Tax

Overview of Iranian taxation and key changes
Iran - Tax
Overview of Iranian taxation and key changes

Business entities

• Foreign companies carrying out operations in Iran are required to establish a local presence under local laws/regulations

• The principal business entities for foreign businesses operating in Iran are public/private joint stock companies (3 shareholders; IRR 1m share capital; 35% paid-up), LLC (2 shareholders), and branches of a foreign company

• A representative office / branch performing marketing activities and promotional activities (without entering into transactions) is not subject to income tax

• No withholding (branch remittance) tax on cash repatriation; however, banking channels are in its infancy and cash can be trapped

• In principle no foreign ownership restrictions; investments into Iran to be supported by double taxation and bilateral investment treaties (e.g. access to non-Iranian arbitration)
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**Residence**

- A business entity is deemed to be resident in Iran if it is registered in Iran or if it is managed and controlled in Iran
- No explicit PE concept, but local set-up is required in practice to meet compliance requirements if work is performed on the ground (work permits, employer’s payroll obligations etc.)

**Territorial coverage**

- Resident companies are taxed on their worldwide income. Foreign sourced income is taxed in the same manner as income derived from Iranian sources
- Non-resident companies (e.g. branches and representative offices) are taxed on income derived from their contracts signed inside or outside Iran for work performed in Iran on a deemed profit basis at source (under the withholding tax regime); local registration/filing requirement if works are performed in Iran
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**Corporate income tax**

- The headline corporate income tax rate in Iran is currently a flat rate of 25%. All companies are subject to the same corporate tax rate, regardless of the nationality of the company (i.e. foreign or Iranian).

- Return to be filed on an annual basis within 4 months after the tax year (21 March – 20 March; can be changed)

- 4% share transfer tax / 5% real estate transfer tax

**VAT / Customs duties**

- The overall VAT rate as of March 21, 2015 is 9% (quarterly filings within 15 days; periods are fixed)

- 5% – 55% import duties (higher rates for category 10/luxury goods; list of prohibited goods)
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**Withholding tax ("WHT") – taxation of non-residents**

- Non-residents deriving income from Iran are taxed on a deemed profit basis at source according to Art. 107 DTA
- The withholding tax regime was recently changed (previously: 3% on payments to non-residents)
- According to the Executive Bylaw, the deemed profit is determined on the basis of 10% to 30% on the total annual receipts, resulting in effective tax rates of 2.5%-7.5% (depending on the nature of the income and other factors)
- The Executive Bylaw provides that income derived from “Other Services” is subject to 7.5% WHT (even if performed remotely from offshore) and operates as an default category/umbrella clause catching all services not specifically defined
- As a result, in principle any service related payments to non-residents are subject to tax
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**Withholding tax ("WHT")**

- Dividends – 0%
- Interest – 5%
- Royalties – 5%/7.5%
- Payments for construction related services – 5%
- Payments for hydrocarbon related services – 3.75%
- Other services – 7.5% (default rate)

- The payer is required to withhold the applicable tax from each payment made to the non-resident and remit the tax to the tax authorities within 30 days (joint liability of the recipient)
Employment tax and social security

- Income taxes are levied at progressive rates between 0%~20%
- 30% social security contributions (subject to a cap) (23% employer share; 7% employee share) / arbitrary assessment on the contract value of work performed in Iran at a rate of as high as 16.67%
- In practice, the contractor will be liable to pay the higher social security amount based on a) actual contributions or b) arbitrary assessment
- In addition, payments to contractors are subject to 5% social security retention/withholding on the contract payments (to be released upon issuance of social security clearance certificate)
- Social security exemption for expats (under social security treaty or coverage certificate)
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Offshore

Company A

Payment of service fee
Provision of technical services

Company B (Iran customer)

• Qualification of services for WHT purposes – by default “other services”
• Company B likely to deduct 7.5% withholding tax on payment made to Company A
• If works are performed on the ground:
  o Company A will be subject to local tax registration/income declaration
  o Company A will be subject to social security assessment on an arbitrary basis at 16.67% on the contract value of work performed in Iran
  o In addition, Company B may withhold 5% social security withholding/retention
• Company B has to account for 9% VAT on the imported services
• Robust contractual provisions/gross up clause and/or appropriate pricing required
Tax (cont’d)

Tax incentives and benefits for foreign investors
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Tax incentives and benefits for foreign investors

**Tax incentives**

- Different types of locations for economic activities: Mainland vs free zones (free zones are excluded from the domestic customs territory and offer various other exemptions)

- For activities in mainland, the key tax incentive scheme is set out in Art. 132 DTA
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Tax incentives and benefits for foreign investors

<table>
<thead>
<tr>
<th>Location</th>
<th>Industry/Activity</th>
<th>Level of exemption</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside of a 120-km radius from the center of Tehran Province or outside a 50-km radius from the center of Isfahan and outside a 30-km radius from other cities with a population exceeding 300,000</td>
<td>Industry, mining &amp; services (hospitals &amp; hotels)</td>
<td>100% (+ 50% on income generated after the tax holiday elapsed up to the amount of the registered capital)</td>
<td>5 Years</td>
</tr>
<tr>
<td>Less developed areas</td>
<td>Industry, mining &amp; services (hospitals &amp; hotels)</td>
<td>100% (+ 100% on income generated after the tax holiday elapsed up to twice the amount of the registered capital)</td>
<td>10 Years (may be extended by 3 years)</td>
</tr>
</tbody>
</table>
Key requirements

• Qualifying activities – focus on industrial and production as well as service related activities (hospitality and medical care)

• Required operational licenses from the competent authority – most important is the operations license/permit granted by the Ministry of Industries

• Geographical location – distance from major cities is vital for tax holiday eligibility

Process and challenges

• Lack of a standardized process
  – No central competent authority and no standardized documentation requirements
  – Process can take between 1-6 months

• High degree of discretion and subjectivity in the decision making process involved

• Remoteness of the location
Trade free zones - companies that are registered and licensed to operate in any of the free-zones below are exempt from corporate tax for 20 years on income derived from their activity in the free trade zone:

- Kish Island
- Qeshm Island
- Chabahar
- Aras
- Anzali
- Arvand
- Maku
Tax (cont’d)
Iran inbound investment structuring
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Iran inbound investment structuring

Offshore

Company A

Dividends, interest

Iran

Company B

• 0.05% stamp duty on the issuance of shares (in cash or in kind)
• No dividend WHT; 5% interest withholding tax (cross-border lending subject to regulatory restrictions)
• Interest payments on intercompany non-bank loans are not deductible
• Transfer of unlisted shares is subject to 4% transfer tax
• General considerations
  • Tax treaty considerations – investment through an intermediate holding company
  • Investment protection
  • Political and economic relations
  • Access to banking facilities
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Iran inbound investment structuring

**Double taxation treaties** - the countries which signed agreements for the avoidance of double taxation with Iran are:

- Algeria, Armenia, Austria, Azerbaijan, Bahrain, Belarus, Bulgaria, China, Croatia, France, Georgia, Germany, Indonesia, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Macedonia, Malaysia, Oman, Pakistan, Poland, Qatar, Romania, Russia, Serbia, Slovenia, South Africa, Spain, Sri Lanka, South Korea, Sudan, Switzerland, Syria, Tajikistan, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan and Venezuela
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