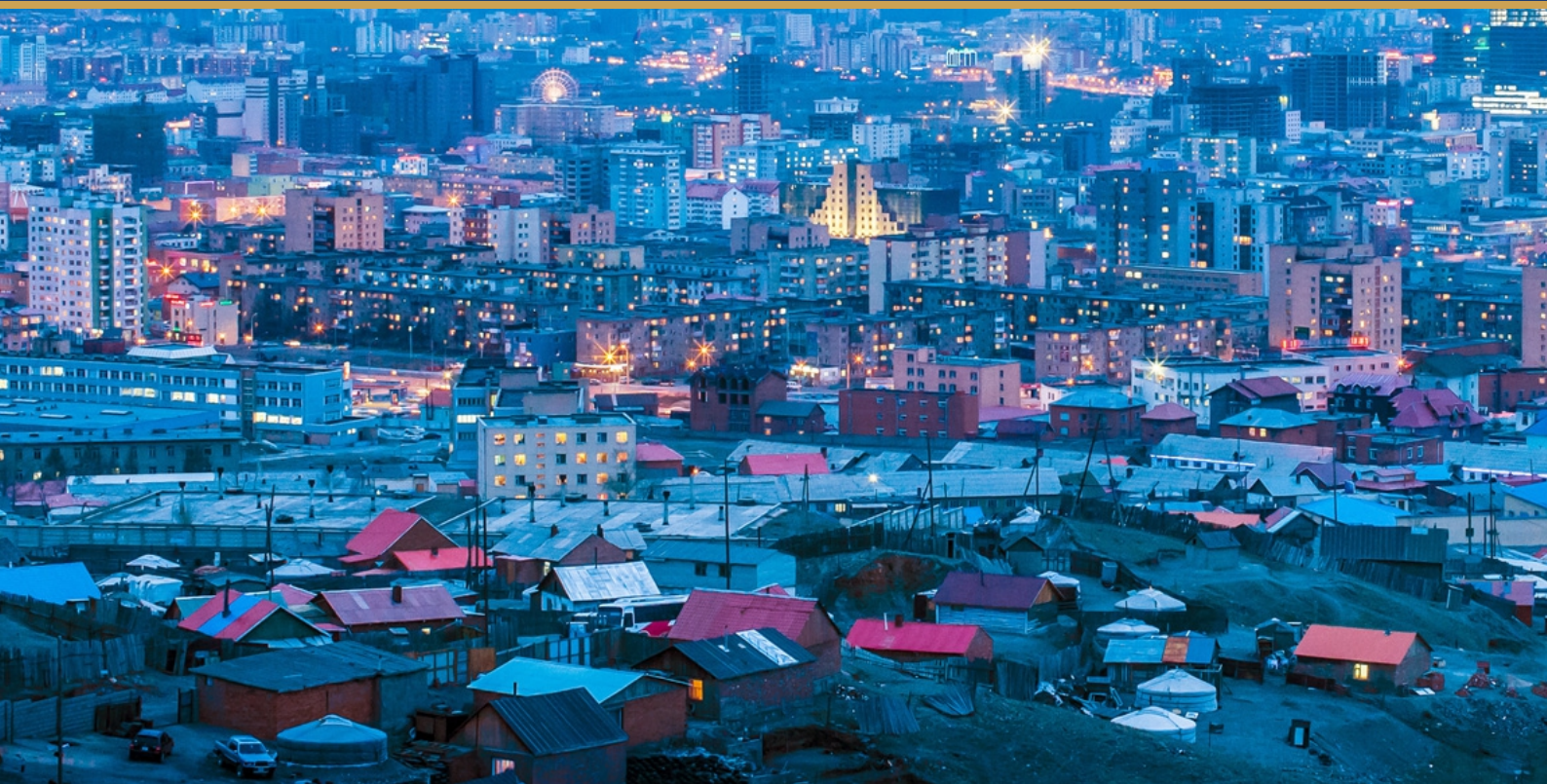




The AMERICAN CHAMBER of Commerce in Mongolia

AmCham Mongolia Policy Update on Tax Amendments



Ulaanbaatar 2019

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This update is based on presentation given by Minister of Finance Ch.Khurelbaatar on March 26, 2019. The final version of the adopted laws is not yet publicly available, so the interpretation may change based on the final wording of the law.

The paper was prepared by the Director of Policy and Advocacy, Mr. Javkhlantugs Ganbaatar and PwC Senior Tax Manager, Mrs. Maryna Tarnavska. Policy and Advocacy operates under the authority of the AmCham Board of Directors.

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Background

During the plenary session of Parliament held on Saturday, March 22, the MPs in attendance discussed revisions to the package of amendments to laws on taxation and related legislation. After lengthy debate by the MPs, the revised amendments to the Law on General Taxation and the Law on Corporate and Personal Income Tax were passed by Parliament.

At a press conference held on March 26, the Minister of Finance stated the reasons for the new tax amendments include the expansion and diversification of the Mongolian economy since tax amendments were last adopted in 2006. The tax reforms will prevent multi-national companies from avoiding taxes, using methods like transfer pricing; making tax legislation more transparent through increased information exchange; and removing Mongolia from the EU's blacklist of tax havens.

The approved package of tax amendments include the following changes relevant to AmCham members:

1. General Law on Taxation

- **Tax payment deadline for companies experiencing financial difficulties has been extended from 2 months to 24 months.**
- Taxes, overpaid due to ungrounded requests by the tax authorities, will be refunded in the first priority along with a principal payment and a fine.
- The roles and responsibilities of tax inspectors have been streamlined and more disciplined. For instance, if a company suffers a loss due to a violation of the law/mistakes made by a state tax inspector, the state tax inspector at fault will not be able to work for the tax administration for 10 years.
- Taxpayers who have been determined to be "no risk" taxpayers, should not be audited.
- An electronic tax registration, and a tax information portal with taxpayers' information systems will be implemented, so services provided by the tax authorities will be based on the tax electronic systems.

2. Corporate Income Taxation

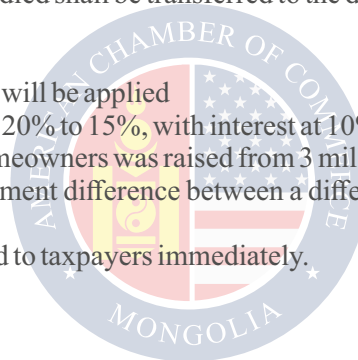
- **The license transfer tax was decreased from 30% to 10%, and now it is applied to a net amount not gross.**
- **Interest income of commercial Mongolian banks to be paid on loans and debt instruments obtained from local and foreign stock markets will be taxed at 5%**
- The withholding tax on income provided to non-residents was decreased to 15%.
- The 20% tax on dividends for foreign investors has been lowered to 5%.
- The tax of 10% on financing obtained through debt instruments from initial and secondary markets has been lowered to 5%.
- Companies that don't report any income for a financial quarter will still need to pay 60,000 MNT quarterly.
- Revisions to tax reports can be made within 3 days for correcting the errors and one year without penalty once a taxpayer is informed of the errors.
- If a foreigner is found by the Tax Administration to owe 20 million MNT or more in unpaid taxes, and he does not have the funds to pay his debt., then the Tax Administration can request a ban on passing a border until the foreigner pays off his taxes.
- **Simplified tax structure has been developed:**
 - o Companies with annual revenue of up to 300 million MNT revenue will pay a 1% tax and file half-year reports.
 - o Companies with annual revenue of 300 million MNT to 1.5 billion MNT will pay a 10% tax and file half-year reports, and also receive a 90% tax refund.
 - o Companies with annual revenue of up to 6 billion MNT will need to file half-year reports.
 - o Expenses that met certain legal criteria can be deducted from total taxable Income.

- o Companies located in remote areas (500 km from Ulaanbaatar) will receive a 50% tax refund. Those located 1,000 km from Ulaanbaatar will receive a 90% tax return.
- o The ceiling for 25% income tax was increased from 3 billion MNT to 6 billion MNT.
- o Companies (non-VAT payers) with revenue of 50 million MNT will pay a 1% tax and file an annual report.
- o **Companies producing seed, potatoes, vegetables, fruit, animal fodder, and trees will receive a 50% tax break.**

- **The depreciation timeline for buildings and construction of the companies (excluding mineral, oil, and exploration license holders) was lowered from 40 to 25 years.**
- The statute of limitation for tax inspections, and penalties, fines, and tax payments, assessed as a result of such inspections was lowered from 5 years to 4 years.
- *Interest income of loans and debt instruments of Mongolian commercial banks from local and foreign sources will be taxed at 5%.*
- *Rules, approached to “BEPS” will be implemented to prevent tax avoidance by decreasing tax base and transferring profit.*
- *International regulations aligning transfer pricing rules with OECD standards (including the reporting requirements) will be implemented.*
- *Tax Administration will exchange information with 190 countries for tax purposes.*
- The obligation to pay taxes, along with any related rights *excluding tax penalties*, of a taxpayer who has died or is considered to have died shall be transferred to the deceased taxpayer's heir.

3. Personal Income Taxation

- A flat 10% personal income tax will be applied
- Resident tax was lowered from 20% to 15%, with interest at 10%.
- The tax return for first-time homeowners was raised from 3 million MNT to 6 million MNT.
- Tax credit will be given on payment difference between a different in interest of mortgage loan and subsidized loans.
- Overpaid taxes will be refunded to taxpayers immediately.





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