



GMS Flash Alert

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Mongolia - Higher Personal Taxes, Health Contributions Approved by Parliament

The Parliament of Mongolia has now approved the amendment to the State Budget, including previously announced tax changes affecting personal income tax rates and thresholds and employer/employee Social Health Insurance contributions, among other areas of personal taxation.¹ These changes are in line with the conditions for the Agreement between Mongolia and the International Monetary Fund for the three-year Extended Fund Facility.²

We highlight below some of the tax changes affecting individuals and their multinational employers.

WHY THIS MATTERS

The measures introduced in the amendment to the State Budget will signify, generally, higher taxation for individuals. One of the key proposals in this year's Budget is the increase in the personal income tax rate from a flat 10-percent rate to a progressive system with rates ranging from 10 percent to 25 percent, and a new 20-percent nonresidents' rate applied to Mongolian source income. The higher personal tax burden will be partially reduced with the increase in the PIT credit. But social health insurance contributions are set to rise, further adding to the heavier tax burdens individuals in employment (and their employers) will bear. Nonetheless, each individual's tax status should be determined in light of his or her particular situation.

Companies with high income-earning international assignees are likely to see an increase in their assignment-related costs.

In cases of assignments to Mongolia where assignees are subject to Mongolian taxation, and for assignees working outside Mongolia but still subject to Mongolian taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes need to be considered.

Finally, with the new tax on interest income for individuals holding savings accounts in foreign banks, there will be new compliance obligations for them.

New Tax on Savings Interest

Interest income on all savings accounts will be subject to tax at 10 percent.

For domestic bank accounts, the financial institution shall be responsible for withholding and remitting the taxes on the interest income.

For foreign bank accounts, the individuals shall be responsible for remitting the taxes on the interest income earned. This should be done by making the payment to the State Budget by the 10th of the month following receipt of the interest income. It is expected that a tax form will be released to report this income.

Personal Income Tax

Personal Income Tax Changes from 1 January 2018

1. Introduction of nonresident tax rate

The approved amendments introduce a nonresident tax rate of 20 percent to apply to Mongolian-sourced income.

Prior to this, the same income tax rate was applicable for both resident taxpayers and nonresident taxpayers.

2. Progressive tax rate system introduced for residents

The approved amendments introduce a progressive income tax rate system for Mongolian resident taxpayers.

The details of the income brackets and rates are as follows:

Annual employment income (MNT)**	Current tax rate	New tax rate
Up to 18,000,000	10%	10%
18,000,001 – 30,000,000		MNT 1,800,000 + 15% on income over MNT 18,000,000
30,000,001 – 42,000,000		MNT 3,600,000 + 20% on income over MNT 30,000,000
42,000,001 +		MNT 6,000,000 + 25% on income over MNT 42,000,000

[MNT 1 = USD 0.000413 | MNT 1 = GBP 0.000322 | MNT 1 = EUR 0.000377 | MNT 1 = CNY 0.00284]

** The progressive tax rates only apply to employment income. As such, this excludes other types of taxable income such as fringe benefits, property income, business income, dividend income, and interest income.

Increase in PIT Credit

The approved amendments also increase the annual PIT credit which is available to be utilised against employment income. The current PIT credit is an annual amount of MNT 84,000.

The planned increases are set out as follows:

Tax Year	PIT Credit (MNT)
2018	120,000
2019	160,000
2020	200,000
2021	240,000

Increased Employee and Employers Social Health Insurance (“SHI”) Contributions from 1 January 2018

The approved amendments include a 2.5-percent increase to both employee and employer SHI contributions. The details of the increased rates can be found below.

Employee SHI Contributions

Employee contributions are based on a percentage of the employee’s monthly salary and similar income.

Employee contributions are currently:

- 10 percent of the employee’s salary and other similar income, capped at MNT 240,000 per month.

The approved amendments have not included any abolition of the capping of employee contributions, so the cap will remain; however, the cap could be increased from 1 January 2018, as some speculate. At this stage, details of the future cap have not been provided.

Current	From 1 January 2018
10% (capped)	12.5% (capped)

Employer SHI Contributions

Employer contribution rates currently vary from 11 percent to 13 percent depending on the industry. There is no capping of the employer contribution.

Current	From 1 January 2018
11 – 13% (not capped)	13.5 % - 15.5% (not capped)

FOOTNOTES:

- 1 For further information (in Mongolian), see [Видео: Монгол Улсын 2017 оны төсвийн тодотголыг өргөн мэдүүлэв](#) on the website of Mongolia's Parliament.
- 2 For related coverage, see GMS [Flash Alert 2017-052](#) (17 March 2017).

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Contact us

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