

In the Name of God

Country Report of the Islamic Republic of Iran on FDI Trends, incentives, advantages, regulations and performances

On the occasion of the COMSEC Ministerial meeting

Introduction;

Islamic Republic of Iran with an area of 1/648/195 sq.km, having 15 neighbors and nearly 75 million populations has been located in South- West Asia. The country neighbors with Turkey and Iraq in west, Afghanistan and Pakistan in East, Armenia, Azerbaijan, Russia, Kazakhstan and Turkmenistan in North and Kuwait, Saudi Arabia, Qatar, Bahrain, United Arab Emirates and Oman in South through Persian Gulf and Oman Sea. Therefore, Islamic Republic of Iran, as a strategic country, has got common borders with states of ESCWA in South and West, SAARC in East and CIS and Caucasus as well as UNECE in North. The country is regarded as one of the richest countries in hydrocarbure reserves, so that it ranks the second for gas reserve and its export as well as the second for exporting crude oil in the world. According to the reports of the international institutions like the World Bank, Islamic Republic of Iran, with having more than 700 billion dollars GDP, scores the eighteenth out of twentieth outstanding economies, eighteenth and sixteenth for population and area respectively. Due to geopolitical position and its suitable programming during the past years in attracting the foreign direct investment (FDI), the country made noticeably progresses to which shall be referred within the country report.

Policies and legal Advantages

A number of initiatives and measures has been taken to promote and protect the foreign investment in my country. Some of these points and experiences are as follows:

1-The Law on foreign investment in Iran under the name of “Foreign Investment Promotion and Protection Act” (FIPPA) was ratified by the parliament in 2002. Some specific enhancements introduced by FIPPA for foreign investment in Iran can be outlined as follows:

- ❖ Broader fields for involvement by foreign investors including in major infrastructure,
- ❖ Broader definition given to foreign investment, covering all types of investments from FDI to different types of project financing methods including :Civil Participation, Buy –Back arrangements, Counter trade and various BOT schemes;
- ❖ Streamlined and fast track investment licensing application and approval process;
- ❖ Creation of a one stop shop called the “Center for foreign investment Services” at the organization for investment for focused and efficient support for foreign investment undertaking in Iran,
- ❖ More flexibility and facilitated regulatory practices for the access of foreign investors to foreign exchange for capital transfer purpose

Features and Advantages of FIPPA

- There is no restriction on the percentage of foreign shareholding
- The possibility of registering an Iranian company with 100% foreign capital.
- Transfer of principal capital, dividend and the profits gained through the utilization of capital in the form of foreign currency or goods.
- Enjoyment of same and equal treatment as accorded to domestic investors by foreign investors.
- The possibility of investment by foreign natural and juridical persons and Iranians living abroad.
- Allowing investing in all areas which are permitted to the private sector.

- Granting protection coverage to all foreign investment schemes.
- Quick approval of the foreign investment application
- Issuing a three-year residence license for foreign investors, directors, experts as well as their immediate family members risks covered under FIPPA
- Expropriation and nationalization
- Unlimited transfer of capital and dividend
- Guarantee of the purchase of the goods and services resulting from investment projects in BOT investment schemes where the government acts as the sole purchaser.

2-Establishment the foreign investment single window.

3-Setting –up the Web site for introducing the foreign investment Opportunities.

4-Issuing the 3 years residence permit for foreign investors.

5-providing the visa (type I) for foreign investors in gratis basis.

6-Providing the incentives, facilities and advantages for foreign investors in particular tax exemption up to 100% in the leased developed region of the country.

7-National treatment and equal with the foreign investors as like as local investors in law, exemption, facilitation,...

8-The center for foreign investment services has been established at the premises of the organization for investment. Some key services of the center include:

- ❖ Dissemination of information and provision on necessary guidance to foreign investors concerning investment in Iran.
- ❖ Necessary coordination concerning the issues related to foreign investment including issuance of the declaration of establishment, the environment protection license. The permits for subscriptions relating to water, electricity, fuel and telephone, the license for exploration and exploitation of mines, etc. from the relevant authorities, prior to the issuance of the investment license.
- ❖ Necessary coordination for the securing of entry visa, residence and employment permits for foreign national involved in foreign investment projects.
- ❖ Coordination among various officials' agencies in connection with request and applications made by projects involving foreign investment.

Incentives and Benefit of Foreign Investment in Iran

Tax Exemption

Legal Entity Income Tax

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

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

Factory owners and legal entities are obligated to, even within the exemption period, submit declaration and profit and loss balance sheets, provided from their official statutory books, maximum four months after their tax year (March through February in Iran)² along with the list of partners and shareholders and their shares and addresses to the tax department within the area of the activity of the legal entity (Article 110). If these legal entities do not submit the documents within the stipulated time span, the tax exemption will be null and void (Article 193)

Highlights of Tax Holidays

Agriculture	100%	Perpetual
Industry and Mining	80%	4 Years
Industry and Mining in Less-Developed Areas	100%	20 Years
Tourism	50%	Perpetual
Export of services & non-oil goods	100%	During 5th development Plan
Handicraft	100%	Perpetual
Educational & sport services	100%	Perpetual
Cultural activities	100%	Perpetual
Salary in Less-Developed Areas	50%	Perpetual
All Economic Activities in Free Zones	100%	20 Years

Customs Exemption

- Exemption of production line machineries and equipment from payment of customs tariffs (first-hand machineries).
- The return of customs tariffs paid for the import of raw materials used for the production of export commodities.

Privatization

- More than 70% of the national economy were state owned exclusively in heavy industry, steel, petrochemicals, copper and automobiles
- After the announcement of general policies of article 44 in 2005 new areas formerly closed to private local/foreign investors opened up.
- Based on the above mentioned general policies the Law of Amending some Articles of the Fourth Development Plan and Article 44 of the Constitution

was approved in 2008 caused for a change in the role of government from direct ownership and management of enterprises to policy-making, guidance and overseeing.

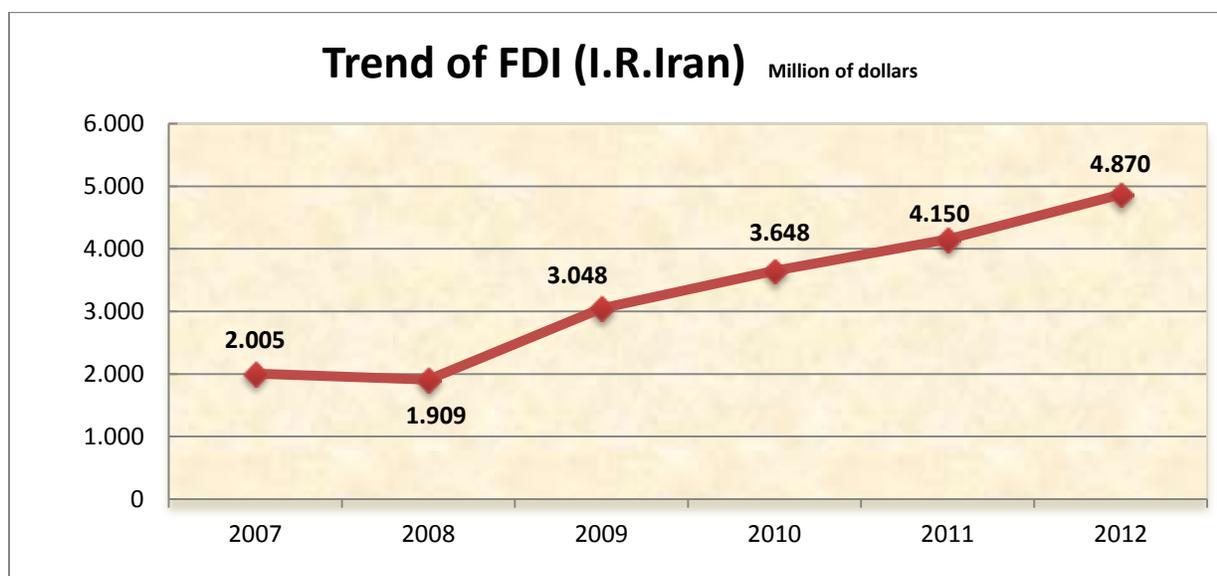
- Privatization of more than US\$ 80 billion of SOEs during the past five years and companies with the value of about US\$ 70 billion still available under the plan
- Ban on government investment or engagement in all economic activities and its obligation to transfer the already operational state owned plants and companies to private sector except those ensuring government sovereign role.

Investment Facilities and Incentives
in Free and Industrial Zones

- A 15-year tax exemption for any economic activity
- No visa for the entrance of foreigners
- No limitation on the transferring foreign currency
- Flexible monetary and banking services
- Exemption of raw materials and industrial machineries of producing units from customs duty.
- Easy registration of companies, industrial and cultural institutions and intellectual property ownership
- Easy circumstances for re-export and transit of commodities
- Easy regulations for the import commodities allowed by law
- The possibility of exporting products to the mainland within the framework of the added value regime.
- Sale/lease of the land for the Iranians an long-term lease for the foreigners
- Suitable rates for the energy consumption

Trends of the FDI in Iran:
(Millions of dollars)

I.R.IRAN	Turkey	Qatar	Oman	Saudi Arabia	Pakistan	YEAR
2,005	22,047	4,700	3,332	24,319	5,590	2007
1,909	19,760	3,779	2,952	39,456	5,438	2008
3,048	8,663	8,125	1,485	36,458	2,338	2009
3,648	9,036	4,670	1,243	29,223	2,022	2010
4,150	16,047	-87	739	16,308	1,327	2011
4,870	12,419	327	1,514	12,182	847	2012

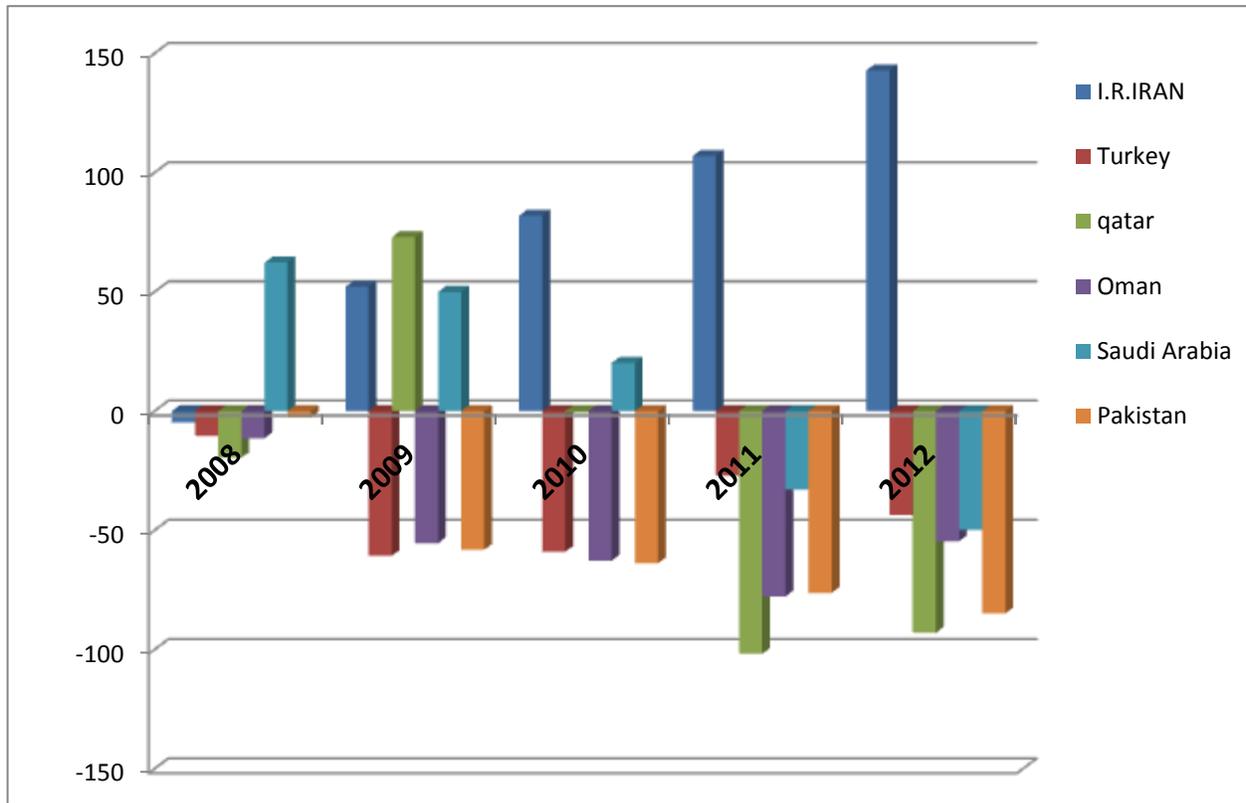


-The Comparative Trend of the FDI progress rate (annually). according to 2006 rate as basic year, the Islamic Republic of Iran achieved the progress rate in the region.

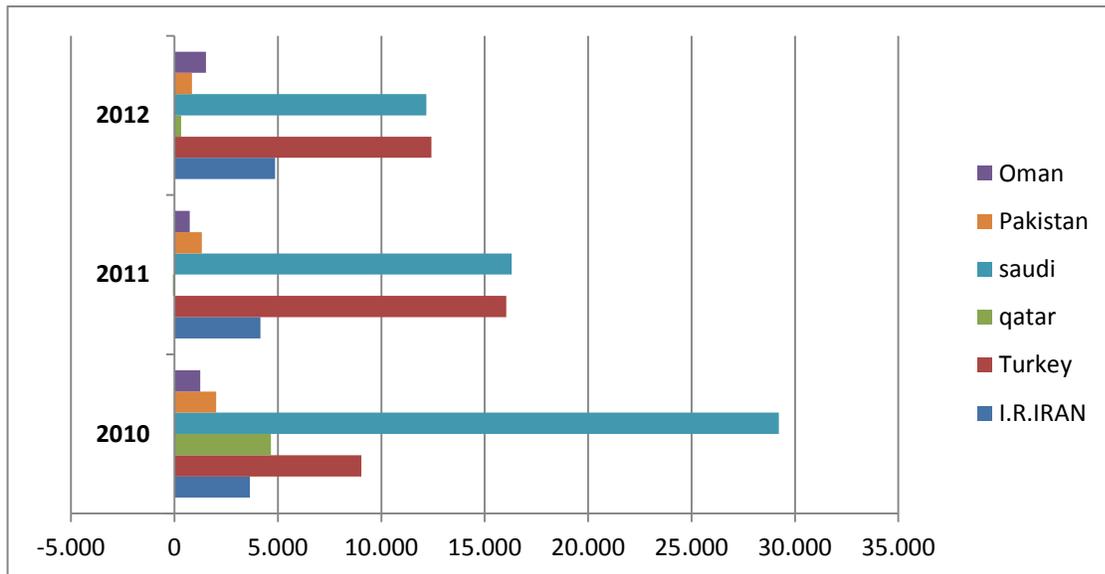
Table 1. FDI Flows, 2007-2012

(Millions of dollars)

YEAR	IRAN		PAKISTAN		OMAN		SAUDI ARABIA		QATAR		TURKEY	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
2007	2,005	0	5,590	0	3,332	0	24,319	0	4,700	0	22,047	0
2008	1,909	-5	5,438	-3	2,952	-11	39,456	62	3,779	-20	19,760	-10
2009	3,048	52	2,338	-58	1,485	-55	36,458	50	8,125	73	8,663	-61
2010	3,648	82	2,022	-64	1,243	-63	29,223	20	4,670	-1	9,036	-59
2011	4,150	107	1,327	-76	739	-78	16,308	-33	-87	-102	16,047	-27
2012	4,870	143	847	-85	1,514	-55	12,182	-50	327	-93	12,419	-44



FDI inflow



Recommendations:

- **Increasing the capacity building through organizing the periodical workshops Promoting the FDI in the COMSEC member states and providing the T.A by the Secretariat of SECRIIC in this regard.**
- **Conducting a feasibility study on increasing the FDI attraction in the COMSEC region.**
- **Publishing the relevant information about the private sectors, companies, firms, investors as well as regulations, incentives, advantages and policies of the member states in the area of FDI on the web site of the COMSEC.**
- **Keeping the FDI issue and its relevant subject in the Agenda of the Ministerial Meeting of COMSEC.**
- **Providing the platform to establish a HLEG by member states and holding its meetings annually in the framework of COMSEC activities.**

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