## *1. JURISDICTION*

***Individuals and companies in Iran are taxed based on the Direct Taxation Act. of 1988.***

***NOTE***

***A new amendment to the above has been recently ratified which will go into effect from the start of this Iranian calendar year (i.e. starting March 21, 2016). Revisions are pending upon certain by-laws, etc. which have not yet been partly finalized.***

***Based on this act and its by-laws and other regulations, all individuals, corporate bodies and legal entities are taxed on the income they earn in Iran. Certain governmental organizations, organizations funded by the government through the country's annual budget, and municipalities are not subject to direct taxation. A corporation's taxable income (in cases where no other procedures are foreseen in the DTA for the assessment) is to be calculated on the basis of its tax return, revenues, expenses, actual profitability and relevant regulations. In cases where no tax return is presented by a tax-payer within the deadline foreseen in the regulations, the State Taxation Organization shall assess the tax-payer's taxable income on the basis of its "activities" and information provided through the "Comprehensive Taxation System".***

## *2. MAJOR TAXES ON CORPORATIONS*

***Corporations, as well as other legal entities are basically taxed on income earned from profit-making activities from various sources in Iran or from abroad.***

## *3.ORGANIZATIONS TAXABLE AS CORPORATION*

***In addition to corporations, other forms of legal entities are also taxable on the bases of the DTA. These include governmental companies, public or private companies, limited liability companies as well as branches of foreign companies.***

## *4.TAXABLE INCOME OF RESIDENT CORPORATIONS*

*- Taxable income of a resident corporation is determined on the bases of its tax return, statutory books and its actual profitability (revenues less acceptable expenses including deprecation as defined in the DTA) after deduction of exemptions and losses from non-exempted sources.*

*Note: Based on the amended code, the State Taxation Organization can accept the tax-payer's tax returns at face value and as presented; however, may select some on random basis (or criteria and indications prescribed) for further investigation.*

*- Except for instances where other tax rates are foreseen in the Act, the taxable income, thus determined, is taxed at a flat rate of %25.*

*- Depreciation of fixed assets is an acceptable expense in determination of taxable income. Depreciation methods and rates are prescribed in the by-laws to the DTA.*
*Usually, companies use the same for their financial reporting purposes.*

*- A fixed tax of 0.5 per cent of sales value is levied on all security transactions in the organized stock exchanges. No other taxes are claimed on the sale of such securities.*
*For other companies, there is a flat tax, equivalent to 4 percent of the nominal or par value of shares transferred, regardless of the actual capital gain or loss.*

*- There are no loss-carry-backs. However, losses, if accepted by tax authorities based on the statutory books and in accordance with the relevant regulations, could be deducted from taxable income of subsequent periods.*

## *5. TAXATION OF NON-RESIDENT CORPORATIONS*
*Basically, foreign legal entities, as well as organizations residing outside Iran, are taxed on the income they earn in Iran. Various sources of income of foreign entities from Iran as specified in the DAT are:*

*- For preparation of buildings and installations plans, surveying, technical drawings, technical supervision and*

*calculations, provision of technical training and assistance, other services, transfer of technical know-how, rights and concessions as well as movies (except for cases where taxed differently based on the law), taxable income shall be 10 percent to 40 percent of the receipts depending on the type of activity and its profitability and based on the relevant executive by-laws. Payers of the above are to withhold the relevant tax duly and reimburse it to the taxation bureau; otherwise, shall be jointly liable for payment of such taxes and penalties thereto.*

*- For "exploitation" of capital and other business activities carried-out by branches or liaison offices, taxable income is calculated on the basis of their actual profitability, tax returns, revenues and expenses.*

*- Branches of foreign banks and companies who are active in Iran in such fields as marketing and collection of information and have no right to take part in any transactions, are not taxed on what they receive from the parent company against their expenses in Iran.*

*- For construction contracts, the portion of contract value used for purchase of material and installations, is exempt from payment of taxes (up to the value realized by the customs, given such items are separately specified in the contract).*

*- Foreign insurance companies which re-insure policies issued by Iranian insurance companies are subject to a 2 per cent tax on the premium. This must be withheld by the relevant Iranian insurance company.*

*- Tax of foreign shipping companies, airlines and other carriers is 5 percent of their receipts. Their branches or representative offices are responsible for provision of list of such receipts and payment of tax.*

## 6. LIQUIDATIONS

*Bases for calculation of a legal entity's taxable income in its last period of operation is the current value of its assets less its liabilities, capital and such reserves or retained earnings on which taxes were previously paid. The last directors are* *to declare the assets and liabilities of a liquidating entity in accordance with the relevant regulations.*

## *7. REORGANIZATIONS*

*In case of companies formed as a result of mergers or consolidations of other entities, transfer of the assets of the merging entities are not taxed, given such transfer is made at book value. The merged entities are not subject to the tax regulations pertaining to liquidation. Depreciation of the assets transferred must be continued on the previous methods and rates. The shareholders of merging entities are subject to tax on any income they realize as a result of the merger or consolidation.*

## *8. TAXATION OF SHAREHOLDERS*

*No additional taxes are imposed on shareholders for dividends received. Taxes paid by the investee company is final. Usually, the investors record dividend received at the net amount and deduct it in calculation of taxable income as "exemptions".*

## *9. RETURNS*

*Tax year is one solar year in accordance with the Iranian calendar (starting March 21) or based on the articles of incorporation of a company. All companies must submit their tax returns (tax declaration forms) within four months after each fiscal year-end to the relevant tax bureau and pay their self-assessed taxes. The taxation authorities should investigate the tax returns, thus submitted, within the relevant deadlines and with due attention to the investigation procedures. Tax assessment notice must be issued by the tax district within one year after the deadline for submission of the tax return. Any taxes in addition to the self-assessed tax is thus assessed and claimed. Protests are possible within deadlines with due attention to other regulations.*

## *10. INVESTMENT INCENTIVES*

***Self-assessed taxable income of manufacturing or mining activities for which "exploitation license" is issued by the relevant authority is exempt from 80% to 100% of taxes for a period of ten years (depending on the location).***

## *11. OTHER SIGNIFICANT TAXES*

***At the present time, there is Value Added Tax, which has a different law and environment. Social security is not a tax; rather, it is an insurance premium. Employers share of the premium is 23 per cent while employees share is 7 per cent of the salary or wage.***

## *12. TAX TREATIES AND WITHHOLDING TAXES*

***- There are withholding taxes on salaries and wages based on the relevant rates. Rental payments by companies are also subject to withholding tax. Such withholding taxes constitute on-account payment of the lessor's taxes.***

***- There are taxation treaties with certain foreign governments to avoid double taxation. Scope of such treaties may differ.***

## *13. CORPORATE TAX CALCULATIONS*

***The following is a simple chart for determination of taxable income in cases where books of accounts and tax return of a taxpayer are accepted and certain expenses are not, acceptable***

| | **Rls.** |
|---|---|
| Self-assessed net income | ××× |
| Add: Self-assessed exemptions | ×× |
| | ××× |
| Add: Expenses not acceptable for tax calculations | ×× |
| | ××× |
| Less: Other deductions | (××) |
| Taxable income | ×× |
| Taxes (25% × Taxable income) | ×× |