

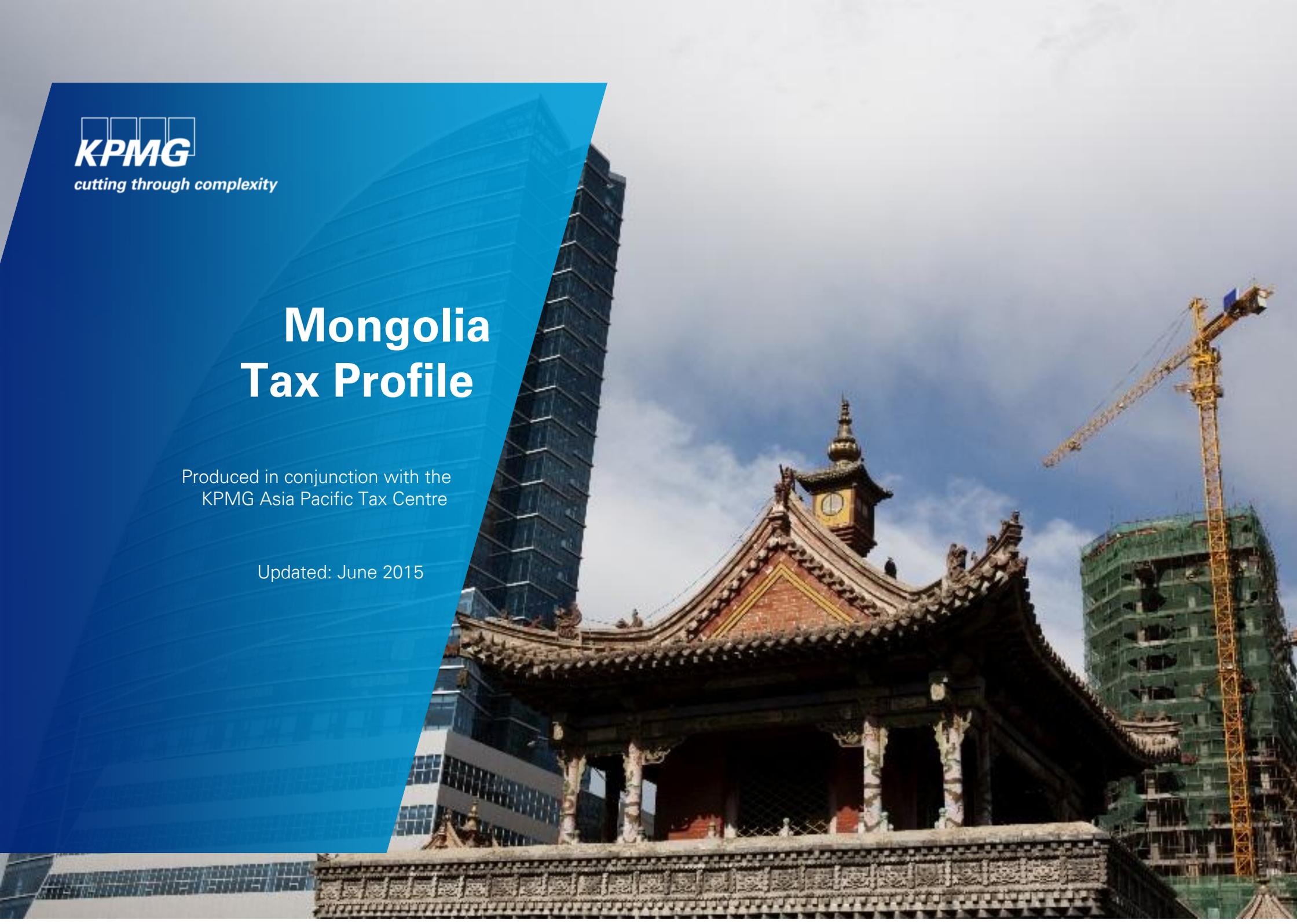


*cutting through complexity*

# Mongolia Tax Profile

Produced in conjunction with the  
KPMG Asia Pacific Tax Centre

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# 1 Corporate Income Tax

<b>Corporate Income Tax</b>	Economic entity income tax (including companies, co-operatives, partnerships and other legal entities).
<b>Tax Rate</b>	<p>Up to MNT 3 billion, a marginal rate of 10 percent applies. Above MNT3 billion, a marginal rate of 25 percent applies.</p> <p>Flat tax rates apply to certain types of income (e.g. dividends, interest and royalties are taxed at a rate of 10 percent).</p>
<b>Residence</b>	An economic entity is considered to be resident in Mongolia if it is formed under the laws of Mongolia or has its headquarters located in Mongolia.
<b>Compliance requirements</b>	<p>Mongolia operates a self-assessment system.</p> <p>Quarterly returns are due by the 20<sup>th</sup> of the month following the end of the quarter. Tax is paid in advance by the 25<sup>th</sup> of each month. Entities with annual income of less than MNT500,000 may pay on a quarterly basis.</p> <p>A tax return relating to income from the sale of shares (not through a stock exchange), or income from the sale of immoveable property must be submitted within 10 days of the sale.</p>



## **International Withholding Tax Rates**

A 20 percent withholding tax applies to the following income types derived by an economic entity not resident in Mongolia:

- Dividends paid by an economic entity registered and operating in Mongolia;
- Interest and guarantee payments (bond interest income issued by Mongolian commercial banks to domestic and foreign markets and purchased by a non-resident are taxed at 10 percent);
- Royalty income, interest income on finance leases, director's fees, rent and income from the use of tangible and intangible assets;
- Income from goods sold, work performed, and services provided in the territory of Mongolia; and
- Income earned from sources within Mongolia from services provided, work performed directly or electronically.

## **Holding Rules**

Corporate income tax is applicable on dividends received from resident subsidiary companies and non-resident subsidiaries. That is, there is no exemption available under domestic law for foreign-sourced income.

## **Capital gains**

Mongolia does not have a separate capital gains tax. Gains made on the sale of rights, shares and securities, intangible assets and movable and immovable property are included in taxable income.

## **Tax Losses**

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.

Tax losses in other sectors are able to be carried forward and deducted from taxable income for two years following the year the loss was incurred. However, the tax loss utilised may not exceed 50 percent of the total taxable income in that year.

## **Tax Consolidation / Group relief**

Mongolia has no provisions for tax consolidation or group relief.

## **Transfer of shares**

Gains made on the sale of shares and securities are included as taxable income.

Stamp duty may also apply to the transfer of shares (see Other Taxes below).



### **Transfer of assets**

Gains made on the sale of movable property are included as taxable income. Immovable property will be taxed at a rate of 2 percent on the proceeds.

Immovable property tax may also apply at a rate of 0.6 percent (see Other Taxes below).

### **CFC rules**

Mongolia does not have CFC rules.

### **Transfer Pricing**

Mongolia has no specific transfer pricing rules.

However, the Mongolian tax authority has the power to determine taxable income arising from transactions between related parties based on comparable transactions between non-related parties if it considers that the amount charged is above or below fair market value.

Related parties are entities with the following relations to the taxpayer:

- holds 20 percent or more of the common stock;
- right to receive 20 percent or more of dividends or distributions; or
- right to appoint 20 percent or more of the management of the entity or otherwise able to determine its policies.

No provision is made for advance pricing agreements (APAs).

### **Thin Capitalisation**

Mongolia has no specific thin capitalization rules.

However, no deduction is allowed for interest paid in relation to a loan from an individual who resides permanently in Mongolia and controls the taxpayer entity. Instead, such payment is considered a dividend to the individual.

In addition, if the amount of a loan granted by an investor to a taxpayer exceeds three times the value of capital previously invested by the investor in the taxpayer, the interest paid on the excess amount of the loan is non-deductible. Instead, it is deemed to be a dividend to the investor.

### **General Anti-avoidance**

Mongolia has no general anti-avoidance rules.



<b>Anti-treaty shopping</b>	None.
<b>Other specific anti-avoidance rules</b>	None.
<b>Rulings</b>	Tax rulings may be requested from the tax department clarifying the application of the law. However, these rulings are not legally binding.
<b>Intellectual Property Incentives</b>	No specific incentives are available.
<b>R&amp;D Incentives</b>	No specific incentives are available.
<b>Other incentives</b>	A limited number of incentives are available for businesses operating in the agricultural or manufacturing sectors.
<b>Hybrid Instruments</b>	Mongolia has no specific rules in relation to hybrid instruments.
<b>Hybrid entities</b>	Mongolia has no specific rules in relation to hybrid entities.
<b>Special tax regimes for specific industries or sectors</b>	As noted above, 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.  Specific royalty regimes apply for the mining industry (see Other Taxes below).
<b>Related business factors</b>	The common forms of legal entities typically used for conducting business in Mongolia are a Limited Liability Company, Joint Stock Company, Representative Office and Permanent Establishment.



There is no initial capital required for establishing a local entity. The minimum capital required for a foreign invested company is USD 100,000.

There are no other local requirements for establishing a legal entity in Mongolia.

All types of transaction concluded between resident entities are required to be in Mongolian tugriks (MNT). However money deposits, loans, its equivalent services, financial derivatives agreements and obligations under such agreements of banks and non-bank financial institutions might be expressed in foreign currencies; herein execution maybe provided in foreign currencies.



## 2 Income Tax Treaties for the Avoidance of Double Taxation

### In Force

Austria	Hungary	Republic of Korea
Belarus	India	Russia
Belgium	Indonesia	Singapore
Bulgaria	Italy	Switzerland
Canada	Kazakhstan	Turkey
Czech Republic	Kyrgyzstan	Ukraine
Democratic People's Republic of Korea	Malaysia	United Kingdom & North Ireland
France	People's Republic of China	Vietnam
Germany	Poland	

Mongolia's double tax treaties with United Arab Emirates and Kuwait were terminated from 1 January 2015 and 1 April 2015 respectively. Mongolia's double tax treaties with Luxembourg and The Netherlands were terminated from 1 January 2014.

Source: [General Department of Taxation](#), as at June 2015.

### Negotiated, not yet in force at time of publication

Thailand

Source: *IBFD*

### Tax information exchange agreements

None



### 3 Indirect Tax - VAT

#### Indirect Tax

Value added tax ("VAT")

#### Standard Rate

VAT applies to all goods that are sold in Mongolia, exported for sale, use, or consumption in a foreign country, or imported into Mongolia for sale, use, or consumption. VAT also applies to all works performed and services rendered in Mongolia.

The standard VAT rate is 10 percent.

Exceptions: some goods and services are treated as zero-rated (e.g. exports) or exempt (e.g. domestically grown food staples).

VAT credits can be offset by VAT payables (except for VAT exempt items).

#### Further information

For more detailed indirect tax information across various countries, refer to:

[KPMG's VAT/GST Essentials](#) and the [KPMG Asia Pacific Indirect Tax Country Guide](#)



## 4 Personal Taxation

### Income Tax

Personal income tax

### Tax Rate

Different types of income are subject to different tax rates:

- Salary, wages, bonuses, business income, income from holding property (e.g. rent, royalties, dividends, interest) and income from the sale of shares, securities and moveable property are subject to 10 percent tax.
- The sale of immovable property is subject to tax at 2 percent on the gross sale proceeds
- The sale of intellectual property, income from sports or arts performances and festivals is taxable at a rate of 5 percent.
- Income from quizzes, gambling, and lottery is taxable at 40 percent.

### Personal allowance

A standard personal tax credit of MNT 84,000 per annum is allowed for individuals to deduct against the tax payable on their annual income.

### Social Security

All employees are required to make contributions to the Mongolian Social Security (“SHI”) system at a rate of 10 percent of gross salary, capped at MNT 192,000 per month. Employers are responsible for withholding employee SHI contributions and paying them to the SHI department on a monthly basis.

Additionally, there is an employer SHI component which is also payable monthly, at a rate of between 11 percent - 13 percent depending on the sector in which the company operates. Such payments are currently uncapped, however it is anticipated that a cap will be introduced from 01 July 2015.

### Further information

For more detailed personal taxation information across various countries, refer to:

[KPMG’s Thinking Beyond Borders](#)



## 5 Other Taxes

### **Fringe benefit tax (FBT)**

Fringe benefits are included in gross income of employees and taxed at a rate of 10 percent.

### **Customs duty**

The General Customs Office of Mongolia is responsible for administering import laws and regulations. The majority of imports do not require a special license or approval, but are required to be declared to Customs, along with a description and value of the goods imported.

Transaction value is the most commonly used method of valuation. Alternative valuation methods include:

- Transaction value for identical merchandise
- Transaction value for similar merchandise
- Deductive method
- Computed method

Based on this information, Customs will determine the amount of tariff to be paid on the import. Tariff rates are established and approved by the Government. Import tariffs can be regular, favoured, or preferential. As such, depending on the country from which the product is imported, a favoured and/or preferential rate may apply.

Generally, most exports are not subject to tax (while an export duty exists, it is only applied occasionally). However, exports of certain products are restricted, including:

- Uranium
- Firearms
- Certain dangerous and poisonous chemicals



## **Excise duty**

Excise duty is imposed on:

- Alcohol
- Tobacco
- Petroleum products
- Passenger vehicles
- Gaming machines and equipment

Key exemptions apply for goods produced domestically for export, duty-free alcohol and tobacco, snuff tobacco and hybrid vehicles. Rates are dependent on the type of product and, in some cases, are higher for imports. Excise duties are set at a flat rate in USD per unit of product.

## **Stamp duty**

Documentary stamp duty applies to certain services provided by the Government. The rates vary accordingly to the type and value of the service or transaction.

## **Property taxes**

Immoveable property tax is levied at a rate of 0.6 percent of the value of the immoveable property as at the 15<sup>th</sup> of January each year.

Companies must pay immoveable property tax in four equal instalments by the 15<sup>th</sup> day of the last month of each quarter.

Individual taxpayers must pay immoveable property tax by the 15<sup>th</sup> of February each year.

Annual immoveable property tax returns must be filed by the 10<sup>th</sup> of February the following year.

Exemptions apply for property financed through the state budget, dwelling houses and public buildings.

## **Inheritance / gift tax**

There is no inheritance or gift tax.



## **Mining tax**

Under the Mongolian Mineral Law, royalties are payable on the sale of minerals both within Mongolia and abroad. The amount of royalty payable is based on a standard flat-rate royalty and may also include a surtax royalty with percentages applied depending upon the type of commodity and the market price. The Ministry of Mineral Resources and Energy is responsible for determining the reference price to be applied.

## **Miscellaneous**

Income from the creation of scientific, literary, artistic works, invention, produce design and other similar income is taxed at 5 percent.

Income from remuneration for sports competitions, art performances, and festivals are taxed at 5 percent.

Income from quizzes, gambling and lotteries are taxed at 40 percent.



## 6 Free Trade Agreements

### In force

- Trade and Commercial Agreement with Canada
- Trade agreements with Cuba, Japan and Vietnam
- Economic and Technical Cooperation Agreement with Egypt
- Trade and Investment Framework Agreement with the United States

Mongolia has not signed any regional or bilateral free trade agreements.

*Source: IBFD*



# 7 Tax Authority

## Tax Authorities

The General Department of Taxation

[Link to the General Department of Taxation website](#)

## Tax Audit Activity

Once tax reports are submitted to the tax authority, they are reviewed for factors such as internal consistency, calculation errors, timely payments and compliance. In addition, audits are conducted by the tax authority to test the accuracy and completeness of reporting. Usually ten days' notice will be given before an audit commences.

Taxpayers are required to grant tax inspectors full access during these audits and the audit should be witnessed by an independent person. The owner of the property or business should also be present or represented.

There is a five year limitation for the imposition of tax in arrears, fines and penalties.

## Appeals

Taxpayers may appeal the conclusions of a tax inspector within five years of the tax or penalties being imposed following the audit. Appeals are initially made to the legal department of the tax administration. If it is unable to be resolved, the appeal will be escalated to the Tax Dispute Settlement Council. If a taxpayer does not agree with the findings of the Tax Dispute Settlement Council, an appeal may be made in the courts.

## Tax Governance

The General Law on Taxation provides a number of taxpayer duties relating to complying with the taxpayers' tax obligations, including requirements to accurately maintain records.



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