

Overview of Mongolia's Tax system

I .General Information about Mongolia

Mongolia is a landlocked country located in Central Asia, with its capital in Ulaanbaatar. It borders Russia to the north and China to the east, south, and west, with a border length of 4,710 kilometers between Mongolia and China. The total area of the country is 1.5665 million square kilometers, mostly covered by grasslands, with mountains in the west and north along with the Gobi Desert in the south. As of June 2024, Mongolia's total population is 3.5 million, with nearly half residing in Ulaanbaatar. The country is divided into 22 administrative regions, including 21 provinces and Ulaanbaatar. In terms of the political system, Mongolia is a constitutional republic. The Mongolian parliament is called the State Great Khural. The president is the head of state; and the Mongolian government, led by the prime minister and composed of multiple members, is the highest executive body responsible for implementing national laws and leading economic, social, and cultural development. Mongolia is rich in mineral resources, with many of its mineral reserves ranking among the top in the world. The mining industry is a pillar of Mongolia's economic development.

In 2023, Mongolia's GDP totaled approximately USD 20.14 billion. It engaged in bilateral trade with 163 countries and regions. Major trading partners include China, Russia, the United Kingdom, South Korea, Japan, Germany, the United States, and Switzerland. The total trade volume was USD 24.4 billion, an increase of 15% year-on-year. Of this, exports totaled USD 15.2 billion, up 21.1% year-on-year, while imports totaled USD 9.2 billion, up 6.3% year-on-year. The trade deficit was USD 2.1 billion, an increase of 54.7% year-on-year.

II . Organizational Structure

The highest tax administration authority in Mongolia is the General Department of Tax of Mongolia, which is under the jurisdiction of the Ministry of Finance. The tax administration structure in Mongolia is composed of three levels: the General Department of Tax, aimak (capital city tax agencies), and district tax offices. The General Department of Tax and the aimak have tax registration units and tax dispute resolution committees authorized to handle disputes between taxpayers and tax authorities. The authority to conduct tax inspections is vested in tax inspectors, who are responsible for tax enforcement. The working procedures of the tax dispute resolution committees are formulated by the government. The charters of the national tax agencies are approved by the government. Mongolia's tax agencies operate under centralized and unified leadership. The General Department of Tax leads tax business and provides technical support to the aimak and the district tax offices. The heads of the aimak and the district tax offices are appointed jointly by the Director of the General Department of Tax and the leaders of the respective local governments.

III. Tax System

Article 20 of the Constitution of Mongolia stipulates that the Mongolia Great Khural is the highest organ of state power, and the legislative power is only exercised by the Mongolia Great Khural. The General Tax Law of Mongolia stipulates that the legislative power of tax shall be exercised by the Mongolia Great Khural, and the generation, change and cancellation of tax shall be decided by the Great Hural according to law. Since 1992, the Mongolia Great Hural has successively enacted and promulgated the Business Entity Income Tax Law of Mongolia, the Law on Personal Income Tax of Mongolia, the Value-Added Tax Law of Mongolia, the Consumption Tax Law of Mongolian, the Real Estate Tax Law of Mongolian, the Customs Law of Mongolian, the Gasoline and Diesel Tax Law of Mongolian and the Stamp Tax Law of Mongolian. The General Tax Law of Mongolia stipulates that the tax system of Mongolia consists of the Constitution of Mongolia, the General Tax Law of Mongolia, various tax laws and other tax-related laws, regulations and documents. In case of Mongolia's accession to international treaties, the provisions of international treaties shall prevail. The Cabinet of Mongolia can sign stable contracts or investment contracts with investors and formulate a special tax system for free trade zones within the scope permitted by law. In addition, as the laws of Mongolia, such as the Investment Law of Mongolia and the Mineral Law of Mongolia, have set legal provisions on tax relief, the tax-related provisions in these laws together constitute the tax legal system of Mongolia. The formulation, revision and abolition of Mongolian tax laws are decided by the Great Hural according to law. The General Tax Law of Mongolia stipulates that Mongolian tax consists of taxes, fees and use fees. At present, there are 29 kinds of taxes, fees and user fees in Mongolia. According to the laws of Mongolia, the money that Mongolia collects from individuals and enterprises, such as income, property, goods and services, free of charge according to the prescribed tax period and tax rate is tax. The money charged by the relevant government departments to individuals and enterprises according to the law is fee. The money charged to individuals and enterprises for using state-owned land and aboveground or underground resources, forests, grasslands and water resources, and for polluting the atmosphere, soil, surface water and hunting is use fee. It can be seen that there are some differences between Mongolia and most countries in the scope of tax collection.

(1) Central taxes and tax categories

The tax rates of central (national) taxes in Mongolia are determined by the State Great Khural and the government, and such taxes are uniformly implemented nationwide, mainly including corporate income tax, customs duties, and value-added tax (VAT).

(2) Local taxes and tax categories

The tax rates of local taxes are determined by the provincial representative Khurals and are implemented within their respective regions. Such taxes mainly include capital city tax, personal income tax, and property tax.

(3) Central and local shared taxes and tax categories

Central and local shared taxes are those collected by tax authorities and paid into the central and local treasuries, respectively, according to a specified ratio. These

mainly include stamp duty, petroleum reserve royalties, and special license fees for petroleum exploration and extraction.

IV. Overview of the Latest Preferential Policies

In 2019, Mongolia implemented the largest tax reform in its history to promote domestic economic development, respond to the global trend of tax reduction, and enhance the international trade competitiveness of its products. This comprehensive reform aims to strengthen the tax administration functions, provide universal tax cuts and fee reductions, enhance internal audit and supervision of the tax system, and improve the quality and efficiency of tax services. The reform took effect on January 1, 2020. This reform involves several tax laws and regulations, including the General Tax Law of Mongolia, the Value-Added Tax Law of Mongolia, the Business Entity Income Tax Law, and the Law on Personal Income Tax. Key aspects of the reform include reducing tax rates, expanding the scope of tax reductions, standardizing daily taxpayer registration, tax and fee assessment, obligations for paying taxes and fees, tax declarations, tax exemptions and reductions, tax refunds, and tax reporting. Additionally, the reform includes legislation and regulation of non-resident tax management, such as the identification of tax residents and non-residents, withholding at the source, and foreign tax credits. Mongolia also carried out legislative reforms to optimize tax services within the tax system.

Moreover, the reform consists of several preferential policies in the area of tax as well. For instance, exemptions and reductions on import tariffs for supporting agricultural and livestock products have been implemented, including fertilizers, seeds, pesticides, and veterinary drugs. Considering the corporate income tax, the threshold for the progressive tax rate has been raised from MNT 3 billion to MNT 6 billion. The reform also clarifies the concepts of resident and non-resident taxpayers. For personal income tax, costs and expenses related to bank loan interest, property purchases, education, and medical expenses have been deducted. VAT for sectors including healthcare, science and technology, culture, cross-border trade, and goods carried by travelers has been reduced or exempted. What is more, the excise tax of green vehicles has been lowered as well.

Mongolia has been plagued by drought, snowstorm, grassland desertification and other environmental climate in recent years, which has caused the animal husbandry, one of the country's pillar industries, to continue to suffer a major blow. In this regard, Mongolia has successively issued policies on reducing or exempting tariffs on imported animal husbandry-related products (such as chemical fertilizers, veterinary drugs, breeding machinery, etc.). Meanwhile, Mongolia has also reduced or exempted some taxes for farming and animal husbandry enterprises and herders, aiming to actively help the country's animal husbandry to recover stably and ensure the policy operation and sustainable development of the domestic economy.

V. Tax Collection

Mongolian tax system has very detailed and specific requirements for tax registration, account book setting and preservation, accounting system, bill

management, tax declaration and tax agency.

The General Tax Law of Mongolia clarifies that the tax authorities have the power to supervise and inspect the accounts, statements and other financial documents related to taxpayers' taxes, and can copy the evidence related to tax supervision and inspection; They can also temporarily confiscate, copy, mortgage or seal bills and property that can prove that taxpayers conceal tax items. Mongolian tax inspectors (Mongolian tax administrators are collectively referred to as tax inspectors) have the right to enter taxpayers' houses and warehouses wherever they are located for inspection, photographing and testing; Meanwhile, they also bear the responsibility of keeping taxpayers' business secrets. In terms of confiscating taxpayers' illegal income, ordering them to suspend business, recovering taxes owed and dealing with acts obstructing official duties, the tax authorities must carry out law enforcement by bringing a lawsuit to the court.

The tax authorities shall supervise and inspect whether taxpayers fulfill their legal obligations according to the risk warning and the taxpayer's application. Tax inspection is divided into complex tax inspection, general tax inspection and simple tax inspection according to the scope of its work. Complex tax inspection refers to the tax inspection of transfer pricing and anti-tax avoidance in cooperation with other industry experts and relevant foreign authorities; Simple tax inspection is based on the information in the unified database of tax registration information, and electronically checks the tax collection and payment during the reporting period or in the past.

VI. Taxpayer Services

The General Tax Law of Mongolia stipulates that Mongolian tax authorities have the obligation to provide information consultation, training, and publicity to taxpayers. Tax authorities should respect the lawful rights of taxpayers and provide information and assistance related to tax collection, payment, and declarations pursuant to the law. This includes offering legally authorized tax professional advisory and consulting services, disseminating tax laws and regulations through various channels, and conducting tax law publicity and tax-related information disclosure.

The General Tax Law of Mongolia also stipulates that the tax authorities should respect the legitimate rights of taxpayers, provide taxpayers with information and assistance related to tax collection, payment and declaration, provide tax-related professional consultancy assistance and consultation authorized by law, and publish tax laws and regulations through various channels, carry out tax law publicity and tax-related information publicity.

In recent years, the Mongolian government has been committed to improving the business environment and enhancing the attraction of foreign investment. Measures include lowering the barriers for foreign investment, allowing the free exchange of foreign currencies, increasing the limits on foreign ownership in certain industries, and strengthening tax support, especially in areas such as high-tech introduction and public infrastructure construction.

VII. Tax Legislation History

Since 1992, Mongolia has successively promulgated various tax laws, such as the General Tax Law of Mongolia and the Business Entity Income Tax Law. It also established the tax collection authorities, clarified the taxable entities, tax items and tax rates for various types of taxes, and outlined the rights and obligations of the state and taxpayers. Mongolia has also signed bilateral tax agreements with 29 countries, including China, while establishing a comprehensive tax system that integrates domestic and international laws, procedural and substantive laws, and central and local taxes.

In 2019, Mongolia carried out a brand-new "package" of reform measures for its tax laws and policies system, which would be fully implemented on January 1, 2020. Mongolia revised nearly 50 items of tax laws and regulations, including the General Tax Law of Mongolia, Business Entity Income Tax Law of Mongolia and Law on Personal Income Tax of Mongolia. Among them, nearly 40 items are new measures for taxpayers' daily registration, tax identification, payment obligation, tax declaration, tax reduction and exemption, international tax, tax rebate, tax report, etc., and nearly 20 items are aimed at optimizing tax services, strengthening inspection and supervision, preventing corruption and other issues within Mongolia's tax system. This tax reform is the largest tax system reform in Mongolia since 1992. Mongolia aims to optimize the international and domestic business environment, enhance the competitiveness of international trade, stimulate market vitality and continuously stimulate domestic economic development with this tax reform.

VIII. Future Tax Reform Plans

In November 2019, the 10th OECD Global Forum on Responsible Business Conduct was held in Paris. To enhance its international trade development and improve tax transparency, Mongolia signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters ("the Convention") during the conference, becoming the 158th member of the Convention. In response to the requirements of the Convention, Mongolia has continuously incorporated BEPS project-related content brought about by economic globalization into its new versions of the General Tax Law of Mongolia, the Business Entity Income Tax Law of Mongolia, the Law on Personal Income Tax of Mongolia, as well as other tax laws and regulations since 2020. The main legislations involve tax information exchange mechanisms, controlled foreign companies, tax transparency investigations, transfer pricing, country-by-country reporting, and other aspects. Mongolia responds to the objectives of the BEPS Action Plan, firmly combating the illegal activities of multinational companies that exploit international tax rules for tax base erosion and profit shifting. Future development of Mongolia's tax system will primarily focus on improving the country's domestic tax laws on the basis of the international tax system.

IX. International Tax Cooperation

Mongolia joined the Convention on the Settlement of Investment Disputes between States and Nationals of Other States held in Washington in 1996 as well as

the World Trade Organization in 1997. It became a member of the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) held in Seoul in 1999, thereby also becoming a member of the World Bank's MIGA.

In 1991, China and Mongolia signed the Agreement between the Government of the People's Republic of China and the Government of the Mongolian People's Republic Concerning the Encouragement and Reciprocal Protection of Investments and the Agreement between the Government of the People's Republic of China and the Government of the Mongolian People's Republic for the Avoidance of Double Tax and the Prevention of Fiscal Evasion with Respect to Taxes on Income. In May 2017, China and Mongolia signed the Memorandum of Understanding between the Ministry of Commerce of the People's Republic of China and the Ministry of Foreign Affairs of Mongolia on Launching the China-Mongolia FTA Joint Feasibility Study. Currently, the Mongolian government has signed agreements for the avoidance of double tax with 26 countries and bilateral agreements on mutual promotion and protection of investments with 36 countries.

X. Others

Mongolia is an enthusiastic partner in the Belt and Road Initiative (BRI) and was one of the first countries to support it. To better align with China's BRI, Mongolia became a member of the Asian Infrastructure Investment Bank (AIIB) in 2014 and proposed the Steppe Road Initiative, which was upgraded to the Development Road Initiative in 2017. Additionally, China is Mongolia's largest trading partner and primary source of investment, with Chinese investments accounting for nearly 25% of Mongolia's total foreign direct investment. Chinese investments in Mongolia are primarily concentrated in sectors such as minerals, energy, construction, finance, livestock product processing, and catering services.

In recent years, during various meetings and visits at all levels between the two countries, Mongolia has repeatedly emphasized its willingness to actively participate in the BRI, aiming to strengthen cooperation with China in multiple fields, including trade, electricity, agriculture and animal husbandry, and infrastructure construction. Both sides will also advance the construction of the China-Mongolia-Russia Economic Corridor to promote mutual development.