

Guide on Iranian Taxation System for Foreign Investors

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Similar Taxation for Iranian and Foreign Investors

Foreign investors in Iran enjoy the same supports and privileges that are offered to the Iranian investors. In this connection, the Direct Taxation Law passed in 1987 and the following amendments have considered no discrimination in taxation of domestic and foreign investors. This means both Iranian and foreign investors pay the same amount of taxes. Tax exemptions and discounts are also equally granted to domestic and foreign investors.

The Direct Taxation Law, passed in 1987, is regarded as the core of the taxation system in the Islamic Republic of Iran. The law was extensively reviewed and reformed in 2015 to be in tandem with the ongoing economic conditions in the country. Production and investment promotion in line with the economic development of the country was one major factor behind the need for amendment of the law (supporting the newly established manufacturing and mineral units according to Article 132 and investment promotion according to article 138).

Taxable Real and Legal Entities According to Direct Taxation Law:

1. All owners, whether real or legal, for their properties inside Iran according to the taxation rules under Chapter 2 of the Direct Taxation Law
2. Any real person residing in Iran for the incomes earned inside and outside the country
3. Any Iranian real person residing abroad for all the income he/she makes in Iran
4. Any Iranian legal entity for the incomes earned inside or outside the country
5. Any non-Iranian real or legal entities for the income earned in Iran and also for the income gained through delegation of authority, dealership, technical and educational assistance or movie contracts (for any sort of income earned as rental, right of display and the like) in the territory of the Islamic Republic of Iran

Types of Taxes in Direct Taxation Law

a) Property Tax:¹

- Inheritance Tax
- Stamp duty (It is a type of tax levied on some documents such as checks, bills of exchange, promissory notes, negotiable instruments, stocks and shares, ... according to Articles 44 through 51 of Direct Taxation Law.)

b) Income tax:

- Property
- Agricultural
- Salary
- Self-employment Tax (the type of income a person earns in Iran through self-employment)
- Corporate income tax (special for legal entities)

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

Legal Entity Income Tax

The aggregate income of companies, and also the income from the profit-making activities of other juridical persons, derived from different sources in Iran or abroad, less the losses resulting from non-exempt sources and minus the prescribed exemptions, shall be taxed at the flat rate of 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

¹ Three other types of property taxes (Annual Real Estate Tax, Vacant Real Estate Tax, Tax on Barren Land) have been deleted from the Direct Taxation Law amendment in 2001).

² Financial year in Iran starts in March through February next year. For the companies with different tax year, the financial year is taken into account.

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

<i>Income Tax with Rate of 0.0%</i>	<i>Duration of Exemption</i>
<i>Industry, Mining & Services (Hospital & Hotels)</i>	<i>5 Years</i>
<i>Industry, Mining & Services (Hospital & Hotels) in <u>Industrial Parks and Special Economic Zones</u></i>	<i>7 Years</i>
<i>Industry, Mining & Services (Hospital & Hotels) in <u>Less Developed Areas</u></i>	<i>10 Years</i>
<i>Industry, Mining & Services (Hospital & Hotels) in <u>Less Developed Areas</u> located at <u>Industrial Parks and Special Economic Zones</u></i>	<i>13 Years</i>

<i>100% of Income derived from Agricultural Activities</i>	<i>Perpetual</i>
<i>100 % of Income derived from <u>Export</u> of Services ,Non-oil goods, Agricultural Products and 20% of Income derived from <u>Export</u> of Non – Processed goods</i>	<i>Perpetual</i>

- In companies with more than 50 employees, in case of increasing the employment volume up to 50% in comparison to last year, one-year exemption will be added to the duration of exemptions period (mentioned in above schedule).
- ***In the case that foreign companies with reliable Brand produce goods using production capacity of Iranian companies and export at least 20% of total production, can enjoy 50% on Tax Rate for the income derived from sales of products (it means total tax rate will be 12.5 % instead of 25%) after the end of above duration.***

Full article on tax exemptions (summarized in above schedule) is as follows:

Article 132, Direct Taxes Act:

The income declared for producing and mining activities, which is derived by non-government legal persons in producing or mining enterprises, for whom exploitation licenses are issued, or with whom extraction and sale contracts are concluded by relevant ministries as of the date of entry into force of the present act, as well as the income derived from services delivered by hospitals, hotels and touristy residential centers, namely, non-government legal persons, for whom exploitation licenses or permits are issued by relevant legal authorities as of the aforementioned date, shall be subject to a zero tax rate for a period of 5 years beginning from the date of exploitation or extraction or activity start up. As regards the less-developed regions, the provision shall apply to a period of 10 years.

B) As for producing or service-oriented enterprises and other centers mentioned in the present Article, if, during the period of exemption, they have more than 50 employees, the term of application of the aforementioned exemption shall increase, providing that they

raise the number of employees at least for 50% annually. Consequently, there will be an increase of one further year of tax exemption for each annual increase of at least 50% of their employees. The number of employees working in such enterprises, as well as the rate of increase in the number of employees shall be determined upon the confirmation of the Ministry of Cooperatives, Labor and Social Welfare based on documents relevant to the lists of employees' social security insurance. In case the minimum rate of increase in the number of employees is lowered down in the subsequent year for which the tax incentive prescribed in this Paragraph has been granted, then, the tax amount exempted for that particular year shall be claimed and collected. Cases of retirement, redemption or resign are not regarded as decrease.

E) In order to promote and increase the levels of economic investments in entities subject to the present Article, in addition to the protection period for zero-rate taxation, investments in less-developed regions and other regions shall also be supported in other ways as follows:

1) For less-developed regions:

In the computation of taxes relevant to the subsequent years following the zero-rate taxation period pursuant to provisions prescribed in the present Article, as long as the aggregate taxable income is twice the registered and paid-up capital, the zero rate shall still apply but beyond that level, the due taxes shall be computed and collected at the rates prescribed in Article (105) of this Act and the Notes under it.

2) For other regions:

In the computation of taxes relevant to the years following the zero-rate taxation period pursuant to provisions prescribed in the preamble of the present Article, 50% of the taxes shall still be zero rated and the remaining 50% shall be computed and collected at the rates prescribed in Article (105) of this Act and the Notes under it. This provision will persist unless the aggregate taxable income of the enterprise in question equals its registered and paid-up capital, but beyond that level, 100% of the due tax shall be computed at the rates prescribed in Article (105) of the present Act and the Notes under it.

I) Foreign companies that produce well-known brand products in Iran by exploiting capabilities of domestic producing enterprises, shall be subject to the provisions of the present Article as of the date of conclusion of their cooperation contract with the Iranian producing enterprise all throughout the zero-rate taxation period granted to that producing enterprise, provided that they manage to export at least 20% of their products. Moreover, after the expiry of the zero-rate taxation period, such foreign companies shall still be subject to the 50% relief in the tax rate with regard to the profits derived from the sale of their products during the period stipulated in this Article.

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

In order to:

- Facilitate and Promote Industrial and Mineral Investment in the Country
- Develop Non-oil Exports
- The Law on Fifth Five-Year Development Plan has stipulated the following tax exemptions:
 1. Article 159 – A: 15 Percent Increase in Tax Exemption Relevant to Article 138 of Direct Taxation Law
 2. Article 159 – B: Increasing Tax Exemption Period of Industrial and Mineral Units in the Less Developed Regions to the Same Level as the Exemption of Free Trade-Industrial Zones (from 10 years to 20 years)
 3. Article 104: Levying any Tax and Tolls on Non-oil Exports and Services During the Fifth Development Plan (except raw materials or commodities with low value-added)

Agreements to Avoid Double Taxation

To facilitate cooperation between Iranian nationals and foreign nationals and to boost trade and economic exchanges with foreign countries, the government of the Islamic Republic of Iran has signed mutual agreements to avoid double taxation: