Taxation in Iran

Introduction:

A company is resident in Iran if it's established under the Iranian Commercial Code, or if it is managed from Iran. For tax purposes, the Iranian calendar year, starting 21 March and ending 20 March of the following year is generally used, but a company or branch may use its own accounting year if different. Tax filings in Iran are based on a company's fiscal year.

All Iranian entities and branches of foreign companies must file an annual corporate income tax return and submit their balance sheet and 'profit and loss' account within 4 months of the end of the fiscal year.

Iran has no rules on tax on transactions between connected companies and there are no specific rules about capital gains tax.

Tax registration in Iran

Companies must register with the State Tax Organisation and Social Insurance Organisation for:

** value added tax*

** corporate income taxes*

** customs related tariffs*

** social taxes and employment-related taxes (it is overaly 30% : 7 % employee portion -23% employer portion)*

You must have an economic code (similar to a tax identification code) to operate in Iran. This is either a commercial code for companies registered in Iran or a comprehensive commercial code for foreign companies. This comprehensive commercial code is needed for these companies to let Iranian customers pay them.

Any payment made to a supplier without an economic code will be added back to the profit and loss account of the Iranian entity and no tax deduction will be allowed for the expense.

It's expected that foreign investors will receive tax breaks under Iran's sixth 5-year development plan (2016 to 2021).

Value Added Tax (VAT) in Iran

The standard VAT rate in Iran is 9%. VATrates applied to special goods are:

** 15% on cigarettes and tobacco products*

** 30% on gasoline and aircraft fuels*

** 11% on fuel oil*

17 types of goods and services are VAT exempt including basic food, medicines, agricultural products, financial services, immovable property and handmade carpets.

Corporate tax rate in Iran

The corporate tax rate is 25% and applies to both resident and foreign entities (except insurance enterprises and non-Iranian airline and shipping companies). Resident entities are assessed on an actual profits basis. Non-resident entities are taxed on a deemed profits basis of 10% to 40%. This means the effective tax rate is 2.5% to 10%).

Withholding taxes in Iran

There is no withholding tax on dividends paid by Iranian companies. Interest paid to a non-resident is subject to a 3% withholding tax. Royalties paid to a non-resident are subject to corporate tax on a deemed profits basis of 10% to 40%. Iran's most recent budget removed Iran's withholding tax on services.

Income tax in Iran

Income tax is levied at progressive rates up to 20%. The rates for the fiscal year to 20 March 2016 were:

** 0% up to IRR 138 million*

** 10% on income between IRR 138 million and IRR 966 million*

** 20% on income over IRR 966 million*

Income tax is levied on salaries, allowances and all types of remuneration.

Non-Iranian nationals are subject to Iranian tax on any income earned in Iran.

Other taxes in Iran

Iran imposes an environmental tax amounting to 1% of the sales on contaminating production units, including refineries and petrochemical factories. Iran also levies a car transfer tax and excise on intra-city transport services and motor vehicles.

Tax incentives in Iran

Iran offers incentives for manufacturing and mining companies, which apply automatically if the specified conditions are met.

Manufacturing companies set up in special economic zones can qualify for a tax exemption (of 80% or 100%) for up to 10 years.

Companies that are registered and licensed to operate in a free trade zone (FTZ) are exempt from corporate tax for 15 years on income derived from their activity in the FTZ. Income derived from operations carried out outside the FTZ is taxable on the same basis as non-FTZcompanies.

Customs in Iran

Duty rates in Iran can be as high as 75%.

The customs value of imported goods is generally calculated on the basis of the cost, insurance and freight value. The Islamic Republic of Iran's Customs Administration is responsible for customs laws and regulations. Iran has observer status at the World Trade Organization (WTO) and is a signatory to international treaties including:

** the customs convention on the ATA carnet for the temporary admission of goods*

** the convention on the international transport of goods under cover of TIR carnets*

** the harmonised system convention*

Iran's main customs legislation comprises:

** the export-import regulation act*

** the executive ordinance to the export-import regulation act*

** the regulations on exports, imports and customs in the free trade industrial zones*

Customs regulations in Iran

Importers must register with the Ministry of Economic Affairs and Finance for customs duty and tax payments and must also register online with the Trade Promotion Organisation of Iran. Iranian customs regulations distinguish 3 categories of goods in terms of import procedures:

** permissible goods which are given a licence or approval provided import criteria are met*

** conditional or restricted goods requiring a licence or authorisation such as foodstuffs and telecommunications equipment*

** prohibited goods which are forbidden under Islamic Sharia law or other Iranian law, for example alcoholic drinks*

Restrictions and conditions can also apply to imports that are similar to locally manufactured goods. Storing goods in bonded warehouses is allowed in Iran, for a limited period and as long as applicable customs procedures are followed.

Free trade zones (FTZ) in Iran

Goods imports from outside Iran into its FTZs are not subject to import duties provided they're sold within the FTZ or re-exported from Iran.

Imports of items such as construction materials, production equipment, spare parts and tools are duty free provided they are used for production or construction within the FTZ.

Goods manufactured in the FTZs are subject to customs duties when imported into mainland Iran in proportion to the amount of non-Iranian raw materials and components used in their production.

IRAN Tax Highlight

Currency: Iranian Rails (IRR)

Foreign exchange control: Generally no but recently yes

Accounting principles/financial Statements: IAS/IFRS. Financial Statements must be prepared annually.

Principal business entities: These are the public and private limited liability company, partnership and branch of a foreign corporation.

Corporate taxation: Residence- A Company is resident in Iran if its management and control is exercised in Iran. Registration in Iran is not decisive.

Basis-Resident companies are taxed on worldwide income. Foreign-source income derived by tax resident companies is subject to corporation tax in the same way as Iran source income. Branches are taxed the same way as domestic companies.

Taxable income: Corporation tax is imposed on business profits; interest and discounts; rents, royalties, remunerations or other profits from property, and net consideration in respect of trade goodwill. Expenses incurred for the production of income are tax deductible.
Losses brought forward or surrendered by company can be set off against taxable profits.

Taxation of dividends: Dividends received from companies located in Iran are exempt from corporation tax but dividends received from companies located out of Iran are subject to corporation tax.

Capital gains: sale value of securities and listed companies are taxable at .05% and 4% for face Value of unlisted companies.

Real State Tax: Final transfer of real properties as well as the transfer of goodwill is subject to a fixed rate. The basic of taxation shall be taxable value in case of real state at 5% of the so-called and 2% value received by the owner or possessor of the right in case of goodwill.

Losses: Tax losses can be carried forward and set off against taxable income of subsequent years without any time limit.

Tax rate: Companies, includes all kind of corporate bodies, and are subject to corporation tax at affixed rate of 25%. Certain types of income (i.e. dividends, interest and rent) for foreigners residing abroad subject to a special defense contribution at the rate of 5% and 7.5% respectively.

Surtax: No

Alternative minimum tax: No

Foreign tax credit: Relief for taxes paid abroad is granted against Iran tax due in the form of a tax credit. The relief is given unilaterally regardless of the existence of a tax treaty. When a treaty applies, the treaty provisions apply if more beneficial.

Participation exemption: See under "Taxation of dividends", see also "Capital gains".

Incentives: Special taxation regimes exist for ship-owning companies that have Iran flag vessels and ship management companies.

Withholding tax: **3%**

Dividends: Dividends paid to resident or nonresident (individual & companies) are not subject to withholding tax.

Interest: There is no withholding tax on interest and fees paid made to Iranian banking, cooperative funds and authorized non-bank credit institution but interest paid or nonresidents. Interest more han 2.5% plus labor paid to nonresidents is subject to a 5% special defense contribution deducted at source.

Royalties: Royalties paid to nonresidents for the use of rights in Iran are subject to a final withholding tax of 5% for manufacturing and governmental section and , and 7.5% on all other royalties. These rates may be reduced under a tax treaty.

Withholding tax. There is no withholding tax on the payment of royalties by a resident company to another resident company.

Branch remittance tax: No

Other taxes on Corporations

Stamp duty: Capital duty is payable on authorized share capital and the issuance of shares at a rate of 0.2%.

Payroll tax: Employers are required to withhold personal tax on the salaries of employees under the PAYE system.

Real property municipal tax: Tax is imposed annually on the governmental value of immovable property.

Social security: Employers must make social insurance contributions amounting to 23% of monthly gross salary. The maximum monthly is 7 times more than minimum monthly wages. Additionally, employee is required to make a contribution of 7% to the social cohesion fund on all earning of employees till annual Cap.

Transfer tax : Transfer of immovable property are subject to transfer fees ranging from 5% calculated on the special value of the property as estimated by the Iranian National Tax administration.

Anti-avoidance rules: Transfer pricing – The arm's length principle requires that transactions between related parties be carried out at market value and on normal commercial terms.

Thin capitalization: No

Controlled foreign companies: No

Other: Under a general anti – avoidance provision, any artificial/fictitious transaction may be disregarded and the Commissioner of Income Tax may assess tax on the person conceded.

Disclosure requirements: No

Administration and compliance:

Tax year – The tax year is the calendar year. The accounts of a company may be closed on a date different from 21 March, in which case, taxable profits are apportioned on a time basis to the relevant tax years.

Consolidated returns: Taxation on a consolidated basis is not permitted and each company is required to submit a separate return.

Filing requirements: Tax returns must be filed by 31 Tir (July 22) following the accounting year end. Companies are required to pay provisional tax accompany tax file received.

Penalties: A fixed penalty of 2.5% per month is imposed for late filing.
Rulings- Rulings are available to interpret the law.

Personal taxation:

Basis: Resident individuals are subject to income tax on their worldwide income.

Nonresident individuals are taxed only on their Iran-source income. Some types of income (rent, salary, interest, inheritance, and incidental and ...) are subject to a special defense contribution at the rates of 15%, 20%, 25%, 30% and 35%, respectively.

Residence: An individual is resident in Iran if he/she stays in Iran for a period or periods exceeding in the aggregate 183 days in the tax year.

Filing status – Each individual is assessed on a separate basis. Joint assessment for couples is not possible.

Taxable income: Personal income tax is imposed on business profits, income from an office or employment, discounts, pensions, charges or annuities, rents, royalties, remuneration or other profits from property and net consideration in respect of trade goodwill. Expenses incurred for the production of income are tax deductible.

Capital gains: See under "Corporate taxation".

Deductions and allowances: The most important personal deductions are: donations to approved charities; social insurance fund contributions (and similar contributions paid abroad); life insurance premiums; pension plan contributions; and medical fund contributions.

Salary Tax Rates : The first IRR 1,150,000 is tax free and till seven times will be taxable at 10% and imposed up to 20% on remaining amounts from March 21, 2014.

Other taxes on individuals

Capital duty: No

Stamp duty: See under "Corporate taxation".

Capital acquisitions tax: No

Real property tax: See under "Corporate taxation".

Inheritance/estate tax: If as a result of a person's death, whether actual or presumptive, any estate is left from him, it shall be imposed where the decedent or the heir or both of them or Iranians and reside in Iran, the tax shall be imposed, and Where both the decedent and the heirs are Iranian nationals domiciled abroad. In the case of foreign nationals as well as in other cases, any part of the deceased person's properties and property rights that are situated in Iran shall entirely be subject to taxation at the rates provided in the Article 20 of the present Act in respect of the heirs of second class.

Net wealth/net worth tax: No

Unemployment tax: No

Residence Rules: All the national of countries with double taxation are considered to be resident of Iran for tax propose if their reside in Iran more than 183 days per each year.

Administration and compliance:

Tax year: Calendar year Filing and payment – Tax on employment income is withheld by the employer under the PAYE system and remitted to the tax authorities. Self-employed individuals pay tax through the provisional and self-assessment systems. Tax returns must be filed by 31 Tir (July 22) following the tax year for employees; for self- employed persons who are not required to file audited accounts and self-employed persons whose returns are accompanied by audited accounts.

Penalties: See under "Corporate taxation".

Tax treaties: Iran has concluded more than 40 tax treaties as Germany, France, Armenia, South Africa, Kazakhstan, Turkmenistan, Lebanon, Georgia, Ukraine, and Belarus ,China,Switzerland,Pakistan,Austria,Uzbekistan,Turkey,Tunis,Kyrgyzstan,Spain,Poland,Bulgaria,Venezuela,Bahrain,Jordon,Malaysia,Croatia,Bosnia&Herzegovi,Qatar,Indonesia,Tajikistan, Kowait,Zimbabve,Indonesia,Malsia,Romania,Sudan,Oman,Algeria,Yaman,Kenya, Vietnam

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.

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.

Tax authorities: Iranian National Iranian Affairs (INTA)

Free Zone: Iran has several industrial & trade free zone that are tax exemption for 20 years.

Value added tax: Taxable transactions – VAT is levied on the sale of goods, the provision of services and the import of goods from outside the Iran**.**

Rate: The current year is 9% Registration – All Local & Foreign entity should be registered for VAT

Filing and payment: The deadline for submission of quarterly VAT returns is the 15th after the second month following the relevant period. Payments of VAT must be made by the same date.

Source of tax law: Direct Income Tax Law, Special Defense Contribution Law, VAT Law

Useful Links:
www.intamedia.ir
www.tse.ir
www.en.seo.ir
www.iccima.ir
www.en.ipo.ir
www.iraninvestment.ir/en/home
www.ecochamber.org/en
www.cbi.ir