



# Mongolian Employment Taxes Overview

2016

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The income tax legislation is undeveloped, comprising of a mere 12 pages. As a result, it often creates more questions than it answers, and interpretation of the legislation can sometimes be a challenge. This creates uncertainty, particularly in the case of expatriates, and given the unforgiving nature of the authorities, we encourage our clients to err on the side of caution when it comes to Mongolian tax compliance.

### The Basics

The Mongolian tax year is the calendar year (1 January to 31 December), and the filing deadline for Personal Income Tax returns is the 15<sup>th</sup> of February following the year end, with no extensions available.

There is no joint filing in Mongolia, so taxpayers are considered on an individual basis.

Interest and penalties can be applied in the case of late payment/submission.

### Residency

An individual is tax resident if present in Mongolia for more than 183 days (including days of arrival and departure). Tax residents are taxed on worldwide income and gains, which includes investments in Australia or elsewhere.

Non-residents are taxed on Mongolian sources of income only.

### Employment Income

Income earned whilst working for foreign company is considered Mongolian sourced since it is paid in respect of duties performed in the territory of Mongolia.

Employment income is subject to Personal Income Tax ("PIT") and Social Health Insurance ("SHI").

### Personal Income Tax

PIT is a flat rate 10% in Mongolia, and applies to almost all income and fringe benefits (see the limited exemptions below).

There is an annual PIT tax credit of 84,000 MNT which is applied monthly (i.e. 7,000 MNT).

SHI is a pre-tax deduction (see below).

### Social Health Insurance

There are 2 components of SHI - the employee component and the employer component.

The employee component is 10% and generally applies only to cash payments (i.e. it does not apply in the case of fringe benefits). The employee component is capped at 192,000 MNT per month (about 100 USD). In reality, expatriates are unlikely to gain any direct benefit from the SHI contributions.

The employee SHI component can be taken as a deduction before the PIT calculation.

For completeness, the employer contributions are uncapped, and vary by employer between 11% and 13%.

Mongolia currently has bilateral social security agreements with 4 countries - Russia, Hungary, Kazakhstan and South Korea. We suggest you contact KPMG if you are a citizen of one any of these countries.



From 1 January 2017, the employee SHI cap will increase to 240,000 MNT per month.

### **Exemptions**

There are few tax reliefs/exemptions, and other than per diems, those that are in place are typically apply to those working in the mining/construction sectors.

The provision of protective clothing and accommodation, canteen meals and transportation provided to those working in remote locations are tax exempt benefits.

### **Investment Income**

Investment income is also taxed at a flat rate 10%, and in the case of Mongolian tax residents, this would apply to worldwide income – i.e. interest/dividends/rental income etc. Where assets are owned jointly, only the taxpayers share is reportable.

Some specific information relating to the taxation of rental income and application of double taxation agreements is highlighted below.

### **Rental Income**

Mortgage interest is not an allowable deduction for Mongolian tax purpose, and thus where an investment property is in a loss for home country purposes, it may be profitable from a Mongolian perspective. Net rental income is taxed at 10%, with most other deductions allowable – management fees, utilities, repairs and maintenance etc.

### **Capital Disposals**

Gains on the disposal of movable assets (shares etc.) are subject to 10% tax in Mongolia.

In the case of immovable property (e.g. land/ house/apartment etc.), the gross sales proceeds (not the gain) are taxable in Mongolia at 2%.

In the case of residents, this would apply to the sale of a foreign property, and as it is based on proceeds, can create a signifi-

cant tax liability, even where the property is sold at a loss.

### **Double Taxation**

Mongolia has signed Double Taxation Agreements (“DTA”) with a number of countries, and the full list can be found at the following link:

<http://en.mta.mn/pages/26>

Importantly, there are no bilateral agreements with the Australia or the USA.

In the absence of a DTA, there are often instances of double taxation, particularly in the case of foreign sourced investment income and gains.

Where a DTA does exist, Mongolia should allow a Foreign Tax Credit to relieve Double Taxation.

### **Mongolian Tax Returns**

Tax residents of Mongolia should file an annual tax return in order to declare worldwide income and gains. Mongolia operates a system of Self Assessment, and thus the onus is on the taxpayer to be compliant.

### **Tax Certificates**

Tax non-residents of Mongolia can obtain a Tax Certificate. Such certificates are often required in the home country for Foreign Tax Credit purposes.

### **Next steps**

If you have any questions regarding the above, or would like to engage with KPMG for assistance with Mongolian tax compliance services, then please get in touch with Ed or Nara using the contact details below.

Similarly, if you would like to get advice in your home country, then please get in touch with the KPMG Mongolia team in the first instance, and they will redirect your query as appropriate.

***Please note that the above is a high level overview, and thus should not be relied upon without seeking advice based on your personal circumstance.***



**Useful Information**

**Capital:** Ulaanbaatar ("UB")

**Language:** Mongolian

**Dialing code:** +976

**Time zone:** GMT + 8 hours (+9 during daylight saving)

**Currency:** Mongolian Togrog (MNT)

At 12 October 2016

1 AUD = 1,750 MNT

1 EUR = 2,545 MNT

1 GBP = 2,860 MNT

1 USD = 2,283 MNT

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