



Ministry of Economic Affairs and Finance
Organization For Investment ,Economic and Technical Assistance of Iran
(OIETAI)

Q&A

on Foreign Investment in The Islamic Republic of Iran

Organization For Investment ,Economic and Technical Assistance of Iran
General Directorate for Foreign Investments

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Foreword:

This is a compilation of the enquiries that are frequently asked by potential investors willing to invest in the Islamic Republic of Iran. We hope that the answers provided herein, in addition to the policy issues, would assist parties, enable provide them have access to a package of comprehensive information in respect of the legal framework for admission of investments and the manner to obtain the relevant Investment License. You may find certain questions which do not necessarily have any direct relevance with Foreign Investment as a whole ,but in light of the need for preparing a multipurpose source of information, we have tried to compile a variety of likely inquiries to respond to any question relating to doing business in Iran.

Obviously , those investors who may need more detailed information on any other subject , are recommended to refer to other OIETAI publications and guides; or if they wish they may communicate directly or have meetings with the OIETAI staff who are in a position to welcome them by providing answers to any other question which is not addressed in this guide as well .

Readers are kindly recommended to refer to the table of content before searching the answers to their questions in each chapter.

**General Directorate for Foreign Investments
OIETAI**

Chapter one
General information

Q.1: Is Foreign Investment permitted in Iran?

A : 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 of investors shall be eligible to enjoy the privileges and protections under the Foreign Investment Promotion and Protection Act (FIPPA) who that have obtained the required license under the FIPPA..

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

A: Enhancing economic growth; increasing employment opportunities; access to and development of new technologies and managerial skills; upgrading quality of products and boosting export capabilities.

Q.3: Under what legal or contractual framework ,foreign investment maybe admitted in Iran?

A: Foreign investment is admitted under all forms of ^{}”legal participation “ (Foreign Direct Investment) and / or contractual arrangements in Iran. 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.*

Q.4: How do you define foreign investment?

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

a) Legal participation (Direct Investment):

Legal participation is defined to be 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

^{*} Un-incorporated profit sharing partnership

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 company concerned.

b) Contractual arrangements:

Contractual arrangement is defined to be 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 the 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 own companies.

Q.5: In what sectors foreign direct investment is permissible?

A: Foreign direct investment is permitted in all areas open to Iranian private sector .

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

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

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

A: There are seven types of juridical entity or company that can be established under the Iranian commercial code .From within different types, “ the Joint Stock Company ” in which the capital is divided by shares, is the most common and acceptable type of company that may be recommended to foreign investors. (for further information please refer to Establishing a Joint Stock Company in Iran published by OEITAI)

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

A: Of course, having a local partner is not a obligatory, but it is proved that 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.

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

A: 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 .

Q.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% addressed to in Para (d) of Article (2) of FIPPA?

A: The ratios addressed in the said para has nothing to do with the shareholding percentage of foreign investment in a single investment case .As formerly explained ,no restriction with respect to the ceiling of foreign participation is imposed in Iranian companies. 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.(Value of foreign products in GDP).

Q.11: Is Foreign investment permissible in oil and gas upstream areas ?

A: Foreign investment in oil and gas upstream areas within framework of contractual arrangement is permissible whereas foreign investment in the form of direct investment (FDI) in those areas is not permitted .

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

A: Application of trade marks and names is Permitted in all areas of economic activity.

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

A: There is no restriction for investment in companies quoted in stock exchange. Foreign investment in these companies are eligible to enjoy the protection available under FIPPA in the same manner as is available to foreign investment outside the stock market .

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

A: Especial Economic Zones are restricted customs areas in which the 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.

Q.15: Is there any difference between investments made in free trade-industrial Zones, special economic zone and the mainland?

A: Investment in free zones is subject to especial regulations governing investments in free zone. Free zones are the areas legally recognized as “Free zones “ which at present comprise six areas by the name of Ghesm , Kish, Chahbahar, Arwand, Aras and Bandar Anzali. Areas known as special economic zones are part of mainland in which all investment are considered to be investments in the main land. However taking into consideration the applicability of the foreign investment Law to the territory of the I.R. 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 .

Q.16: What is meant by the terms “Iranian Company” and “Foreign Company” from the standpoint of Iranian laws and regulations?

A: The term “Iranian Company” refers to a company incorporated and registered in Iran according to Iranians commercial code, even if hundred percent of the shares or stocks belong to natural or juridical persons.

The term “Foreign Company” refers to a company incorporated and registered outside Iran.

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

A: Of course. Any foreign company, for the purpose of expanding its commercial activities, performing its contractual obligations,

carrying out marketing activities and etc,... may establish a legal permanent base in the form of branch or representative office in Iran. For the purpose of establishing a branch or representative office a 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.

Q.18: Is the establishment of the branch or representative office considered as foreign investment?

A: Establishing a branch or representative office is not considered as foreign investment and any foreign investment may be realized by way of establishing a new Iranian company, participation in an existing Iranian company and/or entering into contractual arrangement with Iranian recipient entities.

Q.19: What are the features of industrial estates and what facilities are available in those areas?

A: Industrial estates are prefabricated states designed, constructed by the industrial estates company of Iran affiliated with the ministry of Industries and Mines and readily available for investors in all industrial pose throughout the country. Even in certain estates, factories and industrial workshops are offered to be purchased. 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)*

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

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

Q.21: What is meant by the term “protection” under the FIPPA?

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

Q.22: What are those rights and privileges?

A: Fundamental rights recognized under the FIPPA in favour of the foreign investor are as follows:

- The right to transfer profits (dividends) and capital and gains on capital in foreign currency;*
- 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 the prohibition or interruption in the implementation of financial contract of foreign investors;*
- The rights to enjoy equitable treatment accorded to domestic investors.*

Q.23: Are there any other facilities and privileges available to foreign investors?

A: 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;
- The possibility of submission of investment disputes to international arbitral tribunals;
- Recruitment of foreign technicians in affairs related to investment projects;
- Export of goods and services without any commitment to reintroduce the export proceeds to the country(No surrender commitment requirement) ;
- Direct access to and withdrawal of export proceeds out of screw accounts established in banks outside the country;
- Inapplicability of price control, distribution as well as local content and manufacturing requirements.

Q.24: Who is qualified to invest in Iran?

A: All foreign natural and juridical persons , international organization 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 .

Q.25: How investments by the Iranian nationals can be covered under FIPPA?

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

Q.26: Are foreign state-owned companies authorized to invest in Iran in accordance with FIPPA?

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

Q.27: What are the sectors open for foreign investment in Iran under FIPPA?

A: Sectors open to foreign investment in Iran are vastly diversified and include all producing activities for the purpose of development and producing activities in all areas of Industry, Mining, Agriculture and Services including Tourism Sector.

Q.28: What type of service activities foreign investment is eligible to be covered under the FIPPA?

A: Foreign investment in the service sector, except for commercial activities, is eligible to be covered under the FIPPA. Commercial activities are eligible to be covered once they are considered as complementary to the producing activities in connection with the approved projects.

Q.29: Is the legal protection under the FIPPA extended to foreign investment automatically?

A: The extension of legal protection to foreign investments is not an automatic phenomenon, however the extension of such legal protection to foreign investment is subject to obtaining the required Investment License.

Q.30: How and under what condition an investment already carried out but not covered under the FIPPA can enjoy the FIPPA's coverage?

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

Q.31: Is foreign investment permissible in existing firms? If yes how?

A: From the standpoint of the FIPPA there is no difference between investment in a greenfield project or in 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 the managerial skills, development of exports and improvement of technology level in the same entity.

Q.32: How foreign investment can take place in an existing Iranian company?

A: There are two ways:

1- By way of acquiring the 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.

Q.33: Under what legal framework BOT contracts are implemented?

A: 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 (Project Company).

Q.34: What is meant by proprietary rights?

A: 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 the FIPPA and is applicable to a series of rights including right of ownership right of operation and profitability, as the case maybe.

Q.35: What is meant by assignment of proprietary rights in BOT contracts?

A: In BOT contracts assignment would cover the ownership right as well as the rights acquired under the contract which may be assigned to the Iranian Party to the contract.

Q.36: Are foreign investment companies authorized to open bank account outside Iran?

A: Foreign investment companies are authorized to have bank account 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 the export earnings from the export of products and services.

Q.37: Is there any requirement for reintroducing the export earnings to the country for joint venture companies and investee firms?

A: No. no commitment for the return of the export earnings required is at all. The export earnings is at free disposal of the exporter to be used at the discretion of the exporter .

Q.38: Can foreign investor insure his investment? What kind of insurance?

A: Foreign investor may insure his investment against non-commercial risks (political), by an insurance agency of the investor's 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 entitled to claim.

Q.39: How investment disputes may be settled?

A: Investment disputes may be classified in 3 categories, each may be settled differently:

1- Disputes between local and foreign investors:

Disputes between a foreign and local investors in the first place may be settled 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 a.m. methods as is mutually agreed between the parties to the disputes.

2- Settlement of disputes between an investor and the host government:

- As contemplated in Article 19 of the 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) by referring to domestic courts,

b) by referring the dispute to the competent arbitration tribunal stipulated set force by the agreement on the reciprocal promotion and protection of investment with the investors respective government i.e. bilateral treaties (BITs).

3- Settlement of disputes between host and home governments:

This type of disputes are not usually of the same nature of disputes raised between investors. Moreover they are attributed to the commitments and obligations of the respective government 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 investments.

Q.40: Is ownership of land by foreign nationals permitted in Iran?

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

Q.41: Is it permissible to own land by foreign nationals for the purposes other than personal use (i.e. industrial, agricultural and services, etc.)?

A: The answer is no. On the overall, the ownership of land for the a.m. purposes considered to be beyond personal use, is not permitted.

Q. 42: Then how the “ownership of land” in foreign investment projects is resolved?

A: As explained in the former question, ownership of land in the name of foreign nationals is not permitted. But in the event the implementation of the foreign investment project results in the establishment, of an “Iranian Company”, the ownership of land in the name of that company, which bears the Iranian identity would be permissible.

Q. 43: What is meant, by the term “Iranian Company”?

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

Chapter Three

Admission Regime

Q.44: Which authority is responsible for admission and protection of foreign investment in the Islamic Republic of Iran?

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

Q.45: Is it obligatory to obtain a license for foreign investment?

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

Q.46: Does it mean that each single investment under the FIPPA require a specific license?

A : Yes. Foreign investment in any single project covered by the FIPPA requires a separate license.

Q.47: What is the procedure for issuance of a foreign investment license? What documents are required ?

A : The procedure for the issuance of an investment license is very short and simple. Upon the receipt of an investment application addressed to OIETAI, the application will be put in the agenda of the Foreign Investment Board for review within 15 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 final investment license will be issued and released. The documentation required include the filled out application form, along with all supplements/annexes, as the case may be, and other documents indicated in the last page of the application form.

Q48: Which services could be provided to foreign investors by the OIETAI ?

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

Q49: What is the objective behind establishment of the Center for Foreign Investment Services ?

*A: For the purpose of facilitating and accelerating the attraction of foreign investment into the country, the Center for Foreign Investment Services is established at the premises of the O.I.E.T.A.I. comprising the representatives of relevant authorities.
This center is doing as a focal point for the referrals by Foreign Investment applicants to the relevant Organizations.*

Chapter Four Foreign Capital

Q50: What are the types of foreign capital?

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

Q51: What kinds of foreign exchange are acceptable as the cash capital?

A: In fact, all kinds of foreign exchange which are acceptable by the Central Bank of the Islamic Republic of Iran, could be registered as cash capital.

Q52: How the cash capital is imported into the Country?

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

Q53: Is it obligatory to convert the imported foreign exchange into Rials?

A: That portion of imported foreign exchange which with discretion of the investor, shall have to be converted into Rials will be purchased by the recipient bank in applicable exchange rate and its equivalent in Rial will be deposited in the account of the J.V.C. or the investee firm.

Q54: 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, just as the foreign exchange in cash may be converted into Rials, it is also possible to be deposited the same in the foreign exchange account of the J.V.C. or the investee firm and be used under the supervision of the Organization, for the payments related to foreign orders and/or other necessary expenses of the investment project.

Q55: What is the applicable rate for the conversion of the foreign exchange imported into the Country?

A: The rate applicable for the conversion of imported cash funds 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.

Q56: Is it necessary to value the foreign imported capital before its registration?

A: Yes. Valuation of the capital, in cash or kind, is necessary. In case of imported cash capital the conversion rate of bank on the date of importation shall be the basis for valuation.

Q57: What formalities are required for importation of machinery, equipments, parts and raw materials (non-cash capital)?

A: In principal, importation of non-cash capital items related to the approved foreign investment projects are not subject to the formalities of importation of commercial commodities. Non cash items of any type may be imported into the Country just upon statistical (order) registration with the Ministry of Commerce.

Q58: Does it mean that the importation of non-cash capital is free local content requirements, allocation of foreign exchange and opening letter of credit?

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

Q59: What criteria should be considered in case of importation of know-how?

A: 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 recommendation of the relevant Ministry should be sought before the importation of technical know-how.

Q60: Does the Organization provide any specific services to foreign investors other than consultancy services?

A: Of course, the Organization, besides offering the consultancy services to foreign investors provides the following services:

- 1) Provision of information related to all the laws & regulations pertaining to foreign investment,
- 2) Introducing investment opportunities in the Country,
- 3) Coordinating with different authorities with respect to facilitation of attraction of foreign investment,
- 4) Finding appropriate (suitable) parties for investment projects,
- 5) Contributing in the settlement of disputes between investors,
- 6) Organizing and arrangement of meeting and/or appointments with the relevant authorities.

Q61: Is it permissible to pay license fee or royalty?

A: 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.

Q62. What criterion is set for payment of license fee or royalty to foreign parties?

A: 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.

Q63. Is it possible to register patent right and trade mark in Iran ?

A: 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.

Q64. Is it necessary to provide the list of non-cash capital before importation of the same?

A: 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 catalogs. 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.

Q65. Is a prior review of technical know- how necessary?

A: 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 the OIETAI, along with the foreign investment application. The OIETAI will coordinate and consult with the relevant ministry on the necessity of the relevant know- how and its value.

Chapter 5

Foreign Exchange Transfers

Q66. What is meant by the term "foreign exchange transfers"?

A: The term "foreign exchange transfers" refers to transfer of all sums resulting from the performance of the foreign investor and/or other sums to be transferred in the form of foreign exchange. These 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.*

Q67. Is there any restriction with regard to the volume of transferable funds?

A: No, there is no legal restriction with respect to the volume of transferable funds whether annually or totally.

Q68. How the foreign exchange required for such transfers is procured?

A: Foreign exchange required for the transfers related to foreign investment 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 the products and/or services of the foreign investments as the case may be. However, the mechanism for provision of foreign exchange transfers is specified in the relevant investment license.

Q69. Which formalities are required for transfers related to foreign investment?

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

Q70. 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?

A: In exceptional cases where export is not so permitted, the foreign investor is authorized to sell his product in the 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 so.

Chapter 6

Tax & Customs Issues

Q71. What is the rate of income tax for juridical persons in Iran?

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

Q72. Is an equal rate of tax applicable to all types of company including Iranian as well as foreign companies?

A: 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).

Q73. 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?

A: 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 (Article 107, Note 2, Iranian Tax Code).

Q74. How is the income tax of foreign airlines and shipping companies calculated in Iran?

A: 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.

Q75. 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?

A: Yes, the income derived from granting of licenses and other rights in such agreements, which is considered as the income of foreign juridical persons, consist of 20% to 40% of all payments received by them during a tax year, shall be taxed at the flat rate of 25% (Note 2 of the Article 105, and Paragraph "b" of Article 107 of Iranian Tax Code).

Q76. What is the manner of tax receipts in contracting business agreements?

A: The taxable income of contracting businesses of foreign juridical person in Iran with regard to all types of work - in fields of construction, installations, and technical installations, 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 - will be 12% of total annual receipts. (Paragraph "a" of the Article 107 of Iranian Tax Code). If 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 of the Article 107 of Iranian Tax Code).

According to the Note 5 of the Article 107 of Iranian Tax Code, the taxable income of the activities subject to the paragraph "a" of the Article 107 hereof, the contracts which will be concluded from the beginning of year 1382 onwards, shall be assessed according to Article 106 through examination of statutory books of accounts.

Q77. How to compute the taxable income in Build-Operate-Transfer (B.O.T) projects and what is the rate?

A: The taxable income of foreign investors in Build-Operate-Transfer (B.O.T) contracts in Iran, shall be assessed at a fixed rate of 25% and through examination of statutory books of accounts after deduction of applicable charges (Article 106 and 105 of Iranian Tax Code).

Q78. What is the manner of computation of salary income tax of foreign employees?

A: The tax rate of salary income of employees whether Iranian or foreigner, after deduction of annual exemptions provided in Article 84 of Iranian Tax Code, up to IRR 42,000,000 shall be subject to a rate of 10%; the rate of the rest shall be subject to Article 131 of the said Code ranging from 20% to 35%.

Q79. How much is the Tax on transfer of shares of listed companies in stock exchange?

A: 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 the shares and priority rights of shares (Note 1 of the Article 143 of Iranian Tax Code).

Q80. How much is the Tax on Transfer of shares in other companies ?

A: 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 of the Article 143 of Iranian Tax Code).

Q81. What are the customs duties and custom charges?

A: The aggregate rate of custom tax and duties, levy for registration of orders, and other charges on import of goods is set to be 4%. Of the custom value of the goods. This sum plus the commercial benefit is referred to as “import duties”.

Chapter 7

Facilities and exemption of tax and customs

A. Tax facilities and exemptions

Q82. What is meant by tax exemption and how they are realized ?

A: It means exemption from payment of income tax derived from industrial, mining and producing activities. Enterprises in Iran are required to withhold the tax of stock dividend, which is considered also as the tax of juridical persons, and pay it to the tax affairs office. (Article 132 of Iranian Tax Act).

Q83. What are the tax exemptions and in what conditions they be can applied?

A:

- **Tax exemption in industrial, mining and producing section :**

1. *80% of the income from producing and mining activities of cooperative and private sectors shall be exempted from tax for a term of 4 years beginning from the date of exploitation or extraction (Article 132 of 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, shall be exempt from 50% of the applicable tax (Article 138 of Iranian Tax Code).*

- **Tax exemption in agricultural section:**

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

- **Tax exemption in Tourism section :**

All enterprises for internal and international tourism that hold 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 of the Article 132 of Iranian Tax Code)

Q84. Is there any terms for enjoying the tax exemption?

A: *Yes, the industrial and mining sectors shall enjoy the tax exemption, If their related units located out of a 120-Kilometer radius from the center of Tehran or out of 50-Kilometer radius from the center of Isfahan and also out of a 30-Kilometers radius from the administrative centers of provinces and cities with a population of more than 300,000; except for industrial estates established within the same 30 Kilometers radius from the later province centers and cities. (Note 1 of the Article 132 of Iranian Tax Code)*

Q85. Shall the establishment of manufacturing units in deprived zones, result in increase of the rate and period of tax exemption?

A: *Yes, 100% of taxable income of all units located in deprived regions shall be exempted from the tax for a period of 10 years.*

Q86. Are the deprived regions distinguishable ?

A: *At the beginning of each economic development plan the list of deprived regions shall be prepared by the State Organization for Management and Planning and Ministries of Economic Affairs and Finance, and Industries and Mines, and will be approved by the council of Ministers. (Note 1 of the Article 132 of Iranian Tax Code).*

Q87. In respect of tax exemption is there any differences between the units settled in Special Economic Zones with other parts of the mainland of Iran?

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

Q88. Shall export income enjoy tax exemption?

A: *Yes, 100% of income derived from exportation of industrial finished goods and products of agricultural and conversional/complementary industries, as well as 50% of the income earned from exportation of other non-oil goods shall be tax exempted (Article 141 of Iranian Tax Code).*

Q89. How is the tax exemption of the goods imported to Iran on transit?

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

Q90. Do the companies listed in the Stock Exchange enjoy tax exemptions other than those applicable to industrial, mining, agricultural and tourism units?

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

B. Facilities and custom exemptions.

Q91. Is custom exemption applicable to the raw materials imported on transit to be exported then in the form of manufactured goods?

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

Q92. At which price the imported second hand machinery and equipments are evaluated in customs?

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

Chapter 8
"Other facilities and exemptions"

Q93. Which facilities are offered by OIETAI for entry visa of foreign investors and experts?

A: OIETAI facilitates visa formalities of foreign investors (i.e., for issuance of 3 years with a 3 month residence permit that is renewable for one 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 persons applying for visa, along with the reason for their presence in Iran to the OIETAI. It should be mentioned that the "OIETAI" is not the only reference for foreign investors to obtain visa, but all foreigners according to the current prevailing regulations, can refer to the missions of the Islamic republic of Iran in abroad and apply to take visa.

Q94. Is there any facilities for issuance of residence and work permits?

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

Q95. Is there any charge applicable to importation of foreign non cash capital?

A: Foreign non cash capital excepting machineries applicable in manufacturing and mining projects, like other goods, is subject to payment of import duties.

Q96. Is there any "local content" requirement for importation of machinery and equipment and raw materials which form all or part of foreign capital?

A: No. there is not any "local content" requirement for importation of foreign non cash capital belonging to the approved projects under the FIPPA.

Chapter 9

Miscellaneous

Q97. With which countries has Iran concluded the Agreement on the Avoidance of Double Taxation? Are they in all in forcible at present?

A: Before revolution, Iran has signed the Agreement on Avoidance of Double Taxation with two countries, France and Germany, in 1964. After the revolution some 40 agreements has been signed and come into force with other countries around the World.

Q98. With which countries has Iran signed the Agreement on Reciprocal Promotion and Protection of Investment?

A: The Agreement on Reciprocal Promotion and Protection of Investment has been signed with 54 countries so far, the final ratification procedure for which is on the way.

Q99. Has Iran signed any multilateral investment agreement?

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

Q100. Has Iran joined the Multilateral Investment Guarantee Agency (MIGA)?

A: Yes, the Islamic Republic of Iran is a member of MIGA now, so foreign investors can enjoy the guarantee mechanisms of this agency. Although FIPPA along with bilateral and multilateral investment agreements signed by Iran provide sufficient coverage against non commercial risks, membership in MIGA gives a double guarantee.

Q101. What are the main laws and regulations necessary for foreign investors ?

A: In addition to FIPPA and it's Implementing Regulation which protect rights of foreign investors, we recommend the investors to acquire knowledge of the following regulations:

- 1. Commercial Code especially parts related to joint stock companies.*
- 2. Export and Import regulation.*
- 3. Iranian Tax Code*
- 4. Custom Law*
- 5. Labor Law*
- 6. Law for Registration of Patent and Trade marks.*

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