

**ECONOMIC ENTITY AND ORGANIZATION  
INCOME TAX LAW OF MONGOLIA**

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*Ulaanbaatar*

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**Article 1. Purpose of law**

1. **The purpose of the present law is to regulate the relations arising from imposition of tax on economic entity and organization income and transference of it to the budget.**

**Article 2. Economic entity and organization income tax legislation**

The economic entity and organization income tax /hereinafter referred to as <<tax>>/ legislation comprises the General Taxation Law, the present law and other laws and regulations enacted in conformity with them.

**Article 3. Taxpayer**

1. The following economic entities and organizations are to be taxpayers:
  - 1) Companies, cooperatives, partnerships, foreign companies and joint ventures, which are involved in all forms of ownership, situated on the territory of Mongolia;
  - 2) A representative office of foreign companies which gains profit in Mongolia;
  - 3) A commercial bank, credit or insurance agencies and other agencies similar to them;
  - 4) Non-Government organizations; *(This subparagraph was added by Law of April 17, 1997.)*
  - 5) Religious organizations;
  - 6) Legal entities, which own state or local property;
  - 7) Legal entities not residing in Mongolia; *(This subparagraph was added by Law of November 9, 2001.)*
  - 8) Legal entities engaged in business other than those described in subparagraphs 1-7 of paragraph 1 in this article of the present law; *(Subparagraphs 4-7 were added to this paragraph by Law of April 17, 1997. Changes were introduced by Law of November 9, 2001.)*
2. “the representative office”, indicated in subparagraph 2 of paragraph 1 in this article, means:
  - 1) A permanent place of the taxpayer through which the taxpayer carries out whole or part of its commercial activities;

- 2) A construction site, installing project and supervision activities with them;
- 3) Equipment, machinery or construction with a purpose to search for the natural resources, derrick and supervision activities connected with them.
- 4) A place for commerce and service activities; (*Paragraph 2 was added by Law of April 17, 1997.*)

#### **Article 4. Type of taxable income**

##### **1. The following income of a taxpayer is subject to tax:**

- 1) Income from basic and auxiliary work and service;
- 2) Income from commercial banks and credit transaction;
- 3) Income from insurance activities;
- 4) Income from brokerage and stock exchange activities;
- 5) Income from pawnshop;
- 6) Income from disposal of immovable property;
- 7) Income from disposal of movable property;
- 8) Income from royalties; (*This subparagraph was re-edited by Law of April 17, 1997.*)
- 9) Dividend and gains of shareholder;
- 10) Income from interest on loan;
- 11) Income from leasing property;
- 12) Commissions and other gains from intermediary activities;
- 13) Income from lotteries, quizzes and games;
- 14) Income from interest on bank remainders;
- 15) Income from foreign currency exchange; (*Subparagraph 15 was added by Law of April 17, 1997. The number of Subparagraph 15 was changed to 16.*)
- 16) Other income.

##### **2. Only income of a taxpayer, indicated in paragraph 2 of Article 3 of the present law and derived from sources in Mongolia, is subject to taxation.**

3. An exchange rate, established by the Mongol-Bank effective on the date of selling the currency to the bank, shall be used for converting the income earned in a foreign currency into Togrogs. (*This paragraph was amended by Law of November 9, 2001.*)

4. *(This paragraph was annulled by Law of December 5, 1997.)*
5. **The “Sectoral Classification of All Types of Economic Activities”, approved by the state administrative authority, shall be observed for tax imposition, tax exemption and tax relief in terms of activities conducted by legal entities as specified in Articles 4, 5 and 7 of the present law.***(This paragraph was added by Law of November 9, 2001.)*

#### **Article 5. Definition of taxable income**

1. The taxable income of a taxpayer is defined as follow:
  - 1) The taxable income is defined by deduction of direct expenses confirmed by documents such as salaries, wages, additional wages, material expenses of all kind (raw material, basic or auxiliary materials, semi-processed products, steam , water, energy, fuel, petroleum, spare parts, package and wrapping expenses) and as well as social and health insurance premiums, depreciation, expenses for current repair and temporarily building, bonuses allocated for construction and foreign currency losses, payment for work and service done by others, payment for rent, interest on loan, administrative expenses fixed by owners of property, transport facilities and vehicles tax, and payment for use of natural resources, from the income indicated in subparagraphs 1-5; 10-12, 15,16 of paragraph 1, Article 4 of the present law. Excise and immovable property taxes paid to the budget shall be deducted from taxable income.

*(The second sentence was removed by Law of November 17, 2000.)*

Advertising and promotion expenses, training or retraining of staff costs are defined by the final estimates. But the total of the above mentioned expenses shall not exceed 10 percent of the gross taxable income. *(Changes were introduced by Law of November 9, 2001.)*

Expenses for materials used for production purpose, basic and raw materials, spare parts, fuel shall be estimated by their weighted average price.

The excise tax paid to the budget is allowed to be deducted from taxable income

Investment, capital repairing expenses, all kinds of bonuses, allowances, gift and donations provided to others, meals for guests, subscription of periodicals, refund for housing, transportation, meal and fuel price facilitation provided to the employees, normal wear and tear of goods and inventories, interest on bad debt, all fines and compensation for damages caused to others due to the taxpayer’s fault, interest expenses on loans and liabilities attributable to the excess amounts, if loans and amounts of any interest-bearing liabilities issued to the taxpayer by interdependent legal entities, which exceed 30 percent of the total share capital of the creditor, shall not be deducted from income. *(Additions and changes to this provision were introduced by Law of April 17, 1997 and Law of November 9, 2001.)*

Premium on compulsory social insurance stipulated by law is deductible from the taxable income. *(The 3<sup>rd</sup> sentence of this provision was re-edited by Law of December 5, 1997. Changes were introduced by Law of November 17, 2000.)*

Depreciation rates are determined on straight-line method considering the following usage and passage of time.

	Asset group	Depreciation life (year)
1.		Buildings, construction 40
2.		Machinery or equipment : 10
	From the above mentioned machinery or equipment only special purpose machinery or equipment for scientific research, experiment and advanced technology, export or mining production, protection of environment and rehabilitation of natural resources, infrastructure, computer	5
3.		Other assets 10

Land, inventory and material stocks are not subject to the depreciation premiums. *(Additions were made by Law of November 9, 2001.)*

- 2) The taxable income is surplus after deducting the remaining cost of assets from the income indicated in subparagraph 7 of paragraph 1 Article 4 of the present law. *(This subparagraph was amended by Law of April 17, 1997.)*
  - 3) As the difference between the revenue from the sale of shares purchased from others and the price for purchasing these shares;
  - 4) The taxable income is the surplus after deducting the miscellaneous expenditures, which are confirmed by the documents, in order to get the income and cash or the price of goods given as a lottery price from the income, indicated in subparagraph 13 of paragraph 1 in Article 4 of the present law. *(Changes were introduced by Law of November 9, 2001.)*
  - 5) The taxable income indicated in subparagraphs 6, 8, 9 and 14 of paragraph 1 in Article 4 of the present law is defined by the total income. *(Changes were introduced by Law of April 17, 1997.)*
  - 6) The taxable income is defined by deducting reserve fund created for the taxable year and business expenses from the total income of the insurance premium. *(This subparagraph was added by Law of December 5, 1997.)*
2. If there were barter trade and a movable and immovable property or goods were sold for a value less than the market price, then the tariff of the taxable income shall be defined by the marker value and tariffs.

## **Article 6. Tax rates**

1. The tax rates are defined as follows:

- 1) The annual taxable income of 0-100 000 000 tgs shall be taxed at the rate of 15%;

The tax on annual taxable income of more than 100 000 000 tgs shall be 15 000 000 tgs and 40% of the amount of the income exceeding 100 000 000 tgs on top of it.

The tax rates referred to in the above mentioned subparagraph shall become effective from January 1, 1998. *(This subparagraph was re-edited by Law of October 31, 1997.)*

- 2) Dividends and gains of a shareholder shall be taxed at the rate of 15%;

The State enjoys the right to mobilize fully or partially the profits of shares and dividend, owned by it, to the budget.

The amount of the above mentioned mobilized profit shall be defined each time by the Government; *(This provision was re-edited by Law of November 23, 1993.)*

- 3) The tax rate on income from royalties shall be 10 percent; *(This subparagraph was re-edited by Law of April 17, 1997.)*
- 4) The tax rate on income from various games, video and audio cassette and their recording service, video show and lottery and quiz shall be 40%; *(This subparagraph was re-edited by Law of April 17, 1997.)*
- 5) The tax rate on income from disposal of an immovable property shall be 2 % of the total income; *(This subparagraph was re-edited by Law of April 17, 1997.)*
- 6) The tax rate on income from bank interest shall be 15 %; *(This subparagraph was re-edited by Law of April 17, 1997.)*
- 7) The following income of a non-resident legal entity derived from sources within the territory Mongolia shall be taxed at the rate of 20 %: *(Changes were introduced to this subparagraph by Law of November 9, 2001.)*
  - a) **The dividend and gains of shareholder paid by an economic entity, which is registered in Mongolia and carrying on business;**
  - b) The loan interest and payment for security;
  - c) The income from royalties, payment for leasing, income from use of tangible or intangible properties;
  - d) The income from furnishing technical or any other services for an individual, an economic entity and organization and State agencies of Mongolia. *(This subparagraph was added by Law of April 17, 1997. Changes were introduced by Law of November 9, 2001.)*

2. The taxes are imposed on income of foreign enterprises and joint ventures shall be defined at the rate in accordance with the present law, unless it was declared otherwise by the legislation or the International Agreements of Mongolia.
3. If a taxpayer, described in subparagraph 2 of paragraph 1 in Article 3, transfers his/her income to abroad, the tax on that income shall be 20 %.
4. The tax rate imposed on annual taxable income of a taxpayer, described in subparagraph 5 of paragraph 1 in article 3 of the present law shall be 20 %. *(Paragraphs 3 and 4 were added by Law of April 17, 1997.)*

## **Article 7. Tax Exemption and Relief**

1. The following income of a taxpayer shall be exempted:
  - 1) The income from interest on the Government loan;
  - 2) The taxes and donations by members or supporters of non-government organizations;
  - 3) *(This subparagraph was annulled by Law of November 17, 2000.)*
  - 4) The income, earned from using donor's blood, blood products, tissues and organs in treatment; *(This subparagraph was re-edited by Law of February 3, 2000.)*
  - 5) The income of the social insurance and the social care fund;
  - 6) The income of Mongol-Bank (the Central Bank);
  - 7) The income of non-government organizations that provide social services and are registered with the state register; *(This subparagraph was re-edited by Law of November 17, 2000.)*

**(Subparagraphs 5, 6, 7, 8 and 9 were added to Paragraph 1 of Article 7 by Law of January 15, 1998. Subparagraphs 8 and 9 were annulled by Law of November 17, 2000.)**

- 10) *(This subparagraph was annulled by Law of January 22, 1999.)*
2. The income, derived from sale of share products by a foreign company, which is carrying out business in Mongolia in accordance with product sharing contract concluded with the Government of Mongolia in oil sector, and its transfer shall be exempt from the taxation declared in subparagraphs 1, 2 of paragraph 1 in Article 6 and paragraph 3 in this Article of the present law.
3. The economic entities engaged in manufacturing cereals, potato and vegetables are allowed to reduce taxable income of the above-mentioned activities by 50 %.
4. If the business entity uses its own assets for international, national, local road construction and its repair, then these assets are deductible from the total taxable income. *(Paragraphs 2, 3 and 4 were added by Law of January 9, 1998.)*
5. A business entity with foreign investment in the following areas will be granted income tax preferences starting from the date of its commencing production activities:
  - 1) power and thermal plants and transmission network thereof, highways, railways, airway and engineering constructions, basic network of telecommunications - 10 years of tax exemption and 50 % tax relief in the subsequent 5 year period;
  - 2) oil and coal, metallurgy, chemical production, machinery, electronics- 5 years of tax exemption and 50% tax relief in the subsequent 5 year period; *(This subparagraph was added by Law of January 15, 1998. Some words were removed by Law of November 17, 2000.)*
6. If a business entity with foreign investment in the area other than those indicated in paragraph 1 of this article exports more than 50 percent of its production, then it will

receive tax exemption for 3 years and 50 % tax relief in the subsequent 3 year period. This provision shall not apply to wool and cashmere washing and dehairing and primary processing leather industries. *(This paragraph was added by Law of January 15, 1998. The 2<sup>nd</sup> sentence was added by Law of November 9, 2001.)*

7. A business entity with foreign investment not referred to in this article may be granted tax preferences. The decision in this matter shall be adopted by the State Great Khural in each case upon submission by the Government of Mongolia. *(This paragraph was added by Law of January 15, 1998.)*
8. If a foreign investor reinvests its income into own entity then the taxable income of the concerned business entity shall be subject to deduction amounting to such reinvestment. *(This paragraph was added by Law of January 15, 1998.)*
9. If the activities of a business entity with foreign investment cover more than one of areas referred to in paragraph 5 of this Article, the tax preferences to the business entity shall be determined in respect of the main area of activities of the business entity. *(This paragraph was added by Law of January 15, 1998 and re-edited by Law of May 12, 1999.)*
10. A business entity with foreign investment, established on the basis of purchasing shares or securities of existing business entity sold through vouchers under the Privatization Law of Mongolia, shall not be eligible for preferences set forth in paragraph 5 and 6 of this Article. *(This paragraph was added by Law of January 15, 1998.)*
11. A business entity, which invests to construction of electricity source and network, and technology renovation, shall enjoy income tax exemption to the extent of the invested amount for 10 years after its establishment and 50% tax relief in the subsequent 5 years. *(This paragraph was added by Law of January 15, 1998.)*
12. Paragraph 11 shall not apply to citizens, economic entities and organizations which produce electricity for its own internal use or build networks within its own property, land, and building and construction. *(This paragraph was added by Law of January 15, 1998.)*
13. Business entities and organizations that are newly established to conduct production and services on the territory of an aimag, located in a region where conditions for growth of industries and services are being developed, and registered with the aimag's tax authority shall enjoy corporate income tax exemption in the first year and 50 percent tax relief during the subsequent two years. *(This paragraph was added by Law of November 17, 2000.)*
14. Business entities and organizations, which are newly established to conduct production and services on the territory of an aimag, located in a region where conditions for growth of industries and services are underdeveloped, and registered with the aimag's tax authority, shall enjoy corporate income tax exemption in the first year and 75 percent tax relief during the subsequent two years. *(This paragraph was added by Law of November 17, 2000.)*
15. Business entities and organizations that are newly established to conduct production and services on the territory of soums located at the distance of more than 100 kilometers from the centers of the aimags, where conditions for growth of industries and services are underdeveloped, as referred to in Paragraph 14 of this article, shall enjoy corporate income

tax exemption during the first two years and 50 percent tax relief in the subsequent year. *(This paragraph was added by Law of November 17, 2000.)*

16. The Government will approve the list of aimags and soums that are eligible for tax relief specified in Paragraphs 13, 14 and 15 of this article. *(This paragraph was added by Law of November 17, 2000.)*
17. The provisions of Paragraphs 13, 14 and 15 of this article shall not apply to business entities and organizations that are engaged in production of alcoholic beverages, or conduct activities in the mining industry on the territory of this aimag as well as to those whose financial and tax statements are consolidated and whose payments with the national budget are made in a consolidated manner." *(This paragraph was added by Law of November 17, 2000.)*

#### **Article 8. Tax payment and return**

1. **A taxpayer defines the tax amount by himself and pays it on increased total from the beginning of the year to the budget on the basis of quarter and annual bookkeeping records.**
2. A taxpayer pays in advance income tax liabilities to tax administration in a fiscal year by the 25<sup>th</sup> of each month in accordance with the payment schedule and submits to tax administration quarterly return by the 20<sup>th</sup> of the first month in the next quarter and final return by February 10 of the next year.

The entity with the annual taxable income up to 500000 tugrugs may pay its taxes quarterly within the above mentioned terms.

3. The tax on income from the sale of immovable property and shares should be paid within 10 days after the sale. *(Changes were introduced by Law of April 17, 1997.)*
4. An economic entity and organization shall withhold taxes imposed on income described in subparagraphs 2, 3, 4, 6, 7, of paragraph 1 in Article 6 of the present law and transfer it to the budget within 7 working days. *(This paragraph was added by Law of April 17, 1997.)*

#### **Article 9. Entry into force**

1. The amendments and additions to the present law comes into force from May 1, 1997.
2. the provision relating to imposition of taxes on dividend and gains of a shareholder indicated in subparagraph 2 of paragraph 1 in Article 6 of the present law shall come into effect from January 1, 2001. *(This paragraph was added by Law of April 17, 1997.)*

Chairman of the State Ih Hural  
of Mongolia

***N. Bagabandi***