



GRATA
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DOING BUSINESS IN MONGOLIA - 2021

GRATA International Mongolia

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Business Climate

Tremendous mineral reserves, agricultural endowments, and proximity to Asia's vast markets make Mongolia an attractive destination for medium to long-term foreign direct investment (FDI). The Gross Domestic Product (GDP) in Mongolia is worth 16.20 billion US dollars in 2020. The GDP value of Mongolia represents 0.02 percent of the world economy. GDP in Mongolia averaged 4.44 USD Billion from 1981 until 2018, reaching an all the time high of 13.01 USD Billion in 2018 and a record low of 0.77 USD Billion in 1993. The significant features and advantages of Mongolia:

- Diversified and growing market exists in Mongolia;
- Technology Innovation Hub;
- Large mineral resource base that can be leveraged for value added processing;
- Developing Industry and Infrastructure;
- A bridge between the two economic powerhouses of Russia and China;
- Young, well-educated population;
- Private Sector & Privatization /privatize major state assets, list Mongolian conglomerates and exploration license aggregators on MSE/;
- PPP & Modernizing Infrastructure;
- Rule of law & Regulatory Quality & Transparency;
- Ensuring guarantee for investors /tax & nontax/;
- Promising mega projects; and
- Thriving Telecoms & IT sector.

International framework: Mongolia is persistently discussing to enter bilateral and multilateral agreements and actively participates in the process of regional integration. Till to this day, Mongolia has established Foreign Investment Protection and Promotion Agreement with 43 countries and Double Taxation treaties with 26 countries. Moreover, Mongolia is the member of the Seoul Convention establishing the Multilateral Investment Guarantee Agency and Washington convention on the Settlement of Investment Disputes. Consequently, in April, 2014, Mongolia has introduced its investment policy and the law to UN Conference on Trade and Development /UNCTAD/.

Analyzing the overall performance of Mongolia on a global level, international indexes of different type have shown the following results:

- According to the World Bank's "Doing business – 2020" report, Mongolia is ranked 81st among 190 economies in the "Ease of doing business"; and
- According to "Index of Economic Freedom 2021" by Heritage Foundation organization, Mongolia's economic freedom score is 62.4 and is ranked 86th among 178 countries. The scores in the categories such as Judicial Effectiveness and Government Integrity are low.

Law on Investment /2013/: In 2013, the Parliament of Mongolia passed a new law on investment, which replaced both the old Investment law of 1993 and the Law on Strategic

sectors. The new Investment law enables as open as possible investment environment for investors focusing on:

- No approval is required to enter into the market and buy a local company;
- No discrimination between foreign and local investors;
- Fast registration process;
- Stability guarantees- Provision of Tax stabilization certificate; and
- Flexibility and friendly conditions for investors.

Investment types:

- Joint Ventures, Consortium;
- Mergers and Acquisition;
- Concession (PPP), Product sharing, management contract;
- Bond, Securities and other assets;
- Financial leasing, Franchising; and
- Other investment types.

Legal forms for doing business in Mongolia

Despite the fact that Mongolian legislation provides for a wide range of legal forms of commercial entities (limited liability company or LLC, joint-stock company or JSC and joint venture), in practice, private businessmen and foreign investors mostly prefer with foreign invested LLC. Representative office of foreign legal entities is also common.

Limited Liability Company (LLC) with a foreign investment

According to the law, a foreign invested company is defined as “a business entity with an overall equity of US\$100,000 or more (or MNT equivalent), where not less than 25% must be owned by (a) foreign investor(s)”. Investments into Mongolia can be made in the following ways:

- By establishing a solely or jointly owned business entity;
- Through the purchase of a Mongolian companies’ shares, bonds, and other types of securities;
- Through merging or wholly acquiring Mongolian and foreign companies;
- Through the establishment of franchise or financial leasing agreement; and
- In other ways acceptable and not prohibited by law.

If two or more investors are planning to incorporate a foreign invested LLC in Mongolia, each investor must invest 100,000 USD or MNT equivalent.

An LLC is the most frequently used form of a legal entity established by one or more individuals or legal entities – founder/s/ or investor/s/ – who are not liable for its obligations while bearing the risk of losses related to the company’s activity to the extent of their personal contributions (participatory interests). The liability of the company is limited to its assets.

The bodies of a limited liability company are:

- a) the supreme body of a company shall be the Meeting of Shareholders(MoS).

LLC has exclusive powers with respect to the issues covering business, finance, management, and structure of the company.

- b) The executive body of a company (individual or collective).

The day-to-day management of the company is performed by the Director (individual executive body) or Board of Directors (collective executive body), who are elected at the MoS. Under Charter of the company, power of management or management team shall be defined clearly. The authorities entrusted to the Board of Directors shall be specified in the Charter of the company. The company may also have a Supervisory Board, which is, however, not mandatory.

Any amendment on Charter such as change of shareholder, address or business activity is required to be registered at the State Registration authority per relevant laws.

The state registration certificate of the LLC with foreign investment has a term of 1 or 2 years. Prior to expiry date of the state registration certificate, the representative of the LLC with foreign investment shall apply for extension.

Joint-Stock Companies (JSC)

A JSC is a legal entity, which issues shares in order to raise capital for its activities. The types of JSC shall be open or closed. An "open JSC" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities trading organization and which may be freely traded by the public. A "closed JSC" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities depositing organization, and which are traded in the market in a closed extent outside of the securities trading organization.

The open JSC may have an unlimited number of shareholders. Shareholders are not liable for the obligations of the JSC, but bear the risks of losses within the value of their shares. A JSC has assets separated from the assets of its shareholders, and shall not be responsible for their obligations.

The JSC is managed by the Meeting of Shareholders (MoS), Board of Directors, and Executive Body. The MoS is the supreme management body of a JSC, which decides upon the most priority issues such as the company's management, administration, business policy, corporate structure, financial aspects, elections and some other issues.

The Board of Directors performs overall management of a JSC covering lower priority issues such as finances, policies development and implementation, etc., except for the issues referred by the Law and the Charter to the exclusive competence of the MoS.

The management of daily activities shall be performed by the Executive Body. The Executive body may be collective or individual. The Executive Body shall have the right to undertake decisions on the issues relating to the company's activities, which are not considered by the laws/legislative of Mongolia and the company's Charter as being the competence of other bodies and officials of the company.

Representative Office

Representative offices of foreign legal entities are not deemed to be legal entities, but legal entity, a representative office is not entitled to conduct business activity, which would result in income generation in Mongolia. As a subdivision of a foreign legal entity, a branch may

fulfill all or a part of the functions of its parent company.

A representative office operates according to its Charter and is managed by an individual authorized by the parent company under a power of attorney. Representative offices are formed in essentially the same manner as legal entities.

The term of state registration certificate of the Representative office is granted for 1 to 2 years. Prior to expiry date of the state registration certificate, the representative office shall apply for extension of state registration certificate term.

State Registration

1. To establish an LLC or JSC in Mongolia, the founder(s) shall take the following steps in accordance with the relevant laws and regulations:

- a) Obtaining a company name: The founder(s) or an authorized representative acting under the Power of Attorney shall obtain the name of a LLC from the State Registration Authority. The company name shall meet the following requirements:
- not duplicate other companies' name; and
 - be in Cyrillic letters.

When an LLC obtains its name, the founders shall establish the company within 30 days. Otherwise, the verification sheet on the company name will expire in 30 days.

- b) Setting up temporary account of the company: Along with obtaining a company name, the founder shall get forms of opening current temporary account(s) for a new company with any commercial bank of Mongolia. This temporary current account is required to deposit for the paid capital of 100,000 USD or MNT equivalent of a foreign invested company to develop one of the required documents referred to in section (c) below. Once the company is incorporated, with assistance of the founder or appointed Executive Director or any other representative, who is first signatory, the deposited amount can be withdrawn.
- c) Development of the documents required for establishment: Pursuant to the Law on State Registration of a Legal Entity, the founder(s) of the foreign invested limited liability company with foreign investments shall prepare the following documents. They are:
- Application form (UB-03 form);
 - Verification sheet on the company name;
 - Original decision for setting up a foreign invested company with official Mongolian translation;
 - founders' resolution;
 - if the founder is a foreign legal entity, it shall issue a separate resolution.
 - Charter and shareholders agreement of the company: charter - 2 copies in Mongolian and 1 copy of translation, shareholders agreement - 1 copy with official translation;
 - if a company consists of one investor, only the charter is required;
 - if a company consists of two or more investors, both charter and shareholders agreement are required and shall be drafted in Mongolian

and any other foreign language chosen by investor, then printed in 2 copies each, where each copy of the shareholder agreement shall be notarized;

- If the founder is a legal entity, a copy of the company incorporation/ registration certificate, charter and a brief company profile is required;
- Bank remittance receipt/Start-up investment threshold, which is 100, 000 USD for each foreign investor;
- Copy of the office lease agreement to confirm the company's address;
- Copy of the Executive Director's passport;
- Receipt of payment of the state stamp duty for establishment of a foreign invested LLC, which is 750,000 MNT (app 263.1 USD);
- Power of attorney (if applicable).

After 5 business days from submission of the above documents, the state registration authority shall register a foreign invested limited liability company in Mongolia.

d) Obtaining the company seal

A foreign invested company shall provide an original copy of the company state registration certificate to order the company seal. This is the final step of the company incorporation.

The registration of a new foreign invested company in Mongolia takes place with three agencies:

- State Registration Authority;
- District Tax Office; and
- District Social Insurance Office.

Bank account opening:

Accounts can be opened at any commercial bank in Mongolia. Required documents:

1. For foreign citizen
 - Request to open an account;
 - Passport and certificate of alien registration.
2. For company or entities
 - Certification of the state registration (an original copy or a notarized copy);
 - Charter of the Company (an original copy or a notarized copy);
 - ID or passport of shareholders (an original copy or a notarized copy);
 - ID or passport of the executive director, and 1st and 2nd signatories (an original copy or a notarized copy);
 - A license, if any;
 - Formal request to open an account for Mongolian Central Securities Depository and Bank (applicable for joint stock company)
 - 2 copies of decision on permission to possess the account by the Shareholders meeting (or shareholder) or Board of Directors

Currently, the registration with other government agencies takes place separately. The registration for a foreign invested company first goes with the State Registration Authority.

Taxpayer registration:

When a company is registered, its representative shall register with the respective tax department within 14 days having submitted the following documents as provided for by the relevant law and regulations. They are:

- Application form;
- A copy of the state registration certificate;
- An original and a copy of the Charter;
- Founder's application form and copy of passport;
- Bank statement of the company;
- Executive's application form and copy of passport;
- Lease agreement.

The JSC shall obtain a permit from Financial Regulatory Commission, a government agency and is registered at Stock Exchange of Mongolia. However, the registration officer of the State Registration authority may require additional documents for the registration based upon type of activity etc. In Mongolia, JSC with foreign company is not common practice.

Documents required for registration of the representative office of a foreign company:

Pursuant to the Law on State Registration of a Legal Entity, a parent company or individual(s) shall prepare the following documents. They are:

- Application form;
- Decision of the parent company to establish the representative office and appoint the Director with certified Mongolian translation;
- Relevant permission where the parent company is required to obtain a permission from the authorized organization to establish representative office in foreign country, with certified Mongolian translation;
- Passport copy of the Director of the representative office;
- Profile and charter copy of the parent company with certified Mongolian translation;
- Copy of the state registration certificate copy of the parent company with certified Mongolian translation;
- Charter of the representative office charter (2 copies in Mongolian, 1 copy in any other chosen language);
- Receipt of payment of the state stamp duty of 1,100,000 MNT (app 386 USD);
- Lease agreement; and
- Power of Attorney (if applicable).

The authorized representative of the representative office can order the seal on basis of the state registration certificate of the representative office and open bank accounts with a commercial bank.

What restrictions apply to foreign investor in Mongolia

If a foreign state owned legal entity is intending to hold 33 percent and more percentage of

the total shares issued by the legal entities of Mongolia which deal with business in the following strategic sectors shall get permission from the National Development Agency prior to becoming the shareholder or investor:

- Mining;
- Bank and finance;
- The media and communications.

The following documents are required to apply for getting the permission by a foreign state investor prior to investing to the Mongolian legal entity. They are:

- Official request for permit of the applicant;
- A notarized copy of the certificate of incorporation of the applicant issued by a competent authority of the applicant's country;
- References of the registration authority concerning the applicant, the persons with common interest with it and the applicant's executive management of the last two-years;
- Introduction of the main activity and shareholders of the applicant;
- The investment plan and business project to be implemented by the applicant in Mongolia;
- The preliminary transaction between foreign state owned entity and Mongolian entity, its type and conditions, the transaction parties, shares to be transferred, percentage of Shareholding, agreement price, the Charter of the legal entity, if it is agreed to make changes to management it shall be notified as well;
- Financial reports and clarifications to financial statements of the foreign state owned legal entity and the Mongolian business entity /Audited/;
- Contact details.

What are the incentives for Investors in Mongolia?

Taxation incentives

Stabilization of Taxations:

A stabilization certificate shall be issued to the investor whose project to be carried out in Mongolia meets the following criteria:

1. The total investment amount specified in the business plan and feasibility analysis reached the amount specified in the articles 16.2 and 16.3 of Investment Law;
2. To get done the environmental impact assessment if required by the law;
3. To create stable workplaces; and
4. To introduce high tech and technologies.

What type of companies may apply:

The stabilization certificate shall be issued to the following sectors for the durations stated below:

- to mining, heavy industry and infrastructure – Table 1;
- the other sectors – Table 2.

Investment amount /in billion tugrugs/	Validity of the stabilization certificates (in years)					Investment completion period /in years/
	Ulaanbaatar area	Central region	Khangai region	Eastern region	Western region	
30-100	5	6	6	7	8	2
100-300	8	9	9	10	11	3
300-500	10	11	11	12	13	4
500 and above	15	16	16	17	18	5

Table 2

Investment amount /in billion tugrugs/					Validity of the stabilization certificates (in years)	Investment completion period /in years/
Ulaanbaatar area	Central region	Khangai region	Eastern region	Western region		
10-30	5 -15	4-12	3-10	2-8	5	2
30-100	15-50	12-40	10-30	8-25	8	3
100-200	50 - 100	40-80	30-60	25-50	10	4
More than 200	More than 100	More than 80	More than 60	More than 50	15	5

The investment amount is important criteria for having stabilization certificate. Based upon the Table 1 and 2, depending upon the investment amount and location where investment has made, the stabilization period will apply to corporate income taxation, customs duties, value added taxation and mineral resource royalty.

The stabilization certificate shall become effective from the date of their issuance and the tax rate of corporate income tax, customs duty, value-added tax and mineral resource royalty shall be stabilized during the entire period of validity of the stabilization certificate.

The validity duration of stabilization certificate shown in Table 1 and 2 shall be issued 1.5 times longer for the investors who are to implement the following projects:

1. to produce import substitute and export oriented products, which are significant to long term sustainable development of the socio-economic sector of Mongolia, to

invest more than MNT 500 billion according to the Central Bank official rate as of the date of approval of the feasibility analysis and to require more than three years of construction works regardless of any location and sector;

2. The investor - legal entity meeting the criteria listed above deals with value added processing industry and export its basic products.

An investor – legal entity meeting the criteria specified above may make its application for a stabilization certificate to the state administrative body in charge of investment affairs.

Taxation support:

Tax support shall be rendered to investors in the following types:

1. To exempt from taxes;
2. To credit taxes;
3. To calculate depreciation expense to be deducted from the taxable revenue by accelerated method;
4. To calculate the loss to be deducted from the taxable revenue by transferring to the future revenue; and
5. To deduct the employee training expense from the taxable revenue.

Imported machineries and technical equipment may be exempted from the customs duty and VAT rate may be zero-rated during the construction works in the following cases:

1. To build construction materials, petroleum and agricultural processing and export product plants;
2. To build plants to use nano, bio and innovation technologies; and
3. To build power plant and railway.

Investors shall have a right to transfer their following assets and revenues out of Mongolia without hindrance on the condition of having properly fulfilled their tax payment obligations in the territory of Mongolia:

1. Profits of business activities and dividends;
2. License fees for use of their intellectual property rights and service charges;
3. Payment of principle amounts and interests of overseas loans;
4. An investor's share of leftover properties after liquidation of a business entity; and
5. Other properties gained or owned legally.

Losses can be carried forward for up to four years and use of such losses is restricted to 50% of the taxable profit in any year for economic sectors other than mining and infrastructure.

Tax losses in the infrastructure and mining sectors are able to be carried forward and deducted from taxable income for four to eight income years following the year in which the loss was incurred.

Non-taxation incentives

The non-tax promotions may be rendered to investors in the following forms:

1. to lease and use the land for up to 60 years on the basis of a contract and to extend

- the contract duration once for up to 40 years under the contract's primary condition;
2. to render support to the investors who are to make investments to the activities of free zones, production and technological park and to serve with alleviated regime of registration and checkpoint;
 3. to render support to implement creation projects in the infrastructure, sciences and educational sectors, to increase the number of foreign workforces and specialists, to exempt them from employment fees and to grant the required permits at eased regime;
 4. to render support to carry out innovation projects and to guarantee the financing for production of export oriented innovation products;
 5. to provide the foreign investors, who have made investment to Mongolia, and their family members with multiple visas and residential permissions under the applicable laws of Mongolia;
 6. other non-taxation supports stated under the law.

What are main taxations?

Corporate income taxation (CIT):

Mongolian Corporate Income Taxation is levied at the following rates, using a progressive-rate scale that ranges from 10% to 25%, as follows:

- 10% applies to the first 6 billion MNT of annual taxable income; and
- 600 million MNT plus 25% applies to any excess of MNT 6 billion of annual taxable income.

However, the income described in the chart below is deducted when determining the annual taxable income and is taxed at different tax rates on a gross basis:

Table 3

<i>Source of income</i>	<i>Applicable tax rate (%)</i>
Dividends	10%
Royalties	10%
Interest	10%
Law on Petroleum of Mongolia; Upon termination of a production sharing agreement by a Government decision, the costs incurred in exploration and exploitation activities will not be reimbursed, and the money deposited in the escrow account will be used to fully rehabilitate the environment and, if necessary, to dismantle exploration and exploitation facilities, and the remaining money to be returned to the contractor.	10%
Insurance reimbursement	10%
Fees and charges evidenced by a payment receipt paid to the State organization in connection with obtaining the right when it is issued by a State authority;	10%

Sale income and transfer of real estate	2%
Quizzes, gambling, and lotteries(net)	40%
Profit transferred from the representative office to its own head entity in the given tax year;	20%
Interest income on loans and debt drawn by commercial and domestic sources of the Commercial Bank of Mongolia	5%
Earned income up to 300 million MNT in the year for operating activities except exploration, mining, transportation, sale of minerals and radioactive minerals, production of alcoholic beverages, tobacco plants, and to import tobacco, petroleum products, import of all types of fuel, trade, exploration, extraction and sale of petroleum.	1%
Income from sale of intellectual property rights	5%

Some of general deductible other expenses stipulated in the laws include:

- Normal loss of goods and materials;
- Health and social insurance contributions;
- Taxes, payments and fees reported for payment to the budget other than those stated in Article 16.1.8 of the Law on Corporate income taxation;
- Expenditures on providing vocational training and production center training;
- Expenses for internships of teachers stated in Articles 11.5 and 18 of the Law on Vocational Education and Training;
- Financial support provided to vocational education and training institutions for the purpose of training specialists by his own order;
- Donations of up to MNT 10 million to support non-governmental organizations created by disabled Mongolian citizens;
- Donations of up to MNT 10 million to the Sports Support Fund to support sports activities and club activities;
- Donations and funds provided to the vocational education support fund;
- Donations for the purpose of reducing air pollution;
- Funds concentrated in the bank and non-banking financial institution's funds against loss on loan repayment;
- Funds concentrated in the deposit and loan cooperative loan risk fund and in the potential risk protection fund of other cooperatives;

- A special fund to be included in the annual environmental management plan of a license holder, project implementer or contractor in accordance with the Law on Environmental Impact Assessment, Law on Minerals, Law on Petroleum and Nuclear Energy and opened by the relevant state body and money transferred to the treasury and to the account stated in Article 11.2.9 of the Law on Petroleum;
- Expenses accrued to the Veterans' Fund within the limits stated in 14.7 of the Law on Elderly person's social welfare.

Corporate income taxation exemption:

1. The payment, interest, fine of bond of the Government and Development Bank of Mongolia;
2. Revenues from the state budget and fund investment income to future heritage;
3. Income specified in Articles 18.6.2 and 20.1 of this Tax Law from the sales of petroleum products by a taxpayer operating in the territory of the country under a production sharing agreement in the petroleum sector;
4. Income from basic activities of credit guarantee organization specified in the law;
5. Fee income from deposit insurance;
6. Dividends distributed by the state-owned enterprises to the Government;
7. Income transferred abroad from the income earned as specified in the 3rd paragraph by the taxpayer;
8. Income from activities of health care organizations and educational organizations;
9. Income from business activities related to accomplishing the purpose stated in the Charter of a non-profit legal entity;
10. Cooperative revenue from the intermediary price difference of selling member's products;
11. Income from the intermediary of intellectual property rights;
12. Interest income from loans secured by intellectual property rights.

Value Added Taxation (VAT)

Tax withholder and payer means an individual or a legal entity whose sales income and operating income has reached 50 million MNT and above and who is charged with the task of deducting the tax and remit it to the budget.

Items subject to VAT taxation:

1. All types of goods, works and services sold/provided/rendered in the territory of Mongolia;
2. All types of goods, works and services imported to Mongolia from abroad; and
3. All types of goods, works and services exported from Mongolia.

Table 4

	<i>Items taxed</i>	<i>Rate</i>
1	All types of goods, works and services sold in the territory of Mongolia; All types of goods, works and services imported to Mongolia from abroad,	10

2	All types of goods and services exported from Mongolia	0
3	For value of auto fuel or diesel fuel imported, or produced and sold	0-10

Following value added taxes paid by an individual or legal entity in conformity Law on VAT after being registered as a taxpayer shall be deducted from value-added tax to be paid to the state budget:

1. Taxes paid in connection with the purchased goods, performed works and rendered services for production and services purposes;
2. Taxes paid for goods, works and services directly imported by himself for the purpose of selling as well as manufacturing and servicing;
3. By deducting VAT paid from the sum amount if goods, works and services were purchased with value-added tax when being registered as value-added taxpayer;
4. Value of meat, milk, egg, skin, sheep and camel wool or cashmere, yak wool, livestock for meat processing factories, potatoes, vegetables, fruits, and domestically produced flour sold to domestic manufacturers shall be deemed to have included 10 percent of tax and shall be deducted at such rate from the tax to be paid by withholding taxpayers who purchased those goods;
5. Taxes paid for goods, works, and services imported or purchased for preparation of fixed assets and taxes paid for import and purchase of fixed assets shall be deducted in proportion to the following terms:
 - a. 10 years for buildings and constructions;
 - b. 5 years for equipment /this includes exploration costs/;
 - c. Directly from fixed assets other than those specified above.

The rate of value-added tax imposed on the following exported goods, works and services shall be equal to zero /"0"/:

1. Goods exported from the territory of Mongolia for the purpose of sale and declared with the customs organization;
2. Passenger and cargo transportation services rendered from the territory of Mongolia to foreign countries, from foreign countries to the territory of Mongolia, as well as from foreign countries to third countries transiting through the territory of Mongolia under International treaties of Mongolia;
3. Any services rendered /including non-taxable services/ outside the territory of Mongolia;
4. Any rendering of services /including "non-taxable services"/ to a foreign citizen or a legal person, who is a non-resident of Mongolia;
5. Any services of air navigation management, technical and fuel services, and cleaning which shall be provided for both foreign and domestic airplanes conducting international flight and sale, food and drink services provided for air crew members or passengers during flight;
6. State orders, medals and coins manufactured domestically on the order of

Government or Bank of Mongolia; and

7. End products of mineral resources.

Following goods are exempted from VAT:

1. Passengers' personal use goods with permitted amount to let without tax and approved by customs authority;
2. Imported goods for the work needs of diplomatic missions and consular offices, UN and its specialized branches permanently residing in the territory of Mongolia;
3. Goods received through humanitarian and grant aid from foreign governments, NGOs and international or humanitarian organizations;
4. Special purpose appliances, equipment and machinery designed for citizens with learning difficulties;
5. Any weapons and special equipment imported for the needs of armed forces, police, and organizations of national security or court or der enforcement;
6. Civil passenger airplane, its spare parts;
7. Revenues from the sale of establishments used for housing and/or their parts;
8. Imported blood, blood products, and organs to be used for treatment purposes;
9. Gas fuel, its container, equipment, special purpose machineries, mechanisms, and mechanics;
10. Mongolian monetary notes made abroad by order; etc.

Following services are exempted from the VAT:

1. Currency exchange;
2. Banking services, such as the receipt or transfer of, or any dealing with, money, any security for money or any note or order for the payment of money and the operation of any savings account;
3. Services of insurance, insurance intermediaries, reinsurance and registration of property;
4. The issuance, transfer or receipt of any securities and shares, and underwriting of such securities;
5. Loan service;
6. The provision, or transfer of an interest on social and health insurance fund;
7. Any services in respect of fees for bank or non-banking financial institution for interest, dividend, credit guarantees or insurance contract;
8. The renting service of accommodation for housing and its part;
9. Educational and professional service mentioned in the regulation of the citizen or legal entity that is engaged in and has a special permission to conduct educational and professional training;
10. Medical services;
11. Services of religious organizations etc.

Timeframe for tax reporting:

A taxpayer shall pay to the budget the value-added tax imposed on goods sold, works and services furnished in that month by the 10th of the following month and prepare the report observing the approved standard format and submit to the Tax administration.

Innovation in Mongolia

1. Priority industries of innovation

In setting priority industries of innovation, Mongolia focus on directing scientific and technological achievements to an acceleration of economic growth, production and export of high-tech and competitive products, and initiation of highly-efficient service types and forms, optimal allocation of capacity and resources of innovation, and increase of the effectiveness of government support. The Government of Mongolia approved the “Priority industries of innovation (2020-2025)” including the following industries:

1. Information technology /development and security of Artificial Intelligence and Big Data, etc./;
2. Material technology /skin processing, heat materials, and new fuel materials, etc./;
3. Biotechnology/Production technology /manufacture of foods, medications, and vaccines made from agricultural and natural raw materials using biotechnological methods/;
4. Renewable energy technologies /accumulation of energy, buildings based on energy-efficient advanced technology/;
5. Cultural innovation and creative production with national characteristics /development of content and cultural services based on digital technology, government and business products and services based on smart technology/.

Measures to be implemented within the framework of the above industries shall be reflected in the annual guidelines for economic and social development, and the required funds shall be financed from the state budget and other sources.

2. Procurement of Funding for innovation projects:

- 1% of gross domestic product shall be appropriated to the facilitation of innovation;
- Funding for innovation within given industries shall be contained within the budgets of the relevant ministries;
- Profits from contracts and innovation activities shall be distributed to national scientific entities;
- Enhance opportunities for funding for innovation infrastructure and long-term investment through public – private partnership;
- Provide innovation loans with certain assets equating to a certain percentage of the loan used as collateral;
- Support innovation efforts grounded in solid market analysis by purchasing the product and implementing offset mechanisms;
- Support industries with significant intellectual capacities and those who have invested in advanced technological resources by loans and lax tax policies; and

- Innovation system in Mongolia.

According to the Law on Innovation, the government shall support innovation activity in the following ways:

1. Financing a specific percentage of the loan interest for implementation of the innovation project;
2. Financing the costs of patenting innovation products at local and foreign institutions;
3. To calculate the immediate depreciation of the property of a startup company to carry out innovation activities;
4. To regulate provision of services to companies conducting innovation activities through laboratory equipment of state-owned research institutes on preferential terms approved by Government;
5. With 60% or more of the total project cost financed by own funds, the remainder will be financed by the innovative financing organization and local budget;
6. To support participation in international exhibitions and exhibitions of high-tech innovative products;
7. Financing of all or part of the costs of international quality assurance of export-oriented innovation products;
8. Supporting domestic procurement of innovation products through Government procurement;
9. Organize and finance exhibitions, conferences, seminars and events with public awareness and culture on innovation;
10. To provide monetary incentives to patent holders who have engaged in innovation and have established a product or service of a high social and economic value;
11. To award national innovation awards for innovation products and services that have made significant contributions to social and economic development.

Tax exemption on innovative goods, works, and services

Under the Law on the exemption from customs duty and value-added tax, (1) import of equipment necessary for the manufacture of innovative products is exempted from customs duty and value-added tax, as well as (2) income from sales of new innovative products, works, and services in domestic is exempted from value-added tax. These exemptions apply to start-up companies specified in the Law on Innovation for three years from the state registration. Moreover, non-domestic raw materials and reagents necessary for the manufacture of innovative goods in domestic and foreign markets under Innovation projects are exempted from value-added tax according to the VAT Law.

Customs duties

The term “Customs duty” means an amount of tax levied on, collected from or paid for goods entering or leaving the Customs territory, based on the Customs tariff (MFN Tariff Rate 2017). The tariff rate for non-WTO member countries shall be twice more than the MFN tariff rate. The Customs duties shall be in the following forms:

- Ad valorem;
- Specific;

- Combination of the two above;
- Any of the first two above which entails higher amount of duty.

The most of imported goods are subject to 5% ad valorem Customs duty while some others are subject to seasonal duties. Certain goods for export are subject to specific Customs duties. Any person (physical or legal) engaged in foreign trade is liable to paying Customs duties as well as some other taxes and fees upon importation or exportation of goods.

What is social insurance payment?

Social insurance shall have two forms including mandatory and voluntary social insurance under Law on Social Insurance of Mongolia.

The following employees shall maintain compulsory social insurance:

- 1) Citizens of Mongolia, foreign citizens, and stateless persons employed under Employment agreement with business entity of all types of ownership, non-governmental organization, religious and other organizations and individuals or contract made with individuals pursuant to article 343 and 359 of the Civil code inclusive hire agreement, work delivery agreement, service or consulting service agreement or similar agreements;
- 2) Citizens of Mongolia, foreign citizens and stateless persons employed by foreign business entities operating in the territory of Mongolia and projects and programs implemented with foreign loan and aid, diplomatic representative offices of foreign countries and international organizations unless otherwise stated in international agreements to which Mongolia is a party;
- 3) Public servants unless otherwise stated in laws; and
- 4) Citizens of Mongolia employed abroad under employment contract.

There shall be the following types of social insurance:

- Pension insurance;
- Benefit insurance;
- Health insurance;
- Industrial accident and occupational disease insurance; and
- Unemployment insurance.

Pensioner employed under employment contract made with employer or employed under hire agreement, work delivery agreement, service or consulting service agreement or similar agreements shall be insured for types of insurance on pension, benefit and industrial accident and occupational disease insurance.

Table 5

<i>Type of social insurance</i>	<i>Deduction percentage /%/ of Employer's salary fund or equivalent earnings</i>	<i>Deduction percentage /%/ of Insured's salary fund or equivalent earnings</i>
Pension insurance	9.5	9.5

Benefit insurance	1.0	0.8
Health insurance	2.0	2.0
Unemployment insurance	0.2	0.2
Total deductions	12.7	12.5

Amount of social insurance premium on industrial accident and occupational disease shall be established at a different rate up to 2.8% of employer's payroll fund and similar income depending on operational safety and hygiene requirements.

The monthly premiums to be paid by the insured and employers shall be paid before the 5th of the following month.

Which documents are required to hire foreign employees in Mongolia?

Work permit

The Government approves its resolution each year on foreign employees' ratio. Depending upon number of total employees and sector in where the company operates, the ratio of expatriate varies. For 2021, the ratio of expatriate employees follows for the selected sectors:

Table 6

Sector		The number of total employees				
		21-30	31-50	51-100	101-200	More than 200
Mining (oil and gas production)	Crude oil and gas production	10	20	30	30	30
	Crude oil and gas exploration	10	20	30	40	50
Building	Building construction	10	30	35	45	60
	Railway and road construction	10	30	35	45	60

If the Company has 30 employees, 10% of total employees can be an expatriate for above 3 sectors. The hired expatriate who is going to work at mine site, construction field, the expatriate employee shall obtain HG or employment visa. Otherwise other type of visa such as B or business visa is not allowed to work in Mongolia.

Prior to arrival, the hiring Company shall obtain employment invitation for an expatriate employee. Based upon employment invitation, the hiring company shall obtain entry visa

permission from Immigration authority.

For getting employment invitation, the following documents are required:

1. Application form;
2. Receipt of payment service fee (25 000 MNT or app 10USD/ 1 person);
3. Copy of State registration certificate;
4. Copy of License with attachment;
5. Copies of Government resolution if entity has exempted from ratio by Government resolution;
6. Forms SI(Social Insurance)-7 and SI-8 on the last month of the social insurance that confirmed the number of employees who paid social insurance in the entity;
7. Statement of Ministries and Agencies in the Employment of Economic Entities;
8. Reference from respective Labor & Social Welfare Division of aimag or district;
9. An employment agreement with a foreign legal entity, with its Mongolian translation;
10. Copy of a foreign citizen's passport;
11. A copy of professional diploma and diploma certificates demonstrating profession in the field of employment;
12. Other materials required.

After arrival of hired expatriate in Mongolia, the hired employee shall obtain work permit in order to get multi HG or employment visa.

The workplace payment is 840,000MNT or 294.8 USD per expatriate employee per month. This payment shall be paid prior to getting work permit for 6 months up to 1 year.

Visa

Mongolia has 11 types of visas. The type of a visa shall be indicated on the visa slip as Latin letters "D", "A", "T", "O", "B", "S", "J", "HG", "SH", "TS", "H" in conformity with the purpose of a foreign citizen or a stateless person.

Type "T" visa shall apply to:

- A foreign investor;
- A senior manager of a foreign invested company, its branch, or representative office

Type "B" visa shall apply to a foreign citizen or stateless person visiting Mongolia with business purpose.

Type "HG" visa shall apply to a foreign citizen or stateless person with the purpose of working in Mongolia under an employment agreement irrespective of his/her passport type.

Visas shall be issued by the following authorities:

1. Ministry of Foreign Affairs;
2. Mongolia Immigration Agency;
3. Mongolian Embassies and Consulates in foreign countries.

For business visas for 30 days or less, is required to submit:

1. Passport with a validity date of at least six months beyond the end of the applicant's

intended period of stay in Mongolia;

2. Completed visa Application Form for non-tourists with one passport-size photo;
3. Invitation from the inviting Mongolian organization which should be approved by the Ministry of Foreign Affairs of Mongolia.

For foreigners planning to stay over 30 days and up to 90 days wishing to receive visa on arrival, permission should be obtained from the Mongolian Immigration Agency.

Foreign citizens who come to Mongolia for more than 30 days should register at the Mongolian Immigration Agency within 7 days after their arrival. The foreigners came to Mongolia for official or private purposes for less than 30 days do not need to register.

Required Documents:

1. Registration request from inviting organization or individual. In cases where there is no inviting organization or individual, the foreign national should submit his/her own request for registration;
2. Passport or equivalent document & additional copies;
3. 1 copy of passport-size photo (3x4 cm);
4. Completed registration form

Residence permission

Visitors planning to stay for more than 90 days should obtain residence permission. Foreign citizens who hold valid foreign passports or equivalent legal documents may visit or reside in Mongolia upon obtaining the required visa from a competent authority of Mongolia.

Request to obtain residence permission must be filed within 21 days after entry to Mongolia.

Trademark protection in Mongolia

To enjoy legal protection in Mongolia, the trademark needs to be registered at the General authority of Intellectual property in the Register of Trademarks. Alternatively, it may be protected in another country provided that it is registered in accordance with the Madrid Agreement Concerning the International Registration of Marks dated 1891 and the Protocol Relating to the Madrid Agreement.

"Trademark" means distinctive expression used by an individual or a legal entity, engaged in manufacturing of goods or the provision of services, in order to distinguish the goods or services from those of others. It may be expressed in words, figures, letters, numerals, three - dimensional configurations, colors, sounds, scents and/or any combinations thereof. Trademark registration process takes 9 months and can be extended for additional 6 months.

When the trademark is registered, its certificate shall be issued for 10 years term and can be extended for additional 10 years.

The exclusive rights of the trademark holder shall be enforced within registered list of goods and services.

Exclusive rights:

The trademark holder shall have the following exclusive rights:

- a. To own the registered trademark;

- b. To allow to use the registered trademark by a third party;
- c. To transfer the registered trademark to a third party;
- d. To demand cessation of registered trademark use without permission;
- e. To demand cessation of similar trademark use by a third party which misleads the customers; and
- f. To demand payment for incurred loss due to action stated in (d) and (e).

The only allowed use of the registered trademark under the law is a Licensing agreement. In accordance with the Licensing agreement, trademark holder may allow use of the trademark by a third party. As outlined by the law, the Licensing agreement shall be registered with the Intellectual property authority and only then the agreement shall be considered as valid.

If an individual or legal entity uses the trademark without permission, the trademark holder may protect its exclusive rights and file a claim to the following authorities:

- a) Intellectual Property Office of Mongolia;
- b) Customs General Administration of Mongolia; and
- c) Courts of Mongolia.

Enforcement action by Intellectual property authority:

In case of trademark infringement, the trademark holder may file a complaint to the supervisory department of Intellectual property authority. The claim shall be supported by the evidence of trademark infringement. The assigned State Inspector will work on trademark infringement.

The inspection shall start within 3 days from submission the complaint. The inspection shall be carried out within 14 days and can be extended for 30 days, if necessary.

The State inspector can impose following sanctions to the trademark infringement case:

- Oblige to cease the use of trademark and undertake corrective action or cease action within defined term;
- Oblige to cease sell of product or destroy product; and
- Impose penalty specified in Law of Offence (please see Section: Liabilities).

In case State inspector's action is not satisfactory to the claimant, he/she can file a claim to the Senior inspector and court.

Enforcement action by the Customs authority:

For protecting or fighting with fake products to be supplied and sold in the market, trademark holder or its authorized entity or individual under the licensing agreement can register the trademark at customs authority on basis of the registered trademark certificate at its registry. The customs authority shall not clear fake products with registered trademark through the customs if there is any complaint.

The trademark holder can file a claim on ceasing to clear the products by the customs if there is an infringement of its trademark rights and cleared products through the customs illegally, or there are solid grounds that illegal or fake products are under the customs inspection to the Customs authority. The claim shall contain information about trademark holder, intellectual property and detailed description of the products which cleared the customs illegally and defining term for measures which will be undertaken by the customs

authority.

The state inspector of the Customs authority is authorized to impose same sanctions to a trademark infringer.

Enforcement action by courts:

- a. If State inspector and its senior inspector have not performed their duties satisfactory to the trademark holder's claims for protecting its exclusive rights, the trademark holder may file a claim to the court.
- b. If trademark infringement caused a loss in form of monetary or non-monetary such as damage to the business reputation etc, the trademark holder is entitled to file claim for compensation of caused loss to the court. However, the caused loss shall be proved by evidence in order to claim the caused loss.
- c. The criminal sanction will be imposed to the defaulted entity and individual by the court. In this case, if a defaulted party has manufactured, supplied, sold and stored fake products with the registered trademark; the criminal sanction will be imposed.

Trademark infringement shall be classified as an offence or a crime under the relevant law.

How disputes are settled in Mongolia?

If the disputing Parties cannot reach an agreement by negotiations, they may apply to a Mongolian court or a Mongolian International Arbitration Center attached to the Mongolian National Chamber of Commerce and Industry.

Judicial System of Mongolia

Under article 13.2 of the Law on Court, the judicial System of Mongolia follows the basic judicial system shall consist of the Supreme Court, /The Court of Cassation or Review/, aimag and capital city courts /the Court of Appeals/, soum and district courts /Courts of the First instance/.

- Soum, intersoum and district courts have jurisdiction only at first instance;
- Aimag courts, found in the Aimag capitals and the Capital City Court, deals with appeals from the lower level courts; and
- The Supreme Court is the highest level of the Court which deals with any matters at first instance that are not specifically within the jurisdiction of the other courts and appeals from decisions of the Aimag courts and the Capital City Court.

The courts, except the Supreme Court shall establish to specialize in type of case such as criminal, civil and administrative matters. For Administrative Cases Court, Court deal with matters relating to public law but outside purely constitutional matters. Reviews were made by an independent body of all administrative acts affecting the citizenry, the main function of the Administrative Cases Court is to review the constitutionality of the entire range of administrative action, particularly where it encroaches on basis rights. The Administrative Cases Court of Mongolia was established by the State Great Hural / the Parliament of Mongolia / in June 2004. They deal with the area of law concerned with disputes between the public authorities and individuals arising from the exercise of public authority, including citizens and legal entities. This relation is regulated by the Law on Administrative Procedure.

Alternative dispute resolution - Mediation:

Mediation is a method of alternative dispute resolution that parties to any agreement should consider, aside from arbitration. Mediation is essentially a negotiation facilitated by a neutral third party. Unlike arbitration, which takes a form more similar to trial, mediation doesn't involve decision making by the neutral third party, but seeks to find a mutually acceptable resolution or compromise between the parties. Mediation procedures can be initiated by the parties or may be compelled by legislation, the courts, or contractual terms. When parties are unwilling or unable to resolve a dispute, one good option is to turn to mediation. Mediation is generally a short-term, structured, task-oriented, and "hands-on" process. In Mongolia the institution of mediation was established by adoption of the Law on Mediation in 2012. Pursuant to Law, mediation may be used in civil legal disputes, individual labor disputes and disputes arising from family relationships, and in some other disputes only if specified by law.

In mediation, the disputing parties work with a neutral third party, the mediator, to resolve their disputes. The mediator facilitates the resolution of the parties' disputes by supervising the exchange of information and the bargaining process. The mediator helps the parties find common ground and deal with unrealistic expectations. The mediator may also offer creative solutions and assist in drafting a final settlement. The role of the mediator is to interpret concerns, relay information between the parties, frame issues, and define the problems. Unlike the litigation process or arbitration, where a neutral third party (judge or arbitrator) imposes a decision over the matter, the parties and their mediator ordinarily control the mediation process

Mongolian International Arbitration Center

Mongolian International Arbitration attached to Mongolian National Chamber of Commerce and Industry has commenced its operation in 1960 and it is a permanent arbitration in Mongolia which recognized internationally. The arbitration has its branches in 21 aimags which are administrative unit under the law of Mongolia. Currently, local 51 arbitrators with qualification of the law, economics, finance and mining and 11 foreign arbitrators (from the Russian Federation, the People's Republic of China, Federal Republic of Germany, Japan, Hong Kong and Poland) are working at the Arbitration.

Exclusive Court jurisdiction cannot be changed by agreement of the parties to a dispute, in particular, in the following cases:

- Disputes related to the ownership, possession and use of immovable property in territory of Mongolia;
- Disputes arising in connection with reorganization and liquidation of a legal entity located in the territory of Mongolia or decision made by that legal entity, its branch, or representative office;
- Disputes related to the validity of entries in public registry of the court and other competent authority of Mongolia;
- Disputes related to the registration or receipt of an application for registration of patents, trademarks, or other intellectual property rights by a competent authority of Mongolia; and
- In the case where a court decision enforcement action has been taken in the territory of Mongolia or a relevant person applied for such action.

Enforcing Foreign Court Judgments and Arbitrational Awards

Mongolia has ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, dated 1958, in 1994 and the courts of Mongolia will enforce an arbitral award in Mongolia provided that such award:

- is final;
- is in relation to a dispute which is commercial in nature;
- is confirmed by a judicial order in Mongolia;
- is not in respect of taxes, a fine or a penalty; and
- was not obtained in a manner and is not of a kind the enforcement of which is contrary to the public policy of Mongolia;

There are a few specific circumstances under Mongolia's Arbitration Law in which a foreign arbitration will not be enforced:

- one of the parties to the arbitration agreement has no legal capacity or the arbitration agreement is invalid;
- a party responsible for the arbitral award had not received proper notice of the appointment of an arbitrator or of the arbitral proceedings and had been unable to participate in the arbitral proceeding and provide the response;
- arbitral award is not contemplated by or not falling within the terms of the claim, or arbitral award is beyond the scope of the claim;
- the composition of the arbitral tribunal and the arbitral proceeding are not in accordance with the agreement of the parties, or, in the absence of such an agreement, not in accordance with law of the country of jurisdiction;
- the arbitral award is not valid, or enforcement of the award is suspended;
- the subject-matter of the dispute is not capable of settlement by arbitration under the law of Mongolia;
- the recognition or enforcement of the award would be contrary to the public policy of Mongolia.

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