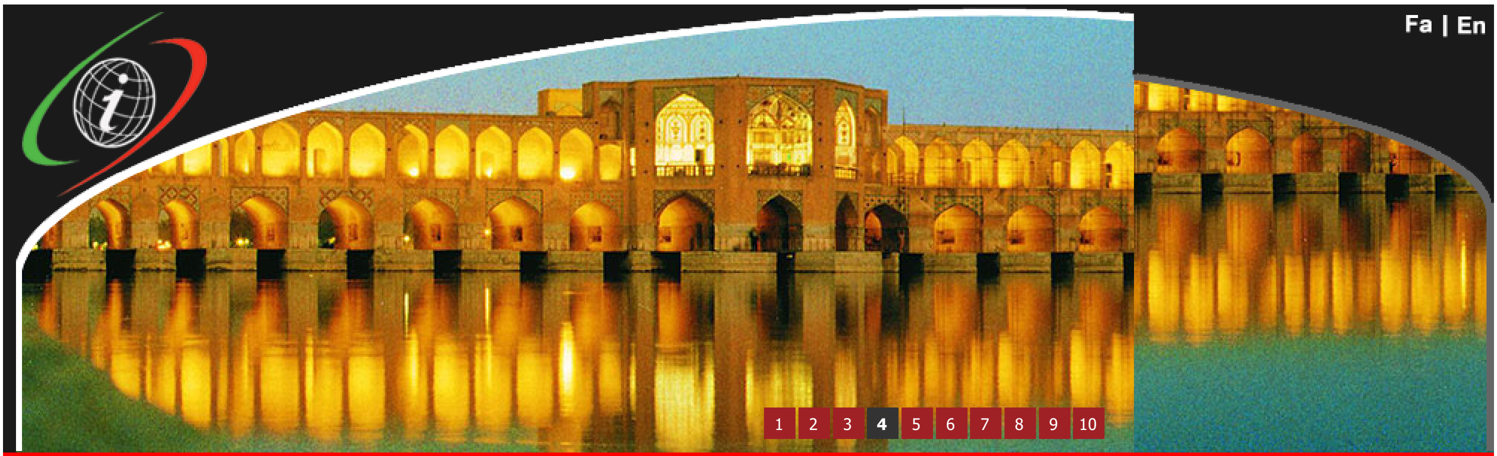

A Review of the Iranian Tax System

2. Taxation from foreign investors in Iran
Direct Taxes
All non-Iranian real or legal entities for the income earned in Iran and also for the income gained through granting of license or other rights, technical and educational assistance or movie contracts in the territory of Iran are subject to taxation. Depending on the type of activity of the foreign investor, various taxes and exemptions are applicable, including profit tax, income tax, property tax, etc.
Foreign investors in Iran enjoy the same supports and privileges that are offered to the Iranian 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.
Since foreign investments are usually active as legal entities, we will hereunder focus on rules and regulations for Corporate Income Tax.

Corporate Income Tax
a) General Issues
Foreign legal entities residing abroad shall be taxed at the flat rate of 25% in respect of the aggregate taxable income derived from the operation of their investment in Iran or from the activities performed by them, directly or through the agencies in Iran.
The legal entities shall not be subject to any other taxes on the dividends or partnership profits they may receive from the capital recipient companies.
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 the tax year (March 21 each year until March 20 next year) along with the list of partners and shareholders, their shares and addresses to the tax department within the area of the activity of the legal entity. If these legal entities do not submit the documents within the stipulated time span, the tax exemption will be null and void

b) Exemptions
The Direct Taxation Law and other pertinent legislations have considered certain exemptions for the legal entities as table (3):

Table (3): Highlights of Tax Exemptions

Activity	Level of Tax Exemption	Duration of Exemption	Legal Basis (Act- Article)	Incentive Type
Agriculture	100%	Perpetual	IDTA- Article 81	Permanent Exemption
Industry and Mining	80%	4 Years	IDTA- Article 132	Tax Holiday
Industry and Mining in Less-Developed Areas	100%	20 Years	IDTA- Article 132; Paragraph B of Article 159 of the 5thYear Development Plan	Tax Holiday
Tourism	50%	Perpetual	IDTA- Article 132- Note 3	Tax Credit
Export of Services & Non-oil Goods	100%	During 5th Development Plan	IDTA- Article 141	Tax Holiday
Handicrafts	100%	Perpetual	IDTA- Article 142	Permanent Exemption
Educational & Sport Services	100%	Perpetual	IDTA- Article 134	Permanent Exemption
Cultural Activities	100%	Perpetual	IDTA- Article 139- Paragraph L	Permanent Exemption
Salary in Less-Developed Areas	50%	Perpetual	IDTA- Article 92	Tax Credit
All Economic Activities in Free Zones	100%	20 Years	Article 13- the Free Zones Act	Tax Holiday
Profits of Private and Cooperative Companies used for development, reconstruction and renovation of existing industrial and mining units	50%	Perpetual	Paragraph A of Article 159 of the 5th Development Plan, 15% was added to the exemption as of 2010	Tax Credit

c) Deductions
Expenses which are deductible in the assessment of taxable income are listed in the Direct Taxes Act. These expenditures must be supported to a reasonable degree by documentary evidence and are exclusively connected with the earning of income during the year in question.
The categories of deductible expenditure are as follows:

Table (4): Deductible Expenses

The cost of goods and raw materials	Expenses incurred in the maintenance and upkeep of the premises owned by the enterprise
Personnel costs	**Transportation expenses**
Rental of enterprise's premises in case of being rented	Expenses related to transportation and entertainment for employees, and warehousing costs
Rent of machinery and equipment	**Fees paid in proportion to the services rendered**
Costs of fuel, electricity, lighting, water and communication	Interest and fees paid for the carrying out of the enterprise operation
Business insurance	**Cost of repair and maintenance of machineries and business equipments**
Royalties, duties, rights and taxes paid	Abortive exploration expenditures for deemed mines
Research, development and training expenditure	**Membership and subscription fees connected with the business operations**
Compensation paid for damages resulted from the business operations	Bad debts, if proved
Cultural, sports and welfare expenditures paid to the Ministry of Labour and Social Affairs in respect of workers	**Currency exchange losses computed in accordance with accepted accountancy practice**
Reserves against doubtful claims	Normal wastage of production
Losses of legal persons	**The reserve related to acceptable expenses of the assessment period**
Minor expenses incurred in connection with the rented premises of the enterprise	Expenses for purchasing of books and other cultural and art goods for employees and their dependents

Other expenses that are not referred to in the above Table, but are related to the earning of the enterprise's income, shall be accepted as deductible expenses on basis of the proposal of the INTA and approval of Ministry of Economic Affairs and Finance.

d) Losses
Losses sustained by all taxpayers engaged in trading and other activities are accepted by the tax authorities; will be carried forward and written off against future profits for a period of three years.

e) Withholding taxes
● Five percent of every contract payment may be withheld by the payer and accounted for to tax authorities. Such a withheld tax constitutes an advance payment of the final tax due.
● The payers of salaries are obliged, when paying or allocating the same, to compete and withhold therefrom the applicable taxes and to remit, within thirty days, the deducted amounts together with a list containing the names and addresses of recipients and the amount of the payments, to the local tax assessment office.

f) Depreciation
Depreciation of assets is deductible in the assessment of taxable income. Depreciation rates range from 5% to 100% and the period over which assets may be depreciated ranges from 2 to 15 years.