is solely based on agreements reached by the parties to a contract. In other words, the rights of the foreign investor is not yielded with his direct participation in the capital of the recipient Iranian firm, but through the arrangements agreed upon under a contract. This type of investment may be carried out in all sectors of economy. Under contractual arrangements, the return of capital and accrued profits have to be sourced only out of the economic performance of the project in which the investment is made without being dependent upon a repayment guarantee by the government, by the banking system as well as state owned companies.

5. In what sectors foreign direct investment is permissible?

Foreign direct investment is permissible in all areas open to Iranian private sector.

6. In what sectors foreign investment under contractual arrangement is permissible?

Foreign investment under contractual arrangement is permissible in all sectors of economy. However, foreign investment in sectors reserved for the Government may only be carried out under contractual arrangements.

7. What legal structure do you recommend for foreign investment?

There are seven types of juridical entity or company which can be established under the Iranian Commercial Code. From among all these different types, Joint Stock Company, in which the capital is divided by shares, is the most common and acceptable type of company which can be recommended to foreign investors (For further information please refer to «Establishing a Joint Stock Company in Iran» published by OEITAI).

8. Is it obligatory to have local partner(s)?

Of course not. It is by no means obligatory to have local partner, but in most cases foreign investors themselves are willing to take advantage from their local partners for the reason that they are more familiar with the business environment, regulatory and administrative requirements and opportunities locally available.

9. Is there a ceiling for foreign investment in Iran?

There is no minimum and maximum for foreign investment in respect of percentage of shareholding, nor is any restriction on the amount of investment for foreign investment in Iran.

10. If there is no restriction imposed in Iran, then what message a prospective foreign investor should get from the ratios of %25 and %35 referred to in Para (d) of Article (2) of FIPPA?

The ratios referred to in the said Para have nothing to do with the shareholding percentage of foreign investors in a single investment case. As formerly explained, no restriction with respect to the ceiling of foreign participation is imposed in Iranian companies. In fact, these ratios illustrate the proportion given to the value of goods and services produced by foreign investment in the global economy in each sector and subsector respectively, verified at the time of issuance of the foreign investment license (i.e., value of foreign products in GDP).

11. Is foreign investment permissible in oil and gas upstream activities?

Foreign investment in oil and gas upstream activities within the framework of contractual arrangements is permissible, but Foreign Direct Investment (FDI) in such areas is not permitted.

12. Is it permissible to use foreign trade marks and names in foreign investments?

Application of trade marks and names is permissible in all areas of economic activity.

13. Is foreign investment allowed in companies quoted in the Stock Exchange Market?

There is no restriction for investment in companies quoted in the Stock Market. Foreign investment in these companies are eligible to enjoy the protections available under FIPPA, in the same manner as is available to foreign investment outside the Stock Market .

14. How do you define Special Economic Zones in Iran and in which areas of the Country these so-called zones have so far been established?

Special Economic Zones are restricted customs areas in which import of goods, machinery and equipments is not subject to the general import/export regulations. The zones may have been established for different reasons and objectives. Some of them are established for the purpose of warehousing whereas some, in addition to warehousing of goods, are designed for setting up processing and production line. At present the number of Special Economic Zones reaches to 17 (For more information please refer to website www.freezones.ir) .

15. Is there any difference between investments made in Free Trade Industrial Zones, Special Economic Zone and the mainland?

Investment in Free Zones is subject to especial regulations governing such investments. Iranian Free Zones at present comprise six areas by the name of Geshm, Kish, Chahbahar, Arwand, Aras and Bandar Anzali. Areas known as Special Economic Zones are part of the mainland in which all investments are considered to be investments in the mainland. Taking into consideration the applicability of Foreign Investment Law to the territory of the Islamic Republic of Iran, all foreign investments realized in Free Trade and Industrial Zones may also enjoy the privileges of FIPPA, provided that the relevant formalities for obtaining the investment license have been followed .



16. What is meant by the terms Iranian Company and Foreign Company, from the standpoint of Iranian laws and regulations?

The term Iranian Company refers to a company incorporated and registered in Iran according to Iranian Commercial Code, even if a hundred percent of its shares or stocks belong to foreign natural or juridical persons. The term Foreign Company refers to a company incorporated and registered outside Iran.

17. Is it possible for foreign companies to establish legal bases in the form of branches or representative offices in Iran?

Of course yes. Any foreign company, for the purpose of expanding its commercial activities, performing its contractual obligations, carrying out marketing activities, etc. may establish a legal permanent base in the form of branch or representative office in Iran. For establishing a branch or representative office certain procedure should be followed under the Law for Establishing Branches and Representative Offices. For this purpose the applicants are advised to refer to the General Directorate for Registration of Companies and Industrial Property.

18. Is the establishment of branch or representative offices considered as foreign investment?

Establishing a branch or representative office is not considered as foreign investment. In fact, foreign investment can be realized by way of establishing a new Iranian company, participation in an existing Iranian company and/or entering into contractual arrangements with Iranian recipient entities.

19. What are the features of Industrial Estates and what facilities are available in those areas?

Industrial Estates are prefabricated Estates designed and constructed by the Industrial Estates Company of Iran, affiliated to the Ministry of Industry and Mines, readily available for investors in all industrial poles throughout the Country. Even in certain Estates, factories and industrial workshops are offered for purchase. The important feature of these estates is availability of infrastructural utilities such as water, power, gas, telephone and quick access to the main transportation network of the Country.

- **Chapter Two**
- **Foreign Investment Promotion**
- **And Protection Act (FIPPA)**

20. What law protects foreign investment in the Islamic Republic of Iran?

The law protecting foreign investment in Iran is the Foreign Investment Promotion and Protection Act ratified in 2002 which is hereinafter referred to as FIPPA. The scope of applicability of the FIPPA extends to the territory of the Islamic Republic of Iran under which all foreign investors may invest in the Country and enjoy the privileges available there under.

21. What is the role of the regulations governing investment in Free Zones?

Although foreign investment in Free Zones is governed by especial regulations, foreign investors may also invest in such zones under Foreign Investment Law and take advantage of its protections.

22. What is meant by the term protection under FIPPA?

The term protection refers to a series of certain rights and privileges which are extended to investors under FIPPA. In other words, investments carried out under any law other than FIPPA shall not be eligible to enjoy such rights.

23. What are those rights and privileges?

Fundamental rights recognized under FIPPA in favour of foreign investors are as follows:

- The right to transfer profits (dividends) as well as capital and gains on capital in foreign exchange;
- The right to receive compensation resulting from expropriation (deprivation of ownership) and nationalization of foreign capital;
- The right to receive compensation resulting from the passing of laws or Cabinet Decrees causing prohibition or interruption in the implementation of financial contracts of foreign investors;
- The right to enjoy equitable treatment accorded to domestic investors.

24. Are there any other facilities and privileges available to foreign investors?

Other facilities and privileges contemplated under FIPPA and its Implementing Regulations are as follows:

- Convertibility and transferability of the funds resulting from various investment and transfer of technology agreements;
- Possibility of submission of investment disputes to international tribunals;
- Recruitment of foreign technicians in affairs related to investment projects;
- Export of goods and services without any commitment to reintroduce export proceeds to the Country (i.e., no surrender commitment requirement) ;
- Direct access to and possibility of withdrawal of export proceeds out of Escrow accounts established in banks outside the Country;
- Inapplicability of price control, distribution as well as local content and manufacturing requirements.

25. What issues are specified in the investment license?

Many issues such as area of investment, Iranian and foreign shareholders, type and method of investment, volume and percentage of foreign investment, the manner for transfer of dividend and profit gained as well as other terms and conditions pertinent to a foreign investment project are to be specified in the investment license.

26. Who is qualified to invest in Iran?

All foreign natural and juridical persons, international organizations, institutions and companies as well as Iranian natural and juridical persons are qualified to invest in the Country in accordance with the provisions of FIPPA .

27. How investments by Iranian nationals can be covered under FIPPA?

Investments by Iranian nationals can enjoy privileges of FIPPA on the condition that their capital has been sourced from foreign origin and, further to that, the investor has submitted documentary evidence proving their economic and commercial activities outside the Country.



28. Is the validity of the investment license limited time wise?

Yes. Upon the notification of investment license, the foreign investor is required to bring an appropriate portion of his capital into the Country, within a period determined by the investment board on the basis of the peculiarities of the investment project; otherwise the investment license shall be null and void.

29. Is it possible to extend the validity, and how?

Yes, foreign investor may apply for the extension of the validity of the investment license, prior to expiration, by way of submission of justifiable reasons. The investment board will review the application and determine a new period for importation of capital, upon the approval of the application for extension.

30. Are foreign state-owned companies authorized to invest in Iran in accordance with FIPPA?

Foreign state-owned companies may invest in Iran in accordance with FIPPA, and enjoy privileges available under the law.

31. What are the sectors open to foreign investment in Iran under FIPPA?

Sectors open to foreign investment in Iran are vastly diversified and include all producing activities for the purpose of development in all areas of industry, mining, agriculture and services including tourism sector.

32. Does FIPPA consider pure commercial activities as foreign investment?

Indeed, pure commercial activities are not considered as foreign investment. However, should they be complementary to the producing activities in connection with an approved project, they can be taken into account as foreign investment.

33. What type of service activities are eligible to be covered under FIPPA?

Foreign investment in service sector including tourism is eligible to be covered under FIPPA.

34. Is the legal protection under FIPPA extended to foreign investments automatically?

Extension of legal protection to foreign investments is not an automatic phenomenon, but subject to obtaining the required investment license.

35. How and under what condition an investment already carried out but not covered under FIPPA can enjoy FIPPA's coverage?

Investments already carried out but not covered under FIPPA may, upon application for obtaining an investment license and subject to creating added value, enjoy the protections available under FIPPA.

36. Is foreign investment permissible in existing firms? If yes how?

From the standpoint of FIPPA, there is no difference between investment in a greenfield project - a new company - and investment in an existing economic entity. All prospective foreign investors may at any time proceed for investment in a new (greenfield) project and/or an existing economic entity. However, admission of foreign investment in existing firms is subject to creation of new added value which may result from increase in investment, upgrading managerial skills, development of exports, and improvement of technology level in the same entity.

37. How foreign investment can take place in an existing Iranian company?

From the standpoint of admission regulations, such investments can be covered under FIPPA and enjoy its privileges upon completion of admission procedure and obtaining the investment license, on the condition that they bring about value addition .

38. In what manners a foreign investor can invest in an existing Iranian company and become a shareholder?

There are two ways:

1. Acquiring shares of a company based on agreed terms and conditions.
2. Subscription of the shares resulting from the capital increase of the company by way of assigning the first refusal rights of the existing shareholders to the foreign investor.

39. Under what legal framework BOT contracts are implemented?

For the purpose of conducting BOT contracts including BOOT, BOO, etc., the foreign investor may proceed either by establishing a branch office in Iran or by way of incorporating an Iranian company (i.e., Project Company).

40. What is meant by proprietary rights?

Proprietary rights are certain rights arising from having ownership over property and assets and/or rights assigned to the recipient under a contract. This right has been recognized in FIPPA and is applicable to a series of rights including right of ownership, right of operation and profitability, as the case maybe.

41. What is meant by assignment of proprietary rights in BOT contracts?

In BOT contracts assignment would cover the ownership right as well as the rights acquired under the contract which can be assigned to Iranian party of the contract.

42. Are foreign investment companies authorized to open bank accounts outside Iran?

Foreign investment companies are authorized to have bank accounts for the purpose of depositing their export earning. This would facilitate any and all payments due to the foreign investors by way of having a quick and direct access to export earnings from the export of products and services.

43. Is there any requirement for reintroducing export earnings to the Country for joint venture companies and investee firms?

No, no commitment for the return of export earnings is required. Export earnings are at free disposal of the exporter, to be used at his own discretion.

44. Can foreign investor insure his investment? What kind of insurance?

Foreign investor may insure his investment against non-commercial (political) risks with an insurance agency of his respective country. In the event a payment is made to the investor under the insurance contract, the insurer in the capacity of the investor's subrogee may apply for compensation resulting from the rights the investor is originally entitle to claim.

45. Which authority is competent to settle investment disputes between Iranian and foreign investors or between a foreign investor and the Government?



In general, an investment dispute between Iranian and foreign investors can be referred to domestic or foreign courts or to an international arbitration based on the (prior) agreement of the two parties. However, should the Iranian party to the dispute be a government sector or company, referral of the dispute to foreign courts or international arbitration can be done only upon observance of relevant legal formalities by the Iranian (government) party. To this effect, referral of disputes to international courts and arbitration based on prior agreement between the Iranian Government and the investors' respective government has been accepted in bilateral treaties.

46. How investment disputes may be settled?

Investment disputes may be classified in 3 categories, each of which may be settled in a different manner:

- Disputes between local and foreign investors: This type of dispute may be settled, in the first place, through friendly negotiations. In the event a settlement is not reached, the dispute may be referred to domestic courts, foreign courts and/or international or ad hoc arbitral tribunals. There is no legal impediment for accepting any of the aforementioned methods as is mutually agreed between the parties to the disputes.
- Settlement of disputes between an investor and the host government: As contemplated in Article 19 of FIPPA, in the event a dispute between an investor and the Iranian Government is not settled through negotiations, the investor may approach through either of the following options:
 - a) Referring to domestic courts;
 - b) Referring the dispute to the competent arbitration tribunal stipulated in the Agreement on Reciprocal Promotion and Protection of Investment with the investors' respective government (i.e. Bilateral Investment Treaties: BITs).
- Settlement of disputes between host and home governments: This type of disputes are not usually of the same nature as disputes raised between investors. Moreover, they are attributed to the commitments and obligations of the respective governments vis-à-vis in respect of the implementation and interpretation of the contracts. Settlement of such disputes is also included in the bilateral and multilateral investment agreements.

47. Is ownership of land by foreign nationals permitted in Iran?

Yes. Ownership of land to the extent typically required for personal use by foreign nationals is permissible. Recognition of such ownership is dependent upon a specific permission from the Ministry of Foreign Affairs.

48. Is it permissible to own land by foreign nationals for the purposes other than personal use (i.e. industrial, agricultural, services, etc.)?

The answer is no. On the overall, the ownership of land for the aforementioned purposes which are considered to be beyond personal use, is not permitted.

49. Then how the "ownership of land" in foreign investment projects is resolved?

As explained in previous answer, ownership of land in the name of foreign nationals is not permitted. However, in the event the implementation of foreign investment

project results in establishment of an "Iranian Company", ownership of land in the name of that company which bears an Iranian identity, would be permissible.

50. What is meant by the term "Iranian Company"?

Iranian company is a company established and registered in Iran in accordance with Iranian Commercial Code, regardless of the identity and nationality of its shareholders or partners.

- **Chapter Three**
- **Admission Regime**

51. Which authority is responsible for admission and protection of foreign investments in the Islamic Republic of Iran?

The Organization for Investment Economic and Technical Assistance of Iran (OIETAI) is the sole government authority which in accordance with FIPPA is legally empowered to admit and extend legal protections to foreign capital. The license for foreign investment under FIPPA is also released by OIETAI.

52. Is it obligatory to obtain a license for foreign investment?

For those investment to be covered under FIPPA, it is required. Such a license is released when signed by the Minister of Economic Affairs and Finance.

53. Does it mean that each single investment under FIPPA requires a specific license?

Yes. Foreign investment in any single project covered by FIPPA, requires a separate license.

54. What is the procedure for issuance of a foreign investment license? What documents are required for the issuance of such a license?

The procedure for issuance of an investment license is short and simple. Upon submission of the official application for foreign investment addressed to OIETAI, the application will be put in the agenda of the Foreign Investment Board for review within 15 working days, and subsequently a draft license will be communicated to the foreign investor for confirmation. Should the foreign investor be satisfied with the draft, upon his confirmation, the final investment license will be issued and released. The documentation required include the filled-in application form along with all supplements/annexes, as the case may be, and other documents indicated in the last page of the application form.

55. Which services could be provided to foreign investors by OIETAI?

The organization can be addressed and consulted for any and all issues foreign investors come across. To this end, the investor is in touch with only one single organization through the Center for Foreign Investment Service, which will result in time and cost saving for them.

56. What is the objective behind establishment of the Center for Foreign Investment Services ?

For the purpose of facilitating and accelerating the attraction of foreign investments



into the Country, the Center for Foreign Investment Services was established at the premises of O.I.E.T.A.I., comprising the representatives of relevant authorities. This center acts as a focal point for the referrals by foreign investment applicants to the relevant Organizations.

57. Does the Organization provide any specific services to foreign investors other than consultancy services?

Of course yes. The Organization, besides offering the consultancy services to foreign investors, provides the following services:

1. Provision of information related to all laws and regulations pertaining to foreign investment;
2. Introducing investment opportunities in the Country;
3. Coordinating with different authorities with respect to applications for foreign investment;
4. Finding appropriate partners/parties, being local or foreign;
5. Contributing towards settlement of disputes between investors;
6. Organizing and arranging meetings and/or appointments with relevant authorities.

- **Chapter Four**
- **Foreign Capital**

58. What are the types of foreign capital?

According to FIPPA, there are various types of foreign capital which, in addition to cash capital, includes all types of non-cash capital comprising of machinery, equipments, parts, raw material, know-how and expertise services. (For more information please see Article(2) of the Implementing Regulation of FIPPA).

59. Are all kinds of foreign exchange acceptable as cash capital?

In fact, those kinds of foreign exchange which are acceptable to the Central Bank of the Islamic Republic of Iran, could be registered as cash capital.

60. How foreign cash capital is imported into the Country?

Foreign cash capital shall have to be imported into the Country through banking system and/or the official channels acceptable to the Central Bank of the Islamic Republic of Iran. Evidently, the imported foreign exchange shall be among those currencies acceptable to the said Bank.

61. Is it obligatory to convert the imported foreign exchange into Rials?

That portion of imported foreign exchange required to be converted into Rials at the discretion of the investor, shall be purchased by the recipient bank at the current rate, and its equivalent in Rials shall be deposited in the account of the J.V.C. or the investee firm.

62. Is it possible for the foreign investor not to convert the imported foreign exchange into Rials but use it for foreign purchases and orders related to the investment project?

Yes, as the foreign exchange may be converted into Rials, it is also possible to deposit the same in the foreign exchange account of the J.V.C. or the investee firm to be used, under the supervision of the Organization, for payments related

to foreign orders and/or other necessary expenses of the investment project. Depositing foreign exchange without conversion into Rials protects the foreign investor against foreign exchange fluctuations, and provides the opportunity to use it at his own discretion, whenever required.

63. What is the applicable rate for the conversion of the foreign exchange imported into the Country?

The rate applicable for the conversion of cash funds imported by the foreign investors is the prevailing rate of the Country's official monetary network or the free (market) rate as acknowledged by the Central Bank of Iran.

64. Is it necessary to value the foreign imported capital before its registration?

Yes. Valuation of capital, whether in cash or kind, is necessary. In both cases, the bank's conversion rate on the date of importation shall be the basis for valuation.

65. What formalities are required for importation of machinery, equipments, parts and raw materials (i.e., non-cash capital)?

In principal, importation of non-cash capital items related to foreign investment projects are not subject to the formalities of importation of commercial commodities. Non cash items of any type can be imported into the Country upon recommendation by OIETA based on the approved list, and the statistical (order) registration with the Ministry of Commerce.

66. Does it mean that importation of non-cash capital is free from local content requirements, allocation of foreign exchange and opening letter of credit?

That is true. It is not necessary to comply with the local content requirement, allocation of foreign exchange and opening letter of credit.

67. Is there any charge applicable to importation of foreign non-cash (in-kind) capital?

Except for machinery applicable in manufacturing and mining projects, foreign non-cash capital, the same as other goods, is subject to payment of import duties, 68. What criteria are to be considered for importation of know-how?

Technical know-how and specialized services are considered as acceptable types of foreign capital, so should be valued and registered then as foreign capital. However, the opinion of the relevant Ministry shall be sought before the importation of technical know-how.

69. Is it permissible to pay license fee or royalty?

Sure. In cases where technical know-how is not considered as part of foreign capital, the relevant sums and/or approved royalty are payable to technology supplier.

70. What criterion is set for payment of license fee or royalty to foreign parties?

In any and all manners of payment, the value of imported raw material shall be the basis for calculation of royalty and or license fee. This net amount, after deduction of imported materials value, shall be paid to whom granted the license.



In other words, according to prevailing policy, payment of royalty and license fee is calculated on the basis of domestic added value.

71. Is it possible to register patent right and trade mark in Iran?

According to Patent and Trade Marks Registration Law, industrial and intellectual property rights such as patent rights, trade marks and names, etc. can be registered and protected in Iran.

72. Is it necessary to provide the list of non-cash capital before importation of the same?

Yes. Prior to importation of non cash capital, the foreign investor is required to submit to the OIETAI the detailed list of the same comprising technical specifications, manufacturer(s)' name, year of manufacture and price, along with relevant catalogues. Upon confirmation of the list, the said non-cash capital can be imported into the Country in one or more shipments at the discretion of the investor without any other specific formalities.

73. Is a prior review of technical know-how necessary?

Agreements related to specialized services, to be imported in the form of capital or to be paid for in other ways, shall be submitted to OIETAI along with the foreign investment application. The Organization will then coordinate and consult with the relevant Ministry on the necessity of the know-how as well as its value.

- **Chapter 5**
- **Foreign Exchange Transfers**

74. What is meant by the term «foreign exchange transfers»?

The term "foreign exchange transfers" refers to transfer of all sums resulting from the performance of a foreign investment and/or other sums to be transferred in the form of foreign exchange. Such transfers are categorized in two:

- a. Capital transfers such as dividends, principal capital, capital gain, sums pertaining to compensation for confiscation or expropriation of foreign capital;
- b. Other foreign exchange transfers including those resulted from patent, technical know-how as well as engineering and technical assistance agreements, trade marks and name, and similar agreements.

75. Is there any restriction with regard to the volume of transferable funds?

No, there is no legal restriction with respect to the volume of transferable funds, neither annually nor totally.

76. How the foreign exchange required for such transfers is procured?

Foreign exchange required for transfers related to foreign investments shall be procured and made available by way of purchasing foreign exchange from the banking system or out of foreign exchange earnings resulted from the export of products and/or services of the foreign investment project, as the case may be. However, the mechanism for provision of foreign exchange transfers is specified in the investment license.

77. Which formalities are required for transfers related to a foreign investment?

Principally, any and all foreign exchange transfers shall be made upon formal application of the foreign investor or the joint venture company or investee firm on behalf of the foreign investor. All transfers, after deduction of legal dues, are payable to the foreign investors account.

78. In case specific regulations or a government decision prohibits the export of products of the investment project, how the foreign exchange related to transfer of capital and profit is procured?

In exceptional cases where export is not so permitted, the foreign investor is authorized to sell his products in domestic market and to purchase, from the banking system, the required foreign exchange for such transfer(s). Obviously, the foreign investor may export other authorized goods instead, should he wish to do so.

- **Chapter 6**
- **Tax & Customs Issues**

79. What is the rate of income tax for juridical persons in Iran?

The rate of income tax for juridical persons in Iran is %25 of the taxable income (Article 105, Iranian Tax Code).

80. Is an equal rate of tax applicable to all types of company including Iranian as well as foreign companies?

The rate of tax for all types of company, whether Iranian or foreign (branches and representative offices), is %25 that is equally applied (Article 105, Iranian Tax Code).

81. Are branches and representative offices of foreign companies which are engaged only in marketing and information collection for their parent companies abroad, subject to payment of income tax too?

No, branches and representative offices of foreign companies and banks which are engaged in gathering information or marketing in Iran for their parent companies, without any transaction right, and receive remuneration from them against their expenditures, shall not be subject to taxation in respect of such remuneration (Note 2, Article 107, Iranian Tax Code).

82. How is the income tax of foreign airlines and shipping companies calculated in Iran?

The tax of foreign airlines and shipping companies for passenger freight cost and the like earned in Iran, is a fixed rate of %5 of such earnings whether collected in Iran, at the destination, or on the way.

83. Shall the income derived from transfer of technology agreements such as technical know-how, engineering and technical services and also payments of license fee and royalty be subject to taxation?

In case of granting of licenses and other rights in such agreements, which is considered as the income of foreign juridical persons, taxable income consist of



%20 to %40 of all payments received by them during a tax year and shall be taxed at a rate of %25 (Note 2, Article 105; Para“b”, Article 107, Iranian Tax Code).

84. How the contracting business agreements are taxed?

In case of contracting businesses of foreign entities in Iran with regard to all types of work in fields of construction, installations, and technical installation including procurement and setting up of the same or transportation, preparation of design for buildings and installation, topography, supervision and technical calculations, provision of training and technical assistance, transfer of technology and other services, the taxable income will be %12 of total annual receipts. (Para“a”, Article 107, Iranian Tax Code). In the event the relevant employer of the contract is a ministry, a government institution, a state company or a municipality, then that part of the contract price which is used for purchase of supplies and equipments from domestic or foreign sources shall be exempt from taxation, provided that the amounts relevant to those supplies and equipments are included, apart from other items, in the contract or in its further amendments or supplements. (Note 2, Article 107, Iranian Tax Code). However, in accordance with Note 5 of Article 107 of Iranian Tax Code, the taxable income of the activities subject matter of Para“a” of Article 107 thereof, the contracts which will be concluded from the beginning of the year 2003 onwards, shall be audited according to the provisions of Article 106, by way examination of statutory books.

85. How to compute the taxable income in Build, Operate and Transfer (B.O.T) projects, and what is the rate?

The taxable income of foreign investors in Build, Operate and Transfer (B.O.T) contracts in Iran, shall be calculated at a fixed rate of %25 after deduction of acceptable expenditures, by way of examination of the statutory books (Article 105 and 106, Iranian Tax Code).

86.What is the manner of computation of salary income tax of foreignemployees?
The tax rate of salary income of employees whether Iranian or foreigner, after deduction of annual exemptions provided in Article 84of Iranian Tax Code and up to IRR42,000,000 of the annual salary income, shall be subject to a rate of %10. The rest shall be subject to a rate ranging from %20 to %35, in accordance with Article 131of the said Code.

87. What is the rate of tax applicable to transfer of shares of companies listed in the Stock Exchange?

Each transfer of companies’ shares and priority right of shares, shall be taxed at a flat rate of %0.5 of the sale value of such shares and priority rights of shares (Note 1, Article 143, Iranian Tax Code).

88. What is the rate of tax applicable to transfer of shares of other companies?

Each transfer of stocks, partnership shares, priority right of stocks and partnership shares shall be taxed at a flat rate of %4 of face value of the shares and/or partnership shares (Note 2, Article 143, Iranian Tax Code).

89.What customs duties are there?

The aggregate of custom tax and duties, order registration fee and other levies on imported goods is called as customs duties which is charged at a rate of %4

of the customs value of the goods. This sum plus the commercial benefit to be determined by the Council of Ministers are referred to as import duties.

- **Chapter 7**
- **Tax and Customs Facilities and Exemptions**

90. What is meant by tax exemption, and how they are realized?

Tax exemption means exemption from payment of tax on income derived from industrial, mining and producing activities. Companies in Iran are required to withhold the tax on dividend, which is considered as natural entities' tax, and pay it to the relevant tax office (Article 132, Iranian Tax Code).

91. What are the tax exemptions, and in what manner they can be applied?

- Tax exemption in industry, mining and producing sectors:

1. %80 of the income derived from producing and mining activities of cooperative and private sectors are tax exempted for a term of 4 years as from the date of exploitation or extraction (operation) (Article 132, Iranian Tax Code).

2. Any part of the declared profit of private and cooperative companies that is used in the same year for development, reconstruction, renovation or completion of existing industrial or mining units and/or for setting up of new industrial or mining units, is exempted from %50 of the applicable tax (Article 138, Iranian Tax Code).

- Tax exemption in agricultural sector:

The income derived from all activities in the field of agricultural, animal rearing, stock breeding, fish farming, bee-keeping, poultry, husbandry, hunting and fishing, seri-culture, revival of pastures and forests, horticulture of palm trees, is tax exempted without time limitation (Article 81, Iranian Tax Code).

- Tax exemption in tourism sector:

All enterprises for internal and international tourism obtained exploitation permit from the Ministry of Culture and Islamic Guidance shall enjoy an annual exemption with regard to %50 of their applicable taxes (Note 3, Article 132, Iranian Tax Code).

92. Is there any requirement for enjoying tax exemptions?

Yes, industrial and mining enterprises shall enjoy tax exemptions if located out of a -120kilometer radius from the center of Tehran or out of a -50kilometer radius from the center of Isfahan, and also out of a -30kilometers radius from the administrative centers of provinces and cities with a population of more than 300,000. Industrial Estates established within the same -30kilometers radius from the later province centers and cities are exception to this rule (Note 2, Article 132, Iranian Tax Code).

93. Shall the establishment of manufacturing units in less developed areas result in increase of the rate and period of tax exemption?

Yes, %100 of taxable income of all units located in less developed areas shall be tax exempted for a period of 10 years.



94. In respect of tax exemptions, is there any distinction between the units located in Special Economic Zones and those of the mainland?

No, In respect of tax exemptions, there is no differences between the Special Economic Zones and the mainland. In fact, tax treatment is the same in all parts of the Country.

95. Shall export income enjoy tax exemption?

Yes, %100 of the income derived from exportation of agricultural and industrial finished goods as well as their conversional and complementary industries, also %50 of the income earned from exportation of other non-oil goods, are tax exempted (Article 141, Iranian Tax Code).

96. What is the tax exemption applicable to transit goods?

%100 of the income derived from exportation of different goods that have been, or will be, imported to Iran on transit, and are exported without making any changes in the substance thereof, or doing any works on them, are tax exempted (Article 141, Iranian Tax Code).

97. Do the companies quoted in the Stock Exchange enjoy tax exemptions other than those applicable to industrial, mining, agricultural and tourism units?

All the companies listed in the Stock Exchange whose transition of shares is done by stock brokers are tax exempted equivalent to %10 of their payable tax (Article 143, Iranian Tax Code).

B. Customs facilities and exemptions:

98. Is customs exemption applicable to the raw materials imported on transit to be exported then in the form of manufactured goods?

Yes, the raw materials imported on transit for producing purposes are exempted from customs duties. Any sum paid at the time of importation for any reason, shall be refunded once the said goods are exported.

99. At which price are the imported second hand machinery and equipments evaluated in customs house?

All the imported goods are evaluated at new price in customs; only the second hand machinery and equipments which are imported to the Country for production line under FIPPA, are to be evaluated at second hand price.

- **Chapter 8**
- **Other Facilities and Exemptions**

100. Which facilities are offered by OIETAI for entry visa of foreign investors and experts?

OIETAI facilitates visa formalities of foreign investors, including short and long term as well as single and multi entry visas (i.e., 3 year multi entry visa with a 3 months residence permit that is renewable for 1 year), by introducing foreign investors, directors, foreign experts and their immediate family members to the Ministry of Foreign Affairs. Foreign investors or joint venture companies can apply

for visa by sending the relevant specification form of applicants along with the reasons for their presence to OIETAI. It is worth mentioning that OIETAI is not the only reference for foreign investors to obtain visa, but all foreigners, according to the prevailing regulations, can refer to the Missions of the Islamic republic of Iran abroad, and apply for visa.

101. Are there any facilities available for the issuance of residence and work permits?

If necessary, OIETAI will provide certain facilities and assistance to foreign investors in this regard.

- **Chapter 9**
- **Miscellaneous**

102. With which countries has Iran signed the Agreement on the Avoidance of Double Taxation? And are they enforceable at present?

Before the Revolution, Iran had signed the Agreement on the Avoidance of Double Taxation with two countries, France and Germany, in 1964. After the Revolution, 19 agreements has been signed worldwide.

103. With which countries has Iran signed the Agreement on Reciprocal Promotion and Protection of Investment?

The Agreement on Reciprocal Promotion and Protection of Investment has been signed with 40 countries, the final ratification procedure for a number of them is still on the way.

104. Has Iran concluded any multilateral investment agreement?

Yes, the Government of the Islamic Republic of Iran has joined the Agreement on Promotion, Guarantee and Protection of Investment among OIC member countries as well as the agreement among ECO member countries.

105. Has Iran joined the Multilateral Investment Guarantee Agency (MIGA)?

Yes, the Islamic Republic of Iran is a member of MIGA at present, to this end foreign investors can enjoy the guarantee mechanisms of this agency as well. Although FIPPA along with bilateral and multilateral investment agreements signed by Iran, provides sufficient protections against non-commercial risks, membership to MIGA gives a double guarantee.

106. Which laws and regulations are necessary for potential foreign investors?

In addition to FIPPA and its Implementing Regulations which protect rights of foreign investors, OIETAI recommends the investors to acquire knowledge of the following regulations:

- Commercial Code (sections related to joint stock companies);
- Export and Import Regulations;
- Iranian Tax Code;
- Customs Law;
- Labour Law (to find out how to employ foreign services);
- Law for Registration of Patent and Trade Marks (to know about industrial and intellectual property rights).