

# **The Direct Taxation Act**

## **Articles Corresponding to the Legal Entities**

### Chapter 5: Tax on Income Earned by Legal Entities

Article 105: The aggregate income earned by companies, and the income earned from various sources in Iran or abroad, through profit making activities by other juridical entities shall, after levying the damages resulting from non-exempt sources and after having deducted tile exemptions as prescribed, excluding the cases subject to different rates under the provisions made in the present Act, be liable to 25% tax rate.

Note 1: Concerning non-commercial Iranian juridical entities which have not been established for earning profit, in case they shall render profit-yielding activities, the total taxable income earned by same through profit-yielding activities shall be liable to taxation as per the rates laid down in Article 105.

Note 2: As for foreign juridical entities and the entities domiciled outside Iran, excluding the ones liable under Note 5 of Article 109 and Article 113 of the present Act, tax liability shall be at the rates mentioned in the present Article 105 and on the basis of the total amount of taxable income earned by (hem in Iran and arising from use of their capital or the activities carried out directly by them or through their agencies such as branch offices, representatives; agents and the like, or on such incomes as they earn in Iran through the assignment of their concessions, turning over of their rights, transfer of technical know-how, or providing technical training or assistance and concession of Iranian movie films.

Note 3: On the date when the income tax of juridical entities, including both Iranian and foreign, shall be assessed, the taxes paid prior to the date of assessment by the juridical entity shall be deducted from the amount of applicable tax in conformity with the relevant provisions, and the excess payment, if any, shall be reimbursed.

Note 4: The natural persons and legal entities shall not be liable to any other taxes in respect of the dividend or the contribution they may collect from the companies requesting investment.

Note 5: In cases where, in conformity with the approved laws and regulations, certain sums, under any title or name, except the income tax, shall be collectible out of the taxable income of natural persons or legal entities. Tax liability of such persons or entities shall be calculated at the rates set forth, after having deducted such sums, if any.

Article 106: The taxable income of legal entities shall be assessed by verifying their statutory accounts books, in conformity with the provisions made in Article 94 and Clause (a) of Article 95 hereof, except for any income which may be assessed in a different manner according to the regulations of the present Act. In cases described under Article 97 of the present Act, assessment shall be carried out on arbitrary basis.

Article 107: The taxable income of foreign legal entities and the institutes domiciled outside Iran shall be assessed in the following manner:

a. Concerning the contracts in Iran, in proportion to the operations of any construction works, technical establishments including supply, erection and installation as well as transportation and the operations relevant to preparation of the design of buildings and various establishments, topography, cartography, supervision, technical calculations, providing training and giving technical assistance, transfer of technical know-how as well as other services, 12% tax rate shall apply to the total amount collected annually.

b. As for the transfer of rights, assignment of concessions arising from Iran and the concession of movie films, the income which shall be earned by them as the price or royalty or any other title whatsoever, a tax rate ranging between 20% to 40% shall apply to the aggregate of the sums earned by them during one fiscal year. The coefficient for determination of taxable income applicable to each and every one of the cases mentioned in the present Clause (b) shall be proposed by the Ministry of Economy and Finance and shall subsequently be approved by the Council of Ministers.

Tile entities bound to pay the sums mentioned above as well as the ones which shall pay the sums described in Clause (a) of the above Article 107 shall be required to deduct and withhold, from any payment they shall make, the tax applicable to the sums they have paid as of the beginning of the year up to the date they shall effect a new payment, and shall pay, within ten (10) days, such withheld amounts to the Taxation Affairs Administration of their place of residence. Otherwise, the ones collecting such sums shall collectively be liable to pay the original tax as well as any other sum applicable thereto.

c. Concerning the exploitation and utilization of the capital as well as other activities which shall be rendered in Iran by the said legal entities and institutes, through their branch offices, representatives, agents and the like the provisions laid down in Article 106 of the present Act shall apply.

Note 1: In cases where the operations of the contracts mentioned in Clauses (a) and (b) of Article 107 above shall be assigned, either totally or partially, to Iranian legal entities acting as contractors, on payment of any sums by such entities to Iranian contractors, an amount equal to 2.5% shall be deducted and withheld as "Tax on Account", and shall be deposited, within thirty (30) days after the date of payment, in an account to be specified and determined by the State Taxation Affairs Organization.

Note 2: In the case of contracts mentioned in Clause (a) of Article 107, if the employer shall be included among the ministries, government Institutes and companies or the municipalities, the portion of the Contract price which shall be allocated for the purchase of equipment and accessories through local or international procurements, shall be tax exempt, provided that the sums allocated to the supply of equipment and accessories shall separately be

cited and recorded in the contract or in the amendments or addenda made subsequently thereto.

Note 3: The branches and representative offices of foreign companies and banks in Iran which shall proceed to render activities for marketing and gathering of economic data and information in Iran for the holding company, without having the right to enter into a transaction in Iran, and which shall collect amounts from the holding company in order to meet the expenses and its financial requirements, shall not be liable to income tax.

Note 4: In cases where foreign contractors shall assign, either totally or partially, to Iranian legal entities acting as sub-contractors, the contracts mentioned in Clause (a) of Article 107, equal to the amount which is allocated in the original contract for the supply of equipment and accessories, and which shall be expended by the sub-contractor for the procurement of equipment and accessories, shall be exempt from payment of income tax due by the original contractor.

Note 5: The taxable income of the activities mentioned in Clause (a) of Article 107 of the present Act, the contracts concerning which shall be concluded as of the beginning of Iranian year 1382 (March 21,2003), shall be assessed in conformity with the provisions made in Article 106 of the present Act. Accordingly, the provisions made in the present Note 5 shall not apply to the activities which shall be rendered in connection with the contracts concluded before the beginning of Iranian year 1382 (March 21,2003).

Article 108: In the case of reserves on which tax has not been paid before the date on which the present amendment shall take effect, If they shall be divided or transferred to capital, such reserves shall not be liable to taxation. However, if such reserves shall be divided or transferred to profit/loss account, or if the capital shall be reduced by the amount of the reserve added to the capital account, they shall be added to the taxable income of the year in which such reserves were divided or transferred or in which the capital was reduced. This provision shall not apply to the reserves of profits derived from tax-free activities of the institutes during the exemption periods, and the reserves mentioned in Article 138 of the Direct Taxation Act as amended, approved in February 21, 1988 up to the date of approval and ratification of the present amendment, after the relevant requirements prevailing up to the said date shall be established.

In the case of reserves on which the applicable taxes have already been collected before the date of indispensability of the present amendment, if such reserves shall be divided or transferred to profit/loss or capital accounts, or if the institute shall be dissolved, they shall not be liable to any other taxation.

Article 109: Taxable income of Iranian insurance institutions shall comprise as follows:

1. Technical reserve funds at the end of the preceding fiscal year.
2. Premiums received on direct insurance after deducting therefrom the rebates.
3. Premiums of the collected re-insurance policies after deducting therefrom the rebates.
4. Commissions and shares of profit in the assigned re-insurance transactions.
5. Profit accruing on the deposits of the re-insurer kept by the assignor insurer.
6. The shares of profit of the re-insurers on account of indemnity paid on account of any policies other than life-insurance and redemption capitals and stipends of life insurance.
7. Other incomes.

After deducting therefrom:

1. Stamp duty paid for the policies.
2. Medical expenses incurred for life insurance.
3. Commissions paid for direct insurance transactions.
4. Premiums paid for the assigned re-insurance policies.
5. Contribution paid to the Physical Injury Compensation Fund out of the premiums received on the compulsory insurance covering the civil liability of the land motor vehicles against third party.
6. Amount paid on account of redemption, capital and stipend of life insurance and indemnity paid on account of policies other than life insurance.
7. Shares of the participation of the insured in profits.
8. Commissions and profit sharing of the insurers in the profits of the accepted re-insurance policies.
9. Interest accruing on the deposits of assigned re-insurance policies.
10. Technical reserve funds at the end of the fiscal year under consideration.
11. Other deductible expenses and acceptable depreciation.

Note 1: Various types of technical reserve funds of insurance institutions (the technical reserves funds constituting the subject-matter of Article 61 of the Act Governing the Establishment of the Central Insurance of Iran and the Insurance Activities) for each branch of insurance, the scope and the manner of their calculation shall be in conformity with an Administrative Regulation which will be prepared by the Central Insurance of Iran, approved by the High Council of Insurance and finally ratified by the Minister of Economy and Finance.

Note 2: Various types of technical reserves of the Central Insurance of Iran for each branch of insurance, their scope and the manner of calculation shall be determined by the General Meeting of the Central Insurance of Iran.

Note 3: In direct insurance transactions, the premiums, commissions, reduction on premiums and share of insurers in the profits and the manner of calculation thereof shall be in conformity with the regulations laid down by the High Council of Insurance.

All the items hereinabove mentioned, with the exception of commission, shall be specified in the insurance agreement.

Note 4: The items concerning the re-insurance transactions, whether accepted or assigned, shall be subject to the terms and conditions stipulated in the contracts or agreements reached between the relevant insurance institutions.

Note 5: Foreign insurance companies which shall earn any profit through re-insurance transactions with Iranian insurance companies, shall be subject to a tax at the rate of 2% of the premium they collect and the interest accruing on their deposit in Iran.

In cases where Iranian insurance companies shall be active in the respective country of a reinsurance company, and if the Iranian insurance company shall be exempt from payment of taxes on income earned through reinsurance transactions, then the foreign insurance company shall as well be exempt from taxes in Iran.

The Iranian insurance companies shall be under the obligation to withhold 2% of the amount they pay to a foreign re-insurance company covered by provisions of this Article and pay, within a maximum period of thirty (30) days, the amounts so withheld during each month to the local Taxation Affairs Administration together with a list containing the particulars of the re-insurer and the amount of the applicable premium.

Article 110: Legal entities shall be required to submit to the Taxation Affairs Administration of the place where the principal place of activity of the legal entity is situated, not later than four (4) months after the end of any fiscal year, the tax declaration, balance sheet and profit/loss account supported by the accounts books, documents, evidences and vouchers, together with a list of particulars and addresses of their partners and shareholders with the amount of participation or the number of shares of the said partners and shareholders, and to pay the applicable tax, After

submission of the first list, it shall be sufficient report changes, if any, in the following years, The place where tax declaration is to be submitted and where the taxes are to be paid by foreign legal entities and institutes domiciled abroad which have no domicile or representative office in Iran, shall be Tehran.

The provisions of the present Article shall also apply to the owners of factories and legal entities during the period of their tax exemption.

Note: Legal entities shall not be required to file separate tax declarations for their incomes concerning the tax assessment of which a different manner was laid down in conformity with the provisions of the present Act.

Article 111: The companies which shall consolidate and undergo merger through establishment of a new company or through retaining the legal entity of a company, for taxation purpose shall comply with the following provisions:

a. Establishment of a new company or effecting increase in the capital of the existing company, maximally equal to the amount of the registered capital of merged or consolidated company shall be exempt from payment of 0.002 (two per mill) stamp duty mentioned in Article 48 of the present Act.

b. Transfer of the assets of merged or consolidated companies to the new company or the existing one, as the case may be, on the basis of their book value, shall not be liable to the taxation laid down in the present Article.

c. The operations of the companies merged or consolidated into the new company or the existing one, shall not be subject to Dissolution Period Tax mentioned under income tax in the present Act.

d. Depreciation of the assets and properties transferred to the new or existing company shall comply with the procedure and method which was in effect prior to the merger or consolidation.

e. In cases where, as a result of the merger or consolidation, an income shall be allocated to the shareholders of the merged' or consolidated company, such income shall be subject to taxation in conformity with the relevant provisions.

f. All tax undertakings and obligations of the merged or consolidated companies shall be taken up by the new company or the existing one, as the case may be.

g. The executive by-laws of above Article 111 shall be jointly proposed, not later than six (6) months after the date of approval of the present Amendment, by the ministries of Economy and Finance, and Industries and Mines, to be subsequently approved by the Council of Ministers.

Article 112: Article 99 and the Note thereto shall apply to the contractors being legal entities, whether Iranian or foreign.

Article 113: Income tax from all foreign shipping and airways concerns shall be collected at a flat rate of 5% on all amounts received by them as passenger fare or freight on merchandise, etc., carried from Iran irrespective of whether such amounts are received in Iran or en route or at destination.

The representatives or branch offices of the above-said concerns are required to submit to the local Taxation Affairs Administration by the 20th day of each month, a statement of their receipts for the previous month and to pay the applicable tax accordingly. The above-said concerns shall not be liable to any other payment on account of income tax on such incomes.

Should the said branch offices or representatives fail to submit the above statement in a timely manner, or if the statements submitted by them shall not correspond with actual facts, the tax in question shall be assessed on arbitrary basis according to the number of passengers and the volume of freight handled.

Note: Where the tax applying to the income of Iranian shipping and airways companies in a foreign country shall exceed by 5% on the amount of fares collected, the Ministry of Economy and Finance shall be required, upon notification by the Iranian entity concerned, to increase the rate of tax applying to the income of shipping and airway companies of the said countries up to the amount of tax collected by tax authorities in the said countries.

Article 114: The last director or directors of a legal entity shall have joint responsibility to submit, to the respective Taxation Affairs Administration, prior to the date on which the general meeting or other competent authorities of the company shall be called to decide on the winding up of the legal entity, a declaration demonstrating the assets and liabilities as on the date of the said call. Such declarations shall be made out on special forms which shall be provided for this purpose by the State Taxation Affairs Organization.  
A declaration signed at least by the authorized signatory(ies) of the legal entity and stamped (sealed) by the entity shall be valid for the Taxation Affairs Administration.

Article 115: The basis for calculation of the tax applicable to the last term of operation of a legal entity which are to be wound up and dissolved shall be the value of such entities assets less its liabilities, paid-up capital and the reserves as well as the balance of the profit on which the tax has already been paid.

Note 1: The value of the assets of legal entity shall be assessed at the sale price in respect of the items sold, and at the prices prevailing on the date of winding up and dissolution in respect of the remainder .

Note 2: In cases where, among the assets of a legal entity which is to be dissolved, there shall be an asset(s), mentioned in Chapter 1 of Book III of the present Act, or the shares, contributions or right of priority of the shares of companies, and if upon the final transfer and conveyance of such asset(s), as the case may be, they shall be subject to the regulations of Article 59 and the Notes under Article 143 of the present Act, when determining the basis for calculation of the tax applicable to the last term of operations of dissolved legal entities, the book value of the said assets shall not be included among the assets and properties of dissolved Legal entities. However, an amount equal to the book value of such Assets shall be deducted from the total amount of the capital and liabilities of such entities. The tax applicable to such asset(s), as the case may be, shall be calculated and claimed in conformity with the provisions made in Article 59 and the Notes under Article 143 of the present Act.

Note 3: That part of the assets and properties of dissolved legal entities which, on the date of dissolution, shall be subject to final taxes mentioned in Article 59 and the Notes under Article 143 of the present Act, shall not be liable to taxation in the first transfer taking place after the date of winding up.

Article 116: The liquidators shall be duty-bound to submit to the Taxation Affairs Administration concerned, within six (6) months after the date of winding up (i.e. the date of registration of dissolution with the Registrar of Companies), a tax declaration in respect of the company's last term of operations drawn up and prepared in compliance with the provisions made in Article 115, and to arrange for the payment of the taxes due prior the winding up.

Note: The tax applicable to the last term of operations of tile legal entities which are to be dissolved shall be calculated in conformity With Note 2 under Article 115 of the present Act, on the basis of the rates laid down in Article 105.

Article 117: The Taxation Affairs Administration shall give priority to the examination of the declarations submitted in respect of the last term of operations of a legal entity according to the provisions of this Act, and in case the said Administration shall have any objection to the contents thereof, it shall determine and notify the applicable amount of tax through the medium of a Tax Assessment Notice, within a maximum period of one ( 1 ) year from receiving the declaration, otherwise the applicable tax as given in the declaration submitted by the liquidators shall be considered as finalized. Should it transpire later on that any of the items of the legal entity's assets were .not mentioned in the declaration, the tax applicable to such items as were not mentioned therein shall be demanded within the respite mentioned in Article 118 of this Act.

Article 118: It shall not be authorized to portion out the assets of a wound up legal entity before obtaining a tax settlement certificate or giving security equal to the amount of the applicable tax.

Note: The last directors of a legal entity, in case of failing to submit the tax return mentioned in Article 114 of the present Act, or if they shall submit unreal tax return, as well as the liquidators failing to observe the provisions laid down in Article 116 of this Act and the above Article 118, and the guarantor(s) of the legal entity and the guarantor partners (as described under the Commercial Code) and all the individuals to whom the assets of tile legal entity were portioned, commensurate with their share of the legal entity's assets, shall be jointly and severally liable for the payment of the tax and the fines applicable to the legal entity, provided that tile tax shall be claimed within the period of respite laid down in Article 157 of the present Act, beginning as of the date of publication of the winding-up notice through the Official Gazette.

#### Chapter 6: Incidental Income (Windfall Earning) Tax

Article 119: The income earned in Iran in cash or in kind by any natural person or legal entity gratuitously in the nature of award or under any other title, shall be liable to tax on incidental income at the rates stipulated in Article 131 of the present Act.

Article 120: The income liable to taxation under the present Chapter shall consist of 100% of tile income earned, and in the case of non-pecuniary income, it shall be assets according to the provisions of the present Act at the rate prevailing on the day the income is earned, excluding such property for which transactional value had been fixed under the terms of Article 64 hereof, in which case the transactional value shall be taken as tile basis for tax assessment purpose.

Note: In case of settlement against consideration (exchange) and donation against consideration, except for instances enumerated in Article 63 hereof, the income liable to tax under this Chapter shall be the difference between the value of the objects of transaction as determined according to the provisions of this Article and considered to be earned by the party profiting by the transaction.

Article 121: Settlement against consideration (exchange) with the option to cancel and revocable donations shall, for the purpose of taxation, be deemed to be final transfer. However, should a cancellation, termination by mutual consent or revocation take place within six (6) months from the effective date of the transaction, any amounts collected as tax under this Chapter shall be refundable. If, in such cases, any profits shall accrue to the transferee during the interim between the execution of the transaction and the date of cancellation, termination by mutual consent or revocation, the transferee shall be subject to tax in respect of the profits thereof.

Article 122: In the case of settlement of a property, whose profits shall be granted for life or for a specific period on the grantor or some third party, the value of the property in question, assessed on the basis of the aggregate value of the property itself and the profit on the date, shall be the basis of tax liability for the grantee on the above date.

Note: should any transfers take place before profits accrue, the value of the property as indicated on the deed of such transfer shall be taken as the basis for taxation to which the transfer shall be liable, as provided for in this Chapter. However, the basis for assessment of taxes applying to the last party to whom the property shall be transferred and who as well shall receive the profits accruing on the property shall consist of the difference between the price of the property under the above ruling and the sum which the transferee has paid as mentioned in the deed of transfer.

Article 123: In cases where the profits of a property shall be transferred gratuitously on temporary or permanent basis to anybody, such transferee shall pay the tax applicable to the profits of each year in the following year.

Article 124: Property transferred to certain persons under a will, as far as a will is legally effective, shall, after the will becomes definite, be liable to taxation. In the case of heirs, the said property shall be added to their inheritance and the total sum shall be subject to taxes on inheritance. In the case of other persons, the entire property shall be liable to taxation under this Chapter.

Article 125: The regulations of this Chapter shall not apply to any transfer which shall be subject to provisions of taxation under the Chapter of death duty (inheritance tax).

Article 126: Persons earning income who fall under this Chapter, shall be required to file with the local Taxation Affairs Administration a tax declaration containing the details of their profits subject to Article 123 above of each year by the end of the month of Ordibehesht (April 21-May 21) of next year and in other instances within thirty (30) days after the date of earning the income or profit and pay the applicable tax. It shall not be required to file a tax return in case of transactions carried out through notaries-public for which taxes are collected.

Article 127: The following Incomes shall not be subject to taxes on Incidental income:

- a. Gratuitous allowances in cash or in kind given by charity or benevolent organizations, ministries, government organizations and companies, municipalities, or organs of the Islamic Revolution to the individuals, except for cases which are subject to taxation under the Chapter pertaining to salary tax.
- b. Sums or financial aids donated to victims of war, earthquake, flood, fire or other acts of nature.
- c. The bonus paid by the Government to promote exports or the production and purchase of agricultural produce.

Note: Executive criteria for implementation and enforcement of Clauses (a) and (b) shall be drawn up by the ministries of Economy and Finance and the interior.

Article 128: The taxable income of legal entities earned as incidental income shall be assessed through examination of the accounts books of legal entities. The taxes which shall be paid at source according to provisions of this Chapter shall be considered to be on account of the taxes of the said taxpayers.

#### Chapter 7: Tax on Aggregate Income Earned Through Various Sources

Article 130: The past liabilities mentioned in Articles 3 to 16 and Note 3 under Article 59 as well as Article 129 of the Direct Taxation Act as amended approved in February 21, 1988 shall not be claimed and collected.

Note: The Ministry of Economy and Finance shall be authorized to exempt, either totally or partially, the payment of tax liabilities on the incomes which have been earned or which date back, as the case may be, to the years before the Iranian year 1368 (1989), maximally up to the amount of RIs.1,000,000 (one million rials) for every taxpayer in the regions and areas where it shall be deemed expedient and appropriate.

Article 131: The tax rates on the income of natural persons, excluding the instances for which a separate rate has been provided in conformity with the provisions made in the present Act, shall be as follows:

Amount of (Annual)  
Taxable Incomes Taxation Rates  
Up to RIs.30,000,000 15%  
Up to RIs.100,000,000 20% on sums in excess of RIs.30,000,000.  
Up to RIs.250,000,000 25% on sums in excess of RIs.100,000,000.  
Up to RIs.1,000,000,000 30% on sums in excess of RIs.250,000,000.  
Over RIs.1,000,000,000 35% on sums in excess of RIs.1,000,000,000.

## Book IV: Sundry Provisions

### Chapter 1: Exemptions

Article 132: The declared income resulting from industrial production and mine activities by the industrial production units and mine-related entities affiliated with the private and cooperatives sectors to which exploitation permits shall be issued or with which exploitation and sale contracts shall be concluded, as of the beginning of Iranian year 1381 (March 21, 2002), by the ministries concerned, shall be tax exempt up to the maximum amount of 80% for a period of four (4) years in less-developed regions, and up to 100% of the tax prescribed in Article 105 of the present Act for a period of ten (10) years.

Note 1: For the remaining period of implementation of the Third Economic Social and Cultural Development Plan of Islamic Republic of Iran, and upon commencement of implementation period of subsequent development plans, a list of less-developed regions shall be prepared and drawn up by the State Management and Planning Organization and the ministries of Economy and Finance; and Industries and Mines, to be subsequently approved by the Council of Ministers.

Note 2: The tax exemptions set forth in the above Article 132 shall not apply to the incomes of industrial and mine-related entities, located within a radius of 120 Km from the center of Tehran, 50 Km from the center of Isfahan and 30 Km from the center of the provinces and the cities with more than 300,000 of population, on the basis of the latest census carried out, excluding the industrial townships located within a radius of 30 Km from the center of the said provinces and cities.

Note 3: The traveling and tourism institutes to which exploitation permit have been issued by the Ministry of Culture and Islamic Guidance shall be exempt from the payment of 50% of the tax applicable per annum.

Note 4: The criteria governing determination of the date of commencement of exploitation by the tax-exempt entities and units mentioned in Article 132 above, as well as demarcation and specification of the boundaries mentioned in Note 2 under the present Article shall be laid down and duly notified by the ministries of Economy and Finance, and Industries and Mines.

Article 133: 100% of the income earned by rural, tribal, agricultural, fishermen, labor, employees, university, and school students, cooperatives, and unions shall be exempt from taxation.

Note: The government shall return and deposit, in the account of Iran Rural Cooperatives Headquarters (IRCH), an amount equal to the income tax applicable to the portion of the profit which shall be declared by IRCH and which shall be allocated, upon the approval of its general meeting of shareholders, for investment in rural cooperatives companies. The government shall do so, utilizing the credit allocations mentioned in an Item Number specifically stipulated for the same purpose in the National Budget Bill, only after having collected the said tax, and after having deposited the same in the Public Revenues Account.

Article 134: The income earned through training and education given by non-profit schools, including primary, guidance, secondary, technical and vocational schools, non-profit universities and higher education institutes, as well as the income earned by the rehabilitation centers and institutes in charge of the mentally-handicapped and physically-disabled individuals, to which the relevant permits and authorizations have already been issued by the forums and authorities concerned, as the case may be, and the income of athletic institutes and sports clubs, with their authorizations and licenses issued by Iran Physical Training Organization, which may be earned exclusively through athletic activities, shall be exempt from tax.

Tile executive by-laws of the present Article 134 shall be proposed by tile Ministry of Economy to be approved by the Council of Ministers.

Article 136: Amounts paid out by insurance companies as life insurance moneys to the beneficiaries under duly signed contracts shall be exempt from payment of tax.

Article 137: Medical treatment expenditures incurred by any taxpayer on the treatment of himself, his dependents, wife, children, father, mother, brother and sister in any fiscal year as well as the insurance premium paid by any natural person to Iranian insurance companies and institutes for the life and medical treatment policies shall be deductible from the taxpayer's taxable income, provided that the recipients of such medical treatment expenses, in case they are hospitals or physicians domiciled in Iran, duly certify the receipt thereof. Also in cases where medical treatment has taken place outside Iran due to lack of facilities, as certified by the Ministry of Health, Medical Treatment and Education, payment of treatment expenses shall be certified by either the officials of the government of the Islamic Republic of Iran in the country where the medical treatment has taken place or the authorities of the Ministry of Health, Medical Treatment and Education.

Concerning the physically-disabled and mentally-retarded individuals, as well as the patients suffering from rare and incurable ailments, further to tile expenses and costs mentioned above, the expenditures incurred for their rehabilitation shall be deductible from the taxable income of the same individual or the person who has undertaken to take care of such patients or handicapped persons.

Article 138: Such portion of the declared profit of private and Cooperatives companies which shall be utilized either for the development, reconstruction, renewal or completion of the existing industrial and mine-related units and entities, or the establishment of new industrial and mine-related units during a fiscal year, shall be exempt from payment of 50% of the tax laid down in Article 105 of the present Act, provided that they shall manage to obtain from the ministry in charge, the prior authorization for development, completion or establishment of the new industrial of mine-related unit in the form of investment projects. In cases where either the costs and expenses for tile implementation of the said project(s) in a year shall exceed the amount of the profit declared for the same year, or if such expenses shall be less than the expenditure of investment project, the company shall be authorized to benefit from the said exemption when assessing tile tax on declared profit of the subsequent years, maximally for period of three (3) years and equal to the amount in excess of the balance of the cost of full implementation of

the project.

Note 1: If, prior to completion of the project, the company shall proceed to suspend the implementation of the project, or if the company shall fail to attain the exploitation phase of the project, within one (1) year after expiry of the period of respite stipulated in the investment project, or if, within five (5) years after commencement of exploitation of the project, the company shall proceed to dissolve or transfer OI. close it down, the company shall be liable to pay an amount equal to the tax exemptions stipulated in the present Article 138 for implementation of tile project, as well as the fines and penalties mentioned in Article 190 of the present Act.

Note 2: The new industrial units which shall be set up to benefit from the tax exemption granted under this Article cannot benefit from exemption laid down in Article 132.

Note 3: In case the factories falling within the conduit area of the City of Tehran whose employees are not less than 50 in number, move their total installations beyond 120 kilometers of the radius of Tehran, they shall be exempted .on the proceeds derived from the relative activities for a period of ten ( 10) years beginning as of the commissioning date thereof in the new location, in compliance with the rules which shall be drawn up in this connection, as the case may be, by the Ministry of Economy and Finance and the ministry concerned.

Note 4: From the standpoint of the present Act, the conduit area of Tehran shall comprise the western conduit of the river Hableh and the river Garmsar and the eastern conduit, the river of Ziyaran and the entire conduit districts of the rivers Damavand, Jajrood, Darabad, arband, Evin, Farahzad, Kan, Karaj and Kordan and its boundaries are as follows:

On the north, the straight line of the mountains of Alborz, the waters of which fall into the central Kavir ( desert); on the east, the western bank of the river Hablah Rud Garmsar, on the west, the western bank of the river Ziyaran. On the south, the line running from west to east from intersection point of the river Ziyaran and the river Shoor continued to the deepest channel of the Daryacheh Namak (Salt .Lake) leading to the west to the intersection point of the stream course of Hablah Rud Garmsar.

Article 139:

a. The endowments, oblations, dedications, aids, gifts and charities, both in cash or in kind, donated to the Holy Shrine of Imam Reza (AS), Holy Shrine of Abdul Azim AI-Hassanian (AS), Holy Shrine of Hazrat-e Masoumeh, Holy Shrine of Ahmad Ibn-e Mousa (AS) (Shah-e Cheragh), Holy Shrine of Imam Khomeini, the mosques, any other holy shrines and the like shall be exempt from payment of tax. Tile Endowments and Benevolent Affairs Organization shall duly specify the holy shrines.

b. Tile financial aids and gifts in cash or in kind, donated to the Red Crescent Society of Islamic Republic of Iran shall be tax exempt.

c. The financial aids and gifts in cash or in kind, donated to the retirement pension funds, Medical Treatment Insurance Organization and the Social Security Organization (SSO), as well as the employers' and employees' share of insurance and retirement premiums, and the fines and penalties collected by the same shall be tax exempt.

d. The financial aids and gifts in cash or in kind, donated to Islamic Sciences Schools shall be tax exempt. However, such schools shall be duly specified by Qum School of Theology Management Council.

e. The financial aids and gifts in cash or in kind, donated to Islamic Revolution institutions shall be tax exempt. However, such institutions shall be duly specified by the Council of Ministers.

f. Such portion of the income earned by the State Fund for Development of Endowments, which shall be utilized for tile development of endowments shall be tax exempt.

g. The incomes earned by legal entities or natural persons utilizing the credits of benevolent contributions and charities of Vali-e-Faghih as well as Khoms (i.e. 1/5 of what is left over from the earning of an individual at the end of his fiscal year) and Zakat (religious tax, poor-rate or alms as prescribed by Islam) shall be tax exempt.

h. Such portion of the income derived from public endowments which, in conformity with the principles of Shari'a shall be utilized in connection with affairs including Islamic propagation, cultural, scientific, religious researches, discoveries, inventions, education and training, health and medical treatment, construction, repair and maintenance of mosques, theology schools, Islamic sciences schools, government schools and universities, Moharam mourning ceremonies, public feeding of the poor (Et'aam), repair of archeological buildings, development affairs, tuition fees and educational loans to university and high school students, payment of financial aids to the oppressed and those damaged in the course of force majeure incidents such as floods, earthquakes, blazes, wars and unprecedented events, shall be exempt from payment of taxes, provided however that such incomes and expenditures shall be duly confirmed by the Endowments and Charity Affairs Organization.

i. The financial aids and gifts in cash and in kind, donated to the registered charity and benevolent organizations shall be exempt from payment of tax, provided that such incomes shall be utilized, as per their articles of association, in connection with the affairs mentioned in Clause (h) above and that the State Taxation Affairs Organization shall exert supervision and control over the incomes and expenditures of such organizations.

j. The financial aids and gifts in cash and in kind, as well as the subscription fees of the members of guilds, vocational associations, parties, non-government societies and organizations which already have obtained the required authorizations from the forums and authorities in charge, and the sums which shall be deducted from the

subscription fee paid by their members and which shall subsequently be deposited in the account of the said entities, in conformity with the relevant rules and regulations, shall be tax exempt.

k. The endowments, financial aids and the gifts, both in cash and in kind, donated to religious societies and boards established by Religious minorities mentioned in the Constitution of Islamic Republic of Iran, shall be exempt from payment of tax, provided that the facts and circumstances in connection with the official recognition of such religious minorities, societies and boards shall be confirmed by the Ministry of the Interior.

I. The publication, press, journalistic, cultural and artistic activities which shall be carried out and performed by virtue of the authorizations and permits issued by the Ministry of Culture and Islamic Guidance, shall be exempt from payment of tax.

Note 1: The sums which shall be earned by the legal entities mentioned in Article 139 above, with the purpose being to attain the objectives and aims of such entities, through non-profit activities including offering training and educational courses, holding seminars, publication of books and periodicals, etc., and which shall be earned in compliance with their articles of association, shall be exempt from payment of tax, provided that the State Taxation Affairs Organization shall duly exert control and supervision over their incomes and expenditures.

Note 2: The provisions made in Note 2 under Article 2 of the present Act shall apply to the taxable income of the legal entities mentioned in Article 139 above.

Note 3: The executive by-laws of the present Article 139 shall be prepared by the State Taxation Affairs Organization and shall be proposed by the Ministry of Economy and Finance, to be subsequently approved by the Council of Ministers.

Note 4: As for the instances and cases having the required authorizations from the Late Imam Khomeini or the Supreme Leader of Islamic Revolution, the provisions made in Article 139 above shall be approved by the Supreme Leader.

#### Article 141 :

a. 100% of the income earned through export of finished industrial products as well as the products of the agriculture sector (including farm and orchard produces, livestock and poultry, fishery products, forest and pasture products) and those of conversion and complementary industries, as well as 50% of the income earned through the export of other commodities whose export shall contribute to the achievement of national objectives relating to the promotion of non-oil exports shall be exempt from taxation. The list of commodities subject to the present Article, in the course of implementation of each and every development plan, shall be prepared upon a proposal by the ministries of Economy and Finance, Commerce, Agriculture, Construction Jihad and the industrial ministries, and shall subsequently be approved by the Council of Ministers.

b. 100% of the income earned through the export of various goods and commodities which have already entered or shall enter into Iran on transit, without making any changes therein or without any process or work performed thereon, shall be tax exempt.

Note: The loss and damage sustained from the export of goods exempted from taxation, shall not be included in the assessment of tax applicable to other activities by the natural persons or legal entities who shall also be engaged in activities other than export affairs.

Article 142: The income earned by workshops engaged in the production of hand-knitted carpets and handicrafts as well as that of cooperatives companies and the related unions shall be exempt from payment of tax.

Article 143: The companies whose stock, under the relevant laws and regulations, shall be accepted by the Subscription Board for Transaction in Stock Exchange, shall be exempt from payment of 10% of the applicable tax, beginning as of the year of their acceptance until the year in which their names shall not yet be deleted from the Stock Exchange Daily Official List, provided that all transfers of shares shall be made through the commission agents of the Stock Exchange and that such transfers shall be duly registered in the relevant books.

Note 1: A fixed tax equal to 0.5% of the sale price of the shares and shares priority right shall be collected out of each transfer of share of the companies in the Stock Exchange as well as other negotiable instruments which shall be negotiated in the Stock Exchange. Accordingly no other sum shall be charged on this account as the income tax in respect of the transfer of shares.

The Stock Exchange commission agents shall be required to collect the related tax from the transferors at the time of each transfer and deposit the same in an account specified by the State Taxation Affairs Organization, and send the receipt thereof along with a list showing the number and the amount of sale of the transferred shares to the Taxation Affairs Administration, within ten (10) days after the date of transfer.

Note 2: A fixed tax equal to 4% of the par value of the shares, contributions shares priority right and contribution of the shareholders in other companies shall be collected each time they shall be transferred. No other sum shall be claimed on the account of income tax in respect of transfer. The transferors of stocks, contributions and shares priority right shall be required to deposit the applicable tax in the account of the State Taxation Affairs Organization, prior to such transfers.

The State Organization for Registration of Deeds and Estates as well as notary publics shall be required, upon registration of the changes or drawing up of deeds of transfer, as the case may be, to collect the relevant tax payment certificate and attach the same to the relevant file.

Note 3: As for the joint stock companies accepted to the Stock Exchange, the reserve on the stock shall be subject



to a fixed tax rate of 0.5%, consequently, no tax shall be applicable to such income. The companies shall be required to deposit, within thirty (30) days after the date of registration of the capital increase, the said tax in the account of the State Taxation Affairs Organization.

Article 144: The moveable dowry and the marriage portion, both moveable and immovable, as well as scientific awards, scholarships and the income earned through sale of inventions or discoveries b)' scientists in general, and also the income earned through research activities of the centers possessing a research license from the competent ministries, shall be exempt from payment of tax for a period often (10) years beginning as of the date of enforcement of the resent Amendment, in conformity with the criteria stipulated in the by-laws which shall be proposed jointly by the ministries of Science, Research and Technology; Health, Medical Treatment and Education; and Economy and Finance, to be subsequently approved by the Council of Ministers.

Article 145: The profit received in the following instances and under any title shall be exempt from tax payments:

1. Profit accruing on deposits concerned with the pension and saving funds, contributions of staff, employees and workers with Iranian banks, within the limits laid down under the employment regulations of their respective institutions.
2. Profit or bonus accrued on fixed deposit accounts and/or saving accounts with Iranian banks or authorized non-bank credit institutes. This exemption shall not apply to the deposits that banks and authorized non-bank credit institutes place with one another.
3. Bonus accrued on government debentures and bonds as well as treasury bonds.
4. Interest paid by Iranian banks to banks abroad on overdrafts and fixed deposits on condition of the reciprocal treatment.
5. Profit and bonus accrued on contribution bonds.

Note: In the instances where in the Direct Taxation Act, a reference is made to the banks, the facilities, concessions, privileges, preferences, and the duties mentioned shall also apply to the non-bank credit institutes which were or shall be established in conformity with either the relevant laws and regulations or the authorizations granted by the Central Bank of Iran.

Article 146: All time-based exemptions which are currently observed in accordance with former tax laws and regulations, shall continue to remain in force up to the date of their expiry, with due regard to the applicable laws and regulations.

Note: The interest payable on Land Reform Bonds shall continue to be exempt, Chapter 2: Deductible Expenses and Depreciation Charges.

Article 147: For the purpose of assessing the amount of taxable income, deductible expenses, as set forth under the provisions of the present Act, shall consist of such expenditures as are to a reasonable extent supported by documents and are exclusively connected with the earning of income during the fiscal year in question, in due compliance with the prescribed limits, An expenditure which is not provided for in the present Act or is higher than the limits provided herein, but payment thereof has been effected in accordance with the Law or pursuant to a decree by the Council of Ministers, shall be deductible.

Note: For the purpose of the provisions set forth in the present Chapter, by institute, it is meant the natural persons, legal entities as well as the artisans mentioned in Clauses (a) and (b) of Article 95 of the present Act.

Article 148: Such expenses as meet the requirements mentioned in above Article 147 shall, as detailed hereunder, be considered as deductible items for tax purposes:

1. The purchase price of goods sold and/or the cost of consumables used in the goods sold or in the services rendered.
2. Personnel expenses commensurate to the services rendered by personnel on the basis of employment regulations of the institute as follows:
  - a. Basic salaries and wages and recurring benefits in cash or in kind (benefits in kind on the basis of their cost price for the employer).
  - b. Non-recurring benefits, both in cash and in kind, such as provisions, alimentation and utility benefits, allowances, new year bonus, Overtime pay, and traveling expenses.

The limits for traveling expenses of directors, inspectors and personnel abroad, in order to meet the requirements of the institute, shall comply with the regulations which shall be drawn up by the Ministry of Economy and Finance and the State Management and Planning Organization, and which shall subsequently be approved by the Council of Ministers.

- c. Hygiene and medical treatment expenses and the premiums of hygiene, life and work-related accident insurance of personnel.
- d. Retirement and dependents' pension, stipend, service severance benefits, in conformity with the employment

regulations of the institute concerned, dismissal compensation and severance compensation, in excess of the balance of the relevant reserve, in conformity with the statutory laws.

e. Amounts contributed to the Social Security Organization (SSO), in conformity with the relevant regulations, and up to 3% of the annual salary on the account of personnel saving, as per the regulations which shall be proposed by the State Taxation Affairs Organization, to be approved by the Minister of Economy and Finance.

f. An amount equal to one (1) month latest salary and wage as well as the difference resulting from the adjustment of the salary paid during the preceding years which shall be reserved in order to provide the pension, stipend, severance pay, dismissal compensation and severance compensation of (he personnel recruited with the institute.

The same provisions shall also be applicable to the reserves which have been deposited in bank accounts to date.

3. Rental of the institute's premises, if the place shall be rented. The amount of the rental shall be the same as indicated in the notarial lease agreement, and in case there shall be no lease agreement, then the amount of the rental shall fall within the normal range.

4. Rental of the institute's machinery and equipment, if they shall be rented.

5. Charges for fuel, electricity, lighting, water supply, communication and transportation.

6. The sums and premiums paid on the account of the insurance relevant to the operations and assets of the institute.

7. The royalties paid by the institute, and such charges, duties, and taxes as are paid to the municipalities or to the government on account of the institute's activities ( excluding the income tax and its supplements and any other taxes which the institute shall be required under the provisions of the present Act to deduct from other parties and pay on their behalf, as well as any fines and penalties paid to the government or to the municipalities).

8. Cost of researches, experiments, tests, training and educational activities relevant to the operations of the institute, purchase of books, periodicals, compact discs (CDs), the costs and expenses incurred for marketing, advertisement and exhibition halls in connection with the operations and activities of the institute, in conformity with the regulations which shall be proposed by the State Taxation Affairs Organization, to be subsequently approved by the Minister of Economy and Finance.

9. The expenditure relevant to the compensation for damages caused in connection with the operations and assets of the institute, provided:

Firstly, that the occurrence of the damage shall definitely be established; Secondly, that the nature and extent of the damage shall be determined, and Thirdly, that under the provisions of the Law or an agreement, the responsibility to compensate the damage shall not rest with any other party and in any way, such damage has not been compensated by other parties, one way or other .

The regulations on the establishment and satisfaction of the above triple conditions stipulated in Clause 9 above shall be proposed by the State Taxation Affairs Organization, to be subsequently approved by the Minister of Economy and Finance.

10. Cultural, athletic, sports and welfare expenses of the workers payable to the Ministry of Labor and Social Affairs up to RIs.10,000 per one worker.

11 . Reserves set aside against doubtful accounts, provided that.

Firstly, such account shall be connected with the operations of the institute,

Secondly, that there shall exist strong likelihood that it shall not be recovered, and

Thirdly, that the amount thereof shall be entered under a special heading in the accounts books of the institute until such time when the claim shall either be recovered or be definitely considered as unrecoverable.

The regulations pertaining to Clause 11 shall be proposed by the State Taxation Affairs Organization, to be subsequently approved by the Minister of Economy and Finance.

12. The amount of loss sustained by natural persons or legal entities which shall be established through examination and review of their accounts books and in conformity with the provisions of the Law, shall be liable to amortization against the incomes to be earned in subsequent year(s).

13. Petty expenses relevant to the maintenance and up-keeping of the institute's premises, normally borne by the lessee, where the premises shall be a leased one.

14. Petty expenses relevant to the' maintenance and up-keeping of the premises of the institute, where they shall be owned by the institute.

15. Forwarding and transportation expenses.

16. Taxi services, transportation charges as well as the charges relevant to transport of goods, personnel

refreshments and warehousing.

17. Fees paid out commensurate with the services rendered such as brokerage, lawyers' fees, consultation fees, attendance fees, auditors' fees, administrative and fiscal services and inspection fees, the fees and expenses relevant to the development of the software, design and establishment of the computerized systems required by the institute, as well as other expert fees in connection with the operations of the institute, and legal inspectors' fees.

18. Profit and charges paid or allocable, for the performance of the operations of the institute, to the banks, Cooperatives Fund as well as authorized non-bank credit institutes.

19. Cost of office supplies and such equipment as are consumed within a year's time.

20. Cost of maintenance and repair of machineries and equipment, and cost of replacement which are not considered as thorough overhaul.

21. Cost of exploration of mines not resulting in production.

22. Membership and subscription fees relating to activities of the firm.

23. Bad debts, provided that the taxpayer concerned can furnish proof therefor, in excess of the balance of doubtful accounts reserve.

24. Loss sustained due to rate of exchange on the basis of normal accounting practice provided that the taxpayer applied a similar procedure throughout different years.

25. Normal production wastes.

26. Reserves set aside for such deductible expenses as relate to the fiscal year concerned.

27. Acceptable expenses related to the previous years whose appropriation or payment become due in the fiscal year concerned.

28. The expenses relevant to the procurement of books, text books and other cultural-artistic materials for the personnel and their dependents, maximally equal in amount to the 5% tax exemption mentioned in Article 84 of the present Act per one person.

Note 1: Other expenses which are not specified in this Article and which are not considered as costs incurred by a firm for earning income, shall be considered as a part of deductible expenses, subject to the proposal of the State Taxation Affairs Organization and approval of the Minister of Economy and Finance.

Note 2: Directors and stockholders of legal entities shall be considered as personnel in case they shall have a salaried position in the firm concerned. However, in firms which are not considered to be legal entities, the salary and wages of the owner of the firm and his dependent children and spouse shall not be considered as deductible expenses, with the exception of traveling expenses and traveling allowances. Such expenses and allowances shall be subject to provisions of Paragraph (b) of Clause 2 of this Article.

Note 3: When assessing the taxable income of cooperatives companies and unions, the reserves mentioned in Clauses 1 and 2 of Article 50 of the Law on Cooperatives Companies as Amended, approved in June 5, 1971 (16.3.1350) and that of the companies and unions which have already adapted or shall proceed to adapt their legal status with the provisions made in the Law on the Cooperatives Sector of the Economy of Islamic Republic of Iran, approved in September 3, 1991, the reserve mentioned in Clause 1 as well as the cooperation and training premium, mentioned in Clause 3 of Article 25 of the latter law shall be considered as deductible expenses.

Article 149: When assessing the taxable income, the depreciation of assets, pre-incorporation and capital expenses shall be computed with due observance of the rules laid down hereunder:

1. That part of the fixed assets which, regardless of price fluctuations, is liable to decline in value resulting from wear and tear, lapse of time (absoluteness) or other causes, are subject to depreciation.

2. The basis for depreciation is the cost price of asset concerned.

3. Depreciation shall be computed as from the date any depreciable asset is held at the disposal of the firm in a usable condition. Where a depreciable asset, with the exception of movie films imported from abroad which shall be depreciable with the first screening of the film, has been held at the disposal of a firm during the month, the depreciation thereon shall not be computed for the whole of that month.

In the case of factories, the period of test run shall not be considered as the period of operation of the factory.

4. Expenses incurred for the establishment of the firm such as registration fee, consultation fees and other similar expenses and the expenses in excess of income derived during the period prior to commencement of operations (test run), except in cases which shall be specifically enumerated in the Schedule prescribed under Article 151 hereof, shall be written off in equal yearly amounts divided over a maximum ten (10) years from the date of commissioning of the firm.

5. In the event of any loss being sustained by a firm as a result of selling away some depreciable asset or having some machinery and plant rendered unfit for further use, the resultant loss representing the still underdepreciated portion of the asset, less the proceeds of the sale (if sold), shall be debited as a lump sum to the firm's profit and loss account for the same year.

Note: When assessing the taxable income of the producers of Iranian movie films that are produced in Iran, the cost price of the film shall be taken as basis for computing their taxable income for the first year of screening; and if the income derived from the film should prove inadequate, the taxable income shall be assessed in subsequent years.

Article 150: Depreciation shall be calculated in the under-mentioned manner:

a. In the case of items for which specific rates shall be determined in the Schedule prescribed under Article 151 of this Act, the rates shall be fixed, and for each year they shall apply to the difference between the initial cost price of the items less the amounts of depreciation charges on the item in the previous years.

b. In instances where a definitive period of time will be designated under the Schedule mentioned in Article 151 of this Act, depreciation charge shall be computed on the basis of the prescribed period and deducted from the cost price in equal yearly portions.

Note 1: Expenses incurred in connection with total replacement or overhaul of depreciable assets shall be added to the cost price of such assets.

Note 2: Institutes shall be authorized to amortize, maximally within a period of five (5) years, their software expenditures.

Note 3: The institutes shall be authorized to amortize, at the rate twice the rate or in the period of time one half of the amortization period stipulated in amortization schedule prescribed under Article 151 of the present Act, such portion of their fixed assets liable to amortization which shall be procured for either reconstruction, replacement, development, expansion or completion of their production lines.

Note 4: When capital renting the fixed assets being liable to amortization, the manner of registering amortization expenses in the accounts books of the parties to a transaction shall comply with accounting standards and criteria.

Article 151: The Schedule of depreciation charges on the basis of approved criteria, shall be prepared by the State Taxation Affairs Organization and shall be put into effect after approval and ratification of the same by the Minister of Economy and Finance.

### Chapter 3: Tax Assessment Indications and Coefficients

Article 152: Tax Assessment Indications shall be such factors as are employed, when making assessments on a direct basis, to determine the amount of taxable income of each line of business or profession with due regard to their particular situation. Such factors are as listed hereunder:

1. Annual purchases
2. Annual sales
3. Gross income
4. Volume of production for factories
5. Value of transfer of the place of business
6. Total amount of receipts by notaries-public as fees for recording and registration, collection of taxes, duties and charges, or the amount of stamp used by them.
7. Other factors as determined by the Coefficient Council

Article 153: Coefficients for assessment of taxable income are certain specific figures, which in instances of arbitrary assessment of tax, shall be multiplied by the above Tax Indication in order to obtain the amount of taxable income.

Note: Where Coefficient is applied to several Tax Indications, the average of the products obtained by such multiplication shall constitute the amount of taxable income.

Article 154: The Schedule of Coefficients for assessment of taxable income shall be drawn up and notified in the following manner:

a. In order to determine the coefficients, a committee shall be formed every year at the State Taxation Affairs Organization, composed of the representatives of the State Taxation Affairs Organization, the Central Bank of Iran, the Union of Guilds in the case of Guilds, a representative of the Medical Disciplinary Board in the case of professions relating to medicine and also a representative from the Chamber of Commerce, Industries and Mines in the case of other professions. This committee shall determine with due regard to the trends of business and economic conditions, the coefficients for Tehran Taxation District, indicating severally the coefficient applicable to each of the taxpayers mentioned under Article 152 of this Act, according to the nature of their professions. The committee shall submit such itemized schedule to the State Taxation Affairs Organization as "the Schedule of Coefficients" enforceable in Tehran Taxation District.

b. The Schedule mentioned under Clause (a) above shall be sent to the provincial Taxation Affairs Administration by the State Taxation Affairs Organization.

Immediately after receipt of the above schedule, a committee shall be formed which shall be composed of the head

of the provincial Taxation Affairs Administration, Manager of Bank Melli Iran, the representative of Chamber of Guilds in case of guilds, a representative of the Medical Disciplinary Board in case of professions relating to medicine and the representative of the Chamber of Commerce, Industries and Mines in the case of other professions.

The committee in question shall take the said schedule as the basis of their studies and then in the light of the particular economic conditions prevailing in their respective taxation area shall, whenever necessary, make appropriate modifications in the Schedule figures, giving their reasons therefor.

The result of such studies by the said committees shall be sent to Tehran where they shall be examined by the State Taxation Affairs Organization which shall amend the Schedule figures to such extent as it finds the reason raised by provincial committees as convincing, and shall then notify such amended schedule to the respective provincial Taxation Affairs Administration as the Schedule of Coefficients.

Note 1: In places where the Chamber of Guilds, or the Chamber of Commerce, Industries and Mines of Iran, or the Medical Disciplinary Board does not exist, the governor shall nominate and recommend an experienced and well informed individual to participate in the Coefficient Committee instead of the representatives of the said Chambers or the Board, as the case may be.

Note 2: Presence of the representative of the State Taxation Affairs Organization of the head of the provincial Taxation Affairs Administration as well as the representative of the Central Bank of Iran (CBI) or Bank Melli Iran, as the case may be, is mandatory for the purpose of establishing the quorum of the meetings of the committee. Resolutions of the committee shall be valid and binding when they are passed by majority of votes of those present at the meetings.

Note 3: Where the coefficient of such taxable incomes falling under the provisions of this Act shall be determined and assessed arbitrarily, and there has not been envisaged any coefficient for such income in this Act or the Coefficient Schedule, such coefficient shall be determined by the local Board of Settlement of Tax Disputes (BSTD) with due regard to coefficients determined for similar professions.

Note 4: The committee shall invite the representatives of the unions of each profession or guild for giving explanations at the meetings of the Coefficients Committee.

#### Chapter 4: General Provisions

Article 155: The Tax Year is a solar year which begins from 1st Farvardin (21st March) and closes at the end of Esfand of the same year (20th March of the following year); but in the case of such legal entities liable to taxation whose fiscal year according to their Articles of Association does not correspond with the above tax year, their own fiscal year's income is to be taken as the basis for tax assessment, and the time-limit for submitting their tax declaration, balance sheet and profit/loss account and also the deadline for payment of their applicable tax shall be four ( 4 ) solar months after the close of their respective fiscal year .

Article 156: Taxation Affairs Administration shall be required to examine, within a maximum period of one (1) year after the expiry of the respite prescribed for tendering tax declarations, all the income tax declarations received within the prescribed period from the taxpayers, excluding those covered by Article 63, concerning their various sources of income, and if the Taxation Affairs Administration shall fail to issue notice of tax assessment within the above period or if they fail to serve on the respective taxpayers the said notice of assessment within three (3) months after the aforesaid one-year period, the tax declaration submitted by the taxpayer shall be considered as finalized.

If, after finalization of the declaration, or after verification and issuance and notification of the tax assessment sheet, whether such sheet has become final or not, it shall be known that the taxpayer concerned has had some other income or concealed activities and the tax therefore has not been claimed, only the tax pertaining to the said activities may be claimed with due regard to provisions of Article 157 hereof. In this case, as well as in cases where the declaration of a taxpayer shall become final due to failure in verification thereof, the Taxation Affairs Administration shall send a copy of the assessment sheet together with an explanatory report to the Taxation Disciplinary Prosecutor within ten (10) days after the date of issue.

Article 157: In respect of those income taxpayers who have failed to submit, by the prescribed time-limit, their tax declaration to indicate their source of income, or those essentially under no obligation, under the provisions of this Act, to submit tax declaration by the prescribed due date for tax payments, their liability to taxation become statute-barred after a laps of five (5) years from the tax payment deadline, and after the said five (5) years any tax applicable to them may not be claimed unless such taxpayer's income is duly assessed and the relevant notice of assessment issued within this period, and duly served and notified to the taxpayers within three (3) months after the expiry of the said 5-year period.

Note: In cases where the amount of a tax due has been claimed from anyone other than the taxpayer concerned, such claim shall, upon confirmation of same by the Board of Settlement of Tax Disputes (BSTD), be withdrawn no matter on what stage it may be. In this case the Taxation Affairs Administration shall be under the obligation to make a proper claim from the actual taxpayer within a period of one ( 1 ) year from the date of judgment by the BSTD without taking the date of time barring into consideration, therwise the claim shall be time barred.

Article 158: The State Taxation Affairs Organization shall be authorized to accept the tax declarations filed within the prescribed respite without verification of the accounts books of the taxpayers concerned and only by investigating a few of the declarations which shall be picked up on random basis. Such practice shall only be permitted in full or partially with regard to certain tax sources in locations deemed appropriate by the State Taxation Affairs Organization pursuant to a notice published during the first half of each year notifying that the

above procedure shall be carried out during the following year.

Article 159: Such sums that shall be paid, as the tax applying to any source of income, either directly to the account designated by the State Taxation Affairs Organization or by stamps cancelled, shall be taken into consideration when assessing and calculating the final income tax of a taxpayer, and where any sums have been paid in over and above the applicable tax amount, the excess payment shall be refundable.

Note: The State Taxation Affairs Organization shall be authorized) in the case of non-Iranian taxpayers and persons domiciled abroad, to collect the entire amount of their applicable tax and at the rates applying to the source of the income.

Article 160: For the collection of applicable tax and the relevant fines and delayed-payment interest from taxpayers or from those responsible for payment of (others) taxes, the State Taxation Affairs Organization shall have priority over all other creditors, except those having rights to property held as securities as well as workers and staff employees in respect of amounts due to them on account of their services. The regulations of the latter part of this Note shall not be preventive of collection of tax applying to transfer of the property held as security.

Article 161: In cases where a taxpayer's tax is yet to be finalized or the executive proceedings are yet to be completed, and if it shall be feared that the taxpayer will waste the property concerned in order to evade tax payment, the Taxation Affairs Administration shall request the Board of Settlement of Tax Disputes (BSTD), presenting adequate proof, to issue a garnishment (attachment) order for collection of tax, and where the BSTD shall find the issue of such an order necessary it shall indicate the amount to be attached and issue the order accordingly.

The Taxation Affairs Administration shall then be required to levy distresses, to the extent of the said amount, on any of the taxpayer's property or funds that maybe in the latter's possession or in the possession of third parties. In such cases the taxpayer and/or the third parties, after a notice in writing shall be served on them by the Taxation Affairs Administration, shall not be authorized to dispose of such attached property held in their possession unless they furnish guarantee equivalent to the amount demanded, and in the event of default, they shall be held responsible for the payment of the amount of taxes demanded in addition to being subject to the punishment provided under Note 2 of Article 199 of this Act.

Article 162: In cases where several persons shall be responsible for payment of tax, Taxation Affairs Administrations shall have the right of recourse against all such persons collectively or to each one severally in order to collect the tax amount, and the fact of making demand from any particular one of these shall not preclude the right of recourse to the others.

Article 163: The State Taxation Affairs Organization shall be authorized to require of those taxpayers where their taxes shall not be deducted and paid at the time the income shall be accrued, either wholly or partially, to pay on account during each year the tax for the same year on pro rata basis of the last income tax figure fixed for them during the previous years or according to the volume of their activities during that fiscal year. If they fail to pay, the tax on account shall be collected according to the regulations of this Act.

Article 164: The State Taxation Affairs Organization shall arrange, with a view to facilitating payment of tax and saving taxpayer's repeated visits to the Taxation Affairs Administration, to open, through the Central Bank of Iran, a special account with Bank Melli Iran so that taxpayers may be able to call at the respective counters or branch offices of the said Bank and pay their tax amounts into the said account.

Article 165: Where a certain part of the country, or certain taxpayer(s) due to incidents or acts of nature, such as earthquake, flood, fire, drought, pests, storm or other similar incidents, suffer damages and such damages and losses are yet to be remedied by ministries, government organizations, municipalities, insurance companies or benevolent organizations, the Ministry of Economy and Finance shall be entitled to deduct an amount equal to the amount of losses sustained from the taxable income of the taxpayer(s) concerned in the year of occurrence of losses and in subsequent years. However, those taxpayers more than 50% of whose assets were destroyed as a result of the said incidents shall not be obligated to pay their tax debts, accordingly, whole or a part of their tax debts shall be written off or allowed in lengthy installments with the approval of the Council of Ministers.

The executive by-laws of the above Article 165 shall be prepared by the Ministry of Economy and Finance, to be approved by the Council of Ministers.

Note: Taxpayers in war-stricken regions of west and south Iran a list of which shall be notified upon the proposal of the Ministry of Economy and Finance, and approval by the Council of Ministers, shall enjoy the following tax facilities:

- a. 50% of the tax payable by the said taxpayers due on the income earned in the said regions shall be written off as of the beginning of Iranian year 1368 (March 21, 1989) through the end of Iranian year 1372 (March 20, 1994).
- b. For each year of service in the aforesaid regions, from the enforcement date hereof, one-third of their tax debts until the end of Iranian year 1367 (March 20, 1989) shall be written off in respect of the income earned in the said regions.
- c. Out of the tax paid by the said taxpayers on the incomes earned in the said regions with effect from September 20, 1980 until March 20, 1989, up to one-third in each year shall be deducted from the taxes due by them in subsequent years in those very regions.

d. In cases where a taxpayer shall be unable to continue activities in the said regions, the whole or a part of the said tax liabilities shall be written off, upon production of proofs and reasons acceptable to the Ministry of Economy and Finance.

Article 166: The State Taxation Affairs Organization shall be authorized to print tax bonds and supply them to all taxpayers. The said bonds shall be registered and non-negotiable. Taxpayers shall be authorized to submit the said bonds instead of cash payment at the time of paying tax. An amount equal to two percent (2%) of the advance payment per every 3-month advance payment shall be deducted from the relevant tax liability.

Article 167: In respect of those taxpayers who shall be unable to settle their tax liability in total including the actual tax amount and the fines imposed thereon, the Ministry of Economy and Finance or State Taxation Affairs Organization shall be authorized to arrange, for such tax liabilities to be settled by installment spread over a period not exceeding three year from the date of notification of finalized tax amount.

Article 168: In order to avoid collection of a double tax and to enable exchange of information concerning the income and wealth of taxpayers, the government shall be authorized to conclude Taxation Treaties with foreign governments, and put such treaties into effect after ratification of same by the Islamic Consultative Assembly. Such taxation treaties as have been concluded with foreign governments and approved by the Judiciary or the Council of Ministers prior to the effective date of this Act shall remain in force until such time when they shall be otherwise cancelled. The government shall be under the obligation to verify and notify to ICA with justification within one year after the effective date of this Act, its opinion on continuation or cancellation of the said treaties.

Article 169: The State Taxation Affairs Organization shall be authorized to instruct certain taxpayers, through a notice to be published in a highly-circulated newspaper up to the end of the month of Dey (Jan. 20), to apply certain procedures in maintaining their accounts and to use certain equipment, statements and forms in order to facilitate assessment of their taxable income. The taxpayers shall be required to comply with the said instructions as of the first day of Farvardin (21st March) of the next year. Failure in compliance with these instructions shall result in invalidation of the accounts books of the taxpayers who shall be under the obligation to maintain statutory accounts books.

The other groups of taxpayers shall be subject to a fine equal to 20% of the tax applicable at source.

Note: Should the BSTD determine that compliance with the said instructions was not possible for a taxpayer, such failure in compliance therewith shall not result in invalidation of accounts books and payment of fines as the case may be.

Article 169 (BIS): The State Taxation Affairs Organization shall be authorized to issue commercial cards, with a commercial code number on them, to the natural persons and legal entities. The natural persons and legal entities which, upon a notification by the State Taxation Affairs Organization, shall be required to apply for a commercial card, shall be duty-bound to draw up and produce invoices when carrying out transactions, in compliance with the directives which shall be prepared and duly communicated by the said Organization. Further, they shall be required to register the economic code number so assigned on the invoices, forms, papers, vouchers and documents, and submit a list of the transactions carried out to the State Taxation Affairs Organization. Failure by such natural persons or legal entities to so prepare and issue invoices or failure to register the code number of their own and that of the second party/parties to the transaction, as the case may be, or to let other individuals to use the code number assigned to such natural persons or legal entities, or to use the code number assigned to some other individual in one's own transactions, shall render such persons and entities liable to a fine equal in amount to 10% of the value of transactions carried out without observing the provisions prescribed above.

Failure to produce and submit a list of the transactions to the State Taxation Affairs Organization, in conformity with the directives issued by the said Organization, shall make such persons and entities liable to a fine equal in amount to 1% of the value of the transactions a list of which has not been duly submitted. The said fines shall be claimed by the relevant Taxation Affairs Administration, duly observing the period of respite laid down in Article 157 of the present Act. Accordingly, the taxpayer shall be required to pay the amount so claimed, within thirty (30) days after notification of the claim. Otherwise, the taxpayer shall be considered as a protestor and the issue shall be referred, for consideration and pronouncement of the final judgment, to the Board of Settlement of Tax Disputes (BSTD).

The judgment pronounced by the BSTD shall be final and binding. The said fines shall not be exempted and shall be duly collected in conformity with the executive regulations mentioned in the present Act.

Note 1: The natural persons and/or legal entities using the economic code number assigned to another entity, shall, collectively with the entities whose economic code number has been used, be responsible in respect of payment of the income tax as well as the fines mentioned in above Article 169 bls.

Note 2: If the parties to a transaction shall refrain from observing and complying with the duties laid down in the present Article when carrying out transactions, they shall collectively be held responsible. However, in cases where the purchaser shall refrain from producing and submitting its economic code number, if the vendor shall proceed to notify, within one (1) month, to the State Taxation Affairs Organization, the name and particulars of the purchaser as well as the object of transaction, the vendor shall not be liable to the fines and penalties mentioned above.

Note 3: The legal entities and the artisans mentioned in Clauses (a) and (b) of Article 95 of the present Act, shall be required to keep and maintain the invoices relevant to the purchases carried out, during the year of their revenue operations as well as the subsequent year, in order to submit same to the tax assessors if so requested, otherwise, they shall be liable to a fine equal in amount to 10% (ten percent) of the value of the invoices not so submitted.

Article 170: The Board of Settlement of Tax Disputes shall have competence to investigate and decide upon the

disputes arising between a taxpayer and the Taxation Affairs Administration in assessment of applicable taxes provided in this Act except in cases where a different authority is provided for such purposes according to some other Articles of this Act.

Article 171: The employees of the Ministry of Economy and Finance and those of the State Taxation Affairs Organization shall not be authorized to approach and seek recourse to the tax authorities in the capacity of attorneys or representatives of taxpayers, either during their term of office or when standing-by ready for service.

Article 172: 100% of the sums which shall be paid to the accounts specified by the government for reconstruction, help and the like on gratuitous basis, and also the money paid or allocated, or aids in kind extended by both natural persons or juridical entities for the repair, mobilization, construction or completion of schools, universities, higher education institutes and health and medical centers, or training camps, sanatoriums and social welfare centers, libraries and (government) cultural and arts centers, shall be deducted from the taxable income of the turnover for the year of payment (from the source to be chosen by the taxpayer) in accordance with the criteria to be determined by the ministries of Education; Sciences, Research and Technology; Health and Medical Treatment and Education; and Economy and Finance.

Article 173: This Act shall come into force from the first day of the month of Farvardin 1368 (March 21, 1989). The regulations of this Act shall cover any and all taxes and income taxes applicable to incomes earned after the effective date of this Act, as the case may be, and income tax of the natural persons and legal entities pertaining to the fiscal year which ends during the first year of implementation of this Act. All other tax laws and regulations being inconsistent with or contrary to the present Act shall stand null and void.

Note: Collection of evacuation duties laid down in Article 8 of the Law on Stabilization of Rentals, ratified in 1352, shall stand null and void upon enforcement of the present Act.

Article 174: Taxes on incomes earned prior to Iranian year 1368 and after the Iranian year 1345 as well as the direct taxes accruing during the said period shall be considered as residuary taxes and shall be governed by regulations prevailing on the date of earning the relevant incomes in respect of the taxable income, tax rates, taxpayers duties, and statute of limitation. The present Act shall govern such matters as the procedure of investigation, verification, and liquidation.

Note 1: The taxes applying to incomes earned and accrued prior to 1967 (1345) which still remain unsettled, as of the date of approval of this Act, cannot be claimed any longer.

Note 2: The transfers mentioned in Article 180 of the Direct Taxation Act of Esfand 1345 and its subsequent amendments carried on prior to the effective date of this Act, shall be added to the inheritance of the heirs concerned in case of death of the transferor and the applicable tax shall be collected according to the provisions of this Act after deducting there from the sums previously paid on account of the inheritance.

Article 175: The taxable limits laid down in the present Act shall biennially be adjusted, commensurate with the inflation rate, upon a proposal which shall be submitted by the Ministry of Economy and Finance and subsequently approved by the Council of Ministers.

Article 176: The State Taxation Affairs Organization shall be authorized to collect the taxes under the present Act through cancellation of stamp after finalization or arbitrary assessment.

The executive by-laws of the present Article shall be prepared by the State Taxation Affairs Organization, and shall go into effect after ratification thereof by the Minister of Economy and Finance.

#### Chapter 5: Duties of Taxpayers

Article 177: Taxpayers shall be authorized to submit to the Taxation Affairs Administration situated in their residential district, separate tax declarations which are required to be filed according to the provisions described in the present Act, for each of their sources of income and obtain the receipt thereof. In such cases, the Taxation Affairs Administration shall record the facts and circumstances in the dossier of the taxpayer concerned and forward, within three (3) days, the tax declaration for the necessary action to the relevant Taxation Affairs Administration. Submission, of tax declaration to the Taxation Affairs Administration located in one's residential district shall have the same resultant effect as submission to the relevant Taxation Affairs Administration.

The provisions made in the present Article shall be applicable to such taxpayers who have erroneously submitted to the Taxation Affairs Administration of another district located in the relative township.

Note 1: In cases where the last day of respite provided for filing a tax declaration or production of other papers and documents which the taxpayer is required to submit as per the applicable regulations, shall be a public holiday, the first working day after the holiday shall also be included in the period of respite for filing tax declarations or submission of the said papers and documents.

Note 2: The responsibility to submit tax declarations and to pay the tax applicable to the taxpayers domiciled outside Iran as well as such institutes and company's whose head office or headquarters is situated abroad, shall rest with their representatives in Iran, if any.

Note 3: The artisans shall be duty-bound to notify in writing to the Taxation Affairs Administration, the facts in connection with the commencement of their operations and activities, within four (4) months after such commencement.

Failure to do so within the respite prescribed above shall render them liable to a fine equal in amount to 10% (ten percent) of the fixed tax. Such failure shall render them deprived of all tax facilities and exemptions, effect as of



the date they shall be recognized and identified by the Taxation Affairs Administration. However, this provision shall not apply to the artisans to whom the required permits and authorizations for the activities and operations have already been issued.

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