

Value Added Tax Law

Chapter I- Generalities and Definitions

Article 1- Supply of commodities and services, in Iran, as well as their imports and exports, shall be subject to the provisions of this Law.

Article 2- By tax, in this law, it is meant the value added tax, except the instances described in Chapters VIII and IX of this Law.

Article 3- By value added, in this law, it is meant the difference in the value of the goods and services offered for sale compared with purchase prices or acquisition value of such goods and services, during a certain period.

Article 4- By supply herein, it is meant transfer (of title) through concluding any type of transaction.

Note: The commodities being subject of this law that shall be purchased, acquired or produced by a taxpayer, for use in the business of the said taxpayer and shall be registered as assets in the accounts books or shall be taken out for personal use, shall be regarded as supply to one's self and shall be thus subject to taxation.

Article 5- By supply of services, in this law, except the instances described in Chapter IX, it is meant carrying out services for others, against remuneration.

Article 6- By imports, in this law, it is meant the import of commodities or services into the Customs areas within the country from abroad or from trade-industrial free zones or from special economic zones.

Article 7- By exports, in this law, it is meant the export of goods or services outside Iran or to trade-industrial free zones or to special economic zones.

Article 8- Those engaged in the supply of goods and services and their imports or exports shall be regarded as taxpayers and shall be subject to the provisions of this law.

Article 9- Any barter and exchange of goods and services, for the purposes of this law, shall be regarded as the supply of goods or services, on the part of each transacting party, and shall be subject to taxation, separately.

Article 10- Each solar year shall be divided into four tax quarters. If the beginning or the end of a taxpayer's activities shall fall within a tax quarter, such period of activities of the taxpayer concerned shall be called one period of taxation.

The Minister of Economy and Finance shall be allowed to fix the duration of a period of taxation for each group of taxpayers, upon a proposal to be made in this regard by the Taxation Affairs Organization, to two months or to one month.

Article 11- The dates on which the tax applies, shall be the following:

A. In the case of commodities supplied:

1. The date of invoice, the date of delivery of the goods or the date on which the transaction was concluded, whichever shall come first;
2. In the cases described in the Note to Article 4 of this law, the date of registration of the entry of the asset in the accounts books or the starting date of usage, whichever shall come first or the date of taking the item, as the case may be;
3. In the case of transactions described in Article 9 of this law, the date of barter and exchange.

B. In the case of services rendered:

1. The date of invoice or the date of rendering the services, whichever shall come first;
2. In the case of transactions described in Article 9 of this law, the date of barter and exchange.

C. In the case of exports and imports:

In the case of exports, the date of exportation (concerning release), in the case of imports, the date of release of the goods from the Customs, and in the case of services, the date of payment of compensation.

Note: In cases where cash machines are being used, the date on which the tax applies, shall be the date of registration of the transaction by cash machine.

Chapter II- Exemptions

Article 12- Supply of the following commodities and services as well as their imports shall be exempt from payment of tax:

1. Unprocessed agricultural products;
2. Livestock and live poultry, aquatic products, honey bees and silkworms;
3. All types of fertilizers, pesticides, seeds and saplings;
4. Bakery flour, bread, meat, lump sugar, sugar, rice, cereals and soya, milk, cheese, shortening and baby formula;

5. Books, press, note books and all types of printing papers, writing pads and papers and press papers;
6. Commodities donated, free of charge and without consideration, to ministries, government entities and non-government public entities with confirmation of the Council of Ministers and to seminaries, with the confirmation of the recipients of gifts;
7. Commodities accompanying incoming passengers to Iran for personal use, up to the limit of exemptions provided by export-import regulations. Any additional imported items shall be subject to payment of tax according to this law;
8. Immovable property;
9. All types of medicines, medical consumable materials, medical services (human, veterinary and plants) as well as rehabilitation and chiropractic services;
10. Services subject to payment of salary taxes envisaged in the Direct Taxation Act;
11. Banking and credit services offered by banks, credit institutes and cooperatives, authorized interest free loaning funds and cooperative funds;
12. Public transport services and urban and inter-city roads, railway, air and sea passenger services;
13. Hand made carpets;
14. All types of research and educational services in accordance with a Regulation to be proposed jointly by the Ministry of Science and Technology, Ministry of Economy and Finance, Ministry of Health, Medical Treatment and Education, Ministry of Education and the Ministry of Labour and Social Affairs within six months after the date of ratification of this law to the Council of Ministers, for approval;
15. Animal and poultry feed;
16. Radars and aeronautical navigation equipment of airports, on the basis of a list of equipments that shall be proposed jointly by the Ministry of Roads and Transportation and the Ministry of Economy and Finance within six months after the date of approval of this law to the Council of Ministers, for approval;
17. The items exclusively used for defense (military and disciplinary) and security purposes, on the basis of a list that shall be proposed jointly by the Ministry of Defense and Logistics of the Armed Forces and the Ministry of Economy and Finance to the Council of Ministers, for approval. The said list shall be enforceable from the first taxation period after it shall be approved by the Council of Ministers.

Article 13- Export of commodities and services abroad from official exit points shall not be subject to payment of tax, under this law. Any tax paid on account of such exports leaving the country from the said official exit points, shall be reimbursed (as regards commodities) by submitting a certificate of the Customs certifying the export of goods.

Note: Taxes paid on the goods accompanied by foreign passengers, purchased not later than two months prior to the date of exit from Iran, shall be reimbursed, out of the current incomes, at the time of exit from Iran, against supporting documents and evidence.

The executive criteria of the above provisions of this Article shall be drawn up by the Ministry of Economy and Finance and shall be approved by the Minister of Economy and Finance.

Chapter III- The Basis, Rates and Procedures of Calculation of Tax

Article 14- The basis of calculation of tax shall be the price of the goods or services indicated in the invoice. In cases where no invoice shall be available or no invoice shall be presented or it shall be established, according to supporting proof, documents and evidence that the price in the invoice is not real, the basis of calculation of tax shall be the prevailing prices of the commodities or services compared with such prices prevailing on the date of application of tax.

Note: The following matters shall not be included in the basis for calculation of tax:

- a. Discounts given;
- b. Taxes under this law that have been already paid by a supplier of the goods or services;
- c. Other indirect taxes and levies applied to the commodity or service, at the time of supply.

Article 15- The basis of calculation of the tax on imported goods shall be the customs value of the goods (purchase price, freight charges and insurance) plus the import duties (customs duties and commercial profit tax) stated in the customs documents.

Note: The basis for calculation of the tax on imported services shall be the equivalent rials value of the compensation paid against such services.

Article 16- The value added tax rate shall be 1.5%.

Note: The rates of value added tax of particular goods shall be as follows:

1. For cigarettes and tobacco products, 12%.
2. For gasoline and airplane fuel, 20%.

Article 17- The taxes paid by taxpayers at the time of purchase of goods or services to be used in the course of their economic activities evidenced by the invoices issued in accordance with the provisions of this law shall be deducted from the tax collected by them or shall be reimbursed to them, as the case may be. The machineries and equipment procured for use in the production line shall be deemed as the commodities required by a taxpayer in his economic activities.

Note 1: If a taxpayer falling under the provisions of this Article shall have extra tax payments, in the course of any taxation period, the surplus taxes paid may be carried forward to the account of taxes of the forthcoming taxation periods of that taxpayer or may be refunded, upon request by the taxpayer, out of the current tax collections.

Note 2: In cases where a taxpayer shall be engaged in the supply of a commodity or service that will be exempt from payment of tax under this law or shall be exempt from taxation according to the provisions of (any other) law, the taxes paid for purchase of the goods or services, up to this stage, shall not be refunded.

Note 3: If a taxpayer shall concurrently supply the commodities or services being subject of tax as well as the supply of tax exempt goods and services, only the tax applying to the goods and services being subject to taxation shall be taken into his tax account.

Note 4: VAT and duties paid by taxpayers for special commodities mentioned in Article 16 above and Sub-clauses (b), (c) and (d) of Article 38 of this law may be deducted from collected taxes or refunded to taxpayers concerned exclusively at the stages of importation, production and re-distribution of the goods by importers, producers and distributors concerned.

Note 5: That part of VAT paid by taxpayers that cannot be deducted from the collected taxes or refunded according to the provisions of this law, shall be accepted as tax deductible expenses according to the provisions of the Direct Taxation Act.

Note 6: Any additional sums collected from taxpayers on account of tax under this law that shall remain unpaid, after three months from the date of request for refund by the taxpayer concerned, shall become subject to payment of delay penalty at the rate of two per cent (2%) per month of delay in reimbursement of the amount remained unpaid.

Note 7: Taxes paid by the municipalities and village administrations at the time of purchase of goods and services required for carrying out their legal

duties, obligations and services, according to the provisions of this law, shall be set off or reimbursed.

Chapter IV- Taxpayers Duties and Obligations

Article 18- Taxpayers shall be under the obligation to supply the information required by the Taxation Affairs Organization and to fill in and file the forms required by the said Organization, in the manner required by TAO.

Article 19- Taxpayers shall be under the obligation to issue invoice according to the requirements of the Guilds Systems Law and by stating therein the names of the transacting parties against supplying the goods or services being the subject of this law. The invoice shall be made in a manner to be prescribed by the Taxation Affairs Organization. The applicable tax shall be inserted in a special column in the invoice and shall be then collected. In cases where cash machines are being used, the tape printed by machine shall substitute the invoice.

Note: The goods being subject to tax that will be offered without complying with the regulations and criteria stated herein, shall be regarded as contraband objects and shall be treated according to the pertinent regulations in addition to collection of penalties and application of the other laws and regulations referred to in this law.

Article 20- Taxpayers shall be under the obligation to calculate the tax under this law on the date of application of the tax and collect it from the other party to the transaction.

Note 1: Iran Customs Organization shall collect the tax payable according to this law prior to release of the goods from the Customs and indicate same in the customs permits, or in the relevant forms, as the case may be. The customs shall report the information pertaining to natural and legal persons falling under the provisions of this law in a monthly form, at the latest, to the Taxation Affairs Organization and provide on line access by the TAO to the pertinent websites.

IRI Customs Organization shall pay the taxes collected during each month up to the 15th day of the next month to an account per se opened by the Taxation Affairs Organization with the Treasury General for the above purpose.

Note 2: Importers of services shall be under the obligation to calculate and pay the tax applying to the services purchased by them from abroad.

Article 21- Taxpayers shall be under the obligation to file their tax returns of each period of taxation, according to a format and a directive that shall be drawn up and notified by the Taxation Affairs Organization, not later than fifteen (15) days after the date of expiry of every period of taxation, according to the procedures in force and pay the tax of each taxation period after deducting therefrom the taxes already paid according to the provisions of this law that may be deducted from the above applicable VAT. Payment shall be made within the statutory respite to an account to be fixed and announced by the Taxation Affairs Organization (with the Treasury General).

Note 1: If the period of business activity of a taxpayer shall be less than a period of taxation, the above obligation shall likewise apply to the shorter period of business activity.

Note 2: Natural and legal persons having more than one place of conducting business or activity shall file separate tax returns for each one of their businesses.

Note 3: As regards those workshops and the production, services and trading businesses that need to operate through several offices, stores or branches, in one or more places, filing tax returns shall be according to a directive that shall be formulated by the Taxation Affairs Organization.

Note 4: The taxpayers who do not have a fixed place of business shall file their tax returns at the place of their residence. The tax office in the vicinity of their residence shall be competent to deal with their tax related matters.

Article 22- Taxpayers found in default in complying with the regulations provided in this law or who shall violate the provisions of this law, in addition to payment of the applicable taxes and the accruing penalties, shall also be condemned to payment of a further penalty as follows:

1. Penalty for failure to register one's name as a taxpayer subject to these regulations; 75% (seventy- five percent) of the applicable tax until the date of registration or the date of becoming identified as a taxpayer, as the case may be.
2. Penalty for failure to draw up the required proces-verbaux, shall be a sum equal to 100% of the applicable tax;
3. Penalty for failure to indicate the real price in the invoice shall be 100% of the difference in the amount of applicable tax;
4. Penalty for failure to include and fill in all required information in the invoice in accordance with the format provided for this purpose, shall be 25% of the applicable tax

5. Penalty for failure to file tax returns after the date of registration of one's own name or the date of being identified as a taxpayer shall be 50% of the applicable tax;
6. Penalty for failure to submit accounts books or vouchers and their supporting documents, as the case may be, shall be a sum equal to 25% of the applicable tax.

Article 23- The penalty for delay in payment of taxes being the subject of this law on due dates shall be 2% of the amount of the tax due per month for the whole period of delay.

Chapter V- The Organization in Charge of VAT and Its Functions and Authorities

Article 24- The Taxation Affairs Organization shall, within three months after the date of ratification of this law, propose its required structure and organization to the President through the Minister of Economy and Finance. The Taxation Affairs Organization may take the required actions in this regard by setting up provincial organizations without taking into consideration the approved the geographical divisions of the country according to the economic potentialities of every province (region). The said proposed organizations shall become enforceable after confirmation by the President.

Note: The Taxation Affairs Organization shall be authorized to secure the specialized workforce required for due implementation and enforcement of this law in order to set up the above organization and structure after approval of same, form among the existing workforce at the service of the TAO. Any shortfalls may be provided through recruitment by holding specialized examinations and tests. The Taxation Affairs Organization may recruit up to ten per cent (10%) of its required specialized workforce without publishing notice of call for holding recruitment examinations and tests from among the holders of university degrees.

Article 25- Identifying (the taxpayers), the manner of examination and assessment of taxes, claiming and collection of taxes shall be the duty of the Taxation Affairs Organization. Job titles, the conditions for recruitment such as the required education, experience, functions and duties and the manner of carrying out such duties as well as the powers and authorities and the jurisdictions of any one of the members of staff and the procedures for enforcement of the instructions issued according to this law, except the

matters to be specified by means of directives and by-laws, shall be according to the procedure provided under Article 219 of the Direct Taxation Act approved on February 16, 2002.

Article 26- In cases where the agents of the Taxation Affairs Organization shall refer to a taxpayer for the purpose of investigation about the tax returns filed by the taxpayer concerned or to investigate about the volume of transactions of a taxpayer and ask for accounts books, vouchers and supporting documents, the taxpayers and buyers shall be bound to provide the required accounts books, vouchers and documents, as the case may be. In case of failure on the part of a taxpayer to provide the required accounts books, vouchers and documents, the violating taxpayer shall be condemned to payment of the penalty provided in Article 22 of this law. The applicable tax, in the above case, shall be assessed on arbitrary basis, according to a directive that shall be drawn up by the Taxation Affairs Organization, and shall be claimed and collected, accordingly.

Article 27- Taxpayers being subject to the provisions of this law, may refer the task of drawing up the reports concerning their VAT to the Auditing Organization of the IRI or to the auditing firms that are members of the Society of Official Accountants. The above auditing firms and the Auditing Organization, in case they accept the said request of a taxpayer concerned, shall be bound to draw up the report on VAT according to the following provisions and in accordance with the format to be made by the Taxation Affairs Organization and shall submit same to the taxpayer concerned in order to be filed with the TAO:

- A. Declaring opinion concerning the sufficiency of the accounting vouchers and documents for the purpose of auditing VAT, according to the applicable laws and regulations and accounting norms;
- B. Determining the taxable income as well as the tax of each period of taxation according to this law and pertinent regulations.

Note 1: The Taxation Department concerned shall accept the tax auditors reports that shall be made according to the provisions of this Article without examination and shall issue a tax claim sheet according to the pertinent regulations. Acceptance of the tax audit report of a taxation period shall be subject to submission of the said report to the TAO together with the tax returns of that period of taxation or not later than one month after the date of expiry of the respite allowed for filing tax returns.

Note 2: The Taxation Affairs Organization (TAO) may refer the task of auditing the VAT of natural and legal persons to the Auditing Organization

of the IRI or to the official accountants and auditing firms that are members of the Society of Official Accountants. In such case, the fees for the above auditing shall be paid by the TAO, according to the applicable regulations.

Article 28- In order to enhance the tax culture of the taxpayers and to offer proper tax advisory services to the taxpayers on the basis of the tax laws and regulations as well as providing taxpayers with appropriate proxy services for their representation at tax departments and before taxation authorities, an entity called “The Iranian Society of Official Tax Advisors” shall be set up in order to operate in the above field by taking members.

All government organizations concerned shall be under the obligation to cooperate with the tax advisors who shall be the members of the said Society within their legal obligations and functions and within the limits of taxation regulations.

The articles of association of the above Society shall be drawn up, within six months after the date of ratification of this law, by the Taxation Affairs Organization and shall be proposed, by the Ministry of Economy and Finance, to the Council of Ministers, for approval.

Article 29- In cases where tax claim sheets or the documents for reimbursement of extra taxes paid, shall be served on a taxpayer who wishes to object to the assessment, the taxpayer may file his objection to the Taxation Department concerned and ask for settlement within twenty (20) days after the date of service of the said documents. In case a settlement shall be reached by and between the taxpayer concerned and the tax authorities, the case shall be closed down. If the taxpayer concerned shall not file any objection within the above respite, the amounts mentioned in the tax claim sheet or in the extra tax reimbursement sheet, as the case may be, shall become final, except in cases where the said sheets shall not be served on the taxpayer but shall be notified to the address of the taxpayer, according to the applicable regulations.

In cases where the objection made by a taxpayer to an assessment within the statutory respite to the relevant Taxation Department remains unsettled as well as in cases where the tax claim sheets have been notified to the address of a taxpayer but not to the taxpayer himself or his employees or relatives (legal service of documents), the dossier of the case shall be forwarded to the Boards of Settlement of Tax Disputes described in the Direct Taxation Act within 20 days after the date of receiving the objection or the date of expiry of the respite allowed for making objection for investigation.

Article 30- All banks, credit institutes and cooperatives, interest free loans funds as well as the Cooperatives Fund shall be under the obligation to provide the information required by the Head of the Taxation Affairs Organization to the TAO concerning the incomes of taxpayers and for the purpose of assessing their taxes. In case of failure on the part of the above persons in providing the required information and documents, they shall be liable to compensate the losses suffered by the government.

Article 31- The Municipalities shall provide the information available in their websites concerning properties, estates, various occupations and any other details required by the Taxation Affairs Organization, for the purpose of identifying potential taxpayers or assessment of their taxes, to the TAO upon request by the Head of TAO or shall provide TAO with online access to the information available in the relevant websites.

Article 32- Investigation of violations by taxation agents shall be made according to the provisions of the Direct Taxation Act approved on February 16, 2002. Enforcement of the above shall not prejudice the rights of the Head of Taxation Affairs Organization envisaged in other laws.

Article 33- The regulations in Chapters 8 and 9 of Book 4 and Chapter 3, Book 5 as well as Articles 167, 191, 202 and 230 to 233 of the Direct Taxation Act approved on February 16, 2002 shall apply to direct taxes as well as the taxes set forth herein. The provisions of Article 251 of the Direct Taxation Act of February 16, 2002 shall not apply to this law.

Chapter VI- Miscellaneous Regulations

Article 34- The taxpayers subject to payment of VAT provided in this law shall be bound to use the accounts books, statements and other relevant forms, cash register and/or other means and procedures of accounting that shall be fixed by the Taxation Affairs Organization. The above documents are required to be kept for a period of ten years after the end of any fiscal year, by the taxpayers concerned, in order to be submitted to the tax agents referring to the said taxpayers.

Article 35- The Taxation Affairs Organization shall provide a plan for development, equipment, education and training taxation staff members, education and promotion of taxation culture through media as well as appropriate facilities and means throughout the country, during a maximum period of five years. Further, TAO shall be allowed to acquire all types of

capital assets (including the required office space and equipment) for the purpose of implementation of this law. The government shall include the credits and authorizations required for enforcement of this Article in the annual budget bills of the country.

Article 36- The budget of the Taxation Affairs Organization and its provincial departments that shall be included in the annual budget bills shall be deemed as having been 100% allocated and shall be put at the disposal of TAO to cover the current expenses as well as for appropriation of capital assets by TAO headquarters and provincial units concerned.

Article 37- 0.1% (one per mile) of all sums collected according to this law on account of VAT, duties and applicable penalties shall be paid to a special account to be opened with the Treasury in the name of TAO. A sum equal to the total payments made to the said account shall be included in the annual budget bill in the form of a credit to be put at the disposal of the TAO for educating, providing incentives and prizes to consumers and taxpayers. All sums of money paid pursuant to the above paragraph shall be exempt from payment of tax and application of all regulations repugnant thereto.

A member of the Economic Committee of the Islamic Consultative Assembly to be appointed by ICA shall observe the acts of TAO regarding the above.

The Ministry of Economy and Finance shall submit an annual report to the ICA on the amount and the mode of distribution of the money set forth in this Article among consumers and taxpayers.

Chapter VII- Duties on Goods and Services

Article 38- In addition to the VAT prescribed in Article 16 of this law, municipalities and village administrations duties to be levied on goods and services being the subject of this law shall be as follows:

- a. All goods and services being subject to the tax in Article 16 of this law, one and a half per cent (1.5%).
- b. All types of cigarettes and tobacco products, three per cent (3%).
- c. All types of petrol (gasoline) and jet fuel, ten per cent (10%).
- d. Kerosene and gas oil, ten per cent (10%) and furnace oil, five per cent (5%).

Note 1: Industries polluting the environment that shall not abide by the standards and criteria fixed for protection of environment, at the discretion and pursuant to announcement by the Environment Protection Organization (to be made up to March 5-Esfand 15, of each year for implementation after

March 21, 1st day of the Iranian new year, each year), as well as the oil refineries and petrochemical plants, in addition to the taxes and duties payable under this law, shall be subject to a further one per cent (1%) tax on sales, as pollution duties. The provisions of Article 17 of this law and Notes thereof shall not apply to the pollution duties collectible under this Article.

The names of those industries that eliminate pollution during a year, at the request of the industrial entity concerned and upon confirmation of such elimination of pollution by the Environment Protection Organization, shall be taken out and deleted from the list of the names of polluting industrial entities. In such case, the said industries, from the beginning of the next period of taxation after confirmation of improvement by the EPO shall not be subject to payment of pollution duties.

The industrial entities and plants whose names shall be added to the list of the names of polluting industries, during a year, at the discretion of EPC and pursuant to announcement by EPC, shall become subject to payment of pollution duties from the beginning of the next period of taxation.

The duties under this Note, within the boundaries of cities, shall be paid to the municipality where the polluting production entity is located. Outside city limits, the said duties shall be paid to the account of concentrated funds mentioned in Note 2 of Article 39 below in order to be distributed among village administrations of the same township.

Note 2: If, the production entities, for the purpose of boosting the skills and health of their workers, shall set up education and sports centers or shall make expenses, in this regard, upon acknowledgement to be made by the Ministry of Labour and Social Affairs, they may request reimbursement of ten per cent (10%) of the duties they paid according to Sub-clause (a) of this Article, up to the ceiling of the expenses made in this respect. If the said expenses shall be acceptable to the Taxation Affairs Organization, they may be set off or returned according to the provisions of this law.

Note 3: For the purpose of setting up and development of educational establishments in less developed regions, half per cent (0.5%) of all duties to be collected according to Sub-clause (A) of this Article shall be paid to an account per se to be opened in the name of the Ministry of Education. An amount equal to the total payments made to the said account shall be put at the disposal of the Ministry of Education by allocation of a credit through annual budget bills in order to be spent by the said Ministry for establishment and expansion of educational centers required in the above regions. The executive by-laws of this Note shall be proposed to the Council of Ministers for approval by the Ministry of Education and the Ministry of Economy and Finance, jointly.

Article 39- Taxpayers shall pay the duties and pertinent penalties envisaged in Article 38 of this law to interim accounts that will be opened upon request by the Taxation Affairs Organization and the Treasury General and shall be announced by Taxation Affairs Organization. The Taxation Affairs Organization shall pay the duties collected during each month, up to the 15th day of the next month, in the manner that shall follow, to the accounts of the local municipality or to the consolidated account, as the case may be:

- A) The duties collected under Sub-clause (A) of Article 38 from taxpayers within the city limits to the account of the local municipality. The duties collected from the taxpayers beyond the limits of cities to the account of consolidated funds of the Ministry of the Interior in order to be distributed among village administrations of the same township, on the basis of the population index and the extent of less development.
- B) The duties collected according to the provisions of Sub-clauses (B), (C) and (D) of Article 38 shall be paid to the account of consolidated funds of the Ministry of the Interior.

Note 1: 3% of the amounts paid to the accounts described above shall be taken out and paid to a special account opened with the Treasury in the name of the Taxation Affairs Organization. An amount equal to the said sums shall be allocated, through annual budget bills, in the form of a credit per se, to be put at the disposal of the Taxation Affairs Organization that has been given the tasks of identifying the taxpayers hereunder as well as the assessment, investigation, making claims and collection of the tax under this law in order to be spent for purchase of equipment, providing incentives and education to the personnel and paying for auditing services. Payment of bonus out of the funds provided under this present Sub-clause of Note 1, for collection of tax hereunder, shall be exempt from tax and all regulations repugnant thereto.

Note 2: The account of consolidated funds mentioned in this Article shall be opened in the name of the Ministry of the Interior by the Treasury General. The amounts paid to the above account (except the funds that shall be distributed according to the latter part of Sub-clause (A) of this Article and Note 1 of Article 38 of this law) shall be distributed in the following proportions:

- 20% to large cities (with populations of over 1,000,000 inhabitants, according to the population index,
- 60% to other cities, on the basis of the index of less development as well as the population index, and
- 20% to village administrations, on the basis of the population index.

Distribution shall be made under the supervision of a work group comprising the representatives of the Planning and Strategic Supervision Assistant of the

President, the Ministry of Economy and Finance and the Ministry of the Interior as well as an observer to be appointed by the Islamic Consultative Assembly's Economic Committee in accordance with the Executive By-laws that will be proposed jointly by the Ministry of Economy and Finance and the Ministry of the Interior as well as the High Council of Provinces to the Council of Ministers, for approval. The above sums shall be spent by municipalities and village administrations. Any withdrawal of funds from the said account of consolidated funds, except for payment to municipalities and village administrations, the funds payable under Article 37 and Notes (2) and (3) of Article 38 and Note 1 of this Article, shall be prohibited. The Ministry of the Interior shall report, once every three months, the amounts collected during the said three month periods, to the High Council of Provinces and the Economic Committee of ICA.

Article 40- The provisions of other chapters of this law, except the provisions of Chapter IX, shall also apply to the duties payable according to this Chapter. However, the provisions of other chapters, to the extent they are relating to the rates and the modes of payment and distribution of duties, for which special conditions have been envisaged in this present chapter, shall not be applicable to this Chapter VII.

Chapter VIII- Import Duties

Article 41- Customs duties shall be four per cent (4%) of the customs value of the goods. By Customs duties, it is meant the aggregate sum of the said 4% as well as the commercial profit tax the amount of which, according to the pertinent laws, shall be determined by the Council of Ministers.

Note 1: The amount of Customs duties, in addition to compliance with other applicable laws and regulations, shall be fixed in a manner that:

- a. the rate shall be in line with effective protection of productive occupations, local content and domestic manufacture and to the detriment of imported commodities,
- b. it shall not cause discrimination and advantage for government importing sectors compared with private, cooperative and non-government sectors, and
- c. the rates of Customs duties of imported parts, supplies and materials used in processing, manufacture, assembly or packaging any materials or equipment, shall be less than the rates of import duties of processed products or ready to use materials, objects or equipment.

Note 2: Any and all general or specific laws and regulations providing exemption from payment of import duties are hereby repealed and declared

null and void with the exception of exemption provided under Article 6 and Sub-clauses (1), (2), (4) to (9) and (12) to (19) of Article 37 of the Customs Law approved on June 6, 1971 and Article 8 of the Law Regulating Border Exchanges, approved on September 29, 2005 and the Law on the Manner of Administration of Free Zones as amended and the Law on the Formation and Administration of Special Economic Zones, approved 2005 as well as the Exemption offered under the Law Pertaining to Importation of Production Machineries by Manufacturing, Industrial and Mining Units from payment of import duties that was approved by the Revolutionary Council on May 13, 1980 and the exemption from payment of Customs duties on relief and salvage equipment donated to the Red Crescent Society of the IRI and the Ministry of the Interior and the exemption on the main defensive items imported purely for defense purposes. The main defense items shall be proposed, jointly, by the Ministry of Defense and Logistics of the Armed Forces and the Planning and Strategic Supervision Assistant of the President, to the Council of Ministers, for approval.

Note 3: A sum equal to 0.12% of the customs value of import commodities for which customs duties are being collected, shall be put at the disposal of the Ministry of the Interior out of the credits that shall be envisaged, every year, in the annual budget bills of the country in order to be paid to the municipalities and village administrations throughout the country on the basis of the provisions of Note 2 of Article 39 of this law and debited to final expenses.

Chapter IX- Other Taxes and Special Duties

Article 42- The tax on transfer of title of all types of automobiles except the machineries used for road building, projects sites works, mineral and agricultural purposes as well as the floating vessels, motorcycles (scooters) and motor tricycles whether produced domestically in Iran or imported from abroad shall be one per cent (1%) of the Ex-Works sales prices (domestic products) or one per cent (1%) of the aggregate customs value and import duties of the said automobiles, as the case may be. The original value of the automobiles described above, for calculation of the above tax shall be reduced by ten per cent (10%) for each year after the year of manufacture of automobile and maximally by sixty per cent (60%).

Note 1: Notaries public shall, prior to drawing up any deed of transfer of title through final sales, conveyance, gift or transfer by way of attorney-ship, be under the obligation to collect, from sellers or their proxies, the receipt or certificate of payment of the duties, up until the year prior to the year of signature of the deed of transfer, according to Sub-clause (B) of Article 43

of this law together with the receipt of payment of the tax on transfer being the subject of this present Article, according to the schedule of tax rates drawn up by the Taxation Affairs Organization and to indicate the following details in the deeds of transfer:

- A. The number of the receipt of payment of tax issued by the payee bank in which the date of payment, the amount and the name of bank shall be written,
- B. The number of the receipt of payment of the duties issued by the payee bank in which the date of payment, the amount and the name of bank or the number and the date of the certificate of payment of duties shall be written.
- C. Details concerning the automobile including the type, system, chassis number, engine number and the model;
- D. Names of the transacting parties, their postal codes, national identity cards numbers, or their economic codes numbers.

Notaries public shall further be obliged to send, to the Taxation Affairs Organization, a full list of the transfers of title made during each month, up to the 15th day of the next month, according to a form or under a method to be fixed by the Taxation Affairs Organization.

Note 2: Notaries public shall be under the obligation to expressly include the power to transfer automobile in the general powers of attorney concerning sale and transfer of the property of a principal.

Note 3: Notaries public shall be subject to payment of cash penalties below in case of violation of the regulations set forth in Notes (1) and (2) of this Article:

- A. If no tax and duties have been paid or such taxes and duties were paid less than the prescribed amount, the notary public, in addition to payment of the tax and duties or the balance that remained unpaid, shall be subject to payment of a penalty of two per cent (2%) per month of the unpaid taxes and duties for the whole period of delay. The above penalty may not be absolved.
- B. A failure to include any one of the particulars and instances described in Sub-clauses (A), (B), (C) and (D) of Note 1 above, in the deed of transfer and dispatch of the list in accordance with the format or the method described in Note 1 above within the respite set by law, shall be regarded as a disciplinary violation and those in charge shall be treated according to the applicable regulations.

Note 4: A cancellation or termination of the deeds of conveyance and transfer of automobiles up to six months after the date of signature of the transaction shall not be subject to payment of any further tax on transfer. If

no conveyance of automobile shall be made after payment of the tax on transfer, the said tax shall be refunded to the transferor or his proxy upon acknowledgement of the fact by the notary public concerned, in accordance with the criteria to be fixed by the Taxation Affairs Organization.

Note 5: The first hand transfer of automobiles by domestic manufacturers or assembly plants or importers (being official representatives – agents – of foreign companies) to buyers as well as any transfer in the form of free of charge conveyance in favour of the government, non-government public institutes, entities and instrumentalities, universities and seminaries shall not be subject to taxation on transfer set forth in this Article.

Note 6: The Ex-Works prices of domestically produced automobiles and the aggregate customs value and import duties of all types of imported automobiles that shall be used as the basis for calculation of the tax and duties set forth in Sub-clauses (B) and (C) of Article 43 as well as the tax on transfer, shall be fixed each year, on the basis of the latest model by the Taxation Affairs Organization and announced by the TAO until January 5 each year for enforcement and implementation during the forthcoming Iranian year (commencing on March 21 each year and ending on March 20 of the next Gregorian calendar year). However, the said prices shall be applicable from the date of announcement. The above periods shall not be applicable to all types of new automobiles that shall be manufactured after the date of such announcement or shall be imported into Iran, after the said date. Further, the sales prices of domestic automobiles and the aggregate customs value and import duties of the automobiles whose production comes to a halt, shall be fixed by the TAO with due regard to the last manufactured model.

Note 7: The Disciplinary Force of the IRI (Traffic Departments) shall collect the receipt for payment of the tax on transfer of government automobiles to non-government natural persons and legal entities before registration of the transfer in the pertinent records.

Article 43- The VAT and duties on certain specific services shall be as follows:

- A. Inland intercity transportation of passengers with the use of road vehicles (except railroad), marine and air transportation, shall be 5% of the ticket sales to be collected as duties.
- B. Annual duties of all types of passenger (sedan) cars and double cabin vans whether manufactured in Iran or imported from abroad shall be 0.1% of the Ex-Works sales prices, or 0.1% of the aggregate customs value and import duties, as the case may be.

Note: The duties payable under Sub-clause (B) above, in the case of automobiles with the age of 10 years (except gas burning automobiles) shall increase by 10% for each year, in excess of 10 years of the age of vehicle, for a maximum of 10 further years i.e. 100% in excess of the duties under Sub-clause (B) above.

C. 2% tax and 1% duties (i.e. 3% of the Ex-works price or the aggregate customs value and import duties, as the case may be) shall be collected for granting number plates to all types of sedan cars and double cabin vans whether manufactured domestically in Iran or imported from abroad except public transport urban and inter-city passenger cars.

Provisions of Article 17 of this law and its Notes shall not apply to the VAT and duties under this Article.

Article 44- Upon proposal to be made by a work group comprising the Minister of Economy and Finance (Chairman), Minister of Commerce, the minister concerned and the Planning and Strategic Supervision Assistant of the President, to the Council of Ministers for approval, certain charges shall be determined for the issuance, extension and amendment of the cards and permits pertaining to the activities mentioned in Articles 24, 26 and 47 of the Law Regulating Certain Government's Fiscal Provisions approved on February 16, 2002 and Article 80 of the Law on Collection of Certain Government Incomes and Spending Same on Specific Matters approved on March 18, 1995. The said sums shall be collected from the applicants and paid to the Public Revenue Account of the Treasury General.

Article 45- The government shall be allowed to collect a sum of Rls.250,000 at the time of exit from Iran of every passenger at airports border gateways and Rls.50,000 at sea and land border gateways and to pay the said amounts to the Public Revenue Account of the Treasury General. Changes in the said amounts shall be approved by the Council of Ministers, once every three years, with due consideration of the rate of inflation.

Note: Holders of diplomatic and service passports, the crew of land and sea means of public transport and airlines, students engaged in study overseas who hold students exit permits, the patients leaving Iran for medical treatment with the permission issued by Medical Council, holders of cross border passports and cripples of Islamic Revolution being dispatched abroad for medical treatment as well as the Iranian nationals domiciled abroad who hold occupation carnets issued by the Ministry of Labour and Social Affairs, shall be exempt from payment of the amounts envisaged in this Article.

Article 46-

- A. The taxes being the subjects of Articles 42 and 43 as well as the amounts envisaged in Article 45 of this law shall be paid to the account(s) of public revenue that shall be determined by the Ministry of Economy and Finance and shall be announced by the Taxation Affairs Organization.
- B. Collection of the duties envisaged in Sub-clauses (A) and (B) of Article 43 of this law shall be carried out by local municipalities. The said duties shall be paid to the accounts of the said local municipalities.
- C. The duties being the subject of Sub-clause (C) of Article 43 shall be paid to the consolidated account of the sums provided in Note 2 of Article 39 above in order to be distributed and spent according to the procedures provided in the said Note.
- D. The tax and other sums collected pursuant to Articles 42, 43 and 45 of this law by the TAO shall be subject to the provisions of Chapter 9, Book IV of the Direct Taxation Act approved on February 16, 2002 as Amended.
- E. Any dispute and failure to pay the amounts envisaged in Sub-clauses (A) and (B) of Article 43 of this law to be collected by municipalities, shall be treated according to the provisions of Article 77 of the Law on the Administration of Municipalities.
- F. Delay in payment of the VAT and duties provided under Article 43 of this law shall be subject to payment of a penalty of 2% of the amounts remained unpaid after the date of payment falling due, for each month of delay.

Article 47-

- A. Those engaged in the business of intercity transportation of passengers within Iran with the means of land, sea and air transportation, shall be under the obligation to deduct 5% of the value of the ticket envisaged in Article 43.A of this law, by indicating the said amount in the ticket or in the relevant contract, as the case may be, and pay the said duties, after collecting the value of the tickets from passengers to the accounts of the municipality in the place of sale of the ticket. The duties collected during each month shall be paid to the municipalities concerned, not later than the 15th day of the next month.
- B. Owners of sedan cars and double cabin vans whether manufactured in Iran or imported from abroad shall be bound to pay the annual duties of their automobiles under Article 43.B above, at the rate of 0.1% of the Ex-Works price of domestic vehicles or the aggregate customs value and

import duties of imported automobiles, on the basis of price lists that shall be published by the TAO, to the accounts of local municipalities.

- C. The manufacturers of all types of domestic sedan cars and double cabin vans (with the exception of sedan cars that shall be number plated as public transport vehicles), shall collect the tax and duties under Sub-clause (C) of Article 43 of this law, on the date of sale of their automobiles, from buyers, by indicating the said amounts in the deeds of sale and pay the said sums, in accordance with the provisions of Article 21 of this law, respectively to the account of the TAO and the account of consolidated funds of the Ministry of the Interior that shall be announced by the TAO.

Note 1: Importers or owners of imported sedan cars and double cabin vans (except the sedan cars that shall be number plated as public transport vehicles) shall be bound to pay the tax and duties payable according to this Article, prior to asking for number plates of their automobiles, to the Taxation Affairs Departments of their cities where number plates shall be given.

Note 2: The Disciplinary Force of Islamic Republic of Iran (Traffic Department) shall be under the obligation to collect a certificate for payment of applicable tax and duties from the importers or owners of various types of imported sedan cars or double cabin vans except inter-city or urban public transportation sedan cars, prior to granting number plates to those automobiles for which no tax and duties have been paid. The above certificate shall be issued by the Taxation Affairs Department after collecting the applicable sums.

Article 48- In order to secure the costs of implementation of the plans for maintenance, improvement and security of flights and development of the infra-structures of airports as well as utilizing new aeronautical, security and airport equipment and systems, the company in charge of the country's airports shall be allowed to collect an amount of 2% of the sales price of the ticket sales of domestic flights from passengers with the approval of the Aviation High Council.

Article 49- The executive by-laws of the provisions of this Chapter shall be drawn up jointly by the Ministry of Economy and Finance and the Ministry of the Interior and shall be submitted, in the form of a proposal, to the Council of Ministers for approval.

Chapter X- The Fate of Pertinent Laws and the Date of Coming into Force

Article 50- It shall be prohibited for Islamic Councils and other authorities to levy any type of duties and other charges on any kind of import commodities and goods produced in Iran or on services for which VAT and duties have been provided in this law as well as to levy duties on the incomes being the basis of calculation of tax, dividends accruing on the shares of companies, interest payable on participation bonds and on deposits made by individuals or corporate bodies with banks and authorized, non-bank credit institutes.

Note 1: Islamic Councils in cities and districts shall be under the obligation to approve and announce the new local duties on the instances for which no provision has been made in this law, not later than the 4th of February of each year, for enforcement and implementation from the 1st day of the forthcoming Iranian year on March 21, each year.

Note 2: The “five per cent (5%)” envisaged in Article 2 of the Urban Development and Renovation Law, approved on November 27, 1968 is changed and amended hereby to “one per cent (1%)”.

Note 3: All laws and regulations pertaining to grant of any discount or exemption from payment of duties or other sums, to municipalities and village administrations, are hereby made null and void.

Note 4: The Ministry of the Interior shall be under the obligation to supervise the good enforcement and implementation of this law throughout the country.

Article 51- From the beginning of the month after the date of approval of this law, the tax payable under Sub-clause (e) of Article 3 of the Law Amending Certain Articles of the Third Economic, Social and Cultural Development Plan Act of the IRI and Collection of Duties and Other Sums from Commodities Producers, Services Providers and Importers of Goods, approved 1381 as Amended (known as the Law Aggregating the Duties) shall stand null and the duties envisaged in that Sub-clause (e) of Article 3 of the said Law shall be amended to one and a half per cent (1.5%).

The provisions of Note (1) of Article 39 of this law shall also apply to the duties being collected under Sub-clause (e) of Article 3 of the said law.

Article 52- As of the date of coming into force of this law, the Law Amending Certain Articles of the Third Economic, Social and Cultural Development Plan Act of the IRI and Collection of Duties and Other Sums

from Commodities Producers, Services Providers and Importers of Goods, approved 1381 as Amended (known as the Law Aggregating the Duties) and all other specific or general laws and regulations repugnant to this law concerning the collection of any type of indirect tax and duties on the import and production of commodities and supply of services shall stand null and void and it shall be prohibited to levy on and collect any type of indirect taxes and duties from commodities producers and importers and services providers. The provisions of this Article shall likewise apply to all contradictory laws and regulations the applicability of general laws and regulations thereto shall require that their names shall be explicitly mentioned. The following instances shall be excluded from the provisions and stipulations of this law:

1. The Law of the 4th Economic, Social and Cultural Development Plan Act of the IRI.
2. Direct Taxation Act of March 1988 as Amended.
3. The Law on the Administration of Free Trade-Industrial Zones of the IRI, approved on August 28, 1993.
4. The Law on Administration of the IRI Special Economic Zones, approved on November 25, 2005.
5. The Law on the Passage of Foreign Vehicles and Means of Transportation, approved on July 2, 1994.
6. The highways tolls levied under Article 12 of the Law on the Transportation of Foreign Goods through the Territory of the IRI, approved on March 16, 1996.
7. The Law on the Modes of Securing the Costs of the Chamber of Commerce, Industries and Mines as well as the Chamber of Cooperatives, approved on November 1, 1993, as Amended.
8. Articles 63 and 87 of the Law on Collection of Certain Government Incomes approved on March 18, 1995.

Note: The costs, commissions and other sums that are being collected from the applicants against the supply of specific services and/or sale of commodities directly, in accordance with the pertinent laws and regulations as well as the delay penalties that are being collected under the laws or legal authorities and powers that have not been abrogated, are excluded from the applicability of this present Article.

The instances of the specific services, the mode of fixing the prices and the values of the services being the subject of this Note shall be proposed by the executive body concerned to the Council of Ministers, for approval.

Article 53- The date of coming into force of this law, in respect of Articles 18, 24, 25, 28, 31, 35, 36, 42 and 48 shall be the date of approval, and in respect of Article 51 shall be from the beginning of the month after the date of approval of this law. As regards the other Articles of this law, the date of enforcement shall be the 1st day of the month of Mehr 1387 (September 22, 2008). The Taxation Affairs Organization shall draw up the relevant executive by-laws, regulations, directives, and criteria and shall have these approved by the authorities concerned within the respites provided in the relevant Articles of this law.