Mongolia Tax Profile

January 2021

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Table of Contents

1 Corporate Income Tax

General Information

Tax Rate

Taxpayers in Mongolia are separated into two classifications, resident and non-resident taxpayers, each with different rates applying to various revenue streams.

Resident taxpayers are subject to corporate income tax on their taxable income (i.e. gross income less allowable deductions or expenses) earned in and sourced from Mongolia at the progressive rates shown in the table below. We outlined the applicable tax rates for resident taxpayers below.

Corporate income tax		
	Type of income	**Tax rate**
General CIT rate	Annual taxable income between MNT 0 – 6 billion	10%
	Annual taxable income greater than MNT 6 billion	25%
	Interest	10%
	Dividends	10%
	Royalties	10%
	Sale of rights	10%
Special CIT rate	Sale of immovable property	2%

Non-resident taxpayers shall be subject to 20% withholding corporate income tax on the gross income earned in or sourced from Mongolia.

Tax year

Tax year in Mongolia is calendar year from 1 January to 31 December.

Residence

An entity shall be considered as a resident taxpayer in Mongolia for the following cases:

- Incorporated in Mongolia OR
- Headquartered in Mongolia while meeting three or more conditions stated below:
  - More than 50 percent of its shareholders or shareholders, who execute own rights and responsibilities through their direct or in-direct delegates, are residing in Mongolia;
  - Over 50 percent of the total shareholders' meetings are held in Mongolia in the four consecutive years preceding the tax year;
  - Accounting books and financial documents are kept in Mongolia;
  - More than 25 percent of the Board Directors or those who perform their Directors' rights and responsibilities directly or in-directly through its own delegates, are residing in Mongolia;
  - At least 60 percent of total sales revenue is earned from a sourced in Mongolia;

Basis of Taxation

Resident entities in Mongolia are taxed on their worldwide income on a net basis (e.g. corporate income tax on their net income).

Non-resident entities are taxed only on Mongolian-sourced income on a gross basis (e.g. dividends, interest, royalties and other service income).

Tax Losses

Tax losses confirmed by the tax authority shall be carried forward and deducted from taxable income for the 4 consecutive years following the year in which the loss was incurred. However, the tax loss utilized may not exceed 50% of the total taxable income in that year.

If an entity restructured its form by merging, acquiring or separating in accordance with the Civil Code, the Company Law and the Partnership Law, it shall result in forfeiture of tax losses.

Tax Consolidation/Group relief

Mongolia has no provisions for tax consolidation or group relief.

CFC Rules

If Mongolian resident taxpayer company and/or Mongolian resident individual taxpayer directly or indirectly owns more than 50% of a foreign incorporated company, such company shall be regarded as CFC.

Thin Capitalization

There is also a thin capitalization requirement for investor loans provided the loan is advanced by an investor to a taxpayer entity. In particular if the amount of a loan granted by an investor to a taxpayer entity 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, subject to taxation.

Interest Deductibility Restrictions

Where the loan is from an individual shareholder of the entity who is a permanent resident taxpayer in Mongolia, no deduction is allowed for interest paid in relation to a loan from the individual shareholder.

Earnings Stripping

The amount of total tax-deductible interest expense payable to related parties shall be capped at 30 percent of EBITDA determined for the CIT purpose (i.e. total sales revenue for the reporting period, minus expenses that meet the conditions and requirements specified in the CIT law, except for interest, depreciation and amortization).

General Anti-Avoidance Rule

If there is a tax scheme that results in the taxpayer receiving a tax benefit (including a reduction of a tax base, a postponement of a liability to pay tax, any other advantage arising because of a delay in payment of tax, increase in an amount of gross revenue to be exempt income or otherwise not subject to tax and an amount that otherwise be subject to tax not to be taxed), the tax authority make a determination and reassess a tax liability as if the scheme had not been carried out and can make compensating adjustments.

Anti-treaty Shopping

None

Other Specific Anti-Avoidance Rules

None

Rulings

Tax rulings may be requested from the tax authorities to clarify the application of the law.

Hybrid Instruments

Mongolia has no specific rules in relation to hybrid instruments.

Hybrid Entities

Mongolia has no specific rules in relation to hybrid entities.

Related Business Factors

The common forms of legal entities used for conducting business in Mongolia are Limited Liability Companies, Joint Stock Companies, Representative Offices and Permanent Establishments.

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

Other local requirements for establishing a legal entity in Mongolia include registering the company name, and the company itself, with the State Registration Office.

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Determination of Taxable Income and Deductible Expenses

Income

General

Taxable income is determined by subtracting deductible expenses and tax-exempt income from gross taxable income. Gross taxable income includes income from business activities, income from property, income from sale and transfer of assets and other income.

Revenue recognition

Revenue shall be recognized for corporate income tax purposes in the following conditions:

- Goods: when shipped or loaded;
- Works: based on percentage of completion of works;
- Services: payment is received or conditions under relevant contracts are fulfilled;
- Other types of revenue, at the time:
    - when it is realized or
    - when such revenue is earned
- Exchange of goods and works and services: at the time when such items are received.

Expenses

General requirements for deduction

All of the following conditions should be met <u>at the same time</u> for tax deductions:

- Relevant for the reporting period;
- Incurred directly in connection with taxable revenue;
- Recognized, documented and recorded;
- Documented (VAT slips, customs declaration);
- Paid or reported;
- Deductible expenses are only permitted for resident taxpayers.

Non-deductible expenses

Following expenses shall not be deductible:

- Principle amount of a lease;
- Interest, penalty and compensation for loss on breach of an obligation of contract;
- Expenses for recreational activities and similar expenses;
- Loss on sale of property to related parties;
- Payment made by a Permanent Establishment to its Parent;
- Expenses incurred in connection with earning CIT tax exempt income;
- Capital city tax, VAT and withholding taxes;
- Unrealized foreign exchange loss;
- Incremental amount of inventory revaluation and
- Certain donations.

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Depreciation/Capital allowance

Fixed assets are depreciated on straight line basis for tax purposes.

Description	Depreciation period
Buildings and constructions	40 years for companies operating in minerals, radioactive minerals, oil sectors and exploration and mining license owners and 25 years for all other companies
Computer and its hardware	2 years
Machinery, mechanism and manufacturing equipment	10 years
Intangibles with determined useful life	During the effective period
Other fixed assets	10 years

Interest Expenses

Interest shall be treated as deductible when interest deductibility requirements (e.g. interest deductibility limitations and earnings stripping etc.) are met.

Expenses deductible within certain limit

Voluntary insurance expenses i.e. all insurance coverage except health and social insurance is capped at 15% of a taxable income.

Travel expenses of employees should not exceed two times the per diem of a civil servant (which is an amount approved by the Government of Mongolia).

Ceremonial event expense is capped at 5% of the total salary expenses paid in the tax year to employees who have concluded employment contracts and subcontractor agreements specified in the Labor Law.

Regular maintenance expense including spare parts is capped at 2% of the book value of immovable property and 5% of the book value of other property.

Amount of donations to support the activities of sports associations and clubs and to support non-government organizations founded by Mongolian citizen individuals with disabilities not exceeding MNT 10 million shall be deducted.

Ring fencing rule

A business entity engaging in mineral, radioactive minerals, oil exploration and mining activities shall prepare and submit tax returns for each holding license in a tax year.

Foreign tax credit

Taxes paid abroad by a taxpayer shall be credited from taxes payable for the reporting period. Foreign taxes shall not be credited if:

- Entities are under the simplified tax regime;
- Taxes refundable in the country where the taxes were paid;
- Tax interest, fine and penalties;
- Taxes are imposed on non-taxable income in accordance with the Mongolian tax legislation.

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Tax Compliance

Compliance Requirements

Mongolia operates on a self-assessment tax system.

A corporate taxpayer must accurately determine and self-assess its income and tax due based on quarter-to-date and year-to-date tax statements prepared under accrual accounting and make payment to the tax authorities.

CIT return submission	Filing frequency	Deadline
Taxpayers with annual taxable income higher than MNT 6 billion	Quarterly	By 20th of month following the quarter and annual submission within 10th February of the following year
Taxpayers with annual taxable income higher than MNT 6 billion	Bi-annually	by 10th July and annual submission within 10th February of the following year
Nil return	Annually	By 10th February of the following year

Mandatory Electronic Filing

All types of tax returns are submitted electronically.

Requirement to Prepare Tax computation / Return in Functional Currency

Amounts for Mongolian Corporate Income Tax returns are to be determined in Mongolian currency MNT (i.e. amounts expressed in a foreign currency must be converted into Mongolian currency). Mongolia has no rules to elect out of the Mongolian currency requirement for tax purposes.

Documents to File with Tax Return

Supporting documents are not required to be filed unless requested by the tax officials.

Language to File Return, Computation and Supporting Documentation(s)

Mongolian

Filing Extension Availability and Details

Mongolia has no filing extension rules. However, CIT return amendment is available until 31 December next year.

Payment of Tax

Tax is generally paid in advance by the 25th of each month, and final tax payment deadline is the same as that for reporting (i.e. 10th February). The following are exceptions to CIT payment deadline:

- Tax imposed on income from the royalties, interest, dividend, sale of immovable property and income from lottery must be remitted within 10 working days of the sale by the withholding agent.
- All types of withholding taxes imposed on payments made to a non-resident should be remitted within 10 working days.

Interim Tax returns

Taxpayers with taxable income MNT 6 billion or more are required to submit tax returns on quarterly basis due by the 20th of the month following the end of the quarter.

Taxpayers with taxable income up to MNT 6 billion are required to submit tax returns on bi- annual basis due by the 20th of July each year and 10 February of following year.

Penalties for Non-Compliance

Corporate taxpayers who fail to file their tax return within the deadline will be fined with MNT 1,500,000 in accordance with the Infringement Law.

Penalties and/or Interest for Underpayment of Taxes

Penalties for late payment

Penalties apply to the late payment - interest shall be 0.1% of the outstanding tax liability per outstanding day, however, such penalty shall not exceed 10% of the outstanding tax liability.

Penalties for underpayment of Taxes

If taxpayer understated the tax by up to 50 percent penalty shall be 30 percent of taxes due in addition to the taxes payable. If taxpayer understated the tax by 50 percent or more penalty shall be 40 percent of taxes due in addition to the taxes payable.

Where withholding tax is not withheld or not remitted and reported, the withholder shall pay taxes payable and the penalty shall be 40 percent of the tax liability.

Statute of Limitation

There is a 4-year limitation period for the imposition of tax in arrears, fines and penalties.

Indirect transfer rule

Income arising from sale and transfer of mining, oil, radioactive minerals special license and land usage and possession rights (the rights) by way of full or partial transfer of shares or participation rights or voting rights held by the beneficial owner shall be regarded as income from sale or transfer of the rights issued by the Authorities, of the entity holds the rights. We refer this rule as the “Indirect transfer rule” hereafter.

This indirect transfer rule shall see the share transfer transactions lead to a change in the amount or percentage of shares of “ultimate beneficial owner” (hereafter UBO) of a legal entity holding the rights and this would trigger a taxable event in Mongolia.

Financial Statements/Accounting

Details of Local Accountant Requirements

IFRS or IFRS for Small and Medium Enterprises (SMEs) have been theoretically adopted for all private entities, although in practice, many enterprises do not comply due to the cost and difficulty of converting. Listed companies, companies operating in exploration or mining, and companies classified as large by the Ministry of Finance are among those required to apply IFRS in full. On 4 February 2016, the Ministry of Finance issued a regulation stating that companies with total assets greater than MNT 0.5 billion or revenues over MNT 1.5 billion would be classified as large entities required to apply full IFRS for their reporting.

Fiscal Year

The financial year is from 1 January to 31 December.

Periodicity of Local Books to be Closed

No specific requirements are applicable on closing of local books.

Documentation to be Presented with Financial Statements

Balance sheet, income statement, cash flow statement, changes in equity statement, and notes to the accounts.

Financial Statements Language

Mongolian

Retention Period for Statutory Financial Statements / Working papers

Minimum 10 years

Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

No specific requirements apply.

Requirements to Prepare Financial Statements in Local Currency

Yes

What GAAP must the Financial Statements be Prepared Under?

International accounting standards.

Prescribed Format and Details for Financial Statements

The financial statements required to be lodged include a balance sheet, income statement, cash flow statement, changes in equity statement, a detailed list of all conflict of interest transactions and notes to the accounts.

Filing Due Date

Financial statements are required to be submitted to the Ministry of Finance, as follows:

- semi-annual financial statements are due by 20th of July (applicable to companies adopted IFRS)
- annual reports are due by 10th February (applicable to all companies)
- annual consolidated reports are due by 1st March (applicable to parent companies required to consolidate).

Filing of Financial Statements

Financial statements are required to be submitted electronically through the Ministry of Finance's online system. Paper filings are still accepted in addition to electronic submissions but cannot be used in place of an electronic submission.

Filing Extension Availability and Details

Amended financial statements can be submitted within next financial year (31 December following year).

Incentives

Incentives under the Investment law

The Investment Law allows stabilization of the tax environment and the possibility of entering into an investment agreement with the Government of Mongolia for qualifying projects. A tax stabilization certificate can be used to stabilize the percentage rates of corporate income tax, customs duty, value-added tax and royalties for up to 27 years. The term of Stabilization Certificate depends upon the amount and the geographic location of the investment.

Non-tax incentives

Non-tax incentives include the availability of investor visas to foreign investors and their family members and the land rights to possess and use for up to 60 years and further extension for 40 years.

Tax incentives

Tax credits may be available for small and medium enterprises who have annual income less than MNT 1.5 billion and taxpayers operating in remote areas, if legal requirements are met.

In addition to above, simplified tax regime may be available for taxpayers with annual income up to MNT 50 million. Under the simplified tax regime taxpayer's gross taxable income shall be taxed at the rate of 1 percent.

International Taxation

Double Taxation Relief

In order to avoid double taxation, Mongolia adopts the foreign tax credit method. The amount of foreign tax paid is allowed as a credit against the Mongolian tax payable on the same income or taxable items.

Foreign-exchange controls

All business transactions between Mongolian registered entities are required by law to be settled in MNT. However, it is not unusual for amounts to be quoted in other currencies (predominantly USD), particularly in international trade and the tourism industry.

International Withholding Tax Rates

A withholding tax rate of 20 percent applies to the income sourced from Mongolia and earned by an economic entity that is a non-resident of Mongolia. Types of income sourced from Mongolia are as follows:

- Income from a resident taxpayer or permanent establishment of a non-resident taxpayer for its works and services performed directly or electronically, or its goods sold in Mongolia;
- Income from arts, cultural, sports and other events organized by non-resident entities in Mongolia;
- Dividend income paid to a non-resident taxpayer by a resident taxpayer;
- Interest income paid and transferred by state and local authorities, resident taxpayers and permanent establishments to a non-resident taxpayer;
- Income from sale, transfer or lease of assets or rights relating to these assets in Mongolia which are possessed, used and owned by a non-resident taxpayer, provided by resident taxpayer;
- Income from royalties, or lease, possession of movable and immovable property and intangible assets, or rights of use of these assets, interest income from financial lease, income from technical, management, consultancy and other services, provided by a resident taxpayer to a non-resident taxpayer
- Income transferred by a permanent establishment to its non-resident parent entity
- Income from sale and lease of movable and immovable property, or intangible assets which are used by the permanent establishment for its business operation, earned by its non-resident parent entity; and
- Other similar income to the above.

The withholding tax rate may be reduced under a double tax treaty that is in force with the non-resident's country of residence.

Other Agreements

Mongolia has Investment Protection Agreements with 42 countries.

Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

Italy, Thailand, Latvia

Source: IBFD.

2 Transfer Pricing

Mongolia has joined the Inclusive Framework on Base Erosion and Profit Shifting ("BEPS") in 2018 and as a member of the Framework, Mongolia has committed to the implementation of the four minimum BEPS standards, including transfer pricing reporting under Action 13 (Country-by-country ("CbC") report, Master file, and Local File). Considerable development is now introduced with regards to Transfer pricing reporting and the rules shall apply as of 1 January 2020.

Requirements

TP documentations	General content	Reporting party
Annual Transactional File (ATF)	- Gathers information about related parties - Information on all types of transactions conducted among the related parties	- All taxpayers who conducted related parties' transactions
Master File (MF)	- Overview of a MNE's global operation - Value drivers and supply chain model etc. - General TP policy	- Annual sales income higher than MNT 6 billion - Group's annual sales income higher than MNT 6 billion - Foreign invested companies
Local File (LF)	- Local information about the taxpayer - Economic and functional analysis of intercompany transactions - Analysis of group TP policy	- Annual sales income higher than MNT 6 billion - Group's annual sales income higher than MNT 6 billion - Foreign invested companies
Country by Country Report (CbCR)	- Gathers information about global allocation of profit, tax of the MNE throughout the world - Summary data and economic activity in each country including revenues, profits, taxes, number of employees, nature of business operation	- Ultimate parent entity, constituent entities - Surrogate Parent Entities - assigned persons for reporting (with consolidated financial statements with annual sales income higher than MNT 1.7 trillion)

Common Reporting Standard

Taxpayers shall submit the annual transactional report, local file, master file and CbC report (if required) along with the annual tax return to the relevant tax authority within 10 February of the following year.

Transfer Pricing Adjustment

If the transfer pricing documentation is not prepared or the tax imposition is underestimated, the tax authority shall have authority to make transfer pricing adjustments in accordance with arms-length principle.

3 Indirect Tax

Basis of Taxation

VAT is levied on:

- all types of goods sold in the territory of Mongolia;
- all types of goods exported from the territory of Mongolia for sale, use or consumption to foreign country;
- all types of goods imported from foreign country into the territory of Mongolia for sale, use or consumption;
- works performed and services rendered in the territory of Mongolia.

The taxable amount of VAT for goods produced and sold, works performed and services provided in Mongolia is usually the amount invoiced by the seller or service provider. However, where the tax authority believes that the price charged is unreasonably higher or lower than market value, the tax authority may re-assess the amount of VAT based on the fair market value.

Tax Rate

VAT rate

The standard rate for VAT in Mongolia is 10 percent of the taxable value.

The timing of imposition is determined as taking place at the earlier of:

- The day when the seller receives payment for the sale of the goods, work or services;
- The day in which the seller issues an invoice
- The day the buyer purchases the goods, work or services Exceptions: certain goods and services are zero-rated (e.g. exports) or exempt (e.g. domestically grown food staples).

Zero Rated VAT application

Zero rated supplies include exports of goods and services; international transport services; services related to international air travel; services provided in a foreign country (including tax-exempt services); services provided to foreign citizen not residing in Mongolia during provision of services (including tax-exempt services); and mining final products exported.

Exemptions

Certain goods and services are exempt from the VAT regime in Mongolia including sale of gold to BOM and commercial banks with permission, certain food products produced domestically, education services, medical services and specific financial services. As such, local advice should be sought on which items will be VAT exempt.

Withholding VAT for non-residents

Service income earned by non-resident entity within territory of Mongolia is subject to 10% withholding VAT in Mongolia. When a person or legal entity of Mongolia purchases goods, work, or services not declared at the customs, from an entity that does not reside or stay in Mongolia, a person or legal entity in Mongolia shall impose and withhold VAT on value of the goods, work, or services and make payment to the Authority. Please note the WHT VAT is not creditable for the Mongolian entity receiving service or goods.

VAT refund

Registered end-users may receive 20% VAT refund where certain conditions are met (goods, works, or services are purchased from VAT withholding agents, purchases are registered with the tax authorities, purchases are registered with a registration device, etc.). These end users may also receive a reward under a lottery arrangement on regular basis.

Registered VAT withholding agents are eligible for VAT refund. A taxpayer who has overpaid VAT shall submit a written request for refund or credit against payments of other taxes to the MTA upon the submission of tax report. (i.e. by the 10th of the following month).

A tax office shall review, confirm, and submit its opinion to the MTA within 15 working days following the receipt of request.

The MTA shall review the request and the opinion, verify the refundable amount, and provide written notice to the taxpayer within 7 working days after they received the request and opinion, and submit its findings in addition the taxpayer's name, registration number, bank account, refundable amount, and total arrears to the Ministry of Finance within 2 working days. The Ministry of Finance shall pay a refund within 45 working days after it has received the findings.

VAT withholding agent registration threshold

A VAT withholding agent is any of the following:

- An entity or individual that produces or sells goods, performs work or provides services in Mongolia
- An entity that imports or exports goods
- A permanent establishment of a foreign company with sales revenue (of goods sold, works performed or services provided) of 50 million MNT or more

The VAT registration threshold is 50 million MNT of sales revenue however, revenue from sales of fixed assets should not be counted when determining whether the threshold has been breached. This should help to reduce the compliance obligations for some smaller organizations. If an entity or individual exceeds the threshold (as reported in their income tax returns), Registration request must be submitted to the tax authority within ten working days of exceeding the threshold and the tax authority will issue a VAT certificate to the entity or individual confirming VAT registration. Tax is imposed from the day the tax authority issues the VAT certificate.

An entity or individual may voluntarily register for VAT when sales revenue from primary production, work or provision of services exceeds 10 million MNT. Group VAT registration is not available.

Compliance requirements

VAT returns are required to be submitted to the tax authority on a monthly basis and the tax report submitted by the VAT payer must observe the approved standard format. Payment is due the same day as the VAT return. Annual VAT return is not required to be lodged.

4 Personal Taxation

Personal Income Tax

Residency

A taxpayer is qualified as a resident if they meet any of the following criteria:

- Resided in Mongolia for more than 183 days within a consecutive 12 months;
- 50% or more of gross taxable income is derived from Mongolia or from Mongolian sourced income.
- A civil servant of Mongolia working abroad on assignment is also qualified as a resident taxpayer. Foreign citizens working in foreign diplomatic missions and consulates, UN are qualified as non-residents regardless of residency criteria.

Basis of taxation

A resident taxpayer is required to pay taxes in Mongolia on both their taxable income earned in Mongolia and overseas income (i.e. their worldwide income). Non-resident taxpayers are only required to pay taxes on taxable income earned in Mongolia.

Tax rate

The Personal Income Tax Law defines the different types of personal income subject to the tax and establishes the tax rate applicable for each income type. Personal Income Tax (PIT) rate on employment and personal investment income for resident taxpayer is flat 10 percent.

Tax rate on Mongolian-sourced income (i.e. including employment income, fringe benefits, property income, dividend, business income and interest income) for non-residents is flat 20 percent.

Compliance requirements

Personal income tax returns are filed on quarterly basis within 20th of month following the quarter and annual PIT return should be submitted by 15th February of the following year.

Social Security

All employees working in Mongolia and their respective employers are required to make social health insurance (SHI) contributions to the Mongolian Social Security System.

Social Security rate

The employee component of SHI is 12.5% of total salary and is capped at 525,000 MNT per month in 2021. During 1 January 2021 to 1 July of 2021 the employee component of SHI is 10.5% capped at 441,000 MNT per month as per tax relief measure for Covid-19.

The employer SHI component is currently uncapped and varies between 13.5-15.5%, depending on the sector in which the company operates. During 1 January 2021 to 1 July of 2021 the employer component of SHI is 10.5% as per tax relief measure for Covid-19.

Compliance requirements

Social security returns are filed on monthly basis within 5th of the following month.

International Social Security Agreements

Mongolia signed bilateral Social Security Agreements with Hungary, the Republic of Korea, Poland and Turkey.

5 Other Taxes

Fringe Benefit Tax

Fringe benefits (e.g. housing benefits, transportation benefits, etc.) are included in gross income of employees. The rate of tax applicable to fringe benefits depends on the employee's residency (10 percent for residents and 20 percent for non-residents). Fringe benefit tax is regulated under Mongolia's Personal Income Tax Law.

Stamp Duty

Stamp duty applies to certain services, document issuances, and special permissions provided by the Government. The rates vary according to the type and value of the service or transaction.

Property Tax

Immovable property tax is levied annually at a rate of 0.6% to 1% of the value of the immovable property. The rate varies depending on the location, size, and supply and demand of the property.

Companies must pay immovable property tax in 4 equal instalments by the 15th day of the last month of each quarter. Annual immovable property tax returns must be filed by the 10th of February the following year. Individual taxpayers must pay immovable property tax by the 15th of February each year.

Exemptions apply for property used by the state, for agriculture, or as residential and public buildings. Exemptions may also be available for entities operating in industrial parks.

Mining Tax

Under the Mongolian Mineral Law, royalties are payable on the sale of minerals both within Mongolia and to abroad. The amount of royalty is based on standard flat-rates 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.

Standard royalty rate for extracted coal used for internal usage, domestically sold or shipped for sale shall be 2.5% of the sales value.

Royalty rate applicable for gold sold to the Bank of Mongolia and other authorized commercial banks shall be 5% and surtax royalty shall not be applicable

Standard royalty rate for mining products other than above shall be 5% of the sales value of the products

Under the Mongolian Petroleum Law, the amount of royalties for petroleum and natural gas is 5% to 15% of the crude oil or natural gas extracted (the exact rate will be set under the Product Sharing Agreement based on the negotiation with the Mongolian Government).

City Tax

There is a capital city tax that applies to entities in the service industry. The tax rate varies between 0 and 1.0% of sales amount or market price on certain types of services (i.e. hotels, hospitality services, restaurants and bars) and goods sold (i.e. alcohol and tobacco). The tax rate varies depending on location of the service provided and goods sold, and density of the population in that location.

6 Trade & Customs

Customs Duty

Imports

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

As stipulated in the law of Mongolia on Customs tariffs and duties, Customs value shall be determined by the declarant based on the documents required for specific customs clearance procedure and be declared to the Customs. The declarant is obliged to provide the valuation method chosen to the Customs and furnish documentary evidences for support of the determination of Customs value.

The transaction value is the most common method used for customs valuation. Alternative valuation methods include:

- Transaction value for identical merchandise;
- Transaction value for similar merchandise;
- The deductive method; and
- The computed method.

Based on this information, the Customs Authority will determine the amount of tariff to be paid on the import. Tariff rates are established and approved by the Government.

A regular tariff rate of 5 percent applies for the most import goods.

Exports

Generally, the 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, and snuff tobacco.

The excise duty for hybrid vehicles is 50 percent of the normal excise duty imposed on imported cars (effective 1 July 2017). Excise duties are set at a flat rate in MNT per unit of product.

Import VAT

Under the VAT law, the taxable amount of value-added tax for imported goods shall be determined by adding customs duty, excise tax, and other taxes to customs value determined in conformity with the Customs Tariff Law of Mongolia. Import VAT rate is 10%. For the purpose of computing import VAT to be paid at the customs, the following formula will apply:

Import VAT = [Customs Value + Customs duty (5% of Customs Value) + excise tax + other taxes] x 10%

7 Tax Authority

Tax Authority

Mongolian Tax Authority (MTA)

Link to Mongolian Tax Authority

Tax Audit

The MTA conducts a tax audit on the risk assessment basis. The frequency of the tax audit may differ depending on several factors, such as a special request from other authorities and third parties' information.

Tax audit can be conducted in full or partial scope. Full scope tax audit is designed to audit all tax areas applicable to the taxpayer. Partial scope tax audit is designed to cover selected tax areas only for the specific purposes.

Current Topics of Focus by Tax Authorities

Tax reform

Transfer pricing

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