ABSTRACT INCOME TAX IN IRAN

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The tax law of Esfand 1345 (1967) divides direct taxes into two parts : Income tax and other direct taxes. Such taxes can for purposes of discussion be divided into four categories :

I - Tax on agricultural income :

The income of those engaged in agricultural activities, irrespective of their legal status with regard to landownership is subject to the provisions of clause 134 of the Direct Taxation Law.

Exemptions : On annual income less than 60,000 Rials earned by owner-farmers or those who leared their land during the land - reform ; those who retained their land according to the provisions of the land-reform act and who farm those lands ; losses greater than 25 per cent caused by natural calamities ; income from newly developed, irrigated land for a period of ten years ; income on agricultural products deemed indispensable to national development ; income acquired from above-average yields (up to 50 per cent) ; income from cattle farming for a period of ten years ; income from agricultural activities in border areas.

It will be noticed that these exemptions are all in the interests of national economic goals. Between 1345 (1967) and 1351 (1972) petty landowners were subject to tax on their agricultural income. However the 1351 law benefits this group by allowing exemption for a period of 10 years.

2 - Taxes on occupations :

All persons who earn wages or salaries, receive income from estates, agricultural activities, or interest on investments of bank deposits, or who have occasional earnings are subject to a tax on occupations, whether they maintain commercial offices or not.

(I) Those who maintain commercial offices : (amortization + costs) - (Income not taxed under other categories + total sales) = income subject to taxation.

(II) Those who do not maintain commercial offices :

a) Those who receive regular annual earnings less than 500, 000 Rials

b) Those who receive irrugalar annual earnings :

80 per cent of income from services is taxable,

65 per cent of income earned by artists and writers is taxable,

Income earned by those otherwise occupied is subject to taxation on the basis of criteria set out in the law.

3 - Taxes on wages and salaries :

Persons who work for an employer and are paid in money or in kind are subject to taxes on earnings greater than 60 000 rials per annum. (wages and salaries + bonus and fringe benefits)

Exemptions : Pensions, travel expenses, the entertainment expenses of provincial and local governors, annual holiday bonuses up to 30, 000 Rials ; houses and vehicles belonging to organizations and insurance contributions made by employers.

4 - Taxes on legal persons (companies) :

The total income of companies, and other profit making activities on the part of other legal persons is taxed as follows :

Income accruing to legal persons is taxed in the following way :

(I) Income from state-owned commercial venture : (Amortization + costs) - (taxable income not included in other categories + total sales) = taxable income.

(II) Income levied on private companies : (amortization + costs) - (taxable income not included in other categories + total sales) = income subject to a general company tax rate of 10 per cent.

The remaining profits are counted as profit for distribution ot shareholders and company reserves which is taxed in the following way :

(a) 15 per cent tax on profit distributed to those holding registered shares and partners.

(b) 25 per cent tax is levied on profit accruing to bearer shares.

(c) 25 per cent tax is levied on undistributed profit.

It is clear that taxation on class (b) is to encourage the transformation of bearer shares in-to registered shares.

(III) In the case of shares held by foreigners, taxes are levied in the same way as in case (I).

Exemptions; 25 per cent of the taxable income of mining companies and mineral processing plants founded before 1345 and 20 to 100 per cent of the taxable income of those founded after new legislation ; southern fisheries for five years ; companies providing for the needs of ships in the Persian Gulf for ten years ; the capital reserves of companies ; building companies which construct low-cost housing · exporters of selected goods, companies engaged in educational and health activities for ten years ; agricultural joint stock companies for ten years.

Aims of Exemptions It is clear that these exemptions are designed to attract capital to the industrial and mining sectors, to encourage the repopulation and development of borders areas ; to prevent the centralization of investment in the capital ; to protect new industries, to encourage exports, to encourage investment in industry and to encourage the construction of low-cost housing for low-income groups and educational and health activities.