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Since international sanctions have been lifted and Iran's markets opened to foreign investors, many international companies seek reliable information about Iran and its investment rules. ESK Law Firm and its professional teams would be able to pave your way and provide you with reliable and updated information about legal, commercial and financial matters in Iran.

Our approach to professional and service excellence is based upon personal standards of absolute integrity, unfailing mutual respect and dedication in all that we do for our clients. Maintaining a diverse team is a core value at ESK Law Firm and we draw upon the strengths of knowledgeable and skilled individuals who represent a variety of viewpoints, experiences, and background.

Please do not hesitate to contact us for more information.

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## Why invest in Iran?

Iran has long been of geostrategic importance because of its central location in Eurasia and Western Asia, and its proximity to the Strait of Hormuz.

The country is regarded as one of the richest countries in hydrocarbon reserves, so that it ranks second in gas reserve, gas and crude oil export in the world. According to the reports of international institutions such as the World Bank, the Islamic Republic of Iran has a GDP of approximately \$425 billion USD and scores eighteenth in purchasing power parity (PPP) worldwide. The domestic market of more than 80 million inhabitants and planned large-scale government spending will further increase this share.

### **General incentives and benefits of Investment in Iran:**

- Unique geographical situation as the junction of the Middle East, Europe and Asia.
- Huge domestic market with 78 million population and quick access to markets of the neighboring countries with 300 million population.
- A massive resource of efficient, trained and economic-friendly workforce.
- Advanced infrastructure across the country in the fields of telecommunication, energy and rail/road transportation.
- Huge energy resources and low costs of production and public services.
- Suitable climate conditions which allow agricultural activities in all parts of the country and in all seasons.

## Setting up a Company in Iran

One of the best and fastest path for entering Iran's markets is through registering a company. There are several types of companies in Iran, but the most popular ones are Limited Liability Company (LLC) and Private Joint Stock Company (PJSC). You need at least two shareholders to register a LLC and three for PJSC, and all shareholders can be foreign nationals. It usually takes around one months to register a company in Iran. You need to find a reliable and experienced lawyer to register your company as its procedure can be complicated.

### Company or Branch: Which one should you choose?

While registration procedures of a company and a branch in Iran are similar, their purposes are completely different. According to laws of Iran, foreign branches can only be used for marketing purposes as well as conducting due diligence, research, data collection and also for liaising between parent companies and Iranian business entities. On the other hand, a company is suitable for all business activities in Iran including but not limited to trading, investing, import & export, and manufacturing. Therefore, it is important to first establish the type of presence you wish to have in Iran before deciding between a company setup or establishing a branch.

### Do You need an Iranian Business Partner?

Generally speaking, it is not mandatory to have a local partner when setting up a presence in Iran. However, having an Iranian partner or shareholder is required in very limited circumstances such as in Internet Service Provider (ISP) Companies. Furthermore, some businesses need an Iranian representative, for example all importers of cosmetic products have to appoint a representative in Iran.

## Paying Tax in Iran

Direct Taxes Act of Iran changed in 2016, therefore, you need to refresh your knowledge if you worked in Iran before. There are also indirect taxes in Iran which include taxes on imports and Value Added Tax (VAT). Currently, all companies pay 25% income tax and some of them also pay an additional 9% VAT (depending on their businesses). A company will not be subject to any other taxes on the dividends or partnership profits it may receive from the capital recipient companies. It is recommended to employ a financial advisor to avoid tax penalties.

### Iran's 4-month income tax up 29%

Iran's direct income tax reached 275 trillion rials (about \$7.77 billion USD) in the first quarter of the current Iranian calendar year (March 21-July 21 2016). ISNA (Iranian Students' News Agency) quoted Kamel Taqavinejad, the head of Iranian National Tax Administration (INTA).

According to Taqavinejad, the raised amount registers a 29 percent increase, compared to the collected tax income in the same period in 2015.

*"In the first quarter of the current Iranian calendar year, nearly 95 percent of predicated tax revenues in the country's budget plan has been materialized."*

President Hassan Rouhani's economic strategy is to significantly reduce the government's dependency on oil and instead collect tax more systematically.

## What you need to know before signing a contract in Iran

Foreign nationals can easily sign a contract in Iran. The Contract Law of Iran - which is incorporated into Iran's Civil Code - is similar to many other countries in which the principle intention of parties is to create legal relations. Therefore, it is possible for the parties to draft their own terms and conditions. It should also be noted that, there is no need for registering a contract in a state organization so that it becomes formal or valid. Parties' signatures would be enough for this purpose.

It is important to note that during the execution of the contract, the counterparties shall assign their official signatory to execute in order for the contract to be valid and binding.

## Things to Check before Signing a Business Agreement in Iran

Check the name, position and address of counterparty:

Check the dispute resolution method and location:

Check the governing law of the Agreement. Try to choose a law which you are familiar with:

Check the effective date and end date of the Agreement:

Check your obligations and financial provisions:

Subject matter of the Agreement should be compatible with Iranian laws and Islamic rules.

Some Agreements (such as employment agreements) have certain requirements based on Iran's body of law, so they are better to be drafted by lawyers.



### Litigation procedure in Iran: Is it as bad as it looks?

Going through litigation procedure in Iran is hard and time consuming, but it is not as bad as it may look. Judges are usually impartial and if you have enough evidence, you will most likely win the case. Iran has three-stage legal system consisting of court of first instance, the appellate court and the high court. Iranian courts are also divided into civil courts and criminal courts.

## The Competent Court

In accordance with Article 11 of the Iranian Code of Civil Procedure, the competent court for hearing a civil action is the court the defendant domiciles. The legislator has not made any distinction in that respect between foreigners and Iranians. Save in cases where the parties have agreed on the jurisdiction of a different court in the contract or in a separate agreement, the case shall be heard before the court the defendant domiciles.

## File a Civil Suit

To file civil legal suits, the claimant must submit his statement of claim and copies of all relevant documents to the registry of the bureau of the First Chamber of the court of first instance in duplicate. If the case consists of multiple defendants, then the copies shall be made in the number of the defendants plus one. The President of the First Chamber, who is an important judicial figure, shall refer the file to one of the Chambers of the Civil Court. He is the sole person vested with the power to choose the court that will investigate the case and neither the parties, nor any other authority, can prevail himself of this right.

Once the case has been distributed, the designated court shall fix the day and time of the hearing, send a copy of the statement of claim and documents to the defendant(s) and summon the parties for the hearing. If the defendant is domiciled abroad, the date of the notice shall be at least 2 months prior to the hearing.



## Is mediation and arbitration applicable in Iran?

Similar to many other countries, using Alternative Dispute Resolution (ADR) mechanisms such as mediation, conciliation, and expert determination is allowed and depends on the parties' agreement. In other words, such dispute resolution methods must be incorporated into the parties' agreement so that it is imposed on the disputing parties. Arbitration, as an ADR technique, also needs parties' consent to become compulsory for them. However, according to the laws of Iran, there are some specific disputes that must be preliminary dealt with by mediation or arbitration tribunal, such as stock market disputes or employment disputes.



## Investment im Iran Investment in Iran

This is the first book of its kind, outlining the legal framework for investors in Iran after the lifting of certain international and economical sanctions. This guidebook has been written and prepared by Partners of ESK Law Firm in cooperation with Michael Lorenz. The book summarizes the Iranian Foreign Investment Law in German, English and Farsi languages and provides busy executives with a quick and easy-to-read overview of the legal and professional regulations, investment climate, taxation, forms of business organizations and business practices in Iran. The book is structured in a way that all three languages are translated in exactly the same way to eliminate language barriers and to enable an easier communication with business partners in the respective countries. This book reflects the most recent updates, dated May 1st, 2016. The book has been published in August 2016 by the Springer in Germany.



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# Investment im Iran



*ESK Law Firm is one of Iranian leading law firms, with a reputation for standing out - and for being outstanding. We provide legal services in areas such as international trade law; international investment law; banking and finance law; energy law; company law; litigation as well as conduct due diligence for entities, represent clients for negotiating, and designing and drafting various kinds of international contracts. Our clients include multinational corporations, businesses, entrepreneurs, financial institutions and governments who seek advice in respect to their domestic and international affairs, including cross-border transactions and inward and outward investment activities.*

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#### **Disclaimer**

The information provided in this update is Newsletter is not a substitute for legal advice. Readers should be advised that if they have questions about Iran's laws and regulations, they should seek advice of competent counsel specializing in related area.

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