

# Doing Business in Iran

## A Guide for Foreign Investors

Arjomandi & Arif  
Iranian Lawyers Office

Mehdi Arjomandi  
Lawyers Building, No.1533 Shariati St.,Tehran, Iran Tel: +98 (912) 105 2681  
[www.Iranianlawversoftice.com](http://www.Iranianlawversoftice.com)

# CONTENT

|   |   |  |
|---|---|--|
| <b>03</b>                                       | <b>05</b>                               | <b>06</b>  |
| Introduction                                    | ABOUT IRAN                              | The Joint Comprehensive Plan of Action (JCPOA) at a Glance       |
| <b>07</b>                                       | <b>10</b>                               | <b>12</b>  |
| Top Investment Opportunities in Iran            | Iran's Foreign Investment Manual        | Registering Company in Iran                                      |
| <b>14</b>                                       | <b>15</b>                               | <b>16</b>  |
| Things to consider in Iran market               | Free and Special Economic Zones of Iran | Visa to Iran   |
| <b>17</b>                                       | <b>19</b>                               | <b>20</b>  |
| Foreign investment promotion and protection Act | Employment of Foreign Nationals in Iran | Intellectual Property  |
| <b>20</b>                                       | <b>20</b>                               | <b>22</b>  |
| Trademarks and Trade Names                      | Patents and Industrial Designs          | Taxable Real and Legal Entities According to Direct Taxation Law |
| <b>23</b>                                       | <b>24</b>                               | <b>28</b>  |
| Labor regulation                                | Legal system of Iran                    | Foreign Investment in the Iranian insurance market               |

## **INTRODUCTION**

What are the key considerations when planning to establish or acquire a business in Iran? What are the potential opportunities, and where are the possible pitfalls?

We've organized this guide into what we hope you'll find to be a useful and user-friendly resource for foreign investors seeking to conduct business activities inside of Iran. Beginning with an overview of the Iranian political and legal systems, the guide proceeds through the areas of law most likely to affect your business decisions: foreign investment, international trade, taxation, intellectual property, employment and etc.

The discussion in each section is intended to provide general guidance, and is not an exhaustive analysis of all provisions of Iranian law with which your business may be required to comply. For this reason, we recommend you seek the advice of one of our lawyers on the specific legal aspects of your proposed investment or activity. With office in Iran's major commercial centre (Tehran), Iranian Lawyers Office has substantial presence and capabilities to help you successfully complete any business transaction in Iran.

**I Doing Business in Iran Was developed by Iranian Lawyers Office as a basic guide to the legal aspects of establishing or acquiring a business in Iran.**







## **ABOUT IRAN**

Home to one of the oldest civilizations and greatest empires of the ancient world, Iran is full of diversity – from landscapes and ethnic groups to industries and business opportunities.

Iran is located in Western Asia. Also known as Persia, Iran has a population of more than 82 million. It comprises 31 provinces and 261 cities. Iran has special economic and geopolitical significance in the Middle East region. It is located at one of the world's most strategic crossroads, linking Asia to Turkey (the gateway to Europe) and Russia and the Commonwealth of Independent States (CIS) to the energy-rich region and strategic waterways of the Persian Gulf.

It holds the fourth and second largest proven oil and natural gas reserves in the world respectively. The Economist Intelligence Unit (EIU) puts Iran's gross domestic production (GDP) at USD\$443.4 billion in 2017. According to the World Bank, this makes it the second largest economy in the Middle East region.

Iran boasts a strong human capital base and one of the highest growth rates in science for the past decade. It is a major regional producer of steel, cement and petrochemicals. Iran is also a leading producer and exporter of several agricultural products, including saffron and pistachios.

In January 2016, the world powers and Iran reached a significant deal based on Iran limiting its nuclear program in exchange for sanctions relief. It is considered a major turning point for the Iranian economy and the country's re-engagement with the international system.



## **THE JOINT COMPREHENSIVE PLAN OF ACTION (JCPOA) AT A GLANCE**

The Joint Comprehensive Plan of Action (JCPOA) is a detailed, 159-page agreement with five annexes reached by Iran and the P5+1 (China France, Germany, Russia, the United Kingdom, and the United States) on July 14, 2015. The nuclear deal was endorsed by UN Security Council Resolution 2231, adopted on July 20, 2015. Iran's compliance with the nuclear-related provisions of the JCPOA will be verified by the International Atomic Energy Agency (IAEA) according to certain requirements set forth in the agreement. On May 8, 2018, President Trump announced that the United States would withdraw from the JCPOA and reinstate U.S. nuclear sanctions on the Iranian regime.

The following is a summary of the agreement.

### Timeline for Implementation

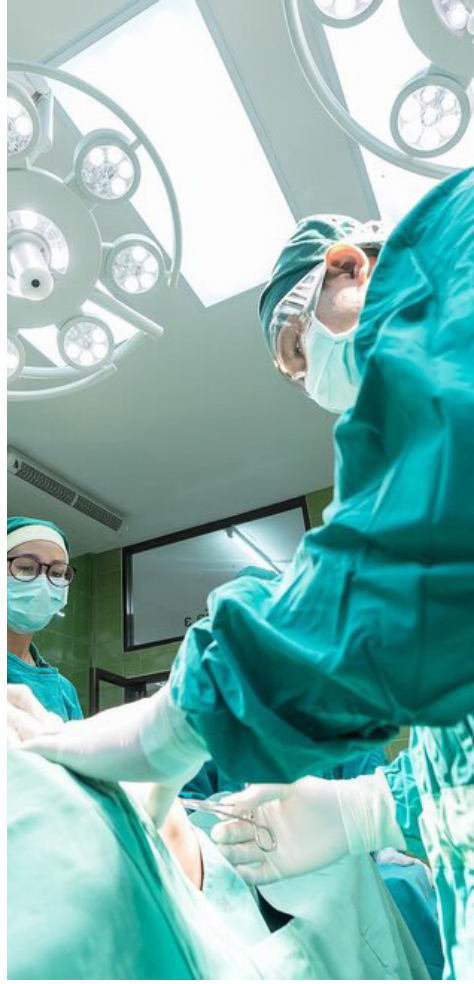
- July 14, 2015, Finalization Day: conclusion of the agreement. Finalization day triggers Iran and the United States to begin domestic review processes of the JCPOA. Iran also begins providing the IAEA with information necessary for the agency to complete its investigation into past activities related to nuclear weapons development.

October 18, 2015, Adoption Day: 90 days after the passage of the UN Security Council Resolution endorsing the deal (July 20, 2015). Adoption day triggers Iran and the P5+1 to take steps (outlined below) to meet the commitments to fully implement the JCPOA.

January 16, 2016, Implementation Day: the IAEA certifies that Iran has taken the key steps to restrict its nuclear program and has put in place increased monitoring. The IAEA's report on implementation day triggers U.S., EU, and UN sanctions relief.

October 2023, Transition Day: Eight years after adoption day (or the IAEA reaching its broader conclusion on Iran's nuclear program, whichever is sooner). Adoption day triggers the UN to lift missile restrictions, Iran to seek ratification of its additional protocol, the EU to terminate all remaining nuclear sanctions, United States to remove certain entities from the sanctioned list, and the United States to seek legislative termination of certain sanctions.





## TOP INVESTMENT OPPORTUNITIES IN IRAN

Currently, key sectors including energy and finance are unable to trade with the rest of the world but the following key sectors are very important for foreign investors to invest now.

### Health and Pharmaceutical in Iran

Iran's healthcare and pharmaceutical sector is one of the most developed in the region. The country benefits from a large and growing population and relatively widespread access to healthcare services.

Due to the population growth and increased average age of Iranians, the Government is determined to further modernize the sector by building new hospitals, medical laboratories, and related facilities.

This will enable foreign suppliers of healthcare products to take advantage of market opportunities.

Iran is an attractive medical device market in the region. This is due to its large size and significant reliance on the importation of different types of medical devices.

Following the removal of most sanctions in January 2016, imports of medical devices raised, however it is likely to be impacted by lower oil prices and the country's lack of investment over the past decade. Therefore there are specific opportunities in the pharmaceuticals space.

These include exporting food and health/dietary supplements, including adult milk powders, anti-aging medicine, weight loss products, sports nutrition, and even cosmetics.

The Iranian Government regulates the importation of pharmaceuticals and food/health supplements, particularly if similar products are available (and/or manufactured) locally.

Multinationals dominate Iran's dietary supplements and vitamins market; however exporters of different types of health/food or dietary supplements will have a niche in the market if they are not available locally and not a focus area of competitors .

To develop its domestic pharmaceutical capability, Iran is asking foreign companies to form partnerships with their counterpart, transfer their technology to Iran and invest in Iran's healthcare sector active in Medical, Parma/Supplement, Dental, Consumer Health as well as water health Technology like:

**Endoscopy**  
**Rehabilitation & Physiotherapy**  
**Cardiovascular**  
**Instruments Diagnostic**  
**Ophthalmology**  
**Otorhinolaryngology**  
**Solutions Turnkey Hospital**  
**Dental**  
**Health Water & Management Preparedness Disaster**  
**Healthcare Consumer**  
**Pharmaceutical**  
**Production**

### **Food and beverage in Iran**

Dairy products used as ingredients, such as different types of industrial milk powders and whey and milk protein concentrates, have good market potential. Primarily butter as a Dairy product is a major export of dairy products to Iran. Another food product currently sold to Iran is fish, mostly frozen headed; this is an area with further growth potential.

Lamb meat is one of the most necessity exported to Iran and meat exporters can be expected to benefit from Iran's huge consumer market.

Iran is expected to see a growth of chain restaurants, hotels and malls in the coming years. This will create business opportunities for exporters of different types of food products.

Average household income rates are improving, supported by economic growth as a result of higher oil revenues and the easing of some international sanctions. This is boosting spending rates in a number of segments, although basic staples continue to dominate the food market, while the drinks segment is entirely reliant upon non-alcoholic beverages

### **Construction Section in Iran**

Iran is situated in an earthquake zone. Suppliers of specific products/services such as earthquake-resistant and prefabricated housing technologies can take advantage of the available opportunities. The Iranian construction sector relies on the use of traditional construction methods.

Iran's construction sector has been in a state of recession since middle of 2018, mainly because of a sharply price and lack of demand due to limited purchasing power.

Despite this, each year over one and half million Iranians needs new houses and the Government needs money and technology to run low-cost housing projects and develop new cities. This could be an opportunities for foreign exporters.

### **Renewable Energy in Iran**

Iran's geography and climate are highly suitable for the various forms of renewable energy technology. The southern provinces of Iran are an ideal location for solar projects as they are located on the world's 'Sun Belt' enjoying high solar irradiation (direct nominal irradiation of up to 5.5 kWh/m<sup>2</sup> day) and an average of 300 sunny days per year. Further, the country also has the potential to produce 1.4 GW of wind power as it is located in a low-pressure region surrounded by high pressures areas and is in the main air corridor of winds in summer and winter. The Iranian government is pushing for a move away from the use of hydrocarbons as a source of electricity production. This will free up oil and gas for export and allow electricity to be produced more cost-effectively. Iran's policymakers have recognized the potential of the renewable energy sector and have taken steps to exploit it. This target was too ambitious to achieve in a country where the renewable energy sector is in its infancy. International sanctions were also a contributing factor in Iran failing to meet this target. The Iranian government has now set a new target in its 6th Development Plan (2016 to 2020), to be passed by parliament this year, which will see the installation of the renewable capacity of 5,000 MW within this period as well as plans for an additional 2,500 MW by 2030. The Iranian Power Generation, Transmission, Distribution, and Management Company (the 'TAVANIR'), estimates that Iran's renewable energy capacity will be able to provide 10% of the country's energy requirement within 5 years.





## IRAN'S FOREIGN INVESTMENT MANUAL

Iran welcomes foreign investments and all foreign investors to attentively peruse Iran's Foreign Investment Promotion and Protection Act (FIPPA) and its executive bylaws to know their own rights and be informed of the facilities and protections they may enjoy as well as the legal obligations and requirements caused by investing in Iran.

In this manual, first the process of looking into the applications by foreign investors to the Investment Organization of Iran is briefly discussed. Then, some articles from FIPPA and its bylaws, referring to guarantees given to the investors, their rights, facilities granted, the protection extended as well as their commitments and obligations will be offered. The last section is devoted to entry and registration procedures for foreign investments once the investment permit is issued.

The process of examining the applications by foreign investors to the investment organization of Iran up to permit issuance

The foreign investors, who would like to make investments in Iran within the framework of Iran's Foreign Investment Promotion and Protection Act (FIPPA), need to first fill out a special form and submit it to the organization. The application is presented by the Investment Organization to the Foreign Investment Council and will be pursued until a permit is issued.

Choosing the form depends on the type of the foreign investment and the agreement concluded between the parties (domestic and foreign investors).

Guarantees and protections:

- Foreign Capital is guaranteed against nationalization and expropriation, and in such cases the Foreign Investor shall be entitled to receive compensation (Article 9 of the FIPPA).

- Should laws or government regulations lead to prohibition or cessation

of approved financial agreements within the framework of this Act, then the government shall procure and pay the resulting damages (Article 17 of the FIPPA & Article 26 of the bylaws).

- The purchase of goods and producer services of the foreign investment is guaranteed in cases where a state-run organ is the only buyer or supplier of a product or producer service at a subsidized price (Article 11 of the bylaws).

Rights and facilities:

- Foreign investments subject to this Act shall enjoy the same rights, protections and facilities available to domestic investments in a non-discriminatory manner (Article 8 of the FIPPA).

- The Foreign Investment and its profits may be transferred in foreign currency or goods (Articles 13-18 of the FIPPA).

- Acceptance of foreign investments in all the production, industrial, agricultural, transportation, communications, and services fields as well as in fields related to water, power, and gas supply and energy fields

- The possibility of the referral of investment-related disputes to international authorities (Article 19 of the FIPPA).

- The possibility of land ownership in the name of the company (registered in Iran) in joint ventures (Article 24 of the bylaws).

- Issuance of visas for three years in Iran for foreign investors, managers, experts and their immediate family members and the possibility of visa renewals (Article 20 of the FIPPA & Article 35 of the bylaws).

- The investors are notified of the final decision regarding their applications within at most 45 days (Article 6 of FIPPA)

- Having a choice to choose the investment method in the project as FDI or Foreign Investment in all sectors within the framework of "Civil Participation", "Buy-Back" and "Build-Oper-

ate-Transfer" (BOT) schemes (Article 3 of FIPPA).

- Acceptance of investments by any natural or legal non Iranian or Iranian person utilizing capital of foreign origin and granting the facilities envisaged in FIPPA to them (Article 1 of FIPPA).

- The foreign investor must choose an audit institute out of the audit institutes recognized by the Association of the Official Auditors of Iran to substantiate their financial and annual reports (Articles 1, 22-23 of the bylaws).

Legal commitments and obligations of the investors

- Applications of Foreign Investors in respect of issues such as admission, importation, utilization and repatriation of capital under the FIPPA shall be submitted to the Organization and followed up through it (Article 5 of FIPPA).

- The Organization should be notified of any changes in the name, address, legal shape, or nationality of the foreign investor or of changes of more than 30% in his/her ownership (Article 33 of the bylaws).





- It is necessary for the investor to notify the Organization of the transfer of all or part of his/her Foreign Capital to other investors. In case of transfer to another foreign investment, it is needed to obtain the approval of the Council and the permits from the Organization (Article 10 of FIPPA).

- All the applications of the foreign investor for transferring the profit, capital and the proceeds from the increase in the capital value under FIPPA must be submitted to the Organization accompanied by the report of the audit institute that is recognized by the Association of the Official Auditors of Iran (Articles 22-23 of the bylaws).

- The investor is obligated to bring a portion of the capital into Iran to implement the approved project over the period of time specified by the foreign investment license which is usually 6 months. Otherwise and in order to extend the validity of the license and prevent it from being revoked, the investor is required to submit his/her reasons and justifications for the delay to the Organization (Article 32 of the bylaws).

- The foreign investor is required to announce the entry of its capital including cash and non-cash items to the Organization within the framework of the license issued for the foreign investor so that they will be registered in the Organization and subjected to FIPPA. Failure to register the entered capital is tantamount to not being covered by the FIPPA. (Article 11 of the FIPPA & Article 24 of the bylaws)

- The Iranians who intend to utilize capital of foreign origin in Iran and wish to be subjected to FIPPA must be involved an economic and trade activities abroad and need to submit the relevant documents to the Organization (Article 5 of the bylaws).

- Acceptance of foreign investments in the existing Iranian enterprises and economic companies (purchase of shares) is possible provide that added value is created in that economic unit after the purchase of shares.

Other advantages and facilities:

- Foreign investors can supply a portion of their capital from domestic and international sources as loans. Needless to say, the borrower will have to guarantee the repayment of the loans received.

- Foreign capitals can enter the country as cash currency, machinery and pieces of equipment, raw materials, technical know-how, and other forms of intellectual property and they will be promoted and protected.

- 80% of the incomes made by the producer and mineral units based in lesser developed zones will be exempt from tax for 4 years.

- 100% of the incomes made by the producer and mineral units based in lesser developed zones will be exempted from tax for 10 years.

- Tourist installations are exempt from annual tax for 50%.

- 100% of the income generated by the exporting industrial and agricultural, conversion industries goods and their

completion are exempt from tax.

- 50% of the incomes generated by exporting goods aimed at developing the non-oil exportations are exempt from tax.

- 100% of the incomes generated by exporting transit goods are exempt from tax.

- Re-investments made by cooperative and private companies aimed at developing, restoring and completing industrial and mineral units will be exempt from tax for 50%

Is it mandatory for the foreign investor to have a local partner?

No, it is not mandatory to have local partner; foreign investors can have a 100% ownership company without any Iranian shareholder and Managing director and board of directors can be a foreigner and even there is no need to come to Iran in order run the company come to Iran.





## **REGISTERING COMPANY IN IRAN.**

A wide variety of legal arrangements may be used to carry on business activity in Iran. Some of the more commonly used arrangements are corporations, Branch office, and Joint Stock Company and limited liability companies.

What persons can invest in Iran?

All foreign legal or individual persons and organizations can invest in the country according to the foreign investment law.

The selection of the appropriate form of business organization will depend in each case upon the circumstances of the investor, the nature of the activity to be conducted, the method of financing, income tax ramifications and the potential liabilities related to the activity.

Generally, one of the first issues faced by a foreign entity contemplating carrying on business in Iran is whether to conduct the business directly in Iran as an Iranian branch of its principal business or to create a separate Iranian entity to carry on the business. We will provide you with the necessary information to establish the most suitable type of business in Iran.

Consider the following information for establishing a company in Iran:

100% Ownership of your company; Foreign investors can establish their company with 100% ownership of the shares and control of their business. This can be an advantage to some of the companies willing to be more involved in the Iranian market providing them with more security and stability as foreign investors. There are three types of companies which can be registered for foreign investment opportunities:

- 1) Limited Liability Company
- 2) Joint Stock Company
- 3) Branch office

Limited Liability Company

A limited liability company (Ba Masouliat Mahdoud) is defined as a company formed by two or more persons for the purpose of trading. Liability is based upon the direct contributions of the partners to the partnership and not by share subscription. The formation of a limited liability partnership is deemed to have taken place when the capital in cash has been fully contributed and when non-cash contributions have been assessed and delivered. The name of the company must always include the phrase "limited liability" otherwise under the law the company will

be considered as a general partnership. -Managing director and board of directors can be a foreigner and 2 or more foreign legal entity can be shareholders.

Joint Stock Company

The Joint Stock Company is defined by the law as a company whose capital is divided into shares and the liability of whose shareholders is limited to the value of their shares. As mentioned in the Foreword, the Joint Stock Company may be either a public company (Sahami Am) or a private company (Sahami Khass). The main difference between the two is that the public company may offer its shares and debt securities to the public while the private company may not. The shareholders of a joint-stock company participate in the ownership, profit and losses, and distribution of assets in liquidation, in proportion to the shares held. As indicated above, the liability of each shareholder is limited to the value of his shares and in the absence of fraud or other deceptive practices; there should be no recourse to shareholders for the liabilities of the company.

The company has a separate juridical personality by the law and can sue or



be sued in its own name. The shareholders possess the usual shareholder rights including, in general, the right to attend shareholders meetings, receive financial reports, elect and replace the board of directors, and vote on major decisions of the company.

**Number of Shareholders:**

The law specifies that a joint-stock company must have a minimum of three shareholders or more.

**Nationality of Shareholders:**

There are no legal restrictions with respect to the nationality of persons who may form joint-stock companies.

**Shares:**

A Joint Stock company may issue both ordinary and preferred. While the law does not specifically state what privileges may be accorded to preferred shares, it is understood that priorities as to dividends and distribution of assets in liquidation, and multiple voting powers will be honored under the law. The principal differences between registered and bearer shares relate to the manner of transfer and tax implications.

**Management:**

Management of a joint-stock company is with 2 members or more and made the responsibility of the board of directors which must be elected by cumulative voting of the shareholders at least once every two years.

**Branch Office**

Foreign Companies can establish a branch of their company in order to conduct their business in Iran. The Branch will be a foreign company and act as a branch under Mother Company and may operate in the following areas of activities:

- 1) Offering after-sale services for the goods or services of the foreign company.
- 2) Carrying out the executive operations of the contracts concluded between Iranian persons and foreign companies.
- 3) Studying and preparing the necessary conditions for the foreign company's investment in Iran.
- 4) Cooperation with Iranian technical and engineering companies for undertaking activities in third countries.
- 5) Participating in the non-oil exports of the Islamic Republic of Iran.
- 6) Offering technical and engineering services and transfer of know-how and technology.
- 7) Engaging in activities permitted by government agencies legally authorized to issue permits, in areas such as offering services in the fields of transportation, insurance, an inspection of goods, banking, etc.

A local branch office of a foreign company is the subordinate of the mother company which carries out the objectives and business transaction for the mother company. The operation of the branch office will be conducted under the name and responsibility of the mother company. The branch office is subject to Iranian laws in areas such as labor, social security, taxation, etc. The government protects the legal rights of a registered branch office as of the mother and domestic companies.

## **THINGS TO CONSIDER IN IRAN MARKET**

International sanctions and financial restrictions On 8 May 2018, US President Donald Trump announced America's intention to withdraw from the Joint Comprehensive Action Plan (JCPOA) and reinstate sanctions against Iran. These sanctions may affect foreign investors to doing business with Iran.

For the latest information about these changes, visit the Ministry of Foreign Affairs and Trade's Doing Business in Iran page. As a result of the recent developments, access to financial services in Iran in particular is expected to remain very difficult. International banks still are wary of processing transactions with Iran. This is largely because they are concerned that they may break existing United States sanctions and are unclear about what they are able to do.

### Methods of business in Iran

You can see many Iranian companies having branch offices, affiliations, sister companies and partners in neighboring states, such as the United Arab Emirates, Commonwealth of Independent States countries and Turkey. This method of doing business has become very common in Iran, especially in the past decade. Keep in mind that Iranian clients, especially the Government, only deal with you (not your regional brokers, etc) or your authorized local agent/partner. It is important you are not breaching any laws by considering such business options.

### Evaluate your risks in Iran

To be ensure that your engagement in Iran does not impact or jeopardize your commercial relations with your other partners, especially with the Americans. Companies that have business with the United States should be aware of the United States' sanctions that remain in place.

For more information on US sanctions see:

<https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>

### Credit cards in Iran

Iran's national currency is Rials. Exchange rates may vary on a daily basis. Visitors are advised to bring American dollars or Euros when travelling to Iran. The maximum permitted amount of foreign currency as visitors into Iran was Euro 10,000 (or its equivalent in other hard currencies) but at this time there is no limitation.

International credit or debit cards are work in Iran and it is recommended that you bring cash with you while travelling in Iran.

The same applies to ATMs, which only accept local (Rial) debit cards. Travelers won't be able to use (and are advised not to use) their international debit or visa cards at an ATM in Iran. While most hotels accept hard currency such as US dollars and Euros, you need to change your money at your hotel or money exchange offices for shopping etc. There are plenty of exchange offices and you will have no problem finding one.

### Transportation System in Iran:

Transportation in Iran is inexpensive because of the government's subsidization on the gasoline price. More than one million people work in the transportation sector. Dozens of cities have airports that serve passengers and cargo planes. Iran Air, the oldest airline, which was founded in 1962, operates domestic and international flights. All large cities have mass transit systems using buses and several private companies provide bus services between cities.



## **FREE AND SPECIAL ECONOMIC ZONES OF IRAN**

The Iranian Government operates six free trade zones and 16 special economic zones in the country, with the most prominent being Kish Free Trade Zone, Qeshm Free Trade Zone and Chabahar Free Trade Industrial Zone. These zones have been specifically set up to support economic activities and facilitate international trade relations and offer attractive guarantees and protections to foreign investors.

Companies and investors in these zones are exempt from routine taxation and other customary charges that are imposed on mainland Iran.

### Legal Incentives for the Investment in the Free Zones

- Foreign investors can invest in economic activities in the Zone in any proportion.
- Foreign investors' requests received in any Zone will be reviewed by the Organization of the same Zone and the investment license will be issued by the same Zone.
- The owner of the investment is obliged to import the specific percentage of the capital to the Zone within a period of time set in the investment license to start the operations specified in the investment license.
- The operating of the activity stipulated in the investment license is subject to the issuance of operating license by the Free zones Organization.
- Foreign investors in the Free Zones are entitled to enjoy the privileges of the Foreign Investment Encouragement and Protection Act in Islamic Republic of Iran.
- The investor can insure the capital which was imported to the Zone. In case of any accident, if the insurance institute becomes the successor of the investor based on the regulations of the insurance policy, this succession is known valid by indemnifying the insured for the damage; however, this is not considered as a capital transfer.
- Taking specific profit and the money related to the origin and the benefits gaining from economic activities of the foreign capitals as well as the money gained from selling or assigning these capitals out of the Zone is permitted.
- The investors are allowed to assign the shares or their own shares to other investors if the Free zones Organization agrees. In this case, the assignee will be the successor of the first investor in any respects.
- The dispute cases between the foreign investor and Iranian party shall be settled according to the written contracts and agreements.
- Foreign investors can invest in economic activities in the Zone in any proportion.

### Exemption from paying direct taxes on income and property

• Any natural or legal persons engaged in various economic activities in the Trade-Industrial Free Zones are exempt from paying tax for 20 years on income and assets subject to the Direct Taxes Act since the operation day stipulated in the license for any economic activities in the Free Zone.

### Exemption from the payment of Value Added Tax on commodity and services within the limits of the Free Zones

- Transferring the commodity (purchasing and selling) within the territory of any Zone is exempted.
- Running services within the territory of any Zone is exempted.
- By getting permit from the Free zones Organization, providing the contract services of non-residents to the residents in any Zone is exempted from paying the tax subjected to the Value Added Tax (to the amount of the services performed).
- Exporting commodity and services from the Zone to abroad is exempted.
- Importing the commodity and giving services to the mainland are subjected to the rules and regulations of the Value-Added Tax.

### Regulations on Exports, imports, and customs in the Free Zones

## VISA TO IRAN

Visitors to Iran must obtain a visa from one of the Iranian diplomatic missions unless they come from one of the visa exempt countries or countries eligible for visa on arrival.

### Visa on Arrival

Apply for all Iranian International Airports

It is notified to visitors to the Islamic Republic of Iran intends to acquire their visa at Iranian International Airports that in order to expedite the issuance of visa take the following measures (at least two days prior to their travel ):

You must submit a hardcopy of Grant Notice to the Visa-On-Arrival counter at the airport. The notice will be available when your application for Visa on Arrival is approved and you receive the granted email.

Citizens of foreign countries, who are entitled to obtain visas at border checkpoints, must pay visa fee through banking terminals at an airport in euros.

NOTE: All visitors to Iran must hold a passport or travel document valid for 6 months at the time of departure.

Apply for an electronic visa application by clicking on the following link: <https://evisatraveller.mfa.ir/en/request/>

Holders of normal passports traveling as tourist can obtain a visa on arrival for a maximum stay of 30 days (extendable for another 15 days) at the following airports:

- Konarak Airport (Chah- Bahar)
- Isfahan International Airport (Isfahan)
- Kish International Airport (Kish Island)
- Mashhad International Airport (Mashad)
- Dayrestan Airport (Qeshm Island)
- Shiraz International Airport (Shiraz)
- Tabriz International Airport (Tabriz)
- Imam Khomeini International Airport
- Mehrabad International Airport (Tehran)

We recommend applying electronic visa for tourists and when you apply calling the embassy to follow up the visa.

Enter to Iran without any arrival stamp on your passport.

In order to avoid any problem for visitors from Iran, government of Iran will not stamp on visitors passport

### Type of visa

Visa is a permission of entry to Iran for a limited period of time issued by Embassies and Consulates General

of the Islamic Republic of Iran abroad, for foreign nationals after receiving the approval of the Ministry of Foreign Affairs.

- Entry Visa
- Entry or transit visa for drivers carrying cargo
- Work permit visa Airport entry or transit visa
- Pilgrimage Visa
- Tourist Visa
- Transit Visa
- Visa for entry to free trade and Industrial Areas of Iran
- Student Visa
- Press Visa
- Diplomatic and service Visa

### Excluded Citizenship

Based on mutual agreement within the framework of international rules and regulations, citizens of some countries are exempt from applying for a visa to enter Iran. They include the citizens of the Republic of Azerbaijan, Bolivia, Turkey, Syria, Lebanon, Georgia, Armenia, Venezuela, Egypt, Malaysia and China.

Iran to give 5-year residency to foreign investors

The Iranian government has approved a by-law that grants five-year residency to foreign investors in line with the strategy to encourage foreign investment.

The by-law was proposed by the Ministry of Economic Affairs and Finance to give incentives to foreign investors and secure for ex-revenues for national economy. It was passed by the cabinet, presided by Iranian President Hassan Rouhani.

Each investor will get five-year Iranian residency if they invest 250,000 Euro or equivalent in other currencies, accepted by the Central Bank of Iran.

The new law authorizes foreign investment to take shape in the form of opening accounts in Iranian banks, buying investment bonds and securities as well as investment in the housing sector.

## **FOREIGN INVESTMENT PROMOTION AND PROTECTION ACT**

Incentives features and advantages of foreign investment promotion and protection Act (FIPPA)

- Unrestricted volume and percentage on foreign investment participation
- Iranian company registration possibility with 100% foreign capital
- Transfer of capital, dividend and the profits gained by using capital in the form of currency or goods
  
- Equal behavior with both foreign and domestic investors
- Investment possibility for foreign natural and legal persons and Iranians residing abroad
- Investment possibility in all areas permitted for the private sector
- Providing protection for all foreign investment plans
- Approving foreign capital in a short and fast process
- Issuance of a 3 year residence visa for investors, managers, foreign experts and their first-degree relatives

Risks covered by FIPPA

- Expropriation and nationalization
- Unlimited transfer of principal and dividend
- Guarantee of purchasing goods and services produced in foreign investment projects with BOT method via monopoly

Customs incentives

- Exemption of Customs duties production line machineries and equipment provided that being new and not being made domestically
- Raw material used for export commodities production
- All production line machineries and raw materials in free zones
- Components imported by manufacturing units for producing domestic goods are exempted from 20% customs duties, provided that they have not been made in Iran and recognized by Ministry of Industries, Mine and Trade.

- Knowledge-based companies and institutions are exempted from commercial taxes, customs and export duties

Tax incentives

- Taxable incomes of knowledge-based institutions resulted from the contracts, research and development activities, commercialization and knowledge-based services are exempted from taxes for 20 years.
- Companies with more than 50 employees: in case of increasing the employment volume up to 50% in comparison to the last year, will enjoy one added year exemption.
- If foreign companies with the capacity of domestic production units start business with authentic brands and export at least 20% of total production, can benefit 50% of tax exemption.

Income tax with rate of 0%

Other tax incentives

Total taxable income: registered capital 50% of income is tax free

Less developed areas

Total taxable income capital: double of registered capital 100% of income is tax free

In case of each 5% foreign investment, 10% will be added to these 2 incentives, maximum up to 50%

Regional incentives: investment incentives in special economic zones

- Import from economic zone for domestic consumption would be subordinate to export and import regulations, while export from these areas will be carried out without any formalities.
- Import from abroad or free zones or industrial areas would be carried out with minimal customs formalities and domestic transits are performed in accordance with the relevant regulations.
- Goods imported from abroad, industrial areas or other commercial zones can be exported with no formalities.
- Management of the region is allowed to assign the region to qualified natural or legal persons after classification and valuation.



- Owners of goods imported to the region can send all or part of their goods for temporary entry in to the country after doing customs clearance regulations.
- If the processing of imported goods is to some extent that changes the tariff of goods, the rate commercial benefit of the goods would be calculated equal the commercial benefit of raw material and spare parts of the country.
- Importers of goods are allowed to hand over to others part or all of their products against warehouse receipt to be issued by the district administration, in this case the breakdown warehouse receipt holder would be the owner of the goods.
- The management of each district is authorized to issue certificated of origin for goods per applicant out of the area with the approval of the customs.
- All the goods imported to the region for the required production or services are exempted from the general import-export laws. Import of goods to other parts of the country will be subordinated to export and import regulations.
- Percentage of goods produced in the zone, based on paragraph (d) of clause (25) of the law of the second economic, social and cultural development plan of the Islamic republic of Iran imported to the country, the proportion of total value added and domestic parts and material used in the total price of the commodity production is allowed without any limitation and in addition to not having to order and open letter of credit.
- Goods manufactured in special economic zones, as well as raw material and imported CKD parts into the country are not subject to price regulation due to unutilized resources and allocated currency.

#### Incentives & advantages for investment in trade-industrial free zones

- Tax exemption for 20 years from the date of operation for all economic activities.
- Foreign investment and nearly a hundred percent of the amount invested.
- Freedom of entry and exit of capital and profits.
- Protection and guarantees for foreign investments.
- Abolition of entry visas and easily issue of residence permits for foreigners.
- Facilitated regulation on labor relations, employment and social security.
- Transfer of part manufactured goods to the mainland without paying customs duties.
- Elimination of pay customs duties on import from outside to the region and vice versa.
- Employing trained and skilled manpower in all different skill levels and professions.
- Utilization of raw materials, oil and gas as feedstock and fuel for all industrial activities.

#### Other incentives

- Take advantage from local currency facilities of the National Development Fund
- The partnership possibility of development organizations (Iran Industrial Development and Renovation Organization, Iranian Mines and Mining Industries Development and Renovation Organization) in implementation of investment projects in less developed regions.
- The possibility of establishing new industries in estates industries areas with restrictions of the establishment of industries (120 kilometers distance from Tehran and 50 km and 30 km distance from the centers of some provinces)

- Government's guarantee for foreign investment while a political risk emerges.
  - Foreign investments have benefited from all rights, protections and similar facilities to local investors.
  - Guarantee importation and exportation of original interest and installment of investors' financial facilities.
  - Freedom of export commodities produced by financial corporation with participation of foreign investors.
  - Possibility of temporary importation without customs duties payment for export commodity processing.
  - Awards and export subsidies (the costs of participating in fairs and marketing).
  - Export commodities exemption from paying all type of duties.
  - Possibility of foreign investment for private sector activity in all permitted areas in Iran.
- No restrictions in investment volume and the percentage of partnership.

- Free import of machinery and raw material to free industrial trade zones and special economic zones (except passenger cars and recreational boats)

## EMPLOYMENT OF FOREIGN NATIONALS IN IRAN

According to The Law, it is forbidden to employ foreign nationals without a proper work permit. Diplomats, United Nations employees and foreign press reporters are exempt from this requirement. A work permit to a foreign national will be issued only if the following conditions are met:

1. Lack of expertise among Iranian nationals
2. The foreign national being qualified for the position
3. The expertise of the foreign national will be used for training of and later replacement by, Iranian individuals.

Work permits will be issued, renewed or extended for a maximum period of one year. Moreover, no exit visa will be granted to the foreign national unless the national has paid all due taxes, duties, etc.

Foreign nationals are prohibited from working in Iran unless they receive work and employment permits (even if they are supposed to receive wage and

salary outside the Iranian territory). The work permit serves as the employment license for the foreign nationals in Iran.

The work permit for the employment of foreign nationals in Iran is issued by the "Department General for Employment of Foreign Nationals" (also called Department for Employment of Expatriates) of the Ministry of Cooperatives, Labor and Social Welfare upon a request by Iranian employers. In provincial capitals it is issued by the Foreign Citizens Divisions of the Department General of Cooperatives, Labor and Social Welfare. (The general procedure for admission of foreign investment has been brought separately in the following part.)

The Iranian employers are obligated to seek the permission of the Department General for Employment of Foreign Nationals before concluding any contract that may lead to the employment of foreign citizens in Iran. The rules and regulations for acquiring work permit for the foreign

nationals are available in the Labor Law of the Islamic Republic of Iran, ratified in 1990 (articles 120 through 129 and executive bylaw of Article 129). Although due to abundance of educated job-seekers in the country and for the purpose of reducing unemployment rate of the educated and skilled job-seekers the Technical Board for Employment of Foreign Nationals has strict rules and regulations (stipulated in Article 121 of Labor Law) for issuance of work permits. The Foreign Investment Promotion and Protection Act (FIPPA), passed in 2002, has considered promising provisions for issuance of work permits for foreign investors, managers and experts in relation with the investments under FIPPA.

**Validity Period of Work Permits**  
The work permits of foreign nationals is issued, extended or renewed for a period of one year.

**Extension of Work Permits**  
Upon expiry of the work permit, if the Iranian employer still needs the specialty of expatriates, he/she can apply for the extension of the work permit of his foreign laborer or expert. The application is sent to the Technical Board for Employment and upon approval the permit is extended for a period of one year.

**Renewal of Work Permit**  
Foreign nationals with valid work permits, whose contracts with employer become null and void for any reason, will be subject to renewal of work permit after changing the employer. The renewal of work permit – upon the change in employer or the type of work – will be carried out by the responsible divisions of the Ministry of Cooperatives, Labor and Social Welfare after the approval of the Technical Board for Employment of Foreign Nationals.



## **INTELLECTUAL PROPERTY**

The principle rules dealing with Intellectual Property (IP) in Iran are contained in the Law on the Registration of Patents, Industrial Designs, and Trademarks (IP Law) 2009 and in its Implementing Regulation 2009 (IP Regulation). The IP Law contains provisions on trademarks, patents, and industrial designs. Iran is also a signatory to a number of international treaties as indicated below.

### **TRADEMARKS AND TRADE NAMES**

The IP Law defines the concept of “Mark” as any visible sign which distinguishes the products or services of one person from another, and “Trade Name” as any name or title that identifies an individual or legal entity.

Registration grants legal protection for renewable periods of 10 years to the person having registered the trademark. Moreover, the IP Law protects the trademark even if not registered.

Violations of protected rights may be punishable by imprisonment and/or payment of penalties, as well as confiscation of all infringing goods, providing trademarks with full protection under Iranian law.

### **PATENTS AND INDUSTRIAL DESIGNS**

The registration of a patent grants the holder exclusive rights of use of the innovation for a period of 20 years. The IP Law further provides that the period of protection of registered industrial designs will be for an initial period of 5 years, renewable for two additional 5 year periods.

Protection mechanisms are similar to the ones provided for trademarks.

#### **International Conventions**

Iran is a party to the Madrid Agreement Concerning the International Registration of Marks of 1891 together with its Protocol (1989) (Madrid Convention), which was ratified by Iran on 19 August 2003.

Therefore, international trademarks registered under the Madrid Convention are also protected by Iranian regulations. To this end, the IP Regulation provides that the owner must submit the application for registration pursuant to the Madrid Convention with the Registrar. Once such application has been advertised in the Iranian legal gazette, the intended trademark will benefit from all protections available to it under the IP Law.

Iran is also a party to the Paris Convention ratified on 12 December 1998. Under article 1 of the Paris Convention, all types of industrial property, including trademarks, trade names, and patents, are protected in the member countries.

## **LABOR REGULATION**

There is a minimum national wage applicable to each sector of activity fixed by the Supreme Labor Council which is revised annually.

The comprehensive Labor Law covers all labor relations in Iran, including hiring of local and foreign staff. The Labor Law provides a very broad and inclusive definition of the individuals it covers, and written, oral, temporary and indefinite employment contracts are all recognized.

The Iranian Labor Law is very employee- friendly and makes it extremely difficult to lay off staff. Employing personnel on consecutive six- month contracts is illegal, as is dismissing staff without proof of a serious offense. Labor disputes are settled by a special labor council, which usually rules in favor of the employee.

The Labor Law provides the minimum standards an employer must adhere to when forming an employment relationship. The minimum age for workers in Iran is 15 years.

#### **Provisions of employment contract**

To have a valid contract concluded under the law, the following provisions must be included:

1. Type of work, vocation or duty that must be undertaken by the worker;
2. Basic compensation and supplements thereto;
3. Working hours, holidays and leaves;
4. Place of performance of duties;
5. Probationary period, if any;
6. Date of conclusion of contract;
7. Duration of employment;
8. Any other terms and conditions required according to nature of employment.

The employer may require the employee to be subject to a probationary period. However, the probation time may not exceed one month for unskilled workers and three months for skilled and professional workers. During the probation period, either party may immediately terminate the employment relationship without cause or payment of severance pay. The only caveat being that if the employer terminates the relationship, he must pay the employee for the entire duration of the probation period.

#### **Suspension of employment contract**

The fact that the employment contract can be suspended by an employee under certain conditions presents yet another challenge to employers. What this allows is suspension of the employment contract under the following conditions:

1. The period of military service (active, contingency and reserve), as well as voluntary enlistment during conflicts. This period shall be considered part of the employee's service record at place of employment;
2. The closure of a workshop or parts thereof due to



force majeure;

3. Educational leave for up to four years

4. The period of detention that does not lead to conviction;

Once the conditions giving rise to the suspension of the contract are removed, the employer must allow for return of the employee to work. If the position is filled or eliminated, the employer is obligated to provide a similar position for the employee. Failure to do the above is considered wrongful discharge and subject to legal action.

#### Termination of employment contract

The Law allows for termination of the employment contract only under the following instances:

1. Death of employee

2. Retirement of employee

3. Total disability of an employee

4. Expiration of the duration of the employment contract

5. Conclusion of work in task-specific contracts; and

6. Resignation of the employee.

The employer is bound to pay benefits under all of the above scenarios according to the years of service.

#### Dismissal of an employee

An employee may only be dismissed upon approval of the Islamic Labor Council or the Labor Discretionary Board. Grounds for dismissal include an employee's neglect in carrying out his/her duties or violation of disciplinary by-laws of the employer. The employer must have provided written prior notice of the employee's violations. If the board is not convinced that the employee's dismissal is justified, the employer must reinstate the employee. Once an employee is dismissed, the employer is obligated to provide the legal severance package.

#### Severance & termination benefits

The Law mandates the following compensation for terminated, disabled and suspended employee:

1. Suspended Employee – Where an employee is suspended without cause the employer must reinstate the employee and pay for all damages and compensation resulted from the wrongful suspension

2. Terminated Employee – An employer is under legal obligation to provide thirty (30) days salary for every year of service for employees made redundant or retired

3. Disabled Employee – The employer must pay 30 days salary for every year of service. Moreover, if disability of an employee is due to working conditions, the employer must pay 60 days salary for every year of employee's service period.

#### Working hours & overtime

The workweek in Iran is based on a 44-hour week. Typically, employees work Saturday through Wednesday (8 hours per day) and a half a day on Thursday (4 hours). Any hours worked beyond these will entitle the employee to overtime. The Law mandates a payment of 40% above the hourly wage to

employees for any accrued overtime. The employee must consent to overtime work.

#### Holidays & leave

Employees are entitled to leave on all official state holidays (approximately 22 days a year) and Fridays. Any employee working during these holidays will be entitled to overtime pay. Additionally, employees are entitled to one-month holiday per annum. The annual leave for those employees engaged in hard and hazardous employment shall be five weeks per year. Employees are entitled to save up to 9 days of their annual leave.

In case of termination, disability or redundancies, employees must be compensated for any accrued leave. Finally, employees are entitled to 3 days of paid vacation for marriage or death of a spouse, father, mother or child.

#### Maternity leave

Women employees are entitled to 180 days of maternity leave. The employee's salary during maternity leave will be paid according to the provisions of the Social Security Act. Maternity leave must be considered part of an employee's service record. Employers must provide returning employees with the same position.

#### Health care & Social protection

The Iranian constitution entitles Iranians to basic health care, and most receive subsidized prescription drugs and vaccination programs. An extensive network of public clinics offers basic care at low cost, and general and specialty hospitals operated by the Ministry of Health provide higher levels of care. In most large cities, well-to-do people use private clinics and hospitals that charge high fees. Specialized medical facilities are concentrated in urban areas, but rural communities have relatively good access to primary care physicians at clinics in villages, where the government-sponsored primary health care system has raised the level of health education and prenatal care since the late 1990s.

Iran has a comprehensive social protection system with some 28 social insurance, social assistance, and disaster relief programs benefiting large segments of the population. These programs include training and job-search assistance, health and unemployment insurance, disability, old-age and survivorship pensions, and in-kind or in-kind transfers including subsidies (e.g., housing, food, energy), rehabilitation and other social services (e.g. long-term care services for the elderly), and even marriage and burial assistance. Employer paid – social insurance contributions is 23% (gross salaries)

Employee paid – social insurance contributions is 7% (gross salaries)

## TAXABLE REAL AND LEGAL ENTITIES ACCORDING TO DIRECT TAXATION LAW

All owners, whether real or legal, for their properties inside Iran according to the taxation rules under Chapter 2 of the Direct Taxation Law;

- Any real person residing in Iran for the incomes earned inside and outside the country;
- Any Iranian real person residing abroad for all the income he makes in Iran;
- Any Iranian legal entity for the incomes earned inside or outside the country;
- Any non-Iranian real or legal entities for the income earned in Iran, and also for the income gained through delegation of authority dealership, technical and educational assistance or movie contracts (for any sort of income earned as rental, right of display and the like) in the territory of the Islamic Republic of Iran.

The aggregate income of companies, and also the income, from the profit-making activities of other juridical persons derived from different sources in Iran or abroad, less the losses resulting from non-exempt sources and minus the prescribed exemptions, shall be taxed at the flat rate of 25%, except the cases for which separate rates are provided under the present Direct Taxation Law. Persons, whether legal or real, will not be taxable for the stocks or the dividends of their

shares in other capital corporations. Factory owners and legal entities are obligated to, even within the exemption period, submit profit or loss report, balance sheets provided from their official statutory books maximum four months after their tax year (March through February in Iran) along with the list of partners including number of shares and addresses to the appropriate tax department of the legal entity (Article 110). If these legal entities do not submit the documents within the stipulated time span any tax exemption will be null and considered void (Article 193).

Types of Taxes in Direct Taxation Law

Taxation for foreign investors fall under two categories of property and income tax in Iran. Since manufacturing units and economic enterprises are usually active as legal entities, we will here under focus on rules and regulations for taxation of legal entities income and their exemptions. Review the tables below for more information.

-Property Tax

- Inheritance tax
- Stamp duty (It is a type of tax levied on some documents such as checks, bills of exchange, promissory notes, negotiable instruments stocks and shares, etc ...

- Income Tax

- Property income tax
- Agricultural income tax
- Salary income tax
- Self-employment tax (the type of income a person earns in Iran through self-employment).
- Corporate income tax (special for legal entities)

Tax Exemptions Stipulated in the Law on Fifth Five-Year Development Plan

The 5th five year development plan of Iran offers the following tax exemptions in order to promote the following business practices:

- Facilitate and promote industrial and mineral investment in the

country;

• Develop of non-oil exports; The Law on Fifth Five-Year Development Plan has stipulated the following tax exemptions:

- (a)Article 159 - A: 15 percent increase in tax exemption relevant to Article 138 of Direct Taxation Law
- (b)Article 159 - B: Increasing tax exemption period of industrial and mineral units in the less developed regions to the same level as the exemption of free trade-industrial zones (from 10 years to 20 years)
- (c) Article 104: Levying any tax and tolls on non-oil exports and services during the Fifth Development Plan (except raw materials or commodities with low value-added).

Value-Added Tax Act (VATA) in Iran The Value-Added Tax Act (VATA) was ratified by the parliament in 2007. Value-added tax (VAT) in Iran is levied on the sale of all goods and services and their imports, except 17 items listed in Article 12 of VATA as the exempted ones. VATA, however, does not include the export of goods and services through official customs gates. Therefore, the taxes paid for the export of goods and services will be refundable by submitting the customs clearance sheets (for goods) and valid documents (Article 13).

Currently, the VAT rate stands at 9% as of 2015 (VAT rate for two special goods of cigarettes and jet fuel is relatively high). to reduce the country's dependency on oil incomes. The Fifth Five-Year Development Plan has anticipated an annual one-percent increase in the VAT rate to put it at 9% in year of 2015. Agreements to Avoid Double Taxation

To facilitate cooperation between Iranian nationals and foreign nationals and to boost trade and economic exchanges with foreign countries, the government of the Islamic Republic of Iran has signed mutual agreements to avoid double taxation.



## **LABOR REGULATION**

The Iranian legal system is a civil law system which is founded on Islamic jurisprudence. The Iranian Civil Code, which comprises of three volumes and 1,335 articles, was enacted between 1928 and 1935 and only minor amendments have since been made to its provisions. The Iranian courts refer to the Civil Code as the main source of law for determining the legal and commercial rights of natural and legal persons. The awards issued by the Iranian courts are not binding as precedent on other courts residing over cases with similar facts. However, in exceptional cases the decisions of the General Board of the Supreme Court concerning similar cases constitute case precedent to be followed by other courts.

The Civil Procedure Code of the Public and Revolutionary Courts, which was approved in 2000, set forth the rules and procedures governing adjudication of disputes by the courts of law. The Civil Procedure Code envisages the rules and procedures concerning proceedings which must be observed by the courts, including the Public, Revolutionary, Appeal and Supreme Court.

The Iranian legal profession distinguishes between legal advisers and attorneys at law. Generally, legal advisers provide clients with legal advice, but do not have rights of audience before the Iranian courts. However, legal advisers to government entities are the only exception. Legal advisers must possess a law degree, but do not need to hold any professional qualifications or be licensed by the Iranian Bar Association.

Attorneys are licensed by the Bar Association are able to appear before all courts in Iran, regardless of their experience. There are exams and training periods to complete before an attorney is licensed by the Bar Association. There is a separate qualification route for attorneys to be licensed by the judiciary, rather than the Bar Association. Judiciary attorneys are limited in the types of dispute on which they may act and the courts before which they can appear.

### **Court System & Dispute Resolution**

The courts of Iran are mostly classified according to their area of jurisdiction, civil or criminal, and according to the seriousness of the crime or the litigation. In an Iranian court the judge acts as prosecutor, jury, and arbiter; the system is a form of the inquisitorial system. However, according to Article 168 of Iran's constitution, in certain cases involving the media a jury is allowed to be the arbiter. The judge holds absolute power and all judges are certified under Islamic law and most, but not all are members of the ruling clergy.

### **Courts of Iran**

- Courts of First Instance (public courts with jurisdiction over civil and the majority of criminal cases);
- Appellate Courts;
- The Supreme Court;

The growth in volume of trade and invest Laws in Iran over the recent years, in particular the energy sector, has laid the foundation for the creation of TRAC, which is the first Iranian arbitration institution to provide assistance and support to domestic and international arbitration tribunals. A growing number of Iranian businesses when concluding contracts with foreign companies refer their commercial disputes to arbitral tribunals constituted in accordance with the arbitration rules of TRAC or other ad hoc arbitration rules as agreed between the parties.

Iran is party to more than 50 Bilateral Investment Treaties (BITs), with capital- exporting countries which provide institutional rules of the International Chamber of Commerce (ICC) in Paris or ad hoc arbitration rules of UNCITRAL for settlement of disputes arising out of investment between foreign investors and the Iranian government or state entities.

### **Major Dispute Resolution Institutions of Iran**

- The Iranian Chamber of Commerce, Industries and Mines established the Arbitration Tribunal pursuant to a law adopted by the parliament in 2000.
- The Tehran Regional Arbitration Centre (TRAC), which was established in 2004.



## LEGAL SYSTEM OF IRAN

The Iranian legal system is a civil law system which is founded on Islamic jurisprudence. The Iranian Civil Code, which comprises of three volumes and 1,335 articles, was enacted between 1928 and 1935 and only minor amendments have since been made to its provisions.

The Iranian courts refer to the Civil Code as the main source of law for determining the legal and commercial rights of natural and legal persons. The awards issued by the Iranian courts are not binding as precedent on other courts residing over cases with similar facts. However, in exceptional cases the decisions of the General Board of the Supreme Court concerning similar cases constitute case precedent to be followed by other courts.

The Civil Procedure Code of the Public and Revolutionary Courts, which was approved in 2000, set forth the rules and procedures governing adjudication of disputes by the courts of law. The Civil Procedure Code envisages the rules and procedures concerning proceedings which must be observed by the courts, including the Public, Revolutionary, Appeal and Supreme Court.

The Iranian legal profession distinguishes between legal advisers and attorneys at law. Generally, legal advisers provide clients with legal advice, but do not have rights of audience before the Iranian courts. However, legal advisers to government entities are the only exception. Legal advisers must possess a law degree, but do not need to hold any professional qualifications or be licensed by the Iranian Bar Association.

Attorneys are licensed by the Bar Association are able to appear before all courts in Iran, regardless of their experience. There are exams and training periods to complete before an attorney is licensed by the Bar Association. There is a separate qualification route for attorneys to be licensed by the judiciary, rather than the Bar Association. Judiciary attorneys are limited in the types of dispute on which they may act and the courts before which they can appear.

### Court System & Dispute Resolution

The courts of Iran are mostly classified according to their area of jurisdiction, civil or criminal, and according to the seriousness of the crime or the litigation. In an Iranian court the judge acts as prosecutor, jury, and arbiter; the system is a form of the inquisitorial system. However, according to Article 168 of Iran's constitution, in certain cases involving the media a jury is allowed to be the arbiter. The judge holds absolute power and all judges are certified under Islamic law and most, but not all are members of the ruling clergy.

### Courts of Iran

- Courts of First Instance (public courts with jurisdiction over civil and the majority of criminal cases);
- Appellate Courts;
- The Supreme Court;

The growth in volume of trade and invest Laws in Iran over the recent years, in particular the energy sector, has laid the foundation for the creation of TRAC, which is the first Iranian arbitration institution to provide assistance and support to domestic and international arbitration tribunals. A growing number of Iranian businesses when concluding contracts with foreign companies refer their commercial disputes to arbitral tribunals constituted in accordance with the arbitration rules of TRAC or other ad hoc arbitration rules as agreed between the parties.

Iran is party to more than 50 Bilateral Investment Treaties (BITs), with capital-exporting countries which provide institutional rules of the International Chamber of Commerce (ICC) in Paris or ad hoc arbitration rules of UNCITRAL for settlement of disputes arising out of investment between foreign investors and the Iranian government or state entities.

### Major Dispute Resolution Institutions of Iran

- The Iranian Chamber of Commerce, Industries and Mines established the Arbitration Tribunal pursuant to a law adopted by the parliament in 2000.
- The Tehran Regional Arbitration Centre (TRAC), which was established in 2004.



## **FOREIGN INVESTMENT IN THE IRANIAN INSURANCE MARKET**

Support of foreign investments in Iranian insurance market.

A. According to the Strategic Plan Document of Bimeh Markazi Iran (Central Insurance of IR Iran), attracting foreign investors to the national insurance market and promoting cooperation with foreign insurance companies are amongst strategic goals.

B. Pursuant to Article 113 of the law concerning Fifth Five-year Development Plan of IR Iran, ratified on 15.10.1389 (Jan. 5, 2010), foreign investors are permitted to contribute to the Iranian insurance sector, in accordance with the general policies pertaining to Article 44 of the Constitution of the Islamic Republic of Iran and other relevant governing laws:

1. The partnership of foreign insurance companies with local commercial insurance companies, prioritizing non-governmental sector in order to establish a joint commercial insurance company in the Islamic Republic of Iran.
2. Foreign investment absorption by local insurance companies (e.g. transfer of shares to foreign entities)
3. Establishment and operations of branches and agencies of foreign commercial insurance companies

C. In accordance with Article 35 of the Act on the Establishment of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations (June 29, 1971), the share transfer of the Iranian non-governmental insurance institutes to foreign natural and legal persons up to 20 percent is subject to the approval by Bimeh Markazi Iran (Central Insurance of IR Iran); share transfer above that extent, i.e. up to 49 percent, requires a proposal by Bimeh Markazi and ratification of High Council of Insurance (HCI) and the Iranian Board of Ministers.

Pursuant to the subsection of the same article, the transfer of shares of the Iranian insurance institutes to foreign states or share transfer above 49 percent to foreign natural or legal persons is absolutely forbidden.

Foreign are permitted to hold a license to operate in the mainland.

A. According to Article 45 of the Act on the Establishment of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations, foreign insurers may obtain insurance license in the mainland to do insurance operations, provided that they adhere to relevant regulations. Requirements for the start-up of foreign insurance institute in the mainland are regulated in Section II of Chapter 4 regarding the mentioned act.

Furthermore, pursuant to Article 50 of the same act, foreign insurers are subject to general provisions of foreign insurance companies and institutes, in addition to the Establishment Law of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations, regulations, and relevant by-laws.

B. Based on relevant laws and regulations, possible options for the partnership of foreign insurers are as follows;

1. The involvement of foreign insurance companies to make contribution to local commercial insurance companies, prioritizing non-governmental sector in order to establish a joint commercial insurance company in the Islamic Republic of Iran
2. Establishment and operations of branches and agencies
3. Establishment and operations of contact offices

obtaining insurance license by foreign insurers in the mainland.

Considering terms cited in Article 45 of the Act on the Establishment of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations, and regulations on registration of foreign branches or agencies ratified in November 1997 (21.08.1376) and its executive bylaws passed in late March 1999 (11.1.1378), foreign insurers applying for license in Iran, shall submit their application to Bimeh Markazi Iran (Central Insurance of IR Iran). Foreign insurers' start-up depends on the proposal by Bimeh Markazi, the approval of the High Council of Insurance (HCI), and the Board of Ministers in order for the registration of a branch or agency.



According to regulations on registration of foreign branches or agencies ratified in November 1997 (21.08.1376) and its executive by-law passed in late March 1999 (11.1.1378), foreign insurers that are legally recognized in their country of registration, on condition of reciprocity in the country of origin, may apply to establish branches or agencies in order to conduct insurance operations in Iran.

Compliant with Article 2 of the executive bylaw concerning registration law of foreign branches or agencies, a foreign company branch is considered as the subordinate local unit of the parent company, which directly carries out the subject matter and duties of the main office, locally. The operations of the local branch shall be conducted under the name and liability of the parent company. Furthermore, according to Article 4 of the said executive bylaw, the representative of a foreign company is a natural or legal person, that, in accordance with the provisions of the respective contract, undertakes carrying out a part of the subject matter and tasks of the parent company. The representative(s) of a foreign company shall be liable for the operations carried out locally on behalf of the parent company. Foreign companies applying for branch registration in Iran must submit the following documents along with their written application to the Iranian Company Registration General Office, affiliated with State Organization for Registration of Deeds and Properties.

1. Parent company articles of association, notice of establishment, and latest modifications as registered by the relevant authorities;
2. The latest audited financial statement of the company;
3. A detailed feasibility report including relevant information about the activities of the company, justification as for the necessity of the branch registration in Iran, as well as branch type, scope of operations, branch location, estimation on the

number of the required local and foreign personnel, the method of providing Iranian and foreign currency sources required for branch administration.

Applicants of foreign company's agency registration, in addition to their request, must submit the translation of deeds in Persian, along with the following documents in addition to their written application to the Iranian Company Registration General Office, affiliated with State Organization for Registration of Deeds and Properties.

1. A certified copy of the agency contract;
2. Identification documents of the applicant;
3. Applicant's resume with regard to the scope foreseen in the agency contract;
4. Articles of association of the parent company, notice of establishment and the latest changes as registered by the relevant authorities;
5. A report on operations of the parent company and justification as for the necessity of the branch registration;
6. The latest audited financial statement of the parent company;
7. Introducing supervisory-regulatory authority in the country of origin.

Is it feasible to have a composite company?

Pursuant to the Iranian insurance laws and regulations, one of the establishment type which is permissible, in order for the operation of insurance entities in Iran inter alia is composite insurance company, i.e. both life and non-life lines. Presently, there is no constraint on establishing such insurance companies.

Currently, which foreign insurers are active in Iran and what are their domains of activities? (Mainland & FTZ)

At present, three foreign insurance companies are active in Iran by establishing their contact offices;

1. Kay International Plc: independent authorized, regulated insurance

broker and underwriting agency based in London and at Lloyds;

2. SOS Evasan SA: leading Swiss-based travel insurance and assistance company;

3. Nasco Karaoglan: Reinsurance broking company based in Lebanon

Is it feasible for foreign companies to hold shares of current companies in the mainland? Is it permissible to exceed 20% of legal shareholding? Does the 20% limit apply to the ultimate shareholders?

A. As mentioned earlier, pursuant to Article 35 of the Act on the Establishment of Bimeh Markazi +Iran (Central Insurance of IR Iran) and insurance operations, it is possible for foreign natural and legal persons to hold shares. Accordingly, on the condition of approval made by Bimeh Markazi Iran (Central Insurance of IR Iran), such persons are allowed to acquire shares of non-governmental insurance entities up to 20 percent. According to the subsection of the above-mentioned article, share transfer of the Iranian insurance institutes to foreign states, or transferring their shares to foreign natural or legal persons, exceeding 49 percent, is absolutely forbidden.

B. Based on the mentioned article, shareholding above 20 percent up to 49 percent by foreigners necessitates the proposal by Bimeh Markazi, the approval of the High Council of Insurance (HCI), and the Board of Ministers.

C. Pursuant to governing insurance laws and regulations, direct or indirect shareholding of insurance institutes in Iran by any person (natural or legal) shall be investigated in a way that no person may acquire more than 20 percent of the insurance institutes' shares, directly or indirectly.

The minimum deposit to be paid by foreign insurance institutes, per insurance class.

Pursuant to Article 46 of the Act on the Establishment of Bimeh Markazi Iran (Central Insurance of IR Iran) and

insurance operations, and the bylaw on deposits of foreign insurance institutes, foreign insurers must pay Bimeh Markazi a deposit for any of the two classes of life and non-life insurance. The sum of deposit in any of the two classes shall be at least USD 50+0, 000 or an equivalent sum in any acceptable currency by the Central Bank of Iran. Furthermore, any foreign insurance entity must add its revenues annually to the above mentioned deposit so as in any case, the amount of the deposit shall be at least twice as much as the sum approved by the High Council of Insurance (HCI). The increase in deposit surplus exceeding such an amount is optional. It should be noted that the sum of deposit approved by the High Council of Insurance (HCI) is the same as the minimum sum (USD 500, 000), as provided by law.

The minimum capital for property, liability, and life insurance.

According to the latest ratifications of the Board of Ministers on 1.5.1391 (22 July 2012), the minimum capital requirements, for the establishment and license permit concerning direct insurance entities, which is basically class wise are as follows:

1. Property insurance : 1,600,000,000,000 Rials
2. Personal insurance (life, annuity, casualty, health): 1,500,000,000,000 Rials
3. Liability insurance: 1,400,000,000,000 Rials
4. Auto insurance (TPL, PD, driver's accident): 1,300,000,000,000 Rials
5. Life, non - life insurance: 1,200,000,000,000 Rials
6. Composite insurance (All classes) : 2,500,000,000,000

The minimum requirements for the establishment of a composite insurance company.

The establishment of insurance institutes in the mainland and free trade zones (FTZ) depend on terms and conditions, in compliance with the Establishment Law of Bimeh Markazi Iran (Central Insurance of IR Iran)

and insurance operations (June 29, 1971), regulations on the establishment of non-governmental insurance institutes, approved on 1.11.1380 (21 January 2002) by the High Council of Insurance (HCI) and regulations on the establishment and operation of insurance institutes in free trade zones of the Islamic Republic of Iran, approved by the Board of Ministers on 2.6.1379 (23 August, 2000). Information on the mentioned regulations is available on <http://www.cent-insur.ir>.

Is it permissible for Iranian insurance companies to sign reinsurance contracts with foreign insurance companies outside Iran? Are there any limitations on cessions outside or inside Iran?

Signing reinsurance contracts with reinsurers and reinsurance brokers abroad, as for risk cessions or contracts with direct insurance companies operating in Iran shall be in compliance with Article 73 of the Establishment Law of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations, as well as regulations ratified by High Council of Insurance (HCI).





Are there any governmental reinsurance companies, in Iran, with compulsory minimum cession rates?

Yes, pursuant to Article 71 of the Act on the Establishment of Bimeh Markazi Iran (Central Insurance of IR Iran) and insurance operations, as well as latest ratifications, any insurance company operating in Iran must cede 25 percent of life insurance and 15 percent of other classes of their direct insurance operations to Bimeh Markazi.

Is it possible to send and receive hard currency to/from Iran (i.e. to buy shares, to invest, etc.)?

Any currency exchange in Iran shall be in accordance with laws and regulations of the Central Bank of Iran.

Is it possible for insurance companies to have any type of bancassurance agreements?

Adhering to regulations and mutual agreements, insurance companies and banks are allowed to render insurance services and joint investment according to their agreements.

What are the requirements of solvency?

Requirements as regards the solvency of the insurance companies are based on the bylaw of method of measuring and supervising financial solvency of insurance companies, ratified by the High Council of Insurance (HCI).

What are the upcoming supervisory changes (regulations) e.g. capital requirements, solvency, license permit process, etc.?

To adapt regulations with everyday needs and promote the regulatory role of the authority, insurance regulations are constantly modified based on global standards.

Are there any compulsory insurance classes e.g. health, motor, fire, etc. in Iran?

As provided by law, the only insurance class which is currently compulsory for individuals to buy and for insurance companies to render service is motor vehicle third party liability insurance. Furthermore, pursuant to laws and regulations, buying some of insurance coverage such as health and casualty of foreign nationals is compulsory.

#### Iranian Lawyers Office

We would like to introduce ourselves as a law office in Iran providing our clients with professional legal services of the highest caliber, combining technical excellence with commercial awareness and a practical, constructive approach to your legal issues. We are a team of experienced and talented lawyers graduated from the most prestigious and distinguished universities in Iran.

Iranian lawyers office capabilities extend across the commercial law, contracts, with particular expertise in trade regulation law, joint venture projects, local and international partnerships, and agency agreements. The office also advises on activities related to oil and gas, free Trade zone, branch office, investment regulations, and the registration branch office and companies, intellectual property rights in Iran and etc.

We also have very skilled associates in litigation and defending the civil and penal cases before Iranian courts. Our lawyers know how to manage legal expenses and we don't subscribe to the uncontrollable, stopwatch billing model favored by most law offices. Whenever possible, we offer an affordable fee for our services so you can properly plan and budget for our services.