January 2026

ELITE PARS

Law Firm

ELITE PARS
Law Firm

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

Introduction

Established in 2019, Elite Pars is a boutique law firm with professional lawyers and legal minds as its core team. Lawyers at Elite Pars render legal advice on a wide range of matters in parallel to dealing with various local, regional and international arbitration and litigation cases.

Elite Pars draws strength from its diversity. We recruit from a wide variety of backgrounds, seeking out the best and those with the highest potential and we invest in their development. Our profound knowledge of assorted legal areas, enables us to efficiently guide our clients through the most complex matters they are facing. Furthermore, our practical experience provides us with insights that help us assist our clients in achieving their legal goals.

In case you have any queries regarding this document or would like to inquire as to how we could serve you best, please feel free to contact our partners Dr. Navid Sato and/or Dr. Nima Nasrollahi via n.sato@elitepars.com and/or n.nasrollahi@elitepars.com.

ELITE PARS
Law Firm

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

LEGAL UPDATE: JANUARY 2026

UPDATED GUIDELINES ON PENALTIES FOR NON-COMPLIANCE WITH TRANSACTION REPORTING

Iran's National Tax Administration (INTA) has recently issued a comprehensive circular detailing the procedures for handling tax penalties under Article 169 repeated of the Direct Taxes Law, effective for the fiscal year 1404 (corresponding to 2025-2026 in the Gregorian calendar). This directive, outlines a structured approach to imposing fines for failures in providing transactional information, issuing invoices, and maintaining records—issues often associated with tax inactivity or perceived non-activity in business operations. While the circular aims to enhance transparency and combat evasion, it introduces heightened risks for businesses, particularly those with intermittent or low activity levels, potentially deterring foreign direct investment (FDI) unless navigated with careful compliance strategies.

The document, spanning multiple pages, categorizes violations into specific articles, each with calibrated penalties based on the nature and severity of the infraction, reflecting the government's push for digitalization and real-time oversight in an economy grappling with inflation, sanctions, and fiscal deficits.

At its core, the circular addresses "tax inactivity," a term encompassing scenarios where entities fail to report activities, leading to assumptions of evasion or underreporting. For instance, Article 1 stipulates a 2% penalty on the transaction value for not issuing or improperly issuing invoices, a common pitfall for companies in transitional phases or those scaling down operations. This is particularly relevant for foreign-invested enterprises in sectors like manufacturing or trade, where supply chain disruptions due to international sanctions might result in sporadic activity, inadvertently triggering penalties if not documented promptly.

The directive emphasizes that penalties are non-waivable in cases of repeated offenses, with escalations up to 10% for failures in submitting quarterly transaction lists (Article 2). Such measures are designed to plug revenue leaks, as Iran's tax-to-GDP ratio remains below regional averages at around 7-8%, compared to 15-20% in neighboring economies like Turkey. However, critics argue this rigidity could exacerbate the challenges for FDI, where investors already face currency volatility and regulatory hurdles.

From a foreign investment perspective, the implications are multifaceted. The circular's focus on mandatory electronic invoicing through the Taxpayers' System aligns with global trends toward digital tax administration, similar to the EU's VAT e-invoicing mandates. This could appeal to tech-savvy international firms, offering streamlined compliance via integrated platforms.

Yet, for smaller joint ventures or subsidiaries of foreign companies operating in Iran, the risk of inadvertent non-compliance is amplified. Consider a scenario where a European firm partners with an Iranian entity for import-export; any delay in reporting due to logistical issues could incur fines equivalent to 1-5% of the deal value (Articles 3-5), eroding profit margins in an already high-inflation environment (projected at 30-40% for 2026). Moreover, the directive's provision for audits and cross-verification with banking data (Article 6) heightens scrutiny, potentially exposing foreign entities to secondary

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

sanctions risks if transactions involve restricted currencies.

The consequences of non-compliance extend beyond financial penalties, impacting operational viability. Under Article 7, repeated failures can lead to suspension of business licenses or restrictions on banking facilities, a severe blow for FDI-reliant sectors like energy or automotive, where Iran seeks $100 billion in foreign capital by 2030 under its Seventh Development Plan. Penalties for not providing employee lists or withholding tax details (Article 8) add another layer, with fines up to 2.5% per month of delay, discouraging labor-intensive investments. In a broader context, this enforcement drive stems from Iran's fiscal needs: with oil revenues volatile due to U.S. sanctions, tax collections surged 50% in 1403 (2024-2025), reaching 800 trillion rials, but evasion estimates hover at 20-30% of potential revenue. For foreign investors, this means proactive risk management—adopting AI-driven compliance tools or partnering with local auditors—could mitigate exposures, turning potential liabilities into competitive advantages.

Analytically, the circular represents a double-edged sword for FDI. On one hand, it promotes a level playing field by penalizing domestic evasion, potentially attracting ethical investors from Asia or the Middle East who value transparent systems. Iran's membership in the Shanghai Cooperation Organization and BRICS could amplify this, as aligned economies like China emphasize anti-evasion measures. On the other, the punitive framework risks alienating risk-averse capital, especially amid geopolitical tensions. Comparable regimes, such as Saudi Arabia's Zakat, Tax, and Customs Authority, impose similar fines but offer amnesty periods for first-time offenders, a leniency absent here. Iran's approach, lacking such buffers, might push FDI toward more flexible markets like the UAE, where tax incentives abound.

Opportunities emerge, however, in compliance-driven sectors. Foreign firms specializing in fintech or ERP systems could capitalize on the demand for invoice automation, as mandated under Article 9, where non-electronic submissions incur automatic 1% penalties. Moreover, the circular's emphasis on proportional fines (Article 10) for minor errors—versus blanket sanctions—suggests room for negotiation in appeals, beneficial for multinationals with robust legal teams. Yet, the broader economic fallout cannot be ignored: with youth unemployment at 25% and private sector stagnation, aggressive taxation on inactive entities could stifle startups, indirectly affecting FDI ecosystems.

In terms of penalties' structure, Articles 11-13 delineate escalatory measures, including asset freezes for unpaid fines exceeding 10% of annual turnover, a deterrent for high-value investments. This echoes global best practices, like the U.S. IRS's lien provisions, but in Iran's context, it amplifies currency repatriation risks. For instance, a foreign oil services company idling operations due to sanctions might face "inactivity" penalties if not formally declared, leading to compounded losses. The directive's call for quarterly audits (Article 14) further burdens administrative costs, estimated at 2-5% of revenues for SMEs, potentially eroding FDI returns in a market with 15-20% average ROI in non-sanctioned sectors.

Critically, while the circular logically aims to boost collections—targeting 1,000 trillion rials in 1404—it overlooks systemic issues like corruption perceptions (Iran ranks 149/180 on Transparency International's index), which

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

deter FDI more than penalties. Reforms, such as digital portals for real-time appeals (hinted in Article 15), could enhance attractiveness. For prospective investors, due diligence on local partners' compliance history is paramount, as joint liability clauses could expose foreign entities to inherited fines.

Ultimately, this update underscores Iran's pivot toward stringent fiscal governance, a necessity amid budget deficits projected at 400 trillion rials for 2026. For FDI, the logic is clear: while penalties pose short-term hurdles, long-term opportunities lie in sectors resilient to enforcement, like renewables or tech, where compliance yields tax credits. Investors should view this as a call to integrate advanced tax tech, ensuring inactivity periods are documented via affidavits, thus avoiding pitfalls. In a global landscape where tax transparency drives ESG investing, Iran's measures, if balanced with incentives, could position it as a reformed player, drawing billions in sustainable capital. However, without mitigating investor concerns, the directive risks isolating the economy further, underscoring the need for policy adaptability to foster international trust.

STRICTER PENALTIES FOR NON-FILING TAX RETURNS UNDER IRAN'S 1404 FISCAL REFORMS HIGHLIGHT RISKS FOR INACTIVE BUSINESSES AND FOREIGN VENTURES

In a move to bolster revenue amid persistent economic challenges, Iran's tax authorities have reinforced penalties for non-filing of tax returns in the fiscal year 1404, as outlined in various directives from the National Tax Administration. This development, building on amendments to the Direct Taxes Law, imposes non-waivable fines of up to 30% on undeclared income for legal entities and 10% for individuals, targeting "tax inactivity"—a catch-all for businesses that fail to submit declarations despite registration. Such measures, while aimed at curbing evasion estimated at 20-30% of potential collections, pose significant hurdles for foreign investors, particularly those in joint ventures or exploratory phases where operations may remain dormant due to sanctions or market volatility. The emphasis on timely filings, with deadlines extended marginally to August 1404 for value-added tax (VAT) declarations, underscores a shift toward zero-tolerance enforcement, potentially impacting FDI inflows projected at $5-10 billion annually under the government's diversification plans.

Tax inactivity, often misinterpreted as zero liability for non-operational entities, triggers automatic penalties under Article 192 of the Direct Taxes Law. For companies registered but not filing, fines equate to 30% of assessed taxes, non-forgivable, leading to assumptions of concealed income. This is critical for foreign-backed firms in sectors like petrochemicals or mining, where initial setups might involve minimal activity while awaiting approvals. Recent data from the INTA indicates over 100,000 entities flagged for inactivity in 1403, resulting in 184 trillion rials ($1.5 billion) in recovered dues through audits—a 50% increase year-over-year. For FDI, this means heightened due diligence: a European investor in a Tehran-based JV could face fines if local partners delay filings, eroding equity and complicating profit repatriation amid currency controls.

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

The consequences ripple through operational and financial spheres. Non-filing not only incurs direct penalties but also bars access to exemptions under Article 101, including up to 288 million rials annual income thresholds for individuals.

In an economy where inflation hovers at 35-40%, this amplifies costs for foreign entities hedging against rial devaluation. Moreover, repeated non-compliance can lead to license suspensions or banking restrictions (per Article 193), stalling projects in high-potential areas like renewables, where Iran aims for 10 GW capacity by 2030 with foreign tech. Comparatively, Turkey's tax regime offers amnesty for first offenses, attracting more FDI ($13 billion in 2025), while Iran's rigidity might divert capital to more lenient GCC markets.

From an analytical standpoint, these penalties logically address fiscal gaps—tax revenues hit 800 trillion rials in 1403—but overlook FDI sensitivities. Sanctions have reduced oil income to 30% of budgets, pushing non-oil taxes to 50%, yet evasion persists due to opaque systems. For investors, opportunities lie in compliance tech: adopting ERP systems for automated filings could mitigate risks, as seen in successful Chinese-Iranian JVs in infrastructure. However, the 2.5% monthly late payment fine (Article 190) compounds issues for delayed projects, potentially adding 30% annually to liabilities.

Broader implications for FDI include reputational risks. Non-compliance listings on public portals deter partnerships, as global firms prioritize ESG compliance. Iran's BRICS accession could harmonize standards, but current penalties risk isolation. In contrast, India's GST offers rebates for compliant exporters, boosting FDI to $80 billion. Iran's framework, lacking such incentives, might hinder goals under the Seventh Plan, targeting 8% growth via foreign capital.

Penalties for specific non-filings vary: undeclared VAT incurs 2% monthly fines (Article 37), critical for import-heavy FDI. For inactive companies, declaring via affidavits avoids assessments, but failure leads to ali-al-ras calculations—arbitrary taxes based on presumed income. A case study: a U.S.-linked firm (pre-sanctions) faced 20% fines for non-filing during downtime, leading to withdrawal. Today, Asian investors mitigate via local SPVs, but penalties underscore needs for robust advisory.

Critically, while penalties enhance revenue, they exacerbate inequality: small FDI entrants bear disproportionate burdens versus state-linked entities. Reforms like digital amnesties could attract $20 billion in tech FDI, aligning with global norms. For investors, strategic filing—even zero-activity declarations—preserves exemptions, turning compliance into an asset.

In sum, these reforms signal enforcement vigor but demand FDI adaptation. Logical pathways include hybrid models: foreign firms leveraging local expertise for filings, capitalizing on sectors like tourism (exempt under certain thresholds). Without balancing penalties with incentives, Iran risks missing FDI targets, underscoring policy evolution's necessity for sustainable growth.

ELITE PARS
Law Firm

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

ENHANCED FINES FOR UNDECLARED EXPORT EARNINGS IN IRAN'S 1404 REGULATIONS POSE NEW CHALLENGES FOR FOREIGN TRADE AND INVESTMENT

Iran's fiscal authorities have intensified penalties for non-declaration of export earnings in the 1404 calendar, as part of broader reforms to the Currency and Export Regulations under the Central Bank of Iran (CBI). This initiative, detailed in recent INTA guidelines, mandates repatriation of export proceeds within specified timelines, with non-compliance fines up to 10% of undeclared amounts plus monthly accruals. Framed as a counter to "tax inactivity" in export sectors—where firms fail to report or remit foreign currency—the measures aim to stabilize reserves amid sanctions, but they introduce complexities for foreign investors in trade-dependent ventures, potentially curbing FDI in key areas like commodities and manufacturing.

Non-declaration, often linked to inactivity in remittance due to market fluctuations, triggers penalties under CBI's Resolution 1404/115. Exporters must declare earnings via the NIMA system, with failures incurring 2-10% fines based on delay duration (Article 1). For FDI entities, this is acute: a German-Iranian JV exporting petrochemicals might face 5% penalties if sanctions delay transfers, treating it as inactivity. INTA reports 75% compliance in 1403, but evasion costs $4.5 billion annually, prompting stricter audits. This aligns with global anti-evasion efforts, like the OECD's BEPS, but in Iran, it amplifies risks amid 40% inflation and rial volatility.

Consequences extend to operational disruptions: non-compliance bars access to incentives like zero-rate VAT (Article 9), critical for export-oriented FDI. Monthly 2.5% accruals (Article 190 equivalent) compound liabilities, eroding margins in sectors with 15-20% ROI. Broader impacts include license revocations for habitual offenders, deterring long-term investments. Comparatively, Vietnam's export rules offer grace periods, attracting $30 billion FDI in 2025, versus Iran's $2-3 billion.

Analytically, penalties logically bolster forex reserves ($20-30 billion est.), but overlook FDI barriers. Sanctions limit banking, forcing informal channels prone to misdeclaration. Opportunities for investors: fintech solutions for compliant remittances could thrive, as CBI pushes digital platforms. However, joint liability risks expose foreign parents to fines.

Critically, while enhancing collections, measures risk FDI flight to flexible markets. Balancing with rebates could unlock $15 billion in export FDI, fostering growth.

REVISED CURRENCY SUPPLY RULES FOR IMPORTS SIGNAL TIGHTER CONTROLS, POTENTIALLY STIFLING FOREIGN INVESTMENT INFLOWS

The Central Bank of Iran has amended its instructions on commercial currency transactions, mandating that imports of goods and services to mainland or free zones require formal service registration with a bank and sourcing from specified foreign exchange channels, including self-owned funds, third-party resources, or the Currency and Gold Exchange Center, often necessitating high-

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

level executive approvals from ministers or relevant authorities. This reform shifts responsibility for compliance with domestic production support laws to approving entities and introduces special provisions for major petrochemical, steel, and refining firms to use export earnings for essential imports, subject to annual caps set by export return committees. From a critical standpoint, while intended to enhance oversight and prevent duplicate allocations, these rules could logically impede foreign investment by introducing layers of red tape and excluding central bank resources for free zone services, thereby raising costs and uncertainties for international ventures. Opportunities may arise for savvy investors in joint ventures with approved exporters, but the emphasis on ministerial confirmations risks politicizing transactions, potentially discouraging FDI unless reforms prioritize efficiency to align with global trade norms.

CENTRAL BANK INTRODUCES MURABAHA CURRENCY BONDS TO BOLSTER FOREIGN FINANCING AMID REGULATORY HURDLES

Iran's Central Bank has rolled out updated guidelines for issuing Murabaha currency bonds, aiming to facilitate foreign currency financing for imports of goods and services under Islamic financial principles, with a cap of 300 million euros per project expandable with approval.These bonds, representing ownership in debt from Murabaha contracts, are issued through the Iran Currency and Gold Exchange Center and involve key players like issuers, guarantors, and auditors to ensure compliance and transparency. While this mechanism could attract foreign investors seeking Sharia-compliant opportunities in Iran's import-driven sectors, critics argue the heavy reliance on central approvals, quarterly reporting, and restrictions on secondary trading without permission may deter international participation due to perceived bureaucratic rigidity and currency transfer risks. Nonetheless, the bonds present a logical avenue for foreign direct investment in infrastructure and commodities, potentially easing access to global markets if paired with streamlined processes, though the prohibition on using export-linked currency for purchases underscores ongoing challenges in balancing domestic export commitments with inbound capital flows.

ELITE PARS
Law Firm

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

Dr. Navid Rahbar Sato

Managing Partner

Dr. Navid Rahbar Sato is a founding partner and the managing director of Elite Pars Law Firm. He is a qualified international and domestic lawyer in the Iranian market with a primary focus on cross border transactions and oil and gas law. With several years of experience, he has extensive comprehension of the national, regional and international commercial legal systems. He also handles litigation and arbitration cases where he sets out the legal strategies and heads the team in the process. He particularly advises clients on energy law, foreign direct investment, incorporation, mergers and acquisitions as well as import and export regulations in the region including sanctions' compliance matters.

Navid holds an SJD from Washington College of Law and is a Vanderbilt LL. M. graduate of NYU School of Law and an International Trade Law LLM graduate of the American University of Washington D.C. He is an assistant professor at Shahid Beheshti University of Tehran.

Navid speaks fluent Farsi and English, as well as basic French and Japanese.

Email: n.sato@elitepars.com

Dr. Nima Nasrollahi Shahri

Partner

Dr. Nima Nasrollahi Shahri is a founding partner at Elite Pars Law Firm and heads the energy, investment law and arbitration practices of the firm. He is a seasoned lawyer in the field of oil and gas and renewable energies and has advised major international oil companies with respect to their participation in Iranian oil and gas projects. He holds a PhD in International Investment Law and has completed the LL. M. program of University of Dundee in Petroleum Law and Policy. He has a long list of Persian and English publications and is currently the director of oil and gas law LL. M. program at the University of Science and Culture in Tehran where he is now supervising several dissertation theses, mostly related to the same field as well as commercial arbitration. Nima regularly does pro bono educational activities. He speaks Farsi, fluent English and intermediate French and Arabic.

Email: n.nasrollahi@elitepars.com

No. 42, Soltani (Sayeh) St. Nelson
Mandela Ave. Tehran, Iran.
Postal Code: 1967733818.
Telephone: +98 21 22016586

CONTACT US:
Tel. +98 21 22 01 6586
Fax. +98 21 22 01 8928
Email: Info@elitepars.com
www.elitepars.com
ADDRESS:
Second floor, 42 Soltani (Sayeh) St. Nelson Mandela Ave. Tehran. 1967733818