



**GRATA**  
INTERNATIONAL

# GRATA International

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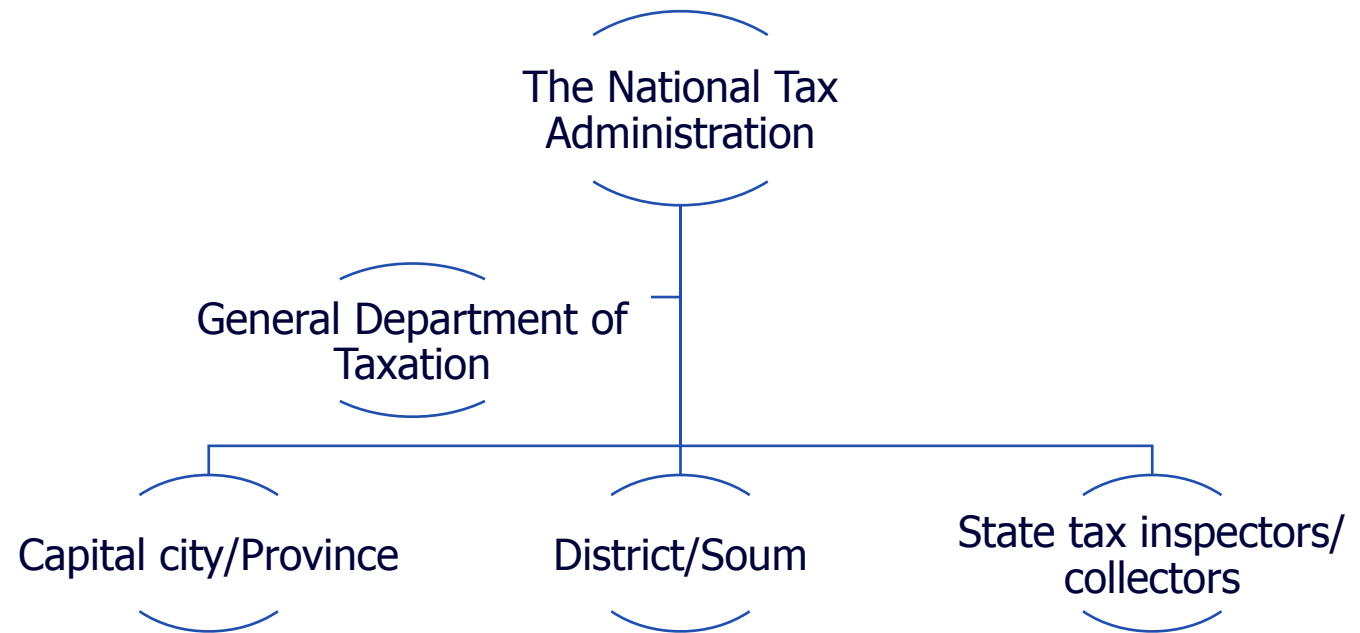
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- ❑ Tax system
- ❑ Main taxation
  - ✓ Corporate Income Tax
  - ✓ Personal Income Tax
  - ✓ Value Added Tax
  - ✓ Customs Duties
- ❑ Investment Incentives
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- ❑ Social insurance

# Tax System

## Tax legislation:

- ❑ General tax law;
- ❑ Law on Corporate Income Tax;
- ❑ Law on Personal Income Tax;
- ❑ Law on Customs Tariffs and Customs Duties, etc.



\*Reform of key tax laws to bring the Mongolian tax law in line with the international tax concepts – GAAR, TP rules – 2019, effective from 2020

# Corporate Income Tax

## TAX RATES

**10%**

Annual taxable income = **Up to 6 billion MNT**

**600 million MNT + 25% on annual income exceeding 6 billion MNT**

Annual taxable income = **More than 6 billion MNT**

**1%**

Annual taxable income = **Up to 300 million MNT**

\*Non applicable to taxpayers operate in mining, petroleum, alcoholic beverage, and tobacco industries.

### Annual taxable income include:

- ✓ Income from activities;
- ✓ Income from letting use and rental of movable and immovable properties;
- ✓ Interest, fines and penalties, and compensation from defaulting party;
- ✓ Foreign exchange gain;
- ✓ Income from sales and transfer of shares, securities, and other financial instruments;
- ✓ Sales revenue of intangible assets and movable properties.

# Corporate Income Tax

## TAX RATES

<b>Other Income Taxable at Different Rates</b>	<b>Percentage</b>
Dividends	<b>10%</b>
Royalties	
Interest	
Insurance reimbursement	
Refund of deposits accrued for the purpose of environmental restoration and mine closure from an escrow account	
Income from sale and transfer of rights granted by State Authorities / <b>sale of shares → UBO changes</b> /	
Income from sale and transfer of immovable property	<b>2%</b>
Income from gambling, betting games and lotteries	<b>40%</b>
Profits transferred from a permanent establishment to its head entity in the taxable year	<b>20%</b>
Income from sale of intellectual property rights	<b>5%</b>
WHT on income sourced from and earned in MGL (non-resident taxpayer with no presence in MGL)	<b>20%</b>

# Corporate Income Tax

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- Normal depreciation of goods and materials
- Health and Social Insurance premiums
- Taxes, payments, and fees reported for payment to the State Budget except for city tax, VAT, and other taxes withheld under the Law on Corporate Income Tax
- Donations up to 10 million MNT for:
  - non-governmental organizations founded by disabled Mongolian citizens and
  - Sports Support Fund
- Donations for:
  - fund for support of vocational education
  - fund for reducing air pollution
  - Money deposited as a guarantee for environmental restoration and mine closure by license holders and contractors
  - Expenses in connection with possession and transfer of license on the exploitation of mineral resources
- Interest expenses

- Dividend and annual taxable income of taxpayers conducting activities in oil industry in Mongolia under Production-sharing agreement
- Income transferred abroad from the income above
- Operating income of health care organizations and educational organizations
- Operating income of non-profit organizations earned in the course of implementation of their objective specified in their Charter
- Income from intermediary of intellectual property rights
- Interest income from loans secured by intellectual property rights

# Corporate Income Tax

## TAX CREDIT

### 90% of Tax Credit

Annual taxable income = **more than 300 million MNT, less than 1.5 billion MNT**

\*Non applicable to taxpayers operate in mining, petroleum, alcoholic beverage, and tobacco industries.

#### Other credits

- ✓ Credits for employing disabled individuals (lost more than 50% of their workability)
- ✓ Credits for eco-friendly technics and equipment designed to efficiently use natural resources, reduce environmental pollution and waste;
- ✓ Credit for innovation products, works, and services (for three years from state registration date);
- ✓ Credits for 50% of income earned from free trade zone (300k-500k USD investment)
- ✓ Credits for income in the amount same as expenditures on financing of activities of improving natural water quality and restoring rivers or streams in order to increase water reserve and ensure reliable water supply of specific territories.
- ✓ Credit for 50% of income earned from the following products:
  - Wheat, potatoes, vegetables;
  - Milk;
  - Fruits;
  - Fodders, fodder plants
  - Meat, meat products of intensive poultry farming

# Corporate Income Tax

## TIMEFRAME FOR TAX REPORTING

Annual taxable  
income = Up to 6  
billion MNT

**Semi-annual  
report** – within 20  
July

**Annual report** –  
within 10 February  
of the following  
year

Annual taxable  
income = 6 billion  
MNT and above

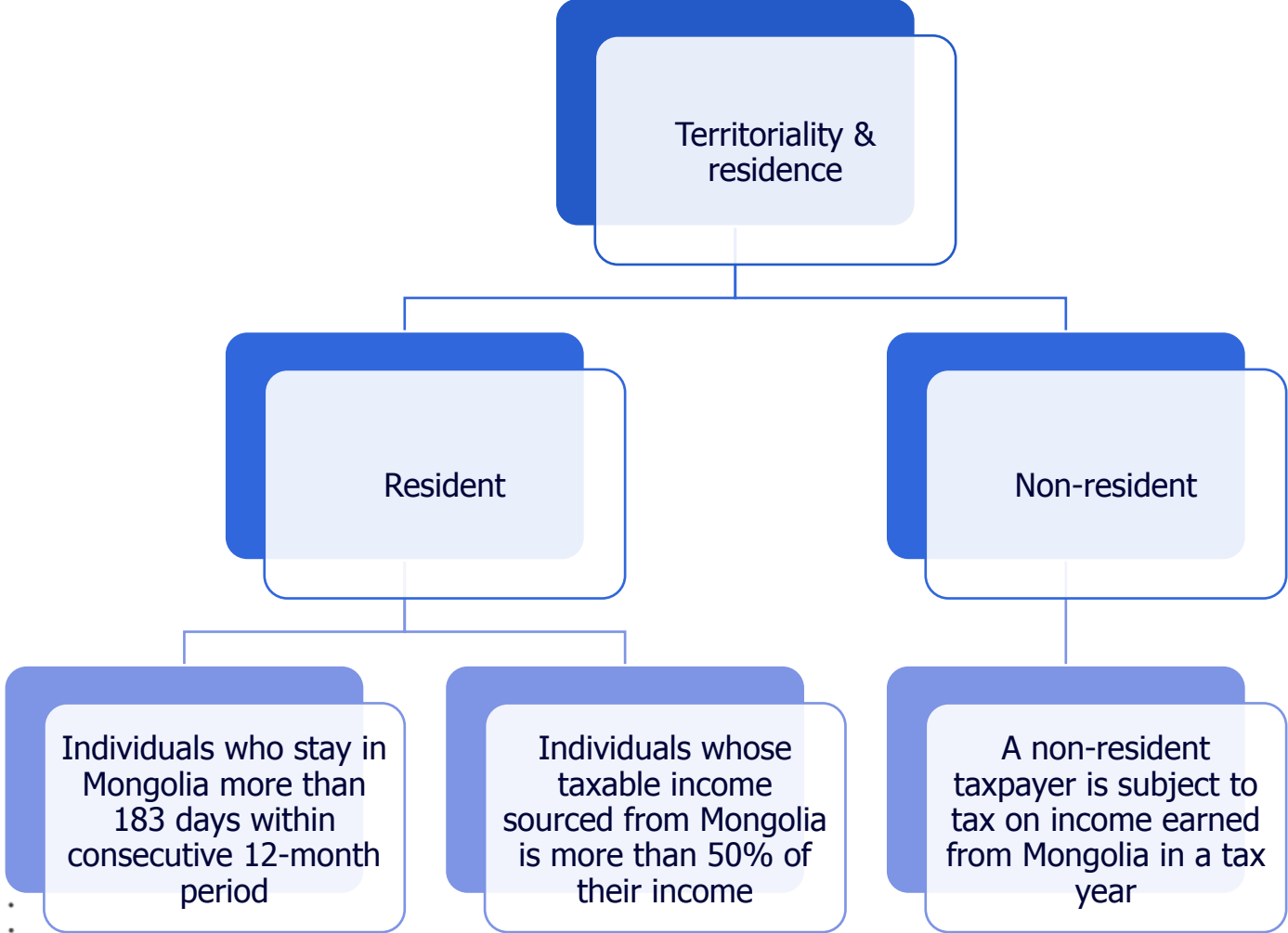
**Quarterly report**  
– within 20 of the  
1<sup>st</sup> month of the  
quarter

**Annual report** –  
within 10 February  
of the following  
year

- **Statutory limitation period= 4 years** /tax reassessment, fines, penalties, utilization of a tax credit, tax loss carry forward, & validation of the VAT assessment/



# Personal Income Tax



# Personal Income Tax

## Taxable Income & Percentage

TYPES OF INCOME	%
<b>Salary, wage, gratuity, bonus, and similar employment income</b>	<b>10%</b>
<b>Indirect income</b>	
<b>Income from activities</b>	
<b>Property income</b>	
<b>Income from sale and transfer of property</b>	
Income from sale of immovable property <b>/Income from sale and transfer of property/</b>	<b>2%</b>
Prizes for arts and sports competition and festivals, and other similar income <b>/Other income/</b>	<b>5%</b>
Income from quizzes, gambling, and lotteries <b>/Other income/</b>	<b>40%</b>
<b>Non-resident taxpayer - Mongolian sourced income on a gross basis</b>	<b>20%</b>

# Personal Income Tax

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## Deductions

- No business deduction allowed for employees, except for SHI
- An individual may claim business deductions if registered as an entrepreneur
- No deductions for non-business expenses

## Tax credits

- Available for individuals who have suffered tax in foreign countries, which have signed the exchange of information agreement w/Mongolia
- Available for agricultural production & educational fees

# Value Added Tax

## Who shall be VAT Payers?

Individual & Legal entity whose sales revenue reached **50 million MNT & more**

Registration as VAT payer within **10 business days** from reaching the requirement.

## Timeframe for the tax payment

**Within 10<sup>th</sup> of the following month**

## Items subject to VAT

Taxable Items	Percentage
All types of goods, works, and services sold/provided/rendered in the territory of Mongolia	<b>10%</b>
All types of goods, works, and services imported to Mongolia from abroad	
All types of goods, works, and services exported from Mongolia	<b>0%</b>
Sales revenue of gasoline and diesel fuel imported, or manufactured	<b>0-10%</b>

# Value Added Tax

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## Goods & Services exempted from VAT

- ✓ Wheat, potatoes, vegetables, seeds, fruits and flour manufactured and sold domestically by farmers;
- ✓ Domestic dairy products;
- ✓ Equipment, spare parts manufactured and sold in Mongolia for manufacturing by small and medium sized enterprises;
- ✓ Raw materials, chemicals imported for manufacturing of innovative goods and products under innovation projects;
- ✓ Special purpose machineries, technical tools, equipment, appliances, raw materials, chemicals, explosives, and spare parts for activities in connection with oil and unconventional oil imported by contractors and subcontractors within exploration period and the first 5 years of exploitation
- ✓ Goods in the amount up to 3 million MNT purchased by passengers from the FTZ
- ✓ Equipment and spare parts for renewable energy research and production
- ✓ The issuance, transfer, sale, receipt or guarantee of securities and shares
- ✓ Loan service
- ✓ Interest, dividend
- ✓ Educational and professional training service by individuals or legal entities holding license to conduct so-mentioned services
- ✓ Medical services
- ✓ Services of religious organizations etc.

# Customs Duties

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## Forms of customs duties

1. Ad valorem
2. Specific
3. Combination of the two above
4. Any of the first two above which entails higher amount of duty

## Tax rate

- ✓ 5% ad valorem customs duty
- ✓ Up to 40% of specific taxes

# Sanctions for non-compliance

## Law on Infringement

- Individuals **USD 35 – USD 523**
- Legal entities **USD 348 – USD 5,226**
- Failure to register as a taxpayer, to submit tax report within the established period, etc. → **USD 52 / USD 523**
- Failure to pay within the established period → **0.1%** of penalty on the outstanding amount per overdue day

## Criminal code

- Tax evasion /individuals, managing & executive officers/:
  - Penalty: **USD 157 – USD 1,881**
  - Community service: **240 – 720 hours**
  - Restriction of right to travel: **1 month – 1 year**

# Tax Incentive

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**Tax  
stabilization**

- Tax stabilization certificate
- Investment agreement

**Tax  
exemptions**



# Tax Incentive

## TAX STABILIZATION CERTIFICATE

### Who can obtain a stabilization certificate?

- ✓ The total amount of the investment meets legal requirement
- ✓ Environmental impact assessment is done, if required
- ✓ Creates stable jobs
- ✓ Introduces high technology

### Types of taxes subject to stabilization

- ✓ Corporate income tax;
- ✓ Customs duty;
- ✓ Value added tax;
- ✓ Royalty /fee for use of the mineral resources/.

# Tax Incentive

## TAX STABILIZATION CERTIFICATE

Mining, heavy industry, and infrastructure

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

# Tax Incentive

## TAX STABILIZATION CERTIFICATE

Other sectors

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	
<b>10-30</b>	5 -15	4-12	3-10	2-8	5	2
<b>30-100</b>	15-50	12-40	10-30	8-25	8	3
<b>100-200</b>	50 - 100	40-80	30-60	25-50	10	4
<b>200 and above</b>	More than 100	More than 80	More than 60	More than 50	15	5

### Projects eligible for 1.5 times longer-term stabilization certificate

- ✓ Investment in the amount more than 500 billion MNT
  - ✓ construction work that requires more than three years, regardless of their location and sector for the **manufacture of import substitute and export-oriented products** that are significant to long term sustainable development of the socio-economic sector of Mongolia
- ✓ Investors (meeting the criterion for stabilization certificate) who engage in value-added processing production and export their main products.



# Tax Incentive

## INVESTMENT AGREEMENT

- ✓ **Minimum amount of investment:** 500 billion MNT
- ✓ **Period:** depends on geographic location & industrial sector
- ✓ **Terms & Conditions:**
  - ✓ Stabilization of tax environment
  - ✓ Regulatory & Financial support



# Tax Incentive

## TAX EXEMPTION

Exemption from the customs duty & 0% of VAT during construction works of the following:

- ✓ Construction materials, petroleum, and agricultural processing and export product plants;
- ✓ Plants that use nano, bio, and innovative technologies
- ✓ Power plant and railway

Assets that may be transferred abroad without proper tax payment

- ✓ Profits of business activities and dividends
- ✓ License fees for use of their intellectual property rights and service charges
- ✓ Payment of principle amounts and interests of overseas loans
- ✓ An investor's share of leftover properties after liquidation of a business entity
- ✓ Other properties gained or owned legitimately

## Tax loss carry forward

- ✓ Loss shall be deducted from 50% of the taxable income of each year following the year in which the loss was incurred for up to 4 consecutive years

# Non-Tax Incentives

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- ❑ **Land lease & use** - for up to 100 years
- ❑ **Alleviated regime of registration & checkpoint** - free trade zones, production, and technological park
- ❑ In infrastructure, manufacture, science and education sectors
  - ❑ To support implementation of construction projects
  - ❑ To increase the number of foreign workforces and specialists
  - ❑ To exempt from workplace fees
  - ❑ To grant the required permits by expedited process
- ❑ **Innovation project & product** – Financial guarantee for production of export oriented innovative products
- ❑ To issue **multiple-entry visa** and **permanent residence** permit
  - ❑ foreign investors who have made investment to Mongolia, and
  - ❑ their family members



# SOCIAL INSURANCE

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## Social Insurance

### MANDATORY & VOLUNTARY

#### Persons subject to MANDATORY social insurance:

1. CITIZENS OF MONGOLIA
2. FOREIGN CITIZENS, and
3. STATELESS PERSONS
  - Employed under
    - Employment Agreements, and
    - Hire agreement, Service Agreement, and other similar agreements with business entity of all types of ownership, non-governmental organization, religious and other organizations;
  - OR
  - Employed by
    - Foreign business entities operating in the territory of Mongolia, and
    - Offices implementing projects and programs with foreign loan and aid.



# Types of the Social Insurance

Type of social insurance	Deduction percentage /%/ EMPLOYER'S salary fund or equivalent earnings	Deduction percentage /%/ of INSURED'S salary fund or equivalent earnings
<b>Pension insurance</b>	8.5	8.5
<b>Benefit allowance</b>	1.0	0.8
<b>Health insurance</b>	2.0	2.0
<b>Unemployment insurance</b>	0.2	0.2
<b>Industrial accident and occupational disease</b>	Up to 2.8% depending on occupational health and safety requirements	N/A
<b>Total</b>	<b>11.7±2.8%</b>	<b>11.5</b>

# Returns & Payments

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Social and health insurance returns should be submitted electronically before the **5<sup>th</sup> of the following month** on a monthly basis. Payments should be within the reporting month to the account of the Social Insurance Fund.



# Sources

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1. General Tax Law (2019)
2. Law on Corporate Income Tax (2019)
3. Law on Personal Income Tax (2019)
4. Law on VAT (2015)
5. Law on Customs tariff and duties (2008)
6. Law on Infringement (2017)
7. Criminal Code (2015)
8. Law on Investment (2013)
9. Law on Social Insurance (1994)



**THANK YOU!**

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**QUESTIONS?**

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