

What Mongolian tax issues should foreign individuals consider as the filing deadline approaches?

12 January 2015 / Issue 1

In brief

As the filing deadline for individual tax approaches (15th of February, 2015), foreign individuals staying in Mongolia should consider relevant tax issues, such as tax residency status, what constitutes taxable income, taxable rates, individual tax filing and payment requirements and deadlines, as well as potential penalties.

Your income earned outside of Mongolia could be also subject to Mongolian taxes.

An overview of these tax issues as follows.

In detail

Tax residency status

A foreign individual is considered as Mongolian tax resident if he or she resides in Mongolia for 183 or more days in a tax year or owns a residence in Mongolia (Article 6.1.1 and 6.1.2 of the Law of Mongolia on Personal Income Tax [PIT]). Above days are calculated based on the number of days of a calendar year from the day of entry into Mongolia and in case of multiple entries, it will be determined based on the total days of stays in Mongolia.

A foreign individual is considered as a non-resident taxpayer in Mongolia if he or she has no residence in Mongolia and has not stayed in Mongolia for 183 or more days in a tax year (Article 7.1 of the PIT law).

Taxable income

If foreign individual is resident taxpayer of Mongolia, his or her income earned in Mongolia as well as income received from any source outside of Mongolia (i.e. worldwide income) is subject to tax in Mongolia (Article 9.1.1 of the PIT law).

Regarding non-resident taxpayer, only income earned in Mongolia is subject to tax in Mongolia (Article 9.1.2 of the PIT law).

Tax rates

Both resident and non-resident taxpayers are taxed at 10% on all type of income earned, except following types of income:

- income from creation of scientific, literary and artistic works, invention,

product design and organising and participating in sport competition, art performance, and other similar income is taxable at 5%; furthermore, income from remuneration for sports competition, art performance, and festival is taxed at 5%

- income from sale of immovable property is taxable at 2%
- income from quiz, gambling, and lottery is taxable 40%.

Please note that these rates could be reduced or waived based on relevant Double Tax Treaties.

Individual tax filing and payment requirements

Individual tax filing and payment obligations arise in Mongolia for resident tax payers who have earned income in Mongolia that is not subject to taxation at the source of payment in Mongolia and/or have received income from any sources outside of Mongolia.

Furthermore, non-resident taxpayers who have earned income in Mongolia not subject to taxation at the source of payment in Mongolia are also obliged to report and pay PIT on self-assessment basis.

A foreign individual should comply with their PIT obligations by registering with Mongolian Tax Authorities for PIT purpose.

Tax payment and filing deadlines

Annual tax return is due by 15th of February of the year following the reporting year (Article 28.2 of the PIT law). The annual individual income tax return is form TT-06 (a) and (b).

Currently returns are filed in hard copy with the tax authorities directly. However, according to tax authority, online submission will be available starting from January, 2015.

Following individual income tax not paid at source should be paid by the 15th of the first month of the following quarter (Article 27.1.2, 27.1.3 and 27.1.4 of the PIT law) :

- income tax from sale of immovable property
- income tax from leasing
- income tax from provision of professional services and conducting production and trade activities on an individual basis
- income tax from use of properties by others that are in a taxpayer's possession and ownership
- income tax from sale of movable property
- income tax from sale of stocks and securities.

Penalties for late tax payment and late submission of tax returns

- If taxpayer did not pay taxes on time, tax administration will impose 0.1 percent penalty per each late payment day on outstanding balance of taxes payable (Article 74.2 of the General Taxation Law of Mongolia). In addition to penalty, fines will be imposed

on not paying taxes on time. Current fine is 0.051 percent per day on outstanding balance of taxes payable (Mongolian Government Resolution №38, dated 14 February, 2014)

- Penalty for late submission of tax return is imposed on individuals. Responsible person who has failed to file tax returns on time as specified in tax legislation to the tax administration would be fined 3-4 times the minimum labour wage (Article 75.1.3 of the General Taxation law of Mongolia). Please note that current minimum labor wage in Mongolia is MNT 192,000.

The takeaway

If you own a residence in Mongolia and/or you have stayed in Mongolia more than 183 days in a calendar year of 2014, you would have to pay tax from your worldwide income and file tax return by 15th of February, 2015 to the Mongolian tax authority.

PwC Tax team will be happy to assist in your tax filing process.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Tax, TMZ LLC

Central Tower, 6th floor, Suite 603
Ulaanbaatar
14200, Mongolia
Tel : + 976 70009089 | Fax : +976 11 322068

Michael Ahern
Tax Partner
michael.ahern@kz.pwc.com

Bayasgalan Naran
Senior consultant
bayasgalan.naran@mn.pwc.com

Tsendmaa Choijamts
Senior Manager
tsendmaa.choijamts@mn.pwc.com

Gerelmaa Lkhagva
Consultant
gerelmaa.lkhagva@mn.pwc.com

Maryna Tarnavska
Manager
tarnavska.maryna@mn.pwc.com