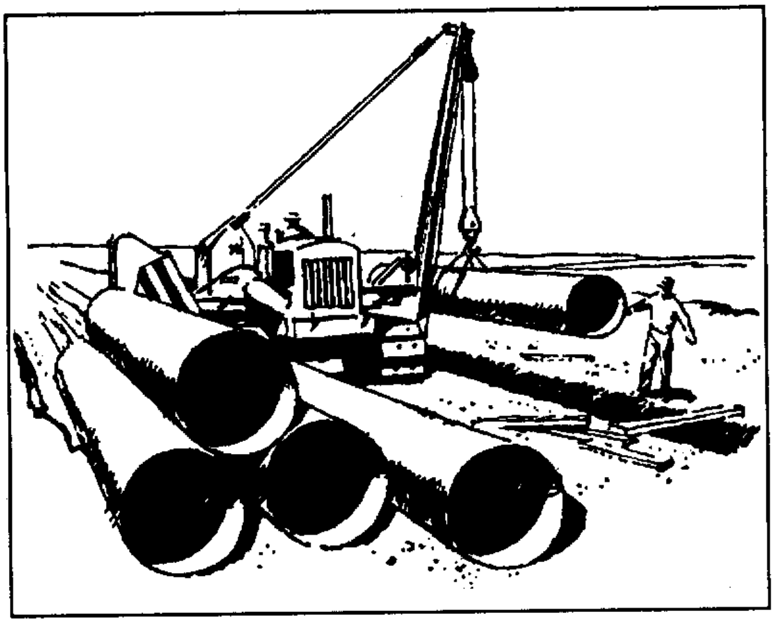
Exemptions

Additionally to the Rls 4,800,000 of exempt annual salary there are a number of other legal exemptions including:



- New Year bonuses up to rls 100,000
- Insurance payments for medical treatment or compensation for injury
- Genuine business travel expenses and allowances
- 30% of any hardship allowance payable to private sector employees
- Medical costs paid by an employer for the employee or dependants
- Retirement benefits

Filing Requirements

Employers of expatriate personnel should submit the official employment contract of these employees to their tax district. The contract must reflect all the benefits in the employment package. It must be authenticated by officials of the heads office of the employer and attested by competent government authoritites as well as by the Embassy of the Islamic Republic of Iran in the country of domicile of the head offce. In the case of non submission of the employee's employment contract, the employee will be taxed in accordance with a deemed salary. The level of the deemed salary is set by the tax authorities in order to reflect the nature of the employees job, their seniority and the norms of remuneration in their country of origin.

At the time of submission of an employee's contract to the tax authorities, the employee, must also submit a copy of the last tax returned submitted by him to the tax authorities in his country of origin.

Social Security Charges

There are 3 different charges levied by Iran's Social Security Organisation (SSO) that may affect foreign investors; each is considered below.

Social Security Premium

A fixed 7.78% or 16.67% must be deducted from payment by the NIOC to the contractor. This social security premium is in fact an additional tax on foreign prime contractors, which will be received by the SSO.

The social security premium is calculated at 7.78% for contracts which explicity state that the contractor will be responsible for supplying all materials and manpower. For other contracts the premium is calculated using the 16.67%.

Payments from a prime contractor to a sub-contractor are not subject to this social security premium.

Employers and Employees Social Security Charges

In addition to the SSO premium, social security legislation provides that contributions must be made in respect of all employees. The legislation provides that contractors are required each month to prepare a list of wages and salaries of their employees and submit them, not later than the end of the subsequent month, to the SSO office concerned.

Social security payments at a rate of 23% for employers and 7% for employees are payable for each employee. The monthly salary to which this payment applies is capped at Rls 1,440,000.

Under certain circumstances expatriates who have social security arrangements in their home country will not be liable for these contributions. In order to qualify for this exemption the employer must provide the SSO with a "Certificate of Social Insurance" proving that employees have sufficient social security arrangements (such as insurance for inter alia accidents, illness, death, retirement) in their home country. If these certificates are accepted by the SSO, the contractor will not be liable for either the 23% employers or the 7% employee's contributions.

A contractor on payment of their final statement and settlement of accounts with the employer (e.g. NIOC) shall be subject to obtaining a clearance certificate from the SSO in respect of both the SSO premium and contributions on behalf of employees. At this time any employee and employer contributions may be deducted as a credit from the total SSO premium for the contract.

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property in Iran provided such property is for commercial use or for personal residence. Foreign nationals may not own agricultural land.

All owners are liable to property taxation annually in proportion to the total value of their real estate, as follows:

Estate value (over) (Rls)	Estate value (under) (Rls)	Tax Rate
0	20,000,000	Exempt
20,000,000	40,000,000	2%
40,500,000	60,000,000	3%
60,000,000	80,000,000	4%
80,000,000	100,000,000	5%
100,000,000		8%

The value of real estate is fixed bythe Iranian authorities on the basis of market price. These values are reviewed every three years.

An individual's residential property is exempt from property tax.

Chamber of Commerce Charge

Holders of an import licence are subject to a special levy of 0.3% of taxable income.

Double Taxation Treaties

Iran currently has double taxation agreements with Armenia, France, Germany, Republic of South Africa, Turkmenistan and Kazakhstan.

The provisions of the agreements reduce the withholding tax rates on dividends and royalities to the following levels:

Countries	Dividends*	Royalties
Armenia	15% (10% if ownership exceeds 25%)	5%
France	20% (15% if ownership exceeds 25%)	10%
Germany	20% (15% if ownership exceeds 25%)	10%
Kazakhstan	15% (5% if ownership exceeds 20%)	10%
Turkmenistan	10%	5%
South Africa	10%	10%

The applicability of Iran's tax treaties in practice is an area that is relatively untested and requires careful analysis.

Personal Taxes/ Social Security Charges

Expatriate Income Tax

Non-Iranian citizens are subject to income tax on all income earned in Iran regardless of the length of residence and regardless of the place where the salary is paid.

Liability starts once employees have received their work and residence permits and have started work in Iran. Any earnings in respect of the business development stage of the investment, for example employees conducting work in Iran prior to the signing of the contract between NIOC and the contractor will not be subject to Iranian taxation.

Expatriate employees will be taxed on total actual salaries, allowances and benefits earned during their employment in Iran. The previous method of calculation on the basis of deemed salaries as determined annually by the Ministry of Labour has officially been abandoned. However in practice the Iranian authorities will still refer to a table of deemed monthly salaries when reviewing payroll lists of a contractor submitted in order to obtain tax clearance in respect of expartriate employees.

The rates of personal taxation effective from 21 March 1999 (Iranian year 1378) on taxable income (the first 4,800,000 is exempt) are shown below:

Taxable Income Over (Rls)	Taxable Income Not Over (Rls)	Cumulative Tax (Rls)	Tax Rate
0	1,000,000	120,000	12%
1,000,000	2,500,000	390,000	18%
2,500,000	4,000,000	765,000	25%
4,000,000	9,000,000	2,515,000	35%
9,000,000	25,000,000	8,915,000	40%
25,000,000	50,000,000	20,165,000	45%
50,000,000	100,000,000	45,165,000	50%
100,000,000	300,000,000	49,165,000	52%
Over 300,000,000			54%

Tax is collected in respect of each employee on a monthly basis.

There are no withholding tax obligations in respect of interest or when profits are remitted from the registered branch to the foreign company.

Example

The example below shows the various deductions and tax calculation for a gross payment from NIOC to the contractor of 1000 assuming the highest rate of corporation tax (57%) is applicable.

Taxes withheld by NIOC		Corporate Income Tax	
Gross payment	1,000	Taxable income = 1000 x 12%	120
Less 5% WHT	(50)		
Less 7.78% SSP	(77.8)	Taxed @ 57% =	68.4
	------	Less WHT	(50)
Net receipt	872.2		----
		Final liability (paid to the Ministry of Finance four months after the year end)	18.4

Filing Requirements and Penalties

The NIOC imposes a number of filing and auditing requirements for the contractor and these are defined in the contract between NIOC and the contractor. In addition the filing requirements and procedural aspects for the filing of the tax return need to be considered. These are detailed below.

The branch, upon completion of its registration process, must maintain an independent account and register of its financial activities in its Statutory Account Books. This requirement is likely to be no more onerous than the requirements set out in the contract with NIOC.

Tax legislation requires a branch to submit its tax return (tax declaration) together with a balance sheet and profit and loss account supported by its Statutory Account Books to the relevant Tax Assessment Office. The declaration must be received by the Assessment office not later than four months after the branch's financial year end. The due date for the filing and payment of income tax is also four months after the year end.

The Tax Assessor must then, within a maximum period of one year after submission of the tax declaration, examine the declaration submitted by the taxpayer and issue a notice of tax assessment. If within a period of 30 days after the assessment notice is served, the taxpayer does not file an objection in writing, the assessment will be considered closed and the amount of income tax due determined as final.

In cases where a taxpayer objects in writing to the assessment, within 30 days from the date the assessment is served, the file is sent to the Board of Settlement of Tax Disputes for further investigation.

Iranian legislation provides for some important penalties for failing to comply with applicable tax regulations in an appropriate and timely manner. These are summarised below:

Offence	Penalty
Failure to file an income tax return	5% of the applicable tax
Failure to include complete details of a taxpayer on a return	1% of applicable tax
Non-submission of statutory books where appropriate	20% of final tax assessed
Failure to collect or deduct tax and remit funds to the authorities within the time limit	20% of unpaid tax
Intentional falsification of statutory books or filing false returns to evade tax	Imprisonment for between 2 months and 3 years
Failure to submit particulars concerning taxpayers, whether employees or parties to contracts	2% of salaries or 1% of contract value

In addition interest on outstanding tax liabilities accrues at a rate of 2.5% per month.

Other Taxes

Import Duties

The tariffs for import duties and all other levies of this nature are charged in accordance with the relevant customs clearance document. The tariff rates are set out in the official document "Import/ Export & Customs Regulations" and are amended regularly.

Temporary importation of construction equipment into Iran by a foreign contractor may be permitted free of duty, subject to placing a deposit in cash, or providing a bank guarantee, equal to the amount of custom duties plus a mark up. The maximum period for which temporary importation is permissible is six months. However, extensions may be obtained at six months intervals from the customs authorities.

Value Added Tax (VAT)

A Law introducing VAT was prepared in 1990 but has yet to be approved by Parliament.

Property Tax

Foreign nationals may own or lease

assign a portion of the work to a sub-contractor. A foreign contractor wishing to undertake this work would similarly be expected to operate through a registered Iranian branch. The tax treatments of both the prime contractor and the sub-contractor are broadly similar.

Foreign direct investment in Iran is also permitted through participation of foreign parties in the equity capital of new and existing Iranian companies. Maximum foreign participation is normally restricted to 49%, however this proportion will be determined on a case by case basis by the minitstry of Economic Affairs and Finance. It is not however envisaged that such a structure will be commonly used for investment in oil and gas projects.

Taxation

Taxation Framework

The Iranian fiscal regime is based on the Iranian Direct Taxation Act of 1988, as amended in May 1992. The Iranian Islamic Consultative Assembly is responsible for passing tax laws and decrees, which are then ratified by the Guardian Council (the upper chamber of parliament) before enactment. Consultation on proposed legislation is provided by the Ministry of Economic Affaairs and Finance, which is also responsible for the administration of tax legislation passed by the Iranian Islamic Consultative Assembly.

Taxation of Foreign Contractors

The oil and gas industry is subject to the taxation rules for contractors as outlined below. Taxable income is calculated as a percentage of total annual contract receipts and income tax is calculated at the appropriate rate on this. Additionally the employer (e.g. NIOC) must withhold a 5% tax and an additional social security premium from any payments to the contractors.

Taxation of Receipts of a Contractor

Taxable Income

The legislation provides; "The taxable income of foreign contractors in Iran for performing any type of civil, technical and installation and transportation works, and preparation of plans of building and installation, designing building and installations, cases, consist of 12% of the total annual contract receipts".

Taxable income is therefore 12% of all gross receipts (including cost recovery and remuneration fees) in respect of the contract. There are no deductions available to reduce this deemed taxable income.

Income Tax

A branch of a foreign company would then be taxed on this income at the following rates of income tax:

Over, Rls	Not Over, Rls	Cumulative Tax, Rls	Tax Rate
0	1,000,000	120,000	12%
1,000,000	2,500,000	390,000	18%
2,500,000	4,000,000	765,000	25%
4,000,000	9,000,000	2,515,000	35%
9,000,000	25,000,000	8,915,000	40%
25,000,000	50,000,000	20,165,000	45%
50,000,000	100,000,000	45,165,000	50%
100,000,000	300,000,000	49,165,000	52%
Over 300,000,000			54%

In addition a branch of a foreign entity would also be subjected to an annual municipality charge calculated as 3% of taxable income meaning that the top marginal rate of tax is 57%.

Withholding Taxes/ Payments

Under the provisions of the Direct Taxes Act an employer (eg NIOC) must deduct 5% from any payment to the contractor. A credit is however available for this withholding tax against the contractor's total tax liability.

As well as the 5% withholding tax an employer will also have to deduct a social security premium equal to either 7.78% or 16.67% of the payment. Social security payments are explained in more detail in the relevant section below.

In addition if the prime contractor, who has a registered branch in Iran and is maintaining statutory books in accordance with this contract, awards a portion of the contract to a subcontractor the prime contractor will be responsible for the 5% withholding tax and paying this to the Ministry of Economic Affairs and Finance.

Registered branches of overseas companies would also be required to withhold tax from the following payments at the appropriate rate:

Payment	Taxable Amount	WHT Rate
Royalties	20-45% of gross amount	Income Tax Rate
Rent	75% of net expense	Income Tax Rate
Fees, contract invoices etc.	100%	5%
Payments to non-employees (eg temporary staff)	100%	10%

signed a 10 year swap whereby Kazakh crude is supplied to northern Iranian refineries, and in return Kazakhstan receives either Iranian Light or Iranian Heavy blend crude from Kharg Island.

At present, investment in Iran is constrained by US sanctions which forbid US companies from investing in Iran and which also seek to impose sanctions on non-US companies which invest more than USD 20 million per annum in Iran.

Despite a waiver of the sanctions in respect of Total's South Pars gas project, as a result of European and Russian political pressure, there is no guarantee that this practice will extend to other projects.

Foreign Petroleum Investment in Iran

The Islamic Republic of Iran's constitution does not allow foreign companies to own hdyrocarbon concessions in Iran. Therefore, the Government created the "buy-back" formula in 1990 to enable foreign companies to develop Iranian oil and gas fields.

Under these arrangements foreign companies operating through an Iranian branch (the contractor) enter into a contract with the National Iranian Oil Company (NIOC). In return for developing oil fields contractors are repaid 'petroleum costs' (comprising of capital costs, non-capital costs, operating costs and accrued bank charges) and receive a pre-agreed remuneration fee normally by way of entitlement to an amount of the oil produced.

It is important to note that in a buy-back contract NIOC normally agrees to compensate the contractor for any corporate income tax, social security charges or other charges or fees levied in Iran on contractor income in respect of performance of the contract.

Country Key Facts

Area:	1,678,100 km
Population:	65,179,752 (July 1999)
Head of State:	Ayatollah Ali Hoseini-KHAMENEI (since 4 June 1989)
Main ethnic groups:	Persian 51%
	Azerbaijani 24%
	Gilaki and Mazandarani 8%
	Kurd 7%
	Arab 3%
	Lur 2%
	Baloch 2%
	Turkmen 2%
	Other 1%
GDP per capita:	$5,000 (1998 est.)
Currency:	10 Iranian Rials (Rls) = 1 toman
Fiscal year:	21 March to 20 March

Foreign Exchange

	Bank buys (Rls/USD)	Bank sells (Rls/USD)
Floating rate	1.750	1.755
Export Rate*	3.000	3.015
Private Export Rate	N/A	5.149

*The Export rate is used for settling all tax liabilities.

Rates shown are as at 2/27/00

Note: Due to the restrictions on the transfer of foreign currency, the Iranian government provides funds at various rates of exchange. The "floating rate" was introduced in 1993 by the Central Bank of Iran and in 1994, due to additional regulations imposed on foreign currency transactions, the "export rate" was also introduced. The "private export rate" is determined on a daily basis by the Tehran Stock Exchange.

The response to the initial contracts offered from 1991-1995 was poor as the rate of return was considered low. However, the rate has subsequently been increased (expected rates of return for foreign contractors are now between 18% and 24%), generating the level of interest seen today.

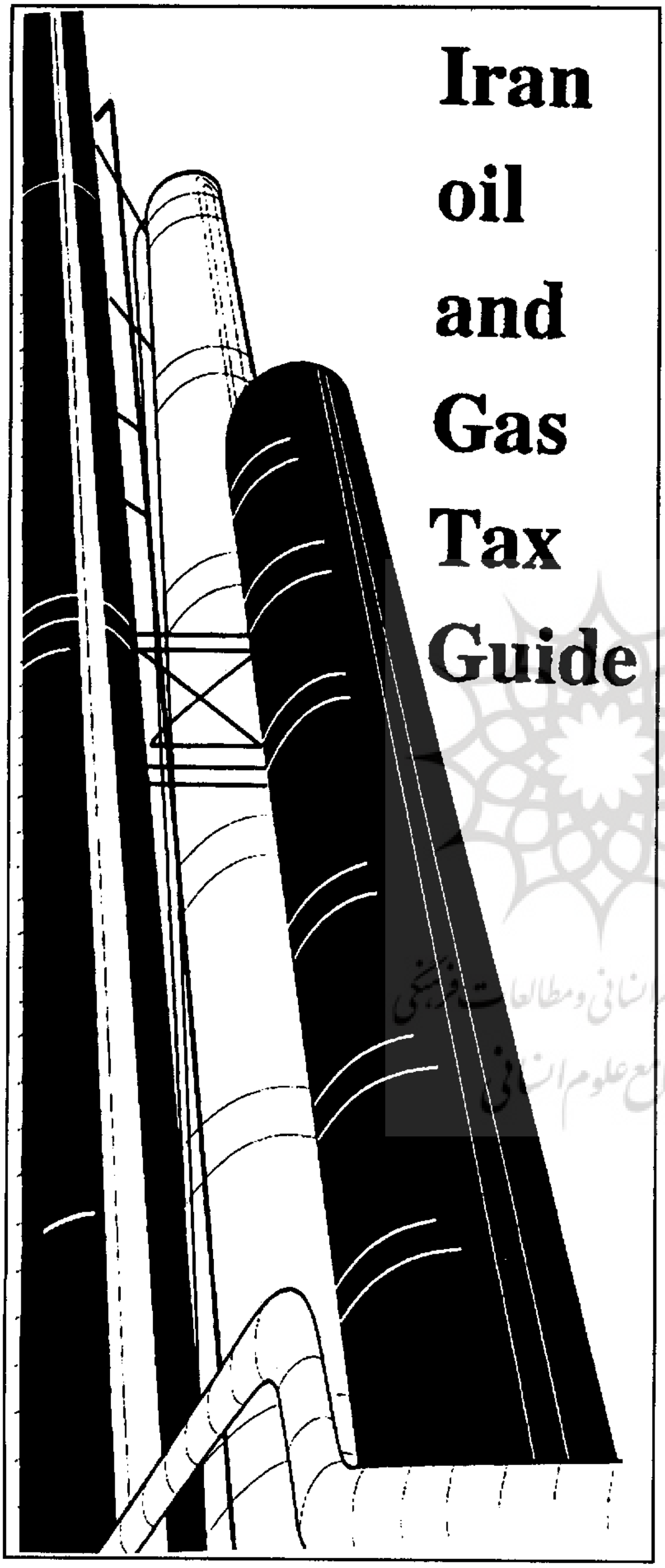
the first of these buy-back arrangements involved Conoco and was in respect of the development of the Sirri A and E offshore fields with expected rates of return on these fields of 20% and 23% respectively. Conoco was subsequently replaced by Total when US companies were prohibited from further involvement in Iran.

Business Presence

Foreign companies providing services to government organisations, or affiliated companies such as NIOC, are normally required to register and establish a branch in Iran in order to satisfy local laws and regulations in respect of accounting records, tax returns and tax payments. NIOC would require this approach.

A foreign contractor, contracting with NIOC (prime contractor) can

Iran oil and Gas Tax Guide



Introduction

The extraction of oil and gas has been the main industry in Iran since the 1920's. The Iranian sector currently ranks fourth in the world in trems of its size of proven oil reserves (93 billion barrels), equivalent to approximately 9% of the world's total. The majority of these reserves are located in the giant onshore fields in the Khuzestan region near the Iraqi border and Persian Gulf terminus.

The Constitution of the Islamic Republic of Iran (1979) does not allow foreign companies to own equity stakes in hydrocarbon projects. However, in 1990 the Iranian government relaxed this policy by creating a 'buy-back' formula under which foreign companies could develop Iranian oil and gas fields. The contractual form of the buy-back formula is a hybrid of a service contract and a production-sharing agreement, although it is much closer to the former. Under the terms of the contract foregin oil companies are repaid their costs and receive a pre-agreed remuneration fee normally by way of entitlement to an amount of the oil produced.

Initially interest in the but-back contracts was poor, however subsequent improvements in the terms have generated foreign investment. For example, in 1997 the French company Total, Russia's Gazprom and Petronas of Malaysia entered into a USD 2 billion deal to develop the South Pars gas field.

In addition, Iran has also become an export route for oil and gas from Central Asia by way of oil swap arrangements. These swap arrangements make sense for Iran given that most of the country's oil is located in the south, a significant distance from its refineries in the north which are close to the country's major population centers. For example in 1996, Iran and Kazakhstan