

Tax Treaty Between Bangladesh and Iran – Details

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Report from Nina Umar, Editor, IBFD

Details of the [Bangladesh – Iran Income Tax Treaty \(2022\)](#), signed on 8 October 2022, have become available. The treaty was concluded in the English, Bangla and Persian languages, each text having equal authenticity. In the case of divergence, however, the English text prevails. The treaty generally follows the [OECD Model \(2014\)](#).

The maximum rates of withholding tax are:

- 15% on dividends, but 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends throughout a 365 day period that includes the day of the payment of the dividend;
- 10% on interest, subject to exceptions;
- 7.5% on royalties; and
- 7.5% on service fees (managerial, technical and consultancy).

Deviations from the [OECD Model \(2014\)](#) include that:

- article 5 (Permanent Establishments) of the treaty largely follows the [UN Model \(2017\)](#). The treaty includes the following definitions for permanent establishment (PE):
 - a sales outlet (article 5(2)(g)) and a farm, plantation or other place where agriculture, forestry, plantation, or related activities are carried on (article 5(2)(h));
 - a building site, a construction, assembly or installation project or related supervisory activities, if such site, project or activities last or continue for more than 270 days (article 5(3)(a));
 - the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only if activities of that nature continue (for the same or a connected project) within a contracting state for a period or periods aggregating more than 183 days within any 12-month period (article 5(3)(b));
 - an installation or drilling rig or ship used for the exploration of natural resources if the activities continue for more than 6 months (article 5(4)); and
 - an insurance enterprise of a contracting state in the other contracting state if it collects premiums in the territory of that other state or insures risks situated therein through a person other than an agent of an independent status (article 5(9)).
- article 7 (Business Profits) generally follows article 7 of the [UN Model \(2017\)](#), but it does not include a force of attraction rule. In addition, article 7(4) provides that no profits should be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise. Article 7(6) provides that a contracting state is not allowed to make adjustments to the profits that are attributable to a PE of an enterprise of one of the contracting states after 6 years from the end of the taxable year in which the profits would have been attributable to PE, except in the case of fraud, gross negligence or wilful default of tax compliance obligations;
- article 8(2) provides that profits of an enterprise of a contracting state derived in the other contracting state from the operation of ships in international traffic may also be taxed in the other contracting state at the flat rate of 4%. However, in case of any changes in the domestic tax law of that state which result in a lower tax rate on shipping activity, or any lower rate agreed upon with any other state in this area, the lower rate will be applicable;
- article 9 (Associated Enterprises) generally follows article 9 of the [UN Model \(2017\)](#). Article 9(3) provides that a contracting state should not include in the profits of an enterprise, and tax accordingly, profits that would have accrued to the enterprise but not accrued due to the reason of the conditions referred to in article 9(1), after 6 years from the end of the taxable year in which the profits would have accrued to the enterprise. This provision is not applicable in the case of fraud, gross negligence or wilful default;
- article 12 (Royalties) generally follows article 12 of the [UN Model \(2017\)](#);
- article 13 (Fees for Technical Services) follows article 12A of the [UN Model \(2017\)](#);
- the treaty includes article 14 on independent personal services;
- article 18(3) provides that income derived by an entertainer or a sportsperson who is a resident of a contracting state from the activities performed in the other contracting state within the framework of a state-sponsored cultural agreement concluded between the contracting states will not be taxed in the other contracting state;
- article 19 (Pensions) generally follows article 18 of the [UN Model \(2017\)](#);
- article 21(2) includes the provision that the remuneration received by a teacher or by an instructor when visiting another contracting state solely for the purpose of teaching or engaging in scientific

research for a period not exceeding 2 years will be exempt from tax in the other contracting state, provided that such payments arise from sources outside that other state;

- article 22(3) provides that items of income of a resident of a contracting state not dealt with in the treaty and arising in the other contracting state may also be taxed in that other state, at a rate not exceeding 50%; and
- article 25(2) provides that any agreement reached within a time limit of 6 years from the first notification of the action resulting in taxation not in accordance with the provisions of the agreement, will be implemented notwithstanding any time limits in the domestic law of the contracting states.

Both states apply the credit method for the avoidance of double taxation.

The treaty provisions generally apply for Bangladesh from 1 July of the year following the entry into force and for Iran from 20 or 21 March in the next calendar year following the entry into force (article 30).

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