Guide on Iranian Taxation System for Foreign Investors

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 2001 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 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 income tax
- Agricultural income tax
- Salary income tax
- 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 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)

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.

Highlights of Tax Holidays

Activity	Level of Exemption	Duration of Exemption
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

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)

Value-Added Tax Act (VATA) in Iran

The Value-Added Tax Act (VATA) was ratified by the Parliament in 2007.

Value-added tax (VAT) in Iran is levied on the sale of all goods and services and their imports, except 17 items listed in Article 12 of VATA as the exempted ones. VATA, however, does not include the export of goods and services through official Customs gates. Therefore, the taxes paid for the export of goods and services will be refundable by submitting the Customs clearance sheets (for goods) and valid documents (Article 13).

Currently, the VAT rate stands at 4% (VAT rate for two special goods of cigarettes and jet fuel is relatively high).

To reduce the country's dependency on oil incomes, the Law on Fifth Five-Year Development Plan has anticipated an annual one-percent increase in the VAT rate to put it at 8% in the end of the plan (year 2016).

Economic activities in free trade and industrial zones are exempted from value-added tax.

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:

List of Countries Signing the Agreement to Avoid Double Taxation with Iran (November 2011)

Azerbaijan Republic	Algiers	Turkmenistan	France
South Africa	Indonesia	Turkey	Kyrgyzstan
Germany	Ukraine	Tunisia	Kazakhstan
Austria	Bahrain	China	Qatar
Jordan	Belorussia	Russia	Georgia
Armenia	Bulgaria	Sri Lanka	Lebanon
Uzbekistan	Venezuela	Switzerland	Poland
Spain	Pakistan	Syria	Kuwait

Tax Exemptions for Legal Persons in Iran

	Exemption	Name of Act and Number of Article stipulating the exemption	Persons Enjoying the Exemption
1	The level of tax exemption of industrial and mining units located in the less developed regions is increased to level of tax exemption stipulated for the free trade and industrial zones (i.e. 100% exemption for a duration of 20 years)	Clause B of article 159 of the 5th Five-Year Development Plan Act	Legal Persons Engaged in Manufacturing or Mining activities in less developed regions
2	Natural and legal persons engaged in any kind of economic activity in a Free Zone are exempt from payment of income and property tax subject to Direct Taxes Act as for a duration of 20 years from the date of the commencement of the operation mentioned in the permit with respect to any type of economic activity in the Free Zone.	Article 13 of Law on the Administration of Free Trade-Industrial Zones (ratified in 1993) and its Amendment (2009)	Legal and Natural Persons Engaged in any Kind of Economic Activity in FreeZones
3	The income incurring from exports of non-oil commodities (except that of raw materials or goods with low level of value-added) and services are exempted from tax payment during the Fifth Five-Year Development Plan (until 2016).	Clause B of Article 104 of the 5th Five-Year Development Plan Act	All legal Persons
4	Income earned from all activities of agriculture, animal rearing, pisciculture, apiculture, poultry husbandry, hunting and fishing, sericulture, pastures restoration, reforestation, horticulture are free of income tax.	Article 81 of Direct Taxes Act	All Legal Persons Engaged in Agricultural activities
5	For the branches and agencies of foreign banks and companies in Iran conducting marketing and market research for the head office without being authorized for doing business, the repayments of their expenses received from their head office, are free of income tax.	Note 3 of article 107 of Direct Taxes Act	Agencies of foreign banks and companies
6	Those reservations for which tax has not been paid till due date of this amendment, in case transferred to capital accounts are free of tax.	Article 108 of Direct Taxes Act	All legal persons
7	Transferring assets between merged companies is free of tax, on a case by case base and according to the book value of the assets.	Clause B of article 111 of Direct Taxes Act	Merged companies
8	The section on income tax stipulated in the Direct Taxes Act is not applied to the operation of companies merged or integrated into a new company or into the existing company.	Clause C of article 111 of Direct Taxes Act	Merged or integrated companies
9	Declared taxable income earned from manufacturing or mining activities in co-operative and private sectors with exploitation license or extraction and sale contract granted since year 2002 from respective authorities are %80 free of tax referred to in article 105 of Direct Taxes Act for a term of 4 years since the beginning of their operation or extraction.	Article 132 of Direct Taxes Act	All Legal Persons Engaged in Manufacturing or Mining activities
10	All travelling and tourism institutions licensed by Ministry of Culture and Islamic Guidance enjoy %50 tax exemption every year.	Note 3 of article 132 of Direct Taxes Act	All Legal Persons Engaged in Tourism activities
11	Income earned from education of private elementary, middle and high school, vocational, universities and higher education institutes and income earned from caring for disabled in nursing facilities that are licensed under relevant authority and income earned solely from sport activities of sporting clubs under license of sporting organization, are exempted from income tax.	Article 134 of Direct Taxes Act	Education centers, nursing homes, sporting clubs
12	That part of profit of co-operative and private companies which are spent for developing or renovation of industrial and mining units or creating new units with license from the relevant Ministry is %50 exempted from tax subject of article 105 of Direct Taxes Act in the same year. In case the expense of these projects is more than profit of the same year, company can claim this exemption in the next three years.	Article 138 of Direct Taxes Act	Co-operative and private companies
13	All publishing, press, cultural and artistic activities licensed by Ministry of Culture and Islamic Guidance are exempted from income tax.	Clause L of article 139 of Direct Taxes Act	Publishing, press, cultural and artistic activities
14	Handmade carpets and crafts workshops and their respective co-operative companies and unions are exempted from income tax.	Article 142 of Direct Taxes Act	Manufacturing Co-operative and crafts union
15	Exemptions stipulated in Note 2 of article 132 of Direct Taxes Act are extended to production units of IT industry.	Clause A of article 6 of the Act for amendment of article 113 of the 3rd development plan Law	Legal persons Engaged in IT industry
16	When companies or enterprises are merged to form bigger companies, the following measures are permitted:Merging of commercial companies referred to in chapter 3 of commercial law with approval of fourth fifth of stock holders or capital owners, as far as it doesn't create monopoly, is permitted. Capital of this newly created company is exempted from tax stipulated in article 48 of Direct Taxes Act and its amendment up to total capital of merged companies.	Clause A of article 40 of 4th Development Plan	Companies and enterprises
17	For the purpose of spreading science and developing international collaborations, research, technology and engineering institutes located in science and tech parks can enjoy same exemptions of free trade zones.	Article 47 of 4th Development Plan	Legal persons and research institutes and tech companies