

Introduction:

A company is resident in Iran if it's established under the Iranian Commercial Code, or if it is managed from Iran. For tax purposes, the Iranian calendar year, starting 21 March and ending 20 March of the following year is generally used, but a company or branch may use its own accounting year if different. Tax filings in Iran are based on a company's fiscal year.

All Iranian entities and branches of foreign companies must file an annual corporate income tax return and submit their balance sheet and 'profit and loss' account within 4 months of the end of the fiscal year.

Iran has no rules on tax on transactions between connected companies and there are no specific rules about capital gains tax.

Tax registration in Iran

Companies must register with the State Tax Organisation and Social Insurance Organisation for:

- corporate income taxes
- customs related tariffs
- social taxes and employment-related taxes (it is overallly 30% : 7 % employee portion -23% employer portion)

You must have an economic code (similar to a tax identification code) to operate in Iran. This is either a commercial code for companies registered in Iran or a comprehensive commercial code for foreign companies. This comprehensive commercial code is needed for these companies to let Iranian customers pay them. Any payment made to a supplier without an economic code will be added back to the profit and loss account of the Iranian entity and no tax deduction will be allowed for the expense. It's expected that foreign investors will receive tax breaks under Iran's sixth 5-year development plan (2016 to 2021).

Value Added Tax (VAT) in Iran

The standard VAT rate in Iran is 9%. VAT rates applied to special goods are:

- 15% on cigarettes and tobacco products
- 30% on gasoline and aircraft fuels
- 11% on fuel oil

17 types of goods and services are VAT exempt including basic food, medicines, agricultural products, financial services, immovable property and handmade carpets.

Corporate tax rate in Iran

The corporate tax rate is 25% and applies to both resident and foreign entities (except insurance enterprises and non-Iranian airline and shipping companies). Resident entities are assessed on an actual profits basis. Non-resident entities are taxed on a deemed profits basis of 10% to 40%. This means the effective tax rate is 2.5% to 10%).

Withholding taxes in Iran

There is no withholding tax on dividends paid by Iranian companies. Interest paid to a non-resident is subject to a 3% withholding tax. Royalties paid to a non-resident are subject to corporate tax on a deemed profits basis of 10% to 40%. Iran's most recent budget removed Iran's withholding tax on services.

Income tax in Iran

Income tax is levied at progressive rates up to 20%. The rates for the fiscal year to 20 March 2016 were:

- 0% up to IRR 138 million
- 10% on income between IRR 138 million and IRR 966 million
- 20% on income over IRR 966 million

Income tax is levied on salaries, allowances and all types of remuneration. Non-Iranian nationals are subject to Iranian tax on any income earned in Iran.