

Iran

1. Government requirements

Registration requirements

Individual income tax

Taxable persons

Iranian legislation does not contain a concept of tax residence in relation to individuals. Tax is imposed on all payments in cash and in kind, which are received by individuals from sources in Iran for employment exercised within the territory of Iran.

Taxable individuals comprise of the following:

- All owners of personal and real property located in Iran
- Every Iranian individual resident in Iran, on all income earned in Iran or abroad
- Every Iranian individual residing abroad, on all income earned in Iran
- Every non-Iranian person, with regards to income earned in Iran, as well as in respect of the income derived from Iranian sources for the grant of a license or other rights, for the provision of training and technical assistance, or from the screening rights of motion pictures

Employment income

Both Iranian and expatriate personnel (with a work permit) working in Iran are subject to tax on their employment income. Local employees are taxed on their income and allowances declared on the local payroll of the company.

Expatriate employees are also taxed on the total salary and respective allowances for working on their assignments in Iran. Employers of expatriate personnel are required to submit the original employment agreement of each employee to the Tax Office after having it authenticated by the authorities in the country of domicile of the employee and certified by the nearest Iranian consular office. However, some foreign companies elect for their expatriate employees to be taxed at the deemed salary rates published by the Tax Office. These rates depend on the rank and the country of citizenship of the individual.

All salaries, wages and allowances paid to individuals, subject to certain exemptions listed below, are subject to Personal Income Tax (PIT). The tax applies to salaries and wages paid in cash or in kind.

No expenses are specifically listed as deductible in arriving at income subject to the tax on salaries. The Iranian Direct Tax Act (DTA) does, however, provide for the general deductibility of two categories of expenditure in arriving at the taxable income of individual taxpayers. These are:

- Expenses incurred during the tax year on medical treatment of the taxpayer, spouse, children, parents, brothers and sisters
- Life insurance premiums paid to Iranian insurance institutions

For the taxation year ending on 20 March 2022, a yearly salary income of IRR480 million (or monthly salary income of IRR40 million) for both public and private sector employees is exempt from salary tax. Earnings exceeding the above amount are taxed at progressive rates, as follows:

Annual Calculation			Monthly Calculation		
Gross salary (IRR)	Rate	Tax (IRR)	Gross salary(IRR)	Rate	Tax (IRR)
330,00,000	—	—	27,500,000	—	—
495,000,000	10%	49,500,000	41,250,000	10%	4,125,000
825,000,000		49,500,000	68,750,000		4,125,000
330,000,000	15%	49,500,000	27,500,000	15%	4,125,000
1,155,000,000		99,000,000	96,250,000		8,250,000
495,000,000	20%	99,000,000	41,250,000	20%	8,250,000
1,650,000,000		198,000,000	137,500,000		16,500,000
660,000,000	25%	165,000,000	55,000,000	25%	13,750,000
2,310,000,000		363,000,000	192,500,000		30,250,000

For annual salaries above IRR3,840,000,000 or monthly salaries above IRR320,000,000, the excess over such amounts will be taxed at 35%.

Exempt income

The following types of income are exempt from tax on salaries:

- Retirement pension, severance pay/termination benefits, dismissal compensation, pensions and annuities paid to the heirs, service life bonuses, payments for unused vacation days
- Travelling expense reimbursements and travelling allowances paid in connection with one's job
- Accommodation provided on the factory's site for the benefit of workers and low-cost housing provided by the employer outside the factory
- Amounts received under an insurance policy on account of compensation for physical injury or medical treatment and the like
- New Year bonuses or year-end allowances aggregating one twelfth of the amount of the tax exemption mentioned in Article 84 of the DTA
- Employer-provided housing put at the disposal of civil servants by virtue of a legal permission or according to special regulations
- Amounts paid by an employer for the medical treatment of its employees or their dependents, directly or through the employee to the physician or hospital attending the employee, as substantiated by supporting receipts and documents
- Non-cash benefits paid to employees, not exceeding one sixth of the amount of tax exemption mentioned in Article 84 of the DTA
- Fifty percent of the employment income of employees working in less developed regions
- Salaries from a foreign source paid to various government, diplomatic or consular personnel who are not citizens of Iran, subject to reciprocity
- Salaries of foreign experts posted to Iran by a foreign government or institution under technological, economic, scientific or cultural grants in aid, in respect of the salary they receive from their respective governments or from said international institutions.

2. Social security and pension requirements

Registration requirements

Payroll social security contributions

All employees working in Iran should be covered by the employer under the contributory social security scheme of Iran. The social security charge is levied on a maximum ceiling, which is presently IRR6,196,155 per day effective from 1 Farvardin 1400 (21 March 2021) per day for the Iranian fiscal year ending 20 March 2022. In preparing monthly payrolls, the number of days of the month (per the Iranian calendar) must be considered for the calculation of social security premium. The monthly ceilings are IRR192,080,805 for 31-day Iranian calendar months (months 1 to 6), IRR185,884,650 for 30-day Iranian calendar months (months 7 to 11), and IRR179,688,495 for the last Iranian calendar month which has 29 days. The employee's contribution is 7%, and the employer's share is 23% for Iranian employees and 20% for expatriate employees.

Iran has a Pay-As-You-Earn (PAYE) system for the payment of payroll social security contributions. Employers should file a monthly payroll list with the Social Security Organization (SSO). Applicable social security contributions (both employee's and employer's shares) should be paid to the SSO with the monthly payroll list.

There are fines (for the employer) for not paying or late payment of social security contributions, and for not filing payroll lists. Employers must choose Iranian calendar months for salary social security filing and payment purposes.

The deadline for paying social security contributions and filing the payroll list with the SSO is the end of the Iranian month following the month in which salaries are paid, or salary expense is booked. Iranian months end on the 19th, 20th, 21st, or 22nd of Gregorian months.

Expatriate personnel might be exempted from the Iranian social security charge if they can prove to the SSO that they are insured under a similar scheme in their country of domicile. In order for a foreign employee to be exempt from Iranian social security, the employee must provide a certificate from his or her home country which states that he or she is covered under a similar scheme with the same coverage as required by the Iranian Social Security Law. The certificate must also be endorsed by the relevant Iranian Consular Office. The coverage must include accidents, sickness, pregnancy, wage compensation, disability, retirement, and death.

In general, the SSO is quite strict in granting exemptions, and, in any case, if exemption is granted, a compulsory accident insurance (premium is 3% of salary and fringe benefits – no ceiling – and is deductible from the employee's pay) must be paid instead.

Two-sevenths of the employee's share of the social security contribution is deductible from the taxable income of the employee.

Tax returns and compliance

Iran has a PAYE system for the payment of salary tax. Employers should file a monthly payroll list with the Tax Office. Employers can choose either Iranian or Gregorian calendar months for salary payment. However, for salary tax payment and filing, Iranian calendar months must be used. As such, it is recommended that Iranian calendar months be used for salary payment as well. Applicable salary tax should be paid to the Tax Office with the monthly payroll list. There is no requirement to file individual tax returns in Iran with respect to the employment income.

Pension requirements

Per local Social Security law, the following individuals can benefit from pension:

- A man to have reached the age of 60, and a woman to have reached 55 years of age having paid at least SSO premium for 10 years prior to requesting requirement.

Note 1: Any individual who has worked full-time for 30 years and has paid the SSO premium for the term in question, can apply for a retirement pension (if the man is 50 years old and the woman is 45 years old).

Note 2: Insured individuals with 35 years of work and full SSO premium pay history can apply for retirement claim regardless of their age.

Note 3: Female workers can retire with 20 days of salary on a condition that they have 20 years of work experience and 42 years of age and have paid their SSO premiums fully.

3. Employment obligations

Employment contract

Employment contracts are required to be in writing, with two copies maintained in Farsi. The employer and employee each keep one copy of the employment contract, which must include certain information as specified in the Labor Law.

Working hours

As per the Labor Law, employees should not work more than 44 hours over a six-day (eight hours on five days, and four hours on the sixth day) working week. It is common practice that private sector employees work five days a week, usually Saturday to Wednesday.

Annual leave

According to the Labor Law, each employee is entitled to receive 30 vacation days which includes four Fridays (but excludes other holidays). If a company has two weekend days (for example, foreign companies and embassies usually have Friday and Saturday as their weekend), the employee shall be entitled to receive 22 vacation days which are working days. The employee therefore accrues vacation days starting from the first day of employment at the rate of 1.83 days per month. Furthermore, according to the Labor Law, an employee can carry over maximum nine days of leave from one year to the next; however, this is cumulative. That is, if an employee has worked 10 years for a company and is in his or her 11th year of employment, the employee could potentially have carried over 90 days of leave. If this employee has more than 90 days, say, 120 days, unused leave and is being terminated, the company may compensate the employee for the 120 days. However, according to the Law, the company has to compensate the employee for 90 days unused leave only.

Public holidays

Every employee is entitled to full pay for official holidays designated by the government. If employees are required to work during official holidays, they are entitled to overtime (paid at 1.4 times their normal rate). The weekly days off and the official holidays shall not be counted as part of the annual leave.

Sick leave

Each employee is entitled to three sick leave days per month. That is, the employer is only obliged to pay for three days of sick leave per month to an employee. Therefore, if an employee is sick for

up to three days in a payroll month, he or she will receive the full month's salary for that month. It is at the employer's discretion to require that the employee present a doctor's letter.

If an employee is sick more than three days in a payroll month, the situation becomes different. It is best to use an example here. Let us assume that an employee, whose monthly gross salary (base salary and all benefits) is IRR15,000,000, is sick for 10 days in a 30-day payroll month. In such a case, the employer only pays 20 days salary to the employee

The employee's gross salary for the month becomes $15,000,000 \times 20/30 = \text{IRR}10,000,000$. Salary tax and social security premium for the employee will be calculated based on gross salary of IRR10,000,000.

The employee can then refer to the relevant SSO office after the payroll list for that month is filed with the SSO. The employee must go to the SSO office and present the doctor's letter that indicates the number of days (i.e., 10 days) the employee was sick. The SSO has its own formula for calculating how much to pay to the employee (there are certain deductions including the social security premium). The employee will not receive the full 10 days' salary; the amount is less (approximately 2/3 of the full amount). However, what the employee receives is not subject to tax. The employee's employment record with respect to social security will remain intact.

The social security law is silent with respect to how many days sick leave the SSO shall pay an employee. Usually up to one month does not require any investigation by the SSO. However, if the employee remains sick and is not able to go to work for a longer period, a special committee within the SSO reviews the case and, based on evidence submitted, decides whether it will continue to pay the employee or not.

Performing pilgrimage

Every worker shall have the right to benefit from one month of privilege vacation or vacation without pay for performing the obligatory Hajj pilgrimage only once during the entire period of his or her work.

Maternity leave and paternity leave

Currently, the period of maternity leave for which the Social Security Office (SSO) pays the employee is six months. Maternity leave can start as early as three months before the date the baby is due. For the past couple of years, there have been discussions to increase maternity leave to nine months and also provide 15 days paternity leave for expecting fathers, to be covered by the SSO as well. However, the relevant directive has not been issued yet. Therefore, for now, it can be assumed that the period of maternity leave is six months and there is three days of paternity leave.

There are no such things as "paid" or "unpaid" leave for maternity. The employer does not pay anything to the employee during her maternity leave; the SSO does. As soon as the pregnant employee presents a letter from the doctor to her employer, mentioning the employee must go on leave, the employer shall take her out of the payroll. After six months, when she is back from her leave, she must take all the documents that the SSO requires to the relevant SSO office and receive her salary for that period. At the same time, she may resume work and be on the employer's payroll.

The amount she shall receive from the SSO is approximately two-thirds of her normal monthly salary (up to the SSO ceiling) and shall not be taxable. The employee may agree on a special arrangement with the SSO to receive a monthly amount on-account. At the end of six months, the on-account amounts shall be deducted from what the SSO is going to pay her.

Mission or assignment allowance

According to the Iranian Labor law, any worker who by contract or subsequent agreement is assigned to a mission away from the workplace shall be entitled to an assignment allowance. This allowance shall not be less than the fixed daily wage or basic wage of the worker. Furthermore, the employer shall be required to provide transport or to cover travel costs. This arrangement shall apply when the worker must travel 50 kilometers or more from his or her principal workplace in order to discharge his or her duties, or where the employee must spend at least one night at the place of assignment. Even when an employee travels outside the 50-kilometre radius of his or her place of work for not the full day, the employee is entitled to receive a full day mission pay for that day. Mission pay is exempt from salary tax.

Allowances and fringe benefits

The following allowances and fringe benefits must be provided by employers to employees in the Iranian year 1400 (Iranian calendar year commencing on 21 March 2021 and ending on 20 March 2022):

- A monthly housing allowance of IRR3,000,000 is payable to every employee.
- Monthly child allowance payable to any employee with children is IRR2,655,495 per child per month.
- Monthly employer's contribution for the purchase of employees' subsidized vouchers of essential consumable goods: IRR6,000,000
- At the end of each Iranian calendar year, each employee is entitled to receive an end-of-the-year bonus, the amount being the lower of two months (60 days) salary or 90 days minimum daily wage (currently IRR885,165, prorated for the number of days worked in that Iranian calendar year).

The above allowances should be added to the employee's base salary and are subject to salary tax.

Annual increment

Employees are entitled to an annual salary increase the percentage of which is announced by the government on an annual basis. The minimum mandatory annual increase in the Iranian year 1400 (effective 21 March 2021) was 26% plus a flat IRR82,785 per day provided that the daily wage does not fall below the minimum daily wage of IRR885,165. In addition, a daily annuity of IRR46,667 is also payable to those workers who have worked one year (i.e., for the whole of Iranian year 1399) for their current employer.

Overtime pays

The overtime premiums for normal pay overtime worked during daylight, as well as weekends and holidays is 40% of basic salary.

Bonuses

The only mandatory bonus in Iran is the New Year's (Norooz) bonus. According to the directive issued by the Ministry of Labor and Social Affairs, Norooz bonus is payable on the basis of 60 days (two months) of last salary, provided that the amounts paid in this respect do not exceed 90 days minimum wage. Accordingly, the maximum compulsory amount of Norooz bonus for Iranian year 1400 (ending 20 March 2022) is IRR79,644,850 and the minimum compulsory amount is IRR53,109,900. For employees with less than one full year of employment, the above limits will be observed pro rata.

Although employers can voluntarily pay bonuses in excess of the above limits, it should be noted that since Norooz bonus is legally exempt from payroll social security, amount paid in excess of the limits may be subject to payroll social security by the Social Security Organization.

New Year bonuses or year-end allowances aggregating one twelfth of the amount of the tax exemption mentioned in Article 84 of the DTA are exempt from tax.

Minimum wage

The minimum wage in year 1400 is IRR885,165.

Termination of employment

The employment agreement may be terminated in any of the following cases:

- a) Death of worker
- b) Retirement of worker
- c) Total disability of worker
- d) Expiry of duration of definite employment agreements and their non-renewal explicitly or implicitly
- e) Completion of work in the contracts for specific task.
- f) Resignation of worker

Note 1: Any worker tendering his or her resignation shall be obligated to remain on the job for one month, and to initially notify the employer of the resignation in writing. Should a worker notify the employer of his or her intention to withdraw his or her earlier resignation in writing within a period of 15 days, such resignation shall deem to be void, and the worker shall be required to submit copies of the resignation letter and the subsequent letter withdrawing his or her earlier decision to the Islamic Council of the workshop or the guild Society or the workers' representative.

Upon completion of work, all claims arising out of the employment agreement and the period of employment in the above cases shall be paid to the worker, and in the event of his or her death, to his or her legal heirs.

Note 2: So long as the heirs are not legally known and administrative procedures, have not been carried out, the Social Security Organization (SSO), shall be under the obligation to pay on account, the salary of the deceased to his or her dependent family members for a period of three months at the rate of the last salary.

In terms of receipt of salary or pension arising out of death, sickness, retirement, unemployment, suspension, total or partial disability or protective regulations and conditions relating to them, workers shall be covered by the SSO.

In the event of termination of the agreement, completion of definite works or expiry of definite agreements, the employer shall be required to pay to a worker who has worked on the job for one year or in excess of it under an agreement, an amount equivalent to one-month salary for each year of continuous or alternate service at the rate of the last salary as severance benefits.

In cases where an employment agreement has been concluded for a definite period or for performance of a specific work, neither party may cancel it unilaterally.

Note 3: Disputes arising out of such employments shall be decided by the fact-finding board and dispute settlement board.

Probation period

The parties may, through mutual agreement, determine a period as probation period. In the course of this period, either party shall have the right to terminate the agreement without prior notice and without any obligation to indemnify damages. Should the work relationship be terminated by the employer, the employer would be under the obligation to pay the salary for the whole probation period. If such a move is taken by the worker, he or she shall be entitled to collect salary only for the period of performance of work.

Note: The duration of the “Probation Period” must be stated in the employment agreement. This period shall not exceed one month in case of unskilled and semi-skilled workers, and three months in case of skilled workers possessing high level specialization.

End of service benefit

The Labor Law says that when an employee retires, resigns, or is let go, the company must pay at least onemonth latest salary for every year the employee has been employed by the company as severance pay. For a partial year, the severance pay is prorated. The Labor Law does not put any cap on what can be paid as severance pay.

Severance pay is exempt from salary tax. However, the Tax Law is silent on the maximum amount of severance pay that is exempt from salary tax. As such, different tax inspectors deal with the taxation of severance pay subjectively, and thus, differently.

4. Payroll requirements

Generally, there are no specific regulations with regards to payroll in Iran. However, the minimum requirements as per the Iranian Labor Law as well as Social Security Law need to be adhered to. This means that salary/wages must be paid at least monthly, unless otherwise agreed as per the employment contract (in case daily or hourly arrangements are stipulated) and every employee needs to be covered under the contributory social security scheme (refer to Section 2 for further details).

5. Banking requirements related to payroll

Generally, there are no specific regulations with regards to payroll and banking in Iran. However, the following need to be adhered to:

- Payments for salary/wages needs to be made to a designated bank account of the respective employee.
- As part of the monthly payroll process, bank letters are drafted outlining the number of salary/wages, the name(s) of the respective employee(s) and the designated bank account(s). Based on the same, the bank of the employer is instructed to transfer the respective payments to the designated bank account(s).
- Due to current banking restrictions in light of sanctions against Iran, overseas payments are currently not feasible/difficult to facilitate. Hence, for the payment of salary and wages, Iranian banking systems are used.