

# RSM International

global excellence in audit, tax & consulting

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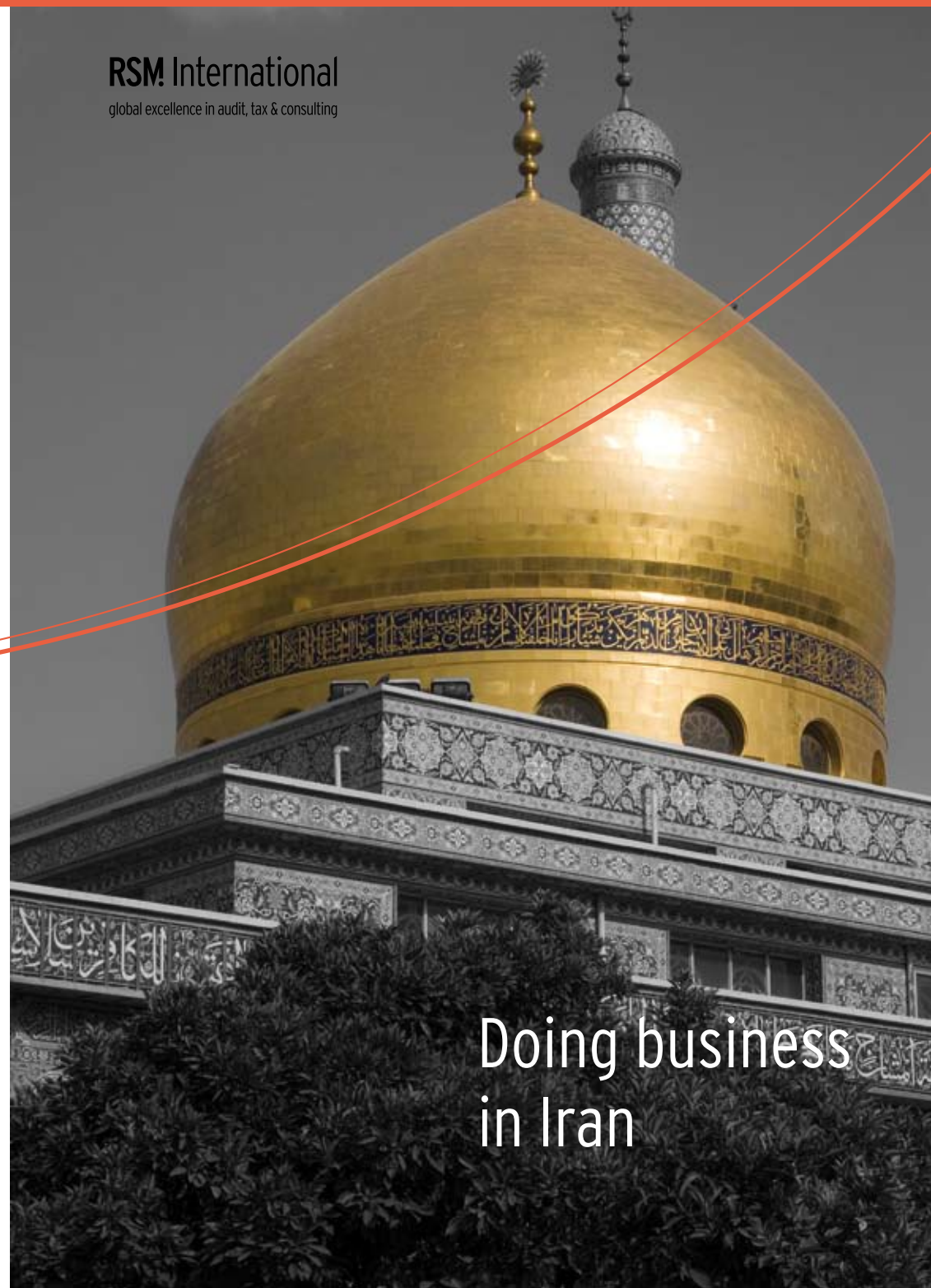
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## Doing business in Iran

## Foreword

The aim of this publication is to provide general information about Doing Business in Iran in board outline. All information is up to date (June 2010). Users are advised to contact the respective contributors for further detail and updates.

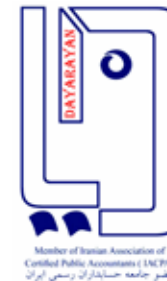
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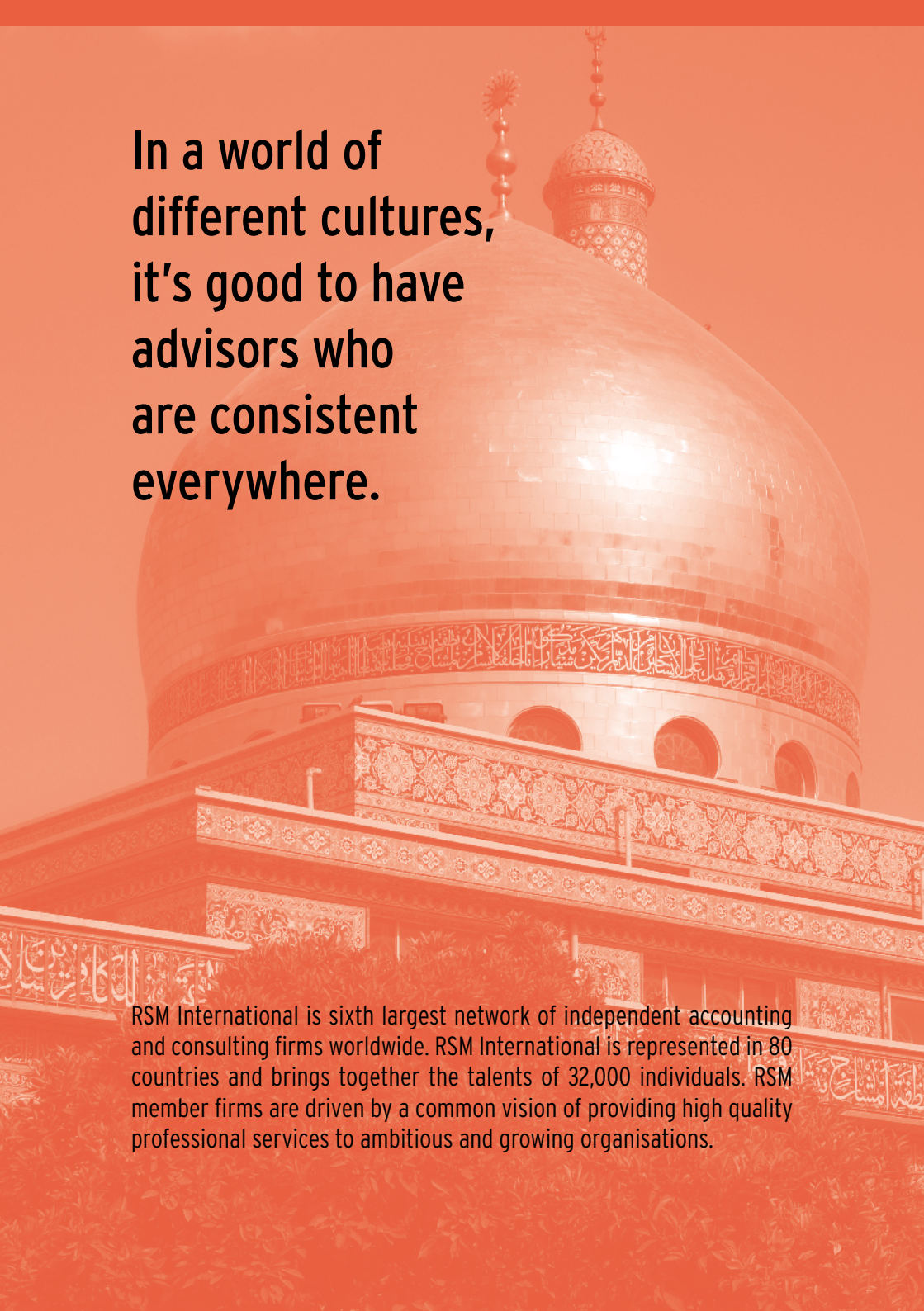
### RSM International Fast Fact

Countries	No. of offices	Partners	Professional staff	Administration staff
80	714	3,105	23,421	5,921
Worldwide	America	Europe	Asia Pacific	Africa & ME
3,897 M\$	2,607 M\$	849 M\$	387 M\$	54M\$

### About Dayarayan



Dayarayan is a correspondent of RSM International. Dayarayan has been recognized as a certified auditing firm by the Tehran Stock Exchange. More than 180 local and foreign clients are benefiting from its services. The partners of "Dayarayan" are members of Iranian Association of Certified Public Accountants (IACPA), Iranian Institute of Certified Accountants (IICA), Iranian Accounting Association (IAA) and also member of New York State Society of Certified Accountants (NYSSCPA), American Institute of Management Accountants (IMA) and American Accounting Association (AAA). British Accounting Association (BAA), European Accounting Association (EAA), Institute of Internal Auditors (IIA).



In a world of  
different cultures,  
it's good to have  
advisors who  
are consistent  
everywhere.

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# Introduction to Iran

The first Iranian state was the Persian Empire, which rose in the first millennium BC and was for centuries the largest in the world. It was conquered by Alexander the Great in 330 BC, and later overwhelmed by Arab Muslim conquerors in the 7th century AD. Iran became part of the Abbasid caliphate and its culture was both Islamic and itself exerted an influence on the rest of Islam. The Persian language and a distinct Iranian culture survived, to be reasserted and reinvented by most of the region's rulers.

In the 10th and 11th centuries, the caliphs lost effective control of Iran to Persian and Turkish rulers, and in the 13th century the region was conquered by the Mongols, who themselves later converted to Islam. Mongol control diminished, and by the 16th century the Safavids, a powerful family from the north-west emerged to unify Iran for the first time in the Islamic era under Islam. He proclaimed himself shah, and made Shia Islam Iran's state religion.

Iran was weakened by wars in the 17th and 18th centuries and new dynasties followed the Safavids, notably the Turkic Qajars. New rivals emerged in Russia – to whom Iran lost much of the Caucasus and central Asia in 19th century wars – and Britain, which sought a buffer between expanding Russia and nearby India. The two European powers came to dominate Iran. By tacit agreement, Russia took a sphere of influence in the north and Britain in the south, and each power interfered in local politics and forced trade concessions on its part of Iran. Large oil deposits were discovered in 1908, and when the monopolist Anglo-Persian Oil Company was formed in 1909, Britain controlled a majority share.

Iran, officially the Islamic Republic of Iran, country in south-western Asia, located on the eastern shore of the Persian Gulf with an area of 1,648,195 square kilometres, Iran lies at the eastern most edge of the geographic and cultural region known as the Middle East and it is the second largest country in this area. The country is bordered on the north by Armenia, Azerbaijan, the Caspian Sea, and Turkmenistan; on the east by Afghanistan and Pakistan; on the south by the Gulf of Oman, the Strait of Hormuz, and the Persian Gulf; and on the west by Iraq and Turkey. It is divided into 30 provinces and has 241 towns and cities. Iran's capital and largest city is Tehran, located in the northern part of the country. The country's population, while technically and linguistically diverse, is almost entirely Muslim. For centuries, the region has been the center of the Shia branch of Islam.

Nearly all of Iran's numerous rivers are relatively short, shallow streams unsuitable for navigation. The country's only navigable river, the Karun, flows through the city of Ahvaz in the southwest.

More than half of Iran's international border of 4,430 km (2,750 mi) is coastline, including 740 km (460 mi) along the Caspian Sea in the north and 1,700 km (1,100 mi) along the Persian Gulf and adjacent Gulf of Oman in the south. Both the Caspian Sea and the Persian Gulf have important ports and contain extensive underwater deposits of oil and natural gas. Iran's largest harbor, Bandar-e 'Abbas, is located on the Strait of Hormuz, the narrow passage separating the Persian Gulf and the Gulf of Oman.

Iran's extensive petroleum and natural gas deposits are located primarily in the south-western province of Khuzestan and in the Persian Gulf. Iran also has one of the world's largest reserves of copper; deposits are located throughout the country, but the major lode lies in the central region between the cities of Yazd and Kerman. This region also serves as a center for the mining of bauxite, coal, iron ore, lead, and zinc. Additional coalmines operate throughout the Elburz Mountains; iron ore mines also exist near Zanjan in the northwest, near Mashhad in the northeast, and on Hormuz Island in the Strait of Hormuz. Iran also has valuable deposits of aluminums, chromites, gold, manganese, silver, tin, and tungsten, as well as various gemstones, such as amber, agate, lapis lazuli, and turquoise.

Despite the great climatic variety of Iran, its average annual precipitation is about 250-300 millimetres.

On this account, Iran is ranked among the semi-arid countries of the world. However with the great efforts made by Iranian experts to construct dams and to domesticate wastewater within the past two decades, it is hoped that the problem of water shortage will be solved in a not so remote future. It is worth mentioning that only a quarter of Iran's area is endowed with fertile lands and mild, favourable climate. Small as may seem this figure in comparison with the whole surface area, it represents an area larger than Germany, Belgium and Netherlands grouped together.

The population of Iran was estimated about at 70,000,000 in 2008 that 36.8 million live in urban, and the rest in rural areas. 44 percent of the population was under age 15, 53 percent was between 15 and 64, and only 4 percent was aged 65 or older. Overall population density in 2008 was 42 persons per sq km.

## Oil and Gas

Iran's most important economic sector is also the most promising sector for businesses. Iran holds almost 10 per cent of world oil reserves; it is OPEC's second largest producer. It has the second largest oil and gas reserves in the world. It promises to grow in the coming years in exploration, drilling refining and training.

Since the end of the war with Iraq (1988), the Iranian government has been rebuilding its oil production and export facilities. The government is stepping up exploration and developing its petrochemical industry. Its strategy is to increase its production capacity and the value-added of hydrocarbon exports.

In a very important development, the Iranian government announced in 1995 foreign companies would be allowed to contribute to the development of new oil fields through buy-back deals, creating new opportunities for investment. That commitment has recently been renewed and expanded.

Iran is rich not only in oil and gas, but in mineral deposits, as well. Iran has the world's largest zinc reserves and second-largest reserves of copper. It also has important reserves of iron, uranium, lead, chromites, manganese, coal and gold. To date, however, the mining industry remains underdeveloped.

Developing its mineral resources is a priority for the Iranian government. The government is actively encouraging foreign participation in this sector.

Opportunities are abundant for firms who can offer equipment, know-how or investment. Foreign companies are already active in virtually every aspect of mineral production in Iran - from surveying to conducting feasibility studies to providing equipment for smelters. The Second Five Year plan encourages buy-back deals but also calls for other forms of foreign investment in this sector.

The Ministry of Mines and Metals is the decision-maker in this sector. It operates through a number of national companies, including ones responsible for steel, copper, exploration and smelting.

## Telecommunications

Iran is one of the fastest growing telecommunications markets in the Middle East and aims to become a Middle Eastern market leader. It has the largest telecommunication network in the region.

The government has recently introduced a number of privatization measures and is promoting private investment.

Major areas of future growth include the expansion of public switching systems to increase the number of telephone lines, satellite communications, mobile cellular networks, rural telecommunications and data communications systems. Transition from the analogue to the digital system and wider introduction of satellite networks are the major aims of the country's telecommunication plan. Fiber optic systems will increasingly be used as junctions or for long-distance connections.

The decision makers in the telecommunications field are the Ministry of Post, Telegraph and Telephone (MPTT) and its operating company, the Telecommunication Company of Iran (TCI).

## Why Iran

Iran qualifies from many respects to be a good location for investment and doing business. Some of the features are highlighted below:



1. Strategic Location: A unique geographical location at the heart of a cross-road connecting the Middle East, Asia and Europe, empowered by many inter- and trans-regional trade, customs, tax and investment arrangements;
2. Market Potentials and Proximity: Vast domestic market with a population of 70 million growing steadily as well as quick access to neighboring markets with approximately 300 million inhabitants;
3. Labor Privileges: Large pool of trained and efficient manpower at very competitive costs in a diversified economy with an extensive industrial base and service sector;
4. Developed Infrastructure: Territory developed networking in the area of telecommunication, roads and railways across the country;
5. Low Utility and Production Cost: Diversified range of energy, telecommunication, transportation, as well as public utilities;
6. Abundant Natural Resources: Varied and plentiful reserves of natural resources ranging from oil and gas to metallic and non-metallic species reflecting the country's accessibility to readily available raw materials;
7. Climatic Characteristics: A four-season climatic endowment as a privilege to agricultural activities throughout the country and throughout all seasons.

Iran holds 10% of the world's proven oil reserves and 15% of its Gas. It is OPEC's second largest exporter and the world's fourth oil producer.

Iran holds 10% of the world's proven oil reserves. Iran also has the world's second largest reserves of natural gas (15% of the world's total); these are exploited primarily for domestic use. Since 1913 Iran has been a major oil exporting country. The chief oil fields are found in the central and southwestern parts of the Zagros mountains in western Iran. Oil also is found in northern Iran and in the offshore waters of the Persian Gulf. Domestic oil and gas, along with hydroelectric power facilities, provide the country with power. Iran built its first \$1 billion nuclear power plant in Bushehr in March 2008, called Bushehr 1.

In the late 1970s, it ranked as the fourth largest oil producer (OPEC's second largest oil producer) and the second largest oil exporter in the world. Following the 1979 revolution, however, the government reduced daily oil production in accordance with an oil conservation policy. Further production declines occurred as result of damage to oil facilities during the war with Iraq. Oil production began increasing in the late 1980s due to the repair of damaged pipelines and the exploitation of newly discovered offshore oil fields in the Persian Gulf.

Major refineries are located at Abadan (site of the country's first refinery, built 1913), Kermanshah, and Tehran. Pipelines move oil from the fields to the refineries and to such exporting ports as Abadan, Bandar-e Mashur, and Kharg Island. In the late 1990s, Iran's state-owned oil and gas industry entered into major exploration and production agreements with foreign consortia.

By 2008, Iran's annual oil production was 4.2 billion barrels, creating a net profit of \$50 billion. Iran manufactures 50-80% of its industrial equipments domestically, including oil tankers, oil rigs, offshore platforms and exploration instruments. In February 2008 the Iranian Oil Bourse was inaugurated in Kish Island to trade crude oil and petrochemical products. The transactions will be made in Iranian Rial and other major currencies (except for USD).

## Mining

Iran's mining industry is under-developed. Mineral production contributes only 0.6% to the country's GDP. Add other mining-related industries and this figure increases to just 4%. Many factors have contributed to this, namely lack of suitable infrastructure, legal barriers, exploration difficulties, and government control over all resources.

Although the petroleum industry provides the majority of economic revenues, about 75% of all mining sector employees work in mines producing minerals other than oil and natural gas. These include coal, iron ore, copper, lead, zinc, chromium, barite, salt, gypsum, molybdenum, strontium, silica, uranium, and gold (most as a co product of the Sar Cheshmeh copper complex operations). The mines at Sar Cheshmeh in Kerman Province contain the world's second largest lode of copper ore. Large iron ore deposits lie in central Iran, near Bafq, Yazd, and Kerman. The government owns 90% of all mines and related large industries in Iran and is seeking foreign investment for the development of the mining sector. In the steel and copper sectors alone, the government is seeking to raise around \$1.1 billion in foreign financing services.

The constitution entitles Iranians to basic health care. In the early 2008s, about 70% of the population was covered by the voluntary national health insurance system. Although over 85% of the population use an insurance system to reimburse their drug expenses. The government heavily subsidizes pharmaceutical production/importation in order to increase affordability of medicines and vaccines.

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## Iran Economic Key Indicators 2007-2012

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	6.2	6.5	6.0	5.6	5.6	5.8
Consumer price inflation (av.%)	17.1	25.0	22.8	21.0	19.5	19.5
Official net budget balance (% GDP)	-9.5	-9.7	-9.7	-9.1	-8.7	-8.2
Unofficial gross budget balance (% GDP)	8.4	7.8	3.6	1.7	1.0	0.6
Current-account balance (% GDP)	9.5	8.8	5.9	5.1	4.8	4.1
Commerical banks lending rate	12.0	11.5	11.0	11.0	11.0	11.0
Exchange rate IF: US\$ (av)	9,281	9,027	9,166	9,274	9,347	9,561

## Iran at a glance

<b>Capital</b>	<b>Population</b>	<b>Medium Age</b>	<b>Birth rate</b>	<b>Administrative division</b>	<b>Death rate</b>	<b>Life expectancy</b>
Tehran	66,429,284	27 years	17.17 births/1000	30 provinces	5.69 deaths/1000	71.14 years
<b>Ethnic groups %</b>						
<b>Religions %</b>						
Persian	Kurd	Arab	Shia	Other	Education expenses	GDP Per capita
51	24	3	89	2	5.1%	18 years
<b>Labour force 24.3million</b>						
<b>Services</b>						
<b>Industry</b>						
<b>Services</b>						
<b>Industry</b>						
<b>Services</b>						
<b>Stock domestic credit</b>						
<b>Proved Reserved</b>						
<b>Oil</b>						
<b>Gas</b>						
<b>Electricity</b>						
<b>Oil</b>						
<b>Gas</b>						
<b>Electricity</b>						
<b>Trade Partners%</b>						
<b>Telephone main line</b>						
<b>Mobile</b>						
<b>Military Expenditure</b>						
<b>2.5 % GD</b>						

Source: CIA Fact book. 2008

## Fifth Development Plan

The fifth development plan (2010-15) sets the guidelines for the socio-economic development of the country over the next five years. It has been designed to give the power to the people through delegation. The five-year plan is part of "Vision 2025", a plan for long-term sustainable growth.

The target is self-reliance by 2015 and the implementation of an ambitious economic reform plan, which includes subsidy, banking, taxation, currency, infrastructure and productivity as its main focus. Other main objectives of the fifth plan are making improvements in public healthcare, and expanding international relations.

Article in the plan	2010 (realized)	2010-15 (target)
Annual growth rate	2.6%	8% on average, BMI forecast: 3.6% on average (2009-14)
Unemployment	11.8% according to government	7% by 2015, by creating 1 million new jobs each year
Inflation rate	15% (as of January 2010)	12% on average
Oil price (for budgeting)	\$60 per barrel	\$65 per barrel on average
Share of non-oil exports	20%	30% by 2015
Investment in oil and gas industry	N/A	\$20 billion a year in private and foreign investment, mainly to boost oil refining capacity
Petrochemical output	~50 million tpy	100 million tpa
Investment in mining and industry	N/A	\$70 billion/700,000 billion rials
Crude steel production	~10 million tpy	42 million tpy by 2015
Iron ore production	~27 million tpy	66 million tpy by 2015
Cement	~71 million tpy	110 million tpy
Limestone	N/A	166 million tpy
New industrial parks	N/A	50 new industrial parks to be built by 2015

Source: [http://en.wikipedia.org/wiki/Economy\\_of\\_Iran](http://en.wikipedia.org/wiki/Economy_of_Iran)

## Iran National Holidays

Holidays & Anniversaries in 1388 (March 21, 2008-March 20, 2009) in Iran

Date	English name	Local name	Remarks
11th February	Revolution Day		
10th March	Arba'in-e Hosseini (40th day after Ashura)	Arba'in-e Hosseini	
18th March	Martyrdom of Imam Reza		
19th March	Demise of Muhammad and Martyrdom of Imam Hassan		
20th March	Nationalization of the oil industries		
21st March to 23 <sup>rd</sup> March	Persian New Year	Nowruz	of ancient Iranian origin
1st April	Iranian National Day/Islamic Republic Day		Proclamation of the Islamic Republic in 1979
2nd April	Nature Day	Sizdah Bedar	13th day after the new year, end of festivities for Nowruz
6th April	Anniversary of Muhammad and Anniversary of Imam Sadeq		
4th June	Anniversary of the passing of Imam Khomeini		1989
5th June	Anniversary of the uprising against the Shah		
18th June	Martyrdom of Fatima		
28th July	Anniversary of Imam Ali		
11th August	Mission of Muhammad	Be'sat	
28th August	Anniversary of Imam Mahdi		
3rd October	Martyrdom of Imam Ali		
15th October	End of Ramadan	Eid-e-Fitr	
6th November	Martyrdom of Imam Sadeq		
21st December	Shab-e-Yalda		
21st December	Eid-e-Qorban		can vary by 1 day
29th December	Eid-e-Ghadeer		

There are 22 holidays. Dates for anniversaries are based on the Persian calendar, Muslim calendar or Zoroastrian calendar; the dates on the Gregorian calendar can vary from year to year.

## Iran Businesses Hours

Governmental organizations can be reached from 7.30 AM to 16:30 PM from Saturday to Wednesday and from 7.30 AM to 1.30 PM on Thursday. Businesses open from 8.30 AM to 12.30 AM and after lunch till 20:00 PM. Stores open from 9 AM to 8 PM. The weekend in Iran is on Thursday and Friday.

Offices: Saturday to Wednesday 09.00 - 17:00

Banks: Saturday to Wednesday 07:30 - 15:30

Thursday 7:30-12:30

Stores: Saturday to Thursday: 09:00 - 20:00

Some supermarkets in Iran are open beyond the hours indicated above. Food may be purchased on all week days in shops.

Iran International Dialing Codes as: Tehran (21); Esfahan (311); Shiraz (711); Ahwaz (611); Mashhad (511); Asseloyeh (??); Kish (764).

## Iran Business Practice and Business Etiquette Tips

It is worth paying attention to the following points at business meetings in Iran:

- The code of business conduct is similar in Iran to that in the rest of Europe and the USA. A handshake at the beginning and end of a meeting is the accepted custom. Care should be taken to shake the hand of everyone present at the meeting.
- When doing business in Iran you will notice that most Iranian officials and business people wear clothing comprising of trousers, shirt and jacket. Many officials will be seen with collarless shirts. Ties are very uncommon.
- As a male you would be expected to be smart and conservative. A suit is standard although wearing a tie is not necessary.
- Whether doing business in Iran or visiting, women should wear conservative clothing that covers arms, legs and hair. When in public women must cover their hair with a scarf. However, the last decade has seen incredible changes in what the authorities are willing to tolerate. Women can now be seen wearing make-up, jeans and scarves that barely cover the hair. However, as a foreigner it is best to err on the side of caution
- It is very important at a business meeting to indicate your colleague's title first and then his surname. Use of first names is intended only for private meetings, after a personal relationship has been established. Thus for example if you meet with a professor, address him as Professor Ronak. At further meetings, you may use his title without his surname - Professor. For women, 'Lady' is used for family name.
- If you are invited to your Iran colleague's home, it is customary to bring a small gift, such as a selected flower, small Kristal vessel, a box of chocolates, etc.
- Most business people in Iran have a good command of English.
- Punctuality in Iran, as in Germany, is renowned throughout the world. Make every effort to arrive for a meeting at the appointed time or, if you are a few minutes late, make your apologies to your colleague.

- In many places in Iran, including restaurants, there is a strict ban on smoking. Try to smoke only when the people around you are doing so.

You are recommended to avoid making business appointments for the months of March 20 till April 08 as well as around the dates of Iran national holidays.

## Iran Currency Foreign Exchange Rates

The rate of foreign exchange against Iran Rial, at the period year 2002-2009 are as follow:

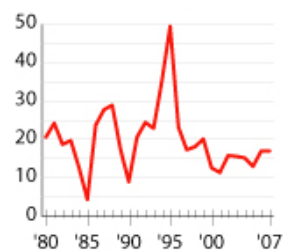
Exchange rate to IIR	2002	2003	2004	2005	2006	2007	2008	2009
UDS	7985	8282	8718	9023	9195	9210	9320	9930
Euro	6100	6912	8757	11860	12206	14061	12620	13200
UK Pound	11300	12766	17006	17880	18118	13715	15140	14839

## Iran annual GDP

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP Billion	116.14	134	1613.3	188.5	208.1	278.6	314	337	345

## Iran annual inflation rates

The following table shows the rate of Iran annual inflation in recent years.



## Iran visa requirements

### Airport Visa

1. Airport Visa is issued at Imam Khomeini Airport for 72 hours for businessmen
2. Airport Transit Visa is issued for 48 hours to the applicants who intend to transit through Iran.

### Required documents: Airport entry or transit visa

1. One visa application form, to be completed Imam Khomeini Airport.
2. The applicant's passport; which must be valid for at least 6 months, with a minimum of two blank pages.
3. Copy of Passport (ID-page).
4. Confirmed ticket to the third country for the applicants of 48 hours transit visa.
5. Confirmed ticket to the third country for the applicants of 72 hours visa.
6. And written request by the Iranian sponsor must be sent to the passport and Visa department Ministry of Foreign Affairs at Imam Khomeini Airport branch.
7. One current photographs in passport format (3 x 4).
8. Visa fee; paid by Banker's Draft made payable to the Embassy of the Islamic Republic of Iran. Note: Payment in cash is not acceptable.
9. Return envelop with address and adequate prepaid postage to cover cost of registered mail.

### Entry Visa for Free Trade and Industrial Zone of Iran

This visa is issued for two-week stay at the ports of entry to Free Trade and Industrial Zone of Iran (Kish Island), and may be extended up to six months at the request of authorities of these areas.

Note: Foreign nationals, who intend to travel to other parts of the country, should submit their application to the office of the representative of the Ministry of Foreign Affairs in the area and the application will be reviewed and visa will be issued if approved, within 48 hours.

### Required documents:

1. One completed visa application form.
2. The applicant's passport; which must be valid for at least 6 months, with a minimum of two blank pages.
3. Copy of Passport (ID-page).
4. One current photographs in passport format (3 x 4).
5. Visa fee; paid by Banker's Draft made payable to the Embassy of the Islamic Republic of Iran. Note: Payment in cash is not acceptable.
6. Return envelop with address and adequate prepaid postage to cover cost of registered mail.

### Work permit Visa

This visa will be issued for foreign nationals who intend to work in Iran. The Iranian host must obtain the work permit in advance from the concerned authorities.

For details in respect of Social Security, please see our LIS Bulletin of August 28, 2002. Foreigners intending to work in Iran are required to enter Iran after obtaining an entry visa with the right of working, otherwise known as work visa. A foreign applicant already entered Iran with a different type of visa may apply for the change of existing visa to the above work visa through his/her employer. All applicants, however, are required to refrain from becoming engaged in any work before their work permits will be issued by the Expatriates Labour Department of the Ministry of Labour and Social Affairs.

Expatriates visiting Iran to discuss matters regarding their businesses with Iranian clients are also required to obtain Temporary Work Permits. Procedures for obtaining the said Temporary Work Permits are the same as those required to obtain ordinary work permits. Therefore, the Ministry of labour now seems confined to a report on the schedule of a foreign visitor to be submitted by the “employer” (sponsor) of such visitor to the Expatriates Labour Department (ELD) prior to the arrival of the foreign national in Iran.

A work visa may be issued by the Ministry of Foreign Affairs on the instruction of the Expatriates Labour Department of the Ministry of Labour in the name of the foreign Principal (Chief) Representative of a foreign company by presenting a notice of appointment of the said principal representative to the said Department.

An application for issuance of a work permit for the principal representative may then be submitted to the Expatriates Labour Department after arrival of the said chief representative in Iran. The work permit will be issued within a month on the basis of which residence permits will be issued by the Police Department for the expatriate worker and members of his family.

The Labour Department normally requires that a number of Iranian nationals (some 3 local workers seem to be sufficient) be employed before the work permit will be issued. If the employer branch office, representative office or liaison office lacks the above number of personnel, the Expatriates Labour Department shall require that the shortfall will be supplied from among the list of unemployed job applicants at job offer centers of the Ministry of Labour.

The above also applies to any new principal representative (a foreign company may have several principal representatives) by employing more Iranian nationals in pursuit of the policy of the Ministry of Labour to reduce unemployment.

Foreign personnel required to carry out a project in hands of a foreign contractor company will be given their work permits on the basis of an organization chart of the project drawn up jointly by the representatives of the Iranian employer organization (client) assisted by the representative of the contractor as well as the representative of the Ministry of Labour.

For the exit of a foreigner who has been granted a work permit to work in Iran, exit permit need to be obtained from the Police Department. Permits will be issued on the basis of tax clearance certificates (normally valid for one year) by the Ministry of Economy and Finance certifying the settlement of tax on the salary of the expatriate employee. If the applicant is the principal representative of a foreign company or the managing director or a member of the Board of an Iranian company, then the tax clearance certificate of the employer company must, as well, be submitted to the Police Department.

## Visa & Work permitted

The following documents duly completed and filled in shall be filed for obtaining entry visa + work authorization:

1. A written application by the employer applying for entry visa + work authorization, duly signed by the authorized signatory of the employer (in the case of projects, the number and organizational chart of the project shall be also indicated).
2. One copy of the form providing preliminary information pertaining to the employer.
3. Three copies of the forms on information regarding the foreign national wishing to work in Iran.
4. One copy of the form providing preliminary information on the sector in charge of the project (government and private sector without any project shall not be required to submit this form).

5. A Photostat of the Official Gazette announcing the establishment of the company and the recent change(s) made in the company (companies with previous records filed with Labour Office-General shall only submit a copy of the gazette indicating any recent change made in the company).
6. A Photostat of the marriage permit issued by the Ministry of the Interior or one of a governor-general office in the country, along with a Photostat of the marriage instrument and ID card of foreign nationals who married Iranian spouse, which shall be accepted after verification with their original copies.
7. A form of affidavit prepared by the employer.

Note: In the case of foreign nationals travelling to Iran for installation and commissioning works of industrial projects and factories of private sector under the government control, the following shall be also filed in addition to the above mentioned documents:

1. A Photostat of the contract signed for purchase of equipment and machinery.
2. A Photostat of customs green paper for clearance of the machinery and equipment.
3. A Photostat of the ministerial approval and/or the operation license.

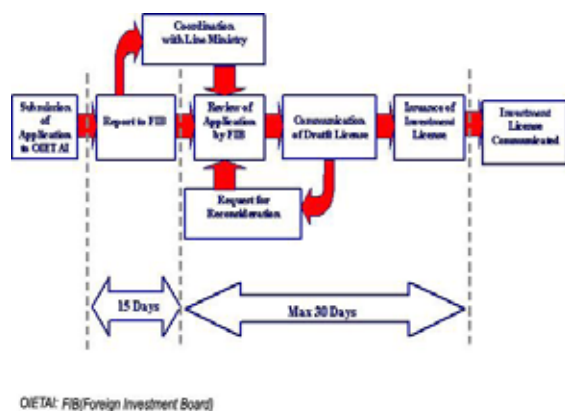
Following are the executive procedures to be observed for obtaining entry visa + work authorization;

1. The employer’s representative shall file the application form and the other documents with the office concerned, and have them checked and initialled after completed.
2. The application shall be registered with computer.
3. The application shall be transmitted via the computer network to department concerned.
4. The expert must review the case and decide on eligibility of each application. Those applications which shall require the approval of the Technical Board of Aliens Employment Office must be forwarded to the Board for necessary approval.
5. The form of entry visa + work authorization shall be issued and sent to the Office of Management, for necessary seal and signature.
6. The Secretariat shall register and send the form of entry visa + work authorization, to the Consular Section of the Ministry of Foreign Affairs or to the representative office of the above said Ministry in the Province.

## Foreign Investment

According to Foreign Investment Protection Act, all foreigners investor can be establish company or joining in local company with every percentage as even 100%.The foreigners investors must be get special permitted from Ministry of Economic Affairs and Finance, Organization for Investment, Economic and Technical Assistance of Iran (OIETAI). This investments are under cover of "Foreign Investment Promotion and Protection Act =FIPA". In the other hand by new circular of (OIETAI) foreigner investors can set up entity with 100% without any permitted from governance that these entities are not under protection. The Companies Registry, after receiving the above letter, proceeded with the registration of all types of Iranian companies in which foreigners may possess up to 100% of the stocks.

Under FIPPA, application procedure for investment licensing is designed in a very short and simplified manner. As illustrated below the whole licensing procedure is designed in four stages, as follows:



Foreign companies which are engaged in carrying out business activities in Iran conduct their business either through a branch or a limited liability company (joint stock company). In order for you to have a general understanding of the commercial features attached to either of these legal vehicles, we feel it is appropriate to provide you in brief a general information about each of these tools.

A branch does not have a separate personality and is treated as a division of the company it represents. Assets and liabilities of the branch are those of the company and the net assets (liabilities) represent amounts due to (from) the company. A branch needs to maintain proper books of accounts in the same manner as a limited liability company is obligated. It is however exempt from certain compliance obligations such as holding annual general meetings or appointing a "legal inspector". Foreign companies, which intend to engage in contracting activities in Iran, need to establish a branch, unless their activities are carried out through a limited liability company or any other form of legal vehicle recognized by the Commercial Code of Iran. Most common types of vehicle are either a branch or a limited liability company.

In limited liability companies, the liabilities of its owners are limited to the amount of capital they have subscribed. There are two types of limited liability Company recognized by the Commercial Code of Iran as follows:

- A limited liability company in which its capital is divided into shares, called "joint stock company"
- A limited liability company in which its capital is not divided into shares

The most common limited liability company is the one with share capital. Any reference to "limited liability company" in the text which follows is to a joint stock company.

Limited liability companies can be either "private" or public. Private limited liability company is the one with minimum share capital of one million Rials (equal to about US\$125). All shares are allocated to its founders at the time of its foundation. In a public limited liability company, the share capital must be at least five million Rials and part of it must be offered for sale to public at the time of its foundation. A limited liability company must have at least three shareholders.

According to new regulation foreign nationals are generally allowed to hold 100% holdings in a company registered in Iran without any limitation or certificate unless they want to apply for a certificate of protection issued by the Government in accordance with the Law for Attraction and Protection of Foreign Investments

### Establishment of a branch

The applicants of establishment of a branch in Iran need to submit the following documents to the Company's Registrar in Iran:

1. A written application by the company.
2. Notarized certified copies of the company's Articles of Association, certificate of incorporation, and latest changes thereto notified to the competent authorities in the country of Head Office.
3. A report containing:
  - i. Information pertaining to the activities of the company
  - ii. Justification and the need for the establishment of a branch in Iran
  - iii. Nature and scope of the authorities given to the branch and the object of the branch
  - iv. An estimate of human resources required, segregated between Iranian and expatriate employees
  - v. The manner by which the local requirements of the branch (foreign currency and Rials) are funded
  - vi. A letter from a government agency in the event that the company has concluded a contract with that agency

Registration declaration for the branch. There is a template for this, which will be completed and signed by the resident manager

A letter of authority authorizing the branch manager to act on behalf of the foreign company

A letter of commitment executed by the resident manager undertaking to proceed to liquidate the branch in the event the activities of the branch are terminated by the Iranian competent authorities.

Kindly note that any of the documents set out above which are prepared outside Iran must be certified by the competent authorities and confirmed by the foreign ministry and notarized by the Iranian Consulate in that Country. The above documents must be translated into Farsi and the English originals as well as the translated versions must be submitted to the Company's Registrar.

## Dissolution and Liquidation

General provisions governing the dissolution and liquidation of a joint stock company are provided in the law and companies are authorized to specify in their Articles of Association any particular provisions they may desire so long as they are not inconsistent with the law. Since the provisions of the law on this subject are general in nature, it is advisable, when drafting Articles of Association, to include procedures for dissolution and liquidation.

## What is law-permitting registration of branches or representative office in Iran?

Law Permitting Registration of Branches or Representative Offices of Foreign Companies

Official Gazette No. 15384, dated 17.12.1997 (26.9.1376)

Letter No. Gh- 1592, dated 25.11.1997 (4.9.1376)

Sole Article- The foreign companies which are being considered to be legal corporate bodies in their country of registration, in case of reciprocal treatment by the country governing the said companies, may register their branches or representative offices to carry out businesses determined by the Government of Islamic Republic of Iran within the framework of the prevailing laws and regulations.

Note: The executive regulations of this Law shall be drawn up by the Ministry of Economy and Finance through coordination with other authorities concerned and shall be presented to the Council of Ministers for approval.

The above Law, comprising a Sole Article and one Note was approved by the ICA in the open session of Wednesday November 12, 1997 and was confirmed by the Guardians Council on November 19, 1997.

## The Executive By- Laws of the Law Authorizing Registration of Branches or Representative Offices of Foreign Companies in Iran

The Council of Ministers, in the course of a meeting held on March 31, 1999 (11.1.1378) pursuant to a proposal by the Ministry of Economy and Finance and in compliance with the Note appended to the Single Article of the Law ratified in 1997 authorizing registration of branches of representative offices of foreign companies (in Iran), approved the Executive By- laws of the said Law as follows:

Article 1: A foreign company which is known and admitted as a legal company in the country of registration shall be authorized to have its branch or representative office registered in Iran for the activities listed below, by observing the principle of reciprocal action and also with due regard to the requirements intended herein, as well as the other pertinent regulations:

1. After- sale services for goods and services supplied by the foreign company.
2. Executive works of the contracts signed between Iranian and foreign companies.
3. Review and preparation of grounds for investment by foreign company in Iran.
4. Cooperation with technical and engineering companies in Iran, for performance of works in a third country.
5. Promotion of Iranian non-oil exports.
6. Technical and engineering services and transfer of technology and technical know- how to Iran.
7. Activities legally licensed by Iranian government authorities which are duly authorized to issue such

permits, in such areas as transportation, insurance, goods inspection, banking, marketing and the like.

Article 2: A branch office of a foreign company shall be the local office of the principle company, which directly functions and attends to business within the objectives and duties undertaken by the principle company. Therefore, and business activity by such branch office shall be in the name and under the responsibility of the principle office of the company.

Article 3: A foreign company wishing to have registered its branch office in Iran shall provide the Registrar of Companies and Industrial Ownership, with the following information and documents, to be submitted along with a written application:

1. Company's article of association, notice of incorporation, and the last change(s) registered with competent authorities.
2. The last confirmed fiscal report of the company.
3. A feasibility report containing information on the company's activities, by mentioning the reason(s) for registering the branch office in Iran, nature and scope of its authorities and area of activities, as well as the number of Iranian and foreign manpower needed for such activities and the intended source of Rial and foreign currency supply.

Article 4: The representative of a foreign company shall be a natural person or legal entity who, by signing a contract, undertakes the performance in Iran of a certain part of the duties of the head office.

Article 5: Iranian natural persons and juridical entities applying for registration of agent office of a foreign company in Iran shall submit, along with a written application, a Persian translation of the original copies of the following documents to Register of Companies and Industrial Ownership:

1. Attested Photostat of the contract to in Article 4 above.
2. Identity papers of the applicant; for natural persons, a Photostat of their birth certificate together with their legal address, and for juridical entities, the company's articles of association and the last change(s) made in the company registered with the competent authorities.
3. A profile of the Applicant's previous business activities, relative to the area(s) of activities intended for the contract signed for registering the representative office in Iran.
4. The articles of association of the foreign company, notice of establishment and the last change(s) made in the company registered with the competent authorities.
5. A report on the foreign company's activities, by mentioning the reason(s) for establishing the branch office in Iran.
6. The last confirmed fiscal report of the foreign company, which intends to open its agent office in Iran.
7. A letter of introduction from the ministry concerned.

Article 6: Those whose license of activity shall be revoked by the competent authorities shall take the necessary actions through Registrar of Companies & Industrial Ownership, for winding up their branch or representative office, within the period specified for the same purpose.

Note: The companies whose license of activity shall not be extended will be given a period of 6 months to wind up the registered company and proceed with liquidation.

Article 7: The branch office of a foreign company registered and working in Iran shall submit every year to the authorities concerned, a report on their principle company, including their annual fiscal report auditing by independent auditors in the country of origin.

Article 8: Natural persons and juridical entities falling under the requirements hereof shall be required to submit a report on their branch office activities in Iran together with audited account statements, within four (4) months starting the end of each fiscal year. As long as the Executive Regulations of Note (4) to the Single Article of the Law approved in 1 natural persons are acceptable to the supervisory office of the State Auditing Organization.

Article 9: The branch or representative office of a foreign company registered in Iran pursuant to the regulations set forth herein is operated by one or more natural persons residing in Iran.

Article 10: To enable foreign companies to fully enjoy the benefits and advantages foreseen by this present Regulation and to perpetuate their activities in Iran, foreign companies already operational in Iran prior to the date of entry into force of this Decree, shall be are required to provide the authorities concerned with documents and information required pursuant to Articles 3 and 5 above, and also take the necessary steps for adjusting their statues to the requirements set forth by this regulation.

### Which document need to registered branch in Iran?

The applicants of establishment of a branch in Iran need to submit the following documents to the Company's Registrar in Iran:

1. A written application by the company.
2. Notarized certified copies of the company's Articles of Association, certificate of incorporation, and latest changes thereto advise to the competent authorities.
3. A report containing:
  - i. Information pertaining to the activities of the company
  - ii. Justification and the need for the establishment of a branch in Iran
  - iii. Nature and scope of the authorities given to the branch and the object of the branch
  - iv. An estimate of human resources required, segregated between Iranian and expatriate employees
  - v. The manner by which the local requirements of the branch (foreign currency and Rials) are funded
4. A letter from a government agency in the event that the company has concluded a contract with that agency.
5. Registration declaration for the branch. This will be completed by us and forwarded to you for execution.
6. A letter of authority authorizing the branch manager to act on behalf of the foreign company.
7. A letter of commitment executed by the local representative undertaking to proceed to liquidate the branch in the event the activities of the branch are terminated by the Iranian competent authorities.
8. Notarized certified lost audit report & financial statements.
9. A letter of authority authorizing the branch manager to act on behalf of the foreign company;
10. A letter of commitment executed by the local representative undertaking to proceed to liquidate the branch in the event the activities of the branch are terminated by the Iranian competent authorities;
11. Notarized certified lost audit report & financial statements

Kindly note that any of the documents set out above which are prepared outside Iran must be certified by the competent authorities and confirmed by the foreign ministry and notarized by the Iranian Consulate in that Country. The above documents must be translated into Farsi and the English originals as well as the translated versions must be submitted to the Company's Registrar.

### Statutory Inspectors (Auditors)

The law requires the election, by the shareholders, of a statutory inspector and alternate inspector once a year at the ordinary general meeting. The election of more than one inspector and alternate inspector is optional. In general, the function of the inspector is to serve as a watchdog over shareholders and third parties interests and he may be prosecuted criminally for violation of his duties. Certain categories of persons such as criminals, the directors and their relatives, and persons doing business with the company are disqualified from serving in this post. Among other things, the inspector is required to submit a report of the ordinary general meeting each year.

### Books of Account

Both the public and private joint stock companies are required to maintain in the Persian language the journal, ledger, inventory and copy book of merchants. These books serve as the basis for determining the company's tax liability and failure to keep them strictly in accordance with the legal requirements may result in the tax authorities making their own determination of what the company's tax liability should be.

### Accounting Profession In Iran

Iran has three accounting body as follow:

1. Iranian Association of Certified Public Accountants(IACPA) that is fellow member of IFAC
2. Iranian Institute od Certified Accountants(IICA) that is fellow member of IFAC
3. Iranian accounting Association (IAA) that is same AAA in USD

According by law Audit Organization that is the biggest audit firm inm Middle East is standards setters and has responsibility to audit government sections.

## Comparative table between Iran & IAS standards

No	Title	compatible with
	Introductory Matters	Preface
20	Objectives and General Principle Governing Audit of Financial Statements	ISA 200
21	Terms of Audit Engagements	ISA 210
22	Quality Control for Audit Work	ISA 220
23	Documentation	ISA 230
24	Fraud and Error	ISA 240
25	Consideration of Laws and Regulations in an Audit of financial statements	ISA 250
30	Planning	ISA 300
31	Knowledge of Business	ISA 310
32	Audit Materiality	ISA 320
33	The Auditor's response to assess risk	ISA330
40	Risk Assessments and Internal Control	ISA 400
50	Audit Evidence	ISA 500
51	Initial Engagement- Opening Balances	ISA 510
52	Analytical Procedures	ISA 520
53	Audit Sampling	ISA 530
54	Audit of Accounting Estimates	ISA 540
55	Related Parties	ISA 550
56	Subsequent Events	ISA 560
57	Going Concern	ISA 570
58	Management Representations	ISA 580
60	Using the work of another auditor	ISA 600
61	Considering the work of internal auditing	ISA 610
62	Using the work of and expert	ISA 620
70	The auditor report on financial statements	IAS 700
71	Comparative Information	IAS 710
72	Other information documents containing audited financial statements	IAS720
80	The auditor's report on special purpose audit engagement	ISA 800
91	Engagements to review financial statements	ISA 910
92	Engagements to perform agreed-upon-procedures	ISA 920
93	Engagements to compile financial information	ISA 930
105	Particular considerations in the audit of small businesses	ISA 1005
107	Communications with management	ISA 1007
340	The examination of prospective financial information	ISA 3400

## Project in progress

No	Title	Compati ble with
---	Introductory Matters	Preface
20	Objectives and General Principle Governing Audit of Financial Statements	ISA 200
21	Terms of Audit Engagements	ISA 210
22	Quality Control for Audit Work	ISA 220
23	Documentation	ISA 230
24	Fraud and Error	ISA 240
25	Consideration of Laws and Regulations in an Audit of financial statements	ISA 250
30	Planning	ISA 300
31	Knowledge of Business	ISA 310
32	Audit Materiality	ISA 320
40	Risk Assessments and Internal Control	ISA 400
50	Audit Evidence	ISA 500
51	Initial Engagement- Opening Balances	ISA 510
52	Analytical Procedures	ISA 520
53	Audit Sampling	ISA 530
54	Audit of Accounting Estimates	ISA 540
55	Related Parties	ISA 550
56	Subsequent Events	ISA 560
57	Going Concern	ISA 570
58	Management Representations	ISA 580
60	Using the work of another auditor	ISA 600
61	Considering the work of internal auditing	ISA 610
62	Using the work of and expert	ISA 620
70	The auditor report on financial statements	IAS 700*
80	The auditor's report on special purpose audit engagement	ISA 800
91	Engagements to review financial statements	ISA 910
92	Engagements to perform agreed-upon-procedures	ISA 920
93	Engagements to compile financial information	ISA 930
105	Particular considerations in the audit of small businesses	ISA 1005
107	Communications with management	ISA 1007
*Except for legal requirements		

## Comparative of Iran Accounting Standards

No	Title	Compatible with
1	Presentation of financial statements	IAS 1
2	Cash flow statements	IAS 7
3	Revenue	IAS 18
4	Accounting for contingencies	IAS 37
5	Events after the balance sheet date	IAS 10
6	Reporting financial performance	IAS 8
7	Research and development cost	IAS 38
8	Inventories	IAS 2
9	Construction contracts	IAS 11
10	Accounting for government grants	IAS 20
11	Tangible fixed assets	IAS 16
12	Related party disclosures	IAS 24
13	Borrowing costs	IAS 23
14	Presentation of current assets & current liabilities	IAS 1
15	Accounting for investments	IAS 25
16	Foreign Exchange Translation	IAS 21
17	Intangible Assets	IAS 38
18	Consolidated financial statements and accounting for investments in subsidiaries	IAS 27
19	Business combinations	IAS 22
20	Accounting for investments in associates	IAS 28
21	Leases	IAS 17
22	Interim financial reporting	IAS 34
23	Financial reporting of interests in Joint Ventures	IAS 31
24	Auditor's responsibility to consider fraud in an audit of financial statements	IAS 24
25	Segment reporting	IAS 14
26	Agriculture Activities	IAS 41
27	Retirement Benefit Plan	IAS 26
28	General Insurance	IAS 04
29	Real State	-

Two extra subtitles are included in the cash flow statements.

## Legal requirements.

Recognition of differences arising on translation of foreign currency balances of companies subject to state audit act of Iran and transfer of exchange differences included in owner's equity to retained earnings on disposal of foreign operations.

Requirements regarding minority interest debit balances to be charged against the majority interest.

Presentation of investments in associated in the financial statements of investor.

Requirements regarding identification of primary and secondary segments and disclosure of each segment's share of profit or loss in investments accounted for under equity method.

## Social Security Requirements

According to Article 148 of the Labour Law, employers are under the obligation to provide insurance with the Social Security Organization for their workers.

Employers failing to comply with the above obligation shall be condemned to pay the shares of premium payable by employers as well as the employees together with all applicable penalties and interests at the rate of 42% of the amounts in arrears in addition to a cash penalty of up to ten times the amount of premium due to the SSO according to Article 183 of the Labour Law.

According to a law ratified on September 26, 1979 by the Islamic Consultative Assembly foreigners are also required to pay social security premium to SSO and shall be covered by SSO regulations except in the following cases:

- a. Where between the country of such aliens and the government of the Islamic Republic of Iran bilateral or multilateral treaties with regard to Social Security have been made, in which case the contents of such treaties shall be complied with and;
- b. Where an alien shall produce a certificate of his government authorities evidencing that during his employment in Iran he has been insured in his own country or any other country for any or all the instance enumerated in Article 3 of the Social Security Act, in which case the said employees shall be exempted from payment of premium in respect of certified instances only.

The certificate mentioned in Sub-clause "b" above in order to provide exemption in respect of payment of premium must be drawn up to cover all instances enumerated in Article 3 of the Social Security Act as follows:

### Accidents and sickness, Pregnancy, Wage Compensation, Disability, Retirement, Death

Social Security premium is 30% of the monthly salary, up to a ceiling of RIs.18,446,400 RIs in 2009 (March 21,2008 till March 21,2009), of which 23% will be paid as contribution by employers (20% SSO insurance premium and 3% unemployment insurance premium) and 7% by employees. A further 3% will also be paid to SSO by the Government.

The above premiums (employers' and employees contributions) must be paid through some lists of salaries of the personnel which must be collected from the local SSO branch in respect of every month, not later than the last working day of the next month.

### SSO for Foreigners

According to the convention No 19 of International Labour Organization (ILO) all countries joined to this convention are obliged to treat with all, national or international, workers equally in the case of work-related accidents.

On this basis, Social Security Organization of I.R. of Iran, has declared the procedures for enforcement of work related accidents insurance for foreign workers from 120 countries joined to the ILO convention No (19) , through admitting specific note added to article 5 of Social Security Law.

According to this Note, those foreign nationals who work under the S.S. Law of Iran would be treated equally as the other insured in paying contributions and receiving benefits. But those who are under the

coverage of other countries which have joined to ILO Convention No (19) will be protected only against work-related accidents.

In latter case, if any work-related accident occur to persons. Social Security Organization would undertake the responsibility of providing the health services, as well as the payment of wage compensation, loss of limb compensation, partial & total disability pension and survivors pension.

According to this note, employers of foreign nationals are obliged to deduct 3 percent of total wages and benefits paid the person, without considering the maximum wages subject to the contribution, and remit it to the SSO account.

The note also emphasizes that providing the health services is only for work-related accidents and other health issues do not lies under the responsibility of Social Security Organization. In addition the survivors pension is payable in case of the insured's death due to occupational accident. (Due of implementations, September 2001).

### SSO Premium Payable by Contractors

Five percent of the value of every progress statement plus the total amount of the last statement given by a contractor to a client must be retained by client and released to contractor upon submission of SSO clearance certificate.

In issuing clearance certificates, SSO, according to Article 41 of the Social Security Act, claims that premium must be paid according to a Decree of the Social Security High Council approved 1991 which provide as follows:

1. "The workers' social security insurance premium under the contracts, all the materials required for whose implementation are supplied by the employer and also the contracts whose subject is provision of certain services including installation of equipment, technical and consultant engineering services, training, drafting, surveying, cleaning, ... or the contracts which require no materials for their implementation, shall be collected on the basis of fifteen (15) percent of the gross value of works carried out plus one-ninth (1/9) of the applicable insurance premium for Unemployment Insurance.
2. The insurance premium for other contracts shall be collected on the basis of seven (7) percent of the gross value of works carried out plus one-ninth of the applicable insurance premium for Unemployment Insurance.

By "gross value of works carried out", it is meant the total value of works including foreign exchange and RIs. portions.

The equipment which a contractor is obligated to design, manufacture or purchase from abroad and install in Iran according to the terms and conditions of a contract and to receive payment of their prices through letters of credit, in foreign currency, shall be excluded from the value of works subject to deduction of SSO insurance premium and shall be exempt from payment of insurance premium.

All contractors, consulting engineers and employers should, at the time of concluding contracts, take into account the applicable amount of insurance premium by due attention to the terms and conditions of the relevant contracts and the obligations of both parties. All contractors and consultant engineers must pay to SSO the applicable insurance premium on the specified basis together with submission of the monthly SSO lists so that clearance certificate can be issued upon completion of the contract operations without any problem."

The above ruling of the Social Security High Council was published by the Income Department General of the Social Security Organization as Circular No.149.

Later on, the Managing Director of the Social Security Organization, through a Circular No.149/2 dated August 25, 1998, pursuant to an agreement concluded between SSO and the Association of Construction Companies on April 15, 1998 decided that the above social security premiums (15% + 1/9 & 7% + 1/9) should be deducted from every progress statement. Therefore, no further deduction of 5% from each progress statement was necessary.

The above circular adversely affected the cash flow of contractors. In order to cancel the circular letter of the SSO Managing Director, some companies and organizations such as Iranian Offshore Oil Company (IOOC), Industries Development and Renovation Organization (IDRO) and others submitted a plaint to the Administrative Court and asked for cancellation of the above circular letter which provided that the total SSO premium of 15%+1/9 or 7%+1/9 must be deducted from every progress statement and paid to SSO. The Administrative Court cancelled the above Circular in favour of the Iranian contractors who are exempt in respect of penalties provided in the Social Security Act. However, such cancellation did not do any good to foreign contractors operating in Iran who are liable to pay penalties to SSO and must make sure, in our opinion, that they will be treated, pursuant to special arrangements between SSO and the client organization, in accordance with the provisions of the above cancelled Circular Letter.

## Entities Formation in Iran

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 par value of their shares. As mentioned in the Foreword, the Joint Stock company may be either a public company (Sherkat Sahami Am) or a private company (Sherkat 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. See Annex A for additional differences between the public and private companies.

## Other Forms of Business Association

In addition to the Joint stock company, the Iranian Commercial Code provides for the following types of business association:

1. Limited liability company (Sherkat ba Masouliyat Mahdoud)
2. General partnership (Sherkat Tazamoni)
3. Limited partnership (Sherkat Mokhtalet Gheyr Sahami)
4. Mixed joint stock partnership (Sherkat Mokhtalet Sahami)
5. Proportional liability partnership (Sherkat Nesbi)
6. Production and consumption cooperative (Sherkat Ta'avoni Towlid va Masraf)

Of the mentioned listed companies, the limited liability company and the joint stock partnership provide for a limitation of shareholders' liability to the value of their shares. In the case of the mixed joint stock partnership, the law provides for both shareholders and unlimited liability partners. The principal difference between the joint stock and the limited liability company is that with the latter, the capital may not be divided into shares and the participants may not transfer their interests therein without the approval of a majority of the participants representing three-fourth (3/4) of the company capital.

## General Features about Private Joint Stock(PJS)

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 par 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.

## General information about different business entities

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
1	<p>Legal Regulations , Laws</p> <p>According to Article 3 of the Act of Registration of Companies approved 1931, any foreign company, in order to become engaged in Iran, in any trading, industrial or financial activity, must be recognized as a legal company in its own country of origin and must also register itself with the Companies Registry in Tehran. The Commercial Code of Iran as of March 1969, The note 2 of article 105 of tax act of Iran "On corporate income tax", as of 16 February 2003 , Decree of the Islamic parliament branch registration law 12/10/1998 and bylaw of branch registration approved by board ministers on 01/04/1999 On the order of registration of Permanent establishments of non-residents as corporate income taxpayers" as of note (5) article (107) of tax act 16 February 2003. It is worthy to your attention according to article (1) of Iran tax act every Iranian (Real person or Juridical person residing in Iran ,on all his incomes earned in Iran or abroad are subject to taxation. It is meaning Iran hasn't permanent establishment for foreigners who are re economic active in Iran.</p>	<p>The Commercial code of Iran as of 1932 and amended 1968. Registration of all companies and / or partnerships mentioned in the present Act is compulsory, in accordance with the law of company registration. If a company has branches in several places, the provisions of this law must, in conformity with the by-laws of the Ministry of Justice, be carried out separately in each of the places.</p>	<p>The Commercial code of Iran as of 1932 and amended 1968. Registration of all companies and / or partnerships mentioned in the present Act is compulsory, in accordance with the law of company registration. If a company has branches in several places, the provisions of this law must, in conformity with the by-laws of the Ministry of Justice, be carried out separately in each of the places.</p>

1

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
2	<p>Despite the fact that a BR is not a legal entity, in most cases its activities are also regulated by the same legal provisions that apply to companies. However there are several specific issues not currently covered by the provisions of Iranian legislation, which make operating a BR somewhat more difficult.</p> <p>BR is obliged to inform the Ministry of Economy &amp; Finance and Labour Ministry about changes in its name, legal status, legal address, management, foreigners working at BR or the foreign entity bankruptcy.</p>	<p>A Limited Liability Company is a company formed by two or more persons for the purpose of trading, when the company's capital is not represented by shares or bonds, but when each of the partners is responsible for the responsibilities and obligations of the company to the extent of his contribution only.</p>	<p>Joint Stock Company (Saherake Sahami). A joint stock company is a company whose capital is divided into shares and the liability of whose shareholders is limited to the par value of the shares respectively held by them. A joint stock company is considered as a trading company, regardless of the fact that the operations conducted by it are not of a trading nature. The members of a joint stock company must not be less than three. Joint stock companies fall under two distinctive categories. The first category consists of a company whose promoters secure a portion of its share capital by way of transferring shares to the public and such a company is called a public company. The second category consists of a company whose share capital, in its entirety, is secured by its promoters at the time of its formation and such a company is called a private company. In joint stock companies the phrase "Public Joint Stock Company" or "Private Joint Stock Company" should appear immediately either before or</p>

2

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
3	How does the foundation happen Which costs may arise from the founding	A BR is formed by carrying out registrations with the Company Registration Office. The state duty for the registration of the BR is Euro 9500 (Includes lawyer fee and legal fee).	The incorporation of a PJS is carried out by the general meeting of shareholders and registration with the Company registration office. The legal registration fee is Euro 150 (Without lawyer or consultant fee).
		The incorporation of a LLC is carried out by the general meeting of shareholders and registration with the Company registration office. The legal registration fee is Euro 200 (Without lawyer or consultant fee).	after the name and style of the company as the case may be and, moreover, the said phrase should be indicated in a conspicuous place and in legible printing on all letter-heads, publications and notices of the company.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
4	Legal capacity	BR is not a legal entity and acts on behalf of the foreign entity that established it (hereinafter referred as "the parent company"). BR can conduct any activities delegated to it by the parent company with the power of attorney and listed in BR's statute, provided such activities are not prohibited by the current Iranian legislation. We have another BR that it can do economic activities. This kind of BR includes tax and the registration advertisement shall be written "economic activities".	PJS may provide any activities listed in its article association provided they are not prohibited by the current Iran legislation. Same LLC subject.
		LLC may provide any activities listed in its article association provided they are not prohibited by the current Iran legislation. Commercial transactions are: purchase or acquisition of any kind of movable property, for the purpose of sale or hire, whether in its original state or not. Transport business of any kind by land, sea or air. Every act of brokerage, commission, agency and of engagement in any kind of establishment for the purpose of carrying on certain business, such as facilitating property transactions, engaging employees, procuring and dispatching materials, etc. Establishing and operating any kind of factory, provided it is not for the personal requirements of the owner. Business connected with auctions. Management of places of public amusement. Any kind of banking and exchange business. Exchange transactions, whether between merchants or otherwise. Marine and other insurance business. Ship-building, buying and selling ships, shipping at home or abroad	

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		and all transactions appertaining thereto.	
5	BR does not have its own constitution. BR is also not able to establish its own representative offices.	LLC is able to establish representative offices in Iran and abroad.	PJS is able to establish representative offices in Iran and abroad.
6	BR has to be registered in the Company registration office and then in the Tax State organization.	LLC has to be registered in the Company registration office and in the Tax State Organization(TSO) of Iran.	PJS has to be registered in the local Company registration office and in the Tax State Organization(TSO) of Iran.
7	BR needs only branch manager that he isn't partner.	May be established by two legal entities and or 2 real person.	May be established by three legal entity and or 3 real person for PJS or 5 legal entity (5 real person) for public joint stock.
8	N/a	At the time of formation of the company, the share capital of a private company must not be less than one million Rials (\$120). If, at any time after the formation of the company, the share capital of the company, for any reason whatsoever, falls below the said minimum amount, then proper measures should be taken to increase the share capital to the minimum amount or to convert the same into other types of companies mentioned in the Commercial code; otherwise, any interested person will be at liberty to apply to the court for winding-up of the company.	At the time of formation of the company, the share capital of a public company must not be less than five million Rials (\$544). If, at any time after the formation of the company, the share capital of the company, for any reason whatsoever, falls below the said minimum amount, then proper measures should be taken to increase the share capital to the minimum amount or to convert the same into other types of companies mentioned in the Commercial code; otherwise, any interested person will be at liberty to apply to the court for winding-up of the company.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
9	BR's name is similar parent name.	Name of an entity and words "limited liability company" are required. Name of the company has to be in Persian language. It is prohibited to use for naming of a legal entity names of state authorities, local governments and historical state names. Name of the company could not be identical with a name of another legal entity. According to article (95) of commerce code in the company's title the phrase "limited liability" must appear, otherwise the company will, so far as third parties are concerned, be considered as a general partnership and come under the regulations governing the same. The name of the company must not include the name of any partner, otherwise the partner whose name appears will, by third parties be looked upon as a member of a general partnership.	In joint stock companies the phrase "Public Joint Stock Company" or "Private Joint Stock Company" should appear immediately either before or after the name and style of the company as the case may be and, moreover, the said phrase should be indicated in a conspicuous place and in legible printing on all letter-heads, publications and notices of the company. Name of the company has to be in Persian language. It is prohibited to use for naming of a legal entity names of state authorities, local governments and historical state names. Name of the company could not be identical with a name of another legal entity.
10	All BR's assets remain the parent company. Foreign branch can't be owner of immovable assets.	The company is the owner of any property contributed by the entity's founders, products manufactured by it, retained earnings and other property acquired from the sources not prohibited by the legislation of Iran.	The company is the owner of any property contributed by the entity's founders, products manufactured by it, retained earnings and other property acquired from the sources not prohibited by the legislation of Iran.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
11	Control the BR by Branch manager.	Shareholders are participating in the company's assets through ownership of the portion of its statutory capital. It means that if the shareholder will have the right its portion of the assets that remain after the satisfaction/settling of all obligations provided by the Iran legislation. The assets will be provided on a pro rata basis to the percentage of "shares" held in the company's statutory fund.	Shareholders are participating in the company's assets through ownership of the portion of its statutory capital. It means that if the company is liquidated each shareholder will have the right its portion of the assets that remain after the satisfaction/settling of all obligations provided by the Iran legislation. The assets will be provided on a pro rata basis to the percentage of "shares" held in the company's statutory fund.
12	N/a	Capital contributions may be made in any form. If a capital contribution is carried out in kind an assessment of the value of such contribution is required. The order of such assessment is to be determined in the article association of the company. Contributions to statutory fund are not subject for corporate income tax.	Capital contributions may be made in any form. If a capital contribution is carried out in kind an assessment of the value of such contribution is required. The order of such assessment is to be determined in the article association of the company. Contributions to statutory fund are not subject for corporate income tax.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
13	BR can change his /her manager by a official notice from parent Co.	A partner's contributions cannot be represented by transferable commercial instruments whether bearer or registered. The partners' contributions in the company cannot be transferred to third parties without the consent of a majority of partners, representing at least three quarters of the company's capital. The partners' contributions will not be transferred unless a notaries deed is drawn up in this connection.	The manner of shares transferee will be done according to article registered shares must be entered in the share register of the company and the transferor or his attorney or his legal representative should sign such transfer in the share register. When the total par value of a share is not paid up the full address of the transferor must be entered in the share register and signed by the said transferor or his attorney and shall be binding in respect of fulfillment of obligations arising from a conveyance. Any change in domicile should be registered in the same manner. Any transfer which takes place contradictory to the provisions mentioned above shall be considered as null and void as far as the company and third parties

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
			are concerned. In a public joint stock company, the transfer of shares should not be subject to the approval of either the board of directors or general meetings of the company. Any joint stock company may, by virtue of its Articles of Association or at any time before the company is wound up, by the resolution of an extraordinary general meeting, create preferred shares. The privileges attached to such shares and the manner of their utilization must be clearly stated. Any change in the privileges attached to preferred shares must be approved by an extraordinary meeting of the company with the affirmative vote of the holders of fifty per centum plus one of such shares.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
14	Liability of the company:		
a	How is the general liability of the company determined	Generally, Company has full liability to third party	Company has full liable to third party
b	How is the liability of the shareholders /partners determined	The parent company is liable for activities carried out by BR. The limitation of the parent company's liability will be determined by the applicable law that the BR is registered in. N/A	Shareholders liability is limited to the par value of the shares respectively held by them.
15	Elements/bodies of the entity (e.g. board of directors)	The BR 's manager (usually an individual) of the BR.	The highest body (body with the highest authority) of the company is general meeting of its shareholders. An ordinary general meeting must convene once a year at the time specified in the Articles of Association for reviewing the balance sheet and profit and loss account of the previous year, inventories, claims and debts of the company, a statement of the annual operation of the company, the report of the directors, the report of the inspector or inspectors and other matters related to the accounts of the fiscal year. At a general meeting, all resolutions

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		<p>case, resolutions will be passed by a numerical majority, even if this majority does not represent one half of the company's capital. The Articles-of-Association of the company may contain regulations other than those above mentioned.</p>	<p>will be passed by the affirmative vote of fifty per centum plus one vote of those present at the meeting, except for the election of directors and inspectors for which a simple majority shall be sufficient. At an extraordinary general meeting, the presence of the holders of more than fifty per centum of the shares entitled to vote is required. If this quorum is not established at the first meeting then another meeting should be called and the quorum of that meeting will be the presence of the holders of more than one-third of the shares of the company entitled to vote, provided the action taken at the first meeting is stated. At an ordinary general meeting, the presence of the holders of more than fifty per centum of the shares entitled to vote is required. If, at the first meeting, this quorum was not established then a second meeting will be called. At such a meeting, the presence of any number of shareholders entitled to vote shall constitute a quorum permitting the passing of valid resolutions, provided that the action taken at the</p>

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
			<p>holders of more than fifty per centum of the shares entitled to vote is required. If, at the first meeting, this quorum was not established then a second meeting will be called. At such a meeting, the presence of any number of shareholders entitled to vote shall constitute a quorum permitting the passing of valid resolutions, provided that the action taken at the first meeting is stated in the notice calling the second meeting. At an extraordinary general meeting, the presence of the holders of more than fifty per centum of the shares entitled to vote is required. If this quorum is not established at the first meeting then another meeting should be called and the quorum of that meeting will be the presence of the holders of more than one-third of the shares of the company entitled to vote, provided the action taken at the first</p>



	Branch & agent	Limited Liability Company	Private Joint-Stock Company
16	Who and how is the empowerment for representation regulated	Unless the Articles-of-Association provide otherwise, the directors of the company will have all the necessary powers to represent and manage the company. Any arrangement limiting the powers of directors which is not expressly mentioned in the Articles-of-Association is null and void so far as third parties are concerned.	The directors and the managing director of a company are responsible either individually or jointly, as the case may be, vis-à-vis the company and third parties in respect of any infringement of legal regulations or the provisions stipulated in the Articles of Association or the minutes of general meetings. The court shall determine the scope of responsibility of each individual for indemnity purposes.
17	Regulations for the business management	Iran commercial code it is similar European law	Iran commercial code it is similar European law
18	How has the participation on profit/loss to be handled	Participation on profit/loss depends on the parent company decision.	Generally the way of profit distribution should be determined by the article association of the company. At the same time in accordance with the general principle provided by the Iran commerce code and tax act , distribution of net (after-tax) profits of a company among its shareholders is normally made on a pro rata basis to the company's

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		shareholding structure.	made on a pro rata basis to the company's shareholding structure.
19	How are withdrawals treated	N/a	Shareholders of the company are able to terminate their participation in the company at any time. They should inform the company about such decision according to article association company have provided. A shareholder has a right to receive compensation in amount of the value of the company's assets in proportion to his contribution in the company's statutory capital. Under an agreement among the parties such compensation can be substituted for an assignment in kind. A partner's contributions cannot be represented by transferable commercial instruments whether bearer or registered. The partners' contributions in the company cannot be transferred to third

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		parties without the consent of a majority of partners, representing at least three quarters of the company's capital.	
20	Accounting requirements	The same as for a LLC.	All companies shall be comply Iran accounting standards (Similar IAS)
21	Audit / Publishment requirements	All foreign entity (Branch-Lision office) shall be audited by Iranian certified Public accountants(IACPA)	Accordingly to the State tax circular all company's financial statements should be audited on annual basis except for companies with annual turnover less than RIs. 8,000,000,000 equal ( \$ 1,000,000 ) or total assets' company more than RIs. 16,000,000,000 ( \$
			Income from securities (corporate rights) trading is taxable with 4% WHT. However under provisions of DTA with Germany such income is subject of taxation in Iran.

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		2,000,000 )	
22	Termination regulations	Parent Co. Has liability	A joint stock company must be dissolved: (1) When the company has carried out the task for which it has been formed or if the carrying out of such task becomes impossible. (2) When a company has been formed for a fixed period which has expired, unless the period has been extended before such expiry date. (3) When it becomes bankrupt. (4) By decision of a number of partners representing more than half the company's capital.
			The limited liability company shall be dissolved: (1) When the company has carried out the task for which it has been formed or if the carrying out of such task becomes impossible. (2) When a company has been formed for a fixed period which has expired, unless the period has been extended before such expiry date. (3) When it becomes bankrupt. (4) By decision of a number of partners representing more than half the company's capital.
			A joint stock company must be dissolved: (1) When the company has carried out the task for which it has been formed or if the carrying out of such task becomes impossible. (2) When a company has been formed for a fixed period which has expired, unless the period has been extended before such expiry date. (3) When it becomes bankrupt. (4) When an extraordinary general meeting has passed, for any reason whatsoever, a resolution to this effect.

23	Tax rates	<p><b>Branch &amp; agent</b></p> <p>BR that are not active( Their subject is only marketing and gathering business information ) are not subject to taxation in Iran but BR whose are active in business same open L/C or buy&amp; sell , engineering services are taxable</p>	<p><b>Limited Liability Company</b></p> <p>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 Act.</p> <p>Note 1: with regard to the Iranian non-commercial juridical persons that are not established for distribution of profits, should they engage in profit-making activities, the total taxable income derived from such activities shall be taxed at the rate set forth in the present Article.</p> <p>Note 2: Foreign juridical persons and entities residing abroad, except those subject to the Note 5 of the Article 109 or Article 113 hereof, shall be taxed at the rate set forth in this Article in respect of the aggregate taxable income derived from the operation of their investment in Iran or from the activities performed by them,</p>	<p><b>Private Joint-Stock Company</b></p> <p>Same LLC</p>
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		<p><b>Branch &amp; agent</b></p>	<p><b>Limited Liability Company</b></p> <p>directly or through the agencies like branches, representatives, agents and the like. in Iran, and also with regard to the income received by such persons and entities from Iran for granting of licenses and other rights, or for transfer of technology or provision of training and technical assistance and cinematographic films. The representatives of such foreign persons and enterprises in Iran shall be subject to taxation, according to the provisions of this Act, with respect to the income they may earn under any titles in their own account.</p> <p>Note 3: At the time of computation of the income tax of juridical persons, whether Iranian or foreign, the pre-paid taxes shall be deducted from the applicable tax according to the pertinent regulations, and any overpaid amount shall be refundable.</p> <p>Note 4: The persons, whether real or juridical, shall not be subject to any other taxes on the dividends or partnership profits they may receive from the capital recipient companies*.</p>	<p><b>Private Joint-Stock Company</b></p>
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	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		Note 5: In cases where according to the enacted law some payments other than income tax are to be collected on basis of taxable income, the tax of relevant taxpayers shall be computed at prescribed rates after deduction of such non-tax charges.	

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
24	Corporate Income Taxes (state/local) and Taxable Income (e. g. Tax Base determination)	According to article 105 of tax act income received by PE is taxed subject to corporate income tax (%25) at the same rate that income received is taxed by any legal entity, a resident of Iran. Iran	Corporate Income Tax (CIT) - 25%. Taxable income is determined as gross income decreased by tax-deductible expenses and depreciation charges.  At that gross income includes income received from all the types of business activities on the territory of Iran and outside Iran's territory as well.
25	VAT	Same LLC	At present Iran has VAT. VAT rate is %3 of goods and services and law has been executive from September 22,2008  Same LLC
26	Customs duties	BR without economic active can't bring goods from Duty but for BR with business activity, shall pay customs Tariff duty.	In terms of the rules of taxation and custom laws of Iran , custom fees are collected for customs registration of goods and other articles in zones of custom control that are located on the premises of the enterprises storing these goods. Customs fees are also charged for storage of goods and other articles under the jurisdiction of the customs-house in cases when their detainment on the territory of the customs fees is not

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
		obligatory.	
27	Taxes on assets Iran legislation does not provide such tax at the time being	Iranian legislation does not provide such tax at the time being	Iranian legislation does not provide such tax at the time being
28	Property taxes Iran legislation does not provide such tax at the time being	Iranian legislation does not provide such tax at the time being	Iranian legislation does not provide such tax at the time being

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
29	Taxes on dividends/Other WHT This does not apply to BR as they are not active in business. However even when BR are active in business dividends aren't includes any tax in Iran.	1- According to note (4) of article (105) tax act dividends are not liable to WHT because according to tax act 21 March 2003 all Iranian and foreign Co. shall pay only %25 income taxable for company tax and we don't have dividend tax. 2-Interest allocated or payments related to Banks loan & cooperative funds and authorized non-bank credit institution for carrying out of the enterprise's operations are acceptable expense tax. but fees for loans from foreign bank are acceptable maximum % 0.75 + Libor. In the other cases interest is liable to 5% WHT. 3- Royalties are taxed in the country of the residence of their recipient and tax rate applied to such payments should not exceed 5% for governmental& Manufactured and it isn't exceed 7.5% for non-Industrial Co. All other income is not subject to tax in Iran	The same as for LLC
30	Are there taxes on cross boarder assets transfers Same LLC	Cross border assets transfer is a subject to custom duties and VAT.	Same LLC

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
31	Limitation on money transfers	BR without business activity can't transfer currency to parent Co, but BR with business activity can transfer currency to parent. Iran hasn't limitation to transfer money currency at present.	The same as for a LLC.
32	What about handling of foreign currencies	All expenses of BR financed by parent Co. Iran hasn't any limitation for this case till now.	The same as for a LLC.
33	What legal impacts will occur in regards of transactions between parent Co. and local entity in Iran	If the transition isn't carried out at arms length, the transaction would not accept the value of transaction.	If the transition isn't carried out at arms length, the transaction would not accept the value of transaction. (it is new circular of state tax organization)

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
34	Transferring a machine to the entity	The customs duty will be imposed on transferring a machine to the entity. No other consequences mentioned for LLC are applied. It should be mentioned that if such transfer would be made by the parent company.	Same LLC
35	Taking back machines or machine parts from the entity	The same as for LLC (except returns of assets contributed to the statutory fund as it is not applicable to BR)	Same LLC

	Branch & agent	Limited Liability Company	Private Joint-Stock Company
36	Providing/getting the entity with/from engineering services  There will be no tax consequences if the services are provided for the consumption of the BR by the parent company. Recharges of engineering costs would not be possible in such situation.  If the said services would be provided directly to the customers, BR would be act as an agent. If BR invoices such customers directly sales proceeds would be taxed with CIT (no WHT). In the case the customers would be invoiced by the parent company the taxation of such charges would be the same as for LLC.	See article 107 attach	Same LLC
37	Providing/getting the entity with/from services  See explanations to the point 36 above	See article 107 attach	Same LLC
38	Charging rental fees between Parent Company and the entity  See explanations to the point 36 above	management fee is taxable for %5 WHT	Same LLC
39	How are delivery of goods to third parties treated  The same as for LLC	It would be transfer and includes customs duty	Same LLC

## Banking & Financial

General Information	<ul style="list-style-type: none"> <li>• There are currently around 17 commercial banks in Iran, of which eleven are state-owned and six are privately owned.</li> <li>• All the banks must follow Islamic banking principles whereby usury is forbidden and, rather than interest rates, profit rates are set on deposits and expected rates of profit on facilities are set on loans.</li> <li>• In terms of both assets and capital, the banking sector is dominated by Bank Melli Iran (National Bank of Iran).</li> <li>• In recent years, six privately owned banks, Bank Kafarin, Bank Parsian, Bank Eqtesad-e-Novin Bank Saman, Bank Pasargad, Bank Sarmaye and Bank Sina have commenced operations in Iran for the first time since the nationalisation of the Iranian banking sector in 1952.</li> <li>• There are plans to reform the financial sector by privatising the majority of Iran's state-owned banks. However, the privatisation process is restricted to domestic investors, and the state intends to keep a 30% stake of the banking sector. Bank Melli Iran and Bank Keshavarzi are expected to remain state-owned.</li> <li>• A number of Iranian banks have established branches abroad, several of which have been subject to a programme of consolidation. Thus, in recent years, Bank Saderat has acquired the Iran Overseas Investment Bank (from Bank Mellat), and branches of Bank Melli and the Bank of Industry and Mines in London to form Saderat International. In addition, the London branches of Bank Tejarat and Bank Mellat merged to form Persia Bank.</li> <li>• In 2004, Bank Melli Iran, Bank Saderat and Bahrain's Ahli Bank established a Bahrain-based joint venture, Future Bank.</li> </ul>
Payment Instruments	<p>Iran remains largely a cash-based economy. However, banks offer credit transfers, direct debits, cheques and card payments. Cheques remain the most popular non-cash payment form. Although the usage of payment cards has increased rapidly over recent years, usage remains limited. There are currently around 11 million domestic debit (Shetab) cards in circulation. Credit cards are not yet available. None of the international providers offers card services in Iran.</p> <p>There are currently around 4,900 ATM terminals and approximately 54,000 POS terminals in Iran.</p>

Type	There is no interbank clearing system operating in Iran at present. All payment instruments, with the exception of cheques and card payments, are processed on a bilateral basis between banks. Cheques are processed manually via the cheque clearing house (owned by all Iran's commercial banks) in Tehran and via its 40 or so other branches across Iran. Banks have their customers' card transactions processed via the Central Bank's Shetab payments network. At present, all 17 commercial banks in Iran use the Shetab network. Together they issue all of Iran's 11 million payment cards.	
Participants	Only banks can participate in the Central Bank's clearing houses. At present, eleven state-owned banks and six private banks are taking part.	
Operating hours	The Central Bank's clearing houses operate between 10:30 and 17:30 Iran Standard Time (IRST).	
Clearing cycle details	<ul style="list-style-type: none"> <li>• Payments are initiated via the physical presentation of cheques to the participant banks. The clearing cycle for cheques drawn in Tehran is 72 hours but it takes at least a week for cheques that are drawn in other cities.</li> <li>• To reduce the clearing cycle, a number of banks have created an online presentation system that allows cheques to be cleared shortly after presentation. However, only around 7–10% of cheques are cleared using this method.</li> </ul>	
Banking Facilities	Banking facilities is related to turnover of company's accounts and good relations with the bank.	
1.	Letter credit	Every Iranian company can apply for L/C, bill of guarantee and documentary letter of credit. Conditions of L/C is relate to seller and behalf bank of seller or opening bank that practically they must accept 10% cash and 90% bound or guarantee that generally must be real estate. Kindly note all credit is relate to banking policy and customer relation.
2.	Cheque	According to Article 223 of the Commercial Code, a bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, at a specified location. An instrument that does not comply with these conditions, or that orders any act to be done in addition to payment of money, is not a bill of exchange.
3.	Credit rating	Iran hasn't any special credit rating institute for customers rating but all Iranian banks obligated to send statistics bounced check to central bank of Iran. However follow up bounced cheque is difficult in Iran.

Governmental Banks	
<b>Bank Mellat</b> E: info@bankmellat.ir www.bankmellat.ir	<b>Bank Melli Iran</b> E: pr@bmi.ir www.bmi.ir
<b>Post Bank of Iran</b> E: info@postbank.ir www.postbank.ir	<b>Bank Refah</b> E: info@bankrefah.ir www.bankrefah.ir
<b>Bank Saderat Iran</b> www.saderbank.com	<b>Sepah Bank</b> E: info@banksepah.ir www.banksepah.ir
<b>Tejarat Bank</b> E: info@tejarat-bank.com www.tejaratbank.ir	

Private Banks	
<b>Eghtesad Novin Bank</b> E: info@enbank.ir www.enbank.ir	<b>Karafarin Bank</b> E: infokarafarinbank.com www.karafarinbank.com
<b>Parsian Bank</b> E: info@parsian-bank.com www.parsian-bank.com	<b>Pasargad Bank</b> E: info@bankpasargad.com www.bankpasargad.com
<b>Saman Bank Corp</b> E: info@sb24.com www.sb24.com	<b>Sarmayeh Bank</b> E: info@sbank.ir www.sbank.ir
<b>Credit Institution for Development</b> E: board@bankiran.com www.bankiran.com	

Government Insurance	
<b>Iran Insurance</b> www.iraninsurance.ir	<b>Alborz Insurance</b> www.alborzinsurance.ir
<b>Asia Insurance</b> www.bimehasia.ir	<b>Dana Insurance</b> www.danainsurance

Private Insurance	
<b>Moalem Insurance</b> www.mic-ir.com	<b>Parsian Insurance</b> www.parsianinsurance
<b>Karafarin Insurance</b> www.karafarin-insurance.com	<b>Sina Insurance</b> www.sinainsurance.com
<b>Development Insurance</b> www.tins.ir	<b>Razi Insurance</b> www.razi-insurance.com
<b>Saman Insurance</b> www.samaninsurance.com	<b>Day Insurance</b> www.dayins.com
<b>Novin Insurance</b> www.novininsurance.com	<b>Mellat Insurance</b> www.mellatinsurance.com
<b>Pasargad Insurance</b> www.Pasargadinsurance.com	

# Taxation

New Iranian tax laws are simply with the flat rate for corporate tax. The tax rate is 25% fixed rate. The new Tax Law shareholders don't pay any tax.

Salary income of employees subject to the Law of 06/13/1370 concerning the Coordinated System of Payments to Civil Servants, less the exemptions provided in this Act, shall be subject to tax at a flat rate of 10%. As regards the other salary receivers, up to IRR 42,000,000 of their salary income, minus the exemptions envisaged under the present Act, shall be subject to the same rate of 10%, and the rates of the Article 131 hereof shall apply to the rest thereof.

## Who are taxable persons in Iran?

According to article (1) of direct taxes act the following persons shall be subject to taxation:

1. All the owners - whether natural or juridical persons with regard to their personal and real properties located in Iran, in conformity with the provisions of the Title (B).
2. Every Iranian real person residing in Iran, on all his incomes earned in Iran or abroad.
3. Every Iranian real person residing abroad, on all his incomes earned in Iran.
4. Every Iranian juridical person with respect to all its incomes earned in Iran or abroad.
5. Every non-Iranian person (whether real or juridical) with regard to his/its incomes earned in Iran, as well as in respect of the incomes derived by such person from Iranian sources for granting of licenses and other rights, or for the provision of training and technical assistance and also for the transfer of cinematographic films (whether the latter income is received as the price, or the fee for the screening, of the films, or under any other titles).

## What are the various types of direct taxes?

According to the direct taxes act amendments up to Feb.2002 all various types of direct taxes are:

Property taxes (inheritance tax, Stamp duty), income tax (Real state income tax, tax on income from agriculture, tax in salary income, tax on business income, tax on the income of juridical persons, tax on incidental income and tax on aggregate income).

## What are miscellaneous provisions?

According to the article 132 to 146 of direct taxes act:

80% of the income from producing and mining activities, which is derived and declared by producing and mining enterprises of cooperative or private sectors for whom exploitation licenses are issued, or with whom extraction and sale contracts are concluded, from the beginning of the year 1381\* onwards by relevant ministries, shall be exempt from the tax set forth in the Article 105 hereof for a term of 4 years beginning from the date of exploitation or extraction. As regards the less developed regions, the exemption shall apply to 100% of the income for a term of 10 years.

Note 1: The list of less developed regions shall be prepared by the State Organization of Management and Planning and ministries of Economic Affairs and Finance and Industries and Mines, and will be approved by the Council of Ministers, for the rest of the term of the third economic, social and cultural development plan of the Islamic Republic of Iran, and also at the beginning of the term of each of the forthcoming development plans.

Note 2: The exemption provided under this Article shall not apply to the income of producing and mining units established within a 120-kilometer radius from the center of Tehran or within 50-kilometer radius from the center of Isfahan and also within a 30-kilometers radius from the administrative centers of provinces and cities with a population of more than 300,000, according to the latest census, except for industrial townships established within the same 30kilomenres radius from the latter province centers and cities.

Note 3: All enterprises for internal and international tourism that hold exploitation permit from the Ministry of Culture and Islamic Guidance shall enjoy an annual exemption with regard to 50% of their applicable taxes.

Note 4: The rules for determining the date of commencement of exploitation of exempt enterprises subject to this article, and also for determination of the confines referred to in the Note 2 above, will be specified and declared by the ministries of Economic Affairs and Finance and Industries and Mines.

100% of the income derived by rural, tribal, agricultural, fishermen, workers, employees, students and pupils, cooperative societies and their unions shall be exempt from taxation.

## Are there safeguards against being re-taxed in the Law of Direct Taxation?

In order to prevent double taxation, the government of Iran has signed agreements with twenty nine states as follow:

Germany, France, Armenia, Oman, Turkmenistan, South Africa, Syria, Ukraine, Kazakhstan, Georgia, Bosnia Herzegovina, Lebanon, Sri Lanka, Qatar, Pakistan, Russia, Switzerland, Austria, Turkey, China, Jordan, Croatia, Malaysia, Uzbekistan, Kirghizstan, Kuwait, Sudan, Zimbabwe and Aljazeera (see table on page 60).

## Double Taxation Avoidance Agreement (DTAA)

Iran is a signatory to a Treaty for the Prevention of Double Taxation with many countries all over the world.

Draft agreements with additional countries are at the discussion stages.

A Double Taxation Prevention Treaty, in principle, enables offsetting tax paid in one of two countries against the tax payable in the other, in this way preventing double taxation.

Another important factor is the grant of an exemption or tax at a reduced rate on certain receipts such as interest, royalties, dividends, capital gains and others that are connected with a transaction carried out between parties associated with the Double Taxation Prevention Treaty.

When certain income is taxable under the Iranian Income Tax Ordinance but there is an exemption (reduced tax) under any Taxation Treaty, the income is taxed, if at all, but only according to the provisions of the Taxation Treaty.

Double Taxation Avoidance Agreements: List of Countries, as of May 2009								
No.	Country	Effective from date	Royalty %	Technical Assistance %	*Shareholder's tax		Interest %	Company Tax %
					Share %	Tax Rate		
1	Germany	20.12.1968	10	10	25 or more	15	15	25
					Less than 25	20		
2	France	07.11.1973	10	10	25 or more	15	15	25
					Less than 25	20		
3	Armenia	11.07.1997	5	5	25 or more	10	10	25
					Less than 25	15		
4	South Africa	23.11.1998	10	10	-	10	5	25
5	Kazakhstan	03.04.1999	10	10	20 or more	5	10	25
					Less than 20	15		
6	Turkmenistan	03.08.1999	5	5	-	10	10	25
7	Lebanon	20.1.2001	5	5	-	5	5	25
8	Georgia	14.12.2001	5	5	25 or more	5	10	25
					Less than 25	15		
9	Ukraine	26.09.2001	10	10	-	10	10	25
10	Belarus	15.11.2001	5	5	25 or more	10	5	25
					Less than 25	15		
11	Syria	3.12.2001	17	17	-	7	10	25
12	Sri Lanka	26.12.2001	8	8	-	10	10	25
13	Russia	05.04.2002	5	5	25 or more	5	7/5	25
					Less than 25	10		
14	China	14.08.2003	10	10	-	10	10	25
15	Switzerland	31.12.2003	5	5	15 or more	5	10	25
					Less than 15	15		
16	Pakistan	04.03.2003	10	10	-	5	10	25
17	Austria	11.07.2004	5	5	25 or more	5	5	25
					Less than 25	15		
18	Uzbekistan	15.01.2005	5	5	-	8	10	25
19	Turkey	22.02.2005	10	10	25 or more	15	10	25
					Less than 25	20		
20	Tunis	14.06.2005	8	8	-	10	10	25
21	Kyrgyzstan	16.09.2005	10	10	25 or more	5	10	25
					Less than 25	10		
22	Spain	31.01.2006	5	5	20 or more	5	7/5	25
					Less than 20	10		
23	Poland	1.12.2006	10	10	-	7	10	25
24	Bulgaria	29.06.2006	5	5	-	7/5	5	25
25	Venezuela	13.01.2007	5	5	15 or more	5	5	25
					Less than 15	10		
26	Romania	19.05.2008	10	10	-	10	8	25
27	Bahrain	1.1.2008	5	5	-	5	5	25
28	Croatia	30.10.2008	5	5	25 or more	5	5	25
					Less than 25	10		
29	Jordan	Non-effective	10	10	25 or more	5	5	25
					Less than 25	7/5		
30	Malaysia	//	10	10	-	25	15	25
31	Bosnia & Herzegovina	//	15	15	-	10	10	25
32	Qatar	//	5	5	20 or more	5	10	25
					Less than 20	7/5		
33	Indonesia	//	12	12	-	7	10	25
34	Tajikistan	//	8	8	-	10	10	25
35	Sudan	//	5	5	20 or more	5	7	25
					Less than 20	10		
36	Kuwait	//	5	5	-	5	5	25
37	Zimbabwe	//	5	5	-	5	5	25
38	Oman	//	5	5	-	5	5	25
39	Algeria	//	5	5	-	5	5	25

According to tax act approved on 15/02/2002 subject of shareholders tax has been cancelled and also dividend is free of tax.

## How to calculate the foreigner's taxes according to article (88) of direct taxes?

Whenever the salary is received from the persons who reside abroad and have no branches or representatives in Iran, the salary receivers are required to pay, in accordance with the provisions of this chapter and within thirty days from the date of receiving of such salary, the tax applicable thereon to the tax affairs office of the district where they are domiciled. They are also obligated to submit, up to the end of the month Tir(July 22 ) of the next year, a tax return on the salary received by them to the same tax affairs office.

But if the foreigners don't have legal ledgers the tax state organization calculate their tax according Regulation No. 2726 dated 6/11/1377 (January 25,1999) provides certain arbitrary monthly salaries for different positions of individuals segregated by nationality. The practice of the ministry assumes the rated specified in this regulation as the minimum monthly income for the individual concerned. The rates are as follows: (All figures are in USD)

Work	Nationality						
	West Europe, USA, Canada, Japan and Brazil	S. Korea, Malaysia, Australia, New Zealand & Latin America	Russia, East Europe, CIS countries	Turkey, South Africa, Gulf countries	India, Pakistan, Egypt and Libya	Bangladesh, Iraq and Afghanistan	African Countries and other countries
Managing director	7,000	4,900	3,220	4,200	2,800	2,100	2,450
Branch manager	7,000	4,900	3,220	4,200	2,800	2,100	2,250
Vice president	6,000	4,200	2,760	3,600	2,400	1,800	2,100
Senior Expert/Technician	5,000	3,500	2,300	2,000	2,000	1,500	1,250
Experienced Technician & Experienced foreman	4,000	2,800	1,840	2,400	1,600	1,200	1,200
Experienced worker and Technician	3,000	2,100	1,280	1,	1,200	900	1,050
Simple worker	2,500	1,750	1,150	1,500	*	*	*

## What is comparative table between Iranian & Foreigner calendar?

Iranian solar year begins at the first equinox and divides into 12 months. The first (6) months are 31 days long and the next 5 months are of 30 days each. The last month of the year has 29 days in ordinary years and 30 days in leap years. The following table shows the names and duration of Iranian months and their correspondence to the months of the Gregorian calendar.

Ending at	Beginning at	Number of days	Months
April 20	March 21	31	Farvardin
May 21	April 21	31	Ordibehesht
June 21	May 22	31	Khordad
July 22	June 22	31	Tir
August 22	July 23	31	Mordad
September 22	August 23	31	Shahrivar
October 22	September 23	30	Mehr
November 21	October 23	30	Aban
December 21	November 22	30	Azar
January 20	December 22	30	Day
February 19	January 21	30	Bahman
March 20**	February 20	29*	Esfand

\*30 days in Iranian leap years

\*\*March 19 in Gregorian leap years

## How are different taxes calculating according article 105 of direct taxes act?

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 Act.

Note 1: with regard to the Iranian noncommercial juridical persons that are not established for distribution of profits, should they engage in profit-making activities, the total taxable income derived from such activities shall be taxed at the rate set forth in the present Article.

Note 2: Foreign juridical persons and entities residing abroad, except those subject to the Note 5 of the Article 109 or Article 113 hereof, shall be taxed at the rate set forth in this Article in respect of the aggregate taxable income derived from the operation of their investment in Iran or from the activities performed by them, directly or through the agencies like branches, representatives, agents and the like, in Iran, and also with regard to the income received by such persons and entities from Iran for granting of licenses and other rights, or for transfer of technology or provision of training and technical assistance and cinematographic films. The representatives of such foreign persons and enterprises in Iran shall be

subject to taxation, according to the provisions of this Act, with respect to the income they may earn under any titles in their own account.

Note 3: At the time of computation of the income tax of juridical persons, whether Iranian or foreign, the pre-paid taxes shall be deducted from the applicable tax according to the pertinent regulations, and any overpaid amount shall be refundable.

Note 4: The persons, whether real or juridical, shall not be subject to any other taxes on the dividends or partnership profits they may receive from the capital recipient companies.

Note 5: In cases where according to the enacted law some payments other than income tax are to be collected on basis of taxable income, the tax of relevant taxpayers shall be computed at prescribed rates after deduction of such non-tax charges.

## How foreigner's companies' taxes are calculated according article (107) of direct taxes act?

The taxable income of foreign juridical persons and enterprises residing abroad shall be assessed as follows:

(a) In case of contracting business in Iran with regard to all types of work in the fields of construction, installations and technical installations, including procurement and setting up of the same, and also in the fields of transportation, preparation of design for buildings and installations, topography, drawing, supervision and technical calculations, provision of training and technical assistance, transfer of technology and other services, the taxable income in all cases will be 12% of total annual receipts.

(b) In case of income derived from Iran for granting of licenses and other rights or transfer of cinematographic films, whether the latter income is received as the price or the fee for the screening of the films, or under any other titles, the taxable income shall consist of 20% to 40% of all payments received by them during a tax year. The applicable coefficients for determination of taxable income in each of the cases mentioned in this paragraph shall be determined on basis of the proposal of the Ministry of Economic Affairs and Finance and approval of the Council of Ministers.

Those making the said payments or the payments mentioned in the paragraph "an of this article, shall be required to withhold, from each payment, the applicable tax by taking into account the total payments made from the beginning of the year up to the date of each relevant payment. They should remit the withheld amounts, within ten days, to the tax affairs office local to their residence. Otherwise, the receivers shall be jointly and severally liable for payment of the basic tax and other payments related thereto.

(c) As for the operation of capital and other activities performed by the aforesaid legal persons and enterprises in Iran through the agencies such as branches, representatives, agents and the like, the regulations of the Article 106 of this Act shall apply.

Note 1: In cases where the contract operations subject to paragraphs (a) and (b) of this article are wholly or partly assigned to Iranian legal entities as contractors, those making payments to such Iranian contractors should withhold 2.5% of each payment as their on account tax and remit it, within thirty days from the date of payment, to the account to be determined by the State Organization of Tax Affairs.

Note 2: If the relevant employer of the contract subject to the paragraph (a) of this article is a ministry, a government institution, a state company or a municipality, then that part of the contract price which is used for purchase of supplies and equipment from domestic or foreign sources shall be exempt from taxation, provided the amounts relevant to those supplies and equipment are included, apart from other items, in the contract or in its further amendments or supplements.

Note 3: Branches and agents of foreign companies and banks in Iran that are engaged in gathering information or finding markets in Iran for their parent entities, without having the right to make transactions, and receive remuneration from them against their expenditures, shall not be subject to taxation in respect of such remuneration.

Note 4: In cases where foreign contractors assign, wholly or partly, the contract subject to the paragraph (a) of this article to Iranian legal entities as subcontractors, any part of the receipts of the main contractor in respect of the supplies and equipment that are mentioned in the first hand contract but purchased by the subcontractor, will be exempt from taxation.

Note 5: The taxable income of the activities subject to the paragraph (a) of the Article 107 hereof, the contracts of which will be concluded from the beginning of the year 2003 onwards, shall be assessed

according to the regulations of the Article 106 of this Act. The rule of this Note shall not apply to the remaining part of the activities of the contracts concluded before the year 2003.

Important note: non-residing foreign juridical persons (article 5 above) that have not representative or branch in Iran, include article (104) and the rate of withholding tax is 5%.

## International withholding tax

When a payment is made to a party in another country, the IranTax Act requirewithholding tax to be applied to the payment. International withholding tax may be required for • financing, i.e. dividends or interest • the use of intellectual property, i.e. royalties and license fees and consultancy fees and management fees

## Dividends

According to Iran Direct Tax Act withholding tax is not required on dividends paid to domestic or foreigner shareholders. A double taxation treaty may reduce the amount of withholding tax required, depending upon the jurisdiction in which the recipient is tax resident.

## Interest

Iran Direct Tax Act require withholding tax to be applied on interest paid to individualsor juridical persons except fees paid or allocated to Iranian banks, cooperative funds andauthorized non-bank credit intuitions for carrying out of the enterprise's operations, in order to encourage foreigners to deposit funds with banks or other institutions in that country. Interest paid to foreign bank or foreign financial institution must be deducted 5%.

Note: The highest rate accepted for foreign loan is Libor plus 0.075% and more than this rejected from taxable expenses However, Iran imposes a withholding tax on interest payments to non-residents. The rate of withholding tax may be reduced or eliminated by a double taxation treaty. Under the Interest and Royalties Directive, withholding tax should be levied on interest payments made by a company resident in Iran to an associated company or foreign bank resident in another country

## Avoidance of interest withholding tax

Many multinational groups have a requirement to finance overseas subsidiaries with interest-bearing debt which may give rise to tax leakage where withholding tax is levied on payments of interest.

Debt instruments may be structured to fall outside withholding tax provisions, for example by allowing for a return to the lender which does not constitute interest. For instance, a lender may choose to utilize a discounted note, on which no interest is paid but the redemption price on the loan note gives an economic return for the time value of money in relation to the loan principal.

## Royalties

According to note (2) article (107) DTA in case of income derived from Iran for granting of license and other rights (Royalty) or transfer of cinematographic films whether the latter income is received as the price or the fee for the screening of the films or under any other titles, the taxable income shall consist of20% to 40% of all payments received them during a year.

## Real estate

According to article (59) DTA, the final transfer of real properties, as well as the transfer of goodwill, shall be subject to taxation at the time when such transfer take place by the owner of the substance of the property or by possessor of the right of goodwill. The basic of taxation shall be taxable value in case of real properties and price received by the owner or possessor of in case of goodwill and the rates of tax will be 5% and 2% respectively. The taxable income of leased real property consist of the total rent, whether in cash or otherwise, less a deduction of %25 to cover expenses, depreciation and commitments of the owner with regard to the leased property.

## Recovery of withholding tax

The tax withheld from a payment may be more than the recipient's tax liability in the country where the tax is withheld. This may be because

- there is a tax treaty which reduces the liability below the statutory withholding tax rate; or
- costs can be deducted from the income to reduce the tax liability

In these circumstances the recipient will need to file a tax return or other claim form in the source country, to recover the tax overpaid. Procedures and time limits for refund claims vary considerably.

Iran tax regime permit the withholding tax itself to be reduced, thus avoiding the need for the recipient to file a refund claim. It is generally necessary to file documentary evidence of the reduced liability, for example evidence of residence if the liability is reduced by a tax treaty. The recipient may be liable to tax on the income in his home country, but will be able to claim a credit for the withholding tax paid and not refunded or refundable.

## How foreign Branch calculated tax

According to INTA circulation and In order to bring about uniformity in investigation of the tax files of the branches and representative offices of foreign companies in Iran, tax assessors shall be required to take the following points into consideration:

- representative offices and branches of foreign companies may be registered in Iran in order to carry out any one or more of the following activities in accordance with the Law on Registration of Foreign Companies:
  - i. Supply of after sales services in respect of the commodities sold or services provided by a foreign company.
  - ii. Carrying out the executive works required to be rendered under a contract concluded with the foreign company concerned and Iranian entities.
  - iii. To investigate and prepare grounds for investment in Iran by the foreign company concerned.
  - iv. Cooperation with Iranian technical and engineering companies.
  - v. Promotion of non-oil exports.
  - vi. Supply of technical and engineering services and transfer of technology.
  - vii. To carry out the activities authorized by government organizations in charge of such authorizations such as the supply of services in the fields of transportation, insurance, goods surveillance, marketing, etc.

- Iranian natural persons and legal entities (companies limited by shares, limited liability companies, firms, etc.) representing foreign companies in Iran shall also be subject to the provisions of this Circular.
- It should be noted that the branches and representative offices of foreign companies, according to the provisions of Article 1 of the Executive By-Laws of the Law on Registration of Branches and Representative Offices of Foreign Companies, approved by the Council of Ministers on March 31, 1999, may operate in Iran only in respect of the activities enumerated in Clause 1 above and registration of a branch or representative office may be possible only in respect of the said activities. Therefore, tax assessors are required to check the validity of the relevant feasibility report or the permission given to a foreign company in order to continue its activities in Iran, at the time of examination of tax returns in accordance with the requirements of Articles 3 and 10 of the said Executive By-Laws.
- In implementation of Article 8 of the Executive By-Laws of the Law on Registration of Branches and Representative Offices of Foreign Companies as well as Sub-clause e of Article 2 of the Executive By-Laws of Note 4 of the Law on Utilization of Services of Official Accountants, the tax assessors shall be under the obligation to ask for audited financial statements of the branches and representative offices of foreign companies when asking for submission of their accounts books and vouchers as provided in Sub-clause 2 of Article 97 of the Direct Taxation Act.
- Considering that a condition and requirement for the registration of a branch or representative office of a foreign company, as provided in Article 5 of the Executive By-Laws of the Law on Registration of Foreign Companies, is the grant of a permission to be given in this regard by a government organization, the tax assessors are, therefore, required to check the said permission at the time of checking the accounts books and vouchers of the branch or representative office concerned.
- According to the provisions of the above said Executive By-Laws, branches of foreign companies are required to submit, every year, the Annual Report of the head office of the company including its financial reports audited and confirmed by independent auditors in the country where the head office of the branch office is located, to the authorities in Iran who issued the relevant permit. Therefore, tax assessors shall be under the obligation to communicate with the sponsoring organizations and to obtain the required information.
- Despite the tax exemption provided under Note 3 of Article 107 of the Direct Taxation Act for the branches and representative offices of foreign companies and banks that are engaged in marketing and collecting economic information for their head offices without having the right of entering into any transaction in Iran and receive money from their head offices to cover their expenses in Iran, the following points must be taken into consideration in respect of the activities of this type of companies in Iran:
  - i. Some branches and representative offices of foreign companies in Iran, in addition to marketing and collecting information for the use of their own head offices, also collect information and carry out marketing activities for other foreign entities. In such case, the works carried out for the benefit of other foreign entities shall be regarded as taxable activities.
  - ii. Some branches and representative offices of foreign companies, in addition to carrying out marketing and market research activities, are also engaged in after sales services. In such case, the said after sales services do not fall in the category described under Note 3 of Article 107 above and any such branch of a foreign company, in addition to the obligation for payment of the tax accruing on the said after sales services, shall also be subject to tax on commission it will be due to receive.

- iii. Some branches and representative offices of foreign companies, despite the notice of their incorporation issued by the Companies Registry, that clearly and distinctly provides that they are not authorized to become engaged in any profit making activities, issue proforma invoices and sign contracts on behalf of their head offices with clients in Iran. In such case, the said branches and representative offices may not benefit from the tax exemption provided under Note 3, Article 107 above and shall be subject to taxation and their income must be investigated, identified and assessed according to the rules of international trade.
- Tax assessors, in implementation of Note 3 of Article 107 of the Direct Taxation Act, shall be under the obligation to become certain about the manner and nature of activities of foreign companies in Iran through investigation of the documents and vouchers in the company and collecting the required data and information. Should, as a result of such investigation, it will become known that the head office of the company is selling goods or services (direct sales), the status of the branch office shall not be regarded as before and the said branch office will be considered to have entered into profit making activities or else the said branch office shall be under the obligation to introduce another natural person or legal entity that is acting as the representative of direct sales.
- All works pertaining to representatives, in accordance with the norms of international trade, will be carried out under contacts. Taxpayers, in implementation of tax laws, shall be under the obligation to provide their representation agreement, related to their documents and vouchers, to the tax office.
- In accordance with the format international contracts (OECD), as well as the laws on avoiding double taxation, concluded by and between Iran and other countries, in cases where an entity of a contracting state shall, directly or indirectly, participate in the administration, control or the capital of an entity of the other contracting state, or in cases where the same entities or individuals shall, directly or indirectly, participate in the administration, control or the capital of the entity of the other contracting state, and both entities shall be related to each other as regards their trading or fiscal relations under any conditions (whether agreed by, or forced upon them) which conditions shall be different from the conditions in force between independent entities (Arms length principle/third party comparison basis), the profits that could be earned by any one of the said entities if the said conditions did not exist, and such profits were not earned due to the existence of the said conditions, can be regarded and accounted as the profits of that entity and made subject to taxation.
- In identifying incomes and assessment of profits, legal principles and business criteria, under normal conditions, must be complied with. Therefore, tax assessors, while investigating a tax case, must become certain of the nature of the relations between a branch or representative office of a foreign company in Iran with its head office with due regard to the documents and evidences that have come in hands of the tax assessor and make certain, in one way or another, of the validity or falsehood of the representation agreements and the declared incomes. With due consideration of the international norms of the activities of commission agents, all cost plus, lumpsum commission or fee against services agreements may be acceptable only in case such agreements shall have homogeneous and logical basis similar with the agreements concluded by and between independent entities in which a commission or fee is being normally paid in the form of a percentage of the final invoice of the supplier. The basis of calculation of the income, in such cases, shall be the invoice of the foreign supplier that will be paid through letters of credit in cash, bills of exchange, cash direct through transfer of funds or other methods. Therefore, if the declared income, with due consideration of the normal rates charged by commission agents being independent entities or individuals, shall not be acceptable, then the amount of the letters of credit and its equivalent in rials registered with bank, must be used as the basis for fixing the commission income.
- As provided in Sub-clause 16 of Article 20 of the Regulation on the Manner of Making Entries in Ledgers, the registration of false expenses and incomes in the ledgers, provided that such falsehood shall be established, shall be the cause of rejection of the accounts books. Therefore, tax assessors are expected to verify the agreements submitted to them and compare the said agreements with other commission agency agreements concluded under normal conditions in accordance with the rules of international trade and prevailing market conditions and must report the false instances to the three-member panel set forth in Sub-clause 3 of Article 97 of the Direct Taxation Act.
- According to Article 8 of the Executive By-Laws of the Law on Registration of Branches and Representative Offices of Foreign Companies as well as Sub-clause e of Article 2 of the Executive By-Laws of Note 4 of the Law on Expert and Professional Services of Official Accountants, the branches and representative offices of foreign companies in Iran, are under the obligation to utilize the services of official accountants being members of the Society of Official Accountants to act as auditors of their companies. Therefore, the financial statements of the above companies duly audited by official accountants must be examined by tax assessors and the said audited statements must be used as the basis of examination of tax returns.
- Considering that the firms of auditors and fiscal services are in charge of the accounting and book-keeping works of most of the branches and representative offices of foreign companies, tax assessors must note that according to the principle of independence in auditing, the audit report of the said companies must be drawn up by yet another firm of auditors that will be independent of that in charge of accounts and book-keeping of the company. Therefore, any audit report made and drawn up by the firm of accountants that is in charge of book-keeping of the company shall not be valid and acceptable.
- The official accountants in charge of auditing the accounts of branches and representative offices of foreign companies in Iran shall be under the obligation to express explicit opinion regarding the identification of incomes and expenses and correctness of the declared incomes including the commission, fee or discount granted to the company and the normal state of commercial affairs of the company and shall fill in the attached form.
  - i. Action shall be taken in the following manner in respect of the branches and representative offices engaged in the sale of commodities, equipment, or supply of services in Iran:
  - ii. The branches and representative offices supplying goods, equipment or services directly to Iran shall be taxed on the basis of the volume of their sale or their income earned through supply of services according to the regulations of the Direct Taxation Act and other applicable regulations.
  - iii. As regards the branches and representative offices having a contract with their head office according to which the sales shall be carried out by the head office and the branch or representative office only records the commission of the sales or the discounts allowed on the sale in its accounts books in Iran, shall not be authorized to record the said commissions or discounts less than the normal commissions or discounts. Therefore, in cases where the said branches or representative offices fail to record their actual income like an independent entity in their account books, or declare a lesser income by presenting superficial agreements, the tax assessors shall acquire reasonable and creditable documents and evidences and shall carefully compare the said agreements with those of other foreign representative offices and shall assess and fix the income of the above said taxpayers, accordingly.
- that are engaged in transactions pertaining to foreign commodities and rendering services in this regard in Iran, shall be bound to declare their income earned through the sale of foreign goods and services, regardless of whether such income will be earned in cash, by transfer of money or in non-pecuniary form by goods or parts.
- Other natural persons and legal entities engaged in representing foreign companies in Iran (sale of commodities, supply of technical services, surveillance, etc.) shall be subject to these regulations as regards the examination of their accounts books.

## How is the tax situation in Iran Free Trade - industrial zones?

According to Article (13) of the Law Concerning the Manner of Administering the Free Trade Industrial Zone of the Islamic Republic of Iran, natural persons and legal entities economically active in such areas, are exempt from payment of direct income tax for a period of 15 years, from the date of operation as stated in their license.

## What are the legal facilities for investment at free trade & industrial zone?

- Unlimited foreign & domestic participation for investment as desired
- Simplified & suitable work procedures
- Full guarantee for foreign investment & accrued benefits
- Free movement of capital
- Minimal administrative formalities for the foreigners. Issuing visa for foreign nationals upon their arrival at the airport
- 15 years tax exemption for economic activities
- Customs duties and commercial charges exemptions for import of raw materials and machineries used in production of goods in the zone
- Sale and lease of land for domestic investors and lease of land for foreign in investors
- Favorable conditions for foreign and domestic banking operations
- Customs duties exemption for the import of goods into the country , made in the free zone based on the added value obtained
- Possibility of 100% foreign ownership
- Protection of registered trade marks and intellectual property rights

## What are the rates of income tax from real persons in direct taxes act?

According to article (131) of direct taxes act the rates of income tax of real persons, except where separate rates are provided under the present act, shall be as follows:

of the excess over	Rates	Annual taxable income		
---	15%	30,000,000	IRR	up to
IRR 30,000,000	20%	100,000,000	IRR	up to
IRR 100,000,000	25%	250,000,000	IRR	up to
IRR 250,000,000	30%	1,000,000,000	IRR	up to
IRR 1,000,000,000	35%	1,000,000,000	IRR	over

## Which companies should be audited in Iran?

According to Iran law the following taxpayers are under the obligation to appoint the statutory "Inspectors" of their companies from among the auditing firms being members of the IACPA. Appointment may be made from among natural persons accepted as official accountants by IACPA by taxpayers mentioned in Sub-clause "f" below, only:

- Companies accepted by or applying for acceptance by the Stock and Negotiable Instruments Exchange as well as the companies affiliated to the said companies.
- Public joint stock companies as well as their subsidiary and affiliate companies.
- The companies described in Sub-clauses (a) and (b) of Article (7) of the Audit Organization in due compliance with the procedure set forth in Note (1) of Article 132 of the Iranian Certified Public Accounts Law.
- Branches and representative offices of foreign companies which are registered in Iran pursuant to the permission granted under the Law Authorizing Registration of Branches and Representative Offices of Foreign Companies, ratified 1997 (Liaison offices excluded).
- Non- government public entities, foundations, companies, and organizations and the entities affiliated thereto.
- Other natural persons and legal entities whose aggregate turn-over (sale of commodities or services and aggregate income in respect of contractors made and signed by them) shall not exceed eight billion Rials or whose total assets shall not exceed sixteen billion Rials.

According to Article (2) of the above Executive Regulation, the financial statements of the persons and entities mentioned in the above sub-clauses being devoid of a confirmatory audit report by firms of auditors being members of IACPA or official accountants acceptable to IACPA may not be acceptable to the ministries, government organizations and companies, banks and insurance companies, non bank credit institutes, the Organization of Stock and Negotiable Instruments Exchange and non government public foundations and institutes. No such statements may be used as evidence in favour of the said persons and entities.

According to Article (272) of the Direct Taxation Act as Amended on 16.02.2002 by the Islamic Consultative Assembly, those who are in charge of accounting works or carry out the duties of statutory inspectors of the taxpayers mentioned in the above sub-clauses shall be under the obligation to submit an audit report on the activities of the said taxpayers and submit same to the taxpayer for submission to the Tax Department concerned in case of a request by the taxpayers in this regard. In such case, the Tax Department concerned shall be bound to accept the said audit report without examination and issue a tax assessment sheet based on the said report.

Acceptance of the audit report by the Tax Department concerned shall be subject to submission of a tax audit report drawn up by the same auditor who prepared the above audit report on the basis of auditing norms and standards together with tax return or within a maximum period of three (3) months after the date of expiry of the respite provided for submission of returns to the Tax Department concerned.

According to new government approved all financial facilities that will be by banks and financial institute to the companies as above mentioned depend to prepare audited financial statements.

## VAT

Supply of commodities and services, in Iran, as well as their imports and exports, shall be subject to the provisions of this Law. VAT rate is 3% and it's executive from 22/09/2008.

The basis of calculation of tax shall be the price of the goods or services indicated in the invoice. In cases where no invoice shall be available or no invoice shall be presented or it shall be established, according to supporting proof, documents and evidence that the price in the invoice is not real, the basis of calculation of tax shall be the prevailing prices of the commodities or services compared with such prices prevailing on the date of application of tax.

## Some Important tax notes

Considering the ambiguities on the path of drawing up tax audit reports provided in Article 272 of the Direct Taxation Act and in order to offer a unified procedure for drawing up the said taxation audit reports and investigation of accounts by official accountants, auditors firms being members of Iranian association of Certified Public Accountants(IACPA), the Audit Organization and tax assessors shall be required to act according to the following criteria:

### Amortization of Annual Losses

According to Sub-clause 12 of Article 148 of the Direct Taxation Act, the losses suffered by natural persons and legal entities that shall be acceptable as losses after verification of their accounts books in accordance with the applicable regulations, without segregating the losses into the years of before and after amendment of the Direct Taxation Act regulations on February 16, 2002 and any such losses may be set off and amortized against the income of the subsequent year(s), up to the amount of the declared taxable income.

### Losses (Cost) of Decrease of the Value of Inventories

The loss (cost) resulting from a decrease and devaluation of the prices of inventories, that may occur in any manner, due to the fact that no provision had been made for such decrease in the accounts as provided in Articles 147 and 148 of the Direct Taxation Act, shall not be accepted as tax deductible expenses of a taxpayer concerned.

### The Loss (Costs) Resulting from the Value of Investments Made by a Taxpayer

Losses (costs) resulting from the value of investments made by a taxpayer, if no provisions had been made in the accounts for such costs in accordance with the procedure described in Articles 147 and 148 of the Direct Taxation Act, shall not be accepted as tax deductible expenses of the taxpayer concerned.

### Making Cash payment in Lieu of the Annual Leave of the Employees

The sums that will be paid or allocated in lieu of the vacation and annual leave of the employees shall be subject to salary taxes as provided in the applicable regulations. Should any such payment be made in lieu of the annual leave, the payments must be regarded as tax deductible expenses of a taxpayer concerned by virtue of the provisions of Sub-clause 2 of Article 148 of the Direct Taxation Act. However, if payment shall be made in lieu of annual leave at the time of termination of employment, retirement or disability, such amounts shall be regarded as termination benefits and shall not be subject to taxation as provided in Sub-clause 5 of Article 91 of the Direct Taxation Act.

### Losses Resulting from Conversion of Foreign Currencies

Losses resulting from conversion of foreign currency assets and liabilities that were calculated according to the prevailing accounting norms, provided that the taxpayer concerned used a coherent method of calculation during the past years, may be accepted as tax deductible expenses.

## The Taxes and Duties Levied Pursuant to the Law Known as the Law on Aggregating the Duties

According to Note 2 of Article 6 of the law providing for consolidation of the various duties payable by the producers of commodities defined in Article 3 of the above law and those providing services according to Article 4 of the said law, the said producers and service providers are under the obligation to include the applicable taxes and duties in their invoices and collect the amounts thereof from their customers and pay same to the designated accounts. Considering that buyers of commodities and services pay the said applicable taxes and duties, therefore, the said sums may not be treated as the tax deductible expenses of the producers of goods or those supplying services.

### Costs or Payments Subject to Withholding Taxes

It shall not be proper to reject those tax deductible expenses of a taxpayer that are subject to deduction of withholding taxes only due to a failure on the part of the taxpayers concerned to deduct and withhold the applicable taxes except in the instance explicitly mentioned in the executive By-Laws of Sub-clause 8 of Article 148 of the Direct Taxation Act that has been reiterated through Circular No.24408 dated October 29, 2002.

### Remuneration of the Board of Directors

Payment of remunerations of the boards of directors, approved by general assemblies of shareholders of companies, shall be made, out of the net distributable dividends of the said companies as provided in Articles 239 and 241 of the Commercial Code. Therefore, no such remunerations may be accounted as acceptable tax deductible expenses. It goes without saying that any such remuneration paid to the natural persons who are board members (whether such members shall be stipendiary or otherwise) shall be subject to deduction of salary tax in compliance with the applicable tax regulations. Should a company fail to make such salary tax deductions, the tax office concerned shall be under the obligation to collect the applicable taxes and their accruing penalties.

### Payments Made According to National Budget Bills

In cases where according to a law, corporate bodies shall be obliged to make certain payments to the Treasury or to any other entities provided by law, the said amounts shall be regarded as tax deductible expenses in accordance with the provisions of any applicable law or else such payments shall be treated as the tax deductible expenses of the same year during which payments were made as provided in Note 5 of Article 105 of the Direct Taxation Act.

In cases other than the above two instances, no such payments may be regarded as tax deductible expenses.

### Income Earned Through the Sale of Pre-emptive Rights of Purchase of Newly Issued Stocks of the Companies Outside the Stock Exchange

As provided in Note 2, Article 143 of the Direct Taxation Act, the par value of the pre-emptive rights on the purchase of newly issued shares of the companies outside the Stock Exchange, for the purpose of assessment of the tax on transfer of stocks, shall be the par value of the original shares and stocks.

## Income Earned Through Disposing of the Newly Issued Shares

The income earned through disposing of the newly issued shares after waiver of the pre-emptive rights by the existing shareholders, in the companies whose shares are being transacted at the Stock Exchange as well as in other companies, in cases where the said income, in accordance with the entries made in the accounts books, shall be paid to the initial (original) shareholders who waived their pre-emptive rights to buy the newly issued shares, in cash or by allocation of new shares to them, shall be subject to taxation in accordance with the provisions of Notes 2 and 3 of Article 143 of the Direct Taxation Act.

The income earned through disposing of the newly issued shares by the companies outside the Stock Exchange, with the premium thereof registered in the company's accounts as a reserve belonging to all the shareholders, shall be taxable as provided in Article 105 of the Direct Taxation Act.

The income earned by disposing of the newly issued shares in the companies accepted by the Stock Exchange, in cases where the said newly issued shares shall be sold out outside the Stock Exchange pursuant to a permission issued in this regard by the Stock Exchange in accordance with the applicable regulations, shall be subject to provisions of Note 3, Article 143 of the Direct Taxation Act, or else such income shall be subject to taxation according to Article 105 of the Direct Taxation Act.

In cases where the whole or any part of the transactions pertaining to the newly issued shares or the pre-emptive rights attached thereto in respect of the companies, accepted by the Stock Exchange, shall not be carried out by the Stock Exchange agents and the formalities pertaining to these transactions shall not be registered at the register of the Stock Exchange and the relevant Barter Chamber, the 10% tax exemption set forth in Article 143 of the Direct Taxation Act shall not be included in the taxation of the relevant year.

## Exemption Under Article 138 of the Direct Taxation Act

According to Article 138 of the Direct Taxation Act, any amount of the profit declared by cooperative and private companies that will be spent on the development, restoration, renovation or completion of the existing industrial or mining installations of the company or for the purpose of creating and setting up new industrial or mining plants during the same year, shall be exempt from 50% of the applicable taxes provided in Article 105 of the Direct Taxation Act if the conditions set forth in the said Article shall be complied with. The amounts spent for the development or completion, in any year, shall be used for calculation of exemption during that year by taking into consideration the total declared profits including the profits being exempt from taxation.

## Planning and Development Reserve According to Article 138 of the Direct Taxation Act Prior to the Amendments of February 16, 2002

The taxpayers who set up a reserve fund for planning and development according to the provisions of Article 138 of the Direct Taxation Act prior to the amendments made to the said Act on February 16, 2002, in compliance with the procedure described in Circular No.211/7041/71197 dated March 5, 2004 of the Taxation Affairs Organization, for the year 1381 and subsequent years, shall be subject to the taxation and applicable penalties under Note 2 of Article 138 of the Direct Taxation Act, prior to the above amendments, in case of their infringement of the provisions of the said Article.

## Payment of 5% Withholding Tax by Foreign Contractors

Contracts concluded with foreign contractors in Iran as well as foreign entities residing outside Iran according to Article 107 of the Direct Taxation Act after March 21, 2003 shall be subject to deduction of 5% withholding taxes provided in Article 104 of the Direct Taxation Act, if the said contractors shall not have a branch or representative office in Iran.

## Tax on Dividends Under the Treaties on Avoidance of Double Taxation

As regards the taxation of the legal entities falling under the provisions of the treaties on avoiding double taxation, it should be noted that according to Article 105 of the Direct Taxation Act, legal entities are under the obligation to pay 25% of their profit as tax. This tax is payable by a legal entity and must not be confused with the tax payable on dividends by shareholders.

## Tax Deductible Expenses of Previous Years

Tax deductible expenses of previous years that become due and payable, beyond the control of the taxpayer concerned, during the year being the subject of tax examination, shall be regarded as tax deductible expenses by virtue of Sub-clause 27 of Article 148 of the Direct Taxation Act.

## Administered Funds

Considering that the balance of administered funds that may remain in bank accounts shall not be regarded as deposits made with banks, therefore, any interest paid on such balances by Iranian banks or the authorized non-bank credit institutes, shall not be subject to the exemption provided in Sub-clause 2 of Article 145 of the Direct Taxation Act.

## How calculated contracts with new regulation of SSO office?

In accordance with the Decrees made on 13 April, 1991 and 28 Nov., 1994 (addenda No. 4 and 5) by the Social Security High Council, some similar wage coefficients have been determined in respect of both development projects and non-development projects. Such ruling has much facilitated the collection of premium and issuance of clearance certificate. On the basis of a decree passed on 13 April, 1991, the insurance premiums payable for contract works and consulting engineers' agreements, as regards the obligations undertaken by the parties and the manner of executing the work, shall be calculated in the following manner after the above date:

The insurance Premium of those contracts for the execution of which, the contractor concerned undertakes to supply and purchase at his own expense, the whole required materials or the required computers and business machines in respect of which the works are required to be carried out by machines, shall be 7% of the total gross turnover (subject of Article 2 of the Decree dated 13 April, 1991)

$(7\% \div \text{total gross turnover} = \text{insurance premium}) +$

$(\text{One ninth } (1/9) \div \text{original premium} = \text{unemployment insurance})$

The insurance premium in respect of manual works and service agreements which require to be carried out by hiring personnel shall be 15 per cent of total gross turnover.

(15% total gross value of work = insurance premium) +

(One ninth ÷ original premium = unemployment insurance)

In cases where supply of a part of materials is undertaken by and purchased by the contractor at his own expense and a part of which is undertaken by the client who assigned the works, the value of materials put at the disposal of the contractor shall be added to the total gross turnover and then the premium is calculated in accordance with Clause 3-1.

Price of equipment imported from outside the country and purchased by the contractors through opening letters of credit, are not subject to deduction of premium. Also, price of exclusive and special materials, elevators and installations, machinery and steel in steel structure works contracts the provision of which are the responsibility of clients, fabrics in contracts of sewing, asphalt in contracts of road making and asphalt works, moquette, floor covering and cabinets in cases where they are supplied by the employer and delivered to the contractor free of charge, shall not be deemed as assigning materials and their prices shall not be added to the total turnover.

In cases where the subject of contract is offering services and the type of work requires that a part of work shall be carried out mechanically (with mechanical tools and machinery belonging to the contractor) and a part be carried out manually, the premium of the part (per cent) done mechanically shall be computed on the basis of 7% and the percentage of the works done manually on the basis of 15%.

Note: Should the mechanical tools and equipment be supplied by the client and given to the contractor without receiving any fee, with regard to the fact that work is done on wage basis, the pertinent premium shall be computed in accordance with Article 1 of the Decree dated 13 April, 1991 i.e. on the basis of 15%.

According to Note 6 of the Decree dated 13 April, 1991, the insurance premiums payable by the contractors and consultant engineers who are parties to the contracts entered into with Housing Foundation of Islamic Revolution, shall be 1% less than the amounts mentioned in Articles 1 and 2 of the said Decree i.e. 14% and 6% shall be considered as the insurance premium plus 1/9 of it as unemployment premium.

In cases where the supply, design and purchase of equipment will be carried out outside Iran and paid for by letters of credit and only the assembly works will be rendered in Iran, if the project operations include assembly works and construction works and other relevant operations under the condition that all required materials shall be procured by the contractor, the insurance premium shall be calculated on the basis of 7% of the turnover for works inside Iran, and if the project operations are limited only to installation of equipment, with a view to the manner of executing the work (mechanical or non-mechanical and/or both mechanical and manually), the relevant premium shall be computed, as the case may be, according to Articles 1 and 2 of the Decree dated 13 April, 1991 as mentioned above.

In cases where the main contractor assigns, through a contract, a part of project operations to sub-contractors, the insurance premium of the sub-contractors shall also be computed and collected with respect to the parties' obligations set forth under the contract according to the regulations. At the time of computing the premium of main contractor, an amount equivalent to the total turnover of sub-contractor shall be deducted from the total turnover of main contractor.

## Iranian Labor Law and Employment of Foreign Citizens

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Employment of foreign nationals in Iran is only possible within the framework of the provisions stipulated in the Labour Law of the Islamic Republic of Iran. The general policy of the country is aimed at meeting its Labour requirements and implementing its industrial and development projects through Iranian manpower as much as possible. However, employment of foreign manpower when there is an immediate need for their expertise is not ruled out.

According to Article 120 of the Labour Law, approved on November 20, 1990, foreign nationals are not allowed to work in Iran unless they are provided with an entry visa with the right to engage in specific work, and secondly, they receive work permit according to relevant laws and by-laws.

Obviously, foreign nationals who are exclusively on diplomatic and consular missions, as well as the staff and experts of the United Nations and its affiliated organizations, correspondents of foreign news agencies and press, are exempted from such regulations on the condition of reciprocity.

Ministry of Labour and Social Affairs shall approve the issue of a visa for a specific type of occupation for foreign nationals and work permit for them while taking certain conditions into consideration:

Work permits would be issued, extended or renewed for a period of one year.

When the interests of the industries of the country necessitate the immediate employment of a foreign national, the minister of the relevant ministry may report the case to the Minister of Labour and Social Affairs and upon the approval of the latter, a temporary work permit shall be issued for the foreign national without observing the relevant formalities for the issuance of a visa with right to engage in specific work. The temporary work permit would be valid for a maximum period of three months and its extension would be subject to the approval of the technical board in charge of the occupation of foreign nationals.

Prior to the conclusion of any contract through which foreign experts would be employed, employers are bound to inquire about the views of the Ministry of Labour and Social Affairs on the possibility for the said foreign nationals.

The Ministry of Labour and Social Affairs is authorized to take measures for the nullification of the work permit for those foreign nationals who do not observe Islamic principles, current laws and regulations of the country and humanitarian relations, as declared by the competent authorities.

Employers who hire foreign nationals whose work permits have been expired or have no work permit, or employ them in jobs other than those stipulated in their work permits, or do not notify the Ministry of Labour and Social Affairs about cases where the employment agreement between them and foreign nationals is terminated, shall be sentenced to prison terms ranging from 91 to 180 days. The court usually changes the jail punishment into cash penalty. The fee for work permitted is RIs.5,000,000 and RIs.3,500,000 fee for renew of work permitted.

## Minimum wage comparison 2005-2010 in Iran

Minimum wage 2005 March 21, 2005	2005 Rls.	Minimum wage workers 2006 March 21, 2006		Minimum wage 2007 March 21,2007 Rls.	Minimum wage 2008 March 21,2008 Rls.
		Permanent workers Rls.	Fixed Period workers Rls.		
Daily minimum wage(1)	40,864	50,000	60,000	61,000	73,200
Monthly minimum wage (30 day) (2)	1,225,920	1,500,000	1,800,000	1,830,000	2,196,000
Workers subsidy	40,000	100,000	100,000	100,000	100,000
Housing allowance	100,000	100,000	100,000	100,000	100,000
Family allowance (40,864x3) (3)	122,0592	150,000	180,000	183,000	219,600
Hourly minimum wage	5,575	6,821	8,185	8,321	9,986
Hourly Overtime wage	7,805	9,550	11,460	11,650	13,980
Tax exception subject article 84 tax act(4)	1,900	2,160,000	2,160,000	2,270,000	2,270,000
Salary coefficient (as article 84 tax act) (5)	380	432	432	454	454
SSO Base daily minimum wages	40,864	50,000	50,000	61,000	73,200
SSO Base daily maximum wages(6)	208,000	254,500	254,500	366,000	512,000
Work Permitted Fee(7)	-	-	-	-	-
Renew work pert	-	-	-	-	-

Mitted fee(1) Article (7) of Labour law: The expression "employment contract" means a written or an oral agreement whereby a worker undertakes, in return for remuneration, to perform work for an employer for a fixed term or an indefinite period.

Note 1: The maximum duration of a definite or fixed period in respect of types of work with an impermanent nature shall be determined by the Ministry of Labour and Social Affairs and approved by the Council of Ministers.

Note 2: Where no period is specified in a contract for work which is permanent by nature, the contract shall be deemed to be permanent.

Article (8) of Labour law: No stipulation in an employment contract or its subsequent revisions shall be binding if it is less favorable to the worker than the provisions of this Code.

(According with vote no.179 dated Nov. 3,1996 of Administration High Court all labour c5ntracts that period is specified, the contract is name temporary and non permanent.)

(2) - According to Note of article (37) Labour law: In months of 31 days, salary and allowances shall be calculated and paid to the worker on the basis of 31days

(3)- According with Article 86 of Social Security Act Family allowance shall be paid three times of minimum wages ( 101,000 X 3= 303,000) exclusively up to two (2) children ( 303,000 x 2= 606,000) provided that:

- i. The insured has a record of payment of premium for at least 720 working days.
- ii. The age of the children shall be less than 18 full years, or that they are exclusively engaged in studies (up to the completion of their studies), or that they are not able to engage in work due to a disease or loss of a limb as certified by the Medical Boards described in Article 91 of this Act. The amount of family allowance shall be equivalent to three times of the minimum daily wages of an ordinary laborer in different regions for each child every month.

(4) - According to Budget law 1389(2010-2011) the annual exemption salary has approved Rls. 52,500,000= equal Monthly 4,375,000

(5)- Salary coefficient from the year 1388 has been canceled.

(6)- The daily minimum & maximum wages includes SSO are respectively 101,000 and 707,000 Rls. . (The SSO ceiling has been equal seven times minimum wages ).Please kindly note might be this would be change.

7 -According to budget law of 2010 work permitted fee has approved and duties payable by foreigners to obtain permits subject to article 97 of the Law Concerning Adjustment of Certain Government Financial Regulations approved dated January 15, 2002

## Executive Directives to the Law Concerning Maximum Use of Iranian Technical Engineering and Manufacturing Capabilities:

On 29th April 2002, the Executive Directives has been formulated, by the State Management and Planning Organization (SMPO), relating to the supervision over the implementation of Articles of the Law Concerning Maximum Use of Iranian Technical Engineering and Manufacturing Capabilities for Projects Implementation and Provision of Facilities for Export of Services, approved on March 3, 1997 by the Islamic Consultative Assembly (ICA).

The Executive Directives of Article 3 of the Law on Maximum Use of Iranian Technical, Engineering Capabilities is as follows:

- In order to exert general supervision over the implementation of Articles of the Law Concerning Maximum Use of Iranian Technical Engineering and Manufacturing Capabilities for Projects Implementation and Provision of Facilities for Export of Services, approved on March 3, 1997 by the Islamic Consultative Assembly (ICA), a responsibility which is included in the duties of the State Management and Planning Organization (SMPO), the executive directives have been formulated, which have been reflected according to Circular Letter No. 105/18089 dated April 29, 2002 communicated to government executive organizations.

The Executive Directives on the manner of assigning consultant engineering services, contractor services, and service activities of the projects which could be assigned both individually and jointly are as following:

- On Manner of Assigning Works:

It shall be authorized to assign various works of projects, either individually or collectively, exclusively to Iranian companies and institutes.

- a. If after having made the necessary consultations and co-ordinations with the SMPO or after having made the required inquiry or having held the tender, the executive organizations shall come to the conclusion that no competent Iranian company or institute is available or that competent Iranian companies/institutes are not sufficient in number, such executives organization, upon production of a well-reasoned and justified report and after having obtained the authorization of the Council of Economy, shall be authorized to assign and cede their projects to Iranian-foreign joint ventures, provided that the share or participation interest of the Iranian company or institute in the Iranian-foreign joint venture shall not measure less than 51% of the value of contract compensation of the work so assigned.
  - b. In the tender and inquiry notices to be published, it shall be required to clearly and unequivocally reiterate that Iranian companies and institutes may declare their readiness to participate in the tender either independently or in the form of civil partnership with foreign companies, on condition that the share and participation interest of the Iranian company or institute in the civil partnership shall not measure less than 51%.
  - c. The Iranian-foreign joint ventures established in the form of civil partnership which shall be willing to take part in the tender shall be required to submit to the executive organization a copy of their letter of agreement or understanding, simultaneous with the production and submission of their bids.
  - d. It shall be authorized to assign work exclusively to the bidders who shall propose to execute and implement 51% of the value of the work utilizing the equipment, accessories and services which are already produced and rendered in Iran or which are capable to be provided in Iran. It shall be authorized to assign works to the bidders who shall either propose or undertake to execute inside Iran less than 51% of the value of work, only after having obtained the required authorization and approval of the Council of Economy (mentioned in Note 1 under Article 3 of the Law on Maximum Use).
  - e. In order to gain thorough knowledge as for the contractual value of the work to be executed and performed inside Iran, the executive organizations shall be required to clearly and unequivocally mention the following items in the tender documents, requesting the bidders to provide unambiguous and clear marks in response.
    - i. Concerning engineering and procurement (EP) projects or engineering, procurement, construction and management (EPCM) projects, it shall be required to mention the amount and contractual value of the engineering work to be performed inside Iran by Iranian entities.
    - ii. Concerning the amount, value and supplier of the commodities, raw materials or bulk materials, it shall be required to mention the standardized items which are manufactured in Iran and which shall be utilized in the course of implementation of the project.
    - iii. It shall be required to mention the amount and value of the equipment the manufacture or fabrication of which shall be assigned to Iranian manufacturers or producers, together with a list of Iranian vendors to which the manufacture or fabrication of such equipment shall potentially be assigned.
    - iv. The amount and value of the work which shall be executed in Iran directly by the Iranian company being a party to the contract (either independently or in the form of an Iranian-foreign joint venture).
    - v. The amount and value of the equipment and machinery which are not manufactured in Iran but the foreign partner shall undertake to make the necessary arrangements in order to have such equipment and machinery manufactured in Iran by foreign manufacturers (either independently or jointly with Iranian manufacturers).
  - vi. A thorough list of what shall be developed and what shall eventually remain in Iran as benefit for Iran, upon assignment of the work to the Iranian-foreign joint venture, and after implementation of the subject of the contract.
  - f. If it shall not prove possible and practical to acquire the license and to assign the basic engineering to the nominated license holder through Iranian companies or institutes, it shall be authorised to do so through foreign companies, upon approval of by the highest ranking authority of the ministry or the executive organisation concerned.
- It shall be required to obtain the authorisation to be issued by the Council of Economy under the following circumstances:
    - a. To assign work to an Iranian-foreign joint venture provided that the value of the share and participation interest of the Iranian partly shall not be less than 51%.
    - b. To assign work to an Iranian company or institute and/or an Iranian-foreign joint venture which shall undertake to perform and execute inside Iran less than 51% of the value of the contract.

The content of this article does not constitute legal advice and should not be relied on in that way. Specific advice should be sought about your specific circumstances.

## Important Government Department websites

Ministry of finance & Economy	www.mefa.gov.ir
Ministry of industry & Mine	www.min.gov.ir
Ministry of commerce	www.iranministryofcommerce.com
Iran chamber of commerce & mine	www.iccim.org
Duties Islamic republic	www.irica.gov.ir
Point trade	www.irtp.com
Ministry of foreign affairs	www.mfa.gov.ir
Ministry of Oil	www.nioc.com
Ministry of Labour	www.irimlsa.ir
Organization of Managing & Planning	www.mpzog.ir
Value Added Tax Organization	www.vat.it
Iranian Association of Certified Accountants	www.iacpa.ir
Tehran Stock Exchange Organization	www.tse.or.ir
Central Bank of Iran	www.cbi.ir
State Tax Organization	www.intamedia.ir
Iranian Privatization Organization	www.ipo.ir
Organization for Investment Economic & Technical Assistance of Iran (OIETAI)	www.investiniran.ir
Iran Foreign Investment Co.(IFIC)	www.ifi-co.com
Audit Organization (Accounting Standards Setter in Iran)	www.audit.org.ir/home-en.html
Electronic Visa for Iran	www.mfa.gov.ir/cms/cms/Tehran/en/evisa/

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