

PERSONAL INCOME TAX LAW OF MONGOLIA

(Newly formulated)

SECTION ONE GENERAL PROVISIONS

Article 1. Purpose of the law

1.1. The purpose of this law is to regulate relations concerning imposition of personal income tax and transference thereof to the budget.

Article 2. Personal income tax legislation

2.2. Legislation on personal income tax (hereinafter referred to as “tax”) comprises the General Taxation Law, this Law and other laws and regulations enacted in conformity with them.

Article 3. Framework of the law

3.1. This law shall regulate relations concerning imposition of tax on income of entity other than proprietorship with income that cannot be determined on its work and services.

Article 4. Legal terminologies

4.1. In this law, the following terms shall have the following meanings:

4.1.1. “Income earned in foreign country” is income earned by a taxpayer’s employment, ownership and use of movable and immovable property, and ownership, use, transfer and sale of rights in countries other than Mongolia;

4.1.2. “Herdsman family” refers to family members, couples, and their born, step and adopted child, and relatives who earn main income by rearing their own livestock on a regular basis;

4.1.3. “Individual with livestock” refers to an individual, foreign national and stateless person that owns livestock in forms other than those specified in subparagraph 4.1.2 of this law;

4.1.4. “Withholder” means an individual or legal entity which imposes and withholds tax from a taxpayer in conformity with legislation and transfers it to the state or local budget.

SECTION TWO TAXPAYER

Article 5. Taxpayer

5.1. A citizen of Mongolia, foreign national and stateless individual shall be personal income taxpayer.

5.2. A taxpayer specified in paragraph 5.1 of this Law shall be classified as a resident of Mongolia and non-resident of Mongolia (hereinafter referred to as “taxpayer”).

Article 6. A resident taxpayer of Mongolia

6.1. The following entity shall be a resident taxpayer of Mongolia:

6.1.1. A citizen of Mongolia, foreign national and stateless person who has permanent workplace at anytime of tax year and performs work and services by forming contract with economic entity and individual;

6.1.2. A foreign national and stateless person who resides in the territory of Mongolia and earns income 183 days or more during continuous 12 month period;

6.1.3. A civil servant of Mongolia with an appointment to work abroad;

6.1.4. A foreign national and stateless person who resides in the territory of Mongolia in a form similar to those specified in subparagraphs 6.1.1-6.1.3 of this Law.

6.2. A period specified in subparagraph 6.1.2 of this Law shall be counted on days of entrance and departure from the border of Mongolia. In case of multiple entries, his/her stay in Mongolia shall be counted based on total number of days.

6.3. Employee of foreign diplomatic mission and consulate and his/her family members who reside in Mongolia shall not be referred as a resident of Mongolia.

Article 7. A non-resident taxpayer of Mongolia

7.1. A taxpayer other than those specified in subparagraph 6.1.2 of this Law shall be a non-resident taxpayer of Mongolia.

SECTION THREE GROSS INCOME AND EXEMPT INCOME

Article 8. Gross income

8.1. The following tax year income of a taxpayer shall be subject to taxation:

8.1.1. Salary, wages, bonus, incentives and other income similar to them;

8.1.2. Income from proprietorship activities;

8.1.3. Property income;

8.1.4. Gain from property movement;

8.1.5. Income from herdsman family, individual with livestock;

- 8.1.6. Income of proprietor from sales of self-prepared inventories;
- 8.1.7. Income from remuneration for sports competition;
- 8.1.8. Income from laying a wager, quiz and lottery;
- 8.1.9. Indirect income.

8.2. A resident taxpayer of Mongolia shall pay taxes on income from sources in the territory of Mongolia and abroad.

8.3. A non-resident taxpayer of Mongolia shall pay taxes on income derived from an activity which takes place in Mongolia.

8.4. Income earned in foreign currency shall be converted into MNT based on Mongol Bank's exchange rate of that day.

Article 9. Salary, wages, bonus, incentives and other identical income

9.1. The following income shall be subject to salary, wages, bonus, incentive and other similar income:

9.1.1. Base salary, additional wages, bonuses, vacation pay, housing, food, fuel, and transportation pay and other similar income earned in accordance with employment contract formed with an employer;

9.1.2. Employer issued allowances to the employee or employee's family member and other similar income;

9.1.3. Gift received from an employer;

9.1.4. Salary, wages, bonus, incentive and other similar income of members of board of directors, control committee, part-time committee, and other forms of committee, board and working group;

9.1.5. State prize of Mongolia, the Government prize, prizes of Mongolian people's and honored title holders, prizes for scientific discovery, and all types of bonuses and incentives issued by foreign and domestic economic entities, individual and other entities;

9.1.6. Wages, bonuses, additional wages, allowances and other similar income earned in a form other than main job under a contract with legal entity and individuals.

Article 10. Income from proprietorship activities

10.1. The following income shall be subject to income from proprietorship activities:

10.1.1. Income of all kind from proprietorship activities such as production and sale of goods, work performed and services rendered;

10.1.2. Income from remuneration for scientific, literal and artistic work, invention and innovative idea, designer award, sport and art performance, participation in such activities and other similar income.

Article 11. Property income

11.1. The following income shall be subject to property income:

- 11.1.1. Income from leasing of movable and immovable property;
- 11.1.2. Income from royalties;
- 11.1.3. Monetary and non-monetary income from dividend, share payment from legal entity based on rule and contract formed, and profit sharing;
- 11.1.4. Income from interest and similar income;
- 11.1.5. Income earned for use of property owned to others.

11.2. Income from royalties shall include payments for use of the following rights:

- 11.2.1. Use of creation that is referred as copyright in accordance the Copyright Law;
- 11.2.2. Use of new creation, product prototype, and profitable design specified in the Patent Law;
- 11.2.3. Use of trademark specified in the legislation of Trademark and Use of Entity Title;
- 11.2.4. Transfer of technology as specified in the legislation of transfer of technology;
- 11.2.5. Use of information related to production, trade and scientific experiment;
- 11.2.6. Similar rights other than those specified in subparagraph 11.2.1-11.2.5 of this Law.

11.3. Income from interest and similar income shall include loan interest, interest earned on bank account and savings account, fee for issuing guarantee, note payable (bond), interest earned in accordance with law and contract, penalties and reimbursement.

Article 12. Income from property movement

12.1. Income from property movement shall include the following income:

- 12.1.1. Income from sale of immovable property and those transferred under will and gift contract;
- 12.1.2. Income from sale of movable property;
- 12.1.3. Income from sale of stocks and securities.

Article 13. Indirect income

13.1. Indirect income shall include the following income issued by an employer to its employee:

- 13.1.1. Value of apartment transferred free of charge or payment for use of the apartment;
- 13.1.2. Payment for use and ownership of vehicle;
- 13.1.3. Payment issued for personal expense;
- 13.1.4. Payment for expense of work performed and service rendered by others;
- 13.1.5. Payment issued for clinic and entertainment services;
- 13.1.6. Payment of debt;
- 13.1.7. Loan;

13.1.8. Other income similar to those specified in subparagraphs 13.1.1-13.1.7 of this Law.

Article 14. Exempt income

14.1. The following income shall be exempt from tax:

14.1.1. Pension, benefit, compensation, payment, discount, reimbursement and assistance issued in accordance with legislation;

14.1.2. Subsidies for blood donor;

14.1.3. Per-diem;

14.1.4. Proceeds from insurance;

14.1.5. Payment for government loans and interest income;

14.1.6. Costs of labor safety clothes, antidote drinks, and other equivalent supplies provided in accordance with legislation;

14.1.7. Grants by the international organization, foreign government, legal entity, individual, Government and local agencies, legal entity and individual in emergency situation;

14.1.8. Income of foreign citizens working in diplomatic missions and consulate offices in Mongolia, the United Nations and its subsidiary organizations;

14.1.9. Income from sources in foreign countries of citizens specified in subparagraph 14.1.8 of this Law and their families;

14.1.10. Income of individual who lost over 50 percent of working capacity due to disability;

14.1.11. Indirect income specified in subparagraphs 13.1.1-13.1.7 of the Law.

14.2. Exempt income shall not be part of gross income.

SECTION FOUR DETERMINING OF TAXABLE INCOME

Article 15. Determining of taxable income from salary, wages, bonus, incentive and similar income

15.1. Taxable income from salary, wages, bonus, incentive and similar income shall be determined in the following manner:

15.1.1. Social and medical insurance contribution deducted from income specified in subparagraph 9.1.1 of this Law;

15.1.2. Total income of income specified in subparagraph 9.1.2-9.1.6 of this Law.

Article 16. Determining of taxable income from proprietorship activities

16.1. The following documented expenses deducted from operating income of proprietorship activities:

16.1.1. Social insurance contribution;

16.1.2. Health insurance contribution;

16.1.3. Salary, wages and additional wages;

- 16.1.4. Expenses of materials (raw materials, primary and auxiliary materials, semi-processed items, steam, water, energy, fuel, gasoline, spare parts, wrappings and packaging).
- 16.1.5. Depreciation and amortization expenses of non-current assets. Land and inventory reserve shall not be depreciated;
- 16.1.6. Expenses of regular maintenance;
- 16.1.7. Loan interest;
- 16.1.8. Lease payment;
- 16.1.9. Insurance premium;
- 16.1.10. Excise and immovable property taxes paid to the budget, custom duties of imported inventories, materials and raw materials other than fixed assets, tax on transport vehicles, payment for use of land and natural resources;
- 16.1.11. Expenses for fertilizer, food for animal, injections, activities of protecting plant;
- 16.1.12. Transportation expenses;
- 16.1.13. Cost of assets with short life and low cost;
- 16.1.14. Workplace safety expenses;
- 16.1.15. Communication, stationary, sanitary and security expenses;
- 16.1.16. Per-diem expenses. Per-diem expenses shall be calculated accordance with civil servant norms;
- 16.1.17. Payment for work performed and services rendered by others;
- 16.1.18. Normal wear and tear of inventory. The amount of normal wear and tear of inventory shall be approved by the Government.

16.2. Expenses of materials, primary and auxiliary raw materials, spare parts and fuel and gasoline used for purpose of production and service shall be estimated by their weighted average cost and excluding value-added tax;

16.3. Expense of regular maintenance shall be calculated after deducting depreciation from initial cost of asset and it shall not exceed 2 percent of immovable properties and 5 percent of book value of other properties;

16.4. In case of deductible expense specified in paragraph 16.1 of this Law is not proven by documentation, unrelated to the activities, and spent for personal use of a taxpayer, it shall not be deducted from gross income.

16.5. Salary and wages paid to each member of household shall be calculated and included in expenses in proportion to social insurance contributions.

16.6. If a taxpayer expended manufactured goods, work and services performed to his and his family need, it shall not be referred as expenses.

16.7. If a taxpayer uses machinery, equipment, and facility for his family need and proprietorship activities, expenses shall be estimated based on prorated ratio and included in expenses.

Article 17. Determining of taxable income from property income

17.1. Taxable income from property income shall be determined in the following manner:

- 17.1.1. By difference of deducting expenses of buying, preparing and leasing the property from total lease income;
- 17.1.2. Total income from royalties;
- 17.1.3. Total income from dividend, share payment from legal entity based on rule and contract formed, and profit sharing;
- 17.1.4. Total interest income;
- 17.1.5. Total income earned for use of property owned to others;

17.2. In case of economic entity with taxpayer's contributed capital goes bankrupt, cost of contributed capital shall be deducted from sale proceeds of remaining asset to determine the share received by the taxpayer;

Article 18. Determining of taxable income from property movement

18.1. Taxable income from property movement shall be determined in the following manner:

- 18.1.1. Total income from sale of movable and immovable properties;
- 18.1.2. In case of sale of stock, income shall be determined by deducting purchase cost of the stock;
- 18.1.3. In case of joint ownership of stock, taxpayer's prorated portion of stock after deducting expense specified in subparagraph 18.1.2 of this Law;
- 18.1.4. In case of sale of securities, income shall be determined by deducting purchase cost of the securities.

Article 19. Determining of taxable income of herdsman family and individuals with livestock

19.1. Taxable income of herdsman family and individuals with livestock shall be determined by number of livestock;

19.2. Number of livestock shall be converted to head of sheep. A camel, cow or horse of each shall be commensurate with 5 sheep and 1 goat with 1.5 sheep;

19.3. The number of livestock subject to the tax shall be determined by the number of livestock counted at the end of the previous year.

19.4. If the number of taxable livestock in that year has been reduced due to disaster defined in subparagraph 4.1.2 of this Law, it shall be deducted from total number of taxable livestock based on appropriate documentation.

Article 20. Determining of taxable income of income from sales of self-prepared inventories, remuneration for sports competition, laying a wager, quiz and lottery, and indirect income

20.1. Taxable income of sales of self-prepared goods, materials and raw materials shall be determined by deducting documented expenses.

20.2. Taxable income of remuneration for sports competition shall be determined by its value.

20.3. Taxable income of laying a wager, quiz and lottery shall be determined by its value.

20.4. Taxable income of indirect income shall be determined by its value.

Article 21. Income in tangible form

21.1. Income in tangible form shall be converted to monetary form based on its fair market value, and it shall be part of taxable income.

SECTION FIVE TAX RATE

Article 22. Tax rate

23.1. The following tax rate shall be imposed on annual income amount specified in subparagraphs 8.1.6, 9.1.1-9.1.5, 10.1.1, 10.1.2, 11.1.1, 12.1.2 and 12.1.3 of this Law:

Amount of annual taxable income (in MNT)	Tax rate
0-3600000	10 percent
3600001-7200000	MNT 360000 plus 20 percent of income exceeding MNT 3600000
7200001 and over	MNT 1080000 plus 30 percent of income exceeding MNT 7200000

23.2. The following tax rates shall be imposed on income specified in the following clauses of this Law:

22.2.1. Tax rate on income specified in subparagraphs 8.1.7 and 11.1.2 of this Law shall be 10 percent;

22.2.2. Tax rate on income specified in subparagraphs 11.1.3 and 11.1.4 of this Law shall be 15 percent;

22.2.3. Tax rate on income specified in subparagraphs 13.1.8 and 8.1.8 of this Law shall be 30 percent;

22.2.4. Tax rate on income specified in subparagraph 12.1.1 of this Law shall be 2 percent;

22.2.5. Economic entity shall impose and withhold income tax from the following income at rate given below:

22.2.5.1. Income specified in subparagraph 9.1.6 of this Law shall be at 10 percent;

22.2.5.2. In case of sale of goods, materials and raw materials, 3 percent income tax shall be imposed on total value;

22.4. The following tax rate shall be imposed on per head of sheep as specified in paragraph 19.2 of this Law:

Aimags and capital city	Tax amount (MNT)
Ulaanbaatar, Selenge, Tuv, Darkhan-Uul, Orkhon	100
Arkhangai, Bayankhongor, Bulgan, Gobi-Sumber, Dornogobi, Dornod, Dundgobi, Umnugobi, Uvurkhangai, Sukhbaatar, Khuvsgul, Khentii	75
Bayan-Ulgii, Uvs, Khovd, Gobi-Altai, Zavkhan	50

22.5. Income tax from medical service and other services including cultural, artistic, research and marketing initiated by a citizen in foreign countries, unless otherwise specified in international treaties of Mongolia shall be 10 percent;

22.6. Income tax rate of non-resident of Mongolia on income specified in the article 9 and subparagraphs 11.1.1-11.1.3 of this Law shall be 20 percent, on income specified in the article 13 and subparagraphs 8.1.8, 12.1.1 of this Law shall be 30 percent, on income specified in subparagraph 8.1.5 shall be at rate specified in paragraph 22.4 of this Law.

SECTION SIX TAX EXEMPTION AND CREDIT

Article 23. Applying of tax exemption and credit

23.1. Tax credit of MNT 84,000 shall be deducted from tax imposed on annual income specified in subparagraphs 9.1.1-9.1.5 of this Law.

23.2. Livestock converted to 20 sheep per member of herdsman family shall be deducted from number of livestock that are taxable.

23.3. If herdsman family builds wells with their own expenses or has them built for use of others and livestock, credit equal to documented expenses of such wells shall be applied.

23.4. Comments and decisions of professional authority shall be basis to apply the credit specified in paragraph 23.3 of this Law, and it shall be deducted from the annual income tax of herdsman family.

23.5. Income tax on income earned by permanent resident of Mongolia from producing only cereals, potatoes, and vegetables and planting fruits and nutritious plants shall be reduced 50 percent.

23.6. Tax credit shall apply to tuition payment of a taxpayer's born or adopted child who attends domestic university, college and professional school.

23.7. The credit specified in paragraph 23.6 of this Law shall also apply to tuition payment of child who attends foreign university, college and professional school. However, domestic professional school norm shall apply at this circumstance.

23.8. The credit specified in paragraph 23.6 of this Law shall apply to student of university, college and professional school who employed during his/her study and paid taxes and tuition.

SECTION SIX TAX IMPOSITION, PAYMENT TO THE BUDGET AND REPORT

Article 24. Tax imposition and payment to the budget

24.1. Withholder shall impose tax on income specified in the Article 9, 10 and subparagraph 8.1.6 of this Law at rate specified in paragraph 22.1 of this Law and transfer it to the budget.

24.2. Withholder of personal income tax on payroll of a taxpayer specified in subparagraph 9.1.1 of this Law shall impose the tax at the end of each month and shall transfer it to the budget after deducting the credit specified in paragraph 23.1 of this Law. The withholder shall make a note in taxpayer's income and tax form.

24.3. Withholder shall impose tax on income of a taxpayer other than those specified in subparagraph 9.1.1 of this Law and make a note in taxpayer's income and tax form.

24.4. A taxpayer who earns employment income other main job shall deduct the credit specified in paragraph 23.1 of this Law to settle his/her taxes at the end of each year. A note shall be made on taxpayer's income and tax form.

24.5. An economic entity that employs a taxpayer under employment contract who qualifies for the credit specified in paragraph 23.6 of this Law shall deduct the credit from the taxpayer's income at the end of the year. A note shall be made in taxpayer's income and tax form at each time of taxes paid and the end of the year.

24.6. Withholder shall transfer withheld tax of a taxpayer to the budget within the 10th of next month if not specified otherwise in the present Law.

24.7. In case of tax amount is less than MNT 10000, the withheld tax shall be transferred to the budget together with tax from next month.

24.8. A bank shall impose tax at rate specified in subparagraph 22.2.2 of this Law and transfer it to the budget within 3 business days when it calculates interest on savings of a citizen.

Article 25. Taxpayer's payment of tax

25.1. A taxpayer shall impose tax on the following income of his/her and make payment within the terms stated below:

25.1.1. Herdsman family and individuals with the livestock shall pay the income tax to the budget in two installments by July 15 and December 15.

25.1.2. Income tax from sale of immovable property shall be imposed at rate specified in subparagraph 22.2.4 of this Law and paid by 15th of the first month of the next quarter;

25.1.3. Income tax from leasing of assets shall be imposed at rate specified in paragraph 22.1 of this Law and paid by 15th of the first month of the next quarter;

25.1.4. A proprietorship shall pay the income tax quarterly at rate specified in paragraph 22.1 of this Law by 15th of the first month of the next quarter;

25.2. In case a taxpayer earns income specified in the Article 13 and subparagraphs 8.1.6, 9.1.6, 10.1, 11.1.1, the taxpayer shall pay the imposed the tax at rate specified in the paragraph 22.1 and complete year-end tax settlement using the tax form.

25.3. A taxpayer shall make a note on income and tax form and confirm by the corresponding tax office every time he/she makes tax payment specified in paragraph 25.1 of this Law. The taxpayer shall make final settlement with that tax office at the end of the year.

25.4. Based on an agreement made between a taxpayer and the Taxation Authority, an advance payment can be made.

25.5. An individual with the livestock shall pay the income tax to local budget of an area where livestock stays permanently;

Article 26. Timeframe to submit tax report

26.1. Withholder who withheld income tax on income specified in the Articles 9, 13 and subparagraphs 8.1.7, 8.1.8, 10.1.2, 11.1.2, 11.1.3 and 12.1.2 of this Law and submits the year-to-date income tax quarterly report by 20th of the first month of the next quarter and an annual report by February 15 of next year to the corresponding taxation office.

26.2. A taxpayer shall submit a report of income tax specified in subparagraph 12.1.1 of this Law by the 15th of the first month of the next quarter.

26.3. Income specified in the Article 13 and subparagraph 9.1.6, 10.1.1, 11.1.1, 8.1.6 of this Law shall be reported on individual tax form and submitted to the taxation office by February 15 of the next year.

SECTION EIGHT OTHER

Article 27. Registration of a taxpayer

27.1. National taxation authority shall employ the following procedures to register a taxpayer:

27.1.1. A taxpayer shall register with the tax office in his/her corresponding area and obtain taxpayer registration number;

27.1.2. A taxpayer shall fill out registration form to obtain the registration number;

27.1.3. The tax office shall issue a certificate with the taxpayer registration number. The General Department of National Taxation shall approve the design of registration form and certificate;

27.1.4. Withholder shall make a note of taxpayer registration number on income tax form each time when income issued to an individual and submit a year-to-date report of income issued to an individual and taxes withhold to the corresponding tax office on quarterly basis.

Article 28. Entry into force

28.1. The present law shall come into effect on

28.2. Income tax on income specified in subparagraphs 11.1.3-11.1.4 of this Law shall be imposed effective January 1, 2008.

SIGNATURE