

DOING BUSINESS

IN IRAN

HADI HESAB TEHRAN

(CERTIFIED AUDIT FIRM)

UHY MEMBER FIRM



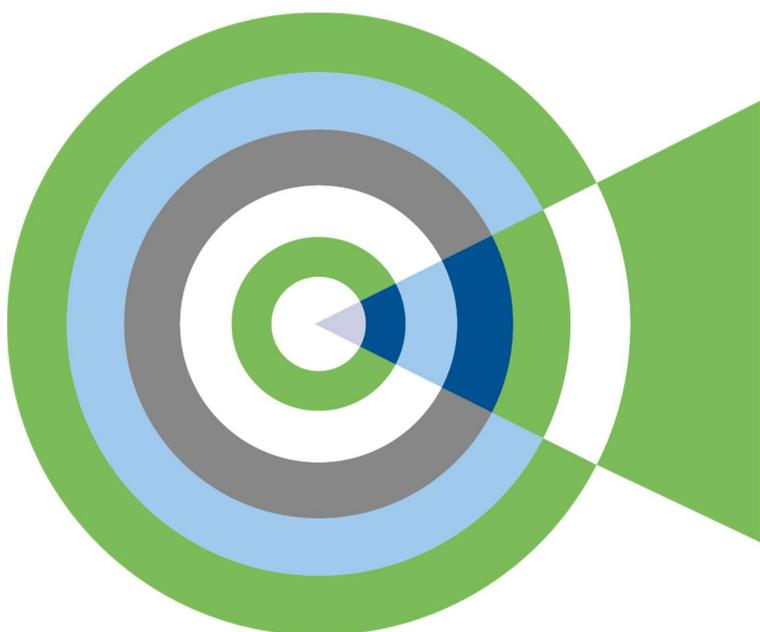
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The network
for doing
business

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۱ – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around ۹۰ countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Iran has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at March ۲۰۱۹

We look forward to helping you do business in Iran.

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٢ – BUSINESS ENVIRONMENT

BACKGROUND

POPULATION

GEOGRAPHY

CURRENCY

LANGUAGE

GDP IRAN

MAJOR EXPORTS

MAJOR IMPORTS

EDUCATION – PRIMARY AND SECONDARY

TERTIARY EDUCATION

TRANSPORTATION LINKS

HOLIDAYS IN IRAN



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Iran overview

Formal name

Islamic Republic of Iran

Location

Iran is situated in Western Central Asia in the area commonly referred to as the Middle East. It was geographically known as Persia until as recently as the twentieth century. In the North and Northwest, it is bordered by the Caspian Sea, Azerbaijan (not to be confused with its own Iranian Azerbaijan region), Armenia and the autonomous Nakhchivan enclave. To the West lie Turkey and Iraq. Its southern boundaries extend to the scenic shores of the Persian Gulf and Gulf of Oman. It is adjacent to Afghanistan and Pakistan in the East and Turkmenistan to the Northeast.

Capital

Tehran (located in its titular province).

Area

Total 1,648,190 km²: land 99,3%, water 0,7%.

Population

Total: 80 million (2017 est.).

Language

Linguistically diverse, Persian (Farsi) is spoken by the majority of Iranians. Several other related Indo-Iranian languages are spoken - Kurdish, Azeri Turkish, and Arabic.

A large percentage of Iranians speak moderate to advanced English. Tourist information is available in English at many hotels and cultural attractions.

Administrative and territorial structure

31 Provinces, 324 counties (shahrestans).

Religion

Islam is the national religion.

Currency

The official currency of Iran is the Iranian Rial. USD, Euros, GBP and other currencies can be exchanged for Rial throughout Iran. According to the IATA, any amount exceeding 10,000 USD must be declared upon arrival as is standard when entering most countries. Day to day expenses such as dining and transportation are surprisingly affordable compared to Western economies.

Climate

The climate of Iran is as diverse as its topography ranging from mild and wet subtropical rainforest on the Caspian coast at Golan to the Mediterranean climate of Shiraz; very cold mountains of the Zagros and Alborz to the hot dry deserts of Lut and Kavir Buzurg; semi-desert of Tehran to dry coastal climate on the Persian Gulf and Gulf of Oman coasts.

Iran's diverse climate allows for an amazing array of leisure and adventure activities. Skiing and extreme snow sports, scuba diving and snorkeling, ecotourism and safari are all within a short distance of each other almost year round.

GDP of Iran and other considerations

Iran had an estimated Gross Domestic Product (GDP) in 2017 of US\$447.7 billion, and a population of 80.7 million people. Iran's economy is characterized by the hydrocarbon sector, agriculture and services sectors, and a noticeable state presence in manufacturing and financial services. Iran ranks second in the world in natural gas reserves and fourth in proven crude oil reserves. Economic activity and government revenues still depend to a large extent on oil revenues.

Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms as reflected in the government's 20-year vision document and the sixth five-year development plan for the 2016-2021 period. The sixth five-year development plan is comprised of three pillars, namely, the development of a resilient economy, progress in science and technology, and the promotion of cultural excellence. On the economic front, the development plan envisages an annual economic growth rate of 8 percent and reforms of state-owned enterprises, the financial and banking sector, and the allocation and management of oil revenues among the main priorities of the government during the five-year period.

Major exports and imports

Iran is the 47th largest export economy in the world and the 77th most complex economy according to the Economic Complexity Index (ECI). In 2017, Iran exported \$53.7B and imported \$49.9B, resulting in a positive trade balance of \$3.8B. In 2017 the GDP of Iran was \$404B and its GDP per capita was \$50,8k.

The top exports of Iran are Crude Petroleum, Ethylene Polymers, Acyclic Alcohols, Refined Petroleum and Iron Ore, using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Cars, Vehicle Parts, Corn, Rice and Broadcasting Equipment.

The top export destinations of Iran are China (\$16.9B), India (\$10.2B), South Korea (\$7.22B), Italy (\$3.48B) and Japan (\$3.23B). The top import origins are China (\$18.4B), South Korea (\$4.02B), Germany (\$3.22B), Turkey (\$3.10B) and India (\$2.08B).

Education system in Iran

Primary Education

School education is free right through state secondary school, and mandatory for primary school grades. 42% of the national budget is applied to education with ongoing efforts to benefit rural areas. The process begins with 1 year of pre-school orientation following which children automatically enter primary school. There they pass through grades 1 to 6. At the end of this, they sit a national examination that they must pass too, if they are to enter middle school.

Secondary Education

Four years of secondary education cover grades 7 to 10. Students have the final choice between studying at academic or technical levels. If academic, they select one of 4 academic streams (literature and culture, physics / mathematics, socio-economics or experimental sciences). If vocational, they have choices between agriculture, business / vocational training, and technology.

Vocational Education

The Technical and Vocational Organization oversees vocational training and provides this at 100 permanent centers, and through mobile classrooms too. It has also authorised over 14,000 private institutions to assist it in creating the crucial skills the country needs, before it may become, finally, a first world economy.

Tertiary Education

Students wishing to study at university must pass the national entrance examination in order to obtain their high school diploma. Following that, they may enter one of a number of universities, institutes of technology, medical schools and community colleges.

Universities have their own entrance examinations too. If successful once more, their students may obtain a diploma after 2 years study, or a bachelor's degree after 4. A master's degree takes a further 2 years, following which they also have the option of pursuing doctorates.

Transportation

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Iran has a sophisticated network of public transport, including the subway, buses, trains, taxis and internal flights. There is a women's section on the subway and bus which is strictly women-only. However, women are permitted to enter the men's sections when it is less busy to sit with their male companion.

Imam Khomeini International Airport is the main international airport in Iran, located around 30 km from Tehran. It is recommended that you book a CIP (commercially important person) ticket for your return trip to your country. CIP is a service that you can book at the airport which will give you a faster boarding time and access to a private lounge to wait for your flight.

The main port in Iran is Bandar Abbas port, which handles around 90% of the country's container throughput. The main export terminal is Kharg Islam, roughly 90% of Iran's exports are sent via Kharg.

Differences in Calendar and Working Week

The governmental fiscal year runs from 1st March to the 31st March. The date in Iran is currently 1398.

The working week is generally from Saturday to Wednesday; however, some private companies are open for half a day on Thursday.

PUBLIC HOLIDAYS IN IRAN IN 2019

<i>Month</i>	<i>Date</i>	<i>Day</i>	<i>Event</i>
February	9	Saturday	Martyrdom of Hazrat Fatemeh
	11	Monday	Anniversary of Islamic Revolution
March	20	Wednesday	Oil Nationalisation Day
	20	Wednesday	Imam Ali's Birthday
	21	Thursday	Nowruz (New Year)
	22	Friday	Nowruz (New Year)
	23	Saturday	Nowruz (New Year)
	24	Friday	Nowruz (New Year)
April	1	Monday	Islamic Republic Day
	2	Tuesday	Sizdehbedar (Nature Day)

	۳	Wednesday	Prophet Mohammad Ascension
	۲۱	Sunday	Imam Mahdi's Birthday
May	۲۶	Sunday	Martyrdom of Imam Ali
June	۴	Tuesday	Demise of Imam Khomeini
	۵	Wednesday	Eid e-Fitr
	۵	Wednesday	۱۰ th Khordad National Uprising (۱۹۶۳)
	۶	Thursday	Eid e-Fitr Second Day
	۲۹	Saturday	Martyrdom of Imam Sadeq
August	۱۲	Monday	Eid e-Ghorban (Feast of the Sacrifice)
	۲۰	Tuesday	Eid e-Ghadir
September	۹	Monday	Tassoua
	۱۰	Tuesday	Ashura
October	۱۹	Saturday	Arbaeen
	۲۷	Sunday	Demise of the Prophet Mohammad and Martyrdom of Imam Hassan
	۲۹	Tuesday	Martyrdom of Imam Reza
November	۶	Wednesday	Martyrdom of Imam Hassan Asqari
	۱۵	Friday	Birthday of Prophet Mohammad and Imam Sadeq
December	۲۱	Saturday	December Solstice (Shab e Yalda) Not Public Holiday

** Islamic holidays are subject to the sighting of the moon, and dates can change on the Gregorian calendar.*

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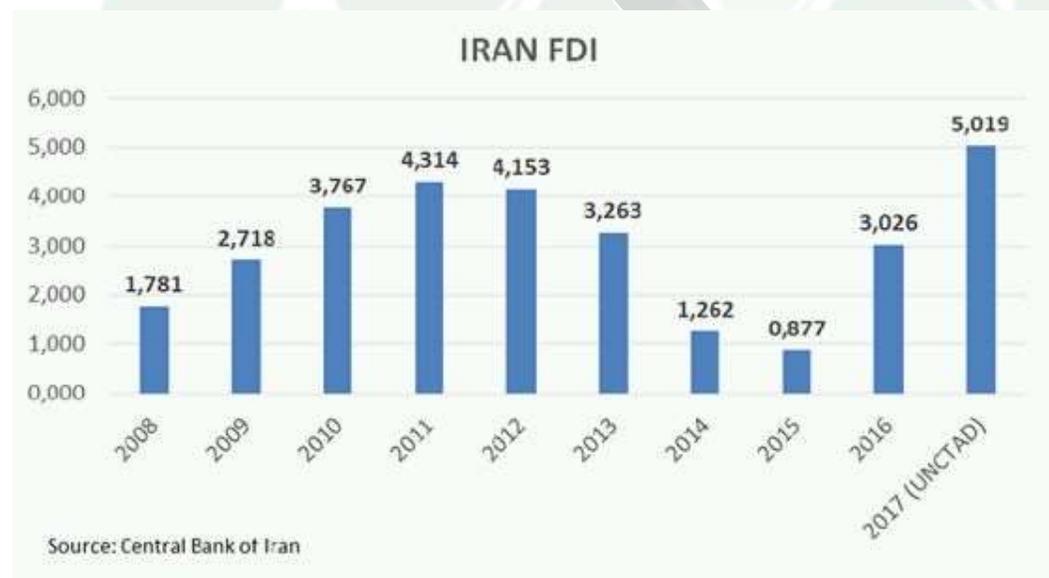
۲ – FOREIGN INVESTMENT

Despite its challenges, Iran is an interesting country to invest in with lots of opportunities and market chances locally and in the region. There are many areas in services and production that are far from saturation. Especially smaller foreign investors continue profitable operations in Iran.

Foreign Direct Investment into Iran

The economy of Iran in general and Iranian businesses in particular have struggled from the international sanctions since long years. The "good in the bad" was that Iran had to focus on own resources, research and development and education. Some industries benefited from this situation and are today working with high technology and efficiently. The pharmaceutical industry and Nano-technology in general are just two examples. High-tech producers can be found in many regions of Iran, not only in Yazd, where a very advanced high-tech industrial zone has been established decades ago.

Foreign Direct Investment influx into Iran continued during the years of international sanctions on a low level, reaching its peak in ۲۰۱۱:



While the above annual FDI from ۲۰۰۸ to ۲۰۱۶ were published by the Central Bank of Iran, the estimated Foreign Direct Investment into Iran in ۲۰۱۷ is an estimation of the United Nations Conference on Trade and Development, UNCTAD.

Foreign Direct Investment into Iran mainly focuses on the following sectors: polymer and chemicals, steel, trade, motor vehicles, mining, plastic and medical devices.

The Nuclear Agreement, correctly the "Joint Comprehensive Plan of Action" (JCPOA) was signed on 14 July 2015 between Iran, the US, the UK, France, China, Russia and Germany. The agreed lifted of sanctions was implemented on 16 January 2016.

Business people and company representatives mainly from Europe but also from many other countries started to visit Iran, mostly in form of organised business delegations, to identify business and investment opportunities. As the above graphic shows, it (naturally) took a while until Foreign Direct Investment into Iran picked again. Globally operating companies were the first to enter Iran with investments.

Trade-Industrial Free Zones

Incentives and advantages for investment in Trade-Industrial Free Zones:

- ۱-Tax exemption for ۲۰ years from the date of operation for all economic activities
- ۲-Foreign investment and nearly a hundred percent of the amount invested.
- ۳- Freedom of entry and exit of capital and profits
- ۴- Protection and guarantees for foreign investments.
- ۵- Abolition of entry visas and easily issue of residence permits for foreigners.
- ۶-Facilitated regulation on labor relations, employment and social security.
- ۷- Transfer of part manufactured goods to the mainland without paying customs duties.
- ۸- Elimination of pay customs duties on imports from outside to the region and vice versa.
- ۹- Employing trained and skilled manpower in all different skill levels and professions.
- ۱۰- Utilization of raw materials, oil and gas as feedstock and fuel for all industrial activities.

The list of the Trade-Industrial Free Zones of the Islamic Republic of Iran are as follows:

- ۱-Qeshm Trade-Industrial Free Zone
- ۲-Chabahar Trade-Industrial Free Zone
- ۳-Aras Trade-Industrial Free Zone
- ۴-Anzali Trade-Industrial Free Zone
- ۵-Arvand Trade-Industrial Free Zone
- ۶-Kish Trade-Industrial Free Zone
- ۷-Maku Trade-Industrial Free Zone

Special Economic Zones

Incentives for investment in Special Economic Zones

- ۱ • Import of goods from the above mentioned zones for domestic consumption would be subordinate to export and import regulations, and export of goods from these areas will be carried out without any formalities.
- Import of goods from abroad or free trade zones or industrial area-would be carried out with minimal customs formalities and good internal transit cases would be performed in accordance with the relevant regulations.
 - Log entry of merchandise subject to this article will be done without any customs formalities.
 - Goods imported from outside or industrial areas or other commercial zones can be exported without any formalities of the country.
 - 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 materials 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. Imports 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 (۲۵) 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 materials 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 materials and imported CKD parts into the country is not subject to price regulation due to unutilized resources and allocated currency.

۲ **The list of the special economic zones of the Islamic Republic of Iran are as follows:**

- ۱-Salafchegan special economic zone
- ۲-Shiraz special economic zone
- ۳-Assaluye special economic zone
- ۴-ARGE Jadid special economic zone
- ۵-Payam Airport special economic zone
- ۶-Persian Gulf special economic zone
- ۷-Lorestan special economic zone
- ۸-Amirabad port special economic zone
- ۹-Bushehr Port special economic zone
- ۱۰-Shahid Rajaei Port special economic zone
- ۱۱-Sarakhs special economic zone

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- ۱۲-Sirjan special economic zone
- ۱۳-Yazd special economic zone
- ۱۴-Bushehr special economic zone

Incentives and Benefits of Foreign Investment in Iran

FOREIGN INVESTMENT PROMOTION AND PROTECTION ACT (FIPPA)

Features and Advantages of FIPPA

- There is no restriction on the percentage of foreign shareholding.
- The possibility of registering an Iranian company with ۱۰۰٪ foreign capital.
- Transfer of principal capital, dividend and the profits gained through the utilization of capital in the form of foreign currency or goods.
- Enjoyment of same and equal treatment as accorded to domestic investors by foreign investors.
- The possibility of investment by foreign natural and juridical persons and Iranians living abroad.
- Allowing investing in all areas which are permitted to the private sector.
- Granting protection coverage to all foreign investment schemes.
- Quick approval of the foreign investment application
- Issuing a three-year residence license for foreign investors, directors, experts as well as their immediate family members risks covered under FIPPA
- Expropriation and nationalization
- Unlimited transfer of capital and dividend
- Guarantee of the purchase of the goods and services resulting from investment projects in BOT investment schemes where the government acts as the sole purchaser.

Tax Exemption

۱. *Agricultural*

The income derived from all agriculture and horticulture activities, animal rearing, fish farming, bee-keeping, poultry husbandry, hunting and fishing, sericulture, revival of pastures and forests, is exempt from payment of tax. All the natural and juridical persons (Iranian and Foreign) can enjoy above mentioned exemption at the outset of their activities.

۲. *Salary Income Exemption*

۵۰٪ of the salary tax of the employees working in less developed regions, as per the list prepared by the State Organization of Management and Planning shall be spared. All natural persons (Iranian and foreign) working in the less developed regions can enjoy tax exemption.

۴. Sport, Services and Education Activities Exemption

The income derived from education and training activities by non-profit schools, whether elementary, junior or senior secondary, technical or vocational, or by non-profit universities and higher education institutions, as well as the income derived from taking care of mental and physical invalids by the institution engaged in such activities, shall be exempt from tax, provided the aforesaid institution having permission from the respective authorities.

The income of sporting institutions and clubs having permission from the physical training organizations shall also be exempt from tax, if it is derived purely from sport activities.

۵. Cultural Activities Exemption

All cultural, artistic, and journalistic activities licensed by Iran's Islamic Culture and Guidance Ministry are tax-free. All the natural and juridical persons (Iranian and Foreign) can enjoy the said exemption by observing the regulations of note ۳ of the above article.

۶. Cooperative Exemption

۱۰۰٪ of the income derived from cooperative companies formed by villagers, tribesmen, farmers, hunters, workers, clerks and students are tax-free.

۷. Tourism Exemption

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 regards to ۱۰۰٪ of their applicable taxes. All real and juridical persons (Iranian and Foreign) or in private and cooperative sectors shall enjoy the mentioned tax exemption by observing the regulations. Tourism facilities refer to the following units:

Hotel, motel and welfare services provided in the road

Guesthouse

Self-catering units such as hotel apartment, boarding-house and residence of pilgrims

Residence for the youth

Park, tourism, camps and caravans

Amusement and recreational units

Tourism and travel services offices

Exemplary tourism spots

The timesharing residences

V. EXPORT EXEMPTION

- a) ۱۰۰٪ of the income derived from exportation of industrial finished goods and products of agricultural sector (including forming, horticulture, husbandry, poultry, fishery, forest and pasture products) and its conversional- signal and complementary industries and also ۱۰۰٪ of the income earned from exportation of other goods that are exported for achieving the objectives of the exportation of non-oil goods, shall be exempt from tax. A list of goods subject to this article, in the course the term of each development plan

based on proposal of the ministries of economic affairs and finance, commerce, jihad-agriculture and industries and mines, shall be approved by the council of ministers.

- b) ١٠٠٪ of the income derived from exportation of different goods which have been, or will be, imported to Iran on transit, and are exported without making any changes in the substance there of, or doing any works on them, shall be exempt from tax.

٨. HANDICRAFT EXEMPTION

The revenues of handicraft and carpet weaving workshops and the relevant cooperative firms and production unions are tax-free.

All real and juridical persons can enjoy above mentioned exemption by observing the regulations.

٩. PRODUCTION ACTIVITIES EXEMPTION

٨٠٪ of the income from producing and mining activities, which is derived and declared by producing and mining enterprises of cooperative of private sectors or whom exploitation licenses are issued, or with whom extraction and sale contracts are concluded, from the beginning of the year ٢٠٠٢, on words by relevant ministries, shall be exempt from the tax set forth in the article ١٠٥ here of for a term of ٤ years beginning from the date of exploitation or extraction. As regards the less developed regions, the exemption shall apply to ١٠٠٪ of the income for a term of ١٠ years.

Customs Exemption

Exemption of production line machineries and equipment from payment of customs tariffs (first-hand machineries)

The return of customs tariffs paid for the import of raw materials used for the production of export commodities

OTHER INCENTIVES AND BENEFITS OF INVESTMENT IN IRAN

Unique geographical situation as the junction of the Middle East, Europe and Asia

Huge domestic market with ٧٠ million population and quick access to the markets of the neighboring countries with ٢٠٠ million population

A massive resource of efficient, trained and economic-friendly workforce

Advanced infrastructure across the country in the fields of telecommunication, energy and rail/road transportation

Huge energy resources and low costs of production and public services

Suitable climate conditions which allow agricultural activities in all parts of the country and in all seasons.

Customs Exemptions

Exemption of manufacturing machinery from import duty relevant to single article dated July ۱۵, ۱۹۸۰ of the Council of Revolution as well as Article ۱۶ of the Customs Law of the I. R. of Iran – passed in ۱۹۷۱ – at the discretion of the Ministry of Industries and Mines on condition of lack of domestic production of such machinery.

Import before export of materials and goods used in manufacturing, finishing, preparation and packaging of export commodities in the form of temporary imports against submission of valid undertaking or promissory note to the I. R. of Iran Customs Administration (IRICA) will be exempted from import duties except taxes levied on pertinent costs or commissions.

All export commodities of the country (except crude oil and downstream oil products for which there are special rules and regulations) are exempted from any foreign exchange undertaking or deed of obligations.

In connection with import materials and goods used in export commodities fully cleared from the Customs gates, the duties paid will be refundable upon the export of the commodity.

In case the goods used in export commodities have been domestically manufactured but their materials have been exported, the duties paid will be refundable.

Import Registration

The import of all importable commodities by the governmental or non-governmental importers except in following cases will be subject to registration and receiving import certificate from the Ministry of Commerce upon observing other stipulated rules and regulations.

Instances of Exemption from Registration and Import Certificate from

Ministry of Commerce:

- .Passenger goods to the extent mentioned in IRICA rules and regulations and according to the list provided by the Ministry of Commerce
- .Import goods through postal service to the extent mentioned in IRICA rules and regulations
- .Trade and manufacturing samples to the extent mentioned in pertinent rules and regulations
- .Sample products for display in all international exhibitions in Iran

Commodity Registration Procedure for Foreign Investors:

Logging on www.tpo.ir (Export Promotion Organization) for downloading and filling out the related registration forms

Submitting required documents to the Foreign Trade Division (Registration Unit) of the Organization of Industries, Mines and Trade at the province where the company is situated. The following documents are needed:

Filled-out registration form

Valid pro forma of non-cash foreign capital of the company issued by the manufacturing company

Submitting Trade Certificate issued by Chamber of Commerce, Industries and Mines and approved by the province's Organization of Industries, Mines and Trade

Submitting a letter from the Organization for Investment, Economic and Technical Assistance of Iran addressed to the Organization of Industries, Mines and Trade to approve the import of non-cash foreign capital for statistical registration. [Upon the approval of Organization for Investment, Economic and Technical Assistance of Iran for the import of non-cash foreign capital (including machinery, equipment, spare parts, CKD parts, raw materials, additives, etc.), the ministry of Industries, Mines and Trade will carry out statistical registration and notify IRICA houses for evaluation and clearance of the commodities. IRICA evaluation will be acceptable and the evaluated sum will be registered along with the transport and insurance charges in the name of the investor. Then, the commodity or the capital will be under the coverage of Foreign Investment Promotion and Protection Act (FIPPA).

For customs formalities and cargo clearance, foreign investors can submit the filled-out forms and documents and pro forma signed and sealed by the provincial Organization of Industries, Mines and Trade to the local customs houses.

Trade Certificate

Trade certificate is a document for import or export of products.

How to Apply for a Trade Certificate?

Trade certificates are issued by the Chamber of Commerce, Industries and Mines in Tehran or other provinces for the qualified applicants (whether Iranian or non-Iranian real and legal entities) for a period of one year (extendable) for a special field of activity upon the request of the applicant. It will be valid after the approval of the Ministry of Industries, Mines and Trade.

At the discretion of IRICA, there will be no need for trade certificate for the commodities imported or exported for non-trade purposes.

Temporary Import

The import before export of raw materials and goods needed for manufacturing, finishing, preparation and packaging of export commodities relevant to Article ۱۲ of the Export/Import Rules and Regulations, passed on Sept. ۲۶, ۱۹۹۳, will have to observe the following:

Conditions for Issuance of Import Certificate:

The import certificate relevant to Article ۲۱ of the Executive Bylaw of Export/Import Regulations Act will be only issued for factories, corporations and manufacturing units (whether trade or industrial) that hold a valid certificate. The commercial and cooperative units can enjoy the privileges only upon their valid contract with the certified manufacturing units. The maximum raw material and goods import for the manufacturing units will be according to the nominal capacity of their production.

Exporters importing raw materials and other required goods for their manufacturing units temporarily, are obligated to export a minimum ۱۲۰٪ of the value of imported materials and goods in the form of manufactured products. If, after the ۱۲۰٪ export, any product remains for domestic consumption, it will be considered as permanent import and subject to customs duties, trade profit and other tolls after changing the temporary declaration into a permanent declaration.

The deadline for export of finished commodities will be one year after temporary import of raw materials and goods. The deadline can be extended to one more year upon the discretion of IRICA.

For temporary import of commodities relevant to the above-said article, IRICA will collect undertakings and promissory notes according to the pertinent rules and regulations.

In the case of governmental factories, corporations and manufacturing units, promissory note or written guarantee will be collected at the discretion of IRICA.

In the case of non-governmental factories, corporations and manufacturing units, exemplary units, and highly recognized firms, written guarantee or promissory note plus bank guarantee worth the value of imported goods at the recognition of IRICA

In case of businessmen and merchants, promissory notes or bank guarantee worth the same value of the imported goods at the recognition of IRICA

ξ – SETTING UP A BUSINESS

TYPES OF PARTNERSHIP

COMPANY CAPITAL

TYPES OF COMPANIES

Company Establishment for Foreigners

Legal Background and current situation

۱- **Constitutional law:** According to principle number ۸۱ of *Iran Constitutional law*: “It is absolutely forbidden to give foreigners the **right** to establish companies or institutions in commercial, industrial, and agricultural fields, as well as in mines and in the service sector”.

See *Iran Constitutional law* in WIPO

Website: www.wipo.int/edocs/lexdocs/laws/en/ir/ir..en.pdf

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A correction needs to be made in this translation of *Iran Constitutional law*. The above-mentioned principle does not forbid the right but privilege. In another word, foreigners have the right to establish a company in Iran as long as it does not form a privilege. Of course, it took a decade for law-making bodies to clarify this difference but it finally happened.

Furthermore, in *Commercial Code* and *Company Registration Act*, there was no requirement for company founders or shareholders to be of an Iranian national but it was still forbidden for foreigners to establish a company in which ۱۰۰ percent of shares belong to non-Iranians. Until ۲۰۰۲, if a foreigner wanted to establish a company in Iran, he or she had to participate with Iranian nationals and his or her share could not exceed more than ۴۹ percent of company's shares or capital.

۲- Foreign Investment Promotion and Protection Act: This Act was adopted on March ۱۰, ۲۰۰۲. This Act has some complicated rules about foreign investment but its provisions about company registration can be summarized in this statement: Establishment of a company in which ۱۰۰ percent belongs to non-nationals is possible only for foreigners who have an investment contract with the Organization for Investment Economic and Technical Assistance of Iran. See the website of this organization: <http://www.investiniran.ir/>

At this point, there are two ways for a foreigner to establish a company in Iran: One is by participating with an Iranian national, which the foreigner could not own more than ۴۹ percent of company's shares. And two, by signing an investment contract with Iran's government through the Organization for Investment Economic and Technical Assistance of Iran. In this type, this foreigner can establish a company in which ۱۰۰ percent of the company belongs to itself.

From the adaptation of this Act up until almost a decade later, the *Company Registration Office* would have asked the following from the foreigner in order to establish the company: ۱- investment contract with a governmental organization ۲- one or more Iranian nationals as partners in the company. This process was applied for a decade until another regulation was adopted.

۲- Regulation No ۸۹/۰۱/۳۴۶۲۴: According to this Regulation: A) Based on the current legal situation, foreign nationals are allowed to establish a company with ۱۰۰ percent ownership. B) Ministry of Labor will handle the issuance and extension of job residency for foreigners who have established a company in Iran regardless of the percentage of ownership.

This Regulation was adopted in ۲۰۱۰. From this date, foreigners can establish a company in Iran with ۱۰۰ percent of ownership without the participation of an Iranian national or an investment contact.

A regulation is not as powerful as an act but after this regulation, there is no legal document that clearly states that establishment of a company for foreigners with ۱۰۰ percent of ownership is allowed. Despite this fact, every Act that adopted after this Regulation is based on this assumption that it is allowed for foreigners to establish a company with ۱۰۰ percent of ownership.

Branch and Representative of Foreign Companies

Legal Background and Current Situation

۱- Registration of Branch and Representative of Foreign Company Act: This Act was adopted on November ۱۲, ۱۹۹۷, and it is just one Article: “Foreign Companies that are legally established in their country of registration, providing reciprocal action, can operate in Iran according to Iran Laws and Regulations”.

۲- Regulation: The above mentioned Act has a regulation which declares the conditions and process.

According to Article number one of this Regulation:” Foreign companies can establish a branch in Iran for one or more of the following activities:

۱. After sale services for the parent company.
۲. Applying the executive phase of contracts concluded between Iranian nationals and the parent company.
۳. Contextualizing of investment in Iran on behalf of the parent company.
۴. Enhancing non-oil exports in Iran.
۵. Cooperating with Iranian companies in order to work in other countries.
۶. Technical and engineering services and the transfer of technology.
۷. Perform any other business activities which require government's permission such as transportation, insurance and marketing.

۲- Representative: Foreign companies can establish a representative office in Iran. A representative is an Iranian individual or a legal entity which has a "Representation contract". The representative is responsible for the activities according to the contract.

The following document has to be submitted to the *Company Registration Office* In order to establish a Branch:

۱. Company Statute and Establishment Notice.
 ۲. Latest financial report.
 ۳. A report containing the company's activity, reasons for establishing a branch, types and scope of the branch authority, place, assessment of Iranian and non-Iranian manpower, and financial resources for managing the branch.
۲. Iranian individuals or entities who want to register a representative office for a foreign company should submit the following documents to *Company Registration Office*:
۱. Representation contract.
 ۲. Identification documents such as a birth certificate for individuals and statute for entities.
 ۳. Work experience in related areas of the representation contract.
 ۴. The statute of the parent company.
 ۵. A report of the company's activity and reasons for establishing a representation office.

۶. Latest financial report of the parent company.
۷. A written request addressed to the respective Ministry.

Setting up a business

As a foreign entrepreneur, you can choose to open a company in Iran and you should know there are different alternatives, depending on the intended activities. As in other countries, there is a Commercial Code which recognizes seven types of companies:

۱. Joint Stock Company or Corporation (Sherkat Sahami),
۲. Limited Liability Company (Sherkat ba Masouliyat Mahdoud),
۳. General Partnership (Sherkat Tazamoni),
۴. Limited Partnership (Sherkat Mokhtalet Gheyr Sahami),
۵. Joint Stock Partnership (Sherkat Mokhtalet Sahami),
۶. Proportional Liability Partnership (Sherkat Nesbi),
۷. Production and Consumption Cooperative Society (Sherkat Ta'avoni Towlid va Masraf).

The main types of companies which are established in Iran by most entrepreneurs are: limited liability Company, joint stock partnership and public joint stock company.

The limited liability company can be incorporated in Iran with one director, who can be of any nationality, and two shareholders. Furthermore, the minimum paid up share capital that is required is only ۱ EUR. Mostly, this type of business entity is created when entrepreneurs want to open trading companies.

The private joint stock partnership, is a type of business which restricts for its members the right to transfer their shares. At least two directors and three shareholders are needed. They can be of any nationality and the minimum share capital that is required is ۴۰ EUR. The entrepreneurs need to know that they will have to submit, to the Government, all the financial statements, annually, and, if it (statement) will be lower than one million EUR or if the value of the total assets is beneath two million EUR, they will be excluded from getting an audit.

Conditions for setting up a public joint stock company

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The public joint stock company is recommended if the client wants to raise public capital. In this case, there are required two directors and at least five shareholders (of any nationality) for a successful registration. At least ۲۰٪ of the company shares will be issued to the general public. More so, the company must be listed on the national stock exchange and, annually, it will have to submit the financial statements to the Government.

۵ – LABOUR

Labour force, total in Iran was reported at ۲۳۹۲۲۰۲۸ in ۲۰۱۸, according to the World Bank collection of development indicators, compiled from officially recognized sources. Unemployment rate in Iran averaged ۱۱,۷۱ percent from ۲۰۰۱ until ۲۰۱۸. In the fourth quarter of ۲۰۱۸, the recorded rate is ۱۱,۷۰ percent.

In Iran, the annual wage is determined by the Ministry of Cooperatives Labour and Social Welfare every year and communicated to all employers. The minimum wage is about ۱۶,۰۰۰,۰۰۰ Million Rials for ۱۳۹۸ (۲۰۱۹).

Social Security

Article ۱۴۸ of the Labour Code obliges employers to insure their workers in accordance with the Social Security Act, and Article ۱۸۳ of the Labour Code expresses the guarantee of the violation of the insurance of the worker.

According to Social Security Law of Iran, Article ۳۶, the employer is responsible for the payment of his share of the contribution and that of the insured to the organization and is bound, at the time of payment of wages or salaries and benefits, to deduct the share of the insured and pay it to organization adding his own share thereto. Where the employer fails to deduct the insured's share of the contribution, he shall be personally responsible for its payment. Delay in payment or non-payment of insurance contribution by the employer shall not absolve the organization of its responsibility and undertaking toward the insured.

Received contribution

Pension fund	Insured person share	Employer share	Government share	Total
Social security	%۷	%۲۰	%۳	%۳۰

Hours of work

Article ۲۱ of the Labour Code defines hours of work as the period during which a worker is at the disposal of his employer for the purpose of performing work, save as otherwise specified in this Code. A worker's hours of work shall not exceed eight hours per day (۴۴ hours in a week).



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۱ – TAXATION

INCOME TAX LAW

CUSTOMS LAW

Guide on Iranian Taxation System for Foreign Investors

Similar Taxation for Iranian and Foreign Investors

Foreign investors in Iran enjoy the same supports and privileges that are offered to the Iranian investors. In this connection, the Direct Taxation Law passed in ۱۹۸۷ and the following amendments have considered no discrimination in taxation of domestic and foreign investors. This means both Iranian and foreign investors pay the same amount of taxes. Tax exemptions and discounts are also equally granted to domestic and foreign investors.

The Direct Taxation Law, passed in ۱۹۸۷, is regarded as the core of the taxation system in the Islamic Republic of Iran. The law was extensively reviewed and reformed in ۲۰۰۱ to be in tandem with the ongoing economic conditions in the country. Production and investment promotion in line with the economic development of the country was one major factor behind the need for amendment of the law (supporting the newly established manufacturing and mineral units according to Article ۱۳۲ and investment promotion according to article ۱۳۸).

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 ۲ 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

Types of Taxes in Direct Taxation Law

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, according to Articles ۴۴ through ۵۱ of Direct Taxation Law.)

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)

Since manufacturing units and economic enterprises are usually active as legal entities, we will hereunder focus on rules and regulations for taxation of legal entities income and their exemptions.

Legal Entity Income Tax

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 ۲۵%, 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.

The Direct Taxation Law and other pertinent legislations have considered certain exemptions for the legal entities as the following:

Factory owners and legal entities are obligated to, even within the exemption period, submit declaration and profit and loss 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 and shareholders and their shares and addresses to the tax department within the area of the activity of the legal entity (Article ۱۱۰). If these legal entities do not submit the documents within the stipulated time span, the tax exemption will be null and void (Article ۱۹۳).

Tax exemptions

Activity	Level of Exemption	Duration of Exemption
Agriculture	۱۰۰%	Perpetual

Industry and Mining	٨٠٪	٤ Years
Industry and Mining in Less-Developed Areas	١٠٠٪	٢٠ Years
Tourism	٥٠٪	Perpetual
Export of services & non-oil goods	١٠٠٪	During ٥th development Plan
Handicraft	١٠٠٪	Perpetual
Educational & sport services	١٠٠٪	Perpetual
Cultural activities	١٠٠٪	Perpetual
Salary in Less-Developed Areas	٥٠٪	Perpetual
All Economic Activities in Free Zones	١٠٠٪	٢٠ Years

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

In order to:

Facilitate and promote industrial and mineral investment in the country

The Law on Fifth Five-Year Development Plan has stipulated the following tax exemptions:

Article ١٥٩ – A: ١٥ percent increase in tax exemption relevant to Article ١٢٨ of Direct Taxation Law

Article ١٥٩ – 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 ١٠ years to ٢٠ years)

Article ١٠٤: 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 ٢٠٠٧.

Value-added tax (VAT) in Iran is levied on the sale of all goods and services and their imports, except ١٧ items listed in Article ١٢ 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 ١٢).

Currently, the VAT rate stands at ٤٪ (VAT rate for two special goods of cigarettes and jet fuel is relatively high).

To reduce the country's dependency on oil incomes, the Law on Fifth Five-Year Development Plan has anticipated an annual one-percent increase in the VAT rate to put it at ۸٪ in the end of the plan (year ۲۰۱۶).

Economic activities in free trade and industrial zones are exempted from value-added tax.

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:

List of Countries Signing the Agreement to Avoid Double Taxation with Iran (November ۲۰۱۱)

South Africa	Indonesia	Turkey	Kyrgyzstan
Austria	Bahrain	China	Qatar
Armenia	Bulgaria	Sri Lanka	Lebanon
Spain	Pakistan	Syria	Kuwait

Three other types of property taxes (annual real estate tax, vacant real estate tax, tax on barren land) have been deleted from the Direct Taxation Law amendment in ۲۰۰۷).

Financial year in Iran starts in March through February next year. For the companies with different tax year, the financial year is taken into account.

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Transfer Pricing (Tax)

Transfer pricing happens whenever two companies that are part of the same multinational group trade with each other: when a US-based subsidiary of Coca-Cola, for example, buys something from a French-based subsidiary of Coca-Cola. When the parties establish a price for the transaction, this is transfer pricing.

In most developing countries transfer pricing is a relatively new concept and Iran is no exception to this rule. In the context of Iran's Direct Taxation Act, there has been no direct reference to the principal of TP in commercial transactions between affiliated business entities. However, in Article ۱۰۷ of Direct Taxation Act some indirect references are provided.

v – ACCOUNTING & REPORTING

Accounting in Iran was formed simultaneously with formation of the first civilizations, and evidences point to advancement of the science of accounting in Iran. Accounting has had a revolutionary, as well as evolutionary advancement in response to financial requirements of times. Surveying of properties during Sassanid period, and the notational system of keeping records of income & expenditures of the government during Seljukid period, in which the income & expenditures of each state was recorded in a particular book, is an obvious example of existence of an advanced accounting science.

Audit organization

The Audit Organization is one of the affiliated organizations of the Ministry of Economic Affairs and Finance of Iran, established in ۱۹۸۳ under the Law on the Establishment of an Audit Organization. The organization serves as the largest Iranian audit institution (government) to provide specialized financial services to government and government-controlled sectors. This Organization has set accounting and auditing standards which are similar to standards set by International Accounting Standards Board (IASB).

Iranian Association of Certified Public Accountants

Founded in ۱۸۸۷, IACPA is the national professional organization of Certified Public Accountants (CPAs) in Iran which regulates and promotes accounting and auditing profession in the country and monitors the work of accounting and audit firms.

Certified accounting and audit firms in Iran are comprised of at least three certified accounting partners and are based on the rules of IACPA.

IACPA supervises and monitors audit firms annually in terms of audit quality and categorizes them into four groups and publishes them on their official website (www.iacpa.ir).

All banks, financial and credit institutions, public corporations and companies with an annual income of ۵۰,۰۰۰,۰۰۰ Rials or a total of ۸ billion Rials properties and assets are subject to audit by certified audit firms which are the member of IACPA.

Statutory Requirements

All business organizations or enterprises are required to obtain books of original entry from Company Registration Office and must file all financial events for one year and within ۴ months after the balance sheet date summarize the operation of their financial year by completing the tax return and submit it to the Tax Organization.

HADI HESAB

^ — UHY REPRESENTATION IN IRAN

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Year established: ۲۰۰۳
 Number of partners: ۵
 Total staff: ۴۰

BRIEF DESCRIPTION OF FIRM

Located in Tehran, Hadi Hesab Tehran was founded in ۲۰۰۳ under reference number ۱۵۰۱۰ of the Companies Registration Office. We are a member of Iranian Association of Certified Public Accountants (IACPA). This firm has achieved grade "A" status from IACPA which represents the highest grade in quality control assessment. Delivering professional services to organizations, public sector agencies, business corporations and individuals is something we have done for fourteen years. The firm has grown and evolved to offer a wide range of services in audit, consulting, financial advisory, tax and related services. We seek to meet the needs of our clients and their business interests.

Hadi Hesab is honored to be recognized as a / an:

- Trusted audit firm of IACPA
- Trusted audit firm of Securities and Exchange Organization (SEO)
- Elected firm of Central bank of the Islamic Republic of Iran.
- Elected firm of Central Insurance of Iran

SERVICE AREAS

Audit and Assurance
 Accounting and outsourcing
 Tax consultancy
 VAT planning
 Legal
 Consulting
 Business valuation

PRINCIPAL OPERATING SECTORS

Telecommunication
 Shipping lines
 Car Manufacturing Industry
 Education (higher education, medical schools and universities)
 Construction
 Banking and financial institutes
 Engineering
 Health care
 Hotels
 Steel and Mining

LANGUAGES

Persian, Azeri, Turkish and English

CURRENT PRINCIPAL CLIENTS

۱. MTN-Iran cell
۲. Mobile Telecommunication of Iran
۳. Iran Khodro Automaker Company
۴. I.R.I. Shipping lines
۵. Almahdi Aluminum Company
۶. Bank Maskan
۷. Iran National Copper Industry Company
۸. Persian Gulf Petrochemical Industries Company
۹. Shahid Ghandi Communication Cable Company
۱۰. Iran Glass Wool Company

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

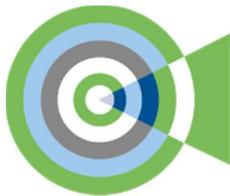
France Germany Belgium Austria Croatia United Arab Emirates South Africa

BRIEF HISTORY OF FIRM

Hadi Hesab Tehran joined UHY in ۲۰۱۹. It is an Iranian firm that delivers services in audit, tax, accounting, internal audit, consulting, financial advisory, legal, and other related services. It delivers professional services to organizations, public sector agencies, business corporations and individuals.



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