

Branch Offices of Foreign Companies- Book-keeping, Payroll, VAT, Accounting and Tax Implications

The following guidelines are to provide a general over-view on accounting and taxation of branches of foreign companies in Iran.

If you require further explanations as to the details, please feel free to contact us.

Based on the current laws and regulations, foreign companies may set-up a branch in Iran, given there are reciprocal agreements between the Islamic Republic of Iran and their country of origin, for the following purposes:

- Presentation of after-sales-services in Iran
- Execution of contracts entered into with Iranian entities
- Study and preliminary investigations pertaining to investment in Iran by the foreign company.
- Co-operation with Iranian companies for work in third countries.
- Enhancing Iran non-oil exports
- Presentation of engineering and technical services and transfer of technology
- Presentation of services which require authorization of governmental agencies, eg, transportation, insurance, banking, marketing, inspection,.....

Book-keeping Implications:

As soon as branch of a foreign company is established, such branch is considered an accounting entity; by the law it is required to obtain a set of statutory books namely a general journal and a general ledger (in addition to other mechanisms or computerized programs required for its book-keeping and accounting system). Such statutory books must be signed, sealed and registered every year - and before the start of the fiscal year - at the Registrar Office.

Branch must reflect its daily transactions naturally in the said books in compliance with the relevant regulations.

Payrolls:

Payrolls prepared monthly must be presented to Social Security Organization and relevant salary tax bureaus; pertaining SSO premiums and salary taxes are to be paid duly. Expatriates salary taxes are calculated on deemed basis.

VAT:

Quarterly, Value-Added-Tax declarations must be submitted electronically constituting grounds for VAT credit/liability of the branch.

Financial Statements and Income Tax Return:

Annual financial statements of the branch are to be prepared based on Iranian accounting standards; audited by an accredited Certified Public Accounting firm on the same basis. The branch's tax return must prepared every year and submitted to the branch tax district within four months after fiscal year end. Fiscal year of the branch is normally the same as the foreign company's (head-office or parent) fiscal year; if not defined and not reflected duly in its charter, then, the Iranian calendar year, i.e, March 20th automatically becomes its end of fiscal year.

Taxation Implications:

Basically, "branches of foreign companies and banks in Iran that are engaged in gathering information or marketing for their parent entities, without having the right to make transactions and receive remuneration from them against their expenses, shall not be subject to income tax in respect of such remunerations" .

However other activities including and not limited to after-sales-services by the same branches, contract works, construction, engineering, technical training and assistance, granting licenses, fees, etc. *are all subject to income tax* Taxable income of such activities are assessed based on their statutory books or at instances, on deemed basis. As a matter of fact, taxation of branches of foreign companies - as almost everywhere else in the world - may be quite complicated, controversial and difficult considering transfer pricing issues, ambiguities as to where income is generated, lack of documentation or verifiability of certain documents, etc.; while cross-checks are not possible by tax authorities and considering that different interpretation of the texts of contracts, laws, etc are always possible.

In-the-mean-time, burden of submission of tax returns and payment of taxes of the taxpayers residing abroad (and thus its record keeping) is also on their representative in Iran.