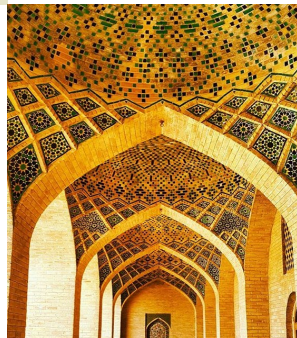




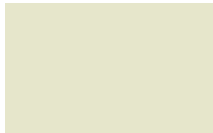
Contracts



Labor Law



Arbitration



Sanctions



BUSINESS IN  
IRAN



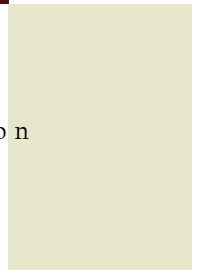
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Litigation



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Registration



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Esteemed reader,

It is a great pleasure to present to you the second edition of our legal newsletter.

We are overwhelmed by the great feedback we received for the last one. Many people responded to us in different ways. We highly appreciate your feedback!

Like every month, this edition will make you become more familiar with all kinds of business-related legal points in Iran. As mentioned before however, our focus will be on Tax law this time .

In this respect, it is necessary to point out how crucial the Iranian government considers the increase of its state income other than just from oil and gas revenues. The basic idea behind it is to hereby trying to get independent from its traditional income sources. Using the momentum of the gradual opening of the country towards international trade, many regulations and their enforcement scheme are currently in the wind of change.

Tax law is not only an essential area of law for every company but moreover has become a highly relevant part of Iran's current legal environment, too - now, more than ever.

To be part of the game it is important to know the rules. Especially, as the tax enforcement rules have most recently changed considerably, within the current Iranian year (which started on March, 21st 2016), after having stagnated over the past few decades.

We, at Persia Associates offer unique, practical and business-related legal advice for your expansion towards Iran. Our strength lies in commercial law with all its sub-categories.

Due to our long and outstanding experience in Iran and our profound knowledge about how

to advise and assist our clients from Europe, especially the DACH region, we can claim that we can bridge the gap between knowing their mentality and the way business functions in these countries.

This makes Persia Associates your first choice in terms of business related legal issues on Iran.

Please, do not hesitate to contact us with any question you may have.

Sincerely,

*Alireza Azimzadeh*

Dr. Alireza Azimzadeh, Managing Partner

# Shortcuts

## Commercial law

When a foreign investor would like to set up a business in Iran there are mainly two options: Registering a branch/representative office with foreign nationality or a limited (LTD)/private joint stock company (PJSC) with Iranian nationality. Other types of companies under the Commercial Code of Iran however, are technically available, too. Still, LTDs and PJSCs are the two most popular choices amongst foreign investors. The main points which should be born in mind while deciding which type to choose can be said to be the followings:

- The scope of activities permitted for branch and representative offices in Iran are limited. They are mainly comprised of after-sales services and the like under the Law Permitting Registration of branches and representatives offices of foreign companies which got ratified by the parliament of Iran (Majlis) in 1997. Pursuant to the executive by-laws of the Law Permitting Registration of branches and representative offices of foreign companies under No.019776T/M/78-930 it came into force in 1999.
- Both LTD and PJSC may be owned 100% by foreign legal or natural entities. Having an Iranian partner is hence no longer required.
- Some activities and businesses require prior approval issued by competent authorities before an LTD or PJSC is being permitted to register.
- To form an LTD, either natural or legal entities are required as partners. In PJSCs the minimum number of shareholders has to be three.

More on company registration shall be discussed in our 4th issue.

## Constitution

The constitution of the Islamic Republic of Iran after the Islamic revolution of 1979 portrays the structure of the country as a parliamentary democracy with a theocratic element which dictates the principle of supreme leadership as a supervisory body of all organs of the country.

The three pillars of the Iranian system, consisting of the Executive with the president at its head, the Parliament (Majlis) and the Judiciary, are all in the same rank and under the direct supervision of the Supreme Leadership. According to the constitution though, the president is officially and for representation purposes the second important figure after the Supreme Leader.

The executive body i.e. president, is being elected every four years by the people, the legislative body, namely the parliament (Majlis), is also elected by the people every four years, the legislations of which has to be ratified by a special council, called the Guardian Council. In case the parliament does insist on its legislation that has not been ratified by the Guardian Council, another body which is called the Expediency Council comes into play.

At last, there is the Judiciary whose head is being elected by the Supreme Leader.

Complementary to the above elaborated, one should get acquainted with the most important organizations and bodies, once entering the Iranian market. Some of the most important ones are considered to be:

- The Company Registration General Office under the State Organization for Registration of Deeds & Properties,
- The Iranian National Tax Administration under the Ministry of Economic Affairs and Finance
- The Islamic Republic of Iran Customs Administration under the Ministry of Economic Affairs and Finance
- The Iran Chamber of Commerce, Industries, Mines & Agriculture
- The Ministry of Foreign Affairs

## Labour law

According to the pertinent rules and regulations, for a foreign national there are two ways to obtain a work permit in Iran:

- 1) Registering an enterprise legally
- 2) An Iranian employer submits an inquiry to the Department General for Employment of Foreign Nationals

As in case of the latter one, number 2, before concluding any contract with foreign experts, Iranian employers should deliver the request and the required documents to the Department General for verification. For further investigation the documents are being sent to the Technical Board for Employment of Foreign Nationals. The approval or disapproval of the board is thereby going to be announced to the employer through the related experts soon after. This process can practically take up to one and a half months.

In the past, the responsibility of issuance, extension and renewal of nationwide work permits for foreign nationals used to be carried out in Tehran (at the Department General for Employment of Foreign Nationals).

For the welfare of the applicants in the provinces however, the authority of these affairs has been delegated to a certain degree to the Departments General of Cooperatives, Labor and Social Welfare in the provinces. Therefore, employers and foreign nationals can refer to the provincial Departments General for issuance, extension or renewal of their work permit.

It is crucial to know, that employers who hire foreign nationals who do not have a work permit or one that is expired or employ them in jobs other than those stipulated in their work permits or do not notify the Ministry of Cooperatives, Labor and Social Welfare about cases where the employment agreement between them and foreign nationals is terminated, shall be sentenced to prison terms or cash fines.

This topic will be elaborated in our September issue.

## Focus on Tax Law

- Introduction
- Questions & Answers
- Main features of Iranian Tax Law

# An Introduction

One of the means by which the development of countries is measured is through their developed and functioning tax system. In this sense, Iran's taxation system can look at a long history dating back to the ancient times. In the modern time, too it has one of the oldest tax systems in Asia and permanently strives to modernize and standardize it. Most recently beginning with the new Iranian year (which started on March, 21st 2016), the tax system has been subject to significant changes in an attempt to modernize, promote and encourage investment and domestic production in the country by providing tax exemptions on one hand and placing stricter enforcement measures in prevention of tax avoidance on the other.

Having in mind the current problems the Iranian taxation system is facing, the perspective of a comprehensive tax program mainly focuses on three topics:

- Identifying and tracing the information flow of economic activities throughout the country
- Processing the data gathered
- Assessing taxes and finally collecting the right taxes

However, in order to actually fulfil these objectives, arranging and taking other relevant supporting measures is necessitated. Bearing in mind the perspective of an appropriate tax situation originating in the experiences of successful taxation systems throughout the world, it becomes clear that tax collection costs have to decrease in order to achieve a proper tax situation and in turn, the taxpayers' level of satisfaction will increase. Furthermore, tax evasion will have to move down as well as the tax income levels move up. Eventually, this will enhance the possibility of an actual accomplishment in the Iranian taxation system.

The strategies and goals set forth on the road to achieve an optimal taxation system - the Iranian National Tax Administration ("INTA") has been following the first major amendment to Iran's taxation system ever since. INTA can first and foremost be regarded as an organ creating an integrated tax system and promoting the use of modern methods and technologies. It as well creates coherent databases, takes care of the mechanisation and standardisation of processes, the smart identification of taxpayers and the effects of tax revenues on increasing social welfare & decreasing government budget deficits. INTA is also in charge of applying

methods for effectively improving tax compliance, extending and deepening relationships with stakeholders as well as extending relationships with international professional institutions and adopting the best practices of other tax systems.

Furthermore, it has to re-organize tax exemptions, make use of private sector potentials, take the opinions of religious authorities into consideration and identify with them as well as ranking and licensing real and legal tax advisors and introducing them to taxpayers in order to promote tax advisory services.

In addition, according to the principle 110 of the Constitution, taxes and tax exemptions/concessions are defined by virtue of the law. Hence, tax policies seem to be feasible through creating appropriate legal frameworks. In cases related to tax administration, some regulations are approved in the articles of the related laws and others are presented to the Council of Ministers, Ministry of Economic Affairs and Finance or INTA.

Plans and strategies adopted by the Iranian tax system are defined at different levels as follows:

## 1) The I.R.I. Vision Plan for 2025:

The overall perspective of tax policies have been defined in the form of general economic plans by the Supreme Leader of the Islamic Republic of Iran and the Expediency Assembly and have been included in the I.R.I Perspective Document;

## 2) General Five-year Development Plan Policies:

In line with the vision plan, the five-year development plans - currently, the unprecedentedly fifth plan has been extended for another year up till March, 21st 2017 - are being proposed by the cabinet of ministers and ratified by the parliament to be elevated to the status of law, too. The government tried to propose the 6th plan on schedule but the ratification did not get granted due to the changes of the parliament. Another reason for this as well was the fact that many points still had to be kept on hold in order to not having a similar estimation for the 6th plan as for the 5th. In a try to elevate this instrument to its position before the embargo got lifted, the instrument to be relied on could practically be seen as a general five-year guideline of the country's economic activities.

Tax policies stipulated in the five-year-development-plans are then rendered into administrative laws which are going to be somewhat quantitative. In some cases, the intended strategies are also stipulated in the articles

of laws or in the documents thereof;

### 3) Annual Budget:

Other regulations such as "the annual budget of the country" defines short-term financial policies as well as absolute quantitative plans.

4) In addition, the laws related to "direct and indirect taxes" which specify tax policy management procedures are considered another source of tax plans and strategies. Approvals, regulations, instructions, by-laws, circular letters and executive manuals which lie within the responsibility of the Council of Ministers and the Ministry of Economic Affairs and Finance are also assumed to define some strategies to be adopted by INTA.

In our final chapter a general overview of DTA (Double Taxation Avoidance) and VAT as well as taxes on import shall be provided.

## The Iranian Tax System

Generally speaking, the Iranian tax regime is divided into two general categories of direct and indirect taxes. There are two major types of direct taxes including income taxes and property taxes.

Each category of direct taxes in turn, is divided into several sub-parts. The table below briefly shows all the various types of taxes in the Iranian taxation system:

Direct Taxes	Income Taxes	Real Estate Income Tax
		Employment Income Tax
		Business & Professional Income Tax
		Corporate Income Tax
		Tax on Incidental Income
	Property Taxes	Tax on Transfer of Real Properties
		Inheritance Tax
		Stamp Duties
Indirect Taxes	Value-added Tax	
	Tax on Imports	

As elaborated in the first issue, direct taxes are mainly governed by the Direct Taxes Act ("DTA") as amended on July, 22nd in 2015, bringing about major changes.

On the other hand, the value added tax ("VAT") is governed by the VAT Law which was approved by the Islamic Consultative Assembly on January, 29th in 2008 and came into force on September, 22nd of the same year. Its rate of 3% has been increased by 1% each year ever since; hence it is currently at 9% for the second year already

The supply of goods and services in Iran as well as their import are subject to VAT, too. Taxes on imports are currently collected by the Islamic Republic of Iran Customs Administration ("IRICA"). Therefore, they are not within INTA's direct authority but in an ever increasing accelerated pace. The interrelation of these two sub-organizations of the Iranian Ministry of Finance and Economic Affairs is being guaranteed by means of technology and better coordination.



# General Questions & Answers

## **Q: Is there a corporate profit tax in Iran?**

A: Yes, there is. According to the „Direct Taxation Act of Iran“ all profits made in Iran have to be taxed 25%. The shareholder's tax however is zero-rated. This law does not differ between foreign or Iranian companies.

With the current Persian year of 1395 (21.3.2016-20.3.2017) the government has started to change tax procedures profoundly and is hereby aiming to claim taxes more efficiently. This shall be achieved by having banks disclosing their bank accounts, charging VAT (value added tax) more strictly than ever and having electronic tax declarations done more extensively.

## **Q: Is there a double taxation agreement between Countries and Iran?**

A: Yes, indeed and it is successfully put into practice by most of the countries (list available on request).

Generally speaking, the taxation takes place in the country where the revenues have been generated. If a German subsidiary for example, declares the taxes of the revenues having been made in Iran on-site, the German tax office will only deduct the possible tax difference rate.

## **Q: What amount does a company have to spend on taxes on wages?**

Up to the amount of 13 million Rial monthly (which equals about 325 Euro) no income tax will arise. 10% income tax has to be paid by the employee, if the amount reaches 70 million Rial. The only case the withholding tax still occurs is in relation to the income tax according to the new procedure as of this Iranian year.



**Q: How high is the VAT in Iran and is it deductible?**

The VAT in Iran got introduced seven years ago with the amount of 3%. Since then it has been increased by 1% every year. Within the current Persian year now it has been at 9% consecutively for two years.

The VAT is first charged on the import of goods on the basis of the CIF product value. From this point on the importer passes the VAT on to the wholesaler who in turn hands it over to the retailer and therewith finally to the consumer.

**Q: Do transfer pricing rules exist within the country? If so how are they applied?**

For basic food, pharmaceutical products and cars there is a price regulation which gets controlled by the respective public authority in charge of it (this is either “Taazirate Hokumati” or the Ministry of Health if applicable).

Apart from that, prices are ascertained upon ratification conducted by the companies’ board of directors which legally has to be in the defined margin (wholesaler and retailer) of the Iranian Organization for the Protection of Consumers and Producers (OPCP).

# Main features of Iranian Tax Law

## Direct Taxes Act

The Direct Taxation Act ("DTA") imposes a tax on the income of "legal entities", a term which encompasses companies, partnerships, cooperatives and other bodies of similar nature.

Iranian entities are subject to tax on all their income wherever earned according to Article 1 of the Direct Taxation Act which reads as follows:

**Article 1** *The following persons shall be liable to taxation:*

- (1) *All the owners, whether real or legal persons, with regard to their personal and real estates located in Iran, in view of the provisions of Title B;*
- (2) *Every Iranian real person, residing in Iran, on all his incomes derived in Iran or abroad;*
- (3) *Every Iranian real person, residing abroad, on all his incomes derived in Iran;*
- (4) *Every Iranian legal person on all its profits derived in Iran or abroad;*
- (5) *Every non-Iranian person (whether real or legal) on the incomes or profits derived by such a person in Iran, as well as from Iranian sources for granting of licenses or other rights, and or for the provision of trainings and or technical assistance, and for the transfer of cinematograph films (whether the latter income or profit is derived under the title of film prices or screening fees, or under any other titles).*

## Taxable income

With regard to Iranian non-commercial legal persons that are not established for the distribution of profits, and which therein should engage in profit-making operations, the total taxable income derived from such activities shall be taxed at the rate of 25% (see Note 1 of Art. 105 of DTA).

Taxable profits declared by companies, conventional cooperative unions and public joint stock cooperative companies shall be subject to 25% of allowances from the standard rate of 25% provisioned in Article (105) of the Direct Taxes Act (see Note 6 of Art. 105 of DTA).

Foreign legal persons and entities residing abroad shall be taxed at the flat rate of 25% in respect of the aggregate taxable income derived from the operation of their investment in Iran or from the activities performed by them. This should happen directly or through the agencies in Iran e.g. subsidiaries, representatives, agents,

and the like. The income received from Iran by such persons and entities for granting licenses and other rights, transferring technology and/or providing training services, technical assistance shall be subject to taxation with respect to the income they may earn under any titles for their own account (see Note 2 of Art. 105 of DTA).

However, there are two exceptions in this regard:

Foreign insurance enterprises earning income by accepting reinsurance from Iranian insurance institutions shall be taxed at the rate of 2% on their premium income and on interest on their deposits in Iran; whereas Iranian insurance institutions which are engaged in insurance business in the country of their foreign reinsurance enjoy tax exemption in that country for their own reinsurance operations and therefore the said foreign reinsurers shall also be exempted from taxation in Iran (see Note 5 of Art. 105 of DTA).

The tax charged on foreign airline and shipping concerns shall be 5% of all amounts received by them for the carriage of passengers, freight, etc. from Iran, whether such amounts are received in Iran, at the destination or en route (see Art. 113 of DTA). Whenever the tax applicable to Iranian airlines for shipping concerns in a foreign country is more than 5% of the fares received by them, and the situation is declared by the respective Iranian organization, the Ministry of Economic Affairs and Finance shall increase the tax of the airline and shipping concerns of such countries on a par with the rates applied to the Iranian concerns (see Note of Art. 113 of DTA).

At the time of computation of the income tax of legal persons, whether Iranian or foreign, the pre-paid taxes shall be deducted from the applicable tax according to the pertinent regulations, and any overpaid amounts shall be refundable (see Note 3 of Art. 105 of DTA).

The legal persons shall not be subject to any other tax on the dividends or partnership profits they may receive from the capital recipient companies (see Note 4 of Art. 105 of DTA).

In case of payments referring to other than the income tax they are to be collected on the basis of taxable income and the tax of relevant taxpayers shall be computed at the flat rate of 25% after deducting non-tax charges (see Note 5 of Art. 105 of DTA).

# Legal and Economic Development News

## Iran safest place for foreign investors

The Islamic Republic of Iran remains to be the safest and most secure country for foreign investors, says member of the Presiding Board of Iran's parliament.

'Iran, compared to other countries in the world, is far safer and more secure for foreign investors and this has made foreign investors to rush to do business with the Islamic Republic,' Member of Parliament Mohammad Ghasim Osmani said in a provincial administrative meeting on Sunday.

Osmani, who represents the people of the city of Boukan in the Iranian parliament, also said that Washington and its allies are trying by portraying Iran as unsafe for investors, to stop foreign investments in the country.

'Countries like the United States and its allies by deploying anti-revolutionary and Takfiri terrorist groups in Iran's border areas portray the country as an unsafe and insecure place to discourage foreign investments,' he said.

Source: Financial Tribune

## Foreign Investment Promotion

Vice President for Legal Affairs Elham Aminzadeh said Iran is going to sort out legal barriers on the way of development of the oil industry, urging the private sector to help the government in identification of the loopholes.

Speaking at the policy-making council of the Second National Convention of Energy Law on Tuesday, she added, "If we prove successful in securing oil industry's rights at international forums and in attracting the foreign investment, it will naturally strengthen the private sector."

She said the conference slated for October 12-13 can facilitate domestic and international operation of the country's oil and gas industry and also contribute to the performance of the public and private sectors.

Identification and screening out of the problematic rules will be discussed in one of the panels, Aminzadeh said.

Deputy Petroleum Minister Rokneddin Javadi told the council members that legal and contract departments in the industry have not kept in pace with achievements gained by the technical units.

"Laws which support financial sponsors must provide a secure atmosphere for domestic and foreign investors, while some of these laws have added to the bureaucracy and created more obstacles," he said.

Javadi welcomed passing of laws which permit foreign investment but added that certain rules and monitoring agencies have acted as a hurdle on the development of projects.

Nasrollah Embrami, secretary of the conference, also said at the meeting that practical guidelines to be presented at the panels or included in the papers will be seriously followed up.

Source: Financial Tribune

# About Persia Group

**Persia Associates International Law Office** is specialized in unique practical and business related legal advice in Iran as well as in the legal firm of confidence of some embassies in Iran. For our international clients we provide experience in International Law, Commercial Law, Technology Law and Intellectual Property Law. This expertise backs up our business development and strategic consultancy services that are summed up in Persia Consulting as a separate arm of the Group.

**Persia Consulting Strategy Consultants** is your professional partner in providing specialised commercial advice on how to enter Iran and expand business, establish companies and partnerships, invest and obtain negotiation support in order to build long-lasting business relations. Our portfolio comprises of market analysis, partner search, registration with Iranian authorities, business development services as well as strategic management consultancy for international corporations in Iran.

Throughout the past years of successful cooperation we have accompanied our international clients from various industries into the Iranian market. This enabled us to gather an extensive know-

Our partners and associates combine a superior academic background with international and Iranian legal experience being graduates of top-tier universities and law schools in Iran and Europe. The team is being headed by Dr. Alireza Azimzadeh who obtained his doctorates degree from the University of Vienna Law School. With over 23 years of experience in the Iranian business, he sets the standard for outstanding legal advice in Iran, especially for companies of the DACH region of Europe, Spain and Nordic countries.

how about most market segments and at the same time expand our top-class networks.

Nevertheless, our focus is on five main fields: Automotive, consumer business, energy, the construction industry and on the hospitality sector. Our activities mainly emphasise on the operative implementation of the parameters and objectives of business development as well as on sales and marketing strategies we develop together with the clients. With strategic partnerships and in cooperating with international and national partners, we ensure a high performance standard and a wider reach of business.

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