Iranian Investment Tax Incentives:

Laws and Regulations

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Table of Contents:

	Chapter No.	Title	Pages
1	One	General Investment Tax Incentives	3-29
2	Two	Tax Incentives for the Cooperative Sector	30-32
3	Three	Tax Incentives in Support of Less-Developed Regions	33-35
4	Four	Capital Market Tax Incentives	36-38
5	Five	Tax Incentives in Support of the Agricultural Sector	39-40
6	Six	Tax Incentives for the Promotion of Exportation	41-43
7	Seven	Tax Incentives for the Promotion of Trade-Industrial Free Zones and Special Economic Zones	44-45
8	Eight	Tax Incentives for the Promotion of Knowledge-based Enterprises	46-47
9	Nine	Tax Incentives for the Promotion of Tourism Industry	48-49
10	Ten	Other Tax Incentives	50-63

Chapter One:

General Investment Tax Incentives

Article 132, Direct Taxes Act:

The income declared for producing and mining activities, which is derived by non-government legal persons in producing or mining enterprises, for whom exploitation licenses are issued, or with whom extraction and sale contracts are concluded by relevant ministries as of the date of entry into force of the present Act, as well as the income derived from services delivered by hospitals, hotels and touristy residential centers, namely, non-government legal persons, for whom exploitation licenses or permits are issued by relevant legal authorities as of the aforementioned date, shall be subject to a zero tax rate for a period of 5 years beginning from the date of exploitation or extraction or activity start up. As regards the less-developed regions, the provision shall apply to a period of 10 years.[1]

A) Zero-rate taxation refers to a method whereby the taxpayers in question are obliged to file returns and submit their statutory books or their accounting documents, if any, to the Iranian National Tax Administration in accordance with the arrangements and deadlines required by this Act with regards to their incomes. The Iranian National Tax Administration shall be obliged to investigate such tax returns and assess the taxable income of such taxpayers based on the supporting documents and the tax returns information and shall apply a zero tax rate to the resulting taxable income.

B) As for producing or service-oriented enterprises and other centers mentioned in the present Article, if, during the period of exemption, they have more than 50 employees, the term of application of the aforementioned

[1] In view of Article (31) of the Law for Removing Obstacles to Competitive Production and Promoting the Country's Financial System approved on 21/04/2015, this text and its Paragraphs and Notes substituted the former text of Article (132) of Direct Taxes Act and the Notes under it.

exemption shall increase, providing that they raise the number of employees at least for 50% annually. Consequently, there will be an increase of one further year of tax exemption for each annual increase of at least 50% of their employees. The number of employees working in such enterprises, as well as the rate of increase in the number of employees shall be determined upon the confirmation of the Ministry of Cooperatives, Labor and Social Welfare based on documents relevant to the lists of employees' social security insurance. In case the minimum rate of increase in the number of employees is lowered down in the subsequent year for which the tax incentive prescribed in this Paragraph has been granted, then, the tax amount exempted for that particular year shall be claimed and collected. Cases of retirement, redemption or resign are not regarded as decrease.

C) The term of application of the zero rate taxation for enterprises mentioned in the present Article shall increase for 2 further years, if they are located in special economic zones, and for 3 further years, if they are located in industrial towns or special economic zones of less-developed regions.

D) The requirement for entitlement to any tax exemptions by real and legal persons engaged in free zones and other regions of the Country is filing tax returns within the due deadline. The legal persons' tax returns include the balance sheet, as well as profit and loss account in accordance with samples prepared by the Iranian National Tax Administration.

E) In order to promote and increase the levels of economic investments in entities subject to the present Article, in addition to the protection period for zero-rate taxation, investments in less-developed regions and other regions shall also be supported in other ways as follows:

1) For less-developed regions:

In the computation of taxes relevant to the subsequent years following the zero-rate taxation period pursuant to provisions prescribed in the present Article, as long as the aggregate taxable income is twice the registered and paid-up capital, the zero rate shall still apply but beyond that level, the due taxes shall be computed and collected at the rates prescribed in Article (105) of this Act and the Notes under it.

2) For other regions:

In the computation of taxes relevant to the years following the zero-rate taxation period pursuant to provisions prescribed in the preamble of the present Article, 50% of the taxes shall still be zero rated and the remaining 50% shall be computed and collected at the rates prescribed in Article (105) of this Act and the Notes under it. This provision will persist unless the aggregate taxable income of the enterprise in question equals its registered and paid-up capital, but beyond that level, 100% of the due tax shall be computed at the rates prescribed in Article (105) of the present Act and the Notes under it.

The tax incentives mentioned in Sections (1) and (2) of the present Paragraph shall also apply to the income derived from transportation activities by non-government legal persons. If such non-government legal persons have been established prior to the present amendment, they shall be entitled to the tax incentive mentioned in this Article, if they have any reinvestment.

Any investments authorized by receiving legal licenses from relevant legal authorities for the establishment, development, reconstruction and renovation of the enterprises in question to create fixed assets, except for lands, shall also be subject to the rule of this Paragraph.

F) The exception stipulated for lands at the end of Paragraph (E) is not applicable in cases of investment by non-government legal persons on enterprises of transportation, hospitals, hotels and touristy residential centers, but merely to the extent prescribed in legal licenses issued by relevant authorities.

G) In cases of decrease in the registered or paid-up capitals of the above-mentioned persons who have already taken benefits from the tax incentive granted by the present Article for increasing their capital, the tax due and the fines thereof shall be claimed and collected.

H) If the investments subject to the provisions of the present Article have been made in partnership with foreign investors under the license of the Organization for Investment, Economic and Technical Assistance of Iran, then for any 5% of foreign investment partnership, there will be a 10% increase in the tax incentive prescribed by this Article, which shall not exceed 50% of the registered and paid-in capital.

I) Foreign companies that produce well-known brand products in Iran by exploiting capabilities of domestic producing enterprises, shall be subject to the provisions of the present Article as of the date of conclusion of their cooperation contract with the Iranian producing enterprise all throughout the zero-rate taxation period granted to that producing enterprise, provided that they manage to export at least 20% of their products. Moreover, after the expiry of the zero-rate taxation period, such foreign companies shall still be subject to the 50% relief in the tax rate with regard to the profits derived from the sale of their products during the period stipulated in this Article.

J) The zero-rate taxation and incentives provisioned in this Article shall not apply to the income of producing and mining entities established within a 120-kilometer radius from the center of Tehran Province or within 50-kilometer radius from the center of Isfahan and within a 30-kilometers radius from the administrative centers of provinces and cities with a population exceeding 300,000, according to the latest population and housing census.

However, producing enterprises involved in the area of information technology, upon the confirmation of relevant ministries and the Vice-Presidency for Science and Technology shall be entitled to the privileges provided by this Article. Moreover, producing and mining enterprises established in all special economic zones and industrial townships, except for special economic zones and industrial townships established within the 120-kilometer radius from the center of Tehran Province shall be zero-rated and shall be entitled to the tax incentives provided by this Article.

As regards the special economic zones and industrial townships or producing enterprises located within the territory of two or more provinces or cities, the criterion for making decision on the territory to which such zones or townships belong shall be stipulated in a bylaw to be approved by the Council of Ministers, within three months from the approval of the present Act, upon the joint proposal of the Ministry of Industry, Mine and Trade, the Ministry of Economic Affairs and Finance, the State Organization of Management and Planning [Plan and Budget Organization] and the Department of Environment of the Islamic Republic of Iran.

K) The list of less-developed regions, including the names of provinces, townships, counties and rural districts, shall be prepared, within the first three

months of the 5-year term of each development plan by the State Organization of Management and Planning [Plan and Budget Organization] in collaboration with the Ministry of Economic Affairs and Finance and will be approved by the Council of Ministers to be applicable until a new list is approved. The date of activity start up, as verified by relevant competent authorities, will be the basis for granting tax incentives for less-developed regions.

L) All enterprises for internal and international tourism that have, prior to the entry into force of the present Article, received their exploitation licenses from relevant legal authorities shall be exempt from the payment of 50% of the tax on their declared income up to 6 years after the date of entry into force of this Article. This provision, however, does not apply to incomes derived from sending tourists abroad.

M) One hundred percent (100%) of the income declared by tourism and pilgrimage travel agents that have received their licenses from relevant authorities shall be zero rated, provided that such income has been derived from foreign tourists or from sending pilgrims to Saudi Arabia, Iraq or Syria.

N) Zero-rate treatment as provisioned by the present Law shall only apply to the income declared by taxpayers and does not apply to hidden incomes. This exclusion shall be applicable in regard with all cases of zero-rate taxation provisioned in the present Act or in any other relevant laws.

O) Study and research costs of legal persons from the private and cooperative sectors engaged in producing and industrial enterprises, holding exploitation licenses from relevant ministries shall be exempt from the payment of a maximum of 10% of such persons' declared tax in the year of accrual, provided that such study and research activities have been carried out through

contracts concluded with universities or other research and higher education centers holding finalized licenses from the Ministries of "Science, Research and Technology" or "Health and Medical Education", within the framework of the State Comprehensive Scientific Map. The latter mentioned contracts shall be eligible for the concerned purpose, only if research councils of the universities or research centers involved have already approved the annual progress reports of the contracts. Moreover, for the entitlement to the exemption, the income declared by such enterprises for producing and industrial activities shall not be less than IRR 5,000,000,000. The study and research costs, which are taken into account as the tax paid by such persons, shall not be accepted as allowable expenses for tax purposes.

The administrative bylaw of this Paragraph will be approved by the Ministers of "Economic Affairs and Finance", "Industry, Mine and Trade", "Science, Research and Technology" and "Health and Medical Education" upon the proposal of the Iranian National Tax Administration.

Note (1) All tax exemptions and zero-rate privileges provisioned by existing laws, other than laws and regulations mentioned in the present Article shall [also] be applicable as of the beginning of the year *1395* (i.e. as of March 20, 2016).

Note (2) The administrative bylaw of the present Article and the paragraphs under it, will be prepared, within 6 months of the date of entry into force of this Act, by the Ministries of "Economic Affairs and Finance" and "Industry, Mine and Trade" in collaboration with the Iranian National Tax Administration to be approved by the Council of Ministers.

Administrative By-law of Clause (J), Amended Article (132) of Direct Taxes Act, Pursuant to Article (31) of the Law for Removing Obstacles to Competitive Production and Promoting the Country's Financial System Approved in 2015

Reg. No : H52319 T/89478

Reg. Date : 03/10/2015

Council of Ministers

Ministries of "Industry, Mine & Trade" and "Economic Affairs & Finance"

State Organization of Management & Planning [Plan and Budget Organization]

Department of Environment of the Islamic Republic of Iran

Secretariat of the Supreme Council of Iran's Free Trade, Industrial and Special Economic Zones

In its session of 30/08/2015, the Council of Ministers approved as follows the Administrative By-law of Clause (J) of Amended Article (132) of Direct Taxes Act, pursuant to Article (31) of the Law for Removing Obstacles to Competitive Production and Promoting the Country's Financial System approved in 2015 upon the proposal jointly made by Ministries of "Industry, Mine and Trade" and "Economic Affairs and Finance" as well as the "State Organization of Management and Planning" [Plan and Budget Organization] and the "Department of Environment of the Islamic Republic of Iran", on the strength of the provisions stipulated in the Afore-mentioned Clause:

Article (1):

In this By-law, the following terms shall have their relevant meanings as described below:

A) ***Territory***: The aerial distance within 120-kilometer radius from [the center of] Tehran (excluding industrial townships located in Qum and Semnan Provinces), or within 50-kilometer radius from [the center of] Isfahan, or within 30-kilometr radius from other centers of provinces and cities with a population exceeding 300,000;

B) ***Industrial Townships***: A township which established or to be established on the strength of the Law on Establishment of Industrial Townships of Iran approved in 1984 and its subsequent amendments; [and]

C) ***Special Economic Zones***: A zone established or to be established on the strength of the Law on Establishing and Running Special Economic Zones of the Islamic Republic of Iran approved in 2005.

Article (2):

In respect of producing enterprises, industrial townships and special economic zones within the territories of two or more cities or provinces, the criterion for determining the territory for zero-rate taxation purposes and for granting the tax incentives stipulated under Clause (J) of amended Article (132) of Direct Taxes Act[1], shall be as follows:

[1] Clause (J) of amended Article (132) of Direct Taxes Act reads as follows:

The zero-rate taxation and incentives provisioned in this Article shall not apply to the income of producing and mining entities established within a 120-kilometer radius from the center of Tehran Province or within 50-kilometer radius from the center of Isfahan and within a 30-kilometers radius from the administrative centers of provinces and cities with a population exceeding 300,000, according to the latest population and housing census.

However, producing enterprises involved in the area of information technology, upon the confirmation of relevant ministries and the Vice-Presidency for Science and Technology shall be entitled to the privileges provided by this Article. Moreover, producing and mining enterprises established in all special economic zones and industrial townships, except for special economic zones and industrial townships established within the 120-kilometer radius from the center of Tehran Province shall be zero-rated and shall be entitled to the tax incentives provided by this Article.

A) If the producing enterprise, industrial township or special economic zone is located within the territory of the city of Tehran (regardless of whether it is [also] located [at the same time] inside or outside of other city or cities), it shall be subject to provisions of Tehran territory.

B) In other cases, if the producing enterprise is located within the territories of two or more cities in different provinces, it shall be subject to provisions of the province where the producing enterprise is located. Also, in cases where a producing enterprise is located within two or more cities of a single province, it shall be subject to provisions of the [administrative] center of the province or cities with a population exceeding 300,000 inhabitants of that province, as the case may be.

Article (3):

In the event of a dispute between the Head Tax Affairs Office and a producing enterprise regarding the distance between the said enterprise and the centers of the provinces and cities with a population exceeding 300,000 inhabitants, the opinion of the Ministry of Roads and Urban Development shall be taken into accounted [for dispute settlement] based on an inquiry to be made by the Iranian National Tax Administration.

Article (4):

The criterion for making decision on the territory to which a producing or mining enterprise belong shall be the latest divisions of on the [national boundaries] of state territories and on the boundaries of urban territories at the time of issuance of

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As regards the special economic zones and industrial townships or producing enterprises located within the territory of two or more provinces or cities, the criterion for making decision on the territory to which such zones or townships belong shall be stipulated in a bylaw to be approved by the Council of Ministers, within three months from the approval of the present Act, upon the joint proposal of the Ministry of Industry, Mine and Trade, the Ministry of Economic Affairs and Finance, the State Organization of Management and Planning and the Department of Environment of the Islamic Republic of Iran.

exploitation licenses or conclusion of a contract for the extraction and sale by relevant ministries, and subsequent changes in such boundaries shall not affect the application or non-application of zero-rate treatment as well as granting/non-granting of incentives provisioned in Article (132) of Direct Taxes Act.

Article (5):

The producing and mining enterprises which have received valid licenses required for their investments prior to the date when the present By-law is served shall still to subject to privileges of Clause (J) of Article (132) of Direct Taxes Act.[1]

Signed by:

Ishaq Jahangiri

Vice-President [of the I. R. Iran]

[1] Article (5) was added to the body of By-law as per the approval No. H53384 T/36169 issued by the Council of Ministers on 14/12/2017.

The Administrative By-law of the Amended Article (132) of Direct Taxes Act, Pursuant to Article (31) of the Law for Removing Obstacles to Competitive Production and Promoting the Country's Financial System *(Approval No. H52642 T/165311 dated 06/03/2016)*

Chapter One: Generalities

Article (1):

In this By-law, the following terms shall have the meanings as described below:

A) *Act*: Direct Taxes Act approved in 1988 and its subsequent amendments

B) *Producing and mining enterprises*: Enterprises holding exploitation licenses from or having extraction and sale contracts with relevant legal authorities for the purpose of producing a specified product or exploitation and exploitation of mines.

C) *Information technology producing enterprises*: enterprises holding exploitation licenses from relevant legal authorities that produce and provide software services.

D) *Declared income*: The value of sale of goods or provision of services declared by the taxpayer in the tax return filed with the tax affairs office in due time.

E) *Exploitation license*: A license issued as 'exploitation license' by relevant legal authorities in accordance with the applicable regulations and directives. Other licenses issued under titles are not considered to be exploitation licenses. Exploitation licenses having specific terms of validity as well as temporary exploitation licenses are accepted as 'exploitation licenses' during their validity periods.

F) *Investment license*: A written permission issued to applicants by relevant legal authorities for the purpose of investing on the establishment, development, reconstruction and renovation of producing and mining enterprises as well as hospitality enterprises, hotels, tourist and transportation centers to create fixed assets (including land and other fixed assets).

G) *Economic investment*: A set of measures such as purchase of lands and buildings or construction of buildings (whether in a purchased land or in the area of the

previous enterprise), purchase and installation of equipment, facilities and machinery, and purchase of vehicles and technical knowledge based on permissions issued by relevant authorities and [aiming at] economic investment.

H) *Reinvestment*: An economic investment undertaken for the development, reconstruction and renovation of existing enterprises holding exploitation licenses or industrial activity licenses from relevant legal authorities, as the case may be.

I) *Commencement of exploitation, extraction and operation*: Date of issuance of the exploitation license or conclusion of the contract for extraction and sale or licenses of manufacturing, mining and service activities of hospitals, hotels, residential / touristy / transport centers, as the case may be, shall be taken as the date of exploitation or extraction or operation, unless the date of exploitation or extraction or operation has separately been mentioned [in such licenses].

J) *Hotels and touristy residential centers*: enterprises which, after obtaining a license from relevant legal agencies or necessary permits from the Cultural Heritage, Handicrafts and Tourism Organization and subject to relevant laws and regulations establishes and operates [such businesses as] hotels, motels, guesthouses, apartment hotels, pilgrim houses, passerby houses, eco-touristy and traditional residences, touristy complexes and camps, hospital hotels, and residential accommodations located in rest areas alongside the roads as well as health villages.

K) *Products holding a recognized brand*: Internationally recognized foreign products approved by the Ministry of Industry, Mine and Trade, as announced on the Ministry's e-portal.

L) *Transportation*: Freight and passenger transportation through air, sea and land (both rail and road transportation).

Chapter Two: Manufacturing, mining and IT-oriented producing enterprises

Article (2): The income declared for producing and mining activities by non-government legal persons in respect of production or mining enterprises for which licenses of exploitation has been issued by relevant legal authorities or for which contracts of extraction has been concluded as of the beginning of 1395 (i.e. 20/03/2016) shall be subject to zero-rate taxation for five years (in less-developed

regions for ten years) as of the date of commencement of exploitation/operation or extraction.

Note (1): IT-oriented producing enterprises that hold licenses of exploitation/operation from relevant legal authorities shall also be subject to the provision of this Article of the date of commencement of exploitation/operation providing that the Vice-Presidency for Science and Technology and other relevant legal authorities confirm that they are involved in IT-oriented production activities.

Note (2): Zero-rate treatment of IT-oriented producing enterprises shall apply to incomes derived from the production of products mentioned in the exploitation license and shall not extend to other incomes of the enterprise such as the proceeds derived from logistic activities.

Note (3): Incomes derived by manufacturing and mining enterprises located within a radius of one hundred and twenty kilometers from the center of Tehran Province (excluding industrial townships of Qom and Semnan provinces) or within a radius of fifty kilometers from the center of Isfahan Province and thirty kilometers from the [administrative] centers of other provinces and cities of more than 300 thousand inhabitants based on the latest statistics on population and housing shall not be subject to zero-rate taxation stipulated in this Article. IT-oriented producing enterprises located in any parts of the country shall be subject to the zero rate treatment stipulated in this Article.

Note (4): Producing and mining enterprises located in special economic zones or industrial townships except for those located in special economic zones or industrial townships situated within a radius of one hundred and twenty kilometers from the center of Tehran Province (observing Note (3) above) shall be subject to the zero-rate taxation stipulated in this Article whereby the period of zero rate treatment for such enterprises shall be seven years and if the industrial township or the special economic zone in question situated in less-developed regions, it shall be thirteen years.

Note (5): Production surplus on the capacity mentioned in the exploitation/operation license, as well as the proceeds from the sale of waste products and wage-based production of products mentioned in the exploitation/operation license of manufacturing and mining enterprises shall also be subject to zero-rate taxation during the period of zero-rate treatment, subject to the observance of provisions of this article.

Article (138 bis), Direct Taxes Act:

Those persons that contribute in cash to the financing of projects and the provision of the working capital of production enterprises in the form of partnership contracts shall be granted an income tax exemption equal to the minimum interest expected from partnership contracts as approved by the Money and Credit Council. Moreover, the interests paid shall be deemed as deductible expenses for tax purposes for the payer of the interest.

Note (1) Beneficiaries of the exemption granted by this Article are not allowed to withdraw their cash contributions from the production enterprises for two years. Otherwise, in lieu of such decrease of the cash contribution, an amount equal to the then market value of the exemption granted shall be added to the tax due of the year of cash contribution withdrawal.

Note (2) The relevant Tax Affairs Office shall determine whether or not the cash contributions have been used for financing the project or the provision of the working capital.[1]

[1] In view of Article (30) of the Law for Removing Obstacles to Competitive Production and Promoting the Country's Financial System approved on 21/04/2015, this text was annexed to the present Act as Article (138 bis).

Article (111), Direct Taxes Act[1]

(The preamble and Paragraphs (a) to (c)):

Companies consolidated or merged by means of establishing a new company or keeping the legal identity of a company shall be subject to the following regulations for tax purposes.

(a) Establishment of a new company or increase in the capital of an existing company up to the ceiling of total registered capital of consolidated or merged companies shall be exempt from the 0.05% stamp duty of Article (48) of this Act[2].

(b) Transfer of assets of consolidated or merged companies at the book value to the new or existing company, as the case may be, shall not be subject to the tax prescribed by this Act.

(c) Operations of the companies that are consolidated or merged into a new or existing company shall not be subject to the tax of the liquidation period mentioned in the Profits Tax section of this Act.

[1] In view of Article (52) of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article substituted the former text.
[2] In view of Paragraph (10) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, in the text of Article (111), the rate 0.2% was amended as 0.05%.

Administrative By-law of Paragraph (G), Article (111) of Direct Taxes Act

Reg. No : H31042 T/27243

Reg. Date : 28/11/2004

In its session of 21/11/2004, the Council of Ministers approved as follows the Administrative By-law of Paragraph (G) of Article (111) of Direct Taxes Act upon the proposal jointly made by Ministries of "Economic Affairs and Finance" and "Industry and Mines" under No. 211-14529/1332 dd. 06/07/2004 on the strength of Paragraph (G) of the afore-mentioned Article:

Article (1):

For tax purposes, merging or consolidating companies can be in [one of the] two following forms:

a) Disposal of assets and debts of one or more companies to another company hereafter called as Existing Company such that the companies to be merged are dissolved but the Existing Company maintains its name and identity while its assets and debts increase for the total sum of assets and debts belonging to the companied merged.
b) Disposal of assets and debts of one or more [companies to a] New Company so that the companies to be merged are dissolved while the total sum of assets and debts of the New Company equals the sum of assets and debts belonging to the merged companies.

Note: The merge or consolidation of companies in one of these two [above] methods shall meet the condition that the legal license for the merge or consolidation has already been acquired.

Article (2):

If the disposal of assets to the Existing or New Company is for a value higher than their book values, then the value in excess shall be subject to taxation.

Article (3):

The last directors of the merged or consolidated companies shall be obliged, within one month from making the final decision for the merge, to submit to the relevant Tax Affairs Office a copy of the agreed minutes and the list of partners or shareholders and the amounts of shares belonging to partners or shareholders as well as a list of assets and debts along with a report drawn up by a member of [Iranian] Association of Certified Public Accountants on the [market] value of the day of the share or partner's share on the very date of [that final decision].

Article (4):

For the purposes of this By-law, the date of merge or consolidation shall be the date of recording the assets and debts of the merged or consolidated companies in the statutory [accounting] books of the Existing Company or the date of incorporation of the New Company in the Department for Registration of Companies and Non-commercial Institutes.

Article (5):

Directors of the Existing or New Company shall be required, within one month of the date of merge or consolidation, to provide the relevant Tax Affairs Office with the supporting documents related to the registration of changes resulting from the merge or consolidation into the Existing Company and/or the registration of the New Company in the Department for Registration of Companies and Non-commercial Institutes as well as a summary list of transfers made (including the assets and debts [transferred]) and a list of the number of shares or the amounts of partners' shares which are allocated to each of the shareholders or partners of the merged companies along with a report drawn up by a member of [Iranian] Association of Certified Public Accountants on the [market] value of the day of a share or partner's share of the Existing or New Company.

Note: Upon the reception of supporting documents mentioned in this Article, if any, the Tax Affairs Office shall be required to submit their copies to the relevant Tax Affairs Offices local to the merged or consolidated companies in order for them to take legal measures prescribed by the Amended Article (111) of Direct Taxes Act approved in 2002.

Article (6):

In accordance with the provisions of Paragraph (E) of the Amended Article (111) of Direct Taxes Act approved in 2002, if an income is derived by any shareholder of the merged or consolidated companies as a result of the merge or consolidation pursuant to provisions of this Article, it shall be subject to taxation as per relevant laws and regulations.

Article (7):

The costs of the merge or consolidation of companies, as the case may be, shall be deemed as tax deductable expenses.

Article (8):

Non-observation of the provisions of the Amended Article (111) of Direct Taxes Act approved in 2002 as well as the provisions of the present By-law, if any, shall result in the non-applicability of the incentives provisioned in the said Article in respect of the merged companies.

Signed by:

Mohammaedreza Aref

Vice-President [of the I. R. Iran]

Article (149), Direct Taxes Act:

Any part of depreciable assets, whose value is subject to a decrease resulting from utilization, lapse of time or any other causes, regardless of price changes, as well as establishment costs may be depreciated and their depreciation costs are deemed tax-deductible expenses. Regulations relevant to depreciable assets including the depreciation schedules and how to implement them shall be prepared by the Iranian National Tax Administration in accordance with accounting standards and shall be confirmed by the Minister of Economic Affairs and Finance within six months from the approval date of the present Act.

Note (1) An increase of the price resulting from the reappraisal of legal persons' assets, with due regards to accounting standards, shall not be subject to income tax and the depreciation cost resulting from the reappraisal shall not be regarded as a deductible expense.

In case of the sale or exchange of reappraised assets, the difference between the sale price and the book value shall be taken into account in computing the taxable income without any application of the reappraisal.

The administrative bylaw of this Note on the manner of reappraisal, selling and depreciating the reappraised assets, as well as following other administrative requirements and arrangements shall be prepared in accordance with accounting standards upon the proposal of the Minister of Economic Affairs and Finance and shall be confirmed, within six months from the date of entry into force of the present Act (March 20, 2016), by the Council of Ministers.

Note (2) If a depreciable asset is sold or machineries become unusable and, as a result, a loss is sustained by the enterprise, then the loss, equal to that part of the value of the asset that has not been depreciated minus the sale proceeds (if the asset is sold) shall, in total, be taken into account in the computation of the profit and loss account of the same year. In regard with reappraised assets, the rule of this Note shall be applicable in respect of the book value without any application of the reappraisal.[1]

Administrative By-law of Note (1) under Article (149) of the Amended Direct Taxes Act approved in 2015

Islamic Republic of Iran

Presidential Office

Approval by the Council of Ministers

Reg. No : H 52793 T/3874

Reg. Date : 09/04/2016

Ministry of Economic Affairs & Finance – State Organization for Management & Planning

The Council of Ministers, at its session of 03/04/2016, approved as follows the Administrative By-law of Note (1) under Article (149) of the Amended Direct Taxes Act approved in 2015 upon the proposal No. 200/19402/192304 dated 04/01/2016 made by the Ministry of Economic Affairs and Finance on the strength of the provisions of the said Note:

[1] In view of Paragraph (39) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, this text and its Notes substituted the former text of Article (149) of the present Act and the Note under it.

Article (1):

Increases in the price of reappraisal of legal persons' assets shall not be subject to income tax, if they observe accounting standards.

Note: 'asset' refers to any asset which, according to accounting standards, is capable of being reappraised including such assets as tangible and intangible fixed assets, long-term investment and productive biological assets.

Article (2):

The reduction in the book value of an asset, as a result of reappraisal, shall not be be deemed a tax deductible expense.

Article (3):

Whenever an item of an asset is to be reappraised, then the reappraisal of all items of the class to which that asset belongs shall be obligatory.

Note (1): A class of assets can be reappraised on a rotation basis providing that that the reappraisal of that class of assets is completed and updated within a short period (at the latest until the end of the next fiscal period).

Note (2): If, in a reappraised class of intangibles, it is not possible to reappraise one particular intangible item due to non-reliability of the fair value, then that asset must be accounted for at the final cost after deducting the accumulated depreciation and the accumulated value.

Article (4):

Any increase in the book value of an asset as a result of reappraisal shall directly be recorded as reappraisal surplus and shall be classified in the balance sheet as part of owners' equity.

Article (5):

The reappraisal surplus reflected under the title of owners' equity, except for cases in which the accounting practice to be followed has been specified by law, shall be directly accounted for at the time of disposal or assignment of the asset, or as long as it is used by the business enterprise, it shall be accounted for as accumulated gain (loss).

Note: In cases where the reappraised surplus is accounted for as accumulated gain (loss) as long as the asset is used the business enterprise, the surplus amount capable of being transferred to the accumulated gain (loss) account is equal to the difference between the depreciated cost based on the reappraised amount and the depreciated historical cost. The surplus amount so transferred to the accumulated gain (loss) account shall not be subject to income tax.

Article (6):

The reappraisal provisioned by this By-law shall be made, as the case may require, by official experts to the Administration of Justice as representatives of the Bar of Official Experts to the Administration of Justice or by experts to the Judiciary representing the Center for Legal Advisers, Lawyers, and Experts to the Judiciary.

Note: In regard with state-owned companies and companies affiliated to public non-governmental organizations and companies of which more than fifty percent of the shares or partners' shares are jointly or individually owned by the above-mentioned persons or the government and public non-governmental institutions, the reappraisal

of assets pursuant to this By-law shall be made according to the opinion of expert(s) elected or confirmed by the General Assembly of shareholders.

Article (7):

The cost of depreciation of reappraised assets shall not be deemed tax deductible in respect of the increase in the cost resulting from the reappraisal.

Article (8):

In calculating the taxable income of reappraised assets at the time of sale, exchange or being out of use, the book value of the asset shall be accounted for at the final cost (without reappraisal).

Article (9):

If, among the assets reappraised, there are assets subject to the provisions of the first Chapter of Title three of Direct Taxes Act [i.e. Real Estate Income Tax] as well as shares or partners' shares of a company or their priority rights, then, at the time of sale or exchange, such assets shall, as the case may require, be exclusively subject to provisions of the afore-mentioned Chapter as well as provisions of Note (1) under Article (143) and those of (143 bis) of Direct Taxes Act plus the Notes thereto.

Article (10):

Capital increment from the reappraised surplus, coverage of losses from the said surplus, transfer of such a surplus to the profit and loss account or its distribution among shareholders in any form shall be taken as non-compliance with accounting standards and shall also be deemed as the realization of income in that year and shall be subject to income tax.

Article (11):

In respect of reappraised assets, legal persons shall be required to reflect the following information items in financial statements and tax returns of the fiscal year of reappraisal and those of subsequent years, as the case may require, in addition to information items which are mandatory to be disclosed in accordance with accounting standards:

A) The cost of depreciation of the fiscal period in question, separating the cost and reappraised value of each asset;

B) Information on the sale, exchange, or disposal of any reappraise asset.

Signed by: Vice-President [of the I. R. Iran], **Ishaq Jahangiri**

Chapter Two:

Tax Incentives for the Cooperative Sector

Article (48), Direct Taxes Act[1]:

Shares and partnership shares of all Iranian companies referred to in the Commercial Law, **except** those of cooperative companies, shall be subject to the Stamp Duty at the rate of 0.05% of their face value.[2] Fractions of IRR 100 shall be treated as IRR 100.

Article (65), Direct Taxes Act:

The final transfer of real estate that has been affected, or will be affected, in connection with the land reform laws and regulations, and the transfer of residential units by housing **cooperative** companies to their members, shall not be subject to taxation provided under this Chapter [Real Estate Income Tax].

Note (6)[3] under Article (105), Direct Taxes Act:

Taxable profits declared by conventional cooperative companies and unions, and by public joint stock **cooperative** companies shall be subject to 25 percents of allowances from the rate, provisioned in this Article [that is the flat corporate tax rate of 25%; as a result, such persons shall be subject to an effective (reduced) corporate tax rate of 17.5%].

[1] In view of Article (16) of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Notes (2) and (3) of the former text of this Article were deleted.
[2] In view of Paragraph (10) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, the rate of stamp duty provided in Article (48) was decreased from 0.2% to 0.05%.
[3] In view of Article (11) of the Law Partially Amending the Fourth Economic, Social and Cultural Development Plan of the IRI and the Application of the General Policies of the Article (44) of the Constitution approved on January 28, 2010, Note (6) was added to this Article.

Article (133), Direct Taxes Act:

One hundred percent (100%) of the income derived by the Fund for Development of Agricultural Sector[1] or by rural, tribal, agricultural, fishers, workers, employees, university and school students' **cooperative** companies and their respective unions shall be exempt from taxation.

Article (142), Direct Taxes Act:

The income of hand-woven carpet workshops and handicrafts, as well as the income of their respective cooperatives and production unions shall be exempt from taxation.[2]

Article (142), Direct Taxes Act:

The income of hand-woven carpet workshops and handicrafts, as well as the income of their respective cooperatives and production unions shall be exempt from taxation.[3]

[1] In view of Paragraph (31) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, in Article (133) of the present Act, the phrase "the Fund for Development of Agricultural Sector" followed the phrase "one hundred percent of the income derived by" and preceded the phrase "rural … cooperative companies".

[2] In view of Paragraph (36) of the Single Article Amending Direct Taxes Act approved on July 22, 2015 in regard with the rule of Article (146 bis), the exemptions envisaged in Articles (133), (134), (139) except for Paragraphs (a), (b) and (g) under it, (142), (143) and Note (1) under Article (143 bis) shall be treated as zero-rate taxation.

[3] In view of Paragraph (36) of the Single Article Amending Direct Taxes Act approved on July 22, 2015 in regard with the rule of Article (146 bis), the exemptions envisaged in Articles (133), (134), (139) except for Paragraphs (a), (b) and (g) under it, (142), (143) and Note (1) under Article (143 bis) shall be treated as zero-rate taxation.

Chapter Three:

Tax Incentives in Support of Less-Developed Regions

Article (92), Direct Taxes Act:

Fifty percent of the salary tax of the employees working in less developed regions, as per the list prepared by the State Organization of Management and Planning [Plan and Budget Organization], shall be spared[1].

Clause (1), Paragraph (E), Article (132), Direct Taxes Act:

E) In order to promote and increase the levels of economic investments in entities subject to the present Article, in addition to the protection period for zero-rate taxation, investments in less-developed regions and other regions shall also be supported in other ways as follows:

1) For less-developed regions:

In the computation of taxes relevant to the subsequent years following the zero-rate taxation period pursuant to provisions prescribed in the present Article[2], as long as the aggregate taxable income is twice the registered and paid-up capital, the zero rate shall still apply but beyond that level, the due taxes shall be computed and collected at the rates prescribed in Article (105) of this Act and the Notes under it[3].

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[1] In view of Paragraph (20) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, the Note under Article (92) of the Act was deleted.

[2] See provisions of Article (132) of Direct Taxes Act in Chapter One above.

[3] Article (105) of Direct Taxes Act and the Notes under read as follows:

The aggregate profits of companies, and the profits from the profit-making activities of other legal persons, derived from different sources in Iran or abroad, less the losses resulting from non-exempt sources and minus the prescribed exemptions, shall be taxed at the flat rate of **25**%, except the cases for which separate rates are provided under this Act.

Note (1) With regard to the Iranian noncommercial legal persons that are not established for distribution of profits, should they engage in profit-making activities, the total taxable profit derived from such activities shall be taxed at the rate set forth in this Article.

Clause (3), Paragraph (C), Article (32), The Law on Permanent Provisions of Development Plans:

C) In order to facilitate and promote industrial and mine-oriented investment in the country, the following measures shall be made by the government:

3. A tax holiday shall be granted to industrial, mining and service-providing enterprises located in low-employment regions to the extent [similar enterprises shall enjoy] exemptions in trade and industrial free zones [see Chapter Seven]. The extension of the enterprise as well as the production of new products by such enterprises shall also result in enjoying [privileges granted under] this provision, in their own rights.

Note (2) Foreign legal persons and enterprises residing abroad, except those subject to Note (5) of Article (109) or Article (113) of this Act, shall be taxed at the rate set forth in this Article in respect of the aggregate taxable income derived from the operation of their investment in Iran or from the activities performed by them, directly or through the agencies like branches, representatives, agents and the like, in Iran, and with regard to the profit received by such persons and enterprises from Iran for granting of licenses and other rights, or for transfer of technology or provision of training and technical assistance and cinematograph films. The representatives of such foreign persons and enterprises in Iran shall be subject to taxation, according to the provisions of this Act, with respect to the profit they may derive under any titles in their own account.

Note (3) At the time of assessment of the Tax on Profits of Legal Persons, whether Iranian or foreign, the prepaid taxes shall be deducted from the applicable tax according to the pertinent regulations, and any overpaid amount shall be refundable.

Note (4) The persons, whether real or legal, shall not be subject to any other taxes on the dividends or partnership profits they may receive from the capital recipient companies.

Note (5) In cases, where in view of to the enacted laws some payments other than the profit tax are to be collected on the basis of taxable profit, the tax of relevant taxpayers shall be computed at prescribed rates after deduction of such nontax payments.

Note (6): Taxable profits declared by companies, conventional cooperative unions, and public joint stock cooperative companies shall be subject to 25 percents of allowances from the rate, provisioned in this Article.

Note (7) For every 10% increase in the declared taxable income of persons subject to provisions of this Article in comparison with the taxable income declared by them for the previous tax year, one percentage point and up to a maximum of five percentage points shall be deducted from the tax rates stipulated in this Article. The requirement for taking benefit from this discount is to clear the tax liabilities of the previous year and to file the tax return of the current year within the deadline announced by the Iranian National Tax Administration.

Chapter Four:

Capital Market Tax Incentives

Article (143), Direct Taxes Act:

Ten percent of the Tax on Income derived from the selling of commodities accepted and sold in the Commodity Stocks, and 10% of the Corporate Tax of companies listed in the domestic or foreign stock exchanges, and 5% of Corporate Tax of companies listed for OTC transactions of domestic or foreign stock exchanges shall be rebated after the approval of the Stock Exchange Organization as of the year of enlistment until the year they are unlisted from the stock exchange. The above-mentioned exemptions shall be doubled for companies listed in the domestic or foreign stock exchanges or OTC markets of domestic or foreign stock exchanges, provided that at the end of the fiscal period, and based upon the approval of the Stock Exchange Organization, they have at least 20% of free floating shares.[1]

Note (1) Out of each transfer of shares and the partners' shares, priority rights of shares and the partners' share in other companies, a flat rate of 4% of their nominal value are collected. No any other payment is due, as the tax on the abovementioned transfers. Transferors of shares, partners' shares and preemptive rights shall be required to settle the due tax to the Iranian National Tax Administration before the transfer.

Note (2) A flat rate of 0.5% of tax shall be applied to the share premium reserve of the joint stock companies and no any other tax shall be applied to the aforesaid gain. Companies shall be required to settle to the Iranian National Tax

[1] In view of Paragraph (36) of the Single Article Amending Direct Taxes Act approved on July 22, 2015 in regard with the rule of Article (146 bis) of Direct Taxes Act, the exemptions envisaged in Articles (133), (134), (139) (except for Paragraphs (a), (b) and (g) under it), (142), (143) and Note (1) under Article (143 bis) of Direct Taxes Act shall be treated as zero-rate taxation.

Administration Account, the applicable tax, up to the end of the next subsequent month[1] following the date of registration of the capital appreciation.[2]

Article (11), Law for Development of New Financial Instruments and Institutions for the Facilitation of the Application of General Policies of the Principle (44) of the *Constitution*:

Intermediary institutions shall be exempt from the payment of any transfer tax/excises and any income tax in respect of assets financed through publishing public bonds. The funds acquired by means of financing through publishing public bonds by such institutions shall be concentrated in a specific account and any withdrawal from that account shall be made under the supervision and approval of Securities and Exchange Organization.

[1] In view of Note (3) under Article (219) mentioned in Paragraph (53) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, the phrases "within ten days", "within thirty days" and "but within thirty days', mentioned respectively, in Note (9) under Article (53), Article (86), Article (88), Note (2) under Article (103), Note (5) under Article (109), Article (126) and Note (2) under Article (143) of Direct Taxes Act were replaced by the phrase "up to the end of the next subsequent month".

[2] In view of Article (6) of the Law for Development of New Financial Instruments and Institutions for the Facilitation of the Application of the General Policies of the Principle (44) of the Constitution, approved on December 16, 2009, published in the *State Official Gazette* No. 18902, dated January 19, 2010, the text of Article (143) of Direct Taxes Act was amended, its Note (1) was deleted and Notes (3) and (4) were added to the said Article and shall be enforceable as of "February 4, 2010".

Chapter Five:

Tax Incentives in Support of The Agricultural Sector

Article (81), Direct Taxes Act:

The income derived from all activities in the field of agriculture; animal rearing; stockbreeding; fish farming; bee-keeping; poultry husbandry; hunting and fishing; sericulture; revival of pastures and forests, horticulture of any type and palm trees, is exempt from payment of taxes.

The government is obligated to undertake appropriate studies and investigations on all agricultural operations and on those branches of such activities in respect of which the tax exemption status is to be continued, and to prepare the relevant bill of law not later than the end of the term of the Third Economic, Social and Cultural Development Plan of the Islamic Republic of Iran and submit the same to the Islamic Consultative Assembly.

Chapter Six:

Tax Incentives

for the Promotion of Exportation

Article (141), Direct Taxes Act:

One hundred percent (100%) of the income derived from the exportation of non-oil services and goods, and products of the agricultural sector, as well as 20% of the income derived from the exportation of raw materials shall be subject to zero-rate taxation. A list of raw materials and non-oil goods subject to this Article shall be jointly proposed by the Ministries of "Economic Affairs and Finance", "Industries, Mines and Commerce" and "Petroleum" and Iran Chamber of Commerce, Industries, Mines and Agriculture and shall be approved by the Council of Ministers.

Note (1) The income derived from exportation of different goods that are imported to Iran on transit, and are exported without making any changes in the substance thereof or doing any works on them, shall be subject to zero-rate taxation.

Note (2) Provisions of the present Article shall become effective as of the end of the enforcement period of the Law of the Fifth Economic, Social and Cultural Development Plan of the Islamic Republic of Iran approved on January 5, 2011.[1]

[1] In view of Paragraph (35) of the Single Article Amending Direct Taxes Act approved on July 22, 2015, this text and the Notes under substituted Paragraphs (a) and (b) of Article (141) and the Note under it and since the Law of the Fifth Economic, Social and Cultural Development Plan of the Islamic Republic of Iran approved on 05/01/2011 shall be effective up to the end of the year 1394 (i.e. March 19, 2016) as per Article (235) of that Law, so the provisions of Article (141) of the present Act shall become enforceable as of the beginning of the year 1395 (i.e. March 20, 2016).

Article (45) of the Law on Permanent Provisions of [I. R. Iran] Development Plans

A) Profits and losses resulting from the exchange of foreign currency assets and debts by Export Development Bank of Iran, Export Guarantee Fund of Iran, and Iran Foreign Investment Company (IFIC) shall be subject to **zero-rate taxation**.

B) The profit deriving from a difference in the rate of exchange of foreign currencies resulting from the **exportation** shall be **exempt from taxation**.

Chapter Seven:

Tax Incentives

for the Promotion of Trade - Industrial Free Zones and Special Economic Zones

Article (13) (Amended on 27/05/2009) of Law on the Administration of Free Trade-Industrial Zones of the Islamic Republic of Iran

Real and legal persons engaged in any kind of economic activity in a **zone** are exempt from payment of income and property tax as determined by Direct Taxes Law for a duration of 20 calendar year from the date of the commencement of the operation, mentioned in the permit with respect to any type of economic activity in the **Free Zone**. Upon the lapse of the initial 20 years, the issue shall be subject to the tax regulations proposal by the Council of Ministers to be passed by the Islamic Consultative Assembly.

Paragraph (c), Article 132, Direct Taxes Act:

The term of application of the zero rate taxation for enterprises mentioned in the present Article[1] shall increase for 2 further years, if they are located in **special economic zones**, and for 3 further years, if they are located in industrial towns **or special economic zones of less-developed regions**.

[1] See Article (132) of Direct Taxes Act as recited above.

Chapter Eight:

Tax Incentives

for the Promotion of Knowledge-based Enterprises

Paragraph (A), Article (3) of Law for the Promotion of Knowledge-based Companies and Enterprises

Article (3):

The supports and facilitations to be granted to **knowledge-based companies and enterprises** subject to this Law include:

A) An **exemption from the payment of taxes**, excise duties, customs duties, [customs] commercial profits and exportation duties for a period of 15 years.

Article (9) of Law for the Promotion of Knowledge-based Companies and Enterprises

In order to establish and develop knowledge-based companies and enterprises and to promote international cooperation, **R&D units as well as technological and engineering enterprises located in the science and technology parks** are allowed to enjoy the legal advantages specific to free zones regarding the labor relationships, **tax exemptions**, foreign investment duties and international financial transactions.

Chapter Nine:

Tax Incentives

for the Promotion of Tourism Industry

Paragraph (L), Article 132, Direct Taxes Act:

All enterprises for internal and international tourism that have, prior to the entry into force of the present Article [i.e. before March 20, 2016], received their exploitation licenses from relevant legal authorities shall be **exempt from the payment of 50% of the tax on their declared income** up to **6 years** after the date of entry into force of this Article. This provision, however, does not apply to incomes derived from sending tourists abroad.

Paragraph (M), Article 132, Direct Taxes Act:

One hundred percent (100%) of the income declared by tourism and pilgrimage travel agents that have received their licenses from relevant authorities shall be zero rated, provided that such income has been derived from foreign tourists or from sending pilgrims to Saudi Arabia, Iraq or Syria.

Chapter Ten:

Other Tax Incentives

Note (11) under Article (53), Direct Taxes Act:

The owners of residential complexes with more than three leased units that are or will be constructed in conformity with the [prescribed] consumption model of housing, as declared by the Ministry of Housing and Urban Development, shall be exempt, during the term of lease, from 100% of the tax on the income from lease of properties. In other cases, the income of a person from the lease of residential unit(s) shall be exempt from taxation up to a total area of 150 square meters of useful built area for the units located in Tehran and up to 200 square meters in other places.

Article (134), Direct Taxes Act:

The income derived from educational and training activities by nonprofit schools, whether elementary, junior or senior secondary, technical or vocational schools, free technical and vocational schools licensed by Iran Technical and Vocational Training Organization or by nonprofit universities and higher education institutions and kindergartens located in less-developed regions and villages, as well as the income derived from taking care of mental and physical invalids by the institutions engaged in such activities, shall be exempt from taxation, provided that the afore-said institutions have permissions from the respective authorities. The income of the institutions and clubs having permission from the Physical Training Organization shall also be exempt from taxation[1], if it is derived purely from sport activities.

[1] In view of Paragraph (36) of the Single Article Amending Direct Taxes Act approved on July 22, 2015 in regard with the rule of Article (146 bis), the exemptions envisaged in Articles (133), (134), (139) except for Paragraphs (a), (b) and (g) under it, (142), (143) and Note (1) under Article (143 bis) of Direct Taxes Act shall be treated as **zero-rate taxation**.

The Administrative Bylaw of this Article will be approved by the Council of Ministers on basis of the proposal of the Ministry of Economic Affairs and Finance.

Administrative By-law of the Amended Article (134) of Direct Taxes Act Approved in 2002 *[along with its subsequent revisions]*

Reg. No. : H27260 T/33219

Reg. Date : 02/10/2002

Ministry of Economic Affairs & Finance, Ministry of Education, Ministry of Science, Research & Technology, Ministry of Health, Treatment & Medical Education, Physical Education Organization, State Welfare Organization of Iran

The Council of Ministers, at its session of 25/9/2002, ratified as follows the Administrative By-law of the Amended Article (134) of the Direct Taxes Act, approved in 2002 upon the proposal made by the Ministry of Economic Affairs and Finance under the No. 37316 dated 20/04/2002 on the strength of the provisions of the said-above Article:

Article (1):

The incomes derived from educational activities by kindergartens located in less-developed regions and villages[1], or by elementary schools, junior or senior secondary schools, technical or vocational schools and technical or vocational schools licensed by Iran Technical and Vocational Training Organization[2] and the incomes derived by

[1] On the strength of the approval No H50691 T/9744 made by the Council of Ministers on 07/06/2014, the phrase "kindergartens located in less-developed regions and village" was added to the text of this Article.

[2] In view of the approval No H52725 T/154888 made by the Council of Ministers on 14/02/2016, the phrase "and technical or vocational schools licensed by Iran Technical and Vocational Training Organization" was added to the text of Article (1).

nonprofit/non-government[1] universities and higher education institutions include any incomes related to educational activities as per the licenses issued by the relevant ministry.

Note (1): Incomes derived from economic [business] activities non-related to education and other activities outside the scope of the above-mentioned licenses shall be subject to taxation as per relevant regulations.

Note (2): Incomes derived from cultural activities and seminars or training courses shall also regarded as 'related to education' activities and shall be exempt from taxation.

Note (3):[2] Schools: educational units licensed by the relevant ministry, which include pre-school, primary, secondary, technical and vocational schools as well as pre-university centers and distance-learning schools that provide educational services in accordance with their educational curricula.

Note (4): Nonprofit/non-governmental higher education institutions are institutions that are established on the basis of licenses issued by ministries of "Science, Research and Technology" and "Health, Treatment and Medical Education", as the case may require, as per the By-law for the Establishment of Nonprofit/Non-Governmental Higher Education Institutions, and that take measures for conducting training courses resulting in the issuance of certificates approved by the afore-mentioned ministries at academic levels.

Note (5): A free technical and vocational school is a school that holds a license from Iran Technical and Vocational Training Organization whereby one or more disciplines are to be trained in accordance with approved programs and in compliance

[1] On the strength of the approval No H50691 T/9744 made by the Council of Ministers on 07/06/2014, the word "nonprofit" was replaced by the words "nonprofit/non-government".
[2] On the strength of the approval No. H50691 T/9744 made by the Council of Ministers on 07/06/2014, Notes (3) and (4) were added under Article (1).

with the standards of the said Organization affiliated with the Ministry of Cooperatives, Labor and Social Welfare.[1]

Article (2):

The income derived from taking care of mental and physical invalids by the institutions licensed by relevant authorities to be engaged in such activities, shall be exempt from taxation. Any other incomes derived from other activities in contrary to the operation licenses of such institutions shall be taxable as per relevant regulations.

Note: Incomes derived by the institutions engaged in taking care of mental or physical invalids in relation to individuals who have been permanently suffering from health/performance disorders resulting from physical or mental damages or from both of them including impotent elders who are recognized as 'disabled' by the Medical Commission of the State Welfare Organization of Iran and who need to be taken care of on a daily or a day and night basis as well as the incomes derived from the provision of educational, medical and rehabilitative services by afore-mentioned institutions at the centers in question or by sending the staff to the disabled individual's place of residence shall be regarded as part of the process of taking care of such individuals and shall be exempt from taxation.[2]

Article (3):

The income of sports institutions and clubs having permission from the Ministry of Sport and Youth[3] shall be exempt from taxation, if it is derived purely from sport activities. Sport activities refer to those types of activities and sports that are determined by making reference to licenses issued by relevant authorities and are carried out by clubs and sports institutions.

[1] In view of the approval No. H52725 T/154888 made by the Council of Ministers on 14/02/2016, the Note (5) was added under Article (1).

[2] On the strength of the approval No. H50691 T/9744 made by the Council of Ministers on 07/06/2014, this Note was added under Article (2).

[3] On the strength of the approval No. H50691 T/9744 made by the Council of Ministers on 07/06/2014, the phrase "Physical Training Organization" was replaced by the phrase "Ministry of Sport and Youth".

Note (1)[1]**:** The incomes of clubs and sports institutions licensed by relevant authorities from the promotion, transfer or exchange of athletes, the sale of equipment bearing the brand or specifications of the club and the sports institution in question, as well as the contributions received by them from the government or the government institutions for the provision of sports services shall be regarded as income derived from sports activities. Other business activities of the afore-mentioned clubs and sports institutions as well as the sports activities lacking required licenses shall be subject to taxation.

Note (2): Any incomes derived by international federations, sports federations and Olympic National Committee for holding sports competitions in Iran shall also be subject to the exemption stipulated in this Article.

Signed by: **Mohammadreza Aref, I. R. Iran Vice-President**

[1] On the strength of the approval No. H50691 T/9744 made by the Council of Ministers on 07/06/2014, the previous Note under Article (3) was replaced by Notes (1) and (2).

Clauses (2-5), Article (145), Direct Taxes Act:

The interest received under any title shall be tax exempt in the following cases:

(2) Interest or bonuses accrued to saving accounts and various deposits held by the Iranian banks or authorized non-bank credit institutions. This exemption is not applicable to the deposits of banks or authorized non-bank credit institutions with each other;

(3) Bonuses accrued to the government and treasury bonds;

(4) Interest paid by Iranian banks to the banks outside Iran on overdrafts and time deposits, subject to reciprocal treatment; and

(5) Interest and bonuses accrued to participation bonds.

The Preamble of Article (165), Direct Taxes Act:

If some damages are sustained by a region of the country or by certain taxpayer(s) due to accidents and perils, such as earthquake, flood, fire, pests, draught, storm or other unexpected catastrophes, and such damages are not indemnified by the ministries, government institutions, municipalities, insurance organizations or public-interest institutions, then the Ministry of Economic Affairs and Finance may deduct from the taxpayer's taxable income of the same year and subsequent years a sum equal to the damages sustained. In case of the taxpayers that loose more than 50% of their properties due to the said incidents and are not able to pay their tax liability, the Ministry can spare all or a part of their liability or grant them long term installment plan for payment of their dues, after obtaining the approval of the Council of Ministers.

The administrative bylaw for implementation of this Article shall be prepared by the Ministry of Economic Affairs and Finance and will be approved by the Council of Ministers.

Administrative By-law of Article (165) of Direct Taxes Act Approved on 22/02/1988 *[along with its subsequent revisions]*

Reg. No. : H438 T/46754

Reg. Date : 27/07/1989

The Council of Ministers, at its session of 20/06/1989, ratified as follows the Administrative By-law of Article (165) of Direct Taxes Act, approved on 22/02/1988

upon the proposal made by the Ministry of Economic Affairs and Finance under the No. 23377/7927/4/30 dated 07/11/1988:

Article (1):

For taxpayers who are required to keep accounting books as per the provisions of Direct Taxes Act approved in February 1988 whose taxable income is assessed through the examination of their accounting books and records, the amount of damages incurred shall be determined in accordance with the provisions prescribed in the Chapter "Allowable Expenses and Depreciations" of the said Act to be deducted from the taxable income of the respective fiscal year or subsequent fiscal years.

Note (1): In cases where the damages of previous fiscal years are depreciable as per relevant provisions, the damages referred to in this Article shall be deductable from the taxable income after depreciating the losses so incurred.

Note (2): The competent authorities for the settlement of disputes on damages subject to this Article shall, as the case may require, be the Commissions provisioned in Articles (3) and (4) of this By-law.

Article (2):

In cases where the taxable income is assessed on an *ex officio* [or a presumptive] basis as per relevant regulations, the damage incurred shall be determined in accordance with the provisions of Articles (3), (4) and (5) of this By-law and shall be deductible from the taxable income of the respective fiscal year or subsequent fiscal years.

Article (3):

Wherever the damage is incurred by a [specific] region of the country:

a) If the damaged region is located within the territory of a County [or District], then the amount of damages so incurred shall be determined and announced by a Commission consisting of the County Governor [i.e. District Governor], a

representative from the Provincial Tax Affairs Directorate General[1], and a trustworthy person in the respective locality to be selected and introduced by the County Council (in the absence of such a County Council, the trustworthy person shall be selected and announced by the Prosecutor of the Province.).

b) If the damaged region is located within the territory of a Township, then the amount of damages so incurred shall be determined and announced by a Commission consisting of a representative from the Iranian National Tax Administration (INTA), a representative from the Township Governor, and a representative from the Prosecutor of the Province.

Article (4):

In cases where the damage is borne by a specific taxpayer (or specific taxpayers), then the amount(s) of the damage(s) so incurred shall be determined and announced by a Commission consisting of a representative from the Iranian National Tax Administration (INTA), a representative from the insurance sector to be selected and introduced by the Central Insurance of I. R. Iran, for Tehran or by Iran Insurance Company, for outside of Tehran (in the absence of branches or agents of the Central Insurance of I. R. Iran), and a judge to be selected and introduced by the Ministry of Justice, for Tehran, or by the Head of Justice Department of the respective locality, for outside of Tehran.

Article (5):

The taxpayer shall be required, within six months from the date of incidence of the accident, to inform the relevant tax affairs unit of the matter and make his request along with the documents available to him. The Tax Affairs Office shall be required to send the request so made, within one month, to the Commissions mentioned in

[1] By virtue of an Amendment made by the Council of Ministers, in its session of 02/01/2005, upon the proposal made by the Ministry of Economic Affairs and Finance under No. 211-41307/3493 on 19/12/2004, the following revisions were made in the By-law: in Paragraph (a), Article (3), the title "Provincial Department of Economic Affairs and Finance" changes into "Provincial Tax Affairs Directorate General"; in Paragraph (b), Article (3) and in Article (4), the title "Ministry of Economic Affairs and Finance" changes into "Iranian National Tax Administration (INTA)"; in Article (5), the title "Tax Affairs Unit" changes into "Tax Affairs Office"; and in Article (6), the title "Department of Economic Affairs and Finance" changes into "Tax Affairs Office".

Articles (3) and (4), as the case may require, and the afore-mentioned Commissions shall determine and announce the amount of damage so incurred within six months with due regards to the documents and records presented by the taxpayer and [other] information acquired.

Note (1): It is obliged to invite the taxpayer to [meetings] of the above-mentioned Commissions but his absence does not prevent the Commission from examining the case and making a decision.

Note (2): The opinion of the majority of the Commission members shall be valid.

Article (6):

Wherever the damage is incurred by a [specific] region of the country, then on the event the Governor's Office of the locality takes measures in announcing the amounts of damages so incurred by the damaged persons to the Tax Affairs Office, the Commissions prescribed under Article (3) of this By-law shall, upon the announcement of the Governor's Office, examine the cases and determine the amounts of damages so incurred, taking into consideration the provisions of Article (5) and the Notes under it.

Article (7):

If the damage incurred is related to the taxpayer's business activity pursuant to Chapters (2), (4) and (5) under Title Three [i.e. Income Tax] of Direct Taxes Act approved in February 1988, it shall, as the case may require, be deducted from his taxable income of the respective income resource of that fiscal year or subsequent fiscal years and on the event the taxpayer has stopped that business activity, then the damage incurred can be deducted from his taxable income of any other income resources under the afore-mentioned title of law.

Article (8):

In cases where, as confirmed by the Commission referred to in Article (3) or (4) of this By-law, more than 50% of the taxpayer's (damaged) properties have been

destroyed and he is not able to pay his tax undertakings for reasons accepted by the relevant tax affairs office, then, upon a proposal to be made by the Iranian National Tax Administration and approved by the Council of Ministers, a tax amount up to the amount of the damage so incurred shall be spared from the taxpayer's tax debt or rather, he shall enjoy an opportunity for long-term payment of the same in installments; [however], if the damage so incurred is more than the taxpayer's tax undertaking, then the amount in excess shall be deducted from the taxable income of that fiscal year or subsequent fiscal years.[1]

Signed:

Mir Hossein Mousavi, Prime Minister

[1] Upon the proposal made by the Ministry of Economic Affairs and Finance under No. 37318 on 22/09/2002 and on the strength of Article (165) of Direct Taxes Act approved in 1988, the Council of Ministers, in its session of 25/09/2002, added this Article as Article (8) to the present By-law.

Article (41), The Law on Permanent Provisions of [I. R. Iran] Development Plans:

Foreign legal persons who reside outside of Iran shall not be subject to the tax provisioned in Article (107) of Amended Direct Taxes Act approved on July 22, 2015[1] in respect of granting loans and finance activities, providing that they are

[1] Article (107) of the Amended Direct Taxes Act and the Notes under it read as follows:

Article 107 The taxable income of foreign real and legal persons residing abroad in respect of incomes derived in Iran or from Iran shall be assessed as follows:

In regard with the preparation of design for buildings and installations, surveying, drawing, supervision and technical calculations, provision of training and technical assistance, transfer of technology and other services, as well as the granting of royalties and other rights and transfer of cinematograph films, whether the latter profit is derived in or from Iran as the price or the fee for the screening of films, or under any other titles (except for those types of profits for which another method of assessment is stipulated herein), the taxable profit shall consist of 10% to 40% of the total annual receipts with due regards to the type of activity and the level of profitability.

The administrative bylaw of this Article and the coefficients to be used for the assessment of taxable profit based on the type of activity, shall be approved, within six months of the date of entry into force of this Law (i.e. as of March 20, 2016), upon the proposal to be made by the Ministry of Economic Affairs and Finance.

Those making the payments mentioned in this Article shall be required to withhold the applicable tax by taking into account the total payments made from the beginning of the year up to the date of each relevant payment. They should remit the withheld amounts, up to the end of the next subsequent month, to the relevant Tax Affairs Office. Otherwise, the above-said payers and the receivers shall be jointly and severally liable for the payment of the basic tax and the fines related thereto.

Note (1) In case of contract works, any part of the contract price, which is used for the purchase of supplies and equipments shall be exempt from taxation up to a maximum of the purchase invoice price for domestic purchases or up to the sum of customs value, customs surcharges and other payments mentioned in the Customs Green Licenses for foreign purchases, provided that the amounts relevant to those supplies and equipments are included, apart from other items, in the contract or in its further amendments or supplements.

Note (2) In cases where the foreign contractors wholly or partly assign contract operations to Iranian legal persons as sub-contractors, then an amount which is used for the purchase of supplies and equipments mentioned in the original contract, which is purchased by the sub-contractor and is borne by the original contractor shall be exempt from taxation, subject to the provisions of the latter part of Note (1) to this Article.

Note (3) Branches and agents of foreign companies and banks in Iran, that, without having the right to make transactions, are engaged in marketing and gathering economic information in Iran for their parent enterprises, and receive remuneration from them against their expenditures, shall not be subject to taxation in respect of such remuneration.

Note (4) As for the income derived from the operation of capital and other activities that the aforesaid legal persons perform in Iran through the agencies, such as branches, representatives, brokers and the like, the provisions of Article (106) of this Act shall apply.

introduced by the Central Bank of I. R. Iran and that there is an agreement by the Minister of Economic Affairs and Finance.