

University of Economic Sciences

**DIRECT TAXES ACT**

Approved on February 22, 1988

(INCLUDING ALL AMENDMENTS UP TO MARCH 20, 2010)

(INTEGRATED TEXT)

Translated by: **Dr. Mohammad Tavakkol**

Updated and Edited by: **Morteza Mollanazar**

WITH AN INTRODUCTION AND DEFINITION OF DIFFICULT TERMS

**UNIVERSITY OF ECONOMIC SCIENCES**

Iranian National Tax Administration Email: [dpi@intamedia.ir](mailto:dpi@intamedia.ir)

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Tehran, March 2012



اتحاد بازرگانی، صنایع، معادن و کشاورزی تهران  
TEHRAN CHAMBER OF COMMERCE,  
INDUSTRIES, MINES AND AGRICULTURE

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## **Introductory Remarks by the INTA President**

Undoubtedly, a strong intention exists for the development of the Taxation System in the framework of the Iran's Economic Development Plan and in this way, great, wide and complicated measures are to be taken. One of the basic areas in the realm of the aforementioned measures is the taxation law of the country, which is of significance as the charter for the administration of the tax system. The Direct Taxes Act, in English, is the subject of this Book, which is aimed at the reflection of updating of the Act, and public information dissemination. Its first translation was made to English, based on the Direct Taxation Act approved on February 22, 1988. Its edition and retranslation to English is provided in this Book in a manner that in addition to the translation of the new Articles, amendments made in the Articles of the aforementioned Act are also translated and provided in English:

- Making promotional and correctional changes in phrases, words, names and manner of dates indication;
- Providing footnotes for tracing the minor amendments made in the Act during the history;
- Using expressions for the due adjustment of the text to the international tax dialogue; and
- Using the coordinated terminology and structure in a manner to promote the readability of the text.

Finally, for his valuable efforts in the translation of the texts of this Act into English, Mr. Morteza Mollanazar, the Head of the Taxation Team in the Directorate General of International Agreements and Relations of the Iranian National Tax Administration is duly thanked.

**Ali Askari**

*February 8, 2012*

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## PREFACE

(By Dr. M. Tavakkol for the 2002 Edition)

The first edition of the English translation of the Direct Taxes Act, the country's main tax law, was published in February 1988. Since then, the Act was subjected to few alterations, till the amendment of March 2002 that introduced vast changes into the tax law, from considerable amelioration of rates and tax burden to restructuring of the organization of the tax administration. A number of taxes were abolished, several new concepts of modern tax literature found their way into the law and certain exemptions, especially those granted to the public sector, were repealed. The amendment in question includes 133 Articles, each annulling or amending one or more Articles of the previous text of the DTA, or introducing new provisions thereto.

Thus, the volume of changes has been very sizeable and the need is felt for revision of the translation published in 1999. This new edition of the English translation of DTA has been prepared and published in response to that demand. The book is structured in the same way as the first edition. A revised list of definitions of difficult terms is added. The difference between the Iranian legal system and that of the Anglo-American nations has resulted in variance of legal concepts and relationships, a factor that would make the conveyance of exact meaning of some terms, by employing the terms used in those countries, quite difficult and in some cases even impossible. Therefore, it was considered appropriate to define such terms and concepts at the end of the translation. An asterisk identifies the defined words and phrases and the reader may refer to the list of definitions in respect of such particular cases.

As before, the months, years and dates are given according to the Iranian calendar and the names of months are also in Persian. The corresponding dates in Gregorian calendar can be found under the headings "Iranian

Calendar" and "Iranian Dates and Years" among the terms defined at the end of the book.

As regards the transliteration of certain terms, the Iranian pronunciation of words is reflected, while most of the relevant terms are etymologically derived from Arabic. The words 'diyeh', 'mozarebeh' and 'eddeh' are some examples of this type of transliteration, which would have been presented as 'diya', 'modharaba' and 'idda' if the Arabic pronunciation had to be followed.

**As in case of the first edition, the only abbreviation used in this book<sup>1</sup> is IRR, which stands for "Iranian Rials" (national currency of the country).**

At the end, we would like to reiterate that this translation is provided as an aid to foreign readers, and the law will, obviously, be interpreted by the competent authorities on basis of the Persian version of the Direct Taxes Act. Meanwhile, any possible errors and shortcomings of the translation are wholly the translator's responsibility.

**Mohammad Tavakkol**

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<sup>1</sup> 2002 edition



**DIRECT TAXES ACT**

Approved on February 22, 1988

(INCLUDING ALL AMENDMENTS UP TO MARCH 20,  
2010)

**TITLE A - TAXABLE PERSONS**

**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;  
and

(5) Every non-Iranian person (whether real or legal) on the incomes or profits derived by such 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).

**Article 2**<sup>1</sup> The following persons shall not be liable to taxes provided in this Act:

(1) Government ministries and institutions;

(2) Government budgeted enterprises; and

(3) Municipalities.

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<sup>1</sup> In view of Article 1 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article and its Notes substituted the former texts of this Article and its Notes.

**Note (1)** The companies whose capital is wholly or partially owned by the persons and institutions mentioned in the above paragraphs, shall not be subject to the provisions of this Article in respect of that portion of their income or profit which belongs to those persons and institutions. The provisions of this Note shall not infringe the due entitlements of such companies to the exemptions provided in this Act.

**Note (2)** The income from economic activities, such as industrial, mining, commercial, and services activities, as well as other producing activities derived by the persons subject to this Article through non-company channels shall be taxed separately for each case, at the rate provisioned in the Article 105 of this Act.

In such cases, those responsible for administration of the relevant affairs are obligated to discharge their duties under this Act with regard to the share of income attributable to the previously mentioned activities. Otherwise, such persons and the respective taxpayers shall have joint and several liability for the payment of the applicable taxes.

**Note (3)** Whenever the tax exemption referred to in this Article, pertains to cases for which some authorization from Hazrat Imam Khomeini (upon him be the grace of God) or the High Spiritual Leader does exist, the relevant cases shall be treated according to the view of the High Spiritual Leader.

**TITLE B - PROPERTY TAXES**

**Chapter I - Annual Tax on Real Properties<sup>1</sup> (Articles 3 through 9) deleted.**

**Chapter II - Tax on Unoccupied Residential Immovable Properties<sup>1</sup> (Articles 10 and 11) deleted.**

**Chapter III - Tax on Undeveloped Lands<sup>2</sup> (Articles 12 through 16)<sup>1</sup> deleted.**

**Chapter IV - Inheritance Tax**

**Article 17** If as a result of a person's death, whether actual or presumptive, any estate is left from that person, it shall be subject to taxation as follows:

(1) Where the decedent or the heir or both of them are Iranian national and resident, the tax shall be imposed at the rates provisioned in Article 20 of this Act, on the share of estate that each of the heirs acquires from the properties subject to inheritance tax as provisioned in Article 19 of this Act, whether situated in Iran or abroad, after deduction of the inheritance tax paid on properties located abroad to the state of situs of such properties;

(2) Where both the decedent and the heirs are Iranian nationals resident abroad, the share of each of the heirs from the decedent's properties and property rights in Iran shall be subject to taxation at the rates provisioned in Article 20 of this Act. Any portion of the inheritance located abroad shall be

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<sup>1</sup> In view of Article 2 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the provisions related to the collection of the Annual Tax on Real estates (subject to the previous text of Articles 3-9), Tax on Unoccupied Residential Immovable Properties (subject to the previous text of Articles 10-11) and Tax on Undeveloped Lands (subject to the previous text of Articles 12-16) were deleted.

<sup>2</sup> In view of Article 15 of the Act on the Organization and Support of the Production and Supply of Housing, approved on May 14, 2008, a 12 percent tax shall be applied on the transactional value of the undeveloped lands with residential use.

subject to taxation at the rate of 25% after deduction of the inheritance tax paid on the same to the state of source or situs of the same; and

(3) In case of foreign nationals, as well as in other cases, any part of the decedent's properties and property rights that are situated or sourced in Iran shall entirely be subject to taxation at the rates provided in Article 20 of this Act in respect of the second-class heirs.

**Article 18** For the purposes of this Act, the heirs are divided into three classes:

(a) The first-class heirs, including the father, mother, wife or husband, children and grandchildren of the decedent;

(b) The second-class heirs, including the grandparents, as well as the brother and sister of the decedent and their children; and

(c) The third-class heirs, including the brother and sister of the father and mother of the decedent, as well as their children.

**Article 19** The properties liable to inheritance tax consist of the entire estate of the decedent in Iran or abroad, including movable and immovable ones, as well as collectible claims and property rights, less any deductions for funeral expenses as the custom and usage may require, and for financial and ritual obligations according to the rules of the religious law, as well as for the ascertained liabilities of the deceased person.

**Note** Debts of the decedent to his/her heirs shall be deductible from the estate, provided that such liability is substantiated by legal documents, and the Board of Settlement of Tax Disputes confirms its authenticity. Confirmation of the said Board is not required for the deduction of the marriage portion of the wife and her alimony for the period of *Eddeh*.\* Debts to the second- and third-class heirs shall be deductible if before his/her death, the decedent had other heirs of a preceding class, depending on the case.

**Article 20**<sup>1</sup> The rate of inheritance tax on each inheritor's share from the estate will be as follows:

<b>Taxable Base (in IRR)</b>	<b>1<sup>st</sup> Class Heirs</b>	<b>2<sup>nd</sup> Class Heirs</b>	<b>3<sup>rd</sup> Class Heirs</b>
Up to 50,000,000	5%	15%	35%
50,000,000 to 200,000,000	15%	25%	45%
200,000,000 to 500,000,000	25%	35%	55%
Over 500,000,000	35%	45%	65%

An allowance of IRR 30,000,000 shall be deducted from the inheritance share of each of the first class heirs as an exemption, and the balance shall be subject to taxation at the above rates. The said allowance amounts to IRR 50,000,000 with respect to the first class heirs who are under twenty years old, or are wards or disabled and devoid of working ability.

**Article 21** If within one year from the date of finalization of the due taxes, without any potentiality of being revised by the tax authorities, any part of the estate of the decedent becomes subject to expropriation on the strength of laws or special verdicts, or if by virtue of the certification of the competent organization, it is put gratuitously at the disposal of ministries, government institutions, municipalities, foundations of the Islamic Revolution, or the companies whose capital is entirely owned by the government, such properties shall be excluded from the application of the Inheritance Tax. If any consideration is paid against the expropriation of the property, either the value of the consideration or the price of the expropriated property, whichever is lower, shall be included as a part of the estate subject to the Inheritance Tax, and any overpayments of the tax shall be refundable anyway. The rule of this Article shall also apply if the heirs gratuitously wholly or partially transfer the estate to one of the persons referred to in Article 2 of this Act.

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<sup>1</sup> In view of Article 3 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, all the notes of the former text of this Article were deleted.

**Article 22** If the claims of the decedent are considered uncollectible by virtue of the judgment of the Board of Settlement of Tax Disputes, such bad debt shall not constitute a part of the estate, and any taxes already paid thereon shall be refunded. If any such claims are collected, the heirs shall be required to pay the tax applicable thereto. In all cases, the Ministry of Economic Affairs and Finance may join the relevant proceedings as a third party, or file a direct claim for securing the applicable taxes.

**Article 23<sup>1</sup>** Deleted.

**Article 24** The following properties shall not be liable to the taxation provisioned in this Chapter:

(1) Retirement and survivors pensions, service-related savings, termination of employment benefits, claims for dismissal compensation, buying out of services and unused accrued leave, social security payments, as well as the payments made by the insurance or insured institutions or by employers, such as life insurance, death compensation, *Diyeh*\* and the like, that are paid to the decedent's heirs as a lump sum or in the form of regular payments;

(2) Movable properties belonging to persons subject to Paragraph 4 of Article 39 of the Vienna Convention of April 1961 (*Farvardin 1340*), Article 51 of the Vienna Convention of May 1963 (*Ordibehesht 1342*) and Paragraph 4 of Article 38 of the Vienna Convention of March 1975 (*Esfand 1353*), with due observance of the provisions of the said conventions and subject to reciprocal treatments;

(3) Properties endowed, vowed or tied up\* for the benefits of the organizations and institutions mentioned in Article 2 of this Act, provided that such dedications are confirmed by the same organizations and institutions.

(4) Eighty percent of the decedent's participation bonds\* and his deposits with the Iranian banks and their branches abroad and in authorized non-bank credit institutions, as well as 50% of the value of the decedent's

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<sup>1</sup> In view of Article 6 of the Act Partially Amending the Direct Taxes Act, approved on April 27, 1992, this Article was deleted.

shares in the companies listed in the Stock Exchange in view of the relevant law, and 40% of the value of the decedent's shares or partnership share in other corporations and 40% of the net value of his assets in producing, industrial, mining and agricultural enterprises.

**Article 25** The first and second-class heirs of the martyrs of the Islamic Revolution shall not be subject to the inheritance tax provisioned in this Chapter with respect to the martyrs' properties.

For the purposes of the provisions of this Article, the realization of martyrdom shall be confirmed, by one of the branches of the Armed Forces of the Islamic Republic of Iran or the Martyr Foundation of Islamic Revolution.

**Article 26** The heirs (individually or collectively) or their *vali*,\* trustee, guardian or legal representative shall file, within six months of the decedent's death, their tax return with the competent Tax Affairs Office against a receipt. The tax return should be drawn up on a special form to be prepared by the Iranian National Tax Administration and it shall contain all items of the estate at the death time market prices, including claims and debts that are acceptable under the provisions of this Chapter. The following documents are required to be attached to the tax return; certified copy/photocopy of:

- (1) Documents pertaining to the decedent's debts and claims;
- (2) All papers substantiating the title of the decedent to properties and property rights;
- (3) Power of attorney or guardianship deed, if the tax return is submitted by an agent, guardian or *vali*; and
- (4) Latest will of the decedent, if any.

**Note** Submission by one of the heirs of a tax return with the foregoing specifications shall relieve the others from the same duty.

**Article 27** The competent Tax Affairs Office with respect to inheritance tax is the Tax Office within jurisdiction of which the last legal residence of the

decedent was situated. If the decedent had not been a resident of Iran, the relevant Tax Affairs Office in Tehran shall be competent.

**Note** For the purposes of this Act, the concept of residence shall be subject to the definitions provided in the Civil Code.

**Article 28** The persons subject to the Inheritance Tax are required to pay, as an on account payment and against a receipt, the amount of tax assessed under the relevant tax return within three months of the expiry of the time limit for submission of the tax return.

**Note** After the case is examined and the amount of tax is finalized and paid up, the relevant Tax Affairs Office shall issue a Tax Clearance Certificate according to the provisions of this Act and deliver it to the taxpayer within one week.

**Article 29** For the purpose of due execution of the Inheritance Tax regulations, the Iranian National Tax Administration shall organize the Central Bureau of Inheritance in Tehran. Tax Affairs Offices are required to send the tax returns received by them to the said Bureau within one week of the filing date of the tax returns. The Central Bureau of Inheritance shall register and seal the tax returns and send them back within one month to the respective Tax Affairs Offices for further legal measures.

If several tax returns are received for the same decedent, the Central Bureau of Inheritance shall send all of them to the Tax Affairs Office that had sent the first of such tax returns to the Bureau, and shall inform the other relevant Tax Affairs offices thereon.

**Article 30<sup>1</sup>** The relevant Tax Affairs Office is charged with the duty to examine the tax returns of taxpayers in view of the provisions of this Chapter, to assess the value of properties, and to proceed as follows:

(a) In case the total value of the taxable properties as stated in the tax return does not differ more than 15% from the value of the same as

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<sup>1</sup> In view of Article 7 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the latter section of the former text of the Paragraph A of this Article was deleted.

determined by the Tax Affairs Office, the Tax Office shall consider the tax return as final and shall notify the taxpayer thereon within six months.

(b) If the aforesaid difference exceeds 15%, and where the heirs or their legal representative or other persons who are, under the provisions of this Act, responsible for submitting the tax return, fail to do so, or partially state the decedent's properties in the tax return, then the Tax Office shall assess the applicable tax and notify the taxpayer thereon in view of the regulations of this Act.

**Note** Should the heirs fail, within one month from the date of written notification made by the Tax Affairs Office, to present the properties for valuation, the Tax Office shall directly take measures for valuation of the same.

**Article 31** After the filing of tax return by the heirs or their legal representative and in case of receiving a written request, the Tax Affairs Office shall, within one week, issue and hand over to the taxpayer a certificate containing a certified copy of the detailed items of the estate declared in the tax return. Such certificate shall be valid exclusively for the issuance of the Affidavit of Heirship. Examination of the applications filed with the courts for the issuance of the Affidavit of Heirship shall depend on submission of the certificate prescribed in this Article. The clerks of the courts issuing Affidavit of Heirship are required to send a certified copy of the same to the Tax Affairs Office of the relevant district within 15 days from the date of its issuance.

**Article 32**<sup>1</sup> The base of valuation of real estates, including land or built areas, shall be the taxable death time value\* of the realties, subject to the Note (1) of the Article 59 of this Act. The basis for valuation of other properties and property rights of the decedent shall be their death time value.

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<sup>1</sup> In view of Article 8 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of Note 2 to this Article was deleted.

**Note (1)** The furniture of the place of dwelling shall not, for tax purposes, be considered as a part of the decedent's estate.

**Note (2)** In case of the buildings that are extraordinarily expensive, because of their special architecture style or the type of materials used therein, the taxable value\* of the built areas shall not be taken into consideration. In this case, as well as in case of appraisal of jewelry and precious objects, the Tax Affairs Office shall seek the opinion of the relevant expert(s) or specialist(s).

**Note (3)** In cases where the profits of a property are willed or vowed, and where the property is tied up in a way that its substance\* would be returned to the heirs after expiry of the relevant period, the property under the will, vowing or tying up shall be appraised at the death time value, by due regard being had to its unprofitability to the heirs. The value so appraised shall be added to the inheritance portions of the heirs to whom the property is accrued, and as such shall be subject to the Inheritance Tax.

**Note (4)** The rights on the lands and built areas of the real estates that arise from hire purchase contracts concluded with banks on such properties, shall be appraised at the decedent's death time taxable value.

**Article 33** The Iranian consular staff in other countries shall, within three months from the date of becoming aware of any Iranian nationals' death, report the case through the Ministry of Foreign Affairs to the Ministry of Economic Affairs and Finance, and shall dispatch all the information regarding the movable or immovable estate of the decedent in the country of the consular staff mission, including the details and values of the properties.

**Note** The executive bylaw of this Article shall be drafted by the ministries of Economic Affairs and Finance, and Foreign Affairs and shall be approved by the Council of Ministers within six months from the date of approval of this Act.

**Article 34** The banks, companies, institutions and persons that hold some properties belonging to the decedent, are required to prepare, within one

month from the date of becoming aware of the death, a list of such properties, including cash, promissory notes or jewelry, as well as the amount of share or partnership share of the decedent, and submit the same to the local Tax Affairs Office. They are also required, when asked by the Tax Affairs Office, to duly submit to the Tax Affairs Office the necessary books and documents for assessments.

**Article 35** Departments for Registration of Deeds and Real Estates, when registering real estates in the name of any heir or legatee, as well as the Notary Public Offices upon registration of property partitions or any transactions of heirs with regard to the estate, are required to ask for presentation of the Certificate issued by the competent Tax Affairs Office to the effect that the case is tax exempt or the applicable tax is paid up or necessary arrangements are made, or a guarantee is given, for the payment thereof. They are not authorized to register the said transactions before presentation of such Certificate.

**Article 36** The banks, companies, institutions and persons holding any cash, promissory notes, jewelry, shares, partnership shares or other kinds of property belonging to the decedent, are not authorized to deliver the same to the heirs or the executor, as the case may be, or to register them in their names, unless the Certificate referred to in the last part of Article 35 of this Act is submitted.

**Article 37** Where by virtue of the decedent's property rights and in view of the courts judgments any property is transferred to the heirs, the courts clerks shall send a copy of the judgment to the relevant Tax Affairs Office, so that the tax applicable thereto can be claimed, if it had not been collected before. The same rule shall apply in cases where new evidence or documents with regard to the decedent's properties are procured. If after the tax finalization, new evidence or documents of significance for tax assessment are presented to the effect that some debt is owed, or a property is not owned, by the decedent, then the file of the case shall be sent to the Board of Settlement of Tax Disputes for the due judgment, and the case shall be treated in view of the Board Judgment.

**Article 38** If a property that is transferred through endowment, tying up, vowing or willing is not qualified for exemptions provided under Article 24(3) of this Act, or if it is not subject to the provisions of the Chapter on the Tax on Incidental Income, then it shall be taxable according to the following provisions:

(a) As for endowment and tying up, the profits of the property for each year shall be subject to taxation at the rates provisioned in Article 131 of this Act; and

(b) In case of vowing and willing, where the profits of the property are vowed or willed, the case shall be dealt with in view of the provisions of the above paragraph (a). Where the substance of the property is subject of vowing or willing, it shall be evaluated in view of the provisions of this Chapter, which shall entirely be subject to Inheritance Tax at the rates stipulated for the second- class heirs.

**Note (1)** The bequeathed property shall be subject to taxation after the will finalization upon the death of the testator.

**Note (2)** The competent Tax Affairs Office with regard to endowment, tying up, vowing and willing is the Tax Office of the district of residence of the endowment's administrator, or that of the vowing, tying or bequeathing person. If such persons are not residents of Iran, the relevant Tax Affairs Office in Tehran shall have jurisdiction.

**Note (3)**<sup>1</sup> Notary Public Offices, Departments for Registration of Deeds, Courts of Justice Administration, Endowments and Charity Affairs Organization, Department of the Minors and Wards Guardianship, as well as the banks and other institutions are prohibited from giving effect to any will, unless a Certificate of the Tax Affairs Office is provided to the effect that the same will is submitted, by the will executor or by the heirs, to the competent Tax Affairs Office.

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<sup>1</sup> In view of the Article 5 of the Legislation approved on November 6, 1991, approved by the Supreme Administrative Council regarding the Quality of the Administration of the Hajj and Pilgrimage Affairs, "the Endowments and Charity Affairs Organization" substituted "the Organization of Hajj, Endowments and Charitable Affairs." The change was applied in the text.

**Article 39** The administrator in case of endowment, the vower or the person tying up the property in these two latter cases, and the executor in case of a will, are required to draw up a tax return containing the details and values of the properties endowed, tied up, vowed or willed. They must draw the tax return on a form to be prepared by the Iranian National Tax Administration and submit the same together with related documents, not later than three months from the date of conclusion of respective contracts\* or from the date of the testator's death, as the case may be, to the competent Tax Affairs Office against a receipt. In respect of cases subject to Article 38 (a) of this Article, they have to pay the tax on incomes of each year until July 22 of the next year. In cases subject to the last part of the Paragraph (b) of the same Article, the applicable tax is to be paid not later than three months from expiry of the time limit stipulated for filing the relevant tax return. The taxpayers may also enjoy the facilities provided under Articles 40 and 41 of this Act.

**Note** Whenever the subject of endowment, tying up, vowing or willing is from the instances referred to in Article 24 (3) of this Article, or if it is subject to the provisions of the Chapter on the Tax on Incidental Income, the administrator, vowing or tying persons or the executor, as the case may be, shall record the particulars of properties subject to endowment, tying up, vowing or willing, and the specifications of beneficiaries, in a form to be prepared by the Ministry of Economic Affairs and Finance, and shall submit it, within three months from the date of conclusion of relevant contracts, or of the date of the testator death, to the competent Tax Affairs Office against a receipt.

**Article 40** Where the taxpayers subject to taxation of this Chapter are unable to pay their taxes, wholly or partially, the Iranian National Tax Administration may arrange for the payment thereof in installments over a period up to three years from the date of finalization of the applicable taxes and against a valid guarantee. In case of being unable to give guarantee and to undertake the installment arrangements, the heirs may act in view of the provisions of Article 41 of this Act.

**Article 41** In case of nonexistence of cash among the items of the estate, if so requested by the heirs in written, the Iranian National Tax Administration, upon mutual agreement with the heirs, may in lieu of the applicable tax, select and accept, a movable or immovable property whose value is equal to the amount of the relevant tax from among the said items. The value of the property shall be considered the same as taken into account for the assessment of inheritance tax.

**Note** If any property is accepted, in the application of this Article, in lieu of the tax, the transfer of such property to the Ministry of Economic Affairs and Finance shall be exempt from taxation whatsoever.

**Article 42** In cases, where the decedent's estate includes a manufacturing plant or workshop or some agricultural units, and the value of other properties of the decedent is not sufficient to cover the entire tax applicable to the estate, the Iranian National Tax Administration shall accept the request of the heirs for payment of the balance of the tax in installments over an appropriate period, after a part thereof is collected out of those other properties. The same treatment shall be effected with regard to the entire tax when the estate is comprised of such plant, workshop or agricultural unit exclusively.

**Article 43** If the banks, companies, institutions and persons holding the decedent's property, fail to discharge duties stipulated under Articles 34 and 36 of this Act, they and the heirs shall become jointly and severally liable for payment of the applicable taxes and fines up to the value of the properties held by them. In addition to that, a fine equal to 5% of the price of the same properties shall be imposed on them. In case of government banks, companies and institutions, the failing official together with his aiders and abettors shall also be considered as parties to the joint and several liability.

## Chapter V - Stamp Duty

**Article 44** An amount of IRR 200 shall be collected as the Stamp Duty against each sheet of check printed by banks at the time of printing.

**Article 45** A Stamp Duty of 0.3% shall be collected in connection with the bills of exchange, promissory notes and documents of similar nature, in proportion to their amount.

**Note** The Stamp Duty provisioned in this Article in respect of the amounts under IRR 1,000 shall be fixed to the duty applicable to IRR 1,000.

**Article 46<sup>1</sup>** The Stamp Duty shall be IRR 5,000 with respect to all negotiable commercial instruments issued or negotiated and employed in Iran (except for those mentioned in Articles 45 and 48 of this Act) and with regard to documents denoting title to merchandise, such as air and sea bills of lading, as well as the merchandise insurance policies. The Stamp Duty on land bill of lading and passengers' statement shall be IRR 1,000. Transport enterprises shall be responsible for drawing up of bills of lading in a careful manner and should insert correct identity and address of the owner of the merchandise and other relevant information therein. They should keep sufficient copies of such documents for not less than 5 years from their date of issue.

**Note** The following documents and papers shall be subject to Stamp Duties specified in this Note:

1. IRR 10,000 on exemption cards issued for individuals exempted, in any forms, from military service;
2. IRR 50,000 on international driving licenses;
3. IRR 200,000 on transit license plates of all kinds of motor vehicles, and for numbering of temporarily imported transport vehicles;
4. IRR 1,000 on driving licenses of all kinds of motor vehicles per each year of validity of respective licenses;
5. IRR 1,000 on report cards and diplomas of students of primary, junior, and senior high schools;

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<sup>1</sup> In view of Article 14 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a Note was annexed to this Act. It is mentionable that the Stamp Duty, subject of this Note, was used to be collected in the application of Articles 4, 5, 7, 12 and 14 of the Act to "Permit the Collection of Indirect Taxes from Some Goods and Services" approved on October 8, 1995.

6. IRR 10,000 on diplomas and diploma certificates of associate's, bachelor's, master's, doctorate and higher degrees;

7. IRR 20,000 on certificates of educational value of foreign elementary, junior, and senior secondary courses of study;

8. IRR 50,000 on certificates of educational value of foreign technical, vocational and university courses of study;

9. IRR 20,000 on permits issued to obstetricians and on diplomas of associate's degree and experimental dentistry;

10. IRR 100,000 on permits issued to physicians, dentists, paramedics, veterinarians and pharmacists;

11. IRR 100,000 for the issuance of licenses and identity cards for industrial and mining enterprises, and for issuing commercial cards, attorneys and experts permits and other business permissions. For renewal of the same documents, the amount of the stamp duty will be IRR 50,000.

**Article 47** The following agreements and similar instruments that are exchanged between banks and their clients or undertaken by the clients shall be subject to a Stamp Duty of IRR 10,000, provided that they are not registered with notaries public:

(1) The form of acceptance of general conditions of current accounts;

(2) Loan agreements or the agreements for granting of all kinds of facilities, and different binding forms and documents that banks get their clients to sign them upon making transactions;

(3) Agreements for various types of investment deposits;

(4) Letters of attorney drawn up in the offices of banks, under which the clients assign their right of signing to other persons;

(5) Other agreements concluded between banks and their clients, under which the parties undertake commitments and responsibilities with regard to the affairs referred to in this Article;

(6) Letters of guarantee issued by banks;

(7) Applications for letters of guarantee, after they are accepted by the bank and guarantees are issued; and

(8) Applications for letters of credit in favor of domestic or foreign parties, after the acceptance of application by the bank and opening of the credit.

**Article 48**<sup>1</sup> 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 0.2% of their face value. Fractions of IRR 100 shall be treated as IRR 100.

**Note** The Stamp Duty of shares and partnership shares of companies shall be paid, through cancellation of stamps, within two months from the date of legal registration of the company, and in case of capital increase and additional shares from the date of registration of capital increase, with the Companies Registration Department. Any increase in the capital of the companies that previously decreased their capital shall be exempt from the Stamp Duty, up to the amount on which the same duty had been previously paid.

**Article 49** Whenever the instruments subject to the Stamp Duties provisioned in Articles 45, 46, 47 and 48 of this Act are issued in Iran, the drawers have to affix and cancel the stamps applicable thereto. If they are issued abroad, the first person in possession thereof, has to take the same measure, before signing them for any purposes, whether for indorsing, negotiating, accepting or paying the amount of such documents. All institutions or persons negotiating, receiving or paying such instruments in Iran, at any event, shall, be jointly and severally liable for the payment of the stipulated duties.

**Article 50** The Ministry of Economic Affairs and Finance is authorized to print promissory notes, bills of exchange, bills of lading and other papers subject to the Stamp Duty, and to put them at the disposal of those applying for the same. Where it deems necessary, the Ministry may accept cash against receipt in lieu of affixation and cancellation of stamps.

**Article 51** In case of infringement of the provisions of this Chapter, the infringer shall be fined for twice the amount of the chargeable Stamp Duty, plus the payment of the principal thereof.

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<sup>1</sup> 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.



## TITLE C - INCOME TAX

### Chapter I - Real Estate Income Tax

**Article 52<sup>1</sup>** The income of real or legal persons derived from the transfer of rights in real estates situated in Iran, less the exemptions granted in this Act, shall be subject to the Real Estate Income Tax.

**Article 53<sup>2</sup>** The taxable income of the leased real estate consists of the total rent, whether in cash or otherwise, less a deduction of 25% to cover expenses, depreciation and commitments of the owner with regard to the leased property.

Taxable income in respect of the first hand lease of real estates that are endowed or tied up, shall be computed on basis of this Article.

In case of the mortgage in possession, the mortgagor shall be subject to taxation according to the provisions of this Chapter.

Where the lessor is not the owner of the leased property, his taxable income shall be the difference between the rents that he receives and pays in connection with the same leasehold.

The rule of this Article shall not govern in respect of the employer-provided houses belonging to legal persons, provided that their taxes are assessed on basis of the statutory books of accounts.

**Note (1)** The habitation of the owner's father, mother, spouse, child or grandparents, as well as that of the persons dependent on him, shall not be considered as leasehold, unless it is proved by evidence and documents that the rent is paid. Where several residential units are allocated for habitation of the owner or the aforesaid persons, one unit for dwelling of the owner

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<sup>1</sup> In view of Article 17 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of this Article was deleted.

<sup>2</sup> In view of Article 18 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Notes 1, 9 & 10 of this Article were amended and a part of the former text of the Note 2 was deleted. Moreover, Note 11 was annexed to this Article.

and one unit for each of the aforementioned individuals, at the choice of the owner, shall be excluded from the taxation of this Chapter.

**Note (2)** The real estates that are put, free of charge, at the disposal of the organizations and institutions mentioned in Article 2 of this Act, shall not be considered as leaseholds.

**Note (3)** For the purposes of rental income taxation, each apartment unit shall be deemed as a separate real estate.

**Note (4)** Where a real estate is leased in conjunction with some furniture or machinery, the rental income attributable to such furniture and machinery will also be considered as a part of the income of the property, and shall be taxed under this Chapter.

**Note (5)** Additions made by the lessee, in conformity with the lease agreement, to the leased property for the benefit of the lessor, shall be appraised on the basis of taxable value of the date of delivery of the same to the lessor, and 50% thereof shall be treated as a part of taxable rental income of the year of delivery.

**Note (6)** The expenses that are to be borne, under the law or the agreement, by the landlord, but are made by the tenant, as well as the expenses undertaken by the tenant in conformity with the terms of the lease agreement, while customarily are to be paid by the landlord, shall be appraised at the price of the date of occurrence of such expenses, and shall be added, as non-cash rent, to the sum of the rental income of the year in which such expenditures are made.

**Note (7)** If the owner of any built areas created over a leased land lets the property, wholly or partially, the rental paid by him for the land, in proportion to the estate he lets, shall be deducted from the rental he receives, and the balance shall be taxed according to the provisions set forth at the beginning of this Article.

**Note (8)** If the owner sells his dwelling place and a respite is granted to him, under the relevant transfer deed, for evacuation of the same without payment of rental, then the property shall not be deemed as a leasehold up to six months, if it is occupied by the transferor during such period of respite, unless it is proved, on account of some documents and evidence, that a

rental is being paid. The same rule is applicable in case of optional sale\* as long as the sold property remains at the disposal of the seller by virtue of the conditions of the transaction.

**Note (9)** Ministries, government institutions and companies, establishments whose budget is wholly or partially financed by the government, foundations of the Islamic Revolution, municipalities and their affiliated companies and firms, as well as other legal persons are required to withhold taxes stipulated in this Chapter from any rental payments they make and to pay it, within ten days, to the Tax Affairs Office of the district where the property is situated, and to hand over the receipt of the same to the relevant landlord.

**Note (10)** Where the residential units belonging to housing companies are delivered to buyers according to ordinary agreements, but not yet being transferred in a final manner, and this situation is approvable by demonstrative documents and records, such properties shall not be deemed to be leaseholds as long as they are in possession of the buyers. In these cases, the buyer shall be treated, for tax purposes, as owner, provided that the tax on final transfer of the property, as applicable at the date of possession, is paid in view of Article 59 of this Act.

**Note (11)**<sup>1</sup> The owners of residential complexes with more than three leased units that are or will be constructed, in conformity with the 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 in Tehran and up to 200 square meters in other places.

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<sup>1</sup> It is mentionable that previously in view of Article 11 of the Act for "Promotion of Construction and Supply of Rental Residential Units", approved on June 14, 1998, all the residential units with built areas under 120 square meters, which were rented out, were fully exempt from the Tax on Rental Income.

**Article 54**<sup>1</sup> The rental shall be determined based on official deed\*. The rent of similar properties shall form the basis for the assessment of the rental income in the following cases: absence of such deed, refraining from the submission of the deed or a copy thereof, or receiving by the lessor of an extra payment from the lessee in addition to the original rent, as deposit or under any other title. In the event of later discovery of demonstrative documents and instruments, which would, evidence that the actual rental income exceeds the amount constituting the base of assessment of taxable income, the difference in the tax due shall be collectible in view of the provisions of this Act.

**Note (1)** In cases where the rental value of a leased property is to be appraised on the basis of the rent of similar properties, such appraisal shall be made by the Tax Affairs Office of the district where the property is situated.

**Note (2)** As of March 21, 2003 (beginning of the year 1382), the basis of computation of the taxable rental income of the real estates shall be the rental value to be determined by the Real Estates Valuation Committee referred to in Article 64 of this Act for each square meter of properties located within the boundaries of cities and villages.

**Article 55** If the owner of a residential house or apartment lets it out and leases another place for his own residence or dwells in an employer-provided residential unit, then the rent he pays under an official deed or agreement, the rent deducted from his salary by the employer, or the amount of the same that is evaluated for Salary Tax purposes, shall be deducted, for computation of the taxable income of this Chapter, from his entire rental income.

**Article 56**<sup>2</sup> Deleted.

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<sup>1</sup> In view of Article 19 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Notes 2 was annexed to this Article.

<sup>2</sup> In view of Article 20 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

**Article 57**<sup>1</sup> The annual taxable rental income of individuals with no other source of income shall be exempted from taxation up to the level of tax exemption of salary income provisioned in Article 84 of this Act, and the balance thereof shall be subject to taxation in view of the provisions of this Chapter. The taxpayers subject to this Article are required to submit to the Tax Affairs Office of the district where the property is situated a special tax return in conformity with a form to be prepared by the Iranian National Tax Administration. They should also declare that they have no other incomes whatsoever. The Tax Office in question shall send a summary of the content of the tax return to the Tax Affairs Office local to the taxpayer's place of domicile. If it is established that the taxpayer has made a false return, the applicable tax plus a fine equal to the same shall be collected. For the purpose of this Article, the retirement pension, survivors' pension, bonuses and interests received on bank deposits shall not be deemed as income.

**Note (1)** The rule of this Article shall not apply in respect of minor children who are under the guardianship of their fathers.

**Note (2)** In case the other taxable monthly earnings of the taxpayer are below the threshold referred to in this Article, that part of his taxable rental income which amounts, when summed up with those other earnings, to the same threshold, shall be exempted from taxation and its balance shall be taxable in accordance with the provisions of this Chapter.

**Article 58**<sup>2</sup> Deleted.

**Article 59**<sup>3</sup> The final transfer of real estates, as well as the transfer of goodwill, shall be subject to taxation at the time when such transfers take place by the owner of the substance of the property or by the possessor of the right of goodwill. The basis of taxation shall be the taxable value in case

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<sup>1</sup> In view of Article 21 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Note 3 of the former text of this Article was deleted.

<sup>2</sup> In view of Article 22 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

<sup>3</sup> In view of Article 23 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article and its notes substituted the former text of this Article and its Notes.

of real estates and the price received by the owner or possessor of right in case of goodwill and the rates of tax will be 5% and 2%, respectively.

**Note (1)** In case of non-existence of taxable value for the property under the transaction, the taxable value applicable to the nearest similar location shall be taken as the basis of tax computation.

**Note (2)** For the purposes of this Act, goodwill means the right of making business or practicing a profession, the right of possession of a place, or the rights arising from the market position of the place.

**Article 60**<sup>1</sup> Deleted.

**Article 61** Where the transfer of a real estate is not registered by a notary public, the taxable value of the property shall be taken into account for computation of the applicable tax in conformity with the provisions of this Chapter, and in general, the taxable value of the nearest similar location shall apply in cases where no taxable value is determined for the relevant property.

**Article 62**<sup>2</sup> Deleted.

**Article 63** Whenever the final transfer of a real estate takes place under arrangements other than those of the sale contract, the regulations concerning the tax on final transfer of real estates as provided by the provisions of this Chapter shall apply, except for ex gratia transfers, which shall be taxable in view of the relevant regulations. In case of exchange of real estates, each of the parties to the transaction shall pay the final transfer tax applicable to his own transferred property in conformity with the above procedure.

**Article 64**<sup>3</sup> Real Estates Valuation Committee consisting of seven members shall determine taxable value of real estates. In Tehran, the Committee shall

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<sup>1</sup> In view of Article 11 of the Act Partially Amending the Direct Taxes Act, approved on April 27, 1992, this Article was deleted.

<sup>2</sup> In view of Article 11 of the Act Partially Amending the Direct Taxes Act, approved on April 27, 1992, this Article was deleted.

<sup>3</sup> 1-4 In view of the Law on the Formations, Responsibilities and Elections of the State Islamic Councils and Election of the Mayors, approved on May 21, 1996, in the above text, the phrases "the

comprise of the representatives of the Iranian National Tax Administration and the ministries of Housing and Urban Development and Agriculture Jihad, representative of the Organization of Deeds and Real Estates Registration and three local credible persons, who are knowledgeable and informed in the field of valuation of real estates, whom the Islamic Council of City<sup>(1)</sup> shall introduce. In case of central cities of provinces and other cities and towns, the Committee shall consist of the directors general or heads of the Offices of Tax Affairs, Housing and Urban Development, Agriculture Jihad and Deeds and Real Estates Registration, or their representatives, and three local credible persons, who are knowledgeable and informed in the field of valuation of real estates, whom the Islamic Council of City<sup>(2)</sup> shall introduce. The Committee shall determine the taxable value of real estates once a year.

As for the appraisal of real estates located in districts and their subordinate villages (according to administrative divisions of the Country), the three reliable persons knowledgeable in the field of valuation of real estates shall be introduced by the Islamic Councils of relevant Districts<sup>(3)</sup>. In case of nonexistence of Islamic Councils of City<sup>(4)</sup> or District, three persons of the same qualification, other than the government employees, shall be introduced by the governors of relevant towns or districts to take part in the aforesaid committees.

The Committee of Real Estates Valuation shall be convened at the premises of the Iranian National Tax Administration or its subordinate departments, by invitation of the said Administration in Tehran, and by that of the director generals or heads of Tax Affairs Offices in other cities/towns. For a quorum, at least five members, including not less than three members from government organizations, must be present at the meeting, and decisions taken by positive votes of four members shall be valid.

The Committee must:

(a) Determine the price of urban lands by due regard to the last approved taxable values; geographical position (landscape, type of soil, underground facilities, climate and altitude of the area); legal conditions (joint ownership,

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Islamic Council of City" and "the Islamic Council of District" substituted the "the Council of City" and "the Council of District."

type of ownership in terms of being actual or based on official title deeds, and being a leasehold); utilities (water, electricity, telephone, gas, hygiene, education, urban transportation network and other facilities); surface extent; density of population and buildings; position of properties in terms of being situated in commercial, industrial, residential, educational, or mixed areas; and in general, the type of application of the land, accessibility to green area and shopping centers, and the type of roads in terms of transportation and traffic;

(b) Determine the price of agricultural and rural lands by due regard not only to considerations stated in the Paragraph (a) above, but also to the distance to town; type of the products and their prices; quality of the soil; quantity of available water; capability for mechanical cultivation; natural conditions of the land; existence of road; type of the road and its distance to main road; and the cases where the ownership of land, building or trees of a garden belong to different persons; and

(c) Determine the price of buildings by due regard being had to the type of materials (steel or reinforced concrete structure, concrete structure, steel beam roof, etc.); the age and density of buildings and purposes for which they are allocated (residence, business, office, education, medical professions, services, etc.); and the kind of ownership in terms of the title on land and its built areas.

The taxable values so appraised, shall be enforceable after one month from the date of final approval thereof by the Real Estates Valuation Committee, and shall remain valid till the determination of new taxable values.

**Note (1)** The Iranian National Tax Administration, or its subordinate departments, may convene the Real Estates Valuation Committee before the expiry of the aforesaid one-year period in following cases:

(1) Determination of taxable values of areas in respect of which such values do not exist;

(2) Adjustment of taxable values already determined for some areas, which in the view of the Iranian National Tax Administration are not in balance when compared with taxable values of other similar areas; and

(3) Adjustment of taxable values determined for some areas, which in view of the Iranian National Tax Administration are being subjected to considerable changes in their values, because of the factors stated in this Article.

The taxable value determined under this Note shall be enforceable after one month from its final approval by the Real Estates Valuation Committee and shall remain valid until a new taxable value is determined.

**Note (2)** So long as the taxable values of real estates are not determined according to the provisions of this Act, the latest taxable values already fixed shall remain valid.

**Article 65** The final transfer of real estates that has been effected, or will be effected, 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.

**Article 66** Whenever the transferee is the government, a municipality or an affiliated entity of them, and in cases where a real estate is transferred through the agency of the Execution Office of the Registration Department, or through other government departments, as a substitute for the owner, and the price of the transfer deed is below the taxable value, the price mentioned in the transfer deed shall be taken into account for computation of the tax envisaged under Article 59 of this Act instead of the taxable value at the time of transfer of the real estate, as the case may be.

**Article 67** Termination of final transactions on real estates that takes place based on judicial authorities' decision, as a rule, shall not, be considered a new transaction, and thus shall not be subject to the taxation of this Chapter. The same rule shall apply to cancellation of final transactions on real estates by mutual consent of the parties, or termination of the same in other cases, provided that such actions take place not later than six months from the date of the original transaction.

**Article 68** The real estates transferred to the government as a result of execution of Article 34 of the Registration Law of August 1941 (*Mordad*

1320), as amended later, shall be exempt from the payment of final transfer tax.

**Article 69** Final transfer of low and medium price residential units for the first time shall be exempt from payment of the tax stipulated for final transfer of real estates, provided that such residential units are built within ten years from the date of approval of this Act in accordance with the criteria and at prices to be determined by the Ministries of Housing and Urban Development and Economic Affairs and Finance, and on the condition that they are transferred not later than one year from the expiry of the time limit for implementation of the relevant building project, which shall be fixed by the Ministry of Housing and Urban Development or local municipalities, as the case may be.

**Article 70** Any kind of properties or funds allocated by the ministries, government institutions and companies, or municipalities to the owner or possessor of right, or deposited in their name, as the consideration for the substance of, or the rights relating to, the real estates and lands that are taken for creation or development of military zones, or for public utilities, such as construction or extension of roads, railroads, streets and passage ways, as well as water, oil and gas pipe-lining, digging streams and the like, shall be exempt from the transfer tax as provisioned in this Chapter.

When the real estates that are registered, or will be registered, in the list of national monuments on the strength of the relevant law are transferred to the State Organization of Cultural Heritage, such transferring shall be exempt from the entire applicable final transfer tax. In other cases, where the owners keep the ownership of such properties for themselves, they shall enjoy tax exemption with respect to 50% of the income tax imposed under the Chapter pertaining to the real estates income tax.

Also, if some properties or funds are allocated by the aforesaid persons to the owners or possessors of rights as the consideration for taking of real estates or rights located in the areas where the projects for renovation, improvement and reconstruction of old quarters and decayed structure of cities/towns are to be implemented, such consideration shall be exempt from the transfer tax.

**Article 71**<sup>1</sup> When an official deed is issued with regard to the transfer of a real estate to a person who had previously purchased the land of the same property under an ordinary deed and constructed some buildings over it, the price of such building shall not be taken into calculation at the time the said official deed is issued, provided that the above situation is confirmed, based on the relevant case, by the competent government authorities or judicial courts, or by the municipality of the district where the property in question is situated.

**Article 72** In cases where the applicable tax is paid by the taxpayer, but the transaction is not effected, upon request of the taxpayer and confirmation of the notary public about non-registration of the transaction, the relevant Tax Affairs Office shall refund the collected tax pertaining to such aborted transaction out of the current collections within 15 days of the notary public's announcement and in conformity with the regulations of this Act. The rule of this Article shall apply to the rebate of taxes pertaining to goodwill and incidental income, as well.

**Article 73**<sup>2</sup> Deleted

**Article 74** As for a real estate that is possessed, under the title of *dastdarami*\* or other titles, by a person in accordance with local customs, if the possessor transfers all his rights with regard to the property to someone else, such transferring shall be subject to the tax on final transfer of real estates according to the provisions of this Chapter. As regards the income derived from transfer of other rights pertaining to such properties, the possessor shall be subject to the tax applicable to each relevant case in the same way as the owner. In the above cases, the date of possession shall be deemed as the date of the possessors' ownership.

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<sup>1</sup> In view of Article 27 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article was deleted.

<sup>2</sup> In view of Article 11 of the Act Partially Amending the Direct Taxes Act, approved on April 27, 1992, the text of this Article was deleted.

**Article 75** For tax purposes, the tenants of endowed properties shall be subject to the provisions of this Chapter in respect of the land of such properties, whether they have any constructed built areas over it or not.

**Note (1)** As for the computation of tax liability of the said taxpayers, the date of lease shall be taken as the date of acquisition of ownership.

**Note (2)** In cases where an endowed property is transferred by the tenant, the rule of this Article shall not prevent the application of Note (7) of Article 53 of this Act.

**Article 76** In cases where the transfer referred to in Article 52 of this Act is, according to the provisions of this Chapter, subject to the tax provided in Article 59 of this Act, no other payments shall be imposed as Income Tax on such transfers.

**Article 77<sup>1</sup>** The first final transfer of newly constructed residential or nonresidential units shall be subject to tax at a flat rate of 10% on the basis of the taxable value of the transferred built area, in addition to the tax applicable on final transfer of real estates envisaged under Article 59 of this Act, provided that not more than two years are elapsed from the date of issue of Certificate of Completion of Construction for such units. The relevant persons, whether real or legal, shall not be subject to any other taxes with regard to the income derived from the construction and sale referred to in this Article.

**Article 78** As for the transfer of each of the rights referred to in Article 52 of this Act, when the transfer is effected by the owner of the substance of the property, the payments received by the owner shall constitute, except for cases subject to Articles 53 through 77 of this Act, the basis of computation of the applicable tax at the rates provisioned in Article 59.

**Article 79<sup>2</sup>** Deleted.

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<sup>1</sup> In view of Article 28 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of the former text of this Article was deleted.

<sup>2</sup> In view of Article 11 of the Act Partially Amending the Direct Taxes Act, approved on April 27, 1992, the text of this Article was deleted.

**Article 80** The taxpayers subject to this Chapter are required to draw up their tax returns on a sample to be prepared and provided by the Iranian National Tax Administration. They have to submit the tax return so drawn up, together with related documents, to the Tax Affairs Office of the district where the property is situated, and to pay the applicable tax in view of the relevant regulations. The said measures are to be taken within thirty days from the date of transaction in case of the transfer of goodwill, as well as where the taxpayers are subject to Article 74 of this Act, and until July 22 of the following year in other cases.

**Note (1)** In cases where the transactions referred to in Article 52 of this Act are effected through official deeds, the taxpayer is required to declare, before making such transactions, the detailed amount of each of his receipts or earnings subject to taxes provisioned in Article 187 of this Act to the competent Tax Affairs Office. Such a declaration shall be considered, except for cases where the lessor has not been changed, as a substitute for fulfillment of the tasks prescribed in the text of this Article.

**Note (2)** In cases where the transactions subject to this Chapter are not effected through official deeds, the transferee shall be required to declare the event in writing, within thirty days from the date of the transaction, to the Tax Affairs Office of the district where the real estate is situated.

## **Chapter II - Tax on Income from Agriculture**

**Article 81** 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

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the Third Economic, Social and Cultural Development Plan of the Islamic Republic of Iran and submit the same to the Islamic Consultative Assembly.\*

### Chapter III - Tax on Salary Income

**Article 82** The income of a real person employed by another (real or legal) person, that is derived against services rendered by him with regard to his occupation in Iran, whether on the basis of the time spent or the work done, and whether paid in cash or noncash form, shall be subject to tax on Salary Income.

**Note** Salary income derived from Iranian sources by individuals during their mission abroad (remitted either by the government of the Islamic Republic of Iran or by persons residing in Iran) shall be subject to Tax on Salary Income.

**Article 83** Taxable salary income consists of the salary (fixed emolument or wage, or basic salary) and fringe benefits paid in connection with the employment, whether on a recurring or non-recurring basis, before subtraction of deductions, but less the tax exemptions provisioned in this Act.

**Note** The non-cash income subject to Salary Tax shall be appraised and computed as follows:

a) Furnished housing equal to 25%, and unfurnished 20%, of the sum of salary and recurring cash benefits (except for the cash benefits exempted under Article 91 of this Act) per each month, less the amounts deducted from the employee's salary in respect of the same housing;

(b) Private chauffeur-driven car equal to 10%, and without chauffeur 5%, of the sum of salary and regular cash benefits (except for the cash benefits exempted under Article 91 of this Act) per each month, less the amounts deducted from the employee's salary in respect of the same car; and

(c) Other non-cash benefits equal to the cost price as incurred by the payer of the salary.

**Article 84**<sup>1</sup> The annual income subject to salary tax, which is derived from one or more sources by any salary receiver, including the workers subject to the Labor Act, shall be exempt from taxation up to a threshold equal to 150 times of the base minimum salary of the salary schedule provisioned in Article 1 of the Law of 1991 (1370) concerning the Coordinated System of Payments to Civil Servants.

**Article 85**<sup>2</sup> Salary incomes of employees subject to the Law of September 4, 1991 (*Shahrivar 13, 1370*) concerning the Coordinated System of Payments to Civil Servants, less the exemptions provided in this Act shall be subject to tax at a flat rate of 10%. As regards the other salary receivers, up to IRR 42,000,000 of their salary income, minus the exemptions envisaged under this Act, shall be subject to the same rate of 10%, and the rates of Article 131 of this Act shall apply to the rest thereof.

**Article 86**<sup>3</sup> The payers of salaries are obligated, when paying or allocating the same, to compute and withhold therefrom the applicable taxes in view of Article 85 of this Act and to remit, within thirty days, the deducted amounts, together with a list containing the amount of salaries, names and addresses of recipients, to the local Tax Affairs Office. In subsequent months, the changes of the list should only be reported.

**Note** In case of the payments made by persons other than the payers of the fixed emoluments, wages and basic salary, those making such payments are required to calculate and deduct, at the time of each payment, the applicable tax at the rates of Article 85 of this Act, without taking into account the exemption referred to in Article 84 of this Act, and remit it, together with a list containing the names and addresses of recipients and the amount of payments, to the local Tax Affairs Office within thirty days.

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<sup>1</sup> In view of Article 30 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Notes 1 & 2 of the former text of this Article were deleted.

<sup>2</sup> In view of Article 31 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article substituted the former text.

<sup>3</sup> In view of Article 32 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a Note was annexed to the Article.

**Article 87** The overpaid Tax on Salary Income shall be refunded in view of the provisions of this Act, provided that the refund is requested in writing by the salary receiver, after the July 22 (expiry of the month of *Tir*) of the next year up to the end of the same year, from the Tax Affairs Office of the district where the taxpayer is domiciled.

The said Tax Affairs Office is obligated to make necessary investigations within three months from the date of submission of such request, and in case of finding that the overpayment is realized and the taxpayer has no other final tax liability towards the same Tax Office, shall refund the excess tax out of the current collections. If the salary receiver were found to have any other final tax liability, the excess tax shall be set off against such liability and the balance shall be refunded.

**Article 88** Whenever the salary is received from the persons who reside abroad and have no branches or representatives in Iran, the salary receivers are required to pay, in view of the provisions of this Chapter and within thirty days from the date of receiving of such salary, the tax applicable thereon to the Tax Affairs Office of the district where they are domiciled. They are also obligated to submit, until July 22 (the end of the month of *Tir*) of the next year, a tax return on the salary received by them to the same Tax Affairs Office.

**Article 89** Grant of exit permission or extension of residence or work permits for foreign nationals, except for those exempted from taxation under this Act, shall be subject to presentation of a tax clearance or a written commitment by the employer of the Iranian legal person that is the party to the contract with the employer of expatriate employees or with the third party Iranian legal entities.

**Article 90** In cases where the payers of salary fail to remit the applicable tax on stipulated time, or pay a sum below the actual amount, the Tax Affairs Office of the district where the salary receiver works, or in case of the individuals subject to the Note of Article 82 of this Act, the Tax Affairs Office of the district where the payer of the salary resides, is required to calculate the applicable tax together with the fines provisioned in this Act,

and to claim the same, by means of an assessment notice and by due regard to the time limit of Article 157 of this Act, from the payers of the salary who will be treated as taxpayers. The rule of this Article shall be applicable to the taxpayers subject to Article 88 of this Act, as well.

**Article 91<sup>1</sup>** The salary income shall be exempt from taxation in the following cases:

(1) Heads and members of foreign diplomatic missions in Iran and heads and members of the extraordinary delegations of foreign states with regard to the salary income received by them from their superior governments subject to reciprocal treatment, and the heads and members of delegations of the United Nations Organization and its specialized agencies in Iran in respect of the salary income received by them from the said organization and agencies, provided that they are not nationals of the Islamic Republic of Iran;

(2) Heads and members of foreign consular missions in Iran and the staff of the cultural institutions of foreign states with regard to the salary income received by them from their respective governments, subject to reciprocal treatment;

(3) Foreign experts sent to Iran with the consent of the government of the Islamic Republic of Iran under technical, economic, scientific and cultural gratuitous assistance programs of foreign states or international institutions, with regard to the salaries received by such experts from their respective governments or the said international institutions;

(4) Local employees of the Islamic Republic of Iran's embassies, consulates and missions abroad in connection with the salary income received by them from the government of the Islamic Republic of Iran, provided that they are not citizens of the Islamic Republic of Iran, and subject to reciprocal treatment;

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<sup>1</sup> In view of Article 35 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, in addition to the amendment of Paragraphs 5, 10, 13 and 14 of this Article:

1. Some phrases of the former text of paragraphs 6, 8 and 11 of this Article were deleted.
2. Paragraphs 7, 15 and 16 of the former text of this Article were deleted.

(5) Retirement pension, survivors pension, regular annuities, termination of employment payments, dismissal compensation, payments for buying-out of services, pensions and annuities paid to the heirs, service term allowance and the salary of the period of unused leave payable to salary receivers at the time of becoming retired or disabled.

(6) Service-related travel expenditure and allowance.

(7) Deleted.

(8) Accommodation provided on site of the factory or workshop for the benefit of workers and low price employer- provided houses outside the factory or workshop that are used by workers.

(9) Compensation received from insurers with regard to physical injury, medical treatment, and the like;

(10) New Year bonus\* or year-end bonus up to one twelfth of the tax exemption envisaged under Article 84 of this Act.

(11) Employer-provided houses put at the disposal of civil servants by virtue of a legal permission or according to special regulations.

(12) Payments made by the employer, directly or through the relevant employee, to a physician or hospital for the treatment of his employees and persons who are dependent on them, where such payments are substantiated by demonstrative evidence and documents;

(13) Non-cash benefits paid to employees up to two twelfths of tax exemption of Article 84 of this Act at maximum.

(14) Salary income of the members of the armed forces of the Islamic Republic of Iran, whether belonging to the military or disciplinary branches, and the salary of employees subject to the employment law of the Intelligence Ministry, and the salary income of invalids of Islamic revolution and imposed war and released prisoners of war.

**Article 92** 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, shall be spared.

**Note** The salary tax liability of the military and disciplinary personnel falling due up to the enforcement date of this Act shall be spared.

## Chapter IV - Tax on Individual Business Income

**Article 93** The income derived in Iran by individuals through engagement in businesses or under any other titles not specified in other Chapters of this Act, less the exemptions provided herein, shall be subject to the Tax on Individual Business Income.

**Note** The income of civil partnerships (whether realized through voluntary or involuntary\* actions) and the income arising out of investor-agent partnership\* activities, where the agent (*Mozareb*) or investor is a real person, shall be subject to the provisions of this Chapter.

**Article 94**<sup>1</sup> The taxable income of the taxpayers who are subject to this Chapter consists of the aggregate sale of goods and services plus their other incomes that are not recognized as taxable under the other Chapters of this Act, less the relevant expenses and depreciations in conformity with the provisions of the Chapter on the Acceptable Expenses and Depreciations.

**Article 95**<sup>2</sup> The owners of businesses subject to this Chapter should keep sufficient positive records and documents for assessment of their taxable income. The owners of businesses are divided into the following groups for purposes of the taxable income assessment:

(A) Those who are required, on the strength of this Act, to register their business activities in the books of journal and ledger prescribed in the Commercial Law, and are obligated to maintain the relevant books of accounts, records and documents in conformity with the accepted principles, criteria and standards of accounting.

(B) The business owners who are required under this Act to register their business activities in the books of income and expenditure. The Iranian National Tax Administration shall prepare and supply samples of these books.

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<sup>1</sup> In view of Article 38 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase was deleted from the former text of this Article.

<sup>2</sup> In view of Article 39 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Notes substituted the former text of this Article and its Notes.

(C) The business owners who are not subject to Paragraphs "A" and "B" above should maintain a summary statement of their income and expenditures according to the criteria and samples to be determined by the Iranian National Tax Administration.

**Note (1)**<sup>1</sup> In case of considering it necessary, the Iranian National Tax Administration, shall prepare, until January 20 (up to the end of the month of *Dey*) of each year, the list of the businesses added to paragraphs "A" and "B" of Article 96, and thus becoming subject to the same from the beginning of the subsequent year (March 21 next year), and will declare it to taxpayers through guild organizations and advertising in the State Official Gazette and a newspaper of mass circulation.

**Note (2)** The Regulations concerning methods of keeping the books of accounts, records and documents and the manner of registration of financial events and drawing up of final financial statements, based on the type of activities and by observance of accepted principles, criteria and standards of accounting, shall be prepared by the Iranian National Tax Administration after seeking the viewpoints of the Iranian Association of Certified Public Accountants, and will be approved by the Minister of Economic Affairs and Finance.

**Article 96 (A)** The owners of businesses subject to Paragraph "A" of Article 95 of this Act are as follows:

- (1) Holders of commercial card, and all importers and exporters;
- (2) Owners of factories and producing units, for whom the permit of establishment and license of exploitation has been issued, or will be issued, from the respective ministry;
- (3) Exploiters of mines;
- (4)<sup>2</sup> Owners of firms of auditing, accounting, book-keeping and financial services, and providers of management, consulting, informatics and

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<sup>1</sup> In view of the Articles of Association of the State Official Gazette Joint Stock Company, approved on March 17, 1974, in the above text "the State Official Gazette" substituted " the Official Gazette".

<sup>2</sup> In view of the Notice published by the Iranian National Tax Administration in the mass circulated Iran Newspaper, dated January 14, 2009 and the State Official Gazette No. 18614, dated January 22,

computer services, whether related to hardware, software or system designing, and official accountants;

(5) Owners of education and training centers, private educational institutions, nonprofit schools, universities and centers of higher education;

(6) Owners of hospitals, maternity hospitals, sanatoriums, polyclinics and old people homes;

(7) Owners of motels, three-star and higher level hotels;

(8) Wholesalers, wholesale dealers, department stores, financial intermediaries, agents for distribution of domestic and imported goods and warehouse owners;

(9) Representatives of commercial and industrial enterprises, whether domestic or foreign;

(10) Owners of land, sea or air motorized transportation firms, whether for carriage of passengers or freight;

(11) Owners of engineering and engineering consulting bureaus; and

(12) Owners of advertising and marketing agencies;

(B) Owners of businesses subject to paragraph "B" of Article 95 of this Act are as follows:

(1) Owners of industrial workshops;

(2) Owners of businesses in the field of construction, technical and industrial installations, drawing, topography, technical calculations and supervision;

(3) Owners of printing houses, lithographers, bookbinders, providers of printing services and graphic artists.

(4) Owners of centers for computer communications;

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2009, the phrase "official accountants" was deleted from the subparagraph 5 of Paragraph B and was added to the subparagraph A and shall be enforceable as of March 21, 2009.

(5)<sup>1</sup> Attorneys, experts, official translators of the Justice Administration, legal advisors, and members of engineering order organizations.

(6) Researchers, scholars, and private experts engaging in preparation and provision of research projects;

(7) Brokers, commission merchants and agents;

(8) Owners of cultural and art centers, culture houses, vocational institutions and societies of guilds and professions;

(9) Owners of cinemas and theatres, as well as entertainment and sport centers;

(10) Owners of the businesses of filming, dubbing, assembling and other cinematic services;

(11) Physicians and dentists who have clinic, and veterinarians practicing veterinary medicine;

(12)<sup>2</sup> Owners of laboratories and clinics for radiology, physiotherapy, sonography, electroencephalography, CT scan and beauty salons, as well as other providers of hygienic services, whether of medical or non-medical nature, owners of pharmacies, including human and animals, dentistry labs, centers for treatment of drug addictions, enterprises of hair transplanting and hair treatment, manufacturers of artificial limbs, centers for optometry, audiometry, genetic consultation, psychometric and psychological consultation, as well as nursing and midwifery offices, and centers of ambulance services;

(13) Owners of inns, guesthouses and lodgings;

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<sup>1</sup> In view of the Notice published by the Iranian National Tax Administration in the mass circulated Iran Newspaper, dated January 14, 2009 and the State Official Gazette No. 18614, dated January 22, 2009, the phrase "official accountants" was deleted from the subparagraph 5 of Paragraph B.

<sup>2</sup> In view of the Notice published by the Iranian National Tax Administration in the mass circulated Iran Newspaper, dated January 3, 2009 and the State Official Gazette No. 18614, dated January 22, 2009, the phrase "owners of pharmacies, including human and animals, as well as dentistry labs, centers for treatment of drug addictions, enterprises of hair transplanting and hair treatment, manufacturers of artificial limbs, centers for optometry, audiometry, genetic consultation, psychometric and psychological consultation, as well as nursing and midwifery offices, and centers of ambulance services" was added to the subparagraph 12 and the deletion shall be enforceable as of March 21, 2009.

- (14) Owners of entertainment halls and restaurants, preparers of ready meals, providers of entertainment services and lenders of utensils;
- (15) Notaries public;
- (16) Owners of authorized repair shops and service stations;
- (17) Owners of car exhibitions and shops, estate agencies and rent-a-car agencies;
- (18) Goldsmiths, jewelers and sellers of gold and jewelry;
- (19)<sup>1</sup> Sales agents and sellers of ironware, sellers of constructional materials, who are agents for selling or distribution of cement, plaster and other constructional materials;
- (20) Owners of the offices for communication services (office for mobile phone subscribers services and post agencies), owners of e-government services offices (Police + 10), and offices for electronic city services;
- (21) Owners of private stations for oil and gas products distribution (gasoline, gas oil and gas stations);
- (22) Owners of kindergartens and preschool centers;
- (23) Publishers and owners of publications enterprises;
- (24) Owners of offices for motorcycle transportation services;
- (25) Owners of offices of tour and travel services;
- (26) Confectioneries, and sweetshops with workshops; and
- (27) Owners of workshops for producing voluminous, fantasy and industrial bread.

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<sup>1</sup> 1. In view of the Notice published by the Iranian National Tax Administration in the mass circulated Iran Newspaper, dated January 3, 2009 and the State Official Gazette No. 18614, dated January 22, 2009, the phrase "sellers of constructional materials, who are agents for selling or distribution of cement, plaster and other constructional materials" was added to the end of subparagraph 19 and shall be enforceable as of March 21, 2009.

2. In view of the Notice published by the Iranian National Tax Administration in the mass circulated Iran Newspaper, dated January 3, 2009 and the State Official Gazette No. 18614, dated January 22, 2009, subparagraphs 20-27 were added to the Paragraph B and shall be enforceable as of March 21, 2009.

**Note (1)** The Iranian National Tax Administration, if it deems it necessary, may oblige each of the taxpayers subject to the paragraph "B" of this Article to comply with the provisions of paragraph "A" above, provided that such decision is notified to the same taxpayers until January 20 of each year. Then, the relevant taxpayers shall be required to perform that obligation as of the beginning of the subsequent year.

**Note (2)** The word "owners" as used in this Article, means the persons in whose account the exploitation of the enterprise is effected.

**Note (3)** The persons subject to this Article, who perform other business activities covered by this Chapter in the premises of their business, shall be required to observe the regulations of this Act in respect of all their business activities.

**Article 97<sup>1</sup>** The taxable income of taxpayers shall be subject to ex officio assessment in the following occasions:

(1) Where the tax return and profit and loss account, and or the income and expenditures account and profit and loss account, whichever be applicable, are not submitted up to the stipulated time limit;

(2) Where the taxpayer refrains from presenting the books or documents of accounts in the premises of his business in spite of written application of the relevant Tax Affairs Office (the premises of business in respect of legal persons shall be the same as their legal residence, unless the respective Tax Affairs Office is already informed by the taxpayer in writing that the center of the taxpayer's operations has been determined for presentation of the books of accounts and documents). For the purposes of this Paragraph, where the taxpayer fails to produce some of the documents of accounts and such documents are related to expenses, then the relevant expenditures shall not be taken into account for computation of acceptable expenditures, and if the documents pertain to income, the taxable income related to such documents shall be computed on the basis of ex officio assessment; and

(3) Where according to the Tax Affairs Office, the books of accounts, records and documents presented for assessment of the taxable income, are

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<sup>1</sup> In view of Article 41 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Note 2 is annexed to this Article.

considered as inappropriate for examination, or they are rejected due to non-observance of legal criteria and the relevant regulations. In such cases, the issue, supported by sufficient evidence, shall be notified to the taxpayer in writing and the file of the case shall be referred to a Board consisting of three auditors, to be selected by the President of the Iranian National Tax Administration, for examination. The taxpayer may apply, within one month from the date of notification, to the said Board and take actions for elimination of difficulties of examination or for producing written explanation on how he has observed the legal criteria and the relevant regulations, whichever be applicable. The Board is obligated, at any event, to declare, within 10 days after the expiry of the abovementioned period of one month, its opinion together with sufficient justification and evidence to the relevant Tax Affairs Office for taking actions on the basis thereof. The opinion of the Board shall be valid when rendered by the majority of its members. The opinion of the minority member shall also be mentioned in the minutes of the Board's meeting. Where the Board rejects the view of the Tax Affairs Office regarding the unacceptability of taxpayer's books of accounts, it must declare the issue to the Office of the Tax Disciplinary Prosecutor, as well.

**Note (1)** For the purpose of implementation of the paragraph (3) above, the time limit for examination envisaged under Article 156 of this Act, shall be extended for an additional period of two months.

**Note (2)** If there exists a possibility to determine the taxpayer's actual income on the basis of the documents and records that are presented or gathered, the Tax Affairs Office shall be required to determine the taxable income by examining the said documents and records, or by examining the books of account, as the case may be. In case any income is derived from hidden activities that are substantiated by sufficient evidence and indications, the taxable income of such activities shall always be assessed through ex officio assessment, and shall be added to the previously determined taxable income, which in aggregate shall constitute the basis of the tax claim.

**Article 98<sup>1</sup>** In cases of ex officio assessment, the Tax Affairs Office must perform necessary investigations and studies and obtain the required information from different sources, whether public or private. Then it should firstly select, from among the indicia set forth in this Act, one or more indications that conform to the conditions of the taxpayer and object of his business. The Tax Office should mention the reasons for choosing the relevant type of indication(s) and their amounts, with sufficient justification, in his report of examination. Then, it should apply the pertinent stipulated coefficient(s) to the selected indication or indications for determining the taxable income of the taxpayer. In case of applying coefficients to more than one indication, the average of products so calculated shall constitute the taxable income.

**Article 99** The agreements for contracting operations envisaged under Article 76 of the Direct Taxes Act of March, 1967 (*Esfand 1345*) and further amendments thereof, the bids for which were received before the date of approval of this Act, shall continue to be subject to the provisions of the said Act as regards the assessment of taxable income and payment of the tax at the flat rate of 4%.

**Note** The agreements for contracting operations subject to Article 76 of the Direct Taxes Act of March 1967 (*Esfand 1345*) and further amendments thereof, the bids for which were received between the date of February 22, 1988 (*Esfand 3, 1366*) until March 20, 1989 (*Esfand 29, 1367*), shall be subject to the regulations of this Act as far as the assessment of taxable income is concerned, and only in case of income tax rates applicable to the operations of the taxable period ending in the duration of March 21, 1988 until March 20, 1989 (the Solar *Hijra* year of *1367*), the tax rates stipulated for the said year shall apply.

**Article 100<sup>2</sup>** The taxpayers subject to this Chapter of this Act are required to draw up tax returns of their business activities performed during a tax year,

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<sup>1</sup> In view of Article 42 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note under the former text of this Article was deleted.

<sup>2</sup> In view of Article 43 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase was deleted from the former text of this Article and Notes 5 and 7 of this Article were deleted and its Note 6 was changed to the current Note 5.

separately for each business unit or each place of business, in conformity with a sample to be prepared by the Iranian National Tax Administration. They have to submit such tax returns, and to pay the applicable taxes at the rates of Article 131 of this Act, to the Tax Affairs Office local to the place of their business until the end of *Tir* (July 22) of the following year.

**Note (1)** As for the workshops and producing units whose type of activity requires the establishment of offices or stores in one or more other places, the taxpayer is required to submit a single tax return with regard to the incomes derived from all his activities to the Tax Affairs Office of the district, where the workshop or producing unit is situated.

**Note (2)** As regards the taxpayers subject to this Chapter who do not have a fixed place of business, their place of dwelling shall be regarded as the place of their business for the purpose of filing the tax return.

**Note (3)** Filing of tax return by any partner of a civil partnership shall not relieve other partners from the same duty. This rule shall not prevent the submission of a joint tax return.

**Note (4)** Tax return of the taxpayers subject to this Chapter shall include balance sheet and profit and loss account, or income and expenditures account, or summary statement of income and expenditure, as the case may be, in conformity with the samples to be determined by the Iranian National Tax Administration.

**Note (5)** In respect of some of the income sources specified under this Chapter and for the years and places that the Iranian National Tax Administration may consider appropriate, the said Administration may determine the taxable income of all or some taxpayers subject to the Paragraph (C) of Article 95 of this Act by seeking the opinion of the relevant guilds, and collect the applicable taxes, which shall be considered as final.

If it becomes evident that a taxpayer left his business as from the beginning of a tax year or in the middle thereof, or was unable to work due to reasons beyond his control, his taxable income shall be computed, and the tax applicable thereto shall be collected, in proportion to the period of

engagement in business, provided the said situation is confirmed by the Board of Settlement of Tax Disputes.

**Article 101** Annual taxable income of the taxpayers subject to this Chapter who submit their tax return on time and according to the provisions of this Chapter, shall be exempt from taxation up to the threshold envisaged under Article 84 of this Act and the income in excess of that shall be taxed at the rates of Article 131 of this Act. The stipulation regarding the submission of tax return will apply in respect of the turnover of the Solar *Hijra* year 1382 (March 21, 2003 until March 19, 2004) onwards.

**Note** In civil partnerships, whether voluntary or involuntary, the partners shall enjoy two exemptions at the maximum. The exemption shall be equally divided between them and the balance of partners' share shall be taxed separately. Where there is a matrimonial relationship between the partners, the spouses shall be considered, for the purpose of tax exemption, as a single partner and the applicable exemption shall be granted to the husband. In case of death of a partner, his heirs, as legal successors of the deceased person, shall enjoy the tax exemption that was accruable to the decedent as described above. The tax exemption shall be equally divided between the heirs and shall be deducted from the share of income attributable to each of them.

**Article 102** In the investor-agent partnerships, the agent (*mozareb*) is obligated to pay, at the time of filing his tax return, the tax applicable to himself. In addition, he is required to withhold the tax applicable to the share of the owner of capital without applying the exemption provided under Article 101 of this Article, and to remit the same, as an on account payment of the investor's tax, to the relevant tax account. He should present the receipt of his payment to the respective Tax Affairs Office, and to the owner of capital.

**Note** If the owner of capital is a bank, the agent or "*mozareb*" shall be relieved from the task of withholding the relevant tax of the investor.

**Article 103** The attorneys-at-law and those trying before specialized courts are obligated to mention in their letter of attorney, the amount of the

relevant fees, and to affix and cancel tax stamps equal to 5% thereof on the letter of attorney as an on account payment of the applicable taxes. The amount of the stamp duty should not in any case be less than the following amounts:

(a) In respect of lawsuits and cases the relief of which is of financial character, 5% of the attorney's fee, as specified in the relevant tariff, for each stage of proceedings;

(b) In cases, where the subject of the attorney's power is not of financial character, or if it is not legally necessary to determine the amount of the relief, and in criminal proceedings where the amount of attorney's fee depends on the court's decision, 5% of the minimum attorney fee, as set forth in the regulations concerning the attorney fees, for each stage of proceedings;

(c) In criminal cases, where a financial relief is demanded by the private claimant, the rule of the paragraph (a) of this Article will be taken into account; and

(d) In case of financial claims and disputes that are to be examined and settled by specialized non-judicial forums, in respect of which no specific tariff of attorney fees is adopted, such as the disputes concerning taxation, municipal duties payable for expansion of roads and the like, the amount of attorney's fee, exclusively for tax purposes, shall be computed as follows:

➤ Five percent in respect of disputes of up to IRR 10,000,000; 4% of the amount in excess of IRR 10,000,000 in respect of disputes of up to IRR 30,000,000; and

➤ Three percent of the amount in excess of IRR 30,000,000 for disputes over the same amount.

The stamp duty to be canceled shall be equal to 5% of the fees so computed.

The rule of this Paragraph shall also apply to persons acting as attorney before the aforesaid forums (even if they are not attorneys-at-law), except when they are employee or father, mother, brother, sister, son, daughter, grandchild or spouse of the taxpayer.

**Note (1)** In case of failure to observe the rule of this Article, the attorney shall be rejected, in conformity with the regulations of the Civil Procedure Law, in all courts and forums referred to above, except for attorneys whose power is conferred by ministries, government owned enterprises and companies, municipalities and enterprises affiliated with the government or municipalities, in which case no tax stamp is needed to be cancelled on the letter of attorney.

**Note (2)** The ministries, government owned enterprises and companies, municipalities and enterprises affiliated with the government or municipalities are required to withhold 5% of the fees they pay to attorneys and to remit the same, as an on account payment of the attorney's tax, to the local Tax Affairs Office within 10 days.

**Note (3)** If after cancellation of tax stamps, the case is referred to a new attorney to follow up, the latter shall not be required to cancel again tax stamps on the relevant letter of attorney.

**Note (4)** In cases where the attorney's fee or the damages related to the fee are determined by the court and the amount so determined is less or more than the amount constituting the basis of computation of the affixed stamps, the clerk of the court shall inform the relevant Tax Affairs Office about the amount determined under the final judgment, so that the balance can be computed accordingly.

**Article 104<sup>1</sup>** The ministries, government enterprises, municipalities, enterprises affiliated with the government or municipalities, all legal persons whether non-profit or profit-making, and the persons subject to Paragraph "A" of Article 95 of this Act, must withhold, as an on account contribution of the taxpayer's (receivers of payments) tax, 5% of every payment they make as consideration against the following services: medical fees; hospital, laboratory and X-ray expenses; arbitration; consultation;

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<sup>1</sup> 1- In view of Article 46 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Notes 5 and 6 were annexed to this Article.

2- In view of Article 8 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, the phrase: "stock exchanges, over-the-counter (OTC) trading and transaction fees and settlement of negotiable papers and goods in stock exchanges and OTCs" were added before the word "banks" and the word "contract" was added after "transportation" and shall be enforceable as of "February 4, 2010."

expert advice; auditing; financial and administrative services; writing; authorship and literary works; musical composition; musical performance; dramatic plays and singing; painting; brokerage and factorage; any kind of fees or charges against provision of services, except the fees paid to stock exchanges, over-the-counter (OTC) markets and transaction fees and settlement of negotiable papers and goods in stock exchanges and OTC markets, banks, cooperative funds and authorized non-bank credit institutions; cleaning of places and buildings; hiring of office and calculation machinery; all types of computer services and communications; hiring of any kind of land, air and marine vehicles, machinery, factory and refrigerating chamber; warehousing, maintenance and repair of lifts, central heating and air conditioning systems; any type of construction, technical installations and installation works; preparation of designs of buildings and installations; drawing; topography; supervision and technical calculations; transportation contracts and any payment for showing movie pictures. The withholders should remit, within thirty days, the tax so withheld to the account declared by the Iranian National Tax Administration, and to hand over the receipt thereof to the taxpayer. They are also required to send, within the same time limit, the specifications of the receivers, including their names and addresses, to the relevant Tax Affairs Office.

The facilities granted by banks through the reward contracts, in connection with agricultural affairs and restoration and completion of a residential unit, shall not be subject to the on account tax of 5% as provided under this Article. In such cases, the banks are required to send a copy of the reward contract concluded with the agent to the respective Tax Affairs Office within thirty days from the date of conclusion thereof.

**Note (1)** If a contract is entered into for the implementation of works referred to in this Article, the employer is required to deliver a copy of the same, within thirty days from the date of conclusion thereof, to the local Tax Affairs Office against a receipt.

**Note (2)** In cases where the income sources stated in this Article are wholly tax exempt, the deduction of the said on account tax shall be cancelled, on the condition that the prior opinion of the local Tax Affairs Office is sought.

**Note (3)** Whenever the fees referred to in this Article are deposited with the Justice Administration Fund and other similar depositories, and where the said fees are collected and remitted by the execution authorities, the depositing person shall not be under obligation to deduct the said withholding tax. The duties set forth in this Article shall be discharged, in such cases, by the authorities instructing the payment of the relevant fees.

**Note (4)** As for the agreements of contracting operations envisaged under the Article 76 of the Direct Taxes Act of March 1967 (*Esfand 1345*) and further amendments thereof, the bids for which were received prior to the date of approval of this Act, the employer is required to take measures according to the provisions of the said Article.

**Note (5)**<sup>1</sup> The Iranian National Tax Administration will announce, until January 20 (up to the end of the Month of *Dey*) of each year, the list of other

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<sup>1</sup> A) In view of the Iranian National Tax Administration Notice published in the State Official Gazette No. 17134, dated December 23, 2003, the following items were added to items provisioned in Article 104 of this Act and shall be applicable as of March 20, 2004:

1. Manufacturing of any type of machineries, moulds, devices, parts, tools, metal salons, and prefabricated concrete parts;
2. Security and guarding, loading and unloading, stacking, and movement of goods for evaluation, inventory and separation of goods in customs areas;
3. Manufacturing of paper bags, cartons, boxes and tins;
4. Cooking food, and other subsidiary services;
5. Any type of printing and binding;
6. Holding of seminars, meetings, festivals and conferences;
7. Advertising notices; and
8. Study and research contracts.

B) In view of the Iranian National Tax Administration Notice published in the State Official Gazette No. 18030, dated January 18, 2007, the following items were added to items provisioned in Article 104 of this Act and shall be enforceable as of March 21, 2007:

1. Repair and maintenance services of any type of land, air, maritime and railway motor vehicles, machineries and equipments, including administrative and otherwise, delivered under contracts;
2. Services of housing the employees of governmental and non-governmental bodies and enterprises in hotels and other places, accompanied by subsidiary services, delivered under contracts;
3. Any type of educational services;
4. Exhibition services in order to use subsidiary facilities of the exhibition;
5. Insurance services (including medical and health services);
6. Any type of management services;
7. Green area maintenance services;
8. Packaging services (any type of products with any shape and quality);
9. Consideration paid for the provision of support services, as well as exploitation from the installations and equipments of the luggage and freight terminals to the related enterprises, including the railway, airport, flying, port, and land terminals;

cases that should be added, from the beginning of the subsequent year, to those specified in this Article, through advertising in the Official Gazette and a paper of mass circulation.

**Note (6)** In case of failure of the payers of the fees mentioned in this Article to comply with the prescribed duties, the Iranian National Tax Administration may refer to them and demand, after necessary investigations, the remittance of the applicable taxes. Should they refrain from payment, the Iranian National Tax Administration shall collect the taxes through the execution procedure described in Chapter IX of Title D of this Act. As regards the executive organizations and institutions of the government, public non-government institutions, other organizations and institutions somehow benefiting from the government public funds and other institutions to which the law would apply when their names are mentioned or explicated, the Iranian National Tax Administration may withdraw the unpaid tax from their bank accounts.

## Chapter V - Tax on the Profits of Legal Persons

**Article 105**<sup>1</sup> 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.

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10. Any kind of consideration for the refinement and development of sugar and cubic sugars;  
and

11. Consideration paid for the use of communication equipments and installations.

<sup>1</sup> 1. In view of Article 47 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Notes substituted the former texts of this Article and its Notes.

2. In view of Article 11 of the Act Partially Amending the Direct Taxes Act, approved on January 28, 2008, Note 6 was annexed to this Article.

**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)**<sup>1</sup> 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.

**Article 106** The taxable profit of legal persons shall be assessed through examination of statutory books of accounts, in view of the provisions of Article 94 and paragraph "A" of Article 95 of this Act (except those types of profits for which another method of assessment is stipulated herein). The

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<sup>1</sup> 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.

cases dealt with in Article 97 of this Act shall be subject to ex officio assessment.

**Article 107** The taxable profit of foreign legal persons and enterprises residing abroad shall be assessed as follows:

(a) In all the cases of contracting business in Iran with regard to all types of work in the fields of construction, installations and technical installations, including procurement and setting up of the same, and in the fields of transportation, preparation of design for buildings and installations, topography, drawing, supervision and technical calculations, provision of training and technical assistance, transfer of technology and other services, the taxable profit will be 12% of total annual receipts.

(b) In case of profits derived from Iran for granting of royalties and other rights and transfer of cinematograph films, whether the latter profit is derived as the price or the fee for the screening of films, or under any other titles, the taxable profit shall consist of 20% to 40% of all payments derived by them during a tax year. The applicable coefficients for determination of taxable profits in each of the cases mentioned in this Paragraph shall be determined based on the proposal of the Ministry of Economic Affairs and Finance and approval of the Council of Ministers. Those making the said payments or the payments mentioned in Paragraph "a" of this Article, shall be required to withhold from each payment, 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, within ten days, to the Tax Affairs Office local to their residence. Otherwise, the receivers shall be jointly and severally liable for payment of the basic tax and other payments related thereto.

(c) As for the operation of capital and other activities performed by the aforesaid legal persons and enterprises in Iran through the agencies, such as branches, representatives, agents and the like, the provisions of Article 106 of this Act shall apply.

**Note (1)** In cases where the contract operations subject to Paragraphs (a) and (b) of this Article are wholly or partly assigned to Iranian legal persons as contractors, those making payments to such Iranian contractors should

withhold 2.5% of each payment as their on account tax and remit it, within thirty days from the date of payment, to the account to be determined by the Iranian National Tax Administration.

**Note (2)** If the relevant employer of the contract subject to the paragraph (a) of this Article is a ministry, a government enterprise or company, or a municipality, then that part of the contract price, which is used for purchase of supplies and equipments from domestic or foreign sources shall be exempt from taxation, 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 (3)** Branches and agents of foreign companies and banks in Iran that are engaged in gathering information or finding markets in Iran for their parent enterprises, without having the right to make transactions, and receive remuneration from them against their expenditures, shall not be subject to taxation in respect of such remuneration.

**Note (4)** In cases where foreign contractors assign, wholly or partly, the contract subject to Paragraph (a) of this Article to Iranian legal persons as subcontractors, the first hand contractor profits shall be exempted from tax for an amount equal to the payments made by the subcontractor for buying supplies and equipments, mentioned in the first hand contract.

**Note (5)** The taxable profits of activities subject to the Paragraph (a) of Article 107 of this Act, the contracts of which were concluded since March 21, 2003 (from the beginning of the year 1382), shall be assessed according to the regulations of Article 106 of this Act. The rule of this Note shall not apply to the remaining part of the activities of the contracts concluded before March 21, 2003 (before the year 1382).

**Article 108** If the tax applicable to a reserve was not paid before the enforcement date of this amendment, then the relevant reserve shall not be taxed in case it is added to the capital account. But if the reserve is distributed or transferred to the profit and loss account, or if it is added to the capital, but the capital is decreased for an amount equal to the same reserve, then the relevant reserve shall be added to the taxable profits of the

year in which such distribution, transfer or decrease of capital takes place. This rule shall not apply in case of the reserves set aside out of the profit resulting from the exempt operations of an enterprise during the period of exemption, and in case of the reserves subject to the Article 138 of the Direct Taxes Act of February 22, 1988 (*Esfand 3, 1366*) and its later amendments up to the date of approval of this amendment, provided that the relevant conditions applicable before the latter date were observed.

The reserves taxed before the enforcement date of this amendment shall not be subject to further taxation in case of distribution, transfer to profit and loss or capital accounts, or in case the enterprise is liquidated.

**Article 109** The taxable profits of Iranian insurance enterprises shall consist of:

- (1) Technical reserves at the end of the previous fiscal year;
- (2) Premiums received in respect of direct insurance transactions, less the refunds and allowances;
- (3) Premiums of collected reinsurance transactions less refunds;
- (4) Fees and share of participation in profits with regard to assigned reinsurance transactions;
- (5) Interest on the insurance deposits of reinsurers kept by the assigning insurers;
- (6) Share of reinsurers of the indemnity paid in respect of non-life insurance policies, and their share of payments for redemption, capital and annuities of life insurance; and
- (7) Other profits.

Less:

- (1) Stamp duty paid for insurance policies;
- (2) Medical expenses of life insurance;
- (3) Fees paid in connection with direct insurance transactions;
- (4) Premiums of the assigned reinsurance policies;

(5) Share of the Fund of Physical Injury Indemnification from the premiums received from compulsory insurance of civil responsibility of the owners of surface motor vehicles vis-à-vis the third parties;

(6) The amounts paid as redemption, capital and annuities of life insurance, and the sum paid as indemnification in respect of non-life insurance;

(7) Share of the participation of insured persons in the profits;

(8) Fees and insurers' share of profits of accepted reinsurance transactions;

(9) Interests on deposits pertaining to the assigned reinsurance policies;

(10) Technical reserves at the end of the fiscal year; and

(11) Other acceptable expenses and depreciations.

**Note (1)** The types of technical reserves of insurance institutions (being the technical reserves referred to in Article 61 of the Law on Establishment of the Central Insurance of Iran and Insurance Operations) for each field of insurance and the amount and method of their computation shall be determined under the regulations to be prepared by the Central Insurance of Iran. The Minister of Economic Affairs and Finance will approve the said regulations after approval of the Insurance High Council.

**Note (2)** The types of technical reserves of the Central Insurance of Iran for each class of insurance and the amounts and method of their computation will be determined by the general meeting of the Central Insurance of Iran.

**Note (3)** As for the direct insurance transactions, the premiums, fees, premium allowances, share of participation of the insured persons in profits and method of calculation of the said items shall be subject to the regulations adopted by the High Insurance Council. All such items, except the fees, should have been mentioned in the insurance policies.

**Note (4)** The items pertaining to reinsurance transactions, whether accepted or assigned, shall be subject to the conditions of contracts or agreements of respective insurance institutions.

**Note (5)** Foreign insurance enterprises deriving profits by accepting reinsurance from Iranian insurance institutions, shall be taxed at the rate of 2% on their premium profits and on interest on their deposits in Iran.

Where the Iranian insurance institutions are engaged in insurance business in the country of their foreign reinsurers, and enjoy tax exemption in that country on their own reinsurance operations, the said foreign reinsurers shall also be exempted from taxation in Iran.

Iranian insurance institutions allocating premiums to foreign reinsurers, who are subject to the tax provided under this Note, are required to withhold 2% thereof as the reinsurer's tax. They should remit, within thirty days, the tax so withheld during each month, together with a list containing the specifications of the reinsurer and applicable premiums to the respective Tax Affairs Office, and pay the said amounts to the relevant tax account.

**Article 110**<sup>1</sup> The legal persons are obligated to submit to the Tax Affairs Office local to the place of their main activity, their tax return, balance sheet and profit and loss account supported by their books of accounts, records and documents, together with a list containing the identities of partners or shareholders, their capital shares or number of shares, whichever be applicable, and addresses of each of them, and to pay the applicable taxes, not later than four months after the expiry of each tax year. After the submission of the said list for the first time, it will suffice to report changes only in subsequent years. The place for submission of tax return and payment of taxes for the foreign legal persons and enterprises residing abroad without having residence or agency in Iran, shall be Tehran.

The rule of this Article shall apply to the owners of factories and legal persons in the period of their exemption as well.

**Note** In respect of profits for which other methods of assessment are provided under this Act, the legal persons are not required to submit separate tax returns stipulated in the relevant Chapters.

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<sup>1</sup> In view of Article 51 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the latter part of the text of this Article and its Note 1 were deleted and its Note 2 was changed to the Note of this Article.

**Article 111**<sup>1</sup> The 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 0.2% stamp duty of Article 48 of this Act.

(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.

(d) Depreciation of the assets transferred to the new or existing company should continue according to the procedure observed before the consolidation or merger.

(e) Should any profits accrue to each of the shareholders of consolidated or merged companies, it shall be taxed according to the relevant regulations.

(f) All the tax liabilities and duties of consolidated or merged companies shall be borne by the new or existing company, as the case may be.

(g) The executive regulations of this Article shall be approved, not later than six months from the date of approval of this amendment, by the Council of Ministers based on joint proposal of the ministries of the Economic Affairs and Finance and Industries and Mines.

**Article 112** The rule of Article 99 and the Note thereto shall apply to the contracting operations of legal persons, whether Iranian or foreign.

**Article 113** The tax chargeable to foreign airline and shipping concerns shall be 5% of all amounts received by them for the carriage of passengers,

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<sup>1</sup> 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.

freight, etc. from Iran, whether such amounts are received in Iran, at the destination or en route.

The representative or branch of the said concerns must submit, up to the twentieth day of each month, a statement to the local Tax Affairs Office, specifying the amounts received in the preceding month, and pay the applicable tax. No other taxes shall be imposed, as profits tax, on those enterprises in respect of the same income. In case the relevant branch or representative fail to submit the above statement on time, or if the statement submitted, do not conform to actual situation, then the ex officio assessment of applicable tax, based on the number of passengers or volume of freight carried, shall apply.

**Note** Where the tax applicable to Iranian airline or 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 enterprises of such country on par with the rates so applied to the Iranian concerns.

**Article 114** Prior to the convention of the general meeting or other competent organ that is invited for deciding upon the dissolution of a legal person, the last director, or directors, of the legal person are jointly charged with the task of drawing up - a statement containing the list of the company's assets and liabilities existing at the date of invitation. The statement should be drawn on a form to be prepared by the Iranian National Tax Administration for this purpose, and it must be submitted to the relevant Tax Affairs Office. The statement so submitted shall be valid for the Tax Affairs Office, if it contains at least the authorized signature, or signatures, and the seal of the company, as per the statute of the legal person.

**Article 115<sup>1</sup>** The basis for computation of the tax applicable to the last term operations of legal persons that are going to be dissolved, shall be the value

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<sup>1</sup> In view of Article 53 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note to the former text of this Article was changed to Note 1 and its Notes 2 and 3 were annexed to this Article.

of their assets minus liabilities, paid up capital, the reserves and balance of profits already taxed.

**Note (1)** The value of the legal person's assets that are already sold shall be determined on the basis of the sale price, and in case of the remaining assets, the value shall be appraised at the prices of the date of dissolution.

**Note (2)** If the assets of a legal person that goes into liquidation include a property or some properties subject to Chapter 1 of Title C of this Act, or if it includes some shares, partnership shares or priority right of shares of companies, and if final transfer of such asset(s) is subject to the provisions of Article 59 or Notes of Article 143 of this Act, as the case may be, then the book value of such asset(s) shall not be considered as items of the liquidated legal person's properties for the purpose of determining the basis of assessment of the tax of the last term of the liquidated legal person's operations. In such cases, an amount equal to the same book value shall be deducted from the sum of the capital and liabilities. The tax applicable to the said asset(s) shall be determined and claimed based on the provisions of Article 59 or Notes to Article 143 of this Act, as the case may be.

**Note (3)** Should on the basis of the above provisions and at the date of dissolution any part of the properties of the liquidated legal person be subject to taxation at the flat rates of Article 59 or Notes of Article 143 of this Act, such part of properties shall not be taxed for the first transfer taking place after the date of liquidation.

**Article 116**<sup>1</sup> The liquidators are required to draw up a tax return for the last term of the company's operations on the basis of Article 115 of this Act and submit it to the respective Tax Affairs Office and pay the applicable tax within six months from the date of the legal person's dissolution (being the date of registration of the legal person's dissolution with the Companies Registration Department).

**Note** The tax on last term operations of legal persons going into liquidation shall be assessed at the rate of Article 105, by due regard being had to Note 2 of Article 115 of this Act.

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<sup>1</sup> In view of Article 54 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article was deleted and a Note was annexed to it.

**Article 117** The Tax Affairs Office shall examine, out of turn and in accordance with the provisions of this Act, the tax return of the last term of the legal person's operations, and in case of objection to its content, shall assess the applicable tax, by issuing an assessment notice, and serve the same on the taxpayer not later than one year from the date of receiving the tax return. Otherwise, the tax applicable to the tax return submitted by the liquidators shall be considered as final. If it becomes evident subsequently that some items of the legal person's assets were not mentioned in the tax return, the tax related to those items shall be claimed within the time limit set in the Note to Article 118 of this Act.

**Article 118** Distribution of the dissolved legal person's assets shall not be authorized, before obtaining tax clearance or giving a security equal to the amount of taxation.

**Note** The latest directors of the legal person in case of failing to submit the tax return provisioned in Article 114 of this Act or if they submit a false tax return, and the liquidators failing to observe the provisions of Article 116 of this Act and those of this Article, and the guarantor(s) of the legal person and guarantor partners (as defined under the Commercial Code) shall be jointly and severally liable for the payment of the tax and fines applicable to the legal person, provided that the tax is demanded within the time limit set forth in Article 157 of this Act, which will begin from the date of publishing the case of dissolution in the State Official Gazette. The same rule shall apply to the persons to whom the assets of the legal person are distributed, but their responsibility will accrue in proportion to the share of such assets that is attributed to each of them.

## **Chapter VI - Tax on Incidental Income**

**Article 119** The cash or non-cash income that a real or legal person earns ex gratia or through favoritism or as an award or under any other similar titles

shall be subject to the Incidental Tax at the rates set in Article 131 of this Act.

**Article 120** The taxable income subject to this Chapter shall consist of 100% of the realized income. The non-cash income shall be valued at the current prices of the date of realization of income in conformity with the provisions of this Act, except for real estates in respect of which the taxable value is determined in pursuance to Article 64 of this Act, in which case the taxable value shall constitute the basis of tax computation.

**Note** In respect of compromise and gift against consideration, except for the cases subject to Article 63 of this Act, the taxable income of this Chapter shall consist of the difference between the values of the objects of the relevant reciprocal transaction. Such difference shall be assessed based on the provisions of this Article and shall be attributed to the party benefiting therefrom.

**Article 121** The compromise with option of cancellation and the revocable gift will be considered, for tax purposes, as final contracts, but if they are cancelled, dissolved as a result of mutual consent or revoked, within six months from the date of their conclusion, the funds collected as tax under this Chapter shall become refundable. Then, if some proceeds are accrued to the transferee during the interval between the conclusion of the contract and its cancellation, dissolution or revocation, the transferee shall be subject to the taxation of this Chapter with respect to such proceeds.

**Article 122** In case of compromise on a property whereby the proceeds of such property are allocated, for the life time or for a certain duration, to the compromising party or to a third party, the value of the property including the substance and proceeds thereof, at prices prevailing at the date of accrual of the proceeds of the property to the other party of the compromise, shall constitute the basis of that party's taxation, which shall apply at the same date.

**Note** If prior to the accrual of the relevant proceeds a transferring takes place, the price mentioned in the transfer deed shall constitute the basis of the tax on the transferor, who shall be subject to taxation in view of the

provisions of this Chapter. However, the tax applicable to the last transferee of the substance of the property, to whom the proceeds of the property would also accrue, shall be computed on the basis of the difference between the value of the property as described above and the price he pays under the transfer deed.

**Article 123** Where the proceeds of a property are provisionally or permanently transferred to a person *ex gratia*, the transferee shall be obligated to pay the tax on each year's proceeds in the subsequent year.

**Article 124** In case of disposition of properties in favor of certain persons under a will, and after the will becomes final and as far as it is legally operative, the bequeathed property shall be added to the inheritance share of the heirs, if they are beneficiaries of the will, and as such shall be subject to the Inheritance Tax. In case of beneficiaries other than the heirs, the total amount of the willed property shall be taxed under the provisions of this Chapter.

**Article 125** The transfers that are taxable under the provisions of this Chapter pertaining to the Inheritance Tax shall not be subject to the tax provided by this Chapter.

**Article 126** Those deriving the income referred to in this Chapter are required to submit each year their tax return to the respective Tax Affairs Office and to pay the applicable tax, either until up to the end of *Ordibehesht* (May 21) of the subsequent year in case of the proceeds subject to Article 123 of this Article, or within thirty days from the date of earning of the income or accrual of the proceeds in other relevant cases. Where a notary public registers the transaction and taxes are already paid, the task of submission of tax return will be discarded.

**Article 127** The Incidental Tax shall not apply in the following cases:

(a) Cash and non-cash gratuitous donations of charitable or public-service organizations, ministries, government enterprises and companies, municipalities or foundations of the Islamic Revolution to real persons, other than the payments subject to Salary Tax;

(b) Funds or financial aids donated to those suffered from war, earthquake, flood, fire and other unexpected disasters; and

(c) Bonuses paid by the government to promote exports or to encourage the production and purchase of agricultural produces.

**Note** The executive regulations of Paragraphs (a) and (b) above shall be subject to the bylaw that will be prepared by the Ministry of Economic Affairs and Finance and the Ministry of Interior.

**Article 128<sup>1</sup>** The taxable incidental profits of legal persons shall be assessed by reference to the books of accounts, and taxes paid at source by virtue of the provisions of this Chapter, shall be considered as the advance payment of their taxes.

## Chapter VII - Tax on Aggregate Income

### Derived from Different Sources

**Article 129<sup>2</sup>** Deleted.

**Article 130<sup>3</sup>** Back dues related to Articles 3 to 16, Note 3 of Article 59 and Article 129 of the Direct Taxes Act of February 22, 1988 (*Esfand 3, 1366*) and its later amendments shall not be claimable and collectible.

**Note** In areas that it would consider appropriate, the Ministry of Economic Affairs and Finance may spare wholly or partially and up to IRR 1,000,000 per each taxpayer, the tax liabilities arising from the income earned, or accrued, as the case may be, prior to March 21, 1969 (prior to the year *1368*).

**Article 131** The rates of the Income Tax of real persons, except where separate rates are provided under this Act, shall be as follows:

Annual Taxable Income (in IRR)	Rates
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<sup>1</sup> In view of Article 57 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the latter part of the text of this Article was deleted.

<sup>2</sup> In view of Article 57 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Note substituted the former text of this Article.

<sup>3</sup> In view of Article 56 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Notes were deleted.

30,000,000	15%
30,000,000 to 100,000,000	20%
100,000,000 to 250,000,000	25%
250,000,000 to 1,000,000,000	30%
Over 1,000,000,000	35%

## TITLE D - ON MISCELLANEOUS PROVISIONS

### Chapter I – Exemptions

**Article 132**<sup>1</sup> Eighty percent of the income from producing and mining activities, which is derived and declared by producing and mining enterprises of cooperative or private sectors for whom exploitation licenses are issued, or with whom extraction and sale contracts are concluded, as of March 21, 2002 (from the beginning of the year 1381) by relevant ministries, shall be exempt from the tax set forth in Article 105 of this Article for a term of 4 years beginning from the date of exploitation or extraction. As regards the less developed regions, the exemption shall apply to 100% of the income for 10 years.

**Note (1)** The list of less developed regions shall be prepared by the State Organization of Management and Planning and Ministries of Economic Affairs and Finance and Industries and Mines, and will be approved by the Council of Ministers, for the rest of the term of the Third Economic, Social and Cultural Development plan of the Islamic Republic of Iran, and at the beginning of the term of each of the forthcoming development plans.

**Note (2)**<sup>2</sup> The exemption provisioned in this Article shall not apply to the income of producing and mining entities established within a 120-kilometer

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<sup>1</sup> In view of Article 59 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Notes substituted the former text of this Article and its Notes.

<sup>2</sup> 1. In view of the Paragraph A of Article 6 of “the Act on the Regulation for Facilitation of Renovation of the State Industries” approved on August 15, 2003, the phrase “IT production entities with the confirmation of the related ministries and” were added after the word “except” in the text of the Note 2.

Note 2 after the amendment, which was enforceable until December 20, 2005:

Note 2 The exemption 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 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 census, except for IT production entities with the confirmation of the related ministries and industrial

radius from the center of Tehran 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 census, except for industrial townships established within the same 30-kilomenres radius from the latter province centers and cities.

**Note (3)** All enterprises for internal and international tourism that hold exploitation permit from the Ministry of Culture and Islamic Guidance shall enjoy an annual exemption with regard to 50% of their applicable taxes.

**Note (4)** The rules for determining the date of commencement of exploitation of exempt enterprises subject to this Article, and for determination of the confines referred to in the Note 2 above, will be specified and declared by the ministries of Economic Affairs and Finance and Industries and Mines.

**Article 133** One hundred percent of the income derived by rural, tribal, agricultural, fishers, workers, employees, university and school students' cooperative companies and their unions shall be exempt from taxation.

**Note** The government is obligated to refund to the Central Organization of Rural Cooperatives of Iran an amount equal to the Income Tax attributable to that part of the said organization's declared profit, which is allocated, by virtue of its general meeting's approval, for investment in rural cooperatives. The refund will take place, after collecting the tax and

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townships established within the same 30-kilomenres radius from the latter province centers and cities.

2. In view of Article 66 of the Act Amending the Act on the Partial Regulation of the State Financial Regulations approved on November 6, 2005, the aforementioned exception under Note 2 was deleted.

Note 2 after the amendment, which was enforceable as of December 21, 2005.

Note 2: The exemption 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 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 census, except for industrial townships established within the same 30-kilomenres radius from the latter province centers and cities.

remitting it to the State Public Revenue Account, out of a special item to be included in the state budget for the same purpose.

**Article 134<sup>1</sup>** The income derived from educational and training activities by nonprofit schools, whether elementary, junior or senior secondary, technical or vocational, or by nonprofit universities and higher education institutions, 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 aforesaid institutions have permission from the respective authorities. The income of the institutions and clubs having permission from the Physical Training Organization shall also be exempt from taxation, if it is derived purely from sport activities.

The Executive 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.

**Article 135<sup>2</sup>** Deleted.

**Article 136** The payments made by the insurance firms because of life insurance, which the beneficiaries receive under insurance policies, shall be exempt from taxation.

**Article 137** The treatment expenditures paid during a tax year by a taxpayer for his treatment, or for the treatment of his spouse, children, father, mother, brother, and sister who are dependent on him, shall be accepted as deductible from his taxable income, provided that the payment of expenditure is certified by the treating institution or physician that have received the money, if they are residing in Iran. If the treatment takes place outside Iran due to the lack of necessary medical possibilities, as confirmed by the Ministry of Health and Medical Education, then the payment of the said expenditure must be certified by the official authorities of the Islamic

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<sup>1</sup> In view of the single Article of the Act Amending Article 134 of the Amended Direct Taxes Act, approved on June 17, 2009, published in the State Official Gazette No. 18753, dated July 22, 2009 the phrase "and the kindergartens in the less developed regions and villages" was added to the said Article and shall be enforceable as of August 7, 2009.

<sup>2</sup> In view of Article 61 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

Republic of Iran in the country where the treatment is effected, or by the Ministry of Health and Medical Education. The insurance premiums paid by individuals to the Iranian insurance institutions with respect to life and health insurance will also be deductible from the taxpayer's taxable income.

In case of invalids and hardly curable special patients, the expenses incurred for taking care of them and for their rehabilitation shall also be deductible, besides the aforesaid expenditures, from the taxable income of the invalids and patients or from the income of the persons to whom they depend.

**Article 138<sup>1</sup>** Any part of the declared profit of private and cooperative companies that is used in the same year for development, reconstruction, renovation or completion of existing industrial or mining units of those companies, or for setting up of new industrial or mining units, shall be exempt from 50% of the applicable tax set forth in Article 105 of this Act, provided that the permission for development or completion, or for establishment of new industrial and mining units, in the context of specific investment projects, is obtained from relevant ministries beforehand. In case the expenses incurred in each year for implementation of the said project or projects exceed the declared profit of the same year, or if it is less than the cost of the investment project, the company may benefit from the said exemption, up to the aforesaid excess or the balance of the cost of full implementation of the project, when computing the income to be declared for subsequent three years at maximum.

**Note (1)** Should the company stop the project before being completed, or fail to start the exploitation phase within one year from the deadline set forth in the investment project, or if it would terminate, liquidate or transfer the same within five years from the date of commencement of exploitation, then a sum equal to the exemptions provided in this Article for implementation of the project plus the fines of Article 190 of this Article will be collected from the company.

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<sup>1</sup> In view of Article 63 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Note 1 substituted the former text of this Article and its Note 1. Moreover, in view of this Article, the text of former Note 2 was deleted and its Notes 3, 4 and 5 were changed to Notes 2, 3 and 4.

**Note (2)** The new industrial units established by taking benefit from the exemptions mentioned in this Article shall not be entitled to the tax exemptions provided under Article 132 of this Act.

**Note (3)**<sup>1</sup> If the factories that are located within the watershed basin of Tehran and their employees are not less than 50, move their total installations outside a 120-kilometer radius of the center of Tehran, then they shall be exempt - in view of the criteria to be determined by the Ministry of Economic Affairs and Finance and the respective ministry, as the case may require - from the Income Tax on their relevant industrial activities for 10 years, beginning from the date of start of exploitation in such new location. The factories located within the 120 km radius of Tehran and the territories under the jurisdiction of the great cities (Mashad, Tabriz, Ahvaz, Arak, Shiraz and Isfahan), which totally transfer their installations to the approved industrial towns, shall be subject to the half of the period of tax exemption provisioned in this Note as of the date of the start of exploitation in the new place.

**Note (4)** For the purposes of this Act, the watershed basin of Tehran comprises the west watershed area of the *Hablehrud* river of *Garmsaar*, east watershed area of the *Ziyaran* River and all watershed areas of the *Damavand*, *Jajrud*, *Darabad*, *Darband*, *Evin*, *Farahzad*, *Kan*, *Karaj* and *Kordan* rivers, and its boundaries include:

On the north, the ridge of *Elburz* Mountains, with the waters flowing to the desert of central *Kavir*;

On the east, the west bank of *Hablehrud* river of *Garmsaar*;

On the west, the east bank of the river *Ziyaran*; and

On the south, the lines extended from west to east from the intersection of *Ziyaran* and *Shur* rivers up to the thalweg of the *Namak* Lake, and westward up to the crossing point with the course of the *Hablehrud* river of *Garmsaar*.

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<sup>1</sup> In view of the Paragraph B of Article 6 of “the Act on the Regulation for Facilitation of Renovation of the State Industries” approved on August 17, 2003, the abovementioned phrase was annexed to the end of Note 3 of Article 138.

**Article 139<sup>1</sup>**

(a) Endowments, offerings, premiums, cash and non-cash aids and gifts received by the *Razavi* holy sanctuary, splendid sanctum of *Hazrat Abdolazim* (peace be upon him), sanctuary of *Hazrat Ma'soumeh* (upon her be the greeting of God), shrine of *Hazrat Ahmad ben Musa* (peace be upon him), *Shah Cheragh*, holy shrine of Hazrat Imam Khomeini (upon him be the favor of God), mosques, *Hosainiyehs*, *Takyehs* and other blessed sanctuaries shall be exempt from taxation. Recognition of other blessed sanctuaries is entrusted to the Endowments and Charitable Affairs Organization.

(b)<sup>2</sup> Cash and non-cash aids and gifts received by the Red Crescent Society of the Islamic Republic of Iran shall be exempt from taxation.

(c)<sup>3</sup> Cash and non-cash aids and gifts received by the retirement saving funds, Medical Services Insurance Organization, Social Security Organization, Social Security Fund of Villagers and Ashayer (nomads) and the insurance premiums and pension contributions paid by employees and employers and the accrued fines shall be exempt from taxation.

(d) Cash and non-cash aids and gifts received by the Islamic sciences schools shall be exempt from taxation. Recognition of Islamic sciences schools is entrusted to the Managing Council of the Qom\* Religious Sciences Society.

(e) Cash and non-cash aids and gifts received by the foundations of the Islamic Revolution shall be exempt from taxation. Recognition of the foundations of Islamic Revolution is entrusted to the Council of Ministers.

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<sup>1</sup> In view of Article 64 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its notes substituted the former text of Article 139.

<sup>2</sup> In view of the Act on the Responsibilities and Duties of the Red Crescent Society of the Islamic Republic of Iran, approved on January 10, 1984 and the Act of the Articles of Association of the Islamic Republic of Iran Red Crescent Society, approved on April 28, 1988, the word "Organization" in the above text was substituted by "Society".

<sup>3</sup> In view of the Note 2 to the Act on the Annexation of the Social Security Fund of Villagers and Ashayer (nomads) to the list of non-public foundations and institutions approved in 2008, published in the Official Gazette No. 18726, dated June 18, 2009, the phrase "Social Security Fund of Villagers and Ashayer (nomads)" was added to the institutions provisioned in Paragraph C and shall be applicable as of July 4, 2009.

(f) Any part of the income of the State Fund for Development of Endowments spent for development of endowments shall be exempt from taxation.

(g) The income of persons out of benevolent contributions of the High Spiritual Leadership [*Vali-e Faqih*] or out of *Khoms* or *Zakat*\* shall be exempt from taxation.

(h) Any part of the income, of public endowments used, in conformity with the religious criteria, for purposes like the Islamic propagation; studies in cultural, scientific, religious and technical fields; inventions; discoveries; education and training; hygiene and treatment; construction, repair and maintenance of mosques, praying oratories, religious science societies, Islamic science schools, government schools and universities; ceremonies of religious mourning and giving victuals; repairing of antiquities; development and improvement affairs; payment of educational expenditures or loans to pupils and students; aids to the poor and those suffered from flood, earthquake, fire, war and other unexpected catastrophes, shall be exempt from taxation, provided that the aforesaid income and expenditures are confirmed by the Endowments and Charitable Affairs Organization;

(i) Cash and non-cash aids and gifts received by registered charities and public-service institutions shall be exempt from taxation, if such aids and gifts are used, in conformity with the statute of relevant institutions, for the purposes mentioned in the above paragraph "h" of this Article and the Iranian National Tax Administration supervises over their income and expenditures.

(j) Cash and non-cash aids and gifts received by professional associations, parties and non-government groupings that are licensed by the relevant authorities, and the membership fees paid by their members and fractions withheld from income or wages of their members and remitted to the account of those organizations in view of the relevant laws and regulations, shall be exempt from taxation.

(k) Cash and non-cash aids and gifts received by the religious societies and missions of the religious minorities dealt with in the Constitution and their endowments, shall be exempt from taxation, provided that their official status is approved by the Ministry of Interior.

(l) Publishing, journalistic, cultural and artistic activities performed based on the permit of the Ministry of Culture and Islamic Guidance shall be exempt from taxation.

**Note (1)** Receipts from non-profit activities carried out for the purpose of achieving the goals and responsibilities of the persons subject to this Article through setting up of educational courses and seminars, publishing books and periodicals and the like shall be exempt from taxation, provided that such receipts are earned in conformity with their statutes and the Iranian National Tax Administration has supervision over their income and expenditures.

**Note (2)** The rule of Note 2 of Article 2 of this Act shall apply to the taxable income of the persons subject to this Article.

**Note (3)** The Iranian National Tax Administration shall prepare Executive regulations of this Article. Based upon the proposal of the Ministry of Economic Affairs and Finance, the Council of Ministers will approve it.

**Note (4)** As for the cases where there exist permissions from Hazrat Imam Khomeini (upon him be the favor of God) or from the High Spiritual Leader, the rule of this Article will be carried out according to the view of the High Spiritual Leader.

**Article 140<sup>1</sup>** Deleted.

**Article 141<sup>2</sup>**

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<sup>1</sup> In view of Article 65 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

<sup>2</sup>

- 1) In view of Article 1 of the Act Establishing the Ministry of Agricultural Jihad, approved on December 26, 2000, the Ministries of Agriculture and Construction Jihad were merged and the Ministry of Agricultural Jihad was established. Consequently, the phrase "Agricultural Jihad" substituted the phrase "Agricultural and Construction Jihad."
- 2) In view of the Act on the concentration of the Industrial and Mining Affairs and the Establishment of the Ministry of Industries and Mining, approved on December 26, 2000, the Ministry of Industries and Mining was established. Since there exists only an industrial ministry currently, titled the Ministry of Industries and Mining, in the above text, the phrase "Ministry of Industries and Mining" substituted the "Industrial Ministries."

**A.** One hundred percent of the income derived from exportation of industrial finished goods and products of agricultural sector (including farming, horticulture, husbandry, poultry, fishery, forest and pasture products) and its conversional and complementary industries, and 50% of the income earned from exportation of other goods that are exported for achieving the objectives of the exportation of non-oil goods, shall be exempt from taxation. A list of goods subject to this Article shall be proposed, during each development plan, by the ministries of Economic Affairs and Finance, Commerce, Agricultural Jihad and the Ministry of Industries and Mines, and shall be approved by the Council of Ministers.

**B.** One hundred percent of the income derived from exportation of different goods that have been, or will be, imported to Iran on transit, and are exported without making any changes in the substance thereof or doing any works on them, shall be exempt from taxation.

**Note** The loss from the export of tax-exempted goods sustained by the persons engaged in other non-export activities as well, shall not be taken into account in computation of the tax applicable to such other activities.

**Article 142** 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.

**Article 143<sup>1</sup>** Ten percent of the Tax on Income derived from the selling of commodities accepted and sold in the Commodity Stocks, and 10% of the

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<sup>1</sup> 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 was amended, its Note 1 was deleted and Notes 3 and 4 were added to Article 143 and shall be enforceable as of "February 4, 2010".

Article 143 before the amendment was:

Ten percent of the tax of companies whose shares are accepted, according to the relevant law, by the Acceptance Board for negotiations in the stock exchange, will be spared as from the year of acceptance and so long as such shares are not removed from the rate list of the stock exchange, provided that all transfers are made through the stock market agents and registered in the relevant books.

**Note (1)** Each transfer of companies' shares and priority right of shares, and transactions on other securities, through the stock market shall be taxed at a flat rate of 0.5% of the sale value of the shares and preemptive rights, and no other taxes will be charged as income tax on transfer of shares and preemptive rights.

Tax on Profits of companies listed in the domestic or foreign stock exchanges, and 5% of the Tax on Profits 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 abovementioned 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.

**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)** The 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 on the aforesaid gain. Companies shall be required to settle to the

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Stock market agents are required to collect, upon each transfer, the aforesaid tax from the transferor and remit it to the account determined by the Iranian National Tax Administration, and to send the receipt thereof, together with a list containing the number and sale price of transferred shares and priority rights of shares, to the local Tax Affairs Office within ten days from the date of the transfer.

**Note (2)** Each transfer of stocks, partnership shares, preemptive rights and partnership share of partners in other companies shall be subject to tax at a flat rate of 4% applicable to their face value. In these cases, no other taxes will be charged as income tax on such transfers. Those transferring stocks, partnership shares and preemptive rights are required to remit the applicable taxes to the account of the Iranian National Tax Administration before the transfer would take place.

The registration departments or notaries public should receive, at the time of registration of changes or drawing up the transfer deeds, as the case may be, the certificate of payment of the applicable tax and enclose it to the file of registration or transfer.

**Note (3)** The premium reserve of joint stock companies accepted to the stock market shall be subject to tax at a flat rate of 0.5% and no other taxes will be charged on this income. The companies are required to remit the tax to the account of the Iranian National Tax Administration within thirty days from the date of registration of the capital increase.

Iranian National Tax Administration Account, the applicable tax, within 30 days of the registration of the capital appreciation.

Article 143 (bis)<sup>1</sup> A flat tax of half percent (0.5%) of the sale value of shares and preemptive rights shall be applied on any transfer of shares and priority rights of shares of companies, whether Iranian or foreign, in the stock exchanges or in the licensed OTC markets, shall be collected and, in this respect, no more tax on the income from the transfer of shares and preemptive rights and value added tax on the purchase and sale shall be claimed.

Brokers of stock exchanges and OTC markets shall be required to collect the aforesaid tax from the transferor during each transfer and settle it to the account assigned by the Iranian National Tax Administration and within ten days from the transfer date, shall send the relevant receipt along with a list containing the number and amount of shares sold and the preemptive rights so transferred to the local Tax Affairs Office.

**Note (1)** All incomes of the investment fund within the framework of this Law and all incomes derived from investment in securities, subject of Paragraph 24 of Article 1 of the IRI Securities Market Law legislated in 2005 and the gains from the transfer of such securities or the gains from issuance and redemption of the same shall be exempt from Income Tax and value-added tax on the strength of the Value-Added Tax Act legislated on May 22, 2008 (*Khordad 2, 2008*) and no tax whatsoever shall be claimed for the transfer, issuance and redemption of the foregoing securities.

**Note (2)** The profit and fees paid or allocated for securities, subject of Note 1 of this Article, excluding the dividend and partners' shares of companies, and the profits gained from the certificates of investment in funds, on the condition of registering these securities with the Stock Exchange Organization, shall be regarded as acceptable expenses for the purpose of assessment of taxable income of the issuer of such securities.

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<sup>1</sup> In view of Article 7 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 in 2009, published in the State Official Gazette No. 18902, dated January 19, 2010, the text of Article 143 (bis) and the four Notes under it were annexed to the Act and shall be applicable as of February 4, 2010.

**Note (3)** If any real or legal person domiciled in Iran, who is the shareholder of the company listed on the exchange or OTC markets, sells his shares or priority rights of shares in foreign stock exchanges or foreign OTC markets, no tax whatsoever shall be levied in Iran in this respect.

**Note (4)** The investment fund shall not be authorized to engage in any other economic activity whatsoever outside the area provisioned in the licenses issued by the Stock Exchange Organization.

**Article 144**<sup>1</sup> Movable dowry and marriage portion, whether movable or immovable; scientific awards; educational scholarships; as well as the income earned by inventors and discoverers based on their invention or discovery rights, shall be exempt from taxation in general. The income derived from research and studies by the centers holding research licenses from the competent ministries, shall also be exempt from taxation for a period of ten years from the date of enforcement of this amendment according to the criteria to be stipulated in the bylaws to be proposed by the ministries of Science, Research and Technology, Health and Medical Education, and Economic Affairs and Finance, and will be approved by the Council of Ministers.

**Article 145**<sup>2</sup> The interest received under any title shall be tax exempt in the following cases:

(1) Interest on deposits related to pension contributions and savings of employees and laborers held by Iranian banks, within the limits of the respective employment regulations;

(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;

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<sup>1</sup> The Ministry of "Culture and High Education" was changed to the "Ministry of Science, Research and Technology." Consequently, in the above text, the name was duly changed.

<sup>2</sup> In view of Article 68 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Paragraph 5 and a note were annexed to this Article.

- (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.\*

**Note** Wherever the Direct Taxes Act refers to banks, the specified privileges, facilities, priorities and duties shall apply to the non-bank credit institutions established on the strength of the law or by authorization of the Central Bank of the Islamic Republic of Iran, as well.

**Article 146**<sup>1</sup> All exemptions granted under previous laws and regulations for a certain period will remain in force, by due regard being had to the respective provisions, until the date of their expiry.

**Note** The tax on the interest accrued to the installment bonds of the Land Reform, will continue to be spared as before.

## **Chapter II - Acceptable Expenses and Depreciations**

**Article 147** Acceptable expenses for assessment of taxable income, in view of the provisions of this Act, shall consist of expenditures that are within the prescribed limits and are supported - to the extent required by the custom and usage - by documentary evidence and are exclusively connected with the earning of the enterprise's income during the relevant fiscal term. If certain expenditure is not dealt with in this Act or is beyond the limits provisioned herein, but its payment is effected by virtue of a law or a decree of the Council of Ministers, then it shall be acceptable.

**Note** For the purposes of this Chapter, an enterprise means any legal person and the business proprietors subject to the paragraphs "A" and "B" of Article 95 of this Act.

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<sup>1</sup> In view of Article 69 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article was deleted.

**Article 148**<sup>1</sup> The expenditures that are described hereunder and meet the conditions provisioned in the above Article will be acceptable in tax assessment:

(1) Purchase price of the sold goods and or the purchase price of materials used in the sold goods and services;

(2) Personnel costs proportional to the services of employees and on basis of the enterprise's employment regulations, including:

a) Basic salaries or wages and regularly recurring benefits, whether in cash or non-cash (the non-cash benefits at their cost to the employer);

b) Irregular non-recurring benefits, whether in cash or non-cash, such as foodstuffs, productivity allowance, bonus,\* New Year bonus,\* overtime pay and travel expenditure and allowance. The limits of travel expenditure and allowance paid to directors, inspectors and employees traveling abroad to provide for the relevant enterprise's needs, shall be determined under the regulations that will be prepared by the Ministry of Economic Affairs and Finance and the State Organization of Management and Planning, and will be approved by the Council of Ministers;

c) Health and treatment expenses and payments for health and life insurance of employees, or for insuring them against accidents arising out of work;

d) Retirement pension, survivors pension and termination of employment payments in view of the enterprise's employment regulations, dismissal compensation and payments for buying-out of services in view of the enacted laws and in respect of the amount of such payments that exceeds the relevant reserve account;

e) Payments to the Social Security Organization in accordance with the relevant regulations and an amount up to 3% of the paid annual salaries, as the employees' savings, in view of regulations to be prepared by the Iranian National Tax Administration and approved by the Minister of Economic Affairs and Finance; and

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<sup>1</sup> In view of Article 71 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, subparagraph "d" of Paragraph 2, the latter part of the subparagraph "e" of Paragraph 2 and the latter parts of Paragraphs 9, 11, 17 and 23 of this Article were amended and Paragraph 28 was annexed to this Article.

f) Funds reserved for financing the retirement pension, survivors pension, termination of employment payments, dismissal compensation and payments for buying-out of services of the enterprise's employees, up to the amount of the latest monthly salaries and wages and the balance resulted from the adjustment of the previous years' salaries. This rule shall apply to the reserves deposited in bank accounts so far, as well.

(3) Rent paid for the enterprise's premises in case of being rented. The amount of rental shall be determined on basis of the official deed (if any), otherwise within the normal range;

(4) Rental of enterprise's machinery and equipment in case of being rented;

(5) Costs of fuel, electricity, lighting, water and communications;

(6) Funds paid in respect of various kinds of insurance relating to the operations and assets of the enterprise;

(7) Royalties paid, as well as the duties, levies and taxes paid to municipalities, ministries, government institutions and their affiliates in connection with the activities of the enterprise (except for the income tax and its appendants and other taxes that the enterprise is obligated, under the provisions of this Act, to withhold from its payments to other persons and remit it, as well as the fines paid to the government and municipalities);

(8) Research, experiment and education expenses, purchases of books, periodicals and compact disks, marketing, advertising and exhibition expenses, if such expenditures pertain to the activity of the enterprise, and on basis of the regulations to be proposed by the Iranian National Tax Administration and approved by the Minister of Economic Affairs and Finance.

(9) Expenditures related to the indemnification of damages caused by the operations or assets of the enterprise, provided that:

First, the occurrence of the damage is ascertained;

Second, the type and extent of the damage are determined; and

Third, no other party is responsible for indemnification thereof under the provisions of the existing laws or agreements, or - at any event - the damage is not otherwise recovered.

Regulations concerning the realization of the above three conditions shall be approved by the Minister of Economic Affairs and Finance on basis of the proposal of the Iranian National Tax Administration.

(10) Cultural, sport and welfare expenditures paid in respect of workers to the Ministry of Labor and Social Affairs, up to a maximum amount of IRR 10,000 per each worker;

(11) Reserves against doubtful receivables, provided that:

First, the receivables are connected with the enterprise's business;

Second, they are, most probably, not recoverable; and

Third, the reserve is administered under a special heading in the enterprise's books of accounts until the claim is recovered or its incapability of being recovered becomes ascertained;

The Minister of Economic Affairs and Finance will approve regulations concerning this Paragraph on basis of the proposal of the Iranian National Tax Administration.

(12) Losses of real and legal persons, if ascertained by examination of their statutory books of accounts and in conformity with the regulations, may be carried forward and be offset against the income of subsequent year(s).

(13) Small expenses incurred in connection with the premises of the enterprise, if such expenses are customarily borne by the tenant and the place of business is rented;

(14) Expenses incurred for maintenance and upkeep of the premises, if the place of business is owned by the enterprise;

(15) Transportation expenses;

(16) Expenses related to transportation of employees, entertainment and warehousing;

(17) Fees paid in proportion to the services rendered such as commission, brokerage, legal fees, consultation fees, conference fees, auditors fees and fees for administrative, financial and inspection services, expenses related to software and designing and setting up of systems needed for the enterprise,

expenditures for other specialized services pertaining to the activities of the enterprise and the legal inspector fees;

(18) Fees paid or allocated to banks, cooperative funds and authorized non-bank credit institutions for the carrying out of the enterprise's operations;

(19) Price of office supplies and office equipment that are usually consumed within one year;

(20) Cost of repair and maintenance of machinery and work equipment and the cost of replacement of spare parts, provided that it would not be considered as a basic repair;

(21) Abortive mine exploration expenditures;

(22) Membership and subscription fees paid in connection with the business of the enterprise;

(23) Bad debts in excess of the reserve for doubtful receivables and if it is proved by the taxpayer to be unrecoverable;

(24) Currency exchange losses computed in accordance with accepted accounting practice, provided that it is applied consistently from year to year by the taxpayer;

(25) Normal wastage of production;

(26) Reserve of payable acceptable expenses related to the assessment year;

(27) Acceptable expenses related to previous years, the payment or allocation of which is realized in the tax year under examination; and

(28) Expenses for purchasing of books and other cultural and art goods for employees and their dependants, up to a maximum amount equal to 5% of the exemption threshold of Article 84 of this Act in respect of each individual.

**Note (1)** Expenses that are not mentioned in this Article, but are considered to be related to the earning of the enterprise's income, shall be accepted as deductible expenses based on the proposal of the Iranian

National Tax Administration and approval of the Minister of Economic Affairs and Finance.

**Note (2)** Directors and owners of a legal person's capital shall be considered as the enterprise's employees, in case they are engaged in salaried positions of the enterprise. In the enterprises other than legal persons, however, the salary and fringe benefits paid to the owner of enterprise and his spouse and children who are dependent on him, shall not be considered as acceptable expenses, except for service-related travel expenditure and allowance, which shall be subject to the subparagraph (b) of Paragraph (2) of this Article.

**Note (3)** For computation of the tax applicable to the cooperative companies and unions, the reserves mentioned in paragraphs 1 and 2 of Article 15 of the Cooperatives Act of June 6, 1971 (*Khordad 16, 1360*) and its later amendments shall be accepted as deductible expenses. In case of the cooperative companies and unions that have adapted, or will adapt, their status to the Law of September 4, 1991 (*Shahrivar 13, 1370*) concerning the Cooperative Sector of the Economy of the Islamic Republic of Iran, the reserve mentioned in paragraph 1 of Article 25 of the latter law, and the cooperative and education allowance referred to in Paragraph 3 of the same Article will be accepted as deductible expenses.

**Article 149** In the assessment of the taxable income, depreciation of assets, establishment and capital expenses shall be computed according to the following rules:

- (1) Any part of fixed assets whose value is subject to a decrease resulting from utilization, lapse of time or other causes, regardless of price changes, will be depreciable;
- (2) The basis of depreciation shall be the cost of the assets;
- (3) Depreciation shall be computed from the date when the depreciable asset is put, in a usable condition, at the disposal of the enterprise. If a depreciable asset is put at the disposal of the enterprise during a month, such month shall not be taken into account in the computation of depreciation, except for cinematograph films imported from abroad, which shall be

depreciable as of the date of the first screening thereof. In case of factories, the phase of test exploitation shall not be considered as a part of exploitation period;

(4) Establishment costs, such as the expenses of the enterprise registration, consultation fees and the like, as well as the expenses made in excess of the income related to the pre-exploitation and test exploitation phases may be depreciated in equal amounts up to a maximum duration of 10 years from the date of exploitation, except for the cases to be determined under the depreciation schedule referred to in Article 151 of this Act; and

(5) 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 computation of the profit and loss account of the same year.

**Note** As regards the computation of the tax applicable to the producers of Iranian cinematograph films that are made in Iran, the cost of the film can be taken into account for determination of the taxable income in the first year of exploitation, or in subsequent years, if the income of the film would not suffice.

**Article 150**<sup>1</sup> Depreciation methods are as follows:

(a) In cases where depreciation rates are determined under the depreciation schedule of Article 151 of this Act, the rates shall be fixed and applied in each year to the remainder of the cost of the asset after deduction of the depreciation computed for it during previous years; and

(b) Where a term is determined under the depreciation schedule of Article 151 of this Article, the depreciation of the cost of the property will be computed in equal yearly amounts over the prescribed term.

**Note (1)** Funds expensed for basic repair or alteration of a depreciable asset shall be considered as a part of the cost price of such asset.

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<sup>1</sup> In view of Article 72 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Notes 2, 3 and 4 were annexed to this Article and the text of the former Note was changed to Note 1.

**Note (2)** Software expenses of enterprises will be depreciable for a term of five years at maximum.

**Note (3)** In respect of depreciable fixed assets purchased for the purpose of reconstruction, substitution of production line, development or completion, the relevant enterprises are allowed to calculate the depreciation of such assets at a rate twice as much as the applicable rate of depreciation schedule envisaged under Article 151 of this Article, or for the half of relevant period prescribed by the same schedule, as the case may be.

**Note (4)** In case of capital lease of depreciable fixed assets, the method of registration of depreciation in the books of accounts of the parties of the transaction will be subject to the standards of accounting.

**Article 151** The depreciation schedule shall be prepared by the Iranian National Tax Administration according to the approved criteria and shall be enforced after being confirmed by the Minister of Economic Affairs and Finance.

### **Chapter III - Tax Indicia and Coefficients**

**Article 152<sup>1</sup>** Tax indicia are the factors employed, in respect of each business line and with due regard being had to the conditions of each business, for ex officio assessment of taxable income. They are as follows:

- (1) Annual purchase;
- (2) Annual sale;
- (3) Gross income;
- (4) Production volume of factories;
- (5) Value of the goodwill;

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<sup>1</sup> In view of Article 74 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Paragraphs 5 and 6 of the former text of this Article were changed to Paragraphs 6 and 7, and Paragraph 5 was added to it.

(6) Total funds received by notaries public as recording fees, fees for collection of levies and consumption of duty stamps; or the sum of duty stamps used by the notary public; and

(7) Other factors adopted by the committee in charge of determination of coefficients.

**Article 153** Tax coefficients are certain figures that when multiplied by the tax indications, the product will constitute the taxable income in cases of ex officio assessment.

**Note** When coefficients are applied to several indications, the average product will constitute the taxable income.

**Article 154**<sup>1</sup> The schedule of coefficients for assessment of taxable income shall be drawn up and notified in the following manner:

(a) A committee will be convened every year at the premises of the Iranian National Tax Administration for scheduling the tax coefficients. The Committee shall consist of representatives of the Iranian National Tax Administration and the Central Bank of the Islamic Republic of Iran, and a representative from the Central Council of Guilds in respect of guilds, representative of the Medical Order Organization in case of medical businesses, or representative of the Islamic Republic of Iran Chamber of Commerce, Industries and Mines with regard to other businesses. The Committee shall determine the detailed coefficients related to taxes related to the area of Tehran with regard to each of the indications mentioned in Article 152 of this Act, and in respect of various taxpayers and according to the types of their businesses, with due regard being had to the prevailing trend of transactions and economic circumstances. The Committee shall submit the list of coefficients to the Iranian National Tax Administration. The Iranian National Tax Administration shall notify, for implementation, the Committee's decisions as the schedule of coefficients of the area of Tehran; and

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<sup>1</sup> "The Islamic Republic of Iran Chamber of Commerce, Industries and Mines" was established in view of the Act approved on March 6, 1991 under this title. Consequently, in the text, the correct title of the Act substituted the phrase "the Iranian Chamber of Commerce and Mines."

(b) The schedule mentioned in Paragraph (a) above shall be sent by the Iranian National Tax Administration to Tax Affairs Offices of other cities.

As soon as the said schedule is received, a committee shall be set up in each area comprising the head of local Tax Affairs Office and head of the National Bank of Iran, and the representative of the Central Council of Guilds in case of guilds, the representative of the Medical Order Organization in respect of medical businesses, or the representative of the Iranian Chamber of Commerce, Industries and Mines with respect to other businesses. The Committee shall base its study on the schedule so received and shall take into consideration the economic circumstances peculiar to the respective geographical district, and in case of necessity will introduce appropriate changes into the items of the schedule while giving justification for its measure. The outcome of the study will be reported to the headquarters of the Iranian National Tax Administration. The Administration will study the report and to the extent it is convinced by the grounds presented in favor of changes introduced to the schedule, shall amend and notify it to the respective Tax Affairs Office as the schedule of coefficients.

**Note (1)** In locations where the Central Council of Guilds or the Iranian Chamber of Commerce, Industries and Mines, or the Medical Order Organization are not formed, the local governor shall introduce a knowledgeable and informed person to participate in the Coefficient Committee instead of each of the representatives of those organizations.

**Note (2)**<sup>1</sup> Presence of the representative of the Iranian National Tax Administration or the head of the Tax Affairs Office, and the presence of the representative of the Central Bank of the Islamic Republic of Iran or Bank Melli Iran, whichever be applicable, shall be a requisite for establishing the quorum of the committee's sessions, and its decisions shall be valid when taken by the votes of the majority of those present at the meeting.

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<sup>1</sup> In view of Article 18 of the Interest Free Banking Operations Act approved on August 30, 1983, the name of "Iranian Central Bank" was substituted by "Central Bank of the Islamic Republic of Iran." In view of "the Act Establishing the Bank Melli Iran for the Promotion of Trade, Farming, Agriculture, and Industry" approved on May 5, 1927, "the Bank Melli Iran" was established. Consequently, in the text, the phrase "Bank Melli Iran" substituted "Bank Melli."

**Note (3)** In cases where the taxable income subject to this Act is to be assessed on ex officio basis, but no coefficient is determined for the relevant case under this Act or by the schedule of coefficients, the appropriate coefficient will be determined by the local Board of Settlement of Tax Disputes with due regard being had to the coefficient applicable to similar businesses.

**Note (4)** In order to provide due explanations, the Coefficient Committee shall invite the representatives of the unions of respective businesses or guilds to attend the meetings of the committee.

## Chapter IV - General Provisions

**Article 155** The tax year is a solar year beginning on March 21 (the first day of *Farvardin*) of each year and ending on March 20 of the next year (the last day of *Esfand* of the same year). However, in case of taxable legal persons whose fiscal year, which is determined under their statute, does not coincide with the tax year, the income of their fiscal year, instead of tax year, will be taken as the basis for assessment of their taxable income. The time limit for submission of tax return, balance sheet and profit and loss account of such persons and payment of their taxes shall be 4 solar months after the end of their fiscal year.

**Article 156** The Tax Affairs Office shall examine the tax returns submitted within the legal time limit by taxpayers in respect of the income derived from each source, within one year from the expiry of the time limit stipulated for filing of tax returns. In case of failure to issue the assessment notice within the said time limit, or to serve the assessment notice on the taxpayer within three months after the expiry of the aforementioned one - year period, the tax return of the taxpayer shall be finalized.

If after the finalization of the tax return, or after review of the case and issuing and serving of the tax assessment notice, whether the tax is finalized or not, it becomes evident that the taxpayer have had some hidden income or profitable activities whose applicable tax had not been claimed, then the

claim shall be made in respect of the income tax pertinent to such activities only, with due regard being had to the provisions of Article 157 of this Act. In this case, as well as in cases where the taxpayer's tax return is considered as final, since it is not examined, the Tax Affairs Office shall send, within 10 days from the date of issue of the tax assessment notice, a copy thereof, together with a justifying report, to the Office of the Tax Disciplinary Prosecutor for examination.

**Article 157** As for the payers of income tax who fail to file on time the tax return of the relevant source of income, and in cases where such taxpayers are not required, under the provisions of this Act, to file a tax return at the deadline of the payment of the tax, the statute of limitation shall be five years from the deadline stipulated for the payment of the tax. The applicable tax shall not be claimable after the expiry of the said period of five years, unless the taxpayer's income is determined and the tax assessment notice is issued and served upon the taxpayer within three months from the expiry of the said period of five years.

**Note** If for any reason the tax is claimed from a person other than the taxpayer, such claim, on what stage it might be, shall be considered as cancelled when the Board of Settlement of Tax Disputes confirms this situation. In such cases, the Tax Affairs Office is required to claim the applicable tax from the real taxpayer within one year from the date of issue of the Board's opinion and without observing the aforesaid statute of limitation. Otherwise, the statute of limitation shall apply.

**Article 158** The Iranian National Tax Administration may announce, by publishing an advertisement within the first half of each year, that in respect of some tax sources, wholly or partially, and in regions, which it considers appropriate, those taxpayers who file their tax returns on time, the Administration will accept, without further examination, their tax returns next year, and only a number of tax returns will be examined through sampling and according to the provisions of this Act.

**Article 159** The funds paid, as the tax on each income source through remittance to the account announced by the Iranian National Tax

Administration or through affixation of tax stamps, shall be taken into account at the time of assessment and computation of the final tax of the taxpayer. In case of payments in excess of the applicable tax, the overpaid amount shall be refunded.

**Note** The Iranian National Tax Administration is authorized to collect at source and at related rates, all the taxes applicable to non-Iranian taxpayers and persons residing abroad.

**Article 160** The Iranian National Tax Administration shall have priority over other creditors for collection of applicable taxes and fines from taxpayers and persons responsible for the payment of the tax. Exceptions are the claims of persons having rights on a pledged property and the service-related claims of workers and employees. The latter rule shall not prevent collection of the tax on transfer of the pledged property.

**Article 161** In cases where the taxpayer's tax is not yet finalized or the course of its execution is not completed and it is feared that some property or properties might be wasted by the taxpayer, aimed at tax evasion, the Tax Affairs Office shall apply to the Board of Settlement of Tax Disputes for a writ of attachment, by presenting sufficient evidence. The Board shall issue an appropriate writ of attachment if it finds such measure necessary, and shall mention the relevant amount therein. The Tax Affairs Office shall effect the attachment, up to the same amount, with regard to the taxpayer's properties or funds held by the taxpayer or third parties. In this case, the taxpayer or the third parties shall not be authorized, when the written notice of the Tax Affairs Office is served on them, to dispose of the attached properties, unless they give security equivalent to the claimed amount. In case of infringement, they shall be subject to the punishment provided under Note 2 of Article 199 of this Act, in addition to the payment of the claimed amount.

**Article 162** Where several persons are considered responsible for the payment of the tax, the tax Affairs Office shall be entitled to refer to them, individually or collectively, for collection of the tax. Referring to every one of them shall not preclude the right of referring to others.

**Article 163** The Iranian National Tax Administration is authorized to require some or all of the taxpayers whose taxes are not withheld and remitted at the time of earning, to pay in the course of a year the applicable tax of the same year, as an on account payment and equal to a percentage of their latest finalized tax of previous years, or in proportion to the volume of their operations. In case of failure, the same on account amount shall be collected according to the provisions of this Act.

**Article 164** For the purpose of facilitating the payment of taxes and reducing the cases of taxpayers' visits to Tax Affairs Offices, the Iranian National Tax Administration shall open a special account through the Central Bank of the Islamic Republic of Iran in the Bank Melli Iran, so that the taxpayers may apply directly to the branches or counters of the Bank Melli Iran for paying their taxes to the said account.

**Article 165** 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 executive 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.

**Note** In the west and south regions of the Country that suffered from the war, whose list shall be declared by the Council of Ministers based on the proposal of the Ministry of Economic Affairs and Finance, the taxpayers shall enjoy the following tax facilities:

(a) Fifty percent of the said taxpayers' income tax applicable to the income derived in such regions since March 21 1989 (the beginning of the year 1368) until March 20, 1994 (the end of 1372) shall be spared;

(b) One third of tax liability of such taxpayers accrued until March 20, 1989 (the end of the year 1367) on income derived in those regions will be spared against each year of their occupation in the same areas, beginning from the effective date of this amendment.

(c) Up to one third of taxes paid by those taxpayers in respect of the income derived in the said regions during September 21, 1980 (*Shahrivar 30, 1359*) until March 20, 1989 (the end of the year 1367), will be credited each year against the taxes applicable to them in subsequent years in the same regions; and

(d) If a taxpayer is not able to continue his business in the said regions and provides evidence to that effect, which could be accepted by the Ministry of Economic Affairs and Finance, then his specified liability shall be wholly or partly spared.

**Article 166** The Iranian National Tax Administration may prepare certificates against advance payment of taxes and make them available to taxpayers for purchase. The certificates will be of registered type and untransferable. At the time of discharge of the taxpayer's liability, a sum shall be deducted therefrom equal to his advance payment plus 2% of the same, against each quarter of early payment of the tax.

**Article 167** With regard to the taxpayers who can not afford to settle their tax liability, including the principal tax and fines, at once, the Ministry of Economic Affairs and Finance or the Iranian National Tax Administration may agree with them to pay the same in installments, but not later than three years from the date of notification of their final tax liability.

**Article 168** The government may conclude tax agreements with foreign states, aiming at the prevention of double taxation and exchange of information with regard to taxpayers' income and assets, and to implement such agreements after being approved by the Islamic Consultative Assembly\*. The tax-related conventions and agreements already concluded

with foreign states and approved by the legislature or the Council of Ministers before the effective date of this Act, will continue to be valid as long as they are not terminated. The government is obligated to review, within one year from the date of enforcement of this Act, the previous conventions and agreements to find whether they should remain in force or are to be terminated, and to report its reasoned opinion to the Islamic Consultative Assembly.

**Article 169** If the use of some devices, methods, bills and forms is considered by the Iranian National Tax Administration to be necessary for keeping the accounts of each group of taxpayers in a way to facilitate the assessment of their income, then the Administration may announce the same in a mass circulation paper until January 20 (up to the end of *Dey*) of each year, whereby the taxpayers shall be obligated to observe such requirements as from March 21 (the beginning of *Farvardin*) of the following year. Neglecting such orders will result in invalidity of the books of accounts of the taxpayers who must keep statutory books of accounts, and in case of other taxpayers, it will result in imposition of a fine equal to 20% of the relevant source's tax.

**Note** If the observance of the aforesaid requirement is considered by the Board of Settlement of Tax Disputes to be beyond the ability of the taxpayer, the invalidity of the books of accounts or imposition of the fine, depending on the relevant case, shall not apply.

**Article 169 (bis)**<sup>1</sup> The Iranian National Tax Administration is authorized to issue economic card, inclusive of economic number, for real and legal persons. The individuals or legal entities that become obligated, according to the announcement of the Iranian National Tax Administration, to obtain economic card, shall be required to issue invoices for their transactions and insert their economic number in relevant invoices, forms and papers, and to submit the list of their transactions to the Iranian National Tax

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<sup>1</sup> In view of Article 77 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article and its notes were annexed to this Act. It is mentionable that the issuance of the Economic Card and its related regulations was carried out in the application of the Article 85 of the Act on Collection of Some Government Revenues and Allocation of the Same to Certain Issues, approved on March 19, 1995.

Administration, in conformity with a directive that will be prepared and declared by the Iranian National Tax Administration. The failure to issue invoices or to insert own economic number, or that of the other party of the transaction, as the case may be, also the use of one's economic number for the transactions of others, or using the other person's economic number for own transactions, shall be subject to a fine equal to 10% of the amount of the transaction made without observance of the above rules.

The failure to submit the list of executed transactions to the Iranian National Tax Administration in conformity with the announced directive shall be subject to a fine equal to 1% of the transactions for which no list is submitted. The aforesaid fines shall be claimed by the Iranian National Tax Administration with due regard being had to the time limit of the Article 157 of this Act, and the taxpayer shall be required to take measure for payment thereof within 30 days from the date of service of the claim note. Otherwise, the taxpayer will be deemed to be protesting to the claim and the case will be referred to the Board of Settlement of Tax Disputes for examination and rendering a judgment. The decision of the said Board will be conclusive and binding, and the fine referred to above shall not be separable and will be collected through the execution procedure of this Act.

**Note (1)** Those making use of the Economic Number of others, together with the other persons whose Economic Number is used, shall be jointly and severally responsible for the payment of the income tax and fines set forth in this Article.

**Note (2)** If the parties to the transaction refrain from complying with each of the duties prescribed in this Article, they shall be jointly and severally responsible. Should the buyer refrain from presenting his Taxpayer Identification Number (TIN), but the seller would declare the specifications of the buyer and subject of the transaction to the Iranian National Tax Administration within a time limit of one month, then the seller will be exempted from the fine related to such failure.

**Note (3)** The legal persons and proprietors of the businesses subject to Paragraphs "A" and "B" of Article 95 of this Act shall be required to keep all invoices related to their purchases in the relevant taxable year and its following year, and to present the same to tax officials, upon their request.

Otherwise, a fine equal to 10% of the invoices that are not presented shall be imposed.

**Article 170** The authority for examination of any kind of disputes arising between the Tax Affairs Office and taxpayers with regard to the assessment of taxes subject to this Act, will be the Board of Settlement of Tax Disputes, except in cases where other examination authorities are determined under the provisions of other Articles of this Act.

**Article 171** Employees of the Ministry of Economic Affairs and Finance and those of the Iranian National Tax Administration may not apply as the attorney or representative of taxpayers during their term of office or in the period they have status of readiness for office.\*

**Article 172** The following payments shall be deductible from the taxable income of the turnover of the year of payment and in connection with any source to be selected by the taxpayer: 100% of the funds remitted ex gratia to the accounts determined by the government for the purpose of reconstruction, aid and the like, and gratuitous payments, allocations and non-cash donations of persons, whether real or legal, for repair, mobilization, construction or completion of schools, universities, centers of higher education, health and therapy centers, training camps, sanatoriums, welfare centers, libraries and government cultural and art centers, in conformity with the criteria to be determined by the ministries of Science, Research and Education, Health and Medical Education, and Economic Affairs and Finance.

**Article 173** This Act shall become enforceable as of March 21, 1989 (*Farvardin 1, 1368*), and its provisions shall apply to all taxes and income taxes, in respect of which the reason of applicability of the tax or earning of the relevant income, as the case may be, is realized after the date of entry into force of this Act. It shall also apply to the income tax of real and legal persons related to the fiscal year ending at the first year of enforcement of this Act. All the other inconsistent laws and regulations shall be null and void in respect of those cases.

**Note** By the enforcement of this Act, the collection of evacuation duty referred to in Article 8 of the Law of 1974 (1352) concerning the Moderation and Stabilization of Rentals shall be cancelled.

**Article 174** The taxes on the income earned before March 21, 1989 (the year 1368) and after March 20, 1967 (the year 1345), as well as other direct taxes applied as a result of events occurred within the same interval, shall be considered as the outstanding taxes. In such cases, the assessment and determination of taxable income, tax rates, taxpayers' duties and the statute of limitation shall be subject to the legal rules applicable at the time when the income was earned, and the examination and settlement procedures shall be governed by this Act.

**Note (1)** If the date of deriving of the income or occurrence of the reason of application of the tax, as the case may be, was prior to March 21, 1967 (the year 1346), but the relevant tax remained unpaid up to the date of approval of this Act, then the tax in question will not be claimable any more.

**Note (2)** In case of a transfer subject to Article 180 of the Direct Taxes Act of March 1967 (*Esfand 1345*) and its later amendments that has taken place prior to the enforcement date of this Act, but the transferor passes away after the latter date, the transferred property shall be added to the shares of inheritance attributable to the respective heirs and the tax thereon, after deduction of the sums paid previously as the shares of inheritance, shall be collected according to the relevant provisions of this Act.

**Article 175<sup>1</sup>** All pecuniary amounts of this Act will be adjustable, once per two years, in harmony with the rate of inflation and by virtue of the proposal of the Ministry of Economic Affairs and Finance and approval of the Council of Ministers.

**Article 176** The Iranian National Tax Administration may collect taxes subject to this Act, whether final or assessed, through cancellation of stamps. The regulations for carrying out of this Article shall be prepared and

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<sup>1</sup> In view of Article 79 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article substituted the former text and its Note.

implemented by the Iranian National Tax Administration after being approved by the Minister of Economic Affairs and Finance.

## Chapter V - Taxpayers' Duties

**Article 177**<sup>1</sup> Taxpayers may submit, separately and against receipts, the tax returns subject to this Act, which they are required to file in each case, to the Tax Affairs Office, which is local to their place of dwelling. In such cases, the Tax Affairs Office shall record the event in the taxpayer's file, and shall dispatch, within three days, the submitted tax return to the respective Tax Affairs Office for taking necessary measures. Submission of tax return to the Tax Affairs Office of the place of dwelling shall have the same effects as the one filed with the relevant Tax Affairs Office. The rule of this Article shall also apply in cases where the taxpayer files, by mistake, his tax return with another Tax Affairs Office within the respective city.

**Note (1)** Where the last day of the deadline or time limit for submission of the tax return or other papers, which the taxpayer should file according to the provisions of this Act, corresponds to official or public holiday(s), the first day following such holiday(s), as the case may be, shall be considered as a part of the respective deadline or time limit for submission of the tax return or other papers.

**Note (2)** Submission of tax returns and payment of taxes of the taxpayers residing abroad and of the enterprises and companies whose head office is located abroad, shall be effected by their representatives, should they have any representatives in Iran.

**Note (3)** The businesses proprietors are required to declare in writing the commencement of their activity, within four months from the date of starting the business, to the local Tax Affairs Office. The failure to comply with that duty on time will be subject to a fine equal to 10% of the final tax. It would also result in deprivation from all tax facilities and exemptions as from the date they are identified by the Tax Affairs Office. This rule shall not apply to the business proprietors for whose activity a license or permit is issued by relevant authorities.

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<sup>1</sup> In view of Article 80 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Note 3 was annexed to this Article.

**Article 178** In cases where the tax return or other papers, which the taxpayer is required by the regulations to submit, are received through the post office, the date of delivery of the same to the post office, in case of being ascertained, shall be considered as the date of filing with the respective authorities.

**Article 179** A taxpayer with several dwelling places, is required to introduce one of such places as his principal domicile, otherwise, the Tax Affairs Office may consider each of the taxpayer's dwellings as his principal domicile.

**Article 180** Every Iranian individual who may prove, by providing a certificate from the financial or diplomatic missions of the Islamic Republic of Iran in other countries, that he has paid, as resident, taxes on his income of a tax year in a foreign country, shall be considered, for tax purposes, to be resident abroad in the relevant year, except for cases of:

- a) Having an occupation in Iran in the same year;
- b) Living in Iran at least for six consecutive or interrupted months in the same tax year; or
- c) Staying abroad for mission, medical treatment and the like.

**Note** If the Iranian real or legal persons who reside in Iran but derive income from abroad and pay taxes thereon to the local state of the place of earning, would declare such income in their tax return or balance sheet, as well as profit and loss account, as the case may be, in conformity with the provisions of this Act, then the taxes paid by them outside the country or a part of the tax that may be attributed, in proportion to their total taxable income, to the income derived abroad, whichever be lesser, shall be deductible from their income tax.

**Article 181** For the purpose of supervising the implementation of tax laws and regulations, the Iranian National Tax Administration may dispatch bodies composed of three persons for inspecting and controlling the statutory books of accounts of taxpayers in accordance with the regulations to be prepared by the Iranian National Tax Administration and approved by the Minister of Economic Affairs and Finance. If the taxpayer fails to

present the statutory books of accounts, the taxable income of the relevant year shall be determined based on ex officio assessment, upon the agreement of the Board referred to in paragraph (3) of the Article 97 of this Act.

**Note** The bodies subject to this Article may inspect, if authorized by the Iranian National Tax Administration, all the books of accounts and financial records and documents of taxpayers, whether related to the year of inspection or the previous years, for the purpose of obtaining necessary information and supplying the respective Tax Affairs Office with the same. In case of necessity, they can take the books, records and documents of the previous years to the relevant Tax Affairs Office, against a receipt.

## **Chapter VI - Third Parties' Duties**

**Article 182** Those obligated under this Act to pay other persons' taxes and every one undertaking or guaranteeing the payment of someone else's tax, as well as those becoming subject to a fine as a result of failure to comply with the duties provided in this Act, shall all be deemed as taxpayers and shall be treated, for the purpose of recovering their liabilities, according to the legal provisions related to the enforcement of tax collection.

**Article 183** In cases where the transfer of a real estate is effected through the Registration Department, the tax on the final transfer of the property should be paid in advance and the Registration Department shall transfer the property by registering the number of the tax clearance, issued from the competent Tax Affairs Office, on the deed of transfer.

**Article 184** Registration departments are required to send, at the end of each month, a full list of the companies and institutions registered during the same month together with the changes occurred with regard to the existing companies and institutions, as well as the names of real or legal persons whose statutory books of accounts have been registered and the quantity and

numbers of registered books, to the Tax Affairs Office local to the residence of the relevant institutions.

**Article 185** In all cases where the transactions related to Chapter IV of Title B and Chapters I and VI of Title C of this Act take place by means of official deeds, the notaries public shall be required to submit a summary list of each month's transactions, till the end of the next month, to the relevant Tax Affairs Office, on the premises, against a receipt.

**Article 186<sup>1</sup>** The issue, renewal or extension of validity of commercial cards and business or work permits of real or legal persons by the competent authorities shall depend on the presentation of a certificate from the respective Tax Affairs Office indicating the payment, or adoption of arrangements for the payment, of the finalized taxes. In case of failure of responsible officials to observe the said rule, they shall become jointly and severally liable for the payment of such taxes together with the relevant taxpayers.

**Note (1)** Grant of bank facilities to legal persons and proprietors of businesses by banks and other financial institutions shall be subject to presentation of the following certificates:

- (1) A certificate indicating the payment, or adoption of arrangements for the payment, of the finalized tax liabilities; and
- (2) A certificate from the relevant Tax Affairs Office indicating the receipt of a copy of financial statements presented to banks and other financial institutions.

The Iranian National Tax Administration and the Central Bank of Islamic Republic of Iran shall determine and notify the criteria for execution of this Note.

**Note (2)** The Iranian National Tax Administration is authorized to collect an amount equal to one thousandth of finalized taxable income of the owners of business income and remit it to a special account in the Treasury

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<sup>1</sup> In view of Article 83 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note under this Article was changed to Note 1 and Note 2 was annexed to it.

for the purpose of making payments, within the limits of the approved annual budgets, to the guild organizations and professional societies that would assist in tax assessment and collection. The payments made based on this Article shall be exempt from taxation and all contrary regulations.

**Article 187<sup>1</sup>** In all cases where the transactions subject to Chapter IV of Title B and Chapters I and VI of Title C of this Act take place by means of official deeds, before registering the deed of transaction, rescission or its termination, the notaries public shall be required to declare such events, including the full description and specification, as well as details regarding the type and subject of the transaction to the Tax Affairs Office of the district where the real estate is located or the taxpayer domiciles, whichever be applicable. Then the notary public shall take measure for registration of the deed of transaction, the cancellation thereof by mutual consent or its termination, as the case may be, after obtaining a certificate for execution of the transaction, and shall record the number of certificate and title of the authority issuing the same on the deed of transaction.

The Certificate for Execution of Transaction shall be issued within a maximum period of 10 days from the date of notary public's announcement and collection from the respective taxpayer all tax dues related to the property under the transaction, such as the tax on rental income of real estates, and collection of goodwill tax, business tax related to the premises of the property subject to the transaction, tax on incidental income or the tax on final transfer of real estates, whichever be applicable.

**Note (1)** With regard to the dispute concerning the amount of the assessed tax, the case shall be examined, out of turn, by the authorities provided under this Act for settlement of tax disputes. Should the taxpayer desire to obtain the Certificate for Execution of Transaction before the case is examined and a judgment is rendered by the dispute settlement authorities, the Certificate will be issued after collection of the tax acceptable to the taxpayer and receiving a deposit or valid guarantee, such as promissory note, insurance policy, securities, real security and the like, equal to the disputed sum.

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<sup>1</sup> In view of Article 84 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, phrases from the former text of this Article were deleted.

**Note (2)** In cases where a sum of money related to goodwill is deposited, in pursuance to a court's decision, with the Justice Administration Fund, or similar depositories, the respective officials shall be required, upon payment to the beneficiary, to deduct the applicable tax therefrom, by inquiring from the relevant Tax Affairs Office, and to remit the same to the account of the Iranian National Tax Administration.

**Article 188** Those in charge of sale and cancellation of duty stamps are required to affix and cancel on each letter of attorney the necessary stamps according to the provisions of this Act, and to record and certify such amounts in a special book that should be kept by lawyers for recording the amount of stamps used by them. The said book must be presented to the Tax Affairs Office at the time of examination of the attorneys' tax accounts. Otherwise, the failure to do so shall be considered a reason for rejection of their books for tax purposes.

## Chapter VII - Tax Incentives and Fines

**Article 189** If the balance sheet, profit and loss account, statutory books of account and documents of legal persons, and those of the real persons subject to paragraphs "A" and "B" of Article 95 hereof, are accepted during three consecutive years and their tax liability for each year is paid in the year of filing of the tax return without applying to the Board of Settlement of Tax Disputes, then a sum equal to 5% of the principal amount of their taxes for the said three years shall be paid to them out of the current collected funds, or will be credited to their tax account of subsequent years, as a reward for being an upright pay. This reward shall be granted to such taxpayers in addition to the benefits provided under Article 190 of this Act and it shall be exempt from taxation.

**Article 190** On account payment of the tax applicable to the turnover of each fiscal year before the deadline set forth in this Act, will result in accrual of a reward equal to 1% of the prepaid amount per each month till the prescribed deadline. The reward will be deducted from the tax applicable

to the same turnover. Any taxes paid after the time limit shall result in the imposition of a fine equal to 2.5% of the relevant tax per each month.

For the taxpayers who are required to file a tax return, the starting point for computation of the fine with respect to the amount of the tax mentioned in the tax return, shall be the expiry date of the deadline for submission of the tax return. As regards the disputed balance, the said starting point shall be the date of claiming the balance. In respect of the taxpayers refraining from filing tax return, as well as those not being required to file a tax return, the starting point in question shall be either the expiry date of the time limit for submission of the tax return or the deadline for payment of the tax, whichever be applicable.

**Note (1)** If the taxpayers take measure for complying with their duties in respect of timely submission of tax return or balance sheet, and profit and loss account, as well as payment of the tax according to the tax return or balance sheet and profit and loss account, or arrange for the payment thereof, and if they would act on time for presentation of their books of account, records and documents in relevant cases, then they shall be exempt, in cases referred to in Article 239 of this Act, from 80% of the fines set forth in this Act, provided that they would accept the assessment notice or agree with the Tax Affairs Office and pay the applicable tax or adopt arrangements for its payment. Such taxpayers shall also be exempt from 40% of the applicable fines prescribed herein in case of paying, or arranging for the payment of, the tax within one month from the date of service of the final tax notice.

**Note (2)** Should the interval between the filing of the taxpayer's objection to tax assessment notice and the date of finalization of the tax would exceed a year, then the monthly fine of 2.5% set forth in this Article shall not be claimable in respect of the period between the end of the said one year and the date of service of the final tax notice. The Iranian National Tax Administration is required to take measure so that the examination and finalization of the taxpayers' taxes would take place up to one year from the date of submission of their protest at maximum.

**Article 191** Upon the request of the taxpayer and agreement of the Iranian National Tax Administration, the fines provided under this Act may be spared, totally or partially. The Organization will take into account the evidence produced by the taxpayer to the effect that the noncompliance with the stipulated duties was due to reasons beyond his control. Due regard shall also be paid to tax records of the taxpayer and his conduct as an upright pay according to the judgment of the Iranian National Tax Administration.

**Article 192**<sup>1</sup> In all cases where a taxpayer or his representative are required, in accordance with the provisions of this Act, to file a tax return in connection with the payment of the relevant tax, but fail to do so within the time limit prescribed in this Act, they shall be subject to a fine equal to 10% of the applicable tax.

**Note** The failure of legal entities and persons subject to Paragraphs "A" and "B" of Article 95 of this Act to submit their tax return will result in the imposition of a fine equal to 40% of the applicable tax, which shall not be spared. The rule of this Note shall also apply to concealed income or false and unacceptable expenditures of the taxpayers who submit their tax returns.

**Article 193** If the taxpayers who are required by virtue of this Act to maintain the statutory books of account, fail to submit their balance sheet and profit and loss account, or refrain from presenting their books of account, a fine equal to 20% of the tax for each case of such failures shall be applied to them. As regards the rejection of the books of accounts, a fine equal to 10% of the tax shall be imposed.

**Note** The failure to submit a tax return, balance sheet, and profit and loss account in the period of tax exemption shall result in deprivation from the prescribed tax exemption with regard to the relevant year.

**Article 194** The taxpayers whose tax returns are examined based on the provisions of Article 158 of this Act, and their taxable income so assessed

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<sup>1</sup> In view of Article 87 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of Note of this Article substituted the former text of the Note.

and finalized, reveals a difference more than 15% in comparison with the figure declared by them, shall be deprived from every kind of facilities and cases of sparing provided under the Taxes Act, up to three years from the date of notification of the final assessed tax. Apart from that, the stipulated fines shall also be imposed, without being spared.

**Article 195** The fine applicable to the latest directors of legal persons for the failure to submit the tax return mentioned in Article 114 of this Act within the prescribed time limit, or for submission of a false tax return, shall respectively be 2% and 1% of the paid up capital of the legal person at the date of liquidation.

**Article 196** The offence of the liquidator(s) in connection with the distribution of the legal person's assets prior to the settlement of its tax dues, or before giving the security of Article 118 of this Act, shall be subject to a fine equal to 20% of the applicable tax, which shall be collected from the liquidator(s).

**Article 197** As for the persons who are required under the provisions of this Act to submit statements, lists, contracts or specifications related to taxpayers, but fail to do so within the prescribed time limit, or submit false documents, the applicable fines shall be 2% of the paid salary in respect of salaries, and 1% of a contract's total price, in case of contracts. In all cases, they shall become, together with taxpayers, jointly and severally liable for indemnification of the revenue losses of the government.

**Article 198** In dissolved companies, the directors shall have joint and several liability, together with the legal person itself, for the payment of the entity's income tax, and for the taxes that the legal person is required under the provisions of this Act to withhold and remit, where the latter taxes are related to the term of their office.

**Article 199** Every real or legal person who is required, according to the provisions of this Act, to withhold and remit the other taxpayers' taxes, but fails to comply with the prescribed duties, shall be subject to a fine equal to

20% of the unpaid tax, in addition to having joint and several liability with the taxpayer for the payment of the tax.

**Note (1)** In cases where the ministries, government companies or institutions or municipalities are obligated to withhold taxes, the responsible officials shall be subject to the punishment provided under the Administrative Offences Law.

**Note (2)** If a nongovernment legal person is responsible for tax withholding, the respective director(s) shall also be convicted to corrective imprisonment from three months to two years, apart from having joint and several liability for payment of the applicable taxes and fines. This rule shall not apply to the director(s) of legal persons who deposit securities with the Iranian National Tax Administration for the payment of the above taxes.

**Note (3)** Where the withholder is an individual, such person shall be convicted to corrective imprisonment from three months to two years.

**Note (4)** President of the Iranian National Tax Administration shall initiate proceedings before judicial authorities with regard to Notes 2 and 3 of this Article.

**Article 200** In every case that a duty or responsibility is set forth under the provisions of this Act for notaries public, and they fail to comply therewith, such persons shall become subject to a fine equal to 20% of the relevant tax in addition to having joint and several liability with taxpayers for the payment of the applicable tax(es). In case of repetition, they shall be convicted to the sentence stipulated under Note 2 of Article 199 of this in conformity with the relevant regulations, as well.

**Article 201**<sup>1</sup> If the taxpayer cites, knowingly and aimed at tax evasion, a balance sheet and profit and loss account, or books of accounts, records and documents that constitute the basis of tax assessment, but are prepared and arranged in a false manner, or if refrains from submission of tax return,

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<sup>1</sup> In view of Article 90 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a note was added to this Article.

In the text of the Note, "President of the Iranian National Tax Administration" substituted the "Head of Iranian National Tax Administration." "President of the Iranian National Tax Administration" is frequently used in this Act.

balance sheet and profit and loss account for three consecutive years, such a taxpayer shall be deprived from all legal facilities and relieves in respect of that period, beside the imposition of fines and punishments set forth in this Act.

**Note** President of the Iranian National Tax Administration shall initiate the prosecution of committing taxpayers and proceedings against them before the judicial authorities.

**Article 202**<sup>1</sup> The Ministry of Economic Affairs and Finance or the Iranian National Tax Administration may prevent the exit from the country of the tax debtors, whose final liability exceeds IRR 10,000,000. The rule of this Article shall also apply to the responsible director(s) of private legal persons in connection with the entity's final tax liability, whether it relates to the income tax of the entity or to taxes that the entity is required to withhold and remit, provided that the latter taxes pertain to the term of office of the said directors. The respective authorities are obligated to implement this Article when declared by the said Ministry or Administration.

**Note** In case the taxpayers transfer their properties to their spouses or children, aimed at tax evasion, the Iranian National Tax Administration may take measures for annulling the relevant deeds through judicial authorities.

## **Chapter VIII - Serving of Process**

**Article 203** Tax papers shall be generally served on the taxpayer in person and a receipt taken on the second copy. Should the taxpayer be not available, the tax papers shall be served on a relative or employee of the taxpayer at the place of abode or work of the same, provided that in view of the serving officer, the age of such persons would appear to be enough to recognize the significance of the papers, and there would be no conflict of interest between the taxpayer and the person receiving the process.

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<sup>1</sup> In view of Article 91 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Note 1 of the former text of this Article was deleted and its Note 2 was changed to the Note of the new text of this Article.

**Note (1)** If the taxpayer or taxpayer's relatives or employees, in case of absence of the taxpayer, refuse to accept the process, and when none of such persons is available at the relevant place, the serving officer shall record their refusal from accepting the process, or their absence at the place, on both copies of the tax notice, and shall post the first copy at the door of the place of residence or work of the taxpayer. The tax papers served in such manner shall be considered legal and the date of their posting shall be deemed as the date of serving on the taxpayer.

**Note (2)** The Iranian National Tax Administration may use the registered mail services for the serving of tax papers. The mail carrier shall serve the copies of tax papers on the taxpayer in person or on a relative or employee of the taxpayer at the relevant place, and shall get a receipt on the second copy. If the taxpayer or the said persons refuse to accept the process, the mail carrier shall take a note of that on the copies of the process, and shall post the second copy at the relevant address and return the first copy to the Tax Office. When none of such persons is available at the place, the mail carrier shall record the date of calling at the place and the phrase: "We shall revisit the place after 15 days from this date" on the copies of the notice, and shall post the second copy at the specified address, and return the first copy. Should the said persons be absent at the second visit, the mail carrier shall record the fact at the foot of the copies of the tax notice, and shall post the second copy at the relevant address, and give back the first copy to the Tax Affairs Office.<sup>1</sup> The tax papers served as such shall be deemed as served at the date of posting.

**Article 204** The serving officer shall specify the following points in the first and second copies of the tax notice and sign it:

- (a) Place and date of service specifying day, month and year, in letters and figures;
- (b) Name of the person upon whom the papers are served, stating his relationship with the taxpayer; and

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<sup>1</sup> In the above text, in view of the Paragraph 2 of Article 220 of this Act, the phrase "Tax Affairs Office" substituted "Tax Office."

(c) Names, specifications and full addresses of witnesses, in cases referred to in the Note to the Article 203 of this Act.

**Article 205** Where the taxpayer is a government department or an institution affiliated with the government, the tax notices shall be served on the director, deputy director or the head of the secretariat of such department or institution.

**Article 206** If the taxpayer is a commercial company or any other legal persons, the tax papers shall be served on the director or another person having right to sign for the company.

**Note** The provisions of Article 203 of this Act and its Note shall apply to commercial companies and other legal persons as well.

**Article 207** In cases where the taxpayer designates an address as his place of work or abode, or as a place where the tax notices are to be served, as well as in other cases, where the tax papers are served at, a certain address assumed to be the place of work or residence of the taxpayer and some evidence or proof can be found in the relevant file, indicating that the taxpayer was aware of this fact without objecting to the latter address, the serving of tax papers to such addresses shall be legal and correct, as long as another address is not declared by the taxpayer as his place of work or residence.

**Article 208** Should the taxpayer's address be not available, the tax notice shall be published once in a mass circulation paper within the jurisdiction of the local Tax Affairs Office. If there is no paper in the said area, the publication shall be made in a mass circulation paper of another area nearest to the jurisdiction of the relevant Tax Affairs Office, or in a mass circulation paper of the capital. Such publication shall be deemed as serving on the taxpayer.

**Note (1)** In addition to the related matters, the place of serving, the time limit set forth and legal duty of the taxpayer shall be mentioned in the text of the served tax papers.

**Note (2)** With regard to the taxpayers of real estates, whose addresses are not known, as envisaged under Article 207 of this Article, the tax notice shall be served at the premises of the real estate, the tax of which is claimed, in conformity with the procedure specified in the Note to Article 203 of this Act.

**Article 209** Except for instances set forth under this Act, the provisions of the Civil Procedure Law about the serving of process shall apply with regard to the serving of tax papers.

## **Chapter IX - Collection of Tax**

**Article 210** In case the taxpayer fails to pay his finalized tax within 10 days from the notification of the final notice, the Tax Affairs Office shall notify him by a writ of execution to pay, or arrange for the payment of, all his tax dues to the said Office within one month from the date of notification.

**Note (1)** The type and amount of the tax, documents related to the final assessment of the liability, the relevant tax year, the amounts already paid and the applicable fine shall be specified in the writ of execution.

**Note (2)** That part of the tax that is accepted by the taxpayer and stated in the submitted tax return or balance sheet shall be considered as a final tax and will be collectible through the execution procedure.

**Article 211** If the taxpayer fails, after notification of the writ of execution, to pay the total amount of the tax claimed, or to arrange with the Tax Affairs Office for the payment thereof, within the prescribed time limit, his movable and immovable properties and receivables shall be seized up to the liability of the taxpayer, including the principal tax and applicable fines, plus 10% of the liability. The writ of seizure and the order for the implementation thereof shall be issued by the execution section of the Tax Affairs Office.

**Article 212** The seizure of the following properties is prohibited:

(1) Two-thirds of the salary of salary receivers and three-fourths of retirement pension and survivors' pensions.

(2) Clothing, articles and objects needed for urgent requirements of the taxpayer and the taxpayer's dependants, as well as the available provisions and alimony of the persons entitled to receive the same from the taxpayer;

(3) Agricultural and Industrial equipment and tools and business facilities necessary for securing minimum needs of living for the taxpayer; and

(4) Place of habitation to a normal extent.

**Note (1)** If the value of the property opted for seizure exceeds the taxpayer's liability and it cannot be divided, the property shall entirely be seized, sold and the balance shall be refunded, unless the taxpayer presents another unclaimed property equivalent to the said liability.

**Note (2)** In case the taxpayer is one of the spouses living in the same house, those items of furniture that are habitually used by women shall be considered to belong to the wife and the rest to the husband, unless the opposite is found out.

**Note (3)** The seizure of producing units, whether agricultural or industrial, must not result in stoppage of such units in the course of execution operations.

**Article 213** The appraiser of Tax Affairs Office shall make the valuation of seized properties. However, the taxpayer may request that the properties be valued by an official appraiser, in which case, the taxpayer should deposit the appraisal fee according to the regulations related to the fees of official experts of the Justice Administration.

**Article 214** The officer in charge of execution proceedings in the respective Tax Affairs Office shall undertake all necessary measures in connection with the advertising of auctions, tenders and sale of seized properties, whether movable or immovable. As for the sale of immovable properties, if the prescribed formalities are brought about and a purchaser is determined, but the owner refrains from turning up for signing the transfer deed, the

execution officer of the Tax Affairs Office shall apply, by virtue of relevant documents, to the local registration department for the transfer of the property to the purchaser and the said department shall comply with this application.

**Article 215** As regards the seized immovable properties, if no purchaser turns up after publication of two notices (the second of which should be published without determining a minimum price), the Iranian National Tax Administration may transfer to itself, based on the valuation to be made by an official expert of the Justice Administration, a part of the seized property equivalent to the total liability of the taxpayer, plus the applicable charges, and offset the value thereof against the taxpayer's dues.

**Note (1)** If before the property is transferred to the Iranian National Tax Administration or other parties, the taxpayer volunteers to pay the taxpayer's dues, the Iranian National Tax Administration shall lift the seizure of the said real estate after receiving the taxpayer's dues plus 10% thereof and applicable charges.

**Note (2)** If the property is transferred to the Iranian National Tax Administration and the Administration is prepared to sell it, then the willing taxpayer, shall have priority in purchasing thereof, all conditions being equal.

**Article 216** The authority for examination of the complaints arising out of the execution measures taken in connection with the claims of the government against other persons, whether real or legal, which claims are callable and collectible based on the tax execution regulations, shall be the Board of Settlement of Tax Disputes. Such complaints shall be examined and relevant decisions shall be taken immediately and out of turn, and the judgments rendered shall be final and enforceable.

**Note (1)** As for direct taxes, if the complaint is to the effect that the execution procedure for collection of the tax has been effected before finalization of the tax, and the Board of Settlement of Tax Disputes finds the complaint justified, it shall - in addition to annulling the execution notice - issue a writ for examination of the case and for taking necessary measures,

or it shall examine and render a judgment on the taxable income of the taxpayer, whichever be applicable. The decision of the Board shall be final.

**Note (2)** In respect of indirect taxes, where the executive complaint is to the effect that the claiming of tax is not lawful, the authority for examination of this complaint shall also be the Board of Settlement of Tax Disputes and its decision shall be final and enforceable.

This Note shall not apply to the fines related to the smuggling of goods constituting sources of the government's revenue, or to the price of the smuggled goods that are vanished, nor shall it apply to that category of indirect taxes that are to be settled, according to relevant special regulations, by specific authorities.

**Article 217** The Ministry of Economic Affairs and Finance is authorized to remit one percent of taxes and fines collected under this Act (except for the Income Tax of State owned companies) to a special account held by the Treasury and spend it for the purpose of education and training of the personnel in taxation and auditing fields, and for encouraging the employees and other persons who have exerted, or will exert, effective endeavors for collection of taxes. The funds paid as collection bonus under this Article shall be exempt from taxation and from all contrary regulations.

The Ministry of Economic Affairs and Finance shall submit, every six months, a report on the volume of taxes collected and its distribution between different layers and levels of income to the Economic Committee<sup>1</sup> of the Islamic Consultative Assembly.

**Article 218** The bylaw related to the section in charge of tax collection shall be approved by the Ministries of Economic Affairs and Finance, and Justice, and shall be enforced by the Ministry of Economic Affairs and Finance.

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<sup>1</sup> In view of Article 36 of the Internal Bylaw of the Islamic Consultative Assembly approved on March 21, 2000, the title of the Committee of "Economic Affairs and Finance" was changed to the "Economic Committee."



## TITLE E TAX ASSESSMENT ORGANIZATION AND TAX FORA

### Chapter I - Tax Assessment Authorities and their Duties and Powers

**Article 219<sup>1</sup>** The identification and assessment of taxable income and claiming and collection of taxes subject to this Act shall be the responsibility of the Iranian National Tax Administration that has been established by virtue of Paragraph "a" of Article 59 of the Law of the Third Economic, Social and Cultural Development Plan of the Islamic Republic of Iran. The manner of discharging the duties, as well as using the competence and powers, vested with each of the tax officers and Tax Affairs Office, and the procedure of execution of the rules of this Act, will be specified in the bylaw to be proposed by the Iranian National Tax Administration and approved by the Minister of Economic Affairs and Finance within six months after the approval of this Act.

**Note** The Iranian National Tax Administration may employ the previous procedures, execution arrangements and job titles, as executive provisions, before the approval of the regulations envisaged in this Article

**Article 220<sup>2</sup>** The following phraseological amendments should take place in this Act:

1. The phrase "Iranian National Tax Administration" should substitute for the "Ministry of Economic Affairs and Finance" in the cases mentioned below:

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<sup>1</sup> In view of Article 92 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article and its Note substituted the former text of this Article.

<sup>2</sup> In view of Article 93 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article substituted the former text of the Article.

Articles 26, 29, 39, 40, 41, 57, 80, 114, and 154 and Note 2 thereof, Articles 158, 159 and its Note, Articles 160, 163, 164, 166, 169, 176, the Note of Article 186, and Article 191, Note 2 of Article 203, Article 215 and Notes 1 and 2 thereof and the Note of Article 230.

2. In the following cases, the phrase "Tax Affairs Office" should substitute for the phrases "assessment official", "assessment officials", "tax assessor", "chief assessor", "Tax District", "Tax Assessment Office", "Assessment Office", "Assessment Office of the Tax District" and "Department of Economic Affairs and Finance":

Articles 26, 27, 29, 31, 34, 35 and Notes 2 and 3 of Article 38, Article 39 and its Note, Articles 72 and 80, Notes 1 and 2 of Article 80, Articles 87, 88 and 102, Note 5 of Article 109, Articles 113, 114, 117, and 126, Article 154 and Note 2 thereof, Articles 156, 161, 162, 164, 170, 179, 183, 184 and 185, Article 186 and its Note, Articles 188, 208, 210, 211, 213, 214, 227 and 229, Article 230 and its Note, Articles 232, 233 and 249.

**Articles 221 through 225<sup>1</sup>** Deleted.

**Article 226<sup>2</sup>** If the taxpayers who are required to file tax return, balance sheet and profit and loss account, fail to submit their tax return within the prescribed time limit, such failure shall not prevent the review of their balance sheet and profit and loss account, that are submitted before the deadline, within the time limit stipulated under Article 156 of this Act. Otherwise, the income mentioned under the balance sheet or profit and loss account shall become conclusive.

**Note** In case of occurrence of any kind of miscalculation in the tax return, balance sheet or profit and loss account submitted by a taxpayer, he shall be authorized, after producing necessary evidence to that effect, to adopt measures for removing the error and submitting the corrected tax return, balance sheet or profit and loss account, as the case may be, within

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<sup>1</sup> In view of Article 93 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, Articles 221-225 were deleted.

<sup>2</sup> In view of Article 95 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the former text of this Article, and its Note 2 were deleted and the text of the former Note 1 substituted Article 226. Moreover, in view of this Article, the text of former Note 3 was preserved as the Note to this Article.

one month from the expiry of the time limit set forth for filing of the tax return. The date of submission of the tax return at any event shall be deemed the date when the first tax return is filed.

**Article 227** If after the acceptance of the taxpayer's tax return, balance sheet and profit and loss account, as the case may be, or after the ex officio assessment of the tax and issuing assessment notice, it is proved that the taxpayer had certain activities, which he had hidden the income derived therefrom, or the Tax Affairs Office was not aware of it when issuing the assessment notice, then the applicable tax shall be determined by taking into calculation the income derived from such activities, and the balance of the tax shall be claimed by due regard being had to the deadline stipulated under Article 157 of this Act.

**Article 228** In cases where the tax return or balance sheet and profit and loss account of the taxpayer are rejected, or the said documents are not submitted within the legal time limit, the taxpayer's tax shall be assessed and claimed according to the provisions of this Act.

**Article 229** Tax Affairs Office may, for examination of the tax return or assessment of any income of the taxpayer, refer to all relevant books of accounts, records and documents and investigate them, and the taxpayer is obligated to present and submit the same. Otherwise, such items shall not be citable in his favor with regard to the taxation of that year, unless it becomes evident, before the final assessment of his income, that they could not be produced in previous stages for the reasons beyond the taxpayer's control. The rule of this Article shall not prevent the forums of settlement of dispute from referring to the papers and documents produced by the taxpayer for assessing his actual income.

**Article 230** In cases where the documents and records indicating the earning of certain income are held by third parties, other than those referred to under Article 231 of this Act, such third parties shall be required to produce, when applied and asked by the Tax Affairs Office, the books of accounts, as well as the original or copy of relevant documents and any type of information pertinent to the taxpayer's income or specifications.

Otherwise, and if some losses are sustained by the government because of such third parties' failure, they shall be convicted to indemnification of the government's losses. The competent judicial authorities shall have jurisdiction to verify the third parties' failure and determine the losses sustained by the government. They shall examine the case out of turn when applied by the Office of the Tax Disciplinary Prosecutor.

**Note** In cases where the third parties refrain from producing documents and papers demanded by the Tax Affairs Office, the Iranian National Tax Administration may require them, through the Office of the Prosecutor General, to submit such papers and documents. The judicial prosecution of the case shall not prevent the Tax Affairs Office from taking measures.

**Article 231** Where the Tax Affairs Offices request, in writing, the ministries, government institutions, state companies, foundations of the Islamic Revolution, municipalities and other nongovernmental public foundations and institutions to produce necessary information and documents in respect of the taxpayer's activities and transactions, such organizations shall be required to put certified copies of related documents and any necessary information at their disposal, unless the official in charge of the matter, declares that such disclosure shall harm the interest of the country. In the latter case, the disclosure can be refrained from when agreed by the respective competent minister and confirmed by the Minister of Economic Affairs and Finance. Otherwise, the offence of the relevant official shall be examined by the competent judicial authority out of turn, when declared by the Office of the Tax Disciplinary Prosecutor, and he shall be convicted to an appropriate punishment as the case may require. As regards the cases where judicial authorities hold relevant information and documents and they consider the producing thereof to be unadvisable, the provision of such information shall depend on the agreement of the Prosecutor General.

**Note** In respect of banks and non-bank credit institutions, the Iranian National Tax Administration shall demand the documents and information concerning the taxpayer's income through the Minister of Economic Affairs and Finance, in which case the banks and non-bank credit institutions shall

be required to act in accordance with the view of the Minister of Economic Affairs and Finance.

**Article 232** The Tax Affairs Office and other tax authorities must consider as confidential, the information they obtain in the course of reviewing the taxpayer's tax affairs, and should refrain from disclosing it, except before the respective authorities and to the extent that it is needed for assessment of taxes and income. In case of disclosure, they shall be treated in conformity with the Islamic Criminal Code.

**Article 233** If the Tax Affairs Office comes across, in the course of its investigations, tax offences subject to Article 201 of this Article that are committed by the taxpayers, it must report the case to the Tax Disciplinary Prosecutor for prosecution.

**Article 234**<sup>1</sup> Deleted.

**Article 235**<sup>2</sup> The Tax Affairs Office shall draw up, in case of taxpayers who have paid their final tax dues, a tax clearance and deliver it to the taxpayer within five days from the date of receiving the taxpayer's request to that effect.

## **Chapter II - Manner of Examination**

**Article 236**<sup>3</sup> Deleted.

**Article 237**<sup>1</sup> The tax assessment notice should be drawn on a correct basis and must be substantiated by sufficient evidence and information, in a

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<sup>1</sup> In view of Article 97 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article was deleted.

<sup>2</sup> In view of Article 98 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of the former text of this Article was deleted.

<sup>3</sup> In view of Article 99 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

manner to reflect manifestly all related activities and incomes derived therefrom, so that it is clear for the taxpayer. Those signing the assessment notice must record their full name and position in a readable manner thereon, and they shall be responsible for the contents of the assessment notice and for their own opinion in every respect. In case of inquiry by the taxpayer about the manner of assessment, the aforesaid persons shall be required to announce details of the report constituting the basis of tax assessment and have to furnish any explanations the taxpayer may request in this respect.

**Article 238<sup>2</sup>** Where the tax assessment notice is issued and served on the taxpayer, he may, in case of being unsatisfied therewith, apply personally or through a plenipotentiary attorney to the Tax Affairs Office within thirty days from the date of service and request, in writing, for reexamination by providing evidence, documents and records. The relevant responsible officer shall review the case, after recording it in the respective register, within thirty days from the date of the taxpayer's application. In case of considering the supplied evidence, documents and records as sufficient for rejection of the assessment notice, the responsible officer shall reject it by recording the matter and signing it on the back of the assessment sheet. If the furnished evidence, documents and records justify, in the responsible officer's view, the adjustment of the income, and the taxpayer shares this view, the relevant responsible officer shall reflect the matter on the back of the assessment notice, which shall be signed by the officer and the taxpayer. However, if the supplied evidence and documents would not justify, in the view of the responsible officer, the rejection of the assessment notice or adjustment of the income, he shall reflect the matter, together with justification, on the back of the assessment notice, and shall refer the case to the Board of Settlement of Tax Disputes for examination.

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<sup>1</sup> In view of Article 100 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of this Article was deleted.

<sup>2</sup> In view of Article 101 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article and Notes 1 and 2 of its former text were deleted.

**Article 239**<sup>1</sup> If within thirty days from serving of the Assessment Notice, the taxpayer declares, in writing, his acceptance with regard to it, or pays the tax claimed based on the Assessment Notice, or adopts arrangements for the payment of the same, or settles his dispute with the Tax Affairs Office as described under the Article 238 of this Act, then the case shall be deemed as closed with regard to the amount of taxable income. Should no written objection is lodged by the taxpayer within thirty days, or if he would not apply to the relevant Tax Affairs Office within the time limit prescribed in the said Article, the income determined under the assessment notice shall become final.

**Note** In cases where the Assessment Notice is served according to the provisions of the Note to Article 203, and Article 208 of this Act, and no measures are taken by the taxpayer in accordance with the provisions of this Article, he shall be deemed as objecting to the Assessment Notice. In this case and when the taxpayer files a written protest with regard to the assessment notice within thirty days from notification thereof, the file of the case shall be referred to the Board of Settlement of Tax Disputes for examination.

**Article 240**<sup>2</sup> When the case is tried before the Board of Settlement of Tax Dispute, the representative of the Tax Affairs Office must attend the session of the Board for producing sufficient evidence for justification of the contents of the assessment notice and for giving necessary explanations.

**Article 241**<sup>3</sup> Deleted.

**Article 242**<sup>4</sup> In cases where extra taxes are collected as a result of miscalculation, and where a tax is refundable under the provisions of this

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<sup>1</sup> In view of Article 102 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article was deleted.

<sup>2</sup> In view of Article 101 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of the former text of this Article and a phrase from its former text were deleted.

<sup>3</sup> In view of Article 104 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

<sup>4</sup> In view of Article 105 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its Note substituted the former text of Article 242.

Act, the Tax Affairs Office shall be required to pay the refundable amount, within one month, to the taxpayer out of the current collections.

**Note** The extra amounts received under any title from taxpayers in connection with the taxes set forth in this Act shall be subject to compensation at the rate of 1.5% per month as from the date of receiving the same until the date of refunding. The aforementioned compensation shall be paid to the taxpayer out of the current collections. The rule of this Note shall also apply to extra tax payments, including withholding taxes and on account payments of taxes, which exceed the applicable taxes, provided that they are not refunded to taxpayers within three months from the date of receiving the taxpayer's request to that effect. The compensation shall apply as of the end of that period.

**Article 243** In case the taxpayer applies for the refund, but the Tax Affairs Office would consider it unjustified, the taxpayer may apply, within thirty days from the notification of the relevant Office's decision, to the Board of Settlement of Tax Disputes for reviewing the case. The decision of the Board of Settlement of Tax Disputes in such cases shall be conclusive and inappealable. If the decision of the Board is for the refund of extra tax, the relevant Office shall be required to carry out it in accordance with the last part of the Article 242 of this Act.

### **Chapter III - Forum for Settlement of Tax Disputes**

**Article 244<sup>1</sup>** The authority for reviewing all tax disputes shall be the Board of Settlement of Tax Disputes, except in cases where other authorities are

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<sup>1</sup> In view of Article 107 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the text of this Article and its former Notes substituted the former text of Article 244 and its Notes.

- In Paragraph 3 of this Article, the phrase "Islamic Republic of Iran Chamber of Commerce, Industries and Mines" substituted the phrase "Chamber of Commerce, Industries and Mines."
- In view of Note 2 of the Act on Using the Specialized and Professional Services of the Competent Accountants as Certified Accountants, approved on May 11, 1993, in the above text, "Iranian Association of Certified Public Accountants" substituted the "Association of Certified Public Accountants."

provided under this Act. Every Board of Settlement of Tax Disputes shall consist of three persons as follows:

- (1) One representative from the Iranian National Tax Administration;
- (2) One judge, whether active or retired. If qualified retired judges could not be found in centers of provinces and other cities, the head of the Judiciary will introduce an active judge as the member of the Board, when the Iranian National Tax Administration would request that; and
- (3) A representative from the Chamber of Commerce, Industries and Mines, Chamber of Cooperatives, Iranian Association of Certified Public Accountants, professional associations, guild organizations or Islamic city councils, whichever the taxpayer would choose. In cases, where the Assessment Notice is notified through substituted service, or the taxpayer fails to declare his choice at the time of filing his protest within the legal time limit, the Iranian National Tax Administration shall select one of the said representatives by due regard being had to the type of the taxpayer's activity or the kind of the tax under review.

**Note (1)** The quorum for the sessions of the Board of Settlement of Tax Disputes shall consist of three members and its decision shall be conclusive and enforceable when rendered by the majority. However, the opinion of the minority should also be mentioned in the text of the decision.

**Note (2)** The Iranian National Tax Administration shall be responsible for administration of the affairs of the Boards of Settlement of Tax Disputes and for convening of their sessions. The remuneration of the members of the Boards of Settlement of Tax Disputes will be payable out of the funds to be forecast for this purpose in the said Administration's budget and on basis of the regulations that will be proposed by the Iranian National Tax Administration and approved by the Minister of Economic Affairs and Finance.

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- In view of Paragraph "a" of Article 59 of the Third Economic, Social and Cultural Development Plan of the IRI legislated on April 5, 2000, the Iranian National Tax Administration was established. Consequently, in the above text, the phrase "Iranian National Tax Administration" substituted the "Tax Administration."

**Article 245<sup>1</sup>** The Board members who are representative of the Iranian National Tax Administration shall be selected from among the said Administration's employees with at least ten years service experience, from which not less than six years should be related to taxation career, and they must be knowledgeable and acquainted with tax affairs.

**Article 246** For the purpose of participation of the taxpayer or his representative and possibility of dispatching a representative by the Tax Affairs Office, the time of hearing of the Board of Settlement of Tax Disputes shall be notified in case of each file to them. The interval between the date of notification and the day of convention of the hearing session shall not be less than ten days, except when otherwise requested by the taxpayer and agreed by the relevant Office.

**Note** Absence of the taxpayer or his representative or the representative of the Tax Affairs Office shall not prevent the Board from examining the case and rendering its decision.

**Article 247<sup>2</sup>** Decisions of the Boards of Settlement of Tax Disputes of the First Instance shall be finalized and applicable, except if within 20 days of the date of serving the decision notice to the taxpayer in view of Article 203 of this Act and its Notes, the competent tax officers or the taxpayer makes any written objections against it. Then, the case shall be duly referred to the Board of Appeal of the Settlement of Tax Disputes. The decision of the Board of Appeal of the Settlement of Tax Disputes shall be finalized and applicable.

**Note (1)** The taxpayer is required to pay the tax acceptable for the taxpayer, and submit the objections to the surplus amount within the provisioned time limit.

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<sup>1</sup> In view of Article 108 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of former text of this Article was deleted.

<sup>2</sup> In view of the Single Article of the Act Annexing Article 247 to the Direct Taxation Act and its Subsequent Amendments, approved on May 10, 2009, published in the State Official Gazette No. 18726, dated June 18, 2009, Article 247 and its Notes were annexed to the Act and shall be enforceable as of July 4, 2009.

**Note (2)** Representatives, who are members of the Board of Settlement of Tax Disputes, are required not to have previously expressed any viewpoints or voted in this regard.

**Note (3)** In case one of the disputing parties, appeals against the decision issued by the Board of First Instance, only the objection made by that party shall be examined in the appeal process and the decision shall be issued.

**Note (4)** Finalized decision of the Boards of Settlement of Tax Disputes shall be objectionable and examinable in the Supreme Tax Council in view of Article 251, except where the decision of the Board of Settlement of Tax Disputes of the First Instance is finalized, accompanied by the failure of the related taxpayer or tax officer to make any objections.

**Note (5)** The Iranian National Tax Administration shall be duly authorized to refer the written objection of the taxpayers against the decisions issued by the Boards of Settlement of Disputes before the date of legislation of this Article, which were submitted to the competent tax authority, within the legal time limit to the Boards of Appeal of the Tax Disputes for examination and issuance of the due decision.

**Note (6)** Where the objection of the taxpayers against the decisions of the Boards of First Instance is rejected by the Board of Appeal of the Settlement of Tax Disputes, and where the objection against the decisions of the Boards of Appeal is rejected by the chambers of the Supreme Tax Council, for each stage, the amount of one percent (1%) of the difference between the tax subject of the decision objected and the tax payable stated by the taxpayer in the tax return submitted, shall be payable by the taxpayer as the examination expenses.

**Article 248** The decision of the Board of Settlement of Tax Disputes must include justified and substantiated view concerning the objection of the taxpayer and in case of deciding upon the adjustment of the taxable income,

the Board shall specify the reasons and grounds thereof in the text of the decision.

**Article 249** Boards of Settlement of Tax Disputes are required to mention the basis of tax assessment in the text of their decision and in case of erroneous assessment, should examine it and correct the decision, when applied by the taxpayer or the Tax Affairs Office.

**Article 250** In cases where the Board of Settlement of Tax Disputes rejects the tax assessment notice or adjusts the assessment made by the Tax Affairs Office, it should send a copy of its decision and the transcript of the assessment notice to the Tax Disciplinary Prosecutor for examination, so that the offending person be prosecuted, if commitment of an offence is ascertained.

**Article 251** The taxpayer or the Tax Affairs Office can file a complaint with the Supreme Tax Council, within one month from the date of serving the final decision of the Board of Settlement of Tax Disputes, and apply by providing sufficient evidence for reversal of the decision and reconsideration of the case for the reason of nonobservance of positive laws and regulations or because of defect in examination.

**Article 251 (bis)**<sup>1</sup> In case of final taxes subject to this Act and indirect taxes that are not capable of being reviewed by any other authority, if the taxpayer submits a complaint to the effect that the tax is unfair and provides sufficient documents and evidence to that effect and applies for reconsideration of the case, the Minister of Economic Affairs and Finance may refer the file of the case to a Board composed of three persons, whom he shall nominate personally. The decision of the Board shall be conclusive and enforceable when rendered by the majority.

The rule of this Article shall also apply to the turnovers of the year 1368 (March 21, 1989 until March 20, 1989) and subsequent years up to the date of approval of this amendment.

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<sup>1</sup> In view of Article 113 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, the Note of the former text of this Article was deleted.

## **Chapter IV - Supreme Tax Council and its Duties and Powers**

**Article 252<sup>1</sup>** The Supreme Tax Council shall consist of 25 members that will be nominated by the President of the Iranian National Tax Administration and appointed by an order of the Minister of Economic Affairs and Finance from among the persons knowledgeable, informed and experienced in fields of legal, economic, financial, accounting and auditing affairs and holding a bachelor degree or a degree equivalent to it, at minimum, in the aforesaid fields.

**Note (1)** A minimum number of 15 members of the Supreme Tax Council are to be selected from among the employees of the Ministry of Economic Affairs and Finance or its subordinate organizations and agencies. They must have a minimum record of six years in tax positions.

**Note (2)** The quorum for sessions of the Supreme Tax Council shall consist of two thirds of the members at minimum and its decisions shall be valid when rendered by half of its members present at the session plus one.

**Article 253** The term of membership of the Supreme Tax Council's members shall be three years from the date of appointment. They shall not be removable from the membership during the said period of three years, unless upon their own request or by virtue of the final decisions of the special administrative tribunal referred to under Article 267 of this Act. Reappointment of the members after the expiry of the said three years will be allowed. The Chairperson of the Supreme Tax Council will be nominated by the President of the Iranian National Tax Administration from among the members of the Council who are employees of the Ministry of Economic Affairs and Finance and will be appointed by an order of the Minister of Economic Affairs and Finance.

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<sup>1</sup> In view of Article 114 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article and its Notes substituted the former text of the Article and its Notes.

**Article 254** The Supreme Tax Council shall consist of eight chambers, and each chamber shall consist of three members. The Chairperson of the Supreme Tax Council shall appoint the head and members of chambers.

**Article 255** Tasks and powers of the Supreme Tax Council shall be as follows:

(1) Drafting bylaws and circular letters related to the enforcement of this Act, when it is instructed by the Minister of Economic Affairs and Finance or by the President of the Iranian National Tax Administration, or if the Supreme Tax Council would consider it necessary to prepare and propose the same to the President of the Iranian National Tax Administration;

(2) Conducting studies aimed at suggesting and rendering views on the manner of implementation of tax laws and regulations, and for submitting proposals to the Minister of Economic Affairs and Finance or the President of the Iranian National Tax Administration for amendment and alteration of tax laws and regulations or removing some of them;

(3) Commenting on tax subjects and issues, which the Minister of Economic Affairs and Finance or the President of the Iranian National Tax Administration may refer, in case of necessity, to the Supreme Tax Council for consultation and seeking its opinion; and

(4) Examination of final decisions of the Boards of Settlement of Tax Disputes that are complained of by the taxpayer or the Tax Affairs Office for nonobservance of positive laws and regulations or defect of examination.

**Article 256** If a complaint is filed within the prescribed time limit, either by the taxpayer or the Tax Affairs Office, against the final decision of the Board of Settlement of Tax Disputes, by which a claim is raised alleging, clearly or implicitly, the breach of positive laws and regulations or defect of examination, while evidence is produced or documents and records are presented to that effect, then the Chairperson of the Supreme Tax Council shall refer the complaint to one of its relevant chambers for review.

The relevant chamber shall examine the case for the purposes of observance of procedures and completeness of legal examination and

conformity of the case with positive laws and regulations exclusively, without dealing with the substance of the issue, and shall render an appropriate decision, substantiated by legal evidence and considerations, with the effect either to the reversal of the decision of the Board of Settlement of Tax Disputes, or rejection of the submitted complaint. The decision of the chamber shall be valid when issued by the majority, while the opinion of the minority should also be mentioned therein.

**Article 257**<sup>1</sup> Whenever the chamber reverses the complained decision, the file of the case shall be referred to another Board of Settlement of Tax Disputes for reconsideration. If there is only one Board of Settlement of Tax Disputes in the relevant place, the case shall be referred to the Board of Settlement of Tax Disputes of the nearest city located in the same province as the relevant place. The reviewing authority shall reexamine the case of tax dispute in conformity with the Chapter III of this Title of this Act, and shall issue its decision with due regard being had to the opinion of the chamber of the Supreme Tax Council. The decision rendered in such manner shall be conclusive and enforceable.

The rule of this Article shall also apply in cases where the Court of Administrative Justice reverses the decision of the Board of Settlement of Tax Disputes.

**Note** Whenever the decision of the Board of Settlement of Tax Disputes is reversed, the Supreme Tax Council shall send a copy of the Board's decision to the Tax Disciplinary Prosecutor for examination, so that the case be prosecuted if an offence is ascertained.

**Article 258** Where different opinions are adopted by chambers of the Supreme Tax Council with regard to similar cases, the Minister of Economic Affairs and Finance, or the President of the Iranian National Tax Administration, or the Chairperson of the Supreme Tax Council, shall refer the case to the Plenary Board of the Supreme Tax Council composed of the Chairperson and heads of chambers of the Council, or a member of the Council at the discretion of the Chairperson, where the head of a chamber is

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<sup>1</sup> In view of Article 118 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, a phrase from the former text of this Article was deleted.

absent. The Plenary Board shall examine the disputed subject and shall get to a conclusion by rendering its decision. In such cases, the decision of the Plenary Board, if issued by the majority of two thirds of all its members, shall be conclusive and must be followed in similar cases by the chambers of the Supreme Tax Council and Boards of Settlement of Tax Disputes.

**Article 259** If the complaint against the decision of the Board of Settlement of Tax Disputes is filed by the taxpayer, and the latter deposits cash or bank guarantee equal to the amount of the tax determined under the decision, or introduces a real security or a creditable guarantor, whose creditability is accepted by the Tax Affairs Office, then the enforcement of the decision shall be suspended till the Supreme Tax Council delivers its opinion.

**Article 260**<sup>1</sup> Deleted.

## **Chapter V - High Tax Disciplinary Board and its Duties and Powers**

**Article 261** The High Tax Disciplinary Board shall consist of three full members and two alternate members who will be nominated by the President of the Iranian National Tax Administration from among the senior officials of the Ministry of Economic Affairs and Finance, who are knowledgeable and informed in the field of tax affairs and have a service record of 16 years, of which not less than six years should have been spent in tax positions, and will be appointed to the duty in question for three years by an order of the Minister of Economic Affairs and Finance. The position of such persons shall not be changeable during that period, unless upon their own request or by virtue of the final decision of the special administrative tribunal envisaged under Article 267 of this Act. Reappointment of them after the expiry of the said three years shall be allowed.

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<sup>1</sup> In view of Article 121 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was deleted.

The head of the High Tax Disciplinary Board will be nominated by the President of the Iranian National Tax Administration from among the full members of the Board and will be appointed by an order of the Minister of Economic Affairs and Finance.

**Note** The employees who have gone through the positions envisaged under Article 220 of this Act, and have served, as director general in provinces other than the province of Tehran, shall have priority for being nominated to the said duty.

**Article 262** The tasks and authorities of the High Tax Disciplinary Board shall be as follows:

(a) Investigating, upon the request of the Office of the Tax Disciplinary Prosecutor, the administrative offences related to tax affairs, which are committed by any tax officer or representative of the Iranian National Tax Administration in the Board of Settlement of Tax Disputes and members of the Three-Person Board described under Paragraph (3) of Article 97 of this Act, and other officials having responsibility under this Act for collection of taxes, and the persons who perform the tasks of the said officials while maintaining their principal position. Authorities specified in this Chapter shall carry out the prosecution and examination of cases under investigation by the Office of the former Tax Disciplinary Prosecutor, or by the ex-High Tax Disciplinary Board;

(b) Renouncing, at the request of the Tax Disciplinary Prosecutor, the competence of the persons occupying aforesaid positions for continuing tax services, because of moral problems, behaviors contrary to the prestige and status of tax officials, bad reputation, negligence and carelessness in discharging the relevant duties; and

(c) Examining the protests of the officials, whose competence is not confirmed by the Tax Disciplinary Prosecutor.

The opinion of the Board in such cases shall be valid for respective officials.

## **Chapter VI - Tax Disciplinary Prosecutor and his Duties and Powers**

**Article 263** The Tax Disciplinary Prosecutor will be nominated by the President of the Iranian National Tax Administration from among the senior officials of the Ministry of Economic Affairs and Finance, who have a minimum service record of ten years from which six years should have been spent in tax jobs, and will be appointed to that position by an order of the Minister of Economic Affairs and Finance

**Note** The Tax Disciplinary Prosecutor may have sufficient number of assistants and may assign to them a part of his authorities.

**Article 264** The tasks of the Tax Disciplinary Prosecutor shall be as follows:

(a) Investigating, detecting and prosecuting the offences and faults of tax officers and representatives of the Iranian National Tax Administration in the Boards of Settlement of Tax Disputes, members of the Three-Person Board envisaged under the paragraph (3) of the Article 97 of this Act, other officials dealing with the duty of tax collection according to this Act and the persons performing the tasks of the said officials while maintaining their principal positions;

(b) Investigating about the moral characters, behavior and actions of the said persons;

(c) Advising on promotion of tax officers and representatives of the Iranian National Tax Administration in the Boards of Settlement of Tax Disputes; and

(d) Bringing lawsuits against the taxpayers and tax officials in cases envisaged under this Act.

**Article 265** The causes of commencement of examination and investigation shall be as follows:

- (a) Complaint of interested persons with regard to the nonobservance of the provisions of this Act;
- (b) Report received from the official authorities;
- (c) Cases referred by the Minister of Economic Affairs and Finance or the President of the Iranian National Tax Administration, or by the High Tax Disciplinary Board; and
- (d) Observations and information of the Tax Disciplinary Prosecutor.

**Note** The Tax Disciplinary Prosecutor shall investigate the cases envisaged under this Article and shall, as the case may warrant, file them, issue a nolle prosequi, or draw up a bill of indictment and submit it to the High Tax Disciplinary Board. The instance should also be reported to the High Tax Disciplinary Board where a nolle prosequi is issued. The Board shall directly examine the case if it would consider the nolle prosequi not in agreement with the facts of the issue.

**Article 266** The authority for investigating offences of the persons referred to in Article 262 of this Act, shall consist of two members of the High Tax Disciplinary Board, other than the head of the Board, and a member of the Supreme Tax Council to be introduced by the Chairperson of the Council. The aforementioned authority shall investigate the case referred to it in conformity with the provisions of this Act, the Law concerning the Administrative Offences and other positive regulations, and shall render a decision of acquittal or conviction. The decision shall be appealable by the prosecuted official or the Office of the Tax Disciplinary Prosecutor within ten days from the serving thereof. The authority for reconsideration of the case shall consist of three members: head of the High Tax Disciplinary Board, Chairperson of the Supreme Tax Council and a member of the High Tax Disciplinary Board. The latter member shall be nominated by the head of the Board and must have not participated in issuing the decision of the first instance stage. The decision of the appellate forum shall be conclusive and enforceable.

**Note (1)** If a member of the High Tax Disciplinary Board has the record of rendering a decision or expressing any views on the case under

consideration, whether in first or appellate instance, the Minister of Economic Affairs and Finance shall appoint another person to that end.

**Note (2)** Whenever the decision of the appellate forum is repealed by the Court of Administrative Justice, or the case is declared to be revisable, the file of the case shall be referred, solely for the grounds cited by the said court, to a Board consisting of three persons selected by the Minister of Economic Affairs and Finance, of whom one member will be the President of the Iranian National Tax Administration. The decision of the Board shall be conclusive and enforceable.

**Article 267** The disciplinary offences of the members of the Supreme Tax Council, or of the members of the High Tax Disciplinary Board, shall be investigated, when instructed by the Minister of Economic Affairs and Finance, by a special Administrative Tribunal consisting of one of the heads of the chambers of the Supreme Court introduced by the Chief Justice of the said court, President of the Supreme Audit Court and the President of the Iranian National Tax Administration. The Tribunal shall examine the case in conformity with the Law on Investigation of Administrative Offences and other relevant regulations, and shall rule on acquittal or conviction. The decision of the Tribunal shall be conclusive and enforceable.

**Article 268** Whenever the notaries public are obligated under the tax laws and regulations to perform certain tasks in connection with the transactions concluded through them, any offences committed by them in connection with the performance of such duties shall be prosecuted by the Tax Disciplinary Prosecutor. The competent authority envisaged under the Notaries Public Act shall have jurisdiction to the trial and punishment of the offending notaries public. However, apart from submitting a bill of indictment, the Tax Disciplinary prosecutor may assign the representative of the Tax Affairs Office for providing explanations to the said authority.

**Article 269** Office of the Disciplinary Prosecutor of Judges shall prosecute offences of the judges of the Boards of Settlement of Tax Disputes related to performance of the duties vested in the said Board under the tax laws and regulations, after being declared by the Tax Disciplinary Prosecutor. As

regards the retired judges and the representatives referred to under Paragraph (3) of the Article 244 of this Act, the courts of justice shall investigate their offences after being announced by the Tax Disciplinary Prosecutor, and they shall be convicted to appropriate punishments.

**Article 270** The offences of tax officers and representatives of the Iranian National Tax Administration in the Boards of Settlement of Tax Disputes in the following cases shall be subject to the punishments described below:

(1) If after the assessment of the tax and its becoming inappealable, it becomes evident that the tax officers and representatives of the Iranian National Tax Administration in the Boards of Settlement of Tax Disputes have intentionally or negligently overassessed or underassessed the taxpayer's income, without paying attention to the records and documents of the taxpayer, and without performing sufficient investigation, then the offending persons shall be convicted to the administrative punishment of dismissal from government services for a period not less than three months and not more than five years, in addition to indemnification of the losses incurred, the amount of which shall be determined by the Supreme Tax Council;

(2) In cases where the taxes of taxpayers become subject to the statute of limitation or uncollectible as a result of the negligence or carelessness of tax officers, except in case of the tax returns that are not to be examined necessarily by virtue of Article 158 of this Act, the failing officer shall be convicted, according to the decision of the High Tax Disciplinary Board, to the dismissal from tax services, and to an appropriate punishment stipulated under the Law on Investigation of Administrative Offences.

Meanwhile, the offending officer shall have civil liability for the losses sustained by the government, to the extent to be assessed by the Supreme Tax Council. The Tax Disciplinary Prosecutor shall raise a claim for indemnification of losses by virtue of the same liability in the civil courts of justice. In case of having ill intent, the accused person shall be subject to criminal prosecution by the Tax Disciplinary Prosecutor.

The tax officers who reopen the closed and adjudicated tax cases shall be convicted, by the decision of High Tax Disciplinary Board, to the dismissal

from government services from one to four years. If they give false reports and thus cause, intentionally, the faultless taxpayers to be prosecuted, the tax officers shall be convicted, by the judgment of the courts of justice, to imprisonment from six months to two years. The courts shall examine such cases out of turn.

The same rule shall apply where in cases referred to in the Articles 156, 227 and 239 of this Act and generally after the assessment notice is issued at any stage, a tax officer claims a tax in respect of other activities of the taxpayer, whether of the same type or otherwise, without obtaining substantiating documents, or after the application of tax statute of limitation, as envisaged under Articles 156 and 157 of this Act.

**Note** The procedure for investigation of relevant offences and applicable punishments shall be subject to the Law concerning the Investigation of Administrative Offences, except in respect of cases for which special regulations are envisaged under this Act.

**Article 271** As regards the rejection of the books of accounts and documents and records of the taxpayer, if the Three-Person Board envisaged under the Paragraph (3) of Article 97 of this Act would refuse, during a tax year, more than one fifth of the views expressed by a Tax Affairs Office (taking into account the relevant extra time limit), the respective tax officers shall be subject to dismissal from tax assessment duty for one year, and in case of repetition, the aforementioned dismissal shall be forever.

**Article 272<sup>1</sup>** The Audit Organization of the Islamic Republic of Iran and official accountants and audit firms that are members of the Iranian Association of Certified Public Accountants, in case of undertaking the task of legal audit and inspection or auditing of persons,\* shall be required, when requested by those persons, to draw up a tax audit report in conformity with the sample to be prepared by the Iranian National Tax Administration, and to put the report at the disposal of the taxpayer for submitting the same to the relevant Tax Affairs Office. The report shall contain the following data:

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<sup>1</sup> In view of Article 132 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was annexed to the text of the Act.

(a) An opinion rendered on whether account records and documents were sufficient for auditing in accordance with the provisions of this Act and relevant regulations and by observance of principles, criteria and standards of accountancy.

(b) The taxable income determined based on the provisions of this Act and respective regulations.

(c) An opinion delivered regarding at source taxes, which the taxpayer has to withhold and forward to the Tax Affairs Office according to the law.

(d) Other items prescribed by the sample of audit report that will be drawn up by the Iranian National Tax Administration.

**Note (1)** The Tax Affairs Office will accept the tax audit report without investigation and will issue the assessment notice according to the regulations. Acceptance of the tax audit report of tax audit shall depend on the condition that the taxpayer would attach to it the financial audit report in regard to financial statements, which is drawn up by the same official accountant or audit firm in accordance with the accounting standards and submit the same, simultaneously with the tax return or within a maximum time limit of three months from the expiry of the deadline for filing of tax return, to the respective Tax Affairs Office.

**Note (2)** The Iranian National Tax Administration can assign the task of auditing the financial statements and drawing up of tax report of real and legal persons to official accountants or audit firms. In that case, the remuneration shall be borne by the Iranian National Tax Administration in accordance with the relevant regulations.

**Article 273**<sup>1</sup> This Act shall become enforceable as of March 21, 2002 (the beginning of the year *1381*) and all legal persons, whose fiscal year began from March 21, 2001 (first day of *Farvardin 1380*) onwards, shall also become subject to it in respect of examination procedure and tax rate. As of the enforcement date of this Act, all the laws and regulations inconsistent therewith shall become null and void, except for tax regulations of the Law of the Third Economic, Social and Cultural Development Plan of the

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<sup>1</sup> In view of Article 133 of the Act Partially Amending the Direct Taxes Act, approved on February 16, 2002, this Article was annexed to the Act.

Islamic Republic of Iran, during the term of the same plan, and Article 13 of the Law of August 29, 1993 (*Shahrivar 7, 1372*) concerning the Administration of Free Trade-Industrial Zones and its Commentary\* of April 10, 1995 (*Farvardian 21, 1374*).

This rule shall also apply to the inconsistent laws and regulations that the application of public laws and regulations to them requires explicit mentioning or explicating their names.

## DEFINITIONS

***Bahman*** Name of the eleventh month of Iranian solar year. See Iranian Calendar, *infra*.

**Bonus** See Bonus and New Year Bonus, *infra*.

**Bonus and New Year Bonus** The term bonus as used in the Direct Taxes Act, means a premium or extra remuneration paid to civil servants and other employees in consideration of remarkable or extra offices performed by them. The New Year Bonus, on the other hand, is an extra payment to employees on account of arrival of the Iranian New Year only and is rooted in an Iranian old tradition.

**Capital recipient company** A new terminology has been developed in Iran in respect of the persons (and especially entities) that invest in other companies and the entities receiving such investments. The "investor entity" could be a suitable translation for investing companies. However, since there is no such word as "investee" in English, the phrase "investment recipient" has been chosen to describe the second type of entities.

**Commentary** The term "commentary" in the page 155 refers to the interpretation made by the parliament with respect to the Law of August 29, 1993 (*Shahrivar 7, 1372*) concerning the Administration of Free Trade-Industrial Zones.

**Contract (of endowment, etc.)** Under the Iranian law, the legal act of endowing a property is considered a "contract", the first party of which is the owner of the property who endows it and the second party consists of the beneficiaries (Civil Code, Article 56). The same is true in respect of will (Civil Code, Article 827).

***Dastdarami*** A term of customary law used in northern areas of the country. It denotes the right of persons holding landed property in their possession and exploiting it without being legal owners of the property. The right in question is somehow similar to the notion of beneficial ownership in English law.

***Dey*** Name of the tenth month of Iranian solar year. See Iranian Calendar, *infra*.

***Diyeh*** A term of the Islamic Law, meaning the indemnity for bodily injuries (including death resulted from killing).

***Eddeh*** A term of the Islamic Law denoting a prescribed period of waiting during which a woman may not remarry after being widowed or divorced.

***Esfand*** Name of the last month of Iranian solar year. See Iranian Calendar, *infra*.

***Farvardin*** Name of the first Iranian month. See Iranian Calendar, *infra*.

***Hosainiyeh*** See *Hosainiyehs* and *Takyehs*, *infra*.

***Hosainiyehs and Takyehs*** *Hossainiyeh* is a name given to the place where the anniversary of the historical tragedy of "*Karbala*" is commemorated every year (in a general atmosphere of mourning) as a sign of veneration to martyrdom of Imam Hossain (peace be upon him) the third Imam of Shiites. That tragedy took place in the month of *Muhurram* of the year 61 AH (680 AD). *Karbala* is a city in Iraq. *Takyeh*, is also a place where the ceremonies of mourning for martyrs of "*Karbala*" is held.

**Investor-Agent Partnership (*Mozarebeh*)** A contract by which one of the parties invests capital with the stipulation that the other party uses it for business and the profit therefrom be divided. The owner of the capital is the investor and the other party is agent or '*mozareb*' (Civil Code, Article 546).

**Involuntary Civil Partnership** Under the Iranian Civil Law the partnership relation between different persons can be materialized involuntarily as well. For instance, the heirs become partners with regard to the estate of the decedent, before distributing the same between themselves. This kind of relationship existing among the heirs, between the death of the deceased person and the date of distribution of the estate, is created involuntarily (Civil Code, Article 573).

**Iranian Calendar** Iranian solar year begins at the first equinox and divides into 12 months. The first 6 months are 31 days long and the next 5 months are of 30 days each. The last month of the year has 29 days in ordinary years and 30 days in leap years. The following table shows the names and duration of Iranian months and their correspondence to the months of the Gregorian calendar.

<u>MONTHS</u>	<u>NUMBER OF DAYS</u>	<u>BEGINNING AT</u>	<u>ENDING AT</u>
<i>Farvardin</i>	31	March 21	April 20
<i>Ordibehesht</i>	31	April 21	May 21
<i>Khordad</i>	31	May 22	June 21
<i>Tir</i>	31	June 22	July 22
<i>Mordad</i>	31	July 23	August 22
<i>Shahrivar</i>	31	August 23	September 22
<i>Mehr</i>	30	September 23	October 22
<i>Aban</i>	30	October 23	November 21
<i>Azar</i>	30	November 22	December 21
<i>Day</i>	30	December 22	January 20
<i>Bahman</i>	30	January 21	February 19
<i>Esfand</i>	29*	February 20	March 20**

\* 30 days in Iranian leap years

\*\* March 19 in Gregorian leap years

**Iranian Dates and years (referred to in the Direct Taxes Act)**

<u>DATE/YEAR</u>	<u>CORRESPONDING TO</u>
1320	1941/42
1340	1961/62
1342	1963/64
1345	1966/67
1346	1967/68
1352	1973/74
1353	1974/75
1367	1988/89
1368	1989/90
1370	1991/92
1372	1993/94
1380	2001/2002
1381	2002/2003
1382	2003/2004

see also Iranian Calendar, supra

**Islamic Consultative Assembly** Iranian parliament.

**Khoms** A religious tax imposed under the Islamic Law on Muslims

**Mordad** Name of the fifth month of Iranian solar year. See Iranian Calendar, supra.

**Mozareb** See Investor-Agent Partnership (*Mozarebeh*), supra.

**New Year Bonus** See Bonus and New Year Bonus, supra

**Official Deed** A term used with regard to two kinds of documents; those issued from the government organizations and the others that are registered by notaries public. The term as used in the Direct Taxes Act, denotes always the latter type of such documents.

**Optional Sale** In a contract of sale the parties may make a condition that if the seller gives the price back to the purchaser, within a specified period, he may exercise an "option" of cancellation of the transaction (Civil Code, Article 458). A sale transaction with such condition is called "optional sale".

**Ordibehesht** Name of the second Iranian month. See Iranian calendar *supra*.

**Partnership bonds** A special bond published by the authorized government organizations and entities.

**Qom** Name of the Iranian holy city where the most important center of the country for study of the Islamic law and jurisprudence is situated.

**Readiness for Office** See Readiness for Office and Suspension from Office, *infra*.

**Readiness for Office and Suspension from Office** Civil servants may assume several statuses during their life, while somehow being connected with the public sector. Readiness for office is the status of an employee whose position is deleted as a result of reorganizational measures and no other appropriate post is available for him at present. He will remain as such until a new position is accorded to him. Suspension from office is the status of a civil servant accused of committing some misdemeanor, offence, etc. and he is suspended from the office till the competent authority issues a final judgment. In none of the above cases the relation between the employee and the employer (the government) is ended and the service of the employee may be restarted.

**Ready for Office** See Readiness for Office and Suspension from Office, *supra*.

**Reward Contract (*Jo'aleh*),** A contract under which a person undertakes to pay certain recompense in return for an act to be accomplished, whether the other party is specified or not (Civil Code, Article 561)

**Substance** A concept employed by the Iranian Civil Law to denote the corporeality of a property, that is understood as separate from the property's yields or proceeds. The yields and proceeds of a property may be transferred to other persons, while the owner retains the "substance" of the same for himself.

**Suspension from Office** See Readiness for Office and Suspension from Office, *supra*.

**Takyehs** See *Hosainiyehs* and *Takyehs*, *supra*.

**Taxable value** The respective Persian term means "transactional value", but in practice, it is exactly the same concept as the "taxable value" in English tax terminology. The value in question has nothing to do with actual transactions on real estates. Such properties are much more expensive than the so-called "transactional value" as used under the tax law. It is determined for tax purposes only and that is why the equivalent term "taxable value" was chosen.

**Tie up, Tied up, Tying up (*habs*)** A term used in the Islamic Law (as well as in the Iranian Civil Law) denoting the condition of a property that is made legally inalienable. The realization of this condition is a prerequisite for endowing properties. Endowment is defined under the Civil Law to be the tying up of the substance of the property and devoting its yield to certain (usually pious and religious) purposes (Civil Code, Article 55).

**Tir** Name of the fourth Iranian month. See Iranian Calendar, *supra*.

**Vali** A term of the Iranian Civil Law meaning the father and grandfather of the children who are under the legal age or are wards. The guardianship

of such children is, under the Civil Law, vested with the father and grandfather, if they are alive and free from legal hindrance.

***Zakat*** A religious tax levied under the Islamic Law on Muslims.